

THE PRESENT JOB OF GOVERNMENT AND PRIVATE CAPITAL IN OUR DEMOCRACY.

In the 1920's as we went from depression to prosperity, private investment increased by 5 to 6 billion dollars a year. Private investment is of course essentially the same as private debt. Widespread private investment, or debt, does not differ greatly from national debt except that often it is not paid back. The increase in private investment (or debt) gave us more production and more jobs and therefore more consumer purchasing power.

Since 1930 private investment has been far below normal and the federal government has had to step into the breach. In a capitalistic society like ours, capital for investment must be supplied or the wheels stop turning. Either individuals must supply it, or the government must supply it - or both. In the 1920's it was supplied chiefly by private sources; in the 1930's chiefly by government. (See tables 1 and 2)

Since 1930 federal indebtedness has been increasing at an average of about 2.5 billion dollars a year. This is less than half of the annual increases in private indebtedness during the 1920's, and together with debts of government agencies has hardly been sufficient to offset the shrinkage in private debts.

A substantial part of the increased federal debt has gone to replace a 15 billion dollar shrinkage in private long-term debts since 1930. Another part has gone to offset a 20 billion dollar shrinkage in bank loans. Add together the present private debts and the federal debt and you have a total today somewhat less than in 1930. (See table 1)

The real question about government debt is not how we are going to carry it, because with lower interest rates and a smaller private debt, the carrying charges on both government and private debt in 1938 were 14 percent less than in 1930. (See tables 3, 4, and 5) These interest payments took a somewhat smaller share of the national income than in 1930 and a much smaller share than in 1932. The real question is how the federal government may most effectively invest and spend for productive and social purposes until such time as private capital can carry its fair share of the social load, now increased because of the entirely different world outside of the United States and by the persistent unemployment problem within. Unemployment is the source of many of our internal difficulties.

Another question with regard to government investment or debts is what the nation gets for those expenditures. How do the tangible and social assets of government compare with the net government debt? One attempt to evaluate federal and other government assets (buildings, roads, etc.) shows assets of over 70 billion dollars at the end of 1938 and a net debt of 51 billion dollars. (See table 6)

We must do some deep thinking immediately on the proper balance between government and private investments and upon new productive opportunities for surplus farmers and displaced city people. The creation of these opportunities is now the great test and task of our democratic form of government, and its most effective performance at present is the right combination of both private and public investment in productive effort and socially desirable services.

Table I. GOVERNMENT DEBTS, PRIVATE LONG-TERM DEBTS, AND BANK LOANS AND DISCOUNTS, U. S., 1921-1938
(Millions of dollars)

U.S. Gov- ernment 1/ (June 30)	Federal agencies 2/ (June 30)	State and local 3/ (June 30)	Total Gov- ern- ment	Private long- term 4/ (Dec. 31)	Loans and dis- counts all active banks 5/ (June 30)	Total private long-term and bank loans	Grand total, Government and private	
1921	23,737	450	8,476	32,663	46,682	28,776	77,458	110,121
1922	22,711	730	9,893	33,334	51,200	27,759	78,989	112,293
1923	22,008	1,062	10,598	33,668	55,234	30,287	85,521	119,189
1924	20,982	1,231	11,633	33,846	60,156	31,348	91,504	125,350
1925	20,211	1,506	12,830	34,547	64,895	33,757	98,652	133,199
1926	19,384	1,669	13,664	34,707	69,861	36,051	106,912	140,619
1927	18,251	1,789	14,735	34,775	75,156	37,314	112,470	147,245
1928	17,318	1,866	15,699	34,883	80,121	39,592	119,713	154,596
1929	16,639	1,867	16,760	35,266	83,224	41,433	124,657	159,923
1930	15,922	1,871	17,985	35,778	84,500	40,510	125,010	160,788
1931	16,520	1,885	19,060	37,465	83,131	35,211	118,342	155,807
1932	19,161	2,130	19,330	40,621	80,192	28,090	108,282	148,903
1933	22,158	3,279	19,517	44,954	75,594	22,588	97,982	142,936
1934	26,480	6,735	18,823	52,038	74,300	21,431	95,731	147,769
1935	27,645	10,177	18,972	56,794	72,831	20,419	93,250	150,044
1936	32,756	11,066	19,212	63,034	71,459	20,839	92,298	155,332
1937	35,803	10,547	19,152	65,502	70,335	22,698	93,033	158,535
1938	36,576	7,989	19,170	63,735	70,000	21,580	91,580	155,115
1939 (Est.)	39,888	8,024	19,200	67,110	69,500	21,200	90,700	157,810

1/ Interest bearing debt of the U. S. Government, p. 410, 1937 Report of the Secretary of the Treasury, except that data for 1938 were taken from U. S. Department of the Treasury.

2/ Total amount of outstanding securities wholly or partially exempt from Federal income taxes of the (1) Federal Farm Loan System; (2) Federal Home Loan System, and the (3) Reconstruction Finance Corporation as reported on p. 466 of the Annual Report of the Secretary of the Treasury for 1937, except that data for 1938 from U. S. Department of the Treasury and include debt of the newly created agencies, Commodity Credit Corporation and Federal National Mortgage Association.

3/ Includes both long and short-term issues. Annual Report of the Secretary of the Treasury for year ended June 30, 1937, p. 466, except that data for 1938 are from U. S. Department of the Treasury.

4/ Total private long-term debt in the U. S.; 1922, 1930 and 1934-1937 inclusive are Department of Commerce estimates, "Long-Term Debts in the U. S.," 1937 and Survey of Current Business, January 1939; estimates for 1921 from "Private Long-Term Debt in U. S.," National Industrial Conference Board. All other years prior to 1938 based on National Industrial Conference Board data (same source) with adjustments by Agricultural Adjustment Administration to bring into agreement with the Department of Commerce series. 1938 is preliminary Agricultural Adjustment Administration estimate.

5/ Loans and discounts all active banks, Comptroller of Currency reports (1938 is preliminary).

Table 2. INCREASES IN NATIONAL INCOME PRODUCED AND IN LONG-TERM DEBTS, U.S.
1921-1927 and 1932-1938

	National income 1/ billion dollars	Incr. over base year billion dollars	LONG-TERM DEBT			
			Federal (incl. agencies) million dollars	State and local 2/ million dollars	Private million dollars	Total million dollars
1921	52.6	0	24,187	8,476	48,682	81,345
1922	61.7	9.1	23,441	9,893	51,200	84,534
1923	69.8	17.2	23,070	10,598	55,234	88,902
1924	69.6	17.0	22,213	11,633	60,156	94,002
1925	77.1	24.5	21,717	12,830	64,895	99,442
1926	78.5	25.9	21,043	13,664	69,861	104,568
1927	77.2	24.6	20,040	14,735	75,156	109,931
1928	80.5	27.9	19,184	15,699	80,121	115,004
Cumulative total	---	146.2	---	---	---	---
1921-1928 increase	--	--	5,003(Dec)	7,223	31,439	33,659

Ratio of cumulative increase in income to increase in long-term debt, 4.54 to 1.

1932	40.1	0	21,291	19,330	60,192	120,813
1933	42.5	2.4	25,437	19,517	75,594	120,548
1934	50.6	10.5	33,215	18,823	74,300	126,338
1935	55.8	15.7	37,822	18,972	72,831	129,625
1936	65.2	25.1	43,822	19,212	71,459	134,493
1937	71.9	31.8	46,350	19,152	70,335	135,837
1938	64.0	23.9	44,565	19,170	70,000	133,735
1939 (Est.)	66.5	26.4	47,910	19,200	69,500	136,610
Cumulative total	---	136.8	---	---	---	---
1932-1939 increase	--	--	26,619	130(Dec)	10,692(Dec)	16,797

Ratio of cumulative increase in income to increase in long-term debt, 8.60 to 1.

1/ 1921-1928, National Industrial Conference Board; 1932-1936, Department of Commerce; 1939, Agricultural Adjustment Administration estimates.

2/ Includes both long and short-term issues.

AAA, Division of Program Planning, Agricultural-Industrial Relations Section

Table 5. GOVERNMENT DEBT AND INTEREST CHARGES, U. S., 1921-1938
(Million dollars)

	Federal			State and Local			Total Government		
	Debt <u>1/</u>	Inter- est <u>2/</u>	Rate of interest <u>3/</u>	Debt <u>4/</u>	Inter- est	Rate of interest	Debt	Inter- est	Rate of interest
			(Pot.)			(Pot.)			(Pot.)
1921	23,757	1,030	4.339	8,478	380	4.48	32,235	1,410	4.38
1922	22,711	963	4.240	9,695	452	4.57 <u>5/</u>	32,604	1,415	4.34
1923	22,008	927	4.214	10,598	484	4.57	32,606	1,411	4.33
1924	20,982	877	4.180	11,633	532	4.57	32,615	1,409	4.32
1925	20,211	830	4.105	12,830	565	4.56	33,041	1,415	4.28
1926	19,384	795	4.093	13,664	623	4.56	33,048	1,416	4.28
1927	18,251	723	3.960	14,735	672	4.56	32,986	1,395	4.23
1928	17,318	671	3.877	15,699	716	4.56	33,017	1,387	4.20
1929	16,639	657	3.946	16,760	763	4.55	33,399	1,420	4.25
1930	15,922	606	3.807	17,985	818	4.55 <u>5/</u>	33,907	1,424	4.20
1931	16,520	589	3.568	19,060	863	4.53	35,580	1,452	4.08
1932	19,161	672	3.505	19,330	874	4.52	38,491	1,546	4.02
1933	22,158	742	3.350	19,517	876	4.50	41,675	1,620	3.89
1934	26,480	842	3.181	18,823	844	4.48 <u>5/</u>	45,303	1,686	3.72
1935	27,645	751	2.716	18,972	833	4.39 <u>5/</u>	46,617	1,584	3.40
1936	32,756	838	2.559	19,212	818	4.26 <u>5/</u>	51,968	1,656	3.19
1937	35,803	924	2.582	19,152	797	4.16 <u>5/</u>	54,955	1,721	3.13
1938	36,576	947	2.589	19,170	797	(4.16)	55,746	1,744	3.13
1939 (Est.)	59,886	1,037	2.600	19,200	799	(4.16)	59,086	1,836	3.11

- 1/ Interest bearing debt (June 30th) interest on which is exempt from Federal income tax, 1937 Annual Report of the Secretary of the Treasury, p. 410, except 1938 is from U. S. Department of the Treasury.
- 2/ Amount payable at June 30th interest rate, 1937 Annual Report of the Secretary of the Treasury, pp. 352 and 442, except 1938 is from U. S. Department of the Treasury.
- 3/ June 30th rate, 1937 Annual Report of the Secretary of the Treasury, pp. 352 and 442, except 1938 is from U. S. Department of the Treasury.
- 4/ Debt of State and local governments (on or about June 30th), interest on which is exempt from Federal income tax, 1937 Annual Report of the Secretary of the Treasury, p. 466, except 1938 is from U. S. Department of the Treasury.
- 5/ Department of Commerce debt studies (other years interpolated) see p. 178 "Long-term Debts in U. S.," for 1922 and 1930, and January 1939 Survey of Current Business for 1934-37 inclusive.

Table 4. PRIVATE LONG-TERM AND GOVERNMENT DEBT AND INTEREST CHARGES, U. S., 1921-1938
(Million dollars)

	Private 1/			:	Government			:	Total Gov't and private long-term	
	Long-term debt	Inter-est	Rate of interest		Debt 2/	Inter-est	Rate of interest		Debt	Inter-est
			(Pct.)				(Pct.)			
1921	48,682	2,770	5.68	:	32,213	1,410	4.38	:	80,895	4,180
1922	51,200	2,976	5.81	:	32,604	1,415	4.34	:	83,804	4,391
1923	55,234	3,187	5.77	:	32,606	1,411	4.33	:	87,840	4,598
1924	60,156	3,471	5.77	:	32,615	1,409	4.32	:	92,771	4,880
1925	64,895	3,725	5.74	:	33,041	1,415	4.28	:	97,936	5,140
1926	69,861	4,017	5.75	:	33,048	1,416	4.28	:	102,909	5,433
1927	75,156	4,329	5.76	:	32,986	1,395	4.23	:	108,142	5,724
1928	80,121	4,623	5.77	:	33,017	1,387	4.20	:	113,138	6,010
1929	83,224	4,802	5.77	:	33,399	1,420	4.25	:	116,623	6,222
1930	84,500	4,882	5.78	:	33,907	1,424	4.20	:	118,407	6,306
1931	83,131	4,805	5.78	:	36,580	1,452	4.08	:	118,711	6,257
1932	80,192	4,603	5.74	:	38,491	1,546	4.02	:	118,683	6,149
1933	75,594	4,324	5.72	:	41,675	1,620	3.89	:	117,269	5,944
1934	74,300	4,185	5.63	:	46,303	1,686	3.72	:	119,603	5,871
1935	72,831	3,987	5.47	:	46,617	1,584	3.40	:	119,448	5,571
1936	71,459	3,836	5.37	:	51,968	1,656	3.19	:	123,427	5,494
1937	70,335	3,713	5.28	:	54,955	1,721	3.13	:	125,290	5,434
1938	70,000	3,675	5.25	:	55,746	1,744	3.13	:	125,746	5,419
1939	69,500	3,614	5.20	:	59,086	1,836	3.11	:	128,586	5,450

1/ Data in all columns for the years 1922, 1930 and 1934-1937 inclusive are Department of Commerce estimates (as of December 31st). Data for other years based on estimates contained in "Long-Term Debts in the U.S.," 1937 and Survey of Current Business, January 1939; the estimate for 1921 was taken from "Private Long-Term Debt in U. S.," National Industrial Conference Board. The National Industrial Conference Board debt estimates in million dollars are: 1922, 50,694; 1930, 85,774; and 1934, 76,757.

2/ Debt of Federal and of State and local governments, interest on which is exempt from Federal income taxes, 1937 Annual Report of the Secretary of the Treasury, p. 466. For details concerning interest charges and rates see Table III (Government Debt and Interest Charges, U. S., 1921-1938).

Table 5. Interest on specified debts related to national income, U.S.
1921-1938

	Interest charges on private long- term and govt debts <u>1/</u> million dollars	National income paid out <u>2/</u> million dollars	Interest charges as percent of <u>natl income</u> percent
1921	4,180	53,644	7.79
1922	4,391	57,037	7.70
1923	4,598	64,501	7.13
1924	4,880	68,160	7.16
1925	5,140	72,580	7.08
1926	5,433	74,795	7.26
1927	5,724	75,685	7.56
1928	6,010	77,359	7.77
1929	6,222	79,704	7.81
1930	6,306	73,542	8.57
1931	6,257	61,609	10.16
1932	6,149	48,644	12.64
1933	5,944	46,089	12.90
1934	5,871	53,172	11.04
1935	5,571	57,564	9.68
1936	5,494	64,809	8.48
1937	5,434	71,013	7.65
1938 (P)	5,419	66,000	8.21
1939 (est)	5,450	68,000	8.01

7.90

1/ See table 4.2/ Agricultural Adjustment Administration series. Based on Department of Commerce and King's estimates of nonagricultural income plus Agricultural Adjustment Administration estimates of agriculture's contribution to the national income.

AAA, Division of Program Planning, Agricultural-Industrial Relations Section

Table 6. Tangible Assets and net debt of all branches of government
(billions of dollars)

	<u>Tangible Assets</u> (December 31)	<u>Net Debt</u> (June 30)
1915		5.7
1916		6.1
1917		7.3
1918	31.9	16.4
1919	32.9	30.3
1920	34.1	30.6
1921	35.3	30.8
1922	37.0	31.3
1923	38.5	31.1
1924	40.3	31.0
1925	42.4	31.4
1926	44.3	31.2
1927	46.5	31.0
1928	48.9	30.9
1929	51.2	31.1
1930	53.6	31.4
1931	55.6	33.2
1932	57.0	37.0
1933	58.4	39.7
1934	60.4	41.6
1935	62.4	43.7
1936	65.5	49.0
1937	68.4	50.9
1938	(71.0)	50.8

Central Statistical Board.

1938 estimate of tangible assets by Agricultural Adjustment
Administration based on trend of previous years.

PROPOSAL FOR PERMANENT SETTLEMENT
OF THE DIRECT DOLLAR DEBT
OF THE COLOMBIAN GOVERNMENT

1. The proposal relates to \$45 millions principal face amount of direct obligations, i. e. the amount assumed to be outstanding exclusive of repatriated bonds which cannot be tendered for sinking fund purposes. It is assumed that the Government-guaranteed mortgage bank debt will be otherwise taken care of.
2. The \$45 millions of old bonds will become an equivalent face amount of 35-year term bonds, maturing 1975.
3. Current interest at 3% for the first 15 years and 4% thereafter. In addition to current interest, during the first 15 years payment on account of unpaid interest arrears accrued will be made at the rate of 1% on the currently outstanding face amount of bonds, resulting in an effective interest rate throughout the life of the settlement of 4%.
4. No sinking fund obligations in the first year. Thereafter each year there will be applied for sinking fund purposes, by purchase of bonds on tender or redemption, any saving in interest over the maximum amount required by way of interest in any prior year and, in addition, the Colombian Government will agree to put the Fiscal Agent in funds to retire a minimum of \$600 thousand face amount of bonds. In any year in which the value of Colombian exports to the United States fell below the amount of some base year agreed upon, the obligation to put the Fiscal Agent in funds to retire \$600 thousand face amount of bonds would be waived, but the Colombian Government would guarantee to pay the Fiscal Agent a minimum of \$2 millions each year for service of the bonds, including sinking fund purposes.

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Wednesday, February 14, 1940.
2/13/40.

Press Service
No. 20-21.

Secretary of the Treasury Morgenthau announced today that all outstanding 3-3/8 percent Treasury Bonds of 1940-43 are called for redemption on June 15, 1940. Approximately \$353,000,000 of these bonds are now outstanding.

The Secretary indicated that it is probable that prior to the redemption date, holders of these bonds may be offered the privilege of exchanging them for other interest-bearing obligations of the United States.

The text of the formal notice of call is as follows:

NOTICE OF CALL FOR REDEMPTION

To Holders of 3-3/8 percent Treasury Bonds of 1940-43, and Others Concerned:

1. Public notice is hereby given that all outstanding 3-3/8 percent Treasury Bonds of 1940-43, dated July 16, 1928, are hereby called for redemption on June 15, 1940, on which date interest on such bonds will cease.

2. Full information regarding the presentation and surrender of the bonds for redemption under this call will be given in a Treasury Department circular to be issued later.

3. Holders of these bonds may, in advance of the redemption date, be offered the privilege of exchanging all or any part of their called bonds for other interest-bearing obligations of the United States, in which event public notice will hereafter be given.

HENRY MORGENTHAU, JR.,
Secretary of the Treasury.

TREASURY DEPARTMENT,
Washington, February 14, 1940.

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Foreign Bondholders Protective Council, Inc.
Ninety Broad Street, New York

February 7th 1940

Dear Mr. Secretary,

This letter is to confirm my conversation by telephone on Friday last with the Under-Secretary, Mr. Bell, in which I informed him the Executive Committee of the Council had agreed to the temporary settlement for one year of the long-term direct obligations of the Republic of Colombia on the terms suggested by you at our meeting on Thursday, February 1st.

Our understanding of your suggestion for this temporary settlement is as follows: that the Republic of Colombia will, during 1940, apply \$1,750,000 to the service of its long-term dollar obligations (estimated to be outstanding at approximately \$45,000,000) of which \$1,350,000 will be used to pay the coupons maturing in 1940 at 3 per cent and that the balance, \$400,000, will be used to purchase these bonds in the open market for retirement and cancellation.

It is understood that Doctor Turbay and myself will use every endeavor between now and February 15th to reach an agreement for settlement on a permanent basis and failing to reach such agreement, public announcement of the temporary settlement will be made on February 15th.

The Council has asked me to express to your their appreciation of the assistance which you have given me

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throughout these negotiations and for which I am very grateful to you.

Sincerely yours,

/s/ C. Traphagen
Member,
Executive Committee.

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

*(Proposed)
Not sent at this time*

TREASURY DEPARTMENT
Washington

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FOR RELEASE, MORNING NEWSPAPERS,
Wednesday, February 14, 1940.

Press Service
20-21

The Secretary of the Treasury announced today that provision has been made for a special issue of bonds of the United States, designated 2 percent Depository Bonds of 1950, which may be subscribed for at par by depositories of public moneys and financial agents of the Government, designated as such by the Secretary of the Treasury under the provisions of R.S. 5153, as amended (U.S.C., title 12, section 90), and the Act approved May 7, 1928 (45 Stat. 492), appearing as U.S.C., title 12, section 332, for the performance of certain essential banking service for the Government.

The bonds will be issued pursuant to the authority of the Second Liberty Bond Act, approved September 24, 1917, as amended, and within the limitation on the amount of securities which may be outstanding under that Act. The probable charge against the limitation on account of these bonds will be less than \$75,000,000. The bonds will be dated February 9, 1940, and will bear interest at the rate of 2 percent per annum from the date of issue. They will mature February 1, 1950, but may be redeemed in whole or in part at par and accrued interest, at the option of the United States or the depositories and financial agents, on any interest-payment date upon not less than thirty nor more than sixty days' notice in writing given by either party to the other.

The bonds will be accorded the same exemptions from taxation as are accorded other issues of Treasury bonds now outstanding. They will be allotted to depositories and financial agents in an amount not exceeding in any case the amount for which the depository and financial agent is

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qualified by the Secretary of the Treasury. They will be issued in registered form only in the name of the Treasurer of the United States in trust for the depositaries and financial agents to which they are allotted; they will not be transferable; and they will be acceptable to secure deposits of public moneys with, and the faithful performance of duties by, depositaries and financial agents and may not be obtained or used for any other purpose.

It has been the long-established policy of the Treasury to designate national banks, and State banks and trust companies which are members of the Federal Reserve System, as depositaries of public moneys at points where such depositaries are necessary for the performance of certain essential banking service for the Government. The basis upon which such depositaries have performed the essential business of the Government has been the deposits maintained therewith to the credit of the Treasurer of the United States which have been fixed in direct proportion to the amount and character of the service rendered. Under existing law and Treasury regulations depositaries must qualify, before receiving deposits, by pledging direct or indirect obligations of the United States or obligations of the territorial and insular possessions of the United States as collateral security for the safekeeping and prompt payment of all public moneys deposited with such depositaries and for the faithful performance of their duties as financial agents of the Government. The decline in the earning value of bank assets, together with the variability of this factor, has made it necessary to establish

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a more satisfactory basis of determining the amount of Treasury deposits required for the performance of essential Government business. It is deemed to be in the public interest, therefore, to provide a type of security which will serve the dual purpose of stabilizing the investment value of the Treasury's deposits and being suitable for use by banks as the required collateral security for such deposits.

The text of the official circular governing this issue follows:



(Proposed)
not sent

UNITED STATES OF AMERICA

2 PERCENT DEPOSITARY BONDS OF 1950

1940
Department Circular No. 651

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, February 9, 1940.

Public Debt Service

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, approved September 24, 1917, as amended, gives notice of a special issue of bonds of the United States, designated 2 percent Depositary Bonds of 1950. These bonds may be subscribed for, at par, by depositaries and financial agents designated under the provisions of R. S. 5153, as amended (U. S. C., title 12, section 90) and the Act approved May 7, 1928 (45 Stat. 492), appearing as U. S. C., title 12, section 332, which have executed a "depositary, financial agency and collateral agreement" satisfactory to the Secretary of the Treasury. The bonds will be allotted to such depositaries and financial agents in an amount not exceeding in any case the amount for which the depositary and financial agent is qualified, which qualification may be adjusted on a quarterly basis in direct proportion to the amount and character of essential Government business transacted.

2. The bonds will be dated February 9, 1940, and will bear interest at the rate of 2 percent per annum from the date of issue, payable quarterly on February 1, May 1, August 1 and November 1 in each year until the principal amount becomes payable. They will mature February 1, 1950, but may be redeemed at the option of the United States or the depositaries and financial agents, in whole or in part, at par and accrued interest, on any interest payment date, upon not less than 30 nor more than 60 days' notice in writing given by either party to the other. From the date of redemption designated in any such notice, interest on the bond or bonds or any part thereof to be redeemed shall cease, and the unredeemed portion, if any, shall be reissued. Any

Such notice of redemption given by a depository and financial agent shall be addressed to the Secretary of the Treasury, Washington, D. C.

3. The bonds shall be exempt, both as to principal and interest, from all taxation now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority, except (a) estate or inheritance taxes, or gift taxes, and (b) graduated additional income taxes, commonly known as surtaxes, and excess-profits and war-profits taxes, now or hereafter imposed by the United States, upon the income or profits of individuals, partnerships, associations, or corporations. The interest on an amount of bonds authorized by the Second Liberty Bond Act, approved September 24, 1917, as amended, the principal of which does not exceed in the aggregate \$5,000, owned by any individual, partnership, association, or corporation, shall be exempt from the taxes provided for in clause (b) above.

4. The bonds will be acceptable to secure deposits of public moneys with, and the faithful performance of duties by, depositories and financial agents designated under the provisions of R. S. 5153, as amended (U. S. C., title 18, section 90) and the Act approved May 7, 1928 (45 Stat. 492), appearing as U. S. C., title 18, section 332, and may not be obtained or used for any other purpose. They will be issued in registered form only in the name of the Treasurer of the United States in trust for the depositories and financial agents to which they are allotted, and they will not be transferable. They will be subject to the general regulations of the Treasury Department with respect to United States bonds, so far as applicable.

5. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or mandatory rules and regulations with respect to this issue of bonds, and he may terminate the issue at any time without notice.

HENRY ROBERTSMAN, JR.,
Secretary of the Treasury.

~~Filed with the Federal Register.~~

~~Federal Register Series No.~~

*Treasury*PARAPHRASE OF TELEGRAM RECEIVED

From: United States Consul, Rangoon
 To: Secretary of State
 Date: February 8, 1940

Aircraft materials from the United States estimated to be valued at 600,000 American dollars and which are destined for assembly at the Central Aircraft Manufacturing Company plant at Loiwing, China, arrived at Rangoon on the Norwegian steamer Bidevind. This is the first large shipment to be made under the contracts obtained by W. D. Pawley of Intercontinent Corporation and by Patterson and Greenway from the Chinese Government. These contracts are reported to call for twelve million or more United States dollars worth of Curtiss Wright, Vultee, Ryan, and North American fighting, bombing and training planes.

TO USE IN THE
 DEPARTMENT OF THE
 SECRETARY OF THE

RECEIVED FEB 11 1940

RECEIVED FEB 11 1940

HMM
 Co:HWM:ELS:SS

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: February 9, 1940, 5 p.m.

NO.: 190

FOR THE TREASURY FROM MATTHEWS.

This morning I had a very confidential and an interesting conversation with Couve de Murville. He opened up quite frankly in the course of the talk. He said that on a rough average, the war is costing 500,000,000 francs daily - but this figure is subject of course to the weaknesses of any such estimates. At the start of the war the short term floating debt was around 80,000,000,000 francs and had risen now to around 95,000,000,000 - the latter figure does not include the 15,900,000,000 drawn on the authorized advance from the Bank of France to the Government. Under the circumstances, he said that the internal situation financially is as satisfactory as could be expected. The Government does not contemplate any long term loan for the near future. He said subscriptions to armament bonds are being received at a good rate, and said that they had even slightly exceeded the figure of 9,000,000,000 for January which he had given me - reference: telegram No. 49 of January 10 from the Embassy. He confirmed my guess that the signs seemed to indicate early rationing, saying that the Government would put such a system into effect soon as a means of keeping down consumption.

The

- 2 -

The gold reserves of the Bank of France which are carried at the revaluation rate for November 1938 (in addition to the 10,000,000,000 francs sold in April and July 1939 by the stabilization fund) of 97,267,000,000 have an actual value of 118,000,000,000 as you are aware. He said that the stabilization fund also has ^{a further amount of} gold and foreign exchange now of 10,000,000,000. He expressed the hope that he would soon have a fairly good estimate of the foreign exchange holdings of French individuals and particularly of companies. He said he believed this would amount to about 100,000,000 dollars. However, as I have indicated, the inventory of French holdings of foreign securities will in various ways be far from complete and he thinks that holdings of dollar securities will be less than the foregoing figure.

Couve de Murville told me, incidentally, that it is his guess that French holdings in the Netherlands, Switzerland and other free currency areas outside the sterling bloc are not very heavy or readily deflatable; he thought, in fact, that the figure of 30,000,000,000 francs mentioned by Reynaud recently had no basis of reality if one included only relatively liquid assets.

From Couve de Murville I gathered that the matter of requisitioning balances of foreign exchange, particularly the larger holdings of French companies, is being given
some

- 3 -

some consideration, though he indicated they do not yet contemplate imposing such measures with regard to foreign securities. He said the French Government would have to move very slowly on this, as he has not seriously considered the extreme "shyness" of the French investor and the delicate political question involved, in addition to the difficulty in ascertaining the real volume of such holdings, at least of those now physically located in France - for which no declaration has been required, as you know - and some of those located abroad - where no recognition has been taken of the obligation to declare or place in a dossier with a bank in France.

He expected payments for purchases by the ^{French} Government in the United States to go on for a while at roughly the same rhythm, a monthly average of about \$45,000,000, but the trend would probably be in an upward direction.

He finds that French industry is gradually becoming better organized, and exports continue to pick up. However, there is a serious handicap in transportation difficulties. He said the current negotiations with the British for greater commercial interchange are proceeding quite well, and he anticipates that in a number of important quotas there will be increases and for other items the suppression of quota restrictions.

