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Taken to White House lunch

3/11/40

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.

*swb*  
SWB:ca  
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 8, 1940  
DUB:HLB

AMB

March 11, 1940.

## MEMORANDUM FOR THE SECRETARY'S RECORD:

On Friday, March 8, after a Cabinet meeting, Secretary Hull spoke to Secretary Morgenthau and stated that he would like to have Mr. Pasvolsky of the State Department talk to someone in the Treasury about financial aspects of peace conference. Mr. Hull said that the matter was highly confidential. Secretary Morgenthau replied that Mr. Pasvolsky should see Mr. Harry White.

Mr. Pasvolsky subsequently telephoned and made an appointment with Mr. White.

*HPW*

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE March 11, 1940

TO Secretary Morgenthau  
FROM Mr. Haas *BA*  
Subject: The favorable side of the business picture.

On various fronts, business in recent weeks has taken a more optimistic turn. While it cannot yet be said that definite signs of an impending business rise have appeared, increasing evidence of a flattening out of the decline lends support to the belief that the present setback in industrial activity is likely to be of relatively short duration.

1. The steel outlook has turned more favorable.

A distinct improvement in sentiment has occurred in the steel industry during the past two weeks, due to tangible improvement in several underlying factors:

(a) The industry is becoming impressed with the increasing volume of export sales of steel products. The Iron Age reports that February export sales for some steel companies will exceed those of any month since September, with orders and inquiries increasing from both belligerent and neutral countries. The growing volume of war orders being placed in Canada is reported to be filling the books of Dominion mills and causing a larger overflow of steel orders into the United States.

(b) Although the rising trend of export sales has been offset in part by a lagging trend of domestic steel buying, the total of new orders in the industry is currently running somewhat higher than a few weeks ago. According to the Iron Age of March 7, "The moderate improvement noted a week ago has continued, thereby raising hopes that the recession of the past two or three months has been checked."

(c) Increased activity in the automobile industry -- most important consumer of steel -- has been followed by some increase in ordering of steel by most automobile makers, largely for quick shipment.

## Secretary Morgenthau - 2

(d) Structural steel orders in February exceeded those for that month in 1938 and 1939; and orders in the first week of March were the largest for any week since October 1939.

(e) The decline in steel output has recently slowed up, and in some districts operating rates have been moderately increased.

(f) Steel scrap prices have shown a firmer tone.

## 2. Business indices beginning to resist further decline.

The uninterrupted decline in various indices of business activity that has been under way since the end of December shows some evidence of slowing up. (See Chart 1) Barron's weekly index (seasonally adjusted) rose slightly during the week ended February 24, though a further decline was recorded in the following week. The New York Times adjusted index showed a slight rise during the week ended March 2, the first improvement since the last week of December. An upturn in prices of various industrial materials in recent weeks (lower line on Chart 1) is of important significance, reflecting an increase in industrial demand.

## 3. Metal buying increasing.

A marked expansion in nonferrous metal buying, particularly of copper, has often occurred at or near the bottom of a business decline. (See Chart 2) Domestic sales of refined copper increased in February to the huge total of 147,000 tons, the highest monthly figure since last September and the sixth largest on record.

The expansion in copper buying has been followed by heavy increases in sales of lead and zinc. Unfilled orders for Prime Western zinc, according to the Annalist, are now about as large as they were at the beginning of the business upturns in the early summer of 1938 and in the third quarter of 1939.

## 4. Automobile production and sales increasing.

Unexpectedly large retail sales of automobiles, which have continued through January and February, have caused automobile manufacturers recently to increase their production schedules. The output of cars and trucks in February totalled 412,000, a February total exceeded only in 1929. Production in March is expected to rise to about 440,000 units.

Secretary Morgenthau - 3

It is difficult to foresee an extended business decline with the automobile industry continuing to operate at an unusually high level, and with such industries as aircraft, machine tool, and shipbuilding at practical capacity.

#### 5. Rising export volume supports industry.

Any expectation of an extended business decline seems inconsistent with the rising trend of exports and the continued heavy volume of foreign purchases in this country. Total exports in January were the highest since March 1930. (See Chart 3) Since about 75 per cent of recent exports have consisted of manufactured and semi-manufactured products, they have a direct bearing on the level of business activity.

Data we have collected on the movement of export freight to Atlantic ports indicate that the movement of goods for export is gradually increasing, and that recent export figures have probably understated the actual volume of the export movement.

Chart 4 shows the gradually rising trend of export shipments to New York and to nine other North Atlantic ports, by weeks through March 2.

In Chart 5 we show the accumulation of lighterage freight in storage and on hand for unloading at New York harbor (in carloads), by weeks beginning October 21. Approximately 90 per cent of this represents freight to be shipped abroad, which has accumulated at the port because of a shipping shortage. In view of this accumulation, figures on actual exports for the past few months have apparently understated the amount of goods moving for export. The accumulation of freight, however, is not approaching a state of congestion.

#### 6. Commodity price trend levelling out.

Optimism over the business outlook is strengthened by the recent trend of sensitive commodity prices. Following a general decline during January, sensitive price indices have become stabilized and have held steady throughout February with a slightly rising tendency, despite further declines in business activity. (See Chart 6)

Sharply rising price trends abroad, where inflationary influences appear to be gaining ground in spite of official efforts at price control, may in some degree be influencing prices in this country. (See Chart 7)

Secretary Morgenthau - 4

### The inventory situation

An encouraging feature of the present business outlook, which tends to confirm other indications pointing to a relatively short business setback, is the smallness of the increase in inventories of finished goods on the recent business upturn. Inventories of finished goods, goods-in-process, and raw materials normally increase as business expands, to take care of increased sales volumes and increased raw material requirements. Under present conditions, furthermore, business prudence requires that inventories be kept somewhat larger than usual as a safeguard against unexpected price increases and supply restrictions due to war conditions.

On the recent business rise, however, all evidence indicates that inventories (as the term is generally understood) have in most industries been held at conservative levels in relation to sales. The quick downward reaction in prices after the war boom last September, and the memory of severe inventory losses in 1937, were strong influences restraining speculative inventory accumulation.

An expansion in capital goods investment, due to war fears, was an important feature of the late-1939 business upturn, representing in some degree an advancing of new investment that had originally been scheduled for the following year. This expansion in capital goods investment, considered by many economists as a desirable development in the national economy, has in some quarters been confused with inventory accumulation of finished goods. While corporation balance sheets make no distinction between "speculative" inventories and stocks of raw materials, goods-in-process, etc., accumulated for filling the actual orders for capital goods, the two types of inventories obviously differ decidedly in their significance in the business outlook. Freight cars, machine tools, and new buildings will not be liquidated when business falls off, as were the stocks of textiles, shoes, and automobiles accumulated in 1937.

### Little statistical evidence of large finished goods inventories

While published statistical data on inventories are inadequate, and it is not clear what types of goods are included, the following figures compiled from sample data show little evidence of inventory expansion in recent months beyond that needed to handle the actual increase in sales volume.



Secretary Morgenthau - 5

Inventories in the hands of manufacturers at the end of December 1939 were only 7.5 per cent higher than at the end of December 1938, according to estimates made by the Department of Commerce from company reports covering more than one-fourth of the total inventories of all manufacturing corporations. In comparison with this moderate increase, other data of the Department of Commerce show that sales (shipments) of manufacturers in December 1939 were about 20 per cent larger than in December of the previous year.

Inventories of wholesalers at the end of January 1940, in comparison with January 1939, increased at the same rate as the increase in sales, leaving the stock-sales ratio for 1,644 wholesale concerns at the same figure as a year ago, according to a study by the Bureau of the Census in cooperation with the National Association of Credit Men.

Inventories of goods in retail channels, judging from Federal Reserve Board data on department store stocks, have declined in relation to sales. Department store stocks at the end of January 1940 exceeded those of the previous year by only 3.0 per cent, while department store sales in January were 4.5 per cent higher, and in December 7.9 per cent higher, than in the previous year.

#### Finished goods stocks higher in some industries

In two industries -- automobiles and textiles -- some evidence of excessive stocks of finished goods has recently been mentioned by trade commentators. Inventories of new cars at the end of February, according to Ward's Reports, were close to 500,000 units, as compared with 430,000 a year earlier. This would represent an increase of 16 per cent. As compared with sales, however, this represents a relative decline in inventories, since retail passenger car sales in January were 32 per cent higher than a year ago, and the gain has apparently been maintained through February. General Motors' sales in February were 49 per cent higher than in February of the previous year.

Stocks of cotton textiles at mills have recently been increasing, according to some trade comments. On the other hand, stocks of cotton goods in retail establishments are reported to be relatively low, retail sales have been well

Secretary Morgenthau - 6

maintained, and the time is near at hand when heavy spring buying of textile goods in the wholesale markets usually makes its appearance. Our index of new orders for textiles increased in the first week of March to the highest figure, with one exception, since last October.

Inventory situation in contrast with 1937.

Inventories of finished goods could become excessive under two conditions: (1) If manufacturers failed to adjust their production promptly to the volume of orders on their books, but continued to produce for stock, as they did in 1937; or (2) if retail buying fell off sharply, making the previous normal inventories become excessive in relation to the reduced sales volume.

No evidence of either of these developments has appeared. On the contrary, industrial production has been adjusted quickly and sharply to the reduced volume of new industrial orders, and retail buying so far has been well maintained.

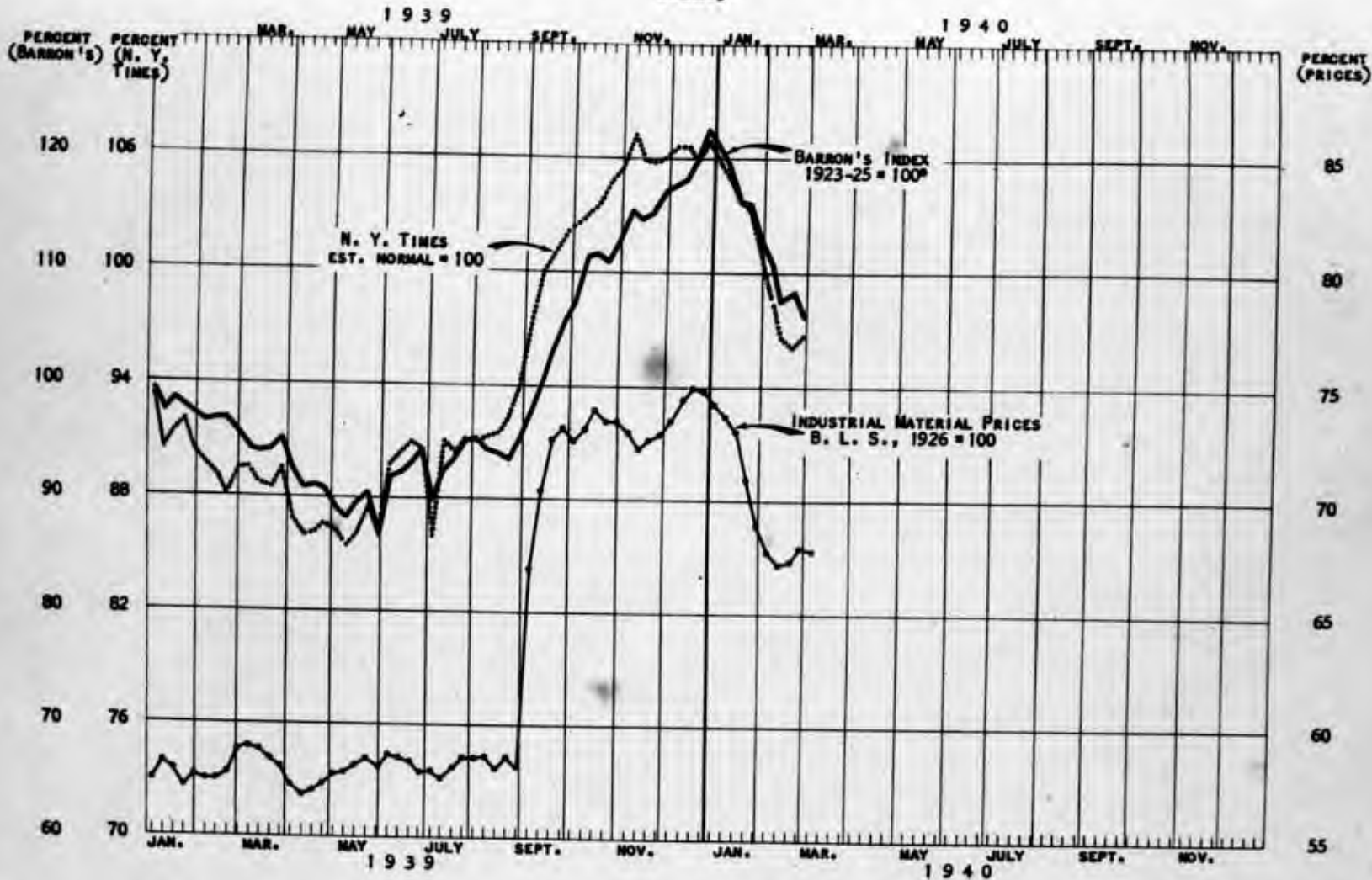
The marked contrast between the present situation and that in 1937 is shown by our index of basic demand (an approximate measure of the level of consumption) and our index of sales (representing the actual "offtake" of manufactured goods). (See Chart 8)

The FRB index of industrial production in November and December 1939 rose temporarily about as far above the basic demand index as it did in November and December of 1936. Instead of continuing above, however, and causing an accumulation of finished-goods inventories that later would have to be liquidated, production has dropped sharply to adjust itself to demand. No evidence appears in this chart of any accumulation of finished-goods inventories comparable with that which occurred between the summer of 1936 and the fall of 1937.

The index of sales (lower section of Chart 8) continued upward in January 1940, in contrast with a drop in January 1937, and current reports indicate that sales have been fully maintained in February. This provides further evidence that finished-goods inventories are not burdensome.

# INDICES OF BUSINESS ACTIVITY AND PRICES OF INDUSTRIAL MATERIALS

## Weekly



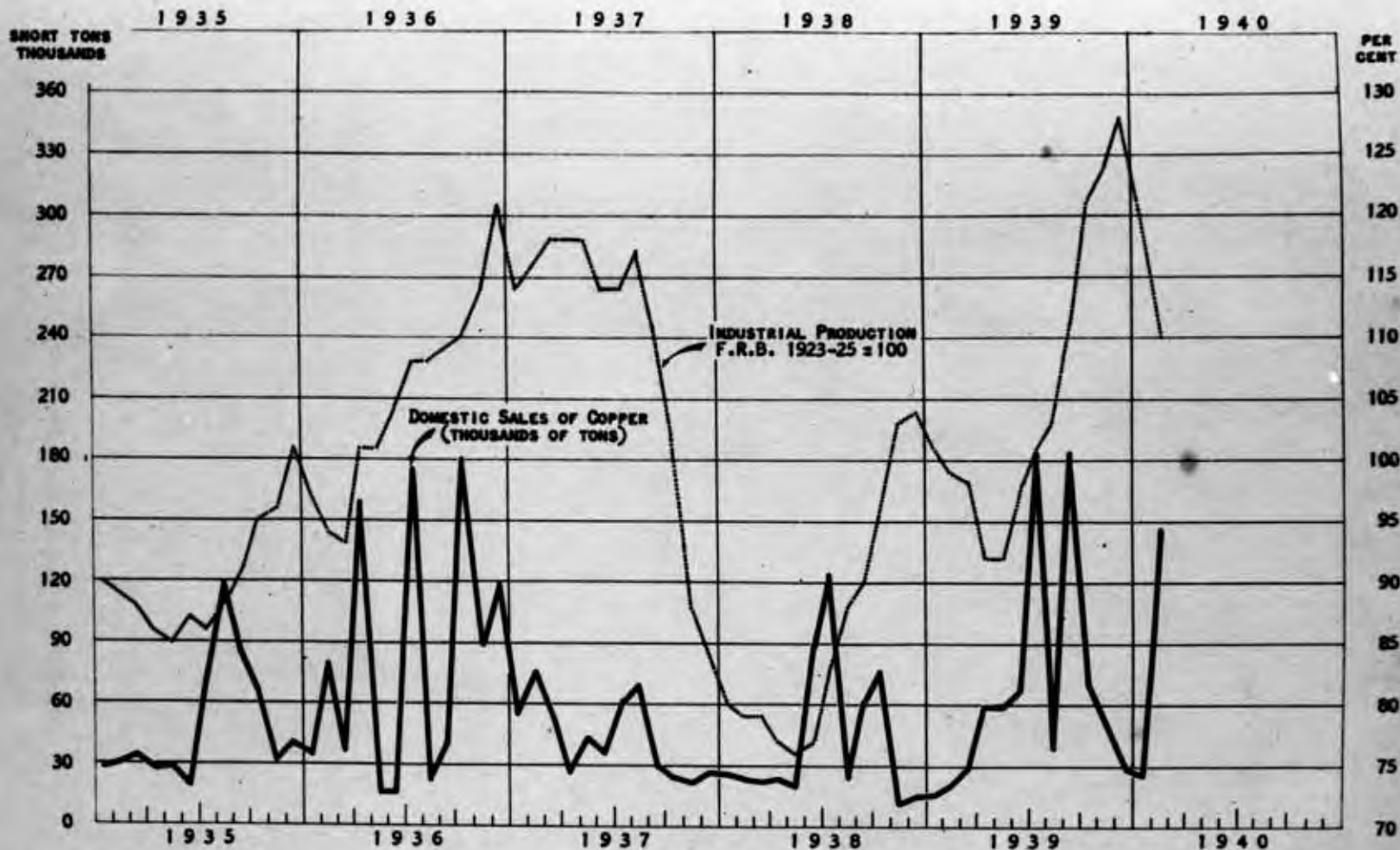
\*ADJUSTED FOR SEASONAL, NOT FOR TREND

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

Chart 1

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# DOMESTIC SALES OF COPPER AND INDUSTRIAL PRODUCTION

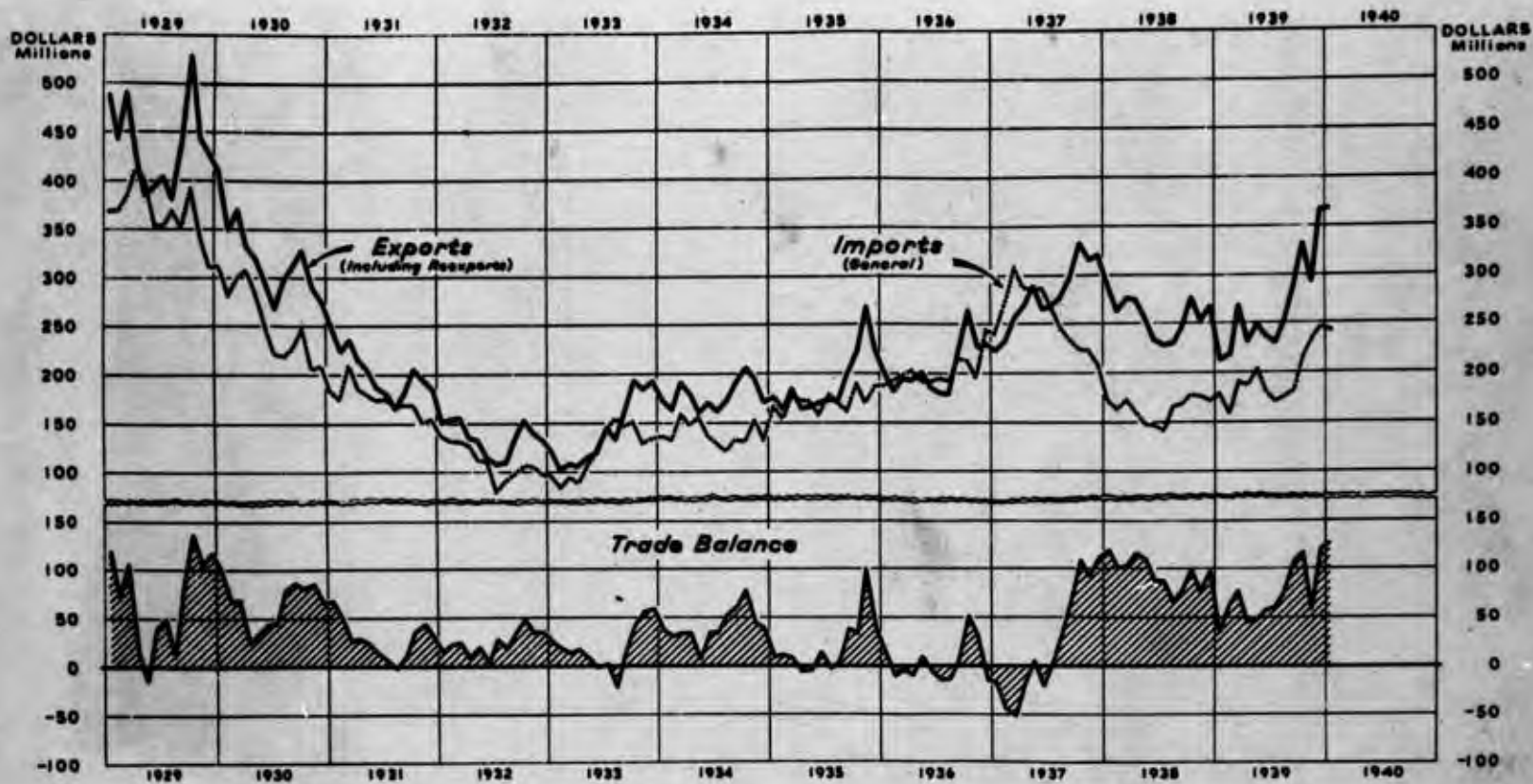


Office of the Secretary of the Treasury  
 Division of Research and Statistics

C - 302

Chart 2  
207

# U.S. FOREIGN TRADE



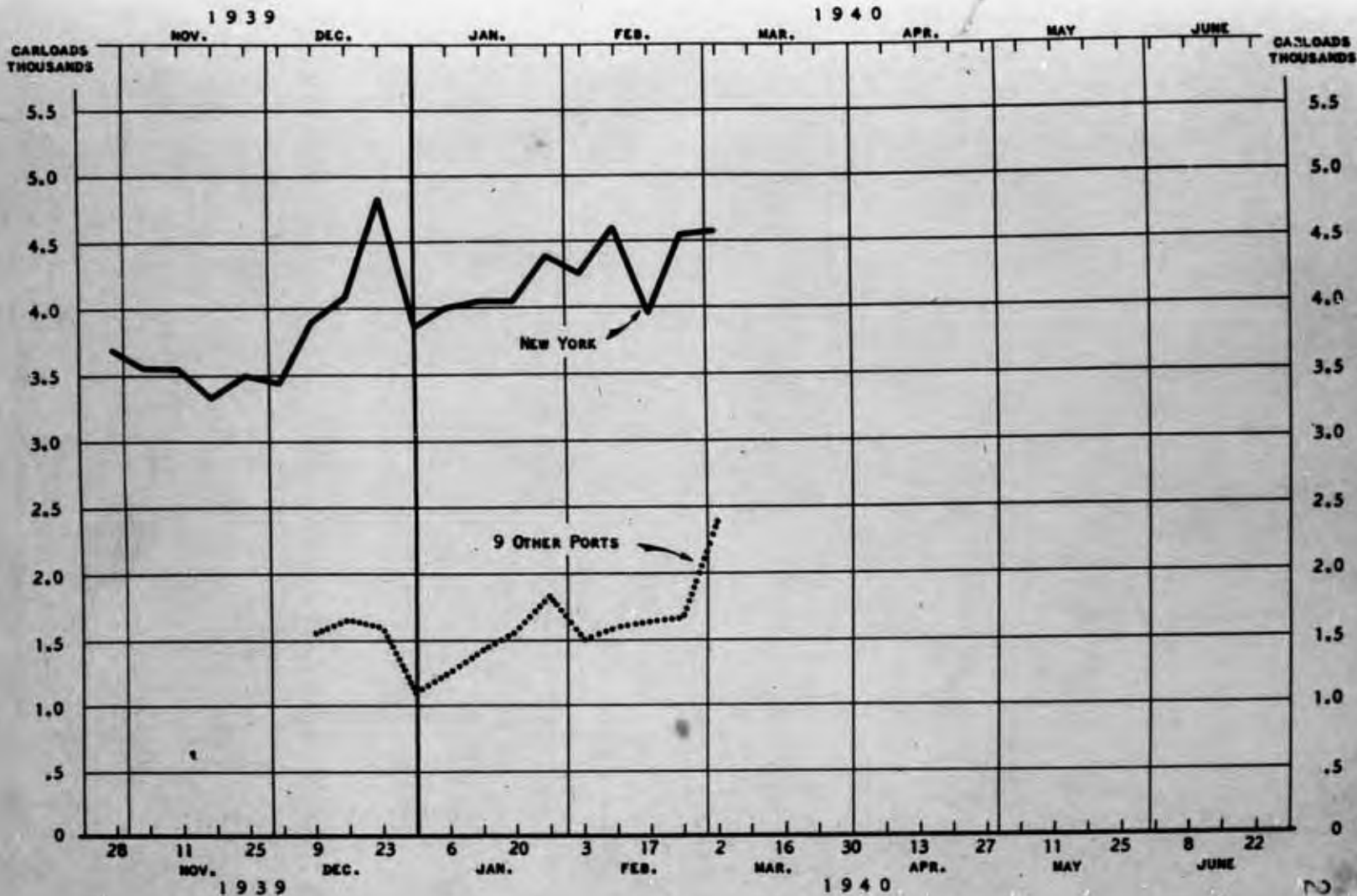
Office of the Secretary of the Treasury  
Bureau of Research and Statistics

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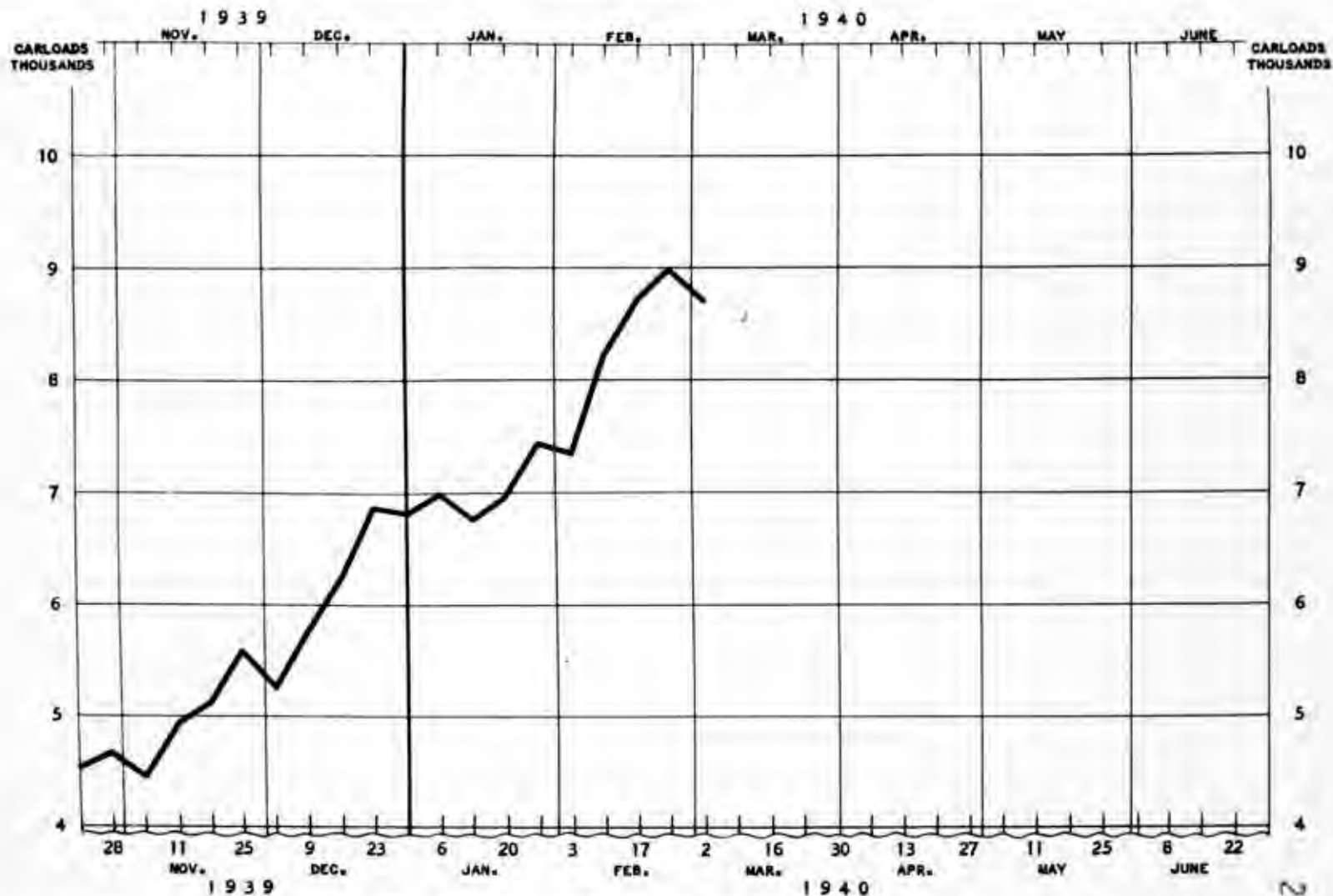
Chart 3

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



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



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

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

Chart 5  
CONFIDENTIAL

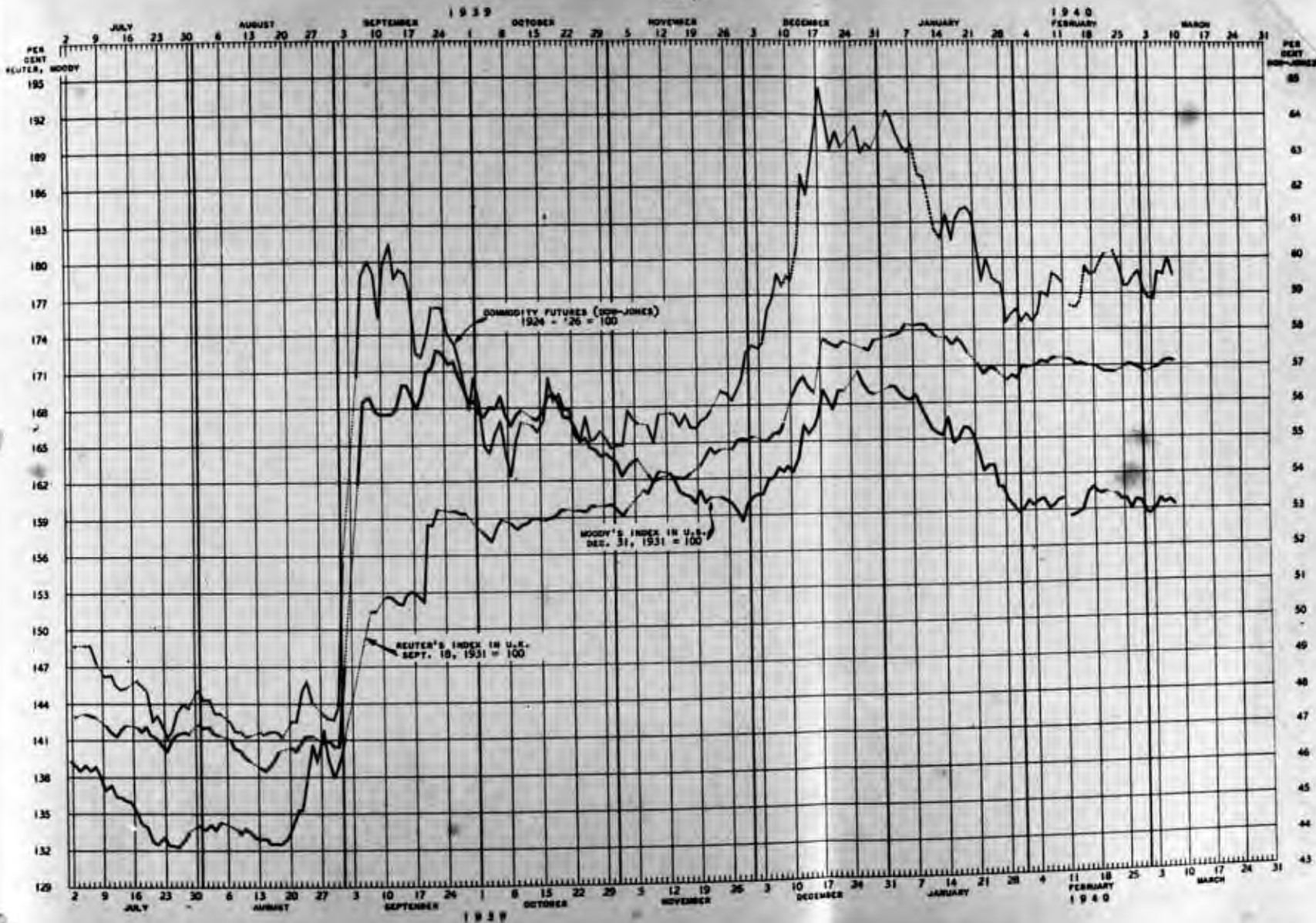
210

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COMMODITY PRICE INDICES IN U.S. AND U.K.  
Daily

211

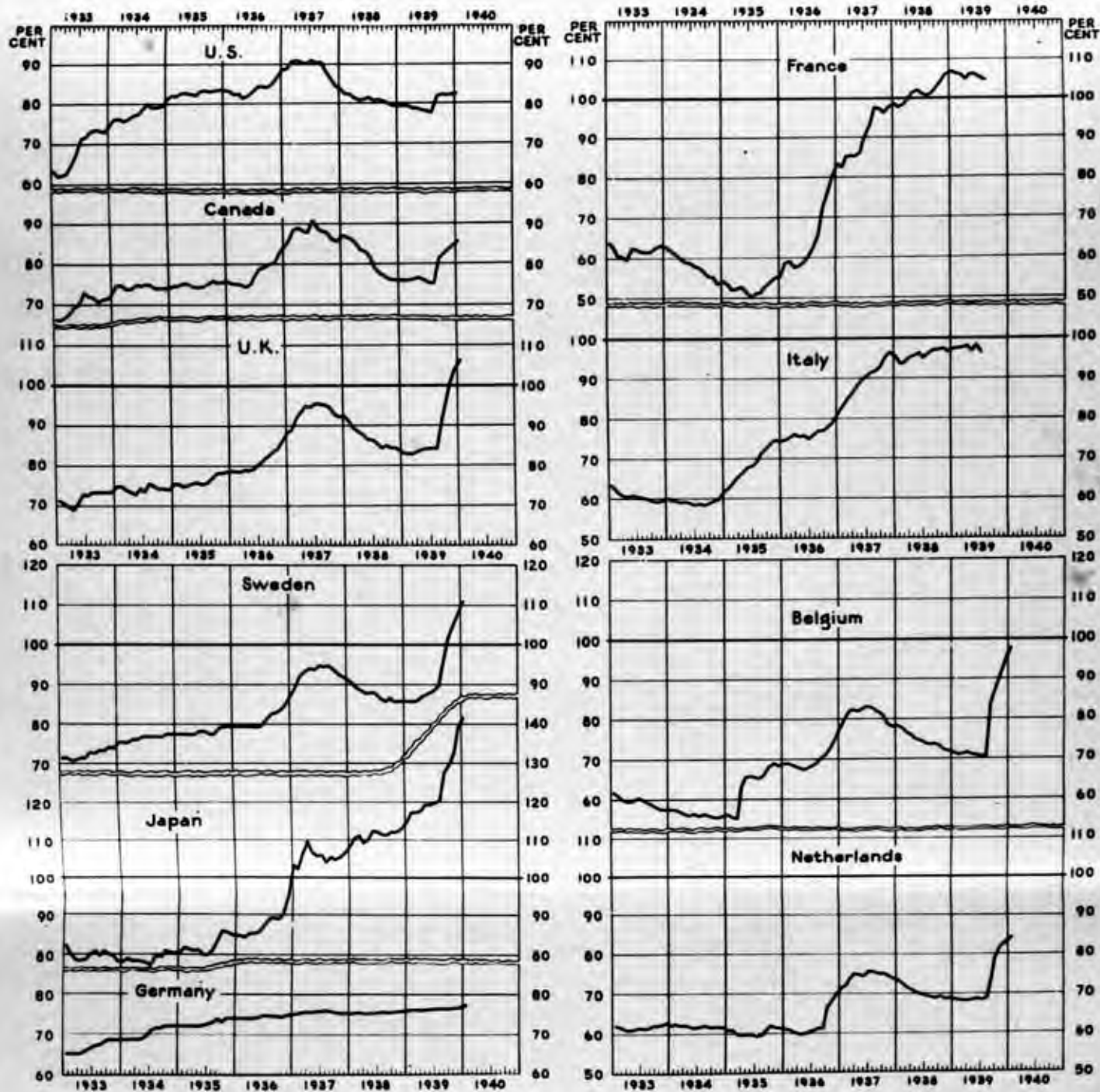
Chart 6





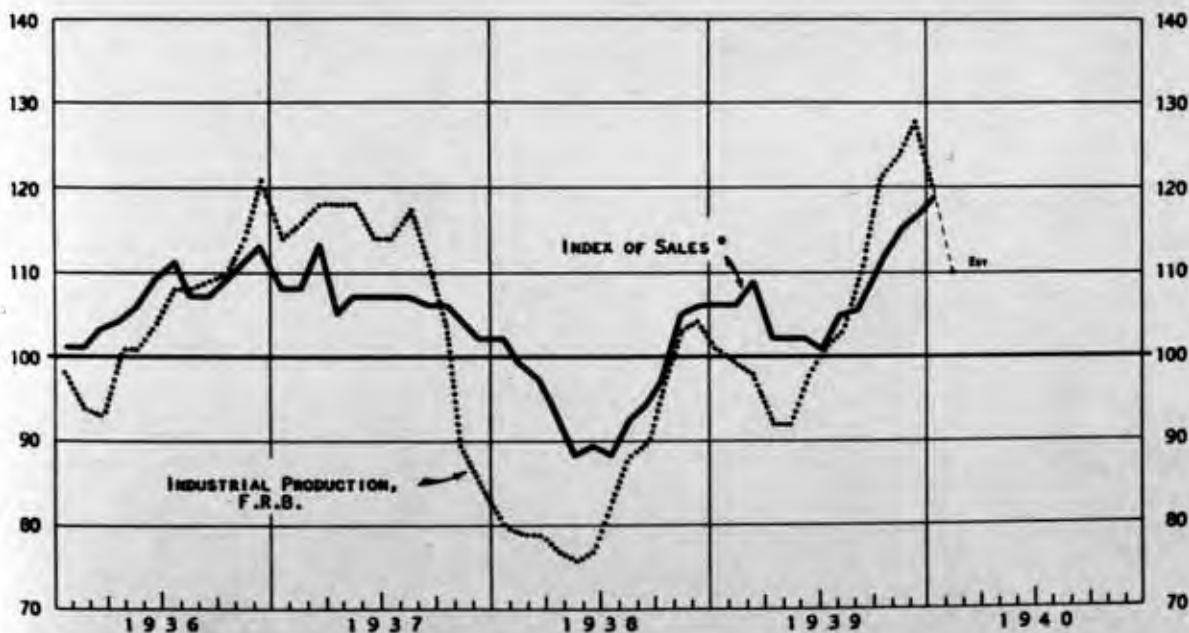
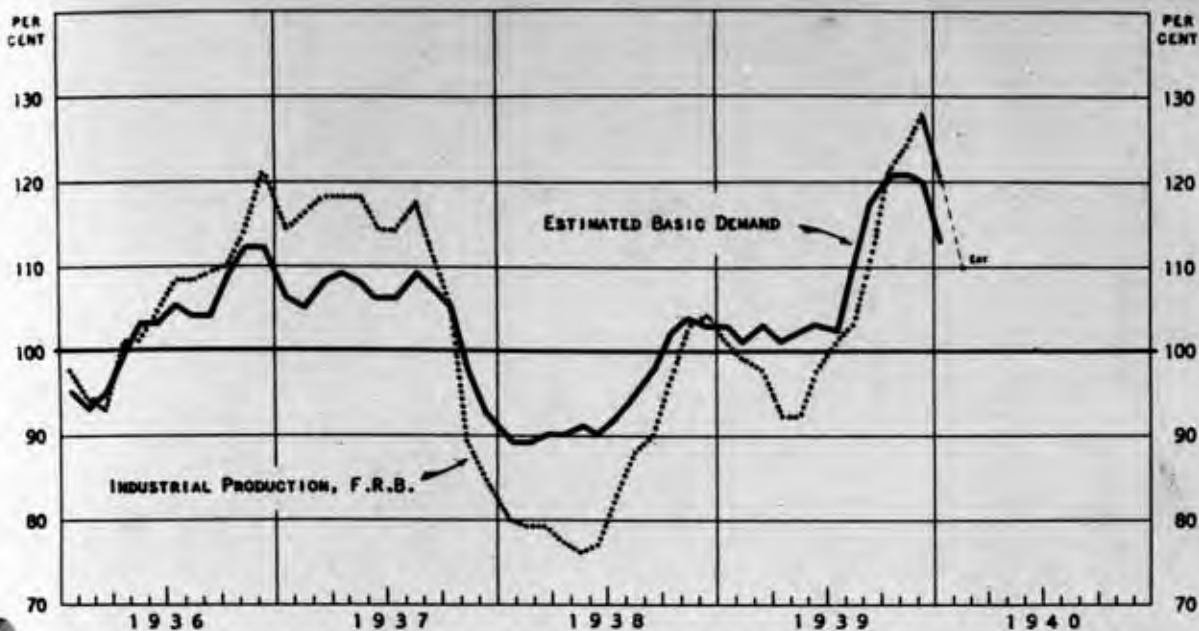
# WHOLESALE PRICES IN SELECTED COUNTRIES

1928 = 100



INDICES OF BASIC BUSINESS TRENDS COMPARED  
WITH INDUSTRIAL PRODUCTION

1923 - '25 = 100, SEASONALLY ADJUSTED



\* REPRESENTS "OFFTAKE" OF MANUFACTURED GOODS, IN PHYSICAL VOLUME

Paraphrase of telegram No. 613 from London, March 11, 1940

Secretary of State,

Washington.

