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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 1, 1940.

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

The sterling rate weakened further during the morning session on reports of German successes in Norway, but during the afternoon it developed a slightly firmer tendency. The opening quotation was 3.49-1/2. It moved downward to a low of 3.48-5/8 just before noon-time. A high of 3.50-1/8 was reached in the early afternoon, and sterling closed at 3.49-5/8.

Sales of spot sterling by the six reporting banks totaled £ 384,000, from the following sources:

By commercial concerns.....	£ 181,000
By foreign banks (Europe and Far East).....	£ 203,000
Total.....	£ 384,000

Purchases of spot sterling amount to £ 523,000, as indicated below:

By commercial concerns.....	£ 179,000
By foreign banks (Europe and Far East).....	£ 344,000
Total.....	£ 523,000

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

The Guaranty Trust Company reported that it had purchased £ 5,000 for forward delivery from the British Control at 4.03-1/2. The funds will be used to pay for shipments of rubber.

The belga declined today to a low of .1682-1/2 at the close.

The other important currencies closed as follows:

French francs	.0198-3/8
Guilders	.5309-1/2
Swiss francs	.2242-1/2
Canadian dollars	15-1/4% discount

The Federal Reserve Bank of New York purchased 2,000,000 French francs for account of the Royal Bank of the Kingdom of Yugoslavia.

There were no gold transactions consummated by us today.

- 2 -

The Federal Reserve Bank of New York reported the following shipments of gold from England, consigned to the Bankers Trust Company, New York, for sale to the U. S. Assay Office:

\$1,456,000 shipped by Samuel Montagu & Company, London, for account of the Amsterdam Bank, Amsterdam.
 1,008,000 shipped by the Bankers Trust Company, London.
 \$2,464,000 Total

Two days ago, we reported a shipment of gold totaling \$592,000 from Canada, sent by the Bank of Canada, Ottawa, to the Federal Reserve Bank for account of the B.I.S. At that time, the disposition of the shipment was unknown. The Federal Reserve Bank informed us today that this shipment had arrived and that they were earmarking the gold for account of the Central Reserve Bank of El Salvador, under instructions received by the Federal from the B.I.S. According to information received by us last October, the Salvadorean Bank had gold valued at approximately the same amount as the above shipment deposited with the Bank of Canada and pledged as collateral for certain dollar advances made to the former by the B.I.S.

On the report of April 24 received from the Federal Reserve Bank of New York giving the foreign exchange positions of banks and bankers in its district, the total position of all currencies was short the equivalent of \$18,958,000, an increase of \$483,000 in the short position. The net changes in the positions are as follows:

COUNTRY	SHORT POSITION APRIL 17	SHORT POSITION APRIL 24	INCREASE IN SHORT POSITION
England	\$ 5,723,000	\$6,305,000	\$582,000
Europe	8,691,000	8,542,000	149,000 (Decrease)
Canada	337,000 (Long)	250,000 (Long)	87,000 (Decrease in Long Position)
Latin America	551,000	621,000	70,000
Japan	3,350,000	3,251,000	99,000 (Decrease)
Other Asia	505,000	504,000	1,000 (Decrease)
All Others	8,000 (Long)	15,000 (Long)	7,000 (Increase in Long Position)
Total	\$18,475,000	\$18,958,000	\$483,000

The Bombay spot silver quotation worked out to the equivalent of 42.31¢, up 9/16¢.

In London, the price fixed for spot silver rose 3/8d to 21-7/16d. The forward quotation advanced 5/16d to 21-5/16d. The U. S. equivalents were 33.74¢ and 33.28¢.

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

CONFIDENTIAL

- 3 -

We made twenty-one purchases of silver totaling 2,633,000 ounces under the Silver Purchase Act. Of this amount, 775,000 ounces represented sales from inventory, and the remaining 1,858,000 ounces consisted of new production from foreign countries, for forward delivery.

We also purchased 820,000 ounces from the Bank of Canada under our regular monthly agreement.

In all probability, the unusually heavy offerings of silver reflected the Senate's debate of the Townsend bill forbidding future Treasury purchases of foreign silver.

A handwritten signature in dark ink, appearing to be 'B.M.G.', is centered on the page. The signature is fluid and cursive.

CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 1, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Knoke has telephoned me that the officers of the Federal Reserve Bank in New York are now considering the inquiry of the International Hydrographic Bureau in Monaco in regard to the possibility of earmarking gold in New York, and the privilege for selling the same. Knoke asked if the State or Treasury Departments had any definite preferences on this matter. When I spoke with Dr. Feis today he said he thought the State Department would raise no objection thereto. When I asked whether the State Department wanted an exception made in favor of such a step, he said he would consult Under Secretary Welles in the premises and call me back. I have not yet heard from him.

Mr. Knoke stated that he and his colleagues felt rather strongly that an earmarked account should not be opened by the Federal Reserve Bank in favor of this international organization unless the Government strongly insists, and in that event a fiscal agency account would be preferred. As it is now, earmarked accounts are held only for central banks, the B.I.S., and for the Treasury of one country which has no central bank. The Federal Reserve feels that this present exception would be unwarranted, since it would be giving a privilege for hoarding gold, as quite distinct from the facility for preserving gold for monetary stocks and purposes involved in the usual earmarking practice.

Before getting these views from Knoke I had mentioned the question to Bernstein, whose first reaction was that we should provide a haven of refuge for the holdings of international organizations in which governments participate. Mr. Bell took no firm position, but was hesitant about increasing earmarked gold in this country through opening up additional accounts. It should be borne in mind that American organizations do not have the facility for preserving their assets through holding gold in this country.

A. W. R.

May 2, 1940

Mr. Livesey telephoned me at 10:15 this morning to the effect that a memorandum had been circulated to the interested officers in the State Department in regard to the question as to whether we should open an earmarked gold account for the International Hydrographic Bureau. Mr. Welles had expressed the opinion thereon that he saw no objection, but that the measure seemed to be one to be determined by the Treasury and Federal Reserve. Through the Department of State, we contribute \$5,790 annually to the support of the International Hydrographic Bureau.

A. W. R.

Mr. Graham -

5

I don't know whether this inquiry has any
thing to do with that of the General of Mexico
(see my memo of 1/3/40).

At any rate will you read the attached
and then let us discuss it when I return. You
will note that in England they evidently did not
keep their eyes at the Port of England

Cox

198 FORM 6-59
FEDERAL RESERVE BANK
OF NEW YORK

INTEROFFICE
ROUTE SLIP

6

TIME _____ A. M. _____ DATE _____
P. M. _____

Mr Knake

DEPARTMENT
DIVISION
SECTION

REMARKS

*Data to be mailed to
Mr Cochran*

FROM

Shady

DEPARTMENT
DIVISION
SECTION

USE THIS FORM INSTEAD OF OFFICE ENVELOPE WHEN POSSIBLE.
ENSURE PROMPT AND ACCURATE DELIVERY ALL COMMUNICATIONS SHOULD BE DISTINCTLY
LEO.

C O P Y

INTERNATIONAL HYDROGRAPHIC BUREAU
QUAI DE PLAISANCE
MONTE CARLO

26th March 1940

Sir:

The International Hydrographic Bureau is anxious to obtain official information regarding the importation of gold into the United States of America. First, can such gold be shipped to the United States and earmarked for the International Hydrographic Bureau which is an international organization under the auspices of the League of Nations? Second, could this gold or a part of it be sold in the United States for dollars and if so, under what restrictions?

The International Hydrographic Bureau has its entire reserve fund in gold bars which are now held in London in safe custody deposit in the bank for foreign account. The International Hydrographic Bureau is free to dispose of this gold and would normally leave this gold in London but unforeseen events arising from the war may necessitate other disposition of this gold.

The Directing Committee would very much appreciate whatever information you can give them in this connection.

I am, Sir,

Yours very truly,

(Signed)

John D. Nares

Vice-Admiral
President of the Directing Committee.

The Director
FEDERAL RESERVE BANK
NEW YORK

OFFICE CORRESPONDENCE

DATE April 5, 1940

TO Mr. Liddy

SUBJECT The International Hydrographic

FROM B. Firms

Bureau.

The International Hydrographic Bureau is one of a large number of International Bureaus which have sprung up since the Hague Conventions of 1909. The International Hydrographic Bureau was founded in London in 1918 and was definitely established in 1921. It has the same status as Postal Union and the International Bureaus of Weights and Measures, Whaling, etc.

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

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

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

OFFICE CORRESPONDENCE

DATE _____

SUBJECT _____

FROM _____

-2-

Kingdom. The American member of the governing body was Rear Admiral W. S. Crosley of the U.S. Navy.

The International Hydrographic Bureau is required by statutes to hold conferences every five years, or more frequently if the majority of the members so specify. It held conferences in 1919, 1928, 1929, 1952, and 1957. The Bureau publishes regularly a Hydrographic Review, a Bulletin and special publications of a scientific character. It has very fine buildings and an interesting museum at Monte Carlo, Monaco. Apart from the fact that Monaco is a member of the Bureau, there is no connection between it and the Principality of Monaco.

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

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

RE:AK

EXTRACT FROM
HANDBOOK OF INTERNATIONAL
ORGANIZATIONS

10

Geneva - 1929

INTERNATIONAL HYDROGRAPHIC BUREAU.
BUREAU HYDROGRAPHIQUE INTERNATIONAL.

at: Monaco. 3, avenue du Port.

oundation: 1919; definitely established in 1921.

bject: To establish a permanent association between the hydrographic services of the various States; to co-ordinate their work with a view to rendering navigation easier and safer in all seas; to endeavour to obtain uniformity in hydrographic documents and to advance the science of hydrography.

embers: The Governments of Argentina, Australia, Brazil, Chile, China, Denmark, Egypt, France, Germany, Great Britain, Greece, Italy, Japan, Monaco, Netherlands, Norway, Peru, Poland, Portugal, Siam, Spain, Sweden and United States of America.

verning Body: *President*—Rear-Admiral A. P. NIBLACK (United States of America). *Members*: General P. DE VANSAY DE BLAVOUS (France) and Captain L. TONIA (Italy).

fficer: *Secretary-General*—Commander G. B. SPICER-SIMSON, D.S.O.

nance: Contributions of the States members in proportion to their maritime importance. Budget of 265,000 gold francs.

ctivities: First Conference held in London 1919, second at Monaco 1926. Statutory conference every five years, supplementary conference when required by majority of members; first supplementary conference April 1929. Publications: Reports of proceedings of the conferences; annual reports; special publications on technical subjects; Year-Book for 1928 and 1929.

istorical Facts: This public international bureau was placed under the direction of the League of Nations by a decision of the Council of October 2nd, 1921.

fficial Publication: *The Hydrographical Review*.