He said it was of course "absurd" that the press should

- 4 -

should rumor as recently that there would be an upward revaluation of the pound and franc. He told me, in reply to my inquiry, that the Allied authorities now are working on a plan for relaxing existing exchange restrictions on (exchange?) and franc commercial transactions.

END SECTIONS ONE TO FOUR, INCLUSIVE.

MURPHY.

EA:LWW

PARAPHRASE OF SECTIONS FIVE AND SIX, TELEGRAM NO. 190
OF FEBRUARY 9, 1940 FROM PARIS.

The proposal is to reduce to a minimum formalities for obtaining franc or sterling exchange respectively for commercial transactions. As you know, at least in theory these transactions have hitherto been the same as for transactions in dollars or other free currencies. Now he said the idea would be to establish a system where sterling and franc exchange for import payments would be made available immediately; they would be subject to some checkup and proof of the bona fides of the transactions afterwards - thus delays and red tape would be eliminated. This was made possible, he said, by the fact that the two systems of exchange control are now sufficiently parallel and the financial accord between Great Britain and France sufficiently close to avoid any of the inconveniences or disadvantages that might be expected otherwise - in this regard, please see my telegram No. 94 of January 19, and compare the somewhat different views of our friend at the Bank of France, at least as concerns any general waiving of formalities. The way this first step is worked out will determine whether there will be a similar relaxation on other (non-commercial) applications for franc and sterling exchange respectively later on. It is expected that about February 19 or 20 the agreement will be concluded.

The

- 2 -

The black market rate in Paris for dollar bank notes is now at 50 1/2 (dollars offered); at one time last autumn this rate had reached a high of 60 francs. Recurrent rumors of dollar devaluation caused the recent drop from around 53. There is a very small volume.

END SECTIONS FIVE AND SIX.

MURPHY.

RFP

GRAY

Paris

Dated February 9, 1940

Rec'd 9:10 p.m.

Secretary of State

Washington

190, February 9, 5 p.m. (SECTION SEVEN).

Article III of the Exchange Control Decree Law of September 9, 1939 (My telegram No. 1894, September 10, 4 p.m.) subjects to the authorization of the Bank of France: "All cessions, negotiations, and other operations relating to gold" and prohibits the importation and exportation of gold unless authorized by the Bank (My telegram No. 1894 of September 10, 1939, 4 p.m.). To prevent misunderstanding or fraudulent dealings on this point, a brief clarifying decree published in the JOURNAL OFFICIEL of today complements the second paragraph of Article No. III referred to above by the following definite specification: "The solicitation, hawking, or the purchase or sale of gold are also prohibited unless authorized by the Bank of France". Penalties for violations are also increased.

Under a further decree published today the following merchandise in government warehouses and in the process of unloading in the ports has been added to the list of stocks, raw material or products which may be insured against war risks

RFP -2- #190, February 9, 5 p.m. (SECTION SEVEN)

risks (despatches Nos. 5339 and 5944 of November 21, 1939 and January 18, 1940): cotton, silk, flax, wool, hemp, jute, rope, rice and its derivatives, and manioc.

The Chamber which has for some time felt that the Government was not taking it sufficiently into its confidence is now sitting in secret session, presumably discussing certain phases of the conduct of the war. It is not believed however, in view of Daladier's great popularity throughout the country that any serious attempt will be made to overthrow the Government. (END OF MESSAGE)

MURPHY

NK:EMB

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rome, Italy

DATE: February 9, 1940, 5 p.m.

NO.: 93

Reference: Telegram No. 78 of February 1, 5 p.m.

from the Embassy.

In business circles, the circular of the Foreign Exchange Institute establishing a 20 percent premium in connection with various foreign exchange transactions is considered to constitute to a very large degree a disguised lira devaluation. There is almost no reference to the action in newspapers. It is believed that the conspicuous lack of publicity about this can be attributed to a desire on the part of Government officials not to disturb the confidence of the public as long as the Government is carrying on a campaign for floating a new issue of Treasury bonds.

The circular establishes as a general norm the premium of 20 percent on foreign exchange which is cashed for lire, but there are certain exceptions mentioned, on which points the banks are trying to get clear indications.

The above-mentioned 20 percent premium, and the concession of the premium on exchange received through the exportation of a broad list of articles, represent in large measure the essence of devaluation as regards exchange coming into the country.

It

- 2 -

It is clear that a substantial approach to de facto devaluation will be involved if, as regards the opposite class of transactions, the Government's intention is to apply the premium to the lira price paid by Italian importers of goods for exchange which they must remit in payments to exporters in foreign countries. There is as yet not information available regarding the details of the system as it will apply to imports into Italy.

That the new measure constitutes devaluation under another name is argued by businessmen in Italy; they express the hope that the United States Government will look on the measure as such, and will not consider it to be an act providing for a bounty on exports from Italy.

PHILLIPS.

EA:LW

COPY FOR SECRETARY

*MFG
Ch...*



DEPARTMENT OF STATE
WASHINGTON

February 12, 1940.

Reply refer to
90H.516 National/14

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses one copy of a paraphrase of telegram no. 189, dated February 9, 1940, from the American Embassy at Paris, with reference to purchases of gold by the National Bank of Afghanistan.

Enclosure:

From Paris, no. 189,
February 9, 1940.

TO THE SECRETARY
LEGATION OF THE UNITED STATES
PARIS

RECEIVED FEB 15 1940

RECEIVED FEB 15 1940

See 2-13/12
draft of reply

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

NO.: 189

DATE: February 9, 1940, 4 p.m.

We had a call today from the Chargé d'Affaires of the Afghanistan Legation at Paris. He stated that in a telegram which he had just received from the Minister for Foreign Affairs at Kabul he had been instructed to make inquiry at this Embassy with reference to United States formalities and regulations covering eventual gold purchases by the National Bank of Afghanistan. The inquiry, Islam Bekk Hondoiar Khan said, had no relation to a proposal to buy a specific amount of gold at this time. Will you please let us have Treasury's comment on the matter?

MURPHY

EA:EB

STRICTLY CONFIDENTIAL
TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE February 9, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

At 12:45 this noon, Mrs. Klotz telephoned me that the Secretary desired that I show to Secretary of State Hull a memorandum which Secretary Morgenthau received from Mr. Purvis yesterday. I was to let Mr. Hull know that Mr. Morgenthau had submitted this document to the President yesterday afternoon, that the latter had found it satisfactory, and that Secretary Morgenthau had then telephoned Mr. Purvis, at 3 p.m., to the effect that it was satisfactory for the visitors to come ahead. When I told Mrs. Klotz that I was not familiar with the document in question, she gave the necessary information to Miss Chauncey, who in turn, showed me at 1:15 p.m. a transcript of the Secretary's conversation with Mr. Purvis and also gave me the original document, of which I was to have a copy made for handing to Secretary Hull.

I was received by Mr. Hull at 3:30 this afternoon, as soon as he returned from cabinet meeting. I handed the copy which I had made of the document and gave him the explanation desired by Secretary Morgenthau.



FEDERAL LOAN AGENCY WASHINGTON

JESSE H. JONES
FEDERAL LOAN ADMINISTRATOR

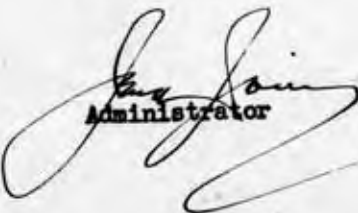
February 9, 1940

Dear Mr. Secretary:

Your letter of the 7th inst., enclosing copy of the Colombian Ambassador's letter to you of February 6th, received and noted.

Please let me know when I can be of further service in connection with this matter.

Sincerely yours,


Administrator

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

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Mexico City, Mexico

DATE: February 9, 1940, 5 p.m.

NO.: 45

Yesterday and today the Bank of Mexico sold \$2,000,000 of dollar exchange as a result of reports received by telegraph and in the press regarding action of the Sub-Finance Committee in the Senate in approving a measure for the suspension of purchases of silver. When the banks closed today there had been exceedingly strong demand for dollars, which demand was on the increase.

Bank of Mexico officials said that the situation was a very difficult one, but that until the alarm of the public became quiet they would go on selling all the gold they had to from the metallic reserve of the Bank so as to hold the rate of six to one. Up to the present the public has not been asking for silver pesos in exchange for bills.

As the financial situation devolves the Embassy will advise you by telegraph or by air mail.

DANIELS.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE February 9, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

The foreign exchange market was idle today. Shortly after the opening quotation of 3.97-3/4, sterling eased to 3.97-1/2. Moderate commercial demand then developed and moved the rate up to 3.98-1/4 in the mid-afternoon. It closed at 3.98-1/4.

Sales of spot sterling by the four reporting banks totaled £272,000, from the following sources:

By commercial concerns.....	£ 101,000
By foreign banks (Europe and South America).....	£ 171,000
Total.....	£ 272,000

Purchases of spot sterling amounted to £302,000, as indicated below:

By commercial concerns.....	£ 237,000
By foreign banks (Europe).....	£ 65,000
Total.....	£ 302,000

The following reporting banks sold cotton bills totaling £25,000 to the British Control on the basis of the official rate of 4.02-1/2:

£ 16,000	by the Guaranty Trust Company
5,000	by the Chase National Bank
4,000	by the National City Bank
£ 25,000	Total

The Federal Reserve Bank of New York reported that it received a cable from the Commonwealth Bank of Australia, Sydney, which stated that the British wool control has now instructed that all future sales contracts for settlement in U.S.A. dollars should specify exchange at the Bank of England official buying rate, London on New York. (The official buying rate for dollars is 4.03-1/2.) This instruction may have the effect of eliminating demand for sterling to the extent that such wool contracts have been invoiced in sterling and American importers have obtained the required exchange in the uncontrolled markets.

The other important currencies closed as follows:

French francs	.0225-3/4
Guilders	.5319
Swiss francs	.2242-1/2
Belgas	.1683
Canadian dollars	3-3/16% discount

The Federal Reserve Bank of New York purchased 30,000 belgas for the Bank of Latvia.

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

\$20,000,000	from the Bank of Sweden
2,250,000	from the Bank of Mexico
875,000	from the National Bank of Belgium
<u>\$23,125,000</u>	Total

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

\$	571,000	from Switzerland, shipped by the Swiss National Bank to the Federal Reserve Bank of New York, for account of the B.I.S. The disposition of this shipment is unknown at the present time.
	353,000	from England, shipped by Samuel Montagu and Co. to the Bankers Trust Company, New York.
	170,000	from Switzerland, shipped by the Banque Federale, Bern, to the National City Bank, New York.
	<u>\$ 1,094,000</u>	Total

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

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

\$10,136,000	from Sweden, representing three shipments for account of the Bank of Sweden. The disposition of these shipments is unknown at the present time.
2,246,000	from Switzerland, shipped by the Swiss Bank Corporation, Zurich, to its New York agency for sale to the U. S. Assay Office.
<u>\$12,382,000</u>	Total

Including all the shipments noted above, the total value of gold en route to the United States from foreign countries as of the close of business tonight is \$94,337,000, the disposition of which is to be as follows:

\$37,228,000	disposition unknown at the present time.
29,486,000	to be earmarked by the Federal Reserve Bank of New York for account of various foreign central banks.
17,122,000	for sale to the U. S. Mint at San Francisco.
10,501,000	for sale to the U. S. Assay Office at New York.
<u>\$94,337,000</u>	Total

The U. S. equivalent of the Bombay silver quotation worked out to 39.66¢, off about 3/16¢.

In London, the spot and forward fixing prices for silver were both off 1/4d, at 21-1/4d and 21-1/8d respectively. The U. S. equivalents were 38.05¢ and 37.58¢.

CONFIDENTIAL

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

We made eighteen purchases of silver totaling 2,326,700 ounces under the Silver Purchase Act. The sources of this silver were as follows:

	<u>Ounces</u>
New production from foreign countries.....	1,080,700
Inventory silver.....	1,071,000
Trading silver.....	<u>175,000</u>
Total....	2,326,700

The newly produced silver was bought for forward delivery and silver in the other two categories was for delivery February 13.

We also purchased 200,000 ounces of silver from the Bank of Canada under our regular monthly agreement.



CONFIDENTIAL



TREASURY DEPARTMENT
WASHINGTON

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OFFICE OF
COMMISSIONER OF INTERNAL REVENUE

ADDRESS REPLY TO
COMMISSIONER OF INTERNAL REVENUE
AND REFER TO

IT:P:CA
CAA

February 9, 1940.

REPORT FOR SECRETARY MORGENTHAU:

In regard to closing agreements under the Vinson-Trammell Act, there were no developments during the week.

J. P. Ashburn
Commissioner.

IT:P:CA
CAA

February 9, 1940.

REPORT FOR SECRETARY MORGENTHAU:

In regard to closing agreements under the Vinson-Trammell Act, there were no developments during the week.

(Signed) Guy T. Helvering

Commissioner.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE February 9, 1940

TO Secretary Morgenthau
FROM Mr. White

The appended memorandum entitled, "Soviet Gold Production and Gold Holdings", prepared by Mr. Brown of this staff, brings out the following points:

1. No official figures of Soviet gold production have been given out since 1928, but some scanty and unreliable information as to the approximate level of output has been given out from time to time by Soviet authorities. Since 1936 the information has been increasingly inadequate.
2. There is no doubt that gold output increased enormously during the years 1933-36. In 1936 it was probably well over \$175 million.
3. Since early in 1937 the Soviet gold mining industry has been seriously disrupted by repeated changes in administrative personnel and production policy, so that the rate of production in 1937 and 1938 probably did not exceed that of 1936.
4. The estimates made by the American Legation, Riga, Latvia, which are adopted by the Bureau of the Mint, are undoubtedly the most carefully compiled of all available estimates. The Legation's estimate for output in 1938 is \$183 million, compared with \$186 million in 1936. No estimate for 1939 has been received.
5. All reports indicate that Russia has vast gold resources, and it is generally believed that by reasonably good management the rate of current output could be substantially increased.
6. Known gold exports from the U.S.S.R. for the years 1933-38 amounted to \$506 million, equal to over half the estimated mine output for those years.
7. The gold stock of the U.S.S.R. is unknown. It is fairly certain that it is less than \$1 billion, and probably closer to \$500 million.

Attachment

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 9, 1940

TO Mr. White

FROM P. S. Brown

Subject: Soviet Gold Production and Gold Holdings

There are no official figures of Soviet gold production and no precise estimates are possible, but the government has given out some information.

No official statistics of Soviet gold production since the fiscal year 1927-28 are available. However, certain information has been given out by Stalin, the Administrators of the Gold Trust, and by the Soviet press, which provides a semi-official but inexact basis for estimates made by the American Legation in Riga, Latvia. Why the Soviet Government gives out comparative data but does not publish absolute figures is difficult to understand.

(One American, John Littlepage, probably knows the approximate level of Soviet gold production. Littlepage went to Russia in February 1928 to assist in developing the gold mining industry and remained until August 1937. He probably has had more experience and more responsibility than any other foreigner in Soviet gold mining. He says that it was necessary for him in his work to know figures of Soviet gold production, but thinks it is not proper to reveal them so long as the Soviet Government wishes to keep them secret — though he professes he does not understand why the government wants them kept secret. 1/)

The semi-official bases of the American Legations (Latvia) estimates are as follows:

1. Index numbers (1927 = 100) and percentage figures, calculated on basis of previous year's (or fraction thereof) output, published at irregular intervals. (The uncertainty involved in this procedure results from not knowing precisely the figure used by the Soviet Government for the calendar year 1927. Any error as to output in the base year would, of course, be cumulative in calculating production for subsequent years by this method.)

2. A statement made by Stalin in an interview with Walter Duranty in December 1933 that gold production in that year would be more than 100 million gold rubles (about 2.7 million ounces). This estimate, when lowered slightly to allow for the fact that the final returns in that year were less than the preliminary estimate used by Stalin, coincides with the unofficial estimate based on index numbers published in the official press.

1/ See "Hunting Gold for Stalin" by John Littlepage, Saturday Evening Post, December 18, 1937.

3. Statements made by Serebrovski, then chief of the gold mining industry that

(a) Soviet gold production in 1933 was larger than either the United States' or Canada's, which according to him were 2.5 and 2.7 million ounces, respectively.

(b) Soviet gold production in 1934 was twice as large as in 1932.

4. Statement by Lideman, then assistant chief of the gold mining industry, that the gold output of 1935 was three times as large as that of 1930.

5. A great deal of data (collected by the American Embassy at Riga) relative to the production in various gold mining areas, which data have been used to check and revise over-all estimates such as those given above.

Beginning in 1937, the gold mining industry was seriously disrupted by successive purges and changes in administrative policy, and information, such as that given above for the years 1927-36, has been increasingly scanty. Moreover, the estimate of the American Legation for 1938 is based on very unreliable news reports of percentage increases or decreases in the gold output of various districts in the first three quarters only of 1938, as compared to the same period in 1937.

Thus, the estimate of 5,268,000 ounces for 1938 is conjectural; no estimate for 1939 is available.

There is no doubt that gold production increased enormously in the years 1933-36; in 1936 it was probably well over 5 million ounces a year, or \$175 million.

Testimony of American engineers, data relative to the number of modern gold dredges in operation and other equipment installed, reports of the number of men employed in gold mining, etc., capital credits allotted the gold mining industry, and the numerous Soviet press reports of increased output in various gold mining districts further indicate that production in 1936 may well have exceeded 5 million ounces.

Littlepage, for example, while admitting that there has been great inefficiency and wasted investment, insists that great progress has been made. The dredging fleet, which in 1928 consisted of a few antiquated dredges had been increased to about 90 modern and stean dredges in 1937. Similarly in the case of lode mining, the introduction of electric power and modern recovery methods up to 1937 was remarkably rapid.

Division of Monetary
Research

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Since early in 1937, the Soviet gold mining industry has been seriously disrupted by repeated changes in administrative personnel and policies and it is doubtful that production has exceeded the level of 1936, despite increased capital investment and ample resources.

The year 1936 marked the climax of a phenomenal increase in Soviet gold production under the able direction of A. P. Serebrovski. In January 1937 he was made Assistant Commissar of Heavy Industry. Shortly thereafter a crisis developed which resulted in his removal and a series of purges; reversals in administrative policies further disrupted the industry.

In an effort to fulfill quotas at least one state gold mining trust falsified its returns by including in its figure of gold produced the estimated gold content of ores not yet treated. Instances were found where mines had been shipping ore with little or no gold content. Ore reduction plants in some cases were extracting only a small fraction of the gold content of ores. Finally complaints arose that placer output (largely by independent prospectors) was increasing at the expense of production by State enterprises. Also, charges of sabotage were repeatedly made. A large part of the managing personnel of the gold mining trusts and combines was arrested before the end of 1937 and operations were further disrupted on this account. Production of private prospectors, however, continued to increase.

The new head of the gold mining industry, Milchakov, announced the policy of developing state enterprises by taking over gold fields formerly exploited by private prospectors and making even private prospectors state employees. This policy (the reversal of Serebrovski's) was wholly unsuccessful and led finally to Milchakov's removal and the appointment of Kochkov, who called his immediate predecessor a "wrecker", "enemy of the people" etc., just as Milchakov had done before him.

At the end of 1938, Serebrovski's policy of assisting private prospectors was readopted. The output of these prospectors (possibly 200,000 persons) accounts for 30 to 40 percent of Soviet production.

The estimates of Soviet gold production made by the American Legation in Riga, Latvia (which the Bureau of the Mint uses) are the best available.

The following estimates of Soviet gold production for the years 1932-38, made by the American Legation are the revised figures contained in the consular report of April 22, 1939. The estimates published by the Bureau of the Mint in its annual reports are the unrevised figures of the American Legation contained in previous consular reports.

Division of Monetary
Research

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(in thousands)

	U. S. Legation		U. S. Bureau	
	Riga, Latvia		of Mint	
	ounces	dollars at \$35 an ounce	ounces	dollars at \$35 an ounce
1932	1,938	67,846	1,938	67,830
1933	2,662	93,171	2,700	94,500
1934	3,633	127,158	3,858	135,030
1935	4,547	159,146	4,784	167,441
1936	5,327	186,453	5,173	181,055
1937	5,359	186,560	5,358	187,564
1938	5,236 ^{1/}	183,257	(p) 5,236	183,257

^{1/} Preliminary estimate based on 9 months

These estimates represent a great deal of labor in culling through the Soviet press for every reference to increases or decreases in the gold production of particular districts, as well as for the country as a whole, and in piecing these data together into as consistent a whole as possible. The test of consistency has led to the discarding of extravagant reports which have been given credence by other organizations, such as The Bank of International Settlements, the American Bureau of Metal Statistics (a private corporation) and the Union Corporation, Ltd. of London, which each year estimates world gold production. No person or group of persons has examined the available data so carefully as The American Legation at Riga, except Professor Prokopovitch and his inquiry related only to the years 1927-32.

The future of Soviet gold production is unpredictable.

Most foreign observers agree that the Soviet Government has ample resources to permit a further substantial increase in gold production. Littlepage, writing December 1937 stated: ".....in the past year or two some very important placer districts have been discovered and opened up by prospectors, and I know personally of at least ten large lode mines and several dozen smaller ones which have been fully mapped and only await development."

Division of Monetary
Research

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The chief factors then which will determine whether Soviet production increases are:

(1) Whether the administrators are intelligent and sufficiently free from the "fear of being purged" to concentrate on gold mining;

(2) Whether the system of private prospecting introduced and promoted under Serebrovski continues. (Contrary to belief outside of the Soviet Union, the rewards of lucky prospectors are about as great as elsewhere in the world. Prospectors are paid in script valid at "gold stores", where the ruble has very much greater purchasing power.

(3) Whether the system of piece work and of "contract labor" is continued. (The system of contract labor represents an attempt to reduce the labor turnover. Skilled workers are induced to sign two-year contracts by the promise of generous pay, liberal leave and rest periods, special educational advantages for their children, subsequent choice of employment in any part of Russia etc. Methods of duress are, needless to say, used to draft much of the unskilled labor force and probably some skilled workers as well).

The Soviets exported over half their gold production during the six years 1933-38.

Known gold exports from the U.S.S.R. amounted to \$506 million in the years 1933-38, and were sent to the following countries:

(In millions of dollars at \$35 an ounce)

	<u>United States</u>	<u>United Kingdom</u>	<u>Germany</u>	<u>Total</u>
1933	-	-	68.0	68
1934	.9	-	85.0	86
1935	18.1	.9	6.0	25
1936	11.2	-	1/	11
1937	.5	200.0	1/	200
1938	-	115.5	1/	116

1/ Germany ceased publishing figures after April 1937.

Division of Monetary
Research

- 6 -

Inasmuch as the U.S.S.R. publishes no figures relative to gold exports and many countries did not reveal their imports by countries of origin for the entire period, it is quite possible that Soviet exports were considerably in excess of \$506 million.

In 1939, \$62 million of gold are known to have been shipped from the U.S.S.R. 1/, but additional unreported exports may have been made.

The U.S.S.R.'s gold reserve is unknown. It cannot exceed \$1 billion. A good guess would be \$500 million.

The difference between estimated gold production and known gold exports in the years 1933-39 is \$565. This plus the gold reserve as of December 31, 1932, which was probably less than \$400 million, places a probable maximum estimate of \$1 billion to present gold holdings. It is quite likely that the gold reserve on December 31, 1932 was very much less than \$400 million and that exports were larger than are recorded in the published import statistics of countries shown above. Also, gold production may have been appreciably less than estimated above. Consequently, it is not unlikely that the Soviet's gold reserve is less than \$500 million.

The stated gold reserve of the State Bank of the U.S.S.R. on October 1, 1935 was \$840 million. On April 1, 1936, this was changed to \$280 million 2/. If it be assumed that this write-down was in part to restore sincerity to the balance sheet, as the United States Legation at Riga suggests, then the present gold reserve might be \$630 million after adding the excess of subsequent gold production over exports. If, on the other hand, the State Bank actually held \$840 million of gold on October 1, 1935, and if the revaluation of April 1, 1936 was accompanied by the establishment of a reserve fund for military and emergency expenditures, then the gold reserve may be considerably in excess of \$630 million. However, on the basis of estimated gold production and recorded gold movements the gold reserve as of October 1, 1935 could not have been over \$630 million.

1/ United Kingdom imported \$33.8 million in the first 8 months; later figures are not available. Our cables from Germany state that \$28 million of gold was sent to Germany or through Germany to the Netherlands.

2/ The revaluation which accompanied the reduction in reported physical holdings was obviously designed to increase the note coverage from about 20 to 25 percent, the gold reserve having fallen below the 25 percent requirement. (The old valuation of gold was 1 gram equals 1.29 rubles; the valuation adopted in the statement of the State Bank on April 1, 1936 is 1 gram equals 5.63 rubles.)

Dear Mr. Ambassador:

As requested in your letter No. 228 of February 6, 1940, to the Secretary of the Treasury, I beg to inform you that the Secretary has received a letter from Mr. Traphagen, dated February 7, 1940, on behalf of the Executive Committee of the Foreign Bondholders Protective Council, Inc., which confirms the decision of the Council to accept without reservations the terms of the agreement reached between Mr. Traphagen and yourself on February 1.

Having discussed the matter with the Secretary, I should like to take the occasion to call your attention to two points, included in the scope of the agreement, which you did not specifically mention in your letter of February 6 above referred to -

- (1) Should further conversations fail to result in a permanent settlement by February 15 and, accordingly, the temporary settlement agreed to become operative, it is our understanding that your Government will pay one-half the annual interest agreed to on that date and the balance at the end of the ensuing six months.
- (2) It is also our understanding that, if a permanent settlement cannot be reached by February 15, conversations between your Government and the Council will continue with a view to attempting to reach a permanent settlement comprehending both the direct dollar funded debt of the Republic of Colombia and of the Government-guaranteed dollar funded debt of the Agricultural Mortgage Bank.

Permit me to express to you our appreciation that the understanding formulated in the conference of February 1 has resulted in the agreement reached between your Government and the Council, and our hope that a permanent settlement may be arrived at as rapidly as possible.

Yours very sincerely,

Under Secretary of the Treasury.

His Excellency,
 Senor Dr. Gabriel Turbay
 Ambassador of Colombia
 1520 Twentieth Street, N. W.
 Washington, D. C.

JPG, JR:BJ 2/8/40

J.P.C.H.

*Foreign Bondholders Protective Council, Inc.
Ninety Broad Street, New York*

February 7th 1940

Dear Mr. Secretary,

This letter is to confirm my conversation by telephone on Friday last with the Under-Secretary, Mr. Bell, in which I informed him that the Executive Committee of the Council had agreed to the temporary settlement for one year of the long-term direct obligations of the Republic of Colombia on the terms suggested by you at our meeting on Thursday, February 1st.

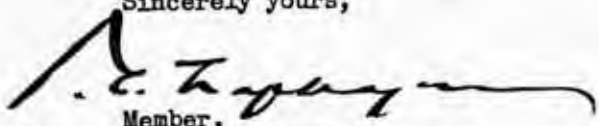
Our understanding of your suggestion for this temporary settlement is as follows: that the Republic of Colombia will, during 1940, apply \$1,750,000 to the service of its long-term dollar obligations (estimated to be outstanding at approximately \$45,000,000) of which \$1,350,000 will be used to pay the coupons maturing in 1940 at 5 per cent and that the balance, \$400,000, will be used to purchase these bonds in the open market for retirement and cancellation.

Page two

It is understood that Doctor Tur-
bay and myself will use every endeavor between now and
February 15th to reach an agreement for settlement on a
permanent basis and failing to reach such agreement, pub-
lic announcement of the temporary settlement will be
made on February 15th.

The Council has asked me to express
to you their appreciation of the assistance which you
have given me throughout these negotiations and for which
I am very grateful to you .

Sincerely yours,



Member,
Executive Committee.

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

JR

PLAIN

London

Dated February 9, 1940

Rec'd 1:08 p.m.

Secretary of State,
Washington.

346, February 9.

FOR TREASURY FROM BUTTERWORTH.

The late edition of the DAILY TELEGRAPH contains a stop press note under New York date line indicating that checks, drafts, bills of exchange and other documents including dividend checks to foreign shareholders in American companies are being held up as a result of a United States Post Office Department ruling to the effect that articles of "material value" destined for foreign countries cannot be accepted for delivery unless the sender produces an affidavit stating that title has already been transferred to recipient.

As a result I have received numerous inquiries from the city and I should be grateful to obtain information that I can pass on.

JOHNSON

RR

February 9, 1940
10:15 a.m.

Operator: Mr. Bell.

HMJr: Hello.

Daniel
Bell: Good morning.

HMJr: Hello, Dan?

B: Good morning.

HMJr: Anything you want to tell me?

B: No, nothing new. I think we're going to have that conference I talked to you about at four-thirty instead of two.

HMJr: All right.

B: And the boys pretty well got together last night except on one item and I think within the next hour they'll be together.

HMJr: Well, I won't be calling again.

B: All right. If we want anything we'll get in touch with you.

HMJr: Thank you.

B: Have a good time.

HMJr: Thank you.

February 9, 1940
10:45 a.m.

Operator: Mr. Foley.

Mrs.
Klotz: Hello.

Ed
Foley: Hello, Mrs. Klotz.

K: Hello, Mr. Foley. Mr. Morgenthau talked to Mr. Ickes.

F: Yes, and the Secretary just called me.

K: Did he talk -- yeah, but he talked to you before he talked to Ickes.

F: That's right, and then Ickes just called me now.

K: Oh, I see.

F: He just got through -- stopped -- just stopped talking to him.

K: Oh, I see. Well, I was going to report the conversation. He told Mr. Morgenthau -- well, I'm sure that it checks but anyway I'll repeat it.

F: Yeah.

K: That Ben Cohen means an awful lot to him.

F: That's right.

K: And that he thought instead of Mr. Morgenthau waiting to have this meeting with the Judge, and Hanes and everybody when he came back, whether Mr. Morgenthau would mind if you and Jerome Frank went to see Hanes.

