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OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

April 17, 1940

MEMORANDUM FOR THE SECRETARY.

There is given below a statement indicating the amount of development expense which has to date been allocated to the companies indicated:

	<u>Number of Planes</u>	<u>Development Expense Allocated</u>
Curtiss	600 P 40's 360 P 40-D's	739,000.
Bell	200 P 39	500,000.
Douglass	750 DB 7's	*
Martin	750 M 187's	850,000.
Lockheed	200 to 500 2 Engine Interceptors	1,148,000.

- * No development expense allocated, as Douglass made a reduction of \$1,860,000 on existing Army contracts and advanced deliveries 4 months.

H. E. Collins
Chairman, President's Liaison Committee

TREASURY DEPARTMENT
INTER-OFFICE COMMUNICATION

DATE April 17, 1940.

TO Secretary Morgenthau
FROM E. H. Foley, Jr.

For your information

Re: Annenberg * Skidmore

I have been informed that the case of William R. Skidmore, William R. Johnson and 11 others, has been set for trial on August 27, 1940 before Judge Barnes of the United States District Court for the Northern District of Illinois.

On April 23, 1940, a hearing will be held before Judge Wilkerson on a motion requesting that the Annenberg case be set for trial in the near future.

F. J. Fh

chart is
filed separately
as of 4/17/40

3

APR 17 1940

Dear General Arnold:

You may be interested in the attached chart, which has been prepared on the basis of the figures on airplanes and engine deliveries which you supplied me in your letter of March 24, 1940. If you desire, an up-to-date copy of this chart will be sent you each month.

As soon as the figures for the month of March become available, I should appreciate it if you would send them to me.

Sincerely,

(Signed) H. Morgenthau, Jr.

Major General H. H. Arnold,
Chief of the Air Corps,
War Department,
Washington, D. C.

Enclosure

By Messenger 7⁴⁵ am 4/17/40

12/15
1/11/40

WAR DEPARTMENT
OFFICE OF THE CHIEF OF THE AIR CORPS
WASHINGTON

(4)

CONFIDENTIAL

March 14, 1940

The Honorable
The Secretary of the Treasury
Washington, D. C.


Dear Mr. Secretary:

In compliance with your verbal request, there is inclosed herewith report of deliveries for airplanes and engines covering the period October 1939 to February 1940, inclusive, for Army, Navy, commercial and foreign.

There were no records obtainable by the Air Corps for the months of October and November 1939 for commercial airplanes and engine deliveries.

Report will be submitted to you monthly until advised that such report is no longer required.

Very truly yours,


H. H. Arnold
Major General, Air Corps,
Chief of the Air Corps.

Incl.
Report of Deliveries

CONFIDENTIAL

(4)

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Major General, Air Corps,
Chief of the Air Corps,

**Encl.
Report of Deliveries**

CONFIDENTIAL

DELIVERIES (ACCEPTANCES) OF AIRCRAFT ENGINES
October 1, 1939 to February 29, 1940

	<u>1939</u>			<u>1940</u>	
	Oct.	Nov.	Dec.	Jan.	Feb.
Army	80	126	304	206	166
Navy	18	23	53	43	54
Commercial	<u>1/</u>	<u>1/</u>	67	81	249
Foreign	<u>49</u>	<u>117</u>	<u>410</u>	554	394
Total	147	266	834	884	863

SOURCE: 1. Aeronautical Monthly Progress Reports.
 2. Bureau of Aeronautics, Navy.

1/ Not available.

Mat. Plan. Sec., Mat. Div.,
 Office, Chief of Air Corps,
 March 14, 1940 (CHJ/ep).

CONFIDENTIAL

DELIVERIES (ACCEPTANCES) OF AIRPLANES October 1, 1939, to February 29, 1940

	1939			1940	
	Oct.	Nov.	Dec.	Jan.	Feb.
Army	38	41	32	86	75
Navy	6	22	16	7	7
Commercial	1/	1/	27	17	37
Foreign	<u>26</u>	<u>56</u>	<u>152</u>	<u>162</u>	<u>151</u>
Total	70	119	227	279	276

SOURCES:

1. Aeronautical Monthly Progress Reports.
2. Aeronautical Board.
3. State Department, Division of Foreign Control.

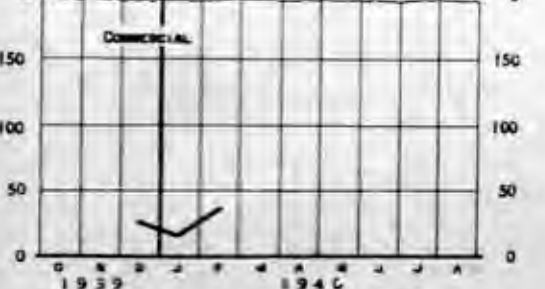
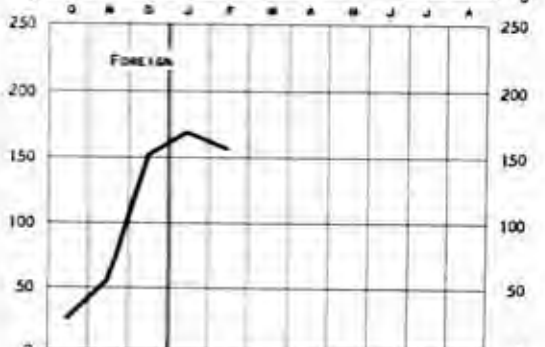
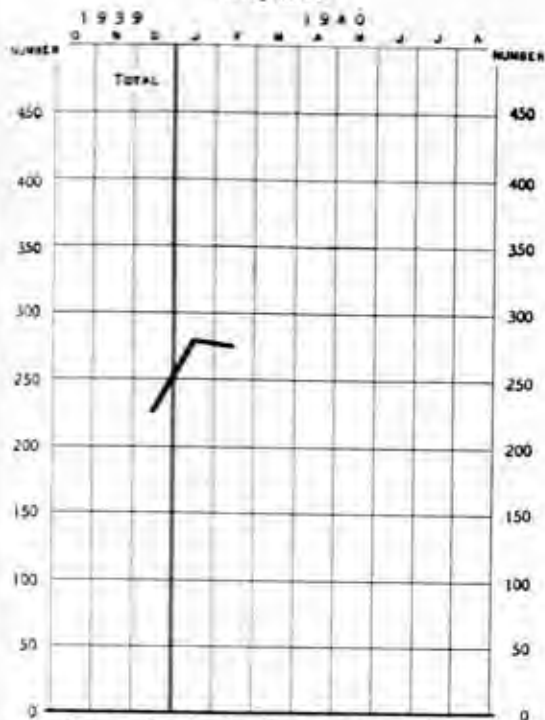
1/ Not available.

Mat. Plan. Sec., Mat. Div.,
Office, Chief of Air Corps,
March 14, 1940. (CHJ:11k)

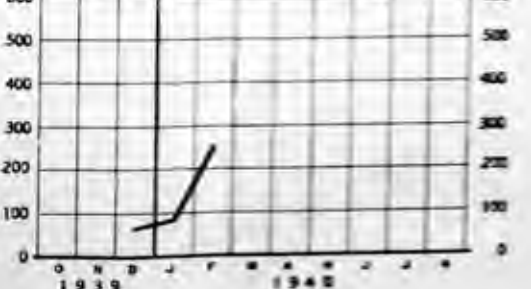
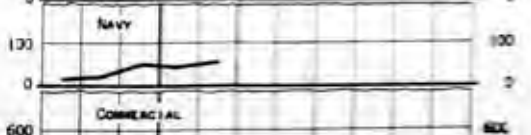
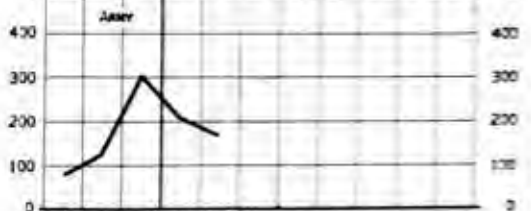
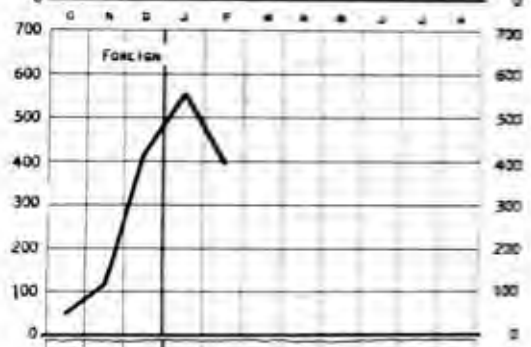
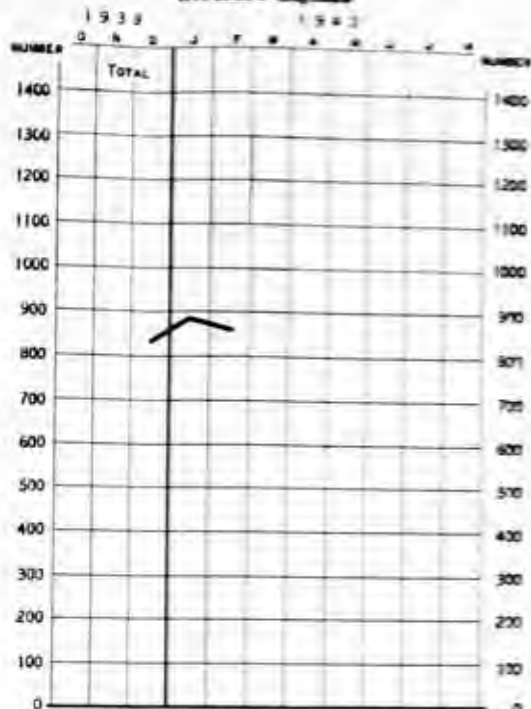
CONFIDENTIAL

DELIVERIES (ACCEPTANCES) OF AIRPLANES AND AIRCRAFT ENGINES

Airplanes



Aircraft Engines



RE SALE OF SMOKELESS POWDER

April 17, 1940
5:30 p.m.

Present: Mr. Johnson
Colonel Burns
Captail Collins
Mr. Sullivan
Mrs Klotz

H.M.Jr: I sent for Sullivan because I notice they said something about taxes in a letter to Colonel Burns.

Burns: That is right.

H.M.Jr: John hasn't had a chance to read it. I have this stuff here, you see, all to the President.

Johnson: On banking, yes.

H.M.Jr: So he asked me - well, I don't know what --

Johnson: Well, there is a new development in it. You tell them, Colonel Burns, about the telephone call just before we left.

Burns: Mr. Green called me up and he said that Mr. Yancey, who is the head of the explosive department of the duPont Company, has been phoning in Mr. Green and had been telling him that the new representative of the Canadian Government was pressing the duPont Company for a definite statement as to why that company will not participate in the creation of smokeless powder manufacturing capacities in Canada and Mr. Yancey has been holding him off as best he can. He is the head of the explosive department of the duPont Company and duPont Company has already told the Canadian Government that they would not participate in the creation of smokeless powder production capacity in Canada and they did that because they discussed the question with a number of people in the War Department and the War Department wanted to get the capacity in America rather than in Canada.

H.M.Jr: Well, I am with you gentlemen on that wholeheartedly.

- 2 -

Johnson: We very definitely think that.

H.M.Jr: I am entirely with you people.

Johnson: I thought you were from your general protest, but I was surprised as the dickens when this memorandum came around.

H.M.Jr: I never saw that memo. That is what I have said to General Watson and it seems to me that we ought to build up our own capacity to the limit here. Explain something which may make it a little easier. I don't quite understand this thing. Being a sort of fifth wheel is a little difficult sometimes.

(Sullivan entered the conference)

H.M.Jr: John, I didn't have a chance to show you this, but if you would read the Hercules Powder letter, I think you will get sort of what it is all about.

Sullivan: I am sorry to be late. Mr. Compton was on the phone.

H.M.Jr: We have got to take care of the Navy first. Mr. Purvis, in the United States, is not only Chairman of the Purchasing Board for England and France but - and as such is more or less accredited to me, rather than the State Department - I don't know whether you gentlemen know that, but he also has been made the accredited representative of the Canadian Government. Did you know that?

Johnson: Yes.

H.M.Jr: So if he is doing something - now, he hasn't talked to me about powder since - well, certainly not for the last five or six weeks, but I didn't know anything about it from him and I wonder if he knows about it, because there have been things done that he didn't know about and it seems to me that if the question of - and he handled those negotiations as between Hercules and duPont in connection with trying to get that powder away from the Army and Navy, and

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one of the reasons why I asked you to come over here is because Purvis is coming in at 11:00 tomorrow. Now, as a matter of fact, does Joe Green come in on that at all?

Burns: Not particularly. I think he came in in the first instance because there was some question as to whether there would be a violation of neutrality in the creation of capacity, provided the capacity was owned by a foreign government and created in the United States itself. I think that was the way he came into it originally.

H.M.Jr: Well, if you gentlemen would tell me - I take it what you want is what is in your letter.

Johnson: In the last paragraph of that letter.

H.M.Jr: Now, the President has asked me to negotiate this for him. I take it that is agreeable to you.

Johnson: Entirely. All we want, Mr. Secretary --

H.M.Jr: Is that agreeable?

Johnson: Entirely.

H.M.Jr: And I am in entire sympathy that if they want to buy powder, that we build up the maximum capacity in this country first.

Johnson: Well, let me give you just this much background. These two companies realize, as does the Army, that one of the things that we don't have and it takes time to get is additional production of smokeless powder. As I gather, their attitude is that they prefer to expand first in America and after that is done, then expand up there.

H.M.Jr: Who is "they"?

Johnson: The American powder companies.

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H.M.Jr: Hercules and duPont?

Burns: Both.

Johnson: The Allied Purchasing Commission is putting all the pressure in the world on them to have them buy American machinery and set it up in Canada with Hercules and duPont actually making purchases of the machinery, installing and operating in Canada. Well, that isn't helping our own national defense and we need help in that direction.

Secondly, it isn't helping our own industry and labor problem and it gives us something, at least, that we have got to fight for until we get licked.

The tax question you referred to and wanted to call Mr. Sullivan about, that is something I have had no discussion with him about. It is really not a controlling issue in the picture at all.

H.M.Jr: Well, as I pick up all the threads - John, did you know about this recently?

Sullivan: No, sir, I did not.

H.M.Jr: Has anybody mentioned it to you?

Sullivan: No one has. I have seen Mr. Purvis at least twice in the last week.

H.M.Jr: Well, I saw him twice last week and he didn't mention it to me either.

Johnson: You have got in your first statement in the record there that this Canadian representative, John - this is before you came in - was at the State Department just a few minutes before we came over here and they had a telephone call from Yancey in the duPont Company to Joe Green in the State Department wanting to know officially - the Canadian Government wanted to know why the duPont Company and Hercules wouldn't go ahead and build these plants up there.

- 5 -

H.M.Jr: What is his name?

Burns: I don't know the name, but the man who was talking to duPont --

H.M.Jr: The man over at the State Department.

Burns: Mr. Yancey of the duPont Company was discussing this question with Joe Green of the State Department.

H.M.Jr: John said somebody --

Burns: Well, I think he was wrong about that. These Canadian representatives are now talking to the duPont representatives and want to know why duPont will not cooperate.

H.M.Jr: What I will do when I get through, I am going to call up Mr. Hull and tell him to tell Joe Green I am handling this for the President --

Burns: As a matter of fact, Mr. Green made this arrangement --

Johnson: I would let Colonel Burns do that.

Burns: He told me whatever the War Department wanted to do was strictly all right with him.

H.M.Jr: Will you tell Joe Green that I am handling this?

Burns: Yes. We won't have any trouble about that. He is just trying to help us achieve our objective.

H.M.Jr: Will you tell him that?

Burns: Yes, sir, and there won't be any trouble there.

H.M.Jr: When Purvis comes in tomorrow - I am going to phone him to have him ready, because he may not know about this thing, because there was, for instance, an order for 30,000 tons of steel that went through here three weeks ago placed by France in London with the United States Steel and he never knew about it, so sometimes - they don't always keep him posted,

- 6 -

but I am going to call him up and tell him when he comes down tomorrow please to be posted and tell me what he wants so that he doesn't play one end of the Administration off against the other, which has been done before.

Johnson: And how!

H.M.Jr: Yes. But on this question of export of powder machinery, is there more than one place that they can buy that?

Burns: Oh, yes, there is a great deal of machinery necessary for making powder and they could buy it in a number of places. They have to have presses and pumps and all kinds of machinery.

H.M.Jr: Are you in direct touch with duPont and Hercules?

Burns: Yes, sir.

H.M.Jr: Would you tell them to keep their shirt on until we have a chance?

Burns: As a matter of fact, they will cooperate a hundred percent. Nobody will cooperate more than those two companies do. All they want to know is what the Government wants and they will do exactly that.

Johnson: That is correct.

H.M.Jr: Whatever happened finally on the release of that powder from the Navy? That was 600,000 pounds.

Collins: Purvis, the last time I spoke to him I felt that duPont finally was going to agree to give it to him and in the event they did, he would let me know further. Not having heard, I assume he has the 600,000.

H.M.Jr: He got the Army?

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Collins: Yes, sir, the one million two, he got.

H.M.Jr: But you don't know whether he got that or not?

Collins: I assume he has it, inasmuch as he hasn't said anything.

Johnson: I sent you a memorandum on that.

H.M.Jr: Yes, but there was a lot of trouble on the Navy.

Johnson: Because of the trouble, I released that Navy part of it back to the Navy.

H.M.Jr: I know, I have got all of it but whether they finally picked it up or not, I don't know. The kind of powder - just so I am sure I know what I am talking about, they want to make in Canada - that is exactly the same kind of powder?

Burns: Yes, sir.

H.M.Jr: That is smokeless powder?

Burns: That is right, smokeless powder.

H.M.Jr: Is there more than one kind of smokeless powder?

Burns: You have to have a different size for each gun and you might have a little different chemical composition, too, but it is substantially the same.

H.M.Jr: What are the raw materials?

Johnson: You are talking to the man who ran this in the World War.

H.M.Jr: Just so I know.

Burns: You make it out of either wood pulp or cotton to start with. You nitrate that by means of nitric acid and sulphuric acid and that gives you pyro and then you work on that with ether and alcohol and other solvents and convert into colloid and then you grain it in your final form.

- 8 -

H.M.Jr: Where does the powder begin to - where one is explosive and the other is a propellant?

Burns: When you make the pyro, you have got an explosive, but when you put it into the colloidal form, you have got a powder, something that burns rather gradually instead of instantaneously. Gunpowder is the explosive and powder is the propellant.

H.M.Jr: Well, I will get the story tomorrow from him and I am going to tell him - I am going to ask him, and if you will tell Mr. Green of the meeting here today, that will take care of that.

Burns: That is right, that is all taken care of already.

H.M.Jr: And certainly the last thing in the world on this would be that we should want any kind of publicity on this.

Johnson: None.

H.M.Jr: Incidentally, there has never been any publicity on that release of the Army and Navy powder to the English.

Johnson: And shouldn't be.

H.M.Jr: But there never was. That never got out.

Johnson: If we keep it between the Treasury and the Army, it won't get out.

H.M.Jr: You are not casting any aspersions on the Navy?

April 17, 1940
3:59 p.m.

H.M.Jr: Hello.

Operator: Mr. Purvis. Go ahead.

H.M.Jr: Hello.

Arthur
Purvis: Hello. Good afternoon, Mr. Secretary.

H.M.Jr: Hello, Mr. Purvis. Good afternoon. The reason I'm calling you is this. I thought that you'd like to be prepared when you see me tomorrow.....

P: Yes, sir.

H.M.Jr:to talk about a deal which I only learned about yesterday from the White House.

P: Yes.

H.M.Jr: And that has connection with the building of a plant for powder.....

P: Yes.

H.M.Jr:in either this country or Canada by Hercules and Dupont.

P: Yes.

H.M.Jr: And I -- that hadn't been brought to my attention until it was brought to my attention yesterday by General Watson.

P: Oh, yes.

H.M.Jr: And now the President has placed it all in my hands, but everybody seems to know about it except me.

P: Well now, I'll have to find out because what we have been doing has been merely to develop possibilities in Canada and in here and I'll have to get up-to-date.

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

P: Yes.

- 2 -

H.M.Jr: And it seems that there has been a lot going on with the State Department and I don't know -- it's all sort of mixed up.

P: Ah-hah! Now I think I know -- now I think I recognize it. We received a call the day before yesterday from two representatives of the new Ministry of Supplies in Canada and Mr. Hull the new Minister of Supplies there, whom I know of course from having met there, has wired me saying that he will be here on Friday with two other senior men in his department to discuss matters in general. He did not particularize on powder. These two men who came down told us that they were anxious for Canada to have a proper chance to cater for any explosives business. We told them that of course the proper person for them to go to to discuss that was the British Supply board who -- from whom we had asked for quotations from Canada.

They then did drop this, that was that they believed that Mr. King had been asked by Mr. Hull when he visited Washington to find out whether information would be available of a technical nature to a Canadian manufacturer from Dupont or Hercules if Canada could show us that they could get an order. And that was the first that we had heard of any such action. We had understood previously, however, that the -- that individual manufacturers up there had asked for permission and been refused permission to get such information. But that is -- now, I'll have to get -- that's what I know at this moment.

H.M.Jr: Well, both.....

P: I will have to get up-to-date before I see you.

H.M.Jr: Well, both Hercules and Dupont are in it. It's a question of partly manufacturing in this country, export of powder-making machinery to Canada and....

P: Well, that -- this, frankly, this is -- this has gone way beyond anything, Mr. Secretary, that I know about because what we, at the present time, have been doing has been simply asking the British Supply Board -- the Anglo-French Purchasing Board

- 3 -

has been naturally getting its quotations from the United States manufacturers for the powder in accordance with the inquiry situation we have filed with you from week to week.

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

P: In addition to that, we have asked the British Supply Board to quote to us on what they can do in Canada. Now, what has been happening evidently is that they, in making their inquiries up there, have run into the fact that the people who might be able to do it needed more information and evidently somebody has been moving in rather a peculiar way, that's all, probably not understanding the -- the ropes.

H.M.Jr: Well, evidently, and in the meantime it's all tied up until I hear from you.

P: Yes, sir.

H.M.Jr: And I -- I just suspicioned that possibly they had been running around behind your back on this thing.

P: I think what has happened, I think it's a genuine case I would imagine in this way. You know that the Canadian buying has been done so far by a Canadian War Supply Board which was set up before the British came to this country, and when they came -- I mean to Canada -- and when they got to Canada as there was a Canadian agency already set up by the Government of Canada to buy for Canada the British decided to utilize the same machinery for purchases in Canada up there. Now the arrangement is that if ever they buy in the United States they use us as an agency and if we buy up there we use them as an agency.

H.M.Jr: You've got me dizzy. All I know is Great Britain, France and Canada, if they're going to do any buying in this country, Arthur Purvis is the boy.

P: That's correct.

H.M.Jr: And.....

P: And I think what has happened is that last week.....

- 4 -

H.M.Jr: And you've got to damn many committees, if you don't mind my saying it.

P: I think you're absolutely right there.

H.M.Jr: And it's all tied up here now waiting for you to come down and see me.

P: All right, fine.

H.M.Jr: And I'll -- you'll just have to straighten out

P: (Laughs) I tell you it's -- I spend an awful lot of my time working out difficulties of this kind.

H.M.Jr: Well, fortunately it's all now in my hands and I'll just sit tight.....

P: Good!

H.M.Jr:until you get down here.

P: Thank you very much.

H.M.Jr: O. K.

P: Thank you.

April 16, 1940.

Dear Sumner:

I have received your letter of April 15th, telling me that you sent a personal telegram to the Charge in Berlin in the matter of the visa for Reginald Tyler. Your personal interest in this matter is very much appreciated and I knew that you will be glad to hear that I have had a cablegram from Mr. Tyler, saying that he has now received his visa from the German authorities.

I want, therefore, to express his thanks for your help as well as my own.

With cordial regards,

Sincerely,

Henry

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

By Messenger 3⁰⁰ pm 4/17/40

625730

Treasury Department

22

TELEGRAPH OFFICE

2 WN 12

STOCKHOLM 1730 13 APRIL 1940

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SECRETARY TREASURY

WASHNDC

REQUESTING ATTENTION SECRETARY MORGENTHAU VISA SECURED

MANY THANKS.

TYLER

*I phoned Sumner Welles
office and told him
Mr Tyler has secured
his visa. 12:45 pat.*

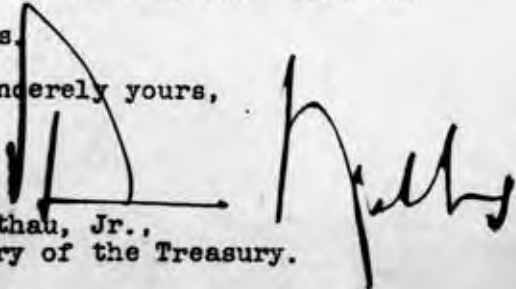
THE UNDER SECRETARY OF STATE
WASHINGTON

April 13, 1940.

Dear Henry:

I have received your letter of April 12th enclosing a copy of a telegram from Royall Tyler concerning the difficulties which he has encountered in his efforts to obtain a transit visa from the German authorities. I have sent a personal telegram to Mr. Kirk, our Chargé in Berlin, asking him to take up this matter at once with the appropriate German officer and try in every proper way to expedite the issuance of this visa. I have asked Mr. Kirk to communicate with Mr. Tyler through our Legation at Stockholm when he has some word from the German authorities.

Sincerely yours,


The Honorable
Henry Morgenthau, Jr.,
Secretary of the Treasury.



TREASURY DEPARTMENT

WASHINGTON

April 16, 1940.

MEMORANDUM FOR THE SECRETARY:

The American S. S. WEST NOTUS sailed from Santos for San Francisco March 29th, taking a shipment of 25,000 bags of coffee to be transhipped at San Francisco for Kobe, Japan. It is rumored this coffee is destined to Germany via Russia. The Collector in San Francisco has been advised to make a full investigation on arrival of the S. S. WEST NOTUS at his port.

The Norwegian Steamer WYVERN sailed from Tampico for Japan via Panama with a cargo of scrap metal, rubber, cotton linters and zinc which was unloaded from the German Vessel RHEIN.

The S. S. KANFAI MARU, scheduled to sail from New York, will carry a re-export item of 336 slabs of Straits tin, consigned to Vladivostok via Kobe. This item was originally scheduled for the Greek Vessel S. S. MOUNT HELMOS, which was to carry a load of metal direct to Vladivostok. The MOUNT HELMOS voyage was cancelled and she was sent to Latin America for a cargo of sugar destined for Vladivostok.

Basil Harris.

April 16, 1940.

MEMORANDUM FOR THE SECRETARY:

The American S. S. WEST NOTUS sailed from Santos for San Francisco March 29th, taking a shipment of 25,000 bags of coffee to be transhipped at San Francisco for Kobe, Japan. It is rumored this coffee is destined to Germany via Russia. The Collector in San Francisco has been advised to make a full investigation on arrival of the S. S. WEST NOTUS at his port.

The Norwegian Steamer WYVERN sailed from Tampico for Japan via Panama with a cargo of scrap metal, rubber, cotton linters and mine which was unloaded from the German Vessel RHEIN.

The S. S. KANFAI MARU, scheduled to sail from New York, will carry a re-export item of 336 slabs of Straits tin, consigned to Vladivostok via Kobe. This item was originally scheduled for the Greek Vessel S. S. MOUNE HELMOS, which was to carry a load of metal direct to Vladivostok. The MOUNE HELMOS voyage was cancelled and she was sent to Latin America for a cargo of sugar destined for Vladivostok.

(Signed) Basil Harris

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Stockholm

NO.: 285

DATE: April 16, 1940

The decision of the Government of the United States to stop for the time being credits to Finland and Norway has greatly distressed the Governor of the Riksbank. It is his hope that Finnish credits for shipments to Petsamo will be permitted immediately and that as soon as it is clear that Narvik is in the hands of the Norwegians or the Allies, both Finnish and Norwegian shipments will be permitted to that port; he also hopes that shipments to Trondheim will be permitted when that port is free. He strongly hopes that as soon as the northern Norwegian ports are open credits for Sweden will be reconsidered and also that credits may be granted to an amount which would correspond to United States goods bought by Sweden and paid for during the month of March. It is the understanding of the Governor of the Riksbank that at the present time the only part of these payments which may be disposed of under the credit is that part which corresponds to goods which were shipped from the United States before the war broke out in Norway.

EA:EB



DEPARTMENT OF STATE
WASHINGTON

reply refer to
859.51/393

April 16, 1940.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses a copy of telegram no. 39, dated April 15, 4 p.m., from the American Ambassador to Turkey, submitting an inquiry of the Danish Chargé d'Affaires at Ankara, Turkey as to the procedure the latter should follow to obtain permission to cash at Ankara checks drawn March 26 by a Danish bank upon the Central Hanover Bank, New York.

The Department of State would appreciate any suggestion as to the reply it should make to the American Ambassador's telegram.

Enclosure:

From Ankara, no. 39,
April 15, 1940.

MP

GRAY

Ankara

Dated April 15, 1940

Rec'd 3:18 p. m.

Secretary of State,
Washington

39, April 15, 4 p. m.

In view of press reports that the Government of the United States has prohibited the withdrawal of Danish funds except by special permission the Danish Charge d'Affaires is unable to cash here checks drawn March 26 by a Danish bank upon the Central Hanover Bank, New York. He inquires what procedure he should follow to obtain permission if in fact required.

MACMURRAY

WWC

3
Pls file

29

4/17

Treasury Department
Division of Monetary Research

30

Date April 16, 1940 19

To:

Subject: Comment on "Declaration of Principles
Relating to the Conduct of American Industry".

Appended are comments of Mr. Hanson, with which I am in full agreement. The pamphlet referred to is an excellently phrased statement of high and liberal principles for the guidance of American industry in its relation to the consumer, the investor, the employee and the community at large. For most manufacturers, the statement will probably prove to be only lip service, but at least it is lip service of a high order.

The statement is set forth in terms so general that no reasonable person could fail to endorse them, but, unfortunately, is marked by a complete avoidance of reference to the real problems that obstruct industry's pursuit of those high principles.

MR. WHITE
Branch 2058 - Room 208

TREASURY DEPARTMENT

31

INTER-OFFICE COMMUNICATION

DATE March 26, 1940

TO Mr. White
FROM Mr. Hanson

Subject: Comment on "Declaration of Principles Relating to the Conduct of American Industry"

1. This Declaration, adopted by the Congress of American Industry on December 8, 1939, sets forth Industry's attitude toward its managerial responsibilities and pledges Industry to defend representative democracy, private enterprise, civil and religious liberty.
2. It appears to stem less from an awakened social consciousness than from realization that Industry must make a greater effort to win popular support.

Management is exhorted to stress everyone's stake in the prosperity of American Industry (what's good for business is good for you), to demonstrate undesirable features of laws and policies, to help mold public opinion in support of "constructive" legislation.

3. The Declaration consists of generalities and platitudes with respect to the sanctity of the profit motive, the desirability of less interference by government and labor organizations, the advisability of reducing controllable costs, conducting research, and striving towards equitable employee-relationship policy, effectiveness of "normal economic processes" as against artificial restraints.
4. Although no specific laws are condemned, the Declaration advocates limitation of the sphere of government activity and modification of certain laws, especially labor laws:
 - a. It would limit government regulation to prevention of abuses, but it does not define abuses.
 - b. Government activity in the field of affirmative control and direction is condemned.
 - c. It warns that the incentive provided by patent laws should not be sacrificed by undue limitation of the licensing privilege or other restrictions impairing the value of patents.
 - d. It recommends an early determined effort to cut government expenditures so that income will not be exceeded.

Division of Monetary
Research

- 2 -

- e. It favors a more equitable and less burdensome tax system.
 - f. It condemns some political policies to overcome the depression as having defeated their own objectives.
 - g. In prescribing a proper balance and flexibility in the price structure as necessary for maximizing the interchange of goods, it holds that this can only be accomplished by normal economic processes unhampered by artificial restraints.
 - h. It hits at laws and administrative acts that create suspicion in labor relations, or impose too rigid restrictions on hours, etc.
5. The Declaration contains many statements that are either meaningless or unrealistic.
6. The Declaration makes no significant contribution to the solution of national problems. It does constitute, however, an industrialist's Bible whose generalities will probably be used heavily in making known "to all elements of the population the extent of their group or individual stake in the operation of industry," as Industry sees it.

MR. MORGENTHAU'S OFFICE TO-

Mr. Bell	Mr. Thompson
Mr. Gaston	Mr. Foley
Mr. Sullivan	Mr. Graves

33

Mr. Alexander	Mr. Haas
Mr. Allen	Mr. Hall
Mr. Bartelt	Mr. Hanna
Mr. Batchelder	Mr. Harper
Mr. C. S. Bell	Mr. Harris
Mr. Berkshire	Mr. Helvering
Mr. Bernard	Mr. Ireby
Mrs. Bette	Mr. Julian
Mr. Birgfeld	Mr. Kilby
Mr. Blough	Miss Lonigan
Mr. Broughton	Mr. Rose
Mr. Bryan	Mrs. Ross
Mr. Cochran	Mr. Schwarz
Mr. Collie	Mr. Sloan
Capt. Collins	Mr. Spangler
Mr. Delano	Mr. Tarleau
Miss Diamond	Mr. Upham
Miss Flanagan	Mr. White
	Mr. Wilson
	Mr. Young

Dr. White:

The Secretary would like you
to please analyze this for him.
Thank you. MCH 3/12/40

Declaration of
Principles
Relating to the Conduct of
American Industry

Personal Copy of
THE HON. HENRY MORGENTHAU, Jr.

Adopted in the
CONGRESS OF AMERICAN INDUSTRY
December, 1939

Declaration of
Principles
Relating to the Conduct of
American Industry

Adopted in the
CONGRESS OF AMERICAN INDUSTRY
December, 1939

Foreword

THIS Declaration adopted at the 44th Annual Congress of American Industry at New York on December 8, 1939, brings together for the first time, those principles and concepts which have guided enlightened American industrialists for a long time past and which have contributed immeasurably to the building of our American high standard of living.

It was not conceived as a mere code for industrialists to live by but rather as a guide by which the public, participants in and beneficiaries of our industrial civilization, may measure the breadth and depth of industry's contribution to the national welfare.

That it represents faithfully the convictions and determination of the great majority of manufacturers is attested by the nature of its compilation and of the Congress which promulgated it. As presented to the Congress, which is sponsored annually by the National Association of Manufacturers, it is the culmination of a full year's intensive self-analysis of motives and attitudes by a score of N.A.M. Committees whose 800 members mirror the thinking of 7,600 members of the Association employing well over 60 per cent of all of those employed in manufacturing industry.

Joining with this great cross section of manufacturing industry in the pledge of adherence to this Declaration are some 320 local, state, national and manufacturing trade associations comprising the National Industrial Council and representing an aggregate membership of more than 40,000 industrialists throughout the country.

Actual compilation was the responsibility and achievement of a Coordinating Committee of 85 manufacturers, including the chairman and vice-chairmen of all N.A.M. standing committees who spent months in preparation of the document. It differs from the pronouncements of earlier Congresses, in that it sets forth industry's attitudes toward its own managerial responsibilities rather than its viewpoints on problems of current public interest.

This Declaration will stand for years to come as industry's pledge to continue to strive unceasingly in the public interest for the preservation of the fundamental principles on which the maintenance of the American System depends — representative democracy, private enterprise and civil and religious liberty.

NATIONAL ASSOCIATION OF MANUFACTURERS

December, 1939

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I

THE AMERICAN SYSTEM OF FREE ENTERPRISE

In a world torn by war and dictatorship, Americans live at peace and in freedom. The best assurance that we shall remain free and at peace is our own internal unity and strength.

The economic impact of the war in Europe is certain to fall heavily upon us. It is, therefore, more than ever imperative that we solve our own domestic problems; that we hold to our essential principles; that we face realistically the requirements for improving our internal strength.

Here, the people have faith in constitutional representative democracy, in free enterprise, and in civil and religious liberty, as inseparable fundamentals of freedom to be cherished and preserved. These fundamentals have made possible the development of our natural and human resources, and have resulted in the greatest degree of personal freedom, the widest opportunity, and the highest standard of living in all the world.

The Congress of American Industry, convinced that a system of free enterprise is essential to America's greatness, calls upon the managers of industry to continue to do their part in assuring the fruits of that system to the American people. It calls upon them to serve the enlightened interests of industry itself by serving the interests of the nation as a whole. How the managers of industry can serve these interests best is set forth in this Declaration of Principles.

The Free Enterprise System

The American citizen wants an opportunity to earn the necessities of life and the comforts and luxuries that go to make life richer—not only material necessities, but also the opportunity to enjoy cultural and spiritual satisfactions. He wants to feel secure—in his liberties and for his person, in his job and for his old age, in himself and for his family.

The achievements of American industry command the admiration of the civilized world. These achievements derive from a system of free enterprise founded on the bedrock of a constitutional government designed to protect the individual in his right to life, liberty, and the pursuit of happiness. The essence of this system is the right of citizens to pursue their individual likes and interests, including the right to acquire, own and use property, all within the restraints of good citizenship. Individual

effort is encouraged by the incentive of competition and the opportunity for advancement or profit: the consumer is afforded the assurance of improved products and better values. A fundamental requirement for the successful operation of the free enterprise system is that each individual business shall pursue its own course on a plane of enlightened self-interest.

Competence of leadership and direction of human effort in all walks of life are clearly most important factors in the welfare of any country. Our American industrial system makes possible the kind of management that can secure a coordinated use of the combined character, intelligence and intimate understanding of the men and women who know most about their own individual jobs; management capable of giving balanced consideration to the many interrelated factors involved in business decisions; management that commands the confidence of employees; that affords the opportunity for individual leadership at every organization level; that leads, rather than drives; that manages from the bottom up, as well as from the top down; that gives human ability, wherever found, its full chance.

Responsibilities may be differently distributed in different enterprises, large and small, but the coordination of managerial effort can be effective only where authority goes hand in hand with responsibility. No authority outside of the individual enterprise, be it industrial cartel, labor union, Government bureau or economic dictator, can constructively substitute its dictates for those of the responsible management. Any such outside authority would lack both the specific responsibility and the technical knowledge necessary to a balanced consideration of all the elements involved in problems of sales, finance, production, engineering, research, and employee relations.

The contribution that American industry can make to the national welfare depends upon the preservation of free enterprise and individual initiative. Laws to protect society from abuses are necessary and desirable, but in the public interest it is essential that any law, or any other process affecting industry, shall not limit the authority of management as to render it unable to fulfill its responsibilities.

Enlightened public opinion is to be sought as the most important force in assuring a constructive course of behavior throughout the whole of society. It is here that the managers of industry, each in his own sphere of knowledge and experience, have a duty beyond the confines of their immediate business. That duty is to bring to the public a better understanding of industry's problems; to demonstrate fallacies present in any existing laws or policies which interfere with constructive development; and to render any possible help in the framing of constructive legislation. In seeking an informed public opinion, it should be recognized that the

American industrial system has its roots in the community, and that it is there the relations between industry and the public begin; it is there that popular judgments are crystallized which find expression in law through duly elected representatives.

The Alternative to Free Enterprise

In contrast to the American system of free enterprise stands planned economy—the system employed in every totalitarian state. Political dictatorship, on which this alien system is based, is repellent to Americans because it destroys personal liberty, religious freedom and individual initiative. Planned economy, with its political and economic dictatorship, requires controls which can be attained only by complete surrender of individual freedom and the concentration of both political and economic power in the hands of a single individual or political group.

Totalitarianism must eventually defeat the ends of economic and social betterment by its destruction of initiative and by reason of the very complexity of the problems it confronts. It lacks adaptability and flexibility respecting concrete details of production and distribution. No one man, no one central authority attempting to dictate the operating practice in industry, has the knowledge required to solve these problems, or can be guided by other than vague and ambiguous generalizations which artificially substitute political for economic considerations. The problems can be solved only on the basis of personal contact and intimate familiarity with them. The solution requires the stimulus and inexorable tests of efficiency that only the profit motive and competitive effort can provide, and the knowledge and understanding of the complex elements involved that only those made directly responsible for the success of each individual industrial enterprise can possess.

The Part of Government

Industry's contribution to the national security and welfare, in common with that of the other elements of private enterprise, must be made within a system of laws enacted under the authority of the people and administered by government. Government, in the broad interests of society, must be one of law, and not of men. It must be guided by established principles — not arbitrary action. The people, acting through their elected representatives and within the framework of constitutional government, rightly provide the laws governing the conduct of private enterprise. Regulations thus provided should be designed to stimulate, and not to stifle, the efforts which

are made by all elements of the national economy — including industry — to pursue their legitimate ends. If regulation goes beyond the prevention of abuses and the protection of the rights of sacrificial citizens, and moves into the field of affirmative control and direction, it becomes a serious obstacle to the effective functioning of enterprise.

In the efforts made to overcome the depression, political policies and measures have been adopted — often embodying measures of intended reform — which, however good the intention, have defeated the objectives they were expected to meet. Obviously, if industry is to do its full part in promotion of the national welfare, some existing laws should be altered or repealed, and especially labor legislation should be so modified as to insure fairness to the employer, the employee, and the public.

A determined effort should be made to so reduce the expenses of government that income would not be exceeded, and this desirable achievement should be effected at the earliest possible time. Taxation should be made on a more equitable and less burdensome basis, and government spending programs should be steadily reduced within the limits of practicability.

The National Association of Manufacturers, acting through its Directors, Officers, and various Standing Committees, has undertaken the study of many governmental policies and legislative measures. Reports are available which treat constructively with important current questions such as taxation, fiscal policy, tariffs, governmental controls, employment relations, and other national questions of vital concern to every American citizen. It is not the purpose of this statement to cite again the various governmental measures which have served to impede economic recovery. Rather, it is the intention to deal from the positive standpoint with those policies which must be observed in the field of industrial management if industry is to be permitted to contribute its full part towards national unity and strength. It is the duty of industrial managers, however, to point out the fallacies in existing laws, and other conditions, wherever these impose undue restrictions upon economic production and employment, and to seek appropriate modification of all such restrictive measures. This end can be gained only through the development of a state of public opinion which seeks to foster initiative and enterprise.

The Challenge to Industrial Management

Our national security rests fundamentally upon internal unity and strength. It depends upon an understanding and maintenance of the principles of free enterprise. It depends upon an improving scale of living obtained by maximum employment and the production of an abundance of

goods and services at low prices. The requirements for such progress embrace policies and conditions affecting production in all of its branches, as well as distribution, transportation, public utilities, banking and finance, foreign trade, and all governmental and social relationships that bear upon our economic life. These requirements relate not only to the whole field of private enterprise, but also to the effect of governmental policy and activity on such enterprise, and to public undertakings as well.

It is in the sphere of its own immediate activity that the challenge to industrial management lies. It is the purpose of this Declaration to set forth the policies and practices of industrial management which will contribute increasingly to industrial progress. The managers of industry must continue unabated their efforts in behalf of increased production and employment, with ever-increasing realization of the contribution this effort can make to national unity and security. This requires an application by industrial management of policies basic to the welfare of industry as a whole, and to the broader welfare of the nation. Good management will recognize that it serves its own interests best as it strives to serve also the interests of the nation as a whole. Along such a way, with the help of all elements of our society, lies the path of continued opportunity and security, and the greatest promise of national unity and strength.

II

RESPONSIBILITIES UNDER THE AMERICAN SYSTEM OF FREE ENTERPRISE

For more than ten years, economic progress in the United States has been retarded. This is the longest period in our history in which no new high point of industrial activity and employment has been attained. The low level of production and employment during this decade has emphasized the fact that the welfare of the average citizen is vitally affected by the welfare of industry.

Unemployment the Compelling Problem

Throughout the years of depression, the most compelling problem before the nation has been the problem of unemployment — unemployment of men, of machines and of money. The problem of unemployment remains unsolved today, and the obligation to accomplish the solution rests not merely upon those engaged in industry but upon those in every segment of our economic system.

In the problem of idle man-power, specifically, it is too generally overlooked that unemployment is not confined to those who are actually without jobs. Inability on the part of those gainfully employed to obtain adequate hours of productive effort also constitutes unemployment of the nation's productive capacity. Until that capacity is used, the problem of unemployment in this broader sense will remain unsolved.

Less than 25 percent of those gainfully employed in the nation are normally employed in manufacturing. It is obvious, therefore, that manufacturing can absorb only a part of those unemployed. As industrial activity expands, however, the cumulative effects lead to gainful employment throughout the entire economy.

In America today, we are far from having satisfied the wants of the consumer. These wants can be satisfied only by the production and distribution of more goods for more people. The problem is that of expanding production of goods and services needed and desired with the widest possible distribution of real purchasing power created through productive effort. The solution requires the attainment of a degree of balance in the general price structure, with the necessary flexibility, which will permit and encourage a continuing maximum interchange of goods and services among

the various groups in our economic system — a balance among prices generally, between the prices of agricultural products and the products of industry, between raw materials and finished goods. This can be constructively accomplished only by normal economic processes, unhampered by artificial restraints.

Requisites to National Strength and Security

The objective before us all is the maximum employment of the nation's man-power in industry, trade, commerce, and agriculture, to the end of gaining national strength and security and the resultant individual satisfactions. Requisites to this end, with which industry must be concerned, are as follows:

1. Maintenance of individual initiative and free enterprise, in competition for the consumer's dollar, on the basis both of price and quality.
2. Recognition of the social value of the profit motive as a powerful incentive to all productive effort, and of the economic need for profits in industry sufficient to maintain and expand existing enterprise.
3. Recognition of the vital importance of private savings and investment for providing plant equipment and other resources required for new enterprise and additional employment, and for the production of a larger volume and variety of goods and services for more people.
4. Reduction of the controllable costs of production and distribution of both durable and consumption goods, to the end that prices may be reduced and demand for all goods and services stimulated, and their use and enjoyment by the ultimate consumer increased.
5. Extension of research — market research, engineering research, and research in the fields of science — to the end of developing new and better products at lower prices, with the prospect of increasing production, consumption, and employment.
6. Maintenance by each employer of an equitable and fairly applied policy of employer-employee relations.
7. Maintenance of such equitable wage rates as will promote increased production and employment and a higher income to workers. Application of this principle requires intimate knowledge of particular conditions which affect each enterprise, with definite consideration of the following:

- a. Reasonable hours of employment, affording greater productive opportunity, with due regard to conditions in the community;
 - b. The greatest possible regularity of production as a means to continuity of employment;
 - c. Where regularity of production is impractical, the greatest possible continuity of employment through a reasonable variation of working hours.
- B. Enlightenment of the public as to the obstacles which obstruct progress toward the attainment of the objectives set forth above, and as to the measures necessary for the removal of those obstacles — whether in the field of government, labor, management or elsewhere.

In seeking to meet these requisites to maximum employment of the nation's man-power, it is recognized that results must come from intelligent action generally throughout the entire range of our national society, under the stimulus of personal responsibility and incentive. Such intelligent action, within the field of industry, requires understanding and a cooperative spirit on the part of men who invest, men who labor, and men who manage. All must recognize the mutuality of interests involved. All must recognize the fact that each individual enterprise has its own particular conditions to take into account. No general rule can be laid down here beyond a statement of fundamental principles common to all of industry. One basic requisite is that each individual enterprise, and each element involved in the progress of that enterprise, must act on the basis of enlightened self-interest.

In the contribution industry can make toward fulfillment of the requisites to national prosperity and well-being, recognition must be given to the equitable rights of all concerned, and the practices of industry in connection with the requisites cited must be governed with the following in view:

Pricing Under the Free Enterprise System

Competition is the greatest assurance to the consumer of reasonable prices and high and improving quality of product — of getting his money's worth. Each individual enterprise, in competing for the consumer's dollar, must determine its own prices. It must be recognized, however, that the range of discretionary action in this regard is limited severely by factors of cost, including many, such as taxes, which are beyond management's control; and also by the competition not only of like products but of other products as well.

Advantage should be taken of every sound means to gain expansion in volume, resulting in the creation of new employment and bringing more capital into use. Attention to pricing is one of these means. Proportionate price reductions do not equally stimulate demand for all products, or at all times. To the extent that stimulation by price reduction will increase total consumption, the pricing policy of each individual enterprise should be one which seeks this opportunity. Obviously, however, this calls for intelligent judgment on the part of the management of each individual enterprise with respect to all of the factors involved — judgment which takes into account the degree of permanency of the additional volume held to be attainable through the stimulating influence of price reduction; the effect of increased volume upon costs; and the need for additional profits beyond what would otherwise be obtainable. Such additional profits are necessary in order to satisfy the requirements of new capital, without impairing the interest of the present investors. Where excess plant capacity exists, the increased capital requirement may involve only working capital; where production is needed beyond existing plant capacity, capital is required for additional plant and equipment, with the risks and hazards incident thereto.

In connection with the principle set forth above, it should be recognized that extraordinary skill or efficiency in the conduct of an enterprise, or any other advantages possessed, should receive higher rewards than those obtainable by less efficient enterprises. If such advantages were not realized, after recognition of the equities of the consumer and the employee, either the incentive to attain efficiency and to undertake new ventures would be lessened, or else the tendency would be toward destruction of competitive enterprises, with consequent dislocation of labor and the uneconomic waste of invested capital.

The Profit Motive

The profit motive is a vital actuating force in creating efficiency and stimulating effectiveness in industrial operation, and thus in serving the welfare of the people. The profit motive is indispensable, but it must be pursued with due regard to the vital long-term economic and social considerations involved. Among these essential factors are the preservation of stability of the individual enterprise, recognition of the interests of the consumer and the employee, and the creation and maintenance of public good will. The industrial enterprise, in the conduct of its own operations, cannot afford to consider solely the pursuit of profit, but must take into account all of the considerations just mentioned.

In the pursuit of profits over the long run, some enterprises will succeed and others will fail, for the day to day conduct of business involves the assumption of risks and the making of mistakes. The competitive system offers opportunity for profits, of course, and it is this opportunity which encourages initiative and efficiency; but a further stimulus to initiative arises from the threat that without efficiency there will be not profit, but loss. Progress must always be paid for, and industry cannot, any more than the individual or the nation, achieve security without risk or realize opportunity without venture.