OFFICE OF THE DIRECTOR

copy to Mr. Young 5/10

TREASURY DEPARTMENT
PROCUREMENT DIVISION
WASHINGTON

May 1, 1940

MEMORANDUM FOR THE SECRETARY

There is attached hereto copy of confidential memorandum received from the Acting Chief, Bureau of Aeronautics, Navy Department, concerning a deferment on the part of the Navy of the delivery of eighty (80) airplanes manufactured by the Grumman Aircraft Engineering Corporation, Bethpage, L.I., New York.

To date no definite information has been received concerning the award of a contract to Grumman referred to in the third paragraph of attached memorandum, although it is understood that the French are interested in the plane.

J. P. Collins

att.

NAVY DEPARTMENT
BUREAU OF AERONAUTICS
WASHINGTON

April 30, 1940

MEMORANDUM

CONFIDENTIAL

For: Mr. H. E. Collins, Chairman,
President's Liaison Committee.

SUBJECT: Sale of Grumman Airplanes to French Government.

1. The Grumman Aircraft Engineering Corporation, Bethpage, L.I., New York, has requested deferment of delivery to the Navy Department of eighty (80) of the F4F-3 airplanes being constructed under Contract 68219 to permit acceptable deliveries of similar planes to the Government of France under an order now being negotiated.

2. The Grumman Aircraft Engineering Corporation has been authorized to negotiate on the general basis of their proposal to the Bureau of Aeronautics which the Bureau considers satisfactory. The contractor offers, in compensation for the deferment of deliveries to the Navy, to reduce the price on each of the 80 airplanes by \$2400, of which \$800 is considered to be the pro rata share of the engineering expense on this model which is to be transferred to and borne by the foreign customer. The remaining reduction, amounting to \$1600 per airplane, is considered to represent the expected reduction in cost of manufacture due to increased quantity. The contractor further has offered a series of changes in the airplanes for the Navy's acceptance, not as an addition to, but in substitution for, the reductions in price to whatever extent the Navy Department may elect. These changes provide improvements of the type and will be accepted in the combination and to the extent best suited to the Navy Department's particular needs.

3. The Bureau is advised that negotiations have been substantially concluded and that the manufacturer is in receipt from the Government of France of authority to proceed with construction of 81 airplanes in advance of execution of formal contract.

/s/

M. A. Mitscher
Captain, USN.
Acting Chief of Bureau

Copy to:

Rear Admiral Ray Spear (SC) USN,
Member President's Liaison Committee
Aeronautical Board
The Chief of Air Corps

C
O
P
Y

THE UNDER SECRETARY OF STATE
WASHINGTON

May 1, 1940

Personal

Dear Henry:

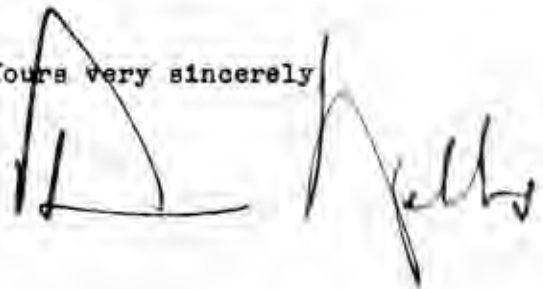
With reference to your telephone call of yesterday, I find that the matter will be formally presented to the Department of Justice within the next few days through memoranda which are now being prepared by the War and Navy Departments as well as by this Department.

Consideration of this entire question has brought out the fact, however, that the formal inclusion in contracts of the proposed clause binding sellers and buyers to refrain from the exportation of tin and rubber will be relatively ineffective since there will be no penalty which can be enforced in the courts. The officials who have been studying the matter believe that the main problem is in securing the voluntary cooperation of all those concerned and they tell me that very good progress has already been made in that direction. They further state that the Amtorg Corporation in particular is now finding it difficult to secure either commodity in this market.

If there is anything further I can do to be helpful, let me know.

Believe me

Yours very sincerely



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



DEPARTMENT OF STATE
WASHINGTON

May 1, 1940.

In reply refer to
EA 840.51 Frozen Credits/45

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits, for an indication of the reply that may appropriately be made thereto, a copy of telegram no. 554, dated May 1, 1940, from the American Embassy at Paris, regarding funds blocked under Treasury regulations.

Enclosure:

From Paris, no. 554,
May 1, 1940.

TO THE SECRETARY OF STATE
DEPARTMENT OF STATE
WASHINGTON, D. C.
MAY 2 1940
RECEIVED

JS

JR

GRAY

Paris

Dated May 1, 1940

Rec'd 12:05 p.m.

Secretary of State,
Washington.

554, May 1, 2 p.m.

Halvard Bachke, formerly Norwegian Minister in Washington, presently Norwegian Minister in Paris, has inquired whether the Department could advise him what steps are necessary to effect the release of certain bank accounts in his and Mrs. Bachke's names with the Chase National Bank, Guaranty Trust Company and Riggs National Bank, which are now blocked.

Please telegraph.

BULLITT

RR

MAY 1 1940

16

My dear Mr. Secretary:

There are enclosed herewith a number of copies of Executive Order No. 6560 of January 15, 1934, Regulations of November 12, 1934, Executive Order No. 6389 of April 10, 1940, the Regulations of the Secretary of the Treasury issued thereunder, certain applications, license and report forms, general rulings and an amendment to the press.

As you know, the above-described Order and Regulations have imposed restrictions on certain transactions in Danish and Norwegian property and have set up a system of licensing transactions in such property. Pursuant to the authority conferred by section 5(b) of the Act of October 6, 1917, as amended, the restrictions of the Order and Regulations extend to persons and property within the United States and places subject to the jurisdiction thereof.

If it has not already been done, it would be appreciated if the documents transmitted with this letter were forwarded to the United States High Commissioner in the Philippines and to the Governors of Alaska, Hawaii, Puerto Rico and the Virgin Islands.

Unless you have some objections, kindly inform the officials referred to in the preceding paragraph that they are designated by the Secretary of the Treasury pursuant to the authority conferred upon him by the Executive Order as the persons to administer the above-described Order and Regulations in the places named.

- 2 -

Such officials should also be instructed as follows:

They are authorized to receive applications for licenses and to request applicants to file under oath with their applications any additional information which may be deemed appropriate. Where circumstances require prompt action with respect to applications, such officials are further authorized to grant licenses for transactions which are not inconsistent with the purposes of the Executive Order, provided that such officials are satisfied that the applications cover normal commercial and business requirements or reasonable traveling and other personal requirements. All other applications should be forwarded as expeditiously as possible to the Treasury Department at Washington. Special situations may be dealt with by cable or radio. Advice may be obtained by such officials directly from the Treasury Department at Washington with respect to the granting or denial of applications for licenses and with respect to other questions which may arise in the administration of the Order and Regulations. When applications are forwarded to the Treasury Department the above-named officials will be promptly advised whether the license is granted or denied. In order to enable the Treasury Department to advise concerning the granting or denial of licenses, the officials receiving applications should number consecutively applications received by them. In cases in which such officials are authorized under these instructions

- 3 -

to issue licenses, licenses may be granted in appropriate cases as, for example, to business enterprises, ships' agents, etc., authorizing not merely individual transactions but all customary transactions during one-week periods within fixed dollar limits. In such cases licenses should be required to file reports promptly at the end of each one-week period setting forth all of the transactions consummated during such period.

The above-named officials are also authorized to receive all of the reports required to be filed by the Order and Regulations of April 10, 1940 and to take other appropriate action to carry out the provisions thereof. Copies of all licenses issued and the originals of all reports filed should be transmitted by air mail to the Treasury Department at Washington and the Department should be kept advised of any action taken to enforce the Order and of any circumstances which indicate violations thereof.

The above-named officials should be requested to have copies of the new Executive Order and Regulations, together with Executive Order No. 6560 of January 15, 1934, and application and report forms promptly prepared and distributed to interested persons and otherwise brought to the attention of the public. In particular it should be made clear that applications and reports may be filed with such officials rather than with a Federal Reserve bank.

- 4 -

It also would be appreciated if you would have the High Commissioner in the Philippines promptly advise this Department whether the time within which persons in the Philippine Islands may file reports on Forms TFR-100 and TFR-200 is adequate. Under present regulations and instructions, such reports would have to be filed on or before May 15, 1940.

If you have any suggestions as to the manner in which the Executive Order of April 10, 1940 and the Regulations issued thereunder should be administered in the Philippine Islands, Alaska, Hawaii, Puerto Rico and the Virgin Islands, I would welcome an expression of your views.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable,

The Secretary of the Interior.

Enclosures ✓

File to Mr. Thompson

By Messenger 10⁰⁰ p.m. 5/2/40

JBF:mas - 4-30-40

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 1, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

When I read on the news ticker yesterday of Australian action with respect to United States dollar securities, I asked Pinsent by telephone if he had anything on this subject. He had nothing in addition to the news item. Later in the day Mr. Officer of the Australian Legation telephoned me, saying that Pinsent had let him know of my interest in the Australian announcements. Consequently, he was sending me by messenger a memorandum on the subject. The original of this memorandum was sent to the Secretary's residence by me last night.

There is attached a copy of a cablegram which the Federal Reserve Bank of New York received yesterday from the Governor of the Commonwealth Bank of Australia in regard to the step under reference. Mr. Knoke told me by telephone this morning that this was the first information received from the Australian Bank to supplement the request made some weeks ago, and reported to the Treasury, that the Federal permit the opening of a special account for the Commonwealth Bank of Australia into which the proceeds of the sales of United States dollar securities by Australia could be deposited.