F: I see.

K: So Mr. Morgenthau said that he had talked to you this morning and that you had reported that Jerome Frank was going to see.....

F: That's right.

- 2 -

K:Mr. Hanes today.

Foley: That's right.

K: I don't know where that leaves you in the picture but I.....

Foley: Well, he called me and he said that he under -- he just talked to Mr. Morgenthau and he understood that Jerry and I were to see the gentleman.

K: Oh.

Foley: And I said, "Well, not I, sir. I understand that Jerry is going to try to see him."

K: Yeah.

Foley: And then depending on the outcome of that would govern whether or not Jerry and I would see the Judge.

K: I see.

Foley: And he said, well that's all right, and -- and hung up.

K: Well -- well that's where it left me in the -- in the dark when I listened in on their conversation, you see?

F: Yes.

K: But I didn't interfere.

F: Yes.

K: Now, the other thing he said was -- Mr. Ickes told Mr. Morgenthau that Mr. Frank had told him that if Hanes didn't withdraw that Frank would oppose him in open court.

F: Yes. Yes, that's.....

K: I think I got it straight.

F: That's right. You have that straight and that's what Jerry said in the -- in the Secretary's office yesterday. I -- I remember saying -- I remember him saying that.

- 3 -

K: You know what surprised me -- I talked to

(Balance of conversation not recorded.)

February 9, 1940
10:21 a.m.

Operator: Hello.

HMJr: Yes.

O: Mr. Foley is trying to get some news for you.
He's trying to reach Mr. Frank on the phone.

HMJr: Oh, he hasn't talked to him yet?

O: He's talking to him now.

HMJr: Well then I tell you what you do. Let everybody
wait and in order to make time, and in the meantime
I'll talk to Mrs. Morgenthau.

O: All right.

Mrs.
Klotz: I'll hang up.

O: at the same time.

K: I'll hang up.

O: Right.

HMJr: See?

O: All right.

HMJr: I'll just talk to Mrs. Morgenthau in the meantime,
so just disconnect me and we'll talk to Mrs.
Morgenthau.

(Break in the conversation.)

HMJr: Hello.

O: Mr. Foley.

Ed
Foley: Hello.

HMJr: Hello, Ed.

F: Good morning, Mr. Secretary.

HMJr: Good morning.

- 2 -

F: There isn't very much to report. I just talked to Jerry Frank.

HMJr: Yes.

F: And he did not see John Hanes last night.

HMJr: I see.

F: He intends to see him sometime during the day if he can arrange it.

HMJr: I see.

F: But he hasn't seen him yet.

HMJr: Yeah.

F: Now, Dave Scheuker, Jerry tells me, talked to Johnny last night.

HMJr: Yes.

F: And John is very much disturbed by the opposition that Ben and Tom have brought up against him.

HMJr: Yes.

F: And he's -- he -- Jerry indicated that he didn't think, from what Dave had said, that John would withdraw.

HMJr: Well, that's what I said, didn't I?

F: Yes.

HMJr: Well, Ed, I've had twelve hours to think it over and I can't see but what I did was all right.

F: That's right.

HMJr: And I don't see that I'd do it any different if I had to do it over again. Hello?

F: Yes.

HMJr: And so that's that. Now, I'll just leave it with you and if it gets to a point that you really need me desperately, why I am available. See?

F: Well, I'll try and spare you, sir.

HMJr: But I don't see, having made the offer and having told Frank and you that you could use my name in my position.....

F: Yeah.

HMJr:I don't see how I can go any further than that.

F: Neither do I. I think you've gone as far as you can go.

HMJr: And so that's that. So.....

F: (Laughs) Did you have a nice trip?

HMJr: Much better than I expected and -- the hostess neglected me painfully.

F: (Laughs)

HMJr: She tucked me in and I -- I think she concentrated on McKay.

F: (Laughs heartily)

HMJr: I don't blame her. And so that's that. But this place does things to you. Washington seems ten thousand miles away.

F: Well, I'm glad you're there and I hope you get a good rest.

HMJr: Well, that's that. I'll be seeing you.

F: All right, Mr. Secretary. Goodbye.

HMJr: Mr. Ickes, please.

O: Hello.

HMJr: The Secretary.....

O: I'm getting him to the telephone. Just a second.

HMJr: (Long pause.) Hello. (Brief pause.)

- 4 -

O: It'll take me a half a minute or so to get him to the phone. I'll hold on.

HMJr: What's that?

O: I say, it's taking a half a minute to get him to the telephone.

HMJr: That's all right.

O: All right.

Mrs. Flotz: Hello. Hello.

HMJr: Yes.

K: Can you use me for a half a minute? (Laughs)

HMJr: Can I do what?

K: Can you be using me for a half a minute?

HMJr: There's one thing I'd like to have you tell Merle Cochran.

K: Yes.

HMJr: That memorandum that Purvis gave me yesterday.....

K: Yes.

HMJr:which the President had O.K.'d.

K: Yes.

HMJr: I'd like Cochran to take that and show it to Mr. Hull.

K: I see.

HMJr: And just tell Mr. Hull that I showed it to the President and the President said all right.

K: Yes, all right.

HMJr: See?

- 5 -

K: I -- really there's nothing at all. Oh, shall we send your -- shall Moore send your letter to Tucson?

HMJr: What's that?

K: Shall Moore send the letter to Tucson?

HMJr: Moore?

K: Moore.

HMJr: Who's Moore?

K: At Seligman's.

HMJr: Oh yes. And I think it would be nice to write Peck a little note and say that you've forwarded the letter to me and he'll hear from me.

K: What?

HMJr: Write Peck a letter.

K: Oh, Peck. All right.

HMJr: And tell him that you've forwarded the letter to me.

K: Yes, of course I will.

HMJr: Yes. And.....

Operator: Secretary Ickes. Go ahead.

Harold Ickes: Hello.

HMJr: Harold.....

I: Hello, Henry.

HMJr: Can you hear me?

I: Just about. Can you hear me?

HMJr: I -- I hardly hear you.

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I: Well, I tell you.....

HMJr: Wait a minute, let me ask my operator whether she can't.....

I: I'm not in my office.

HMJr: What's that?

I: I am not in my office. Perhaps it would be better if.....

HMJr: I'm sorry Harold, I can't -- my ears are all stopped up from the plane I don't hear you.

I: I'll call you from my office in ten minutes.

HMJr: You'll call me in ten minutes?

I: Yeah.

HMJr: Well now -- hello?

I: Is that all right?

Operator: Hello?

I: I can't hear on this.

HMJr: What's that?

I: I cannot hear.

HMJr: Well, I can't hear you either.

I: Well, I'll call you in ten minutes.

HMJr: All right, do you want my number?

I: Well, my -- I can get it from Treasury.

HMJr: Well, I'm at a hotel here in Tucson. I don't even know the number.

Operator: Hello.

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HWJr: Hello.

O: Hello.

HWJr: Yes.

O: He hung up, Mr. Morgenthau; he said he'd call me for the number.

HWJr: He'd do what?

O: He hung up and he said he would call the Treasury and get your number.

Mrs. Klotz: Mr. Morgenthau, he was not at his office and that's why he couldn't hear, and I expected Miss Spangler to come in and tell you.

HWJr: Oh.

K: You were both talking at the same time.

HWJr: Oh. I -- I wonder what the name of this hotel is. Wait a minute -- wait a minute -- I'll see if I can't look at the linen or something. Just a minute.

(Brief pause.)

HWJr: Hello.

K: Yeah.

HWJr: The bath towel says "Hotel Thirty-seven".

K: Oh, you can't count on that. Well, we.....

HWJr: Oh, I guess that's the year the bath towel was made.

K: (Laughs)

HWJr: (Laughs)

K: Oh, thank God you're away from Washington.

HWJr: Well now, tell Spangler it's a pioneer hotel.....

K: (Laughs)

- 8 -

HMJr:and I'm in 906.

K: What?

HMJr: I'm in room 906.

K: 906 at the Pioneer Hotel.

HMJr: And the bath towel was made in '37.

K: Well, I tell you it certainly has lasted. Probably not many people come to the hotel.

HMJr: Tell Spangler to get off and I'll chin-chin a little bit with you.

K: Allright. Hello.

HMJr: Yes.

O: Operator.

K: If you'll get off this line I'll talk to the Secretary.

O: Yes, mam.

K: Hello.

O: All right.

K: Did you get the name of the hotel and all?

O: No.

K: It's the Pioneer Hotel, room 906.

O: Oh, all right.

K: And you can get it for Mr. Iokes.

O: Right.

K: Right.

HMJr: Hello.

K: Yes.

- 9 -

HMJr: I think he wants to go in and make a record of the call most likely.

K: No, I don't think so. You see they trailed him somewhere else and he couldn't talk -- couldn't hear.

HMJr: Well, when.....

K: I told Miss Spangler to get it for him.....

HMJr: All right.

K:if she could work it.

HMJr: You can listen.

K: Well, if -- if he calls you direct - if he insists on calling you direct I won't be able to.

HMJr: And -- you know it's very amusing.....

K: Yes.

HMJr:what's happening. You see these boys, Frank and others, didn't want to go up against Hanes.

K: Yes.

HMJr: Well now, I've gotten them in the corner that they've got to.

K: That's right.

HMJr: I don't hear you.

K: Yes, I agree with you.

HMJr: And they've got a -- they've now showed their hand and Hanes knows who's against him.

K: Yes.

HMJr: And I think my position is all right.

K: I -- I think you're all right now; really I do.

HMJr: Yes.

- 10 -

K: But I -- if you had gone away and not gotten into it, they would have really blamed you.

HMJr: They -- they would have tried to.

K: Yes, well, if this fellow had resigned I think Ickes never would have forgiven you.

HMJr: Who?

K: Ickes.

HMJr: Ickes?

K: Yes.

HMJr: Oh, really?

K: Oh, he feels very strongly about this thing. Didn't you get that in his voice over the telephone?

HMJr: Oh, no.

K: Oh, terribly! I mean, that -- that Ben Cohen would have resigned.

HMJr: Oh yes, that, but I didn't feel that Ickes was upset.

K: Oh, he was.

HMJr: I didn't get that.

K: Oh, definitely! Oh, I'm -- I'm positive about that.

HMJr: Well, I suppose he would be.

K: Well, he said to me over the phone, "I've got to talk to him. It's terribly important. I've got to talk to him." So then I said, "Well, I'm sure I can get Mr. Morgenthau for you tomorrow morning."

HMJr: Yes.

K: And then he said to you, "I don't want to talk to Foley -- I mean, I don't want -- I want to talk directly to you."

- 11 -

HMJr: Yes.

K: But after hearing Foley's story, you see, he could understand what you meant by that. He thought you were just wishing him off on Foley.

HMJr: Oh, yes.

K: You see what I mean?

HMJr: Well, I -- I know what you mean. I think everything is all right and -- it's got to be because I'm not going to fuss with it.

K: That's the -- I don't think they'll bother you with it really, because I don't think there's anything you can do from where you are.

HMJr: I just want to tell you something. After all, I pointed out to my friends -- hello?

K: Yes.

HMJr: My other friend.

K: Yes, I know.

HMJr: Did you get that?

K: Yes, I know who you mean.

HMJr: My other friend.

K: (Laughs) I see.

HMJr: Yes. There were three states involved.

K: Yes, I know.

HMJr: And I don't think he told them everything.

K: Of course not.

HMJr: And three states are three states.

K: Yes, I know, Mr. Morgenthau -- but why you should have to take the rap when you're innocent.....

- 12 -

HMJr: Right.

K:against all these people, that was why I insisted that you talk to him yesterday.

HMJr: Yes.

K: That was the only thing that I had in my mind.

HMJr: Yes.

K: Because I had talked to Foley, you see.

HMJr: Yes.

K: Well.....

HMJr:it's over and.....

K:it's over.

HMJr:we're going to have ten days of peace and quiet.

K: That's right. I hope you will have it. Now, Mr. Morgenthau, may I find out from Miss Spangler whether she's getting it for you; otherwise he may be trying you and your line will be busy.

HMJr: I'm going to hang up.

K: You'll hang up?

HMJr: Don't you think so?

K: Yes, I think so.

HMJr: I think I'll hang up.....

K: Yes, and then they can get you.

HMJr:and I'll talk and you listen, and then when he gets through I'll talk to you again.

K: Unless he's calling you directly. Then I won't talk to you again.

HMJr: If he calls me directly.....

- 13 -

K: Yes.

HMJr:this may be the last time I talk to you.

K: Well, I hope you have a good rest, and please don't worry about anything.

HMJr: I'm not going to.

K: You come -- you come first and everybody after that.

HMJr: And good luck and happiness.

K: Happiness to you, and good health. And please give Mr. Hochschild my best regards.

HMJr: I'll do that.

K: All right. Goodbye.

HMJr: Goodbye.

DAY LETTER

FROM INTERIOR DEPARTMENT

BUREAU Secretary's Office

CHG. APPROPRIATION _____

TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

(COPY)

February 9, 1940

Hon. Henry Norgenthau
Rancho De La Osa,
Tucson, Arizona.

My latest information is person I discussed with you stubbornly refuses to relinquish advantage that he has gained by reason of representing your negative approval as positive one. As I said over telephone, departmental matter of yours is no concern of mine but situation here is critical and my Department would suffer irreparable loss if certain member of my staff should persist in his intention of leaving service March one. Accordingly, if there is anything that you can do by personal word to man in question that will have effect of relieving everyone of embarrassment which is result of his own statement of conversation with you, you will be doing real service.

HAROLD L. ICKES,
Secretary of the Interior

February 9, 1940

To: The Secretary
From: Mr. Bell

Cabinet meeting - Friday, February 9th, 2 P.M.

The President said that there was nothing new in the foreign field to report except that which appeared in the papers today regarding Mr. Welles' proposed trip abroad. He said that he tried to make it quite clear that this was more or less a roving commission for Mr. Welles to merely get a first-hand glimpse of the situation in Europe and to gather as much information on it as he could and report directly to the President and the Secretary of State. It is not for the purpose of making any report public or making any formal report to the Congress. Mr. Hull said that he had nothing further than that to report.

I reported on the memorandum of the President's, dated January 23, 1940, in which he raised the question as to the desirability of taking full advantage of the 1939 amendments to the Social Security Act by reducing the interest cost in the budget with respect to the Old Age Reserve Account, by refunding the obligations held in that account now bearing 3 per cent into obligations bearing 2½ per cent interest. I told him that the law as passed at the last session of Congress directed the Secretary of the Treasury to transfer to the new trust fund set up by that law all of the funds and securities held on December 31, 1939, in and for account of the Old Age Reserve Account. At the last meeting of the Trust Fund Board this matter was

- 2 -

thoroughly discussed and while all of the members felt that it was desirable to refund the 3 per cent obligations into $2\frac{1}{2}$ per cent obligations, they thought that there might be some criticism of this action in view of the fact that it was not entirely clear in the law that that was contemplated and there was a feeling that this action might be criticised from the standpoint of the beneficiaries because they would feel that they were losing something when this additional interest is taken away from the account which holds their funds. I said that we had decided to leave the 3 per cent obligations undisturbed, but that we would invest all new funds coming into the Trust Fund in $2\frac{1}{2}$ per cent obligations and would redeem the longest maturing obligations currently to meet benefit payments and as these obligations matured we could also take the proceeds of such redemptions and invest them at the new rates. I told the President that the longest maturity was June 30, 1944, and that we would probably have all these 3 per cents redeemed or refunded before that date. Furthermore, looking at it from a long-range standpoint, it would probably be necessary in the end to meet some of the benefit payments out of the General Fund of the Treasury so that it does not make much difference whether we pay this \$7 million a year additional interest currently or wait for a few years and pay larger sums directly from the General Fund to meet the benefit payments. The President said he was satisfied with the explanation and he thought the Board had probably decided the question correctly.

Secretary Woodring discussed the question of the President approving some bills concerning the employment of labor in connection with the construction of additional locks in the Panama Canal. It seems as though the procedure worked out by Secretary Woodring in cooperation with the A. F. of L. and the CIO would have involved the violation of some treaty provisions. The President said that he could not sign the bill proposed by this group and asked them to get together and reconsider the matter again. There was also a question of an engineer's report on some dam in the West. It appeared that the engineer's report did not fully set forth the objections and suggestions made by the National Resources Board and the Bureau of Reclamation. The President said that he wanted the complete letters and reports of these two agencies to go to Congress so that the Congressional committee would have all sides to the controversy.

Attorney General Jackson said that he had been asked to discuss the question and powers of Congress over the executive branches of Government. He said that he had been able to find a number of bills where this question had come up. He referred to the Budget and Accounting Act which was passed in 1920 and vetoed by President Wilson because of the provision contained in that Act whereby the Comptroller General could be removed for certain causes, but only by Congress. This same bill was passed again in 1921 and signed by President Harding. The Attorney General stated that this Administration had approved a number of bills setting up commissions to represent the Government at various fairs throughout the country but as long as they had been

approved by the President he did not think any question should be raised at this time. If we were going to raise the question further, he thought it should be done on some future bill directly before the President for veto. The President agreed with this point of view. He also raised the question of the so-called Spanish enlistment cases which had just come to light out in Detroit. Apparently these cases were ordered pushed by his predecessors in office and he was now finding it a little embarrassing to answer questions from the Press regarding them, particularly in view of the sentiment in this country in favor of Finland. He thought if we were going to prosecute these cases we should also prosecute the enlistments on both sides of the Spanish War and that we should also prosecute any cases that come to our attention with respect to enlistments in Finland's army. He would like to have the cases dismissed but he realizes he would have to take some criticism. Secretary Hull suggested that he dismiss these on the grounds that the cases are rather old, evidence difficult to procure, and the Spanish War had been ended for sometime. The President seemed to think that this was the proper solution but suggested that any statement which Mr. Jackson wanted to give out on the matter should first be cleared with Mr. Hull.

Secretary Edison stated that Senator Walsh had called Admiral Stark and asked for information concerning any contemplated estimates of appropriations which the Navy expected to send to Congress during this year on the Vinson expansion bill. The President said that he had

been asked the same question by Harold Smith, Director of the Budget, and that he had told him to say to any inquiry of that kind that he does not expect there will be any estimates before the Congress this session under the Vinson Naval Expansion Bill, and that the Navy should answer likewise. Secretary Edison discussed in a general way the situation with respect to the appropriation estimates pending before the House Appropriations Committee.

Secretary Wallace asked the President if there was anything further to do on the memorandum on milk which he had sent in a few days ago. The President said "No," that he assumed he had received the memorandum on this subject from Secretary Morgenthau, and that he might let the matter drop unless he was asked about it by the gentleman who wrote him the original letter, in which case he should reply that it is still being considered. Secretary Wallace, in answer to a question from the President, said the cotton exports are going at a very good rate. He also said that all food retail prices for the past five years had been fairly stable. He stated he had some ideas on the business situation which he intended discussing with Secretary Hopkins after the Cabinet meeting and if Secretary Hopkins agreed, the two would like to discuss the matter with the President. The President did not indicate that he would see them.

Secretary Hopkins said that one bright spot in our business picture is the export situation. The exports for January were up \$150 million over January of last year. The exports in scrap iron to Japan had fallen off materially but there were still large shipments of this material to that country. He also said it was interesting to watch the pressure that was being brought to bear upon the neutral

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countries by the warring nations. Sweden is buying and selling several times more goods from and to Germany than was the case a year ago. Apparently Great Britain is now getting into this picture and trying to divert some of this Swedish trade to Great Britain.

There was a general discussion with respect to exports from this country to Russia. The President said he would like to have the Treasury submit to him a current report on exports to Russia during the past few weeks.

sub

MAILED 2-13 1940 283

BY SPEC. MESSENGER 3 P.M.

FILE TO _____

COPY TO White's Office

February 13, 1940

MEMORANDUM TO THE PRESIDENT:

At Cabinet last week you asked me to send you a memorandum showing exports from the United States to Soviet Russia.

The attached tables show the figures for exports and re-exports for the months of November, December, and January, 1939 and 1940, as compared with the same months for the years 1938 and 1939. The following comment summarizes these figures.

1. United States domestic exports to the U.S.S.R. in the past three months were \$29 million, which is more than double the exports of the same period a year ago.

In addition, re-exports to the U.S.S.R. were \$3.4 million in the past three months, in comparison with trivial re-exports of a year ago. The re-exports consisted chiefly of tin and copper.

2. In the past three months \$13 million of copper exports accounted for almost 50 percent of our total exports to the U.S.S.R. In the same period of last year we exported only \$14 thousand of copper. Molybdenum, \$2.6 million (all exported prior to January 1, 1940), brass, \$1.8 million and gasoline, \$1 million were the principal items exported this year which were either exported in small quantities last year, or not exported at all. Exports of industrial machinery, on the other hand, are 40 percent below a year ago and exports of iron and steel products are sharply lower.
3. Exports to the U.S.S.R. in February will probably be at the high level of the previous months. On February 3d, a 9,000 ton Norwegian freighter carried a cargo of \$4 million to the U.S.S.R. (consisting principally of industrial machinery, brass, and copper), and two 5,000 ton boats are scheduled to load cargoes in New York harbor this week. In addition, two Russian boats have been reported loading cargoes in West Coast ports.

(Initialed) D.W.B.

HG:eah;DWB:ce

United States Domestic Exports to U.S.S.R.

(In thousands of dollars)

	1938 November	1938 December	1939 January	Total Nov.-Jan.	1939 November	1939 December	1940 January	Total Nov.-Jan.
Total	\$ 4,071	\$ 7,194	\$ 2,816	\$ 14,081	\$ 7,027	\$ 10,517	\$ 11,313	\$ 28,857
Copper and products	13	-	1	14	1,561	4,528	6,957	13,046
Molybdenum ore and concentrates	2/	2/	-	-	732	1,906	-	2,638
Brass, bronzes and products	1	3	-	4	564	558	692	1,814
Gasoline in bulk	-	-	-	-	784	-	186	970
Power-driven machinery	2,979	4,347	1,467	8,793	1,805	1,809	2,185	5,799
Diesel and semi-diesel engines	-	-	-	-	128	164	1	293
Other industrial machinery	160	412	309	881	166	667	196	1,029
Electric motors, starters and controllers and generators	25	34	71	130	199	205	345	749
Industrial electric furnaces, ovens, etc.	49	573	122	744	155	73	93	321
Radio apparatus	1	23	3	27	42	6	19	67
Iron and steel plates, sheets, skulp and strips	468	507	144	1,119	22	19	19	60
Iron and steel advanced manufactures	7	18	1	26	118	5	14	137
Wheat	-	-	-	-	436	161	161	758
Abrasives	25	25	9	59	97	23	19	139
Chemicals and related products	45	59	22	126	5	2/	2/	5
Aircraft, engines, instruments, parts and accessories	99	15	30	144	2	117	55	174
Other commodities	199	1,178	637	2,014	211	276	371	858

1/ Not separately classified in 1938

2/ Less than \$500

United States - Re-exports to the U.S.S.R.

(In thousands of dollars)

	1938 November	1938 December	1939 January	Total Nov.-Jan.	1939 November	1939 December	1940 January	Total Nov.-Jan.
Total Re-exports	1/ 0	1 0	4 0	5 0	256 0	1,395 0	1,759 0	3,410 0
Tin bars, blocks, pigs, etc.	-	-	-	-	34	978	1,403	2,415
Copper refined and manufactures	-	-	-	-	167	411	337	915
Spices	-	-	-	-	29	6	18	53
Rubber crude	-	-	-	-	25	-	-	25
Other re-exports	1/	1	4	5	1	-	1	12

1/ Less than \$500

White
February 9, 1940.

Dear Mr. Keeshin:

On behalf of the Secretary I am acknowledging your letter of February 7th, which encloses copies of reports, memoranda, etc., received from Messrs. Sheahan and Bassi. This interesting and comprehensive material will be carefully studied here.

Sincerely yours,

H. S. Klets,
Private Secretary.

Mr. J. L. Keeshin,
President, Keeshin Freight Lines,
Incorporated,
221 West Roosevelt Road,
Chicago, Illinois.

GEF/dbs

KEESHIN FREIGHT LINES, INC.

Please see file # 287

J. L. KEESHIN
PRESIDENT

221 WEST ROOSEVELT ROAD
CHICAGO

February 7, 1940

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

My dear Mr. Secretary:

Enclose herewith copies of more reports received from Messrs. Sheahan and Bassi, which are as follows: copies of four memorandums addressed to H. E. Minister Chang Kia-Ngau, by Mr. M. E. Sheahan under dates of December 28, 1939 and January 4, 1940; a copy of a memorandum dated December 29, 1939 with copies of calculated performance of Charcoal Trucks, attached; copies of memorandums dated January 3, and January 4th with copy of a report from Mr. A. B. Bassi, attached, which covers the survey trip over the Lushien "cut-off" to Kunming; a copy of a memorandum addressed to Mr. A. L. K. Lin by Mr. Bassi, under date of January 8; a copy of a memorandum on "shops and shop facilities" by Mr. Bassi; also a copy of a memorandum addressed to H. E. The Generalissimo President, Executive Yuan, by Mr. Sheahan under date of January 6; and a copy of a memorandum addressed to Mr. P. H. Chang, Executive Yuan, by Mr. Sheahan under date of January 4, with a copy of a table on basic freight rates via motor truck, and a table on distance from Chungking to Khorgos, attached.

Sincerely yours,

J. L. Keeshin
J. L. Keeshin
President
01-21-40
Keeshin Freight Lines, Inc.
Chicago, Ill.

JLK:LR
Encs. (42)

To

H.E. Minister Chang Kia-NGau

Mr. Bassi, upon his return from an inspection trip over the Luhsien "cut-off", reports that in his opinion, the operation thereover, of truck-tractors and semi-trailers is feasible. It is suggested that we quickly secure at least one of the International D50 type truck-tractors and "trailmobile" semi-trailers for demonstrations over this road. This equipment is capable of handling a minimum of eight (8) tons on each trip which is comparable to four (4) of the smaller trucks, and should not incur operating expenses over twice that of the smaller trucks.

(Signed) M. E. Sheahan

Chungking

Dec. 28, 1939

To

H.E. Minister Chang Kia-NGau

With reference to the important subject of tires, their maintenance and care. Due to the present shortage of gasoline, all attention has been focused on this one item of expense in connection with the operation of motor vehicles. There is another item of expense that is assuming increasing proportions, as original automotive equipment is being used up, and that is tires. We have observed a general lack of maintenance of proper inflation; of mismatched dual tires and the lack of proper control of tires removed from active service, also some carelessness in purchasing tires. Higher prices than are necessary are being paid in some instances, and tires unsuited for the purpose for which they are intended, have been acquired.

We recommend that all purchases of tires for the National Government, either Civil or Military, be concentrated in Foo Shing (or in that corporation's inability to act, in another subsidiary of Universal Trading Corporation organized for the purpose), in the same manner as proposed for other material and supplies. We also recommend full utilization of the tire companies technical service, to the end that proper tires and maximum kilometrage may be obtained from the products of the various manufacturers.

We also recommend that consideration be given to the plan of having each organisation submit the carcass of the tire to be replaced in exchange for the replacement tire. Such tire carcasses can be inspected at the central store, and if the tire tread is not too badly worn, the tire may be retreaded or re-capped, and sectional and other repairs made. It might be well to consider contracting this work on a bid basis, as tire companies generally, are fully equipped and can quickly inaugurate such services in free China. In fact, Mr. F. G. Pocken of the Good Year Tire & Rubber Export Co., proffered the services of his organisation, but due to the existing competitive situation, we thought it might be well to consider securing competitive bids from all tire manufacturers for such repair service.

(Signed) M. E. Sheehan

To

H.E. Minister Chang Kia-Ngau

On December 30th, Dr. Felton Chow left with us Mr. Cheng-Hua's proposal regarding installation of a pipe line for transporting gasoline from Burma to Kunming, also Mr. D. F. Myers' opinion on this proposal.

We have had several discussions with Mr. Cheng-Hua, and with the return of the attachments to Mr. Chow's letter, am also enclosing Mr. Cheng-Hua's proposal of November 11th, covering installation of a pipe line from Chungking to Indo-China for the transportation of wood-oil.

We concur with Mr. D. F. Myers memorandum of November 20th, to the effect that the initial investment, and expensive operation of such a line is not compatible with presently known economic factors. In addition to the reasons advanced by Mr. Myers, and without attempting to go into the engineering difficulties that might be encountered, in surmounting high altitudes such as are encountered between the port of Bhamo and Kunming, we believe that improvements to highways, through elimination of excessive grades and increasing minimum degrees of curvature, will permit utilization of larger truck equipment of the Truck-Tractor Semi-Trailer type. Larger truck equipment is more economical than small trucks for long distance trucking, as has been repeatedly proved in other countries, for example; one truck-tractor and semi-trailer with a carrying capacity of from 8 to 10 tons will use approximately twice as much gasoline or other fuel as a small truck capable of hauling from 2 to 2½ tons. We are also of the opinion that continuation and expansion of the centuries old plan, of pack animal, river junks and coolie carriers is desirable in the present emergency.

As we have previously pointed out, we do not believe it is practical to anticipate any large supply of Burma gasoline or fuel oil. The Burma Oil Company is owned by absentee capital. Presently

the returns on invested capital are quite high, and it is our understanding that the directors of the Burma Oil Company do not feel inclined to augment their facilities or dissipate their oil pools through deeper drilling or an extension of the present field, in order to supply China's emergency needs. Their reasoning is perhaps quite sound historically, as there is no assurance that when the present hostilities are concluded, there will ever recur the need for gasoline and other fuels that now confronts Southwestern China. For China itself to consider the investment of large sums of foreign exchange in such a project appears quite out of the question.