It has been agreed by the Export Credit Guarantees Department to give a credit of five million pounds sterling to Iran.

When Great Britain was first sounded out with respect to this credit, prior to the beginning of the war, Iran desired it for the purchase of railroad supplies, a request which was later enlarged to cover armaments and so forth. An embarrassment of requests made to the British Government for like accommodations has been caused by the generosity with which Turkey's requests for credit were received. From what I have heard I do not gain the impression that Great Britain has agreed to make available a million dollars to be spent in the United States. Indeed, I understand that the only agreement has been to use its best efforts to make available to Iran the needed British products it requires, to the extent that the present situation will allow. At the same time the Government is extremely anxious that it give no offense to the Shah. Iran's needs are also the products which the Empire most needs. Therefore, this credit of five million pounds can for the present be thought of as not to be paid out but as a token of willingness to oblige the Iranian Government.

This information should be considered strictly confidential as it was gotten on the understanding that it would be so treated. Under no circumstances should it get back to Iran.

KENNEDY

DCA:GHE:MEK

JR

PLAIN

London

Dated March 11, 1940

Rec'd 12:45 p.m.

Secretary of State,  
Washington.

SIS, March 11.

FOR TREASURY FROM BUTTERWORTH.

Supplementing my No. 594 of March 9, noon; London banks are informed that the Australian Exchange Control authorities have introduced provisions applying to all (repeat all) exports from Australia to the destinations specified in the above mentioned cable, requiring payment by one of the three alternative methods in the currencies named therein. Exporters in Australia will be required to satisfy the local exchange control that any sterling credits opened in their favor for such exports, which must contain an approved reimbursement clause, have been registered with the Bank of England.

All other sterling payments for Australian exports to the listed destinations must be accompanied by confirmation from the remitting bank that the sterling has been purchased after September 3, 1939, by a sale to a bank in the United Kingdom of one of the listed currencies.

RR

KENNEDY

March 11, 1940

9:15 am

Present:

Captain Collins

HM, Jr: Let me get over to you what I want. We are seeing the President this morning.

Captain Collins: Sometime after 11.

HM, Jr: Between now and 11, and you had better be here at a quarter of 11. But give me what was the square footage of the Curtiss-Wright and the Pratt-Whitney ....

Captain Collins: That's Wright Aeronautical.

HM, Jr: Yes. Pratt-Whitney, and Allison, any date before any of these foreign orders developed. When was that? Last January?

Captain Collins: Yes, about that.

HM, Jr: And, if possible, their capacity. Just as well give us the number of feet; take too long to get capacity. Then I would like to know how much they increased it by these orders that have come in. When this present development is complete, which I take it will be June or July, how many people employed; how many engines turned out, and size of the plant.

Then I want them to give you rough guess what this new order means. How much plant they have to expand? How many more people they have to put on and how many more engines, because this is the argument I want for the President. I want to say, "Mr. President, if we can give these people, off the drawing board, the

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very latest 1941 models and most advanced -- not the P-40 which they showed you, Mr. President, in November, 1938 and everybody else knows about -- but the 1941 models which are still on the drawing board, that's what these people want." If we get it, what it will do to the industry.

oOo-oOo

March 11, 1940

11:55 am

Present:

Mr. Bell  
Mr. Cochran  
Dr. White  
Mrs. Klotz

HM, Jr: We have this information, which is pretty reliable -- I can't tell you from where -- that the Finns and the Russians have made peace. Puleston has a way of getting this ahead of anybody else.

Dr. White: Anything about terms?

HM, Jr: No. But he has a way of getting it faster than anybody else. He says the source has never been wrong. Incidentally, Chamberlain made a speech in the House offering the Finns all kinds of military aid. The question is, did he know of this peace offer.

Will it have any effect on our bond market?

Dr. White: I think it means a longer war. I think the Allies are in the worst position, definitely, and whether that means they will be more anxious to make peace or less so, I am inclined to think it means the latter, that they may be more inclined but the solution is more difficult.

HM, Jr: Sure, because it releases the Russians ...

Dr. White: They can throw their weight ....

HM, Jr: They can help the Germans more. They can throw their weight against Germany.

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Mr. Cochran: And it eliminates Scandinavia from possibly coming in on the side of the Allies.

Dr. White: It's a severe setback. You might have noticed yesterday the political commentators in the Times, two of them, referred to it as a setback of equal importance to the Polish loss.

HM, Jr: Here we go to the Allies last week and say the Finns want 166 planes. "Will you release them?" and they said no. You (Cochran) had the nice job of calling Procope and saying he could not get the planes in the United States.

Dr. White: If the French had replied, "Now, those planes. You will not get them in two months. What we will do is send you these right away". But if they did not reply that, then the Finns must have realized that they have to depend wholly on themselves.

HM, Jr: The inference I got from the French was they had gotten all they could, because "not only have we sent planes, but we have sent aviators to fly them".

Dr. White: Why should they object to 166?

Mr. Cochran: Dangerous months were coming now when they had to conserve their planes for themselves.

HM, Jr: "We are here to buy planes, not to sell them", that's what Bloch-Laine said. And that was why I sent that word to the President Thursday about one o'clock, through Pa Watson, and Watson never delivered it and I brought it up again Thursday night about the Finns not being able to get planes, because I thought he might throw his weight into it, and that same night, while I was there, Berle called up the President to tell him that the Finns were in Moscow making peace and the President said, "Well, I don't know how good that is."

Mr. Cochran: It's a blow to the Allies, because you read this Italian announcement how the British released their coal. They would not have taken that backward step unless they were worried.



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Dr. White: No. I thought that was a sign of strength. 100,000 tons of coal does not mean anything to them.

Mr. Cochran: They give a decision it is to be held, and then release it and Ribbentrop rushes down there.

HM,Jr: As I remember, the English were going to hold the coal from Italy until Italy agreed to let them have planes and uniforms.

Mr. Cochran: They would give them British coal if they would sell planes.

HM,Jr: Now that the British have given in, the British won't get planes from Italy, so it's too bad.

Dr. White: I interpret it differently. What the British were doing, they said, We will hold up this coal. We are going to force the Italians to give us airplanes and uniforms and other war materials.

Mr. Cochran: Yes, and they would give them British coal and German coal would not be delivered.

Dr. White: These are the facts. They are giving this 100,000 tons of coal back, which is nothing in the general picture with the understanding they are not to get any more coal by way of the sea. Such coal they get by land is very much reduced and more expensive, which means Italy now has to buy her coal from Italy and she has to pay under England's terms. What those terms will be, if those terms will be favorable to Italy, then you are right. If the terms will be favorable to England ....

HM,Jr: But the facts have not come out that Italy is going to buy coal from England.

But we still get back, what, if anything, we can do here. Wonder how it will affect our market.

Dr. White: I think if the public thoroughly

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appreciates what it is -- on the whole picture, it looks more dismal as a consequence of this step. How they would interpret that -- to mean, we would be more apt to share in a war boom, which I think is likely, I think the British would step up on their purchases and program now.

The point is this: If Russia feels she cannot take Finland very quickly, then her terms are going to be easy. If she feels she can take it quickly, then the Finns are going to give in. I think there will be peace in a few days.

HM, Jr.: Well, I am going downstairs to rest and if anything happens, Mrs. Klotz, that needs my decision, including if the President calls, I will come up.

Mr. Bell: I should doubt the public would interpret this. I should think your market might flop around for a few days and probably go down, but I should not think we would have a drastic decline like we had last September.

Dr. White: I should not think so either.

Mr. Bell: Unless there is something serious on the Allies side that shows up, but there might be enough where we should buy some, but certainly not to the extent we went last year.

Dr. White: I think it ought to be supported. I suppose somebody is following it closely.

Mr. Bell: Don't use the word "support". Cushion.

HM, Jr.: That letter of mine of last week may become historical on this bond issue.

Mr. Bell: May have wished we had.

oOo-oOo

TREASURY DEPARTMENT

222

INTER-OFFICE COMMUNICATION

DATE March 11, 1940.

TO Secretary Morgenthau

FROM Mr. Haas

The attached table has been prepared in response to your telephone request for information as to the various estimates of revenues which you made for fiscal year 1940.

Attachment.

Estimates of Receipts to General and Special Accounts in Fiscal Year 1940

Date of estimate	Estimate (millions)	Increase (+) or decrease (-) from December 1938 estimate		Publicity given
		Amount (millions)	Percent	
December 1938	\$5,669.3	--	--	Released in 1940 Budget
December 1939	5,703.8	+\$34.5	+ 0.6	Released in 1941 Budget
July 1939	5,406.4	-262.9	- 4.6	Not published -- sent to Director of the Budget
October 1939	5,525.6	-143.7	- 2.5	Not published -- sent to Director of the Budget

Treasury Department,  
Division of Research and Statistics.

March 11, 1940.

HSM

GRAY

Paris

Dated March 11, 1940

Rec'd 1:45 p. m.

Secretary of State,  
Washington.

323, March 11, 4 p. m. (SECTION ONE).

FOR THE TREASURY FROM MATTHEWS.

My telegram No. 320, March 10, noon.

A leading article by Frederic Jenny in this morning's AGENCE ECONOMIQUE ET FINANCIERE emphasizes the importance of the memorandum handed Monsieur Reynaud on Saturday with respect to our economic foreign policy and the reply of the French Government. "This document" writes Jenny with reference to the memorandum "addressed to the governments of fifty nations bears witness to the extreme anxiety of the United States to see when the war is over the reestablishment of normal commercial interchange between different countries, interchange which it quite properly considers as the sine qua non of a durable peace. When the Washington authorities proclaim that healthy international commercial relations are the indispensable foundation of the wellbeing of man, when they declare that in order to permit commerce to play its role

each

hsm -2- No. 323, March 11, 4 p. m. (Section 1) from Paris

Each nation must have normal access to the resources of the entire world and find outlets for their excess production, everyone must endorse such statements.

MURPHY

RR

HSM

GRAY

Paris

Dated March 11, 1940

Rec'd 1:55 p. m.

Secretary of State,  
Washington.

323, March 11, 4 p. m. (SECTION TWO).

The principle thus set forth is the fact fundamental. It is that of the division of labor between nations a principle which is the very basis of the enormous economic progress which humanity enjoyed in the course of the nineteenth and the beginning of the twentieth centuries". He goes on to say that German policy of autarchy is the very opposite of this and that the Reich's narrow economic nationalism is one of the determining causes of the present conflict. He then continues: "it is indispensable to overturn the barriers blocking trade; to abolish or reduce excessive customs duties; to return to monetary liberty; to prevent the diversion of the natural flow of goods through bilateral arrangements which under the form of clearings or other rearranged systems can only lead international trade towards the barbarous regime of barter.

MURPHY

WWC

HSM

GRAY

Paris

Dated March 11, 1940

Rec'd 2:20 p. m.

Secretary of State,  
Washington.

323, March 11, 4 p. m. (SECTION THREE).

Fruitful solutions can only result from a broad development of international credits of which the first condition will be the suppression of exchange control." Taking his cue from Reynaud's communique and revealing a certain latent anxiety I have observed here as to American reaction to the recent Franco-British agreements, Jenny proceeds: "Moreover France and Great Britain in facilitating as far as possible trade between their empires and by reducing to a minimum the monetary and other formalities of a nature to hinder this trade, have already in the midst of war given proof of their liberalism. Once the victory is won these arrangements may be extended to all nations ready to rally to the same principles, and the regimentation which the war today imposes will then promptly be abolished."

MURPHY

CSB



HSM

GRAY

Paris

Dated March 11, 1940

Rec'd 2:30 p. m.

Secretary of State,  
Washington.

323, March 11, 4 p. m. (SECTION FOUR).

Jenny concludes on a note which may naturally be expected and which will surely be heard more and more as time goes on, namely, what will be our contribution to this desirable new world? He says "for this initiative also implies a promise. A promise that the United States whose economic and financial foreign policy has not always been entirely liberal will give the needed example. For the authorities at Washington can clearly not disguise the fact that certain tariff barriers which have arisen on the coasts of America are also excessive, that the anxiety to see world trade again become normal requires on its part a liberal settlement of the war debts question, always in suspense, that the United States more than any other country is in a position to assist in that development of international credit recognized as indispensable".

MURPHY

CSB

HSM

GRAY

Paris

Dated March 11, 1940

Rec'd 2:45 p. m.

Secretary of State,  
Washington.

323, March 11, 4 p. m. (SECTION FIVE).

"That America itself has the greatest interest-- considering especially the fact that it has the major portion of the world's gold stock--that this international economic evolution in the aftermath of the war shall conform to its suggestions, so much is certain. But the merit of its initiative is not in the least diminished thereby. It is on the contrary one more reason for hope, since the United States also is in a position, thanks to the vastness of its resources, to play in tomorrow's work of economic restoration, the necessity for which their Government shows today, a role in all respects decisive."

The American correspondent of the AGENCE ECONOMIQUE ET FINANCIERE apropos of Senator Thomas' bill for the redistribution of gold stocks which he says "is not taken seriously at the moment in banking circles" remarks: "it is absolutely certain that the Government of the United States will introduce no modification whatsoever in its gold policy prior to the conclusion of peace.

CSB

MURPHY

HSM

GRAY

Paris

Dated March 11, 1940

Rec'd 2:25 p. m.

Secretary of State,  
Washington.

323, March 11, 4 p. m. (SECTION SIX).

As to the distribution of gold after the war it is clear that the country which already has seventy per cent of the world's gold stocks must inevitably aid the countries which prefer to return to a gold standard rather than to follow the road of experiences with managed currency on an international scale. It is, however, certain that American public opinion is not yet ready for this type of active cooperation with other countries of the world and that its education will require much time and patience". The same correspondent also mentions briefly and apparently with some skepticism a movement of "a group of southern Senators" to suggest that "in view of the continuing increase in excess reserves of member banks of the Federal Reserve System credits be granted the allies for purchases of agricultural products. All the funds the allies have, say these Senators, are earmarked for the acquisition of war material thus they buy no agricultural products at all".

MURPHY

WWG

HSM

GRAY

Paris

Dated March 11, 1940

Rec'd 3:15 p. m.

Secretary of State,  
Washington.

323, March 11, 4 p. m. (SECTION SEVEN).

The French press, of course, giving considerable prominence to the agreement for close collaboration reached recently in London by representatives of the French Employers' Confederation and the Confederation of British Industries. The full text of this agreement on principles is published in this morning's AGENCE ECONOMIQUE ET FINANCIERE. I presume its nature has been reported from London.

Today's JOURNAL OFFICIEL contains an arrete of the Ministers of the Interior, Agriculture, Public Works and Finance introducing certain changes in the decree of February 29, 1940, relating to ration cards (my telegram No. 278, March 1, 3 p. m.).

MURPHY

WWC

HSM

GRAY

Paris

Dated March 11, 1940

Rec'd 3:05 p. m.

Secretary of State,  
Washington.

323, March 11, 4 p. m. (SECTION EIGHT).

Application forms for such cards must be submitted on April 3, 1940, to the Mairie of the district in which the applicant passes the night of April 2-3. Subsequent instructions will fix the conditions under which the cards will be issued to the public. Ration cards will be in four categories, namely (a) children of under three years of age; (b) children of from three to twelve years of age; (c) persons of from twelve to seventy years of age who are not engaged in manual labor; and (d) persons of from twelve to seventy years of age who are engaged in manual labor. Special declaration forms relating to coal consumption are to be submitted by householders. (END MESSAGE).

MURPHY

WWC

Rio de Janeiro, March 11, 1940.

No. 2707

Subject: Brazilian Press Comment on Resumption  
of Service on the Foreign Debt.

ORIGINAL & THREE COPIES BY AIR MAIL — CONFIRMATION COPY BY STEAMER.

The Honorable

The Secretary of State,

Washington, D. C.

Sir:

I have the honor to report, for the Treasury Department also, that local press comment on the Brazilian foreign debt decree quoted in my telegram no. 95 of March 7, midnight, has been meagre and has reflected the Government's anxiety to avoid having its action in resuming service of the foreign debt meet a hostile public opinion here. A note of apology runs through all the press notices, and the Ministers for Foreign Affairs and Finance have felt obliged to justify the settlement not only to the public but also to the other officers of the Government. (The President's own attitude was well illustrated in the final stages of the discussions when his Minister for Foreign Affairs told him that the Foreign Bondholders Protective Council considered Brazil's offer inadequate in amount and unsatisfactory in distribution; he replied "Well there you are: the Americans themselves are in complete agreement with me — they too think it better for Brazil to pay nothing at all.")

The Rio de Janeiro Jornal do Comercio of March 10th, reviews the argument often heard here that there is no good reason why Brazil should pay anything on its foreign debt, that more has already been paid out in capital and amortization than was actually received from the creditors in the first place, and that Brazil therefore really owes nothing more. The newspaper then endeavors to rebut this argument by pointing out the advantages of enjoying

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credit and confidence abroad, referring to Brazil's transportation and communication system, etc., which could not have been obtained without the aid of foreign financing, continuing:

"The reply to all this lack of sense has just been given in the decree-law which, modifying the plan of 1934, resumes service on the foreign debt -- just in time, happily. The merits of this legislative act are manifold. They include especially a demonstration of good faith on the part of our country, a recognition of the necessity of preserving the country's credit abroad, and a proof that the administration does not endorse, but denies, the senseless point of view that would approve the repudiation of obligations sealed with the national dignity."

After an effort to justify the terms on which Brazil is to resume service of the debt, the paper then continues:

"Now let us fulfill the pledge, making our best efforts for the faithful and continuing fulfillment of the obligation that we have agreed to. Brazil's possibilities for expansion are enormous. Its potentialities for work correspond to the obligation assumed. For the credit of the country and for the sure continuance of its material development, we want the agreement to be faithfully observed ....."

Respectfully yours,  
For the Ambassador:

William C. Burdett,  
Counselor of Embassy.

File No. 851.  
WA:LEF.

Init.: LEF

Rio de Janeiro, March 11, 1940

No. 2700

SUBJECT: Brazilian Foreign Debt Payment Offer.

ORIGINAL AND THREE COPIES BY AIR MAIL --- CONFIRMATION COPY BY STEAMER.

The Honorable

The Secretary of State,

Washington, D. C.

Sir:

I have the honor to transmit herewith, for the Treasury Department also, copies of both the English and Portuguese texts of the letter regarding the resumption of service on the Brazilian foreign debt that I received from the Brazilian Minister for Foreign Affairs and quoted in my telegram No. 102 of March 9, 3 p.m.

Respectfully yours,

For the Ambassador:

William C. Burdett,  
Counselor of Embassy.

Enclosures:

- 1. Translation of letter from Oswaldo Aranha
- 2. Portuguese text of No. 1.

WA:alc

File No. 851



COPY

Enclosure No. 1 to Despatch No. 2700 of March 11, 1940 from Embassy  
at Rio de Janeiro

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(Translation)

"Rio de Janeiro  
March 8, 1940.

"Mr. Ambassador,

"I have the honor to inform Your Excellency that the Brazilian Government has no worked-out plans for now or the near future for the repatriation of bonds in excess of the amortization indicated in this proposal. The Brazilian Government hopes that, in due time, improving trade and exchange conditions may permit it to avail itself of the provisions of Article I(6) of the Aranha Plan Decree which permit such additional repurchases in the open market. Under no conditions, however, does the Brazilian Government intend to make more than moderate purchases of this character.

"Please accept the expressions of my highest consideration.

"Oswaldo Aranha."

Enclosure No. 2 to Despatch No. 2700 of March 11, 1940  
from the Embassy, Rio de Janeiro

Rio de Janeiro,  
em 6 de Março de 1940.

Senhor Embaixador,

Tenho a honra de communicar a Vossa Excelencia que o Governo brasileiro nao tem planos preestabelecidos para a repatriacao de titulos, al em da amortizacao indicada nesta proposta, para agora ou para o futuro proximo.

O Governo brasileiro esera que devido tempo, a melhoria das condicoes de comercio e cambio lha permita aproveltar-se das disposicoes do Artigo I(6) do Decreto nº 23.829, de 5 de Fevereiro de 1934, que facultam tais compras adicionais no mercado livre. De maneira nenhuma, no entanto, o Governo brasileiro pretende fazer mais do que compras modicas dessa natureza.

Aproveito o ensejo para reiterar os protestos da mais alta consideracao com que me subscrevo

de Vossa Excelencia  
Oswaldo Aranha

A sua Excelencia o Senhor Jefferson Caffery,

Embaixador dos Estados Unidos da America.

# STRICTLY CONFIDENTIAL

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## TREASURY DEPARTMENT

### INTER-OFFICE COMMUNICATION

DATE March 11, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

By appointment made through Mr. Dunn of the Department of State, the Secretary received this morning at 10:15 the British Ambassador, the French Ambassador, Professor Rist and Mr. Ashton-Gwatkin. Mrs. Klotz, Mr. White and Mr. Cochran were present.

The French Ambassador, Count de Saint-Quentin, thanked the Secretary for the opportunity to present the two blockade experts, and asked Professor Rist to explain their mission. Professor Rist was appreciative of the assistance which the Secretary of the Treasury had been extending the Allies, particularly through Mr. Purvis. Professor Rist knew that Secretary Morgenthau was aware of the seriousness of the Allies' problems, particularly those pertaining to raw materials and especially metals for alloys, such as molybdenum and tungsten. Professor Rist indicated his hope that they might have further discussions with the Treasury in regard to the requirements and problems of the Allies. He hoped that through such meetings the American ideas on these problems could be obtained.

The Secretary of the Treasury explained that any success which he had achieved in cooperating with Mr. Purvis had resulted from the frankness in which they had approached their tasks. He desired to be equally frank in the present meeting. He let the visitors know that he had opposed their coming to the United States, if their mission was to deal with the question of the blocking of metals for alloys, etc. He stated that he had gone as far as he properly could in his cooperation with Mr. Purvis. He complimented the efficiency of this gentleman. The Secretary stated that Professor Rist had submitted through Mr. Matthews ideas which could not possibly be carried out by us. The Secretary said there was nothing we could do about stopping shipments of soy beans, copper or petroleum. The moral embargo idea had been stretched very far in blocking shipments of molybdenum and in leading to the withdrawal of American gasoline experts from Japan and Russia. The Secretary reminded his visitors that the United States is neutral and that the Secretary of the Treasury must respect such neutrality.

Mr. Ashton-Gwatkin grasped the Secretary's idea and advanced the formula that he and Professor Rist should submit to Mr. Purvis such questions as they have with respect to problems on which the Secretary of the Treasury might be consulted. Mr. Purvis could then take these up with Secretary Morgenthau in their usual conversations. The Secretary of the Treasury approved this idea. He was aware that Mr. Purvis had not yet brought the experts up to date on certain points, and on the other hand, that they evidently had certain information from Europe which should be given to Mr. Purvis.

Mr. Ashton-Gwatkin mentioned tungsten as a subject which they would like to discuss. The French Ambassador volunteered at this point that word had been received that shipments of tungsten, or of wolframite, had been made from China,

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destined allegedly for the United States, but after arrival at Manila had been diverted to Vladivostok. The Secretary of the Treasury was not aware of any such diversion. He stated that inquiries had been made into the identity of the brokers at Hong Kong who were responsible for tungsten shipments, and that it was found that they were principally British controlled, rather than American controlled. He knew of tungsten ore being held by the French in French Indo-China and did not know what disposition had been made thereof. He was confident that any tungsten ore sold from China to the Universal Trading Corporation would not be diverted. He was willing to go into this question further and thought it might properly be considered unfinished business.

The British Ambassador seemed satisfied with the procedure suggested by Ashton-Gwatkin and approved by Secretary Morgenthau. Lord Lothian raised the suggestion of a statement to the press. It was the Secretary's idea, which met with the approval of the visitors, that Mr. Schwarz simply let the press know that the British and French Ambassadors had called today to acquaint the Secretary of the Treasury with their experts, Messrs. Rist and Ashton-Gwatkin, and that no business was discussed. The French Ambassador recalled that at the press conference in the Department of State the correspondents had been insistent in their questions as to whether some credits might be involved in the visit of the two experts to this country. The opinion seemed to be shared by all in this morning's meeting that official meetings between the experts and the Treasury should be avoided lest they give rise to press speculation and misunderstanding which would injure rather than assist the cooperation now effective.

The Secretary spoke with the two ambassadors for a few moments after the two experts and the members of his own staff withdrew.

After the departure of the visitors, Mr. Cochran telephoned Mr. Dunn at the Secretary's request. He stated that the visitors had been received, but that it was not anticipated that any later official visits would be made by them at the Treasury. Messrs. Ashton-Gwatkin and Rist are to consult with Mr. Purvis in regard to questions on strategic materials and Mr. Purvis will, in turn, present these questions to Secretary Morgenthau in the usual routine of their periodic meetings. Mr. Dunn appreciated this information, was convinced that it was the proper plan, and understood that the Department of State was not to send these experts back to the Treasury Department.



Rio de Janeiro, March 11, 1940.

No. 2706

SUBJECT: Brazilian Foreign Debt Situation.

ORIGINAL AND THREE COPIES BY AIR MAIL -- CONFIRMATION COPY BY STEAMER.

The Honorable

The Secretary of State,

Washington, D. C.

Sir:

Referring to my telegram No. 102 of March 9, 3 p.m., transmitting copy of a note from the Brazilian Minister of Foreign Affairs in regard to repatriation of Brazilian bonds in excess of the amortization indicated in the recent Brazilian proposal, I have the honor to state that while I believe it to be true that the Brazilian Government has no worked-out plans in this connection, my opinion is that the Brazilian authorities have in mind the possibility of being able to repatriate sooner or later within the next four years Brazilian federal bonds in an amount of, roughly, ten million dollars.

As far as I know, they have no plans, even nebulous ones, as yet for the repatriation of state and municipal bonds.

Respectfully yours,

Jefferson Caffery.

JC:alc

File No. 851

## GROUP MEETING

March 11, 1940.  
9:30 a.m.

Present: Mr. Bell  
Mr. Foley  
Mr. Haas  
Mr. Graves  
Mr. Harris  
Mr. Gaston  
Mr. Cochran  
Mr. Cotton  
Mr. Schwarz  
Mr. White  
Mrs Klotz

H.M.Jr: Didn't we send a cable to this fellow, one of the Secretaries at Bucharest, asking a sort of economic report?

Cochran: Yes, sir.

H.M.Jr: Did it come in?

Cochran: Yes, sir, it came in.

H.M.Jr: Well, would you and Harry get off a cable today for more information on this Rumanian oil - on that place up there? They are not letting any high octane gas out and it looks very interesting and Harry, Ashton-Gwatkin and Professor Rist will be here at 10:15 and I would like you and Cochran.

Cochran: Yes, sir.

H.M.Jr: Are the Ambassadors coming?

Cochran: They are coming, also.

H.M.Jr: Shall I send up for my high hat?

Cochran: I don't think so.

White: You may remember this chap Gwatkin, he was the man whom they sent to Czechoslovakia. Well, he was --

H.M.Jr: He made the study for that Minister of Commerce for England on Czechoslovakia.

White: Yes, but judging from two books, one by Getty and one by the other, he was engaged in two activities

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in which the opposite move was taking place. I just thought you would be interested in what their comments might be on that, that he was selling out the Czechoslovakians at the same time he was dealing with them. Under order, I suppose, but I thought you might be interested.

H.M.Jr: Well, he was supposed to have made the survey on which England sold them down the river.

White: He made the survey, but I think the comments of those writers were that the plans as to what to do with Czechoslovakia were known before he even went down there. He just went down to get them along.

Cochran: Well, he had been in the foreign office as an expert on that part of Europe and he went in with Runciman, you see.

H.M.Jr: Well, he has been in the United States ten days and I wouldn't see him until his Ambassador brought him down. I made it just as difficult as possible for him to get here. They have been waiting ten days to see me. I have asked both Ambassadors to introduce them and I made it just as difficult as possible. I rarely do that, but I have in this case. They have been here about ten days, haven't they?

Cochran: Yes.

H.M.Jr: I made it as difficult as possible for them to come over here.

Harry, here is the letter from Eccles (March 9, 1940) with a copy of his comments to Mr. Berle on our Bank.

Bell: Here is another one dated the 8th.

White: This is dated the 9th. There are a series of them.

H.M.Jr: Herbert?

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Gaston: I don't think I know anything. I forgot to bring back with me a letter to you from Mr. Eccles which would complete the record, which I think is sufficient to complete the record. I don't think it needs any attention. It is not even funny.

H.M.Jr: No, and I think --

Gaston: It even weakens his case. It is like a man talking to himself.

Klotz: It is exactly like that.

H.M.Jr: I thought that the record would be completed.

Gaston: It is a very satisfactory completion of the record.

H.M.Jr: If anybody is interested in the Eccles-Lasser-Morgenthau correspondence, it can be seen.

Gaston: You may have read Ernest Lindley's column in yesterday's Post.

H.M.Jr: No.

Gaston: I think it is worth noticing.

H.M.Jr: On that subject?

Gaston: No, it is on the necessity for another supplementary appropriation for work relief.

H.M.Jr: Would you get it for me?

Schwarz: Yes, sir.

H.M.Jr: O. K.

Ed?

Foley: Here is a reference to the testimony of the Navy before the House Naval Affairs Committee on Electric Boat. I thought you would be interested in it.

And here is an article in Colliers called "The Suicide Squadron," where they put the whole thing



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on the President because there wasn't any opposition. I have marked the places you ought to read. I have extracted the testimony. I don't think you want the copy of the testimony before the Committee.

H.M.Jr: No. What else? Anything on Sullivan?

Foley: No. I sent a memorandum over to Elmer on Saturday, giving him the material he wanted.

H.M.Jr: Well, I am sitting tight.

Foley: Well, John Sullivan arranged a meeting for Wednesday at 10:00 o'clock.

H.M.Jr: See if I can remember - this is not for the record.

(Discussion off the record)

Cochran: Professor Rist telephoned a while ago. I haven't heard from him since he has been in town. He asked if we wanted to get out a press communique following this meeting this morning.

Schwarz: Communique?

Cochran: I told him this was your regular day for a press conference.

Schwarz: I was going to ask, in view of the many questions previously, I would like to be able to tell the boys that they will be here. We almost told them, but we --

Cochran: He said he was going to draw up something to meet their idea and submit it, too, that they had come to discuss the economic repercussions from the war on different countries, and so on.

Gaston: I think they are up to something. It is a little dangerous.

H.M.Jr: Well, personally, I think the more that I can feel my way - I think I was right when I told Purvis

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to tell them the meeting was going to adjourn in New York and I am tickled to death he did just what I told him and that is fine, because now the thing is out of the Treasury and the pressure is on the Allies, as to what kind of planes to buy, which is where it should be.

I think this. I am thinking out loud. I think the thing to say is just simply this, that the British and French Ambassadors brought their respective boys down here to introduce them to me and the thing was simply a formal occasion and there may be other meetings later on, but nothing took place, other than an introduction, and the chances are nine out of ten that is all that will take place today.

Cochran: While they are in here, you might recommend that they say the same thing.

H.M.Jr: O. K., just that they came here and were introduced. We didn't get down to any business.

White: Or you could tell Mr. Rist that the Secretary sees important people all the time and doesn't get out a communique each time.

Cochran: I almost anticipated your reaction, because I said, "You are just coming down to call on him this morning with your Ambassadors and that is all that is to be done."

H.M.Jr: I have never gotten out a communique. That is all. I think that is enough, don't you think so, Chick?

Schwarz: I think so.

H.M.Jr: Herbert?

Gaston: At any event, it is your office and nobody who visits you should give out any announcements about a visit to you. You should give them out.

Schwarz: They might want to use it as a sounding board to show the folks back home they are working, but that is their problem.

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H.M.Jr: I think unless somebody develops - does anybody know they are coming at 10:15?

Schwarz: Not yet.

H.M.Jr: I wouldn't tell anybody and after they go, I would simply tell them that Mr. Schwarz, who looks after the press for me, will simply tell them that they were brought down here to say how do you do.

How far have we gotten?

Cochran: I was the last one.

Cotton: Could I see you for just a minute afterward?

H.M.Jr: Surely. You ask so nicely. How did you like the dancing at the Brazilian's Friday afternoon?

Cotton: That was very fine, I thought.

H.M.Jr: I have my spies everywhere.