The money invested in private enterprise represents, broadly, what people have saved out of income, through thrift and self-denial. Investment in industry represents in part "venture" capital, which has been risked in enterprise for the sake of profit commensurate with the hazards involved; and it represents in part "investment" capital, which seeks an assured interest return. Millions of men and women have a stake in industry held directly in the form of stocks and bonds, and indirectly in the form of savings bank deposits and insurance policies. Many are employees of industry; all are consumers. The plants in which their funds have been invested are located in every part of the nation, and the welfare of industrial enterprise is of first importance not only to those investors but also to the employees and the thousands of communities, large and small, in which industry has taken root.

Private Savings and Investment

Invention, scientific discoveries, and engineering advances have played a constant, vital part in the rapid development of the technology of the American private enterprise system. A free flow of private savings into risk-bearing enterprise made it possible for this rapidly developing technology to be promptly and effectively applied to the use and benefit of the public, in the creation of more jobs and in the provision of a larger volume and variety of goods for a greater number of people.

Provision of the tools and machinery necessary for improved production, new enterprise, and more jobs, continues to depend upon putting private savings to work. Such tools and machinery constitute a substantial part of the privately owned wealth of the nation. In recent years the total volume of savings available to meet replacements on account of obsolescence and new capital requirements has been only a fraction of that necessary to provide the facilities either to maintain employment and living standards, or to increase them for an increasing population.

Reductions in Cost by Efficiencies of Production

Our industrial system is based on the use of tools; their effective employment is one secret of our national progress — first there were hammers and axes and plows; then railroads and machinery and motor cars; turbo-generators, production lines and rolling mills. These tools, and countless others, are the servants of the investor and labor alike — for the benefit of all. Industrial management must continue to make intelligent and efficient use of its technological facilities, to the end of reducing the price of its goods to the consumer, increasing employment, raising the real purchasing power of the worker, and creating a broader scale of living for all the people.

"Modernization of plant and equipment is important in gaining efficiencies and economies in production. Industrial managers should recognize the benefits of modernization to each enterprise and to the national economy.

Industrial managers should give full consideration to the immediate, as well as the long range, effects upon the interests of the consumer, the employee and the investor of any improved technology that may be contemplated. An immediate consequence of the more effective use of tools may be to displace labor in the particular enterprise in which it occurs and industrial management should use every reasonable effort to cushion such temporary effects of technological advance. Experience in America has shown however, that although unemployment resulting from this cause is sometimes of serious consequence to the individual employee, the final result is increased total employment, with ultimate benefit to all. Reduction in production costs and in prices bring an increased capacity to enjoy the goods produced, which, by ultimate cumulative effect, greatly expands the demand for the products of all labor and hence opens up new opportunities for employment."

Market and Product Research

Industrial managers, under the pressure of competition, must anticipate and identify the needs and wants of the consumer. Systematic research, or close contact with the market where this is not feasible is essential to this end.

Once the market possibilities are appraised, the industrial manager must produce goods to satisfy consumer needs and wants. To this end, he must make effective use of the facilities available for research in the field of production, so that the quantity, variety and usefulness of the goods put upon the market may be increased, their quality improved, and their

price lowered. The extent to which use is made of the processes discovered must depend upon a balanced consideration of employment and of factors of cost, sales possibility, and profits.

There must be kept in view the need for continued scientific research, conducted by the individual enterprise or by trade associations, or undertaken through the facilities of outside institutions, to the end that new products and processes may be found which will bring still greater enrichment to the nation.

One of the striking industrial developments of recent decades has been the increased and diversified uses which, through laboratory research, industry has been able to make of the products of our domestic agriculture. Industrial management should continue to exert every effort to extend this development, in the knowledge that a common benefit will result to itself, to agriculture and to the public.

Industrial management must give continued recognition to the incentive to invention which our patent laws provide. A patent is a reward for the discovery and disclosure to the public of something new, something before unknown, something added to the sum total of technical knowledge. The fact that so few inventions succeed, and so many fail, should fortify more strongly still the desire to encourage inventive genius. Undue limitation by law of the license privilege, or any other restrictions which impair the value of a patent, cannot but limit the incentive to discovery which history has shown to be a principal source of increased employment and higher living standards.

Relations with Employees

Harmonious relations between labor and management in each industrial enterprise is in the interest not only of the employer and the employee, but of the whole people. National security and well-being cannot be built on a foundation of antagonism between labor and capital, resulting in unnecessary strikes and interferences otherwise with the continuity and economics of production.

Beyond the give and take of "a full day's work for a full day's pay" lies the broad responsibility for both parties for a healthy and prosperous national economy. The success of every business, and hence the welfare of its employees, depends upon finding a workable method for achieving harmony. No single method can be applied to all industrial units or to all labor groups. It is, rather, the responsibility of management in each individual plant to seek a proper method by which the interests of all those immediately concerned can be best served. The main essential in this connection is an

opportunity for a free interchange of ideas and negotiation by any method which is acceptable to employer and employee, and which does not destroy freedom of employment or jeopardize the mutually beneficial relations desired. The employee should have the right to join any labor organization he wishes, or none at all, as he may himself deem best in his own interests. The action he takes in this regard should be arrived at as a matter of his own free will and volition, without coercion, duress or intimidation from any source.

Laws and political administrative acts which create suspicion in labor relations and thereby encourage uneconomic practices, will inevitably defeat their own ends by impairing the interests of the public and of labor itself. The functions of industry cannot be performed under conditions of litigation and conflict.

Wage Rates and the Employee's Income

Industrial managers should recognize the desirability of paying wage rates in keeping with rates in the industry and with due regard to conditions in the community, and consistent with preserving that degree of flexibility which will avoid a throttling effect on purchasing power.

High wage rates, in themselves, do not provide the employee with a high level of income; it is often forgotten that high wage rates are likely to be the cause of low income through their effect upon volume and employment. The employee's annual income depends upon the sum total of what his weekly pay envelopes bring him throughout the year. If the employee is to have a steady job, the cost of turning out the product on which he works must be low enough to attract consumer demand. Just as management, if it inordinately advances prices, causes a decrease in the volume of production and consumption, so employees if they demand uneconomic wages, work in opposition to their own interests by increasing unemployment through reducing the volume of consumption of the goods they produce. The employee is, furthermore, a consumer in his own right, and benefits from any reductions in price on goods he requires and uses.

It is not practicable for most manufacturing enterprises to provide an established annual wage for employees. In the interest of the employee himself, of the consumer, and of the investor, the business must be safeguarded against abnormal costs and consequent loss of volume. An established annual wage is impossible, therefore, where there are unavoidable hazards of fluctuations in volume. With future uncertainties always present, it would be necessary to set the annual wage low enough so that it will be assured that the hours of work performed will be equal to the established

annual income, at the earned rate. This requires in most instances that the rate be so low as to have little meaning, since otherwise the established income would have to be confined to a limited proportion of the employees, with the necessary layoff—in case of a decline in volume—of all in excess of that number needed for the required production at the economic wage rate.

High income for the individual employee, continuity of employment, and employment itself, depend upon lowering the costs of production, expanding the market for goods and services, and creating thereby more and better jobs.

Hours of Employment

Purchasing power is created by production. In turn, industrial activity is dependent upon the widest possible distribution of purchasing power, including the purchasing power of labor.

At any given stage of technological progress, the level of the nation's productivity is dependent upon the hours of work, within the limits of human efficiency, which labor performs. The inventive genius of the nation, and its practical application in the conduct of American industry, have led to the economical production of an increased volume of goods and services, with a steadily decreasing number of working hours required on the part of labor to produce them, and a consequent greater opportunity for leisure to enjoy them. A reduction of working hours to a level which increases costs of production, however, will result in a curtailment of demand and a corresponding reduction in purchasing power and in the consumption of goods and services. In recent years there has been a tendency to move more rapidly in the direction of decreased working hours than the increase in our productive efficiency has justified.

In addition to the problems of the long-term adjustment of working hours to productive efficiency, there are also to be considered the problems connected with the spreading of available work in periods of depression and widespread unemployment. Under such circumstances, it may be necessary to resort to spreading the available work among those who can be employed productively, but it is important that any such program should not be carried to an extent which, by unduly raising costs, will undermine the earning capacity of labor and the purchasing power of all. The principle of "sharing the work" should be applied only as a measure of expediency, with due consideration on the one hand to conditions known to exist specifically in the community where each plant is operating, including the prospective burden of relief costs, and the desirability of maintaining the working habits and skills of employees; and, on the other hand,

to the adverse effects inevitably exerted upon the national economy.

In meeting both the long-term and short-term problems, advantage should always be taken of suitable opportunities to extend reasonable hours of employment so that, within the limitations of economical cost of production, those employed may be able to enjoy high income and purchasing power.

Regularity of Production

Regularity of production in industry is desirable both as a means for lowering production costs and securing economies in the use of capital, and for sustaining the purchasing power of the employee. The problem of regularizing production varies greatly among different lines of manufacture. In some lines there is the possibility of a high degree of regularity, whereas in other lines, including producers of capital goods, anything like a level rate of production is impossible. The matter of regularization is less important when productive effort on the part of employees can be shifted from one occupation to another, within the given enterprise or elsewhere, thus permitting continuity of employment and earning power. In any event, while complete regularity may not be possible, the objective must be to gain the highest possible degree of regularization.

Seasonal variation in sales of products is one cause of irregular production. Under such conditions, and in so far as it is possible to forecast sales requirements, it is important to plan production with a view to allowing for a variability of inventory position and in that way working towards a leveling out of the production rate. Where it is impossible, even with a reasonable variation in hours of work to effect sufficient regularity of production, to enable continuity of employment to be provided, such conditions must be recognized.

Seasonal fluctuation in demand, however, is not the only cause leading to irregular production. Irregularities beyond the ability of the individual manager to control result from political and economic conditions, from strikes and labor disturbances, and from uncertainties as to the future. Opportunities for regularization of employment are seriously affected by uncertainties in labor situations.

The economic consequences of irregular production and employment resulting from causes apart from inherent characteristics of the particular business must fall upon both the investor and the employee. If, in the case of irregular employment resulting from economic conditions or uncertainties as to the future, wage rates were set in an effort to compensate for such irregular employment, the result would be an uneconomic inflation of

costs and impairment of sales volume, thereby leading to even more adverse effects upon employment.

The importance of regularized production and employment is being increasingly recognized by industrial managers. Those who can contribute most to the national economy on this score are the manufacturers of finished goods which pass into the hands of ultimate consumers. To the extent that these manufacturers are, through forecasting and planning, successful in regularizing their own production, benefit will flow to those upon whom they call for the supply of raw materials and component parts.

Substantial progress has been made in the past twenty years in the technique of forecasting and planning on the part of individual manufacturers. Much progress can still be made, but it should be recognized that many irregularities of industrial production recently experienced have been due to causes beyond the control of management.

Continuity of Employment

Unavoidable irregularity of production requires either of two alternative courses of treatment: a variation in the weekly working hours or a variation in the number of employees. To the extent that additional employees are taken on during periods of peak production, the result is a sacrifice of larger annual income by the regular working force. In those operations in which fluctuating production, whether caused by unfavorable current conditions or by future uncertainties, cannot be entirely avoided, much can be gained economically to the mutual benefit of the consumer, the employee, and the investor, by planning production with a view toward suitable variation of weekly working hours so that the total number of hours worked will provide a higher annual income for those regularly employed.

No concrete rule can be laid down regarding the selection of the more desirable of these alternatives of varying the hours of work or maintaining a fixed rate of weekly hours and meeting the requirements of peak production by the engagement of temporary employees. The choice requires consideration of the broad economic aspects of the problem, involving specifically an understanding of conditions existing in the community and the extent to which the regular employees are or should be willing to accept sacrifice of their annual earning power in the interests of "sharing the work," thus lessening the burden of public relief when unemployment prevails.

Some existing laws and agreements with labor, by imposing rigid restrictions on weekly hours of work, in situations where regularity of

production is impossible, have unquestionably prevented industry from making its maximum contribution to the the national welfare. For example, when there is a desirable variation in hours of work in the interest of maintaining a regular working force, the exaction of overtime rates for temporary periods of overtime work does not answer the problem, if the regular wage rate is at a level which anticipates the application of overtime work, with overtime pay—there is no effect on the average labor cost of the product, nor is there any effect upon the annual income of the employee. On the other hand, if overtime pay is superimposed on a regular wage rate which represents a sound average economic rate, the result is bound to be either an inflation in costs, with impairment of demand for the product and reduction of employment, or avoidance of overtime, with reduction of the total wages of regular employees.

Either of these results may have serious consequences in interfering with the efficient conduct of the individual enterprise, and thus with the maximum contribution of industry to the national welfare. It is clear that undue limitations of hours of work, however well intentioned the purpose may be, interfere with the constructive planning and management of any business, and it is important that industrial managers familiar with actual working conditions make evident the need for the removal or modification of any such restrictive measures.

The Consumer, The Employee and The Investor

Industrial management should make clear to the consumer, the employee and the investor the complex responsibilities of industry and the manner which these bear most closely on their own respective interests.

The Consumer. Industrial management must recognize that upon the welfare of the consumer, the welfare of all the other elements in the industrial economy depends. Industrial management can, to its own interest, benefit the consumer by:

1. Increasing the value of products the consumer needs and wants, reflected both in the price he pays and the quality he receives; to be sought through
2. Long and short-term planning of products and of production, in each individual industrial unit;
3. Use of research facilities available, in the creation of new products, and to the end of increasing the quantity, variety and usefulness, and improving the quality, of the goods put upon the market;

4. Intelligent use of business profits and of individual savings, for modernizing plant and equipment, and increasing facilities for new enterprise and production expansion as needed;
5. Elimination, as far as possible, of economic wastes in the various productive and distributive processes, having in mind the resultant social benefits.

The Employer. Industrial management must continue to advance the legitimate and mutual interests of industry and labor, consistent with the interest of the national economy. Specifically, every industrial enterprise must continuously seek to provide:

1. Maximum income, based both on the greatest possible regularity of employment, and on such equitable wage rates, consistent with conditions in the community, as will promote increased production and employment.
2. Employment, retention, and promotion according to ability, with due regard to past service; to the end that individual initiative may be encouraged and rewarded.
3. Cooperation with the employee in making provision against the hazards of death, old age, sickness, and disability;
4. Safe and healthful working conditions;
5. Understanding treatment by supervisors trained to recognize the employee's abilities, appreciate his problems, and assist him in self-development;
6. A basis for pride and confidence in his job and in his company, and for an understanding of the things his company is doing;
7. Means for free interchange of ideas and negotiation, by any method which is acceptable to employer and employee, and which does not destroy freedom of employment, or jeopardize mutually beneficial relations.
8. Recognition of the right of the employee to join any labor organization, or none at all, as the employee himself may deem best in his own interest, of his own free will and choice, without coercion, or intimidation from any source.

The Investor. Industrial management must continue to discharge its stewardship in a manner that gives due consideration to the interest of the national economy as a whole. Specifically, a long range consideration of the investors' interest requires in each individual enterprise:

1. The creation and maintenance of a capital structure which will lend itself to expansion and stand up under the impact of depression;
2. A financial result that will assure of additional capital being available for investment in the enterprise to meet the expanding requirements of the business.
3. Striving for profits that will maintain the stability of the enterprise without exploitation of either the customer or the employee;
4. A policy on dividend disbursements which, while recognizing the right of the stockholder to an adequate return from earnings on the funds he has invested, will maintain the financial and operating strength of the enterprise;
5. Avoidance of overexpansion of productive facilities in times of boom, with its consequent creation of uneconomic surplus capacity;
6. Effective employment of funds in the development or use of research facilities, to achieve improved processes and products;
7. Reports to stockholders which are clear and informative on the operations and financial condition of the enterprise.

Future Responsibilities and Opportunities

Industrial management in America is equipped to contribute effectively, in its own sphere, to a constructive solution of the problems the nation faces. The maximum result will be attained with sound governmental policies, and with all elements of the economy—industry, agriculture, labor, distribution, transportation, banking and finance, and the rest—striving to serve the public good. It must be made clear to the public that industry's enlightened self-interest is linked inextricably with the welfare of all of these other elements and with the welfare of the nation as a whole.

Industrial management must continue to do all in its power to keep alive the faith of the public in the traditional American principles of free enterprise, as the guarantor of individual opportunity and security, by fulfilling its share of the public responsibility resting upon all private enterprise. It must continue to work for a progressively improving standard of living by producing an abundance of needed goods and services at reasonable prices and by seeking to provide more and steady employment. It must continue to utilize, in the public interest, the stimulus which the profit motive provides to the attainment of efficiency and effectiveness.

The economic conditions within which business operates, and the operations of business itself, are affected and limited by political action, which is controllable, under the American system, only by the public. It is a

primary obligation of industrial management, therefore, to make known to all elements of the population, including the consumer, the employee and the investor, the extent of their group or individual stake in the operation of industry. It is the obligation of the management of each individual enterprise to make these interests known to those groups with which its operations come in contact, in the communities and areas where they are conducted.

If the American people are convinced by the facts that a sincere and intelligent effort to serve the public interest underlies all effort to serve the legitimate self-interest of each individual industrial enterprise—as in the long run it must—then national strength and security will most surely be advanced, and a balance of opportunity and security for the individual made possible.

The Congress of American Industry, in adopting this Declaration, reaffirms its faith in the principles of the American system of free enterprise, and its belief in the efficacy of that system, under a constitutional representative democracy, in securing for Americans the opportunity for economic advancement and the highest standard of living in the world. The Congress believes that by accepting and adhering to principles and practices consonant with our free enterprise system, and by fulfilling the requisites to maximum productivity on the part of all elements in our economy, the objective of increased national strength and unity can be attained. The Congress asserts that industry must do its part in contributing, in its own sphere, to the attainment of this objective, and it calls upon the managers of industry to follow with renewed effort a course that will enable this contribution to be made.

Our times are beset by insecurity. Over a great part of the world the tides of representative democracy are at low ebb. If we are to fulfill the American dream of political and religious freedom, of assurance to the common man that opportunity is rich and free, that each may go as far and climb as high as his abilities can carry him, we must fortify with hope and purpose the spirit of our people. We must give this spirit substance by seeking the new horizons which can be opened out before us by the processes of research and industrial activity, with their promise of more goods for more people, and a higher standard of living for all. We must stand united behind such a program for the future, from which all can benefit if all will serve.

It is fitting that the managers of industry should do their part in serving this program so that, carried to its fulfillment in our time, it can yield to the men and women of the United States a measure of opportunity and security such as the world has never known.

PLEDGE

The Congress of American Industry dedicates itself to the principles set forth in this Declaration and pledges the use of its full energy in seeking to gain throughout industry compliance with these principles, in the enlightened interest of industry itself.



TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE April 17, 1940.

TO Mr. White

FROM Mr. Adler, Mr. Gass, Mr. Wheeler

Subject: Political Democracy and Freedom of Enterprise in Britain, Germany, and France

Britain

1. All the essential prerequisites of democracy are present in England - There is a freely functioning political party system. Freedom of enterprise operates as extensively as is compatible with the exigencies of war. There are free and independent trade unions. There is freedom of the press, freedom of religion, freedom of speech, freedom of assemblage, universal franchise, and a democratically elected House of Commons. Trial by jury and the inviolability of the home are established rights. Moreover, there is a deeply implanted democratic tradition in England which renders the political climate unfavorable to totalitarian philosophies such as Fascism and Communism which have made little or no headway during the last twenty years. In fact, so powerful is this tradition that even after six months of war, there have been only slight abrogations of the traditional political liberties. No greater tribute than this can be paid to the firmness of English democracy.

2. The extension of the franchise - Before 1832, the electorate consisted of less than a quarter of a million voters out of a total population of 24 millions. The Reform Act of 1832, which abolished the "rotten borough" system and brought representation into a more direct relationship with population, added another 50,000 voters, an Act of 1867 another million, and an Act of 1884 another 2 million. In 1918 the franchise was extended to women over thirty, and in 1929 to women over 21, so that today all adults over twenty-one have the vote. The principle of "one man, one vote" operates with only minor modifications. At present, the electorate consists of almost thirty million voters.

3. The growth of the power of the House of Commons - Ever since the Great Revolution of the 17th Century, the House of Commons has been the dominant body in the English legislature. With the evolution of the Cabinet system in the 18th Century, the Government has become directly responsible to the House of Commons in which it needs a majority in order to be able to survive. Since the end of the 19th Century every Prime Minister has been a member of the House of Commons, although even now the possibility that the Conservatives may appoint a peer as Prime Minister is not to be excluded. It is also generally accepted

that a majority of the key members of the Cabinet must be members of the House of Commons. In 1910-11 the House of Commons won a final victory over the House of Lords in the sphere of finance. The upper House can, however, hold up non-financial legislation and it can be a very effective instrument of opposition if a non-Conservative government is in power. The royal power of veto has not been exercised in the 20th Century.

4. Civil liberties - All the fundamental civil liberties as we know them exist in England. While they are not incorporated in any written constitution, they have the force of precedent and of a strong and enlightened popular feeling to ensure their observance. While England still has an official state religion, there have been no legally established religious disabilities since 1870.

5. Freedom of enterprise - England is the mother not only of Parliaments but also of the profit system. It was in England that the Industrial Revolution first released industry, commerce and labor from feudal shackles. In fact, the growth of political democracy in England was a concomitant of the development of all enterprise and the expansion of industrial capitalism. Before the war there were virtually no restrictions on workers in their choice or abandonment of occupations, and while the highly complex structure of the English economy entailed some governmental regulation, these were minimal. For most practical purposes the driving force of private enterprise dominated the activities of businessmen and investors. The War has inevitably involved some curtailment of the traditional economic liberties of both labor and capital, but the return of peace will almost certainly see the restoration of the status quo ante.

6. The party system - England has a freely functioning party system of government. While the two major parties, the Conservative Party and the Labor Party, are very clearly differentiated in the nature of their membership, organization, and objectives, there is no deep and insuperable cleavage between them. It is this highly significant phenomenon which gives English political life a stability so conspicuously absent in Germany, Italy, and even perhaps France.

7. The status of trade unions - The existence of a free and independent trade union movement is a crucial criterion of a political and economic democracy, and as far as this criterion is concerned, England comes out very well. In the last century, trade unions have made steady progress in numbers, influence, and legal status. The trade union movement is closely bound up with the Labor Party, which is financed largely out of funds received from the trade unions. Trade unions in England have a much older tradition than in the United States, and the process of collective bargaining and employer-employee negotiations is more firmly established and much more widely recognized. There are about five million trade union members in England.

Germany

Political history has left the German people with two profoundly anti-democratic traditions — militarism and bureaucracy. Respect for a uniform and deference towards public officials have always, during the past century, been weightier in Germany than regard for individual variability, independent judgment and courageous criticism. Political compromise and the conciliation of minority sentiments and interests have never become well-established elements of the governmental process.

The National Socialists are in the main stream of these persistent anti-democratic traditions. They are violent critics of "formal democracy". Formal democracy, says Hitler, violates the aristocracy established by nature among races and individuals: It leads to the dominance of mere numbers and to government by mediocre men. But the Nazis do not wholly reject the idea of democracy. They even, like all other contemporary States, claim that theirs is the only "true" democracy. The leadership represents the best in the character and aspirations of the race and acts for the whole people, unimpeded by the pressure of the "silk hats" and other special interests which hold power in less truly democratic States. But of "formal" democracy the Nazis will have nothing.

Free trade and freedom of enterprise have never had many supporters in modern Germany. In imposing restrictions on the activities of private business, the Nazis have followed in the path of the Empire and the Weimar Republic. But the Nazis have gone much farther than any previous German Government in bringing the whole economic life of the nation under the control of the State.

The following main steps have been taken in Germany, since the National Socialists came into power, to do away with "formal" democracy:

1. The prohibition of all opposition political parties

The work of legislation was completed by the cabinet decrees of July 14, 1933, which provided: "The NSDAP is the only political party in Germany. Whoever undertakes to maintain the organization of another political party, or to form a new political party, is to be punished with imprisonment in a penitentiary up to three years or with confinement in a jail from six months to three years, unless the act is punishable by a higher penalty under other provisions."

2. The suppression of all independent labor, trade, and professional associations

On May 2, 1933, Nazi "action committees" seized control of all the headquarters of the trade unions throughout the Reich, arrested trade union leaders, and took possession of union funds. Their action was legalized by decree in the following weeks.

By decree of February 27, 1934, the Minister of National Economy was given authority to reorganize all trade and professional associations on a compulsory basis. All voluntary associations were suppressed.

3. The assumption of State control over all instruments for the public expression of opinion

A special branch of the Ministry of Propaganda, the Reichskulturkammer, was created on September 22, 1933, to exercise complete control over the press, radio, literature, the theater, etc. No one may engage in the creation, reproduction or sale of any literary or artistic work without having first been admitted to membership in the Reichskulturkammer. Admission may be denied on political, racial or any other grounds at the discretion of its President, Dr. Goebbels.

4. The prohibition of all political criticism

The expression of a judgment unfavorable to the regime is treason, punishable by death. A disrespectful attitude towards the leader, evidenced — for instance — by neglect to listen to his broadcast speeches, is a penitentiary offense. "Gossiping" is punishable by sentences up to a year, which may be increased if the offense is "persistent". Arbitrary arrest may take place for unlimited periods at the discretion of the police.

These formal methods of punishment are supplemented by the organized terrorism of the party formations.

5. The persecution of religious, racial and national minorities

National Socialist persecution of its Jewish minority has been particularly open, consistent and uncompromising. There is now the same clarity and openness in the Nazi attitude towards national minorities. The Nazis assign to the whole population of foreign nations fundamentally the same political rights as to the uneducated masses of their own people — the rights to work and obey. The Nazi leaders assert that they are a superior race and that they have the right of conquest to make other races their bearers of wood and drawers of water. In Poland and Czechoslovakia, they are carrying out this policy.

The claims of National Socialism to represent a "true" as opposed to a merely "formal" democracy must, of course, be rejected. Internally National Socialism represents largely an effort on the part of privileged economic classes to retain the advantages of their social position. Externally it means a ruthless use of national power to force on other nations a condition of dependence such as will support and perpetuate the system by which the privileged classes in question benefit. In the heat of political controversy, words take on many meanings, but not unless the name "democracy" is emptied of its whole traditional content can National Socialism be regarded as other than democracy's most bitter and systematic enemy.

The economic life of Germany has been further regimented under the Nazi regime in the following ways:

1. Fundamental decisions as to price policy, investment, and wage rates have been taken out of the hands of business men.

By law, all prices are stabilized at the level of October 17, 1936, and no changes may take place without the prior consent of the Reich Price Commissioner, nor extensions or improvements of plant be made without prior approval. The fixing of wage contracts is in the hands of the official *Treuhande der Arbeit*, and no competitive bidding up of wages by employers is permitted.

In especially important industries it is not in the business man's hands but in those of a number of Plenipotentiary Commissioners to allocate raw materials, standardize output, sanction expansions, and consolidate firms.

The Nazis have taken over complete control of the credit system and capital market so that they can canalize all savings into public projects, ration credits, and direct all new investment.

The Nazis have established complete control over foreign trade and capital movements which are regulated to suit the political objectives of the Nazi regime.

2. The kinds and amounts of goods which consumers can buy have been drastically restricted by the German Government.

By means of import control, regulation of the supply of raw materials, consumer rationing, and prohibitions of various kinds, the German Government has established nearly complete control over the consumption pattern of the German people.

France

The political institutions of republican France were, before the outbreak of this war, as democratic as any in the world.

1. The French Chamber of Deputies was the most powerful and effective representative body in the world. The Chamber was elected by universal manhood suffrage. The supremacy of the Chamber over all other organs of the French State was unquestioned. The Chamber not only exercised a constant control over the Ministry and its policies, but it initiated policies independently. The leading Committees of the Chamber were well informed, their prestige was very great, and their influence on public policy correspondingly large. Thus in 1936, France had a parliamentary government in the fullest sense. — Since 1936 the prestige and influence of the Chamber have declined sharply, and dictatorial methods of government have been more and more used.

2. France had a freely developed party system. Every important body of political opinion in France was represented by an organized political party capable of formulating a program and defending it in the Chamber and before the country. French political groups have the habit of taking their case to the public and using their popular following as the essential lever of power. This contrasts with the situation in Britain or America, where strategic political maneuvers may take place within the parties where they are invisible to the public.

3. France had a free press. Nowhere was the political press so well developed. Nowhere was it more widely or more critically read. Legal restrictions on the expression of political opinions scarcely existed. Even slander against political enemies could be safely indulged in. French journalists were masters in the arts of vituperation and expose. On the more scholarly side, the leading French journals kept up a constant stream of critical comment on political affairs, domestic and foreign. Every political group in France, no matter how small, seemed able to provide itself with a national press, and the leading parties were able also to support a provincial and local press.

4. Democratic civil liberties in France were jealously guarded. The French people treasured their rights of free speech, free assembly, free press, and personal immunities as the most precious heritage of the Great Revolution. They were quick to resist official encroachment on these liberties. Although many of the civil liberties of Frenchmen were embodied in statutes and decrees, the effectiveness of these guarantees was really dependent upon popular political action. The French courts have never had as a special function the protection of civil liberties.

5. The system of free enterprise has been preserved in its essentials in France. Since the time of the Revolution there have been strong collectivist groups in France committed to a program of extended state enterprise and state control of the national economic life. In spite of this persistent movement, business enterprise has remained remarkably free of public control in France. On the whole, until the outbreak of the present war, businessmen were free to invest their capital as they pleased, buy and sell without restriction, and transfer their capital abroad when it seemed wise to do so. Regulation of business in the name of health, national defense, or for other reasons remained at a minimum. Mass production methods and cartel marketing were less common in France than elsewhere; French products showed the marks of small-scale production and individual style.

6. The French labor unions were strong defenders of the rights and the welfare of the French working people. The French unions before 1937 were completely independent of government control, and in this sense made the sharpest contrast with the "captive" German Labor Front. The labor unions have long been a stronghold of democracy in France.

7. The structure of civil liberties and democratic rights has in large part been destroyed since 1938. The outbreak of war has been the main occasion for the destruction of the normal rights of Frenchmen, but the groups now in the ascendancy in France had already been moving in this direction since the fall of the Spanish Republic. The Communists have been the main object of the campaign of repression, but the opportunity has been seized for action against the Socialists, against the syndicalists, against the General Confederation of Labor, and against other dissident groups.

The larger part of the bloc which supports the present French Government has been traditionally hostile to democracy and to the Republic. They have welcomed the present opportunity for settling scores with the democratic and socialist groups. They regard democratic liberties as an impairment of the necessary authority of the State.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE April 17, 1940

TO Mr. White
 FROM Mr. Wheeler
 Subject: France's Cereal Supplies

The March debates in the Chamber of Deputies seemed to furnish some spectacular confirmation of the view expressed in our French memo on the prospects of agriculture in France.

Sowings of winter wheat — which accounts for 95% of France's wheat crop — amounted to only 30 percent of normal, according to one Deputy. The Minister of Agriculture did not produce any contrary estimates. The causes of this disastrous failure of sowing were the same as those which operated in the last war: mobilization of most of the labor force, requisitioning of draft animals, congestion of transport, and breakdown of the supporting services in the villages.

Furthermore, owing to the severe winter, about half of the sowings will be lost, according to several of the Deputies. Therefore France seems to be faced with a disastrous failure of her main cash crop and basic foodstuff.

Sometimes it is possible to reseed winter-killed fields with spring wheat. However, in the past the French have never reseeded this way on any large scale. Never in the past 15 years have spring wheat sowings been as much as 10 percent of the total. It is doubtful if seed would be available for reseeding, even if men, horses, and machines were available. To some extent it may be possible to seed rye in the lost areas, but the labor problem will be as difficult for rye as for wheat.

France may therefore have to import large quantities of wheat this year from the British Dominions. ~~(It is extremely doubtful if French wheat reserves could be more than one-fourth of a year's supply.)~~ ~~France may have to import large quantities of wheat from the British Dominions.~~ French consumption has never in recent years fallen much below 7 million metric tons. If the figures given in the Chamber are correct, production this year may be as low as 1.2 million metric tons. If, with the Minister of Agriculture, we consider this too pessimistic, we might put probable output at 3 million metric tons. This would be about 5 million metric tons short of France's normal consumption, and 3.2 million tons less than she consumed in 1930, the year of lowest consumption in the past 20 years. It is doubtful if reserves are more than one-fourth of a year's supply.

Three and a half million metric tons of wheat, equal to about 130 million bushels, would be worth at present prices well over a hundred million dollars Canadian.

France does not possess the shipping: the terminal facilities, the rolling stock, the elevators, or the commercial organization necessary to handle large wheat imports. The reasons are interesting:

France has never had an important international trade in wheat. She has been just about self-sufficient in wheat, and has adjusted her consumption to her crop. In good years, the French have consumed more wheat by feeding to stock and eating more bread. In bad years, they feed less wheat to stock. Therefore they seldom have either imported or exported much wheat. This contrasts with the situation in England or Belgium, where the size of the local crop has little influence on national consumption.

As the French have had little experience as grain importers, they will encounter many difficulties if present reports are confirmed and France has to import large quantities of grains. Aside from the obvious difficulty of paying, France will be pinched for shipping to carry the grain. The commercial and physical machinery of distribution does not exist and will have to be created under extremely difficult circumstances.

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April 17, 1940

Dear Mr. Lamont:

For the Secretary I am acknowledging your telegram of April 13th and your letter of April 15th, regarding official and free sterling markets. As you stated over the telephone last night, there seems to be some confusion in the matter because of the two different approaches. The Treasury has settled its immediate problem by issuing Treasury decision authorizing the use of the British official rate in connection with customs transactions.

I am glad to have the information you set out in your letter and the memorandum attached thereto and appreciate the trouble you took to supply it.

Sincerely yours,
(Signed) D. W. BELL

Under Secretary of the Treasury

Mr. Thomas W. Lamont,
23 Wall Street,
New York City.

MAILED 4-17 1940
BY SPEC. MESSENGER _____
FILE TO _____
COPY TO _____

DWB:alaco

Treasury Department

W 21 WV 150 90

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TELEGRAPH OFFICE

TD PALISADES NY 223P APRIL 13 1940

SECRETARY MORGENTHAU

1940 APR 13 PM 5 40

WASHNDC

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

THOMAS W LAMONT

320p

23 Wall Street
New York

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April 15, 1940

Official and Free Sterling Market

Dear Mr. Secretary:

Referring to our conversation Saturday morning, I attach herewith memorandum which has been prepared for me in regard to the above subject. It is now evident to me that we were talking somewhat at cross-purposes. In my mention to the President of the sterling market, I was alluding to the whole sterling market, whereas, as you mentioned in your conversation to me, you were alluding exclusively to the rate paid for U.S. imports from Great Britain. You realize that New York has been acting, so to speak, as a clearing house for the great bulk of free market sterling, and therefore has of necessity cleared the bulk of South American sterling and of such other centres as Holland, Switzerland, and Belgium. We ourselves are not dealers in exchange except in so far as we are transacting orders for the account of clients, and that on only a very limited scale. But naturally, we try to keep as well informed as possible.

Simply as an interim message, I telegraphed you Saturday as follows:

Referring to this morning's conversation will forward informal data to Bell on Monday, but am inclined to believe discrepancy arises from fact that British exchange restrictions have begun to apply only recently and probably past returns have to do with shipments entered or contracted for prior to restrictions which have brought about radical change or will do so in immediate future. STOP Canadian banking officials for example expressed last week to us opinion that as high as 98% of Canadian business in sterling exchange was being done at the \$4 rate.

Referring to this telegram, Canadian banking officials last week expressed to us the opinion that as high as 98% of all Canadian business was being cleared through the official Canadian market. That of course includes U.S. business, as well as sterling and other currencies.

From the attached memorandum, however, the nature of the question will be made clearer. Your figures as to actual imports from Britain are undoubtedly correct. The figures given to me before I was talking with the President had, however, as I have indicated, to do with the entire sterling market. Now, however, owing to the additional restrictions that will be shortly coming into play, such commodities as whisky, jute, tin, rubber, etc., which heretofore were cleared through the free sterling market, will have to come under the official rate, so that the estimate given to me is that not more than 50% of actual imports into the United States will hereafter come under the free market, and it would seem likely that even that proportion might pretty steadily diminish.

Trusting that this will serve to clarify the matter in so far as it can be clarified, and with personal regards, I am

The Honorable
The Secretary of the Treasury,
Treasury Department,
Washington, D. C.
Enclosure

Sincerely yours,

Samuel H. Lamm

Memorandum for Mr. T. W. Lamont

FREE STERLING

It is extremely difficult to give an accurate estimate of the percentage of total sterling which goes through the official sterling market and the percentage which goes through the unofficial or "free" market, unless the total is available. The London Economist estimated recently that free markets have transacted only between 5% and 10% of the total exchange business in sterling since the beginning of the war. Because of the British restrictions on the use of free exchange, inaugurated under date of March 9, 1940, it is estimated that the free market will become even narrower. These restrictions relate to the payment for whiskey, jute, jute manufactures, tin, rubber and furs.

Sir John Simon on April 9th told the House of Commons that the fall in the free market rate for sterling really represented only a very small proportion of the total dealings in sterling. A few days ago I was informed that so far as the Canadian dollar was concerned, 98% of the dealings went through the official market, and in answer to my query regarding sterling, it was indicated that an estimate of 90% passing through the official market was probably about right.

It is quite possible that so far as United States imports from Great Britain are concerned, a much smaller percentage passes through the official market. These figures should be definitely changed when these British restrictions referred to start to work. However, New York represents the clearing house for the majority

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of free market sterling, and of necessity clears South American sterling and that of such centres as Amsterdam, Zurich and Brussels.

It is my understanding that for January of this year \$56,000,000 in goods were imported from the British Empire, excluding Canada, and of that amount \$17,000,000 represents imports of the commodities mentioned above. When that figure is added to amounts which already apparently must be paid for at the official market, it would seem to indicate that at least 50% of imports to this country will be paid for at the official market.

R. A.

April 15, 1940

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 17, 1940

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

Receipts of export freight higher

While receipts of freight for export at New York declined by 22 cars during the week ended April 13, this was more than offset by an increase of 315 cars of export freight at nine other North Atlantic ports. (See Chart 1 and table attached).

It will be noted that, on the whole, receipts of export freight in the North Atlantic area so far in April have averaged slightly lower than in March.

Lighterage freight in storage continues decline

The volume of lighterage freight in storage and on hand for unloading in New York harbor (largely for export) declined by 306 cars during the week ended April 13. (See Chart 2) The present total of 6,988 cars approximates the volume held early in January.

The reported data indicate that 4,233 cars of freight were exported from New York during the past week, a reduction of 51 cars from the previous week's volume. (See Chart 3)

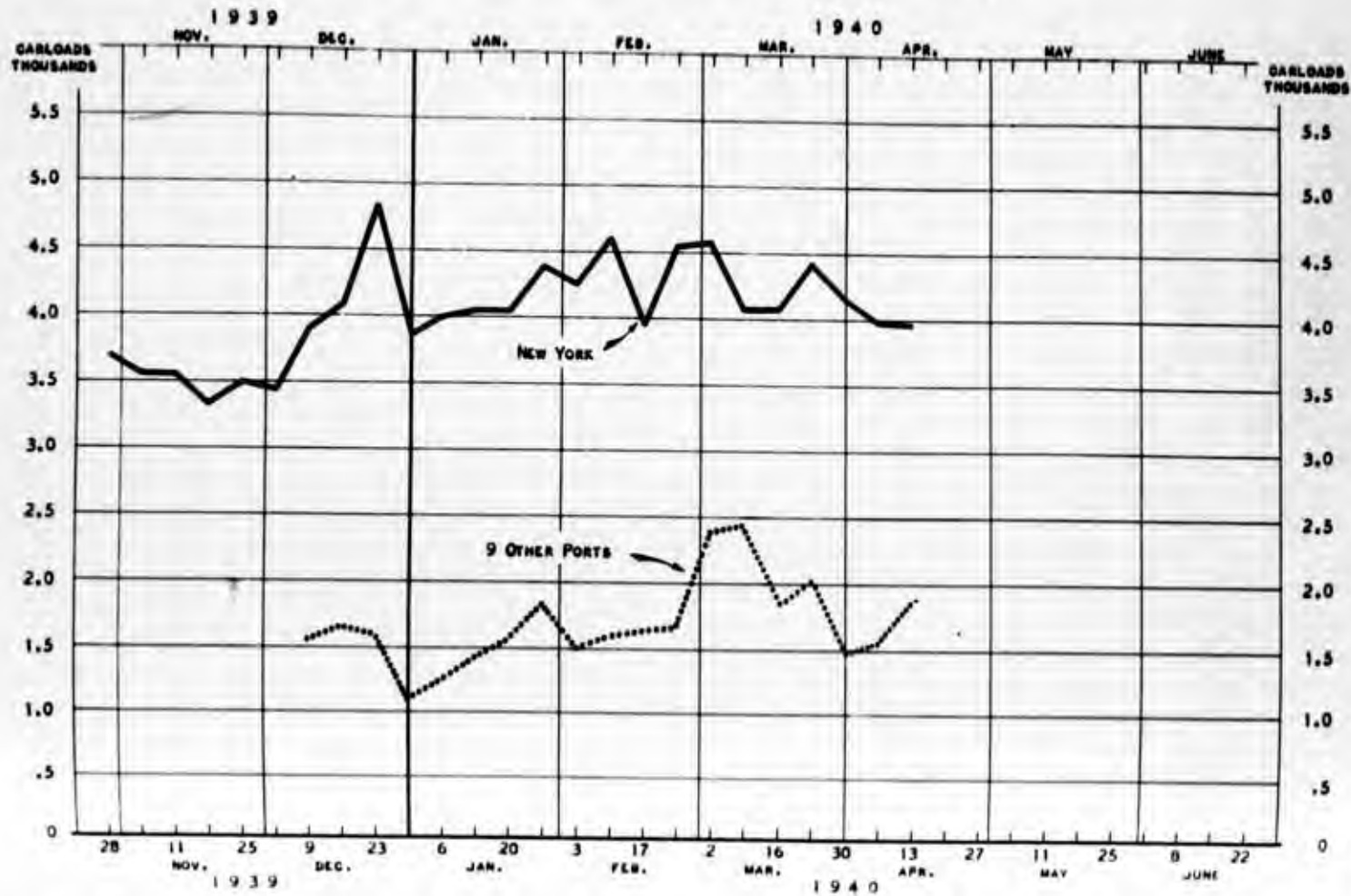
RECEIPTS OF FREIGHT FOR EXPORT AT NEW YORK
AND AT NINE OTHER NORTH ATLANTIC PORTS

Week ended 1939-40	New York ^{1/} (In carloads)	Nine other North Atlantic ports ^{2/}
October 28	3,707	
November 4	3,562	
November 11	3,547	
November 18	3,334	
November 25	3,497	
December 2	3,435	
December 9	3,922	1,548
December 16	4,088	1,658
December 23	4,848	1,602
December 30	3,856	1,104
January 6	4,000	1,251
January 13	4,056	1,433
January 20	4,060	1,557
January 27	4,389	1,825
February 3	4,274	1,498
February 10	4,617	1,590
February 17	3,974	1,637
February 24	4,550	1,667
March 2	4,577	2,388
March 9	4,059	2,448
March 16	4,072	1,845
March 23	4,424	2,033
March 30	4,150	1,492
April 6	3,979	1,551
April 13	3,957	1,866

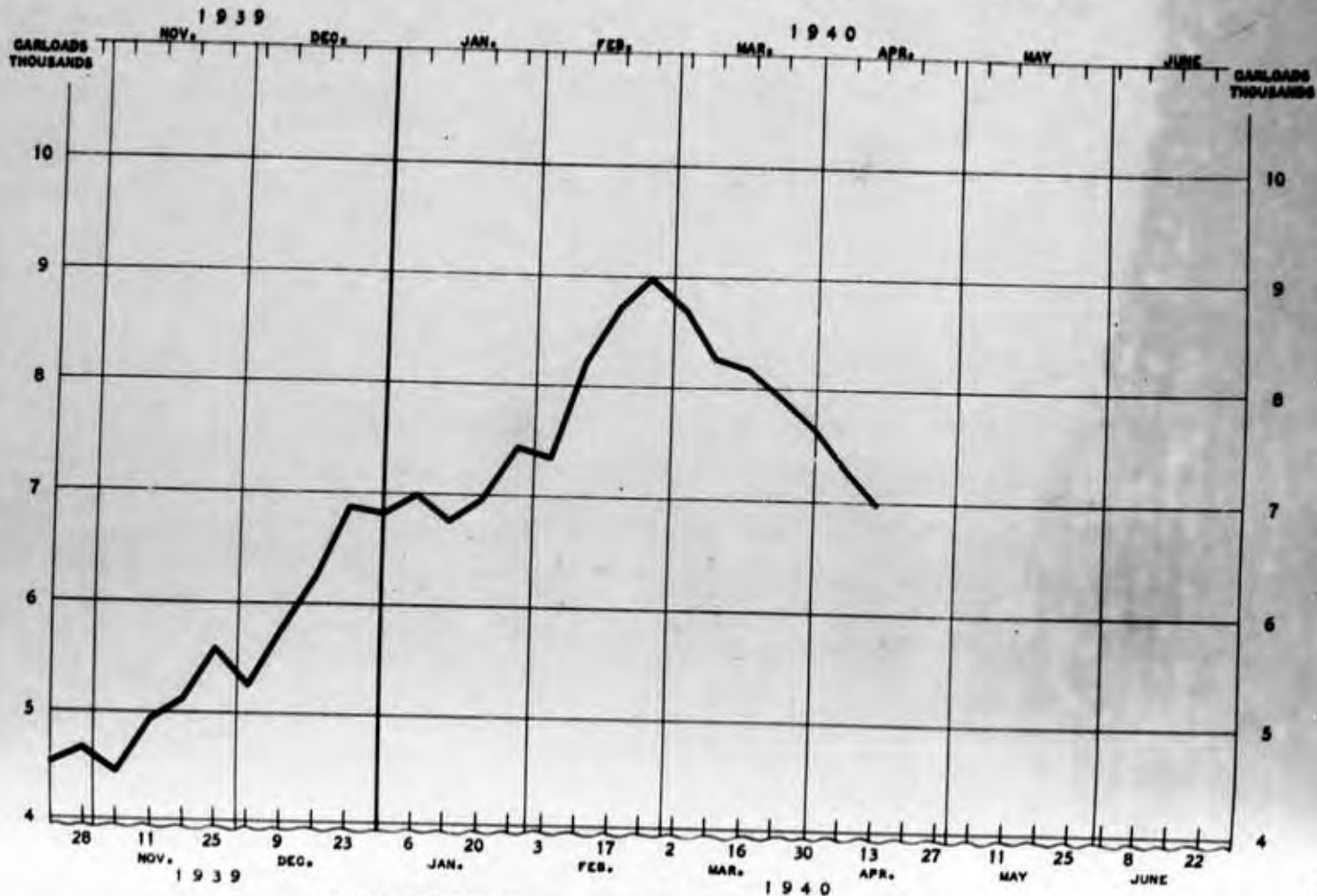
^{1/} Source: General Managers' Association of New York, Daily Report of Operating Conditions in New York Harbor.

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

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

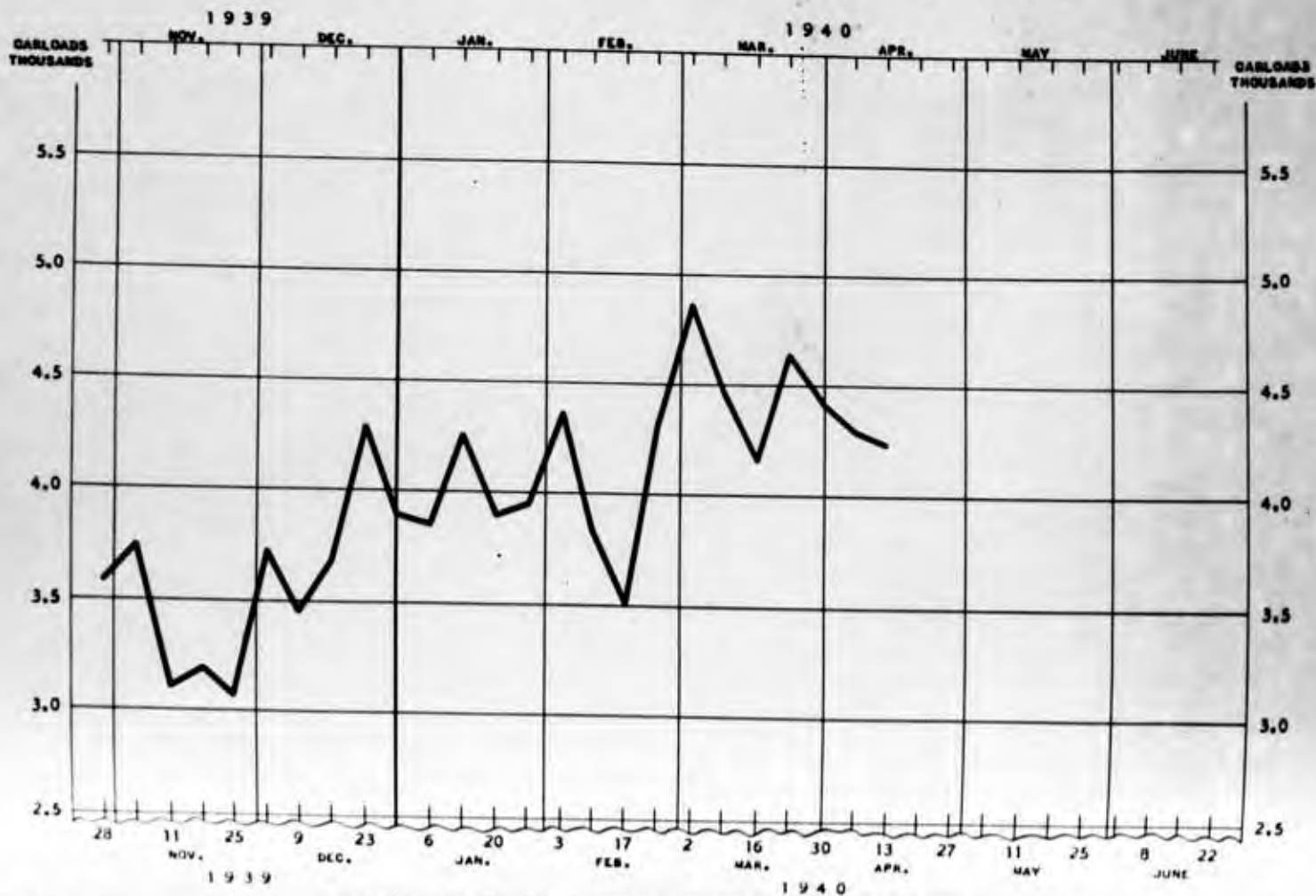


LIGHTERAGE FREIGHT IN STORAGE AND ON HAND FOR UNLOADING IN NEW YORK HARBOR *



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

CARLOADS OF FREIGHT EXPORTED FROM NEW YORK *



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

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MEMORANDUM

17
April 28, 1940.

TO: Secretary Morgenthau
FROM: Mr. Sullivan

Compton and I called on Chairman Vinson at 4:45. I reported to him of my conference with Assistant Secretary Compton and Secretary Woodring and the work that Navy, Army and Treasury technicians had been doing in the meantime. Secretary Compton then told Mr. Vinson of the discussion at Cabinet and of his conference with the President and the apparent desire of the President to maintain a status quo. Chairman Vinson interrupted by saying that something the President didn't know was that 12% for aircraft was an unreasonable profit and that profits being made on scientific instruments were outrageous. He then took out of his drawer some material that had been sent to him by Navy, showing profits by Sperry Gyroscope Company and various other companies, and said that regardless of how Army felt this could no longer be tolerated and it was up to the Navy to put its own house in order and place itself above criticism and Army would have to follow along. I indicated that I would not object to lowering the rate of profit on Army aircraft at the next session, but if it were done at this time it would upset the Army's rearmament program. After some discussion I suggested to Mr. Vinson that he authorize me to call in the scientific instrument manufacturers and have them present their side of the problem to our technicians so that we could work out some sort of a provision that would allow them a reasonable profitable charge off for research and development, and he thought that this should be done.