In connection with the last paragraph of Mr. D. F. Myers memorandum of November 20th, we are in agreement that all possible methods of transport should be tested, and we understand coordination of all forms of transport, to the end that the cheapest and most efficient flow of essential supplies might result, has been the goal of all concerned with China's transport problem.

(Signed) M. E. Sheahan

Chungking

Jan. 4th, 1940

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Chungking, Jan. 4th, 1940

H.W. Minister Chang Kia-NGan
Minister of Communications
Chungking

Your Excellency:

With reference to yours of December 12th, and returning the blue print for the distribution of highway engineering tools and equipment among the different highway constructing and maintenance organizations of your Ministry. The assignment for distribution of the materials on the enclosed statement appears most carefully planned, however, Items No. 93, 97, 99, 100, 106 and 123 now at Haiphong, constitute tonnage, the immediate movement of which would restrict imports of more important and vitally needed material. We believe these particular items could reasonably be delayed, at least for the period of the emergency.

We understand there are 60 "Pick-up" units now on hand at Haiphong. We believe these units should wait either the completion of the Caobang-Hochih or the Kunming-Laokai highway, or as an alternative, they might be transhipped to Rangoon. We do not believe the "pick-up" units are so vitally important at present, and suggest as an alternative the use of presently inoperative Chevrolets, which we believe can be rehabilitated to serve the purpose.

The road building and maintenance equipment now being purchased, should if possible, avoid the Haiphong congestion, through proper shipping instructions governing their receipt at Rangoon for import over the Yunnan-Burma Highway, or if the arrival of this road building equipment could coincide with commencement of highway operations west of Laokai, the equipment could be transported to that point and build their way inland.

Very truly yours,

(Signed) M. E. Sheehan

To

H.E. Minister Chang Kia-NGau

The attached calculated performance of Charcoal Trucks should be of special interest in view of the discussion of gasoline substitute at H.E. Dr. H. H. Kung's Transport Conference of December 14th.

I understand the Kweichow Development Corporation or the China Gas Producers Corporation, backed by the Bank of China, Bank of Communications and the Farmers Bank, is securing 24 charcoal trucks for experimental work on the highway between Kunming and Chungking. I also understand that the syndicate financing the experiment has some plans to contract for a minimum of 600 tons per month between the two cities. As explained to me, the syndicate desires a Governmental contract for a minimum period of 10 months to haul gasoline from Kunming to Chungking and wood oil returning at a cost to the Government, guaranteed to be below the Government's present cost.

(Signed) M. E. Sheahan

Chungking

December 29th, 1939

Calculated Performance
G.M.C. Special AC-300 Charcoal Truck

PAYLOAD 6000 lbs. net

EQUIPMENT RECOMMENDED:

G.M.C. Model AC-303 Chassis equipped with G.M.C. 278 Engine, over sized radiator, Dual Performance Axle, Auxiliary springs, overload front springs, 6 pc. 32 x 6 x 8 ply tires. Above chassis equipped in China with P.H. Lee. Gas Producer to burn charcoal, or with H.S. Gas Producer to burn Anthracite where available.

WEIGHTS:

Estimated Chassis wt.	4200 lbs.
Stake Body, Producer, etc.	2300 "
Pay Load.	5000 "
Gross Weight	11500 lbs.

TIRE LOAD:

Tire Load Capacity 32 x 6 x 8 ply = 1950 lbs.
1950 x 6 = 11,700 lbs. About same as gross wt.

MECHANICAL DETAILS:

<u>Engine Torque</u> 200 lbs. ft.	:	
<u>Torque with Gas</u>	:	<u>Transmission Gear Ratios:</u>
35% less, 220x.65 = 142 lbs. ft.	:	Low Gear 7.23 to 1
<u>Tire Rolling Radius</u> 16.12 in.	:	Second Gear 3.48 to 1
	:	Third Gear 1.71 to 1
<u>Rear Axle Ratios:</u>	:	Fourth Gear 1.00 to 1
Low Range 8.10 to 1	:	
High Range 5.83 to 1	:	

TRACTIVE EFFORT or RIM PULL lbs. in Low Range

Formular (1) $T_e = \frac{T \times I \times G \times E}{R}$ equals rim pull lbs.

Formular (2) $\frac{T_e}{GW} \times 1000$ equals rim pull available per 1000 lbs. gross wt.

Where GW equals Vehicle gross wt. = 11,500 lbs.

T _e	"	Tractive Effort or Rim Pull
T	"	Engine Torque = 142 lbs. ft.
I	"	lbs. ft. to lbs. in. = 12
G	"	Rear Axle Ratio in Low Range = 8.10
R	"	Tolling Radius of Tires = 16.12 in.
E	"	Standard Efficiency at Rear Axle = 80%

Now $T_e = \frac{142 \times 12 \times 8.10 \times .80}{16.12} = 685 \text{ lbs.},$

and $\frac{T_e}{GW} \times 1000 = \frac{685}{11500} \times 1000 = 59.5 \text{ lbs.}$ Rim Pull available per 1000 lbs. gross vehicle weight.

Rolling Resistance for Fair Road surfaces is 22.5 lbs. per 1000 lbs. vehicle wt. and Grade Resistance for each 1% of Grade is 10 lbs. per 1000 lbs. of vehicle wt. Then, the 59.5 lbs. available minus 22.5 lbs. for rolling resistance leaves 37 lbs. for grade resistance. This is therefore sufficient for 3.7% grade on direct gear when fully loaded. On level road this available rim pull is used for acceleration.

CALCULATED GRADE ABILITY IN LOW RANGE

Operation in	Gear	Rim Pull per 1000 lbs.	Grade Ability
"	First	$59.5 \times 7.23 = 430$ Minus $22.5 = 407 \text{ lbs.}$: 4% grade
"	Second	$59.5 \times 3.48 = 207$ " $22.5 = 184 \text{ lbs.}$: 18% "
"	Third	$59.5 \times 1.71 = 102$ " $22.5 = 80$ "	: 8% "
"	Fourth	$59.5 \times 1.00 = 59.5$ " $22.5 = 37$ "	: 3.7% "

ROAD SPEED at 2800 RPM under ENGINE MAXIMUM PEAK

Formular: $\text{Speed} = \frac{\text{RPM}}{\text{FG}}$

where RPM is Engine Reves. per minute = 2800

F is 1/60 Tire Revs per mile = $\frac{5280}{60} = 10.5$

G is Gear Ratios of rear axle and Transmission.

$\frac{2800}{10.5 \times 8.1} = 29 \text{ miles per hour in low range or direct gear}$

ROAD SPEED IN LOW RANGE WITH DIFFERENT TRANSMISSION GEARS

low 3% Grade with Fourth Gear,	Speed = $\frac{2800}{10.5 \times 8.1}$	= 29 miles/hour
" 8% " " Third " "	= $\frac{29}{1.71}$	= 17 "
" 18% " " Second " "	= $\frac{29}{3.48}$	= 8 "
" 40% " " First " "	= $\frac{29}{7.23}$	= 4 "

Calculated Performance
G.M.C. Special AC-400 Charcoal Truck

PAYLOAD 6000 lbs. net

EQUIPMENT RECOMMENDED:

G.M.C. Model 403 Chassis equipped with G.M.C. 308 Engine and 500 Under-drive 5 speed transmission, 6 pc. 32x6x10 ply tires and 6.67 to 1 Ratio rear axle. Above chassis equipped with P.H.Lee Gas Producer made in China to burn charcoal, or with H.S. Gas Producer to burn Anthracite where available.

WEIGHTS:

Estimated Chassis wt.	4700 lbs.
Stake Body, Producer, etc.	2300 "
Pay Load	6000 "
Gross Weight	13000 lbs.

TIRE LOAD:

Tire load capacity 32 x 6 x 10 ply = 2200 lbs.
2200 x 6 = 13,200 lbs. Exceeding gross wt.

MECHANICAL DETAILS:

Engine Torque 244 lbs. ft.	:	<u>Transmission Gear Ratios</u>
Torque with Gas	:	Low Gear 7.58 to 1
35% less, 244x.65= 158.6 lbs. ft.	:	Second Gear 4.38 to 1
Rear Axle Ratio 6.67:1	:	Third Gear 3.05 to 1
Tire Rolling Radius 16.82 in.	:	Fourth Gear 1.72 to 1
	:	Fifth Gear 1.00 to 1
	:	Total Reduction 50.56 to 1

TRACTIVE EFFORT OR RIM PULL lbs.

Formular (1) $T_e = \frac{TLXGXE}{R}$ equals rim pull lbs.

Formular (2) $\frac{T_e}{GW} \times 1000$ equals rim pull available per 1000 lbs. gross wt.

Where GW equals Vehicle gross wt. = 13,000 lbs.

T _e	"	Tractive Effort or Rim Pull	
T	"	Engine Torque = 158.6 lbs. ft.	
I	"	lbs. ft. to lbs. in. = 12	
G	"	Rear Axle Ratio = 6.67	
R	"	Rolling radius of Tires = 16.82 in.	
E	"	Standard Efficiency at Rear Axle = 80%	

Now $T_e = \frac{158.6 \times 12 \times 6.67 \times .80}{16.82} = 604 \text{ lbs.}$

and $\frac{T_e}{GW} \times 1000 = \frac{604}{13000} \times 1000 = 46.5 \text{ lbs.}$ Rim Pull available per 1000 lbs. gross vehicle weight.

Rolling Resistance for Fair Road Surfaces is 22.5 lbs. per 1000 lbs. vehicle wt., and Grade Resistance for each 1% of Grade is 10 lbs. per 1000 lbs. of vehicle wt. Then, the 46.5 lbs. available minus 22.5 lbs. for rolling resistance leaves 24 lbs. for grade resistance. This is therefore sufficient for 2.4% grade on direct gear when fully loaded. On level road this available rim pull is used for acceleration.

CALCULATED PERFORMANCE:

operation	in First Gear	Rim Pull per 1000 lbs.	Grade Ability
"	" Second "	46.5x7.58=352.5 minus 22.5= 330 lbs.:	33% grade
"	" Third "	46.5x4.38=203.6 " 22.5= 181 lbs.:	18% "
"	" Fourth "	46.5x3.05=141.8 " 22.5= 120 lbs.:	12% "
"	" Fifth "	46.5x1.72= 80.0 " 22.5= 57 lbs.:	5.7% "
		46.5x1.00= 46.5 " 22.5= 24 lbs.:	2.4% "

ROAD SPEED at 2600 RPM UNDER ENGINE MAXIMUM PEAK

Formular: Speed = $\frac{RPM}{F \times G}$

where RPM is Engine Revs. per minute = 2600
 F is 1/60 Tire Revs. per miles = 10

G is Gear Ratios of rear axle and transmission

$\frac{2600}{10 \times 6.67} = 39$ miles per hour

ROAD SPEED WITH DIFFERENT TRANSMISSION GEARS

on 2% grade with fifth gear, speed =	$\frac{2600}{10 \times 6.67}$	= 39 miles/hr
6% " " fourth " , " =	$\frac{39}{1.72}$	= 23 "
12% " " third " , " =	$\frac{39}{3.05}$	= 12 "
18% " " Second " , " =	$\frac{39}{4.38}$	= 8 "
33% " " first " , " =	$\frac{39}{7.58}$	= 5 "

Calculated Performance
G.M.C. Special AC-503 Charcoal Truck

PAYLOAD 8000 lbs. net

EQUIPMENT RECOMMENDED:

G.M.C. Model 703 frame, 361 Engine with Clutch, cooling system but equipped with AC-500 axles, springs, steering gear, transmission brakes, 34 x 7 tires, etc. Above chassis equipped in China with P.H.Lee Gas Producer to burn charcoal, or H.S. Gas Producer to burn Anthracite where available.

WEIGHTS:

Estimated chassis wt.	6200 lbs.
Stake Body, Producer, etc.	2300 lbs.
Pay Load	<u>8000 lbs.</u>
Gross Weight	16500 lbs.

TIRE LOAD:

Tire load capacity, 34 x 7 x 10 ply = 2800 lbs.
2800 x 6 = 16,800 lbs. exceeding gross wt.

MECHANICAL DETAILS:

Engine Torque 28.4 lbs. ft.	:	<u>Transmission Gear Ratios</u>
Torque with charcoal	:	
35% less, 28.4 x .65 = 184.6 lbs.ft.	:	Low Gear 7.58 to 1
Rear Axle Ratio 7.4:1	:	Second Gear 4.38 to 1
Tire Rolling Radius 17.85 in.	:	Third Gear 3.05 to 1
	:	Fourth Gear 1.72 to 1
	:	Fifth Gear 1.00 to 1
	:	Total Reduction 56.1 to 1

TRACTIVE EFFORT or RIM PULL lbs.

Formular (1) $T_e = \frac{T \times I \times G \times E}{R}$ equals rim pull lbs.

Formular (2) $\frac{T_e}{GW} \times 1000$ equals rim pull available per 1000 lbs. gross wt.

Where GW equals Vehicle gross wt. = 16,500 lbs.
 T_e " Tractive effort or rim pull
 T " Engine Torque = 184.6 lbs. ft.
 I " lbs. ft. to lbs. in. = 12
 G " Rear Axle Ratio = 7.4
 R " Rolling Radius of Tires = 17.85 in.
 E " Standard efficiency at Rear Axle = 80%

Now $T_e = \frac{184.6 \times 12 \times 7.4 \times .80}{17.85} = \text{lbs.}$

and $\frac{T_r}{G_W} \times 1000 = \frac{735}{16500} \times 1000 = 44.5$ lbs. Rim Pull available for 1000 lbs. gross vehicle weight

Rolling Resistance for Fair Road Surfaces is 22.5 lbs. per 1000 lbs. vehicle wt. and Grade Resistance for each 1% of Grade is 10 lbs. per 1000 lbs. of vehicle wt. Then, the 44.5 lbs. available minus 22.5 lbs. for rolling resistance leaves 20 lbs. for grade resistance. This is therefore, sufficient for 2% grade on direct gear when fully loaded. On level road this available rim pull is used for acceleration.

CALCULATED PERFORMANCE:

Operation		Rim Pull per 1000 lbs.	Grade Ability
in First Gear	$44.5 \times 7.58 = 337.5$	minus 22.5 = 315 lbs.	31% grade
" Second "	$44.5 \times 4.38 = 194.9$	" 22.5 = 172 lbs.	17% "
" Third "	$44.5 \times 3.05 = 135.7$	" 22.5 = 113 lbs.	11% "
" Fourth "	$44.5 \times 1.72 = 76.5$	" 22.5 = 53 lbs.	5% "
" Fifth "	$44.5 \times 1.00 = 44.5$	" 22.5 = 20 lbs.	2% "

ROAD SPEED at 2500 RPM under ENGINE MAXIMUM PEAK

$$\text{Formular: Speed} = \frac{R.P.M.}{F \times G}$$

where R.P.M. is Engine Revs. per minute = 2500

F is 1/60 Tire Revs. per mile = 9.7

G is Gear Ratios of Transmission and Rear Axle

$$\frac{2500}{9.7 \times 7.4} = 30.5 \text{ miles per hour}$$

ROAD SPEED WITH DIFFERENT TRANSMISSION GEARS

low 2% Grade with Fifth Gear, Speed =	$\frac{2500}{9.7 \times 7.4}$	= 30.5 miles/hr.
low 5% " " Fourth " , "	$\frac{30.5}{1.72}$	= 18 "
" 11% " " Third " , "	$\frac{30.5}{3.05}$	= 10 "
" 17% " " Second " , "	$\frac{30.5}{4.38}$	= 7 "
" 31% " " First " , "	$\frac{30.5}{7.58}$	= 4 "

To

HE. Minister Chang Kia-NGau

As a result of last night's conference, it is my understanding that the following general principles are to be followed in our attempts to break the existing congestion at the port of Haiphong in French Indo-China in so far as cargo consigned to the National Government of the Republic of China is concerned:

1. Utilize to the fullest, the available capacity of the French Indo-China Railway between Haiphong and Kunming.
 - A. Eliminate for a least the month of January, 1940, the movement of all railway materials. This for the reason that, railway materials can only be used for construction work on railroads, that will not be completed for some time to come, and therefore could suffer delay in the interest of moving essential cargo.
 - B. Embargo the port of Haiphong in so far as the receipt of freight consigned to the National Government is concerned. This should not effect freight in transit, but the embargo should be made effective as quickly as possible in order to eliminate further congestion.
 - C. Until the present congestion at Haiphong is eliminated, National Government freight formerly destined to Haiphong, should be shipped through the port of Rangoon and the Yunnan-Burma Highway.
 - D. Center authority in southwestern Transportation Company to receive, store, clear customs and forward all Governmental freight through the port of Haiphong. The exact period of this centralization of authority to be dependent upon the time within which the present congestion is eliminated, or full utilization of China Transportation Corporation's facilities are possible. We recommend such centralization in Southwestern Transportation Company for

the reason that they have complete control of so-called military cargo and have acted as agent for other Governmental agencies, in which capacity they have made special arrangements, including tariff rates, with the French Indo-China Railway as well as the provincial authorities in French Indo-China and in Yunnan Province.

2. Authorize Southwestern Transportation Company to tranship cargo and automotive equipment from Haiphong to Rangoon as circumstances require and for the duration of the emergency. Inasmuch as the continuity of traffic flow in free China is just as important as the continuity of traffic flow from Haiphong in eliminating congestion, we recommend that Southwestern Transportation Company at Kunming consider only Civil Government freight on the one hand and military on the other. Southwestern Transportation Company to utilize the facilities of China Transport Corporation in forwarding Civil Government cargo from Kunming and its own facilities for the further handling of military cargo.
3. Utilize all available railroad rolling stock, the property of the National Government, the Kwangsi Railroad, the Yunnan-Burma Railway or the Yunnan-Szechwan Railway. Such utilization can perhaps best be obtained, by leasing such rolling stock to the French Indo-China Railway for the exclusive service of the National Government in moving its cargo between Haiphong and Kunming.
4. Arrange with the French Indo-China Railway either through traffic interchange or temporary lease of the French Indo-China Railway, of at least 12 Kilometers of the Yunnan-Szechwan Railroad northward from Kunming. It is the intent by this arrangement, to permit the French Indo-China Railway to use present trackage of the Yunnan-Szechwan Railway in the suburbs of Kunming, as team tracks, permitting quick unloading direct to trucks, and re-loading of export cargo

- for the return move to Haiphong. By utilizing several locations along this 12 Kilometers stretch, and at a distance from Kunming proper, additional protection from possible enemy activities should be afforded. In the emergency there must be in effect, definite instructions that no loaded wagons may remain on hand at Kunming longer than 8 hours, as otherwise the maximum capacity of the railroad cannot be used.
5. In so far as Government cargo is concerned, we shall attempt to load wagons at Haiphong segregated as between military and civil Government. The purpose of this segregation is to permit Southwestern Transportation Company to load directly into its trucks at Kunming all cargo consigned to the Military, and China Transport Corporation to load directly into its trucks all cargo consigned to Civil Government agencies. By considering during the period of emergency at least, only the two major Government transportation agencies, we should eliminate confusion and possible congestion at Kunming, and it is of the utmost importance that Kunming be kept clear of congestion to assure continuity of traffic flow, which in a measure is just as important at Kunming as at Haiphong. It is also imperative that China Transport Corporation make adequate arrangements and place a competent operating man in charge at Kunming, in order that we may avoid the possibility of congestion at that point.

While we understand the urgent requirements for gasoline supplies and certain raw materials, I believe it would be helpful if Mr. T. L. Soong would be provided with an approved list of cargo at Haiphong in the order of needed preference. The selection of preferential cargo to be made entirely by Mr. Soong and his staff, as varying circumstances may dictate. Dealing in percentages of an unknown quantity does not

appear so logical, as outlining the problem to him, in order that due consideration may be given to possible additional cost of transshipment to Rangoon and movement over the Yunnan-Burma Highway.

Gasoline requirements, we understand, are to be pooled in so far as Haiphong is concerned and distributed to the various agencies at Kunming by the Liquid Fuel Control Commission. In this connection, direct your attention to the absolute necessity of assuring an adequate gasoline supply for both Southwestern Transportation Company and China Transport Corporation in order that the continuity of traffic flow from Kunming to the interior will not be disturbed. In this way, the benefits of a smooth flow of traffic can be best assured.

(Signed) M. E. Sheahan

cc: H.E. Dr. H.H.Kung
cc: Southwestern Transportation Co.
Attention Mr. T.L.Soong
cc: China Transport Corporation
Attention: Mr. Y.C.Chen

Chungking

January 3rd, 1940

To

H.E. Minister Chang Kia-NGau

Enclose Mr. Bassi's report, covering the survey trip over the Lushien "cut-off" to Kunming. We believe as a result of this survey, that it is feasible to operate truck-tractor and semi-trailer equipment capable of hauling a minimum of 8-ton loads over this new highway. We also recommend that due to the newness of this highway, that traffic thereover be restricted. The new highway upon the completion of needed improvements will undoubtedly prove most helpful in relieving possible congestion at Kunming. It is highly probable that the concentration of tonnage via the French Indo-China Railway and the Yunnan-Burma Highway at Kunming, will necessitate early inauguration of the driver relay plan of operation for 24 hours daily, and it is our recommendation that maximum utilization of the new highway be permitted for a limited number of vehicles, particularly those of the larger type (Truck-Tractor Semi-Trailer) to be operated by the China Transport Corporation.

(Signed) M. E. Sheahan

Chungking

Jan. 4th, 1940

November 30, 1939

Chungking to Lungohang

160 Roadway quite good as to grade and curves, the surface has been scrubbed out of clay bond to Yungohang and is quite rough.

34 Yungohang to Lungohang about the same as foregoing.

0 Lungohang to ferry at New Little Market on To Kiang River, the highway has a fairly good surface, lumpy and thin but not spalled out, could stand a good surfacing of smaller stones and then, rolled in screenings. Otherwise only complaint is that; as in all roads, the curves are of too short a radius, obviously not always in the interest of land conservation.

Lan Tien Ba - Km. from Lungohang - Road Mileage markers number from Lungohang.

Road from Lan Tien Ba to Hsu Yung.

Road surface over this first portion is of River bottom materials with sandy clay bond will not last under heavy traffic. Stones are round and will not stay well bonded when wet. Some good sand (sharp) found in Bond. Viewed other warehouses and Foreign Trade Commissions godown. (See Ferries, Stations & Shops)

The ferry crossing between Little Market () and Lan Tien Ba at present involves crossing the To Kiang to Luhsien and then after passing thru the congested streets of this city, another crossing to Lan Tien Ba via the Yangtze ferry.

Ferries, Station & ShopsLan Tien Ba

S.Y. Shop and station property, 9 acres or 54 mow, 67.0 Km. from Lungohang - Drawing attached. Buildings Completed, Marked in Red.

North of this station is that of Southwest Transportation Company a very good layout practically completed.

Further north along river is the Ferry which is being rapidly installed, also Quay arrangements to facilitate its use thru all stages of water. This bids fair to be an outstanding piece of work, well engineered and well built. Temporary works, make its use possible at present. Completion promised in 4 months.

One Kilometer to the north is the contemplated transshipping point to Yangtze junks or sampans. The Minsung Steamship Co. have already installed their barge for mooring, as well as equipment and floats, to provide for uninterrupted use thru all water stages.

The property here, selected for godown and unloading facilities has not been developed in an way at present, and is in crops. A short road must also be built to reach this property. Immediate transshipping can be facilitated before work is completed, by moving barge south to Ferry location and using military drill ground for a loading and unloading area.

Between Ferry location and transshipping point, on the road above high water level, is first, the warehouse of the China Travel Service, devoted to (projected) storage and transport of electrical equipment, this Company operate 18 trucks for this purpose. This property embraces approx. 2 acres, which include loading compound surrounded by three warehouse type Buildings, approx. 30' x 75' and two gate Houses for office and storage.

Then adjacent and to the North is the property of the Foreign Trade Commission for the storage of wood oil, 2 buildings 35' x 150' --- with a capacity of storage in BBls. of 1,000 tons. The property is approx. 300' x 500' in area. Ground level storage is contemplated without platforms.

In contemplating this entire situation, it is first most logical to dismiss the city of Lahnien from an consideration in any plan embracing this area.

It lies upon a point in the River bend, requires two ferry crossings to enter and/or leave. The city itself has been totally destroyed by the enemy and does not constitute an economic advantage to transportation. Any necessity for cargoes delivery directed to this city can be made by Ferry. However all other traffic movements can advantageously avoid the double crossing of rivers by moving the Little Market Ferry to the east side of the City and movements directly from Lan Tien Ba to Little Market made, or new ferry position located at Se Tea Ba can be established.

At Little Market the highway approach to the Ferry is also thru the City. While this City is small it also presents a traffic hazard therefore, it is recommended that the road be extended around back of city as per map, to reduce the Ferry (mileage) crossing distance and avoid street congestion.

Lan Tien Ba to Su Yung - 113 Km.

Bridge, curves and width of highway need improvements.

Surfacing too thin, ranges only between 2 and 5½ inches, slope of embankments in fills too steep and is sliding out in several places especially on back filling at bridges without wing walls.

No sign of traffic on highway.

1st Tsao Tsi Kou large new bridge with badly deformed arch on far side of bridge, stone material, very soft. (For pictures and details, see Bridges and Ferries).

2nd Junction of Yangtze and Yung Ling Ho envisioned for possible transshipping point thereby avoiding ferry at Km. 87 from Lungchang over Yuan Ling Ho by changing road location to river. Contemplated the Junction of the Yangtze and Yung Ling Ho to envision the possibilities of using this location for transshipping to water carrier in preference or alternate to Lan Tien Ba.

These rivers join here in a broad flood plain, which would

require paving a river bottom ramp to facilitate approach to float barge for transshipment at low water stages and would require continual moving of pontoons and float as water rises or recedes.

To accomplish utilization of this location, would require relocation of highway or branch road and permit the avoidance of the Yuan Ling Ho Ferry (and subsequently bridge) at Km. 87. A saving in transshipping of approx. 18 Km. could be effected. This proposal while appearing to be fraught with many objectionable elements should be investigated, especially in the case of enemy activity temporarily disturbing facilities at Lan Tien Ba.

Tsao Tsi Kou Bridge

This Bridge while in appearance, looks handsomely designed and well built, is surprisingly bad in many details. Primarily one arch on the far end of bridge and on the right side is badly deformed and has reached an almost horizontal line whereby it might collapse of its own weight, the left half of the arch has maintained a safe position of form. The stone from which the bridge is built is very soft and splits in compression. Whether or not it is advisable to re-inforce the floor of the Bridge with a reinforced concrete slab or dismantle $\frac{1}{2}$ of the arch and rebuild it with suitable stone to original arch dimensions. It seems reasonable to suppose that the later could be accomplished without diversion of traffic, as deformity does not extend across whole of the arch and a guard rail and traffic warning could be used to maintain traffic in a single lane as would be necessary also in the case of a re-inforced slab repair. Proper shoring of the arch being the only additional expense in the first method and the repair slab material in the latter, always however with the possibility of collapse of the arch in the latter case.

Yuan Ling Ho ferry project, ramps being built on both sides considerable rock work in progress, suggestions made for the use of Pontoons during low water, to keep apace of traffic requirement.

Bridge contemplated would require 1 year to build.

Existing piers of old Ming Dynasty bridge still sufficiently solid; with exception of Far abutment, to support good wooden bridge, apparently these Piers set on solid rock that has not scored out for centuries.

Yuan Ling Ho Ferry

Considerable construction activity at this point is evident. The Ramps on either bank are being prepared and constructed of stone. The location as per photograph is in a narrow declivity with abrupt soil banks on either side, the ramp stone work 9 meters wide, is very good. The completion is contemplated in the early months of 1940.

While the construction work at this point does not interfere with the movement of traffic to any great degree, it is felt that the pontoon bridge be completed without delay to facilitate the construction of the ramps, as trucks standing in wait for ferry interfere with the construction.

Proposed Bridge - The bridge contemplated for this location is designed and several locations tentatively selected. However it is obvious that at least one year would be required to complete a bridge of this type, during the interim and especially at high water the loss of time at the ferry would be considerable and the pontoon bridge would be impossible of utilization. Therefore it is felt that greater facility will be effected in utilization of the present site and remaining piers of the "King Bridge", for the support of a wooden truss superstructure. This should require the construction of only one abutment and repairs to tops of remaining piers. These piers have stood the ravages of time and flood for several centuries and show no signs at low water of having scored bases.

The site of this present location will require liberalizing curves at both bridge approaches.

The time required consequently to build the Voussier arch bridge would have little if any effect on traffic movement during the interim, at its proposed location 10 meters up stream.

Stone arch bridge over the small river at Shan Ma Chang, @ K132, arch cracked clear thru bridge and approach quite undesirable, "S" curve on both ends of bridge too narrow, approaches should be relocated. Road passes thru congested town, also undesirable.

Shan Ma Chang Bridge

This bridge is located in the midst of a small congested town over a small stream, the arch of which is badly cracked laterally and is unsafe for heavy loads. An S curve approach on either end both narrow and sharp* make the entire assembly a most ridiculous group of circumstances needing immediate improvement. The solution of the problem lies obviously in relocation of bridge and highway, preferably and logically out of the present area.

The highway beyond this village continues quite narrow and should be widened when relocation is accomplished.

Large Sung Kiang - stone bridge 7 arches - (82 Km. from Lan Tien Ba) 149 Km.

23 Kilos. of fair road drainage badly in need of improvement and fill over approaches and bridges needs raising.

90 Su Yung to Chih Shui Ho - 95 Km.

Su Yung

Szechwan-Yunnan Installation

This location suitable for "C" shop, has Yard which is fenced, two covered service sheds with 14 stalls each and small building with three additional stalls and shop space. Ground within fence approx. 85'-0" x 300'-0". Southwest Transportation has parking space across highway.