Cotton: I think I know the one you mean.

H.M.Jr: Yes, surely.

Chick?

Schwarz: To complete another record, if you haven't already been informed, the case in Chicago where the two Assistant U. S. Attorneys had been on trial for alleged bribery resulted in a conviction. I think that winds that up.

H.M.Jr: Good. Anything else?

Schwarz: That is all.

H.M.Jr: I will come to you, George, last, and I will give you whatever time is left. The boys here will want to hear you.

Harris: We had a little flurry over the week-end. Two Canadian Army aviators fell inside the American

lines and nobody knew what to do with them, so Justice is going to pass on them this morning.

H.M.Jr: Couldn't you move the border?

Harris: The trouble is, one of them was injured a little bit and he couldn't move. Otherwise, I think we would have. That is all I have.

H.M.Jr: Harry?

White: There was an inflow of capital of 30 million dollars last week, nothing special.

Great Britain has eliminated all its earmarked gold. It had about 25 million. There is none there now.

Sweden lost about 90 million dollars in the last few months.

H.M.Jr: How much?

White: 90 million. I have a little memo on it. (Mar. 11) I have a copy of the conference with Mr. Purvis here for the record, but there is appended a brief note which I wish you would read and consider, some question.

H.M.Jr: All right.

White: And I notice that - this may have been called to your attention - that China is collecting five million more ounces of silver that is on its way here.

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

White: It is dated March 7. It is on the way to Rangoon.

H.M.Jr: I ought to say how do you do sometime tomorrow to Buck.

Cochran: All right, sir.

White: The detailed report that we were waiting for from Italy has come. It was sent by mail. It gives

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the list of commodities that they are going to subsidize by 20 percent. It covers a very large portion of their trade with us. We would have no choice but to post countervailing duties as soon as the thing comes through. I am merely letting you know now.

H.M.Jr: Can you wait until Mr. Welles sails?

White: It probably won't --

H.M.Jr: It will take at least another week, won't it?

White: Much more than that, but I mean from now on you will probably be hearing about it.

H.M.Jr: Is cheese on that?

White: I don't know. We can investigate that more carefully. Some of the dumping cases have been in the books for five years. You can eat cheese for five years more.

H.M.Jr: Do you think it will stink?

White: It should smell better.

H.M.Jr: I spent the week-end with my son, so I picked up a little college language.

White: Colombia, in its reply to the Inter-American Bank questionnaire, stated that they needed a gold loan of 15 million dollars, 10 million of which would probably be needed this year when they were asked whether they could use any capital, and they also said they would like to borrow 23 million for developmental loans and they have got the purposes indicated. I thought you might be interested in the amounts.

H.M.Jr: There is our Director on the Export-Import Bank.

White: Yes.

H.M.Jr: Does he know about it?

White: I don't think so. Do you?

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Cotton: I haven't seen it yet.

White: This is a small thing. I don't know whether there is anything or not, but one of the boys called my attention to the fact that the production of coins in the Bureau of the Mint fluctuates very greatly and the number of employees fluctuates. Whether it is due to the coins or not, I don't know, but there might be a chance of either increasing coin production in anticipation of future needs in the next few months or not.

H.M.Jr: Give it to Harold.

White: But I don't know how much there is to it.

H.M.Jr: Give it to Harold.

Bell: Appropriations available for the payment of employees might have something to do with it.

White: Except that anything the Government has control of certainly ought to be stabilized, if possible.

The British Government requisition of British ships for the United States exports of cotton to the United Kingdom indicates that our cotton exports will be cut down very sharply during the next five or six months unless they make some change in their regulations, but they must have anticipated their purchases when they made these regulations, so that probably this is a good forecast of what they are going to buy. It has got down to 100,000 bales.

The preliminary figures for February trade are in now, I mean for the whole month. It is 347 million dollars for the month of February.

H.M.Jr: Favorable?

White: That is the total exports. We don't know our imports yet, so I don't know what the balance will be.

H.M.Jr: 347?

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White: Yes, and that is compared with 369 in January.

H.M.Jr: How much in February of '39?

White: I haven't got that here, but it is substantially in excess of February, '39, but there is not a clear seasonal movement between January and February. This is greatly in excess of last February, which was low. Some of that - the figures would be larger, we gather from the data which you initiated and collected, which George will have something to say on, which is very interesting, because it indicates that stuff is piling up in the docks. The stuff has been sold but doesn't appear in the export figures, because it is piling up. It will be probably five or ten percent greater than this in both January and February. That is all I have.

H.M.Jr: Harold?

Graves: Nothing.

H.M.Jr: Dan?

Bell: As long as Harry has mentioned the Government stabilizing everything which it has anything to do with, I might tell you that Eugene Meyers came to see me two or three weeks ago, saying that a number of merchants in Washington had approached him to start a newspaper campaign to get the Government to change its pay days so that there would be stability in the flow of payrolls throughout the month. The merchants here in town have to take on a number of employees for about three days right after each pay day and then they have to let them go, whereas if we had a number of pay days throughout the month they could stabilize that employment and it wouldn't cause these peaks. I told them we would look into it and I have appointed a committee.

H.M.Jr: How does he want us to pay?

Bell: Well, he would like to have us stagger the pay days and there is some sense to it, but it is

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going to be awfully hard to get the employee unions in the departments to change their pay days from the 31st and the 15th. It would be a nice thing if we could have a pay day every two weeks, 26 pay days in the year, and say the Treasury Department is paid on every other Monday and the Interior every other Tuesday, and so forth, so that we would have a pay day every day in the year for the departments. I think it makes a lot of sense. It would also stabilize our peaks - or iron out our peaks in the Disbursing Office and also eliminate a lot of lines that we have in the Cashier's Room down in the Treasury building.

H.M.Jr: Sounds all right.

Bell: They reach almost around the building twice a month, but anyhow we could - the other day when we were with the President he asked if he was going to get his usual reports in March.

H.M.Jr: I have been sending those every day.

Bell: You are sending the ones I send to you?

H.M.Jr: Every day.

Bell: The 2 $\frac{1}{4}$ % bonds, you asked me the other day if there was any limit and I said I didn't think so, what we could sell for trust funds. The limit was three months and it is up tomorrow. You know what I mean.

H.M.Jr: No.

Bell: The hundred million dollars --

H.M.Jr: Yes, there was a limit.

Bell: You thought there was, but I didn't think there was. It is three months and it is up tomorrow, so that there is 10 million 494 thousand left and the Postal Savings has made plenty of money. It will give them 10 million four, anyhow.

H.M.Jr: How much do they have already?



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Bell: They have had - well, I don't know. 30 or 40 million, or something like that.

H.M.Jr: I thought you had an idea.

Bell: Would you like to give them the balance?

H.M.Jr: Yes.

Bell: I sent Thompson's mother-in-law flowers and signed "The 9:30 Group," Saturday. She died.

H.M.Jr: Surely.

Bell: Senator Thomas has written the President quite a letter on his bill concerning gold and I think we also have a request for a report from the Committee on it. The President says, "For preparation for reply for my signature." I don't think you want to see it, do you? Shall I turn it over to Harry?

H.M.Jr: Yes.

White: Did you get a request from the President?

Bell: I think there is one in. I think I have seen that. And these are the two memoranda to sign on the Self-Help.

H.M.Jr: Oh, yes. I will do that when I have lunch. I know there is a letter from either the Governor or the Senator of California on the Bank of America thing and I am almost sure I sent it in to you. It may have been the Governor or the U. S. Senator from California, which the President wanted us to draft an answer for.

Bell: Senator Pittman.

H.M.Jr: Was it Pittman?

Bell: Yes.

Klotz: Pittman was the only one.

Bell: You signed that.

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Foley: You initialled that on Thursday.

H.M.Jr: I thought it was Senator - whatever his name is.

Foley: You mentioned it to me and I said Pittman and you said no, it was --

H.M.Jr: Oh, Pittman?

Foley: ....Downey, but I haven't seen it.

H.M.Jr: That is all right.

Bell: When I read the signature, the only thing I could make out of it was Key Pittman. It was on the Senate stationery.

H.M.Jr: All right. O. K.?

Bell: That is the only letter I have seen.

H.M.Jr: George, tell us about your trip, the high spots.

Haas: The real interesting stuff is so confidential I can't mention it. I can just mention very general terms, unless you want me to.

H.M.Jr: Did they give it to you so confidentially?

Haas: Very much so. The two places asked if it was just going to be for you. But I can say this much, Mr. Secretary, all the places that I visited were surprisingly optimistic and their sales figures supported their position and only one instance was the railway equipment company where their orders had gone down and the whole - all the officials of the company were tied up for two days that I was there with the C.I.O. controversy, so I saw them before 10:00 o'clock one day, but ordinarily this particular official has been very pessimistic. I think he is naturally inclined that way, but now he seems to be optimistic. Their orders had dropped off, but he said they had such good business for the last six months and he expects them to be resumed, although he is rather indefinite where he expects the business to come from.

- 14 -

H.M.Jr: I will tell you what I will do. I will see Cotton and then I will see you.

Haas: All right, because there are many of these figures that they asked me if they were just for you.

White: Are they good or bad?

Haas: They are good.

White: I noticed that Clapper had an article which I take it you are going to take up this morning, because it just came to my desk before the meeting, in which he speaks of the U. S. being the perennial sucker, taking gold, and so on, and paying \$30.00 for gold that can be produced for \$11.00, and so forth. I was wondering whether there was any feasibility in the suggestion of getting the columnists down, possibly some of the reporters, and you holding a sort of gold conference and let them fire questions and let's set them straight on some of these things.

H.M.Jr: Talk it over with Chick, will you?

White: Yes.

H.M.Jr: See what he thinks about it.

All right, if Cotton stays, and then George, if you will wait outside.

# STRICTLY CONFIDENTIAL

## TREASURY DEPARTMENT

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### INTER-OFFICE COMMUNICATION

DATE March 11, 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>
March 4	9,800	466,611	Nil	Nil
5	9,600	405,284	Nil	Nil
6	17,400	897,636	Nil	Nil
7	30,100	1,174,000	Nil	Nil
8	17,300	743,048	Nil	Nil
9	3,100	98,980	Nil	Nil
<b>TOTAL FOR WEEK</b>	<b>87,300</b>	<b>3,785,559</b>	<b>Nil</b>	<b>Nil</b>
Sales from February 22 to March 2, Incl.	85,990	2,787,807	Nil	Nil
<b>TOTAL FEBRUARY 22 to MARCH 9, INCL.</b>	<b>172,890</b>	<b>6,573,366</b>	<b>Nil</b>	<b>Nil</b>

On March 8, Mr. Pinsent telephoned me that he had received from Mr. Gifford the summary which had been relayed from London, to the effect that for the week ended March 2 there had been sold \$5,500,000 of non-vested securities. Pinsent remarked upon the volume of sales which were actually being transacted without having any injurious effect upon the American market. He stated that Gifford now has his own office; that he receives visitors; and that he has placed some orders through other channels than J. P. Morgan and Company.

There is attached a copy of an item from the financial page of the New York Herald Tribune of March 5 indicating the ignorance of the market as to actual selling of British vested securities.

*A. M. F.*

N. Y. Herald Tribune

March 5, 1940

"Foreign Selling

No concrete information has yet been made available on the means the British expect to follow in disposing of the \$60 stocks they sequestered from their nationals, but there is no evidence that liquidation has yet begun. Foreign liquidation of free securities is currently at a comparatively low level, generally running at less than \$500,000 a day, contrasted with more than \$1,000,000 a day in October and November. Buying in small amounts continues from Holland, Switzerland and the Far East. South American interests have also been accumulating small amounts of United States securities. These purchases from non-belligerents occasionally exceed sales from the warring nations and have had the effect recently of cushioning the effects of British and French liquidation. Total volume of foreign business, however, remains small and causes considerable worry to brokers with extensive foreign establishments."

TREASURY DEPARTMENT  
INTER OFFICE COMMUNICATION

DATE March 11, 1940

TO Secretary Morgenthau  
FROM Mr. Cochran

**CONFIDENTIAL**

The reported volume of sterling transactions in the open market was greatly reduced from last week's daily average, as a result of Great Britain's new exchange measures relative to the payment for certain exports. The reduction in commercial demand was the direct result of the regulations. Prior to our opening, sterling declined in Amsterdam from 3.87-9/16 to a current low of 3.85 and then returned to 3.86-1/4. The initial quotation in New York was 3.86-1/4 bid. After reaching 3.87-1/8 in the early forenoon, the rate developed an easier tone and moved off to close at 3.86.

Sales of spot sterling by the six reporting banks totaled £366,000, from the following sources:

By commercial concerns.....	£ 166,000
By foreign banks (Europe, Far East and South America)....	£ 200,000
Total.....	£ 366,000

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

By commercial concerns.....	£ 286,000
By foreign banks (Europe and South America).....	£ 257,000
Total.....	£ 543,000

The following reporting banks sold cotton bills totaling £64,000 to the British Control on the basis of the official rate of 4.02-1/2:

£ 34,000 by the Irving Trust Co.
14,000 by the Bank of Manhattan
9,000 by the Guaranty Trust Co.
5,000 by the Chase National Bank
2,000 by the Bankers Trust Company
<u>£ 64,000 Total</u>

The French franc, which is officially tied to sterling, also follows the course of the sterling rate in the open market. Today the rate declined to a low of .0218-3/16 in Amsterdam, then moved up to .0219-3/4 in the morning session here and closed at .0218-7/8.

The belga has shown a firm tendency in the past week, possibly reflecting the movement of funds from England and France. In New York today it advanced to .1701, the highest rate recorded for that currency this year. It was reported that an American motion picture concern sought to purchase 700,000 Belgas in this market. Since the belga market is small, this purchase exercised considerable influence on the rate. The closing quotation was also .1701.

The discount on the Canadian dollar widened to close at 17-3/4%. The continued weakness in that currency is attributed to orders from Chicago to sell Canadian dollars. As the Canadian Exchange Control system drastically limits the utility of Canadian balances purchased in the open market, it is probable that the discount for the Canadian dollar will tend to increase.

The rates for the Dutch guilder and Swiss franc were steady and closed at .5310 and .2242 respectively.

The downward movement in the rate for the Cuban peso continued today with a widening of the discount to 9-9/16%. The Mexican peso was quoted at .1672, unchanged since January 3.

The Federal Reserve Bank of New York purchased 40,000 belgas for the account of the Bank of Latvia.

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

\$ 4,000,000	to the Central Bank of the Argentine Republic
130,000	to the National Bank of Belgium
<u>\$ 4,130,000</u>	Total

We purchased \$5,700,000 in gold from the earmarked Account #3 of the B.I.S. Gold in this account is owned by the National Bank of Hungary.

The Federal Reserve Bank of New York reported that the following shipments of gold were being made to it by the banks indicated below:

4,501,000	from Switzerland, shipped by the Swiss National Bank for its own account. The disposition of this shipment is unknown at the present time.
3,654,000	from Sweden, shipped by the Bank of Sweden, to be earmarked for its own account.
2,695,000	from South Africa, shipped by the South African Reserve Bank for account of the Netherlands Bank. Although the disposition of this shipment is unknown at the present time, it will probably be placed under earmark.
1,025,000	from Mexico, shipped by the Bank of Mexico, to be earmarked for its own account.
<u>\$11,875,000</u>	Total

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

	<u>From Switzerland:</u>
\$ 2,181,000	shipped by the Credit Suisse, Zurich, to the Guaranty Trust Company, New York.
189,000	shipped by the Banque Federale, Bern, to the National City Bank, New York.

**CONFIDENTIAL**

From England:

943,000 representing two shipments by Samuel Montagu and Co., London, to the Bankers Trust Company, New York.  
83,000 shipped by Erlangers, Ltd., London, to the Manufacturers Trust Co., New York.  
46,000 shipped by Mocatta & Goldsmid, London, to the Banque Belge pour l'Etranger, New York.  
\$ 3,442,000 Total

The above shipments will be sold to the U. S. Assay Office at New York.

The Bombay silver quotation worked out to the equivalent of 41.37¢, off 1/4¢.

In London, the prices fixed for spot and forward silver both declined 1/4d to 21-1/16d and 21d respectively. The U. S. equivalents were 36.49¢ and 36.15¢. The recession in the London quotations was attributed to selling of new production silver and Indian interests were reported as buyers on the fall.

Handy and Harman's and the Treasury's prices for foreign silver were unchanged at 34-3/4¢ and 35¢ respectively.

We made seven purchases of silver totaling 725,000 ounces under the Silver Purchase Act. Of this amount, 200,000 ounces represented a sale from inventory and the remaining 525,000 ounces consisted of new production from foreign countries, for forward delivery.



**CONFIDENTIAL**



## TREASURY DEPARTMENT

## INTER-OFFICE COMMUNICATION

DATE March 11, 1940

TO Secretary Morgenthau  
FROM Mr. Haas *CA*  
Subject: Wheat export sales and other market data from the Federal Surplus Commodities Corporation.

Feb. 27: It is evident from the reports that we get that possibly as much as 50 per cent of the loan wheat has been liquidated by farmers.

The oats market would probably sell higher in view of the very small visible supply and excellent cash demand were it not for the rather heavy imports of Canadian oats. Ending January 31, there has been about 5,000,000 bushels of Canadian oats worked into the United States in spite of an 8 cent per bushel import duty.

Feb. 29: There was a good demand for Canadian wheat for export and cash premiums on Canadian wheat are firm. Quite a lot of the Canadian wheat sold today was for shipment after the opening of navigation. It is expected that when navigation opens almost all this Canadian business that has been coming through the United States in the winter months will be diverted via Montreal because transportation costs are considerably cheaper by the St. Lawrence Gateway.

Sales of Canadian wheat yesterday were in excess of 4,000,000 bushels. The bulk of it went to the United Kingdom with a couple of cargoes to Scandinavian countries. During the past week, the total sales of Canadian wheat have aggregated about 7,500,000 to 8,000,000 bushels.

Mar. 1: Argentina is beginning to harvest its new corn crop and some of the large exporters in Argentina advise that 30 days ago they looked for a crop of at least 360,000,000 bushels of corn but, with the excellent weather in that country during the past 30 days, it is quite probable that the crop will be closer to 400,000,000 bushels, as against a 10-year average of about 320,000,000 bushels.

## Secretary Morgenthau - 2

Mar. 2: The export demand was very slow both for American and Canadian wheat. It is estimated that the United Kingdom, due to previous purchases, owns about 50,000,000 bushels or more of Canadian wheat.

Rye closed  $\frac{1}{2}$  cent higher mostly due to the belief that Finland and possibly other Scandinavian countries would have to buy some American rye in the immediate future.

It was reported that Finland and other Scandinavian countries would be buying lard. With over 157,000,000 pounds in cold storage in Chicago, the largest March 1 holding on record, the lard market advanced 5 to 10 cents.

Mar. 4: Some buying of corn was on the belief that the extension of credits through the Export-Import Bank to Scandinavian countries, particularly to Norway, might result in purchases of American corn. From the reports we get, Scandinavian and Allied countries seem to be in need of feed grains.

Cable advices from Australia indicate they are finding a very poor demand for their wheat and flour from China. Reports indicate that the British Government has apparently paid for about half of the 60,000,000 bushels of wheat purchased a while back, although they are unable to ship this wheat and it is being stacked or stored in all states. The supplies are huge. It is interesting to note that almost exactly the same thing occurred during the World War. Australia had a large surplus of wheat and about 70,000,000 bushels of their surplus deteriorated so that it became unmillable. Besides that, they lost large quantities due to deterioration in storage.

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE March 11, 1940

TO Secretary Morgenthau  
FROM Mr. Haas *GH*  
Subject: The Business Situation,  
Week ending March 9, 1940.

Conclusions

- (1) The first upturn in the New York Times index since the end of December has been added to other indications of an improving business undertone, which include such significant items as a recent marked expansion in buying of nonferrous metals, an improvement in industrial material prices, and a sharp increase in textile orders.
- (2) The automobile industry continues to turn in excellent sales reports. General Motors' retail sales expanded markedly at the end of February. Total factory sales of cars and trucks in February are estimated at 33 per cent above the 1939 level, as compared with a gain of 26 per cent in January.
- (3) In the meantime, the adjusted FRB index of industrial production continues to decline, and no definite indication of a coming upturn has yet appeared. The index for January has been revised downward to 119, which compares with the peak of 128 in December, and the February index is estimated tentatively at 109.
- (4) An improving tendency in sensitive commodity prices has affected prices of an appreciable number of industrial materials. (Chart 4) The improvement reflects an increase in industrial buying and perhaps some influence of inflationary price tendencies abroad.

- - - - -

The general situation

The improving business undertone has continued during the past week, and has been reflected in a slight upturn in the New York Times index of business activity, the first increase since the end of December. For the week ended March 2, this index rose .6 point to 96.7, largely because of substantial

Secretary Morgenthau - 2

improvement in the indices of cotton mill production and electric power production, which offset declines in the indices of automobile, steel, and lumber production. Preliminary data for the following week show slight further declines in the automobile and steel indices.

While an increasing number of indications point toward a flattening-out of the business decline, evidence of an impending upturn is still lacking and must await some influence that will bring a marked increase in new orders for manufactured goods. Our weekly index of new orders for the first week of March shows some seasonal improvement. (See Chart 1) The combined index has increased to the highest figure since January, owing to a marked upturn in sales of cotton textiles. This improvement in orders may have been a factor in the increase in cotton mill activity during the week ended March 2.

New orders for steel remain relatively low, though trade reports indicate that the recent moderate improvement in new business has continued, thereby raising hopes that the recession in orders of the past two or three months has been checked. The present level of orders, however, is apparently no higher than about 40 per cent of industry capacity, considerably below last week's 64.6 per cent operating rate. The announcement this week of unchanged steel prices for second quarter delivery would appear favorable for increased ordering, since any price uncertainty involving the possibility of lower prices tends to hold back steel buying.

Among steel developments during the week has been an increase in structural steel awards to the highest total since last October (see Chart 2), and an expansion in steel buying by automobile makers, most of it being for quick shipment. Inquiries have been issued for 21,000 tons of shell steel by a company in the Pittsburgh district that is figuring on a British shell contract, according to trade reports.

#### Increasing activity in automobile industry

Automobile production last week increased further to 103,560 units, as compared with 100,855 units the previous week. The increase, however, was slightly less than seasonal, according to the New York Times calculations. Last week's production was 23 per cent higher than the 84,095 units produced in the comparable week last year, but retail automobile

Secretary Morgenthau - 3

sales are making an even more favorable comparison. General Motors' retail sales of passenger cars rose markedly in the last period of February, raising the total for the month to a figure 49 per cent higher than in February 1939.

Factory sales of cars and trucks in this country and Canada during January reached a total of 449,314 units, an increase of 25.9 per cent over January 1939, according to Department of Commerce figures released last week. This is the highest total ever recorded for January, surpassing the 1929 figure by about 27,000 units. Factory sales in February, according to the Automobile Manufacturers' Association, showed a further percentage increase to 32.8 per cent over the same month of 1939.

A shortage of skilled labor in the automobile industry, due in large part to the unusual demand for such labor by the aviation and machine tool industries, has reached such proportions that it may restrict the development program on 1941 models, according to Ward's Reports.

Extraordinary inducements offered by aviation and machine tool makers for skilled labor are said to have seriously depleted the supply in Detroit, notably of tool and die makers, which is likely to handicap automobile makers in retooling their plants for new models. Added to this, according to Ward's Reports, "is the absolute inability of obtaining tool equipment, even at premium prices."

#### Commodity prices continue firm

The general level of commodity prices continues firm, despite the business decline, and the BLS all-commodity index shows wholesale prices of goods in general to be in a more defensible position in relation to raw material prices than they were shortly after the war began. (See Chart 3)

Recent increases in industrial raw material prices have in most cases been associated with an increased volume of buying. Copper has been a leader in the movement, with a pronounced increase in sales in February and a continued high, though somewhat lower level, for the first week of March. The recent heavy buying of lead which helped to bring price increases has now slowed down. This is not surprising, if trade estimates are correct that March needs have already been about 90 per cent and April needs about 50 per cent covered.

Secretary Morgenthau - 4

The heavy sales of copper, lead, and zinc during February have caused mine operators to revise earlier plans for curtailing production during the spring. Orders on producers' books are now probably large enough to justify maintaining operations not far from the high levels of December and January.

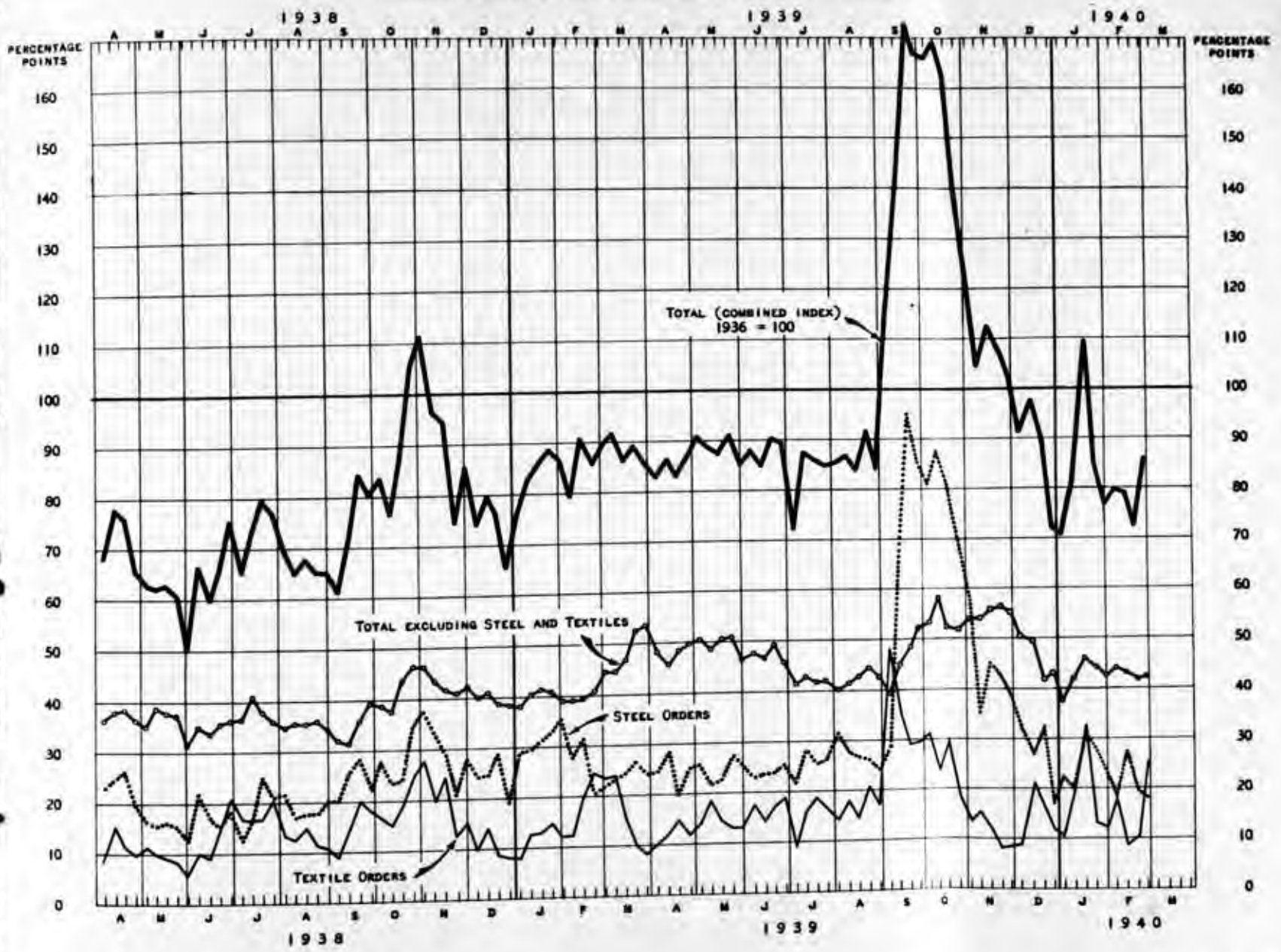
Daily and weekly futures prices for a selected group of industrial materials are shown in Chart 4. Zinc prices have shown the most pronounced rise among nonferrous metals, a rise which coincided with a striking increase in sales for the week ending March 2, when total sales of 15,000 tons were reported, as compared with a total of about 13,000 tons in the entire previous month. About two-thirds of these sales were completed before the price advance.

Tin prices have also increased, although, according to press reports, the market is still hesitant because of uncertainty about the value of the pound sterling and about the details of a proposed British ordinance designed to limit re-exports of tin from the United States.

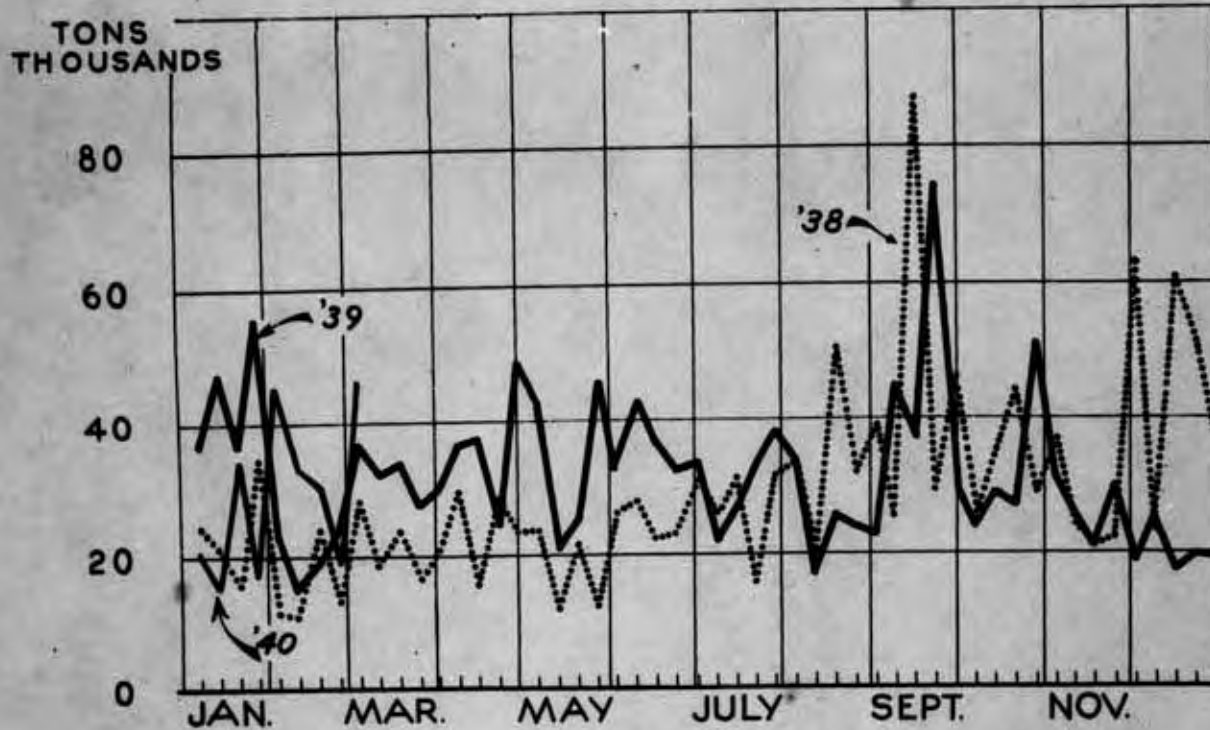
Silk prices registered an increase, partly because imports in February are reported in the trade to have been the smallest for any month in more than 20 years, and stocks at the end of the month were low. Rubber and hide prices also advanced somewhat on increased buying.

### INDICES OF NEW ORDERS

Combined Index of New Orders and Selected Components



# STRUCTURAL STEEL ORDERS



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

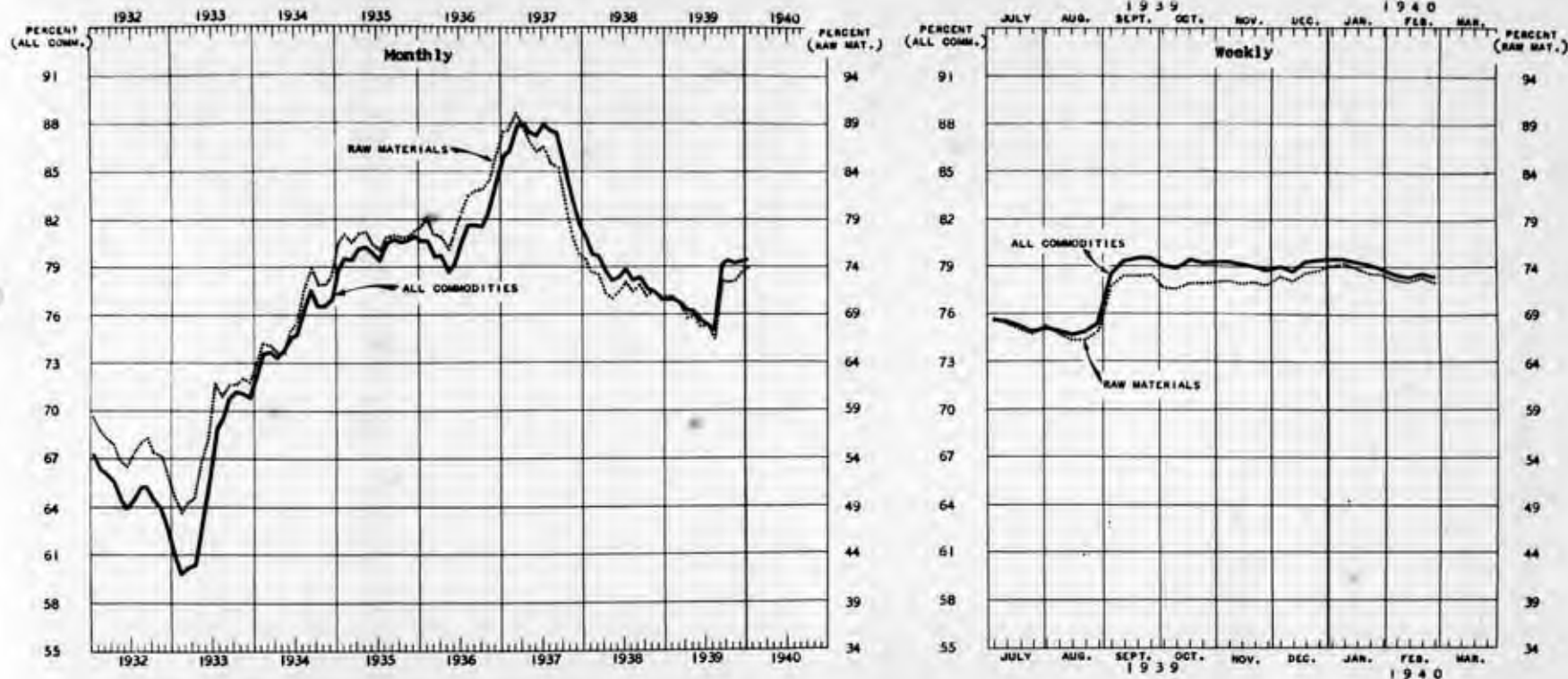
C-280

Chart 2

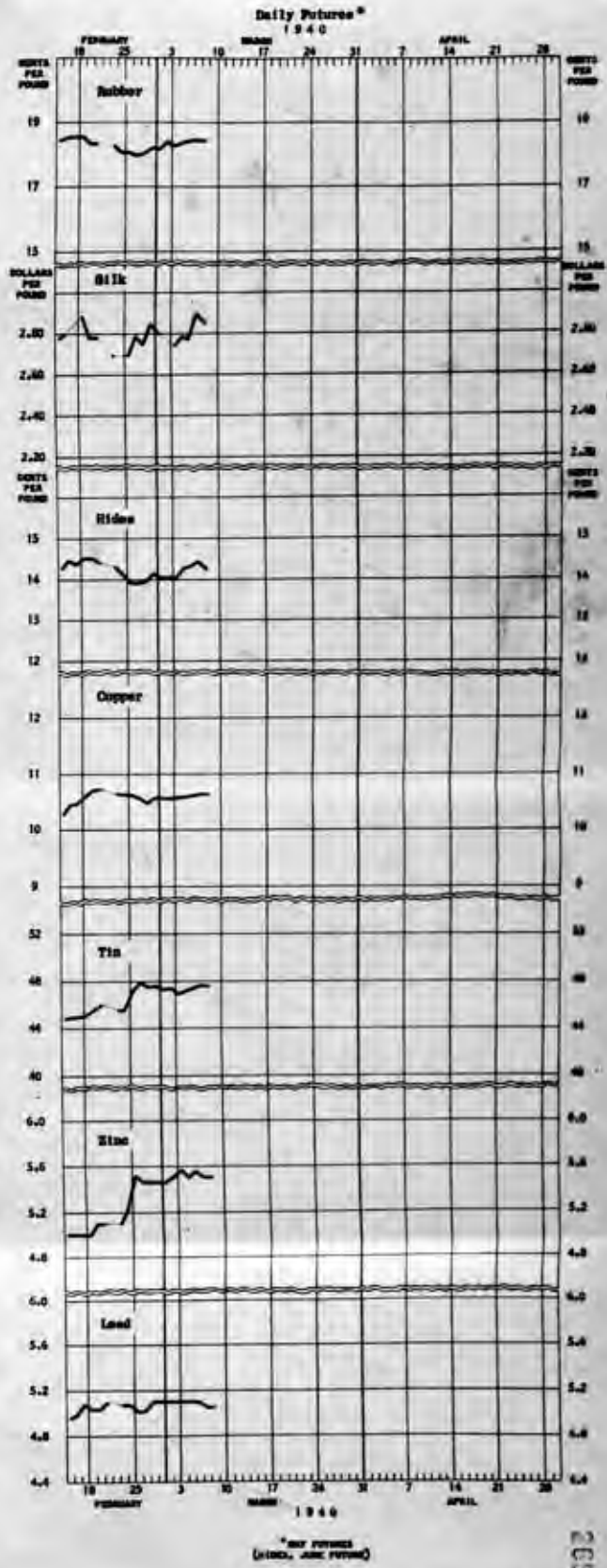
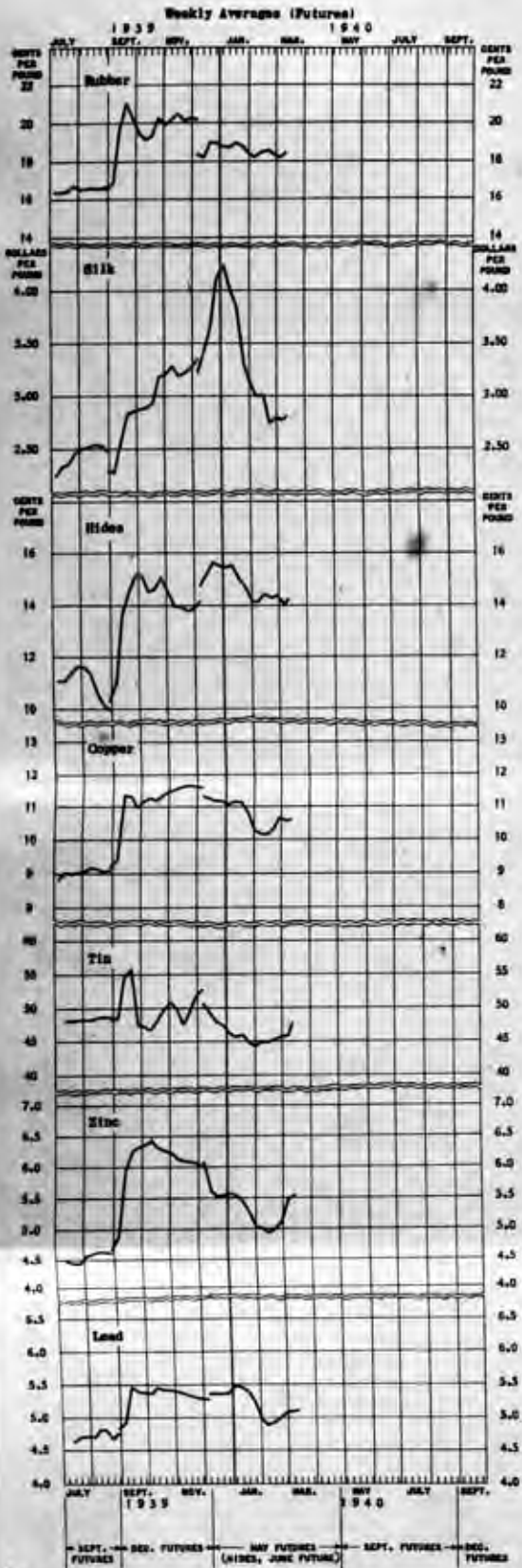
267



### B.L.S. ALL COMMODITY PRICE INDEX AND INDEX OF RAW MATERIALS 1926 = 100



PRICES OF SELECTED INDUSTRIAL MATERIALS



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

\* MAY FUTURES (HIDES, JUNE FUTURES)

TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE March 11, 1940

TO Secretary Morgenthau

FROM Mr. Haas *JA*

Employment under the Work Projects Administration increased slightly during the week ended February 28, 1940, to 2,326,000 persons. This figure compares with 2,319,000 persons employed during the week ended February 21, 1940, and a revised figure of 2,266,000 persons at the end of January 1940.