On checking at the State Department today, I found that there had been no correspondence or negotiations between the Australian Legation and the State Department in regard to this question of sale of securities. The three officers who said they were aware of no such negotiations were Messrs. Fels, Minter (who handles the Australian desk) and Livesey. At 12:40 today Livesey telephoned me that a cablegram had been received from our Consul General in Australia, and I now attach a copy thereof.

We have no knowledge of the possible volume of securities involved other than the estimate given in the attached cablegram. The question arises as to whether we should at this date ask the Australian Legation to provide us with any pertinent information, or keep in touch with us in regard to their operations.

May 4, 1940

When I brought the Secretary to date last night on Australia security selling, he agreed that I should not make any protest to the Legation because of lack of advance information on the Australian plan, but that I should continue to keep in touch with the Legation and receive such information as Mr. Officer is now providing me in regard to Australian finances.

INCOMING CABLEGRAM—SERIAL NO. _____
2955

RECEIVED April 30, 1940

Sydney, Apr. 30, 1940.

Federal Reserve Bank of New York

New York

No. 53

Your 24.

Commonwealth Government published regulation today listing 20 dollar stocks and requiring owners thereof to sell and pay dollar proceeds to Federal Reserve Bank of New York at New York for the credit of Commonwealth Bank of Australia Sydney Number 3 Account.

Sales must be completed within 6 months not less than half within first 3 months. Please treat this as authority to open necessary Number 3 Account in the name of this bank and credit payments thereto disbursement to be effected by duly authenticated cable messages from this office or by draft signed by two officers as for existing account.

Cable daily amount of each deposit and full name of beneficiary. Cable balance of account weekly. In order that code words for christian names and surnames may be available we suggest you use Commonwealth Bank of Australia Private Telegraphic Code for these messages. On April 26 we posted you additional copy of this code with special appropriation set up opposite page 318. Please cable us when received. Full details including copy of regulation being forwarded by air mail.

Governor Commonwealth Bank of Australia.

CABLE DIVISION

MY Post.157 TERT CORRECT

Regraded Uclassified

HSM

GRAY

Sydney

Dated May 1, 1940

Rec'd 7:23 a. m.

Secretary of State,
Washington.

May 1, 5 p. m.

By an order of the Commonwealth Treasurer gazetted yesterday Australian owners of 20 specified dollar stocks must sell them for United States currency within the next six months and pay the proceeds to the Commonwealth Bank's account in New York, after which the Commonwealth Bank will pay the Australian seller in Australian currency.

Press report from Canberra states that eventually all non-sterling stocks will have to be sold, and give \$5,000,000 as an unofficial estimate of the amount to be realized by yesterday's order.

The Commonwealth Bank informed me confidentially that the order will not be applied to American citizens residing in Australia.

DOYLE

NPL

JR

PLAIN

London

Dated May 1, 1940

Rec'd 12:05 p.m.

Secretary of State,
Washington.

1094, May 1.

FOR TREASURY FROM BUTTERWORTH.

1. An Order in Council has been made dealing with those holdings of the securities named in the two acquisition of securities orders of February 17 and April 13 which have not been transferred to the Treasury owing to their not having been previously registered with the Bank of England. The British Treasury is now empowered to acquire such holdings either at the price stipulated at the time of the calling up order or at the current market price, "whichever be the lower".

2. London press reports the Australian Government has issued a proclamation requiring owners of 20 specified dollar stocks to sell half their holdings within three months and the remainder within six months. The TIMES correspondent estimates the resultant increase in Australian dollar balances in New York will be about \$5,500,000.

3. In the city military events in Norway are overshadowing all other considerations.

KENNEDY

JE

PLAIN

24

Helsinki

Dated May 1, 1940

Rec'd 10 a.m.

Secretary of State,

Washington.

212, first.

Opening Diet debate government resettlement bill introduced yesterday Prime Minister said this perhaps first time world history that large population from area ceded foreign country without exception abandoned former homes moving within new boundaries their fatherland showing tenacity patriotism confidence national prospects capacity create satisfactory living conditions for them. Considering small population Finland fact diminished territory nevertheless provides space evacuated population important avoid losing eighth population but natural that transfer four hundred fifty thousand people and their reincorporation gigantic task which specially in present conditions involves nearly insurmountable difficulties soluble only by state requiring cooperation sympathy sacrifices everybody but also initiative patience hard work evacuees. Transferred population has no legal right demand or receive compensation for its losses but having lost everything and performed its duty to the country has moral right expect Finnish state and people do all possible help them renew life. Hoped transfer land this purpose can be effected voluntarily far as possible but if this cannot be done rapidly enough or to sufficient extent necessary take compulsory measures.

Agricultural

- 2 -

Agricultural production must be unaffected by new measures rather increased. This involves question sums available for compensation how much capital levy can produce without causing serious disturbances national economy state finance taxpayers. Consequence war Finland much poorer having lost considerable proportion best most enterprising men national income largely decreased consumption during war greatly exceeding normal. Government finances out of balance and for duration great power war possibility restoring balance through export industries most limited. Must seriously endeavor increase peoples income cannot close eyes present difficulties. Though Finland has form taxation called capital tax it is not really and is merely supplemental income tax. However reasonable capital tax is possible cannot be higher than permits rapid liquidation without imposing long term obligation on taxpayers. Must be so ordered that little cash used and payments made in great part in kind accounts being balanced by kind of clearing whereby for instance loser real property obtains compensation in certificates useable purchase new land pay taxes. Discussing amount procurable capital levy Prime Minister said taxable wealth 1937 throughout country about fifty-eight billion marks including four one half billions pertaining ceded areas tax based on wealth exceeding 100,000 marks only. By reducing limit to forty thousand marks taxable wealth can probably be increased to sixty or sixty-five billions. Producing possible

- 3 -

possible tax four one half to five billions less deductible war losses so that perhaps three one half to four billions available. Compensable war damages estimated ten thousand six hundred millions including seven hundred millions to be carried by those receiving compensation. Hence considerable difference between losses and amounts apparently available requiring limitation compensation rate. Concluding Prime Minister said "better look facts and difficulties in the eye be satisfied with less but work on safe ground than with slogans wishful thinking excessive optimism. Firmly confident government bill will lead continued strengthening unity social structure national economy".

Press announces debate resumed May three and that special committee working capital levy bill submitted report April thirty Finance Minister for consideration.

SCHOMFELD

DDM

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate General, Shanghai
NO.: 372
DATE: May 1, 1940

Reference is made to the Department's telegram no. 183 of April 27, 1940, 2 p.m.

It is now believed that the Italian Bank for China is in a position to meet without serious embarrassment any emergency which may arise from the situation in Europe. It is reported that forward transactions have been resumed on a somewhat restricted basis and that belligerent banks and brokers are being told that if the Italian Bank finds itself unable for any reason to meet directly its commitments on the due date, such commitments will be met through the Chase Bank.

It is stated by the manager of the Chase Bank that although no definite arrangement has been made recently, he would be prepared, if so requested by the Italian Bank, to take over at any time the Italian Bank for China's sterling balances in London and its open commitments with nationals of belligerents in Shanghai. He states that when the Italian-Abyssinian conflict began the Chase Bank had made arrangements to perform this service for the Italian Bank for China and that

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-2-

he would expect that in case Italy became involved in the present war in Europe he would be requested to help in a similar manner as the Italian Bank for China had made similar arrangements on several occasions since the Abyssinian conflict. In explanation he said that very friendly relations were maintained between the heads of the parent organizations of the two Shandhai banking institutions in New York and Rome, respectively.

He considers that in view of the delicate situation in Europe the local financial operations carried on recently by the Italian Bank are no more than natural. However, he has promised that if any new developments of a probable major significance arise regarding the attitude of Italy toward the war in Europe, he will promptly inform this office.

This message has been repeated to Chungking and Peiping.

BUTRICK

JR

GRAY

Milan

Dated May 1, 1940

Rec'd 1:12 p.m.

Secretary of State,
Washington.

19, May 1, 5 p.m.

FOR TREASURY DEPARTMENT. Today's prices as follows:
202. 75; 347. 75; 513 not listed; 989; 208. 75; 1664; 66.
50; 235. 50. Volume 84,075.

Market improved prices rose slightly on confirmation of rumors that new fiscal measures less severe than previously feared. Tomorrow holiday, exchange closed.

SHOLES

CSB

REB

GRAY

Paris

Dated May 1, 1940

Rec'd 2:45 p. m.

Secretary of State,
Washington.

560, May 1, 6 p. m.

FOR THE TREASURY.

Presumably because of the failure of the Senate to take any action in regard to the bill providing for the establishment of a superior export council in the Ministry of Commerce (as reported in the Embassy's telegram No. 433, April 5, 7 p. m.) the bill had previously received the approval of the Chamber the government has created such a body by means of a decree published in today's Journal Officiel.

(END SECTION ONE)

BULLITT

KLP
DDM

JR

GRAY

Paris

Dated May 1, 1940

Rec'd 3:38 p.m.

Secretary of State,
Washington.

560, May 1, 6 p.m. (SECTION TWO).

The Minister of Commerce will act as Chairman of the Council, other members being the Under Secretary for Commerce, four representatives of the Senate and Chamber Committees on commerce and customs, eight representatives of French industry and commerce and eleven Government officials concerned with questions of trade, industry and finance.

The weaker tendency on the securities market yesterday became more pronounced today in view of unfavorable rumors from abroad regarding the situation in Norway and the precautionary shipping measures adopted by Great Britain in the Mediterranean. Rentes declined from 10 centimes to francs 1.10. Losses in other securities ranged from 2 $\frac{3}{4}$ to 5%. Scandinavian issues especially were lower. Suez lost 570 points. END OF MESSAGE.

BULLITT

WVC

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GRAY

Bern

Dated May 1, 1940

Rec'd 7:20 p.m.

Secretary of State
Washington

29, May 1, 6 p.m.

Swiss Federal Council has issued a decree effective April 27 temporarily freezing Danish assets in Switzerland, requiring all direct or indirect payments by individuals or firms domiciled in Switzerland in favor of individuals or firms domiciled in Denmark to be effected through the Swiss National Bank (text forwarded by mail). This is a protective measure on behalf of Swiss creditors adopted as a result of interruption of free exchange payments to Switzerland from Denmark, and pending conclusion of an expected clearing agreement.