The conference concluded with the understanding that we were to continue our work and that when the President returned he would go to him and put forth his side of the story and then let the President decide if we would take action at the present session or wait until the next Congress.

JLS

April 17, 1940

3 p. m.

Present:

Minister from Denmark, Mr. Henrik de Kauffmann
Mr. Daniel Bell

Minister: Of course, I have had the opportunity to explain to the State Department and also to the President the attitude that I have had to take and I also had occasion to tell the State Department that I was very grateful for the action that was taken so promptly by the Treasury with regard to the blocking of our balances.

The fact is it is impossible for me to have any illusions about what is going on in my country. As we have read in the papers, it is said it is done to protect our country, but there is really nothing left of our freedom. Just to give you one example, that I think is quite an illustration, the Germans say on one hand that they have not interfered with our sovereignty, but today the Danish railroads are transporting German troops that our attacking, killing the Norwegians, our nearest friends and neighbors. The King of Denmark happens to be a brother of the King of Norway. That is not even the closest bond between the two nations. The closest bond is these two nations are brother nations and have been friends for centuries and now the one nation is forced to provide all material help and assistance to kill people in the other. I have to confess the fact that if the German occupation of Denmark goes on, as I fear it will, until the war is ended, my country will be completely ruined economically. I know that you were in Denmark last summer.

HM, Jr: Yes.

Minister: You have a picture of the country.

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HM, Jr: I saw a lot of Denmark.

Minister: And you probably had occasion to hear a little bit about our economic life.

HM, Jr: I met your Minister.

Minister: Oh, yes!

HM, Jr: And also the head of the Central Bank.

Minister: Oh, yes! Mr. Dransnaes.

Our country is, in a way, like a factory which imports from overseas fertilizers and feed in great quantities and returns it in butter, eggs and cattle. It has factories -- we are a big ship-building country. We make certain machinery that is nearly a speciality for my country. About one-fourth of the world's cement is made on Danish cement machinery.

Now, all this depends upon imports from overseas and we have to face the fact that when the Germans leave Denmark very, very little will be left. Everything we can save for the future is, of course, a great help to my country and that is why I did not hesitate when I learned a few hours after the invasion had taken place of the steps that were on the verge of being taken, I expressed my profound gratitude.

And I have no precise idea, of course, how the future is going to be. My own situation, I feel, has not given me any reason to worry. I have had more serious things to worry about. The State Department has let me know that they consider me the representative of Denmark and will go on doing so whatever steps the Government of Copenhagen under German pressure and duress might do. That enables me to work for my country and that's all I want.

HM, Jr: Yes.

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Minister: Of course, there are a certain number of practical questions that come up. I have had to in this emergency -- you don't mind giving me a few minutes?

HM, Jr.: I have plenty of time and I want Mr. Bell to have it because he has charge, for me, of looking after these Danish and Norwegian funds and Mr. Bell is taking care of that.

Minister: Oh, yes! We can go into more details with him afterwards, but I would like to give you the general picture.

I have had to create, the other day, on account of this emergency, a Shipping Committee to handle the problems of Danish shipping outside the German controlled areas.

I am starting today another Committee. We call it the Cargo Committee. There are a number of Danish cargoes in this country and Danish ships. We have one ship or two loaded with wheat, I think in Baltimore. All these questions bring up problems. What is to be done? They naturally can't go to Denmark. We would not want them to go to Denmark if possible, on account of the blockade, and we would not want funds to reach Denmark today.

Mr. Bell: That has worried us some. Goods in port. It has worried us quite a bit whether we should release funds to pay for them, those at port or on ship. I am glad you have created these committees. I think they might help us.

Minister: The third Committee that is also being formed is what I call the Greenland Committee. Greenland is a Danish colony. It has only about 17,500 citizens, but the area is as large as Australia. The population consists mainly of Eskimos. They have enough food so they won't starve for a year or so, but we would like to keep up, of course, the necessary supplies of food and, what is more important,

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we want to keep up the export from Greenland to this country of what is called creolite. It is something they mine up there and they use it for aluminum. This country imported last year \$700,000 of creolite. It's the Pennsylvania Salt Manufacturing Company, Mr. Beale being President, who is the sole importer of that. He went to see Mr. Hull yesterday. Mr. Beale, President of the Pennsylvania Salt Manufacturing Company.

HM, Jr: I wonder what Mr. Hull told him.

Minister: In general, I heard a general outline, I think he was agreeable to the idea of forming such a Committee and wanted Mr. Beale to be on the Committee and Mr. Beale has consented to be on the Committee.

HM, Jr: Creolite?

Minister: K-r-y-o-l-i-t-e.

Mr. Bell: It's probably the Danish spelling. You might spell it creolite.

Minister: It's used in the process of making aluminum and also porcelain and it's Greenland, one of the few places if not the only place in the world where that is found and one-third or so went to the United States. Now, maybe you want to take more.

What this Committee was to do was to be in charge of necessary supplies to Greenland and also see that exports could come in the normal regular way to Philadelphia.

HM, Jr: I see.

Minister: And Mr. Beale would like to run it, naturally, in a businesslike way with the Committee so that the ships that go up otherwise empty would bring food for the people and we load the ships up there and they could bring back the cryolite which this country needs.

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HM, Jr: On this Shipping Committee, for instance, I heard there is a Danish boat in New York today with oranges from California. Have you (Bell) heard about that?

Mr. Bell: Yes.

HM, Jr: They don't know what they are going to do with it.

Mr. Bell: We cleared payment of oranges yesterday.

HM, Jr: You did?

Mr. Bell: We did not want to be accused of holding up a shipment of

HM, Jr: You paid for the oranges in California?

Mr. Bell: Yes. Clearing concern, making a draft on New York, and we allowed payment because oranges were on the boat.

Mr. Bell: We have no jurisdiction over the ship, but we thought we should not hold up payment because if we attached the ship then the oranges would spoil.

HM, Jr: Let's suppose the boat is in New York. What will happen?

Minister: It's a Danish ship.

Mr. Bell: Yes.

Minister: Danish ships in United States ports are all being held under direction of the Committee that I appointed the other day until we reach an understanding with the British. That's what it really boils down to.

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HM, Jr: I had for lunch yesterday Admiral Land of the Maritime Commission. I understood two men, Bronson

Minister: Yes.

HM, Jr: ... and the other man's name, both American citizens

Minister: Yes.

HM, Jr: They control 69 ships that they want to bring under the American flag.

Minister: It wasn't quite like that. The situation is that they wanted to find out whether there was any possibility of bringing the ships under American flag or not. They had not made up their mind whether it would be wise to apply for that even, owing to the fact I think they have always thought that other solutions might be wiser, taking everything into consideration, and I understand from a statement Mr. Hull made too that this Administration is not very much in favor of transfer. Besides, we must recognize the fact that the British Government has declared it to be its definite stand that these ships, technically speaking, are enemy ships and Great Britain will not recognize any transfer so if they were it would immediately bring out a rather unpleasant problem between the United States and Great Britain.

But there is another consideration and I can mention it here because I know when I say it here it is always you and me.

HM, Jr: That's right. I can't remember without notes and nothing ever gets out of the Treasury.

Minister: Besides the interest of the ship owner there is the interest of my country. The Germans, Hitler, have invaded the country. The British have made a public statement that the country is to be restored to its freedom. The Danes at present, as

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I said before, are being used as tools, really, to help the German war machine. They are without weapon, but the Danes, of course, look to the English as their friend today and it weighs very heavily with me, and I know it weighs heavily with the ship owners, too, that we must find a solution to help the people, the countries, that are helping us to regain our freedom. I know that there are people in this country who feel the same way about what would be the right attitude of our shipowners, and my own feeling is the probability is we will reach an agreement. We cannot recognize the British point of view that these ships are good prize, but the British have, or are today, within a few minutes, going to make to the Committee a statement telling them that they will treat Danish shipowners not worse than the British shipowners. Ships will be condemned, but they will make arrangement by which the Danish shipowner, who will be receiving friendly nation treatment, will not have worse treatment than the British shipowners and after the war the ships will be returned to them and the only condition there is, of course, that the funds that the ships make cannot reach Germany. It would be an established control there.

Mr. Bell: Would they be under charter?

Minister: All details have not been worked out and I am not informed of every detail. I think it probable they will discuss some of these problems today. They are quite far apart, both sides, yet.

RM, Jr: Well, when you know this decision, it would help us to know how to treat some of these funds, wouldn't it?

Mr. Bell: Yes, it would help us tremendously if there were somebody with whom we could get in touch to discuss payment of these goods. If we pay for the goods and allow them to be shipped and they either go to Denmark

Minister: They would not go to Denmark.

Mr. Bell: or fall into the hands of

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the Germans or the British get them before they get there

Minister: It is, of course, a situation without any precedent.

HM, Jr: Why don't we do this? I am very much interested in this. Glad you came in. And just as soon as any of these situations are cleared up so you know which way you are going, coming down and see me.

Minister: Yes. Thank you. That's shipping?

HM, Jr: Anything.

Mr. Bell: You have now three Committees?

HM, Jr: One for Greenland, one on shipping....

Minister: Greenland, Shipping and Cargo. But of course there are certain problems involved, because while the State Department has made it quite definitely clear to us and to others who have inquired that they will recognize me as the sole agent of Denmark and they will not take orders and they won't expect me to take orders from occupied Denmark, they will expect me to act on my own authority and will take that as sufficient. Certain machinery will have to be found that makes it possible for me to act. That's why I have appointed these Committees and we have, of course, the best legal counsel to find out how the thing is to work, but there are certain problems.

HM, Jr: Who are you taking as your legal counsel?

Minister: We have several. On the Shipping Committee one is Mr. Ryan and there is another one too. Ford, I think. Mr. Frederick is counsel on the Cargo Committee. He's also a New York lawyer, a son-in-law of John Bassett Moore. And the Greenland Committee, I think we will probably have need of counsel.

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HM, Jr: Are we holding anything up now, release of cargo or ships?

Mr. Bell: No. Most of the transactions that we have approved were negotiated prior to April 3th.

Minister: Yes. There is one company that has applied to me. It's the East Asiatic of California. That is one of our greatest companies in Denmark and this is a subsidiary of it. Their main interests are outside of Denmark. They are in the East Indies and elsewhere and they have already, I understand, come to an understanding with the British as far as business in the Indies is concerned and I have no doubt whatsoever that anything that this company does in California is perfectly all right and straight and that nothing will reach Germany. The head of that company is coming here, I think it's the day after tomorrow he will be here or tomorrow evening, and if I may bring him in and have a talk with him I think it would be very helpful.

Mr. Bell: Yes. We approved his application yesterday for a small amount to Venezuela.

Minister: But he wants some more freedom of action.

HM, Jr: Mr. Bell is the man to see. He's handling it. It would make it quicker for you.

Mr. Bell: We cleared that transaction with the Minister yesterday.

HM, Jr: But he knows these things and is following them for the Treasury.

Minister: I have no knowledge of the size of the funds you are holding in this country for my Government.

HM, Jr: No reason why he should not know that.

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Mr. Bell: Those are estimates, of course. The best estimates we could get.

HM, Jr: Are these private or official funds here (indicating on statement.)

Mr. Bell: Both, as far as you can get them from the bank.

HM, Jr: These are the best we can give you. You see?

Minister: Yes.

HM, Jr: Long term investments, \$13,000,000.

Minister: Those are private investments?

HM, Jr: These are private.

Direct investments, \$3,000,000.

Stocks, \$5,000,000.

Mr. Bell: Stocks and bonds.

HM, Jr: Short term investments: Official, \$5,000,000; private, \$24,000,000.

Gold under earmark -- that would be Government

Minister: That would be National Bank.

HM, Jr: \$22,000,000. A total of \$77,000,000.

Minister: Yes.

Mr. Bell: We are asking for a census on that and we will get a report sometime after May 15th.

Minister: Yes. One of these legal questions.

HM, Jr: We will be very glad and Mr. Bell

-11-

will be available at any time and I am glad you came down and we will try to be as helpful as we can.

Minister: There was also one bank question I would like to ask. The State Department told me, I think it was Mr. Welles, that one of the several things they had in mind when the accounts were blocked that they wanted also the official representatives of Denmark to have the necessary funds to carry on with.

EM, Jr: Oh, yes! There won't be any trouble about that.

Minister: It would have to be done on my authority because I don't take orders from Copenhagen. I can't.

Mr. Bell: We cleared yesterday for Riggs an application for your Legation, aggregated transaction of \$20,000 a month, so there won't be any difficulty immediately of cashing your checks of employees and

Minister: But, you see, I have not got so many funds here. They always come from Copenhagen. I have not got them under my present direct control.

Mr. Bell: But you have funds here under your control in Riggs.

Minister: I have some funds in Riggs, a couple of thousand dollars, my own account, private, and a couple of thousands on the Legation account. But, no, what I think Mr. Welles thought, that I would be allowed to draw on some of the Government funds.

EM, Jr: We will have to get together with the State Department and Mr. Hackworth.

Minister: That is, of course, different funds.

Mr. Bell: They get a cable in New York. Say

-11-

the National City had your account. They would get a cable from Copenhagen....

Minister: I can't have anything to do with my Government. I want you to block these funds so Copenhagen can't control them.

HM, Jr: He means could tap them. You have to get hold of Mr. Welles.

Minister: It is not that I am in any immediate distress, but we have to straighten it out. It's not only my Legation, but all the Consulates.

It's nice of you to allow me to come.

oOo-oOo

April 17, 1940.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston



Admiral Waesche phoned in at 11:47 that he had received a message from the Commander of the New Orleans District, stating that the Intelligence Officer had heard a rumor which he has not been able to confirm, that the German Consul General in New Orleans plans to start libel proceedings against all Norwegian and Danish vessels in his District, comprising the Gulf and South Atlantic Seaboard, seeking to claim them as German property. The object of this proceeding, if it is actually contemplated, would obviously be to tie these ships up in litigation to prevent their use by the Allies.

April 17, 1940

MEMORANDUM FOR THE SECRETARY:Shipping Situation

Germany's Scandinavian blitzkrieg hit the Pacific Coast freight and charter market with paralyzing effect last week. Although shipper's continued to offer cargo for shipment to Europe (probably with their tongues in their cheeks), the lines were in such a state of confusion that no future bookings were being accepted. Chartering also came to a standstill in practically all directions, as owners wanted to see which way the market would move before making any commitments. No quotations were available.

To the Orient, however, business continued on a fairly even keel, in consideration of the enormous upheaval in world trades. Scrap offerings weakened a little and rates on the berth were quoted at between \$15 and \$16 for melting, rails going about \$1.50 lower. Demand for general cargo space was fair; lumber and cotton nil. The latest time charter was reported closed at \$6 from the Pacific Northwest to the Far East, one voyage.

Intercoastal trade was still being hampered to a great extent by the shortage of space.

Basil Harris



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

April 17, 1940

69

MEMORANDUM FOR THE SECRETARY.

As a matter of information there is attached hereto a copy of a letter received by me from Admiral Spear.

Inquiry of General Brett of the Army indicates that the Swedish Government has an order with the Republic Aircraft Corporation 136 P-35s, which were released for export prior to the time the President's Liaison Committee was organized, as well as 25 light bombardment planes not of the army type. Of 136 P-35s ordered, 22 have been delivered to the Swedish Government.

H. R. Collins
Chairman, President's Liaison Committee

April 7, 1940

My dear Mrs. Rogers:

I have your letter regarding my effort to get myself placed in an aeronautical engineering position with the Federal government.

Two weeks ago I came down from Boston and went to work with the Republic Aircraft Corporation as stress analyst on single seater pursuit aircraft for the Army Air Corps. The job is satisfactory, for the present, and the work is interesting from every angle. However, the company is working on an order from the Swedish government, which is being executed in a separate building by separate personnel - away from the Army staff.

There is a large percentage of German born personnel working on the "Swedish" order - and something tells me that these planes find their ultimate destination a little further south than Sweden.

I have been out of work for a long time and cannot afford being out again. However, on the other hand, if these planes are actually going to Hitler, I cannot be a party to their manufacture. I hope you can understand my situation.

Thanks for your unfailing energy and assistance.

Very truly yours,

JI

PLAIN

London

Dated April 17, 1940

Rec'd 1:55 p.m.

Secretary of State

Washington

979, April 17.

FOR TREASURY FROM BUTTERWORTH.

1. There has been no significant reaction either publicly or in government circles to the adoption of the sterling official rate for American duty purposes and the divergent attitudes of the British Treasury and the Board of Trade, which were evident in the telegrams previously sent to the British Embassy in Washington for communication to you, still persist, namely, that in general the British Treasury welcomes our action as an affirmation of the preponderant position of the official rate and the Board of Trade does not welcome the increase in the import duty payments which this action entails.

2. The British Treasury states that last week's meeting of representatives of the French and British Treasuries did not result in any important concrete decision.

-2-#979, April 17, from London

decision. There was general discussion of the financial resources of the two countries, particularly dollar resources but no (repeat no) decision to pool all resources was taken. The British Treasury feels that if either country thought that the other was paying its bill there would be no chance of checking reckless expenditure. The French apparently talked very poor and then both the British and the French talked poor together.

According to the British Treasury the French did not raise the question of the differential in wage levels between the two countries, but there was some discussion of price differentials for particular products, for example each country is an importer of certain steel products from the other and French prices are lower than British.

The British Treasury states that the French indicated that they felt strongly about the violent fluctuation of the free sterling rate, they admitted that their position was not analogous to the United Kingdom's because of the absence of foreign balances, but since they are tied to sterling they are affected by the movements of free sterling. In the end the

French

-3-#979, April 17, from London

French did not push for the British blocking of foreign balances or official intervention in the free market, but requested that they be apprised of any contemplated actions by the British monetary authorities. Incidentally, I do not gather that any drastic changes in the British exchange control regulations are now contemplated but further means of preventing or penalizing transgressions are in the process of formulation.

As the first of the series of periodic Anglo-French Treasury meetings it is regarded here as having been friendly and satisfactory, but of course as yet there are no fundamental differences of an urgent and serious nature which have to be faced up to.

3. I gather that a request for financial aid has already come from the Faroe Islands.

4. Shipments of gold are being made from Holland to this country much of which is for transshipment to the United States and due to the commandeering of shipping arbitrageurs are finding difficulty in arranging transportation.

KENNEDY

EPL

VRE

GRAY

Paris

Dated April 17, 1940

Rec'd. 2:45 p.m.

Secretary of State,
Washington.

494, April 17, 6 p.m. (SECTION ONE)
FOR THE TREASURY FROM MATTHEWS.

In spite of the clarity of the press release contained in your telegram Number 281, April 15, 10 p.m. there was a flurry of excitement in Paris financial circles this morning and I received nearly a dozen telephonic inquiries from the Governor of the Bank of France, American by birth, and the press. I have been able to end the confusion by simply reading the text of the release (which I gave to Cove de Murville and our friend at the Bank of France yesterday). The misunderstanding arose in part through the Paris HERALD which headlined its story this morning "pound exchange pegged \$4.03½ by United States Treasury-Canadian and Newfoundland dollar rates also fixed; franc due to move up".

SULLITT

CSB

JT

GRAY

PARIS

Dated April 17, 1940

Rec'd 3:43 p.m.

Secretary of State,
Washington.

494, April 17, 6 p.m. (SECTION TWO)

The first sentences of its United Press story were likewise misleading: "The United States Treasury today set an official rate of exchange of \$4.05½ to the British pound in comparison with the free market rate of \$3.51. This rate will also apply to the Canadian and Newfoundland dollars and the Australian pound. An official rate between the franc and the dollar is also awaited although the franc is expected to move up immediately with the pound." Nowhere in the article is it clearly indicated that the step applies solely to conversion rates for customs payments.

(END OF SECTION TWO)

BULLITT

LMS:CSB

PARAPHRASE OF SECTIONS THREE TO SEVEN, INCLUSIVE,
NO. 494 OF APRIL 17 FROM PARIS

This morning I went to see Couve de Murville and received from him in confidence the exact figures of the "inventory" which the Government recently concluded for foreign exchange holdings of French individuals and companies both in France and other countries. The totals of these holdings are:

Dollars	145,902,565
Belgian francs	151,000,000
florins	6,800,000
Swiss francs	47,900,000

Measures for requisitioning these balances are in the course of preparation, he reiterated, but they have not definitely set the time of issue; he told me that it would be "sometime before summer" - reference, telegram of April 15, No. 481, from the Embassy. Couve also said that the private gold which is held in banks in France and abroad amounts to 2,150,000,000 francs. However, he emphasized that this figure does not, of course, include hoarded gold which is privately held, for which he did not have any estimate.

He again confirmed that only "some \$10,000,000" of French-owned American securities are held here. His earlier estimate had been \$150,000,000 (reference, telegram of February 27, No. 262, from the Embassy) and he said he had revised this as he now feels that the total amount is not more than \$100,000,000. He expressed the view that since the war started there had been considerable liquidation by French owners of American securities which they held.

The

- 2 -

The increasing rate of subscriptions to armament bonds was a continuing source of satisfaction to Couve. He said the subscriptions are well over 10 billion francs a month now. The March figures had not yet come to him, but he expressed confidence that the amount was more than 10 billion.

I asked Couve whether there had been much of an increase in war expenditures over the daily figure of 500 million which he had given me a few months ago - reference, telegram of February 9, No. 190, from the Embassy. It had increased, he said, and told me very confidentially that the cost of the war for March, including purchases in the United States and elsewhere, had been 20,000,000,000 francs, or a daily figure of about 645,000,000 francs. He hastened to remind me that of course tax returns covered some 5,000,000⁰⁰⁰ francs of this. Couve again told me that for the near future France does not contemplate a long term loan.

There was a point in connection with the operation of French exchange control that I asked Couve to clear up. I understood that previously when it had been necessary for American exporters to France to invoice in francs, the francs received in payment were "transferable" and since in payment of authorized imports convertible into dollars at the official rate in Paris at least in theory under the French regulations;

he

- 3 -

he confirmed my understanding. Then I asked him why, if this were the case, the American exporter found it desirable or profitable to sell his francs in New York at the lower rate on the free market; he replied that he supposed it was because the exporters did not understand that conversion of the francs could be effected here, or because of the necessary formalities and delays and the necessary documents required, and they did not want to bother with them. However, despite this statement, the fact remains that the American exporter, in practice, has been told to convert in New York the payments he receives in francs. References, telegrams of March 21, No. 375 and of April 1, No. 417, from the Embassy. There has been considerable improvement in the situation in view of the new insistence by the Ministry of Finance that imports from the United States be invoiced in dollars. However, here there is still some misunderstanding on this. I showed to Couve some excerpts from a letter which was dated the eleventh of April sent by one of the largest French importers, the Pechelbronn interests, to a representative of an American oil company. The French importers said in effect that necessarily the prices quoted would have to be C.I.F. Le Havre, maritime war risk included without limitation of rate, and for payment in pounds (sterling) exclusively. It was very difficult to make them understand,

- 4 -

understand, Couve reiterated. He stated categorically that they would not grant authority for importation from the United States either in francs or in pounds (sterling).

END SECTIONS THREE TO SEVEN, INCLUSIVE.

BULLITT.

EA:LW

ESM

GRAY

Paris

Dated April 17, 1940

Rec'd 6:54 p. m.

Secretary of State,
Washington.

494, April 17, 6 p. m. (SECTION EIGHT)

With a view to exercising a strict control over the consumption of gasoline by all (begin underlining) civil (end underlining) departments and bureaus of the Government (see numbered paragraph 11, my telegram No. 478, March 1, 3 p. m.), an arrêté of the Ministry of Public Works and Transportation published in today's JOURNAL OFFICIEL provides for the establishment of a central commission for the control of the consumption of petroleum products. In addition to the Under Secretary of State for Public Works and Transportation, who will act as its chairman, the committee includes the Secretary General of the Ministry of Finance, and Director of the Mouvement General des Fonds.

BULLITT

WK
EMB

JT

GRAY

PARIS

Dated April 17, 1940

Rec'd 4:08 p.m.

Secretary of State,
Washington.

494, April 17, 6 p.m. (SECTION NINE)

The functions which the Government delegated to Serruys as High Commissioner of National Economy under decree of September 30, 1939 were transferred to the Ministry of Finance (Under Secretary Lanier) under decrees published in the Journal Officiel of today.

A note to exporters issued by the Ministry of Commerce and Industry and published in yesterday's Journal Officiel adds Italy to the list of nations considered as "compensation agreement countries" for the purpose of commercial settlements (see my telegram No. 301, March 7, 6 p.m.), a natural step as the Franco-Italian agreement became effective April first.

BULLITT

CSB

HSM

GRAY

Paris

Dated April 17, 1940

Rec'd 7:03 p. m.

Secretary of State,
Washington.

494, April 17, 6 p. m. (SECTION TEN).

Deposits in ordinary (private) savings banks during the period March 1-15 totaled 131,000,000 francs and withdrawals 24,000,000. The excess of deposits over withdrawals since January 1 amounts to 910,000,000 francs.

It is reported that a Franco-Rumanian commercial accord was signed at Bucharest today which will involve "increased French purchases of wheat and wood".

After a marked improvement yesterday, the securities market turned weak again today partly on rumors from Italy and anxiety with respect to Holland. Rente issues were down minor fractions for the most part losing part of their gains of yesterday. The dollar exchange guarantee issue of 1937 lost 2.90 francs partly on the erroneous press reports mentioned in the first paragraph above.

The belga was somewhat weaker at 7.34-7.40 as against 7.38-7.44. *(End message)*

BULLITT

NK
EIB

April 17, 1940.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

I have approved a new disposition of airplane equipment, effective July 1, as recommended by headquarters. By that date we expect to have all seven of the new Hall P.H. 3's. One of these is to be assigned to Salem, three to New York and three to the new station at Elizabeth City. Of the five remaining old Hall biplanes, the P.H. 2's, two are to go to Miami, two to Biloxi and one to San Diego. The P.B. 45, the big Consolidated flying boat, which we are to receive from the Navy shortly, is to be assigned to San Francisco, thus providing two long range planes for the Pacific Coast where now we have none.

There has been complaint from the tuna fisherman in the San Diego region that they no longer have the benefit of plane supervision. Wassche considered it justified. The need is no longer so acute for plane equipment on the Atlantic, since the Navy is increasing its long range plane equipment on this coast and is gradually taking over areas heretofore patrolled by the Coast Guard. They plan soon to take possession of their station at Cape May, which we are using, and establish there a patrol squadron of the big long range planes.

The Commandant of the Philadelphia area of the Navy recommended that the Coast Guard be ousted completely from Cape May but Captain Shea has had conversations with Navy officers which indicate their willingness to permit us to retain a base for picket boats there on the Navy reservation. We shall probably, however, have to give up all hangar space. This will cause no hardship to us, however, with the completion of the fine new Coast Guard air station at Elizabeth City, North Carolina, forty miles south of Norfolk. We will have there not only hangars, barracks and a seaplane raft but also an excellent land field with proper runways, all the exclusive property of the Coast Guard.

The allocation of the modern and usable types of planes, beginning on July 1, will be as follows:

SALEM - 1 new Hall P.H. 3; 2 Fokker P.J. 1 (the original Coast Guard flying boat); 2 R.D. 4 Douglas Amphibians.

NEW YORK - 3 new Halls; 3 J.R.F. 2 (Grumman Amphibians).

ELIZABETH CITY - 3 Hall P.H. 3; 3 Grumman J.R.F. 2.

- 2 -

CHARLESTON - 2 R.D. 4 Douglas Amphibians; 3 J.F.2 single motor Grummans.

MIAMI - 2 P.H. 2 large Hall biplanes.

ST. PETERSBURG - 2 R.D.4 Douglas Amphibians; 3 single motor Grummans.

BILCKI - 2 old Halls; 2 single motor Grummans.

SAN DIEGO - 1 old Hall; 1 Douglas Amphibian.

SAN FRANCISCO - 1 P.B. 45 (Consolidated long range flying boat of Navy type.)

PORT ANGLES - 1 Douglas Amphibian; 1 single motor Grumman.

April 17, 1960.

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MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

I have approved a new disposition of airplane equipment, effective July 1, as recommended by headquarters. By that date we expect to have all seven of the new Hall P.H. 3's. One of these is to be assigned to Salem, three to New York and three to the new station at Elizabeth City. Of the five remaining old Hall biplanes, the P.H. 2's, two are to go to Miami, two to Miami and one to San Diego. The P.B. 45, the big Consolidated flying boat, which we are to receive from the Navy shortly, is to be assigned to San Francisco, thus providing two long range planes for the Pacific Coast where now we have none.

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ELIZABETH CITY - 3 Hall P.H. 3s 3 Orman J.R.F. 2.

- 2 -

CHARLESTON - 2 R.D. 4 Douglas Amphibians; 3 J.F.2 single motor Grummans.

MIAMI - 2 P.H. 2 large Hall biplanes.

ST. PETERSBURG - 2 R.D.4 Douglas Amphibians; 3 single motor Grummans.

BILCKI - 2 old Halls; 2 single motor Grummans.

SAN DIEGO - 1 old Hall; 1 Douglas Amphibian.

SAN FRANCISCO - 1 P.B. 45 (Consolidated long range flying boat of Navy type.)

PORT ANGELES - 1 Douglas Amphibian; 1 single motor Gruman.

TREASURY DEPARTMENT

87

INTER OFFICE COMMUNICATION

DATE April 17, 1940

TO Secretary Morgenthau

FROM Mr. Dietrich

CONFIDENTIAL

Quiet conditions again prevailed in the foreign exchange market. Sterling, after opening at 3.49, moved off to 3.48 in the first hour of trading. It then developed a firmer tone, and just before the close, a high of 3.50 was reached. The final quotation was 3.49-1/2.

Sales of spot sterling by the six reporting banks totaled £275,000, from the following sources:

By commercial concerns.....	£ 70,000
By foreign banks (Far East, Europe and South America)....	£ 205,000
Total....	£ 275,000

Purchases of spot sterling amounted to £363,000, as indicated below:

By commercial concerns.....	£ 148,000
By foreign banks (Europe, South America and Far East)....	£ 215,000
Total....	£ 363,000

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

£ 27,000 by the Guaranty Trust Co.
3,000 by the National City Bank
2,000 by the Irving Trust Co.
£ 32,000 Total

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

During the past few days, the rate for the guilder has experienced little movement, and so far this week the Federal Reserve Bank of New York has purchased no guilders for account of the Netherlands Bank. We understand, however, that the Dutch Control continues actively to support the guilder in the Amsterdam market, and such support has necessitated several releases of gold to us by the Netherlands Bank, in order that dollars might be obtained to cover market commitments. The closing quotation for the guilder today was .5309.

The downward movement for the belge continued and a low of .1673 was touched at the close.

The other important currencies closed as follows:

French francs	.0198-1/4
Swiss francs	.2242-1/2
Canadian dollars	14-1/4 % discount

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

\$ 10,000,000 from the Bank of France
6,000,000 from the Netherlands Bank
<u>765,000 from the National Bank of Belgium</u>
\$ 16,765,000 Total

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

\$ 6,142,000 from England, representing two shipments by the Bank of England, to be earmarked for its account.
2,925,000 from Canada, shipped by the Bank of Canada, Ottawa, for sale to the U. S. Assay Office.
2,245,000 from Switzerland, shipped by the Swiss National Bank for its account. The disposition of this shipment is unknown at the present time.
<u>\$11,312,000 Total</u>

The State Department forwarded a cable to us stating that the Banque Federal, Bern, shipped \$279,000 in gold from Switzerland to the National City Bank, New York. This gold will be sold to the U. S. Assay Office at New York.

The Bombay silver quotation advanced the equivalent of 1/8¢ to 41.01¢.

The prices fixed in London for spot and forward silver both rose 1/16d to 20-15/16d and 20-13/16d respectively. The U. S. equivalents were 32.97¢ and 32.58¢.

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

We made two purchases of silver totaling 57,000 ounces under the Silver Purchase Act, all of which was new production from foreign countries, for forward delivery.

CONFIDENTIAL 

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 17, 1940

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

April 6: Foreign countries are now beginning to advise that crop conditions, particularly in the Balkan states, are very unfavorable, and that prospects for wheat are said to be the poorest in 10 years.

It is reported that the Argentine Wheat Board sold about 6,000,000 bushels of wheat to Spain for shipment before next October.

April 8: Sales of cash grain for export were negligible with no business reported in American grain and very little in Canadian wheat.

Argentina sold 500,000 bushels of rye to be shipped to the United States, but this will probably be transhipped to Europe.

Argentina and Africa, particularly the former, have large corn crops. Argentina has been making some excellent sales, particularly to the Continent, with Holland reported a very heavy buyer of Argentine corn during the past week. South African shipments since August 1 have totaled about 21,000,000 bushels as against 12,000,000 bushels a year ago, with the principal buyers the Continent and some sold to Canada.

April 9: As was expected, England and European countries took all the offerings of Canadian wheat that had been put out overnight, knowing of course that all markets would advance sharply because of the further developments in the European situation. Total sales were about 10,000,000 bushels.

For the first time in many years, Argentine wheat is selling higher f.o.b. Buenos Aires than Australian wheat f.o.b. Sydney, Australia. This situation

Secretary Morgenthau - 2

// emphasizes the largeness of the Australian crop this year and the very great difficulties in transporting it overseas.

April 10: United States cash demand, both for domestic and export wheat is slow.

Winnipeg reported sales of about 150,000 bushels of Canadian wheat.

April 11: Export business in American grain was at a standstill with very little interest shown in Canadian wheat.

Argentina has been making rather large sales of wheat. Clearances last week were in excess of 4,000,000 bushels; and in view of these continued heavy shipments, it is expected that the wheat crop will finally turn out to be considerably in excess of the 118,000,000 bushels estimated at the end of February.

GROUP MEETING

April 17, 1940
9:30 a.m.

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

H.M.Jr: Good morning, everybody.

Herbert?

Gaston: I don't believe I have anything to report except that the Navy is going to oust us from Cape May. I think they will let us have room for barracks, but we won't be allowed to have any more hangar space. That won't make any great difference, because they are in no hurry about it and we will have Elizabeth City ready in time to take care of the planes.

H.M.Jr: Will you send Burke down there?

Gaston: Yes. The Navy owns that station at Cape May and they want it now. They are establishing a control fleet.

H.M.Jr: Ed?

Foley: We have a request from the Czechoslovakian Minister to include it in the Executive Order.

H.M.Jr: I am waiting to hear from you gentlemen. See Bell. How did you get it?

Foley: A copy came to me.

Bell: Well, Bernstein got a copy and is studying it and Ed got a copy.

H.M.Jr: It was from Mr. Hull to me. How was it distributed?

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Hall: Through Mr. Cochran's office, in the usual way.

H.H.Jr: I am just not used to this efficiency.

Hall: They copy it as soon as it comes over and anyone interested gets a copy.

H.H.Jr: Fine.

Haley: I have nothing else.

Sullivan: Roy Elough has been invited to serve as moderator at a four-day conference on adjustment of State and Federal tax systems out in Colorado in June. We have had men out there in the past and they are very desirable.

H.H.Jr: All right, provided you haven't got a tax bill going through.

Sullivan: That is what I told him, that I would submit it to you, with the provision that he would not be allowed to go if things got hot here at that time. The Treasury would have to pay his travelling expense and the conference pays his expenses out there. That is all.

H.H.Jr: You will see me at 10:15?

Sullivan: That is right.

H.H.Jr: Joe?

Cotton: I am not quite sure yet whether they are going to have a meeting of the Export-Import Bank tomorrow, but if they are, I would like to try and see you for a short while this afternoon.

H.H.Jr: Will you ask Mr. McKay?

Cotton: I will, as soon as I know.

H.H.Jr: A place where you may find some information on the task which I gave you yesterday, I would ask the Federal Reserve Bank of New York what

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they have. They might have quite a lot.

Cotton: Yes.

H.M.Jr: Call up Allan Spruul. Do you know him?

Cotton: No, I don't know him personally.

H.M.Jr: Have you got started on that?

Cotton: Yes.

H.M.Jr: Chick, I thought the publicity we got yesterday on this pound business was very good. Even Clarence Linn likes it.

Schwarz: We had a nice story this morning on the airplanes, also.

H.M.Jr: In the Times?

Schwarz: Clarence Linn wrote a nice one.

H.M.Jr: I didn't see it. Do you want to send it in?

Schwarz: Yes.

H.M.Jr: I will be glad to see it.

Harris: The article in the Journal of Commerce on the pound was quite a friendly article.

H.M.Jr: That is the one I was referring to, Clarence Linn.

Schwarz: The airplane story is very friendly, too. I would like to bring up again that invitation to appear as a guest speaker at this forum of the Cooperative Committee.

H.M.Jr: That is all right. Bring it up again Monday. Incidentally, when do I talk for Ned Bruce?

Schwarz: A week from tomorrow evening.

H.M.Jr: Have you got something good and snappy to say?

Schwarz: I have got a follow-up to check with him.

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H.M.Jr: Get it by Friday. He is terrible. Get it by Friday, will you? Mrs. Flotz is worrying that you are getting thin stalling on this speaking engagement.

Schwarz: I am not worried about it.

H.M.Jr: What else, Chick? I see you announced that Crane and these various fellows are here.

Schwarz: No, somebody found out.

Bell: No, they had it, Mr. Secretary. They came to me late last night and said they understood that Crane, and so forth, were here.

Schwarz: They got something out of New York.

Bell: That is right, so I gave his full name.

H.M.Jr: George?

Haas: I have got the right ones this morning (referring to Standard Statistics).

H.M.Jr: I changed my mind. Ask anybody around here if they want one. I am not going to send it to the President.

Basil, how was the circus?

Harris: I haven't been to many circuses, but it was very good.

H.M.Jr: Did I miss much?

Harris: Why, it was really quite good. I enjoyed it thoroughly.

H.M.Jr: Did you find out who you went with?

Harris: Yes, I found out. It took me a long time.

H.M.Jr: I won't mention any names, but this is what happened. I was out at a dinner last year with somebody that you all know, and it wasn't Basil Harris. This man leaned across the

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way to me and he said, "Say, Morgenthau, who is that woman sitting across the way from us?" I said, "Well, that is your hostess." "Why the devil didn't my wife tell me?" That is a true story. I won't give him away, but that is what happened last year.

Harris: This was almost as bad.

E.M.Jr: What else?

Harris: Nothing.

E.M.Jr: All right. I am feeling better today, you can see.

Harris: That fellow on that molybdenum, the State Department got hold of him. He said there wasn't the slightest bit of truth in it, but he said in the next breath, "I think I had better take the first train to Washington," so I don't know just what to make of that, but he is coming down to see the State Department himself. Green said he would let me know.

E.M.Jr: Joe Green loves to do that, you know.

Harris: Does he?

E.M.Jr: Oh, he gets a big kick out of it. He just puts these fellows through the third degree.

Harris: I guess probably he summoned him to Washington, then.

E.M.Jr: He did it in the case of that New England manufacturer who stole some military - had the fellow down here and gave him the works. He loves it. This is another one, this is an airplane company. Is it Standard Airplane?

Harris: General Aircraft.

E.M.Jr: Harry?

White: Here are a few items - here is a report of a Japanese steamship carrying tin to Vladivostok

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by way of Kobe. It is the first instance we have had of a Japanese steamer carrying strategic materials. It was originally scheduled on a Greek vessel and it was cancelled and taken by a Japanese vessel.

H.M.Jr: Well now, does that overlap what you (Harris) told me?

Harris: That is the same thing.

White: Well, he got a copy of that.

Harris: I guess you got a copy of mine.

White: I am sorry, I thought you said give him a copy. Most of this information, I think, comes from Basil Harris' reports.

Harris: As a matter of fact, Harry and I collaborate very closely on this thing.

H.M.Jr: It is a big day for you (White) when Basil Harris is 24 hours ahead of you.

White: We will let the information of this type always come from him to avoid duplication, then.

H.M.Jr: I don't mind getting it twice.

White: Well, I mind giving it twice.

Here is a declaration of principles relating to conduct of American industry, in which they printed your name on the copy. There is a comment on it which you asked for. I think it would be a good thing to get some more copies and pass them around. Others will be interested in it.

Here are some comments on Secretary Hull's note to the Mexican Ambassador on the oil situation, because I think it is kind of significant and you may want to read it.

Here is a memo on Britain, Germany and France that you asked for (April 16, 1940).

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Here is a memorandum on the trade picture in the Western Hemisphere, with a couple of charts. (April 16, 1940). There are a lot more charts on those, showing how Latin America has fared.

H.M.Jr: I tell you what I would like you to do. When you go out, tell McKay you want to see me and I will fix you up. I would like you to hand me those things and take 15 minutes to go over them.

White: All right, I will do that.

There is a memorandum here on the highlights of our trade in March.

H.M.Jr: Give me all of that stuff.

White: You asked me to see you on the questions concerning the sterling dollar rate.

H.M.Jr: 11:45.

White: All right.

H.M.Jr: I will give you 15 minutes.

White: Here is the present status of the Inter-American Bank, what countries have agreed, which are in doubt, and so on.

Mr. Rozell, of the New York Federal Reserve Bank, called by telephone, stating that the - apparently the British Government was contacting or attempting to sell British securities direct to some of the big companies. This follows, I think, your original suggestion. They want to know whether in order to keep their accounts straight they oughtn't to attempt to find out from the companies whom are being contacted whether sales were made or what arrangements were made. I was rather dubious about it and said we would let them know.

H.M.Jr: Who asked this question?

White: Rozell of the Federal Reserve Bank. He is responsible for the capital report in the Federal Reserve Bank of New York.

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H.M.Jr: I think he is handling the reports, what he sold, whether it is over the New York Stock Exchange or over his desk.

White: You mean the British?

H.M.Jr: Well, it is easy enough. Cochran is the fellow that talks to him. It is Cochran to Pinsent and Pinsent to this fellow.

White: I will send this over to Cochran.

H.M.Jr: That is right.

White: The rest of the things I can take up at a later time.

H.M.Jr: I will see you at a quarter of 12:00. All right?

White: All right, sir.

H.M.Jr: Harold?

Graves: Nothing.

H.M.Jr: Is today the day?

Graves: Yes. Today is another day.

H.M.Jr: Anything else since I have seen you?

Graves: No, nothing of any particular importance.

H.M.Jr: Anybody hear from Elmer Ireys?

Graves: I had a card from him. I understand that he is on his way back here today.

H.M.Jr: How is he feeling?

Graves: Says he is feeling fine.

H.M.Jr: Dan? Got a man for me?

Bell: Pretty quick work, isn't it?

H.M.Jr: I asked you ten minutes ago.

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Bell: He will be here pretty soon. There was a case yesterday which you might be interested in. I had a request to transfer \$5,000 on an application from the National City to the Danish Consulate in Mexico and we thought that might be one way of syphoning the funds out of the country and maybe we had better look into it. First, we asked the National City if that were a normal monthly transaction and second, we asked the Danish Legation if it wanted to look into it. We haven't asked the National City, but we asked the First Secretary of the Danish Legation and he said my goodness, to hold that up until we could look into it, because that is a good deal more than they need. They have only been getting about \$2,000 a month and they would like to look into it, so we haven't found out yet.

H.M.Jr: The Danish Minister is coming in at 3:00. I would like you here at that time.

Bell: All right.

H.M.Jr: That is interesting. What else, Dan?

Bell: That is all.

H.M.Jr: Norman?

Thompson: If I may stay, I have some things to go over.

H.M.Jr: Oh, yes. O. K.

April 17, 1940
9:58 a.m.

H.M.Jr: Hello.

Harry
Collins: Good morning, sir.

H.M.Jr: Good morning.

C: Mr. Secretary, I just had a call from Brett and he was asking if I had any information concerning your proposed trip this week.....

H.M.Jr: Ah.....

C: He wants -- he'll have to bring somebody in here if he's to go out on Friday.

H.M.Jr: No, the chances are three out of four I will not go.

C: I see.

H.M.Jr: Well I'll tell -- three out of four.....

C: Yes, sir.

H.M.Jr:that I will not go.

C: Well, I'll tell him that, sir.

H.M.Jr: Yes.

C: All right, sir.

H.M.Jr: I've been waiting to hear from you, young fellow.

C: On what?

H.M.Jr: Well, on that question about the powder and all the rest of that, that you seem to be doing without my knowledge.

C: Oh, God, listen, I've got a spanking coming to me on that one and I have no excuse whatever.

H.M.Jr: I agree with you.

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- C: It was just a slip and I'm awfully sorry that it happened.
- H.M.Jr: Well, that can't happen more than once in my organization.
- C: Well, that won't happen again as far as I'm concerned.
- H.M.Jr: I was there when Watson talked to you.
- C: Yes, sir.
- H.M.Jr: And he had the -- he's recalled that memorandum because I hadn't passed on it. He was terribly upset.
- C: Well, it -- it never should have gone out the way it did. I appreciate that thoroughly now, and I have no excuse at all. I have no -- there's -- I don't know how it happened, sir.
- H.M.Jr: But on a thing as important as that, a 30 million dollar plant, whether it goes to Canada or the United States -- I mean, how can you pass on a thing like that without discussing it with me?
- C: Well, I -- I was passing on that one paragraph only of it. I was looking at it entirely from a point of view of American labor.
- H.M.Jr: But you sit here in my office yesterday morning and you never say a word about it.
- C: Well, I -- as a matter of fact, sir, I don't know how it happened. I'll be perfectly frank about it. I -- I didn't consider it of that much importance. I was looking at it only from the point of view of American labor in the Canadian plant.
- H.M.Jr: Now listen, Harry,.....
- C: Yes, sir.
- H.M.Jr:it's difficult enough for me to handle Louis Johnson without your writing a memorandum throwing him down.

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- C: Yes, sir.
- H.M.Jr: And without my knowing anything about it.
- C: I appreciate it, sir.
- H.M.Jr: And -- because I have to take it; you don't. I mean, he doesn't take it out on you, he takes it out on me. And besides that it's a very important question, where the plant should be located. And the most important of all is it shakes my confidence as to how many other things are you doing that I don't know about?
- C: None at all. Absolutely none.
- H.M.Jr: And it raises -- it certainly shock General Watson. I mean, he immediately grabbed the telephone and sent for the memorandum and recalled it. Now, all I'm going to say is a thing like that can only happen once.
- C: Well, I -- I had no -- as I told you so I'm frightfully sorry about the deal; very, very sorry indeed and I can't explain it.
- H.M.Jr: Well.....
- C: And it will never happen again though, you can rest assured of that, sir.
- H.M.Jr:for your sake I hope it doesn't.
- C: No, sir, it won't. I can assure you of that and....
- H.M.Jr: Well, that's that.
- C: Has that -- has that been returned yet?
- H.M.Jr: Well, I was there when General Watson called up Louis Johnson and told him to return it, the memorandum, the President's memorandum, and then Watson was going to speak to the President and after that I was to hear from him. In the meantime I'm sitting tight.
- C: Yes, sir.

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- H.W.Jr: But in my presence he called up Louis Johnson and said, "Send back the President's memorandum. Secretary Morgenthau has not seen it." Then Louis must have said something, and, "Now keep your shirt on, Louis, until the Secretary has a chance to see it."
- C: Uh-hm.
- H.W.Jr: So I'm just waiting -- and they've given me a copy of the correspondence which I have on my desk which General Watson sent to me.
- C: Yes, sir.
- H.W.Jr: And now I'm waiting to hear from General Watson to get instructions from the President. So I'm not going to make any move until I hear from the President.
- C: Yes, sir.
- H.W.Jr: But in the meantime the thing is frozen.
- C: Well, I'm very happy that it got -- was nailed before any action was taken over there on it.
- H.W.Jr: Well, it was just that I was there to see the President and Watson asked me whether I knew about this and I -- he said Louis Johnson is going to be fit to be tied. So I said, "Well, I don't know what you're talking about." So that's that. O.K.
- C: All right, sir.
- H.W.Jr: All right.
- C: I've got -- I'm getting some other dope to gether for you. I'll have it later on today.
- H.W.Jr: Well, tell Brett the chances are three out of four that I will not go.
- C: Yes, sir. All right, sir.
- H.W.Jr: Goodbye.
- C: Goodbye.

April 17, 1940
10:42 a.m.

H.W.Jr: Hello.

Louis
Compton: Good morning, Mr. Secretary.

H.W.Jr: How are you?

C: Fine, thank you, sir.

H.W.Jr: Mr. Sullivan is sitting here with me. We were discussing this proposed amendment to the Vincent-Trammell Act.

C: Oh, yes.

H.W.Jr: And I was telling him -- and I wanted to check my memory with yours, that the impression I got the other day in Cabinet was that the President did not want any bill at this time. Now, is that.....