Attachments

WORK PROJECTS ADMINISTRATION  
 Number of Workers Employed - Monthly  
 United States

	Number of Workers (In thousands)
1937	
July	1,569
August	1,480
September	1,451
October	1,476
November	1,520
December	1,629
1938	
January	1,901
February	2,075
March	2,395
April	2,582
May	2,678
June	2,767
July	3,053
August	3,153
September	3,219
October	3,346
November	3,319
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	2,266
February	2,326

Source: Work Projects Administration.

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

They include certified and noncertified workers.

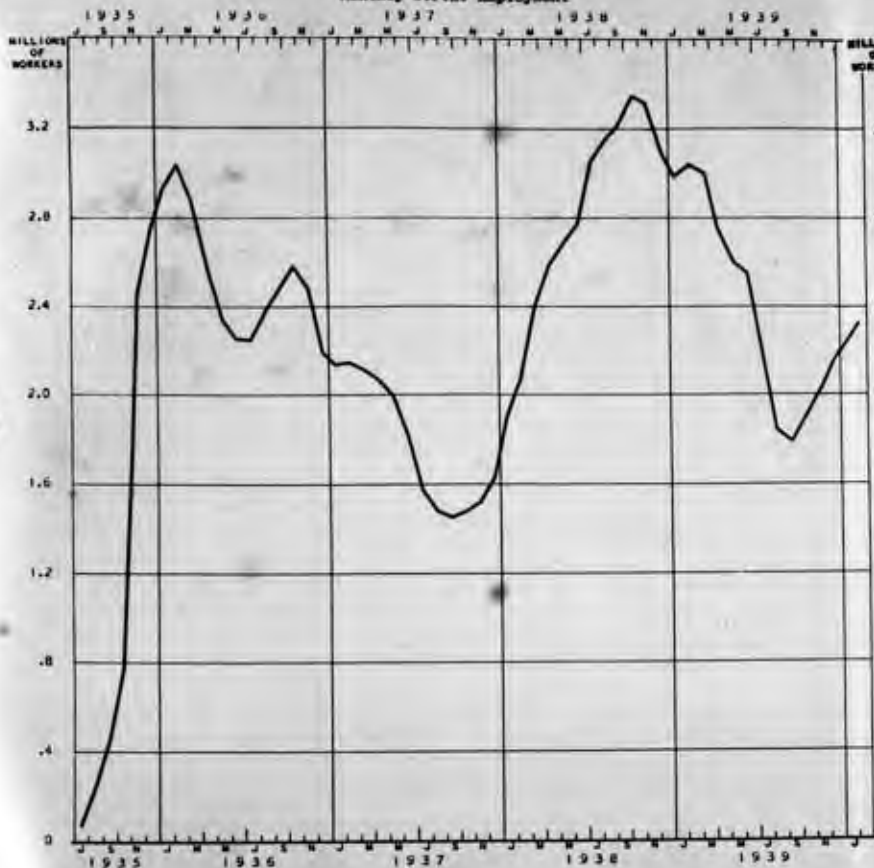
WORK PROJECTS ADMINISTRATION  
Number of Workers Employed - Weekly  
United States

Week Ending 1939-40	Number of Workers (In thousands)
July 5	2,358
July 12	2,290
July 19	2,250
July 26	2,200
August 2	2,082
August 9	2,054
August 16	1,977
August 23	1,898
August 30	1,842
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	2,266
February 7	2,288
February 14	2,306
February 21	2,319
February 28	2,326

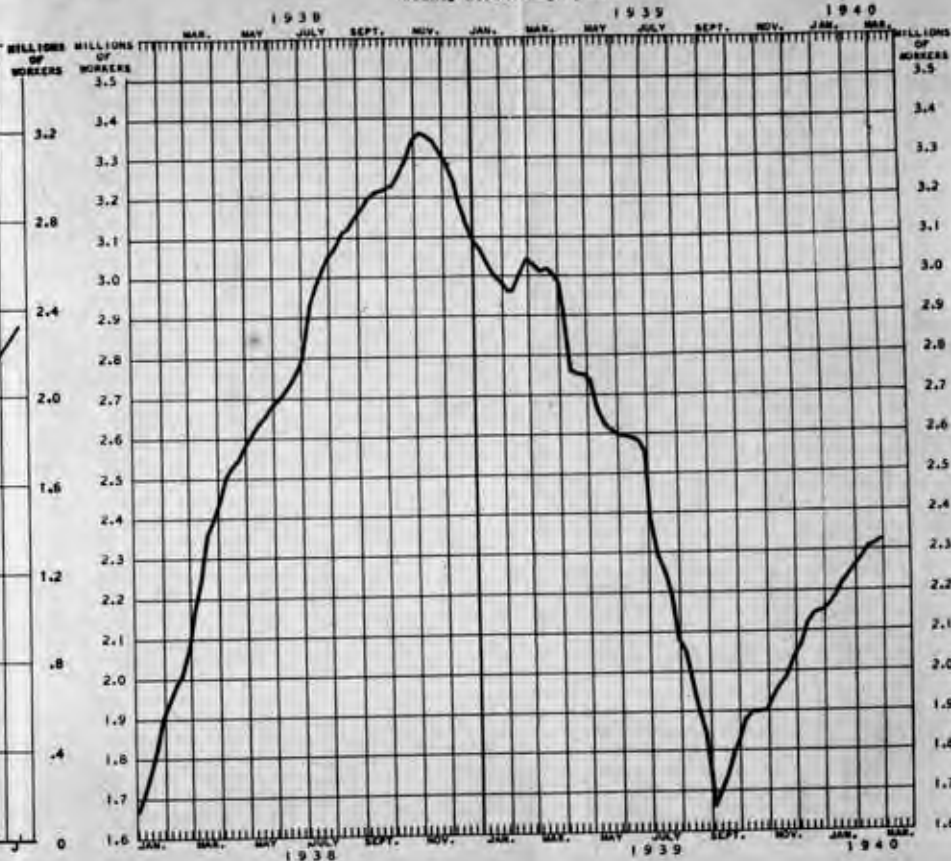
Source: Work Projects Administration

WORK PROJECT ADMINISTRATION  
Number of Workers Employed  
United States

Monthly W.P.A. Employment



Weekly W.P.A. Employment



SOURCE: WORKS PROGRESS ADMINISTRATION

March 11, 1940

I called Harry Woodring in connection with the memorandum I received from the President sending me Louis Johnson's memorandum. I spoke to Woodring at twenty minutes of five.

I said, "Look, Harry, do you know about the 1,200,000 pounds of powder for the British?" He said, "Yes. Why?" He said, "I signed the thing either Friday or Saturday. It's all O.K." And he said, "My understanding is if we run short, we can borrow 600,000 pounds from the Navy."

So then I told him about the note from Johnson and he wanted to know when it had been written and I said I did not know; I had sent it out.

I said, "In case there is any trouble, will you stand by me?" He said, "Absolutely! It's all O.K. I don't know what Louie Johnson is kicking about."

P.S. HM, Jr called Mr. Woodring back a few minutes later and told him Johnson's memorandum was dated March 1.

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THE WHITE HOUSE  
WASHINGTON

March 11, 1940.

MEMORANDUM FOR  
THE SECRETARY OF THE TREASURY

FOR YOUR INFORMATION AND  
RETURN FOR MY FILES.

F. D. R.



THE WHITE HOUSE  
WASHINGTON

March 9, 1940.

MEMORANDUM FOR THE PRESIDENT:

In connection with the attached, Louis Johnson informs me that the Navy has promised, under certain circumstances, to furnish six hundred thousand pounds of smokeless powder that they have in reserve.

*E. A. Tamm*

*General Watson  
Will you please  
bring this to the*

WAR DEPARTMENT

WASHINGTON

March 1, 1940.

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Priority on Supply of Smokeless Powder for the British Government.

Your attention is invited to the third paragraph of the attached memorandum of February 29, 1940, to the Chairman of the President's Liaison Committee.

Powder is one of the critical items for which the stock is below requirements for the Protective Mobilization Plan.



Acting Secretary of War.

1 Inclosure.

February 29, 1940.

MEMORANDUM FOR THE CHAIRMAN, PRESIDENT'S LIAISON COMMITTEE.

SUBJECT: Priority on Supply of Smokeless Powder for the British Government.

1. Reference is made to informal request by Secretary Morgenthau, transmitted by you on February 28, 1940, concerning powder making capacity which the War Department might release for the next four months to offset the loss of British capacity at Waltham-Abbey.
2. A study of the problem in the War Department indicates that during the months of March, April, May and June, 1940, delivery schedules for cannon powder to the War Department from two commercial sources and Picatinny Arsenal will total 4,475,000 pounds. Of this quantity, all of the deliveries from one of the commercial sources and from Picatinny Arsenal are required for use on complete round or propelling charge orders for the fiscal year 1940 ammunition production program. Of the deliveries from the second commercial source, 300,000 pounds are ~~consigned~~ to loading orders and 1,800,000 pounds are for war reserve. However, a recent concession of 600,000 pounds of the capacity for war reserve bulk powder was made to the Government of Finland, leaving a net available capacity for powder in this category of 1,200,000 pounds.
3. The War Department does not desire to release any of the remaining capacity already contracted for, but if the President decides to accommodate the British Government, it is believed that the release should be limited to the 1,200,000 pounds being manufactured for the war reserve. The loading program should not be disturbed, since any diversion from the needs of this program would cause a serious disruption of War Department procurement under the current armament appropriations.

Acting Secretary of War.

Copy for The President.

March 11, 1940.  
11:16 a.m.

H.M.Jr: This is in answer to your call of Saturday.  
Jerome  
Frank: Oh, yes, there were two things I wanted to talk to you about. Will you hold the wire just a minute, do you mind?

H.M.Jr: Surely.

F: Their first one was November 2nd, but the first one was on the question of the British securities.

H.M.Jr: Yes.

F: I'd like to know whether we could get your current reports currently on their sales, on the understanding that we were receiving them from you in confidence and subject to your orders, that we couldn't give them out unless you let us. In other words we'd like to be, have that we have received them in confidence and can't disclose them.

H.M.Jr: Now let me ask you something. Could you, would you mind putting it in a letter?

F: No, no, certainly.

H.M.Jr: And then I'm sure you can have them, I'll say beforehand you can have them, but I -

F: Oh we'll put it in writing certainly.

H.M.Jr: If you could.

F: I'd like to for my protection as well as yours. Well now the other thing I've forgotten, I'll try to remember it later and call you, if I may.

H.M.Jr: Well surely, but you put it in a letter and you want them on a daily or weekly basis?

F: Well, do you get them daily?

H.M.Jr: We get them daily.

F: I'd like to get them daily then. Hello, I'll put it in a letter.

H.M.Jr: Yes.

F: Thank you very much.

March 11, 1940.  
11:27 a.m.

H.M.Jr: Hello.  
Harry  
Woodring: Henry?

H.M.Jr: Hello Harry.

W: Yes. Say they told me this morning you called again about lunch for Wednesday.

H.M.Jr: I was trying to make it a day, I wanted to get hold of you and Edison together.

W: Well now I've got, I had this Tuesday and Wednesday lunched planned, Wednesday with Henry Wallace and some friends and I just wanted to call you direct and tell you that any other day, Thursday or Friday is O. K. with me.

H.M.Jr: Oh. Well there -

W: I didn't want you to think I was ducking you, you see.

H.M.Jr: Well I - well then if, in view of your call.....

W: If what?

H.M.Jr: There isn't - you couldn't - I mean, would it be difficult for you to shift tomorrow?

W: I just can't do it, Henry.

H.M.Jr: I see.

W: But I will be available Thursday or Friday.

H.M.Jr: Well then I'll tell you what - if Edison is available Thursday let's make it Thursday.

W: Well all right, I'll wait until - I'll not make any appointments either Thursday or Friday until I hear from you.

H.M.Jr: I wanted to tell you what I knew was in the minds of the Allies on purchasing of planes.

W: Yes, all right.

H.M.Jr: And I wanted to get your advice.

W: O.K. I'll be available either Thursday or Friday.

H.M.Jr: Well, I'll have them call Edison.

W: And then you can have them call me afterwards.

H.M.Jr: Thank you.

W: All right. Goodbye.

March 11, 1940.

2:40 p.m.

H.M.Jr:  
Arthur  
Purvis: Good afternoon, Mr. Secretary.

H.M.Jr: Can you hear me?

P: Yes, I can quite well, thanks.

H.M.Jr: Mr. Purvis, a couple of things.

P: Yes.

H.M.Jr: Wait a minute, I want to find out whether I'm on the outside wire. Do you mind just a second, I'm going to buzz for the operator.

P: Certainly.

H.M.Jr: Hello.

Operator: Operator.

H.M.Jr: Mrs. Spangler, am I on the outside wire?

O: Yes you are.

H.M.Jr: All right, thank you.

P: Thank you.

H.M.Jr: Hello.

P: Yes.

H.M.Jr: I got your letter on nickel.

P: Yes.

H.M.Jr: And I take it from that, that I'm to wait to hear from you further.

P: Yes. As I understand it, the thing is this now. What I would like to do on that, is to get, sitting down at a table, I was talking with Gwatkin this morning. I thought I would get down to the table with Gwatkin and Rist and make up some sort of idea as to what we would like to do and then get them to visit Ottawa, perhaps with me and get hold of Norman Robertson, who is the man up there, you see, and come to what looks like

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the sensible sort of thing to do. Personally I feel that the right kind of line to take is one based on military defensive because I think that's the kind of line that the particular Government in question would understand better than any other.

H.M.Jr: Well the point I want to make clear the next move is up to you.

P: Yes, that's correct.

H.M.Jr: Right?

P: Quite correct.

H.M.Jr: Now that's number one. Number two, the British and French Ambassadors respectively brought in Professor Rist and Ashton-Gwatkin this morning.

P: Oh yes.

H.M.Jr: And I told them politely but very firmly that there was nothing I had to discuss with them.

P: No, quite.

H.M.Jr: That I was getting along very well with you.

P: Yes.

H.M.Jr: And that I would much prefer to continue it that way.

P: Quite.

H.M.Jr: Ashton-Gwatkin got it immediately and Rist didn't.

P: Quite.

H.M.Jr: And he came back and saw Merle Cochran later on, very much upset and so forth and so on.

P: Yes.

H.M.Jr: And why couldn't he see me.

P: Quite.

H.M.Jr: So Cochran explained, well that's the way the Secretary wants it and I think you'd better do it that way.



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P: Exactly.

H.M.Jr: Then I asked the two Ambassadors to stay behind alone.

P: Yes.

H.M.Jr: And I repeated to them that I thought what I was trying to do on the planes, etc., was a fairly useful nature.

P: Exactly.

H.M.Jr: And that if I got into this thing with these two gentlemen, the first thing you knew, somebody in the State Department might say, "Well, before we give them the release on this engine, how about a little more tobacco?"

P: Exactly. It's the very thing that you were pointing out to me a week ago.

H.M.Jr: Well, I think Lord Lothian got it, but I don't know that the Frenchman did.

P: Well, I tell you what happened. Gwatkin rang me.

H.M.Jr: Yes.

P: About twelve I think it was.

H.M.Jr: Yes.

P: And said that he and Rist would very much like to have a talk with me on the general background that they had called upon you and that they would like to have a talk with me, and that he had understood that the situation <sup>was</sup> to be pursued with me.

H.M.Jr: That's right.

P: And - rather than direct with them. I said, "Well now, that doesn't represent any change in my opinion over what we have understood from the beginning."

H.M.Jr: That's right.

P: The Secretary has a channel that he intends to keep. I said, "As I see it, the next move is for you and Rist and myself to get into a room and go over these things, one by one and see what is in the wood, and

perhaps have some talk with some of the industrial crowds and see what the thing looks like, and then if there's anything that requires to be talked, I could very easily talk it quietly with the Secretary".

H.M.Jr: That's right.

P: That's the idea, isn't it?

H.M.Jr: That's it quite, and I also sent word to our State Department, please not to send them over here any more.

P: No, quite.

H.M.Jr: Because it really, it'll get embarrassing to me.

P: Yes. And as a matter of fact, one break opposite the - it was all right for them to come in and make a call upon you, just -

H.M.Jr: Oh, definitely.

P: But it was to be limited to that. I really left them with the understanding that they would just make a call and that it would be a formal contact.

H.M.Jr: Well -

P: Of course, possibly their anxiety to get somewhere or possibly some idea of some individual somewhere there that they should push ahead may have muddled it a little.

H.M.Jr: Well, I don't really think that they have anything new.

P: No.

H.M.Jr: I can't find out that they have anything. They talked about tungsten, so I said "Well that's up to you gentlemen to decide what you're going to do with the tungsten in Indo-China".

P: Exactly.

H.M.Jr: And I say you keep talking about American brokers in Hong Kong who ship tungsten over here, and I said, "To the best of my knowledge, they're English brokers, they're not American brokers".

P: Exactly.

H.M.Jr: And outside of that I don't think they have anything.

P: No.

H.M.Jr: And so I explained it and I'm sure that Lord Lothian got it.

P: Yes exactly.

H.M.Jr: And I think from now on you'll find that you'll have them on your doorstep.

P: Yes. Well as a matter of fact it all helps to clarify. Do you know there are so many people who are anxious to sort of cut in a little.

H.M.Jr: Oh yes.

P: And it doesn't do any good because, I think I understand the kind of set up that is possible and there's always a limitation of exactly what is possible.

H.M.Jr: Well there's also a limitation to what I can do in these matters.

P: Exactly. And if we muddy the tracks, all we do is to impair the possibilities in another direction.

H.M.Jr: Impair my usefulness.

P: Mr. Secretary, I saw in the paper, with considerable pleasure, this morning - I don't know whether it's true or not, that the P-40 situation had cleared up.

H.M.Jr: Well I don't know anything about that. Very very confidentially, I asked the President to see General Arnold and Admiral Towers, Collins and me this morning.

P: Yes.

H.M.Jr: And he had agreed to see us at eleven.

P: Yes.

H.M.Jr: But due to the President having a cold he postponed it twenty-four hours.

P: Uhuh.

H.M.Jr: And at that time we were to take this up.

P: Yes.

H.M.Jr: Now they knew this meeting was coming.

P: Yes exactly.

H.M.Jr: And so possibly Louis Johnson or somebody gave that out.

P: Yes.

H.M.Jr: But I don't know how official that is.

P: No, no. Well I thought I wouldn't say anything about - we wouldn't treat it in any way as official until we heard how it had worked out with you.

H.M.Jr: Well, the fact that the President is taking it up is only for you.

P: Exactly.

H.M.Jr: But you see, I figured that he could grease the way if he told them first what he wanted rather than having them meet and turn you down.

P: Exactly. Yes, then you're always in the position of recapturing lost ground.

H.M.Jr: And I was with him Thursday night for a long time.

P: Yes.

H.M.Jr: And I explained. I had ample opportunity to explain what you wanted.

P: Yes exactly.

H.M.Jr: I mean to boil it down, I said you wanted 1940 by a '41 model.

P: That's it.

H.M.Jr: And he understands. He's going to explain it to these gentlemen tomorrow.

P: Yes exactly.

H.M.Jr: But I'm going to ask you not even to tell anybody that until I -

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P: All right, I'll keep that entirely under my own hat.

H.M.Jr: But I wouldn't take any stock whether they do or don't release the P-40.

P: No. We'll forget that for the time being.

H.M.Jr: And then - well that's that and I'll know more after tomorrow.

P: Yes.

H.M.Jr: And what luck did you have in Wilmington?

P: One of the most - almost one of most disagreeable occasions that I've ever had since I came to this very hospitable country.

H.M.Jr: Oh I'm sorry.

P: But we did find out where it was.

H.M.Jr: Good.

P: There were about eight men in the meeting. I had asked for a meeting of as many who opposed me as possible.

H.M.Jr: Yes.

P: And I traced it down to one man, but a very powerful man. It was the most surprising thing to me because I had known him twenty-five years ago and thought of him as rather a pleasant individual. He was Chairman of the Board, Russell Dunham.

H.M.Jr: Russell -

P: Dunham.

H.M.Jr: Dunham.

P: And he has his son-in-law in as President.

H.M.Jr: Oh!

P: And the combination of the two is of course pretty bad. Now I thought as I went along that afternoon that I saw definite indications of friendliness on the part - and sympathy- on the part of several people there.

H.M.Jr: Huhhuh.

*Heracles Powder Co*

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P: And of course I did try a major job of work.  
Bloch-Laine was with me and also our lawyer Ballantyne.

H.M.Jr: Yes.

P: The reaction on Ballantyne, when he came out, was that he was ashamed of such a spectacle, and the reaction on Bloch-Laine was that he was extremely depressed.

H.M.Jr: What did they say, the vernacular, what's he -

P: In a word what he said was that they were not prepared to consent to apply for a closing agreement which was really based on a failure to meet the actual situation and which was really a subterfuge. The lawyer responded - Ballantyne responded quite definitely on that by saying, "But, Mr. Dunham you cannot take that position because everybody has known the full facts, the contract is being placed on the table and every word of it will be known to the Treasury in detail before it starts". He said, "I still say that we will not", and he pounded the desk, "put ourselves in the position of asking for an agreement which does not recite the facts". He said, "This is not a loan, it's an advance." And Mr. Ballantyne said, "Well supposing we called it an advance". Well then he rushed off in another tantrum and we got the impression of real recalcitrance and of a very closed mind. There was absolutely a closed mind there, we couldn't do anything with him.

H.M.Jr: Well is it that he's anti-Roosevelt Administration?

P: I couldn't - I came away puzzling very much, and I decided that number one, that I must be very much in a Republican stronghold which might be quite natural, because I know Wilmington has been somewhat that way. Number two, that there might be some connection with the thing that we talked about before, and that perhaps he had some intimate friend in the Army and, who had said, "Now look here, if you hold firm you'll get the thing the way we want it". Now that might be however, that's one of those things that is so purely surmise that I have no right to say that, but it just - he was so opinionated and so strong in the expression of his views that one couldn't help feeling there was something peculiar back of it.

H.M.Jr: I'm just - his name is Burnam?

P: Dunham. D-u-n-h-a-m.

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- H.M.Jr: Dunham.
- P: Russell Dunham. He's Chairman of the Board. And as I say he has his son-in-law Higgins -
- H.M.Jr: Russell Dunham, and his son-in-law is - ?
- P: Higgins. H-i-g-g-i-n-s.
- H.M.Jr: Higgins.
- P: And it was really/perfectly amazing exhibition because as we said to them, I made this point very clearly, I said, "Mr. Dunham", I said, "I'm speaking after all on behalf of two allied countries here. Here we have had every assistance that we feel we are entitled to ask in, from the Administration in enabling us to avoid paying taxes which they feel we should not pay to their Government. They have helped us arrive at a modus vivendi. You seem to have differences of view as to whether that is the correct one or not. Surely if they are prepared to give you a closing agreement, which I believe they probably are prepared to do on the basis of a contract made before them, surely you are not going to insist that we, as Allies, pay a sum which they do not want to receive and which they do not think is necessary for them to receive". And we might just as well have been talking to a brick wall.
- H.M.Jr: Isn't that amazing?
- P: And a very interesting thing to Mr. Ballentyne, our lawyer, was this, Mr. Ballentyne, after all, had been very largely dealing, not entirely, but very largely, with their lawyer Graves.
- H.M.Jr: Yes.
- P: He did not have his lawyer in the meeting.
- H.M.Jr: Yes.
- P: Therefore Ballentyne was unable to say to him, to ask him the kind of question and I think the answer was that Graves felt it was all right.
- H.M.Jr: I see.
- P: And that - and frankly, four minutes after we started, after I had made my opening

H.M.Jr: Yes.

P: He simply banged the door and he stayed there with it banged all the rest of the afternoon. Now I really did every single thing I could there, and what I've really come to the conclusion is this, that I believe that this thing would still be very valuable to us with other people. I think in this particular case we should simply say, "Well, something has been achieved, we got rid of an indeterminate non-known liability, they are now - the strategy that has been pursued on this thing and the help that you have given us have enabled us at least to reduce it to a known figure. It makes a difference of six cents a pound on the price of the powder. All right we'd better raise the price of the powder by that six cents a pound, they agree to take any further tax increases that may take place and therefore we are freed from that terrible unknown liability and the pyramiding effect that I spoke to you about."

H.M.Jr: Yes.

P: And that we'd better swallow hard now and take the powder.

H.M.Jr: I see.

P: Now I think that's what we should do on this particular thing because if we put it on the price of the powder we can avoid the precedence with some other manufacturer.

H.M.Jr: I see.

P: But when it comes to the actual payment it's really a scandalous sort of thing because - and of course what would interest me a great deal is this, I don't know whether they expect to avoid paying that to the tax - to the Treasury or not, because if they do they would lay themselves open to a much more serious charge of deliberately taking six cents a pound. Now I can't believe that there's that kind of thing going on. I think it's some, it's a genuine wrong headedness, an opinionated man deciding that what he has he's going to hold, and he - you know, the atmosphere was, well it enabled me to understand, Mr. Secretary, a great many things that have happened in this country that I haven't understood before.

H.M.Jr: I see.



P: (laughs)

H.M.Jr: Tell me what was Higgins first name?

P: I - I - I could let you - I don't know that offhand, I haven't it in front of me. He was not at the meeting, he had gone down to Florida for a holiday.

H.M.Jr: Well I can get it.

P: I could get that - give it to you very easily.

H.M.Jr: No, but he wasn't there?

P: Pardon?

H.M.Jr: He wasn't present.

P: No he apparently had rushed off the night before.

H.M.Jr: I see.

P: And left his father-in-law in charge.

H.M.Jr: I see.

P: But it was quite obvious you see, that really I believe, we all felt, the three of us, as we came out, that the sympathy of the majority there, that we had obtained it and that we had weakened them very much, but that they were absolutely up against a man who was banging the desk and he kept on telling us that they were unanimous in their decision that they wouldn't do this.

H.M.Jr: I see.

P: And after he had said it about six times I began to wonder what kind of unanimity it was.

H.M.Jr: I see.

P: It seemed to be the unanimity of one man, but as I say his whole case is based on the theory that in calling it a loan it does not accord with the fact because it isn't a loan it's something that we're advancing. We pointed out to him that in one sense of the word it is a loan because if you were to say that at the end of the time you would like to keep that factory in complete being because you'd found another

customer to whom you could usefully employ it, you would be very happy to put a figure upon it which would be very much higher than it's scrap value. And that therefore we would not have to pay you under the contract as much as we would otherwise and therefore it does justify the use of the word "loan".

H.M.Jr: Yes.

P: But well, all I can say is we just won't be a party to it one way, shape or form. We'll have nothing to do with it.

H.M.Jr: Well, that's too bad.

P: It's a peculiar thing.

H.M.Jr: That's right. All right.

P: Thank you. Anyway I did make it perfectly clear to him at the end, that we had a great deal of appreciation for the consideration we had received from at least one party in this transaction, that was the Treasury attitude.

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

P: Well I just thought, you see he was a little inclined, I wasn't going to have it left on the record that anybody had fallen down except Hercules.

H.M.Jr: Good. Well here's hoping that you have a good time with Mr. Ashton-Gwatkin and Professor Rist.

P: Thank you very much. (laughs)

H.M.Jr: You can add them to your staff.

P: Thank you very much indeed.

H.M.Jr: All right.

P: Goodbye.

H.M.Jr: Goodbye.

OFFICE OF  
THE SECRETARY OF THE TREASURY

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15 March 40.

Since she reached our  
office, I talked with  
Mr. Bell, President Bell  
Kuroff. He confirmed  
statement made by Mr. [unclear].





## TREASURY DEPARTMENT

PROCUREMENT DIVISION

OFFICE OF THE DIRECTOR

WASHINGTON

March 12, 1940

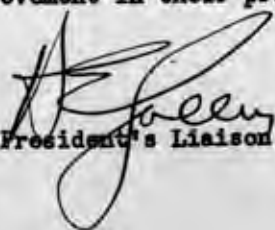
## MEMORANDUM FOR THE SECRETARY

In compliance with instructions, I talked by phone with Mr. Phil Johnson, President of Boeing Aircraft; Mr. Woodson, Vice President of Bell Aircraft; and Mr. C. B. Squire, Vice President of Lockheed Company.

Mr. Johnson of Boeing stated that they have had no foreign orders. Therefore, there could be no increase in price or delays in deliveries due to this cause. He further stated that there has been no increase in prices to the Army and that their schedule of deliveries is on time.

Mr. Woodson, Vice President of Bell Aircraft, stated that they have had no foreign orders. Therefore, foreign business could not affect their prices or deliveries. He further stated that they have two contracts, one for 13 twin-engine 5-place fighters, and one for 93 P-39s. On the order for 5-place fighters, which he said is more or less of an experimental type, there has been a delay in the crystallization of final plans. On the P-39s, however, he said that, while delivery does not start until July, their production is on schedule.

Mr. Squire, Vice President of Lockheed, stated that their foreign business has definitely not increased costs to the Government and has definitely not caused any delay in their delivery schedules of military planes. He said further that the foreign orders have enabled them to perfect three models in three different sizes and has given them a reserve backlog, the effect of which should be rather to move forward the dates of deliveries on military orders by virtue of an increase and improvement in their production facilities.

  
Chairman, President's Liaison Committee

## TREASURY DEPARTMENT

## INTER-OFFICE COMMUNICATION

DATE March 12, 1940

TO Secretary Morgenthau  
FROM Mr. White

The memorandum which you requested on the character of the Finnish political system is attached. It has been prepared mainly by D. N. Wheeler. The leading points may be summarized as follows:

1. The traditions of democracy are deeply rooted in Finland. The struggle against the Tsarist regime in Finland before the World War took the form of a fight for democratic rights and national self-determination for the Finnish people. The small farmers and workers who took a leading part in that fight have remained staunch defenders of democracy to this day. The leading party in Finland today, the Social Democrats, represented in the government by Tanner and several other Ministers, place at the head of their program the demand for the extension of democracy. The powerful cooperative movement in Finland represents a venture in economic democracy which has been admired around the world.
2. Powerful authoritarian forces have persisted in Finland. Although Finland became a Republic in 1918, this was an accidental result of the collapse of the German Empire. The founders of the Republic had originally intended to make Finland a German Kingdom. Both General Mannerheim and Regent Svinhufvud were Monarchist in their political views. A considerable part of the very influential Lutheran clergy has favored an authoritarian form of government. Dictatorial methods of government have also been supported at times especially under the impact of economic depression by the leaders of the timber trade, by high army officers, and by the banks.
3. The bitter political conflicts of the civil war period have never completely died down under the Republic. Fear of the U.S.S.R. has been a major factor in Finnish politics since 1918. Under all these circumstances, democratic civil liberties have not been secure. Measures aimed at restricting Communist activities have on occasion been extended to include progressive groups of all kinds. Thus in 1930 the Finnish trades unions were dissolved on the alleged grounds that they were Communist-controlled. But since 1936 there has been a resurgence of democracy in Finland.

# TREASURY DEPARTMENT

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## INTER-OFFICE COMMUNICATION

DATE March 12, 1940

TO Mr. White  
FROM Mr. Wheeler  
Subject: The Politics of Finland

The Finnish Republic is not yet 22 years old. Yet those 22 years have brought every crisis which can confront a state — industrial depression, insurrection, foreign conflicts, and minorities quarrels. How have Finnish democratic institutions withstood the strain of the bitter conflicts which have developed over these questions?

The traditions of democracy are deeply rooted among the Finnish people. The struggle of the Finns against the Tsarist regime in the early part of this century was fought chiefly for the extension of the democratic rights of the Finnish people. The Finnish labor movement played an important role in this struggle. In their own social and economic life the Finns have built up a cooperative movement which has been the envy of cooperators throughout the world.

These cooperatives, which have played such a vital part in the economic and social life of all the Northern countries, represent an extension of the democratic ideal to economic life. The Cooperatives, aside from their immediate objectives of providing better and cheaper goods to the poorest sections of the community, have had the larger aim of extending the spirit of cooperative endeavor in all spheres of public life. Thus the Cooperators hope to solve the economic and social problems of the country through voluntary cooperative effort, without abridgment of individual liberties and without the tragic waste and bitterness of class struggle.

Most of the population of Finland is engaged in the forest industries and in agriculture. Small farms and small businesses are the rule; only in the woodpulp and lumbering industries are there great industrial concerns. Finland is therefore a land of small proprietors, and this fact is clearly reflected in the tone of Finnish politics. Even the Social Democratic party, which is nominally a collectivist party, is in reality strongly individualist, in accord with the small proprietor outlook of its leaders.

Liberal democracy in Finland is the political expression of the cooperative and the individualist trends in Finnish social life. Public opinion in Finland is lively and well informed. The Finns read an

immense volume of political literature of all kinds; most of the people take an active part in the political life of the country through membership in the political parties or in other groups. The policies of the government are subject to constant scrutiny and criticism.

The Finnish Constitution guarantees to the people the right to religious freedom, freedom of the press and of speech, and protection against illegal arrest or search. The people's Deputies to the Diet are immune to penalties for their political beliefs. Like the American Constitution, the Finnish Constitution provides that in part the defense of civil liberties rests with the Courts. The ordinary guarantee of these constitutional rights, however, rests with the Diet, which as the democratically elected representative chamber has supreme power in Finland.