Swiss authorities have been advised by their representative in Copenhagen that the Danish Government hopes to maintain trade relations with Switzerland on previous scale (imports from Denmark in 1939, 25,000,000

-2-#29 May 1, 6 p.m. from Bern

25,000,000 francs; exports 20,000,000). Authorities here are sceptical as to whether this will prove possible.

No similar action taken or said at present to be under consideration by Swiss Government regarding Norway.

HARRISON

EMB

Treasury Department
Division of Monetary Research

34

Date.....

To:

From:

Draft which Mr. White discussed
with the Secretary at 3:30, on
May 1, 1940 (at which time it was
decided to go ahead with preparation
of speech.)

During this past year, and increasingly during the months since the outbreak of the European War, we at the Treasury have been receiving scores of inquiries about gold. The people of this country are perplexed. They are asking why so much gold is coming here. They want to know whether this is good or bad. They want to know if the future value of gold is in danger. They ask whether the United States will be able to use this gold or whether we shall be stuck with it. They wonder whether it wouldn't be better to import less gold. They are afraid that we may perhaps be paying too high a price for gold. They want to know whether we can reduce the inflow and whether we should if we could, and so on.

Let me give you some of the pertinent facts.

During the last six years we have acquired more gold than we or any other country ever possessed.

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4/20/40

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Last year alone we received over \$3 billion. This year, while almost all of the principal countries of the world have been losing gold, we have been getting it at the rate of \$250 million a month. The United States Treasury now has in its vaults over \$19 billion of gold ~~← a truly stu-~~
~~pendous~~ amounting to two-thirds of all the gold held by the combined Treasuries and Central Banks of the world!

~~How can we account for so large an inflow of gold?~~

The answer is at once disturbing and reassuring. It is disturbing because this drain of gold from foreign countries results from a gravely distorted economic and political situation throughout the world. It is reassuring since that gold is coming here because the United States has peace, security, and social and political stability. Our economic position in the world is dominant and unchallenged and the large inflow of gold into the United States

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- 3 -

is but the monetary reflection of that economic and social strength.

There is a good deal of misunderstanding as to why gold keeps coming to the United States. Some people have expressed the view that it comes here because the United States stands ready to buy all the gold offered to us at a fixed price. But that obviously cannot be the explanation. We have been buying gold at a fixed price for virtually 150 years. Ever since 1792 -- with only a 7 months' interlude -- we have been ready to buy at a fixed price all the gold offered to us.

Some people again are under the impression that we are getting gold because we pay a higher price for it than other countries do. This also is an error. The price for gold is virtually the same the world over. When we convert our \$35 price for gold into the currencies of other nations and

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- 4 -

make proper allowance for shipping, insurance, and other costs incidental to transportation, we find that the price we pay for gold is no more than other countries do. Any one can prove this for himself by a simple arithmetic computation. All he has to do is ascertain the price of gold in the terms of the currency of any other country, convert that price into dollars at current exchange rates, and add for costs of transporting gold. He will find that though the price for gold is given in sterling in London, in guilders in Amsterdam, and in pesos in Buenos Aires, etc., when converted into any common unit of currency the price for one ounce of gold is approximately the same the world over.

I suspect that much of the confusion about the gold question arises from a misunderstanding of the nature of gold transactions. Let me make myself clear.

No Treasury or Central Bank goes out into the world markets to buy gold as a government buys army blankets,

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say, or office furniture or armaments. Gold plays a highly specialized role. It is international money. It moves from country to country not as a commodity but as a medium of international exchange. It is sold to buy the currency of the country of destination. When London, for example, sends gold to New York for sale -- what London wants is dollars. Similarly, when we sell gold to England, what we want is Sterling. Therefore, when people ask why foreigners send gold to the United States, they are really asking the question: Why do foreigners want so many dollars rather than their own or some other country's currency that gold is sent here to obtain dollars?

Or, another way of asking the question, is: Why do foreign countries currently owe more cash to us than we owe to them?

In the first place, we have sold more good and services abroad than we have purchased. ~~From 1933 to 1937 our merchandise export surplus was not very large, averaging less~~

- 6 -

than \$300 million per year. In 1938 and 1939, however, it has been about \$1 billion a year.

Secondly, a large portion of the dollars obtained by foreigners is kept on deposit with our banks. It is kept there for possible exchange gains from depreciation of their own currencies and for safekeeping because foreigners think America is a safe place to keep their money.

Thirdly, another portion is used to make investments in American industry because foreigners think American business is a safe and profitable investment.

For these two latter reasons alone, almost 3 billion of foreign funds have come to the United States in the past six years. And this is a great tribute to the soundness of America.

We find, too, that Americans have been withdrawing their funds from abroad, and liquidating their foreign investments. During the past six years over 1 1/4 billion

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~~dollars of American capital has been repatriated. And~~
~~this, too, has helped to swell the inflow of gold.~~

Such was our position up to the war crisis. Since the war things have changed. Our export surplus is running at a much higher rate -- actually at double the rate of last year, while capital movements to the United States now have become a minor item. The net flow of foreign capital to this country has dropped this year partly because many countries are prohibiting outflow of capital and partly because some of the belligerents are using up their dollar deposits and their holdings of American securities to pay for imports from the United States. This reduced inflow of capital, however, has been more than offset by the sharp increase in our net exports of goods and services arising directly out of war conditions; so that foreigners want on balance just as many more dollars now as they did last year.

That is why we have so large a favorable balance of payments; that is why gold has been coming to this country.

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Of course, it was and is always possible to greatly reduce this gold inflow. But we could do so only by sacrificing recovery.

We could, for example, cut our exports of commodities and services by a billion dollars or so a year, but by so doing we would throw hundreds of thousands of workers out of their jobs and wholly disrupt agriculture. And we could possibly reduce the inflow of gold by increasing our purchases from abroad by another billion or so a year, but, again only if we permitted foreign goods to flood our home market at the expense of American farm and manufactured products.

Another possible way of reducing gold flows would be to force the return of the foreign capital or an outflow of domestic funds. This would again spell trouble for us since we are here speaking in terms of billions of dollars, not millions. There is no possibility that mild measures designed

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to make the dollar less attractive will have the effect of driving such capital out of this country; for there is virtually no other country to which billions can go with a degree of safety sufficient to attract such sums. To be effective under prevailing circumstances our action would have to be drastic. It would have to be so drastic as to produce extremely disturbing effects on our security and financial markets and do permanent damage to the principle of mobility of capital throughout the world. For the United States -- the one safe haven for liquid funds, the one country that under existing conditions can best afford to permit unrestricted movements of capital -- a procedure of such character would, I believe, be an unwise move. With a return of normal conditions, however, much can be done to facilitate the repatriation of foreign funds now here.

No. All the alternatives are definitely bad. I am sure you will agree with me that no responsible person would want to stop the inflow of gold at the price of

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precipitating any of the serious consequences I have mentioned. And yet that is exactly what some people are advocating. Perhaps they don't know it, but that is just what they are advising us to do when they suggest that we stop buying foreign gold, or that we change the price we pay for gold, or that we wipe out our "favorable" trade balance.

Take, for example, this proposal so frequently made to us that we stop buying gold. It has the charm of simplicity; all we have to do is prohibit gold imports by a Treasury order. Well, let us look at what would happen. The immediate reaction would be a sharp increase in the value of the dollar in terms of foreign currencies. Foreign currencies, in other words, would at once sharply depreciate and a chain of economic forces would be set in motion which would disrupt our domestic and foreign trade.

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I will not go into the technicalities. Briefly this is what would happen. First of all American products would be much more difficult to sell in foreign markets. This would not apply so much to war goods -- airplanes, armaments, etc. -- but it would hit hard our export of hundreds of agricultural and industrial commodities not vital to the conduct of war. We would lose heavily in the very markets we will badly need when the war is over. Increased imports of foreign goods, at the same time, would react even more drastically on our domestic economy. It will be just those very items which compete with our domestic manufactures that will flood our home markets. We would not be encouraged to buy much more rubber or tin. But meat and dairy products, textiles, and hundreds of other manufactures would at once be subjected to greatly intensified competition from abroad. Furthermore, Americans who have investments abroad (we have some \$7 billion) would find that they had suffered substantial losses overnight, just as foreigners with investments here would

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find that they had windfall gains overnight.

So you see this simple and charming remedy is, in effect, a proposal that would completely disrupt our foreign exchanges and our trade and greatly increase unemployment in this country. And so with the other naive proposals which some well-meaning citizens suggest as a remedy for our accumulating gold stocks.

Shall we follow their advice and cut the price for gold? A moderate cut would be ineffective, and a cut sufficiently large to reduce our annual gold inflow by a billion or two would introduce the same conditions as would follow on a prohibition of gold imports. It would mean a serious decrease in trade and a big increase in unemployment.

Shall we discriminate against certain countries in the purchases of our gold? Such a policy would not even have the virtue of effectiveness. There is no way in which you can differentiate one bar of gold from another bar, for gold

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is one of the most homogeneous products in the world. Obliterate the mark of country of origin and you can no longer identify its source. Remelt it and it is salable anywhere in the world. The active cooperation of practically the whole world would be required to prevent any one country's gold from circulating. Obviously this would be impossible under any circumstances, let alone at a time such as this.

Gold is an exceedingly specialized instrument of international finance. Its value depends upon its unqualified use and acceptance as an international medium of exchange. For the United States to take any action which would diminish the utility of gold as an international medium of exchange would be little short of criminal irresponsibility.

Our gold policy is carefully adjusted to the realities of a complex world situation. Examine any proposal submitted to us and you will clearly see that we have been pursuing the only course compatible with our national interests; that

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any change in that policy would have adverse effects on us and on the rest of the world.

Of course, should basic conditions alter, should we be confronted with new and unforeseen economic and political developments, we shall necessarily react in such a way as will best protect American interests. -- It is to be prepared for precisely such contingency that we have insisted right along on maintaining flexible powers with respect to gold operations. -- But so long as the inflow of gold is due to the circumstances I have indicated, no change is called for. If we are to act in the public interest, we must follow the policy by which we have so far abided.