China Travel Service has hotel south of Shop Location which

* and with a steep grade on far side

is 700 meters from city.

Hotel Szechwan Yunnan, now in operation, offers exceptional accommodations.

Su Yung, additional shipping facilities:

The River accommodations here for shipping cargoes are fair though seasonal, as to cargo capacity.

Sampans carry salt up stream from Ichau and return down stream empty.

The size of sampans are usually 1 meter in depth, 25 meters in length and 3 meters in Beam. At present low water 12/9/59 they can carry 8,000 catties.

If the water increases in depth to an additional 24 inches () they can then load up to 40,000 catties.

From this point to Narsih the charge for 100 catties is CN\$1.50.

The journey up stream requires thirty days or less while the down stream trip is between three and six days.

Utilization of this mode of transportation by transshipment at this point will relieve truck transport of at least 113 kilometers, to Lan Tien Ba.

1st Stop

2 Km. out inspected South Gate bridge TKC orders work stopped - using wood shims to fill in space between undersized stone work and cementing in.

South Gate Bridge

2 Kilometers from Su Yung

An inspection of the reconstruction work in progress on a damaged span of this bridge disclosed the masons using long wooden shims, in full joints, as fillets.

This unethical and dangerous practice was occasioned thru the use of poorly cut and undersized stone and the cementing over at the joints hid the discrepancies in construction.

After a consultation Mr. T. K. Chao wired sectional engineer to stop this practice, remove the wooden shims and remain to hasten and supervise the completion of the work.

This bridge also lacks wing walls and retaining well as in the case of several new bridges in this section.

Paddy fields disappearing, mountain roads beginning, fair surfacing only.

2nd 18 Kilometers out in Mo Tsu Dong area road washed out in Feb. and March during overflow of River, new position of road is on dangerous ground due to underground springs.

Ma Tsu Dong - area

18 Kilometers from Su Yung

The highway is in a very vulnerable situation thru paralleling a river that is rampant during flood and located in the midst of an area honey-combed with springs. This section; which washed out last spring, should be relocated and/or the river riprapped to control it. The road bed should be raised and that section endangered by subterranean springs should be a multiple arch culvert section, bridging the outlets of the springs which now underlie it. This would permit the free flow of water in either direction depending on source and volume.

Recommendations for changes in location made to engineer to TKC. This is very important.

3rd Wash out of bridge at Kan Che Ko and slide out of mountainside, only narrow pass available, wooden bridge; temporary, total of 2 kilometers of very bad and tortuous roadway.

Ma Tsu Dong - area

Kan Che Ko

Wash out of Bridge and slide out of mountain side have created a desperate situation at this point. The temporary bridge here will suffice until flood however the stone arch bridge to be rebuilt should be large enough to prevent recurrence of this washout.

Location 20 kilometers from Su Yung (see pictures)

Retaining wall will most likely be necessary to rebuild roadway at this slide.

Altitude increasing 845. meters.

4th South of Moni, one very bad switch back, short radius curve and no relief in grade (Soo Cha Tsui) altitude here 1,680 meters.

5th At 78 Km. a very bad mud slide, Kwan Cho. This is just before the highest point, this pass. At 80 K. beyond Su Yung a very difficult grade encountered in form of short hump this should and can be modified. Shi Shan Kwan pass 1706.28. Culverts not all sound and should be carefully inspected before rainy season.

Vicinity of Tung Mun Ching

At 92 to 93 K. very difficult conditions are encountered overhanging rocks and slide took out piece of road. Retaining wall built holding or supporting road. Very bad hump being reduced or to be reduced. Immediately thereafter new bridge over underground river just finished, sag at far side in approach due to high fill, settling is being benched, conditions here are quite desperate, but being diligently combated - with caution used, can safely be negotiated. This entire section of Highway requires considerable work to raise its standard to that; which will be required and demanded of it, with the advent of heavy traffic.

Down grade into Chih Shui Ho, night stop at Engineers Office.
Altitude 1380 - (96 Kilometers from Monday the 4th)

IV. Shui Ho to Pichieh - 88 Km.

Chih Shui Ho Station and Shops

Station which will be used eventually is now used as engineers office. Station is suitable for lunch station or emergency night stop.

Shop facilities consist of well graded and fenced property 100' x 150' with small building for "C" shop. Three stalls one having a pit, very small but adequate under normal standards.

Chih Shui Ho Bridge Site

Many changes in designs and projected locations of this bridge, has been made. Unsuitable foundation locations are greatest problem. Decision to make test for footings approx. 100 meters up-stream from previously accepted site. If unsuitable condition exists, old location will be used with increased factor of safety in pier foundation designs.

Pontoon bridge is now is used but at flood stage either temporary bridge contemplated before march or emergency ferry will be used. The permanent bridge shall be a 35 meter pony truss structure.

Bridge location discussed and survey of choice of locations made, Tkc not in favor of any projected. Final site chosen. (See Bridge Shop & Station Facilities, also see Shop Location details)

Highway climbs steadily out of valley to 1730 M, grade quite heavy but not over 10% the road holds to a general altitude of approx. 1600 Meters, very well surveyed and located.

Only criticism is on a matter of approx. six very short radius curves and six switch backs that are very steep at ends that should be flattened considerably. These switch backs reduce the Capacity of the loads carried due to their spiral character. Otherwise this section of the highway is quite an heroic piece of work.

Pichieh to Weining - 176 Km.

Pichieh - Station, Shop and Terminal

Station and plant contemplated at west end of city outside of wall. No buildings erected or started as yet.

An area of 40 mow approx. 330' x 408' to accommodate 68 trucks, machine shop and service station, being prepared. Blue Prints attached of Szechwan Yunnan plan for this location.

Road rises and falls with ever increasing altitude with good gradients and curves then down to river at seven star pass where

pontoon crossing is in service. Bridge Pier still standing of Chihsing Kwan bridge destroyed by the communist army.

Chihsing Kwan Bridge

This bridge will be rebuilt, eventually with a one span pony truss, however a double lane semi permanent wooden truss 12 ton capacity bridge should be erected on the old pier and abutment now standing or rebuilt. The pontoon now in service will be inadequate during flood stage. Completion of this bridge expected by next March.

This area surrounding the bridge is infested with Bandit bands who terrorize the natives and workmen and recently committed a payroll robbery.

Altitude 2200 M. Mileage markers now run inversely to Kunming. 73 Kilom. out at Marker No. 438 and extending to No. 435 several very bad curves are encountered, radius entirely too short, should be corrected.

Cross valley of the Ya Ma Chwan where timber bridge is built on piling one span shows deflection on truck crossing, however is amply safe four (4) ton single axle loading at a time.

Ya Ma Chwan Bridge

Temporary bridge installed of piling and timber, one span shows deflection on the passing of loaded vehicles although safe for 4 ton single axle loads. Contemplate, increasing load capacity to 12 tons. A three span stone arch bridge is recommended for this location to be sufficiently completed by flood stage to forestall cessation of work.

Road climbs again by very stiff grades, some as difficult as 16% these can be reduced by removing humps and raising fills beyond Ha Tsung at 114 Km. reaches an altitude of 2450 meters in pass. Monument to conscript labor used in building these sections - slides being removed and curves widened here, steep grades quite a tortuous section, but safe.

Road falls and rises again to 2800 M. at 507, down again and back to 2800 at 511, rising to 2830 (top) at 512 Km. (Beginning at Km. 491 this highway was built by Weining Magistrate.)

Weining 538 Km. - 176 Km. from Pichieh

Weining to beyond Border @ (pine House) Chiohiao - 102 Km.

Weining shop facility information not in any way available, print of plans for this location to be forwarded as soon as possible.

Station and China Travel Service hotel being fitted for use in near future.

Permanent shops and station to be built.

Pass Tsau Hai - Grass Lake quite impressive. Road quite well laid out and located, some sections double surfaced, at 396 to 394 some bad curves again encountered. Double surfacing of road is evident where good stone is available, highway here is broadest.

Ha Shu Tow

Land being prepared for new station buildings and parking apron.

At 386 to 385 steep grades are again encountered at 375 to 373 some very tight curves are again manifest and down to 364 the reentrants are very badly engineered due to poorly located culverts, placed too far back into the reentrants thereby making it necessary to follow a serpentine route around the face of each hill, which are in direct succession to each other. Many yards of face cuts made necessary, where better alignment would have saved this work. At 357 $\frac{1}{2}$ a very bad short radius curve over a narrow culvert of approx. 28 $\frac{1}{2}$ radius (outside) and directly thereafter, tangent Grade, is 17% (measured) another such curve is encountered at 355.

Chiohiao to Suanwei - 79 Km.

Chiohiao (Philosophers awakening) road is being relocated and raised. Temporary station 339 Km. Small new structure contemplated. Just beyond at 338 to 336 several short inside

curves, again (due to following previously install culverts without alignment consideration) encountered.

Enter Yunnan Province @ 335 Marker. Road here finely surfaced, at 320, grades get too difficult and should be reduced road rises to 2650 Meters and at (280) reaches 2690 meters, road is now quite good, at 271 decent starts into broad plateau valley, no protest except grades at (320) (Suanwei)

Suanwei to Junction (Tien Sun Chiao) - 77 Km.

Suan Wei

Shop facilities located just beyond city on 10 mow approx. (150' x 300') well fenced, has fuel storage house, 15 service stalls, open, a building for stock room, shop and office with three repair stalls and pit. Can be classified as a "C" type of shop.

Here in Suanwei is also located the training school for the Mechanic and drivers for the Renault diesel trucks, originally purchased for operation over this highway. The school and dormitory is located in an old temple, where several students are now in training.

Suanwei - Road at present is thru the town where the congestion is terrific, this should never be permitted, the streets generally are so narrow and pavement so questionable as to promote delays and dangers to life and property. The road which was started to by pass the city, has been stopped, due to the protest of the R.R commission and its desire to purchase this area for either town site or speculation.

This indeed creates a serious situation at a time when the full utilization of this Highway is absolutely necessary, as against a future possibility of need by the Rail Road which cannot possibly be in operation for years at least.

It is definitely recommended that this road be finished immediately as this city street represents the major traffic hazard along this route.

At the South gate, bridge quite narrow however, will handle all standard units until route, by-passing, city is completed. (700 meters unfinished work suspended)

This section of road evidently was well built but all along the Highway there begins signs of crowding, crowding by the railroad construction work, the highway becomes more and more littered with stone and materials for the railroad, in most cases the roads useable width is reduced to that of one vehicle.

Either the selection of the route established by the highway was perfect or the railroad engineers have taken the line of least resistance and have followed the Highway to the extent that they have relocated the highway in order to facilitate their right of way. See pictures and details.

85

Tien Sun Chiao to Kunming - 181 Km.

Pass away from Rail road, for a short distance. Road still in a high plateau at an altitude of 2,270 meters. Pass junction with the Kweiyang highway and enter upon main artery to Kunming. Road surface now shows effects of hard usage on insufficiently strong surface.

This highway shows the effects of poor maintenance effort. Lazy slipshod servicing of road, no attention paid to shoulders overgrown with brush and spalled out in spots. All sections from beginning at junction to Kunming are in need of good maintenance. However the greatest hazard is caused by encroachment onto road of stones in piles - Boulders - Poles and at (100 K) road practically closed with railroad material. At 99 road relocated to accommodate rail right of way, poor relocation obvious.

At 94 Kilom. again @ 81, 80, 60, 59, 58, Railroad debris, stones, poles and material practically close the road to free movement - at 55 Kilom. the debris from blasting is so bad that in spite of

care and precautions the crank case of Inspection car was punctured by rocks in road causing loss of crank case lubricant, and damage to engine and undercarriage.

This section of highway is increasingly worse as Kunming is approached narrowing down to practically one truck width caused principally by piles of stone and boulders, piles indiscriminately on the shoulders.

The permanent, solutions to this situation is either provision for distributing surface materials as needed from storage piles set off of road bed or building another parallel road for one way traffic or resurface this highway; which has had sufficient time over a period of years to be permanently settled, with either concrete or asphalt or asphalt macadam.

from Lungchang

Total Journey (actual)	1181 Kilometers
Operating time	53:01
Average speed	35.8 K.P.M.
Total Elapsed time	60 hours 33 min.
{ Lowest, Suyung - Chi Shui Ho	22.2 K.P.M.
{ Highest, Chungking-Lungchang	41:00
{ Weining-SuYunWei	40:5

subject to correction

Kunming

At 11 Km. (East) S.Y. property (54 mow - 9 acres) no developments as yet. Land still in woods & meadow.

At Parade grounds, 113 Foo Shing trucks, parked in groups, no shop facilities requires square in center to be utilized for repairs, several wrecked or damaged units were being dismantled and compromise repairs being made in the open.

Burma Yunnan Shops

This shop arrangement is fairly well organized but still incomplete and not in position to render repairs and service to other organizations other than their own limited operation at present. Too limited a facility to be expanded to a Major Shop.

Foo Shing - Large plant, compound of 2 godowns but not much provision made for shop facilities.

The ensemble consists of 1 service garage with 6 stalls on the East end and 2 service garages 1 small shop - on west end.

Large dormitories are also included. This project is not large enough for Major servicing of trucks and cannot be considered at present as either of the A or B classification.

Szechwan-Kwangsi - This station and shop location is at present the largest and best in this area and should be immediately equipt with a complete B shop facility to commence rehabilitation of the Bar order equipment that has accumulated here and to overhaul such equipment as can reach kumming in regular service, from other points thus relieving the Kweiyang shop for unit overhauls at present. Until Major "A" shop can be set up here by expansion of present property or by a building suitable for installation of this type of equipment the B shop facilities; if complete, can adequately handle major work for the present.

<u>Point</u>	<u>Speedmeter Distance</u>	<u>Time</u>	<u>Average</u>
Chungking to Yungchang	164	4:00	41:00
to Lan Tien Ba	106	2:51	37:30
to Su Yung	110	3:30	32:5
to Chi Shui Ho	96	4:20	22:2
to Piehieh	88	2:24	36:6
to Weining	177	4:31	39:5
to Suanwei	181	4:22	40:5
to Kunming	<u>263</u>	7:03	37:5
Total	1185		

Chungking
Jan. 3rd, 1940

c/o Ministry of Communications
Chungking, Jan. 8th, 1940

Mr. A. L. K. Lin
Chief Accountant & Supervisor
Directorate General of Posts
Kunming

Dear Mr. Lin,

In commenting on your CMS Report No. 37, I must admit that under the circumstances, I am naturally in agreement with your conclusions, because they are logical and sound, especially due to the exorbitant price paid for fuel in China.

Nevertheless, (you probably knew that was coming next), I personally feel that in holding to what everyone agrees is the safest method, that is, method No. 1, which applies also in China, if one could interpose an automatic mechanical device to eliminate the cost item of fuel from consideration, is proper.

Therefore as I promised, I have obtained (from my Chicago office) the name of the device which we discussed, this is the Leibing Degasser manufactured by the Leibing Automotive Devices Inc., Detroit, Michigan. Among their claims the following is an excerpt: The excessive vacuum caused by each decelerating operation is now utilized to shut off All Gas formerly drawn into the manifold and combustion chambers during deceleration. This eliminates excessive, rank smelling, Aldehyde fumes, poisonous monoxide gases, and a wet intake manifold floor caused by induction of uncontrolled fuel intake. Because the gasoline supply is shut off at the source (the idling jet) at the moment of deceleration, a definite quantity of fuel is saved every time the motor is decelerated in traffic -- and for stopping and starting.

I would be quite interested to learn at a later date whether or not you had obtained some of these devices, and what your findings would be, in the manner of improved safety and reduced cost of clutch transmission and brake repairs. Best personal regards,

Yours very truly,

(A.B. Bassi)

Shops and Shop Facilities

General

Under prevailing circumstances, the provisions for the Maintenance and Repair of equipment on the entire highway are practically non existent. It is felt that this situation should be dealt with immediately in the manner of finishing the construction work on the shop and service buildings first, so that the highway may be utilized while stations, terminals and other accessory installations progress to completion.

Immediately, that these shop locations are provided with protection from rain and weather that proper machine tools equipment be installed by the notification of readiness to the maintenance department, thru proper channels.

Gasoline storage facilities while elaborately planned are quite incomplete yet sufficient to accommodate quantities of fuel compatible with initial requirements.

Inspection Stations

The twelve transportation stations planned where traffic inspection is proposed in addition to the seven inspection stations constitute at least nineteen delays to traffic movement. This in addition to the provincial inspections that may be imposed as well constitutes a ridiculous chain of circumstances that aim at breakdown of efficient transportation and a means should be immediately determined to reduce the number of inspections and the time required to accomplish those absolutely necessary.

Conclusions

In summarizing the foregoing, a conclusion may be drawn that this highway required tremendous additional expenditures of time and funds to make ready for traffic operations.

This is far from the fact and while certain improvements and repairs are absolutely necessary, the balance; taken as a whole, constitutes one of the best highways this advisor has been privileged to travel, in free China. True, that certain sections surfaced with clay mixtures and those sections with very thin surfacing, will require considerable maintenance in wet weather, there should be no hesitance on the part of the operator to accept the advantages offered weighed against the compromises presented, where serious difficulties have been encountered and in a great measure overcome, against, unyielding nature in the guise of water and stone.

Recommendations

To wit:

Reduce the percentage of grades now over 8%.

Increase the Radius of Curves, even to the relocation of culverts where necessary to obtain long tangents.

Realign where possible with cuts and fills rather than compromise on serpentine route for ease of accomplishment.

Quickly raise the thickness of metaling where the surface has been "faked" against the eventuality of rains and traffic.

Provide abundant drainage facilities, the location of which are obvious.

Raise the loading capacity of bridges and culverts to at least 15 tons.

Eliminate within reason, Ferries and Pontoons.

Install traffic danger signs and guard rails at all hazardous places and at abrupt changes of direction.

Improve side slopes especially at bridge approaches.

Plant trees and shrubs to provide more substantially held fills and shade to highway surface.

Protect against landslides with suitable bench work and drainage.

The specifications to which all things are built or manufactured constitute the aim of their creator. This highway; specifically, if built to specification would constitute an ideal Macadam highway. Therefore, without further reference to identical culverts, certain drainage provisions or specific bridges, the several engineers in charge, should feel it their duty to accept no compromise and at the very least raise the plane of this new National utility, to the hopes of its creator.

Signed (A. B. Bassi)

Chungking

Jan. 6th, 1940

c/o Ministry of Communications
Chungking, Jan. 6th, 1940

H.E. the Generalissimo
President, Executive Yuan
National Government
Republic of China
Chungking

Excellency,

In compliance with your expressed desire, I am attaching hereto a copy; less maps and building details, of Mr. Bassi's report of inspection of the new Szechwan-Yunnan Highway. Should there be any information of particular interest to you not expressed therein, Mr. Bassi would be available at your request to provide such impressions as he may have retained with reference thereto.

Respectfully submitted,

(Signed) M. E. Sheahan
(Per A. B. Bassi)

cc: Dr. F. K. Pan

o/o Ministry of Communications
Chungking, Jan. 4th, 1940

Mr. P. H. Chang
Executive Yuan
Chungking

Dear Mr. Chang,

Pursuant to your telephone request today, I am enclosing two tables; (1) Governing the Basic Freight Rates via Motor Truck over the Szechwan Highway Administration from Chungking to Kwang-yuan and the Northwest Highway Transport Administration from Kwang-yuan to Sin-sin-chia; (2) a Distance Table between Chungking and Khorgos.

You will note that the only available freight rates are between Chungking and Sin-sin-chia. From Sin-sin-chia to Alma Atta or Khorgos is under the Sinkiang Central Transport Administration, and the freight rates of this Administration are not on file but have been requested by Mr. William Wang of the Ministry of Communications. As a possible guide, there is one report on file, quoting rates for 10-gal. tins of gasoline from Khorgos to Sin-sin-chia at CN\$12.85 and from Sin-sin-chia to Lanchow at CN\$10.75. I believe however that trucks are used to the Sinkiang border and camels from the Sinkiang border to Lanchow, I therefore suggest that you communicate further with Mr. Wang to secure the additional information.

Very truly yours,

(Signed) M. E. Sheahan

cc: Mr. William Wang

Table IBASIC FREIGHT RATES via MOTOR TRUCK

Over the Szechwan Highway Administration
from Chungking to Kwang-yuan and the
Northwest Highway Transport Administration
from Kwang-yuan to Sin-sin-chia

		Szechwan Highway Administration Chungking to Kwang-yuan	Northwest Highway Transport Administration Kwang-yuan to Sin-sin-chia
Less-than- truck Load	1st Class	\$.01176	\$.0100
	2nd "	.00941	.0092
	3rd "	.00706	.0084
Truck-Load (per metric ton)	1st Class	1.0590	.92
	2nd "	.8470	.84
	3rd "	.6350	.76

Table IIDISTANCE FROM CHUNGKING TO KHORGOS

in Kilometers

	Szechwan Highway Administration	Northwest Highway Transport Administration	Sinkiang Central Transport Administration
Chungking to Chengtú	444		
Chengtú to Kwang-yuan	356		
Kwang-yuan to Lanchow		915	
Lanchow to Sin-sin-chia		1,171	
Sin-sin-chia to Khorgos			1,655

*has been
acted*

326

EXECUTIVE OFFICE OF THE PRESIDENT
BUREAU OF THE BUDGET
WASHINGTON, D. C.

FEB 10 1940

[Handwritten signature]

MEMORANDUM FOR MR. MORGENTHAU:

Subject: Study by the Bureau of Labor Statistics of the supply and probable demand of special types of skill in certain essential industries.

After our conversation, this matter was discussed with Mr. Lubin and it was agreed that the study referred to above would be undertaken immediately. Funds in the current appropriation of the Bureau of Labor Statistics are to be used for this purpose.

[Handwritten signature]
Director.

FEB 10 1940

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(Signed) HAROLD D. SMITH

Director.

FEB 10 1940

February 22, 1940.

Dear Mr. Smith:

In the absence of the Secretary, who is away from Washington, I am acknowledging your memorandum of February 10th which contains the information that the study in which Mr. Lubin is interested will shortly be undertaken. I shall be glad to convey this information to Mr. Mergenthaler, and I know that he will be very much pleased to know of the quick action taken in regard to the matter.

Sincerely yours,

(Signed) H. S. Klotz

H. S. Klotz,
Private Secretary.

Honorable Harold D. Smith,
Director, Bureau of the Budget,
Executive Office of the President,
Washington, D. C.

GHV/dbs

February 12, 1940.

Dear Mr. Smith:

In the absence of the Secretary, who is away from Washington, I am acknowledging your memorandum of February 10th which contains the information that the study in which Mr. Lubin is interested will shortly be undertaken. I shall be glad to convey this information to Mr. Mergenthau, and I know that he will be very much pleased to know of the quick action taken in regard to the matter.

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Private Secretary.

Honorable Harold D. Smith,
Director, Bureau of the Budget,
Executive Office of the President,
Washington, D. C.

GHT/dbs

For IMMEDIATE Release Saturday, February 10, 1940.

SECURITIES AND EXCHANGE COMMISSION
Washington

Chairman Jerome N. Frank in behalf of the Commission has sent the following letter to United States District Judge, Vincent L. Leibell, in connection with Judge Leibell's inquiry as to whether or not the Commission would accept the trusteeship for the Associated Gas & Electric System, now in reorganization in the Federal courts.

"In Section 11(f) of the Public Utility Holding Company Act of 1935, Congress provided as follows:

'In any proceeding in a court of the United States, whether under this section or otherwise, in which a receiver or trustee is appointed for any registered holding company, or any subsidiary company thereof, the court may constitute and appoint the Commission as sole trustee or receiver, subject to the directions and orders of the court, whether or not a trustee or receiver shall theretofore have been appointed.....
.....In no proceeding under this section or otherwise shall the Commission be appointed as trustee or receiver without its express consent.'

"On February 6, 1940, in open court, you asked our counsel to request the Commission to advise you whether it desired to be appointed trustee of the above named companies pursuant to the provisions of the statute above quoted.

"We have carefully considered the matter and our answer is in the negative.

"In that same section of the statute Congress provided that:

'.....in any such proceeding the court shall not appoint any person other than the Commission as trustee or receiver without notifying the Commission and giving it an opportunity to be heard before making any such appointment.'

"Having in mind our important duties in this respect under the statute, the Commission wishes to advise you that I will be available at any time to confer with you informally if you so desire, or that we will advise you of our position in open court, through counsel.

"As to our other duties and obligations under the same Act and under the Chandler Act, insofar as they are advisory to the court, this Commission will, of course, similarly place itself at your disposal."

Treasury Department

332

TELEGRAPH OFFICE

4W

WY4 M 64 NT

TUCSON ARIZ FEB 9 1940

1940 FEB 10 AM 8 35

ED FOLEY
TREASURY DEPARTMENT

ASK HAROLD ICKES TO GIVE YOU COPY OF TELEGRAM HE SENT ME. I HAVE NOT
ACKNOWLEDGED THIS TELEGRAM AS I AM LEAVING THE MATTER ENTIRELY IN
YOUR HANDS. SUGGEST YOU SEE MISSY SATURDAY AND TELL HER JUST WHAT
HAPPENED IN MY OFFICE THURSDAY BEFORE I LEFT SO THAT SHE WILL HAVE
OUR VERSION OF STORY. ON MONDAY PLEASE BRING MRS. KLOTZ UP TO DATE.

MORGENTHAU

814A

Treasury Department

333

TELEGRAPH OFFICE

9W

WAE23 M 101 GOVT

TUCSON ARIZ FEB 10 1940 821A

1940 FEB 10 AM 11 30

ED FOLEY
OFFICE OF SECRETARY OF TREASURY

THURSDAY AFTERNOON FRANK SAID HE HAD EXPECTED US TO CARRY THE BALL SINCE THE MEETING AT MY HOUSE. ASK FRANK IF HE EVER OFFERED A JOB TO PAUL. IF HE DID THAT REFUTES HIS STATEMENT. TO PROVE THAT I EXPECTED FRANK TO OFFER THE JOB TO PAUL I ASKED FRANK TO SEE THAT I GOT THE CREDIT AND FRANK REMINDED ME OF THAT FACT THURSDAY WHICH AGAIN PROVES MY STATEMENT THAT I HAD EVERY REASON TO BELIEVE THAT IT WAS UP TO FRANK TO CARRY THE BALL AFTER THE MEETING AT MY HOUSE. COPY OF THIS TO MRS KLOTZ ON MONDAY.....MORGENTHAU 1128A

COPY

334

U. S. COAST GUARD
Official Dispatch

DATE 10 FEBRUARY 1940
FROM COAST GUARD HEADQUARTERS
TO HON. HENRY MORGENTHAU, JR.

SECRET

Text

COPY OF WIRE SECURED AND HAVE NO SUGGESTIONS AT THIS TIME PERIOD MISSEY NOT AVAILABLE BUT HAS PROMISED TO TELEPHONE ME TOMORROW MORNING PERIOD GENTLEMAN IN QUESTION TOLD FRANK HE WOULD NOT WITHDRAW AND WOULD FIGHT ANY ATTEMPT TO FORCE HIM TO DO SO AS POLITICAL PERIOD SEC HAS WRITTEN JUDGE TODAY THAT IT WILL NOT ACCEPT TRUSTEESHIP IF APPOINTED PERIOD FRANK NOW TAKES POSITION HE WILL TALK TO JUDGE ONLY IF JUDGE ASKS TO SEE HIM PERIOD THERE DOES NOT SEEM TO BE ANYTHING FOR ME TO DO UNDER CIRCUMSTANCES PENDING FURTHER DEVELOPMENTS PERIOD WILL ADVISE YOU FURTHER

(signed) FOLEY

(Orig. returned to Mr. Foley by Mr. McHugh 2/13/40-mas)

COPY

335

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WILL ADVISE YOU FURTHER

(signed) FOLKY

(Orig. returned to Mr. Foley by Mr. McHugh 2/13/40-mas)

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336

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WILL ADVISE YOU FURTHER

(signed) FOLEY

(Orig. returned to Mr. Foley by Mr. McHugh 2/13/40-mas)

THE WHITE HOUSE
WASHINGTON

February 10, 1940.

MEMORANDUM FOR SECRETARY MORGENTHAU:

The President asked me to leave
this with my confidential secretary to give
to you on your return.

E.M.W.
E.M.W.

THE WHITE HOUSE

WASHINGTON

Wm J.

No more financing
to be given this week
with the bank while
I am away!

F. J. K.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Mexico City, Mexico

DATE: February 10, 1940, 1 p.m.

NO.: 46

Today an additional amount of dollars was sold by the Bank of Mexico, 750,000, with the demand for dollars continuing very strong. We have been advised by the Bank of Mexico that today it was selling to the Federal Reserve one additional ton of gold; this makes a total for the present crisis of three tons.

There has been a drop of 5 percent in peso deposits of private banks, and for their own protection banks are refusing to make any loans; another reason for this refusal is to reduce the amount of pesos available for the purchase of dollars.

At a quotation of 5.99 pesos, the Bank of Mexico is continuing to supply all dollar demands to associated banks.

The situation financially continues to be difficult.

DANIELS.

TREASURY DEPARTMENT

341

INTER-OFFICE COMMUNICATION

DATE February 10, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

The foreign exchange market was very dull today. After opening at 3.97-5/8 bid, sterling moved within a narrow range and closed at 3.97-5/8.