In general, the liberal guarantees in the Finnish Constitution have been carefully observed. However, in some respects the civil liberties of minority groups have been seriously invaded. This is especially true of the Communists. Since 1918, the Communist party has been proscribed in Finland. The Communists evaded this restriction by organizing and working under another name — the Finnish Labor Party. Under this name they were able to attract a considerable amount of support; in 1922 they elected 27 Deputies to a Diet of 200. The Finnish Government was worried by the strength of the Communists, and consequently dissolved the new party in its turn. The Communists were forced to reorganize under still another name. In 1930, they held 23 seats in the Diet at the time of the rise of the Lapuan movement which aimed at forcing a fascist form of government on Finland. Under the pressure of the Lapuans, the Communist deputies were arrested and imprisoned, their party and their press suppressed. During the years from 1930 to 1932, the structure of civil liberties in Finland was largely destroyed. Kidnapping and beating of the leaders of the liberal and radical parties was common. All forms of radical political activities were rigorously suppressed.

After 1932, the political tension relaxed somewhat, and minority groups were allowed more freedom. However, the prohibition against the Communists remained, although it was no longer rigorously enforced. By 1936, Finland had returned in large part to the liberal traditions of the late 1920's. Yet even in 1936 the shadow of social conflict lay over the liberal institutions of Finland. A significant example of the frailty of the system of civil rights in Finland is contained in a letter appearing in the English liberal weekly, *The New Statesman*, for January 6, 1940, over the signature "Barrister". It appears that *The New Statesman* had published an account of the ill-usage to which the Finnish Communist, Antekainen, had been subject. This account was reprinted in a Finnish journal, *Tuleskantaya*, as a result of which the

editor, Erii Wala was sentenced to four months in prison. After the elections of 1936, Wala appealed to the Appeal Court at Abo. He hoped that, with the return to a more democratic atmosphere in Finland his sentence might be reversed. But, on the contrary, his sentence was increased to eight months.

Another example of the persistence of the conflicts of the civil war period appears in the structure of the Finnish armed forces. The regular Finnish army is very small in peace time, less than 30,000 men. In principle the obligation to serve in the regular army is universal. Actually, the Civic Guard, with about 100,000 men has in many ways been more important than the regular army. The Civic Guard (also known as the White Guard, the Protective Corps, and otherwise) is the successor of the privately-organized White Guards of the 1917-1920 period. Its direct historical affinity is with the various Freikorps organizations of Germany and Austria, who were everywhere the central nuclei of the post-war fascist parties. Although under the Republic the Civic Guard has become a semi-public body, it has never entirely lost its political character. Thus it does not accept men whose political antecedents suggest socialist sympathies. The Social Democrats, for their part, have been extremely suspicious of the Civic Guard. The Civic Guard was deeply involved in the abortive insurrection of 1930. The Social Democrats have forbidden their members to join it. James Aldridge, writing in the *New York Times* for March 12, remarks that only a few weeks ago Vaino Tanner, the leader of the Social Democrats, "swallowed a bitter pill" in allowing members of his party to join the Civic Guard. The Social Democrats and other liberals have often complained that the Civic Guard was intended to be used against the labor movement.

The special position and influence of the Swedo-Finns has been a cause of disputes and ill-feeling in Finland. The Swedish colonists who came to Finland during the long period when Finland was subject to Sweden established themselves in a dominant position in Finnish affairs. Swedo-Finns controlled a large part of the wealth of the country; they established a quasi-monopoly of political offices, and they occupied the leading positions in cultural life and in education. After Finland became independent, Finnish nationalists demanded that Swedish influence should be curbed. The quarrel centered on the education question; the Finns demanded that educational expenditures should be strictly in proportion to the numbers of the Swedish- and Finnish-speaking population. This would have been a severe blow to the Swedo-Finns, who held a predominant place in secondary education. A compromise was finally arrived at, which left the Swedes part of their advantage; although they represent only 10 percent of the population, 20 percent of the secondary school expenditures go to their schools. The quarrel has died down in recent years, although some of the Finns are still dissatisfied.



### Geography and Independence

Geography has not favored the development of a strong and independent Finnish nation.

Finland has never had either the man power or the economic resources to support a successful national struggle against the expansionist aims of her neighbors. Nor has her geographic position afforded her any sure protection; she has been repeatedly overrun by the armies of Sweden, Russia and Germany. Frequently political quarrels in Finland have opened the door to foreign domination. As a result of these severe handicaps, the Finns throughout most of their long history have been a subject people.

The first Swedish crusade against the Finnish tribes was organized in 1154. By the end of the thirteenth century Sweden had conquered all of Finland and had driven the Russians behind the line of the Neva. Swedish colonists established themselves in a dominant position in the social, cultural, and political life of the country.

The whole history of Finland before 1815 is, in large part, the history of the struggle between Sweden and Russia for mastery of the Baltic. With Sweden's decline in the eighteenth century her grip on Finland weakened, and Russia under Alexander conquered the country in 1809. From that time until 1917, Finland was an autonomous Grand Duchy under the Russian Tsar. Finland had her own Diet, her own financial and judicial administration, and a Governor-General representing the Tsar as Grand Duke.

With the collapse of the Russian Empire in 1917, Finland became a German puppet state. Only as a result of the successive defeat and collapse of the Russian and the German Empires did Finland become independent.

### Revolution and Intervention

In February 1917 the first Russian revolution broke out. The Tsar was deposed, and a Provisional Government under the liberal Prince Lvov was formed. The Provisional Government acted at once to remedy some of the immediate grievances of the Finns. The Finnish Diet which the Tsar had refused to call was summoned; the liberal Stahkovitch was appointed Governor-General to replace the hated Seyn; and many political prisoners were released and recalled from exile.

But on the fundamental question of Finland's relation to Russia the Lvov government never adopted a clear position, nor did the succeeding government of Kerensky. In July the Finnish Diet in which the Social Democrats were a majority passed a Bill which claimed for

Finland complete independence except in military and foreign affairs. To this resolution the Kerensky government eventually sent a reply repudiating the right of the Diet to decide the matter without the consent of Russia. Stahkovitch dissolved the Diet and announced new elections in which the public could decide on the July Bill.

Meanwhile the storm of Social revolution was gathering in Russia and Finland alike. The Finnish conservatives formed a White Guard which they equipped with arms from abroad. The Social Democrats organized a Red Guard armed by the sympathetic Russian garrisons.

In the new elections the Social Democrats lost their majority; instead of 103 members out of 200, they now had but 92.

When the new Diet met the October revolution had brought the Bolsheviks into power in St. Petersburg. The new middle-class majority of the Finnish Diet was therefore particularly anxious to sever all connection with Russia. On November 15, they declared that supreme power belonged to them by virtue of the feudal constitution of 1772. As the Bolsheviks in St. Petersburg did not oppose this move, the Diet proceeded (on December 6, 1917) to proclaim Finland an independent state. The Bolshevik regime for a variety of reasons did not oppose Finnish secession. Soviet Russia was the first state to recognize Finland; recognition by Sweden, France, Germany and other states followed.

On the night of Sunday, January 28, 1918, the Finnish Reds carried out a coup d'etat. The Red Guards took over authority in Helsinki and in all the larger Finnish towns. Only in Northern Finland were the White Guards able to suppress the Red insurrection. The Reds issued a provisional constitution along liberal parliamentary lines, and hastily set about building a Red Army at Helsinki.

Meanwhile the Conservatives were rallying their forces at Vaasa, on the Gulf of Bothnia. General Mannerheim, a former Tsarist officer, was entrusted with the task of organizing the White Guard for action against the Reds. The Vaasa Committee appealed to Sweden and to Germany for help. A number of Swedish officers volunteered with the White Guard; many Tsarist officers, refugees from the Bolshevik revolution, also joined the conservative forces. But the decisive help came from another source. Svinhufvud, the conservative leader, had escaped from Helsinki to Germany on the outbreak of the insurrection. There he had come to a close understanding with the German Government; Count von der Goltz was appointed to head a German expedition to Finland.

On March 20, Mannerheim was ready to begin his campaign against Tampere, the northern stronghold of the Reds. But the promised German aid had been delayed. Mannerheim telegraphed via Stockholm to Berlin: "I consider it an urgent duty to hasten the arrival of the German expedition. Delay fatal". As there was no satisfactory reply, Mannerheim had to undertake the attack on Tampere without help. However, von der Goltz's expedition finally arrived in time to turn the tide. The Germans, landing at Hango, took the Reds from the rear, and Mannerheim was soon able to take Tampere.

The Germans captured Helsinki on April 12. The Reds were in full retreat towards the Russian frontier, but their retreat was cut off by another German detachment at Lahti. After that the Red forces soon collapsed. On May 16, General Mannerheim entered Helsinki in triumph. According to Finnish government figures, fifteen thousand Reds were shot for their part in the insurrection; 80,000 supporters of the Red regime were imprisoned in concentration camps, where about 10,000 of them died of hunger or disease. The Reds are estimated to have executed upwards of a thousand men during their months in power. Thus ended the war which is known officially in Finland as the War of Independence.

Nevertheless, German troops were in occupation of Helsinki, and they had been sent to Finland, not to make Finland independent, but to make her one of a band of puppet German States, stretching from the Arctic Ocean to the Caspian Sea, which the German government hoped to create out of the fragments of the Russian Empire. Accordingly, in May the Finnish Diet was called, or more precisely, 109 of its 200 members were called, for the Social Democrats were not allowed to take their seats. This rump Parliament elected Svinnhufvud as Regent, and Svinnhufvud asked Kaiser Wilhelm II to put forward one of his sons as King of Finland. The Kaiser refused the crown for his sons, but allowed his brother-in-law, Prince Friedrich Karl to be elected. Prince Karl spent an arduous summer learning Finnish; but as the summer wore on he realized that Imperial Germany was on the verge of collapse. The fall of the German Empire meant the end of German ambitions in the East. Thus the official War of Independence ended with Finland a German vassal state. Finnish independence in actual fact came about as accidental result of the Allied victory over the Central Powers.

#### The Struggle Against Bolshevism

The coming of the Armistice failed to bring quiet to Finland's stormy foreign and domestic politics. The bitter struggles of the civil war period were continued in a different form. With the

collapse of German power, Svinhufvud was forced to resign as Regent. His place was taken by Baron Mannerheim; for, although up until May 1918 Mannerheim was regarded by the Allies (and particularly by Lansing) as a tool of the Germans, he had succeeded in freeing himself from this association and placing himself at the head of the groups favoring close cooperation with the Allies.

The conservative parties were all agreed that the very existence of the Bolshevik regime in St. Petersburg constituted the greatest threat to Finland's independence and indeed to all the things they held dear. Therefore they were extremely anxious to obtain assurances from the Western powers of support against the Bolsheviks if it should prove necessary. And General Mannerheim's Government was ready to cooperate in any feasible plan for restoring the authority of the conservatives in St. Petersburg. The British government was also anxious to replace the Bolshevik regime with one more in line with Russian traditions, but serious difficulties arose between General Mannerheim and the Allied governments, as a result of which full cooperation against the Bolsheviks was not achieved.

When at the end of May 1919 the British 237th Brigade (of the expeditionary force under Major-General Maynard's command) reached Lake Onega, Mannerheim offered cooperation in return for Petrozavodsk, on the Murmansk Railway. General Maynard refused Mannerheim's assistance, probably because Mannerheim's ambitions conflicted with the aims of other Russian groups with whom the British were cooperating.

A Finnish volunteer force nevertheless assaulted the town, but it was driven back by the Red forces. Again, at the close of the year 1919 when the White General Yudenich marched on Petrograd, Mannerheim sounded the Allies on Finnish intervention. Nothing came of his proposals.

Finally at the end of May 1920 the Finnish Minister in Washington appealed to the American government for the aid of American warships in the Gulf of Finland to act against the Bolsheviks. The Finnish government stated that if aid were not forthcoming, it might be necessary to conclude peace with the Bolsheviks. The American government through Hugh Gibson firmly declined to supply any warships for such a venture. The Finnish government, therefore, gave up its hopes of gaining Karelia and other territory from the Bolsheviks. In October 1920 the Treaty of Dorpat put an end to hostilities between Finland and the Soviets.

### The Formation of the Constitution

The new Finnish Republic adopted a constitution which embodies principles drawn from the German, English and American political systems. A single Diet of 200 members has the supreme legislative power. The President is chosen by an electoral college, which unlike the American electoral college exercises considerable discretion. The President of Finland is powerful; the control of foreign policy and of the armed forces is in his hands, and he has the right of issuing administrative edicts provided that these do not contravene existing laws. He appoints the Cabinet members, not necessarily from the Diet, and he is not bound to take their advice. Finally, he has an effective suspensive veto. On the other hand, the President's decisions must be countersigned by the minister concerned, and his acts are furthermore subject to judicial review. The Finnish system is thus based in part on the American idea of checks and balances.

The balance of political forces in Finland after the defeat of the Reds made it inevitable that some form of moderate coalition would assume power, depending on the votes either of the Swedish conservatives or of the moderate socialists. The Social Democrats had expelled their communistic left wing; the Agrarian and Progressive parties had forced through a partial amnesty for imprisoned Red adherents.

The first great political problem which confronted the Republic was the land question. Throughout central and eastern Europe, the peasant demand for land redistribution had become the paramount political issue, and Finland was no exception. The Finnish Agrarian party, the Social Democrats, and the Progressives agreed that in one way or another land must be made available to the poverty-stricken peasantry. At the same time, the Finnish government could not adopt a program of drastic expropriation. The Kallio agrarian law therefore represented a compromise; the peasants and rural workers themselves were obliged to bear part of the burden of redistribution, the State bore a share, and the great landlords a share. While the Kallio law did not please all political groups, it did result in great extension of land holding among the peasants and rural workers. Landholding is still far from universal; in 1930, 32 percent of the rural population were landless laborers. Seventy-six percent of the holdings are less than 25 acres (cultivated), while on the other hand there are 827 estates of 250 acres or more of cultivated land. Nevertheless, landholding in Finland has become more widely dispersed than in France, the traditional country of small holdings, and compared with the situation in Italy, Hungary, Poland, or Spain, Finland is indeed a land of democratic land ownership.

Finland made rapid economic and political progress during the post-war decade. Democratic political organizations and cooperative societies drew into active public life great numbers of the Finnish people. The great political problems of the day were the subject of lively discussion and controversy which was carried on freely in the press and on the platform alike. The only exceptions to a general regime of free discussion and free political activity were the measures taken against the Communists.

With the continued prosperity of the late 1920's, the social conflict in Finland died down and the occasion for repressive measures against extremist minorities disappeared. The Communists remained subject to the legal ban, but in actual practice they were allowed to organize and agitate without much interference. By 1929, the regime of political liberty appeared to be as firmly established in Finland as in any country in Europe. But in fact Finland was about to enter another period of bitter political strife complete with violence and suppression of normal political rights.

#### Economic Depression and Political Reaction

By 1930, Finland was feeling the full effects of the great depression. As a producer of building material, Finland suffered severely from the collapse of building activity in Britain, her principal market. Unrest was widespread in Finland. In November 1929, a group of farmers broke up a meeting of the Young Communist League in Lapua. This riot inflamed public opinion throughout Finland, and Lapua became the center of a growing anti-Communist movement which reflected the suffering and discontent of the farmers and middle-class people of Finland. The Lapua movement, led by Koskela, advanced a vaguely Fascist program; the Communists were to be exterminated, the Social Democrats suppressed, the party system abolished, and the powers of the Diet handed over to a powerful executive. The Lapua movement found powerful support for its organization. The leaders of the timber trade, well-to-do farmers, the Lutheran clergy, the banks, high army officers, and the Neutral Cooperatives all lent their support, because they saw in the Lapua movement a political organization which promised to destroy once and for all the threat of Communism in Finland.

With such powerful backing, the Lapua group did not hesitate to resort to direct action against the Communists and indeed against the organizations of the Left in general. Socialist printing presses were smashed, Communists were kidnapped and beaten, and on July 5, 1930, two Communists members of the Diet were kidnapped from a meeting of a Standing Committee in Helsinki and taken to Lapua for punishment. The police were unable or unwilling to take any action against the Lapuans.

Under the pressure of the Lapuans, Prime Minister Kallio resigned his office after having ordered the suppression of the Communist press. His place was taken by Svinhufvud, who had been in retirement since 1922. Svinhufvud formed a conservative government which hastened to grant the essential demands of the Lapuans. The 23 Communist Deputies were arrested; the rump Diet proceeded to pass a series of laws dissolving the Trades Unions outright and outlawing virtually every kind of political activity of the opposition parties.

In order to ratify these changes to the Constitution, it was necessary to hold new elections, in the course of which the Lapuans with government toleration engaged in every variety of illegality in order to be assured of the two-thirds majority necessary to the ratification of the new laws. The elections of October, 1930 gave the conservatives the necessary votes in the Diet (plus one) and the "anti-communist" laws were passed.

The Lapuans had succeeded in large part in their political aims; but their terrorist activities did not cease. After the October elections a group of terrorists led by General Wallenius kidnapped President Stahlberg and his wife, but they were released unharmed after a general popular outcry. Throughout 1931, kidnapping of socialists and over-inquisitive journalists continued. In July Wallenius was acquitted of complicity in the Stahlberg kidnapping, although he had made a full confession of his guilt at the time when charges were first preferred against him.

In the spring of 1932 General Wallenius, in cooperation with leaders of the White Guards, was planning a march on Helsinki. Before these plans had been carefully matured, Wallenius' hand was forced by a riot in Mantsala. Wallenius made immediate preparations for a march on Helsinki; but the expected cooperation of the conservative leaders failed to materialize. Svinhufvud came out against the plan, and as a result the armed forces of Wallenius melted away before a shot had been fired. Once again, however, the Lapuans were partially successful, for a result of General Wallenius' demonstration the government arrested and imprisoned a large number of Communists, while Wallenius and Kosala were let off with suspended sentences.

The fundamental reason for the failure of General Wallenius' attempted coup was the fact that by 1932 the Lapua movement had lost the support of the propertied classes in Finland. The latter no longer felt the necessity, (as they had in 1930) of relying on the Lapuan forces for keeping Communism in check. Svinhufvud and his supporters felt that the government was itself well able to cope with the Communists.

After the defeat of General Wallenius' attempted coup, the Lapuan movement developed internal quarrels and ceased to be an immediate threat to the Republic. With the progress of economic recovery and expansion after 1933, the moderate parties regained their former strength.

Throughout his presidency (1931-1937) Svinhufvud had persistently refused to accept any Cabinet containing a socialist, in spite of the predominant position of the Social Democrats in the Diet. The Social Democrats determined to defeat Svinhufvud when he ran for reelection in 1937. Therefore they formed a coalition with the Agrarians, and succeeded in electing the candidate of the latter, Kallio.

Kallio called on Professor Cajander, a Progressive, to form a Cabinet. Since 1937 Finland has been governed by a coalition cabinet, headed by Cajander, including 5 Social Democrats, 5 Agrarians, and 2 Progressives.

The defeat of Svinhufvud seemed to be a serious reverse for the Conservative forces. For the first time, they had failed to block the inclusion of Socialists in the Cabinet. A thoroughgoing realignment of national politics seemed imminent. In fact, however, the revolution was not very profound; the Social Democrats remained a minority party.



Division of Monetary  
Research

The Political Parties and Their Policies

After the destruction of the Bolsheviks in 1918, the political center of gravity shifted to the Agrarian party. But no one party in Finland is normally strong enough to form a cabinet alone. Therefore Finnish governments since 1918 have been formed on one or the other of two plans — a coalition of the Agrarians with the Conservative parties, or a coalition of the Agrarians with the large Social Democratic party. The following table of the numerical strength of the various parties in the Diet shows how the Agrarians hold the balance.

		<u>1936</u>	<u>1939 (July 5)</u>
Government Parties	(Social Democrats	83	85
	(Agrarian	53	56
	(Progressive	7	6
Opposition Parties	(Swedish party	21	18
	(Unionist Party (Concen- tration)	20	25
	(Patriotic National Movement)	14	8
	(Others	2	2

The Social Democratic Party is a party of industrial and farm workers, professional and academic people, and small farmers. Formally, the party is committed to a Socialist program. In fact, the Social Democrats are essentially conservative in outlook. They do not aspire to a dominant position in national politics, but rather regard themselves as a pressure group working for increased Social Services and better working conditions within the limits of the traditional economic and political system. They are essentially an administrative party.

The Agrarian party is a centrist party of small farmers. Its principal asset is its historical achievement — the Lex Kallio which was the legal basis of the revision of land tenure in Finland. Under the Kallio law, tenants were given a certain amount of State aid in purchasing farms. Under this law, landholding in Finland has become more general and there has been some reduction in the concentration of holdings. Compared with the situation in Poland, Italy, or even France, Finland has become a country of small holders. The Agrarian party assumes the credit for this, although the Lex Kallio was

also supported by the Social Democrats. The Agrarian party has pursued a policy of protection for Finnish agricultural products as well as extension of tenure. By this policy, Finnish agricultural production has increased to about three times the level of 1913, and the cultivated area extended by 30 percent. This achievement must be reckoned as one of the most substantial victories of the new Republic.

The Agrarian party is a practical party, little concerned with general principles of government or economics. It is not opposed to State controls of industry, but it is hostile to all forms of socialism and particularly to Communism. In contrast to the French Socialist-Radical party, the Finnish Agrarians are under a pronounced clerical influence.

The Progressives are a very small party representing certain middle class groups of Liberal-Conservative tendencies. They work in coalition with the Agrarians.

The Unionist (Concentrationist) party together with the Swedish party (and the Fascists) form the Right. These parties represent the timber trade, the manufacturers, the larger landholders, the church hierarchy, and the Army. The conservative parties are the defenders of the traditional social order, the Lutheran Church, and the rights of property. They believe themselves to be the representatives of the permanent national interests and the unity of the nation. They have played the leading part in the fight against Bolshevism.

The Swedish People's party has its own peculiarities. Its program is ostensibly one of defense of Swedish language and culture, but in fact the main interest of the party is in defending the privileges of the wealthy and governing classes, a very large proportion of whom are Swedo-Finns. By coming forward as the champion of the Swedish people, the party has been able to control practically all of the Swedo-Finn vote, although the majority of Swedo-Finns are fishermen, sailors, lumber workers, and farm laborers.

The Patriotic National Movement was a clerical fascist movement centered in Lapua, which succeeded in dominating Finnish politics from 1930 to 1934. It has declined since then. In recent elections it lost half of its 14 deputies. In 1930 it was strong enough to make full preparations for a coup, which failed because of dissension in the ranks of the conservatives. Although the Fascists did not succeed in their coup, they did succeed in forcing the suppression of the Communist party, the arrest of all the Communist deputies, and they were permitted to engage in a terrorist campaign of beatings, kidnappings, and intimidations against the Left parties.

The Communist party has never been allowed to exist legally in Finland since the defeat of the Bolsheviks in 1918. However, the Communists have been able partially to evade the restrictions imposed on them by organizing under other names and by working within the Socialist party and the labor unions. Under the name of the Finnish Labor party, the Communists won 27 seats in a Diet of 200 in 1922. Alarmed, the government outlawed the party, suppressed its press, and dissolved the Diet to which this dangerous number of Communists had been elected. The Communists reorganized once more, and by 1929, under the name of the Finnish Labor party, they held 23 seats in the Diet. In 1930, when the influence of the Lapuans was at its height, the Finnish Labor party was once more suppressed and its Deputies arrested and imprisoned. Since 1930, the Communists have not had any recognized political party in Finland. They have probably entered the Social Democratic party, although known Communists are excluded from it.

The Cooperative Movement in Finland

The Finnish people combine an extremely tough kind of individualism with a highly developed tradition of cooperation. The independent small holders who form the backbone of the country's agriculture are no less devoted to cooperation than the city workers. Over half the adult male population of Finland belongs to some form of cooperative. The most important of these organizations are the two consumer cooperatives, organized on the Rochdale pattern. They are both affiliated with the Scandinavian Cooperative Union.

The two great consumer co-ops have a remarkable record in the provision of goods and services to their members at reduced costs. The coops have furthermore been a strong influence for the improvement of quality in merchandise in general.

The principle of cooperation in Finland has been developed in every branch of economic life. Cooperative farm banks, cooperative production and marketing societies are well developed. The coops have gone into manufacturing on a considerable scale.

The Finnish cooperatives are organized on a thoroughly democratic basis. The entrance costs are very small, and the direction of the affairs of the cooperative are subject to the full control and criticism of the membership on an equal basis. Furthermore, the cooperatives have a well developed literature of their own and an ambitious educational program. Thus the problems of the consumers and the operations of the management are continually subject to the discussion, study, and criticism of the whole body of consumers.

Of the two principal organizations, the Progressive Cooperative Society, while it has refused affiliation with the Social Democratic party, draws most of its strength from the working class, and it is generally pro-labor in outlook. The Neutral Cooperative Society, on the other hand, is a farmer's cooperative and it has not been friendly with organized labor. It refuses to bargain collectively with its employees.

In its larger social aim of substituting the cooperative attitude in public life for the attitude of class rivalry, the cooperatives have not been entirely successful. The relations of the two principal consumer coops have been bitter. They have frequently engaged in cut-throat competition. In 1930, the Neutral Cooperative helped finance the Lapuan Fascist movement, probably with the idea that by this means the Progressive coops might be suppressed.

Social Security in Finland

In its program of social security, Finland lags behind the nations of western Europe. Unemployment insurance does not exist. An old-age pension scheme was supposed to come into effect in 1940. Finland has, however, a public health administration which is well supported. Unfortunately, most of its resources are absorbed by the fight against tuberculosis, which is particularly prevalent in Finland.

Most of the housing development in Finland has been undertaken by the large companies. Many of these projects are modern and well planned; but Finland has not escaped a serious housing shortage. In Helsinki the average number of inhabitants per room was 1.5 in 1930. In Helsinki rents absorb about one-third of the income of unskilled workers. Housing conditions in the rural areas of Finland (as in most countries) are even worse than they are in the cities.

The security of Finnish workers is moreover impaired by the absence of a powerful trade union movement capable of advancing the interests of the workers. The weakness of the unions is the more surprising in view of the great numerical strength of the Social Democrats. At one time Finland had a powerful labor movement; that was before 1918, when the unions had 160,000 members.

With the triumph of the Conservatives in 1918, the trades unions, most of which were under Bolshevik influence, were crushed. After peace was restored, the unions slowly regained their strength, until in 1930 they numbered about 100,000 members. But in 1930, the unions were suppressed again by the Svinhufvud government during the high tide of the Lapuan movement.

From the blow of 1930, the labor movement has never fully recovered. In 1939 the Finnish trades union federation had only 87,000 workers. The workers have not been strong enough to bargain collectively in the timber or other big industries; in printing and some of the smaller trades, however, they have been successful in obtaining collective contracts.

As a result of the weakness of the labor unions, wages in Finland's important industries have remained low. From 1930 to 1932 wages dropped heavily; after that they rose slowly until by 1937 they were (in real terms) about 13 percent above the level of 1929. The low level of wages from 1930 to 1935 made it possible for Finland to accumulate capital, modernize her industrial plant, and reduce her foreign debt.

The general standard of living in Finland falls considerably below that of the other Scandinavian countries; however, it is undoubtedly higher than in Poland, Italy or the Balkan countries.

#### Culture and Education in Finland

German culture was the inspiration and the model for the well-to-do and educated Finn throughout the 19th and on into the 20th century. The Finns bought a third of their imports from Germany; they took a third of their ideas from there. The first Finnish secondary schools were modeled on the German Lyceums. Many of the conceptions embodied in the Finnish constitution were derived from Weimar. Helsinki's first public buildings were the work of a German architect, Engel, and the best of Finnish graduates went to German universities to complete their studies. This cultural liaison was weakened by the rise of Hitler and the closer trade relations developed with England after 1933. English ideas are now taking the place of German. Finns are wearing English clothes, operating English machines, dealing with English salesmen and working with English technicians. A Finnish-British society flourishes in Helsinki and a similar society was organized in Turku in the winter of 1937-1938.

In Finland, all children are compelled to attend elementary school between the age of seven and thirteen, after which 60 percent attend vocational schools until fifteen and 40 percent go on to secondary schools where they prepare for the civil service, teachers' training colleges or the University. Tuition is free at the state supported institutions except for a nominal fee paid by the children of the well-to-do. Besides Helsinki University, which has an enrollment of 6,600 students, half of whom are women, the state maintains a Technical High School and a High School of Pedagogy with a combined enrollment of about 1,000. There are two small privately endowed universities at Tuiku, one Swedish-speaking and one Finnish-speaking. They each have 300 students.

APPENDIXNotes on Finnish Leaders

Vaino Tanner, Foreign Minister of Finland, head of the Social Democratic party, leader of the Finnish and the international cooperative movements. Born in Helsinki to working-class parents. In 1910 he became a member of the Central Committee of the International Cooperative League. He joined the Social Democratic party, where he belonged to the more conservative wing.

Tanner refused to associate himself with the Bolshevik majority of his party in the Revolution of 1918. He remained aloof from the Red insurrection. However, when von der Goltz' troops occupied Helsinki, Tanner was arrested because of his association with the Social Democrats. He was soon released, however, when it was established that he had not been in any way connected with the uprising of the Social Democrats. This episode has given rise to erroneous stories linking Tanner with the Finnish revolution.

After the defeat of the Finnish Bolsheviks, the Tanner group assumed leadership of the Social Democratic party. Tanner was one of the Finnish delegates who signed the Treaty of Dorpat with the Soviets in 1920. Tanner has worked to eliminate the radical and communistic wing from the Social Democratic party; he has pursued a policy of cooperating with the center parties.

Tanner has continued to be an active official of Elanto, a leading cooperative organization, and in 1927 he was elected president of the International Cooperative Alliance.

In 1926 Tanner became Premier in a Social Democratic Cabinet. The following year he received the salute of the Civic Guard (often called the White Guard) an act which caused bitter controversy within the Social Democratic Party because of the reactionary associations of the Civic Guard. However, Tanner's act was in line with the policy of reconciliation with the conservative forces which he has consistently followed.

Tanner has also served as Finance Minister, in which position he made his reputation as a cautious, conservative financier. Tanner is well liked by business and banking groups; in fact throughout the civil war period he was able to maintain valuable friendships with the conservative groups.

Risto Ryti, banker and statesman, at present Premier of Finland, for many years Governor of the Bank of Finland. Ryti was Finance Minister in the early years of the Republic.

Ryti studied law in England, and has many associations with English life. He has been decorated as Knight Commander of the Victorian Order. Ryti has frequently represented his country at international conferences on economic and financial questions.

Ryti is extremely influential among all business and commercial groups in Finland. He is highly respected in international financial circles. Ryti is thought to be the principal initiator of Finland's economic policies since he became Governor of the Bank in 1923. He has favored the rigorous policy by which, at the cost of great sacrifice on the part of wage earners, Finland has been able to reduce her foreign debt and build up her capital since 1930. Ryti is also said to have been one of the leading sponsors of the program of agricultural expansion and industrial development since the war.

Ryti is a staunch defender of the idea that the Bank of Finland should be independent of government control.

Baron Carl Mannerheim, born to a noble Swedo-Finn family near Abo, educated at the St. Petersburg cavalry school. Mannerheim soon rose to the command of the Tsar's bodyguard. He fought in Manchuria during the Russo-Japanese war and was promoted to the rank of Major General. After the Russo-Japanese war he was stationed as Warsaw as commandant of the Imperial Russian cavalry.

During the World War Mannerheim was stationed on the Roumanian front. After the Finnish declaration of independence he returned to Finland where he took an active part in organizing the White Guard.

After the Red coup of January 1918 Mannerheim was placed in supreme command of the White Guard, and became in effect the supreme leader of the conservative forces. He depended largely on German aid in overthrowing the revolutionary Red government in Helsinki. The American Minister to Sweden, Morris, cabled to Secretary of State Lansing on April 2, 1918, strongly urging that no food should be sent to General Mannerheim's government in view of the pro-German



leanings of the Finnish conservatives. Morris' opinion was strengthened by the report of an Allied mission which had visited Mannerheim's headquarters, and which stated that "as far as they can see, the White Party of Finland is entirely under German influence" and that "they personally were insulted by Finnish officers with pro-German sympathies, although travelling with General Mannerheim's special passport".

By May, however, General Mannerheim had dramatically changed his orientation. He had quarreled with the authorities in Helsinki on the issue of German influence in the army, had resigned his position and had retired to Sweden. Svinhufvud, the pro-German conservative, became the leading figure in Finnish politics.

With the collapse of the German Empire, the return of Mannerheim was made possible, for he had succeeded in a few months, from May to November, in winning the confidence of the Allied diplomats. Accordingly, Mannerheim took over the Regency which Svinhufvud was forced to resign when the Germans withdrew. He held this position until the installation of the new constitution in 1919.

In 1920, Mannerheim attempted to organize an intervention against the Soviets with British aid. When this plan fell through, he led an independent assault on the town of Petrozavodsk on the Leningrad-Murmansk railway. This attempt was beaten back, and in the same year peace was concluded with the Soviets.

Mannerheim has remained a powerful figure in Finnish politics. He has been venerated by all the conservative groups, and hated by the radicals. He has been the strongest opponent of communism and of any policy of rapprochement with the U.S.S.R. On the other hand, he has many close friends and associations in Britain, and has been made Knight Grand Cross of the British Empire.

March 12, 1940.  
5:24 p.m.

H.M.Jr: Hello.

Operator: Mr. Stettinius.

H.M.Jr: Hello.

Edward R.

Stettinius: Hello Mr. Secretary.

H.M.Jr: How are you?

S: Good, how are you sir?

H.M.Jr: I'm fine. I was at the White House from one to four.

S: Huh.

H.M.Jr: I was over at the White House from one to four o'clock.

S: Oh yes. That was good.

H.M.Jr: That's why I didn't get to calling..

S: I understood.

H.M.Jr: How do things look?

S: Well, incoming orders this week are a little bit better.

H.M.Jr: Swell.

S: Operations are down a bit.

H.M.Jr: Yes.

S: But that shouldn't be particularly discouraging because it's a technical matter in connection with inventory manufacture of ingots.

H.M.Jr: I see.

S: The general sentiment yesterday in Pittsburgh, I was there all day yesterday.

H.M.Jr: Yes.

S: Was that things weren't going to slide off in the steel industry from where they were now.

H.M.Jr: They were not.

S: I think the opinion was divided between an upturn in the next three or four weeks and stabilization at

- 2 -

the present levels for the next sixty days.

H.M.Jr: I see.

S: Generally speaking, I think it's safe to assume that the outlook at the moment would be that we would certainly stabilize and perhaps - and I think personally that the industry will pick up in its operating rate probably in another three or four weeks and will have a better - we'll enter the second quarter better than the last few weeks of the last quarter.

H.M.Jr: Good.

S: The first quarter.

H.M.Jr: I see.

S: So it could be a lot worse.

H.M.Jr: Well - it could be a lot worse.

S: Yes.

H.M.Jr: Any foreign orders materializing?

S: Yes. Last week, we booked a hundred and twelve thousand tons of stuff last week for abroad.

H.M.Jr: What kind of stuff?

S: Well, it was a very very interesting item of some ship plates for Italy.

H.M.Jr: Yes.

S: And the Scandinavian countries, and some tin plate orders.

H.M.Jr: Yes.

S: And also some semi-finished stuff for France and England.

H.M.Jr: Is that right?

S: That they will re-roll themselves for various commercial and munition purposes. Now without any official forecast our export fellows feel much more

- 3 -

hopeful of some real tonnage from abroad during the second quarter than they did a week ago.

H.M.Jr: Yes.

S: And of course I think it all depends upon the peace effort. If there were peace why of course it would stop, but if the things - if things get worse over there, I'm confident that there's going to be much more buying than anyone realizes.

H.M.Jr: I see.

S: And domestically, there's about - there's twenty tankers to be let the next few weeks.

H.M.Jr: Really.

S: The automobile industry and the container industries are going great guns.

H.M.Jr: Yes.

S: And I think, all in all, that the situation is not anywhere near as bad as it might be.

H.M.Jr: Well that sounds pretty good, doesn't it?

S: Yes.

H.M.Jr: Well I think I'd like to talk to you again a week from now.

S: Well now I'm going to slip off and spend Easter with my family.

H.M.Jr: Good.

S: In the South.

H.M.Jr: Good.

S: So if we can skip one Tuesday.

H.M.Jr: That's all right.

S: And then if we can talk, Easter, the day after Easter, or that Tuesday.

H.M.Jr: I may not be back then myself.

S: I see. Well I won't be here next Tuesday but I'll be here from the following week right on through.

H.M.Jr: O.K. When I get back, if I'm away, I'll give you a ring.

S: And I think the next time it might be a good plan for me to drop down and spend a half an hour there with you with some real facts and atmosphere.

H.M.Jr: That would be fine. Come down and have lunch with me.

S: Yes, because I want to be helpful and I think that I can give you some hot stuff off the griddle that'll mean something.

H.M.Jr: I'd like to have you come down and have lunch with me.

S: Fine.

H.M.Jr: Thank you so much.

S: Goodbye.