C: The President opposed the thing as a piece of new legislation. I didn't know at that time that I -- at the Cabinet meeting that -- that was introduced while I was in the hospital last summer and passed by the Senate.

H.W.Jr: Yes.

C: And revived, but not on the initiation of Navy or Treasury, but revived upon the initiation of the committee.

H.W.Jr: I see.

C: You see? And the chairman of the committee has asked for a draft of the bill. I'm due to go to the White House at twelve o'clock and I'm going to canvass that with him again because I'm not sure that he understood definitely that that was an old piece of legislation. He was opposing it, I think, on two grounds. One was that it was new legislation and he didn't want new legislation because he wanted Congress to go home, and two, as a general proposition, he didn't want exceptions to any of these laws. He said -- you remember he said they had the income tax law so shot full of loopholes that no money got in the Treasury.

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H.M.Jr: That's right.

C: He made that statement.

H.M.Jr: That's right.

C: And this, of course, isn't quite exactly that.

H.M.Jr: Well, would you do this? Your memory and mine agree, so when you come back from the White House and have got the thing, will you call up Sullivan and contact him direct?

C: I will, Mr. Secretary. Yes, indeed.

H.M.Jr: And tell him if there's any change.

C: And I'll -- as soon as I get through there I'll not only call him, but I'll dictate a memorandum of my memory of exactly what he says because we want to be awfully sure on this.

H.M.Jr: That's right. And then you'll contact -- and we'll sit tight until Sullivan hears from you.

C: That'll be this afternoon soon after -- my appointment is at noon, and I'll call you very soon afterwards.

H.M.Jr: Thank you.

C: Or I'll call Mr. Sullivan.

H.M.Jr: Thank you very much.

C: Not at all. Goodbye, Mr. Secretary.

April 17, 1940
4:20 p.m.

E.W.Jr: Hello.

Operator: Mr. Alsop.

E.W.Jr: Hello.

Joseph
Alsop: Hello, Mr. Secretary.

E.W.Jr: How are you?

A: Well, I'm fine, sir. I just got back from Charleston
this minute.

E.W.Jr: Good. I just wanted to tell you that I enjoyed
reading your column yesterday.

A: Oh, thank you so much, sir.

E.W.Jr: I thought it was very interesting, very illuminating,
and very factual.

A: Thank you, very much.

E.W.Jr: And.....

A: I thought it was a good piece. Bob wrote it.

E.W.Jr: Well, I enjoyed reading it.

A: Thank you ever so much, sir. And how are you?

E.W.Jr: I'm all right. I'm all right.

A: You are?

E.W.Jr: Yes.

A: Oh, it was the piece yesterday. Yes, that was the
one I was working up. Well, we both did that.
Was there -- well, I'll see you tomorrow night.

E.W.Jr: That's right.

A: I'm dining with you.

E.W.Jr: I know you are.

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A: Good.

H.M.Jr: All right.

A: Splendid. Thank you so much for calling.

H.M.Jr: Goodbye.

A: Goodbye.

GROUP MEETING

April 18, 1940
9:30 a.m.

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

H.W.Jr: I am having Phil Young detached from everything else that he is doing and attached directly to me and he is going to assist me in correlating this stuff on the Allied Purchasing Commission, so he will be detached on everything and I will have to make - now, I want him, for instance, to get the stuff that comes from - what is the name of this man that does the selling of stocks?

Cochran: Gifford.

H.W.Jr: I want him to get Gifford's stuff and I want him to get the balances in the Federal Reserve.

Cochran: All right, sir.

H.W.Jr: And what else do we get?

Cochran: We have some other routine stuff on security sales that we get from the Securities and Exchange Commission.

H.W.Jr: Anything that has to do with belligerents, as far as money goes, I mean on the purchasing. It gives me - I want this stuff correlated so that I can know - I haven't got the stuff, that is my trouble, but for the moment I would say this stuff that comes from --

Cochran: Gifford.

H.W.Jr: Gifford and the weekly balances. Now, how do I get those?

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- White: We get the originals and they are totaled each week and they are classified in importance to the categories and you get a weekly report of their weekly purchases and their cumulative purchases on each of the important categories.
- Cochran: Harry fixes up one statement after we get it.
- H.M.Jr: Mrs. Klotz, will you tell Phil Young to go down and see Harry White and get that line? Will you explain it to me?
- White: Yes. Do you want us to continue to total them or shall we turn the originals over to him?
- H.M.Jr: It is just --
- White: Routed through him?
- H.M.Jr: That is right.
- Flots: Don't we get the originals direct? I think we do, and then they go to --
- H.M.Jr: You take this and see that he gets it and send for Phil Young so that those things - whatever - the originals - I wanted him - you know what I want. And his secretary, Mrs. Bertha Jones, will you have Secret Service investigate her very carefully?
- Thompson: I think that has been done.
- H.M.Jr: Well, do it over again. And then Mrs. Klotz and I want to see you after this.
- Thompson: Mr. McReynolds told me yesterday that Judge Moyle's son told him we would have Judge Moyle's resignation in 24 hours. Mrs. Moyle wants him to resign.
- H.M.Jr: What has he been doing?
- Thompson: He has been working on these reports of baby bonds, but Mr. McReynolds said he thought the Judge would be very happy if he could have 60 or 90 days leave and resign at the end of that.
- H.M.Jr: Sure, let him resign as of the first of July.

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Thompson: Yes. We could push it up even beyond that and give him 90 days.

H.M.Jr: Yes, sure.

Thompson: I understand he has reservations to leave Washington Saturday. He is going, anyway.

H.M.Jr: You mean he wants 90 days with pay?

Thompson: That is right.

H.M.Jr: Is he entitled to it?

Thompson: I think so.

H.M.Jr: You do?

Thompson: Yes, sir. He has been around and put in his time.

H.M.Jr: Why should he get 90 days?

Thompson: He has been around here for seven years and he hasn't had much vacation.

H.M.Jr: O. K. I was thinking about him the other day. I was reading this review of this book about the Mormons. Has anybody read that?

Schwarz: The Children of God?

H.M.Jr: Very interesting.

Gaston: The only people that objected to that were the Independents, the Missouri crowd, where they reformed or something, the Latter Day Saints, not in Utah.

H.M.Jr: Anything else?

Harold?

Harry?

White: Sometime within the next couple of days we ought to have a few minutes to go over that answer on the Chinese thing. I prepared an

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answer, but it requires some discussion because there is a matter of policy involved.

H.M.Jr: Have hopes.

White: All right. It shouldn't be later than next Monday or Tuesday.

H.M.Jr: George?

Hess: Here's that analysis. It doesn't look so bad.

Schwartz: As might have been expected, the first sample editorials around the country on the freezing of the Norwegian and Danish credits are all very favorable, if you would care to see a few.

White: What do you mean, as might have been expected?

Schwartz: Just that. There is always a possibility that there might have been some criticism, but I think there was a very small possibility.

H.M.Jr: Nothing happened. I am waiting. All right, you had better strike another match, Chick, maybe he will catch on this time.

What else, Chick?

Schwartz: That is all.

Cochran: I have nothing. I have been in that meeting with Dan from 9:00 o'clock until 9:30.

H.M.Jr: They had one man come down yesterday that looked very good, that we are thinking of hiring. I told Dan if he gets two that look all right, hire both of them and we hope that one of them will make good. Dan is just sunk. It is terrific.

Cochran: Yes, I know.

Sullivan: I have to call Secretary Woodring before 10:00. I would like to see you for just a minute after this meeting.

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H.M.Jr: Did you go up on the Hill?

Sullivan: Ha, did we!

H.M.Jr: Tell the crowd. The people in this room are so tight-mouthed.

Sullivan: Well, I went up with Secretary Compton and Compton was very much disturbed about telling Mr. Vinson to lay off and asked me to carry the ball and I did up to the point where Secretary Compton related what happened at the Cabinet meeting and then he related the conversation with the President yesterday and Vinson said, "What the President doesn't know is what we have discovered you have been doing over there. Now, you go ahead and prepare this bill and when the President gets back, I will go over and tell him I signed it and then we will let him decide whether he wants to put it over next session or not."

H.M.Jr: But he will wait until he comes back?

Sullivan: Yes, but we have got orders for full steam ahead, so everything will be ready.

H.M.Jr: Did you make a note of what your friend, Louis Johnson, said, how that bill was gotten through and the understanding with the aircraft industry, did you write that out for me?

Sullivan: No, sir.

H.M.Jr: I wish you would. That was an eye-opener for me. You got the significance of that remark?

Sullivan: He said the Army had not participated in it.

H.M.Jr: He said the Army had got it through for the aircraft industry last summer.

Sullivan: I don't believe that is true.

H.M.Jr: He said they had a gentlemen's agreement with the aircraft industry in regard to their program which was to be through in '41 and '42 and if this program was --

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Sullivan: I heard him say that the contracts that had been executed since that was through in July --

H.M.Jr: He said this thing which was gotten through in conference was gotten through - he said the Army got that through last session and if this thing was changed, that the aircraft - before this program was finished, the aircraft industry would charge them with bad faith.

Sullivan: I didn't understand him to say that.

H.M.Jr: I certainly did and my eyes almost popped out of my head.

Sullivan: I understood him to say he had nothing to do with it and I came back and said it was done in conference and we didn't know anything about it either.

H.M.Jr: He said the Army got it through. Just for fun, you ask him and tell him that you are writing this thing up and is that correct.

Sullivan: I will.

H.M.Jr: Collins was present, you can check with him.

Sullivan: That is right, I will.

H.M.Jr: That kind of thing, my memory is awfully good.

Sullivan: Well, I didn't hear him correctly, then, because I came back and said, "Well, Treasury didn't know anything about it either and it was done in conference."

H.M.Jr: He was boasting that he got that thing through and he said after all, if it is changed next session, he said, "The aircraft industry can't say anything because by that time with this new adjustment we will have the planes that we want and if they don't like it, it is too late." You ought to get that.

Sullivan: If he said that --

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H.M.Jr: Just check it for fun.

Sullivan: Were you here at that time, Mr. Dennis?

Dennis: No, I wasn't.

Klotz: Yes, he was.

Dennis: I will check that with my notes, Mr. Sullivan, because I didn't hear any reference to a bill.

H.M.Jr: Well, take another look before Sullivan calls, will you?

Incidentally, did you and Harry write up that meeting with Mr. Hull?

Foley: Yes.

H.M.Jr: Where do we go from here, John?

Foley: We did it.

H.M.Jr: What do you mean, we?

Foley: We did it when we came back, the two of us. We went back to my office and dictated it and I corrected it yesterday afternoon and it is on its way around to Harry now to check.

Klotz: I haven't got it.

Foley: No, we haven't given it to you, but we have done it.

White: It was dictated right after the meeting.

Foley: As you suggested, while it was fresh in our minds.

H.M.Jr: That is right. All right. Talk out, now.

Sullivan: Well, he then wanted to know what we were doing about scientific instruments and I said we were working on it and it was a difficult problem and he pulled out of his drawer a long list of figures.

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- H.M.Jr: Who is he?
- Sullivan: Vinson. He said, "Here is where they made \$331,000 on you on a \$900,000 contract and here is where they made 29% on another contract." Compton said, "Well, where did you get those figures?" He said, "I got them from the Navy Department." So he wants to go out to the scientific instrument fellows and Compton is furnishing me a list of names of the fellows in a position to discuss with us the problem of allowing a reasonable allowance for research work and I am having those fellows in this week.
- H.M.Jr: Well, let me ask you a question which I have been wanting to ask for a long time. I have been through several airplane factories and a lot of this stuff is assembled. Now, they buy, for instance, retracting gear for an airplane which is made in a place and sent in there. Now, this so-called 12%, do they follow that right straight down to the man who makes the retracting gear, is he limited to 12%?
- Sullivan: That is right, if the order is for more than \$10,000. Anything that goes into the finished ship, the finished aircraft, is subject to that profit limitation.
- H.M.Jr: You are sure of that?
- Sullivan: That is right, that is a subcontract. Yes, they do. They do that on all Naval vessels.
- H.M.Jr: I am talking about airplanes. Well, just check Sullivan, will you, on that?
- Sullivan: I will check Sullivan on that.
- H.M.Jr: Are you all right to go over and see Mr. Woodring now?
- Sullivan: I am going to - I tried to get him yesterday afternoon, after Mr. Johnson left, so there wouldn't be any crossed wires, and he had left. I was going to call him this morning and I think

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I had better see him. It is kind of a complicated situation now.

- H.M.Jr: Well then, you don't have to see me first?
- Sullivan: No, I don't have to, but I just wanted to inform you before I see him.
- H.M.Jr: O. K.
- Ed?
- Foley: Nothing.
- H.M.Jr: Incidentally, I am intensely interested in this deal that Dan told me about this morning of the National City Bank contemplating - if you say it is all right, then I want State and Agriculture to sit in on it.
- Foley: I think it is a matter of policy.
- H.M.Jr: First we have got to find out whether we can do it legally.
- Foley: We can, if you want to do it. I don't know where the gold would be that would be up as a collateral for the loan - would be carried, I don't know whether the Fed in New York would carry that from the National City.
- Cochran: They would, I think, Mr. Secretary. They recommended it. I have written you a memorandum on conversation with George Harrison when we had up similar cases.
- H.M.Jr: We have never done it, though.
- Cochran: No, it has not been done.
- Foley: They have only done it for central banks, you see.
- H.M.Jr: Who has this thing, do you know?
- Foley: I don't know it very well. I talked to Bernie about it before I came in.

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- Cochran: Bernstein and I have discussed it a good many times.
- H.M.Jr: The proposal, as I understand it, is, the Government of Spain wants to buy four million dollars worth of wheat and they want either six or nine months' credit.
- Cochran: Six, nine and twelve months.
- H.M.Jr: And the National City said they will give it to them, provided they will put up gold in this country as collateral. Now, I don't know of a better way to put gold to work than that way, provided that the State Department will say they would like to see a deal like that go through.
- Foley: Well, would they bring their own gold over here or buy it from us?
- H.M.Jr: They would have gold belonging to Franco. It wouldn't go through Export-Import, it is direct.
- White: Why would Spain want to do that, under those conditions?
- Gaston: I suppose they could still include the gold as part of their reserve, Harry, if it was merely pledged as collateral.
- White: Well, they could if they wanted to do that.
- Gaston: Otherwise, there would be nothing in it.
- White: It is rather impolitic. We turned that offer down last time because it was a central bank to which we would have been a party. This being a private bank, I suppose it is none of our business if Spain wants to call gold that is placed on security for loan as part of her own resources. I don't think it concerns us.
- Gaston: Otherwise, we might just as well pay cash for it.
- H.M.Jr: Do we want to give a loan to the National City so that they can have a call on that gold in

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case they don't pay, that is the point?

- Foley: Well, we would have to have an agreement with them if they don't pay that they would sell the gold to us within a certain period.
- H.M.Jr: Oh, sure. I think it is a nice deal. I don't know of a better way to put gold to work if the State Department says they would like to see Spain have this wheat. Now, everybody says that the poor Spaniards are starved to death.
- Cochran: I like it, Mr. Secretary, because I would rather have the bank lend on it than we purchase it.
- White: How much interest are they going to charge them with gold as collateral?
- Cochran: I don't know.
- H.K.Jr: Have you got some doubts about it, Basil?
- Harris: No, I was just thinking to myself that there are American ships running in that trade. It was just a natural thought I had.
- H.M.Jr: It would be good business?
- Harris: Oh, wonderful business.
- H.K.Jr: And this is a legitimate way of doing it, instead of Wallace putting all the pressure on me to do something else and I don't know a better way to put gold to work if the Spanish Government are dumb enough that they want to send the gold over here and put it up as collateral against the loan. If they want to do it, that is their business.
- Cotton: It is rather funny they didn't try and borrow some more money. So far as I know, they didn't come to the Export-Import Bank or any other.
- H.M.Jr: It is a French grain house which is putting through the deal. * Dreyfuss and Company are putting it through.

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Foley: It may be only ostensibly for Spain.

H.M.Jr: But it is a French house.

Foley: So long as we don't know that they are doing it for the French Government, it isn't a violation of the Neutrality Act of the Johnson Act.

H.M.Jr: It sounds good to me.

White: That may be it. They may be doing something for Spain and getting something in return. It is possible.

H.M.Jr: But it is being done by a French grain house.

Haas: That is the largest concern in the world.

Cochran: They have offices in New York and Buenos Aires and other places.

(Telephone conversation with Dan Bell follows.)

April 18, 1940
3:52 a.m.

H.V.Jr: Dan, Polay tells me that this grain deal will be O.K. The Marshal says that this grain deal will be all right.

Daniel W. Bell: Is that right?

H.V.Jr: Yeah.

B: They've been over it, huh?

H.V.Jr: So if that's the case, supposing I try to get a meeting here for — I'll call up — are they in a hurry?

B: Well, they said they'd like to have a reply back today.

H.V.Jr: Well, supposing.....

B: This evening will be all right.

H.V.Jr: Well, I'll try to set it for three o'clock.

B: That'll be all right.

H.V.Jr: I'll call.....

B: We haven't received the letter yet. I think we ought to have some document on which to act.

H.V.Jr: Well, you tell — call up Bentschler and tell him that we're ready to act if he hasn't got the document here yet he.....

B: Well, he was supposed to send it and I suppose it will be in on this morning mail. If it doesn't come in by eleven why I'll have them send a wire.

H.V.Jr: Well, and anyway I'll try and arrange the meeting.

B: Three o'clock?

H.V.Jr: Yeah.

B: All right. Goodbye.

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Foley: We talked with that young fellow last night. His father was president of the bank and his uncle, his father's younger brother, will probably be the next president sometime this summer. The boy is quite a bright boy. He took law at Cambridge and he is now getting a PhD in Diplomacy at Columbia. When he found out that these gold token coins that he was thinking about which would be the best, could not be circulated in the United States because he would have to pick them up, he said they would not be interested.

E.W.Jr: Anything else?

Foley: No.

Gaston: I have nothing.

E.W.Jr: O. K., thank you.

Group meeting

Telephone Conversation - Mr. Sullivan
called Louis Johnson - April 18 at 10:10

- Q. Good morning, Louis.
- A. Good morning, John. You didn't even know the man I was talking about yesterday. (laughter).
- Q. Louis, we went up — Compton and I went up and saw Vinson yesterday.
- A. How did you make out?
- Q. Vinson is not prone to go along with the present set-up as we had anticipated.
- A. He is?
- Q. He is not. Said he thought this matter ought to be presented to the President when he gets back. I made the suggestion that we continue our studies and I referred to the fact that your rearmament program would be completed the first six months of next year. That might be a definite aspect on the situation. He said: "I am not interested in the Army — I am interested in the Navy." Anyway, it is going to hang over for a couple of weeks in any event. Now, I have to write up a conference, including our conference in here the other day.
- A. Yes.
- Q. Did I understand you to say that this last bill, that is the amendments, was something the War Dept. put through for the aircraft manufacturers in the conference last summer?
- A. No — I said these provisions originated in the Military Affairs Committee and not in the War Dept. Their application originated up there. Somebody made a draft of it and submitted the draft. Then our fellows sat in with them to supply the working language. We had no part in putting it over — and we are taking no part in this, John. We don't want a charge of bad faith against us. When the manufacturers begin to howl, I will have to say this was not the War Dept's doing and I protest it.
- Q. You fellows weren't under the Act until last summer?
- A. We were put under by the Committee and not the War Dept.
- Q. The War Dept. opposed profit limitation last summer? You didn't initiate it?
- A. We didn't initiate it — and we notified the Navy and Edison was fully cognizant of all that was going on.

April 18, 1940

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11 a. m.

Present:

Mr. Purvis
Mr. Philip Young
Mrs. Klotz

Mr. Purvis: So sorry I was a few minutes late.

HM, Jr.: This is Mr. Philip Young. I am going to work him in as a sort of aide to me on anything to do with purchasing.

Mr. Purvis: Good!

HM, Jr.: So if Ballantyne ever wants anything

Mr. Purvis: Excellent! That will be very nice indeed.

HM, Jr.: Philip Young. We are going to arrange that Pinsent sends his stuff to him — the Bank stuff. Certain things that I am not getting and he can bother Ballantyne.

Mr. Purvis: That will make a direct line of contact. We have gotten so rushed, it's day and night.

HM, Jr.: And I want him to meet Mr. Ballantyne.

Mr. Purvis: Yes.

Mr. Young: I met Mr. Ballantyne.

Mr. Purvis: Well, sir, we have four or five things.

HM, Jr.: I will let you do this first and then I have some.

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Mr. Purvis: May I first refer to explosives.

I rang up Mr. C. D. Howe. Our difficulty arises from one thing which we shall always have to counter with. Last week in Canada they set up the Ministry of Supplies, discontinuing the Canadian Supply Board. Welles Campbell is left and it leaves Mr. Howe, who was Minister of Transfer, not only as that but as Minister of Supplies.

HM, Jr: One of the things I would like you (Young) to do for me — I have never understood this; have never taken the time — but maybe you can along with Mr. Ballantyne make me a little chart.

Mr. Purvis: We have a chart. We will hand you a copy of it. Nobody in our organization, except myself and two others, can find our way around this machinery.

HM, Jr: I would like to see it. I could not get it from Fortune Magazine.

Mr. Purvis: They did not put our chart in. We offered them one.

HM, Jr: That's one thing. How it flows. If you could write back to England

Mr. Purvis: That change-over in the Canadian Government situation meant that the British Supply Board suddenly got new agents. Those new agents were not in the slightest bit familiar with the machinery, and the Minister of Supply, who is a man of action and who is a little worried about the progress with which we have been able to get quotations from Canada in order to compare them with United States quotations for powder, tried to, in good faith, break through and get action, as he thought, for us.

What happened really was that he short-circuited Colonel Green's organization completely and incidentally, thinking that the block was entirely one of getting information, which was only partially true,

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apparently proceeded to take advantage of the fact that — and I may be wrong again — the Prime Minister of Canada was down here, I think, to get a little action.

EM, Jr.: All they have succeeded in doing

Mr. Purvis: is tying things into a knot.

EM, Jr.: I don't want these things to happen. The President wants me to handle it.

Mr. Purvis: Of course, Howe understands that. It is only fair to Howe to say he was coming down to see me last Friday.

EM, Jr.: And they have this thing all mixed up.

Mr. Purvis: What I think is he was coming down to see me. That was three days after he was appointed. You remember, I was here Tuesday. I was to fly back. After lunch I got a wire from him "I want to make it next Thursday". The fact of a delay of that week meant he was not posted as he would have been had he arrived. He's arriving on Friday -- Howe, the new Minister of Supply. He's coming for the express purpose -- he's bringing Ray Henry, who by the way will be appointed his right hand man.

EM, Jr.: Minister of Supply of Canada?

Mr. Purvis: He will act in place of the War Supply Board which has been abolished.

EM, Jr.: What has happened to the Air Marshal?

Mr. Purvis: It's quite absurd to explain it.

EM, Jr.: Well, don't let's take the time.

Mr. Purvis: They have stopped action which was on the way yesterday. How said to me last night,

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"The last thing we want to do is break through any channels"

HM, Jr: The answer is they can't.

Mr. Purvis: Quite! I will tell him so on Friday.

HM, Jr: What they have done, they have Mr. Joe Green of the Munitions Board, they have the Army and everybody all in it and everybody has his finger in it.

Mr. Purvis: As I understand it, it arose out of a very simple thing. That firm from which I originally came, the Canadian Industries, Ltd., sometime ago went to Du Pont and said, "Can we have technical information from you on nitrate cellulose." That was done in order to quote the Canadian War Supply Board for powder. Du Pont said, "We will give you an answer in so long." Du Pont later told that company "No, we can't." They gave no reason and that was that.

HM, Jr: Then the Canadians sort of took the attitude "Why all this delay?"

Mr. Purvis: I suppose so.

HM, Jr: And got a little disagreeable about it, so I was told.

Mr. Purvis: Oh!

HM, Jr: Well, anyway, that's all washed up. Right?

Mr. Purvis: Yes.

HM, Jr: You and I start fresh.

Mr. Purvis: That's right.

HM, Jr: Are you prepared to tell me what you want?

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Mr. Purvis: Yes. What we are at the present time doing, we have been negotiating with Hercules, Atlas, Western Cartridge Company, American Cyanide and Du Pont for powder. We have placed a Hercules contract, one for rapid fire powder, and one with Hercules and one with Du Pont, thanks to your help, for special quantities of cannon nitrocellulose powder, which has been released. We still have a program on hand.

HM, Jr.: Excuse me. What I want you (Young) to get for me -- I have not got it -- is in writing from Mr. Purvis' office what orders they have placed to date on either powder or cartridges.

Mr. Purvis: They can be picked out of the lists we have been filing with Captain Collins and also you will see on the other list inquiries pending and among those you will find these particular orders which are the remaining ones. 32,400 tons of nitrocellulose powder a year. We have got to find some way of bringing about that capacity.

HM, Jr.: How much?

Mr. Purvis: 32,400 tons a year, minimum.

HM, Jr.: 32,000 tons?

Mr. Purvis: Yes. That's been in the inquiry list.

HM, Jr.: Is that what the Army calls

Mr. Purvis: nitrocellulose.

HM, Jr.: No, excuse me. Smokeless powder.

Mr. Purvis: Yes, that's right.

HM, Jr.: The Army says what you need is 65,000,000 lbs.

Mr. Purvis: That will be 32,500 tons.

HM, Jr.: Is that correct?

Mr. Purvis: It's 32,400 tons.

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HM, Jr: But that's what you want?

Mr. Purvis: That's it.

HM, Jr: That's what you are in the market for. I have not got the thing. You say Collins.....

Mr. Purvis: It's in our weekly statement. We render a statement to Collins for orders placed for England, Canada, France, Australia, and then inquiries pending.

HM, Jr: You give that to Collins?

Mr. Purvis: Every week. Have done it for the last three months. The first one brought it up to date to December 28th. I thought it was very simple for you. this summary. I thought you would care to glance at it.

HM, Jr: One of the things

Mr. Purvis: Once you told me the Navy had not received word of the bomber order.

HM, Jr: I don't remember that particular instance. I remember steel and you sent me something about steel.

But you file that with Collins every week?

Mr. Purvis: Yes, every week, but not the steel. By the way, I have with me now the French figures.

HM, Jr: This is what this boy (Young) has to do. Pick these things up for me. For some reason, Collins has not passed it along. We will get hold of Collins this afternoon, but let's get back to the powder thing.

Mr. Purvis: The Army and Navy, we thought, were going to receive their sections of that report and have been working on the assumption they were getting them from Collins' Committee, because there was an Army and a Navy man on that Committee.

HM, Jr: We will have to have Collins over here, because I have my troubles here.

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Mr. Purvis: He's been terribly busy as far as our business is concerned.

HM, Jr: That's what he's there for, but I also have to be posted, because I haven't any of this to pass along, let let know myself.

Mr. Purvis: We have really tried to do quite a job on this. I think the statements are succinct and when you take pages and turn them over -- they arrive on my desk Friday and are here Saturday so they can be here over the week-end. Sometimes we have failed to get them off until Saturday morning.

HM, Jr: I can't remember having seen one.

Mr. Purvis: Well, it's on the file.

HM, Jr: Should we stick to powder for the minute?

Mr. Purvis: Correct!

HM, Jr: Do you want any help on this powder?

Mr. Purvis: We have, with some difficulty, broken through what looked like an impasse in creating new productive capacity to take care of it. We have broken through it in this way. We were very anxious not to have to go to the enormous expense of laying down an entirely new plant along with the delays that go with a fresh site, putting in water mains, power houses. So we have been trying to get the existing institutions to extend the present facilities in some way or another.

We have run up against this tax situation in which, as you know, Hercules are adamant. We had from them at one point a belief, and I think I acquainted you at the time, that when it came to putting a separate plant on an adjacent site they would be willing to do that under a closing agreement. When we came to the final issue with them, after that other expansion where it was all mixed up with the other plant, they said, "No. We won't even do that." So we made a compromise with them on this basis. We said, "You are the Hercules

people who make gun cotton par excellence in this country at two points, one at Kenil, New Jersey, and at Hopewell, Virginia. Will you make for us the gun powder by expanding those existing plants, which will be cheaper for us, and then will you turn over the gun cotton to the Du Pont Company and we will see whether we can get them to expand Kearney's Point or one of the existing plants?"

HM, Jr: Who was going to make the gun cotton?

Mr. Purvis: Hercules. We hope, if it is done in the United States, we hope to have Hercules make the gun cotton and Du Pont turn it into nitro-cellulose powder, because if Du Pont do the whole operation themselves, they insist on building an enormous new plant which will take a long time and cost much more.

We now have quotations on that basis, but originally Du Pont refused to do that, in December, and it was greatly by realizing they were being left out of everything -- I used your suggestion

HM, Jr: That was my suggestion to get others into this picture. Remember I used Allied Chemical?

Mr. Purvis: It was Allied Chemical I used and it worked.

HM, Jr: Remember?

Mr. Purvis: I remember very well. I was here on Thursday and on Saturday I got hold of Du Pont and personally told them "I am acting for my Government. I have been waiting a long time for results here. I am not getting them. I am afraid it means, even though it may cost us some delay, going to some other company and bringing technicians from France over here so they can learn how to make powder from the raw materials they control."

HM, Jr: You mentioned Allied?

Mr. Purvis: Very definitely!

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HM, Jr: And that helped?

Mr. Purvis: Helped? It broke it!

HM, Jr: Have you talked with Allied?

Mr. Purvis: Our people have. I have not personally.

HM, Jr: Is there a possibility they will cooperate?

Mr. Purvis: The same difficulty is there. The people who know how to make the finished article, nitrocellulose cannon powder -- you are going to save months as against sending organizations over here to teach somebody else, but the Allied threat is very strong because they have the raw materials.

HM, Jr: The way it looks now, Hercules will make the gun cotton and these people will process it?

Mr. Purvis: Yes. And they will do it by putting the extra business on the existing plants which will save

HM, Jr: And you hope to increase our capacity here to the extent of 32,000 tons?

Mr. Purvis: What we need to buy here is a minimum of 32,500 tons and a maximum of 40,000, and that is almost entirely French business, except the first 10,000 which will go to England.

HM, Jr: You are making progress?

Mr. Purvis: Yes. May I bring out the Canadian problem? We, naturally, on all important business give Canada a chance to come into the picture.

HM, Jr: Can I just interrupt a minute? (Referred to clipping from Wall Street Journal of 4/18 and said to Mr. Young: "This thing, 'Great Britain is going to spend \$445,000,000 in Canada in 12 months,' and if

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that's a public release, how they are going to spend it, I would like to have it.)

Mr. Purvis: I think among my figures, Mr. Young, I think I can accumulate that for you from the cables they have sent me.

Will you give me a note of that for tomorrow when Mr. Howe is in New York, because if I haven't it in my files I will ask him specifically to let me have it for Mr. Morgenthau.

HM, Jr.: What could be better?

Mr. Purvis: We come to the question of Canada.

Now comes in our rather devious way of handling things. I have arranged that the French purchases in Canada will be done through the British end. That makes one thing. That's Greenlee's organization. So we say to Greenlee's organization, "What can you do in Canada on these quantities of powder?" Mr. Greenlee's organization does not buy. It uses as its agency now the Ministry of Supply, previously the Canadian War Supply Board, which was a Canadian entity set up before they arrived there.

One difficulty has been to get quotations. The distance between New York and Ottawa is not many miles in distance, but at least it seems to me to be in times of thought. And suddenly the Canadians got results when they found we advised them on the teletype, the British Supply Board on the telephone, "Unless you send us replies in the very early future we shall have to place the business without contacts here." That's what really broke through.

Now, Mr. Secretary, if I may add something which is purely personal. I came from a company which is the only company which makes powder in Canada and I have, therefore, divorced myself completely from the handling of this powder business and asked Mr. Clapp, an Australian, whom I have been lucky enough to add to

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my organization -- you remember he came over to do buying -- I have asked him to take complete charge with Bloch-Laine so I am not in any forced position opposite the British Supply Board through my company being possibly a participant in this business.

HM, Jr: But that only has to do with the Allies' purchase in Canada.

Mr. Purvis: Yes. However, for the sake of safety, bearing in mind that the quotations are going to be compared, I have asked Mr. Bloch-Laine and Clapp to do that and when recommendation goes through to London it will start out with a statement that owing to the fact Mr. Purvis' company is interested, that the matter has been put entirely out of his hand and this cable comes from Clapp and Bloch-Laine.

HM, Jr: I can understand.

Mr. Purvis: Because I have a very good reason for doing it.

HM, Jr: 32,400 tons of smokeless powder in this country. How much in Canada, do you expect?

Mr. Purvis: That would mean we would do the whole thing here and nothing there unless the maximum quantity of 48,000 tons became the quantity, in which case the balance would be there.

HM, Jr: But you are thinking now, you are thinking of placing the whole order here?

Mr. Purvis: Either whole or half. We have obtained quotations in two parts in case Canada could quote also.

HM, Jr: But in any event the United States would get 32,000?

Mr. Purvis: No. We have it in two parts. Therefore we might put half of it here if Canada can't do it.

HM, Jr: I take it that price being equal you would give it to Canada.

Mr. Purvis: Price being equal we would give to Canada. I think that's probably the difference.

May I add one other fact? That's nitrocellulose powder. Entirely apart from that, we have already in trinitrotoluol paid the money here to increase the capacity of trinitrotoluol by 750 tons a month. That's Atlas Powder Company. They have put in two extra units at our expense.

HM, Jr: (To Mr. Young) I want this whole explosive story, what they have placed to date and what they have in mind.

Mr. Purvis: In addition to placing those units, orders for those two units, we have got Atlas to expand a fresh unit. So you may say 12,000 further tons capacity of trinitrotoluol capacity has been added by us in this country in the last three months. We are now receiving quotations

HM, Jr: Excuse me. One is smokeless

Mr. Purvis: Smokeless is the propellant powder and the other bursts when it hits the shell.

We are still negotiating for more T.N.T. because the total quantity of T.N.T. we are doing is 36,000 tons. 12,000 has been already placed. 12,000 has been placed in Canada. That leaves the remaining 12,000 a year for which quotations are being obtained from both countries.

Again we have run into this delay, although in this particular case the problem is quite different to the one I am going to return to on smokeless powder. Canada is a large producer of T.N.T., just as Canada is the producer of Cordite, which is the British product of the propellant. Therefore, for T.N.T. their quotation is relatively easy to get and any failure there has been due to dilatory handling and not to lack of information. But in nitrocellulose they have not made

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it since the last war, They made nitrocellulose in the last war, and again the question is whether some sort of protection in the way of an embargo

HM, Jr: Embargo where? Do you realize that the first time it was explained about the investments made in this country I made it at Hartford when I visited Pratt Whitney? I called in the press.

I asked Pratt Whitney, "Why haven't you done this thing before?" They said, "The French did not want us to do it because of reaction at home." The French had told Pratt Whitney, "You must not tell how much money. We don't want it known on account of our people at home." I said, "I don't care. They are wrong."

I called in the press and gave a very careful explanation of the whole thing and that was the first time it was explained about investments in our companies at these plants.

Mr. Purvis: They were afraid of the reaction on their public opinion at home?

HM, Jr: They said, "We are spending money here when we have unemployment at home," but that was on February 3rd or 4th and that was the beginning of getting the American public interested, because what it was a matter of national defense and I say it because you are talking about an embargo and I feel so strongly that once the thing has been settled, let them know.

Mr. Purvis: I can understand that too. Therefore, there was no prepared public opinion that would be favorable to us.

HM, Jr: Unbelievably stupid!

Mr. Purvis: Well, that is of course something I have been rather hoping -- of course with these lists coming in of what our expenditures are, you see capital expenditures are shown separately from the value of the goods, so on paper it is a record of dollars, of how much spent.

HM, Jr: Does Collins have that?

Mr. Purvis: Yes. And the same with Atlas.

HM, Jr: He has all that?

Mr. Purvis: Yes. Value of the plant and of the powder that is going to be bought from it in millions of dollars. For instance, going again to nitrocellulose powder

HM, Jr: (To Mr. Young) Make a note for Collins to be here at four o'clock.

Mr. Purvis: There is the building and any addition for trinitrotoluol, increased capacity, we have also put down the necessary money to make 3600 tons of rifle nitrocellulose powder, rifle smokeless as distinct from cannon smokeless. The cannon we are negotiating now. Rifle has been completed. That has been entirely paid by us plus the tax on it.

Now, on trinitrotoluol, the Canadian position is they simply can't give us quotations because they haven't the information. Mind you, this is their reason. They have only known, I believe the manufacturers there have only known for a very short time, a week or ten days, that they could not get this technical information from Du Pont and I believe they still have open a item asking it from Atlas which has not been replied to. What they want, in view of the delay which would be involved in trying to piece together their very scanty knowledge of manufacturing and design of plant from the ground up, they would like the Du Pont Company and Hercules, who are the two smokeless powder manufacturers, to be permitted, and permitted in such a way that they would not be afraid of some later criticism, to send to Canada the technical information, in supplying experts, if necessary, and designs of plant.

HM, Jr: Well, you see, I have a copy which the Hercules Powder has written to the Army.....

Mr. Purvis: I have not seen that.

HM, Jr: asking about this thing. (Dated April 5 and attached to the letter to Secy. Johnson, 4/15/40, signed by the President and sent to Mrs. Johnson but returned at the request of General Watson.)

Mr. Purvis: Yes.

HM, Jr: What I am going to do now is I am going to ask, in order to nail it, I am going to ask the Canadian Government whatever they want to give it to you to ask me to get it for them, because they can't get it otherwise.

Mr. Purvis: No. I think it still keeps it right. I think it's splendid.

HM, Jr: You ask the Canadian Government what is it they want.

Mr. Purvis: Well, I did that with Howe yesterday.

HM, Jr: Well, you get it in a formal way and you give it to me formally.

Mr. Purvis: I could get Howe to write that memorandum while he's in my office tomorrow and send it straight down.

HM, Jr: The things that will come for me personally will come just the same way, via Mrs. Klotz.

Mr. Purvis: Yes. Exactly.

HM, Jr: But this thing right now is stymied and Hercules wrote the War Department and the whole thing is tied up until I hear from you, because this is the way the President wants it handled.

Mr. Purvis: Did Du Pont ever write?

HM, Jr: Well, I will tell you what I have got.

Mr. Purvis: Because we never understood the refusal there.

HM, Jr: This is from Hercules to the War Department.

Mr. Purvis: At the outbreak of the war, before

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I came down here, my company, as explosive people, worried what would happen. We asked Du Pont to supply us with information on trinitrotoluol, nitrocellulose powder, amatol, all the things we thought we might want. They went to the War Department before the neutrality repeal and the whole thing was cleared and we were allowed to get the information, but we did not get enough information on nitrocellulose because we did not know what quantities would be involved and now apparently Du Pont has changed their minds. All I understand is Du Pont has been refused by Du Pont that information in the last

HM, Jr: You mean Canada has been refused.

Mr. Purvis: Yes. This particular company which could obtain it before.

HM, Jr: I think it is much better to channelize this thing through you to me.

Mr. Purvis: You may see here how my own personal connection has made me hold back a little bit on this particular thing. We are blocked in getting -- the Anglo-French Board is blocked in getting Canadian quotations for a section of this order which they compare with what could be done here.

HM, Jr: Let's clear it all up.

Mr. Purvis: Then if they either can't get the information, they have to tell us "Sorry, we can't do it for nitrocellulose." If they can get it, they can tell us the price of the plant, not for the whole plant, but the price for the plant and deliveries they can give which will be compared and then we shall decide.

HM, Jr: I think you had better fix it up. I want two memorandums. What does the Canadian Government want for a month in Canada?

Mr. Purvis: An up-to-date memorandum on the position of our explosives orders.

HM, Jr: The whole thing; yes. I gather,

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do I understand that Canada is not able to bid for you people until she gets certain information from us?

Mr. Purvis: That's correct.

EM, Jr.: And the fact that Canada can't get certain of this information

Mr. Purvis: is holding up her bid to us and, therefore, holding up the decision on the whole picture.

EM, Jr.: Then all the more reason that even though you did use to be in the business, you get all this together.

Mr. Purvis: I will get Clapp to give me a memorandum which will be filed with you immediately. You understand Canada could probably do it by getting French technicians, but that would be a long

EM, Jr.: I understand.

Mr. Purvis: There is one subsidiary point in regard to this explosives picture. I mentioned the other day, and you suggested I postpone to this week; the bottleneck in building plants in the United States or Canada for explosives is the making of nitric acid. This is ammonia oxidation. This is what happened. Mind you, the orders for this plant to make nitric acid had been placed by the Atlas Powder Company, but there is a rather peculiar condition. There is an unassembled unit for making nitric acid by the ammonia oxidation process at Picatinny Arsenal which we understand the Army would be only too happy to sell to Atlas. We have the positive statement of all concerned. Ballantyne has been working with the Army people here, with Captain Collins, to try and get it released. The difficulty is more or less this. It would pay the Army to have the room because it would increase the capacity for T.N.T. in this country more quickly than it could otherwise be done, but it is impossible for the United States Administration legally to sell anything to a private company. I understand

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the legal talent of the War Department has been at work on this, but that no way has been found.

HM, Jr: Will you give me a memorandum on that? Start fresh. And this is with Atlas and Atlas has cooperated with you?

Mr. Purvis: Beautifully!

HM, Jr: If the Army wants to do it

Mr. Purvis: They really want to do it.

HM, Jr: so I can explain to the Army the whole picture at one time if I understand it, which I don't.

Mr. Purvis: That will be very easy.

HM, Jr: If I got the whole business down and say, "This is what they really want"

Mr. Purvis: I will give you a succinct memorandum along that line.

The next thing I would like to do -- I did not have time this morning except to put a note on it -- the French statement on steel I would like to hand you. Yesterday was one of these rather impossible days. That is the French end. You remember, I gave you the English and Canadian. I have asked them from now on to give it to us and they will. And also I gathered from a cable that came in day before yesterday we have made another advance in getting information at a slightly earlier stage. The information that has been given you in these statements that Captain Collins has had has been steadily improving in quality all the time. At the beginning it was much more sketchy than it is today. A month from now it will probably be better.

So much for steel.

May I touch on air?

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HM,Jr: Please.

Mr. Purvis: First progress made. We have placed in addition to the engine contracts which we have already advised you were placed, we have now, since we talked to you, placed an order for 960 P-40s and P-46 Curtiss.

HM,Jr: That I actually was informed of and the way I got that, Mr. Wright of the Curtiss Airplane told Brett who told Collins who told me.

Mr. Purvis: He was pretty quick because I only signed it last night at 5:30. I was stupid to think if I came down this morning I would be first.

HM,Jr: Let me see. The Anglo-French Purchasing Mission decided to purchase 600 P-40s and 360 P-46s, a total of 960 planes.

Mr. Purvis: That's right.

HM,Jr: Instead of the 1440.

Mr. Purvis: Yes, because that's the way you worked it out for us with priorities. It works much better that way. I don't know the details.

HM,Jr: Let's say this is amended. On the Curtiss P-40s

Mr. Purvis: We could send you another statement. Why don't we send you a statement. You see, I can give you the others. We have also exercised our option for 150 Douglas A-20. I signed that last night.

HM,Jr: I haven't got that.

Mr. Purvis: I will sign today, when I get back today, 200 Bells.

HM,Jr: I did not know that.

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Mr. Purvis: You see, it's only being completed.

HM, Jr: I understand.

Mr. Purvis: In addition to that, we expect in the very early future to have signed Lockheed and other Douglas planes that we are negotiating for.

HM, Jr: Fine!

Mr. Purvis: Now, it's going just as fast as it can. I would like you to know these contracts are being signed in this way: with a letter of committal that an undertaking, that the contract will be completed and signed in 30 days, but the commitment is legal commitment.

HM, Jr: In connection with Bell, do you get the cannon that goes with that.

Mr. Purvis: I hope so!

HM, Jr: I told them I thought -- 37 m.m.

Mr. Purvis: I think that's the feature of it. The very fact that you take certain inconveniences of structure is for the purpose of arranging that the cannon can shoot through the propeller and I also hope we get it that way, because especially the French are very impressed with that.

You will remember, of course, that we have been asked to handle this program in such a way that as things develop from actual conditions we may be able to have some element of foot room to change models as we go.

HM, Jr: So far -- just once more, if you don't mind.

Mr. Purvis: 960 Curtiss, of which 600 are P-40s and 360 are P-46; 150 Douglas A-20. Those I

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have actually signed. I am informed that I shall surely be signing a contract for 200 Bells today and within the next two days, or three days, I shall be signing for the Lockheeds and Douglas, but I have not got the quantities.

HM, Jr: That's all right.

Mr. Purvis: I have something I want to speak to you about. In the first place, may I bring up something which we feel from certain reactions that we have, I don't own them myself but I understand Jacquin has them, we feel that there might be a danger of something we said to you the other day becoming misinterpreted in the minds of the Army. We said to you that we did not see how we could properly sign with a contractor an agreement to give information on -- combat information. When we said that we felt that you would not get the kind of information you wanted by such a channel. Also we said that we would be more than happy to see that all the information you wanted was obtained.

HM, Jr: That's right.

Mr. Purvis: Now we have a feeling we would like an opportunity almost to the point, if it suited you and only if it suited you, if Louis Johnson could hear from me in your presence that we are not trying in any way to get around what he wants because we don't want to put that in the contract. That we are prepared to give every assurance that we will do what he wants. Because we feel there may be an misunderstanding and they feel our unwillingness to put that in a contract is

HM, Jr: I told him.....

Mr. Purvis: I want him to trust us on that.

HM, Jr: ... that you will give our Army and Navy every information they want, but not the contractor.

Mr. Purvis: That's right. And suggest to him that we ourselves are not sure what is the best method of transmitting it. If you want assurance, well,

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if necessary, our Ambassadors can file assurance with you. If my assurance is enough, that's all right, but we are quite prepared to enter into discussions with Louis Johnson or anybody else how it is best to set up the getting of that information. It is a little bit of a problem to get it in the form you wanted.

HM,Jr: So far you have not suffered any by letting me be the goat or go between, whichever you want to call it.

Mrs. Klotz: The goat between!

(At this point, HM;Jr spoke to Louis Johnson and copy of the conversation follows this page.

April 18, 1940
11:50 a.m.

H.M.Jr: Hello.

Operator: Mr. Johnson.

H.M.Jr: Hello.

Louis Johnson: Good morning, Mr. Secretary.

H.M.Jr: How are you, Louis?

J: Fine. I like the way you handle things.

H.M.Jr: You do?

J: I do, sir.

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

J: I thought you were awfully tactful yesterday. There was some White House report, you know, once that Burns had -- had something to do with this Hercules thing.

H.M.Jr: Yeah.

J: And it was grand of you to give him a chance yesterday to say he knew nothing about this thing.

H.M.Jr: Well, we get better acquainted as we get along. Louis, there is one thing that has come up with the Allied Purchasing Mission which they feel very, very strongly about. They will give the assurance themselves, or through their respective Ambassadors, that the Army and Navy will be able to get the latest information as to the performance of these planes but they don't want to do it through the manufacturer.

J: Entirely agreeable to us.

H.M.Jr: Is that O.K.?

J: I told our fellows that all we want -- the polley says that you've got to do it so they've got in the contract. I told them that was foolish.....

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H.M.Jr: Yeah.

J:that they wouldn't mean anything much if you got it that way, and what we'd rather have is just a letter from the Ambassador to the War Department, through you, or however you want to send it, saying that that information will be made available and furnished.

H.M.Jr: Do you want it in a letter? Isn't their word good enough?

J: Yes, as far as I'm concerned it's good enough but bear in mind it's in the policy as the President wrote it in.

H.M.Jr: Oh, well then.....

J: Therefore, Congress will ask us about it.

H.M.Jr: Well then, a letter from the Ambassador?

J: A letter from the Ambassador to me will cover it perfectly.

H.M.Jr: That the in -- I tell you what you do. Supposing you send me a draft.

J: All right, I'll do that. I'll make.....

H.M.Jr: Send me a draft of the kind of a letter that you'd like to get from the French and English Ambassadors.

J: I'll get it.

H.M.Jr: And I'll -- if it's within reason I'll -- I assure you they'll sign it.

J: Oh, we'll make it very short.

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

J: Just enough to protect the President. Their word is good with me but we've got the.....

H.M.Jr: All right. Well, send it over to me and I'll see that the two Ambassadors sign it.

J: It'll be done right away.

E.M.Jr: But it will not be in the contract then?

J: That's agreeable. I already told our officers that yesterday that when they objected to take it out that they'd get a letter from the Ambassador.

E.M.Jr: Okey-doke.

J: Fine.

E.M.Jr: Thank you.

J: Goodbye.

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HM, Jr: He will send us a draft of a letter.

Mr. Purvis: That's the best way.

HM, Jr: And he said he has already told his people he did not want it in the contract, which may or may not be true. Phil, Mr. Purvis and I deal our cards straight on the table.

That's that cleaned up.

Mr. Purvis: Thank you. I have one other thing which I would like to put before you on the air thing in connection with releases. There is one plane on which Mr. Plevin and Commander Jacquin feel they have a history which they would like you personally, if you would, to look at.

HM, Jr: Right.

Mr. Purvis: They left it entirely in my hands as to whether I gave you their memorandum or not, but I told them, having ready it, I told them on the basis that we work that I knew there would be no misunderstanding on your part and that you would want to know their views of the case. I think you would be interested in it. It's Glenn Martin.

(At this point, Mr. Purvis handed the Secretary the attached memorandum, dated April 17, "Memorandum to the Chairman of the Anglo-French Purchasing Board".)

(HM, Jr read the memorandum through.)

HM, Jr: He has it entirely wrong.

Mr. Purvis: Has he?

HM, Jr: Let me explain it to you. This money -- and I will be equally frank with you

Mr. Purvis: Yes, quite.

HM, Jr: The \$800,000 which the Army had asked

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you people to pay has nothing to do with the development of this plane. The \$800,000 goes to the changes which they are going to make on the Army B-26, which, when I was over there a month ago, was in what they call the mark-up stage.

Mr. Purvis: Yes. I see.

HM, Jr.: In other words, that's where all this money goes. I mean, in the case of Martin. As I understand the thing, they have a plane over there -- I don't know how many they have ordered of this B-26 which is a heavy bomber and not a light bomber. In the last couple of months we have learned certain things. And they want to put those improvements on the B-26, and in order to bring that plane up to date it will cost \$800,000. It has nothing to do with this thing whatsoever. Now, what does it do for the Army? It enables the Army to say that they are keeping abreast of the times and I could argue with you why charge the English and French for bringing the United States Army up to date and there is no answer from your standpoint.