Sales of spot sterling by the four reporting banks totaled £159,000, from the following sources:

By commercial concerns.....	£ 34,000
By foreign banks (Europe and Far East).....	£ 125,000
Total.....	£ 159,000

Purchases of spot sterling amounted to £121,000, as indicated below:

By commercial concerns.....	£ 121,000
By foreign banks	£ -0-
Total.....	£ 121,000

The following reporting banks sold cotton bills totaling \$49,000 to the British Control on the basis of the official rate of 4.02-1/2:

£ 27,000 by the National City Bank
20,000 by the Guaranty Trust Co.
2,000 by the Bank of Manhattan
<u>£ 49,000 Total</u>

Prior to the opening in New York, some weakness developed in the quotation for the Dutch guilder in Amsterdam where the rate receded to .5310-1/4. After the New York market opened, however, the guilder steadied somewhat and closed at .5314-1/2.

The other important currencies closed as follows:

French francs	.0225-1/2
Swiss francs	.2242-1/2
Belgas	.1683-1/2
Canadian dollars	13-1/4% dis.

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

\$1,125,000 from the Bank of Mexico
120,000 from the National Bank of Belgium
<u>\$1,245,000 Total</u>

-2-

The Federal Reserve Bank of New York informed us that it had received a cable from the National Bank of Rumania stating that \$6,233,000 in gold was being shipped to the Federal Reserve Bank of New York on the S.S. Rex. The Rumanian Bank added that all of this gold was its property before the war and requested the Federal Reserve Bank to earmark the gold for its account when it arrives. (The S.S. Rex is due in New York about February 15.) According to the Rumanian cable, the above gold was consigned to this country by the National Bank of Belgium, the Netherlands Bank, the Swiss National Bank and the B.I.S. Owing to the fact that the cable was jumbled in part, the Federal Reserve Bank was unable to determine what portion of the gold shipment each bank named above was sending.

The Federal Reserve Bank of New York also reported that the following shipments of gold were being consigned to the American Trust Company, San Francisco, for sale to the U. S. Mint in that city, by the banks indicated:

\$ 554,000	from India, shipped by the
	National City Bank, Bombay.
390,000	from Hong Kong, shipped by the
	National City Bank, Hong Kong.
<u>\$ 944,000</u>	Total

The Federal Reserve Bank of New York received cables from the B.I.S. and the Netherlands Bank requesting it to apply for a license to transfer approximately 32,000 ounces of gold (about \$1,120,000) from B.I.S. Account #2 to the account of the Netherlands Bank at the Federal Reserve Bank. B.I.S. Account #2 is gold owned by that institution. The Treasury granted permission to the Federal to make this transfer.

The Bombay silver quotation was unchanged at an equivalent of 39.66¢.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro

NO.: 54

DATE: February 12, 1940.

CONFIDENTIAL

Reference is made to my telegram no. 45, dated January 31, 1940, 1 p.m.

Several times lately Aranha has made the observation in my presence that one of the most important drawbacks to solving the controversy over the debt situation is the fact that it has been definitely declared by the British and French that their bondholders' council will make a public announcement to the effect that the plan of the Brazilian Government to pay one half of the Aranha plan beginning with the first year of that plan is satisfactory to them, while the United States bondholders' council is unwilling to make a similar announcement with reference to the Brazilian Government's plan for payments on the basis of the final year of the Aranha plan (also they have not forgotten the remarks made by our council last summer about "mockery" and they are afraid that there might be a repetition) and the Department of State is unwilling to say more than that the offer of the Brazilian Government is a step in the right direction.

Of

Of course I have made a full explanation of the circumstances to Aranha and tomorrow he is going to talk to the President with reference to this matter.

CAFFERY

EA:EB

TO THE DEPARTMENT OF
TECHNICAL SERVICES
DEPT. OF THE ARMY

NOV 10 1951

RECEIVED

HSM

PLAIN

London

Dated February 12, 1940

Rec'd 2:06 p. m.

Secretary of State,
Washington.

366, February 12, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

The conversion operation reported in my No. 163 of January 18, 1 p. m., has now been completed and the British Treasury is no doubt reasonably satisfied with the result. Figures are not available but it can be taken for granted that the holders of by far the greater proportion of the £350 million of conversion $4\frac{1}{2}$'s have assented and will receive in exchange the new 2 percent bonds to be issued on July 1. The FINANCIAL NEWS comments: "Since upwards of half the outstanding issue must have been in official hands when the conversion offer was made and since banks and the discount market have in practice been denied the option of taking cash the market looks for a conversion total approaching £300 million." As previously reported the conversion operation has also made the Government bond market stronger.

The

hsm -2- No. 366, February 12, 6 p. m., from London

The savings campaign which was launched eleven weeks ago has now resulted in the acquisition of about £80 million equally divided between savings certificates and defense bonds. The organization of the National Savings Committee is expanding rapidly and national savings groups are being formed in factories, places of business and clubs, et cetera, for example 2,610 of such groups were formed during the past week enrolling 205,000 new savers. This movement is becoming not only an important means by which the British Government obtains financing facilities but is also drawing off an increasingly worthwhile amount of purchasing power.

JOHNSON

HPD

RECEIVED
FEB 12 1946
10 10 10

HSH

TELEGRAM SENT PLAIN

February 12, 1940

AMEMBASSY

LONDON

260, Twelfth.

FROM TREASURY FOR BUTTERWORTH.

With regard to your cablegram of February 9, instructions to postmasters in Postal Bulletin of January 23, 1940, provide:

"Under the act (Neutrality Act of 1939) and the present routing of mails, the following lists are given for the guidance of mailing post offices in accepting articles or materials in parcel-post packages, and articles or materials of material value in small packets, letters, or other class mail.

"Mails (Other Than Mails for Dispatch by Aircraft From the United States)

"List A.-- Mail containing articles or materials addressed to the countries stated in this list should not be accepted until the sender files therewith a declaration under oath that all right, title, and interest therein have been transferred to foreign ownership (see form of oath stated below)."

Great Britain and Northern Ireland are in List A.

On February 9, 1940, the Post Office Department issued a press release in which the following instructions are given to postmasters:

"1. The term 'articles or materials which are not of material value' may be taken as including articles or materials the loss of which would not result in some financial loss.

"2.

hsm -2- No. 260, February 12, to London

"2. Postmasters may, without requiring the declaration of transfer of title, accept for mailing to all destinations in the regular mails, checks, drafts, securities, documents, and other evidences of indebtedness or interest, which at the time of mailing require an endorsement or signature of a definite person for transfer or are collectible only by a definite person or his agent. This may be identified as 'Dept. Ruling No. 2' For the purpose of administration mailing postmasters shall require senders of such mail articles to certify on the address side of the cover 'Dept. Ruling No. 2 Complied With', in order that the articles may not be held for inquiry by the dispatching exchange office."

The full texts of the two instructions are being forwarded by mail.

HULL
(HF)

EA:HF:LWW

TREASURY DEPARTMENT

349

INTER OFFICE COMMUNICATION

DATE FEB 12 1940

to Secretary Morgenthau

from Mr. Foley

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

S. H. - FH

Attachment

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

1. Monopoly Study. In our last report it was stated that this project would be completed by February 1, 1940. The collection of the material involved has been completed, but the task of organizing and analyzing the voluminous data which have been gathered and of formulating conclusions therefrom has proved so great that it is now expected that about six weeks more will be required to wind up the job. Messrs. O'Connell, Kades, and Handler are engaged upon this work.
2. Customs Litigation Study. This matter has been given further attention during the past month. A conference was held in New York with Assistant Attorney General Oliver, the Treasury Department being represented by Mr. Cairns, Mr. Agee, and Mr. Dwan. Mr. Oliver has expressed appreciation of the cooperation received from the Treasury Department and has requested further aid. A study is also being made of the functioning of the Law Division at the port of New York, particularly with reference to the possibility of further coordination of its activities with those of the Assistant Attorney General in charge of Customs litigation.
3. Bank of America. During the month we assisted in the preparation of numerous surveys, schedules, and studies, especially those of a legal nature, relating to the Bank of America case, and the comparison of the condition of that bank with other national banks. This work is being done under the supervision of Mr. Whitney Seymour who has been retained as special counsel in the Bank of America case. The attorneys actually working on the matter are Messrs. Sherbondy, Zarky, Arnold, and Diamond.

- 2 -

4. Narcotic Law Amendments. It is proposed to establish a new occupational tax classification under the narcotic law for hospitals. These institutions have heretofore registered either as practitioners or as retail dealers, neither of which classes is applicable to a hospital. The new classification for a hospital will be specific, and duplicate registration and the keeping of duplicate records will be avoided.

The proposed amendments also contemplate a drastic revision of that section of the narcotic law dealing with the so-called exempt narcotic preparations. The effect will be briefly to exclude from the classification of so-called exempt preparations all those medicines and remedies which are potentially habit-forming, i.e., the exempt preparations classification will include only those preparations which contain not more than one grain of codeine to the ounce. All the other exempt preparations heretofore included which are potentially habit-forming such as paregoric, will be required to be sold only pursuant to a lawful prescription.

The third proposal of the projected amendments is that making it unlawful to sell or possess narcotic strip stamps (denoting the payment of commodity tax) except for bona fide tax purposes. This amendment will prevent the stamps being available for possible abusive use by illicit drug peddlers.

The above narcotic matters have received the attention of Tenyson, Lubore and Mitchell of the Narcotics Legal Section, and of Miss McDuff of the Legislative Section.

- 3 -

5. Income Tax Status of Stock Received in Tax-free Exchange for Stock.

A study was completed and a recommendation forwarded to Mr. Tarleau with respect to the confusion now existing in determining the basis of stock received in a tax-free exchange for stock which was acquired at different times and different prices.

6. Deduction for Losses on Transactions by Two Corporations Owned by Same Individual. At the suggestion of Justice, a study was made and a recommendation forwarded to Mr. Tarleau for legislation to negative the effect of the decision of the court in Commissioner v. W. F. Trimble & Sons, 98 F.(2d) 853 (C.C.A. 3d, 1938), which had the effect of allowing a deduction for losses on transactions by two corporations owned by the same individual.

7. Consolidated Returns by Lessor-Lessee Railroad Corporations. A study was made of the suggestion of the American Association of Railroads to permit consolidated returns to be filed by lessor-lessee railroad corporations, and a report submitted to Mr. Tarleau thereon.

8. Taxation of Income from Community Property. Consideration was given to suggested amendments of the method of taxing income from community property (together with the application of the estate and gift taxes to community property) as suggested by Mr. Stamm, Chief of Staff of the Joint Committee on Internal Revenue Taxation. A preliminary draft of report has been prepared.

9. Bad Debt Deductions. A study has been completed and a preliminary recommendation drafted with respect to eliminating the administrative

- 4 -

difficulties, possibilities of litigation, and undue annoyance to taxpayers now occasioned in determining when a bad debt deduction or a deduction for worthlessness of stock may be taken for income tax purposes.

The five preceding items were worked upon by Mr. Railing, Acting Head of the Legislation and Regulations Division, Revenue.

10. Deductibility of Certain Items From Gross Income. J. A. Miller of Wenchel's staff has completed a study of the Internal Revenue Bureau and court positions on the deductibility from gross income as ordinary and necessary expenses, of expenditures incurred on account of illegal conduct; with particular reference to the deductibility of back pay awards (and associated litigation expenses), which the National Labor Relations Board orders an employer to pay to reinstated employees as compensation for absence from work caused by an unfair labor practice of the employer.

11. Single Death Duty for the States and Federal Government in Lieu of the Present State Inheritance and Federal Estate Taxes. A study is planned of the possibility and desirability of legislation which would result in a single death duty for the states and Federal Government (in lieu of the present state inheritance and Federal estate taxes), to be imposed and collected only by the Federal Government, and then divided between the states and the Federal Government. Mr. Miller of Wenchel's staff will probably undertake this study.

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12. Availability of Unjust Enrichment Tax Returns to the Antitrust Division, Justice. A study is being made by the Processing Tax Section of the Appeals Division to determine whether the Commissioner is authorized to make available to the Antitrust Division of the Department of Justice, all of the Bureau of Internal Revenue files in connection with the returns of unjust enrichment tax under Title III of the Revenue Act of 1936 and the claims under Title VII of the Revenue Act of 1936 for the refund of amounts paid as processing taxes by the processors of tobacco, particularly the major cigarette manufacturers.

This work is in charge of Raymond F. Brown, Chief, Processing Tax Section, Appeals Division.

13. Proposed Revenue Administrative Code. Work on this project continues. The provisions relating to alcohol taxes have been submitted to the Alcohol Tax Unit for study. It now seems that the work on this project will have advanced sufficiently by late spring to have Mr. Traynor, under whose direction the work has been done, come in for final review of the material.

14. Legislation re Counterfeiting Conspiracies. This proposed legislation, which would make applicable in conspiracy cases the penalties prescribed in the various counterfeiting sections of the law, which run as high as 15 years imprisonment, has been drafted, cleared with the interested agencies and is now being reviewed by Budget. Fehle and Miss Hodel in Bernstein's shop worked on this.

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15. Pan-American Bank. Together with the other interested agencies we drafted proposed by-laws, a charter, and a convention, covering the bank's activities and immunities, etc. We participated in a number of inter-departmental conferences, and conferences at the Pan American Union relative to the proposed bank. This job was handled by Messrs. Pehle, Friedman and Ferguson in Bernstein's shop.
16. Sabotage Awards. We have been cooperating with the Department of Justice in connection with litigation relative to the awards by the Mixed Claims Commission, United States and Germany, on the so-called sabotage claims. The suit which was brought to enjoin the Secretary of the Treasury from paying such awards was dismissed in the lower court and is now being appealed to the Court of Appeals for the District of Columbia. Concurrently a cross action has been brought by the holders of the sabotage awards to have the court direct the Secretary of the Treasury to pay such awards. The latter action is still pending in the District Court. Pehle, Friedman, and Miss Hodel have devoted their time to this task.
17. Newly Mined Domestic Silver. The proclamation of the President of December 21, 1933, relating to newly mined domestic silver, as modified from time to time, expired on December 31, 1939. Appropriate instructions were prepared and sent to the coinage mints. The only silver remaining to be delivered under such proclamation is silver title to which was transferred to the United States on or before December 31, 1939. This was handled by Pehle.

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18. Reproduction of Internal Revenue Stamps. The Treasury has recently received a number of complaints that the laws with regard to the reproduction of obligations, stamps, etc., of the United States prevent county clerks and other persons who photostat legal documents from photostating documents which have attached to them cancelled Internal Revenue stamps. In order to cure this situation we recently drafted and there was issued an authorization by the Treasury Department permitting the incidental reproduction of cancelled Internal Revenue stamps which occurs when legal documents to which such stamps are affixed are photostated. This work was performed by Pehle and Miss Hodel.

Mrs. Campise, of our Statistical Unit, is working on the following projects:

19. System for recording Essential Data Pertaining to Legal Personnel and Applicants. (a) A punch card system for keeping a chronological record of employment status of legal personnel as well as data on educational and professional background is being installed. In this manner information on number of employees, grades, and salaries for any fiscal year can be computed rapidly and knowledge of the training and specialized experience of our legal personnel will be readily available when transfers or promotions are under consideration. This project is about two-thirds completed.

(b) Facts concerning approximately 2,000 applicants for positions on the legal staff are being recorded in the same manner in order that persons possessing specific qualifications may be found in the mass of files mechanically. This project is just getting under way and will require several months for completion.

20. Legality of an Unranked Register for Lawyers Under the Civil Service Act. We have prepared a memorandum on this subject for submission to the committee appointed by the President to investigate methods of recruiting and promoting professional personnel. The memorandum examines the legality of a proposal to select lawyers for the competitive classified civil service from an unranked register after their competency has been ascertained by an open competitive examination. It concludes that the authority granted to the President by the Civil Service Act is broad enough to permit, in the interests of good administration, his modification of the rules to effect such a method of recruitment. This job was handled by Messrs. Cox and Feidler and Miss Mary Goode.

21. Legality of Sale of Mine-sweepers to French Government. The question arises in a field of law which is unsettled and in a state of flux. For that reason it was deemed advisable to make a thorough study of the legality of the sale of vessels capable of engaging in hostilities by citizens or persons within this country to belligerent countries. The memorandum concludes that such sale ordinarily is prohibited by the

statutes of this country and by the principles of international law. This work was done by Messrs. Morton and Dinneen.

22. Interception of telephone Messages. An opinion was rendered on the question whether section 605 of the Communications Act of 1934 is violated (1) when an investigator for the Department listens in on telephone conversations of an employee and reports them to his superior for administrative action; or (2) when an official of the Department mechanically records conversations held by him with another person and reproduces them to refresh his memory. This opinion was prepared by Miss Goode and concludes that (1) would be a violation of the Act, but that (2) would not.

23. Jurisdiction of Coast Guard. An opinion, prepared by Mr. Zarky, was rendered, expressing the conclusion that (1) the Coast Guard has jurisdiction over American vessels anywhere on the high seas outside of the territorial waters of another sovereignty, and (2) jurisdiction over foreign vessels depends upon the law to be enforced, the facts of the case, and the existence of treaty obligations. The opinion further concludes that neutrality statutes which are navigation laws may be enforced by the Coast Guard, and that navigation laws may be enforced upon treaty vessels within customs waters, though beyond an hour's sailing distance.

24. Wage Claims by Former Employees of Railroads. The question was considered whether the Secretary, in taking over functions of Director

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General of Railroads under Reorganization Plan No. II, took authority to pay (1) claims for wages earned during Federal control and (2) checks for wages issued during Federal control but not presented prior to March 1, 1922. An opinion was rendered concluding that payment of such claims, whether represented by check or not, should be denied. Section 206(a) of Transportation Act, 1920, shows Congressional policy in favor of limitation. Payments by the Director General of Railroads prior to Reorganization Plan No. II cannot now be questioned. This opinion was prepared by Miss Goode and Mr. Gilmore.

25. Withdrawal of Certain Funds Covered into the Treasury. We explored the question whether the proceeds from the sale of orange-colored food stamps of the Federal Surplus Commodities Corporation and funds of the Commodity Credit Corporation which represent advances paid by producers to cover the cost of classifying cotton, if covered into the Treasury, may subsequently be withdrawn therefrom. An opinion, prepared by Mr. Wolf, was rendered, concluding that section 19 of the Permanent Appropriation Repeal Act, 1934, requires that such moneys be covered into the Treasury, and that their withdrawal is authorized by the said section. The opinion proposes establishment of a trust fund under section 19 from which payment of claims represented by blue-colored food stamps may be made.

The following projects and studies were all handled by the Legislative Section:

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CONTINUATION OF PROJECTS

26. Federal Depository System. (For description see previous report, August 5 to December 26, 1939, No. 6.) The preparation of a bill is in process. Several conferences have been held with representatives of the Division of Accounts and Deposits as well as a conference with the General Counsel of the Federal Deposit Insurance Corporation.
27. Codification of Anti-Counterfeiting and Related Laws. (For description see previous report, No. 7.) A draft of a bill, an explanatory memorandum, and a breakdown of existing counterfeiting laws with annotations to indicate where each existing offense has been provided for in the bill have been prepared by Mr. Koken of Mr. Bernard's office. Although the bill's complexity may make impossible the achieving of its final form and submission during this session of Congress, considerable progress has been made.
28. Streamlining Procedure for Paying Old Checks. (For description see previous report, No. 8.) Mr. Bartelt has decided not to submit any legislation on this matter at this time. Although he would be pleased to have a bill enacted, he does not feel that it is worth the controversy which would arise if a bill were submitted at this time as a separate piece of legislation.
29. Harrison Narcotic Act Amendments. (For description see previous report, No. 9.) A bill to amend various narcotic provisions of the Internal Revenue Code, by relieving hospitals from a double occupational

- 12 -

tax and by classifying newly discovered morphine derivatives, together with letters of transmittal, has been prepared by Miss McDuff of the Legislative Section. These materials have now been initialed through the Department and forwarded to Budget.

30. Bond Survey. (For description see previous report, No. 10.)

Consideration is being given to utilizing a bill introduced by Senator McCarran to provide for the payment by the United States of the premium on a blanket surety bond covering all Federal employees as a possible vehicle for securing enactment of a bill to establish a self-supporting Federal fidelity bonding system. With this in view, a report on Senator McCarran's bill, to which will be appended the bill prepared by this Department, is now assuming its final form. Mr. Groman is handling this matter under Mr. Bernard's directions.

31. Assignment of Claims Against the United States. (For description see previous report, No. 11.) A draft of a bill which will protect the Treasury of the United States, by requiring creditors of claimants against the United States to secure a court order in a case wherein personal service has been obtained against a claimant of the United States before the Treasury can be required to withhold payment, has been drafted and approved by Mr. Bernard and Mr. Tietjens. Mr. Groman is now preparing letters of transmittal to the Congress of the United States.

32. Compilation of Monetary Statutes. (For description see previous report, No. 12.) The laws of the first session of the 76th Congress

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have been checked, but final arrangement of material, checking of slip laws of the second session of the 76th Congress, preparations of footnotes, head notes, and indices must be completed before this material is ready for the printer. Miss McDuff is continuing this work under Mr. Bernard's supervision.

33. Compilation in Annotated Form of Laws and Regulations Affecting Government Personnel. (For description see previous report, No. 13.) All the attorneys in the Legislative Section are continuing this project under Mr. Bernard's supervision.

34. Reorganization Plans. (For description see previous report, No. 15.)

(a) Centralization of Financing Control. The final proposal, completed by Mr. Bernard, is now in the hands of Budget.

(b) Distribution of Functions of the Bureau of Marine Inspection and Navigation. This has now been put in final form and sent to Budget.

35. Codification of Federal Regulations. (For description see previous report, No. 16.) This work, the Treasury phases of which Mr. Spingarn is carrying on under Mr. Bernard's supervision, is still in progress. The volumes (7 and 8) now published present a very workman-like appearance.

36. Cooperation with Attorney General's Committee on Administrative Procedure. (For description see previous report, No. 17.) All work

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requested to date has been completed. Mr. Reeves of Mr. Bernard's staff stands ready to furnish any further information which the Committee may request.

37. Alien Fishing Problem. (For description see previous report, No. 18.) Several bills on the alien fishing problem are pending before Congress. Their general purpose is to Americanize our fisheries by requiring all vessels so engaged to be American-owned and American-manned. Mr. Bland has been informed that since the policy and problems involved, i.e., national defense, foreign relations, navigation and fisheries, are all outside the Treasury's purview, the Treasury did not wish to make recommendations from a policy viewpoint. However, inasmuch as Customs and Coast Guard must enforce such legislation, the Treasury was interested in seeing that the legislation, as finally drafted, was capable of effective enforcement. At Mr. Bland's request we are meeting with representatives of other Departments to consider the subject. The Navy Department is particularly interested because of the espionage angle and is taking the lead on the matter.

NEW STUDIES

38. Customs Reorganization. In cooperation with the Bureau of Customs Mr. Spingarn under Mr. Bernard's direction has drafted a reorganization plan, abolishing the positions of Comptrollers of Customs and of the Surveyor and Appraiser at New York, and transferring their functions to

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existing positions in the customs service. A message to Congress and a letter to the President explaining the purposes of these changes have been drafted, and have been signed by the Secretary.

39. Restriction of Export of Vital Materials. The Legislative Section has been cooperating with Mr. White's office in considering legislation to restrict the export of materials vital to national defense. A subcommittee of the Executive Committee on Commercial Policy has been holding meetings, and representatives of Mr. White's office and the Legislative Section have attended. Two alternative drafts dealing with the situation have been prepared. One restricts the export of vital materials solely upon the basis of national defense; the other takes into consideration the additional factor of whether or not the United States is dependent upon imports for its supplies of such materials. Recommendation as to what the Treasury position should be on this legislation is now being prepared for the consideration of the Secretary and Mr. Gaston.

A Legislative Section representative has also been attending hearings of another subcommittee of the Executive Committee on Commercial Policy which is engaged in studying legislation designed to permit greater restrictions on imports than those applied under the present anti-dumping and countervailing duties legislation. Mr. Spingarn, under Mr. Bernard's direction, has been handling this.

40. Coast Guard Omnibus Bill. An omnibus Coast Guard bill intended to amend and clarify a number of statutes pertaining to the Coast Guard

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and to supply authority now lacking for certain requisite actions is being prepared by Mr. Koken under Mr. Bernard's supervision. The proposed bill will amend among others the following statutes: The Act relating to the retirement of the commandant, assistant commandant, and engineer in chief; the Act establishing the office of assistant commandant; the Act relating to the discontinuance of Coast Guard stations; and the Coast Guard Reserve Act of 1939. Adjustment required by the consolidation of the Lighthouse Service with the Coast Guard is also made in the proposed bill.

41. Withdrawal of Registration under Harrison Narcotic Act. Enactment of a bill to enforce various treaty obligations of the United States and for other purposes, similar to a bill drafted in 1936 under the direction of Mr. Hester but never submitted to Congress, has been recommended by the Commissioner of Narcotics. The constitutionality of this measure, which is designed to withdraw registration under the Harrison Narcotic Act from persons who have been convicted of a Federal or State narcotic violation, is being studied.

February 12, 1940

To: The Secretary

From: Mr. Bell

The Norwegian Minister called on me this morning concerning airplane requirements of his government to be purchased in the United States. He said that he and Captain Motzfeldt of the Norwegian Army, who is in this country for the purpose of laying plans to purchase these planes, had had a conference with the President last week. According to the Minister, the President said he would be glad to help the Norwegian Government in every way possible and suggested that the Minister come to see the Secretary of the Treasury. The Secretary being away, he called upon me instead.

The Minister stated that the Norwegian Government would like to purchase immediately 122 planes, consisting of 50 chasers and 72 bombers, and in addition, would like to purchase 16 extra motors. He said that they preferred Pratt and Whitney SC-30 planes or Curtiss-Wright cyclones or a combination of both, and that the motors must be built to take 87 octane gas.

Apparently his government feels that the situation in Europe is very serious and that if Finland does not hold out Norway and Sweden will be next.

If it is possible, he would therefore like to make an arrangement under which his government could take planes that are now under manufacture for our government, France, or Great Britain, and then have the orders for these three governments filled from the orders of the Norwegian Government. In other words, substitute the Norwegian orders for present contracts of these other governments.

I told him that I would present the matter to you and furnish a copy of my memorandum on the subject to Captain Collins so that he could have whatever information was necessary for the Secretary when he returns on Monday.

scwb

N. Y. Times Business Index

367

Discrepancies between our results and the
final published result for the N. Y. Times index
arise usually from the fact that on Fridays we do
not always have all the components.

SRB

368

Treasury Department
Division of Research and Statistics

Date Febr. 16, 1940
1939

To: Mrs. Betts

From: Mr. Haas

A handwritten signature in dark ink, appearing to be 'HAAS', is written over the typed name 'Mr. Haas'.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE February 12, 1940

TO Mr. Haas

FROM Mr. Chevraux

Subject: New York Times Weekly Business Index.

Attached you will find tables comparing our computations of the New York Times Business Index for the four weeks ending January 27, with the final results published by the New York Times. In those cases where a direct check with published data was not possible, I had the Statistical Pool verify our original computations.

As you will note, our original computations have been found to be correct in every instance with the sole exception of a discrepancy of .1 in the index of All Other Carloadings for the week ending January 13, and even in this case, the discrepancy was too slight to change the results for the combined index.

New York Times Business Index

Index for Week Ending January 6, 1940

	: 1st	: 2nd	: 3rd	: 4th	: As
	:Computation:	:Computation:	:Computation:	:Computation:	:Published
	:(Wednesday):	:(Thursday):	:(Friday)	:(Friday)	:(Sunday)
Automobile Production	115.9	115.9	115.9	115.9	115.9
Steel Ingot Production	133.3	133.3	133.3	133.3	133.3
Electric Power Production	105.5	105.5	105.5	105.5	105.5
Lumber Production			97.9	97.9	97.9
Miscellaneous Carloadings		85.8	85.8	85.8	85.8
All Other Carloadings		97.6	97.6	97.6	97.6
Cotton Mill Activity				147.3	147.3
Combined Index	up .2	off 1.2	off 1.0	off .9	off .9

It will be noted that all of our figures for the various components of the index agreed exactly with those published by the New York Times.

Since the Times does not publish results for the combined index until all components are available, only our 4th computation showing the results for the complete index could be checked directly against published data. However a check of our original figures for the first three computations above listed showed them to be correct in every case.

New York Times Business Index

Index for Week Ending January 13, 1940

	: 1st :Computation: :(Wednesday)	: 2nd :Computation: :(Thursday)	: 3rd :Computation: :(Friday)	: 4th :Computation: :(Friday)	: As :Published :(Sunday)
Automobile Production	112.9	112.9	112.9	112.9	112.9
Steel Ingot Production	129.7	129.7	129.7	129.7	129.7
Electric Power Production	105.1	105.1	105.1	105.1	105.1
Lumber Production			91.7	91.7	91.7
Miscellaneous Carloadings		87.2	87.2	87.2	87.2
All Other Carloadings		100.1	100.0	100.0	100.0
Cotton Mill Activity				142.0	142.0
Combined Index	off .6	off .2	off .6	off .9	off .9

It will be noted that with the exception of a discrepancy of .1 in the index of All Other Carloadings, our figures for the various components of the index agreed exactly with the final figures published by the New York Times. Our calculations for All Other Carloadings gave a result of 100.051 and in conformity with usual practice, we raised the figure to read 100.1 while the Times did not. In any event the slight discrepancy noted made no difference in the results for the combined index because of the relatively small weight given to All Other Carloadings.

Our results for the changes in the combined index were confirmed in every case either by published figures in the Sunday Times or by another check of our original computations.