~~Of course,~~ ^{to be sure, easily carried} we can stop the flow of gold by selling on credit. Instead of accepting foreign gold in payment for the goods we sell, we can take I.O.U.'s. I assure you that we would have no difficulty in selling many billion dollars' worth of our goods and services on such terms. Foreign

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countries would be only too delighted with such an arrangement. There may even be some here who prefer that the United States should receive the I.O.U.'s of foreign governments in place of their gold. As for me, I know of no good reason why we would be better off selling our goods for credit instead of cash.

There is only one way in which we can appropriately and realistically work to reduce the inflow of gold, and that is by doing everything in our power to promote business recovery here, and by laboring to reestablish normal political and economic conditions abroad. With an increasing measure of prosperity here and with peace and economic stability abroad the gold problem will resolve itself. Our great export surplus will necessarily drop -- not because we shall sell less abroad but because we shall buy more as a result of increased business activity. Foreign capital will be gradually repatriated -- not because we drive it out but because it is attracted home

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by the reemergence of security abroad. Our investors will once again invest their funds abroad -- not because of the scarcity of opportunity at home but because of greatly enhanced opportunities for sound and profitable investments in other lands. And finally our tourists will spend hundreds of millions more in foreign countries.

These are the developments which will automatically and gradually direct the flow of gold away from the United States. These are the developments upon which we must concentrate. We must concentrate on the promotion of further recovery here and peace and security abroad not in order to correct the gold situation, but because prosperity, peace and security are in themselves the supreme ends of policy. That their attainment will also solve the world's gold problem is only a by-product, albeit an important one.

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There is another aspect of the gold question that I should like to speak about -- the banking aspect. There are two diametrically opposed views with respect to our gold policy which in effect cancel each other out. One says that the inflow of gold by creating a vast base for credit expansion is promoting a runaway credit inflation. The other maintains that the Administration is retarding recovery by burying the gold in Fort Knox instead of putting it into active circulation.

Now the fear that inflows of gold will bring about runaway inflation is based on theories no longer relevant to present-day circumstances. It used to be thought that the existence of any large volume of excess reserves in the banking system would lead to an inflation "irregardless". The events of the last few years, during which excess reserves have amounted to many billions without any evidence of price inflation, consequently should have taught all

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those willing to learn that inflation does not come about because of an increase in excess reserves. Run-away inflation is the product of powerful economic forces which are absent in the United States.

This Administration is, of course, entirely aware of the undesirability of inflation. It will not permit an excessive rise in prices. If our present powers are inadequate to prevent it, new legislation can be easily obtained long before it is necessary to apply the brakes. We shall be fully prepared to act if and when an excessive rise in commodity prices appears imminent.

It is ironic to find people preoccupied with the danger of price inflation at a time when we still have far too many idle resources and idle manpower. What we have to worry about, if anything, is not that prices are too high, but that they are not high enough. A moderate rise in

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prices would be beneficial to the farmers and producers of this country, it would stimulate employment and business recovery. Run-away price inflation can become a possibility only when our economy is approaching capacity, when important bottlenecks appear in employment and production; not before.

The opposite view held by some critics that our gold policy leads to deflation is just as absurd. The gold imported is being used just as much now as it ever was. We are not sterilizing the inflowing gold. We are not taxing to buy gold. We are not spending anybody's money when the Treasury purchases gold. Our gold purchasing is self-financing. Except for the gold held by the Stabilization Fund and certain other relatively minor amounts from the gold revaluation profits, there are gold certificates outstanding against all the gold in the Treasury. These certificates constitute the major portion of the assets of

Cc

Federal Reserve banks. Against these assets in the Federal Reserve banks there exist either Federal Reserve notes or deposits due to the commercial banks, which are their legal reserves. These reserves are held in turn against the demand and savings accounts of the public in the commercial banks. For every dollar of gold in the Treasury, therefore, the public holds at least one dollar of bank deposits or currency.

Proposals have been made that one dollar of currency be placed into circulation for every dollar of gold in the Treasury instead of a check on government deposit. But the public would be neither better nor worse off if this were done. The additional currency thus placed into circulation would soon be deposited in the banks, and be returned to the Federal Reserve Banks as surplus currency. Therefore, this proposal is obviously of no significance.

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The last proposal I want to deal with is that the Treasury restore the issue of gold coins. This suggestion is of very little importance. Even those who support it are aware that such gold coins would not circulate more actively and affect the domestic economic situation more than do the currency and bank deposits now in circulation against gold. The adherents of gold coinage, though they do not admit and may not even be aware of it, are merely asking to make gold coins available for private hoarders. All during the twenties there was very little gold coin in circulation, and such as there was was used mainly for gifts. For decades now the business of the country has been transacted by means of bank deposits, paper money and subsidiary silver and minor coin. For the United States to start minting gold coins now would be to incur a needless expense and to militate against the effective regulation of the domestic monetary system in order to

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cater to an irrational demand of private hoarders.

Accordingly, I strongly believe in continuing to hold all the monetary gold in one central pool in the possession of the United States Government.

I should like finally to turn to the question of the continued usefulness of the gold we have and the gold we are going to get. The matter seems to be troubling some people.

Let me reassure you once and for all. As long as there are independent nations, and as long as there is international trade in goods and services, so long will it be necessary to settle international balances. And gold is the most effective, most efficient, and most economic medium for settling these balances. Gold is the international medium of exchange par excellence. Its acceptability is universal; its utility as international money survives changes in economic systems. It is used and needed just

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as much by the purest democracies as by diotatorships --
 as much by capitalist economies as by socialist economies.
 It is the refined instrument of international exchange of
 goods and services, as well as an essential ingredient in
 the more complex international financial transactions --
 an instrument that has functioned without challenge for
 hundreds of years. Every foreign country wishes it had
 more of it; no foreign country likes to lose any of it;
 all countries accumulate it as soon as they can afford to
 do so. And the fact that some countries find it possible
 to conduct their international trade without gold does
 not mean that they prefer to do so any more than people
 reeding by candelight do so because they prefer candles
 to electricity.

Gold does not lose its value because some countries
 are forced to resort to clearing arrangements, barter,
 import controls, and other substitutes. All these substitutes

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are admittedly a worse alternative. They are admittedly a method of conducting trade and finance which will only be adopted when a country does not possess adequate gold holdings. Governments resort wholly to these substitute methods for keeping a country's balance of payments in equilibrium only during times of great and prolonged stress and instability, and only when for one reason or another they have been unable to prevent a loss of practically all their gold holdings. All countries would like to have more gold, and the countries which have the least are, you will find, countries which are striving most to add to their gold holdings.

You hear much of the fact that Germany appears to conduct her trade without the use of gold. I think I am safe in saying that there probably isn't another country in the world which, notwithstanding its propaganda to the contrary, values gold more highly than does Germany and

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which is more eager to accumulate gold at the first opportunity. Any person at all familiar with the workings of international trade and finance in countries like Germany and Japan whose gold holdings are not adequate will understand what I mean when I say that gold is the most efficient, most satisfactory instrument of international exchange that has ever been developed. Gold is not only the best way to store foreign purchasing power, it not only constitutes one of the most effective war chests, but it is a medium of international exchange which is acceptable anywhere, any time, and in exchange for anything.

To be sure, if the political picture of the world should undergo a drastic change in the future so that instead of fifty or sixty independent nations there will exist only one or two groups dominated by ruthless powers, then international trade and finance may assume the character

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of domestic trade. There will cease to be independent monetary systems, as there will cease to be independent foreign policies. Balances between countries will be settled as balances between our states are settled now -- that is wholly by transfers of deposits. Under such circumstances it may well be that gold will no longer be needed. But under those circumstances life will be so different, that the possible loss in the value of gold will, I am sure, be the least of our worries.

Certain governments may boast of the day when independent democracies will disappear, I for one, have no fears that such boasts can be made good. I am as confident that gold will continue to be international money as I am that the majority of nations will succeed in maintaining their independence. With the return of peace and of normal economic and political relationships the barriers to the free flow of goods, capital, and services will be gradually

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lowered; standards of living will once more resume their upward climb, and a more equitable distribution of the world's gold will take place.]

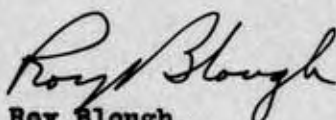
One word more -- The swap we made and are making in return for gold was not a bad bargain. It enabled us to increase employment and recovery. We have expanded our exports and encouraged our domestic industry. And not least of all we have acquired the safest physical asset in the world, an asset moreover which will play an essential part in reestablishing a permanent peace.

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May 1, 1940

MEMORANDUM FOR THE SECRETARY:

Attached is a summary report of the projects which have been worked on in the Division of Tax Research during April 1940.


Roy Blough,
Division of Tax Research

Attachment

Monthly report on projects in the Division of Tax Research
April 1940

1. War and excess profits taxes

An inventory of Congressional war finance proposals during the period 1920-1940 has been completed. A digest of these proposals is in preparation. The questionnaire on war and excess profits taxation prepared for transmission to foreign service officers has been completed and submitted for review to the Office of the General Counsel and the Bureau of Internal Revenue. Other phases of war finance are under examination. (Mr. Ecker-R, Mr. Gordon and Mr. Mannen)*

2. Life insurance companies

In connection with a request from the Temporary National Economic Committee for information on the tax treatment of life insurance companies, a

*Persons listed as working on the different projects do not include those who acted largely or exclusively in a consulting or reviewing capacity. In general, the person, if any, actively in charge of the project is listed first.