TREASURY DEPARTMENT

321

INTER-OFFICE COMMUNICATION

DATE March 12, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

As of February 28, Finnish balances and earmarked gold in New York were as follows:

Bank of Finland gold held under earmark with N. Y. Reserve Bank .....	\$11,800,000
Bank of Finland dollar balances with N. Y. Reserve Bank .....	\$13,200,000
Bank of Finland dollar balances with other banks .....	\$3,300,000
Private Finnish Funds with N. Y. Banks .....	\$7,100,000
	\$35,400,000
Total	\$35,400,000

The above total of \$35,400,000 showed a gain over the total of \$33,600,000 for the preceding week, due to increases in the dollar holdings at the Federal Reserve Bank of New York by the Bank of Finland, resulting from transfers to that account by the Sveriges Riksbank.

Mr. Knoke has told me by telephone that on March 11 the Federal Reserve Bank received a cable to transfer from the Bank of Finland \$1,660,000 to the Banca Commerciale Italiana, at the instruction of the Finnish Legation. A similar order in the sum of \$200,000 was received today. It is presumed that these transfers cover the purchase by Finland of Italian aircraft or other munitions of war.

# CONFIDENTIAL

322

## TREASURY DEPARTMENT

### INTER-OFFICE COMMUNICATION

DATE March 12, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

A heavy preponderance of offerings of sterling in the open market resulted in a sharp decline in the quotation for that currency today. After opening at 3.85, the rate fell rapidly to 3.80-1/2, then returned to 3.83 by noontime. It receded further during the afternoon, reaching a low of 3.77 just before the close. The final quotation was 3.77-1/2.

It will be observed, from the turnover figures given below, that reported sales exceeded purchases of sterling by more than £600,000. In all probability, this excess was absorbed mainly by the New York banks themselves, in the covering of short positions. The large sterling sales by commercial concerns probably represent liquidation of balances previously acquired in anticipation of the purchase of certain commodities, which balances can no longer be utilized for the purposes intended. Another reason prompting commercial concerns to liquidate sterling balances would be the fear that subsequent British foreign exchange regulations may have the effect of blocking the balances of foreigners. The latter reason could also explain the large sales for account of foreign banks.

Sales of spot sterling by the six reporting banks totaled £1,206,000, from the following sources:

By commercial concerns.....	£ 475,000
By foreign banks (South America, Europe and Far East)...	£ 731,000
Total.....	£1,206,000

Purchases of spot sterling amounted to £589,000, as indicated below:

By commercial concerns.....	£ 324,000
By foreign banks (Europe, Far East and South America)...	£ 265,000
Total.....	£ 589,000

The following reporting banks sold cotton bills totaling £17,000 to the British Control on the basis of the official rate of 4.02-1/2:

£ 8,000 by the Irving Trust Company
4,000 by the Guaranty Trust Company
3,000 by the Chase National Bank
2,000 by the Bank of Manhattan
<u>£ 17,000 Total</u>

- 2 -

The rate for the Canadian dollar continued to show a weak tone and at one time during the morning, business in that currency went through at a discount of 20%. The closing quotation was 18-1/4% discount.

The other important currencies closed as follows:

French francs	.0214
Guilders	.5313
Swiss francs	.2242-1/2
Belgas	.1698

The Federal Reserve Bank of New York purchased 60,000 belgas for account of the Bank of Latvia.

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

The Federal Reserve Bank of New York reported that the following shipments of gold were being made to it by the banks indicated below:

\$ 5,641,000 from South Africa, representing two shipments by the South African Reserve Bank, to be earmarked for account of the Bank of Java.  
 4,206,000 from Canada, shipped by the Bank of Canada, Ottawa, for sale to the U. S. Assay Office.  
 2,880,000 from South Africa, shipped by the South African Reserve Bank, to be earmarked for account of the Netherlands Bank.  
 2,074,000 from England, shipped by the Bank of England, to be earmarked for its own account.

---

\$14,801,000 Total

In Bombay, the silver quotation declined the equivalent of 13/16¢ to 40.56¢.

The prices fixed in London for spot and forward silver were both 20-13/16d, off 1/4d and 3/16d respectively. The U. S. equivalents were 36.07¢ and 35.88¢. The decline in the London prices was again attributed to selling of new production silver.

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

We made six purchases of silver totaling 700,000 ounces under the Silver Purchase Act. Of this amount, 450,000 ounces represented sales from inventory by two refining companies and the remaining 250,000 ounces consisted of new production from foreign countries, for forward delivery.



# RUSH!

BUREAU OF SUPPLIES AND ACCOUNTS

S. A. 547

are

NAVY DEPARTMENT  
BUREAU OF SUPPLIES AND ACCOUNTS  
WASHINGTON, D. C.

12 March 1940

In reply address not the signer of this  
letter, but the Bureau of Supplies and  
Accounts and  
Refer to No.

(00)

324

MEMORANDUM FOR THE ASSISTANT SECRETARY OF WAR

**SUBJECT:** The priority of supply of smokeless powder  
for British Government.

**Reference:** Your memorandum of February 29, 1940, to  
Chairman, President's Liaison Committee.

1. It was the understanding of this Committee that the War Department had agreed to release to the Anglo-French Purchasing Board not more than 1,200,000 pounds of powder, representing a quantity not required immediately for the War Department's loading program. In other words, the release of a greater quantity would result in serious interference with the labor situation.
2. The above amount, together with a four months' productive capacity at the DuPont plant assigned to the Navy, would make available a total of some 1,800,000 pounds of powder which the two Powder Companies involved might utilize for other orders.
3. Yesterday, Monday, the Navy Department received word transmitted through the War Department that it was desired that the Navy not release its 600,000 pounds of available capacity, the memorandum indicating that the above amount, i.e., 600,000 pounds, might be required by the War Department.
4. The Committee will therefore appreciate information as to whether the War Department will actually require the 600,000 pounds of powder which the Navy previously had consented to release for the purpose of filling foreign orders.

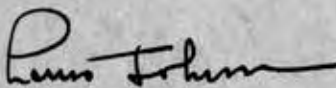
  
RAY SPRUILL,  
Rear Admiral, S.C., U.S. Navy,  
Member, President's Liaison Committee.

WAR DEPARTMENT  
OFFICE OF THE ASSISTANT SECRETARY  
WASHINGTON, D. C.

March 12, 1940.

MEMORANDUM FOR THE PAYMASTER GENERAL OF THE NAVY:

1. With reference to memorandum of March 12, 1940, subject: Priority of supply of smokeless powder for the British Government, the War Department will not require for its loading program in the next four months the 600,000 pounds of smokeless powder previously released by the Navy Department.



Louis Johnson,  
The Assistant Secretary of War.

NAVY DEPARTMENT  
BUREAU OF SUPPLIES AND ACCOUNTS  
WASHINGTON, D. C.

13 March 1940

MEMORANDUM FOR MR. MORGENTHAU,  
The Secretary of the Treasury.

1. Upon receipt of the attached memorandum dated March 12, 1940, from the Assistant Secretary of War, I phoned the War Department to ask the meaning of the words, "will not require for its loading program in the next four months," and was informed that no importance should be attached to those words, but that the memorandum was intended to say that the War Department was in no way interested in the Navy's 600,000 pounds of smokeless powder previously released, either during the "next four months" or any time.

  
RAY SPEAR,  
Rear Admiral, S. V. U.S. Navy,  
Member, President's Liaison Committee.

IN REPLY ADDRESS  
BUREAU OF ORDNANCE, NAVY DEPARTMENT  
AND REFER TO NO.  
OP/L11 (AS)

NAVY DEPARTMENT  
BUREAU OF ORDNANCE

WASHINGTON, D. C. 18 March 1940

INCREASING POWDER PRODUCTION AT INDIAN HEAD, MD.

Prior to March 1, 1939, production was.....10,000 lbs. per day.  
Stepped up now to .....15,000 " " "

Next economical step is 10,000 more to .....25,000 " " "  
This will take 175 more men - some in 3 shifts, others  
2 shifts, and can be done in 1 month.

With this 10,000 lbs. extra made at Indian Head it will be unnecessary to order from DuPont the following amounts which the Navy was to order based on previous consultation and agreement with the War Department and DuPont:

<u>Year</u>	<u>Navy's allotted Capacity at DuPont</u>	<u>NH Powder Navy must retain at DuPont</u>	<u>Pyro, air dried powder not necessary to order if Indian Head expands.</u>
1940	2,047,675	375,000	665,675 (capacity not yet contracted for in 1940).
1941	2,937,950	375,000	2,612,950
1942	2,825,400	375,000	2,950,400

The 375,000 lbs. (column 3 above) which the Navy must continue to get from DuPont is NH (non hygroscopic) powder of DuPont's formula for 171 and 3" guns, i.e., small caliber powder.

Indian Head makes Navy Pyro cellulose powder.

The Army uses the DuPont formula powder and does not use the Navy powder except a small amount in large Coast Artillery guns.

Indian Head is not equipped with the type of machinery required for making the kind of powder that the Army uses, namely, NH or as the Army calls it - P.N. (flashless non hygroscopic).

The British say they will take the kind of powder DuPont makes for the Navy, Pyro cellulose air dried.

W/L11 (AS)

The Navy will want to go back to DuPont for some powder (enough to keep their hand in when the foreign demand disappears) because it has been the Navy that through the years has kept the DuPont powder line in operation when the Army was buying very little powder. This will require laying off some men at Indian Head after the need for expansion ceases.

W. R. FURLONG  
Chief of Bureau.

7  
329

IN REPLY ADDRESS  
BUREAU OF ORDNANCE, NAVY DEPARTMENT  
AND REFER TO NO.

NAVY DEPARTMENT  
BUREAU OF ORDNANCE  
WASHINGTON, D. C.

(713)

*Mar 11, 1940*

**Subject: Deferred Delivery of Smokeless Powder.**

**Sirs:**

The Navy Department will accept four months, or 600,000 pounds capacity, deferred delivery of smokeless powder under the current contract to permit the E. I. du Pont de Nemours and Company to manufacture smokeless powder for other orders.

Very truly yours,

W. R. FURLONG,  
Rear Admiral, U.S.N.,  
Chief of Bureau of Ordnance.

E. I. du Pont de Nemours and Co., Inc.  
Attn: Mr. F. W. Bradway,  
Smokeless Powder Division,  
Wilmington, Delaware.

MRC

*3/8*

*Cancelled by phone  
Mar. 11, 1940*

(COPY)

**CONFIDENTIAL**

March 9, 1940.

MEMORANDUM FOR FILES - GREAT BRITAIN

Colonel Burns called at the office to say that General Watson informed the Assistant Secretary of War over the telephone that the powder to be released by the War Department to the British is 1,200,000 pounds.

He stated that the War Department should get in touch with the Navy Department and inform them that if the loading program of the War Department requires it, the 600,000 pounds which the Navy offered for release to the British will be considered as available for the War Department needs.

This evidently means that only the War Department concession is being used to help the British in this present emergency, but that if the War Department needs assistance later from the Navy contracts, it will be up to the Navy Department to assist to the extent, at least, of 600,000 pounds.

For the Clearance Committee, Army & Navy Munitions Board.

CHAS. HINES,  
Colonel, U. S. Army,  
Chairman, Clearance Committee,  
Army and Navy Munitions Board.

## Copies to:

The Secretary of War - in connection with powder study.  
The Navy Department.

Concurred in by Navy Dept., Bureau of Ordnance W.R.FURLONG

**CONFIDENTIAL**

IN REPLY ADDRESS  
 BUREAU OF ORDNANCE, NAVY DEPARTMENT  
 AND REFER TO NO.  
 87/111 (AS)

NAVY DEPARTMENT  
 BUREAU OF ORDNANCE

WASHINGTON, D. C. 12 March 1940

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 to order from DuPont the following amounts which the Navy was to order  
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EF/L11 (AS)

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W. R. FURLONG  
Chief of Bureau.

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BUREAU OF ORDNANCE, NAVY DEPARTMENT  
AND REFER TO NO.

NAVY DEPARTMENT  
BUREAU OF ORDNANCE  
WASHINGTON, D. C.

(F13)

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MRO

3/8

(COPY)

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For the Clearance Committee, Army & Navy Munitions Board.

CHAS. HINES,  
Colonel, U. S. Army,  
Chairman, Clearance Committee,  
Army and Navy Munitions Board.

Copies to:

The Secretary of War - in connection with powder study.  
The Navy Department.

Concurred in by Navy Dept., Bureau of Ordnance W.R. FURLONG

## GROUP MEETING

March 12, 1940.  
9:30 a.m.

Present: Mr. Bell  
Mr. Cochran  
Mr. Graves  
Mr. Cotton  
Mr. Charlie Bell  
Mr. Gaston  
Mr. Foley  
Mr. Haas  
Mr. White  
Mrs Klotz

H.M.Jr: Good morning. Chick, phone somebody to get for you Clarence Linz's story yesterday on the air-planes.

Schwarz: I've got today's.

H.M.Jr: No, yesterday's.

Herbert, what is new?

Gaston: Sorry, I thought you were looking the other way.

H.M.Jr: No.

Gaston: This is a memorandum on diamonds. Just the first two paragraphs is the only thing new. (March 11)

These summaries of manifests on the Amtorg cargoes, do you like to get them?

H.M.Jr: I like to look at them, yes.

Gaston: Here is one I got yesterday that is about a week old, but it is the latest one.

H.M.Jr: Right. Anything else?

Gaston: I don't know anything. I am going to hold a meeting tomorrow afternoon on the question of the weather ships with Navy and Maritime Commission and Weather Bureau and Civil Aeronautics.

H.M.Jr: O. K.

Foley: Some of our people were down before the Ways and Means Committee last week and McCormick and

- 2 -

Cullen and Dingell and Robertson and Knutson talked about the abolishment of the Surveyor of Customs and the Comptrollers of Customs and they are pretty red-eyed about it and talked about the deep resentment of the Ways and Means Committee for Treasury, last year, in going to the Appropriations Committee and trying to get the jobs abolished. Now, Steve Spingarn was there and Steve suggests before the reorganization plan is submitted, if you intend to go through with it, to abolish those jobs, that you ought to talk to those fellows, Cullen and McCormick, and so forth, and explain the situation to them or withhold sending the Executive Order down there at this time.

- H.M.Jr: Talk it over with Basil Harris.
- Foley: I have and he asked me to bring it up this morning.
- H.M.Jr: Well, he ought to be here himself. I would postpone it until tomorrow at 9:30.
- Foley: Yes.
- Bell: I think the order ought to be withdrawn, Mr. Secretary. I think you can get into a lot of difficulties with that thing.
- Foley: I do, too. This is no time to do away with those jobs. It is only going to save you \$60,000 and it is going to cause a lot of trouble with the Ways and Means Committee.
- H.M.Jr: I am not ambitious. I would like an analysis on that (handing clipping to Mr. Foley).
- Foley: This is an SEC bill.
- Bell: Is that that thing that Wagner talked about?
- Foley: Invested Trust bill.
- Bell: Tarleau has been handling that. He came in to me last night and said Schenker had called him

- 3 -

up and had a little paragraph he wanted to put in Wagner's statement regarding the tax part of the bill and I told him to tell Schenker that that thing ought to be held over until Wednesday. Apparently they didn't hold it over. Wagner made this statement.

H.M.Jr: I still would like an analysis.

Gaston: By the way, did you see the Farm Credit Act of 1939 introduced by Marvin Jones?

H.M.Jr: No.

Bell: We are making an analysis of that.

Gaston: It is a peach. Three percent for five years on all the mortgage loans and eliminating the stock ownership in the National Farm Loan Associations and in the Land Banks.

H.M.Jr: I still haven't heard anything on Sullivan.

Foley: Neither have I.

H.M.Jr: I was just checking and double checking.

Foley: Sam Clark called and said he would like to go over with me the additional investigations on the Boston series. They granted - the U. S. Attorney down there in Boston refused to go ahead and he sent the case back several months ago and Sam Clark brought it over here and said he would like to have it investigated and then go over with me the facts that were brought out and the reinvestigation. He called up yesterday and said the case had been reinvestigated and resubmitted to him and he would like to talk to me about it before he decided whether or not he would go ahead. He indicated that he might be willing to go ahead now, but I am going to see him tomorrow at 3:00.

H.M.Jr: I am not familiar with it.

Foley: That is the one where the contractors made contributions to the National Committee.

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H.M.Jr: I see.

Foley: Then it arose out of the Curley business.

H.M.Jr: Well, all these political contribution matters, I mean, I am not familiar with. Incidentally, I am very proud of the fact - this isn't for the record.

(Discussion off the record)

Cochran: You spoke yesterday of the appointment for Mr. Buck. He went to New York on Friday night and hasn't come back yet, but he will be here sometime this week.

H.M.Jr: Send word to him that I would like to see him. I got kind of a shock seeing him sit there. After all, he doesn't work for us any more. Seeing him in the room poring over a map was kind of a shock to me.

Cochran: I will send word to New York. We received some more Swedish foreign exchange regulations yesterday. I will give you a copy. I was talking with Eriksson of the Swedish Legation yesterday afternoon about it. He got on this matter of peace and said they had had nothing with regard to these conversations with Moscow, and so on. He didn't think much of the idea of the Allies sending a landing force into Finland.

The press this morning stresses that if they did go up it would be just at the point where they would be cutting off the iron ore and nickel ore in Germany.

Did you want me to give an hour and try to get a definite appointment with Mr. Buck?

H.M.Jr: Oh, let me know. You don't know when he is coming down?

Cochran: He said he would be down this week.

White: I had a luncheon engagement with him today and he sent a message that he couldn't come today

- 5 -

but he would be in Washington during the week.

H.M.Jr: Well, I am doing a boy scout deed on Thursday and having luncheon with Edison and Woodring. If he was going to be in town on Wednesday, I would like to have lunch with him.

Cochran: All right.

H.M.Jr: I would like to have him up at the house, see. Joe?

If you (Mr. Schwarz) stay behind, I want to go over these articles with you.

Schwarz: There is another one this morning you ought to see.

H.M.Jr: I got that one. Not so good.

Schwarz: I think --

H.M.Jr: You stay behind.

George? When I get through with Chick I will see you.

Haas: I just have these figures (handing report to Secretary).

H.M.Jr: This is interesting. I have just been curious. There has been a little discussion as to our estimates. In December, '38, we estimated and it was released in the 1940 budget that the total revenue would be five billion 669 million. In December, '39, Haas got out another estimate, five billion 703, which is up 34 million, which was released in the '41 budget. In July, '39, not published but sent to the Director of the Budget, five billion 406 million, down 262, and then in October, '39, not published and sent to the Director, five billion 529, down 143. Now, on the record, December '39, is five billion 703, which is up 34 million from the year previous. Is that right?



- 6 -

Haas: Yes, sir.

H.M.Jr: And that five billion 703 is the only public thing, right?

Haas: Those two top ones were public, made public.

H.M.Jr: This is for the fiscal year. How does it look to you now, George?

Haas: I haven't looked it over recently. Oh, probably 100 million, one way or the other.

H.M.Jr: Supposing you do another one.

Bell: It is liable to be up, isn't it, George?

Haas: Yes, I mean the receipts probably may be 100 million.

H.M.Jr: How long will it take you to do another one?

Haas: Well, after we get the returns in, then we have a base, Mr. Secretary, and I can give you then - after the close of this month.

H.M.Jr: Supposing you keep this, see. You haven't done one since October, '39.

Haas: That is right. It is a big job. It takes two or three weeks.

Bell: December, '39.

H.M.Jr: Well, when you give me the next one, include this, do you see?

Haas: All right.

H.M.Jr: Because there is considerable confusion in the President's mind.

Bell: I don't think it will be far off from that.

H.M.Jr: He has got it mixed up with the next year, hasn't he?

- 7 -

Bell: That is right.

Haas: Their percentage error is going to be very small.

Bell: Two percent.

H.M.Jr: O. K.

Haas: I have these other materials here.

H.M.Jr: Well, you stay behind.  
Harry?

White: That item, tantalum, was raised, you remember, by Mr. Purvis sometime in the past. Some of it is being reexported. It is chiefly a British product. Do you want to go into that at any time.

H.M.Jr: The next time Mr. Purvis is down, make a note about tantalum. Hold on to it.  
Harold?  
Dan?

Bell: Do you want to discuss Savings bonds today?

H.M.Jr: Well, yes. 3:30?

Bell: May I have about ten minutes before or after on some other matters?

H.M.Jr: Yes. I am supposed to be going to the White House at 11:00 and if I don't, I will have plenty of time.

White: Have you wanted to go over that material you asked George and myself to prepare?

H.M.Jr: What material?

White: With reference to the business picture, foreign and domestic.

- 8 -

H.M.Jr: Do I want what?

White: Had you wanted to go over that before you saw the President? You suggested that last week, that you had.

H.M.Jr: I have been waiting on you men. When are you ready?

White: I think we were ready Saturday.

Haas: Yes, I sent in a copy of the domestic side of the thing. Harry has got the foreign side worked up.

H.M.Jr: You are going away tomorrow, aren't you, George?

Haas: Tonight.

H.M.Jr: Why not say 2:30 for the two of you? Want to sit in, Bell?

Bell: Yes.

(Charlie)

Bell: I have nothing to report, Mr. Secretary. Mr. Thompson will report tomorrow.

H.M.Jr: Is he getting along all right?

Bell: Yes.

H.M.Jr: Everything else all right?

Bell: Yes, sir.

H.M.Jr: O. K.

March 12, 1940.  
12:55 p.m.

H.M.Jr: Sometime, not later than three-thirty I may want to see you on the following thing. Have you got a pencil?

Captain Collins: Yes sir.

H.M.Jr: This Hansen Baldwin of the New York Times proposes to write a story tomorrow along the following lines and I may see him, I don't know. Number one, Lockheed, Bell, and Boeing have raised their price to the Air Corps because of following orders. That's number one. Hello?

C: Yes sir, I'm getting it.

H.M.Jr: Number two. That Lockheed and Bell are behind in deliveries to the Air Corps which is attributed in part by the Army to the foreign orders.

C: Lockheed and Bell.

H.M.Jr: Are behind in their deliveries to the Air Corps which is attributed by the Army to the foreign orders.

C: Yes sir.

H.M.Jr: See?

C: Yes sir.

H.M.Jr: That I'm responsible for the transfer of the Brewster fighters to Finland. I had nothing to do with it. That I had nothing to do with.

C: Yes sir.

H.M.Jr: The Brewster thing.

C: Yes sir.

H.M.Jr: Were you in on that? I wasn't.

C: No sir, I was not.

H.M.Jr: All right. Now just let me see what else they say. Well the main thing that question one and two - hello?

C: Yes sir.

H.M.Jr: I want you to call up Lockheed, Bell and Boeing and ask them that point blank. Those two questions.

C: Yes sir, I'll get on top of that right away.

H.M.Jr: And I'll most likely see this man Hansen by three-thirty and you'll be here at that time and I want the answers.

C: All right sir. Well, I talked with Baldwin this morning.

H.M.Jr: Hansen?

C: No, Baldwin of the New York Times. He was in here and he was fishing around. I didn't get an opportunity to mention that this morning.

H.M.Jr: Well he's the - on you saw Hansen-Baldwin.

C: No I saw, yes Baldwin. He came in here and asked a lot of questions to which I did not know the answers and I properly referred him to the Mission.

H.M.Jr: That's the man that wants to see me.

C: Yes sir. Well he's looking for a lot of things and I think he's got a lot of dope. I told him I couldn't talk with him at all. He said "Well of course, I know quite a lot of this whole deal" and said the Army has claimed by virtue of these foreign orders why there have been delays in their deliveries and I said, "Well of course, that's a matter for the Army to determine". I don't know of any.

H.M.Jr: Get down these two particular questions that I'm asking.

C: Yes sir.

H.M.Jr: And I wish you'd call up these various companies and ask them.

C: Yes sir I'll do that right away.

H.M.Jr: Now the other thing, these figures that you got me from Pratt and Whitney and Wright.

C: That's right.

H.M.Jr: And Allison, their production.

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C: Yes sir.

H.M.Jr: Would there be any objection if I lumped them all into one figure not saying which one -

C: No, not a bit in the world.

H.M.Jr: I'll lump them all.

C: No that would be perfectly all right, because that would be a perfectly fair statement and be perfectly all right and say the total number of engines manufactured before and the total number after the French order and the total number proposed.

H.M.Jr: That's right.

C: No, that would be perfectly all right.

H.M.Jr: Well get after these two things. Now you've got them all right.

C: Yes now. The way I have it stands now that Lockheed and Bell -

H.M.Jr: And Boeing.

C: Are behind in deliveries - and Boeing.

H.M.Jr: Lockheed, Bell and Boeing have raised their price to the Air Corps because of foreign orders.

C: And then Lockheed and Bell are behind in deliveries due to foreign orders.

H.M.Jr: Right. Now I want the answer and you've got to call up the West Coast or wherever you get that stuff and have it by three-thirty.

C: All right sir.

H.M.Jr: If you please.

C: All right, I'll be right on top of this.

March 12, 1940.  
4:58 p.m.

H.M.Jr: Hello.  
Senator Wagner: Hello Henry?  
H.M.Jr: Bob, my apologies, I was at the White House from one to four.  
W: Well, you can't help that. I hope you had some luck.  
H.M.Jr: I did.  
W: Say Henry, we're in trouble on this silver thing.  
H.M.Jr: No.  
W: Yes. You've got to tell us - you've got to take some stand on that for us. I wondered if you could do this. Barkley and Pittman just talked to me, if it wasn't too inconvenient for you, if you could meet the three of us in Barkley's room tomorrow about nine-thirty.  
H.M.Jr: Love to.  
W: Uh?  
H.M.Jr: I'll be there.  
W: Nine-thirty in Barkley's room.  
H.M.Jr: At nine-thirty -  
W: Yes.  
H.M.Jr: In Barkley's room at the Capitol.  
W: In the Senate Office Building.  
H.M.Jr: Senate Office Building?  
W: Yes.  
H.M.Jr: Nine-thirty.  
W: Yes.  
H.M.Jr: Tomorrow.  
W: Tomorrow.

H.M.Jr: I'll try to think - shall I bring anybody with me or do it alone?

W: Well, whatever you want to do about that, we just wanted to discuss that one subject because the Administration has got to take some kind of a stand on that or else we're going - the votes are going to be against us.

H.M.Jr: Well, I'll be there at nine-thirty.

W: Fine.

H.M.Jr: And I'm for Dutchess County apples.

W: Yes. Well, so'm I. (laughs. ) All right Henry.

H.M.Jr: Thank you.



Miss Chauncey --

3/12/40.

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● Mr. Foley carried the original of this memo into the Secretary at yesterday's 9:30 meeting.

For your information, the Secretary did not keep the copy of the hearings referred to in the last paragraph of the memo.

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*Horn*

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau

March 8, 1940

FROM E. H. Foley, Jr.

*(For your information)*  
Re: Electric Boat Company

In refusing to confer authority upon the Navy to award contracts without competitive bidding, and in insisting upon the retention of the profits limitation provisions in the pending Naval Bill of 1940, the House Committee on Naval Affairs seems to have been strongly influenced by what the Committee deemed favoritism shown by the Navy Department to the Electric Boat Company.

The Naval Bill of 1940 as originally introduced on January 3, 1940, by Congressman Vinson of Georgia, Chairman of the Committee on Naval Affairs, authorized the Secretary of the Navy to negotiate contracts without competition "provided that he shall determine the price to be fair and reasonable." (H.R. 7665, 76th Cong. 3d Sess.) As reported on February 14, 1940 by the Committee on Naval Affairs to the House the bill did not contain this authority. (H.R. 8026, 76th Cong. 3d Sess., Report No. 1593.)

The original bill also omitted the provision for limiting profits contained in the Vinson-Trammell Act of 1934 but as reported specifically makes all contracts subject to the provisions of the Vinson-Trammell Act.

You will recall that at a conference held in your office on December 6, 1939 Secretary of the Navy Edison and Mr. Sutphen of the Electric Boat Company requested you to approve a closing agreement permitting the Electric Boat Company to charge off as obsolescence one-half of the cost of a new building estimated to cost about \$600,000. It was stated that the building would be used to carry out a contract with the Navy Department for furnishing a mosquito fleet of twenty-three boats at a cost to the Government of approximately \$5,000,000.

You explained to Secretary Edison and Mr. Sutphen that any deduction for obsolescence beyond the usual reasonable allowance would not only result in the Government's paying for the building but would also increase the percentage of profit beyond that permitted by the Vinson-Trammell Act. You repeatedly emphasized that you would not treat one taxpayer differently from all other taxpayers and therefore declined to execute such a closing agreement.

Two contracts between the Navy Department and the Electric Boat Company were then entered into privately and without any advertisement

for competitive bids on the theory that the boats were "experimental," notwithstanding that one boat (but not the plans) had already been bought at a cost of more than \$280,000 and had been tested by the Navy.

It was represented at the conference in your office that a primary reason for erecting a new plant in which to build the boats rather than to use existing navy yards or existing private facilities was the desire to keep the fact that the boats were being built and their design a secret. Secretary Edison testified, however, that the British Admiralty had licensed this design of boat for export and that the French and the Dutch as well as the British were building the identical type of boat. When questioned by Congressman Vinson as to why the Navy would be so intensely interested in a design for which the British apparently had found a superior type, Secretary Edison replied that this country was twenty years behind the British in boats for a mosquito fleet.

At one point (p. 2098) in the hearings, Chairman Vinson said to Secretary Edison that "as one member of this committee I shall have to insist as much as I know how to insist on sharp competitive bidding," and at another point (p. 1958) in the hearings in discussing the desirability of expanding the program at the Naval Aircraft Factory at Philadelphia (where a few Curtis scout observation planes and Brewster scout bombers have been built in addition to naval training planes) Chairman Vinson remarked that "We cannot turn over all of the Government's business and absolutely be at the mercy of industry."

Just prior to this remark, Chairman Vinson had pointed out that because of the limited number of companies in the airplane industry, "competition does not necessarily make a yardstick" and that the record showed that some of the airplane companies "were making such enormous profits that they practically gave planes to the Navy by charging only \$1 apiece for some of them." This was apparently intended as an allusion to the sale to the Army of fifty planes at \$1 apiece by the Consolidated Aircraft Corporation. You will recall that the Navy asked us to enter into a closing agreement with the Consolidated Aircraft Corporation under which at least 60 per cent of the cost of a new \$1,800,000 building would be allowed as obsolescence, and that you declined to execute such a closing agreement for reasons similar to those in the Electric Boat Company case.

In this connection you may be interested to know that when Admiral Towers, Chief of the Bureau of Aeronautics, remarked that "those days are over because of the law which limits that profit to 12 percent," Chairman Vinson replied,

"Which I think is a rather high percentage. And, this committee did not agree to the 12 percent; we were forced to accept that on the floor of the House because it was in the Army bill."

Attached are a few excerpts from the hearings on this transaction. In case you are interested in reading more of the testimony on Electric Boat than has been typed, I have marked in a printed copy of the hearings where the matter was discussed.

*E. W. F. H.*

EXCERPTS FROM HEARINGS BEFORE THE  
COMMITTEE ON NAVAL AFFAIRS HOUSE OF REPRESENTATIVES

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(January and February, 1940)

"Mr. Cole. What is being done by way of construction with the mosquito fleet?

"Admiral Robinson. We have 32 experimental, small boats, building now. They will all be finished up some time during this calendar year, I believe."

\* \* \*

"Mr. Cole. Is it true, sir, that an order was placed with one company for 23 experimental ships, without bids being asked?

"Admiral Robinson. Yes; that is true. After the original placing of the experimental boats, the Navy Department purchased a type of boat — as a matter of fact, it was purchased by a private firm from an English firm and was not purchased by the Navy —

"Mr. Cole (interposing). Who purchased it?

"Admiral Robinson. The Electric Boat Co. purchased it and we purchased it from them. The Navy Department bought it from the Electric Boat Co. and they, in turn, bought it from an English firm. \* \* \*

"Mr. Cole. The boat was actually constructed — this one that was purchased?

"Admiral Robinson. Oh, yes, sir; it was purchased by us after having half a dozen different boards considering it."

\* \* \*

"Mr. Magnuson. What company is that, Admiral?

"Admiral Robinson. The Electric Boat Co.

"Mr. Magnuson. You bought the original boat from them and then ordered 23 of the same kind of boat from this one company?

"Admiral Robinson. Yes sir.

"Mr. Magnuson. After they bought it from England?

"Admiral Robinson. Yes sir.

"Mr. Magnuson. And paid the middleman's profit?

"Admiral Robinson. Of course the 23 ordered are being built in the United States. The first boat was built outside of this country.

"Mr. Cole. But they are all being built by this one company?

"Admiral Robinson. They are all being built by this one company.

"Mr. Cole. And they got the contract without any competition at all?

"Admiral Robinson. Yes sir.

"Mr. Cole. On a set of plans that was actually in existence.

"Admiral Robinson. Yes, sir.

"Mr. Cole. Was that contract let with the approval of all the proper officials of the Department?"

"Admiral Robinson. As far as I know, it was; yes, sir.

"Mr. Cole. I must confess, for myself, it excites an odor that is not altogether pleasant.

"Admiral Robinson. Well, Mr. Cole, the subject was discussed at some length. I think everybody in the Navy Department was in on the discussion \* \* \*."

"Mr. Cole. Is the Electric Boat Co. the only one which could build this boat?"

"Admiral Robinson. Oh, no, sir. I think any one of the smaller boat companies in the country could have built it.

But, of course, for this particular boat, they had the rights to it. I mean they owned the patent rights and everything of that kind.

"Mr. Cole. Then what was it the Navy bought from them?"

"Admiral Robinson. They bought the boat.

"Mr. Cole. The bought just the ship?"

"Admiral Robinson. That is right.

"Mr. Cole. And they reserved in the Electric Boat all

rights to the ship; is that it?"

"Admiral Robinson. That is always true of anything we buy. We do not buy patent rights; at least we do not usually; I won't say they never have been."

\* \* \*

"The Chairman. In view of what has just been inquired about by Mr. Cole, do not you see the wisdom of taking out section 9, which permits you to go ahead without competition, as last year, one big ship was awarded without competition, or rather, just one industrial concern bid on it, it prompted me to introduce a bill providing, where you only had one bidder, the navy yards must necessarily submit a bid also.

"I am trying to keep the Navy Department from getting in some tight places and some investigations and as long as you have open competition you are all right.

"Admiral Robinson. Yes sir."

\* \* \*

"Mr. Magnuson. Has not the Electric Boat Co. got enough out of the Government without buying a boat in England and tying up the shipbuilding rights on something as important as this, and then selling it to the Navy? They manufacture all of the submarines, do they not?"

3.

"Admiral Robinson. No, sir; only about half of the submarines.

"Mr. Magnuson. All of the privately built submarines to to the Electric Boat.

"Admiral Robinson. That is true.

"Mr. Magnuson. And now they go to England, buy a ship, and tie up the builders' rights, charge the Navy for that, and then the Navy goes around and gives them a contract for 23 ships — not for experimental purposes, because the boat is already built, but the experimental purposes are for naval tactics after you get the boats.

"Admiral Robinson. That is perfectly true.

"Mr. Magnuson. I feel like Mr. Cole — it smells a little."

\* \* \*

"Mr. Cole. Did the Navy Department attempt to buy the specification rights from the Electric Boat Co.?"

"Admiral Robinson. No, sir; it did not.

"Mr. Cole. So that you would be in a position, then to submit this large order to competition?"

"Admiral Robinson. No, sir; it did not. Any attempt to have placed that boat with somebody else I feel very sure would have resulted in a delay of the whole business. In fact, it might well have resulted in the inability to get it. \* \* \*"

"Mr. Cole. Mr. Secretary, it is rather startling to learn that out of this authorization of \$15,000,000 which Congress gave to the Navy Department for experimental vessels an order was placed for 28 boats of the same model, and my only interest is to know what the story of that order is and how it could be justified as experimentation.

"Mr. Edison. There were some \$15,000,000 appropriated for the development of the small-boat program on experimental boats. There are two or three parts to that experiment. \* \* \*

"We started on this program of experimental boats by trying competitively to develop the best design. \* \* \*

"\* \* \* Prior to the completion of even the design competition I heard of a boat that had been designed in England, which apparently was creating a lot of interest among foreign countries. \* \* \*

"Now, to me there are no limits of geography when you come to competing for design plans. I mean you have got to pick up ideas anywhere in the world. \* \* \*

"\* \* \* In order to get actual boats of a proven design as quickly as possible to train personnel, develop tactical doctrine and production methods, I ordered replicas of the British boat built in this country. \* \* \*

4.

" \* \* \* \* Consequently, we tried to get somebody to take these boats up and build a group of them. The Electric Boat Co. undertook to do that and were willing to build a plant for this purpose at their own expense. \* \* \* "

" \* \* \* \* The Electric Boat Co. finally agreed to go along with me on the third part of this program and spend of their own money and some six or seven hundred thousand dollars, probably more, toward constructing a separate unit in their plant and work out this problem of mass production. \* \* \* "

\* \* \*

"Mr. Cole. How much did the one boat cost, the original?

"Mr. Edison. The original Scott Paine boat cost about \$283,095.

"Mr. Cole. It cost who that?

"Mr. Edison. The Government."