New York Times Business Index

Index for Week Ending January 20, 1940

	: 1st : Computation : (Wednesday)	: 2nd : Computation : (Thursday)	: 3rd : Computation : (Friday)	: As : Published : (Sunday)
Automobile Production	108.2	108.2	108.2	108.2
Steel Ingot Production	123.5	123.5	123.5	123.5
Electric Power Production	105.0	105.0	105.0	105.0
Lumber Production			89.7	89.7
Miscellaneous Carloadings		86.2	86.2	86.2
All Other Carloadings		95.8	95.8	95.8
Iron Mill Activity				144.6
Combined Index	off .8	off 1.3	off 1.5	off 1.3

It will be noted that all of our figures for the various components of the index agreed exactly with the final figures published by the New York Times.

The results for changes in the combined index in every case were verified by another check of our original computations.

New York Times Business Index

Index for Week Ending January 27, 1940

	: 1st	: 2nd	: 3rd	: As
	: Computation	: Computation	: Computation	: Published
	: (Wednesday)	: (Thursday)	: (Friday)	: (Sunday)
Automobile Production	113.7	113.7	113.7	113.7
Steel Ingot Production	117.1	117.1	117.1	117.1
Electric Power Production	105.4	105.4	105.4	105.4
Woolen Production			82.7	82.7
Miscellaneous Carloadings		85.3	85.3	85.3
All Other Carloadings		99.9	99.9	99.9
Iron Mill Activity				146.0
Combined Index	off .3	off .1	off .5	off .5

It will be noted that all of our figures for the various components of the index agreed exactly with the final figures published by the New York Times.

The results for changes in the combined index in every case were verified by another check of our original computations.

JT

GRAY

PARIS

Dated February 12, 1940

Rec'd 5:35 p.m.

Secretary of State,
Washington.

206, February 12, 7 p.m.

FOR THE TREASURY FROM MATTHEWS

The question of our gold problem and the effect of continued accumulation on the after-war-Europe continues to be a lively topic of discussion in and out of the press. LA JOURNEE INDUSTRIELLE which is the mouthpiece of large French industry and has long been the articulate voice of ultra-protectionism has carried a series of two articles under the heading "America, gold and us". The author Heudelot starting from the premise that it is all very well for Mr. Chamberlain to express a wish for greater freedom of trade after the war but if in view of our cash and carry policy the allies are compelled to exhaust their gold reserves Mr. Chamberlain's restoration of the liberal system "can only be envisaged to the extent that Americans will agree to proceed to a distribution of their gold stocks".

(END SECTION ONE)

MURPHY

NPL

REB

GRAY

Paris

Dated February 12, 1940

Rec'd 6 p. m.

Secretary of State,
Washington.

206, February 12, 7 p. m. (SECTION TWO)

He implies that if we do agree to such a distribution we would probably impose unacceptable conditions: "financial guarantees, supported by advantageous clauses in the commercial treaties which will determine international economic relations after the war". He then proceeds with a plea that "the peoples deprived of gold" in order to "preserve the maximum of independence" should decide in favor of a policy of autarchy. Italian autarchy, he says, is in no way comparable to that of Germany and German autarchy would have "unquestionably succeeded" if she had not devoted all her efforts to armament. A French-British "island of security" can well be extended to the rest of Europe and the resources of the two empires would permit them to live comfortably for many years "without having need to consult anyone". The author of these reactionary views does not even bother to mention any of the drawbacks or difficulties which the policy of autarchy would inevitably face

MURPHY

EMB

REB

GRAY

Paris

Dated February 12, 1940

Rec'd 5:55 p. m.

Secretary of State,
Washington.

206, February 12, 7 p. m. (SECTION THREE)

On the other hand Frederic Jenny in his Sunday article in last night's LE TEMPS appears to treat our gold problem in somewhat cavalier fashion and recalls that similar "unjustifiable anxiety" took place in 1937. He takes particular exception (as does a similar article in LA SITUATION February 9) to Mr. Goldenweiser's statement that our gold accumulation represents "an asset which is of little value now and whose value in the future is unpredictable". In a paragraph on the internal aspect of the problem he says he perceives no reason why we cannot readily again resort to the two methods of preventing credit inflation previously practiced namely raising bank reserve requirements and increasing open market operations.

MURPHY

EMB

JT

GRAY

PARIS

Dated February 12, 1940

Rec'd 6:20 p.m.

Secretary of State,
Washington.

206, February 12, 7 p.m. (SECTION FOUR)

We may in addition, he says, resort to the "powerful supplementary weapon" of again putting gold into monetary circulation. Thus he finds that the problem of avoiding the dangers of credit inflation "is in no way insolvable".

Turning to the international aspect of the question he says that since there is little likelihood or possibility of further large scale flights of capital to the United States and since according to Mr. Goldenweiser's figures only 2,200,000,000 of the 9,700,000,000 of gold which we have received in the last six years have resulted from our excess of trade exports over imports it is unlikely that we shall be called upon to absorb either the total or the major portion of the world's remaining 40% of gold. Without bothering to give his basis for so thinking or even to discuss allied export problems he makes the statement that increased armament purchases in the United States will be largely counterbalanced by decreases in normal peace time purchases and hence the two

Allies'

-2- #206, Feb. 12, 7 p.m. (SEC ONE) from Paris

Allies' unfavorable trade balance should not greatly increase. Furthermore, he says, after the war there should be a sizeable return flow (from the United States) of foreign flight capital. Even should we acquire all the gold he says, there is no reason to believe that "the value of the metal would collapse".

MURPHY

EMB

JT

GRAY

PARIS

Dated February 12, 1940

Rec'd 6:26 p.m.

Secretary of State,
Washington.

206, February 12, 7 p.m. (SECTION FIVE)

Those who think so believe that the present value of gold "results essentially from its international monetary functions and that if the existent quantities are concentrated in a creditor country having no gold payments to make the metal would ipso facto lose a large part of its value". In the first place, he says, in brief answer to this, "It would only be necessary for the United States to redistribute gold by receiving greater quantities of foreign products and by making loans abroad". (He makes no reference to the political or other obstacles confronting either course). But, he says, "This assumption that the yellow metal obtains its value solely from its monetary standard functions is erroneous as long as it cannot be replaced as a means of international payment by any other substance. The whole world will agree that in the present state of science it cannot be so replaced which means that in reality the value of gold results from its qualities; because it is only in view of these qualities that

-2- #206, Feb. 12, 7 p.m. (SEC FIVE) from Paris

that it plays the principal role without which there could be no international exchanges worthy of the name and no stability of different currencies".

MURPHY

EMB

RFP

GRAY

Paris

Dated February 12, 1940

Rec'd 6:52 p.m.

Secretary of State

Washington

206, February 12, 7 p.m. (SECTION SIX).

The only factor he says which could "temporarily threaten the value of gold" is a development which might cause all countries to "barricade themselves behind impenetrable barriers reducing exchanges between nations to the rudimentary regime of barter where no international means of payment is necessary". But, he says, the Allies are fighting precisely "to save the world from this return to barbarism and to permit the pacific interchange between different countries to resume its full play". He says in conclusion: "The American economist concludes very correctly when he writes that the ultimate solution of the problem of the huge size of the gold stock of the United States depends in large part on the solution given the much vaster problems of the restoration of world stability in international trade and we may add that as far as concerns this restoration of trade the United States themselves will have a major role to play". Thus Jenny seems to reply to the plea of the JOURNAL INDUSTRIELLE for "autarchy".

MURPHY

EMB

PARAPHRASE OF SECTIONS SEVEN, EIGHT AND NINE
FROM PARIS, FEBRUARY 12, 1940, No. 206.

Today I lunched with Royall Tyler and Charon of the League of Nations. In confidence the latter told me that the League representative sent to Finland had just reported to Avenol that by the month of March the Finns will need some 90,000,000 Swiss francs of various foodstuffs in order to feed the civilian population. Charon was requested by Avenol to turn his active mind and inventive talents to the question, with the idea of keeping the League in the background as far as possible. For obvious reasons, he explained, Sweden for instance did not feel as though it could cooperate with the League in any effort it made. The idea of Charon therefore is to use blocked French credits in Hungary and the southeastern part of Europe, perhaps in Italy and Spain also - for instance, the Finns need oranges, which could come from Spain - for the purpose of purchasing foodstuffs Finland needs from those countries.

This morning Charon went to Reynaud to see what he thought of the plan, and to sound him out on the idea of getting rediscount facilities from the Caisse des Depots et Consignations. Charon told me that Reynaud was enthusiastic on three points - it was a practical way to help Finland, as a possible way of reducing commodity purchases in those countries by Germany, and as a way to

increase

- 2 -

increase the flow of French capital (local interests holding the frozen credits would be aided). The latter would be in part secured by Finnish mark credits.

Naturally, Charon showed interest in the progress of the bill in the Congress of the United States for facilitating the proposed loan to Finland in the amount of \$20,000,000 through the Export-Import Bank. He also expressed interest in the possibility that banks in the United States might want to help in utilization along the above-mentioned lines of American frozen credits in Spain, Hungary and the Balkans. I said that I knew nothing about such credits, either as to the total or as to the breakdown, nor what attitude might be assumed by the American banks toward such a project.

END SECTIONS SEVEN, EIGHT AND NINE.

MURPHY.

EA:LWW

REB

GRAY

Paris

Dated February 12, 1940

Rec'd 7 p. m.

Secretary of State,
Washington.

206, February 12, 7 p. m. (SECTION TEN)

In line with its war time policy of checking up on available stocks of important materials the Journal Official of February 10 publishes a decree supplementing that of November 10, 1939 under which the Minister of Agriculture was authorized to take pertinent measures for the production, importation and distribution of timber and forestry products (Embassy's despatch No. 5383, December 1, 1939). The decree of February 10 stipulates the conditions under which such products for war requirements may be obtained by friendly agreement or by requisition. Timber merchants, owners of timberland and proprietors of sawmills are required to make monthly declarations of the quantities of standing timber purchased, cut or sawn during the preceding month as well as existing stocks thereof.

A somewhat more confident tone prevailed on the securities market today partly cheered by the Chamber's
emphatic

REB -2- #206, From Paris, Feb. 12, 7 p.m. (SEC. TEN)

emphatic unanimous vote of confirmation of the report on Daladier's conduct of the war. Variable revenue securities gained about 1%. Rente issues were mostly unchanged.

(END OF MESSAGE)

MURPHY

EMB

RECEIVED
1942-12-28

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Mexico City, Mexico

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

NO.: 49

After the close of the Bank of Mexico on the tenth of February, final tabulation showed that the central bank had sold \$1,500,000 to member banks, making a total of \$3,500,000 sold from Friday through Saturday. The Bank of Mexico, up to one hour before it closed on February 12 (Monday), had sold one-half million dollars with strong demand continuing. There were indications, at that time, that sales for the day would range between three-quarters and one million dollars.

There is some embarrassment to commerce and industry because of the policy of private banks in refusing to grant loans for any purpose. There are also delays in the payment of foreign accounts.

Bank of Mexico officials anticipate that there will be several difficult days ahead for them while the Senate is discussing the silver question.

DANIELS.

EA:LWW

TO THE
SECRETARY OF THE
TREASURY
WASHINGTON
FEB 12 1940
RECEIVED
FEB 12 1940

THE WHITE HOUSE
WASHINGTON

February 12, 1940

MEMORANDUM FOR: Honorable Herbert E. Gaston,
Assistant Secretary of the
Treasury.

I have had an exhaustive search made
and we cannot find any record of these weekly
reports on AMTORG coming in to anyone.

Edwin M. Watson

EDWIN M. WATSON
Secretary to the President

STRICTLY CONFIDENTIAL
TREASURY DEPARTMENT

388

INTER-OFFICE COMMUNICATION

DATE February 12, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

On Saturday, January 27, the Spanish Ambassador called on me. He stated that he had instructions from his Government to see whether payment for the nickel, as well as the mint services, in connection with the contract which was being negotiated for the coining of a considerable amount of nickel in this country by Spain, could be taken care of through one single payment. I told him I was quite unfamiliar with this matter. I mentioned it immediately to Mr. Daniel Bell. The latter was also unfamiliar with the matter, and suggested that I take it up with the Director of the Mint. When I then telephoned Mrs. Ross, she said that she was entirely cognizant of the situation since a contract for minting was practically ready for signing, but she stated that she did not desire to receive the Spanish Ambassador, and that none of the rest of us in the Treasury should discuss this matter with the Spanish Ambassador. She explained that the Department of State had been vexed at the indirect manner in which this matter had originally been brought up, and now desired that all negotiations be through the State Department. At her suggestion, I let the Spanish Ambassador know that Mr. Luthringer of the Department of State was the appropriate official to see at this stage of the negotiations.

Shortly before noon today, the Acting Secretary, Mr. Bell, had me in his office when he received the Spanish Ambassador, who had been referred to him by Mr. Sumner Welles. The latter had telephoned Mr. Bell but had not given any details as to the purpose of the Ambassador's visit.

The Ambassador explained that he had discussed with the State Department the possibility of obtaining credit, perhaps through the Export-Import Bank, to cover the nickel and the minting thereof in this country which Spain desired. He had come to us to see whether the two charges, that is for the nickel and for the minting, could be consolidated. Furthermore, he inquired whether Spain could sell to the Treasury five peso Spanish silver coins, the proceeds thereof to cover the above mentioned costs.

It was explained to the Ambassador that it was not the practice of the Treasury to buy silver coins for forward delivery, which would be involved if we now entered into a contract to take Spanish silver coins at a certain price while the coins are still in Spain. Furthermore, the point was made that legislation is now being considered in Congress which might stop the purchase of foreign silver by the Treasury which, of course, would make any arrangement with Spain now difficult.

In answer to inquiries, the Ambassador stated that the total contract would amount to about \$8,000,000, including minting. The plan is for Spain to replace her silver coins with nickel coins, even up to the five peso

- 2 -

pieces. The silver coins are not in circulation, so the plan apparently would be to use a part thereof to purchase nickel and then let the new metallic coins go to the public. When asked whether Spain had any funds in this country from which payment could be made, the Ambassador replied negatively. When asked about the Spanish gold holdings, the Ambassador admitted that a certain amount had been brought back from France (I estimated this at close to \$40,000,000), but apparently thought this should not be used for the purpose in question. Mr. Bell promised to look into the matter further and let the Ambassador know our decision within a few days. The Ambassador desired to receive something in writing from us, even informal, on which he could base a report to his Government. For the present, he will simply cable that he has presented his Government's proposition, but that certain difficult phases of the problem will require some days' study.

After the Ambassador had left, Mr. Bell had Messrs. Foley, Bernstein and Glasser join us, and he recounted the foregoing interview. We raised various points which are to be thought over the next few days. Should we enter into any arrangement with Spain for the purchase of Spanish coins now in Spain, considering the possibility of legislation prohibiting further purchases of foreign silver, and considering the litigation still unsettled introduced by the present Spanish Government as a result of our purchase of silver coins from the former Loyalist Government? Should we hesitate to assist Spain in demonetizing silver, considering that we have not refrained from taking steps in the past with respect to Spain and other countries which tended in the same direction? Would it not be well to have a thorough assurance that the nickel involved is destined for Spain only, and not for reexport, considering the need of certain belligerent European countries for this metal? If the State Department might now be anxious for us to help Spain acquire the nickel coins as it was for the Export-Import Bank to give the cotton credit last spring, the Treasury might suggest a way to take care of the silver. This, I explained, would be through the Spanish officials shipping their silver coins to a metal concern in the United States which, in turn, would melt them up and then sell the bullion to our Assay Office in the usual course, provided there has been no embargo placed upon the import and purchase of foreign silver by this Government by the time this operation might take place.

Shortly after this meeting, Mr. Livesey telephoned me from the State Department. He said there was a certain nervousness in the State Department over a possible change in our silver price and purchasing policy. I told Mr. Livesey that following the report of study of a bill last week to stop Treasury purchases of foreign silver, the amounts which we bought had sharply increased on Friday and Saturday. I added that we were still purchasing all silver offered to us at 35¢ an ounce, and that no change in this policy, as far as the Treasury itself is concerned, had been studied. I added, however, that this silver question was evidently becoming a live one in Congress, and that the Administration might be called upon to indicate its position with respect to the Townsend bill. I told Livesey that we were aware that the State Department might be interested in the international consequences of a change in silver buying policy, and I thought Mr. Bell was going to speak with Mr. Waller on this subject.

I mentioned to Mr. Livesey, incidentally, the question of minting of nickel coins for Spain. Mr. Livesey was familiar with this. He stated that the total sum involved would be around \$8,000,000, including \$672,000 to be charged by the Treasury for the minting services. Canada is to provide the nickel and has taken pains to obtain assurances that the tremendous amount of this metal involved will be destined solely for Spain and not for reexport. The plan is for the Scoville Manufacturing Company in this country to convert the Canadian nickel into blanks, which would then be turned over to our Mint. The minting process would require fourteen months, at three shifts every twenty-four hours, and would be a difficult task since a particularly hard coin is desired. Livesey told me confidentially that Mr. Welles had taken a personal interest in this matter since the Spanish Government had raised the question of a credit, and Mr. Welles was not disposed to consider this favorably unless and until the Spanish Government settled certain outstanding questions, particularly the property rights of the International Telephone and Telegraph Company and the problems connected with American war prisoners in Spain.

While the above mentioned group was meeting with Mr. Bell, the question was discussed as to what the attitude of the Treasury should be with respect to the Townsend bill. Should Mr. Bell, in answer to Senator Wagner's inquiry, suggest that the Treasury was against the Townsend act, or should it be stated that the Treasury was simply the agent to carry out the mandate of Congress with respect to silver, or should interest of the President himself and of the State Department in this silver question be brought to the Senator's attention? It was decided that Mr. Bell should telephone Mr. Welles, cognizant of the State Department's interest in fostering good relations with Canada, as well as the Latin-American countries from which most of our foreign silver is purchased, and acquaint the Under Secretary of State with Senator Wagner's inquiry. Mr. Bell also thought of letting the President know of the discussion, particularly since it was our impression that the President had intervened personally in the silver legislation last summer. Mr. Foley had in our conference indicated his belief that politics required that the Treasury defend its silver program. If the question was to turn on monetary merits alone, I thought the proposed legislation should not be opposed by the Treasury Department.



AIR MAIL

AMERICAN CONSULATE

Yunnanfu, China, February 12, 1940.

CONFIDENTIAL

SUBJECT: Exports of Tung Oil.

The Honorable

The Secretary of State,

Washington.

Sir:

I have the honor to report the substance of a recent interview with Mr. Shen Shi-hua (Chinese characters), manager of the local office of the Foo Shing Company, concerning the re-organization of transportation routes for tung oil made necessary by the cutting of the Kwangsi highway and the bombing of the Yunnan-Indochina Railway. It may be stated by way of preface that the local office of the Foreign Trade Commission, which since the recent agreement between the Central Government and the Yunnan Government on the matter of foreign exchange has been functioning merely as a forwarding agent for shipments from other provinces, was discontinued and its staff taken over by the Foo Shing Company on January 16, 1940. The local office of the Foo Shing Company is henceforth to act as the agent of the Foreign Trade Commission both in the forwarding of goods and in the purchase of Yunnan products. Mr. Shen, the local manager, was for some time with the Ministry of Communications and formerly was Chinese Consul General in Hamburg, Germany.

Mr. Shen states that Mr. Ray Lee (Chinese characters), prominent Chinese wood oil merchant who has recently become a member of the board of directors of the Foo Shing Company, is actively assisting in the organization of transport routes for exports. The cutting of the Kwangsi highway has of course directed a large quantity of tung oil to the Yunnan routes, while the bombing of the Yunnan-Indochina Railway in January stopped all shipments by that route for some time. Mr. Shen states that since January 16, 1940, when he assumed charge of the local office, a total of 1,200 tons of tung oil has been exported, all of which was shipped via the Burma highway to Lashio in trucks of the Southwest Transportation Company.

Mr. Shen states that he has been confidentially informed by officials of the Yunnan-Indochina Railway that freight service will begin again on February 16, and that he has been promised ten cars per day thereafter, which will amount to 2,500 or 3,000 tons per month. In the meantime Foo Shing has taken steps to assure a continuous flow of exports even if the railway should again become unavailable because of Japanese bombings or Japanese pressure on the French railway officials.

The head office of the Company at Chungking is said to have made an arrangement with Southwest Transportation Company to provide cargo for the latter's empty trucks returning to Lashio, which it is thought will provide a capacity of 3,000 tons monthly. An agreement has also been reached with the Yunnan-Burma Highway Administration for the transportation of 300 tons per month. Two pack animal routes have also been organized, one from Yunnanfu to Hekow and the other from Hing-I (Chinese characters), in Kweichow near the Yunnan border, to Hekow; each of these pack train routes is said to be capable of transporting about 500 tons monthly, although thirty days is required for the round trip to Hekow and back, permitting only one trip per month. The total available capacity for exports is thus about 6,800 tons monthly, including the railway, and about 4,300 tons without the railway. It is believed that more space could easily be obtained from the railway if necessary, assuming that it is not put out of commission.

The organization of the pack train routes is said to have another advantage in that it will pre-empt the principal means of transportation by which smuggled exports have been reaching Indochina. The Foo Shing Company has, of course, been granted the monopoly of tung oil exports, but hitherto a considerable proportion of total exports has consisted of smuggled goods. The pack animals carry gasoline on the return trip.

The freight rate per ton on the railway from Yunnanfu to Hanoi is said to amount to IC\$42. The rate agreed on with the Southwest Transportation Company is said to be slightly in excess of NC\$700 for the Section from Yunnanfu to Lashio, and 43 rupees per ton from Lashio to Rangoon. The cost of transportation by pack animal over the routes mentioned is not definitely known, but it is said to exceed considerably the cost by the railway or highway. The railway from Yunnanfu to Haiphong is said to be by far the cheapest route, and is expected to carry the bulk of the traffic if it is able to continue operation.

Mr. Shen states that assurances have been given by the Burma Government that no transit duty on Chinese exports through Burma will be levied until April 1, 1940, and that the rate of such duty thereafter will be subject to negotiation. Mr. Shen believes that the Burma railways also may shortly offer more favorable rates for transit goods.

In connection with the possibility of increased use of Rangoon as port of shipment, Mr. Shen stated that one difficulty was the fact that there are, so far as he knows, only four ships that sail from Rangoon for the United States. He showed some interest in the possibility of the new Pacific service of the Maritime Commission being extended from Penang to Rangoon, when this subject was mentioned.

Present stocks of tung oil in Yunnanfu are stated to amount to 2,000 tons. Mr. Shen states that the Foo Shing Company expects to export 3,000 tons of tung oil monthly during 1940 in order to meet its contractual obligations for 35,000 tons during the second year of the Export-Import Bank Credit, and he personally believes that this minimum rate can easily be maintained even

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should the Yunnan-Indochina Railway not be available. He has recommended, however, that any cargo space available in excess of this quantity be utilized for the export of other commodities in order to obtain foreign exchange with which to pay railway and ocean freight and other handling charges.

Respectfully yours,

TROY L. PERKINS
American Vice Consul

869 SCB:SAM

Original by air mail.
In quintuplicate to the Department.
Copy to Embassy, Peiping.
Copy to Embassy, Chungking.
Copy to Commercial Attache.
Copy to Consulate, Rangoon.
Copy to Consul, Hanoi.

Treasury Department

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TELEGRAPH OFFICE

26W

WAE58 FO 18 GOVT

1940 FEB 12 PM 5 27

SASABE ARIZ FEB 12 1940 258p

ED FOLEY

OFFICE OF SECRETARY OF TREASURY WASHNDC

MY THOUGHT IS TO LEAVE WELL ENOUGH ALONE AND ONLY NOW SEE MISSY IF
SHE SENDS FOR YOU

MORGENTHAU

528p

Internal Revenue

Hon. Henry Morgenthau
Rancho De La Osa
Tucson, Arizona

February 12, 1940

No new developments Still waiting to hear from Missy.

E. H. Foley, Jr.

(Signed) E. H. Foley, Jr.

EHF: Typed 2/12/40

BK 240 395A

FEB 12 1940

Dear Lauch:

In reply to your letter of January 31st
I am enclosing a copy of our General Counsel's
opinion concerning the Secretary's authority
to dispose of the Treasury's holdings of shares
in Federal Savings and Loan Associations.

Very truly yours,

W. D. Brown

Mr. Lauchlin Currie
Administrative Assistant to the President
The White House
Washington, D. C.

Enclosure.

WDB:es

Don't sign with

*(see Foley memo)
1/15/40*

TREASURY DEPARTMENT

396

INTER OFFICE COMMUNICATION

DATE February 13, 1940

TO Under Secretary Bell
 FROM Joseph P. Cotton, Jr.

The attached letter from Turbay might be interpreted as rather cagey. He does not acknowledge as part of the agreement that the Colombian government is to pay half the interest on February 15 and, with respect to negotiations for a settlement of the guaranteed mortgage bank debt, he does not acknowledge what I took to be the understanding — that negotiations on the direct and guaranteed debt would proceed contemporaneously to a joint conclusion. However, his letter does not seem to call for an acknowledgment from you and I don't see that we should inject ourselves into the picture any further.

From the accounts in the newspapers of the publicity given out by the Colombian Embassy yesterday with respect to the temporary arrangement, I take it that the Council gave up its claim that the interest payment should be applied to the oldest coupons and interest is to be applied to the 1940 coupons.

Would you like me to call Traphagen to see if he feels that everything is going smoothly with regard to the temporary arrangement and otherwise?

J.P.C.H.

let
 us have
 news.

swB

EMBAJADA DE COLOMBIA
WASHINGTON

No. 264

February 12th, 1940

The Honorable D. W. Bell,
Under Secretary of the Treasury,
Washington, D.C.

Dear Mr. Bell:

Permit me to acknowledge the receipt and to thank you for your letter of February 9th, in which you state that the Executive Committee of the Foreign Bondholders Protective Council, Inc. has confirmed its decision to accept without reservations the terms of the agreement suggested at the conference held on February 1, under the auspices of Secretary Morgenthau, which terms are set out in my letter of February 6 to the Secretary of the Treasury.

The details with respect to the manner of putting the agreement into effect are being worked out with the Council and with the Fiscal Agents for the Bonds.

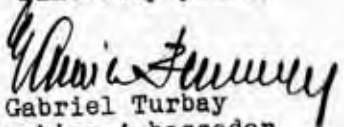
I am happy to confirm that it is the desire of my Government that conversations looking toward the permanent settlement shall be continued with the Council.

EMBAJADA DE COLOMBIA
WASHINGTON

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With respect to the debt of the Banco Agrícola Hipotecario guaranteed by my Government, I am now authorized to confirm what I said at the conference on February 1st, that so soon as an agreement is reached on the direct dollar debt, the Bank will send a representative to the United States with instructions to negotiate a settlement of that debt. I have forwarded to my Government the suggestion that this representative come at once, it being understood that the negotiations of the Bank will be entirely separate from those of the direct dollar debt of the Government.

Sincerely yours,


Gabriel Turbay
Colombian Ambassador

FEB 13 1940
375
BRUARY 13, 1940.

In The Nation

FEB 13 1940

Issues and Implications in Associated Gas Co. Case

By ARTHUR KROCK

WASHINGTON, Feb. 12.—A Federal court in New York City, Judge Leibel presiding, has been the center of an interesting and important struggle between a government group and a business group over the reorganization of the Associated Gas and Electric Company and Corporation, petitioning as a bankrupt. The government group wants the judge to appoint a trustee or trustees selected by Washington. The business interests hold that the court should heed, in naming trustees, the wishes of the overwhelming ownership of the companies affected.

In the background of the struggle is a pattern of conflicting personalities and political philosophies, typical of the divisions in present-day Washington. Through this pattern runs the thread of government ownership of all utilities favored by many New Dealers; and the outline of that New Deal tendency to have government take control of the details of private corporate management which lately found expression in the SEC's 1 to 2 decision on the Consumers Power Company financing application.

In the foreground are to be found such persons as John W. Hanes, the famous Federal "Iron" of Corcoran & Cohen, Secretary Morgenthau, Attorney General Jackson, former Attorney General Cummings, Senators Wheeler and Norris, Majority Leader Rayburn and a once-again divided SEC. If the drama's outcome is of great economic and political significance, at least it is being played by a star cast.

Beginning of the Contest

The Associated Gas and Electric interests, refused a loan by Administrator Jones because of non-compliance with his conditions and for other actions, some time ago took the only course remaining to it and applied for bankruptcy reorganization in the Federal courts. The venue was transferred from Utica to New York City; whereupon the contest began between the two groups and the two ideas.

The utility has assets roughly estimated to be worth \$1 billion, and the scattered nature of its operating properties is such that it provides excellent material for that physical and financial integration which the SEC, by direction of the Wheeler-Rayburn Act, is about to undertake in the field of utility holding companies. The holders of these assets and liabilities, in a series of informal meetings, decided that their choice for trustee was Mr. Hanes. He lately retired as Under-Secretary of the Treasury with the warm compliments of the President and Mr. Morgenthau. Prior to that he was a member of the SEC, following a successful career as an investment banker in New York. All private parties in interest, save the government. Mr. Hanes recently served, united to ask the court to appoint him. The government's financial interest is confined to a tax claim of \$5 millions in the billion-dollar set-up.

When Mr. Hanes was advised of his selection he asked his recent chief, Mr. Morgenthau, if he saw any objection, and to ascertain if the President opposed the plan for any reason. The Secretary, having been advised by the draftsmen of the holding company act (Messrs. Corcoran and Cohen, probably through the Treasury's general counsel, Edward Foley, their protégé) that the law permitted the SEC to serve as trustee in such cases, had previously approved this idea. But he offered no objection to Mr. Hanes, if appointed by the court, and Mr. Hanes was not advised of any disapproval by the President. Consequently he sent word that, if chosen as trustee, he would serve.