Mr. Purvis: No. That's exactly right.

HM, Jr.: From your standpoint there is no answer, but from the standpoint of the United States Army who on the whole program are releasing in some cases 60% of their deliveries to you, they can say as a result of this thing we are keeping abreast of the times.

Mr. Purvis: Yes.

HM, Jr.: Now it gets down to a question -- not what Mr. Plevin said "we have to have these planes whatever you are going to charge -- but for the first time Saturday, at the Gridiron dinner, I met General Arnold. He practically kissed me on both cheeks he's so very happy about this program.

Mr. Purvis: That's how I understand the program.

HM, Jr.: If you can get General Arnold happy,

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Louis Johnson so he purrs when he calls me

Mr. Purvis: You don't need to explain it, Mr. Secretary.

HM, Jr: The only thing I did not like, and if they did it again I would stop it, but inasmuch as the thing does not look like \$7,000,000 I don't want to fight on the \$50,000. With the \$50,000 they are buying one of the late French planes which they are trying out. Again, from your standpoint I can't explain it, but they say it keeps them abreast of the times. That's where the \$850,000 goes. It has nothing to do with the development of the planes, but it is the change-over of the B-26 which, when I was over there a month ago, was in the plastic stage. Now, Louis Johnson just congratulated me on how I handled Colonel Burns yesterday to whom, I am telling you, this letter is addressed — Colonel Burns with the Hercules powder. I have got Colonel Burns so he will do anything for me. Colonel Burns says that he will take care of Joe Green in the Munitions Control Board who is not on friendly terms with me and when we get down to the powder business and you want this thing for Atlas with the Army, the way the thing is set now I think I could do it like that (snapping fingers.) Now you are an intelligent person. Can I be any more frank?

Mr. Purvis: I felt it was fair to Plevin to register his views.

HM, Jr: The only thing I don't like is the \$50,000. If they wanted a plane why in the hell, if the ladies will excuse me, didn't they go and buy a French Martin Bomber. The other goes to bring the B-26 up to date. Right now the Army is happy. Everything is lovely and for the moment they think I am a great guy. Make a note of that, Miss Chauncey, that it's twelve o'clock. I can't be any franker with you.

Mr. Purvis: Oh, no! Oh, no! It's an excellent relationship.

HM, Jr: But it's not on that basis. Now you

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can weight it. What is it worth?

Mr. Purvis: To have the United States Army happy.

EM, Jr.: As I explained to you the other day, all Army officers are the same the world over. They are a cult within themselves. And to have the Secretary of the Treasury doing the thing they should be doing just burns them up and all you have to do is read the Army and Navy Journal to see what they say about me.

Mr. Purvis: That closes that situation completely. I felt in fairness to them, in view of their strength of feeling, there are 75 millions francs

EM, Jr.: I know.

Mr. Purvis: The French have been extraordinarily good sports with me throughout. That's why I wanted to make their viewpoint available to you.

EM, Jr.: You have done it. They are paying their money but for entirely different purposes.

Mr. Purvis: May I ask if one other thing is possible? For our guidance in connection with these negotiations, would it be possible for us more or less promptly to get the United States prices that they pay for some of these models or do you think that is something that can't be done? We don't expect to get the same price, but it might be a help in trading a bit. The ones are Curtiss P-40. There are still more of those to be placed. Glenn Martin 137. Douglas DB-7. Lockheed P-38.

EM, Jr.: Take that up with Collins at four o'clock because that's one thing he may do.

Before you leave planes, there are two groups. It's up to you to crowd us if you are not getting action. I don't know whether you are ready, but there were 60 bombers you wanted and 200 dive

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bombers.

Mr. Purvis: We have not had that released, but we are all prepared to negotiate because the minute you have told us we have gone right to it with every manufacturer. I don't think there has been a waste of one minute.

HM, Jr: The dive bombers?

Mr. Purvis: The dive bombers, Colonel Jacquin would like to come down next week and talk with General Arnold.

HM, Jr: Are you ready to negotiate these
60?

Mr. Purvis: If we knew what the situation was, yes. In fact, I would expect that to the extent it's proper we may have already started negotiations, but I don't think with any release because I have only heard them from you and I have simply passed them in to Self and Jacquin as soon as they came to me.

(HM, Jr tried to phone Louis Johnson at this point.)

HM, Jr: Well, we will find out. We are all trying to help Greenland. Greenland has a thing called cyrolite.....

Mr. Purvis: Yes. It is very, very worrying.

HM, Jr: which I understand is very important.

Mr. Purvis: Aluminum.

HM, Jr: You ask your people. I believe the Pennsylvania Salt Manufacturing Company is the sole importer for this country.

Mr. Purvis: I know the Pennsylvania Salt.
Mr. Beale.

HM, Jr: Mr. Beale.

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Mr. Purvis: I know them well.

HM, Jr: Why is Pennsylvania Salt in on
that?

(At this point, HM, Jr spoke again to Mr. Louis
Johnson and his conversation follows this page.)

April 18, 1940
12:05 p.m.

H.W.Jr: Hello.

Operator: Mr. Johnson. Go ahead.

H.W.Jr: Hello.

Louis Johnson: Yes, sir.

H.W.Jr: Hello.

J: Yes.

H.W.Jr: Louis, one other thing. Mr. Purvis is here and he has asked me the question, when can they start negotiating for the four-engine bombers?

J: Well, we're having our own difficulties with the Consolidated people.

H.W.Jr: Yes.

J: I don't think there's any reason at all why they shouldn't start negotiations with the Boeing.

H.W.Jr: Well now, I tell you -- on the Boeing you think they can start negotiations?

J: Let me try to put a little pressure on and get both of those cleared up for you by tomorrow.

H.W.Jr: Would you?

J: I'll do that now.

H.W.Jr: On both of them?

J: On both of them.

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

J: In other words, I'd like to be in the position of saying both of them at the same time so that we aren't accused of favoritism.

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H.V.Jr: Well, then you think maybe in -- by tomorrow I could hear from you.

J: We will do our best to have it for you tomorrow.

H.V.Jr: Righto. Thank you.

J: You're not ready to say anything about powder?

H.V.Jr: Excuse me?

J: You're not ready to say anything to us about the powder yet?

H.V.Jr: No, he has to go back to the Canadian Government but we're going to get the whole story, what the Canadian Government wants and also what they are prepared -- the orders to place in this country.

J: I see.

H.V.Jr: And he's going to put it all down on paper.

J: Fine.

H.V.Jr: And it seems there has been a change-over as to the buying, method of buying, in Canada and they have got a new Minister of Supply who has just taken over, and he's going to take the question up with him and get the whole question.

J: That's fine.

H.V.Jr: And the whole thing on a piece of paper, then when I have it I'll ask you and Colonel Burns and we'll go over together.

J: All right, fine.

H.V.Jr: But he's going to put it all down on paper. In the meantime it's all going to filter through Mr. Purvis to me.

J: That's good.

H.V.Jr: See?

J: All right.

H.V.Jr: O. K.

J: Thank you, sir. Goodbye.

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HM, Jr: We could go ahead with Boeing, but he thinks better to do both at the same time so as not to be accused of favoritism. He will try to have an answer by tomorrow.

Mr. Purvis: I will try to find out why the Pennsylvania Salt handles it. It is mainly chlorine and caustic acid.

HM, Jr: Naturally we want to help Greenland all we can because every dollar we spend up there helps feed those people and I am just bringing it to your attention.

Mr. Purvis: Yes. We are also, I believe, a little concerned about the aluminum situation. In fact, I won't do it now because I would like to get my facts straightened, but I may want to ask your help in aluminum. What we are going to do, in fact what we have done since Norway's invasion has been to increase again the output in Canada of virgin ingot. We have authorized immediate steps in that regard, but it may mean that all our orders for light alloys this year may be held up unless we can get a load of virgin aluminum.

HM, Jr: When you are ready, let me know.

Mr. Purvis: It may not be necessary.

HM, Jr: What's the other subject?

Mr. Purvis: The other is quite important to me and that is I wanted a few minutes with you on alloys and certain specific suggestions. The situation in alloys has undergone quite a change. Some information I should put on file with you.

HM, Jr: May I interrupt? About how long will it take?

Mr. Purvis: It will take 25 minutes or half an hour.

HM, Jr: I am going to ask you to stop now. How

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late are you going to be in Washington today?

Mr. Purvis: Just so I get back in time to sign this contract late tonight.

HM, Jr.: I will tell you what I will do. How do your planes go?

Mr. Purvis: Right up to 7, 8, 9 at night, so it's all right as far as I am concerned.

HM, Jr.: I would say about 3:30. Is there a five o'clock plane?

Mr. Purvis: That's splendid. That would be excellent. I could not wish it better. That gives me a comfortable time to have a talk with you and catch the 5 o'clock.

HM, Jr.: That's 3:30.

Mr. Purvis: Splendid! Because this is a separate subject. I would rather like to devote time to it.

HM, Jr.: If I could stop now and do it again at 3:30.

Mr. Purvis: Splendid! Thank you as usual.

oOoOoOo

April 17, 1940

MEMORANDUM
to
THE CHAIRMAN OF THE ANGLO-FRENCH PURCHASING BOARD

We refer to Mr. Purvis' note of yesterday's date, advising that he had received word from Mr. Henry Morgenthau that the U.S. Army had agreed to release for export the Glenn Martin 167, under the condition that the Allies should pay \$850,000 as their contribution for development expenses of this type.

Colonel Jacquin and I feel that we would be failing in our duty if, in connection with this charge, we did not place before you all the facts as we see them.

1. In December 1938, the French Government entered into negotiations with Glenn Martin for the purchase of a new plane designed by them, known as the type 167. We placed an order for this type, and in order to get prompt deliveries without interfering with any U.S. Army programme, the French Government agreed to pay several million dollars for the expansion of the output capacity of Glenn Martin, whose facilities were increased by at least 1/3 on account of the expenditure sustained by the French Government.
2. The French Government being the first one to place an actual order for these planes, paid, through the price charged by Glenn Martin, the total engineering costs connected with the production of the new model.
3. The plane was released by the U.S. Army in December 1938, that is to say nearly 18 months ago, without any conditions whatsoever on the part of the U.S. Army.
4. In March 1939, the U.S. Army organised a competition between various firms for light bombers.

The type which was selected by the U.S. Army for
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its requirements was the Douglas DB7. The Army 127
did not retain the Glenn Martin 167 but accepted
to purchase the prototype. We do not know what
was the price paid for it by the U.S. Army but
it seems impossible that it should have approached
\$850,000.

5. In September 1939, that is to say at the very
beginning of the war, the French Government placed
an additional order for 140 more planes and no
question of releases had to be raised because the
release had been obtained already in December 1938.

6. We always had the same objections to the type
167 which had prevented the U.S. Army retaining
it for its own use, but as we were anxious to ob-
tain prompt deliveries, we passed over those ob-
jections with the idea to make changes in design
when we would have the opportunity to place sub-
sequent orders.

7. Since that time, Colonel Jacquin, using the
information taught to the French Air Force by actual
combat experience, has spent considerable time co-
operating with the manufacturers in arranging for
a re-design of the type 167 and this led to the new
design named 167B, but which is nothing more than
the development, on the basis of Colonel Jacquin's
ideas and our war experience, of the old type pre-
viously released. Since the arrival of the British
experts in connection with the Allied programme,
further improvements have been made, using the
British experience of actual combat. It can there-
fore be safely said that the type 167B, which has

MEMORANDUM

April 18, 1940.

TO: Secretary Morgenthau
FROM: Mr. Sullivan
SUBJECT: Telephone Conversation - Mr. Sullivan called Captain Collins at 3:40 p.m., April 18th.

Mr. Sullivan: Hello Captain Collins.

Capt. Collins: Hello Mr. Secretary.

Mr. Sullivan: How are you today?

Capt. Collins: Fine, thank you.

Mr. Sullivan: Captain, I am writing up the minutes of that conference we had yesterday. The question arose as to whether or not Secretary Johnson said that the War Department had put through that amendment for the aircraft industry last summer, or whether the War Department did not have anything to do with it.

Capt. Collins: I remember, — I think he said they did not have. That's my recollection of it now.

Mr. Sullivan: Thank you very much.

April 18, 1940

3:20 p. m.

Present:

Colonel Burns
Mr. Young
Mrs. Klotz

Colonel Burns: Here are two copies of the proposed letter.

HM,Jr: Are they both the same?

Colonel Burns: Yes, sir. We thought you might want to bring one to the British and one to the French.

(HM,Jr: Read the draft as follows.)

"The Honorable Louis Johnson,
The Assistant Secretary of War.

Sir:

The duly accredited agents of my Government have reached the stage in negotiating for the manufacture of aircraft by American manufacturers where contracts may be shortly expected to ensue. It is my understanding that the announced policy in regard to export of American manufactured aircraft contemplates the inclusion in each contract of a clause to the effect that the purchaser will supply accredited agents of the United States Government with full and complete information relative to the suitability, design, equipment, and combat performance of the subject matter which is released for export. The inclusion of such a provision as a contractual obligation would cause protracted

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*administrative delay in the final execution of such contracts, due to the necessity for coordinating same within the various branches of my Government concerned.

*I am authorized, if the suggestion is considered proper, and in lieu of the inclusion of the above in a contract of purchase, to present hereby the assurances of my Government that the data required to be furnished under your foreign release policy will be presented in a manner, and in such detail, as is satisfactory to the United States Government, and that such reports as are necessary to impart the desired information will be prepared and forwarded at the earliest practicable dates.

*Such other, or further, affirmations of the foregoing as are desired by the United States Government will be presented in due course.

Very truly yours,*

EM, Jr.: Well, personally, couldn't you just do that one paragraph and leave out the rest?

Colonel Burns: As a matter of fact, this was hurriedly prepared by the lawyers and as long as we get the substance of it, that's all we care about. You see, this is what was really in the President's policy:

*Par. 39.

Prior to release, every contract negotiated with a foreign Government will include a provision requiring that

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"the foreign government furnish to the satisfaction of the United States Government full and complete information on the design, equipment and combat performance of aircraft covered by such contract."

HM, Jr.: Couldn't I hand them that. They may write a letter based on that. I don't think this is a very good letter.

Colonel Burns: It looks to me rather long.

HM, Jr.: If I told him if his letter was built around that?

Colonel Burns: That's all right. Just so he agrees to use the substance of what was in the President's policy.

HM, Jr.: Then I think what I would do will be to say to him to just build a letter around that.

Colonel Burns: That's right. That's all all right.

(The Secretary returned the original of the draft to Colonel Burns, but Mrs. Klotz detached the carbon which is attached hereto.)

HM, Jr.: Is that all right?

Colonel Burns: I think it is strictly O.K. because what we want is the substance of the President's policy.

HM, Jr.: Let me ask you a question while I have you here. Where is the nearest powder factory where a fellow who does not know anything about powder could see it.

Colonel Burns: Opposite Wilmington.

HM, Jr.: You have one?

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Colonel Burns: No, sir. Du Pont. The Navy has a powder factory at Indian Head.

HM, Jr: Do they make more than one kind? Do they make smokeless there?

Colonel Burns: Yes. They make smokeless. Of course, the chemical composition of the powder is more or less the same, but you have to make a different granulation for each kind.

HM, Jr: Now, if I went down there they could show it to me.

Colonel Burns: Oh, yes! You will see it come out of the graining press. You will see them make pyro and see them make pyro into plastic and see the grain come out of the plastic. It's very interesting, but it's not too difficult. You could get the idea in a few minutes.

HM, Jr: By going down?

Colonel Burns: Yes, sir.

HM, Jr: This powder thing is a terrifically big proposition.

Colonel Burns: And it's going to be bigger. They are going to use tremendous amounts of powders and explosives. During the World War they used a great deal of powder. As a matter of fact, towards the end of the War they used 900,000,000 pounds per year and the powder cost about 50 cents a pound.

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The Honorable Louis Johnson,

The Assistant Secretary of War.

Sir:

The duly accredited agents of my Government have reached the stage in negotiating for the manufacture of aircraft by American manufacturers where contracts may be shortly expected to issue. It is my understanding that the announced policy in regard to export of American manufactured aircraft contemplates the inclusion in each contract of a clause to the effect that the purchaser will supply accredited agents of the United States Government with full and complete information relative to the suitability, design, equipment, and combat performance of the subject matter which is released for export. The inclusion of such a provision as a contractual obligation would cause protracted administrative delay in the final execution of such contracts, due to the necessity for coordinating same within the various branches of my Government concerned.

I am authorized, if the suggestion is considered proper, and in lieu of the inclusion of the above in a contract of purchase, to present hereby the assurance of my Government that the data required to be furnished under your foreign release policy will be presented in a manner, and in such detail, as is satisfactory to the United States Government, and that such reports as are necessary to impart the desired information will be prepared and forwarded at the earliest practicable dates.

Such other, or further, affirmations of the foregoing as are desired by the United States Government will be presented in due course.

Very truly yours,

Par. 39.

Prior to release, every contract negotiated within the purview of this policy with a foreign Government will include a provision requiring that the foreign government furnish to the satisfaction of the United States Government full and complete information on the design, equipment and combat performance of aircraft covered by such contract.

TREASURY DEPARTMENT
INTER-OFFICE COMMUNICATION

DATE April 18, 1940.

Answer

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TO Mr. White
FROM Mr. Hanson

Subject: Questions and answers on the Inter-American Bank.

1. Is the idea of an Inter-American Bank of recent origin?

Re. Proposals for an Inter-American Bank have been discussed at the various conferences of the American States since 1890.

On April 14, 1930, the First International Conference of American States adopted a resolution recommending that the Governments grant liberal concessions to facilitate inter-American banking and especially such as may be necessary for the establishment of an International American Bank.

On January 21, 1902, the Second International Conference of American States recommended that a powerful Inter-American Bank be set up in New York, Chicago, San Francisco, New Orleans, Buenos Aires or any other important mercantile center and that it be assisted in every manner compatible with the internal legislation of each country.

In 1933 the Seventh International Conference of American States proposed the creation of an Inter-American Bank to establish and promote inter-American credit and the interchange of capital, to collaborate in the reconstruction of national monetary conditions, and to perform such other tasks as the Third Pan American Financial Conference might entrust to it.

In 1938 the Eighth Conference asked the Pan American Union to study the possibilities of such an institution. In 1939 the Conference of Ministers of Foreign Affairs at Panama recommended study of the need, form and conditions for establishment of such an institution. Later in 1939 the First Conference of Treasury Representatives of the American Republics recommended to the urgent attention of the Inter-American Financial and Economic Advisory Committee a study of the desirability of creating an Inter-American Bank. The project now under consideration is the work of that Committee.

2. Is the idea of an Inter-American Bank identified with any particular American Republic?

Re. The resolution adopted by the first International Conference of American States in 1890 was approved by a 14 to 0 vote. The countries then approving the resolution were: Argentina, Nicaragua, Peru, Guatemala,

Colombia, Costa Rica, Paraguay, Brazil, Honduras, Mexico, Bolivia, United States, Venezuela, Chile. The resolution adopted by the Second Conference in 1902 was signed by Argentina, Bolivia, Colombia, Costa Rica, Ecuador, El Salvador, United States, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Paraguay, Peru, Dominican Republic, Uruguay. The Inter-American Economic and Financial Advisory Committee which produced the current project for an Inter-American Bank is made up of one delegate from each of the American States.

The United States has been as closely identified with the various discussions of an Inter-American Bank as any of the American States. Secretary of State James G. Blaine in transmitting the resolution of the First Conference to President Harrison indicated his approval of passage of a law by the United States incorporating an International American Bank. President Harrison in transmitting the letter of Secretary Blaine to the Senate and the House of Representatives did so "in the belief that it will be found possible to promote the end desired by legislation so guarded as to avoid all just criticism."

3. What role does the United States play in the establishment of an Inter-American Bank?

The proposed Bank would be set up under a Federal charter granted by the United States. Participation by the United States in the Bank created under such a charter would involve adherence to the convention for the establishment of the Bank and subscription to at least the minimum number of shares required for participation. The principal office of the Bank would be in the United States.

The United States was represented on the Inter-American Economic and Financial Advisory Committee which is responsible for the drafting of the charter, by-laws and convention for the Bank. The services of technicians of the State and Treasury Departments of the United States were made available to the Committee during the drafting.

4. What action on the part of the United States is now required for establishment of the Bank?

(a) A charter will be sought from the Congress of the United States.

(b) If the United States is to participate, ratification of the convention for establishment of the Bank by a two-thirds majority of the Senate will be required, since the convention is regarded as a foreign treaty.

(c) If the United States is to participate, it must subscribe to the minimum number of shares required for participation by a country in Group H under the by-laws of the Bank.

5. What are the motives behind the proposal for an Inter-American Bank?

The Bank is an important step in the fuller economic implementation of the good neighbor policy. It has been apparent that there was a wide scope of economic and financial activity among the American Republics for which the existing machinery of cooperation was inadequate.

The Bank is designed to promote the fuller exploitation of the natural resources of the western hemisphere, to intensify economic and financial relations among the American Republics, and to mobilize for the solution of economic problems the best thought and experience in the Americas.

The powers and purposes of the Bank are enumerated in the by-laws.

6. Why is the United States asked in the proposed charter to agree not to repeal or amend the charter except upon the request of the Bank?

7. What is the significance of the privilege conferred on the Bank by the convention whereby it shall obtain foreign exchange and precious metals on a basis no less favorable than the most favorable treatment extended to any government?

This refers only to foreign exchange and precious metals requested for such local currency as may have been acquired by the Bank as a result of operations with that particular government or local operations to which the government has not made the timely objection which it is privileged to make.

The capacity to obtain precious metals and foreign exchange on such terms is thus distinctly limited to protecting the Bank in the specific operations carried out.

8. Does the convention establish tax-exemptions either in the form of tax-exempt securities or tax-exempt activities which are disadvantageous to the governments or intended to discriminate against private interests carrying on similar activities?

No. The convention indicates specifically that the imposition of non-discriminatory taxes upon nationals of any High Contracting Party is not prohibited.

9. Is it possible for the Bank to encroach upon the sovereignty of any State or to take action within a State contrary to that government's desires?

No. Special care was taken in the drafting of the by-laws to ensure each country of ability to bar any activity of the Bank within its country which it may deem undesirable. Article 5, Section B, for example, requires the guarantee of the government involved for credits and loans of more than two years maturity and requires for operations not exceeding a maturity of two years that the Bank shall not take the action if the government makes a timely objection.

10. What is the extent of the liability assumed by the United States if it participates in the Bank?

Liability of shareholders on their shares is limited to the issue price thereof.

11. Is there any assurance that shares in the Inter-American Bank will not pass to a European power?

Stock is available for subscription only to governments of the American Republics which have subscribed or adhered to the convention. Transfer of shares requires approval by a four-fifths majority vote of the Board of Directors.

12. Is there any assurance that a combination among other participants in the Bank will not cause the Bank to take action considered unwise or undesirable by the United States?

Voting among participants is distributed as follows: 20 votes for each government for its minimum shares and one vote for each additional share. The important decisions require a four-fifths vote of the directors. It is possible for this government and for any other government that may so desire to acquire sufficient shares to possess a veto power on important decisions.

13. What is the minimum subscription required for participation by the United States?

Minima for participation were based on the dollar value of foreign trade in 1938. Accordingly the United States is classified in Group H together with Argentina and Brasil. The minimum subscription for Class H is 50 shares having a par value of \$100,000 each, i.e., \$5,000,000. It is provided that 50 percent of the issue price shall be paid up at the time of subscription. The United States may wish to purchase additional shares.

14. Is there any assurance that the Bank will not be used by nations already in default on their obligations to tap capital markets otherwise closed to them?

It is obviously impossible to anticipate the policies that will be adopted by the Board of Directors of the Bank. The by-laws provide that "before the Bank finally approves an intermediate or long-term loan or extension of credit, a full written report on the merits of the proposed transaction shall be prepared by a committee of experts which may include persons other than officers and employees of the Bank." The status of existing obligations would doubtless figure in the written report on the merits of the proposed transaction.

15. Is the Bank designed to be competitive with existing financial institutions or to complement existing agencies?

While the purposes and powers have been stated in fairly broad and elastic terms, as is customary in the organic laws of such institutions, discussions during the drafting of the by-laws and convention indicated the intent to complement existing institutions rather than to provide a substitute for them.

April 18, 1940

3:30 p.m.

Present:

Mr. Purvis
Mr. Young
Mrs. Klotz

(Dr. White for latter part of conference)

HM, Jr: This ("Par. 39" attached to the transcript of the meeting with Colonel Burns immediately preceding this meeting) if you could build your letter around that.

Mr. Purvis: Yes.

HM, Jr: If you would just read it. That happens to be the Army. This is the way they presented it, I believe, the way they presented it to the Congress.

Mr. Purvis: I see. Then what we have to do -- a letter, however, from

HM, Jr: Your two ambassadors.

Mr. Purvis: Attached to the contract or sent to the Army at the same time as the contract would surely take care of that provision.

HM, Jr: That's easy.

Mr. Purvis: Yes. You see, I think the difficulty is merely this, Mr. Secretary, that for a foreign Government to agree to give information to a manufacturer of a combat

HM, Jr: It does not say manufacturer.

Mr. Purvis: "Furnish

HM, Jr: "... to the satisfaction of the United States Government". Not the manufacturer.

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Mr. Purvis: But if the provision is in the contract will it not be assumed

HM, Jr: I don't think it has to be in the contract.

Mr. Purvis: " * * will include a provision".

HM, Jr: This is the letter they drafted (see copy of letter attached to transcript of meeting with Colonel Burns at 3:20 today, immediately preceding this meeting) which I did not think was any good. This was the thing for the Ambassadors to sign, addressed to Louis Johnson. This is what I wasn't going to give you and I will read it.

Would that be better?

Mr. Purvis: Would you mind my taking that and trying to do something which

HM, Jr: I will give you both.

Mr. Purvis: You know, Governments are very peculiar things. And let me work out something which will breathe a sort of satisfaction. What Johnson evidently wants is something that will tie up with the provision he has put to Congress, and the difficulty is merely that. I think we had better do a little thinking. Could we, in the meantime, assume that there will not be delays on account of that because I am going to settle it ultimately to your satisfaction.

HM, Jr: Yes.

Mr. Purvis: And I think one of the difficulties, I don't think a foreign Government likes to be in the position of indicating that he will supply any information to a manufacturer.

HM, Jr: Manufacturer is out. No! No! No!
It's between Governments.

Mr. Purvis: We might be able to get a provision in the contracts referring to exchange of letters.

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HM, Jr: I don't see why it should be in the contract. Personally, I think if your Ambassador writes the right kind of a letter it should be enough for Louis Johnson, saying that in connection with the following planes, list them

Mr. Purvis: Would it do any harm when we get down to the detail of the letter and trying to work it out that will be best for the Army, would it do any harm for Jacquin to come down and try and find out what's in their minds? He could come down next week and perhaps talk with General Arnold.

HM, Jr: Surely! Yes!

Mr. Purvis: One minor thing. There is a memorandum that has come in to me on traffic on the Trans-Siberia Railroad. (Attached hereto.) It seems to me it might have value for you.

HM, Jr: Thank you.

Mr. Purvis: Rist rather amazed me the other day when he tells me that the reports that he has are that Trans-Siberia are now running every 50 minutes from Valdivostok. That might be a very serious matter.

HM, Jr: Yes.

Mr. Purvis: As a matter of fact, leakage through that end is now, I gather, a very prime concern of the Allied Governments in regard to these important

HM, Jr: Every 50 minutes!

Mr. Purvis: materials. Yes. He made that statement in Ottawa.

HM, Jr: Do you believe it?

Mr. Purvis: I was amazed, but he said the information was pretty authoritative. I had understood that that railroad was not of that caliber.

HM, Jr.: Well, I will read it.

Mr. Purvis: Then, alloys. The situation from the groups of cables that I am getting has evidently become very important and rather urgent. There is, I am not sure but what I should find some way of sending you a memorandum of the kind of information I am going to talk about. It came in in sheaves this weekend and I did not have time to get it into memorandum form. What we are anxious to do and what I wanted to ask you whether it was possible to do is to try and tighten certain things in such a way as would not be difficult for the Administration. For instance, to ask, one particular thing that we would like to see, if it were possible, is the strategic list which covers as I understand it a certain measure of embargo, a certain amount of authority exercised on the things that are on the strategic list. We wondered whether it would be possible to include such items as cobalt, carbon black, columbium.....

HM, Jr.: We have had these before. These are tough ones.

Mr. Purvis: Cobalt -- and I would like to return to them individually presently.

Carbon black. That's an ingredient for tires.

Columbium and tantalum. And, if it is proper for me to raise it here, industrial diamonds.

Here is the point. We would want to know whether, if that could be done, it could be combined with the inclusion of a clause that is now being considered by the tin market in contracts, which would put an obligation upon the buyer not to re-export. That is the clause which is now being considered by the Attorney General here in the case of tin.

(Mr. Purvis gave the Secretary the attached extract from letter from C. S. Trench & Co., Inc., dated 2/20/40.)

HM, Jr.: News to me. You want these included?

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Mr. Purvis: I believe the legality of this is being considered by your people in the case of tin. If it is considered a possible thing from the Anti-Trust laws, which I understand is all they are worried about, and I gather this is something the State Department has been doing on tin -- I don't know whether you saw the articles in the paper about adding certain things there, but the advantage to us would simply be this: that whereas there would be no great legal background necessary for the situation, nevertheless the fact that they were on the strategic list, item 1, item 2, that in the contract there was an agreement not to re-export, might be very valuable in giving some background and it looks as though it might be possible under that set-up.

HM, Jr.: I don't know but I will be very glad to look into it.

Mr. Purvis: Thank you very much.

The moral embargo, as I understand it -- I get a little mixed when I read the press reports and I take it the press is mixed -- the moral embargo was covered by a specific document of which I think I have a copy. I think that's the document I have which covered, airplanes, airplane parts, molybdenum, aluminum.

HM, Jr.: There are other things. I forget what they are.

Mr. Purvis: Now, then, in the papers the other day I saw that pewter and babbitt metal had been added to the present embargo. I think it was strategic.....

HM, Jr.: Those things come out every once in a while. I don't know whether it's the War Department or not. (To Mr. Young) Ask Joe Green what articles does the State Department include in his moral embargo. In other words, what articles on the moral embargo do they forbid or stop export. Now, what other classification is there? Is there any other classification under which things are not permitted to be re-exported?

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Mr. Young: Yes, sir.

HM, Jr: Do you (Young) know Joe Green?

Mr. Young: I will know him.

Mr. Purvis: They refer something to the Army and Navy Munitions Committee.

HM, Jr: Let me get it straight. I saw the same thing. Let's find out.

Mr. Purvis: Splendid! As I understand it we have three things; No. 1 is the kind of control which comes from the moral embargo; No. 2, what is covered by strategic materials, and No. 3, where the Army and Navy Munitions comes in in that it has issued two circulars which I have not got, one of October 19th and the other January 11th, in which it has made statements in regard to that. I don't know what they are, but they might be helpful.

HM, Jr: I would like to educate myself. I don't know.

Mr. Purvis: Then there is the question of tungsten.

I have a cable on tungsten and I think the best thing for me to do is give the particulars to Mr. Young showing the world output on the last estimate, 1936. In 1936 there were 38,800 tons, of which they reckoned there is already covered 8,000 tons for France and England each, and a normal requirement of yourself for 6,000 tons for ordinary purposes which makes 22,000 tons, so there remain 16,800 metric tons of tungsten which are a danger point, from our view. There is slightly more to the Chinese production and it really comes down, the tungsten issue, this whole question of can or cannot we take care of China. What they would like to do over there

HM, Jr: Where?

Mr. Purvis: England. The Allies might take another 5,000 tons. China is insistent on selling

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HM, Jr: 5000 to Russia.

Mr. Purvis: 5,000 to Russia to get armaments and that would leave us with still another 5,000 tons and I really wanted to ask specifically whether there would be any possibility in this rather acute year of getting that quantity taken extra as a war reserve or taking it as security against the \$20,000,000.

HM, Jr: Here's the trouble. I asked, fully a month or two months ago, your people kept shooting at me all the time that we had people in Hong Kong who were buying this stuff and shipping it here and I kept telling them the only brokers who were doing the business were either English brokers or English controlled brokers.

Mr. Purvis: Yes.

HM, Jr: And I have never had an answer on it.

Mr. Purvis: That is the old stock and that, as I understand it, is definitely purchased by the French.

HM, Jr: I have never had an answer.

Mr. Purvis: As to whether it has been purchased?

HM, Jr: I think we are talking about two separate things. Rist in his cable, or Ashton-Gwatkin, kept saying all the time that there is a leakage through Hong Kong by Americans who buy in Hong Kong. Got several cables on it and I looked into it and the word came back no, those are English concerns. And I have never had an answer.

Mr. Purvis: Yes.

HM, Jr: Then there is this other large quantity of tungsten which is in Indo-China and I have never been told what you people are going to do with that.

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Mr. Purvis: Definitely the French are buying it. You see

HM, Jr: If that's so, it's the first time I have been told.

Mr. Purvis: The French will buy it. Whether the negotiation is actually completed today I suppose I can't quite say, but we are regarding that as removed; that that is our responsibility, you might say, to take that off the market.

HM, Jr: K. P. Chen is coming in here tomorrow. He's leaving to go back to China and he wants to know what I want him to tell them.

Mr. Purvis: Yes.

HM, Jr: Now, if I am correct, those figures just don't sound right that they have 15,000 tons production in free China.

Mr. Purvis: The total Chinese production, according to the best knowledge, is 14,000 or slightly over.

HM, Jr: If that's right and what you say -- let's say for the next twelve months the Allies -- of the 15,000 you take 5,000. They want 5,000 to go to Russia.

Mr. Purvis: They don't see any way out.

HM, Jr: And want to know if we can take the other 5,000.

Mr. Purvis: That's what it really comes to. We honestly believe that is the keynote to, substitute for molybdenum and nickel.

HM, Jr: I agree with you, but it has been at least two months

Mr. Purvis: in regard to that old stock?

HM, Jr: The whole question.

Mr. Purvis: And the particular point you want to know why the British and French

HM, Jr: I don't care about Hong Kong dealers. It does not bother me. It bothers your people because I am satisfied they are English and not American houses, but the only thing you are asking me today is whether we could work out a deal whereby we take care of 5,000 tons of tungsten.

Mr. Purvis: As a special stock.

HM, Jr: Am I at liberty to tell K. P. Chen that the English are in the market for 5,000 tons of newly mined tungsten?

Mr. Purvis: I think I ought to verify that for you. I mean, after all, I am not -- I know they are prepared to take it because I have a cable here that's their concrete suggestion, but as to whether they are actually negotiating for it or waiting to see if it can be done as a combined job, I am not sure.

HM, Jr: Am I at liberty to say

Mr. Purvis: ... of the 1940 production of China, we would expect to take 5,000. We understand they are shipping 5,000 to Russia. And there is another, or nearly, 5000. That is what we would like to see removed from the market. If that can be done, we don't see how there can be a leakage.

HM, Jr: May I check my memory?

(At this point, HM, Jr phoned Dr. White and said to him: "Harry, are you familiar with what I have told Chen about tungsten at various times? Did you sit in on that? In connection with England and ourselves. Come in and refresh my memory. Mr. Purvis is here.")

Mr. Purvis: May I read a telegram here which gives me the last thing. (See attached memorandum headed "W O L F R A M")

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Mr. Purvis: What it really came down to, I sat down with Rist and Ashton-Gentkin and went over the world figures. It really came -- if that 14,000 tons can be disposed of in 1940 by our taking 5,000 and if 5,000 have to go to Russia, that's 10,000, and it's really 5-5-5 approximately, a little less here or there, but if 5,000 could be put in reserve over and above peacetime requirements which we estimated at 6, ours being 8 for England and 8 for France, then there would not be any tungsten available for them to obtain except surreptitiously with all the difficulty which might go into obtaining odd lots here and there.

(At this point, Dr. White came in.)

HM, Jr.: (To Dr. White) Refresh my memory, Harry, as you remember and what I said to Chen.

Dr. White: As I remember it, you told Chen that there might be some possibility, that you might be able to take some of that tungsten off their hands. At that time you considered it possibly as collateral along with tin, or possibly independently. Both suggestions were made. That he told you at the time that there was half, approximately, 5,000 was allocated to Russia according to some deal they had made previously.

HM, Jr.: What did he say their production was?

Dr. White: I thought it was 10,000. He went into some detail at that time with us showing where the ore was. His interest at that time was as collateral for the possible loan along with tin. Subsequently you raised the question with Mr. Purvis of a different character.

HM, Jr.: What was that?

Dr. White: Namely, that whether between England and the United States it might not be able to purchase all the tungsten there, allowing for the possibility that you might not be able to get the Russian, but at least it was worth examining to see if you could.

HM, Jr.: Then what happened?

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Dr. White: Then, as I understand it, Mr. Purvis was going to take it up with his Government.

Mr. Purvis: This is with reference to stocks that were there?

Dr. White: It's both.

HM, Jr: How long ago was this?

Dr. White: My judgment was four months ago.

Mr. Purvis: Then I filed a cable with you saying they had had difficulty with purchases, with the Chinese, and that the French hoped to buy. They still have not quite concluded that purchase, but this is merely old stocks that the French are determined to buy.

HM, Jr: That's the old matter.

Mr. Purvis: That's up to us to take care of.

HM, Jr: It's months since we have really talked this.

Mr. Purvis: And everything we have seen that comes in, the key to the tungsten situation is joint purchase.

HM, Jr: Supposing I put it a little different. Supposing I put it to Mr. Chen tomorrow.

Mr. Purvis: May I, in my ignorance, ask who Mr. Chen is?

HM, Jr: K. P. Chen is the head of the Universal Trading Company and he's the Chinese gentleman, "gentleman" underscored, in whom I have great confidence and it's entirely on his personal word that I recommended the first and second loan and he's now returning to China. He's a grand fellow. He's everything that a story-book Chinese businessman should be and most of them ain't!

Mr. Purvis: But when you meet them they are a rather attractive class of fellow.

HM, Jr: This is a grand fellow. 10:30 tomorrow morning. You both come in.

Dr. White: I shall go over the material

HM, Jr: You run over it so you have it in your mind, because I won't be able to read anything tonight. This is what I will say to Chen: that the French and English Governments, separately, would like to know on the newly mined tungsten how much they have for sale.

Mr. Purvis: That would be a very good question.

HM, Jr: Instead ^{of} saying you understand they have 15,000 tons.

Mr. Purvis: That would be much better and then we can see what the problem is.

HM, Jr: "Because I believe, other than what they pledged to Russia, that there is a chance of the English and French and ourselves working out a deal."

Mr. Purvis: I think that would be excellent and I think it is something that will be tremendously appreciated if by any chance you can bring it about.

HM, Jr: I don't want to be too definite, but my impression is I have just been sitting here waiting to hear.

Dr. White: To my knowledge we never got a response.

HM, Jr: That's what I thought, but so many things happen I did not want to be too positive.

Dr. White: It was a definite proposition that was put up to you to communicate with the British Government and you said you would at once.

Mr. Purvis: I perhaps am, unconsciously have been responsible for difference if I have mixed up the stock at Haiphong which the French were buying and the 1940 production.

HM, Jr: We did not worry about that. I will put that up to Chen tomorrow on that basis if that is all right.

Mr. Purvis: Excellent. Yes. Thank you very much. I think that will be very good.

HM, Jr: Anything else on strategic things?

Mr. Purvis: I thought one thing you might be interested in -- nickel -- history up to date. You know the last time I talked about it I was going to Ottawa with Rist and Ashton-Gwatkin. We had, with Skelton and Norman Robinson, an extremely interesting talk. They were, that very week, being subjected to tremendous pressure from Japan which, as you know, has been sporadically going on and easing up now for several months.

They had been told by the Japanese Minister that they must get this year 14,000 tons, which is even more than they bought in 1939, which, you remember, was a very much larger quantity than they bought before, and the Canadian Government quite obviously, Mr. Secretary, think in regard to this matter along lines very similar to those in which you think of the situation down here just as I might have expected, because in Canada our public opinion attributes importance to nickel as a war thing. The net outcome was once again the Canadian Government, appealed to, said, "All right. We will hold our horses, but we want you to realize that this is a difficult trench to hold," but they wanted to get our permission to let 400 tons go that week. So not only have we succeeded now in putting 835 tons over three months instead of two months, but we now have still got it in hand and not another ton has been let out. How long the trench can be held, I don't know, but bearing in mind the heavy purchases made by Japan in 1939, the bridge is still held.

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I don't think there is much more that I need to say at the moment,— I am sure the pressure sometime will be impossible to meet— except this: that I would like to say I have cleared up the point Dr. White brought up. France is taking the same attitude on the New Caledonia. Nothing is going out. For the time the situation is held like that (making gesture of a clenched fist), though the pressure is very, very great and Japan is beginning to take that attitude about it, trying to be peculiarly difficult about it.

Dr. White: Does that apply to the mines in Caledonia owned by the Japanese?

Mr. Purvis: I take it they can control everything.

Dr. White: If they control exports

Mr. Purvis: That's what I understand they are doing. But my understanding is I can say to you now that the supply of nickel from New Caledonia ir-respective is held off from Japan.

HM, Jr: Does that clear your docket?

Mr. Purvis: Industrial diamonds. I want to hand you a rather disquieting cable and I will leave it with you, because I have already made a suggestion in regard to it. It has quite a definite interest.

I think that's all I will worry you about.

HM, Jr: Good! I think by tomorrow we will be able to clear up Consolidated Boat. I think by tomorrow.

Mr. Purvis: Thank you very much. And then could we perhaps have another hack at this?

HM, Jr: Sure! Will you call up Monday?

oOo-oOo

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Secret

From Paris April 12, 1940.
H.M.G.

(THIS DOCUMENT IS THE PROPERTY OF HIS BRITANNIC MAJESTY'S GOVERNMENT.)

MINISTRY OF ECONOMIC WARFARE,
INTELLIGENCE BRANCH.

SECRET.

L.613/1, dated 5.2.40.

G E R M A N Y

TRAFFIC VIA THE TRANS-SIBERIAN RAILWAY.

Although complete statistical data are not available, the growth of traffic in both directions on German account through Vladivostok is now shown from Censorship material and other information to be increasing in importance. It has, therefore, been thought desirable to circulate the attached summary of the information on the matter at present at our disposal.

(Sgd.) D.MORTON.

Copies to:-

Ministry of Economic Warfare.
Foreign Office (Mr. Cavendish-Bentinck)
" " (Mr. Leeper)
Admiralty (D.N.I.)
War Office (D.N.I.)
Air Ministry (D.A.I.)
D-G. of Censorship.
Ministry of Supply (Mr. Whitham)
The Procurator General
Secretary, Joint Intelligence Sub-Committee,
Chiefs of Staff.

SECRET.

MINISTRY OF ECONOMIC WARFARE,
INTELLIGENCE BRANCH.

I.613/1, dated 5.2.40.

GERMANY

CONTRABAND TRAFFIC.
VIA THE TRANS-SIBERIAN RAILWAY.

1. Normal seaborne trade passing in and out of Siberia through Vladivostock consists almost entirely of imports for consumption in Siberia. Though growing, industrial activity in the Far East is not at present large. Two-thirds of the imports by weight consist of the produce of European Russia shipped to Vladivostock from Black Sea ports, as being the cheapest, quickest and most certain route. The Soviet authorities have even found it more economic to import petroleum from America into Vladivostock than to ship it there from Batum. It is not known how the war has influenced this Russian "transit" trade, but its influence has probably been sufficiently marked to make any simple statistical comparison of war and pre-war data difficult to interpret.

It is, however, worth noting that all shipments of machine tools and copper from the U.S.A. have since the war been made to Vladivostock, and that recently the Russians have been in such a hurry to get copper out of

merica that they ship it to Manzanillo, a Mexican Port, to await transshipment to Vladivostok.

2. Starting from the end of October, 1939, considerable imports of a number of industrial raw materials into Vladivostok and Dairen for transportation further West by the Siberian route have taken place. In certain cases these are so large, relative to the normal imports of the whole of the U.S.S.R., as to arouse an immediate suspicion regarding their ultimate destination. The following figures of imports between September, 1939, and January, 1940, inclusive, which are in fact imports between the beginning of October, 1939, and mid-January, 1940, since there were practically no abnormal imports during the first month of the war, cast no little doubt on such an explanation. (Shipments under the U.S./U.S.S.R. Barter Agreement have been included, although they were not all necessarily made through Far Eastern Ports).

CATEGORY	FROM U.S. BARTER.	FROM U.S.A.	FROM D.E.I. AND PHILIPPINE IS., INC. TRANSHIPMENT FROM KOBE	TOTAL (5 MONTHS)	AVERAGE IMPORTS (5 MONTHS) INTO THE WHOLE OF THE U.S.S.R. BASED ON 1937/38 TRADE.
T O N S					
Copper and Brass (i)		42,000	NIL	42,000	30,000
Rubber	8,900	13,000	10,200 Oct/Dec.	32,100	12,500
Tungsten			1,200	1,200	Not known
Tin (ii)	600	2,000	3,000	5,600	5,000
Lead		7,000		7,000	16,500
Niobium		9,000,000 lbs.		9,000,000 lbs.	2,500,000 lbs.

NOTE (i) This copper is known to have left U.S.A. for transshipment to Manila via several indirect routes. It has not all yet reached its destination.

(ii) The U.S.S.R. are reported to be importing tin from the Province of Yunnan in China. The Yunnan production is at the rate of 1,000 tons of tin per month and their stocks according to a report received, amount to 3/4,000 tons.

3. Prima facie grounds for suspicion are, moreover, confirmed by evidence now obtained from the Censorship that certain German deficiency commodities are being forwarded to Germany via the Trans-Siberian railway. These goods include rubber, cotton, tin, tea and soya bean oil. The Japanese shipments via Kobe to Dairen are most suspicious of all.

4. There is no lack of evidence that Germany has now formed an extensive organisation in the Far East which embraces a number of Japanese firms as well as branches of German concerns for furthering this trade. The well-known Japanese firms of Mitsui and Mitsubishi are lending their aid. In addition the following German agencies have been noticed as participating in the traffic:-

Higgenam & Company.
Jobson & Company.
Diederickson & Company.
Schneider & Company.
Brasch & Rothenstein.
Garlowitz & Company.
Kinoll & Albers, Makien.
Scherings Limited.
Helchers & Company.
Reuten Brockelmann.
Hausmann & Wessendorf.
Janh & Company.
Schnabel, Ganner & Company.
Schenkers & Company.
Winckler & Company.

5. The extent of Japanese cooperation may be considerable. Reports from H.M. Ambassador in Tokyo state that exports of rubber and tin from Kobe to Vladivostock in November were at least 2,745 tons and 1,500 tons respectively. A further 720 tons of rubber which arrived in Kobe in December, has been bought by the German Consul for

- 4 -

despatch to Germany via Siberia. Apart from this, the following figures of exports of rubber during recent months from the Dutch East Indies to Japan, Vladivostock and Dairen gives some idea of the extent of the trade, if it be borne in mind that the average Japanese requirements of rubber are not more than 1,000 tons per month, while those of Dairen and Manchukuo are practically nothing:-

	<u>October</u>	<u>November</u>	<u>December</u>	<u>Total</u>
	<u>t o n s</u>			
To Japan ...	5,350	1,135	2,556	9,039
Vladivostock	1,100	803	327	2,230
Dairen ...	<u>Not known</u>	<u>3,160</u>	<u>1,316</u>	<u>4,476</u>
			<u>Total</u>	<u>15,745</u>

6. The trade from America, the Philippines, Dutch East Indies and Japan to Vladivostock, which is either suspect or of which there is evidence that it is in German interests, is not confined to the commodities mentioned above.

Cotton.

Information from the Censorship shows that the firm of Eiggermann & Co., which is also very prominent in shipments of rubber to Vladivostock for Germany, intend to send small shipments of either American or Chinese cotton to Germany via the Trans-Siberian railway.

Cobalt.

The Japanese are enquiring for 1,200 tons of cobalt (metal content) for immediate delivery, as against imports of about 600 tons in 1937 and 800 tons in 1938. There is known to be a shortage of cobalt in Germany and this metal is essential to Germany for use as a catalyst in the Fischer-Tropsch process for the manufacture of synthetic petroleum and in Widia, a substance used for cutting armour plate and hard steels.

Whale Oil.

Japan is considering the sale of 30,000 to 40,000 tons of whale oil to Germany.

Wool.

A small shipment of wool from the Argentine is to be shipped to Germany by the Trans-Siberian Railway, though H.M. Ambassador in Buenos Aires does not believe that German buyers will be able to obtain large amounts in that country.

Copra.

A shipment of 5,000 tons of copra has been made from Manila to Vladivostock, nominally for Russian account, and further purchases have been reported.

Petroleum.

There are regular shipments of mineral oil to Vladivostock from the U.S.A. This, however, is a normal procedure. It is, nevertheless, undesirable since it tends to increase potential deliveries of mineral oil to Germany from Soviet sources.

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7. The present Vladivostock trade on German account is not confined to imports. Information from the Censorship shows that merchants in Germany or their agents in the Far East are active in arranging for the distribution of suitable German exports reaching the Far East via the Trans-Siberian Railway. It is not possible at present to give any idea of the extent of the German exports actually so forwarded. The Japanese are known to pay for German goods shipped by this route when they leave Königsberg.

8. It may be objected that the capacity of the Trans-Siberian Railway is limited and traffic in goods by this route must prove very expensive. This is true, and has led to the Germans abandoning hope of importing large bulk cargoes, such as soya beans, by this route. It is, however, worth their while to use it for materials of particular value to Germany in her present circumstances, or which are so highly prized that the cost of transport is irrelevant. Although the freight may amount to £20 per ton, this would not represent more than an addition of about 15% on the cost of rubber and less than 10% on the cost of tin. The Germans have recently undertaken to convert 9,000 wagons to the Russian gauge for use on the Trans-Siberian Railway.