\* \* \*

"Mr. Cole. You have stated it was your purpose to interest a number of concerns in the construction of these small vessels, but I am at a loss to see how you are going to interest others in the construction of them, thereby generating competition, if you placed such a large order as that with one concern.

"Mr. Edison. The whole business might die if 23 boats were all we were ever going to build. But if this experimental program proves small craft to be of real value, I visualize the eventual building of a very much greater number than this."

\* \* \*

"The Chairman. From your answers to the questions, Mr. Secretary, I do not think there could be any criticism from an experimental standpoint with a limited number, but when you bought 24 without any competition I am somewhat of the same opinion as Mr. Cole, that it got beyond the experimental stage and got in the stage of production. Is not there some law which prohibits quantity production, even in the experimental stage, from being awarded without competition?

"Mr. Edison. There are laws that permit us to buy proprietary articles without competition.

"The Chairman. Yes, but this has gone past that stage."

\* \* \*

"The Chairman. Can you not go a little bit farther?

"Mr. Edison. We can if we get negotiated contracts.

5.

"The Chairman. Then I am afraid you will have to wait a long time.

"Mr. Magnuson. Here is what I do not understand: Why could not the Navy in picking this boat from England build it themselves? Why did they have to pay the Electric Boat Co. for this so-called proprietary right or any patent covering it?

"Mr. Edison. It was felt cheaper to do it with this private concern with 23 boats than build them ourselves."

\* \* \*

"Mr. Magnuson. I imagine they are in business for a profit. Suppose this boat proves a good thing and the Navy Department wants it. Does the Electric Boat Co. have it so tied up we cannot build these any other place.

"Mr. Edison. No.

"Mr. Magnuson. Why you could not have done it before?

"Mr. Edison. You cannot build them unless the Electric Boat Co. is willing.

"Mr. Magnuson. Unless they are willing?

"Mr. Edison. No."

\* \* \*

"Mr. Cole. Is that the way you are doing with all of these experimental projects?

"Mr. Edison. What is that?

"Mr. Cole. Is that the way you are doing with all of these experimental projects, leaving in the inventor the proprietary rights to his invention which has finally been accepted by the Department?

"Mr. Edison. When you say 'all' I think that is probably too inclusive. I know it is customary at times."

\* \* \*

"The Chairman. Now, Mr. Secretary, I want to thank you for the fine statement you have made, and we want to assure you that the Naval Affairs Committee has ~~decided~~ to work in harmony with you, even though we may not agree with all the conclusions you reach, especially with reference to negotiated contracts \* \* \*."  
(Hearings pages 2088-2135)



March 12, 1950

Mr. Eason

Mr. Cochran

## STRICTLY CONFIDENTIAL

In talking by telephone with my friend Teet in the Division of Economic Control of the State Department this morning I inquired as to their latest information in regard to the activities of Messrs. Whipple and Chate. Teet said that only yesterday they had been in touch with this firm again and had reminded them of the promise made by their representative several weeks ago, when visiting Washington, to provide the State Department with a copy of their contract with Amtorg. I let Teet know we had learned in strictest confidence that Amtorg had recently made two more payments to Whipple and Chate, totaling \$25,000. Teet promised to guard this information, and said that he would look further into the possibility of this concern having made additional polythene shipments. He would also investigate the possibility that Whipple and Chate may be selling some other material to Amtorg.



EAS:amc 3.12.50

March 12, 1940

4 p.m.

Present:

Mr. Bell  
Mr. Foley  
Dr. White  
Mrs. Klotz

HM,Jr: Now you fellows can cogitate. I am meeting Senator Barkley at his office at 9:30 tomorrow morning with one Key Pittman, one Senator Wagner and one Barkley. Which of you want to go or all of you or should I go alone?

Mr. Bell: What's the subject of the conference?

HM,Jr: Apples in Dutchess County. Heigh-ho, Silver!

Mr. Bell: Harry has been working on it and has some statistics he ought to take.

Dr. White: I don't think that's the intent. I think it is ....

HM,Jr: This is policy, as far as the Democratic party is concerned.

Dr. White: I don't think I could be of any assistance.

Mr. Bell: I don't know. You will have to be the judge whether anybody can be of help to you on policy of that kind.

Dr. White: Ed, the great manipulator here ....

HM,Jr: Well, seeing you all feel that way about

-2-

Mr. Foley, I will take Mr. Foley up there with me. Supposing you (Foley) be at my house tomorrow morning at 9 o'clock.

Mr. Foley: Sure you don't want Harry? He knows more about it.

HM, Jr: I can say what I am going to say up there in two minutes.

Dr. White: Say it to Barkley or before the Committee?

HM, Jr: Before the Committee. Tell you what. You both be at my house at 9 o'clock. You both be there.

Dr. White: If we are going to make a statement, I would like to write something out.

HM, Jr: No, this is just before Pittman, Wagner and Barkley. The two of you be at my house at 9 o'clock tomorrow morning.

oOo-oOo



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

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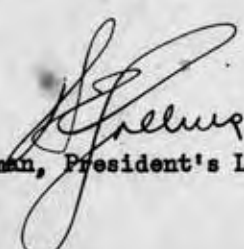
March 12, 1940

MEMORANDUM FOR THE SECRETARY

As a matter of information, a preliminary inquiry has been received from Sir Henry Self, acting on behalf of the Anglo-French Purchasing Board, concerning the purchase of ordnance for the forthcoming aviation program consisting of

2,000 cannon (23 mm or 20 mm)  
20,000 machine guns (0.3 ins. & 7.5 mm)  
12,000 machine guns (0.5 ins. & 13.2 mm)

This matter has been referred to the Army and Navy members of the Committee for an investigation and report.

  
Chairman, President's Liaison Committee



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

360

March 12, 1940

MEMORANDUM FOR THE SECRETARY

Concerning your query of this afternoon, the A-20 for which Douglas Aircraft has a contract with the Army is the same ship as the DB-7 at present being manufactured for the French with additional fuel capacity, resulting in the plane's being somewhat heavier, and in the A-20 Wright 2600 Cyclone motors are used instead of the 1830 P&Ws which are being used on the DB-7s delivered to France.

Chairman, President's Liaison Committee



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON


361

March 12, 1940

MEMORANDUM

Meeting was held in the Secretary's office this morning at which were present, in addition to the Secretary, Rear Admiral W.R. Furlong, Chief, Bureau of Ordnance, Navy Department; Rear Admiral Ray Spear, Chief, Bureau of Supplies and Accounts, Navy Department; and the Director of Procurement.

The question of furnishing powder to the British Mission was discussed at length. For the purpose of clearing the record Admiral Spear, at the suggestion of the Secretary, is to prepare a memorandum after consultation with the Army authorities which will definitely develop the fact that the 1,200,000 pounds of powder which the Army has agreed to release is from their reserve account and will have no effect on the loading operations at their arsenals.

  
Chairman, Liaison Committee



OFFICE OF THE DIRECTOR

## TREASURY DEPARTMENT

PROCUREMENT DIVISION

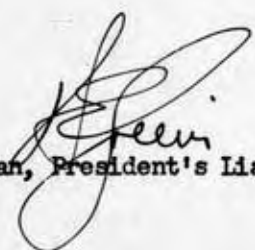
WASHINGTON

A handwritten scribble consisting of several parallel diagonal lines, possibly initials or a mark.

March 12, 1940

## MEMORANDUM FOR THE SECRETARY

There is attached hereto a schedule of deliveries for the P-40 for both the French State and the United States Army which is self-explanatory.



Chairman, President's Liaison Committee

att.



## TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

OFFICE OF THE DIRECTOR

## P-40 Deliveries

<u>French</u>	<u>1940</u>	<u>U.S. Army</u>
--	April	7
--	May	36
5	June	44
--	July	45
12	August	45
13	September	45
23	October	45
29	November	45
18	December	45
	<u>1941</u>	
--	January	45
--	February	45
--	March	45
<u>--</u>	April	<u>27</u>
100		524



About March 12, 1940

Strictly personal and confidential.

364

Memo for Secretary Morgenthau.

I am getting more and more concerned about the aid the U. S. gov't is unwittingly giving Germany. I don't know what can be done about it but perhaps some remedy will suggest itself to you.

Admiral Stark in his testimony said the U. S. would have to consider the possibility of Germany winning. Ambassador [unclear] (I am reliably informed) excused [unclear] wherever he went. Other minor officials have discussed the prospects of German victory, until Washington columnar are talking about 50/50 chances.

Under Secretary Welles visit - unfortunately coincided with the Russo-Finnish negotiations; his seeking an audience with Hitler though a necessary part of

his visit, was exploited in Germany as another Hitler triumph; Mr Taylor's visit to the Vatican almost coincided with von Ribbentrop's and will be used as evidence that - we are seconding his efforts to find a peaceful (German) solution to the war.

The German people are just-emerging from a hard winter full of privations; we have information that their own leaders (Army) can not-figure out a way to win the war; and we give them aid and comfort-equivalent to several Army Corps suggesting that our experts opinion believe the Germans have an even chance of winning.

I have made a careful survey of our military and naval opinion; the best-thought-is that-Germany can't-win the war. It is certainly not-to our interest-for ~~us~~ Germany to win

war. And yet we are now playing  
into the hands of Germany by letting  
the word be passed around that  
she might win. The official attitude

of our government should be "It is  
impossible for Germany to win the war.  
It is only a question of when the Allies  
will win." Such an attitude would

erect not only the German people  
and their confidence in Hitler, but would  
influence the attitude of all the  
neutrals, particularly Italy.

This publicly assumed position would not  
prevent our officials from insisting privately  
England and France that <sup>they</sup> must get on with  
the war and make sure of an early victory  
by taking energetic measures.

W. D. Sullivan

## TELEGRAM SENT

JT

GRAY

March 12, 1940

5 p.m.

AMERICAN LEGATION

BUCHAREST (RUMANIA)

65

The Secretary of the Treasury would appreciate receiving a cablegram in which Edson would bring as nearly to date as possible the material provided in his comprehensive and helpful message No. 4, January 9, 11 a.m. Information on current regulations regarding petroleum exports is particularly desired.

HULL  
(FL)

EA:FL:LWW

CO

March 12, 1940

Mr. Feis

Mr. Cochran

Will you kindly send a cablegram along the following lines:

**"AMERICAN LEGATION BUCHAREST.**

The Secretary of the Treasury would appreciate receiving a cablegram in which Mison would bring as nearly to date as possible the material provided in his comprehensive and helpful message 4<sup>th</sup>, January 9, 11 a.m. Information on current regulations regarding petroleum exports is particularly desired."

HMS:enck 3.12.40



NEW YORK TIMES

March 11, 1940

**RUMANIA CONSERVES OIL.****Bans Export of Crude With High Octane Index**

By Telephone to The New York Times.  
BUCHAREST, Rumania, March 10—The oil commission has issued an order forbidding until further notice the exportation of crude oil from which refined petroleum of sixty-eight octanes or more can be obtained, even if mixed with other kinds of oil. Export also is prohibited for pure or mixed petrol that has been distilled from such crude.

The exportation of cracking and reforming petroleum, if not so mixed, will be allowed. Every export application must have a certificate showing that the oil product concerned does not come under the prohibition and specifying the octane index and origin.

January 2, 1940

Dr. Feis

Mr. Cochran

The Secretary of the Treasury would appreciate a message somewhat along the following lines being cabled to

**\*AMERICAN LEGATION BUCHAREST**

At the request of the Secretary of the Treasury you are instructed to cable at Treasury expense a review and summary of current wartime trade and goods traffic between Rumania and Germany, with particular regard to oil. The Treasury ventures to suggest that Mr. Eison would be interested in preparing such a report and states that his cooperation would be much appreciated."

(Init.) H. M. Gm

HMG/TMM  
B. M. G.

REE

GRAY

Bucharest

Dated January 9, 1940

Rec'd 3:50 p. m.

Secretary of State,  
Washington.

4, January 9, 11 a. m. (SECTION ONE)  
FOR TREASURY FROM EDSON.

In accordance with Department's telegram No. 1,  
January 2, 7 p. m.

In statistics quoted below Germany includes Austria and Czechoslovakia; and the three month period September through November 1939 has been compared with corresponding period of 1938.

(SECTION ONE). Imports into Rumania from Germany during first three months of the war totaled 60.4000 metric tons, an 8% decrease from 1938 period. The lei value of these imports was 2,705,000,000, a 23% increase over 1938 period. Customs statistics do not indicate whether this value increase was due entirely to higher price level or in part to qualitative changes in imports from Germany though it is generally believed that armaments from Germany, Czechoslovakia, and Poland constitute a larger proportion of total imports than in prewar period.

(SECTION



REB -2- #4, From Bucharest, Jan. 9, 11 a. m.

(SECTION TWO). Exports to Germany during September-November period totaled 573,000 tons, a 10% increase over 1938 period. Their lei value totaled 3,436,000,000, a 100% increase over 1938 period due largely to oil price increases. Exports of petroleum products discussed in more detail below declined 15% from corresponding 1938 period because of transport difficulties and lumber exports declined to one-seventh. The increase in total exports is due to exports of 197,000 tons of cereals, an 86% increase over 1938 period, and 13.9 tons of animals and animal products which was three times corresponding 1938 exports.

(SECTION THREE). Petroleum exports to Germany during first eight months of 1939 totaled 961,000 tons, a 49% increase over corresponding 1938 period. Of this total, 479,000 was shipped <sup>via</sup> Danube and negligible quantities by rail, leaving deepwater Constanza-Hamburg route carrying about one-half of peacetime oil traffic. After imposition of the allied blockade shipments to Germany via Constanza ceased entirely (there is no evidence here of any (?) transshipment trade via Italy). Wartime shipments to Germany were as follows, in thousands of tons: September 65 by the Danube 4 by rail; October 68 by the Danube 20 by rail; November 62 by the Danube 21 rail. Three months total 240,000, 15% below the corresponding 1938 period.

(SECTION FOUR)

REB -3-#4, From Bucharest, Jan. 9, 11 a. m.

(SECTION FOUR). Future trends. Although the National Bank does not publish clearing balances by countries, customs figures indicate that during the year of October 1938 to September 1939 Greater Germany had a favorable merchandise balance with Rumania of 2,147,000,000 lei by the resulting largely from Czech arm shipments. Therefore Germany's unfavorable balance of 731,000,000 lei during the first three months of war, while larger than the usual seasonal adverse balance, is not sufficiently large to cause payment difficulties in the near future. Germany's exports are, however, subject to increasing qualitative restrictions; for example rubber cannot be exported at all and products containing more than 10% of copper, tin and lead may not be exported. With increasing pressure of work on Germany's metallurgical and chemical industries as blockade warfare continues Germany's ability to balance the clearing in the more distant future seems more doubtful. The revaluation of the mark last month (see Legation's telegram of December 28, 4 p. m.) improved Germany's terms of trade by only 13% but renewed political pressure could it is hinted force another revaluation if Germany deemed it necessary.

(END SECTION ONE)

HIBBARD

NPL

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED, SECTION TWO,  
NO. 4 OF JANUARY 9, 1940 FROM AMERICAN LEGATION, BUCHAREST.

Transport rather than payment difficulties therefore dominate the immediate future especially as regards oil shipments. Danube oil shipments to Greater Germany in peace time averaged 60,000 tons a month and highest monthly peak in history to all Danubian area was 112,000 tons. The Danube was closed by ice on December 29th and usually is not reopened until March. Germany may be expected to increase river tanker tonnage by new construction and possibly by the transfer of Rhine tankers, though the latter would require expensive adaptation to maximum draft of one meter. No new river tanker construction is under way in Rumania and there is no reliable information here regarding German construction program. Oil industry believes that with most efficient use of existing tonnage 100,000 tons a month could be shipped to Germany via Danube.

Expansion of rail oil shipments beyond 40,000 tons a month is problematical. All Rumanian tank cars are needed for internal traffic and are still prohibited from crossing the frontier. November figures indicated Germany was then using about 1800 tank cars for Rumanian traffic, the industry expects December and January rail figures to be somewhat higher. However, in addition to tank car limitations, rail line capacity sets limits to expansion of rail traffic. The bottleneck pass between Flocsti and Brassy on the most direct route to Germany is already crowded with additional traffic due to the Rumanian troop movement, and double tracking of

- 2 -

this section will probably not be completed before September. Traffic on the recently reopened Gornauti-Lemberg route has thus far been severely restricted by Soviet red tape and inefficiency and no oil has yet gone by this route. The local oil industry estimates 40,000 tons a month as maximum amount for rail shipments regardless of number of tank cars Germany can send.

Present transport maxima may therefore be estimated at 40,000 tons a month during three winter months and 140,000 a month during the rest of the year.

**CONFIDENTIAL:**

I have heard reliable rumors that Rumania has agreed to furnish 130,000 tons a month to Germany, as part of the agreement; this figure is slightly larger than the transport maxima estimated in the preceding paragraph. Recently, however, there has been considerable evidence of an oil-buying campaign on the part of the Allies with the purpose of obtaining the greater part of the exportable surplus of Rumania - 4,000,000 tons a year. This campaign, if continued, will confront Germany with inability to fill transport capacity and when the Danube thaws, if not earlier, it may precipitate a crisis. The price of oil has already been forced to double the f.o.b. basic price level through the buying of the Allies; as a result of this, Rumania now  
sells

- 3 -

sells only to belligerents or to neutrals to whom she has treaty commitments. The companies prefer to sell their product to England, because that country grants free exchange quotas. According to informants in the industry, it is probable that the Rumanian Government may soon ask all companies, under threat of compulsion, to sell minimum quotas to Germany so that the Rumanian Government may implement its obligation to Germany. During the autumn the principal shippers to Germany were Allied companies, because of obligations contracted before the war; however, they are refusing to renew the contracts now, and pressure on the Allied companies on the part of the Rumanian Government would inevitably result in diplomatic intervention by the Allies, and possibly the Allied blockade would be used to exert economic pressure. Limitations of transport have up to the present protected the neutral position of Rumania, but when the Danube thaws, the conflict between the oil-buying campaign on the part of the Allies and the alleged commitment to Germany may force Rumania's hand.

END OF MESSAGE.

TO THE SECRETARY  
TECHNICAL ASSISTANT  
OFFICE OF THE  
DIRECTOR

NOV 10 PM 4 19

TREASURY DEPARTMENT  
RECEIVED

EALNW

Read today after  
making inquiry of  
Dept of State  
COPY FOR SECRETARY  
M. M. S.  
11/2/40

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Bucharest, Rumania

DATE: February 9, 1940, 5 p.m.

NO.: 29

A decree was signed by the Petroleum Commissioner today which prohibits, without the Petroleum Commission's prior approval, the installation, sale, renting or removal from one location to another of metal tanks of a capacity of over 10,000 liters.

It is the belief of informants in the industry that the main purpose of this measure is to ensure that the Rumanian army will have storage for aviation gasoline. Since September, the exportation of aviation gasoline has been prohibited by Rumania, and the Government hopes that by April it will have a reserve for army purposes of 50,000 tons. A secondary purpose of the measure may be to prevent further leases of tanks such as the recent lease for Russian lubricating oil. The first shipment of Russian lubricating oil it is understood is due in Constanza about the fifteenth of February. It is further understood that because the Rumanian transport routes to Germany are congested at present, the Germans plan to use this route only for Russian lubricating oil. Diesel oil and Russian gasoline are to be shipped either by barges via the Russian river and canal systems and the Baltic, or by all rail routes.

A reliable report has been received that Germany has

3,200

- 2 -

3,200 tank cars available now for oil from Rumania. Thus if sufficient locomotives and loading facilities were also made available, this would provide for Germany a capacity of about 41,000 tons a month by rail.

GUNTHER.

RECEIVED  
JAN 15 1945  
U.S. DEPARTMENT OF COMMERCE  
WASHINGTON, D.C.

EA:LWW



March 12, 1940.

MEMORANDUM

John Crider of the New York Times was in to say that he had been asked by Hanson Baldwin, who plans to write a comprehensive aircraft story for tomorrow's Times, to check on the following assertions by the Army Air Corps:

1. That Lockheed, Bell and Boeing have raised their prices to the Air Corps because of foreign orders.

2. That Lockheed and Bell are behind in their deliveries to the Air Corps, which is attributed in part by the Army to foreign orders.

3. That Secretary Morgenthau was responsible for the release of the Brewster fighters by the Navy to Finland.

4. That, on behalf of France, Secretary Morgenthau urged that the first twenty-five Curtiss P-40s off the line should go to that nation, that Gen. Arnold objected, was called to a White House conference and the President said the matter should be put to the military affairs and foreign relations committees of both houses.

5. That England and France, through their representatives here, are now saying that they will get advanced designs of the Bell P-39, the Republic P-44 and the Douglas A-20.

Felix Belair had planned to ask the President these questions this afternoon. Baldwin says the P-40 is a disappointment but the Army diehards still don't want to release it.

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Capt Puliston:— 381

Just received following:—

"Berlin:— Moscow officially  
confirms Finns and Soviet  
concluded peace treaty."

Dem.

5:15 pm 3/12/40

Treasury Department  
Division of Monetary Research

382

Date March 14, 1940 19

o: Secretary Morgenthau

Will it be all right to send copies of  
attached to the following:

Mr. D. W. Bell  
Mr. Foley  
Mr. Gaston  
Mr. Sullivan  
Mr. Haas  
Mr. Cochran  
Mr. Puleston

*yes  
hu.f*

MR. WHITE  
Branch 2058 - Room 208

## TREASURY DEPARTMENT

## INTER-OFFICE COMMUNICATION

CONFIDENTIAL

DATE March 12, 1940

TO Secretary Morgenthau

FROM Mr. White

Subject: Foreign Economic Developments

(Prepared by the Division of Monetary Research)

United Kingdom

The British economy is still far from being on a full war footing. After six months of war and the mobilization of one million men, there are still  $1\frac{1}{2}$  million unemployed in England and unemployment is well above pre-war levels. Idle resources and man power continue in the war industries and in the export industries. There have been increases in unemployment since August in -- surprisingly enough -- motor vehicle industry (including aircraft), explosives and other chemicals, as well as in luxury industries and industries producing for home consumption.

The Ministry of Labor has ceased to publish the total number of employed workers but taking account of mobilization of a million men and the increase in unemployment of over 200,000 it appears that there has been a decline in the total number of employed workers of between  $\frac{3}{4}$  of a million to a million. Statistics of industrial activity are not available, but the unemployment figures and other information available suggest that there has been a decline in industrial activity since August, of as much as 5 to 10 percent.

The Quest for Foreign Exchange. The United Kingdom is taking additional measures to improve her balance of payments position.

1. Great Britain now requires free foreign exchange from Empire exports of tin, rubber, jute, whiskey, and furs, destined for most foreign exchange areas. The immediate effect of this move will be to reduce the price of sterling in the free market. The lower price of sterling will help to promote exports of the Empire which face keen competition from other countries, while England will get the maximum exchange proceeds from the Empire exports which face little competition.

2. British manufacturers of cotton, woolens, and perhaps other commodities are being given special inducements to increase

exports. These inducements will no doubt help the manufacturers to overcome handicaps in their export business arising from the war, and perhaps enable them to acquire new export outlets.

3. Another type of control adopted is the prohibition placed on the manufacture of linen except for export. This measure will force the manufacturers to expand export outlets, and at the same time reduce foreign exchange expenditures by curtailing imports of flax for domestic use.

4. The 2nd quarter 1940 export quota for tin has been sharply cut from 120 percent to 80 percent. The effect will be twofold: (1) to curtail stocks and therefore make shipments to unfriendly nations easier to detect; (2) raise the price of tin and thus provide England with more foreign exchange. (The reduction in the tin quota may conflict with the desire of the United States to increase tin stocks in this country as a reserve against contingencies.)

#### France

The French Government is paying for the war almost entirely out of borrowings. Almost the whole of the war expenditures of 18 billion francs per month is being raised by borrowing, while the 6 billion francs per month of civil expenditures is raised by taxation and monopoly revenue.

#### French Government Receipts (In billions of francs)

Taxes and monopolies	6.0
Sales of gold	2.2
Advances from Bank of France	4.1
Treasury bills	2.7
Armament bonds	<u>9.0</u>
Total	24.0

Most of the armament bonds are apparently being bought by banks, whose cash reserves have been expanded by the increase of over 30 billion francs in circulating money which has taken place since the week of mobilization. Only a relatively small part of the subscriptions for these bonds comes from savings or from reduced consumption.

Financing the war by these methods involves the creation of purchasing power and not the transference of purchasing power, and is inflationary financing. This type of borrowing has the effect of inducing a progressive fall in the purchasing power of money. Hence the costs of the war are borne primarily by the groups whose wages, salaries, interest income and pensions are fixed or rise less rapidly than the cost of living.

No official price index is now published, but the authorized individual prices indicate a substantial general price rise since August 1939. Rents, however, have decreased, and therefore the cost of living has probably not risen as much as general prices. Candid observers, such as the Under Governor of the Bank of France, are beginning to see that "... there will be inflation on a scale somewhat comparable to that of the last war".

### Italy

#### Italy is enjoying a precarious war prosperity.

Operations of the great northern metallurgical, chemical and textile firms have been stimulated by war orders from abroad and from the Italian Government. Italian shipping lines are running full schedules; in the middle of October all Italian lines increased their freight rates by 15 to 25 percent and their passenger rates by 50 percent. The index of the prices of the thirty leading stocks traded on the Milan exchange has risen about one-third since the beginning of hostilities. But Italy's war prosperity has not yet raised the living standard of the Italian people or brought about any considerable investment in productive capital equipment.

Other features of the economic picture have not been as favorable. The agricultural year was mediocre. Unless the living standards of the Italian masses are to decline still further during 1940, Italy will have to make heavy net imports of cattle, corn, wheat, edible oils and legumes. Such imports would displace raw materials for the making of armaments. Prices of foods, clothing and fuels have risen rapidly since the outbreak of war. The cost of living was at least 25 percent higher in January 1940 than in January 1938; only about 5 percent of this rise took place before September 1939. There have been no general increases in wages in recent months, but there has been some increase in employment.

However, the prosperity -- such as it is -- is precarious because it is based on Italy's temporary position as a war supplier and trader. It is doubly precarious because it is based

on the fabrication of munitions from raw materials which come by sea, with the sufferance of the British and French navies. Italy's war activity cannot continue without imports of cotton, wool, iron ore and scrap, copper, machinery, coal and petroleum, most of which must pass through Gibraltar or other Allied control points. Italy's war profits therefore depend on her ability to maintain a delicate balance between the belligerents.

Italy's economic weakness is further illustrated by her need for coal imports. Italy has only insignificant energy resources. She has no coal worth mentioning, no petroleum, no natural gas, and less wood than any other important European country. She has spent a great deal in developing water-power, but her hydro-electric output is not much more than twice that of Switzerland, and Switzerland has less than a tenth of Italy's population. Consequently Italy must import 13 million or 14 million tons of coal a year and more than this if she is to have a real war boom. Italy imports 70 percent of her coal from territory now under German rule, and 27 percent from the United Kingdom. By far the greater part of the German coal comes by water, being shipped down the Rhine or the Vistula. It is very difficult to re-route any considerable part of these shipments by land.

Italy is extending the use of German currency devices to increase her exports and foreign exchange revenues.

Special exchange rates are being used to subsidize exports. On February 1, the payment of a 20 percent bounty in lira was inaugurated on the export of a large number of commodities, including silk textiles. About the same time, according to consular reports from Milan, similar exchange premiums up to 50 percent were initiated on exports of cotton, woolen goods, hides, skins, and leather goods.

She has permitted a de facto "particularized" depreciation of the lira. The official rate has depreciated about 5 percent since war began, but the special "tourist lira" and "emigrant remittance lira" have depreciated 10 percent and are now about 20 percent below the official rate.

In at least one instance, "blocked lira" belonging to Americans were allowed to be used -- at a great discount, said to amount to about 75 percent -- for the purchase of wines for shipment to the United States. Other forms of barter transactions at special rates of exchange are evidently being permitted.



Also, during February, according to information received by cable, certain Italian wool importers were allowed to purchase foreign exchange from authorized exchange banks at the "black bourse" rate for converting lira into foreign exchange.

These measures are probably necessary to overcome the harmful effects of the war situation on Italy's foreign exchange position. The principal unfavorable effects were:

1. The reduction of tourist revenue and emigrant remittances -- both of which have aided Italy in the past to meet its continuing excess of imports.
2. Higher prices in Italy and higher costs of all imported goods.
3. Intense competition with Britain and France -- whose currencies have depreciated almost 20 percent since last August -- for a share of the rich export markets formerly supplied by Germany.

#### Germany

Reliable economic information about Germany is scanty. A recent confidential report, however, says that official German sources are emphatic in their insistence that they will actually get the imports agreed upon in their February 11th treaty with Russia. They say transportation is adequate with the Black Sea, the Baltic and 8 frontier railroad contacts. Russia has agreed to deliver raw materials during 1940 equal in value to 400,000,000 RMs, or about one-seventh of the amount Germany imported in 1938 from countries now cut off by the blockade. These supplies will therefore help Germany substantially though they will not meet her full wartime requirements for such important commodities as petroleum, iron ore and feed grains.

German sources claim that their exports to the Balkan countries have been sharply increased. On a base September - December 1938 = 100, German exports during September - December 1939 were: to Rumania 135, to Hungary 150, to Yugoslavia 127, and to Bulgaria 139. No figures are available on German trade with Greece and Turkey during these months; there has probably been a slight decline in her trade with the former and a great decline in trade with the latter. On the other hand, Yugoslavia has made an outright gift to Germany by resuming payment on certain pre-war Serbian loans.

Latin America

There is growing realization in Latin American countries that the war in Europe will be of little advantage, at best to them. Here are the reasons:

1. Hard bargaining by the Allies is rapidly dissipating hopes of large profits from price rises.
2. Allied clearing agreements restrict freedom to buy in the cheapest and most available markets.
3. Allied preference for Empire sources of raw materials reacts unfavorably on some Latin American export commodities.
4. Allied food rationing decreases demand for Latin American products.
5. Loss of low-cost German imports compels use of higher-cost American goods; loss of German market for exports is serious.

Argentina's production of meat, wool and hides places her in a strong war-time position. As a market Argentina is the core of the British trade effort in this hemisphere; the British intend to maintain and improve their position in Argentina at all costs, realizing that retreat from this market would seriously limit the possible success of a post-war trade drive. And yet the British drove a hard bargain for the 200,000 ton meat order of October 17 and have delayed in placing further orders.

The U. S. mission to Venezuela has completed its report. The first mission of American government officials to advise a Latin-American country on fiscal matters under Public 63 (composed of A. M. Fox, Tariff Commission, M. Krost, Federal Reserve Board, H.V.V. Fay, Tariff Commission, H.R. Spiegel, Treasury, and J.H. Edwards) has completed its report. The more important recommendations were: lower tariff duties, adoption of an income tax, improvements in government personnel, and raising of capital by bond issues (Venezuela has no public debt). The Mission also warned against increasing taxes on oil companies.

Fifteen of the twenty Latin American Republics have responded to the questionnaire on the proposed functions of an Inter-American Bank. The replies indicated the following:

- (a) They are unanimous on two points: That the bank is needed to provide long-term developmental capital to Latin America, and that the Bank is not likely to increase trade significantly among the Latin American countries by providing short-term credits.
- (b) Six countries (Colombia, Nicaragua, Honduras, Haiti, Cuba and Paraguay) express an interest in long-term loans of gold or exchange for currency stabilization.
- (c) Five countries (Nicaragua, Paraguay, Ecuador, Haiti and Colombia) believe the Bank might be useful in helping to meet seasonal financing requirements.
- (d) Six countries believe that the Bank might improve the mechanism of Inter-American payments and by direct quotations narrow the spread between exchange rates.
- (e) There is some uncertainty as to the amount of prime commercial paper and short-term Treasury obligations that would be available to the Bank for purchase or rediscount, and the tendency is to put it at a low figure; skepticism is shown on the possibility of the Bank's guarantee of prime paper effecting an important reduction in interest rates.

Replies have not been received from Argentina, Uruguay, Brazil, Mexico, Costa Rica. The press reports that the Salvadorean Treasury has appointed a committee to draft statutes for foundation of a branch of the Bank in Salvador.

The press reaction in Argentina is reported to have been unfavorable. The influential La Prensa comments:

"The project could be very good and could serve such high objectives with respect to the majority of the American Republics, but not with respect to the Argentine Republic as long as the hostility to its exports continues being in the United States a political banner which nobody is disposed to challenge. The project frankly does not interest us. Nothing justifies our sacrificing in it 20,000,000 pesos and exposing ourselves to a series of complications, especially in matters of money and exchange."

A difference of opinion is noted in some cases between the views of the delegates in Washington and those expressed in the answers to the questionnaire. It is likely that in some of the countries, Central Bank and Treasury views diverge considerably.

Brazilian Government is ready to make funds available for construction of steel plant. Since the United States Steel Corporation decided not to participate in the construction of an iron and steel plant in Brazil, the Brazilian Government has been trying to push the project ahead under some other arrangement. Although German and British firms are reported to have offered to participate in the project on the terms rejected by the United States Steel, the Brazilian Government is not seriously considering their proposals.

The Brazilian Government has recently announced that a Brazilian steel company is being organized, and that 500,000 contos (about \$25,000,000) will be made available for the project through the Government savings banks, pension funds, and appropriations under special public works budget. Brazil hopes, however, that the Export-Import Bank will cooperate by making \$17 million available for the purchase of equipment in the United States. An American firm (Ford, Bacon and Davis) has let it be known that it is interested in the project provided the American Government is "sympathetic" toward the idea.

Mexico and Peru are now the only major Latin American countries which are in complete default on their foreign debt. The recent debt adjustments by Colombia and Brazil on debts of more than a billion dollars and involving more than half of the total Latin American debts in default, is an important step forward in the solution of the problem which has interfered most with the smooth conduct of inter-American relations.

Although a longer list of countries are in partial default, the only Latin American Republics still in complete default are as follows.

Mexico	Ecuador
Peru	Paraguay
Bolivia	Salvador

The total foreign bonded indebtedness of these countries is under \$500 million, of which over half is Mexican.

Panama suspended payments on her foreign debt during the dispute over payment by the United States of rental on the Canal Zone and is now negotiating a refunding issue.

Japan and China

Since the outbreak of the European War, the United States has become more important in Japan's foreign trade. We now take 42 percent of Japan's total exports to foreign exchange areas, and supply Japan with 46 percent of her purchases in foreign exchange areas. A year ago the percentages were 29 percent and 44 percent respectively.

Synthetic silk substitutes are not likely to displace a large part of our silk imports from Japan in the next few years, but the price of silk (and the economic position of Japan) may be affected much sooner. The manufacture of Nylon and other new silk substitute hosiery fibers is still in the experimental stage. The low moisture absorption coefficient of the fibers, the relatively high introductory prices proposed, and the small productive capacity projected preclude any serious inroads into the American silk market being made by these fibers in the near future. The Dupont's Nylon plant at Seaford, which is probably the most publicized of the synthetic hosiery fiber plants, is reported to be capable of producing only four million pounds a year. This is less than 10 percent of the annual consumption of silk in this country, but enough to have a serious effect on the price of silk.

Mass starvation is facing 25 million Chinese living in Japanese occupied areas of North China. A food shortage is resulting from last September's floods. Food prices are extremely high in North China cities and in Shanghai. The food situation is aggravated because Japan herself is experiencing a rice shortage and is purchasing Chinese food supplies for export to Japan.

India

India is helping England to finance the war by taking securities in exchange for gold and commodities. By increasing her holdings of sterling securities nearly £50 million since August 1939, British India has helped to finance the United Kingdom's unfavorable balance of payments. The increase in the Reserve Bank of India's holdings of sterling securities has resulted from the export of gold on private account, and an increasingly favorable balance on merchandise account, resulting in part from large British war orders.

The Indian Government is also taking advantage of India's favorable balance of payments on current account to convert her sterling debts into Rupee obligations.

Turkey

Industrial and commercial interests in Turkey are expressing disappointment over the failure of the British and French to supply them with the kind and quantity of goods hitherto imported from Germany. Prices of manufactured articles urgently needed in Turkey are rising and Turkish Government departments, factories and merchants implore the agents of British manufacturers in vain to supply their requirements.

Germany's efforts to renew commercial relations with Turkey may be listened to unless the British show more flexibility in their business methods.

Canada

Industrial and business activity in Canada is nearing boom proportions. The Financial Post Business Index for January reached a peak of 135 (1926 = 100), a rise of 11 percent since the outbreak of war and 2 percent higher than the March 1929 high. Skilled labor is scarce with expert mechanics already being drawn away from their regular employment to the more lucrative munitions and aircraft industries. Difficulties in obtaining certain consumption goods, especially textiles, is being reported by wholesalers, despite capacity or near-capacity operations in these industries.

Heavy industries such as iron and steel, machinery, and railway equipment, are enlarging their already high scale of operations. The mining industries are continuing to expand their record level of output. The forest industries are experiencing an increasing demand for their products at rising prices although the unprecedented transport difficulties have forced a curtailment of output in British Columbia. The tempo of activity in Canadian shipyards is also rising and will continue to do so as the extensive shipbuilding program projected jointly by the British and Canadian Governments gets further under way.