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study has been prepared of the treatment of life insurance companies under the income tax, capital stock tax and excess profits tax during the period 1909-40. This report has been forwarded to the Office of the General Counsel for review. (Mr. Shere and Mr. Mills)

3. Certificate plan for a processing tax

A report has been prepared analyzing the provisions of H. R. 9273, 76th Congress, 3rd Session, which provides for a marketing certificate plan for agricultural commodities. The features of the new plan and those of the income certificate plan proposed last year were contrasted. (Mr. Ecker-R)

4. Mutual investment companies

A report has been prepared reviewing the basis for the tax treatment of mutual investment companies in the light of the Securities and Exchange Commission's findings with respect to their organization and operation. (Mr. Shere and Mr. Atlas)

5. Incentive taxation

A report analyzing the provisions of S. 3560, 76th Congress, 3rd Session, is being prepared. This bill provides for the imposition of a tax

which is reduced as the expenditure for labor used in business is increased. (Mr. Shere and Mr. Farioletti)

6. Income and estate taxes

(a) Reports on the following subjects are in process:

- (1) Assets and income of corporations exempt from the Federal income tax under section 101 together with a Congressional history surrounding the exemption of certain types of corporations, the economic basis for each type of exemption and the effects of allowing tax exemption on the operations of such companies. (Mr. Shere and Miss Till)
- (2) The problems of special defense taxes with particular reference to the technical problems involved in the suggestion that a flat percentage increase in the present income and other taxes be imposed. (Mr. Shere and Miss Coyle)
- (3) Proposal to allow corporations with 5 or less shareholders to be treated for tax purposes as partnerships. (Mr. Mills)

- 4 -

- (b) Reports on the following subjects are in various stages of preparation but have not been actively prosecuted during the month:
- (1) Distribution of tax-exempt securities by net income brackets with particular reference to the holdings of such securities by persons in high income brackets. (Miss Goyle)
 - (2) The problem of illiquidity of assets and possible solutions under the estate tax. (Mr. Mills)
 - (3) Powers of appointment and remainders under the estate tax. (Mr. Mills)

7. Statistics on pension plans

Statistical data to indicate roughly the cost of pensions at various levels to the aged and the ill, together with the rates of various types of taxes which would be necessary to finance such pensions are in preparation. (Mr. Shere and Mr. Farioletti)

8. Articles, addresses, etc.

- (a) The following articles were published:
- (1) "The Treatment of Consolidated Returns under the Revenue Acts 1913-39" in the

- 5 -

Treasury Bulletin for April 1940.

(Mr. Shere, Mr. Ecker-R, Mr. Zorach
and Miss Hughes)

- (2) "The Evolution of the Federal Tax System"
in Law and Contemporary Problems (publica-
tion pending). (Mr. Blough)

(b) The following articles are in preparation for
possible publication in the Treasury Bulletin:

- (1) An article analyzing Statistics of Income
data on dividends received by corporations.
(Mr. Shere, Miss Coyle and Mr. Zorach)

- (2) An article on the number of partnership
returns classified by size of net income
and kind of business. (Miss Coyle)

(c) An address on financial statements as a basis
for Federal income tax reporting was delivered
before the Columbia Accounting Institute.

(Mr. Blough)

9. Inventory of tax proposals

A preliminary draft of an inventory of proposals
designed to produce additional revenue which have
been considered by the Treasury from time to time
has been completed and is now in the process of

editing. A similar compilation of Treasury tax proposals other than those designed to produce revenue is in preparation. (Mr. Shere, Mr. Gordon and Mr. Zorach)

10. Tax chronology, 1919-27

A chronology of Federal tax rates covering the period 1919-27 is in preparation. (Charts covering the years 1913-18 and 1928-39 were previously prepared.) (Mr. Atlas and Miss Hughes)

11. Reviews of publications, etc.

The following publications have been reviewed:

(a) Page proof of the preliminary report, "Statistics of Income for 1938 compiled from individual income tax returns and taxable fiduciary income tax returns filed in period January through June 1939."

(b) Page proof of article for the Encyclopedia Britannica, "United States of America: National Finance."

(Mr. Shere and Miss Hughes)

12. TNEG

Pursuant to our agreement with Mr. Willard Thorp of the Department of Commerce, the Division reviewed and discussed orally in conference their

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report on business taxation prepared by Mr. C. J. Hynning in connection with the TNEC study of corporation taxes. (Mr. Blough, Mr. Shere and Mr. Atlas)

13. Income Tax Study (WPA)

The study of income tax returns carried on at Philadelphia with WPA funds since October 1938 is continuing. A revised draft of the text for Section 1 of the study was prepared. (Mr. Shere and Miss Coyle)

14. Statistics

In connection with the supervision of the technical work of the Bureau of Internal Revenue several proposals for statistical tabulations from income and estate tax returns have been formulated and examined. (Mr. Blough, Mr. Shere and Mr. Campbell)

15. Correspondence

The Division handled correspondence pertaining to tax problems. (Staff members)

Last draft used in
Secy's office 5/2/40
at 4:30 pm.

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I am particularly pleased to be able to talk to you today because I am in such hearty accord with the purpose of this series of meetings, which I understand to be education for democracy. I applaud the initiative and the public spirit of the leaders of the Women's Division of the Democratic National Committee in making this notable convention possible.

In considering your invitation it seemed to me that I might contribute most to stimulation of your thought on the problems of democratic government by talking to you about the money of the United States, and particularly about gold. I have chosen this subject because I think it is one in which all of you are interested; and it is one about which you may be

- 2 -

asked a good many questions as the year proceeds.

One thing you will hardly need to be told about our monetary system; that is, that the American dollar is the soundest unit of currency in the world. Its value is unquestioned here at home and it is not questioned anywhere else in the world. It is a solid rock of strength and stability amid all the monetary confusion created by aggression and war. It is more than a domestic currency; it has become in the last few years more and more an international currency. People throughout the world who are driven by disaster and fear to hoard currency prefer to hoard the currency of the United States, when they can get it.

- 3 -

We have tried through many means to facilitate stability in the currencies of the world. An

outstanding example, ~~which we initiated~~ which we initiated

is the Tripartite Accord ^{of} September, 1936. In all,

six of the leading democracies of the world have subscribed to the principles of that Accord.

Unfortunately, the progress we were making in the field of international finance and trade has been interrupted by the cataclysm in Europe.

One of the most striking developments^s of these recent years has been the universal confidence in the American dollar as one of the very few certain things in a highly uncertain world.

- 4 -

Some of our citizens who admit the strength of the dollar and the world's confidence in our currency, now suggest that confidence in our dollar has resulted in this country receiving too much gold.

During the last 6 years we have acquired about \$10 billions of gold from abroad.

Why has so much gold come to the United States?

In the first place, we have exported many billions of dollars' worth of goods and services in excess of the amounts we have imported. Secondly, large amounts of foreign funds have come to this country to be placed and kept on deposit with our banks.

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Foreigners have sent their funds here for safekeeping because of the peace, stability, and security which this country enjoys.

Thirdly, foreigners have made large investments in American industries because they regard American business as a safe and profitable investment.

Finally, Americans have been withdrawing their funds from abroad and liquidating their foreign investments in large sums because they prefer the dollar to any other currency.

It is for these reasons that we have had so large [and continuing] a favorable balance of payments; (it is for these reasons that gold has come and is continuing to come to the United States.

- 6 -

~~There is some confusion about the inflow~~
of gold which arises from a misunderstanding of the
nature of gold transactions. The United States does
not go out into the world markets to buy gold.
Treasuries do not buy gold as a government buys
army blankets, office furniture or armaments. Gold
is sent to this country to buy the ~~dollars necessary~~
~~to liquidate a balance of payments.~~ ⁹ Gold moves from
country to country not as a commodity but as a means
of payment, the one final medium through which
international settlements are made.

The continued acceptance of the gold that
comes here is the only sound course of action open
to us. There are, it is true, other courses of
action theoretically possible, but they would all
have disastrous consequences.

- 7 -

Take, for example, the proposal so frequently made to us that we stop buying gold. It has the charm of simplicity. All that we have to do is to prohibit gold imports by a Treasury order. But let me tell ^{you} what I think would happen. Dollars would ^{abroad} instantly become very scarce ^{and} ^{and} ^{more costly} and the foreigner ^{would find it much more expensive to buy} who wished to buy American goods would find the cost ^{and} prohibitive. ^{For example} the British pound, the Canadian dollar, the French franc, the Dutch guilder would at once sharply depreciate. A chain of forces would be set in motion which would disrupt our trade, seriously discourage what remains of world commerce and remove from world finance the strongest element of stability.

American goods.

8

The cessation of gold purchases would have *immediate effects of great importance to us,*
 the following three ~~important effects~~. Firstly, the
 sale of American products in foreign markets would be
 made much more difficult. This would not apply so
 much to war materials, which foreign countries want
 so urgently, but it would hit hard our export of
 hundreds of agricultural and industrial commodities
 not vital to the conduct of the war. We would lose
 heavily in the very markets we will badly need when
 the war is over.

Secondly, there would result an immediate flood
 of imports of cheapened foreign goods, which would deal
 an even more serious blow to labor, ~~industry and~~
 agriculture in America. *(Put in)* ~~(The very items which compete~~
~~with our domestic manufactures would deluge our home~~
~~markets.~~ *products*
 Meat and dairy products, textiles and

Dist

8

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hundreds of other articles would at once be subjected to greatly intensified competition from abroad.

Thirdly, Americans who have investments abroad would find that they had suffered substantial dollar losses overnight just as foreigners with investments here would find that they had windfall ~~dollar~~ gains overnight.

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Americans who have investments abroad would find that they had suffered substantial losses overnight, just as foreigners with investments here would find that they had windfall gains overnight.

So you see this simple remedy is, in effect, a proposal that would completely disrupt our foreign exchanges and our trade and greatly increase unemployment in this country. And so with the other naive proposals which some well-meaning citizens suggest as a remedy for our accumulating gold stocks.

Shall we follow their advice and cut the price for gold? A moderate cut would be ineffective, and a cut in price sufficiently large to have a significant effect on the gold inflow would introduce the same conditions as would follow prohibition of gold imports.

This also would cause

- 10 -

It would mean a serious decrease in ^{our} trade and a big increase in unemployment.

Shall we, as some have suggested, discriminate against certain countries in the ^{our} purchases of ~~our~~ gold? Such a policy would not even have the virtue of effectiveness. The active cooperation of practically the entire world would be required to prevent any one country's gold from entering the world's markets and reaching the United States. Obviously this would be impossible even in normal times, let alone at a time such as this. Besides, the value of gold is proportionate to its unqualified use and acceptance as an international medium of exchange. To limit its acceptance would mean to reduce its usefulness.

- 11 -

There is yet another alternative which has always been open to us. Instead of taking gold we could have granted credit. Americans could ^{again} have accumulated huge unsettled claims abroad. We have had experience with that system -- extensive experience -- in the decade that ended with the economic collapse of 1929. It is doubtful that Americans would want to repeat ~~the~~ ^{that} experience.