- 7 -

9. A study of the Trans-Siberian Railway shows that its excess capacity available for through traffic is meagre. Calculations seem to show, however, that about 15,000 tons of goods per week might be sent by this route. Information from a most secret and sure source estimates the actual potential capacity of the South Manchurian Railway available for traffic to Germany at 1,000 tons per day. There should thus be no great difficulty in carrying quantities of copper, rubber, lead, tin, molybdenum, etc. of vital importance to Germany.
10. Again it has been suggested that, by arrangement with the German Government, the Soviets are in some cases importing material into Vladivostok on their own account and are incidentally releasing to Germany corresponding quantities of the same material from stocks already available in European Russia. There is, however, at present no evidence of this.

T.H.B.

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CONFIDENTIAL

April 23, 1940

To: The Secretary ✓
Mr. Esser
Mr. White

From: Mr. Young

Attached herewith is a memorandum relating to the production of wolfram, received from Mr. C. T. Ballantyne, Anglo-French Purchasing Board, April 22, 1940.

P.Y.

WOLFRAM

There has been little change in the Wolfram situation during the last three months. The French Government however now hope to conclude their negotiations for stocks in Indo-China shortly.

The control of further production both in China and the lesser producing countries, such as Bolivia and Thailand remains to be settled. An approximate estimate of world's production is as follows:

China approximately	14,000 metric tons
Korea	3,200
Siam	500
South America	4,300
Burma	1,700
British Empire	1,500
French	1,100
Portuguese	1,000
U.S.A. and others .	1,500
Total.....	37,600 metric tons

Estimated requirements of the Allies are:

French	3,000 metric tons
British	1,000
And it is thought that the U.S. will require some	4,000

Thus out of 37,600 there is an assured safe destination for 22,000 tons. Therefore, assuming that Japan consumes the production of Korea, there remains open on the world market something under 14,000 tons, which is the approximate equivalent of one year of Chinese production. China therefore remains the key to the problem. To the best of our knowledge none of the Chinese producing areas have fallen into the hands of the Japanese whose requirements are said to be 7,000 tons for 1940.

As you will remember the question of preemptive purchase of Chinese wolfram was discussed at the beginning of the year at which time the U.S. were reported to be negotiating a loan with the Chinese Government for \$20,000,000, and it was thought possible that wolfram might be used as a security. I understand however that wolfram has not yet been mentioned in this connection by the U.S. Government.

In order that we may decide our course of action in China, I would appreciate -

First, your views on the likely requirements both of the American Government and of commercial consumers, and

Secondly, your opinion on the possibilities of the American Government using wolfram as a security for the loans to China.

This might be very helpful to us provided -

- (a) a real control is established on the wolfram given as security so as to prevent it reaching dangerous destinations, and

- 7 -
- (c) an arrangement be reached between the U. S. Government and the Allied Governments so as to provide opportunity for latter(s') purchase of the whole, or part of, this wolfram as the need may arise.

One of the principal difficulties in this problem is that China has been obtaining arms from Russia in exchange for about 400 tons monthly of wolfram and wishes to continue to do so and that consequently any deal in wolfram to be accepted by the Chinese Government must allow the Chinese Government to obtain arms at least for part of their needs. At present we are stopping shipment by sea to China and we doubt whether more than 100 tons could be transported overland. You may find it useful to point out in your discussions, that the plans outlined above, if effective, would deny Chinese wolfram to Japan and Germany as well as Germany.

Paris Sept 18, 1946

18717

INDUSTRIAL DIAMONDS

1000 9921000000

C.W. Price

98

Brazilian output now running about \$5,000,000 annually of which \$2,000,000 industrial. My information is that for about two months now competitive buying, presumed to be for Germany, has raised prices to such an extent that most dealers, including Winston, have ceased buying. This leaves the field largely to the suspected German purchaser. An informant that at least some of the parcels so purchased recently have been delivered to the Rio German Consul.

I have interviewed Winston who states that during the past twelve months he purchased more than 60% of Brazilian output and achieved this partly through sympathetic attitude of both American and Brazilian governments, and that the Brazilian Government desires to extend trade with the United States and prefers dollars to other currency. Winston gives me the impression of genuinely desiring to co-operate with the Allies. He suggested that he would be willing to enter into an arrangement with you to purchase Brazilian output on commission basis, and he believes that with his local Brazilian organization and connections, he could rapidly begin acquiring at least 80% of Brazilian output. This would involve paying somewhat higher prices than German competitor and probably would result in some ultimate though perhaps not substantial loss. As the present position in Brazil appears to be very dangerous, I urge prompt consideration and action, and believe you could quickly arrive at working agreement with Winston by exchange of cables.

cryptos located

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goes on 4/18

meet at

330 R

Extract from letter from C. S. Trench & Co. Inc.
of New York, dated February 20, 1940.

"An officer of the Department of State has informally expressed hearty approval of the proposal that tin sellers insert a clause on all contracts regarding re-exports, and has furthermore approved of the following form:

'Buyer agrees not to export or to sell for export the tin covered by this contract if such exportation would be inconsistent with the Government policy with respect to strategic materials as outlined in statements by the Army and Navy Munitions Board as of October 11th, 1939, and January 19th, 1940. Buyer further agrees, upon the resale of this tin, to insist upon this stipulation and to insert this clause, in full, in all sales contracts or confirmations.'

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STRICTLY CONFIDENTIAL
TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE April 18, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

Official sales of British owned dollar securities under the vesting order effective February 19:

	<u>No. of Shares Sold</u>	<u>\$ Proceeds of Shares Sold</u>	<u>Nominal Value of Bonds Sold</u>	<u>\$ Proceeds of Bonds Sold</u>
April				
8	34,557	1,574,037	N11	N11
9	33,660	979,557	N11	N11
10	8,095	369,124	N11	N11
11	17,324	606,193	N11	N11
12	5,890	307,771	N11	N11
13	900	57,494	N11	N11
TOTAL FOR WEEK	100,426	3,894,176	N11	N11
Sales from February 22 to April 6, incl.	<u>826,306</u>	<u>25,565,588</u>	<u>N11</u>	<u>N11</u>
TOTAL FEBRUARY 22 to APRIL 13, INCL.	926,732	29,459,764	N11	N11

Mr. Opie delivered to the Secretary personally the order of the British Government which vested a second list of securities over the week-end April 13-15.

Mr. Gifford informed Mr. Opie that a cablegram had reported that sales of non-vested securities for last week (that is, the week ended April 7) totaled \$5,000,000.

J. M. S.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE April 13, 1940

TO Secretary Morgenthau

FROM Mr. Dietrich

CONFIDENTIAL

The sterling rate experienced an improvement today on the appearance, in a thin market, of foreign bank orders to purchase that currency. After opening at 3.50-7/8, the rate rose to a high of 3.52-1/8 just before noontime. Sterling had an easier tone during the afternoon session, and the closing rate was 3.51-1/2.

Sales of spot sterling by the six reporting banks totaled £219,000, from the following sources.

By commercial concerns.....	£152,000
By foreign banks (Europe and South America).....	£ 67,000
Total.....	<u>£219,000</u>

Purchases of spot sterling amounted to £587,000, as indicated below:

By commercial concerns.....	£195,000
By foreign banks (Europe and Far East).....	£392,000
Total.....	<u>£587,000</u>

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

The other important currencies closed as follows:

French francs	.0199-3/8
Guilders	.5309
Swiss francs	.2242-1/2
Belgas	.1675
Canadian dollars	14-1/2% discount

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

\$2,000,000 to the Bank of Portugal	
500,000 to the Lithuanian Bank	
<u>\$2,500,000 Total</u>	

We purchased \$3,000,000 in gold from the earmarked account of the Netherlands Bank.

The Federal Reserve Bank of New York reported that the Bank of Italy shipped \$1,693,000 in gold from Italy to the Federal Reserve Bank, to be earmarked for account of the R.I.B.

CONFIDENTIAL

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The Bombay silver quotation was unchanged at the equivalent of 41.01¢.

In London the price fixed for spot silver moved off 1/16d to 20-7/8d. The forward quotation was unchanged at 20-13/16d. The U. S. equivalents were 33.01¢ and 32.73¢ respectively.

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

We made six purchases of silver totaling 368,000 ounces under the Silver Purchase Act. Of this amount, 220,000 ounces represented sales from inventory, and the remaining 148,000 ounces consisted of new production from foreign countries, for forward delivery.



April 18, 1940
9:58 a.m.

H.W.Jr: Hello.

Operator: Chairman Frank. Go ahead.

H.W.Jr: Hello.

Jerome
Frank: Hello, Henry. Jerome.

H.W.Jr: Hello, Jerry.

F: I got word from Uncle Jess, he wants to see me.
I'm going to see him this afternoon.

H.W.Jr: Yes.

F: And I wondered whether it was this. I -- after our
talk the other day I sent a note over to Jimmie
Rowe and asked him to call the President's atten-
tion to what you had told me and our reactions.

H.W.Jr: Yes.

F: And in it I said that while it was entirely up to
Jess and the President, they might want to take
into consideration the fact that misleading publi-
city would be doubtless given to the fact as
embarrassing our proceedings and also that it might
be embarrassing to the President to have one Govern-
ment agency make a loan at a time when another
agency was proceeding against Transamerica.

H.W.Jr: Yeah.

F: Now, I don't know what happened subsequently and I
wondered maybe you could warn me so I could know
how to talk to Uncle Jess.

H.W.Jr: No, immediately after you left, with Foley here I
called him up and I read him just what I wrote
down.

F: Yes.

H.W.Jr: And he was down somewhere in Richmond, and he said,
"Well, there was no hurry about it," and that when

he got back Monday or Tuesday he would come around and see me.

F: Yeah.

H.W.Jr: And I've not heard a word from him.....

F: Well.....

H.W.Jr:from the time that you left my office.....

F: Yes.

H.W.Jr:with the exception of reading that one sentence which I wrote. I haven't heard from him or has anybody in my own office said anything to me about it.

F: And you haven't said anything more to the President?

H.W.Jr: No, I told Jesse that if I said anything to the President -- he asked me to -- that he could be present.

F: Yes.

H.W.Jr: And I haven't mentioned it to the President and the President hasn't mentioned it to me.

F: Well, my guess is then that this memo of mine to Jimmie -- Jimmie Rowe went to the President and to Jess.

H.W.Jr: I see.

F: And -- you see what I did, while I adhered to the position that it wasn't our business, I said I thought they might want to take those facts into account in making up their own mind.

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

F: So I'm probably going to get a little pressure this evening.

H.W.Jr: I see. Well, anyway nothing has happened since I've seen.....

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F: All right. Very good, thank you.

H.M.Jr: Thank you.

April 18, 1940
10:08 a.m.

H.M.Jr: Hello.

Operator: Secretary Wallace. Go ahead.

H.M.Jr: Hello.

Henry A. Wallace: Hello, Henry.

H.M.Jr: Henry, we have a very interesting deal that has been put up to us by the National City Bank to sell 4 million dollars' worth of wheat to Spain. Hello?

W: Yes.

H.M.Jr: And we have to pass on it today. We come in on it because they want to put up gold as collateral and get a license. I'm asking you and some -- Mr. Hull to send somebody over to make sure that it fits in with your policy as to export on wheat and Mr. Hull's as to Spain.

W: Would they be willing to accept our northwestern wheat?

H.M.Jr: That I don't know. It's being handled by a house called Dreyfus, in Paris.

W: Yeah.

H.M.Jr: See?

W: Yeah.

H.M.Jr: So if either you or whoever you have confidence in would come to my office at three I'll have the thing explained.

W: All right, I'll send -- I'll make sure that somebody is over there if I'm not over there myself.

H.M.Jr: It's being -- we only -- we have nothing to do with it -- I mean, other than that I can stop it by refusing to give a license for the gold.

W: I get you.

- 2 -

H.M.Jr: But it's being handled from Paris.

W: I think our attitude would depend on whether or not we could sell the -- the soft wheat from the north-west. That's the only -- that's the wheat of which we have a surplus.

H.M.Jr: Well, as I say, it's being bought from Paris, but I don't know of a better way to put gold to work.

W: It is fine to make it do something.....

H.M.Jr: What?

W: It is fine to make it do something useful, isn't it?

H.M.Jr: Don't you think it's an interesting deal?

W: Sure.

H.M.Jr: O. K.

W: Sure. I'll probably be there myself.

H.M.Jr: Three o'clock.

W: Fine.

April 18, 1940
10:10 a.m.

H.M.Jr: Hello.

Operator: Secretary Hull.

Hull's
Secretary: The Secretary is coming on, sir.

H.M.Jr: Hello.

Cordell
Hull: Hello, Henry.

H.M.Jr: How are you?

H: All right. What's going on?

H.M.Jr: Cordell, we have a very interesting proposal from
the National City Bank.

H: Yeah.

H.M.Jr: Who want to finance a four million dollar sale of
wheat to Spain.

H: Well, I tell you, that's.....

H.M.Jr: No, this is a little bit different.

H: Yeah.

H.M.Jr: They're putting up gold as collateral.

H: Oh, I see.

H.M.Jr: And the National City will lend them the money
against the gold. It doesn't -- it's no -- the
only way the Government comes in, will we give
the National City a license.

H: I see.

H.M.Jr: And I was going to discuss.....

H: How much wheat is this?

H.M.Jr: Well, I don't know. It's being handled by a French
grain house.

- 2 -

H: Yeah.

H.M.Jr: Dreyfus.

H: Yeah.

H.M.Jr: I asked Wallace whether he'd come or send somebody and I wondered whether you could send somebody to tell us whether you'd like to see four million dollars' worth of grain go to Spain or not.

H: Yes. They will -- they will -- it will be financed by the Bank -- by the Export Bank?

H.M.Jr: No. No, it -- they're going to put up four million dollars' worth of gold in New York.....

H: Oh, yes.

H.M.Jr:belonging to the Government of Spain.

H: Yes, I see.

H.M.Jr: And against that the National City Bank will finance it.

H: Yes, I see.

H.M.Jr: But I've got to give the National City a license on the gold.

H: Oh, yes, on the -- for the import of the gold?

H.M.Jr: Well, no, so that.....

H: I mean for the use of it in that way.

H.M.Jr: For the use of it in that way.

H: Now, what time do you meet, Henry?

H.M.Jr: About three o'clock.

H: All right, I'll get somebody over there.

H.M.Jr: Thank you.

H: Thank you.

April 16, 1940
10:42 a.m.

H.M.Jr: Hello.

Operator: Mr. Welles. Go ahead.

H.M.Jr: Hello.

Sumner Welles: Good morning, Henry.

H.M.Jr: How are you?

W: Fine, I hope you are.

H.M.Jr: Pretty well.

W: Good.

H.M.Jr: Sumner, Joe Cotton is sitting here with me and he's — Traphagen has been in touch with him on continuing discussions on the Colombian debt.

W: Yes.

H.M.Jr: And Cotton made this suggestion — the possibility of he and Larry Duggan going together up to New York and seeing Traphagen and see what he has in mind.

W: Well, I spoke to Duggan about it yesterday.

H.M.Jr: Oh.

W: And I understood from him that Traphagen was coming down here, I think he said the end of this week or the beginning of next week.

H.M.Jr: I see.

W: And at that time I said I'd like to see him myself.

H.M.Jr: Well, that — that would be — then why not let's wait until that happens?

W: I think that probably would cover it.

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

- 2 -

W: I agree with Mr. Cotton that there's urgency in the matter because the Colombian Government has told me that if this isn't settled before the first of July the President will lose his special powers.

H.M.Jr: Well then, should Cotton -- are you going to communicate with Traphagen or should Cotton?

W: I'd be glad if he would.

H.M.Jr: Tell -- and he can tell Traphagen that you would be glad to see him.

W: Yes, indeed.

H.M.Jr: I'll do that.

W: All right.

H.M.Jr: Anything new on Italy?

W: No.

H.M.Jr: No.

W: No, not a thing.

H.M.Jr: All right.

W: All right, Henry.

H.M.Jr: Thank you.

W: Goodbye.

April 18, 1940
2:23 p.m.

Homer Bone: Hello.

H.M.Jr: Hello, Senator.

B: Mr. Morgenthau, this is Homer Bone speaking.

H.M.Jr: Yes.

B: I'm sorry to bother you about a matter of this but I.....

H.M.Jr: Go ahead.

B:felt tempted to call you up. I would like to have, if possible, have Mr. Saul Haas of Seattle come back. As a matter of fact I'd like to have him go over to Baltimore while he's here. You know he's had some treatment over there.

H.M.Jr: Yes.

B: And I wonder if there's any chance to have him come back.

H.M.Jr: Well I don't know, I'll have to talk to his boss.

B: Can you -- will you do that? I'm sorry -- it's a hell of a thing to ask you about, but if I can impose on your good nature.

H.M.Jr: Yeah. Well, let me talk to Basil Harris. I don't know what the situation is at all. He wants -- what does he want -- he wants to come on in and go to a hospital?

B: Well no, not so much that, but it would -- incidentally it might be a very valuable thing to him. He had some treatment over there before. It isn't lengthy but he's been under terrific pressure out there with all the -- with all of the neutrality problems thrust on him. There's a hell of a lot of Scandinavian vessels come into those ports and I guess they've just been going night and day out there.

H.M.Jr: Well, if it can be done, Senator, I'll be glad to do it.

- 2 -

B: Well, thanks a million!

H.M.Jr: Righto.

B: But if you could — one of your boys let my office know I'd appreciate it.

H.M.Jr: They'll let you know before sunset.

B: Thanks a lot! Thanks a lot.

H.M.Jr: O.K.

April 18, 1940
2:58 p.m..

H.W.Jr: Hello.

Louis Johnson: Mr. Secretary?

H.W.Jr: Yes.

J: Two things. First, I have a draft of a letter here which if you can take a minute Colonel Burns will be over with it to show you what we're trying to get at and to say that this form is what a business man would write and not in diplomatic language.

H.W.Jr: Right.

J: And we aren't stuck on the language at all. It's a question of their saying what we have said in the letter.

H.W.Jr: Right.

J: And you may want to ask some questions about it so Colonel Burns will be over.

H.W.Jr: Well look, if he could get here at three-twenty-five.....

J: He'll be there at three twenty-five.

H.W.Jr: But I -- Purvis is coming at three-thirty and I'm going into another meeting now.

J: All right. Then secondly.....

H.W.Jr: Yes.

J: On the B-24, which is Consolidated.....

H.W.Jr: Wait a minute, B-24 -- yes?

J: Which is Consolidated, we've reached an understanding with them and we are now hoping that the pressure which we have applied that that'll be signed by the company tomorrow.

H.W.Jr: Yes.

J: And we'll phone you immediately. The Boeing, which is the other big ship, they haven't started, but there will be no delay about that at all.

- 2 -

H.M.Jr: Well, I'll wait then until tomorrow.

J: All right.

H.M.Jr: Will there be any sunshaw(?) with this?

J: I can't tell you until that story gets to me.

H.M.Jr: (Laughs) I hope not.

J: All right. Well, we're.....

H.M.Jr: Well, I won't tell anything to Purvis on the B-24 until I hear from you again.

J: All right, we're well under the 7 million and will be.

H.M.Jr: All right.

J: Right.

H.M.Jr: O. K.

J: Goodbye.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

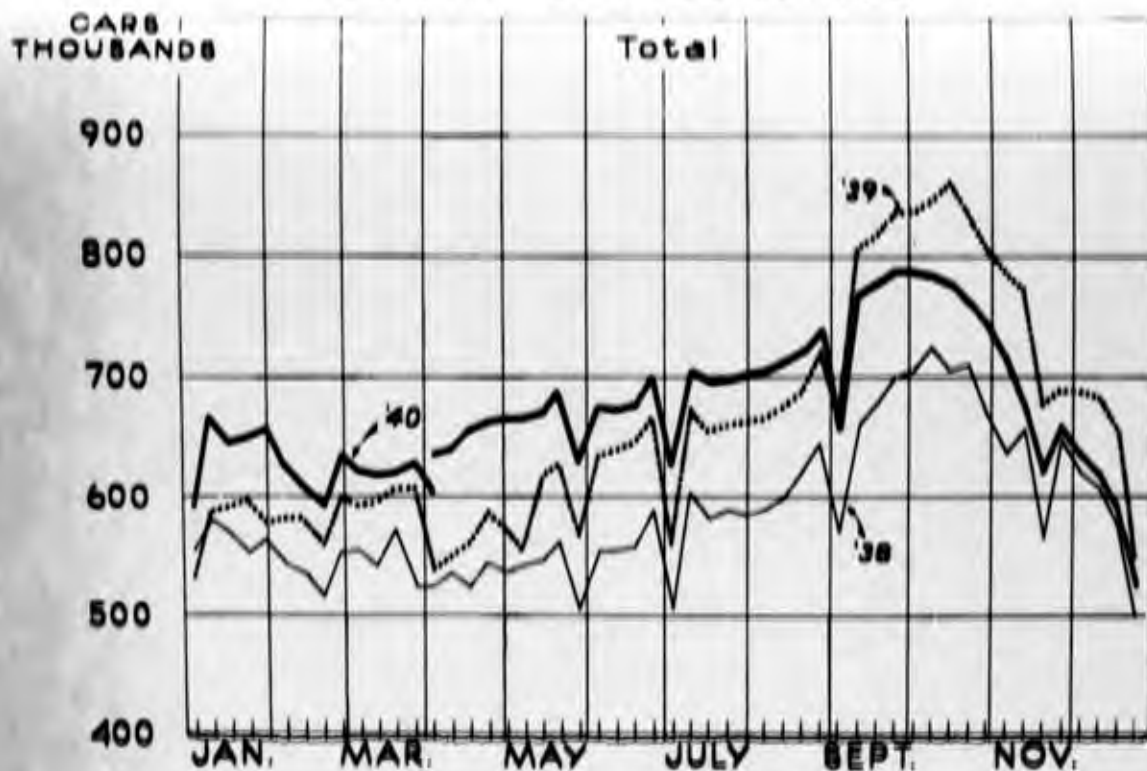
DATE April 18, 1940

TO Secretary Morgenthau
FROM Mr. Haag *[Signature]*
Subject: Carloadings estimates of Association of American Railroads.

The estimates of carloadings for the remaining months of 1940 made by the Association of American Railroads would suggest, according to our analysis, an average FRB index this year between 109 and 111, or approximately the same as the 1937 average. The lower figure assumes that industrial production will bear the same relationship to carloadings as in 1939. It would indicate a rise in the FRB index from the present level of around 105 to about 113 in November. The higher figure (111 average) assumes the continuation of a rising trend of production in relation to carloadings, which has been apparent in recent years.

The AAR estimates are shown on the attached chart (in red) in comparison with actual carloadings for 1938 and 1939. For this comparison we have distributed each monthly estimate by weeks, using an average seasonal trend.

FREIGHT CAR LOADINGS



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

C-233-A

CONFIDENTIAL

MEMORANDUM TO
CHIEF OF THE AIR CORPS
WASHINGTON
WASHINGTON, D. C.

**WAR DEPARTMENT
OFFICE OF THE CHIEF OF THE AIR CORPS
WASHINGTON**

220

April 18, 1940.

see chart 4-22

The Honorable,

The Secretary of the Treasury.

Sir:

In accordance with your verbal request, there is transmitted herewith a report of the deliveries of aircraft and aircraft engines during the month of March, 1940.

Respectfully,



**H. H. Arnold,
Major General, Air Corps,
Chief of the Air Corps.**

2 Incls.
Aircraft
Engines

CONFIDENTIAL

77-4, 11-11

CONFIDENTIAL

221

April 18, 1940.

The Honorable,

The Secretary of the Treasury.

Sir:

In accordance with your verbal request, there is transmitted herewith a report of the deliveries of aircraft and aircraft engines during the month of March, 1940.

Respectfully,

**H. H. Arnold,
Major General, Air Corps,
Chief of the Air Corps.**

**2 Incls.
Aircraft
Engines**

CONFIDENTIAL

DELIVERIES (ACCEPTANCES) OF AIRPLANES
During the Month of March 1940

	<u>March 1940</u>
Army	80
Navy	23
Commercial	54
Foreign	<u>192.8</u> ^{1/}
Total	349.8

^{1/} Includes spares

Mat. Plan. Sec., Mat. Div.,
Office, Chief of Air Corps,
April 18, 1940. (CEJ:llk)

DELIVERIES (ACCEPTANCES) OF AIRCRAFT ENGINES
 During March, 1940

	<u>March, 1940</u>
Army	298
Navy	99
Commercial	<u>43</u> ^{1/}
Foreign	<u>59</u>
Total	<u>1,349</u>

1/ Estimate.

Mat. Plan. Sec., Mat. Div.,
 Office, Chief of Air Corps,
 April 12, 1940 (TNA/esp).

April 18, 1940

CONFIDENTIAL: To be held in STRICT CONFIDENCE and no portion, synopsis or intimation to be published or given out until the READING of this letter by the President to the Speaker of the House of Representatives has begun in the House of Representatives. Extreme care must therefore be exercised to avoid premature publication.

STEPHEN EARLY
Secretary to the President

*April 18, 1940

My Dear Mr. Speaker:

In submitting to the Congress my budget for the fiscal year 1941, I included an item for relief and work relief which provided the amount of approximately \$975,000,000 for administrative expenses and the cost of project operation of the Work Projects Administration. This represented a reduction of approximately one-third from the amount which was made available for these purposes in the current fiscal year, and if used for the twelve months of the fiscal year 1941 will provide an average employment of only about 1,330,000.

In the message transmitting this budget, I commented upon the item for relief and work relief by saying: "If conditions fail to meet our hopes, additional funds may be necessary."

The preparation of the budget was completed in December, 1939, at which time industrial activity in the United States was at a very high level. I regret to inform you that the hopes which I entertained at that time and which were based on the industrial outlook then prevailing, have not been sufficiently realized and that it is therefore in my judgment now necessary to adopt measures for dealing with the situation which exists today and which may be quite confidently predicted for the next few months.

The industrial production index of the Federal Reserve Board for December stood at 128, an all-time high. In January it declined to 119, and in February to 109. The preliminary index for the month of March is 106. It is hoped that it will not go lower than this.

It is extremely difficult to predict at this time the volume of employment in private industry that will be provided throughout the whole fiscal year 1941. The present indications are that leaving out any violent fluctuations which may occur due to events abroad, private employment in the fiscal year 1941 will be as high as in the fiscal year 1940.

- 2 -

There is certainly at the present time no information available to justify a reduction in the program of the Work Projects Administration below that which has been carried on in the current fiscal year with an appropriation of approximately one and one-half billion dollars.

In my judgment the most logical action that the Congress could take at this time would be to appropriate the budget item for the Work Projects Administration but to lodge discretionary authority in me or in the Commissioner of Work Projects to expend this amount in the first eight months of the fiscal year, on condition that unemployment conditions in the country are such as to require such expenditure within that period. I can assure you that if this discretionary authority is provided in the Appropriation Act, the appropriation will not be expended within the eight months unless it is absolutely necessary to avoid suffering and hardship.

If the appropriation is made with the provision which I have just described, the incoming Congress will have the period from January third to March first, 1941, to deal with the question of the need of providing funds for the last four months of the fiscal year, if such need is then apparent. It may also be necessary, in connection with the consideration of this question, at that time, to give attention to the related question as to whether taxation will be necessary in order to provide the needed funds.

I would like to make it clear that I am asking only for authority to exercise a limited discretion in the expenditure of the appropriation, and that I am not asking that the principle of apportionment which is written into the current Appropriation Act be abandoned. I believe it is entirely proper and advisable for the Congress to include the apportionment principle in the Act, but this principle can just as logically be extended over the eight months period as over the entire fiscal year.

Very truly yours,

FRANKLIN D. ROOSEVELT

Honorable William B. Bankhead,
Speaker, House of Representatives,
Washington, D. C.*



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

April 18, 1940.

MEMORANDUM FOR THE SECRETARY

There is attached hereto a statement indicating the purchases made by foreign Governments which have been reported to the Liaison Committee through March 1, 1940.

A handwritten signature in cursive script, appearing to read "H. Green".

FOREIGN PURCHASES AS OF MARCH 1, 1940.

<u>Type of Purchase</u>	<u>France</u>	<u>England</u>	<u>Finland</u>	<u>Sweden</u>	<u>Norway</u>	<u>Total</u>
Tools	\$77,861,322	\$19,988,336	\$ 184,398			\$ 98,014,056
Equipment	15,247,450	8,887,171	100,175	\$ 550,516		24,815,092
Ordnance	25,797,676	7,611,115	208,975	1,294,900		34,906,666
Airplanes	151,298,235	117,820,968	3,114,420		\$6,058,702	444,304,810
Airplane Engines	121,632,700	25,837,239	1,213,600	8,856,000	1,659,020	
Airplane Accessories	28,636,854		159,052		18,020	
Metals	27,860,059	9,886,036				37,746,095
Motor Vehicles	15,722,050	120,000				15,842,050
Textiles and Shoes	3,650,942					3,650,942
Food	366,444	14,806,775				15,173,219
Miscellaneous	2,841,068	11,108,497	68,778			14,015,343
TOTAL	\$448,914,775	\$215,761,157	\$5,053,595	\$10,501,216	\$7,755,742	\$688,986,535

APR 18 1940

My dear Mr. Secretary:

Reference is made to your communication of April 16, 1940, enclosing a note (1000/40), dated April 15, 1940, from the Minister of Czechoslovakia regarding Czechoslovakian deposits in the United States.

In connection with its consideration of the matter suggested in such note, the Department would appreciate receiving from the Minister of Czechoslovakia such information as he may be able to furnish relative to the amounts of property by categories located in the United States and presently owned by Czechoslovakia or a national thereof; the present holders, custodians, etc., in the United States of such property, and the status of any litigation pending relative thereto. The Department would also be glad to receive any comments or suggestions that the State Department may care to make with respect to the request of the Minister of Czechoslovakia.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable

The Secretary of State

WMS:ms
4/18/40

By Messenger 10¹⁵ am 4/18/40

file to Mr. Thompson

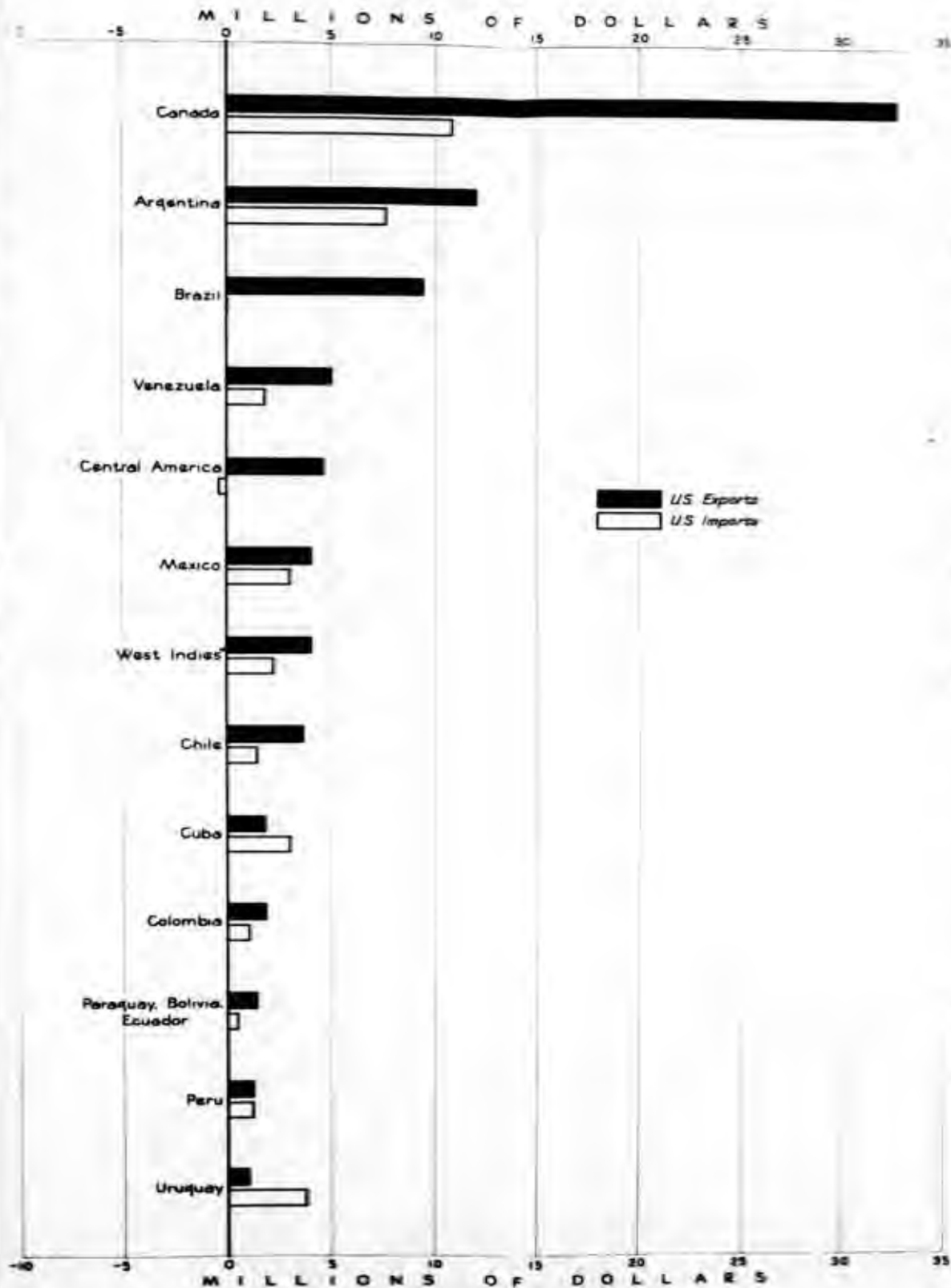
H16/40 229

Dr. White's Office states that
no memo accompanied these charts.

WES

CHANGES IN VALUE OF U.S. TRADE WITH CANADA AND LATIN AMERICA

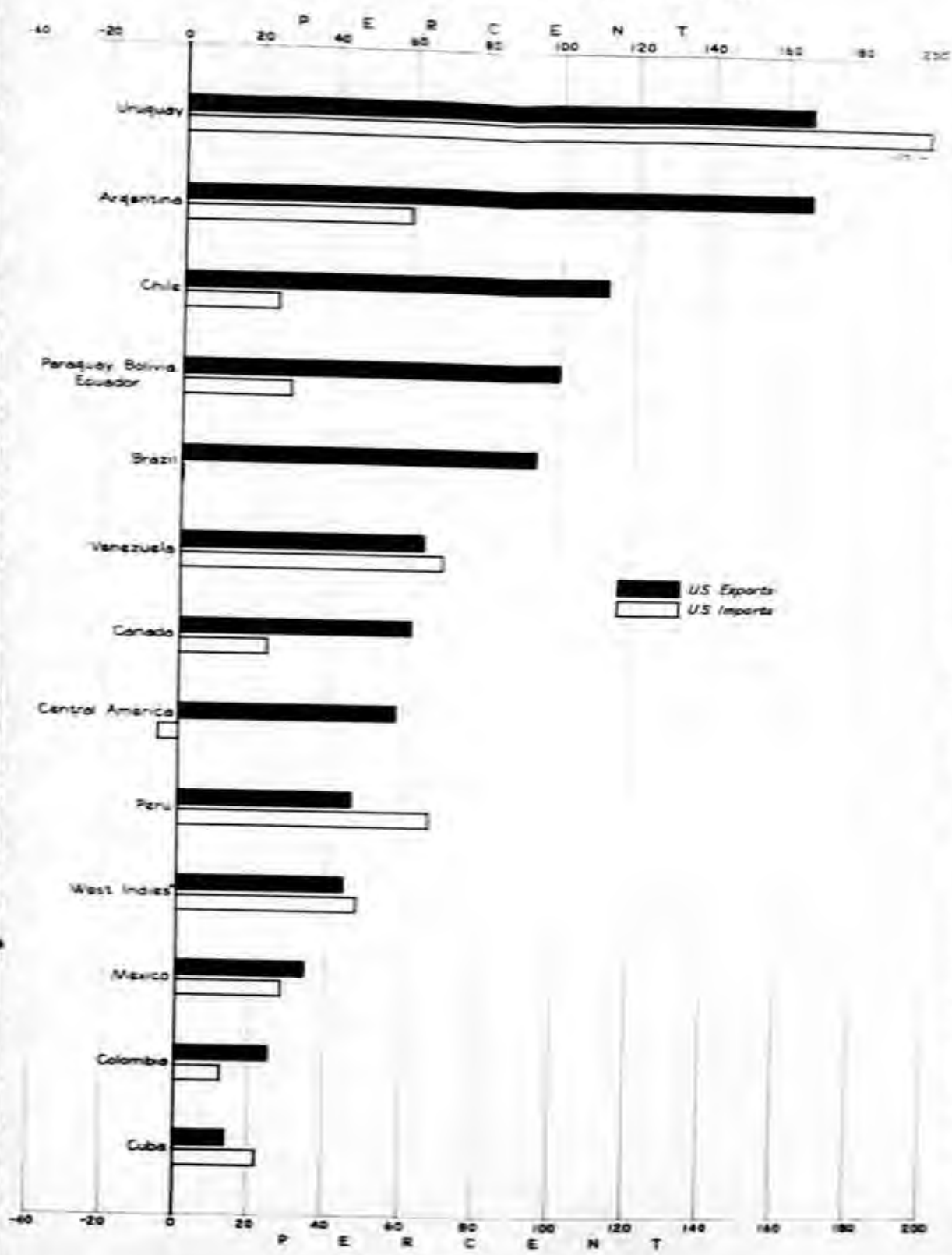
1st Two Months 1940 Compared with Same Period 1939



*Including Bermuda, Excluding Cuba

PERCENTAGE CHANGE IN U.S. TRADE WITH CANADA AND LATIN AMERICA

1st Two Months 1940 Compared with Same Period 1939



*Including Bermuda (excluding Cuba)

232

Treasury Department
Division of Monetary Research

Date 4/19/40 1939

To: Mrs. Klots

From: H. D. White

I can find no reference to
\$100 million in the cable. Can you?

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE April 18, 1940

TO Mr. White
FROM Mr. Booker

Estimated French Investments
in the United States

(In millions of dollars)

	<u>Our figures</u>	<u>French estimates in confidential cables</u>
Long-term investments ^{1/}		
Direct	\$25	
Stocks and Bonds	200 - 300	\$ 10 ^{2/}
		(total returns in declarations of French owned dollar securities)
Short-term investments, April 3, 1939		
Balances in United States	\$287	
Official	32	
Private	255	\$145

^{1/} Department of Commerce estimates as of August 29, 1939.

^{2/} Does not include securities brought back to France or placed under the dossier of a bank in France. The French state that prior to November substantial quantities of American securities were liquidated. Our figures show net French purchases of American securities of \$4 million from September 1, 1939 through the end of the year.

BJS

GRAY

PARIS

Dated April 13, 1940

Rec'd 11:10 a. m.

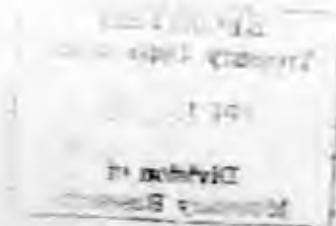
Secretary of State,
Washington

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

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

BULLITT

FEB



PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

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

NO.: 470

FOR THE TREASURY DEPARTMENT. FROM MATTHEWS.

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

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

- 2 -

free market growth involves.

END SECTIONS ONE AND TWO.

DELITT.

TO THE SECRETARY
TECHNICAL ASSISTANT
OFFICE OF THE

PROVVISOR LW 1 15

RECEIVED
DEPARTMENT

RECEIVED

PARAPHRASE OF SECTIONS THREE TO SIX, INCLUSIVE,
NO. 470 OF APRIL 15, 1940 FROM PARIS.

With satisfaction Couve de Murville told me that his estimate of French holdings of foreign exchange had proved to be right. Reference, telegram of February 27, No. 282: Couve had valued the holdings at 150 million dollars. The completed declarations show that the holdings are slightly more than 145 million dollars. The machinery is in motion, he said, for requisitioning these balances. He believes that the greater part of them are unobligated, though a certain proportion of them is necessary for revolving funds of French concerns abroad. He said that the Government would take over sometime before summer, but could not time the move exactly. Arragon of Morgans was told by Governor Fournier that active study is being given to the question of taking over private foreign exchange holdings, and it is only a question of a short time before this will be begun.

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

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

- 2 -

prior to November substantial quantities had been liquidated or repatriated and that it had not been necessary to include in the declarations such securities physically brought back to France or placed under the dossier of a bank in France. He said that they would have to take steps to obtain some inventory of the amount involved before they made any move to requisition such securities, but he supposed they would have to do that eventually. However, he admitted that there are probably substantial quantities of French-owned securities which it will be difficult for the Government to acquire, if not impossible, particularly those which are held through Swiss holding companies; reference: telegram of March 18, No. 397 from the Embassy.

END SECTIONS THREE TO SIX, INCLUSIVE,

BULLITT.

HALSW

WAR DEPARTMENT
OFFICE OF THE CHIEF OF THE AIR CORPS
WASHINGTON
April 18, 1940

Honorable H. Morgenthau, Jr.,
Secretary of the Treasury.

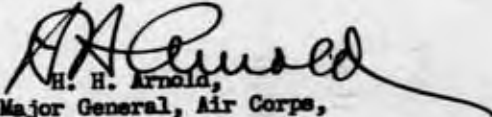
Ky dear Mr. Secretary:

Please accept my thanks for the confidential chart showing the delivery status of airplanes and aircraft engines. I shall appreciate very much receiving an up-to-date copy of this each month.

I have checked on the March figures and this information will be forwarded to you on or about April 20th.

With highest personal regards, I am

Sincerely yours,


H. H. Arnold,
Major General, Air Corps,
Chief of the Air Corps.

4-18-40

TOTAL TANKERS SUNK
SEPTEMBER 3, 1939 TO APRIL 18, 1940

Flag	Number	Gross Tons
British	22	164,031
French	2	22,378
Norwegian	4	28,701
Roumanian	1	6,394
German	4	16,723
Netherlands	3	20,340
Swedish	3	16,390
Greek	-	-
Danish	1	10,517
Others	-	-
Total	40	285,474

THE SALE OF WHEAT TO SPAIN

April 18, 1940
3:00 p.m.

Present: Mr. Bell
Mr. Feis
Mr. Moffatt
Mr. Foley
Mr. Bernstein
Secretary Wallace
Mr. Wheeler
Mr. Becker
Mr. White

H.K.Jr: Dan, would you explain the thing, please?

Bell: Well, yesterday Gordon Renschler called and said that he had a transaction presented to him which he would like very much for the National City Bank to enter into and after explaining it to me on the telephone, I asked him if he wouldn't send down a letter last night so that we would have it before us today, on which we could act and this is the letter, which came in about noon. It is from Mr. Sheppard, who is the Vice President of the National City Bank. It says, "Mr. Renschler asked me to write you relative to a cable we have received from our good friend, Louis Dreyfuss in Paris --"

H.K.Jr: Excuse me, Dan. Wallace and Wheeler and Becker are on their way over.

Bell: Shall I go ahead?

H.K.Jr: Yes, I would go ahead.

Bell: "Mr. Renschler asked me to write you relative to a cable we have received from our good friend Louis Dreyfuss in Paris, asking us to consider a loan to them of four million dollars for a period of one year, guaranteed by gold deposited with the Bank of London and South America, Limited, in Lisbon, Portugal. This loan is in connection with the sale of 100,000 tons of wheat to the Spanish Government and the gold would be deposited by the Bank of Spain with an hypothecation agreement running to us. We should very much like to do this business, but we consider it inadvisable under present conditions to make such a loan with the gold in Lisbon, and would appreciate your consideration of the following procedure,

- 2 -

which would enable us to have a beneficial interest in the gold on deposit with the Federal Reserve Bank of New York: the gold would be held by the Federal Reserve Bank of New York for account of the Spanish Government with a beneficial interest running to us, so that in the event of non-payment of the obligation, the gold would be sold to the United States Government and we be reimbursed for the amount of our loan from the proceeds thereof. If the loan is paid at maturity, our beneficial interest would cease and the gold would be held by the Federal Reserve Bank for account of the Bank of Spain. We ask that you kindly consider this transaction as strictly confidential as requested by our good friends in Paris."

Now, on the telephone yesterday he said that these would be not longer than 12 months bills. That would be about half a million running for three months, half a million for six months, and a million and a half each for nine months and twelve months, making up the four million dollar loan.

H.M.Jr: Well, the thing that I want to know from the State Department is - my attorneys tell me that it can be done legally. For the sake of the Bank, we would insist that the gold be deposited in New York with the Federal Reserve, so legally we can do it. Now, it gets down to the question of policy.

Moffatt: You would like us to give you just a little story of our relations with Spain, then, in the last few months?

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

Moffatt: They have been almost uniformly unsatisfactory. In fact, on none of the questions at issue have we been able to come to terms with the Spanish Government. I am not talking now for the moment of relatively difficult ones like blocked credits, but I am discussing on the big things, which is the International Telephone and Telegraph Company, with an American investment of over 60 million dollars. Contrary to the terms of the contract,

- 3 -

they have not returned the management to the company. Colonel Baine and his associates are sitting there in Madrid unable to transact or have anything to do with the company. They have given us repeated assurances in general terms that they were going to restore this property. They have never brought it to fruition. We have finally reached a point where we instructed our Ambassador to go and deliver a very strong note to Franco in person, saying that we felt that the Spaniards were guilty of bad faith to us and that unless this was corrected, it would be extremely difficult to normalize or put on an entirely satisfactory basis our relations.

Franco has not yet received the Ambassador. They have attempted to argue on details and never come to the main issue, so we have finally given them a very strong note just the other day, ending up, "And until the Spanish Government makes evident its intention to respect American rights and interests in Spain by concrete action, the relations between our two Governments can hardly be considered by this Government to be on a satisfactory basis with respect to our mutual interests and desires."

Carrying that a little further orally, we have indicated that until they come across with our legitimate rights, they will hardly be in a position to expect accommodation of any sort from this Government.

Now, with that picture more or less --

E.A.Jr:

Who am I to argue for Franco? Of course, I want to hear Henry Wallace when he hears that there is 100,000 tons of wheat that can go.

Fels:

I doubt whether the transaction would turn out to be actual business. This is not the first instance of certain people appearing in Paris that maybe represent the Spanish Government and maybe they don't. They had proposals that were some way or other loan proposals. Perhaps this will turn out to be an actual one and perhaps it won't.

- 4 -

About 90 days ago, the Spanish Ambassador came in to talk the purchase of American wheat and we said to him, "Well, let's get one thing clear. You know our wheat is selling at about 30 cents a bushel higher than elsewhere and we get the world price." He said he didn't know, he would find out and if they were willing to talk on that price, he would be back again. He has never been back.

(Wallace, Wheeler and Becker enter the conference)

H.M.Jr:

Henry, we are trying to sum up. The National City Bank asked us whether they could finance - Dreyfuss of Paris wants to buy 100,000 tons of wheat to be sold to the Spanish Government, the Bank of Spain to put up four million dollars gold in New York and they want the National City to hypothecate this gold. It will be a question of issuing a license to the National City Bank so that they will have an option on the gold and in case they foreclose, the gold will be sold to us and we reimburse them. That is the only place we come in.

Mr. Moffatt was just telling us some of the State Department troubles with Spain, which he can summarize for you better than I can.

Dan, is that the outline, the financial end of it, where we come in?

Bell:

That is very good.

Moffatt:

To summarize a rather long statement in about two words, we have been able to get nowhere with the Spanish Government on any problem that has been up in the last six or nine months. More particularly, it has come to a head in that the Spaniards have not yet returned to the company the management of the great telephone properties, in which we have over 60 million dollars invested. In fact, things have gone so badly that we have had to tell them that we feel they have been guilty of bad faith and that pending such return to its management of these properties, it would be extremely difficult, if not impossible, to

- 5 -

give any accommodation to them. That is boiled down into two sentences.

- Waver: Would the State Department regard a transaction of this kind, if it appeared to be a real one, and if it appeared to make possible the sale of wheat, would it regard it as a Government or as a private transaction?
- Hoffatt: That is why I hedged and said if this is an accommodation. That is more Herbert's child than mine.
- E.W.Jr: Well, it is an accommodation to this extent, that we would be doing something we have never done before since 1934. Is that right?
- Hall: I think we had one case, didn't we, similar to this one time before?
- Bornstein: Yes. In 1934, Venezuela got a loan from the Central Hanover Bank which was collateralized by gold held on deposit at the New York Federal and the loan was to cover the period of exportation of Venezuela beans, I think, to this country. We issued a license authorizing the transaction, the gold to be held in New York.
- Hall: Supposing the National City Bank was willing to take this gold in Lisbon. Would it then be presented to this Government in any manner? It would be a private transaction clearly out of our scope. The only thing then that brings it in to us is the fact that they are going to put the gold in the Federal Reserve Bank in New York.
- Hais: That would take it outside the Treasury's scope. I was leading up to that. I must first say, Mr. Secretary, I very much doubt whether this is any actual business to begin with. There have been other approaches and even 80 or 90 days ago the Spanish Ambassador came in to talk to us about wheat purchases and we said, "Do you mean with subsidy or without?" And he said he would find out and he has never been back. Periodically, either for wheat or something else, approaches come through Paris.

- 6 -

I ought to add this, too, that the chief approaches have been made to J. P. Morgan. They have several times said they were not eager to give accommodation to the Spanish Government. We have said that that is better than all right to us. So the Morgans have held themselves apart from any such transactions as this.

Then just one last thing, catching up with Pierrepont. In talking with the Secretary about it, the question arose, is it an accommodation? Well, I think clearly it is, in the form it is proposed. If it was, the Secretary said he thought he would like to suggest a way to handle it was to say, "Not now, not under the present circumstances," but leave the door open in that sense.

E.M.Jr: I will be guided entirely by the State Department.

Boffett: That is exactly what he said.

E.M.Jr: Whatever you gentlemen say will guide us entirely.

White: It isn't much of a bargaining point in view of the fact that all they can say, presumably, is a quarter of a percent purchase and sales, so at the most it is a half of a percent.

Woley: Do we refuse the license of the bank?

E.M.Jr: No, just call up Renschler and tell him to forget it.

Weis: I think if you just said forget it for the time being, my guess is that Gordon Renschler would understand everything that has been said in this room today. He knows that story. Forget it for the time being.

E.M.Jr: He would, because it is a national bank.

Bell: He has had three other transactions, I think, somewhat similar, not the same amount involved, nor near that much, but I think you said something like that before, hold off a while.