Efforts to Block Hanes

At this point began New Deal resistance to the choice of Mr. Hanes. The Attorney General, closely associated with Mr. Corcoran and Mr. Cohen, asked the Federal court to designate the SEC as trustee, and in this request he was surprisingly joined against Mr. Hanes by the latter's very recent chief, Mr. Morgenthau. When their action came to the attention of Messrs. Wheeler and Rayburn, whose names the holding company legislation bears and who drove it through Congress, they publicly opposed the plan. They objected to making the SEC trustee, as well as judge, jury, prosecutor and unscrambler of the bankrupt company. And Senator Wheeler wrote to the SEC a strong endorsement of Mr. Hanes.

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These moves seem to have made the SEC plan too hot for the administration to hold. By a vote of 4 to 1 the agency decided to inform the court of its unwillingness to serve. The action was hastened, it is understood, by notice of two Commissioners—Mr. Healy and Mr. Mathews—that they would make public their emphatic objections.

Since it became evident that the SEC trusteeship must be abandoned the effort of its authors has been to find ways to persuade the court to appoint a trustee or trustees suggested by the administration and not by the holders of the large majority of the company's assets. It is said that serious consideration was given to the nomination of Mr. Corcoran, but this interesting alternative was abandoned. Senator Norris seemed to have something like it in mind, however, when he criticized any plan that might exist to appoint "an investment banker and a utilities magnate," a reference to Mr. Hanes and Henry I. Harriman, who, with W. M. Myers, former head of Farm Credit, had been most mentioned as co-trustees.

When the court resolves the contest by naming the receivers the winning group can easily be identified.

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*(Copied from carbon copy furnished
to Mr. Foley by Bert Cohen)*

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IMPLICATIONS OF KROCK'S ARTICLE ON

THE ASSOCIATED GAS CASE

Rec'd 2-13-40

1. It is fair to assume that the version of the facts given in Mr. Krock's article is Mr. Hanes' own version as Mr. Krock and Mr. Hanes are known to be close and intimate friends.
2. It is clear from the Krock article that "the holders of these (Associated Gas) assets and liabilities, decided their choice for trustee was Mr. Hanes" and advised him of his selection before he spoke to Secretary Morgenthau.
3. It is not stated in the Krock article who the holders of those assets and liabilities are, or whether they represent management or banking interests connected with the Associated companies. As the actual security-holders are numerous and scattered, it is fair to assume that it is one or the other or both of these interests. It is clear that if an independent and disinterested trustee is to be named in accordance with the requirements of the Chandler Act, it would be impossible to permit these interests to make the selection, as it is not unlikely that there may be claims against these very interests which it

-2-

would be the duty of the trustee to prosecute.

4. It is stated in the Krock article that "he (Secretary Morgenthau) offered no objection to Mr. Hanes if appointed by the court and Mr. Hanes was not advised of any disapproval by the President and consequently he sent word, if chosen as trustee, he would serve." But Mr. Hanes, as a former member of the Commission, must have known that the Holding Company Act (Sec. 11(f)) expressly provides that the court shall appoint no trustee other than the Commission, without notifying the Commission and giving it the opportunity to be heard. It is nowhere suggested, however, that Mr. Hanes consulted the Commission before he notified private interests involved in the case that he would serve if appointed. But it does appear from the Krock article that without consultation with the Commission "all private parties in interest, save the government Mr. Hanes recently served, united to ask the court to appoint him.

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5. It is clear, therefore, from the Krock article that Mr. Hanes was chosen as trustee by private interests involved in the case before the case was even transferred to the Southern District of New York and before there was any consultation by Mr. Hanes with the Commission to ascertain its views. It is also clear that the court spoke to Mr. Hanes about his appointment as trustee without ascertaining the views of the Commission.

6. It is clear, therefore, from the Krock article that neither the public nor the investors could regard the selection of Mr. Hanes as the independent selection of the court. He has been selected to serve as trustee by an unnamed group involved in the Associated case whose interests may be adverse to other interests in the case.

7. The Chandler Act requires the appointment of a disinterested trustee and disinterested counsel. Certainly the facts stated in the Krock article are such as to make it impossible for Mr. Hanes to be considered a disinterested trustee either

-4-

technically or realistically. Section 158 of the Chandler Act provides that a person shall not be deemed disinterested under certain stated conditions, but it does not provide that a person shall be deemed disinterested under all other circumstances. And it is certainly impossible to contend that a person not simply approved but actually selected by some interested parties is disinterested. Be that as it may, Section 158(4) of the Chandler Act expressly provides that a person shall not be deemed a disinterested trustee if "it appears that he has, by reason of any other direct or indirect relationship to, connection with, or interest in the debtor of such underwriter, or for any reason an interest materially adverse to the interests of any class of creditors or stockholders."

TREASURY DEPARTMENT

403

INTER-OFFICE COMMUNICATION

DATE February 13, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

Mr. Frank L. Peckham, who stated that he was the Washington attorney for the American Metal Company, was referred to me by Assistant Secretary Gaston today.

Mr. Peckham told me that he has been in contact with the Senate Subcommittee on silver in an endeavor to have an amendment contained in the Townsend bill to repeal the 50% tax on transfers of silver bullion. He discussed at some length the merits of this proposal. He understood from the committee hearings this morning that the Treasury Department would be called upon for an expression of its opinion on silver legislation before the Senate Silver Committee takes final action on the Townsend bill. Mr. Peckham hoped that we would find a way to see that no legislation was introduced which would conflict with contracts for forward silver which the Treasury now has outstanding. He stated that there were several technical points which would arise in case legislation develops which would repeal purchases of foreign silver, and he hoped that the Treasury would be willing to receive any further memoranda that he may draw up after he has had opportunity to see the bill after it left the Senate Subcommittee.

Mr. Peckham was of the opinion that the bill would seek only to prohibit further purchases of foreign silver by the Treasury, and would not prohibit imports of such silver into the United States. Consequently, he hopes that it may be possible to develop a free silver market in the United States to which Latin-American countries and others could ship their production. He thought that in the absence of such a market there might be diverted to Liverpool certain foreign copper yielding silver as a by-product which is now refined in the United States. The silver derived therefrom would then be sold in London. He hopes through a free silver market in this country to retain control of the refining, particularly in New Jersey, of foreign copper which has up to the present been shipped to that country.

Copies of Mr. Peckham's memorandum are attached hereto.



FRANK L. PECKHAM
ATTORNEY AND COUNSELLOR AT LAW
WASHINGTON LOAN AND TRUST BUILDING
WASHINGTON, D. C.

MEMO. in re TAX ON TRANSFERS OF SILVER and S. 785

IF AND WHEN THE GOVERNMENT DISCONTINUES PURCHASES OF FOREIGN SILVER, THE TAX IMPOSED UPON TRANSFERS OF SILVER SHOULD BE DISCONTINUED.

Sec. 8 of the Silver Purchase Act added a new subdivision to Schedule A of Title VIII of the Revenue Act of 1926, whereby a new tax of 50% of the profit is levied upon transfers of silver bullion.

Justification for the high tax on silver transfers was the fact that the Government purchases were to create an artificially high price for silver and it was fair that the Government should recapture some substantial portion of the profits which its purchasing activities created.

If government purchases hereafter are to be confined to only newly mined domestic silver, the market price of foreign silver and for scrap, reclaimed or foreign by-product silver will be permitted to find its own level. The price stimulus of government purchases will be removed.

Dealing in silver is a legitimate business. Accessibility to markets, freedom of the market and the price of silver affect many important industries in the United States. Those whose business it is to deal in silver are entitled to legitimate profits and should not be penalized by a 50% tax on profits no longer based on artificially high prices maintained through government purchasing.

Because of controls now in effect on the London and Bombay markets, as a British war measure, there is no free market for silver in the world. If the 50% penalty tax on transfers of bullion is removed, and the government discontinues purchases of foreign silver, the United States could and would become the site of the only free market for silver in the world today. This status might even be retained after the cessation of the present war. This not only would bring to the United States a considerable volume of legitimate business but would also be of importance in our commercial relations with silver producing countries of the Western Hemisphere.

Discontinuance of foreign silver purchases by the government, without repeal of the 50% penalty tax on transfers, will not only prevent development of a free American market for silver but will likely divert to foreign refineries the business of refining metals produced elsewhere which have a substantial content of by-product silver.

The silver tax is not an important revenue source. During the fiscal year 1939, when the government purchased 352,718.452 fine ounces of foreign silver, at a total cost of \$159,023,320, the tax on silver bullion sales or transfers brought in only \$261,772.52. If foreign purchases are discontinued, the tax will not bring in sufficient revenue to justify its collection. At the same time, the 50% of the narrow margin of profits to be deducted as a tax from dealings in silver and the trouble and expense of complying with the intricate requirements of the tax law and regulations would be an unjust burden that would hamper and impede legitimate silver dealings and result in no really substantial revenue to the government. Any profits made on silver dealings would, like other profits, be subject, of course, to income taxes.

FRANK L. PECKHAM
 Attorney and Counsellor at Law
 Washington Loan and Trust Building
 Washington, D. C.

MEMO. in re TAX ON TRANSFERS OF SILVER and S. 785

IF AND WHEN THE GOVERNMENT DISCONTINUES PURCHASES OF FOREIGN SILVER, THE TAX IMPOSED UPON TRANSFERS OF SILVER SHOULD BE DISCONTINUED.

Sec. 8 of the Silver Purchase Act added a new subdivision to Schedule A of Title VIII of the Revenue Act of 1926, whereby a new tax of 50% of the profit is levied upon transfers of silver bullion.

Justification for the high tax on silver transfers was the fact that the Government purchases were to create an artificially high price for silver and it was fair that the Government should recapture some substantial portion of the profits which its purchasing activities created.

If government purchases hereafter are to be confined to only newly mined domestic silver, the market price of foreign silver and for scrap, reclaimed or foreign by-product silver will be permitted to find its own level. The price stimulus of government purchases will be removed.

Dealing in silver is a legitimate business. Accessibility to markets, freedom of the market and the price of silver affect many important industries in the United States. Those whose business it is to deal in silver are entitled to legitimate profits and should not be penalized by a 50% tax on profits no longer based on artificially high prices maintained through government purchasing.

Because of controls now in effect on the London and Bombay markets, as a British war measure, there is now no free market for silver in the world. If the 50% penalty tax on transfers of bullion is removed, and the government discontinues purchases of foreign silver, the United States could and would become the site of the only free market for silver in the world today. This status might even be retained after the cessation of the present war. This not only would bring to the United States a considerable volume of legitimate business but would also be of importance in our commercial relations with silver producing countries of the Western Hemisphere.

Discontinuance of foreign silver purchases by the government, without repeal of the 50% penalty tax on transfers, will not only prevent development of a free American market for silver but will likely divert to foreign refineries the business of refining metals produced elsewhere which have a substantial content of by-product silver.

The silver tax is not an important revenue source. During the fiscal year 1939, when the government purchased 352,718,452 fine ounces of foreign silver, at a total cost of \$153,023,320, the tax on silver bullion sales or transfers brought in only \$261,772.52. If foreign purchases are discontinued, the tax will not bring in sufficient revenue to justify its collection. At the same time, the 50% of the narrow margin of profits to be mulcted as a tax from dealings in silver and the trouble and expense of complying with the intricate requirements of the tax law and regulations would be an unjust burden that would hamper and impede legitimate silver dealings and result in no really substantial revenue to the government. Any profits made on silver dealings would, like other profits, be subject, of course, to income taxes.

FEBRUARY 13th, 1940. 406

Shipping Situation

The paramount problem confronting the steamship lines and the exporters of packing house products is clarification of the British government's position on the importation of Hams, Bacon and Lard from the United States. It is reported, but without official confirmation, that the restrictions will be extended to include frozen pork products. The British Ministry of Shipping, the United Kingdom Conference office and the American packers all have conflicting reports as to just what commodities are affected and the dead line after which imports will be denied admission into the United Kingdom. If a virtual embargo on American packing house products is to be imposed, the effect will be far-reaching, not only on the Conference Lines, whose vessels are equipped to carry refrigerated cargo, but it will also probably result in the abandonment of projected services by the Mosvold Line and the East Asiatic Company, whose vessels are completely refrigerated and whose interest in the North Atlantic United Kingdom trade is based primarily on the carriage of refrigerated meats.

American packers are said to have sold large quantities of Lard to Finland, the first order being for 5,000 tons.

The general situation at the Port of New York is practically unchanged from that prevailing on February 2d. The railroads are lightering for export an average of 700 cars per day. The railroad lighters on demurrage (over 48 hours) alongside ships and steamship piers at noon, Thursday, February 8th, numbered 118, of which 23 were charged to the French Line. They explain that their difficulties in releasing lighters are occasioned by the large number of airplanes they are loading. The French are making some impression on the accumulation

of motor trucks at Staten Island but the quantity remaining to be moved is still great.

Interesting, if true, is the rumor that J. H. Winchester & Co., who acted in a similar capacity during the last war, will be appointed loading agents for the French government. It is not clear how this plan would operate unless Winchester would have direction of the ships chartered by the French government loading at Baltimore, etc.

The large number of chartered foreign ships calling at New York are providing a great deal of work for the ship repair yards in this area.

The demand for American-flag ships for neutral trading is active and exceeds the available supply. The going time charter rate is \$4.00 per deadweight ton. This rate is also paid for a round trip in the intercoastal trade, which is extremely active in both directions, and especially eastbound, with Pacific northwest lumber. Net form and time charter rates on foreign neutral tonnage are holding firm due to the requisitioning by Scandinavian governments of their ships to carry grain, etc., to build up reserve supplies.

There has been no let-up in the active demand for Steel to east coast of South America.

Grain in elevators, barges and railroad cars at the Port of New York has declined to approximately 4,500,000 bushels. The quantity in elevators at United States outports has been diminished but the railroads report a constant run of replenishments.

The rate on heavy Grain to Antwerp/Rotterdam has advanced to 65¢ per 100 lbs. Freight rate on Grain from the River Plate to Europe is \$24.00 per ton, a record high in recent years and reflecting a determination of European importing nations to build up reserves.

Basil Harris

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Mexico City, Mexico

DATE: February 13, 1940, 9 p.m.

NO.: 51

The Bank of Mexico's actual sale of dollars to member banks for Monday was \$850,000, and for Tuesday it was \$900,000. Thus since the eighth of February it sold a total of \$5,250,000 to member banks. Dollar demand continues very strong, although the availability of pesos for speculation has been reduced by the non-loan policy of the private banks. These banks, by agreement among themselves, will gradually, for strictly commercial purposes, relax their policy on loans, but they will not grant any peso loans against collateral in dollars in order to force conversion of dollars into pesos. There will be a reduction in loans granted for the purchase of products in the luxury or semi-luxury class, such as automobiles, refrigerators, and so on, to a point where individual banks can handle them without the Bank of Mexico rediscounting the loans - thus imports of these products will automatically be reduced.

The Bank of Mexico has sold to the Federal Reserve two additional metric tons of gold, making a total for the present crisis of five metric tons. This leaves a metallic reserve of 21 1/2 metric tons plus silver peso coins to the extent of 16,000,000 ounces.

DANIELS.

EA:LWW

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE February 13, 1940

TO Secretary Morgenthau
 FROM Mr. Cochran

Activity in the foreign exchange market increased substantially today as a result of heavier selling for account of South American and European banks and accelerated commercial business. The reported volume of sterling transactions, as shown below, was about double the average daily volume prevailing last week. After opening at 3.97-3/8, the sterling rate declined steadily throughout the day to close at the low of 3.96-1/2.

Sales of spot sterling by the four reporting banks totaled £609,000, from the following sources:

By commercial concerns.....	£ 209,000
By foreign banks (South America, Europe and Far East) ..	£ 400,000
Total.....	£ 609,000

Purchases of spot sterling amounted to £463,000, as indicated below:

By commercial concerns.....	£ 383,000
By foreign banks (Europe).....	£ 80,000
Total.....	£ 463,000

The following reporting banks sold cotton bills totaling £26,000 to the British Control on the basis of the official rate of 4.02-1/2:

£ 16,000 by the Guaranty Trust Company
7,000 by the Chase National Bank
3,000 by the National City Bank
£ 26,000 Total

Just before the opening of the New York market, the belga advanced to .1689 in Amsterdam, as against the opening Amsterdam rate of .1684. The first quotation in New York was .1691. By mid-afternoon, it had eased to .1688-1/2. Late in the day, one New York bank attempted to execute a selling order in a thin market, and the rate receded to .1682 at the close.

The other important currencies closed as follows:

French francs	.0224-5/8
Guilders	.5315
Swiss francs	.2242-1/2
Canadian dollars	13-5/16 % discount

CONFIDENTIAL

- 2 -

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

\$10,000,000	from the Bank of France
<u>3,375,000</u>	from the Bank of Mexico
\$13,375,000	Total

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

\$ 3,271,000	from South Africa, shipped by the South African Reserve Bank to the Federal Reserve Bank of New York, to be earmarked for account of the Netherlands Bank.
2,722,000	from Canada, shipped by the Bank of Canada, Ottawa, to the Federal Reserve Bank of New York, for sale to the U. S. Assay Office.
2,500,000	from South Africa, shipped by the South African Reserve Bank to the Federal Reserve Bank of New York for account of the Netherlands Bank. Although the disposition of this shipment is unknown at the present time, it is probable that it will be earmarked for the Netherlands Bank's account.
2,252,000	from Switzerland, shipped by the Swiss National Bank to the Federal Reserve Bank of New York, to be earmarked for account of the Swiss National Bank.
<u>\$10,745,000</u>	Total

The State Department forwarded to us a cable stating that the following shipments of gold were being made from Bombay, India:

\$3,027,000	representing four shipments by three different banks to the Chase National Bank, San Francisco.
493,000	representing two shipments by a French bank to the French American Banking Corporation, New York.
404,000	representing two shipments by an Australian bank to the Bank of California, San Francisco.
348,000	shipped by the National Bank of India to the Guaranty Trust Company, New York.
<u>\$4,272,000</u>	Total

Of the above shipments, those arriving at San Francisco will be sold to the U.S. Mint there and those consigned to New York will be sold to the U. S. Assay Office.

In a report from the Federal Reserve Bank of New York showing deposits for account of Asia as reported by the New York agencies of Japanese banks on February 7, such deposits totaled \$36,921,000, a decrease of about \$640,000 since the last report on January 31. Of this amount, \$25,680,000 represented deposits with the Yokohama Specie Bank by its branches in China. The overdraft on the books of the Yokohama Specie Bank in New York for account of its head office in Japan was \$81,064,000, an increase of \$2,911,000 since January 31.

CONFIDENTIAL

The Bombay quotation for spot silver worked out to the equivalent of 39.15¢, about 1/2¢ down from the quotation of February 10. The equivalent of the silver price for first settlement delivery, which we understand will be some day during the first week in March, was quoted at 37.77¢, a discount of about 1-3/8¢ under the spot price. According to a Reuters despatch from Bombay which appeared on today's Dow Jones ticker, the forward discount is attributed to rumors that there will be an increased import duty in the next Indian budget, resulting in a demand for spot silver. The budget will be presented at New Delhi on February 29. The present silver import duty works out to an equivalent of about 5-5/8¢ per ounce and is already taken into account in the silver quotations given above.

The London prices fixed for spot and forward silver were 21-3/16d and 21-1/16d, both off 1/16d from the quotations of February 9. The U. S. equivalents were 37.87¢ and 37.42¢ respectively.

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

We made ten purchases of silver totaling 559,000 ounces under the Silver Purchase Act. Of this amount, 134,000 ounces represented sales from inventory by two refining companies and the remaining 425,000 ounces consisted of new production from foreign countries, for forward delivery.

J. M. S.

CONFIDENTIAL

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Mexico City

DATE: Undated. Received February 13, 1940.

NO.: 50

CONFIDENTIAL

Reference is made to Department's no. 23, dated January 26, 1940, 7 p.m. The American Smelting and Refining Company at Monterrey has shipped 3,000 tons of refined lead. The sale was made to Antorg Trading Corporation by the New York office at a price of \$70.20 a ton. The local office of the American Smelting and Refining Company believes that the lead was sold for cash and payable probably in gold from San Francisco. The office also believes (I emphasize believes) that Germany will receive some of the lead but the office has no knowledge concerning destination. The shipments were consigned to Agencia Comercial y Maritima, which is a German firm handling Russian boats.

DANIELS

EA:EB



DEPARTMENT OF STATE
WASHINGTON

February 15, 1940.

In reply refer to
EA 711.00111 Articles or
Materials/228

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses one copy of a paraphrase of telegram no. 50, dated February 13, 1940, from the American Embassy at Mexico City, which refers to the Department's telegram no. 23, dated January 26, 1940, to the Embassy, requesting, on behalf of the Treasury, information relating to the freight shipments by way of Manzanillo to Vladivostok.

Enclosure:

From Mexico City,
no. 50, February
13, 1940.

TO THE SECRETARY
TECHNICAL ASSISTANT
CLERK OF THE

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MEYER'S DEPARTMENT
RECEIVED

26

February 13, 1940

Dr. Fels

Mr. Cochran

The following is the draft message which the Treasury Department suggests for a reply to the inquiry received from the Legation of Afghanistan in Paris:

"AMERICAN EMBASSY PARIS

Year 189 February 9 4 p.m.

Should the National Bank of Afghanistan decide at some future date to submit a proposal for the purchase of a specific amount of gold from United States Treasury, application for the necessary license should be addressed directly by the National Bank of Afghanistan to the Federal Reserve Bank at New York which acts as fiscal agent of the United States in the sale and purchase of gold. The Federal Reserve Bank at New York would give full particulars on technical details.

The Treasury's current sale price is \$35 per fine troy ounce, plus 1/4% handling charge.

For your information, the Treasury is considering favorably applications from foreign monetary authorities for the purchase of gold to strengthen their monetary reserves."



February 13, 1940
10:42 a.m.

Daniel

Bell: Hello.

Operator: Senator Wagner.

B: Hello.

Robert
Wagner:

Yes.

B: Good morning.

W: Good morning. We're right in the midst of the meeting. Have you got any.....

B: Well, I thought you were going to call me last night and I understood you were out of town.

W: Yeah. Yeah.

B: Well, I talked to the President a little yesterday about it and there are a couple angles which I think you ought to know as the background. One is that if you allow this bill to go through they are going to contend in the campaign that you've admitted that part of the monetary policy has been all wrong.

W: Yeah.

B: And he thinks it might be used very effectively.

W: Yeah.

B: And the other -- wait a minute -- just a moment. (Brief pause) Oh, the other is the "Good Neighbor Policy" which they have been trying to foster to the south of us. There might be a few situations there where we'd want to buy foreign silver, not in large amounts.

W: For what -- for what policy?

B: The "Good Neighbor Policy".

W: Oh, yes, yes.

- 2 -

B: The south

W: Yeah.

B: And Mexico and Chile and Peru, I think.

W: Yeah. Well I don't know, we -- I got word otherwise too that was your policy and we're going to do the best we can. I don't know, it's such a damn silly thing that it's hard to stop it.

B: Well, I'm wondering if you can't use this as an excuse: that here you have this resolution to investigate banking and monetary matters.

W: I know.

B: All right. You could say to them that -- well, why do this piece-meal, why not let me get some more information on it and.....

W: That's right.

B:after I've made my recommendations it'll include silver.

W: I know. I've -- I've tried that but.....

B: Have you?

W:they -- they know I'm not in a great hurry about that, don't you know? That's what's so -- well, we'll do the best we can. I -- I've got to go back to the meeting now.

B: Yeah. Well, he didn't think that you'd want to use either one of the first two suggestions as the back -- that we gave you as the background, but the excuse you'd want to use would be your meeting.

W: Yeah. Well, I'm going to try that but -- I don't know; we'll see.

B: All right.

W: Thanks very much.

B: Good luck to you.

W: Goodbye.

February 13, 1940
10:48 a.m.

Alben W.
Barkley: Hello.

Daniel
Bell: Good morning, Senator.

Barkley: All right.

B: This is Bell, in the Treasury.

Barkley: Yes.

B: I talked to the President about this Townsend Silver Bill and I just thought you ought to know his reaction. He said that he thought you ought to get the background, the way his mind's working. If you allow.....

Barkley: Well, the sub-committee has already reported the bill favorably and I think the full committee is going to do the same in a few minutes.

B: Is that right?

Barkley: Yeah, I've been trying for three weeks to get some information on this subject and I haven't been able to get it. And I don't see why it is that I can't get a little cooperation down the street when I'm trying to carry the banner over here. What -- what is it now that he's.....

B: Well, I -- I think we could give you information -- I didn't know you wanted any but.....

Barkley: Well, I -- I called day -- day before yesterday and talked to Mr. Bernard and he called me yesterday and said he had talked to you and he was to have information over here to me this morning by ten o'clock and it hasn't come.

B: Well, he just got this information and he'll be up there in a few minutes.

Barkley: Well, it'll be too late.

B: Well, anyhow, the President wanted you to get these two thoughts. The first was that if the bill goes through the Congress and it becomes a law that they might use it in the campaign to the effect that

- 2 -

the Administration has already admitted that part of its monetary program over the past five years is a failure and they went along with this -- eliminating this foreign purchases. The other point is that it interferes with the President's "Good Neighbor Policy" -- South American and Latin America and so forth.

Barkley: Well, that's the argument I made before.

B: Yes.

Barkley: And I've been making it here this morning but it doesn't change anybody's view.

B: Yeah, and the excuse probably he thought you might use was that the Wagner Resolution is now on the books which authorizes him to study the banking and monetary situation and he could very well include silver.....

Barkley: Yeah.

B:in his report on that.

Barkley: Yeah. Well, I think that's -- all those are good arguments and I've made them, but the committee, I think, has got it's mind made up and is going to report this bill.

B: Yeah.

Barkley: But I'll do the best I can, but I'm handicapped by the lack of those figures. The question was just asked here a while ago how much foreign silver we bought last year. And I wanted all that information, and I think that --

B: Well, that's.....

Barkley:we're increasing our trade; if we stop buying this silver it -- it certainly handicaps China.

B: They've got to have some other means of making payment.

Barkley:Mexico. Most of it is coming in here in payment for goods that's being purchased. It seems ridiculous to me to stop China from sending silver

- 3 -

into this country to pay for things she needs and then turn around and loan China money to buy the very same things.

B: (Laughs) Yes.

Barkley: And the same is -- the same is true of some of these South American countries. But anyhow.....

B: Well, I think the only thing he ex -- the President expects is to do the best you can on it.

Barkley: Yeah. Well, that's all I can do and that won't be much.

B: Maybe it has gone too far at this point.

Barkley: Well, all right.

B:

Barkley: I hope that if the bill is reported I can get the information I -- see it before the bill comes up in the Senate.

B: Well, Larry Bernard is on his way up there to see you.

Barkley: All right. Thanks.

B: Thank you.

JR

PLAIN

London

Dated February 13, 1940

Rec'd 2:50 p.m.

Secretary of State,
Washington.

378, February 13.

FOR TREASURY FROM BUTTERWORTH.

1. The Chancellor of the Exchequer announced in the House of Commons that the actual applications for conversion of the pounds 350 million issue totalled pounds 236 million and for repayment pounds 99 million, there remaining a balance of about pounds 15 million about which particulars are not yet available. Although Simon stated that he regarded this result "as extremely satisfactory" the fact that only two thirds of the issue was converted, a substantial proportion of which was undoubtedly in Government hands, seems to belie his remark.

2. The Rumanian lei is now being quoted in London on the basis of the rate prevailing on the Bucharest bourse for free exchange dealings. Hitherto only the official rate established by the National Bank of Rumania had been quoted. Today the London rate was 840 sellers compared with the former National Bank rate of 550 sellers. The following semi-inspired account has appeared in the financial press:

"Under

-2- #378, February 13, from London.

"Under present arrangements Rumanian exporters are compelled except where other clearing arrangements exist to surrender 30 per cent of the proceeds of all bills drawn on foreign centres in foreign exchange to the National Bank which credits the exporters at the official rate of 565 to the pound for this fraction. The remaining 70 per cent they sell on the Bucharest bourse to any importer desiring the currency. The quotation thus established is dependent purely on supply and demand.

"London foreign exchange quarters have therefore decided that it would be of greater use to publish the Bucharest bourse rate than the unofficial National Bank of Rumania rate which rarely changes. The successive depreciations of sterling and the lei brought the lei-sterling rate down to about 410. To this the National Bank of Rumania added a premium of 38 per cent after the depreciation of the lei bringing the rate up to 565.

The Anglo-Rumanian clearing arrangement lapses at the end of April and it is understood that a new arrangement is being drawn up. Under the terms of the existing agreement 20 per cent of the sterling proceeds of Rumanian exports to this country is freely negotiable, 40 per cent is given to the National Bank of Rumania at the official rate

-3- #378, February 13, from London.

rate of 565 and 40 per cent is credited to the Anglo-Rumanian goods account which exists to facilitate payments for the import of British goods to Rumania. In well-informed circles it is suggested that the exchange proportions of 70 and 30 might also be applied to Anglo-Rumanian trade. Such a proportion is maintained between Rumania and many other countries."

The British Treasury appears to have been taken by surprise by this development at this time which it had regarded as a possibility when the Rumanian Finance Minister was changed about six months ago. The only obvious disadvantage that might arise out of this action would be if it were allowed to wreck the clearing arrangement thus injuring unpaid British creditors and British bondholders. No doubt this aspect of the situation will be the subject of negotiation in connection with the several other controversial matters now existing between Rumania and Great Britain.

3. The January figures of Transvaal gold production have just appeared and indicate a new peak level of 1,135,482 fine ounces compared with 1,100,731 in December. Furthermore the number of natives employed has increased from 304,000 in December to 326,000 in January surpassing last year's best total of 325,000 attained in April. A

press

-4- #378, February 13, from London.

press commentator notes that December usually marks the trough of the shortage of natives for mine work in the South African summer but that last month's increase appears to be due "to more than seasonal influences".

JOHNSON

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