For the excess of goods we shipped and for the dollar credits we granted we have taken gold in the last six years instead of promissory notes. The phrase "good as gold" still has real meaning in the world. I prefer the gold to pieces of foreign paper. I think most Americans ~~do~~ agree with me.

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Our gold policy is carefully adjusted to the realities of a complex world situation. There have been many glib suggestions for changing ^{that} ~~it~~. Examination of each of them has revealed, as in the examples I have mentioned, that in the effort to remedy fancied evils they would bring on real disaster.

Of course, should basic conditions alter, should we be confronted with new and unforeseen economic and political developments, the government will necessarily take such action as will best protect American interests. It is to be prepared for such contingencies that the powers with respect to gold operations have been kept flexible.

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The Treasury is constantly observing, analyzing and studying the course of events in their relation to monetary problems in which this country is interested. But nothing has yet appeared which would warrant any change in our gold policy.

There is only one sound way in which we can work to reduce the inflow of gold and to promote the return of at least a part of the wealth it represents to useful service in the lands from which it came. That way is to do everything in our power to contribute to the return of peace to the world and to encourage reconstruction and the restoration of normal trade. With the restoration of enduring peace and economic stability abroad the gold problem will solve itself.

- 14 -

Our great export surplus will drop, not because we shall sell less abroad but because we shall buy more. Foreign capital will be gradually repatriated -- not because we drive it out but because it is attracted home by the reemergence of security abroad. Our investors will once again invest their funds abroad -- not because of the scarcity of opportunity at home but because of greatly enhanced opportunities for sound and profitable investments in other lands. And finally our tourists will spend hundreds of millions more in foreign countries.

These are the developments which will automatically and gradually direct the flow of gold away from the United States. These are the developments upon which we must concentrate.

- 15 -

We must concentrate on the promotion of further recovery here and peace and security abroad not in order to correct the gold situation, but because prosperity, peace and security are in themselves the supreme ends of governmental policy. That their attainment will also solve the world's gold problem is only a by-product, but an important one.

I should like finally to turn to the question of the continued usefulness of the gold we have and the gold we are going to get. This is a matter that is troubling some people.

Let me reassure you once and for all. As long as there are independent nations, and as long as there is international trade in goods and services, so long will it be necessary to settle international balances.

- 16 -

Gold is the international medium of exchange par excellence. Its acceptability is universal; its utility as international money survives changes in economic systems. It is used and needed just as much by the freest democracies as by the most rigid dictatorships -- as much by capitalist economies as by socialist economies. It is the refined instrument of international exchange of goods and services, as well as an essential ingredient in the more complex international financial transactions -- an instrument that has functioned without challenge for hundreds of years. Every foreign country wishes it had more of it; no foreign country likes to lose any of it; all countries accumulate it as soon as they can ^{afford} ~~afford~~ to do so.

And the fact that some countries find it possible to conduct their international trade without gold does not mean that they prefer to do so any more than people reading by candlelight do so because they prefer candles to electricity.

Gold does not lose its value because some countries are forced to resort to clearing arrangements, barter, import controls, and other substitutes. All these substitutes are admittedly worse alternatives. They are methods of conducting trade and finance which will only be adopted when a country does not possess adequate gold holdings. Governments resort wholly to these substitute methods for keeping a country's balance of payments in equilibrium only during times of great and prolonged stress and instability,

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and only when for one reason or another they have been unable to prevent the loss of most of their gold holdings. All countries would like to have more gold, and the countries which have the least are, you will find, countries which are striving most to add to their gold holdings. They do so because they know that an adequate supply of gold promotes economic strength and furthers financial stability.

To be sure, if the political picture of the world should undergo a drastic change in the future, so that instead of fifty or sixty independent nations there should exist only one or two groups dominated by ruthless powers, then international trade and finance may assume the character of domestic trade.

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There would cease to be independent monetary systems, as there would cease to be independent foreign policies. Balances between countries would be settled as balances between our states are settled now -- that is, wholly by transfers of deposits. Under such circumstances it might well be that gold would no longer be needed. But under those circumstances life would be so different that the possible loss in the value of gold would, I am sure, be the least of our troubles.

Certain governments may boast of the day when independent democracies will disappear. I for one, have no fears that such boasts can be made good.

payments

- 20 -

I am as confident that gold will continue to be used as ^{the medium of} international ~~money~~ ^{payments} as I am that the majority of nations will succeed in maintaining their independence.

With the return of peace and of normal economic and political relationships ~~the~~ ^{the present} barriers to the free flow of goods, capital, and services will be gradually

lowered; ~~standards of living will once more resume their normal level and a more equitable distribution of the world's gold will take place.~~

and gold will probably play an indispensable role in making any incident after

One word more -- The ^{exchange} ~~swap~~ we made and are

making in return for gold is a good bargain ^{for us.} It has

enabled us to increase employment and recovery. It has made possible the utilization of labor, capital, machinery and resources that would otherwise have been idle. We have expanded our exports and encouraged our domestic industry. And, moreover, we have at the same time acquired the safest physical asset in the world.

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~~I suppose~~ ^{are} there ~~may be~~ some sincere people who have been disturbed by stories that this country had a monetary policy that threatens to cause loss to the nation. If you meet such people I hope you will reassure them. You may tell them that the greatest and richest country of the world has the best and soundest monetary system and that there is no reason to fear that it will not remain sound.

We can feel entirely comfortable in the possession of a supply of gold with which we can meet future demands on our monetary system without any shock to our economy. We can be prepared also to play the part we ought to play in the reconstruction of the world that must follow ~~war's~~ ^{the} senseless destruction ^{of war.}

--oOo--

DEPARTMENT OF STATE
WASHINGTON

May 2, 1940

My dear Mr. Secretary:

There are enclosed, for your information, copies of notes of April 26, 1940, from the British and French Ambassadors, giving assurance on behalf of their respective Governments that those Governments will be glad to keep this Government currently informed on all matters which may be of interest to this Government concerning the performance of American-made aircraft under combat conditions.

Sincerely yours,

(S) S. Welles
Acting Secretary

Enclosures:

Fr. British Ambassador April 26, 1940
Fr. French Ambassador April 26, 1940 (translation)

The honorable

Harry H. Woodring,

Secretary of War.

BRITISH EMBASSY,

No. 161

WASHINGTON, D. C.

Sir,

April 26, 1940.

I understand that one of the conditions set forth by the War Department in regard to the export of American manufactured aircraft, was the inclusion in each contract of a clause to the effect that the purchaser should supply accredited agents of the United States Government with complete information relative to the suitability of the design, equipment and combat performance, of the aircraft which are released for export.

I have the honour to inform you that His Majesty's Government in the United Kingdom is anxious to cooperate fully with the United States War Department with a view to giving the latter all the information it may wish as to the performance under combat conditions of all American purchased aircraft. However, in view of all the military aspects bearing on the information desired by the United States War Department, it is felt that it would probably be more proper to avoid making the question of information a part of the contractual obligation with the manufacturers. I have therefore been instructed by His Majesty's Principal Secretary of State for Foreign Affairs to suggest to you that in lieu of the inclusion of any such contract provision, you accept the assurances of my Government that they will be glad to keep the United States Government's accredited agents currently advised on all matters which may be of interest to the United States Government as regards performance of American made

aircraft under combat conditions. They will also be glad to answer any questions on the same subject matter which the United States' accredited agents may wish to put forward.

I should be grateful if you would kindly forward this communication urgently to the competent authorities.

I have the honour to be,

with the highest consideration,

Sir,

Your most obedient,

humble servant,

LOTHIAN

Washington, April 26, 1940

EMBASSY OF THE FRENCH REPUBLIC
IN THE UNITED STATES

Mr. Secretary of State,

I understand that one of the conditions set forth by the War Department in regard to the export of American manufactured aircraft, was the inclusion in each contract of a clause to the effect that the purchaser should supply accredited agents of the United States Government with complete information relative to the suitability of the design, equipment and combat performance, of the aircraft which are released for export.

I have the honor to inform Your Excellency that the French Government is anxious to cooperate fully with the United States War Department with a view to giving the latter all the information it may wish as to the performance under combat conditions of all American purchased aircraft. However, by reason of the many aspects of the information requested by the United States War Department, it is felt that it would probably be more proper to avoid making the question of information a part of the contractual obligation with the manufacturers.

I have therefore been instructed by my Government to suggest to Your Excellency that in lieu of the inclusion of any such contract provision, I request you to accept the assurances of my Government that the agents accredited by the American Government will be kept informed on all matters which may be of interest to the United States Government as regards performance of American made aircraft under combat conditions.

The French authorities will be happy to answer any questions on the same subject matter which the accredited agents may wish to put forward.

I should be grateful to Your Excellency if you would kindly forward this communication urgently to the competent authorities.

Accept, Mr. Secretary of State, the assurances of my high consideration.