- 7 -

- E.M.Jr: In that case of Spain or something else.
- Bell: Norway and Sweden - three of them all told.
- White: Do you think, Mr. Secretary, your approach might be somewhat different if that merely meant the loss of a sale, possibly a little more information before a final decision.
- E.M.Jr: Not if that is the way the State Department feels.
- Hoffatt: There is no reason they can't meet us, if they want, exceedingly quickly on this thing. It is tied up with domestic politics inside of Spain. We are at the short end of the stick.
- E.M.Jr: My motto on these things is, "I pick my fights," and this doesn't appeal to me. While I have this talent here, I would just like to say one thing. Basil Harris is Commissioner of Customs and has been working on trying to drum up some business with Italy.
- Wheeler: I had lunch with him today.
- E.M.Jr: Do you want this idea of for every bale of cotton, three bushels of corn, as a sort of premium? Instead of a set of dishes, you are going to give them three bushels of corn, is that the idea?
- Wheeler: Well, that is one way. I think it would be very advantageous to have corn in the deal if there was going to be a deal at all.
- E.M.Jr: I told him it sounded cockeyed enough to be very attractive. Is it something which the department wants to do?
- Wallace: Sure, they will do it.
- E.M.Jr: Do you know about it?
- Hoffatt: No.
- E.M.Jr: Explain it to the State Department.

- 8 -

- Wheeler: Well, I was just exploring the possibility of selling some cotton to Italy. I think it is quite evident that they would like to have cotton.
- E.A.Jr: Excuse me a minute. This is following my talk with Sumner Welles asking us if we couldn't think up something which would do good for Italy. It was Sumner Welles' suggestion.
- Woffett: Yes, I remember that.
- Wheeler: I didn't go into the matter of the question of just how they are going to get the loan with Mr. Harris, but on the basis of the assumption that there would be a loan to Italy which would provide the funds to buy the cotton. That part, as I say, we didn't discuss, but the question was whether or not we could sell to Italy the Commodity Credit Corporation cotton and under existing law we have certain restrictions as to the price at which the cotton can be sold.
- We were struggling around with the idea of being able to sell to Italy on the basis of the price that we could sell under the law and make it attractive by adding some corn at a relatively low price, which we can sell at - this is just a matter --
- E.A.Jr: And which they need.
- Wallace: We can take the loss on corn, but not on cotton.
- Foley: Is that dumping our corn?
- Wheeler: Well, if they are anxious to have it, I wouldn't call it dumping.
- Foley: We talk about countervailing duties and the anti-dumping duties in so far as Italy is concerned and turn around and do the same thing to them.
- White: But we don't need either cotton or corn.
- Foley: I was thinking about our other exports to Italy, Harry. It might come right back in our laps.

- 9 -

E.M.Jr: I wouldn't have brought it up, but I just saw Basil Harris at 2:00 o'clock and it was such a novelty that I thought I would mention it and these gentlemen might be thinking about it.

Well, I thought I had 100,000 tons of wheat sold for you.

Fols: Mr. Secretary (Secretary of Agriculture), have we much wheat that we do want to sell?

Wallace: Just some of the wheat, northwest wheat.

Fols: How large an amount would it be that you want to sell.

Wallace: Oh, somewhere between five and ten million bushels. It is all in that one territory. Maybe we ought to put in this proviso, they raise some hard wheat there, not a very hard wheat, and we wouldn't want more than one million bushels of the five or ten, as the case may be, to be hard wheat. It would be northwest hard wheat.

Fols: But the total surplus that you are ready to dispose of to anybody at this time is between five and ten million?

Wallace: That is right.

E.M.Jr: Do you want to bring up anything?

Wallace: No.

E.M.Jr: Do you?

Huffatt: No.

E.M.Jr: Thank you very much.

LETTER DICTATED OVER THE TELEPHONE
BY MR. H. C. SERPHERD, VICE PRESIDENT
OF THE NATIONAL CITY BANK OF NEW YORK,
APRIL 18, 1940.

April 17, 1940

Mr. Bentschler has asked me to write you relative to a cable we have received from our good friends, Louis Dreyfus and Cie., in Paris asking us to consider a loan to them of \$4,000,000 for a period of one year, guaranteed by gold deposited with the Bank of London and South America Limited in Lisbon, Portugal. This loan is in connection with the sale of 100,000 tons of wheat to the Spanish Government and the gold would be deposited by the Bank of Spain with an hypothecation agreement running to us.

We should like very much to do this business, but we consider it inadvisable under present conditions to make such a loan with the gold in Lisbon and would appreciate your consideration of the following procedure, which would enable us to have a beneficial interest in the gold on deposit with the Federal Reserve Bank of New York.

The gold would be held by the Federal Reserve Bank of New York for account of the Spanish Government with a beneficial interest running to us so that in the event of non-payment of the obligation the gold could be sold to the United States Government and we be reimbursed for the amount of our loan from the proceeds thereof. If the loan is paid at maturity our beneficial interest would cease and the gold would be held by the Federal Reserve Bank for account of the Bank of Spain.

We ask that you kindly consider this transaction as strictly confidential as requested by our good friends in Paris.

Be sure Harry White
see this
HW

SM

noe ticket.
HW

PLAIN

Stockholm

Dated April 18, 1940

Rec'd 9:45 p.m.

251

Secretary of State,
Washington.

310, Eighteenth.

State Trade Board has cancelled some previously granted licenses and is refusing to issue further licenses to permit exportation of essential goods owing to emergency needs and present impossibility of replacing supplies from abroad. Most important products of Sweden included are iron and steel products, chemicals, foodstuffs, but prohibition does not include iron ore. On February 13th Riksbank foreign exchange reserve 467.9 million crowns and gold reserve 736.86 million. Government deposits with Riksbank declined during second week April by 122 million crowns to total 195.4 million. Sweden's foreign trade during March showed import surplus 9.4 million crowns, value of imports 149.5 million crowns, exports 140.1 million, principal declines in imports, machinery, motor vehicles compared year ago. Coffee rationing further tightened. Tentative agreement reported between Confederation Swedish Labor and Swedish Employers Association to waive temporarily "eight hour act" to overcome specific

These are the same as the
information received by the
Cable and mail, would appreciate

labor shortages created by present situation. Riksdag has approved measure to apply fully government control to sugar manufacturing in Sweden. Large quantity of imported bauxite now in storage near Bergen is believed to have fallen into the hands of the Germans occupying Norway; many Norwegian industries manufacturing essential raw materials are now in German-occupied areas or are within reach of such areas and can later be occupied if and when the occupation is extended. Among these are pyrites and sulphur at Orkla mines, titanium white in Fredrikstad, nickel in Brje, silver in Kongsberg, alumina in Hoyang, explosives and matches in Oslo area, nitrogen and fertilizers at Notodden and abrasives at Arendal. In some of these Norwegian enterprises there is fairly important American financial participation and with others American manufacturers have marketing agreements; a large number of Norwegian ships were in ports during the occupation and many of these are now presumed in use by German authorities for transport purposes.

INFORM COMMERCE.

STERLING

LMS

(Received from Counselor Bunge of the Argentine Embassy by Mr. Bernstein of the Treasury and distributed by Mr. Cochran's office.)

Ministerio

de

Relaciones Exteriores y Culto

THE NATIONAL
EXECUTIVE POWER

Buenos Aires

April 18th. 1940

In consideration of the declarations made to this Government by the Plenipotentiary Ministers of the Kingdoms of Denmark and Norway, and from which can be deduced that, in view of the abnormal situation in which both countries at present find themselves, complications in the operations of movement of funds with the Argentine Republic, might arise, and,

CONSIDERING:

That it is advisable to safeguard the legitimate interests involved, as regards the economic relations of said countries with ours by momentarily suspending the movement of accounts and transfers till a time when it may be possible to place the development of the transactions on a regular basis

THE PRESIDENT OF THE ARGENTINE REPUBLIC

DECREES:

Article 1st. For the time being, and till further disposition, the operations in Argentine currency, the amount of which, for any reason, must be debited in the existing accounts or in the accounts opened in the banks in the name of persons apparent or legal residents, or having their home in the Kingdoms of Denmark or Norway, will be suspended.

THE NATIONAL
REGISTER POWER

Article 2nd. The preceding disposition will be in force, likewise for stocks and securities of any kind, deposited, or to be deposited in favor of persons apparent or legal residents or living in the Kingdoms of Denmark or Norway.

BY THE MINISTRY OF FOREIGN AFFAIRS AND WORSHIP.

Article 3rd. Neither may the address registered at the date of the present Decree in the accounts of the holders settled in the Kingdoms of Denmark and Norway, and when the dispositions of the Articles 1st. and 2nd. affect, be modified, unless the changes be effected within the boundaries of said countries.

Article 4th. Likewise, transferences of funds in national or foreign currency or remittances of securities in favor of persons apparent or legal residents, or settled in the Kingdoms of Denmark or Norway, may not be realized either directly or indirectly under any circumstances, till further disposition.

Article 5th. The present Decree will be legalized by the Secretaries of State in the Ministries for Foreign Affairs and of Finance.

Article 6th. To be communicated to whom it corresponds, published, delivered to the National Registry, and recorded.

REGISTRE N 60.569

Signed: **CESTE**

Countersigned: **J.M. Cantilo**
Pedro Gruppo

IT IS A COPY

It is a translation
August 6th. 1940

mg

REB

GRAY

Paris

Dated April 19, 1940

Rec'd 2:45 p. m.

Secretary of State,
Washington.

502, April 19, 6 p. m. (SECTION ONE)

FOR THE TREASURY FROM MATTHEWS.

In the statistical famine which has afflicted France as far as published data are concerned since the beginning of the war (on the insistence of the military) any numerical crumbs are eagerly devoured. The latest number of ECONOMIC FRANCAISE a new publication which includes on its editorial staff Monsieur Sauvy former Director of the official bulletin de la Statistique Generale de la France contains some interesting indices of wholesale prices: on a basis of August 1939 equals 100 the wholesale price index of 45 articles both agricultural products and industrial raw materials are;

(END SECTION ONE)

BULLITT

CSB

REB

GRAY

Paris

Dated April 19, 1940

Rec'd 2:40 p. m.

Secretary of State,
Washington.

502, April 19, 6 p. m. (SECTION TWO)

December 131, January 136, February 138, March 138. The March figures are likewise broken down as follows: national products (a) foodstuffs 139, (b) industrial materials 119; combined 130. Imported products (a) foodstuffs 141 (b) industrial materials 155; combined 152. Total (a) foodstuffs 140 (b) industrial materials 136; combined 138. The foregoing confirms my impression as reported in previous telegrams (for example No. 419, April 1, 5 p. m.) that prices have temporarily ceased to rise owing partly to a seasonal drop in foodstuffs.

BULLITT

CSB

REB

GRAY

Paris

Dated April 19, 1940

Rec'd 3:05 p. m.

Secretary of State,
Washington.

502, April 19, 6 p. m. (SECTION THREE)

ECONOMIE FRANCAISE which has been critical of the Government's failure to take more energetic measures to restrict consumption at the beginning of the war and which urges the necessity of extending rationing to many other products regardless of the opposition of vested interests offers the following comment on the rise in the cost of living:

The rise in the cost of living is appreciable since the beginning of the war.

BULLITT

TMM

JT

GRAY

PARIS

Dated April 19, 1940

Rec'd 5:41 p.m.

Secretary of State,
Washington.

502, April 19, 8 p.m. (SECTION FOUR)

The indices are not published but we may estimate without much chance of error that the rise exceeds 10% taking into consideration the stability of rents and transportation (you will recall that the 17% estimate of the LONDON ECONOMIST has been admitted to us both at the Finance Ministry and the Bank of France as an accurate estimate of the rise). The difference between the stability of industrial wage rates and the upward movement of prices may if it increases give rise to the general problem of wages. But we believe that with respect to this very important question we should draw attention to the following considerations: One. It is not possible in time of war to conceive of an absolute stability of the standard of living.

BULLITT

LES:EMB

JA

G.MAY

257

Paris

Dated April 19, 1940

Rec'd 3:11 p.m.

Secretary of State,
Washington.

502, April 19, 6 p.m. (SECTION FIVE)

A portion of expenditures on 'extras' must be devoted to expenditures of real necessity. (2) The lengthening of working hours has compensated to a large extent the increase in the cost of living; in numerous industries the work week which hardly exceeded 40 hours formerly has now reached 48 hours or more. (3) A rise in wage rates would be entirely illusory if essential articles are not rationed. One can not distribute money if one does not distribute merchandise. The swelling of purchasing power would lead to a new rise in food prices." The author urges that any wage increases which may later be envisaged be allocated in the fairer form of family allowances.

BULLITT

CSE

JT

GRAY

PARIS

Dated April 19, 1946

Rec'd 5:35 p.m.

Secretary of State,
Washington.

502, April 19, 6 p.m. (SECTION SIX)

A notice to importers issued by the Ministry of Commerce and Industry and published in today's JOURNAL OFFICIEL states that import licenses covering imports of coal and coke and coal tar pitch will be valid for three months if these commodities are imported from European countries and four months if coming from non-European countries. This represents the first exception made to the recent regulation providing that import licenses are to be valid for four months for European imports and six months for all others (my telegram No. 470, April 13, 1 p.m.).

Financial credits in the amount of 226,000,000 francs which had been allocated in the budget for 1940 to the Ministry of Agriculture have been transferred to the newly created Ministry of Supplies (my telegram No. 425, April 3, 6 p.m.) in accordance with the terms of a decree published in yesterday's JOURNAL OFFICIEL.

BULLITT

EHB

JT

GRAY

PARIS

Dated April 19, 1940

Rec'd 3:37 p.m.

Secretary of State,
Washington.

502, April 19, 6 p.m. (SECTION SEVEN)

Another decree added miscellaneous coal tar derivatives to the list of commodities which may be insured against risks of war (my telegram No. 452, April 10, 6 p.m.)

Under a decree published in the Journal Official of yesterday it will no longer be necessary for French nationals to declare certain categories of securities held by them in enemy territory or in territory occupied by the enemy as provided under decree dated October 1, 1939 (my telegram No. 2284, October 2, 7 p.m.). This measure also extends to June 30, 1940 the time limit of March 31, 1940 originally fixed for declarations of holdings of French nationals of property rights and interests held by them in enemy territory.

BULLITT

CSB

JT

GRAY

PARIS

Dated April 19, 1940

Rec'd 5:25 p.m.

Secretary of State,
Washington.

502, April 19, 6 p.m. (SECTION EIGHT)

The list of securities in regard to which no further individual declarations are required is published.

The Paris securities market has been jumpy the last several days on rumors pending developments in the international scene. Yesterday the whole market was weak, French industrial issues losing from 1% to 2%. Today the tone was better and yesterday's losses were largely canceled. Rente issues were irregular, gains and losses being fractional.

(END OF MESSAGE)

BULLITT

LMS:EMB

April 19, 1940.

Dear Mr. President:

Thursday, April 18th, Assistant Secretary Sullivan and Assistant Secretary Compton of the Navy called on Chairman Carl Vinson in regard to the proposed changes in the Vinson-Trammell Act.

For your confidential information, Carl Vinson seems to be very much upset over the proposed changes that the Navy had in mind. However, he has agreed to do nothing until you return but I really think it would be worth your while to see him and, after hearing his side of the story, you may want to have us prepare a bill which will tighten up some of the loopholes in the present Vinson-Trammell Act.

Yours sincerely,

(Signed) H. H. Hopkins, Jr.

The President,

Karn Springs, Georgia.

(Via White House Pouch typed on envelope.)

April 19, 1940.

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Yours sincerely,

(Signed) H. Morgenthau, Jr.

The President,

Warm Springs, Georgia.

(Via White House Pouch typed on envelope.)

April 19, 1940.

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(Signed) H. Morganthau, Jr.

The President,

Warm Springs, Georgia.

(Via White House Fouch typed on envelope.)

264

BUREAU OF FOREIGN AND DOMESTIC COMMERCE
OFFICE OF THE DIRECTOR

April 19, 1940

From DIRECTOR

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

For

Sent at the request of Mr.
Hoble, Under Secretary of
Commerce.

James W. Young

James W. Young,
Director.

ECONOMIC DEVELOPMENTS

INDUSTRIAL PRODUCTION for March, as measured by the Reserve Board's index, has been placed at 103 (1923-25=100) in contrast to the preliminary figure of 105 given out a week or so ago. This change results from the fact that data now available indicate a larger drop in textiles (cotton and wool) and shoe production than seemed likely when the preliminary estimate was made. The March figure represents a 6-point decline from February on a seasonally adjusted basis.

EXAMPLES:Index of Industrial Production

1939	Adjusted	Unadjusted
August	103	99
November	124	124
December	128	120
1940		
January	119	117
February	109	110
March	103	106

SIGNIFICANCE: It can be seen from the above table that (1) the January-March decline, adjusted for seasonal, has completely erased the August-December advance for the area of production measured by this index, and that (2) though the rate of decline during March slackened, the drop was nonetheless substantial.

THE INDEX FOR APRIL will be below the March average although it is still too early to say by how much. This is the case because the end of March was below the average for that month and because it is unlikely that this difference could be made up in what remains of April. For April to date there apparently has been a little further decline but the limited data now available are not decisive.

EXAMPLES:Percentage Change in Production from Week Ending
March 10 to April 13 (Adjusted for Season)

Electric power.....	+ 0.3
Freight carloadings.....	- 1.2
Steel.....	+ 1.7
Automobiles.....	- 3.2
Bituminous coal.....	- 1.2
Crude petroleum.....	- 0.7

- 2 -

SIGNIFICANCE: Precise trend of production in April not clear as yet but definitely no indication of an upturn.

THERE HAS BEEN SOME FIRMING of sensitive commodity prices since the outbreak of active warfare in and around Norway. The price rise during the week of April 8 was approximately equal to the decline which occurred in March; in the past few days, however, prices have tended to level off. The only pronounced rises have been in wood pulp and paper—because of the probability of Scandinavian output of pulp being inaccessible. On the other hand, there has been a substantial reduction in the price of certain steel products made in an effort to stimulate new business. We do not know as yet if any substantial buying has resulted.

Stock prices have weakened since April 9—generally reversing the slight rise of the previous week. Shipbuilding, and paper and pulp shares—industries particularly affected by the Norwegian conflict—have risen against the trend.

EXAMPLES:**Bureau of Labor Statistics' Index of Basic Commodity Prices**

(August 1939=100)

	Apr. 2	Mar. 1	Apr. 1	Apr. 8	Apr. 17
General Index	124.1	116.2	112.2	112.7	116.3
Imports	133.1	119.1	114.4	115.2	118.5
Domestic	118.6	114.4	110.7	111.1	115.0
Domestic agriculture	122.5	117.6	115.6	116.7	121.9
Foodstuffs	116.5	114.8	111.4	112.3	118.4
Raw materials	126.8	117.2	112.6	112.9	114.5

(For individual commodities see attached table)

New-Index Stock Averages

	Composite Average	Indus- trial	Rail- roads	Mill- ing
April 1	49.6	147.7	30.7	25.1
" 9	50.4	150.3	31.4	25.3
" 17	49.6	148.3	30.6	24.8

SIGNIFICANCE: Compared with previous movements of these indexes the recent rise is small. We believe the commodity price firming is due to supply considerations associated with the war (e.g., the up of the Norwegian and Danish merchant fleets) rather than

- 3 -

to substantially revised expectations of near-term demand at home or abroad. The movement has not been large enough to suggest a renewal of purchasing of sufficient magnitude to reverse the business decline.

WITH REGARD TO THE MORE BASIC FACTORS in the business picture there has not been any change since the first of the year which suggests an immediate upturn in activity generally. Consider the major areas of investment not discussed in recent reports.

1. Construction. Total contracts awarded have been declining and running well below a year ago. This is largely the result of the reduced volume of public construction. Residential contracts have risen slightly since January and for the first quarter were approximately equal to the first quarter of last year. There has been definite improvement in the F.H.L. mortgage services shown below which may eventuate in a rise in residential activity later in the season.

EXAMPLES:

	<u>Contracts Awarded</u> (1923-29-100)		F.H.L. Mortgages selected for appraisal (weekly averages)
	<u>Total</u>	<u>Residential</u>	
1932			
January	86	55	2,249
February	73	58	2,933
March	69	55	3,097
April	67	58	3,714
December	86	60	2,372
1940			
January	75	53	2,300
February	63	56	2,909
March	62	58	4,570
April			4,949 (2 weeks)

2. Equipment Expenditures. Activity in the machinery and equipment industries, as indicated by the pay-rolls index shown below, has held at the high level attained last December during January and February of this year, and very probably during March. For this type of investment, however, new orders have been declining since October and are now not much above the August level. (This new-orders index is not at all adequate but it probably indicates the trend fairly well for a large swing of this kind.) Activity has been maintained at the expense of backlog in recent months and a decline is in prospect in the near future unless new orders pick up.

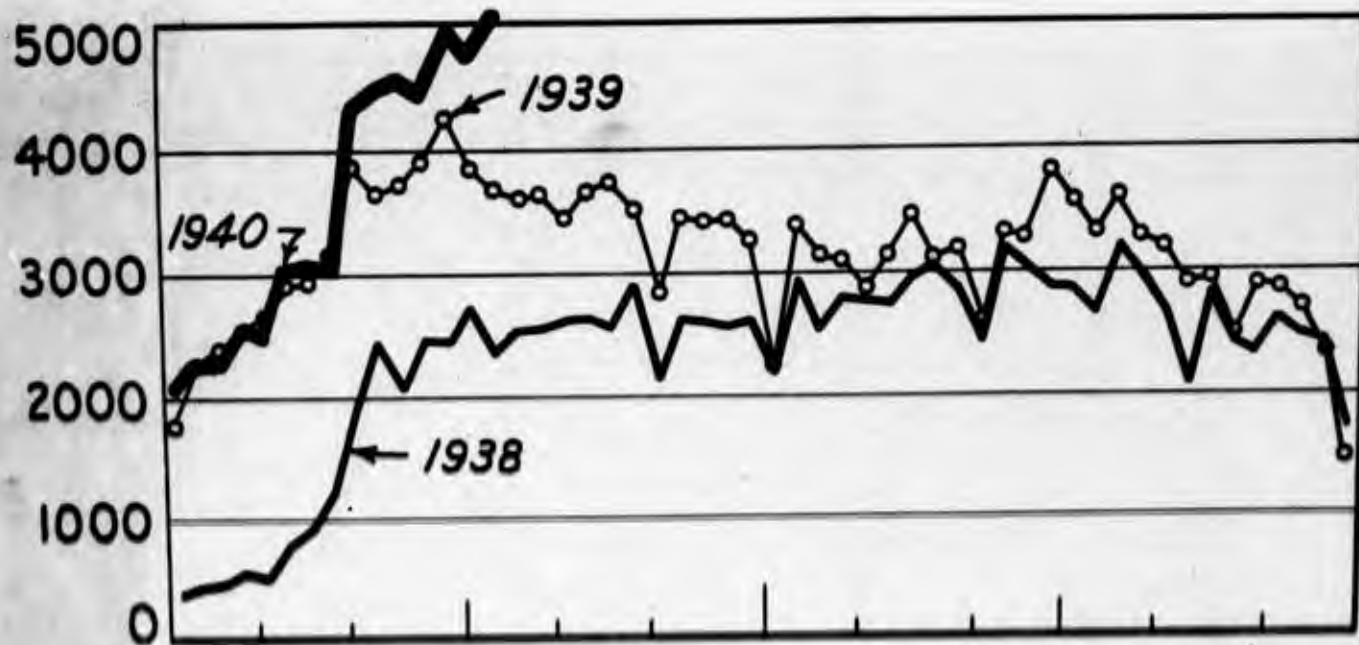
- 4 -

EXAMPLE:**Residential and Business Construction**

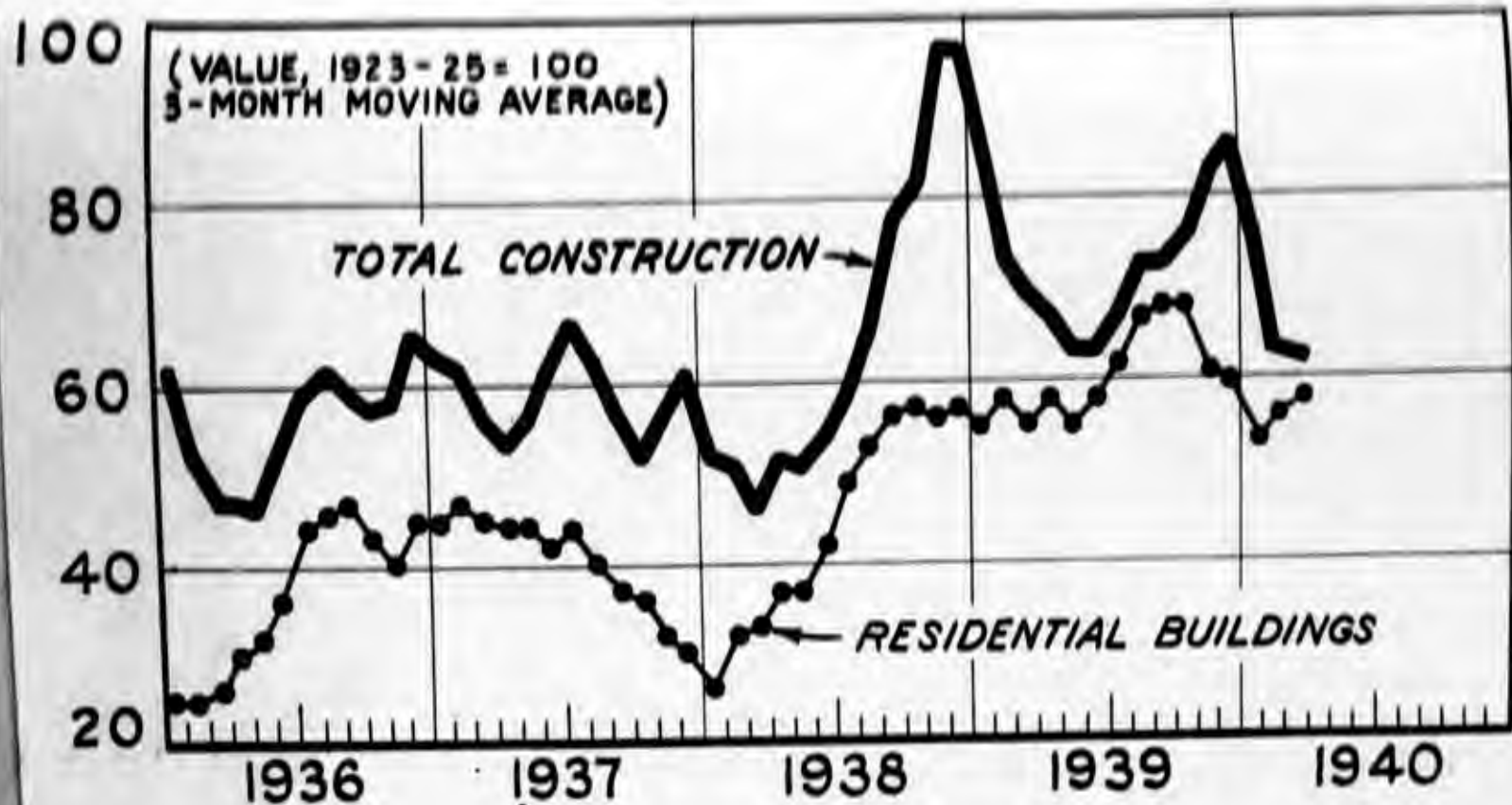
	Activity (Per 1000)	New Orders
1938		
January	91	85
February	97	91
July	100	92
August	100	100
September	101.1	101.1
October	112.0	115.0
November	112.5	112.6
December	115.5	112.0
1939		
January	113.8	111.6
February	116.7	111.3

SIGNIFICANCE: Prospects in these two areas do not appear to provide a basis for an immediately higher level of general business. The improvement in residential construction, if it occurs, would be overshadowed, in terms of magnitude, by the decline in public construction and equipment expenditures if present trends continue.

Data are not available at this time for us to determine whether there is inventory liquidation at the current level of production (now about 101 on the Board's Index). Our guess is that there is none. This means that if such liquidation should cease promptly there could be a moderate lift in the Index. But an expansion in the other basic determinants is necessary to give a substantial rise from this level. Furthermore, a continuation of liquidation has a depressing influence on the other investment factors as well as directly reducing the volume of consumption.



Number of Mortgages Selected for Appraisal Covering Homes to be Built. (Compiled by the Federal Housing Administration.) Data for the Week of April 19, 1940, are the Latest Plotted.



Indexes of the Value of Construction Contracts Awarded in 37 States, Adjusted for Seasonal Variations. (Computed by the Board of Governors of the Federal Reserve System from Data Compiled by the F. W. Dodge Corporation.) Data for March 1940 are the Latest Plotted.

FOREIGN TRADE NOTES

United Kingdom: The Minister of Food stated informally that shutting off food supplies from Scandinavia would not seriously affect the food position of the United Kingdom. Present large supplies of butter and bacon, as well as possibilities of alternative sources of supply, will obviate serious difficulties, although reduction of rations to the initial figure of 4 ounces weekly may soon be introduced.

The Canadian Bacon Board, in replying to British inquiry as to the possibility of an increase in the exports of Canadian bacon, took into consideration increased imports to the United States. There are large supplies of Canadian pork in storage, and the Bacon Board, in anticipation of increased orders from the United Kingdom, has instructed packers to resume storing.

The stoppage of pulp exports from Scandinavian countries creates a very serious situation for British newspaper manufacturers. Finland, Sweden, and Norway, supply from 75 to 80 percent of British imports of pulp and about 45 percent of manufactured paper.

A rationing of the domestic consumption of cotton, silk, and linen piece goods and manufactures, was expected to be introduced on April 10. The primary purpose is to restrict sales for home markets in order to leave larger quantities for export. It is not anticipated that the restriction will curtail the use of American raw cotton.

Soviet Russia: On April 10 an increase in prices from 25 to 70 percent was introduced, affecting many foodstuffs like cheese, meats, canned goods, potatoes, and butter, but excluding bread. Increases from 25 to 100 percent have also been made on rates for gas, electricity, and water. It is reported from the provinces that there has been a more marked deterioration in the food situation than in the capital, involving even a rationing of bread in some parts of the country.

Brazil: Government circles are seriously disturbed by the Scandinavian situation, which may involve a loss of 57 percent of the total exports of coffee from Santos to Europe.

Turkey: Imports from Germany during December 1939 amounted only to 1,200,000 Turkish pounds, or 25 percent of the total Turkish imports, as compared with 6,610,000 Turkish pounds in December 1938, or nearly 84 percent of the total Turkish imports. Turkish exports to Germany in December 1939 represented only 7.25 percent of the total Turkish export trade, as compared with 52 percent of the total in December 1938.

Bureau of Foreign and Domestic Commerce,
April 18, 1940.

WEEKLY WHOLESALE PRICE INDEXES

(1926 = 100)

Group	1939			1940		Percent increase, April 13, 1940 from	
	Apr. 15	Aug. 26	Sept. 16	Apr. 6	Apr. 13	Apr. 15, 1939	Aug. 26, 1939
All commodities	75.8	74.8	79.3	77.6	78.0	2.9	4.3
Farm products	63.8	61.1	69.7	67.0	68.0	8.6	11.3
Food	68.2	66.7	75.5	69.7	70.8	3.8	6.1
all commodities other than farm products and foods	80.5	80.4	82.4	81.7	82.7	2.7	2.9
Shoes and leather products	91.4	92.6	98.3	101.6	102.1	11.7	10.3
Textile products	66.2	67.4	71.4	71.9	71.9	8.6	6.7
Fuel and lighting materials	73.6	73.2	74.1	72.5	72.6	- 1.4	- 0.8
Metals and metal products	94.2	93.5	94.9	95.4	95.4	2.3	2.0
Building materials	89.7	89.7	90.7	93.2	92.8	3.5	3.5
Chemicals and drugs	75.9	74.2	77.1	76.9	76.9	1.3	3.6
House-furnishing goods	86.5	87.0	87.1	89.4	89.7	3.7	3.1
Miscellaneous	74.0	73.1	76.1	76.6	76.6	3.5	4.8
Raw materials	68.0	66.2	73.0	71.1	72.0	5.9	2.8
Semimanufactured articles	74.4	74.4	82.0	79.1	79.2	6.5	6.5
Finished products	80.2	79.3	82.3	80.9	81.2	1.2	2.4

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

PRICES OF PETROLEUM PRODUCTS - IN BULK AT GULF COAST PORTS

Date	Motor gasoline, 65 octane	Light fuel oil, number 2	Diesel oil, ships' bunkers,	Bunker oil, grade "C", cargoes
	(Cents per gallon)		(Dollars per barrel)	
1939:				
April 19	4.75 - 4.875	3.00 - 3.375	1.45	0.75 - 0.75
August 30	4.75 - 5.00	3.375 - 3.75	1.45	0.78 - 0.80
September 13	6.25 - 6.875	3.875 - 4.00	1.45	0.825 - 1.00
1940:				
April 10	5.25 - 6.00	4.00 - 4.125	1.70	0.75 - 0.98
April 17	5.25 - 6.00	4.00 - 4.125	1.70	0.75 - 0.95

Source: Platt's Oilgram.

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

Date	Pig Iron 1/	Steel Scrap 2/	Finished Steel 3/
	(Dollars per gross ton)		(Cents per pound)
1939:			
April 18	20.61	14.42	2.286
August 29	20.61	15.62	2.236
September 19	22.61	19.25	2.236
October 3	22.61	22.90	2.236
1940:			
April 9	22.61	16.04	2.261
April 16	22.61	16.08	2.211

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

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

3/ Based upon steel bars, beams, tank plates, wire, rails, black pipe, sheets and hot-rolled strip. These products represent 65 percent of the United States output.

Source: The Iron Age.

PROPERTY OF THE NATIONAL ARCHIVES

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PROPERTY OF THE NATIONAL ARCHIVES

April 19, 1940

My dear Mr. Farish:

I want to take this opportunity to tell you how much I appreciate the services during the week of Mr. Jay Crane. I also appreciate very much that your Company permitted him to come down here to help us out in these difficult times.

Yours sincerely,

(Signed) E. MCGOUGHAN, Jr.

Mr. W. S. Farish, President
Standard Oil Company of New Jersey,
30 Rockefeller Plaza,
New York, N. Y.



TREASURY DEPARTMENT
WASHINGTON

OFFICE OF
COMMISSIONER OF INTERNAL REVENUE

ADDRESS REPLY TO
COMMISSIONER OF INTERNAL REVENUE
AND REFER TO

IT:P:CA
CAA

April 19, 1940.

REPORT FOR SECRETARY MCGOWAN:

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

Walter Hilde and Company, Incorporated:

A letter was received from the contractor making a one-page further statement in regard to conditions at the factory.

Ray P. McSwain
Commissioner.

IT:PaCA
CAA

April 19, 1960.

REPORT FOR SECRETARY MORGENTHAU:

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

Walter Kidd and Company, Incorporated:

A letter was received from the contractor making a one-page further statement in regard to conditions at the factory.

(Signed) Guy T. Hildering

Commissioner.

PLAIN

Helsinki

Dated April 19, 1940

Rec'd 2:45 a.m., 20th

Secretary of State

Washington

20th, nineteenth.

In statement published yesterday Minister Public Welfare Tanner pointed out while stocks supplies in Finland September last normal, imports dropped thereafter consequence European war which made necessary introduction measures regulate consumption coffee, sugar. War with Soviet Union reduced further imports consumption goods as available be shipped Finland under present circumstances or remained Scandinavia because ice. While possible goods Scandinavia can eventually be shipped Finland uncertain when. Meantime consumption must be limited and seems fresh restrictive measures have to be adopted. Cereals limited and those farmers who still have bread grain reluctant place it on market. While there is hope enough grain can be purchased from Baltic countries meet demand until next harvest imports coming consumption season provide serious problem foreign currency and transport facilities had be reserved purchase and import military materials. Army in field large number evacuees raised consumption above normal. After war large number horses requisitioned military purposes after war cattle evacuated ceded areas increased fodder consumption above normal. As considerable quantities grain, potatoes, cattle, food

COPY

PLAIN

RE

Helsinki

Dated April 19, 1940

Rec'd 3:10 a.m., 20th.

Secretary of State,
Washington.

204, 19th (SECTION TWO).

Last year's potato crop below normal and uncommonly severe winter caused considerable quantities spoiled freezing. Shortage already felt and supplies on hand do not meet demand until next fall therefore potatoes must be imported if possible. Thousands head cattle slaughtered connection evacuation filled stocks beef for present but situation bound change when cattle put out to pasture and shortage fodder no longer forces owners slaughter animals. Shortage pork felt for sometime as most supply had to be reserved army during war and because absence imported fodder reduced stock. Hoped pig breeding can be stimulated. Fodder shortage also reduced output dairy produce about twenty five percent and spite fact exports stopped already been some scarcity butter which made necessary increase margarine production. Tanner hoped margarine raw materials could still be obtained but said obvious consumption fat would have to be regulated. Fodder situation particularly serious as will take another six weeks before pasture feeding can start. Regarding firewood Tanner said while estimated that about fifteen million cubic meters needed next consumption period only five millions cut and government has requested forest owners several occasions reserve stocks

-2- #204, April 19. (SECTION TWO), from Helsinki.

firewood but shortage labor made difficult comply request. Coal supply almost entirely consumed during war and impossible get any from England. Chances obtaining coal from Germany being investigated. Gasoline supply also reduced until very little motor fuel now remains. Great quantities gasoline purchased for Finland arrived southern Sweden whence must be transported here soon as possible. Stocks motor petroleum adequate drive tractors during spring sowing. Supplies sugar, coffee, raw tobacco, considerable and will meet demand for some time. Present tobacco shortage results from great quantities reserved army during war.

(END SECTION TWO).

SCHROEDER

EE

Helsinki

Dated April 19, 1940

Rec'd 2:55 a.m., 20th

Secretary of State

Washington

809, 19th (REVISION 1940)

As appears above Tanner said situation regarding most important consumption goods not very cheerful. Reference prices Minister declared every effort being made maintain level prices normal as possible. By restrictive measures imports prevented from exceeding exports and increasing prices cannot be allowed involving inflation. Hence seems inevitable control prices must be introduced as appeals dealers keep prices down voluntarily have not brought desired result. Ministry Public Welfare approached Finnish Industrial League, Cooperative Central Organizations, Rural Merchants Central Union and Wholesalers League with request they agree not increase prices industrial products without consulting Ministry. Purpose make similar agreements agricultural producers. Special committee industrial commercial agricultural experts appointed observe follow price movements report every case unnecessary unfair price increases and take action against offenders. As regards rents Tanner stated special bill regulate rents being prepared by Ministry Public Welfare purpose prevent rents rising above level spring 1939. House owners cannot be permitted benefit by housing problem and shortage dwellings resulting Karelian migration.

- 2 -

Concluding Tazner emphasized importance increasing production utmost every field economic activity and particularly agriculture. Unless sufficient labor and equipment placed disposal farmers within next few weeks for proper care spring sowings nation will face starvation next winter.

END OF MESSAGE

SCHROEDER

RR

RE NORWEGIAN AND DANISH BALANCES

April 19, 1940.
9:50 a.m.

Present: Mr. Bell
Mr. Viner
Mr. Sullivan
Mr. Foley
Mr. Cochran

Foley: Davis, Polk has advised the Guaranty Trust Company that the amendment of Executive Order 8560 is not broad enough to cover transfers of securities. They don't put it on the grounds of the Executive Order solely, but they also go to the statute and say the statute isn't broad enough and they say that they don't think that the President intended to include transfers of securities in the Order. The Guaranty has notified the New York Bank that they intend to comply with the opinion and not ask for licenses on those transfers. Obviously an exception of that character leaves a loophole which would permit some of the transactions that we would like to control to get away from us.

The opinion is a narrow construction of the Act and the Order. The Order is as broad as the Act. It probably would be sustained in court if we could get before a friendly judge who would give a sympathetic consideration to the purposes that we are seeking to achieve and I think we might get a broader interpretation which would include transfers of securities.

On the other hand, if you get a legalistic judge who limits his consideration to the words of the Act and the words of the Order, I am afraid we will get a different result.

E.M.Jr: Who retained this law firm?

Foley: Guaranty Trust. It is one of those --

E.M.Jr: What is your suggestion?

Bell: This opinion is all over New York. Every bank knows about it.

Foley: We could, of course, advise the Federal in New York that we think that the Order is broad

- 2 -

enough to include transfers of securities and that there should be licenses for those transactions. It would be probably some time before we could get a court review of such an interpretation. I don't think that I can give you any assurance that such an interpretation would be sustained. I think if we do it we must do it with our eyes open. We must realize that we will not be successful.

H.W.Jr: Where do we go from this morning on, what do we do?

Bell: There are two things, it seems to me, that we can do. One is to tell George Harrison - he got this opinion from the Guaranty Trust Company under a letter and we could tell him to reply to that letter and say it is the Treasury's view that this order does cover the transfer of securities and the Bank should be guided accordingly, or we could put out a general ruling number two like we did general ruling number one the other day on Iceland, which was a ruling over your signature made public and in some extent an amendment to the Order. We could do that and with this it seems to me as general ruling number two.

The question arises there as to whether you want to do that in reply to an opinion from a law firm in New York. That gives it a little more - maybe more formality.

H.W.Jr: What would ruling number two say?

Bell: It would say that the opinion of the Treasury is that transfers of securities fall under the Order.

Viner: Do you have to refer to the letter? You can ignore the letter.

Bell: No, we could say the question has been raised, or just do it like we did in the case of Iceland. Iceland does not come under it. Of course, there we referred to a matter referred to us from the State Department and the State

- 3 -

Department gave us the opinion that Iceland was an independent country.

H.M.Jr: I think you ought to go over and see Bob Jackson.

Viner: Yes.

H.M.Jr: And get his views.

Bell: And you (Foley) have talked informally to people in Justice.

Foley: I talked to Townsend.

H.M.Jr: I will call up Bob Jackson.

Foley: Townsend says he thinks it ought to be done and he will do everything he can to help me if I do it, but I can't advise you, Mr. Secretary, that if we construe it that way that we can win.

H.M.Jr: I am not going to do anything until you see Bob Jackson. I have got a call in and I will ask him how soon you can see him.

Foley: All right.

H.M.Jr: There is another route that no one has suggested, that if the Attorney General also has doubts, he could go to Congress and try to get something through quickly.

Bell: We talked about that last night.

Foley: And we have such a bill ready. We have had it ready for some time.

Bell: That is a broad bill.

Foley: That is a broad bill and would include all transfers of property. Nobody can sell anything in this country without a license, securities, houses, all property.

Bell: It might take some time to get that through and transfers could be carried on here maybe for weeks. If we could find a bill that has passed the House and is in the Senate and

- 4 -

have it amended and go to Congress, we could get it through quickly that way.

Foley: Wasn't there some Dutch national in to see you yesterday, Dan, who said that he had heard this opinion up in New York and the very thing --

Bell: He is the one that brought it to our attention.

H.M.Jr: Who?

Bell: A Dutch national. He is the president of the Amsterdam - some bank in Amsterdam and he heard of this opinion and he said if Holland was invaded, they would like to come in under this Order, but this opinion of these lawyers certainly would not give us the control that they would like to see us have over their securities.

Cochran: Would you care to have the Attorney General give an opinion rather than an Order from you?

H.M.Jr: I want him to decide.

(Telephone conversation with Bob Jackson follows.)

April 19, 1940
9:57 a.m.

E.V.Jr: Hello.

Operator: The Attorney General. Go ahead.

E.V.Jr: Hello.

Robert Jackson: Hello. Good morning, Henry.

E.V.Jr: How are you?

J: Fine.

E.V.Jr: Bob, we're in a little trouble and we'd like a little help. John W. Davis' firm gave the Guarantee Trust an opinion yesterday that this order on the Norwegian and Danish funds does not apply to transfer of stocks. Hello?

J: Yes.

E.V.Jr: And I wonder if you couldn't see Ed fairly soon this morning and advise the Treasury what you think we ought to do.

J: Well, have him come right over.

E.V.Jr: Can he come immediately?

J: Yeah. We'll take it up forthwith.

E.V.Jr: That's fast enough.

J: (Laughs) All right. All right, Henry.

E.V.Jr: Thank you, Bob.

J: Glad to do it.

- 5 -

H.M.Jr: He says to come at once. Did you want to go, too?

Sell: No, I have got enough to do, but I do think it is important that we act today on it and maybe you will just have to go ahead and try to bluff the thing through.

H.M.Jr: Well, Ed, you go at once and if Bob wants to call me or anything, I am available. He said come at once.

Foley: O. K.

THE NORWEGIAN AND DANISH BALANCES

April 19, 1940,
11:25 a.m.

Present: Mr. Foley
Mr. Bernstein
Mr. Sullivan
Mr. Bell

Foley: We had a nice talk with Bob and Judge Townsend. Bob agrees that the Judge probably wouldn't write the power in for us and sustained the opinion that Davis, Folk has given to the Guaranty. However, he thinks that we have to strong-arm the Order and he thinks that we ought to put out an interpretation that it includes security transactions and he thinks that we ought to go to the Hill and amend the statute and ratify the action that was taken in the meantime.

H.M.Jr: That sounds like good horse sense, doesn't it to you?

Bell: Yes. Do you think we will run into any difficulty on the Hill?

Foley: He didn't think so. He said he thought that there was such universal support for what we were doing that it would be very bad policy for anybody to oppose this. He thought he would be able to do it very quickly, perhaps by joint resolution. He thinks we ought to get the message ready right away, and probably talk to the President and perhaps you would want to talk to - I should guess it would go to Banking and Currency, so I suggest it would be Wagner and Barkley and Rayburn if you would want to see them.

H.M.Jr: Who?

Foley: Steagall, Barkley and Rayburn.

H.M.Jr: Why don't you call up Barkley and tell him and ask him whether he could call a meeting? I think he would like to know this before it goes out. If we expect to go out and do this thing, we are immediately going to ask for legislation and Barkley and the Speaker can back us up.

- 2 -

- Foley: Yes, I think we ought to tell them about it before we take the action. If we could get the thing so that he would know about it, they could say that they....
- Bell: Did John tell you about the fellow calling up?
- Foley: Yes.
- Bell: Apparently he wrote the opinion. What do you think about him coming down?
- Foley: It annoys me because --
- H.M.Jr: It annoyed me like hell, too.
- Foley: God damn it, they could have agreed with him and made it easy for us by coming down and asking us beforehand. We could have gone down and asked for a clarifying amendment. Now we have got nothing to go down and ask for additional power with. It is just typical of the New York law firm acts.
- H.M.Jr: I agree with you very much. That is just the way I feel. To come around afterwards and want to kiss our big toe, or some other place.
- Foley: It is typical of them.
- (Telephone conversation with Senator Barkley follows:)

April 19, 1940
11:26 a.m.

H.W.Jr: Alben.....

Alben W.
Berkley: Yeah.

H.W.Jr:Henry. Have you got a minute?

B: Yeah.

H.W.Jr: This is the situation we find ourselves in. You know right after the Germans went into Denmark and Norway the President signed an Executive Order giving the Treasury the authority to freeze all balances.

B: Yeah.

H.W.Jr: And we've been going along and issuing licenses. Some eleven, twelve hundred applications; we've taken care of practically all of them. Now, John W. Davis' firm comes along, without saying anything to us, and advises the Guarantee Trust that they don't consider that we have the legal right to put in this system as far as it concerns transfer of stocks and bonds. Hello?

B: Yeah.

H.W.Jr: Now, Ed Foley who is sitting here with me went over and saw Bob Jackson and he advises us that we get out another order explaining that we are going to go through with this, but at the same time that we come up on the Hill, if you gentlemen think well of it, and ask for a Joint Resolution clarifying this position; because if John W. Davis and the others can drive a wedge in on this thing why they may cast a cloud. Now I think as far as the country is concerned that this idea of freezing this money was very popular.

B: Yeah.

H.W.Jr: And I shouldn't think that anybody on the Hill would object. But before I did anything I wanted to have a chance to talk with you and get your advice. I haven't -- you're the first person I've called on the Hill.

- 2 -

- B: Yeah. Well, it's a matter of course I haven't thought about and I'm not prepared to give it to you right off the reel.
- H.M.Jr: Well.....
- B: We're not in session until Monday again and I think it might be advisable to arrange some -- put a conference maybe before that or at least not later than then.
- H.M.Jr: Well, could you.....
- B: And go over the matter.
- H.M.Jr: Well, could you get some of the boys together maybe this afternoon?
- B: What -- no, I can't. I'm not going to be at my office this afternoon, Henry. I'm -- and tomorrow I'm going to Pennsylvania to speak tomorrow night at Wilkesbarre and I've got to leave here at ten O'clock. So it's rather hard for me to get together myself today, or tomorrow either.
- What Committee would that go to? Would it go to the Banking and Currency?
- H.M.Jr: Yes.
- B: Yeah. Well, Wagner is over in New York and.....
- H.M.Jr: Well.....
- B:I don't suppose will be back here before Monday.
- H.M.Jr: Well, what I was thinking was this. Would this be all right to say that when we give it out that we have talked with you and I -- I'll try to get shold of Bankhead -- and that we're going to ask for a Congressional sanction of this thing?
- B: Yeah, that's all right.
- H.M.Jr: Would that be all right?
- B: Yeah.

- 3 -

H.M.Jr: And then if anybody asks.....

B: In other words, if there's any doubt about it you want to have it cleared up.

H.M.Jr: That's it.

B: Yeah.

H.M.Jr: That's it.

B: Yeah.

H.M.Jr: But will it be all right to say that I had spoken to you and informed you of what we had done in advance?

B: Yeah.

H.M.Jr: And that you said you'd be glad to study it?

B: Yeah.

H.M.Jr: Is that all right?

B: That's all right.

H.M.Jr: Well, that's all I'm asking.

B: As soon as I can get these fellows together I'll let you know.

H.M.Jr: Well, could you do this? Could you have your office, maybe, get them together sometime Monday morning?

B: Yes, I think so. We'll -- I'll make an effort to do it.

H.M.Jr: And have the Speaker and maybe Steagall too?

B: Yeah. Yes, I'll try to do that.

H.M.Jr: Because the way the fellows did this thing it was very messy. I mean, they put the thing through and advised the Bank and then they have their Washington lawyer, whoever represents them down here, come down here and say, "Well, of course we didn't mean anything." And so forth and so on. But they do

- 4 -

it first and then come around and try to kiss our toe afterwards.