Canada's war expenditures during the first year of hostilities are expected to total \$375 million (Canadian). Of this sum 40 percent is earmarked for repatriation of British-held Canadian securities, the proceeds to be used to finance British purchases in Canada.

Gold and Silver

South African gold production, which accounted for nearly one-third of the world output in 1939, reached a new high in January and will continue to increase since new mines are being put into operation. The large current expenditure on new gold mines (which will be further encouraged by recent changes in taxes on gold production) is increasing the one-sidedness of the South African economy, already more dependent on gold mining than it was ten years ago. Gold production accounts for nearly a fourth of the national income now, in contrast with a tenth, in 1927-29.

Another country withdraws silver coins from circulation. Greece recently ordered the withdrawal from circulation of all silver coins of 10 and 20 drachmai denominations during the second half of 1940. There are about 350 million drachmai of silver coins now in circulation, with silver content of more than 3 million ounces.

"Dumping" and Subsidies

The war-time commercial policy of the Allied belligerents and of Italy is running into conflict with the provisions of United States tariff laws providing protection against "dumped" or "subsidized" imports.

Frantic British efforts to meet the foreign exchange cost of war by exportation rather than by reduction of capital assets has already resulted in several actions which may involve subsidies and require the application of countervailing duties. Similar policies in France and Canada will likewise require study and possibly application of countervailing duties.

Italian efforts at stimulating exports without admitting a further depreciation and revaluation of the lira have introduced subsidies on the export of many Italian products, and it now appears likely that countervailing duties will have to be assessed against a wide variety of our imports from Italy.

Before the war approximately half the cases received in the Treasury involving the question of dumping concerned German commodities. The virtual cessation of imports from Germany since October has reduced the average number of new cases involving dumping from 8 per month to 4 per month, but nearly 60 percent of the total number of new dumping cases received since November have involved commodities imported from the United Kingdom.

hsm

PLAIN

London

Dated March 12, 1940

Rec'd 1:13 p. m.

Secretary of State,  
Washington.

629, March 12.

FOR TREASURY FROM BUTTERWORTH.

1. The list for subscription to the £300 million war loan was opened today and will close tomorrow night. Although the Bank of England informally states that subscriptions are coming in well, it could hardly say otherwise, and in fact there is no reliable information available. But given the terms of the loan, the extent of the previous preparations and the character of the mechanism at the disposal of the British authorities it cannot but be fully subscribed.

2. I gather from my Canadian colleagues that there have been discussions between the British and Canadian financial authorities which have resulted in a tentative agreement as to the maximum amount of Canadian debt repatriation that can take place during the first year or so of war; the Canadians seem to be well aware of the fiscal problem which debt repatriation entails at a time  
when



hsm -2- No. 629, March 12, from London

when their own capital outlay on war activity is large. I also gather that plans are being formulated to remove some of the restrictions which now prevent United Kingdom residents from selling any of their holdings of Canadian securities except insofar as particular issues are preempted by and vested in the British Treasury.

KENNEDY

RR

TO THE DIRECTOR  
OF THE BUREAU OF  
INVESTIGATION  
WASHINGTON, D. C.  
MAY 11 1945  
RECEIVED

COPY

396

Rio de Janeiro, March 13, 1940.

No. 2722

Subject: Brazilian Foreign Debt Service Decree.

ORIGINAL AND THREE COPIES BY AIRMAIL - CONFIRMATION COPY BY STEAMER.

The Honorable

The Secretary of State,

Washington, D. C.

Sir:

I have the honor to report, for the Treasury Department also, that the decree covering resumption of service on the Brazilian foreign debt transmitted with my despatch No. 2693 of March 8, 1940 has now been duly published in the Diario Oficial of March 9, 1940, as Decree-Law No. 2,085 of March 8, 1940. The text is as enclosed with the above despatch, which also carried a translation.

Respectfully yours,  
For the Ambassador.

Ware Adams,  
Second Secretary of Embassy

File No. 851  
WA:AM

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

## TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

CONFIDENTIAL

DATE March 12, 1940

TO Secretary Morgenthau  
FROM Mr. Haas *HA*  
Subject: Developments in the High-Grade Securities Markets

## SUMMARY

- (1) Long- and medium-term Government securities rose sharply last week, following the announcement that the refunding would consist of a note-for-note exchange. Short-term issues, with the exception of the June 1940 notes and bonds, moved within a narrow range of prices (Chart I). The new note was selling to yield .58 percent at the close on Monday, March 11, and on that basis was well in line with the market (Chart II).
- (2) The high level of bids for the "rights" prior to the announcement of the exchange offering indicated that the market had anticipated a long or medium-long issue. When the announcement came, a sharp downward readjustment of prices naturally occurred (Chart III). This downward readjustment was the sharpest which has occurred in connection with any note refunding since the beginning of 1934 (Chart IV).
- (3) The entire amount of the Reserve banks' holdings of the June notes (\$137 millions) was tendered in exchange for the new five-year notes. This action of the Reserve authorities, and various other operations in Government securities during 1939, have served to change substantially the composition of the Open Market Account, with the result that the Account no longer concentrates its holdings in very short issues (Chart V). This change in policy was discussed in some detail in the Annual Report of the Federal Reserve Bank of New York issued last week.
- (4) Domestic high-grade corporate and municipal securities markets remained quiet last week. The long-term Bethlehem Steel and Kentucky Utilities issues brought out on February 29 were reported to have moved slowly, and at the end of last week were selling at small discounts from their offering prices.
- (5) The 15-19 year British war loan announced last week bears a coupon rate of 3 percent. It appears to have been priced about in line with other British Government securities in the market (Chart VI).

### I. United States Government Securities

The announcement that the March financing was to consist of a note-for-note exchange offering caught the market by surprise, and was followed by divergent price movements among the various maturity classes of Government securities, as investors began to adjust their positions (Chart I). Long- and medium-term obligations rose sharply on the realization that the previously anticipated addition to the volume of issues in this sector of the market would not materialize.

Short-term issues, on the other hand, (with the exception of the June 1940 bonds and notes, which are discussed in some detail below) moved within a narrow range, registering small losses on Tuesday, March 5, and recovering to some extent later in the week. These price movements, by maturity classes, are shown in the following table:

	Average price change March 5 - March 11
	(In thirty-seconds)
<u>Notes</u>	
1 to 3 years . . . . .	- 1
3 to 5 years . . . . .	- 1
<u>Bonds</u>	
5 to 15 years to call . . . . .	+ 16
15 years and over to call . . . . .	+ 24

The new five-year note opened at 100-31/32 on a when-issued basis on Thursday morning. Around noon, it was quoted at 100-27/32, a price which held, with minor fluctuations through the close on Monday, March 11. At this price, the yield was .58 percent, and the issue was well in line with the market (Chart II).

In this connection, it is interesting to note that the addition of some \$700 millions of new securities at the long end of the note market appears to have changed the shape of the yield curve for notes. This curve, it will be recalled, has ordinarily been relatively flat at the long end, due primarily to a persistent demand for the longest fully tax-exempt Federal issue outstanding. At the close on Monday, however, a differential of six basis points separated the last two issues.

Secretary Morgenthau - 3

## II. The Market's Adjustment to the Exchange Offer

The announcement -- which came after the close on Monday, March 4, -- that the exchange offering was to be limited to a five-year note caused a sharp deflation on the following day in the bids for the June issues. The notes dropped 20/32 of a point, and the bonds, which the market had been expecting would be taken care of by a refunding offer at this time, were off 8/32 of a point (Chart III).

The high level of bids for the "rights" prior to the announcement of the exchange offer -- 101-20/32 at the close on March 4 -- would seem to indicate that the market had anticipated that a long or a medium-long issue would be included as one of the vehicles for the refunding. This would be in line with the experience in past refundings when, it is recalled, the market has assumed that the new issues would be priced so that a larger premium would be carried by a long than by a short issue offered in exchange, and has allowed its anticipation of the length of exchange issue to control, to a considerable extent, the level of its bids for the "rights".

The market's guess as to the length of the new issue was in error this time, and when the announcement came, a readjustment of prices was to be expected. The extent of the market's error in pricing and a comparison with the experience in each of the other Treasury note refunding operations since the beginning of 1934 are shown in Chart IV. In this chart, the market's bids for rights are compared with the premiums on the new issues offered in exchange. Rights values are taken as of the close of the month prior to the financing -- a date when the market has not yet been influenced by any official intimations as to the character of the new securities to be offered. The premiums on the new issues are taken as of the close of the first day of trading.

In the present instance, the bids for the new issue at the close of the first day's trading were substantially less than those for the rights on the last day of February. This deficiency -- amounting to 25/32 -- is, it will be observed, the greatest shown on the chart.

## III. Federal Reserve Open Market Account

On Friday, March 8, the Federal Reserve authorities tendered the \$137 millions of June notes held in their Open Market Account in exchange for the new five-year note offered by the Treasury. This action served to lengthen the average maturity of the Account, and to close out of the Account all of the United States securities maturing within nine months. (The shortest United States securities now owned are December 15, 1940 notes, of which the Account holds \$106 millions.)

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The action of the Federal Reserve authorities in exchanging their June note holdings for the new note issue is similar to that taken last November and last June when the Treasury made its previous note-for-note exchange offerings. On each of these occasions, the Reserve banks tendered the entire amount of their rights for exchange, selling none of them in the open market.

Since last June, however, the Federal Reserve policy with respect to composition of its Open Market Account has undergone a significant change -- a change which would not have made it surprising had the Open Market Committee followed a different course with respect to the liquidation of its June notes. (The Account has, for example, liquidated its position in 1940-43 bonds during the last few weeks by sales in the open market.) This change in policy was dealt with in some detail by the Federal Reserve Bank of New York in its Annual Report released on Monday, March 4. In part, the bank said:

"The open market operations in which this bank participated during the past year were not undertaken primarily with a view to affecting the reserve position of member banks, but rather with a view to exercising an influence toward the maintenance of orderly conditions in the market for Government securities.

\* \* \* \* \*

"The net effect of (these operations) ... was to reduce total Government security holdings of the Reserve Banks by \$50,000,000 during 1939, and to lengthen the average maturity of the securities held. In earlier years it had been the practice of the Reserve Banks to keep a substantial part of their portfolios in the form of securities maturing within a year or two, so that, if it became desirable as a matter of general credit policy, to reduce the volume of member bank reserves, that objective could be obtained in large part by permitting securities held by the Reserve Banks to mature without replacement.

"Because of the great expansion in member bank reserves in the past few years, however, excess reserves of the banks are now more than twice as large as the total holdings of Government securities of the Reserve Banks; it is quite unlikely (therefore) that the reserve position of member banks could be brought under control merely by permitting short dated securities in the System Open Market Account to mature without replacement. A policy which contemplates a portfolio of diversified maturities, rather than a portfolio of preponderant short term securities

Secretary Morgenthau - 5

enables the System more effectively to exercise an influence toward orderly conditions in the Government security market. It enables the System to buy, without restriction as to maturity, whatever securities are in oversupply in the market in circumstances such as existed in September, 1939, and to offer in the market securities of maturities that are in special and unsatisfied demand, as it did in November and December 1939."

The change in Federal Reserve policy during the past year has resulted in a marked adjustment in the maturity distribution of the Federal Open Market Account. This is shown in Chart V in which the securities held in the Account at the end of each month are distributed by maturity classes.

At the beginning of 1939, it is noted, 30 percent of the Account's holdings matured within one year, and 70 percent within five years. During the year, the portfolio was gradually lengthened by exchange operations, by purchases in the open market, and by bill run-offs. At the present time (after giving effect to the exchange of the June notes) about 5 percent of the Account matures in one year, and less than 50 percent matures in five years.

#### IV. Other Domestic Securities Markets

Domestic high-grade corporate and municipal securities markets remained quiet last week. High-grade corporate bonds made small price gains, our average of the yields of such issues having declined by two basis points. Yields of municipal bonds, as measured by the Dow-Jones average of the yields of twenty 20-year bonds remained unchanged.

The largest new issue brought out during the week was the \$18 millions offering of 30-year bonds by the Elgin, Joliet and Eastern Railway Company. These bonds were sold at prices to yield 3.17 percent. They were reported to have moved slowly on the day of issue. Interest was still centered in the large long-term issues of the Bethlehem Steel Corporation and the Kentucky Utilities Company which were offered on February 29. Portions of these issues moved slowly, and both issues were selling at small discounts from their offering prices at the end of last week.



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#### V. Foreign Securities Markets

The most important development in the high-grade securities markets abroad last week was the announcement in Great Britain of the new war loan. This loan will amount to £300 millions and will be raised by an issue of 3 percent 15-19 year bonds offered at par.

In the light of our own policy and experience with respect to the pricing of new security issues for the Government, it is interesting to observe the practice followed by the British Government. This is brought out in Chart VI which shows the yields of selected British Government securities at the close on March 5, just prior to the announcement of the new loan. The yield of the new issue at its offering price of par is shown as a line rather than as a point, in order to give due emphasis to both final maturity and earliest call date. The issue, it would appear, is priced just about in line with the market.

On other occasions, it will be recalled that the British Government has priced issues on a yield basis lower than the market for issues of comparable term and call period would seem to justify -- anticipating, as it were, that the market would move up while the books were open, thus justifying the yield on the new security. This appears to have been the procedure in January when a new 2 percent 3-5 year bond was offered to refund an issue of 4-1/2 percent bonds called for repayment. In this instance, however, the market failed to move as anticipated, and as a result the refunding was only partially successful, holders of more than a quarter of the issue (which totaled £350 millions) advising the Treasury that they would not accept the new securities but would prefer cash settlement.

The new loan is the first long-term issue offered by the British Government during the present war. Previous new money borrowing has been wholly short-term through the issuance of Treasury bills (about £300 millions since the outbreak of war) and the sale of national savings certificates and short-term defense bonds (about £100 millions realized in the first fifteen weeks of the sales campaign).

Attachments

Chart I

CHANGES IN THE PRICES OF U.S. SECURITIES

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

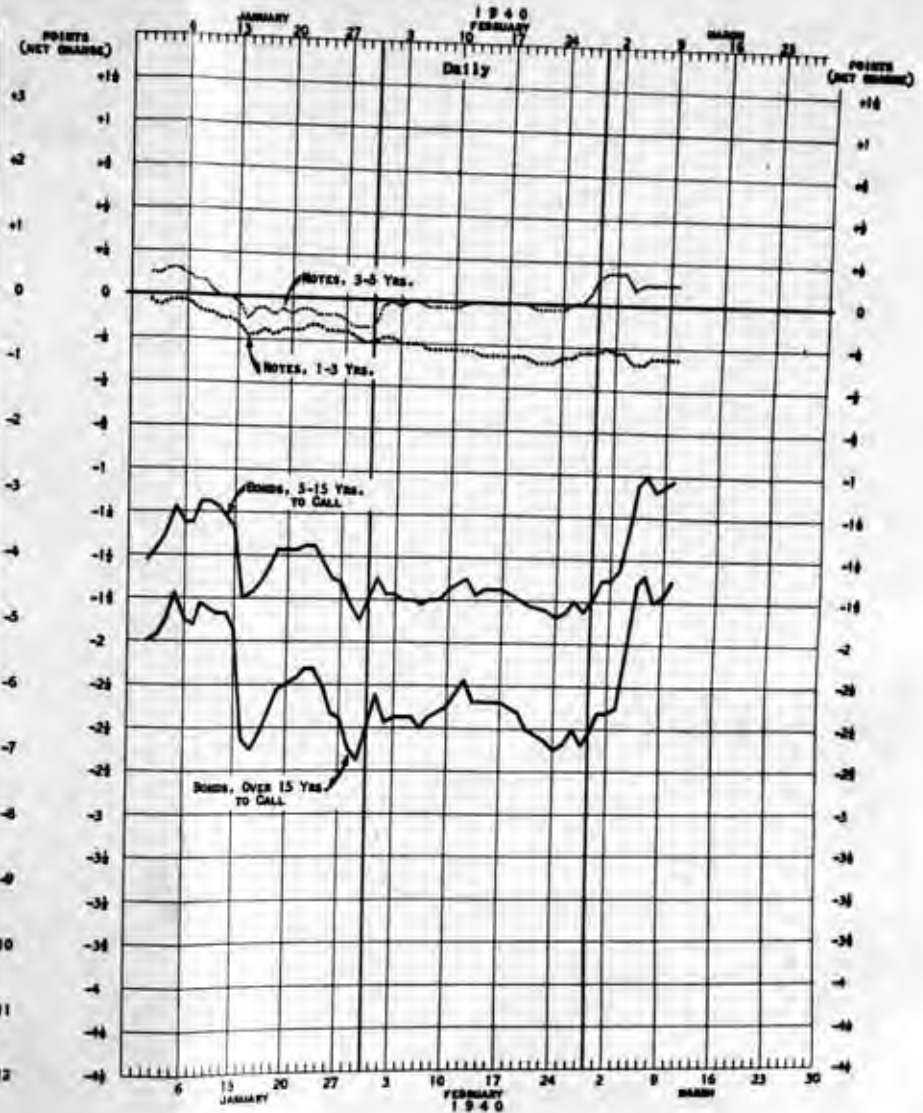
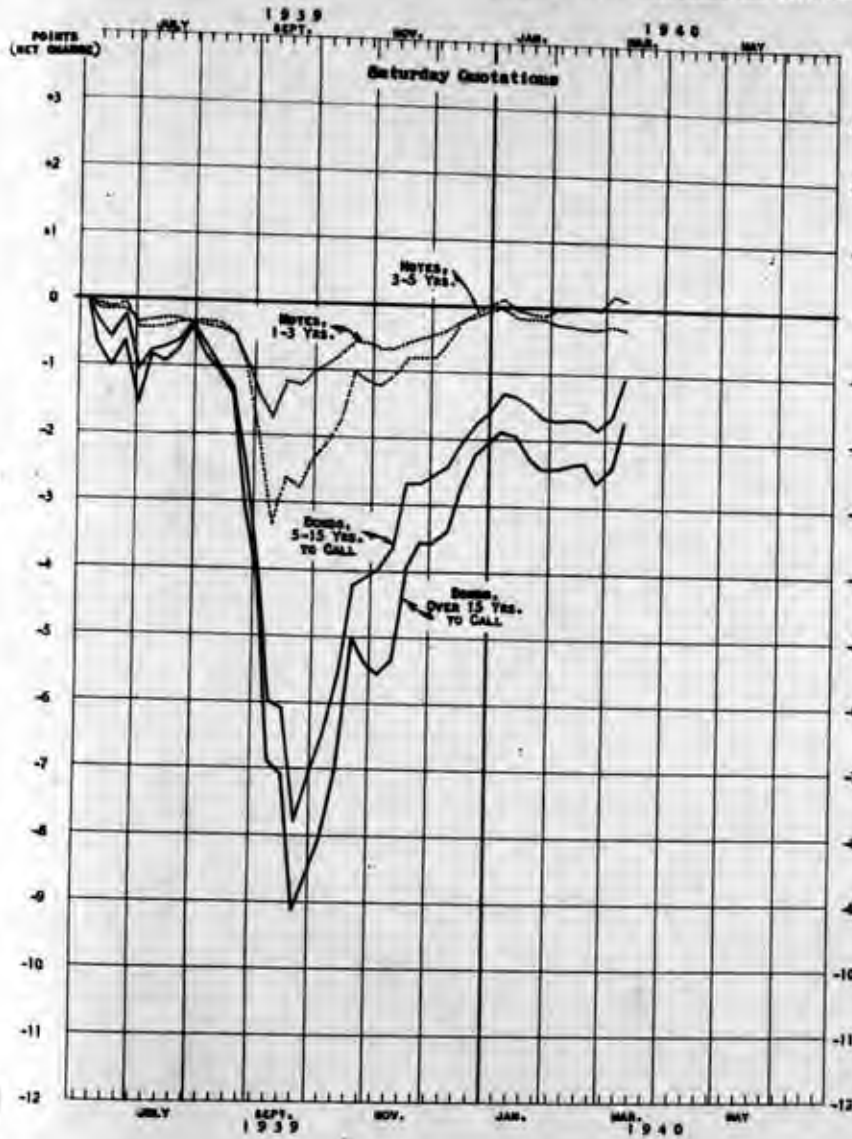


Chart II  
YIELDS OF TREASURY NOTES  
Based on Closing Prices, March 11, 1940

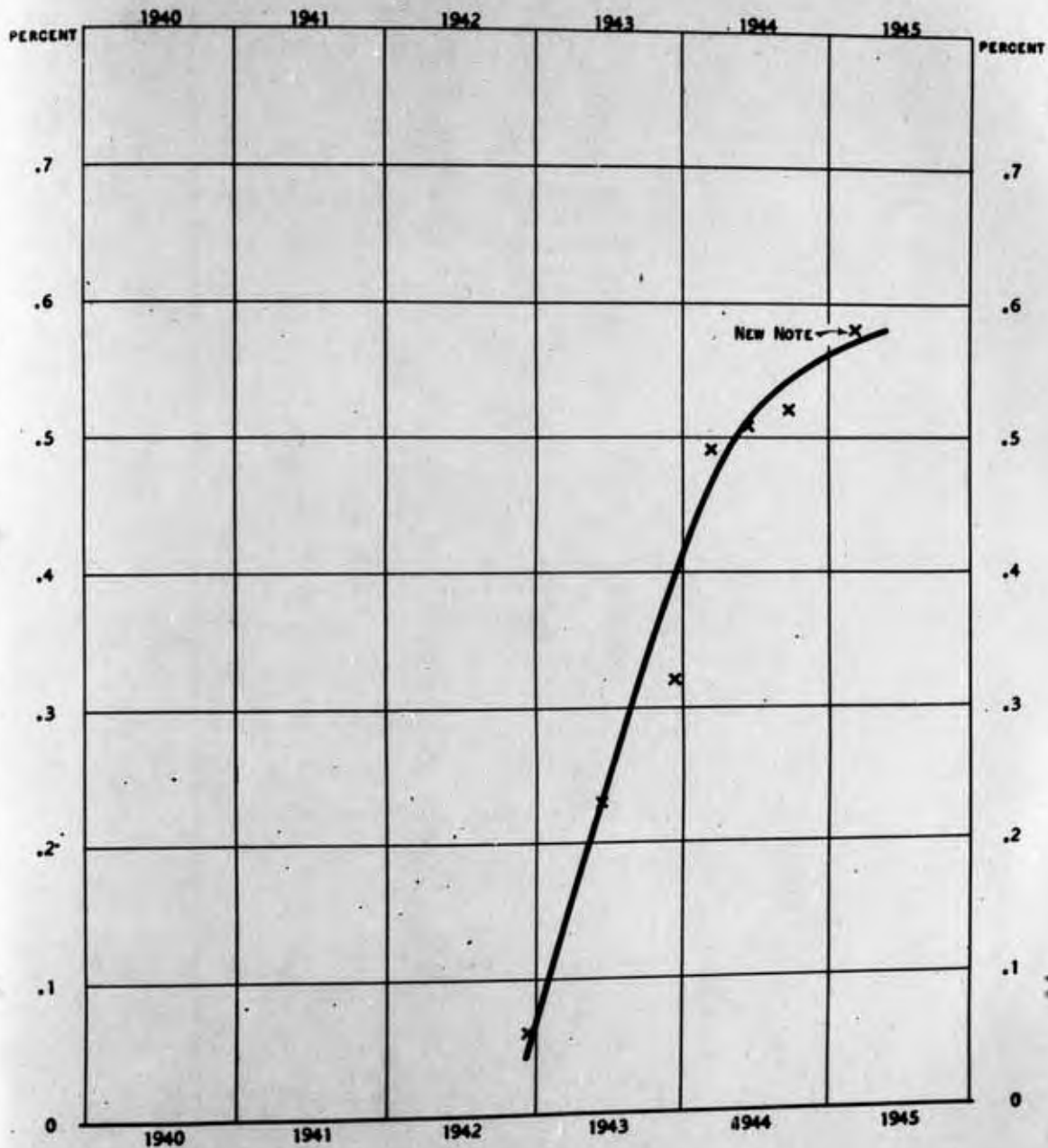


Chart 11  
**PRICES OF JUNE NOTES AND JUNE BONDS**

Daily

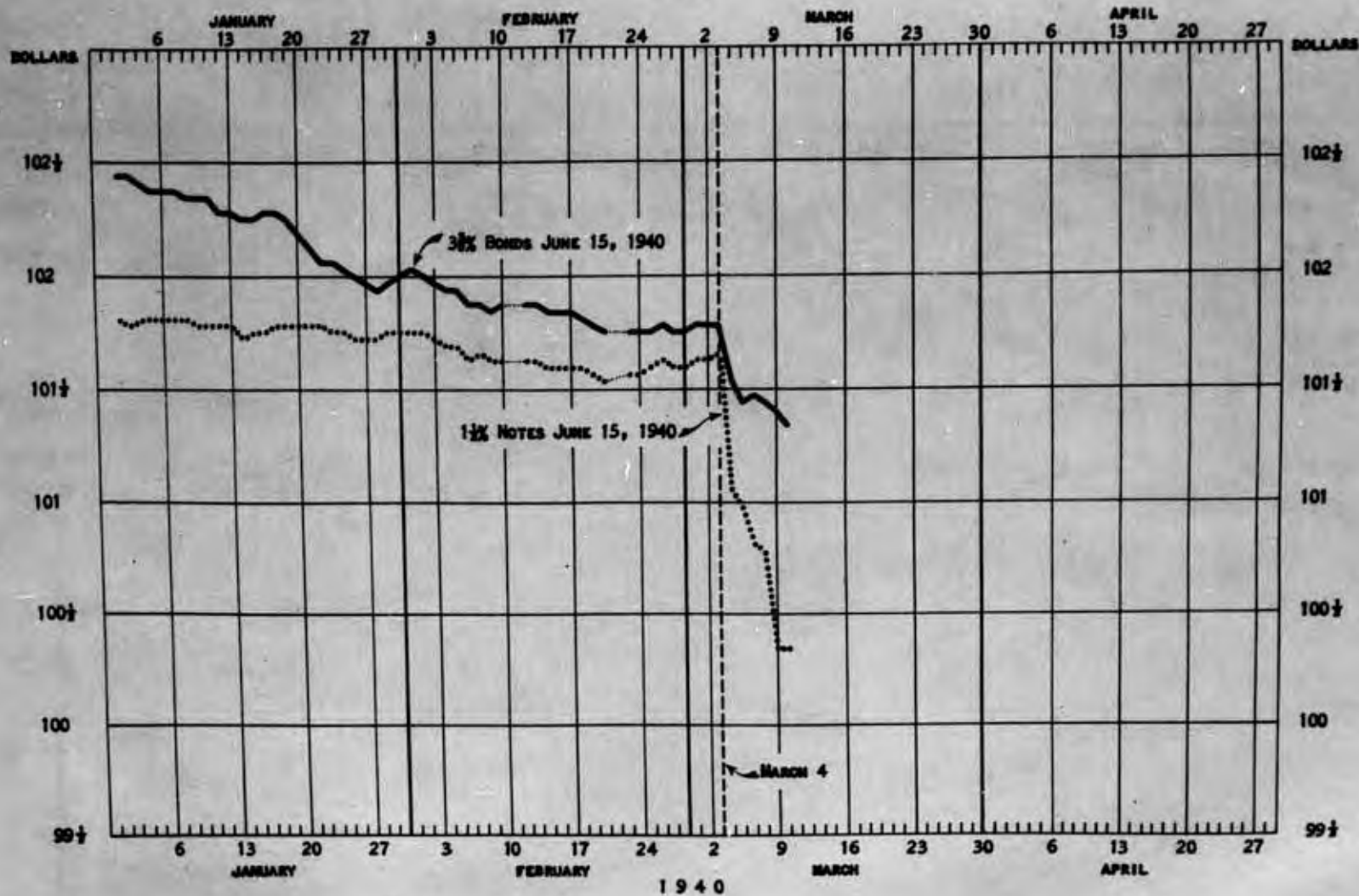
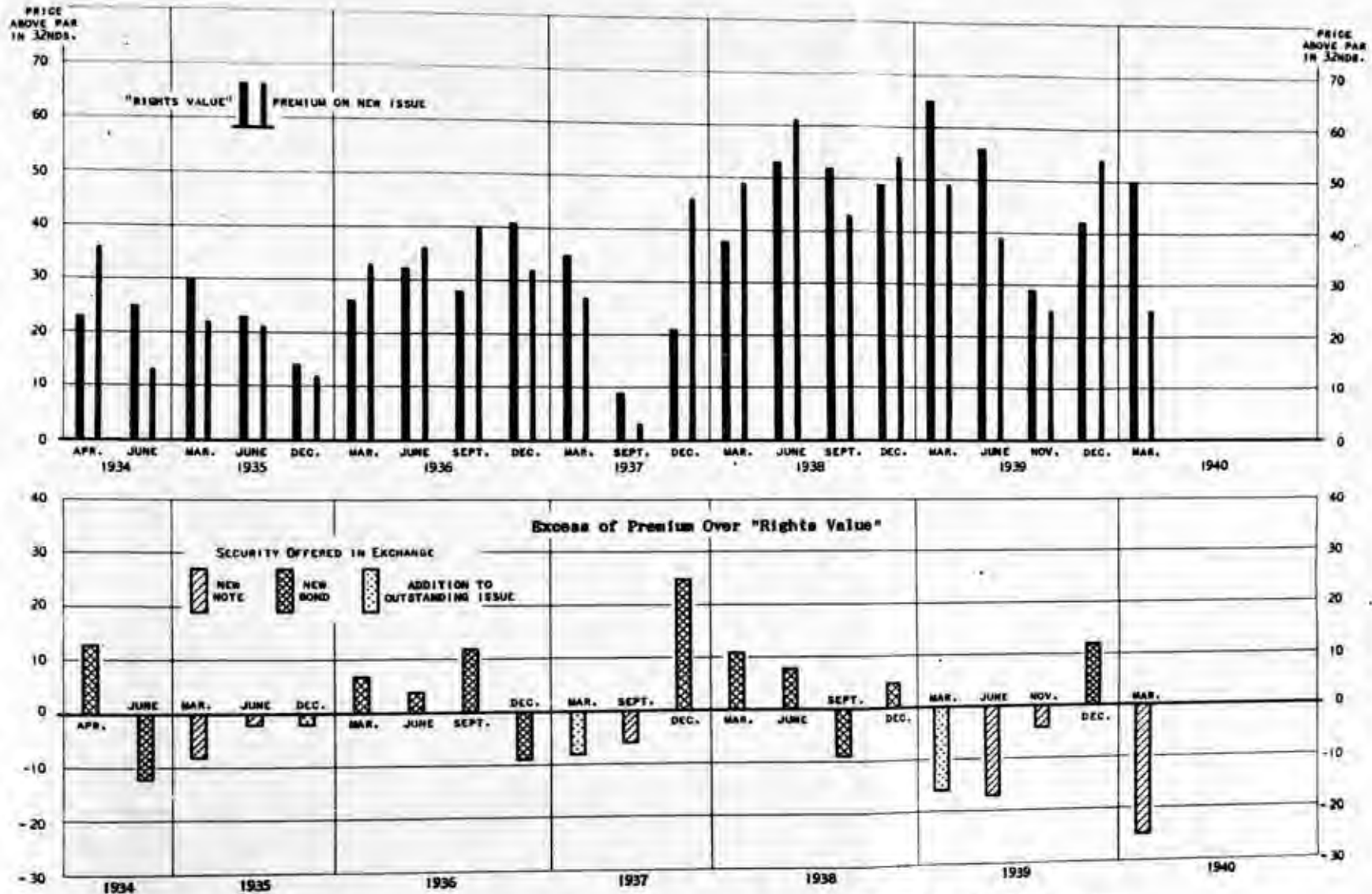


Chart IV

"RIGHTS VALUES" COMPARED WITH PREMIUMS ON NEW ISSUES\*  
Exchange Offerings on Treasury Note Refundings, 1934 to Date

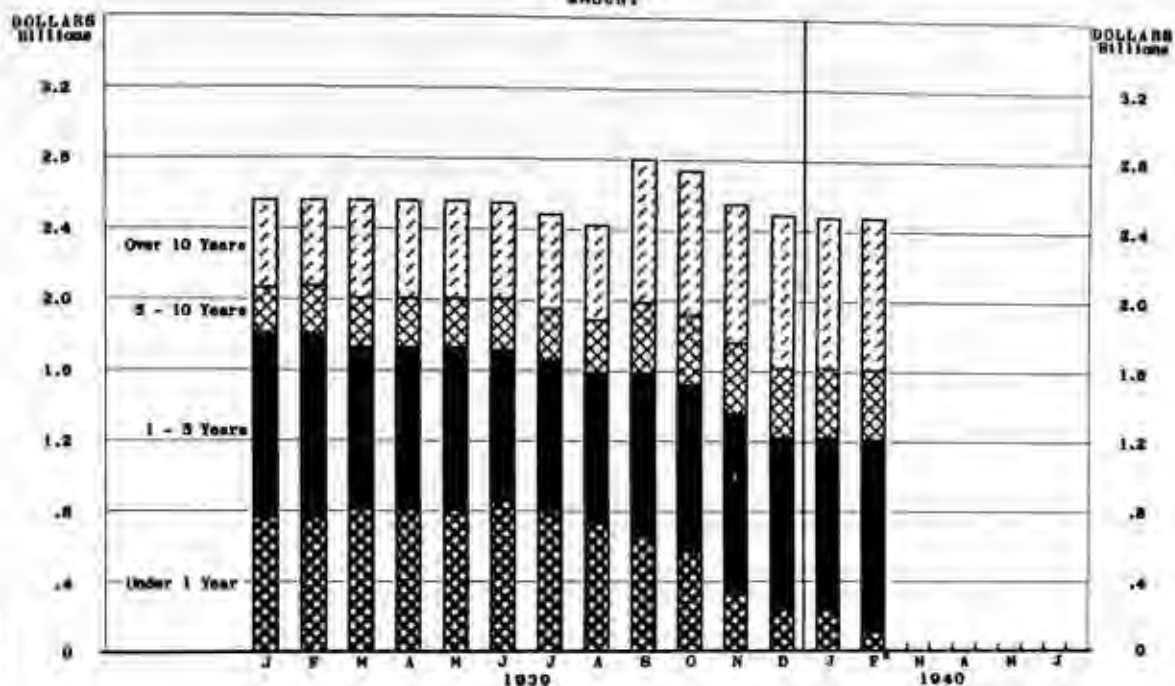


\* RIGHTS VALUES ARE AS OF THE END OF THE PRECEDING MONTH; PREMIUMS ARE AS OF THE CLOSE OF THE FIRST DAY OF TRADING; WHEN MORE THAN ONE NEW ISSUE WAS OFFERED THE HIGHEST PREMIUM IS SHOWN.

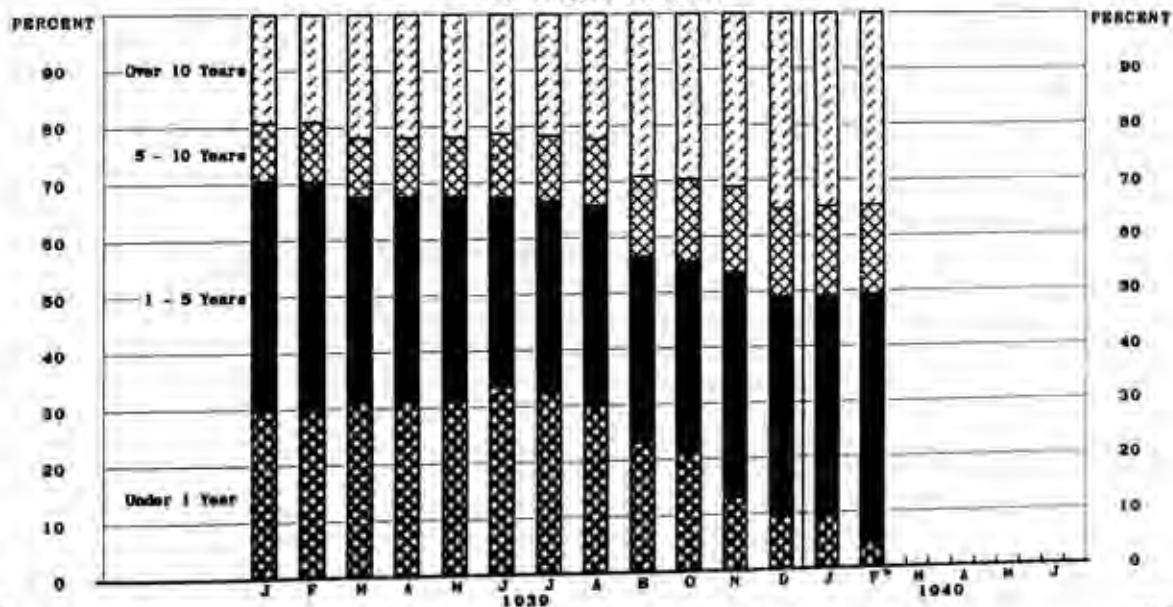
Chart V

FEDERAL RESERVE BANK HOLDINGS OF U.S. SECURITIES  
Classified by Number of Years to Maturity

AMOUNT



IN PERCENT OF TOTAL



\*Adjustment to give effect to the refunding of the June 1940 issues.

# YIELDS OF SELECTED BRITISH GOVERNMENT SECURITIES

March 5, 1940