B: Yeah.

H.M.Jr: And it's.....

B: Well -- yeah, that's all right. You can give out that statement and I'll get them together just as soon as I can arrange it.

H.M.Jr: Righto.

B: On Monday.

H.M.Jr: Thank you.

B: All right.

H.M.Jr: Thank you.

- 3 -

Foley: I don't know as we want to make any announcement at the time this is released that we are going to the Hill. I think we ought to assume that it is good and then we will go down to the Hill and ask for an amendment of that section to give us complete power to deal with all property in the United States, both nationals and governments.

E.W.Jr: If you don't mind, I would rather say first - I would rather be the aggressor, just to make doubly sure we are going to do it this way. I disagree with you. Then we go and say we are doing this, we think we are all right, but just to make doubly sure, we are going to ask for Congressional approval. Then we don't wait for them to take this into court.

Gell: My only thought was --

Sullivan: In this conversation this morning, he said there was nothing pending now. He wanted to come down and be convinced if he was wrong.

E.W.Jr: Who?

Sullivan: Crossman. He called me this morning.

E.W.Jr: God damn him, he should come down before he gets out the Order. To hell with him! You can tell him for me - God damn these people anyway - the United States Government - why can't they come down and act like gentlemen?

Sullivan: I am sure I don't know.

E.W.Jr: I don't care what you do, but I told Sullivan to tell them I thought they were a bunch of so-and-so's.

Foley: Poor John has gotten hell. I gave it to him, too.

E.W.Jr: These people will do anything to make a penny. I don't want anything to do with them. The time to do the thing is - it is just - I feel just as strong - the same way I did with McNutt's lawyer. I don't want anything to do

- 4 -

with these fellows and this - the time to have seen this fellow was - "Now look, we are thinking of doing this. Before we do it, we will sit down and we will have an argument to see whether you can convince us or whether we can convince you." Now they have done it.

- Sullivan: I am not trying to sell you anything. I am merely reporting to you a conversation that came to me, Sullivan, not as Crossman.
- H.M.Jr: And I said I don't want to read it.
- Sullivan: All right.
- H.M.Jr: I don't care what you tell Crossman, it is too late to be friends. The time to have done it was before, when the Order was written to come down and see us.
- Sullivan: He had been trying to get Bernie, that is why he called me.
- H.M.Jr: Don't you agree with me?
- Poley: Yes.
- Bernstein: John, he tried to get me yesterday afternoon after we heard that they had written their opinion and I told Walter Logan I couldn't understand why we hadn't been informed about this thing while it was in the process of being written.
- Bell: Was Walter Logan informed while it was being written?
- Bernstein: Yes.
- H.M.Jr: Who is Walter Logan?
- Poley: He is counsel for the Fed in New York. Mr. Secretary, I think when we talk to the press we ought to say --
- H.M.Jr: I am not going to talk to them. The two of you can handle them.

- 5 -

- Foley: I think we ought to take the position that it is our interpretation of this Order that it applies to these transactions and say the question has been raised by counsel in New York that it doesn't apply, and to make doubly sure, we are going down on the Hill and ask for legislation. I don't think we ought to inject the doubt in this situation, so that in the meantime they won't license these transactions.
- Bell: The thing that worried me was to announce in the press that we were going on the Hill through some doubt in our Order.
- H.M.Jr: Put it the other way. We do this thing and then they go to court and then we run up on the Hill.
- Foley: Yes, I can see the suggestion you are making, Mr. Secretary. What I am saying is that we ought to give our interpretation and then to say to remove any doubt that has been injected by this opinion in New York and to make doubly sure of what we think is already so, we are going to ask Congress to clarify the situation and confirm our action.
- H.M.Jr: And that you had discussed this whole matter with Bob Jackson and that he is in complete accord with what we are doing.
- Foley: Right.
- Bell: Then we want to add, too, that you have discussed it with Barkley.
- H.M.Jr: Yes, and that he is taking the matter under consideration.
- Bell: That is all right.
- H.M.Jr: I am so sick of having these people say, "Well, we do something," and then they take this into court and then that they have got us scared and we run on the Hill. I would much rather say we are going into court.

(Telephone conversation with Representative Byburn follows.)

April 19, 1940
11:30 a.m.

H.M.Jr: Hello.

Operator: Speaker Barkhead is out of the city for a week or longer.

H.M.Jr: Oh. I see. Well, ask his office in his absence who would they want me to talk to.

IO: All right.

H.M.Jr: Bayburn. Ask them whether it would be Mr. Sam Bayburn.

IO: Right.

H.M.Jr: If that would be right.

IO: All right.

April 19, 1940
11:37 a.m.

H.V.Jr: Hello.

Operator: Mr. Rayburn.

H.V.Jr: Hello.

Samuel
Rayburn: Yes, Henry.

H.V.Jr: Hello, Sam.

H: Yeah. Fine.

H.V.Jr: Got a minute?

H: Yes, sir.

H.V.Jr: Good. Sam, here's a little trouble that we've run into. You know after the Norwegians and Danes went into -- I mean, the Germans went into Norway and Denmark, we got out -- the President got out an Executive Order giving us, the Treasury, the authority to freeze all of this money. Hello?

H: Yes.

H.V.Jr: Now, we've been going along fine. We've been issuing licenses, but yesterday, without any notice to us, John W. Davis' firm gave an opinion to the Guarantee Trust that we couldn't do this as far as stocks and bonds are concerned. Now, Ed Foley has been over to see Bob Jackson and he has advised us to go out and give another statement saying that we have this authority and we propose to enforce it.

Now, I called up Alben Barkley and said that what we'd like to do if Congress, the leadership would think well of it, would be in order to make doubly sure would be to come up and get a Joint Resolution through backing up what the Treasury and the Department of Justice thinks is perfectly legal and proper.

H: Um-hm.

- 2 -

- H.M.Jr: It's just to stave off any possible court action in what is really a very important matter.
- R: Yes.
- H.M.Jr: So I asked Alben whether he wouldn't get together with the House leadership and have a meeting on Monday.
- R: Well, that would be fine.
- H.M.Jr: And he said he'd be glad to do it. Now, what I'd like to have permission is this. In giving this out to the press could I say that I talked to you and that you'd be glad to take it under consideration?
- R: Well now, as -- as far as the Resolution is concerned -- I think before we come to a conclusion on the Resolution end of it, Henry, we ought to have this conversation.
- H.M.Jr: No, but I just -- no, all I want to say is you'll take it under consideration. That's all.
- R: Yes, indeed. Oh, yes. You bet.
- H.M.Jr: Now, I just -- that's all. That's all I asked Alben.
- R: Oh, sure.
- H.M.Jr: To say that I simply talked to you and you are going to study it.
- R: Yes, sir.
- H.M.Jr: That doesn't commit you.
- R: Oh, sure. And will you be with us Monday?
- H.M.Jr: Yes.
- R: I think that's fine. Any time you want to meet Monday I'll be available.
- H.M.Jr: Well, I asked Alben and if you'd -- everybody wants to leave town, but we're -- Bell, and Ed Foley and I are at the service of the Senate and House leadership any time Monday.

- 3 -

- R: Yes. Well, I'm available any time Barkley is Monday.
- H.M.Jr: Fine, and you don't mind our saying it?
- R: No, not at all.
- H.M.Jr: Don't you think we ought to as long as they've cast some doubt on it take it up and -- the possibility of getting a Resolution through?
- R: Well, we -- it should be cleared.
- H.M.Jr: It should be cleared.
- R: There's some question, yes.
- H.M.Jr: Right.
- R: All right, Henry.
- H.M.Jr: Thank you.

- 6 -

H.M.Jr: What else do I do?

Bell: Nothing.

H.M.Jr: You two fellows see the press, will you? I think I am right to say that I talked to the House - I get the other thing. I have got so much confidence that I am right and I am sure that the Senate and House are going to back me up.

Foley: Well, I think that is true.

Sullivan: I don't think there is any doubt about it.

H.M.Jr: And instead of waiting until they take me in court, I will say I will go to Congress just to make sure. In other words, somebody has cast a doubt on what we are doing. We say we want to do what is right and proper. We know we are right, and Bob Jackson says we are right. Somebody has some doubt. We have spoken to the leaders and they are taking it under consideration and I am sure they are going to back us up. It makes sense to me.

Bernie?

Bernstein: It sounds perfectly good.

TREASURY DEPARTMENT

305

INTER-OFFICE COMMUNICATION

DATE April 19, 1940

TO Secretary Morgenthau

FROM Mr. White

Subject: The Trade Agreements Committee Discusses Special
Wartime Trade Agreements.

The Trade Agreements Committee, meeting last Wednesday, considered a proposal to make an important adaptation of the trade agreement program for the purpose of meeting wartime conditions.

The matter came up during the consideration of a proposed new enlarged trade agreement with Belgium, when the Committee members indicated that it would probably not be feasible to conclude such an agreement at this time.

The Department of Agriculture representative then suggested a new type of "special limited wartime trade agreement" covering about ten commodities. The other countries would virtually agree to import specified minimum quantities of these commodities. Our reciprocal concessions would be drastic tariff reductions, protected by customs quotas. Such an agreement, he indicated, would not extend beyond the duration of the war; it would have none of the usual general provisions.

The Trade Agreements Committee is now making a study of the general question of special wartime trade agreements and of the specific Belgian case -- where it is most likely that any such new policy would be inaugurated.

STRICTLY CONFIDENTIAL

306

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 15, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

Subject: Norwegian, Danish and Swedish Investments
in the United States.

The latest available estimates of Norwegian, Danish and Swedish investments in the United States are as follows (in millions of dollars):

	<u>Norway</u>	<u>Denmark</u>	<u>Sweden</u>
Long-term investments			
Direct	\$ 2	\$ 8	\$ 12
Portfolio: Stocks	4	5	11
" : Bonds	"	"	"
Short-term investments			
Balances: Official (At close of April 15)	26	4	18
" : Private (As of April 10)	47	22	12
Gold under earmark (At close of April 15)	14	22	20
TOTAL	\$91	\$51	\$62
Sold in transit to U.S. (As of April 15)	3	-	2
	\$94	\$51	\$64

In addition to the figures shown above, the Bank of Norway holds about \$19 million worth of miscellaneous securities, mostly Norwegian Government and municipal issues, at the Federal Reserve Bank of New York.

* Negligible



AC

PLAIN

London

Dated April 19, 1940

Rec'd 11:40 a.m.

Secretary of State

Washington

1004, April 19.

Chairman Rubber Growers Association announced at annual meeting yesterday that, while defence (finance) regulations transmitted in Embassy's 594, ~~MARCH~~ ~~April~~ 9, noon, apply only to the British Empire, members of this association representing companies operating in the Netherlands Indies have consulted together and have unanimously recommended that all British controlled companies operating in the Netherlands Indies should agree to sell all their rubber under the control regulations regarding exchange. A sub-committee of the Netherlands Indies committee has been formed to negotiate the details.

KENNEDY

DUM

ESM

TELEGRAM SENT

GRAY

April 19, 1940

6 p. m.

AMERICAN CONSUL

MILAN

14.

The Secretary of the Treasury requests a daily telegraphic report on the day's stock exchange transactions in stocks and bonds, including today's transactions.

HULL
(EF)

EA:FL:EB Eu

RE CHINESE LOAN

April 19, 1940.
10:30 a.m.

Present: Mr. Chen
Mr. Cotton
Mr. Young
Mr. White
Mrs Flotz

Chen: Mr. Secretary, before I shake hands with you I want to express my appreciation on behalf of this mission which I represent for your effort, cooperation and assistance and I want to assure you also that this contract I make here for two loans, I feel it my personal obligation to you to carry out its terms.

H.M.Jr: That is right.

Chen: That is right.

H.M.Jr: I am lending you 40 million dollars, K. F. Chen. I never would do it.

Chen: And I want to say to you that it has always been near my heart. I have never had a chance to say it, but I must say it to make me feel easy, that when I go back home I will feel it my personal obligation to make every effort to carry on. It is my peacetime duty back home to travel on the highways where there have been no modern means of transportation. I will spend some time on the Indo-China road and will always keep you posted on the construction of new roads.

H.M.Jr: What you ought to do is have somebody with you with a little movie camera and take pictures and send me a copy.

Chen: Yes. I have bought one already.

H.M.Jr: Do you know how to use it?

Chen: I am not an expert.

H.M.Jr: Well, you take somebody who knows how to use it. And you could use color. Even if it is black and white - but if you do, then you could send it back to me, you see.

Chen: Black and white is not so good.

- 2 -

- H.M.Jr: The color is much nicer.
- Chen: I have a few papers with me today. I want to make just a brief report.
- H.M.Jr: I have got all the time you need. I forget, do you smoke?
- Chen: Yes.
- H.M.Jr: I know you drink, but I can't remember whether you smoke.
- Chen: Not much.
- H.M.Jr: You see, not everybody has to drink as much to get the same results. You and I just have to take a little.
- Chen: This is the first report, just some figures about wood oil, the number of tons shipped during 1939 and 1940, that is ending March, 28,464 tons. Sold in New York, 12,933 tons.
- H.M.Jr: Where is the rest?
- Chen: Right here. The proceeds of the sale is \$5,532,000. Paid back to the Export-Import Bank, \$2,892,000. The wood oil on hand is \$10,900 tons. The number of tons on the way is 4,807. This is just very brief.
- H.M.Jr: All right, thank you.
- Chen: This is a report of the purchased equipment and materials with the \$25,000,000 fund. It is practically finished, so I have the list here and I will give it to you.
- H.M.Jr: May I glance at this a minute? Incidentally, Phil, the English can learn - the Allied Purchasing Commission can learn something from the kind of record I get from Mr. Chen. His records that he gives me are so much better than Mr. Purvis', there is no comparison. I mean, you might look up some of these. There is just no comparison between what I get from him and what I get from your folks.

- 3 -

Now, have you taken delivery or is this the order? You haven't taken the delivery yet?

Chen: No, 20 million dollars.

This is just a brief explanation of the distribution of purchases. Automotive equipment, \$2,750,000, and the cost of transportation. We have learned a lesson and that is not to ship everything at one time, so we will try to ship so much every month and make an eight month estimate.

H.M.Jr: I see. Now, this is the orders yet to be placed?

Chen: Yes.

H.M.Jr: 20 million dollars?

Chen: Yes. We hope to get more.

H.M.Jr: Well, you will have to come back to get more.

Chen: I will be very glad to come back.

Cotton: That is the kind of thing I should think you would be interested in on this Export-Import Bank reporting job.

H.M.Jr: And that is what I want from you and you gentlemen can look at this.

Cotton: Yes, I was going to - when you get around to discuss that little report already made, that is my idea, that that would be the kind of thing you would want from the other major applicants. Of course, this is the most important one.

H.M.Jr: Now, for this second loan, what are you going to bring out?

Chen: No, for seven years. The first year's shipment, that is for 1940, is 3,000 tons.

H.M.Jr: Is that what you can produce?

- 4 -

- Chan: They can produce more, but they are trying to make shipments to France to reduce --
- H.K.Jr: 3,000 tons of tin is what you propose. You have written it out.
- Chan: No, I do not have it here. It is 40,000 tons, but the first year it is 3,000 tons and the second year is 4,000 tons. The third year, 5,000 tons.
- H.K.Jr: And how much tin do you think you would have for sale altogether?
- Chan: The yearly production is 10,000 tons.
- H.K.Jr: What are you going to do with the other 7,000 tons?
- Chan: Keep that on hand in case of emergency.
- H.K.Jr: Is any of that pledged?
- Chan: No, as far as I know, no deal has been concluded.
- H.K.Jr: Mr. Purvis was in here yesterday afternoon and after four months' delay they now come to me very much excited again about tungsten. He talked to me about it four months ago. You remember you and I talked about it. It is about four months, isn't it?
- White: About that.
- H.K.Jr: Now, he represents the English and the French Purchasing Commission and he authorized me to ask you to ask your Government how much newly mined tungsten - it has nothing to do with the tungsten in Indo-China, but the tungsten to be mined this year, do you think your Government would like to sell it?
- Chan: Yes, sir.
- H.K.Jr: Now, they know, at least they have been informed, that you deliver to Russia 400 tons a month and they realize that you have to do that in

- 5 -

order to get the supply, which is roughly 5,000 tons. Now, they were under the impression that you could mine another 10,000 tons.

Chen: Increase the production?

H.M.Jr: Well, that they are not interested in. They are just interested in - I told them I thought your total production was 10,000.

Chen: Yes.

H.M.Jr: Is that right?

Chen: That is right.

H.M.Jr: Then that would leave that you have 5,000 tons for sale, is that right?

Chen: I don't know what is the real condition there, whether they have made any arrangement to sell already or not.

H.M.Jr: I would like you, as one of the first things - I think you ought to get a cable off. How much tungsten has the Chinese Government for sale and above what they are selling to Russia.

Chen: Yes.

H.M.Jr: And the English and the French and possibly the United States would like to buy up whatever you have.

Chen: Yes.

H.M.Jr: And the thought that I had in mind would be to modify this tin contract and not take all of this tin but take some tin and some tungsten.

Chen: How about a separate contract, because this negotiation has been going on for a long time, and let this stand as it is, so if there is any other business we can do on tungsten, we may make a separate arrangement.

H.M.Jr: Let's leave it this way. I waited for four

- 6 -

months. Now they have come in yesterday and they quite frankly don't want - would like to buy up whatever tungsten your Government has to sell over and above what you deliver to Russia, and they would like for us to take some of it.

Chen: Yes.

H.M.Jr: Now, if you could get a cable off --

Chen: I will get the information first.

H.M.Jr: But in cabling, if you don't mind, be sure and protect me, because I don't want to be set up as a buying agent for the English and French and I think what you ought to do - when will you be in New York?

Chen: I am expecting to go on Sunday.

H.M.Jr: You will be in New York Monday?

Chen: I will be in New York Monday.

H.M.Jr: Phil, call up Ballantyne and find out what time Mr. Purvis and Mr. Chen can get together in New York on Monday and let Mr. Purvis state his own proposal to you.

Chen: Yes.

H.M.Jr: Because I don't want to be in the position that I am acting as agent for them. But you (Young) fix it up that Purvis and Mr. Chen get together on Monday, will you, and let him state his proposal to Mr. Chen direct in New York. You can do that through Ballantyne. You can call Ballantyne and say Mr. Chen is here and fix it up. Will that be agreeable?

Chen: Fine. As a matter of fact, our Government will be very glad to sell on a cash basis, because they can use this cash for other purposes.

H.M.Jr: I am not going to tell you how to do it, but all I am telling you is, the English want it

- 7 -

very badly, see. Is that enough?

- Chen: I am afraid they have made some arrangements on this already. I have no information but I feel that way.
- H.M.Jr: Anyway, here is Mr. Purvis who represents the English and the French and they want to buy whatever you don't sell to Russia, see. Now, need I say more?
- Chen: That is all.
- H.M.Jr: And we will arrange for you to see Mr. Purvis.
- Chen: Then I will go ahead with this contract, because I expect to send it today or tomorrow.
- H.M.Jr: I think that is enough, isn't it?
- Cotton: Yes, I don't see --
- H.M.Jr: It is ready to be signed?
- Chen: Yes, today.
- H.M.Jr: I would sign it.
- Chen: Provided the Export-Import Bank has the deposit.
- Cotton: It has already been done.
- H.M.Jr: Then you are in a much stronger position than, as you say, if they want tungsten, this is a new deal. Now, the other thing which they have never cleaned up to my satisfaction, they keep talking about American agencies in Hongkong who deal in tungsten. You know I talked to you about that. We have no American agencies.
- Chen: The French Government, the representative in China, said if we make this tungsten go to America, the American people will buy it and probably will re-ship it to Russia or Germany, over which they have no control. They wanted that stock.
- H.M.Jr: Who does?

- 3 -

- Men: The French. I proposed four months ago to ship at least 1,000 tons to America to sell.
- E.M.Jr: Tungsten?
- Men: Tungsten. I said ship it over to sell. The French representative said, "Well, since this tungsten is in our hands already and we want 5,000 tons of it --" So the negotiation stops there. I don't know what further profits they will make.
- E.M.Jr: Why don't you (Young) when he meets Purvis, say he would like to meet Bloch-Laine, who represents the French Government and you could ask him about both.
- White: Isn't there some smuggling of tungsten out of Hongkong?
- Men: Yes, in the beach area near Hongkong, opposite Hongkong, one that is being occupied by the Japanese, there is a good deal of smuggling, but I don't know how to control that.
- White: It is under British control.
- Men: Yes. It is beach territory.
- E.M.Jr: But get word to me. I would like to follow this tungsten thing and get word to me as you learn anything, will you?
- Men: Yes, I will. I will send you the result of this interview with these two gentlemen and then also I will send a wire back that you have got a request to make and I will send a copy of my cablegrams and the reply from China, and since I am going back very soon - it is not so urgent, since I have waited for four months already, but this is a part of my work also. I will make a personal effort to find out everything.
- E.M.Jr: Yes. Of course, what they do is, they get all excited and they want the thing today.

- 9 -

Then they wait four months and come back and they are all excited again, but this gives you a chance to see them and possibly you can make a cash deal, because I know that you need cash badly, I know that.

- Chen: Yes, we want airplanes and artillery pieces so we can prepare for our next offensive. It depends on the national situation, which is quite good in our favor but would interfere with starting initiative.
- H.M.Jr: You heard what the President said.
- Chen: Yes. We want 300 artillery pieces. This would cost about 60 million dollars. We also want some airplanes.
- White: France has quite an adequate stock of those in Indo-China. Maybe if they want tungsten badly enough you might make a deal with them.
- Chen: Maybe. I understand that this Government, the American Government, also has some old guns.
- H.M.Jr: French seventy-fives.
- Chen: And I hope sometime that if it is convenient - because it is hard to be in this position to ask you to give me credit to finance a war. The movement today is to stay out of war. This is not an official request.
- H.M.Jr: You have been in this country too long - you are getting to be too - you have learned the American tricks.
- Chen: And I have --
- H.M.Jr: I want to come to China to learn some of your culture, too.
- Chen: There is no culture there. You would come to help us.
- H.M.Jr: I want to learn some of your culture and some of your philosophy.

- 10 -

- Chen: You have plenty.
- H.M.Jr: I could use some more.
- Chen: The financial rehabilitation is a big problem for China.
- H.M.Jr: I know. Well, it has been a great pleasure to have you and you know the confidence I have in you and China would never have gotten this money if you hadn't have come, never, and you can tell that to them, that they never would have gotten a penny if it hadn't been for you. If they want any more, you have got to come back.
- Chen: I am subject to your call.
- H.M.Jr: You heard what the President said.
- Chen: Any time. I feel I would like to come back next year, because I will arrive in Chungking about the middle part of July.
- H.M.Jr: How long is it going to take you to start that chicken farm?
- Chen: I don't know.
- H.M.Jr: With a lake.
- Chen: On the border of a lake with a snow-capped hill. I am getting discouraged with chickens and not industry. I may go in the cow business.
- H.M.Jr: I think it would be better. Chickens get so many diseases.
- White: As long as you don't go in the apple business. We can't stand the competition.
- Chen: Cherry? The cherry business, cherry trees.
- H.M.Jr: I imagine the supply of cows' milk must be very difficult now, isn't it?
- Chen: Yes, it is.

- 11 -

H.M.Jr: Very difficult.

Chen: Yes. I have another cable and I see that the Department has about four million ounces of silver and I hope America will not change the policy of silver. They want, if possible, assurance from you that you will buy these four million ounces. They will be here about the middle part of June.

H.M.Jr: Why don't you do what we did once before? Didn't we make arrangements with you, once you put it on shipboard --

Chen: Yes, but with changing policies --

H.M.Jr: But if you could get it on an American flagship, once it is on the ship I will buy it on shipboard.

Chen: Thank you.

H.M.Jr: How is that? I will buy it on shipboard.

Cotton: Where is the silver now?

Chen: It is on the way from Chungking to Rangoon, but there is some legal arrangement that we made with the Burmese Government to release that.

H.M.Jr: But just with one proviso, if this law should pass forbidding me to buy it before you get it on shipboard, then I can't, but if you get it on shipboard before the law is changed, I will buy it and give you that price as of that day, but if the law should be passed before then, then I couldn't do it, but if you get it on shipboard, I will buy it on shipboard.

Chen: Yes.

H.M.Jr: All right.

DISTRIBUTION OF PURCHASES

in a period of 8 months
from MAY to DECEMBER, 1940

SUMMARY

ITEM	CONTRACT VALUE	AVERAGE AMOUNT FOR ORDERS TO BE PLACED PER MONTH
I. AUTOMOTIVE EQUIPMENT	\$ 2,787,000.00	\$ 348,375.00
II. GASOLINES & LUBRICANTS	1,912,000.00	239,000.00
III. FERROUS & NON-FERROUS METALS	8,700,000.00	1,087,500.00
IV. ELECTRICAL EQUIPMENT	931,000.00	116,375.00
V. MEDICAL SUPPLIES	600,000.00	75,000.00
VI. TEXTILE MATERIALS	574,000.00	71,750.00
VII. GENERAL MACHINERY	360,000.00	45,000.00
VIII. RAILWAY EQUIPMENT	666,000.00	83,250.00
IX. TIN MINING EQUIPMENT	870,000.00	108,750.00
X. AVERAGE FREIGHT & INSURANCE (15% of Contract Value)	2,600,000.00	325,000.00
	<u>\$ 20,000,000.00</u>	<u>\$ 2,500,000.00</u>

UNIVERSAL TRADING CORPORATIONCLASSIFICATION OF PURCHASED EQUIPMENT AND MATERIALS AND THEIR VALUATIONS(25 MILLION DOLLAR FUND)

CLASSIFICATION	VALUATION IN DOLLARS	TOTAL
I. <u>AUTOMOTIVE EQUIPMENT:</u>		
A. Trucks	\$ 5,792,959.00	
B. Motorcycles	87,303.00	
C. Repair Shops	263,350.00	
D. Tires	1,385,920.00	
E. Mobile Machine Shops	264,097.00	
F. Bodies	<u>125,584.00</u>	\$ 7,919,213.00
II. <u>PETROLEUM PRODUCTS:</u>		
Gasoline, Lubricants, Fuel Oils and Kerosene		\$ 4,624,000.00
III. <u>ELECTRICAL EQUIPMENT</u>		
A. Telephone Sets, Wires and Materials	\$ 1,241,597.00	
B. Radio Transmitters, Receivers and Materials	<u>763,011.00</u>	\$ 2,024,608.00
IV. <u>METALS:</u>		
A. Ferrous = Steel Bars, Tubes and Sheets, Die Steel and Tool Steel.	\$ 1,597,581.00	
B. Non-Ferrous = Copper Ingots and Sheets, Brass Rods and Bars, Aluminum Rods and Tin Plate.	<u>2,686,060.00</u>	\$ 4,283,641.00
V. <u>TEXTILES:</u>		
A. Khaki Cloth	\$ 425,905.00	
B. Cotton Blankets	<u>1,173,088.00</u>	\$ 1,600,993.00
VI. <u>MEDICAL SUPPLIES:</u>		
Chemicals, Tablets, Drugs, Sundries, and Surgical Instruments.		\$ 1,000,760.00

(continued from Page 1)

CLASSIFICATION	VALUATION IN DOLLARS	TOTAL
VII. GENERAL MACHINERY:		
A. Road Machinery - Tractors, Graders, Rollers, Crushers, Rock Drills, and Construc- tion Materials.	\$ 761,374.00	
B. General Machine Shop Equipment - Various Machine Tools, Hand Tools, Gauges, etc.	<u>161,741.00</u>	\$ 963,115.00
	TOTAL	<u>\$22,416,330.00</u>
	FREIGHT AND INSURANCE	<u>2,583,670.00</u>
	GRAND TOTAL	<u><u>\$25,000,000.00</u></u>

Woodoil Statement for 1939 and 1940
(End of March, 1940)

I. Number of Tons Shipped:	26,464.76 tons
II. Number of Tons Sold:	12,933.06 tons
III. Net Proceeds of Sales:	\$5,532,593.66
IV. Amount Paid to Export-Import Bank:	\$2,892,599.82
V. Number of Tons on Hand at end of March 1940:	10,924.68 tons
VI. Number of Tons on Way:	4,607.03 tons

TREASURY DEPARTMENT

324

INTER-OFFICE COMMUNICATION

DATE April 19, 1940

TO Secretary Morgenthau

FROM E. H. Foley, Jr.

For your information

Sam Clark just telephoned that he learned from Bill Campbell that Kirkland, Moe Ammenberg's counsel, has advised Ammenberg to plead guilty when he appears before Judge Wilkerson next Tuesday. I understand that Hafner also has been advised to plead guilty. However, the other two principal defendants, Regen and Kruse, have refused to enter pleas and propose to stand trial.

According to Campbell, Ammenberg expects to ask for a couple of weeks delay between the plea and sentence in order that he may work out an arrangement for paying his tax liability. Accordingly, I have asked that this figure be ascertained so that we will have it ready when we need it. I am informed that this amount should be, roughly speaking, somewhere in the neighborhood of \$6,000,000.

It is important that the public first learn of this at the hearing before Judge Wilkerson on Tuesday.

E.H.Fh.

April 19, 1940

Secretary Vargentine

E. E. Foley, Jr.

For your information

Sam Clark just telephoned that he learned from Bill Campbell that Kirkland, Max Ammerberg's counsel, has advised Ammerberg to plead guilty when he appears before Judge Wilburson next Tuesday. I understand that Hefner also has been advised to plead guilty. However, the other two principal defendants, Egan and Kruse, have refused to enter pleas and propose to stand trial.

According to Campbell, Ammerberg expects to ask for a couple of weeks delay between the plea and sentence in order that he may work out an arrangement for paying his tax liability. Accordingly, I have asked that this figure be ascertained so that we will have it ready when we need it. I am informed that this amount should be, roughly speaking, somewhere in the neighborhood of \$2,000,000.

It is important that the public first learn of this at the hearing before Judge Wilburson on Tuesday.

(Initialed) E. E. F., Jr.

EW:ahn 4-19-40

MEMORANDUM FOR THE SECRETARY:

APRIL 19, 1940.

Shipping Situation

The Port of New York Authority cite the tremendous growth in traffic originating in foreign countries transhipped at New York to other foreign countries in the year 1939.

The value of the cargo transhipped at New York in the year 1939 was approximately \$138,000,000. compared with \$187,000,000. for the entire United States, New York handling almost three quarters of this transshipment business.

It is natural to assume that this traffic will continue to grow due to the disruption of direct service between foreign countries.

The Conference rates to United Kingdom and France have been extended to the end of May; to Antwerp and Rotterdam they are restricted through May 15th. While advances to the United Kingdom and France are resisted by the governments involved, it is believed that recent developments in Scandinavia will inevitably force acquiescence in adjustments that will adequately reflect the cost and value of the service rendered by the ships carrying commodities which must be essential or they would not be permitted to be imported.

Steel and copper to be moved for the belligerents are bringing about a condition where their available tonnage will not be utilized to the fullest advantage; they are going out with space.

The first lot of French government horses are going out of New York this week.

The first ten units of the 145 gasoline tank trucks, order for which was placed with White Motors by the French Government, will arrive in New York next week. The first lot will move on French Maritime Commission ships as the contract requires that they

first be tendered to the French Line. It is possible some succeeding lots may move on neutral vessels.

There is little activity in the time charter and net form charter markets due to uncertainty as to the status of Scandinavian ships.

Car loadings gained about 3%, due principally to an increase in the movement of coal.

Antwerp grain trade is inactive; the rate has softened to 70¢ per 100 lbs.

The Association of American Railroads report that the declining trend in the movement of export freight continues as evidenced by the decrease in the number of cars lightered for export each day, cars awaiting lighterage, cars in storage and lighters containing export freight on demurrage.

Stocks of grain in elevators, boats and railroad cars at New York are about 1,500,000 bushels.

Paul Harris

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE: April 15, 1940

TO Secretary Morgenthau
FROM Joseph P. Cotton, Jr.

Re: Latin American commitments assumed by
the Export-Import Bank. (Meeting of
April 18, 1940.)

The immediate program favored by the State Department involved \$10 millions to Colombia, an increase in the commitment to Chile from \$5 millions to \$12 millions, \$1½ million to Ecuador and \$140 thousand to El Salvador.

The Bank took action to allocate \$10 millions to Colombia to be used for purchases in the United States and to allocate \$2 millions to Panama to finance completion of a trans-isthmian highway already partially built. No action was taken with respect to Chile or the other items favored by the State Department.

Mr. Jones stated that the President had committed this country with respect to the trans-isthmian highway and with respect to the Chilean credit. It was the general impression that the President had made clear at a recent conference with Mr. Welles and Mr. Jones that he favored the other items of the State Department's program, but Mr. Jones stated that this was not his understanding, and that he felt that since the President indicated that he favored a certain course of action, ultimate responsibility nevertheless rested upon the directors of the Bank to see whether such action would be feasible. The situation is embarrassing in view of the fact that the State Department is said to have told the Chilean representatives that they would get \$12 millions in advance of this meeting of the Bank's directors. Jones' policy was obviously to delay action with respect to Chile and Ecuador. Mr. Noble and I took a more positive stand against the Chilean and Ecuadorian credits.

The Bank, the day before yesterday, received a request from Italy to be allowed to use the unused balance — approximately \$700 thousand — of the \$6 millions Italian cotton credit in one transaction. The Bank referred this question to the State Department for decision, it being felt that the Bank, in the absence of unusual circumstances, would not be justified in refusing this request.

J.P.C.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE April 19, 1940

TO Secretary Morgenthau

FROM Mr. Dietrich

CONFIDENTIAL

After advancing to 3.53-7/16 in Amsterdam prior to our opening, the sterling rate developed an easy tendency in the New York market and closed one-half cent under yesterday's final quotation. Sterling opened here this morning at 3.52 and touched a low of 3.50-1/2 in the early forenoon. During the afternoon, it returned to 3.51-1/4. The closing rate was 3.51.

Sales of spot sterling by the six reporting banks totaled 2536,000, from the following sources:

By commercial concerns.....	£ 125,000
By foreign banks (Far East, Europe and South America)....	£ 233,000
Total.....	£ 358,000

Purchases of spot sterling amounted to 2477,000, as indicated below:

By commercial concerns.....	£ 132,000
By foreign banks (Europe, South America and Far East)....	£ 235,000
Total.....	£ 467,000

The following reporting banks sold cotton bills totaling 200,000 to the British Control on the basis of the official rate of 4.92-1/2:

£ 10,000 by the Guaranty Trust Co.
6,000 by the Irving Trust Co.
3,000 by the National City Bank
1,000 by the Bank of Manhattan
£ 20,000 Total

The Guaranty Trust Company reported that it had purchased 20,000 for forward delivery from the British Control at 4.91-1/2. The funds will be used to pay for shipments of rubber.

The guilder remained steady for most of the day at .5308, but just before the close it moved off to .5306. Late in the day, the Federal Reserve Bank purchased 250,000 guilders by order of and for account of the Netherlands Bank. The guilder closed at .5306.

The discount for the Canadian dollar widened to 16¢ at noon. The final quotation was 15-3/8¢.

The other important information found is follows:

London Branch	10,000
Bank of America	2,000-1/2
London	10,000

The total outstanding amount of gold in the banks mentioned, to be added to other unreported amounts:

- £1,000,000 in the Bank of Paris
- 1,400,000 in the Bank of the Republic of Guatemala
- £1,000,000 Swiss

By payment of the following amounts of gold from the unreported accounts of the banks above named:

- \$1,000,000 from the Netherlands Bank
- 1,100,000 from the B. I. S.
- 700,000 from the Bank of the Argentine Republic
- £1,000,000 Swiss

The National Reserve Bank of New York received a cable from the Bank of England requesting it to advance a \$100,000 to transfer from its account (B) to the account of the National Bank of the Argentine Republic gold valued at approximately \$1,000,000. The National also received a cable from the Central Bank of the Argentine Republic instructing it to receive this gold. The National is requesting the National Reserve Bank to make this transfer.

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

- £1,000,000 from England, shipped by Samuel Montagu & Company, London, for account of the American Bank, Amsterdam, to the Bankers Trust Company, New York, for sale to the U. S. Army Service.
- 700,000 from Amsterdam, shipped by the Bank National Bank to the National Reserve Bank for account of the B.I.S. The disposition of this shipment is unknown at the present time.
- £1,000,000 Swiss

The State Department requested to see a cable stating that the Swiss National Bank, Zurich, shipped \$47,000 in gold from England to the Irving Trust Company, New York, for sale to the U. S. Army Service.

The State Dept also petitioned with set to the shipment of 10,000,000 of \$100.

CONFIDENTIAL

In London the prices fixed for spot and forward silver were both unchanged, at 20-7/8d and 20-13/16d respectively. The U. S. equivalents were 33.20¢ and 32.87¢.

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

We made five purchases of silver totaling 532,000 ounces under the Silver Purchase Act. Of this amount, 125,000 ounces represented a sale from inventory, and the remaining 407,000 ounces consisted of new production from foreign countries, for forward delivery.



CONFIDENTIAL

GROUP MEETING

April 19, 1940.
9:30 a.m.

Present: Mr. Bell
Mr. Gaston
Mr. Cotton
Mr. Harris
Mr. Schwarz
Mr. Thompson
Mr. Haas
Mr. White
Mr. Graves
Mr. Sullivan
Mr. Viner
Mr. Cochran
Mr. Poley

H.M.Jr: Herbert, you can call up your friend, Ned Bruce, and say this speech is a lousy job, that I fell asleep reading it. If he thinks I am going to get up and say that on the radio - nobody would listen to it. I had to wake Mrs. Klotz and Mrs. Klotz had to wake me up.

Gaston: You don't want Chick to call him?

Schwarz: He is your friend.

Gaston: Do you want us to work on it?

H.M.Jr: Us, yes. Anyway, between you and Chick, will you? I naturally turn to you, you see. I can look at it again. I only have to get up and say 20 words, but I certainly am not going to say those.

Klotz: Is it on the radio, Mr. Morgenthau?

H.M.Jr: Yes. It is terrible for 25 words.

You just made it again this morning, didn't you, Ed?

Poley: Yes.

H.M.Jr: How are you?

Poley: Pretty good, thanks.

H.M.Jr: He is having a hard time these days. Well, what have you got, anything?

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Foley: Davis, Polk is --

H.M.Jr: I know, Davis, Polk, Kelly and Levy.

Foley: They don't like our foreign exchange control Executive Order. It applies to Guaranty, but it doesn't apply to transfers of the securities.

H.M.Jr: Bring them down and have the TNEC give them the works. It is a monopoly, isn't it? You and Dan, when you are stumped, let me know.

Bell: We are. I think we have got to see you and talk over what we have got to do.

H.M.Jr: Do you want to do it right after this meeting?

Bell: Yes.

H.M.Jr: Sold. Shall we let Sullivan in on it or not?

Bell: Bring him in. We need some good strong backing.

H.M.Jr: Right after this meeting.

Foley: O. K.

H.M.Jr: Sullivan?

Cochran?

Cochran: Nothing much. The Exchange is still nervous. Sterling went up two points and went down one and a half this morning.

H.M.Jr: Did you clear your business?

Bell: Practically. We have got a few cases we are holding for additional information.

H.M.Jr: Could you give me an idea how many you have cleared to date? I have got a press conference at 11:00 and I have got nothing to say except how good we are.

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Bell: Well, I would like to look a while and see. The last number I saw was eleven hundred and something, but I had better check up on it.

H.M.Jr: Find out for sure.

Bell: What time is your press conference?

H.M.Jr: 11:00. Are those two men down here?

Bell: Yes, sir.

H.M.Jr: I would like to meet them and give them a little pep talk, you know, one of those chips where they fall may, you know.

Schwarz?

Viner? Are you going to spend a day or two with us?

Viner: Oh, I will go back this afternoon.

H.M.Jr: You are not sore, are you?

Viner: No. The hotels are all full, anyway.

H.M.Jr: We can always give you a bed. I would like to see you at 11:30. O. K.?

Viner: Sure.

H.M.Jr: If you have time, Dr. Viner, I wish you would let Joe Cotton tell you the assignment I have given him and see whether you can make some suggestions for him, will you? Cotton can take advantage of your being here.

And Joe, at 10:30 Chen is coming in. There will be a little something on Export-Import. I would like you present. At 10:30.

Cotton: Yes, he told me about it. He has got his contract practically sewed up. I will send you a little something on it before then.

H.M.Jr: 10:30, please.

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George?

Haas: I have this report you asked for. I have got the heat on those aviation figures.

H.M.Jr: Good.

Basil?

Have you (Bell) done anything about Czechoslovakia?

Bell: We sent back to the State Department for more information.

Foley: Yes.

Bell: You signed the letter.

H.M.Jr: Did I? We threw it back in their lap?

Bell: We asked for more information and for their recommendation.

H.M.Jr: Then we threw it back in their lap.

Harry?

White: You may have noticed the telegram in which the French statement had what their holdings were. I have put them down in a table with what our estimates were and what theirs are. They are very different.

H.M.Jr: That is all there for some day when we need it.

White: I thought you might be interested in the fact that there were only ten million dollars returns on French securities.

H.M.Jr: How much?

White: Ten million.

Cochran: Don't you think - I checked on that. I believe it is a typographical error. It says ten million and then it says a hundred million below. I

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have asked for a repeat on that where it says ten, because in the next paragraph it says a hundred.

White: I didn't see it. Here is a statement of questions and answers on the Inter-American Bank that - the questions may interest you and you can read the answers.

H.M.Jr: What else?

White: That is all.

H.M.Jr: Harold?

Dan?

Bell: We are running low on Savings bonds throughout the country and I think we have got to start printing. If we have any idea of changing on July 1, I think we ought to get busy on it. If we do change, we are probably going to have to go to Congress to ask for more money, because a change is expensive.

H.M.Jr: No one has suggested it.

Bell: We will just go ahead, then, and January 1 is a much better date. Senator Wagner has asked Altmeyer for a draft of a bill on annuities and he has been putting him off from time to time. He called him the other day and told him he wanted some. We have a draft which hasn't been gone over very carefully. I think we ought to give Altmeyer a draft so that he can have it for Wagner.

There was passed in the House yesterday an administrative bill. I understand it is very strict in respect to the regulations of the departments. I think we ought to consider to see whether or not it interferes with our financing in any way.

Foley: Well, it is the Walter Logan bill, Mr. Secretary, and I think if the bill passes the Senate the President will veto it. He condemned it at his press conference as a vicious bill. In its present

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form, it excepts the Comptroller of the Currency, Internal Revenue and Customs, but it would interfere with the operation of the stabilization fund.

Bell: You couldn't amend this order that you have out now on foreign exchange without a hearing.

Foley: You would have to hold a public hearing and if anybody didn't like it, they could take it to court and review the facts in the law to see whether or not we were exceeding our authority. It is a very bad bill and it transfers from the executive departments to the courts administration of the government to a degree I don't think is consistent with good administration.

Bell: I wonder if we shouldn't try to do something in the Senate, rather than relying on a Presidential veto.

Foley: I have been doing quietly everything I can to bring the full meaning of the bill to the attention of our friends.

H.M.Jr: Have we explained it to Barkley?

Foley: He understands.

H.M.Jr: Does he?

Foley: Yes, absolutely.

H.M.Jr: Is he against it?

Foley: Sure he is against it.

Bell: There are only 87 Congressmen who voted against it.

Foley: They have made exemptions from it of practically all the agencies except the two they are out to kill, the SEC and the Labor Board. The Wages and Hours Division of Labor are the ones they are after. It has been sponsored by enemies of the Administration. The Bar Association of the City of New York had a joint committee study it and they condemned it. Eddie Greenbaum was on that

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committee and I talked with Eddie two days ago to see if we couldn't get that report which was rendered about a year ago brought to the attention of some of the people in Congress and some publicity given to it by the New York Times, and he was going to talk to Allen Dulles and Laporte, the joint chairmen of the two committees and see if they couldn't help us.

Sullivan: Arthur Krock referred to that report in his article the other day.

Bell: Ernest Lindley had an article --

Foley: Ben Cohen sent the report to Arthur Krock several days ago. Everybody is doing what he can to --

Bell: It has a lot of politics behind it.

H.M.Jr: Evidently he is doing something.

What else?

Bell: The market at the close last night showed signs of being very weak in selling, accumulating. We may see some substantial decline today if that continues. We have to watch it very carefully. It has gone off about one and a quarter points in the last decline, very gradually. I don't think we want to do anything if it keeps that up. The main problem will be to keep the Federal out. That is all I have.

H.M.Jr: Harold, on this matter of Publicker, would you prepare a letter for me to Mrs. Roosevelt which she in turn can show to her friends, what she could say about Publicker, if anything?

Graves: I have another report that was handed me in connection with another bad company.

H.M.Jr: She is interested.

Graves: Yes.

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H.M.Jr: I would like to write a letter to Mrs. Roosevelt and then give a copy of it to Harry Collins, because the President has sort of told this fellow that Collins sponsored this fellow.

Graves: I told this to Captain Collins when he was in my office.

H.M.Jr: By this afternoon, if you will give me a letter.

Graves: Yes, sir.

H.M.Jr: Something that she can show to her friends.

Did you (Harris) take care of Senator Bone?

Harris: Yes, I talked to him yesterday afternoon after he came off the floor and he is all satisfied.

Just as a matter of interest, we got a telegram last night from the Collector at San Francisco saying that the local German Consulate had asked for free entry for three German officers coming in on the Asama Maru on the 27th and that they were carrying a couple of official pouches that they wanted delivered to the Consulate, so I talked with Mr. Sullivan and discussed it with Herbert and we told them that we could take no action pending a formal request from the German Embassy on the subject, so the Collector is sending us a letter airmail on the thing. I don't know that there is anything we can do, but I tell it to you as a matter of interest.

H.M.Jr: Are you through, Dan?

Bell: Yes.

H.M.Jr: Norman?

Thompson: I have this report.

H.M.Jr: Mr. Thompson was waiting until you (Mrs. Klotz) got through with your sign language.

Klotz: I thought I was looking in the opposite direction.

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- Thompson: Senator Guffey has recommended a replacement of the Collector of Customs at Pittsburgh.
- Gaston: He had recommended it, you see. We notified him, which was the usual thing, before the expiration of the man's term and he didn't recommend the reappointment of the man but came along a little later and recommended the appointment of another man. I talked to Pa Watson and at his request I wrote him a memorandum just in case Guffey should come to him explaining that this man is an entirely satisfactory Collector, the man who is now in the position, and it is not our disposition to replace a man who is rendering satisfactory service.
- H.M.Jr: The Pennsylvania primaries, I think, are the 23rd.
- Gaston: Of course, we don't want to do anything until then. I called Jim Farley several weeks ago and he said he didn't want to have anything to do with it at all.
- H.M.Jr: Do you want to do this now, Dan?
- Bell: Yes.

April 19, 1940
4:17 p.m.

E.W.J:c Hello.

Operator: Mr. Sulzberger.

E.W.J:c Hello.

Arthur
Sulzberger: Hello, Henry.

E.W.J:c How are you?

S: I'm well, thank you. How's yourself?

E.W.J:c All right. Are you at your office?

S: Yes, I'm here now.

E.W.J:c Arthur, during the week your man Mathews wrote a very interesting story out of Rome on the Italian securities.

S: Yes.

E.W.J:c They were dropping and so forth and so on.

S: Yes.

E.W.J:c I wondered if you would be willing to send him a message if he could write a story, say, for your Sunday paper giving a review of the week as to whether the things have continued to drop or whether they have turned up for the better.

S: Right.

E.W.J:c Because I don't know of any better way to get an indication of what the big shots are doing there.

S: Right.

E.W.J:c And I haven't been able to get anything other than that one story that Mathews wrote.

S: Right. All right, I'll be glad to do that.

E.W.J:c Now, I think it would be interesting.....

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- S: It would be very interesting indeed.
- H.M.Jr:for your readers and interesting for me.
- S: Right. Now, let me tell you something.
- H.M.Jr: Please.
- S: I would like to send you a report which -- a letter which is just signed "Your Correspondent".
- H.M.Jr: Yes.
- S: And I'd like to tell you that it comes from Tollicious.
- H.M.Jr: Tollicious.
- S: Yes, who is our man in Berlin.
- H.M.Jr: Yes.
- S: And is just about as wise a man as we've got on the staff.
- H.M.Jr: Yes.
- S: It's written from Oslo. It was written just about two days before the Norwegian attack.
- H.M.Jr: Yes.
- S: He was obliged to leave Germany. They were about to kick him out and we had agreed to take him out instead for six weeks.
- H.M.Jr: Yes.
- S: And not to create an issue and he's to be permitted to go back.....
- H.M.Jr: Yes.
- S:at the end of this month. One of the things that hurt him quite a bit there was the piece that Mrs. McCormick wrote after she got out of Germany.
- H.M.Jr: Yes.

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S: And they took it out on him. He's been the most outspoken and the most daring of any of our people.

H.M.Jr: Yes.

S: I sent word the other through Arthur Krock to Mr. Hull and Mr. Welles telling them that to realize in reading our reports from Berlin now, that undoubtedly the people who are there were pulling their punches.

H.M.Jr: Yes.

S: So as not to hurt his chances for coming back.

H.M.Jr: I see.

S: Now, he sends this -- he sends this letter, which is an extraordinary document about Germany. I'd like you to read it yourself and then will you pass it on in confidence to Mr. Hull?

H.M.Jr: Surely.

S: And tell him, confidentially, from whom it comes.

H.M.Jr: Surely.

S: But you'll see in reading it that it's something that the whole department down there ought to know.

H.M.Jr: Well; if you have a pencil.

S: Yeah.

H.M.Jr: My home address is 2211 -30th.

S: 2211 - 30th.

H.M.Jr: Yes.

S: Right.

H.M.Jr: And if you'll put a special delivery stamp on it, I'd have it eight tomorrow morning.

S: I'll do it right away.

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H.M.Jr: Just a special delivery, 2211.....

S: I won't put any notes on it at all. I'll just
enclose it.

H.M.Jr: No, I'd like to read it very much.

S: Right. It's a damnable thing!

H.M.Jr: Well.

S: All right, Henry, and I'll do the other thing right
away.

H.M.Jr: Hope to see you soon.

S: I hope so.

H.M.Jr: Goodbye.

S: Goodbye.