C. de SAINT-QUENTIN

5-2-40

MORGENTHAU TO MAKE SPEECH TOMORROW ON GOLD
QUESTION

11.10
WASHN - SECY MORGENTHAU ANNOUNCED TODAY HE
WOULD ADDRESS THE WOMEN-S DIVISION OF THE DEMO-
CRATIC NATIONAL COMMITTEE TOMORROW ON THE
SUBJECT OF GOLD

MR MORGENTHAU DECLINED TO DISCLOSE WHAT ELE-
MENTS OF THE GOLD PROBLEM AND THE GOVERNMENT-S
POLICY TOWARD IT WOULD BE INCLUDED IN HIS
ADDRESS

IT IS THE FIRST PUBLIC SPEECH MR MORGENTHAU
HAS MADE IN NEARLY TWO YEARS AND IT IS PRESUMED
THAT HIS DISCUSSION WILL BE COMPREHENSIVE

-0-

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FROM CHICAGO 11:45 a.m., May 2, 1940 (jhw)

SECRETARY MORGENTHAUS TELETYPE DELIVERED PERSONALLY TO DR VINER AT TEN AM TODAY AND DR VINER REQUESTS FOLLOWING MESSAGE BE DELIVERED TO SECRETARY MORGENTHAU

DRAFT SPEECH EXCELLENT IN TONE AND CONTENT AND TAKES CARE OF ALL ESSENTIAL POINTS. I WOULD BE INCLINED TO EMPHASIZE A LITTLE MORE THE POINT THAT AMERICAN POLICY WILL OF COURSE BE SUBJECT TO CHANGE DRASTIC CHANGES OCCUR IN WORLD ORGANIZATION AND THAT THE TREASURY IS KEEPING CLOSE AND CONSTANT WATCH ON THE SITUATION, BUT THAT IT IS ESSENTIAL THAT THERE BE NO SUBSTANTIAL HANGE IN PRESENT POLICY UNTIL THE COURSE OF WORLD AFFAIRS CAN BE MORE CLEARLY FORESEEN THAN IS NOW POSSIBLE. THE ONLY OTHER CHANGES I SUGGEST ARE TO SUBSTITUTE FOR QUOTE THE SIX LEADING DEMOCRACIES QUOTE SIX OF THE LEADING DEMOCRACIES TO PROTECT THE SUSCEPTIBILITIES OF SWEDEN, CANADA, ETC., AND IN PARAGRAPH BEGINNING QUOTE ONE WORD MORE QUOTE TO BRING OUT THE FACT THAT THE PERIOD WHEN WE WERE EXCHANGING GOODS HEAVILY FOR GOLD HAS BEEN A PERIOD OF UNEMPLOYMENT OF RESOURCES SO THAT EVEN IF THE GOLD SHOULD BECOME UTTERLY WORTHLESS IT WOULD STILL BE ARGUABLE THAT WE HAD LOST LITTLE OR NOTHING AND EVEN HAD GAINED ON THE DEAL SIGNED JACOB VINER
CALLAGHAN END
OK WILSON END

RE ADDRESS BEFORE WOMENS' DIVISION
NATIONAL DEMOCRATIC COMMITTEE

May 2, 1940
11:15 a.m.

Present: Mr. Bernstein
Mr. White
Mr. Gaston
Mrs Shanahan
Mrs Klotz
Mr. Schwarz

H.M.Jr: The President loved it.

White: What, in particular, did he like?

H.M.Jr: He liked the whole thing. When I came in he said, "Did you get my message? I told you three times you had your nerve with you," and I said, "Yes, but I think you are going to like it." "Well," he said, "I don't know, it is kind of ticklish."

So he started to read the thing and the one passage which particularly pleased him was the candlelight one, the reference to candlelight and electricity. I don't know who did it, but he liked it.

Gaston: That is Harry's.

H.M.Jr: Now, he only made a couple of suggestions. He was very much interested and the same thing had happened to him that had happened to me. Mrs. Roosevelt had told him about the question that had been asked on gold and would he answer it, which he proceeded to do, and he said, "I hope, Henry, you told her the same answer that I did," so I said, "Well, it is practically the same."

The one thing he has in mind, and I will show you where he wants to get it in, is that the United States Government itself doesn't buy any gold. It is the business men and the importers, and so forth, and we actually don't buy any gold. That is true, isn't it?

Gaston: We give dollars for gold.

H.M.Jr: Well, do we?

White: The Treasury definitely does buy gold, but we can so word it that --

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- H.M.Jr: But I mean, we are not buying it for our use.
- White: We could not go out in the market and buy gold the way we buy Army blankets or something of that sort.
- H.M.Jr: Well now, Mrs. Shanahan, this is what he wanted to get in there. He said, "What do we mean by the soundest currency in the world?" This is very rough, but I think I can get it over. We don't have to worry about his purchasing power because it is used first - we use money to invest in stocks and bonds and mortgages on houses and our money for that purpose has had practically a uniform purchasing power. Also, on the outgo, where we pay off a mortgage or rent on a house or have payments to make on various things, it says the medium of exchange has approximately the same value in carrying out an obligation.
- White: Oh, I see what he means.
- Gaston: Stability of purchasing power. In the last six years it has had remarkable stability.
- H.M.Jr: And third, in foreign trade, reasonably stable in terms of goods for other nations that we have to buy or sell to them. Now, he wanted to get that in there in the beginning when we talk in terms of American dollars being the soundest unit of currency in the world. Then he wants me to say, "What do people mean when they talk about a sound currency?" Do you get the idea?
- Gaston: Yes.
- H.M.Jr: Do you think it belongs in here?
- Gaston: I think it....
- White: We will see what we can do with it. I know what he would like to say, but it is one of those words that sounds nice until you examine it, but we can do something with it.
- H.M.Jr: A couple of things. They don't have to fear it is going to decline greatly in value, that it is going to become worthless, that its purchasing

- 3 -

power has been remarkably stable both here and abroad over the last six years. Well, when you do it, do it on a separate page, because I am pretty well set in my mind on this thing, you see.

Mrs. Klotz, make a note that this talk of mine is to be sent tonight to our Attaches in London, Paris and Berlin, but not to be sent until midnight. It is to be sent by the State Department.

On the top of page five, I wrote down that we were to make it plain that the Government itself does not buy. It is individuals in payment of miscellaneous items and not the Government.

White: Yes, that was in the earlier draft. We had a paragraph that we can re-adapt to this.

H.M.Jr: He kept saying, "This is good." I have seldom seen him so tickled.

Gaston: Well, that is fine. I thought when we left here last night it was terrible, then I read it over this morning and I thought it was swell.

H.M.Jr: I read it this morning at 6:30. I thought it was swell. Let me just read this thing out loud and see how it sounds.

Incidentally, as soon as this thing is finished, all three of you go home.

White: We will leave the Treasury. Whether we go home is another question.

Gaston: How do you like ball games, Harry?

H.M.Jr: "I have taken the liberty of departing from the topic --" Now, I don't want to start off with an apology.

Gaston: I think that had better be changed.

H.M.Jr: I told the boys this story. See how you like it. I told the newspaper men this story. Did I tell you my fish story?

- 30 -

Klotz: No, you didn't.

H.M.Jr: Well, they asked me why we talked on gold instead of the budget and I said, "Well, I will tell you a story. This is what I thought I would say to the ladies. I don't want it written out. I will just do it. You will notice I am down for the debt. You may wonder why I am not talking about the budget instead of the gold." I said, "Let me tell you a little story. I attended a dinner for the visiting nurses the other evening and Dr. Lyons, who is president of the medical society --" Incidentally, he is the man who operated on me, terribly nice and very good looking.

Klotz: Oh, really?

H.M.Jr: Yes, just in passing.

White: When are you going to get operated on?

Klotz: I need an operation.

H.M.Jr: One of the visiting nurses called on a poor home and when she visited this woman she said, "Before I can do anything for you, you will have to take a hot bath. Have you got a bathroom?" "Oh, yes." "Where is it?" "Down the hall." "Have you got a bath?" "Yes."

It doesn't have coal in it.

White: It doesn't sound like the kind of story you should tell there.

H.M.Jr: So the nurse went down and looked at the bathtub and it was full of water and a big fish was swimming in it and she said, "Well, you have got to get rid of that fish," and the woman said, "Well, we can't get rid of that fish until we eat it."

Klotz: That didn't go over.

H.M.Jr: It didn't go over? Well, I can't give a talk on the budget until I can digest it.

White: Too subtle.

- 4 -

H.M.Jr: All right, we will not give it.

White: But I think a good story is the way to change this.

Bernstein: I like the distinction you make.

H.M.Jr: Harry, you and I know lots of good stories, but I don't think - we're not talking before a men's smoker.

White: No, but I think some light tone to introduce that would be good.

H.M.Jr: All right. I don't want to start with an apology in the first paragraph.

"One thing you will hardly need to be told about our monetary system; that is, that the American dollar is the soundest unit of currency in the world. Its value is unquestioned here at home and it is not questioned anywhere else in the world."

Then you are going to consider whether you want to put in the President's definition of what is a sound currency. Now, we are getting into the domestic field. I don't know whether you want that or not. The fact that he asked doesn't mean that I have to.

White: I think we may be able to work out a couple of sentences related to gold which will fit in at that point.

H.M.Jr: Pa Watson told me yesterday I couldn't give this speech. I am just - my point in saying that is that I don't have to do it.

Bernstein: In 1933 when the President made a few speeches on gold, particularly in October and possibly also in his message to the World Conference, he treated this idea of stability of purchasing power from generation to generation and you may want to tie it in with what the President has said.

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- White: If you make it from generation to generation, then it becomes economically sound.
- H.M.Jr: If I could quote from the President, as the President said --
- White: We will comb his speeches and pick out a couple of sentences related to gold at that point. I am pretty sure we ought to be able to find some.
- Gaston: For six years it has had that steadiness of purchasing power that he talked about.
- H.M.Jr: Well, you have got the idea, gentlemen.
- "It is a solid rock of strength and stability amid all the monetary confusion created by aggression and war. It is more than a domestic currency; it has become in the last few years more and more an international currency. People throughout the world who are driven by disaster and fear to hoard currency prefer to hoard the currency of the United States, if they can get it."
- Instead of "if," I should think we should say "when."
- White: I think instead of "prefer to hoard," "prefer to hold." "Prefer to deal in."
- H.M.Jr: No, I like "hoard."
- White: When they can get it.
- H.M.Jr: "We have tried through many means to facilitate stability of the currencies of the world. An outstanding example of an effort which we initiated --" Do you think it is immodest to say, "Which I initiated"?
- White: No. Say the Treasury initiated it.
- H.M.Jr: Then leave it "we."
- Klotz: You get the feeling of "we" through the speech.

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- H.M.Jr: "In all, the six leading democracies of the world have subscribed to the principles of that Accord. Further progress in the field of international finance and trade must be deferred by reason of the cataclysm in Europe."
- White: I think it has to be something else besides "we," because that is too general. It seems to include the world. It either has to be the United States or this Treasury Department or this Administration or some thing.
- Gaston: I don't think you have spoken about "we" except as the United States anywhere through the speech.
- H.M.Jr: Well, I didn't necessarily initiate it, I mean, thinking in terms of - we sort of grew up with it. I wouldn't stress it. I mean, it sort of grew up, all three Treasuries were sort of involved.
- Bernstein: What I had in mind, if this is a speech to a group of politically-minded women who are going to go back and preach the gospel, I should think they would be interested in being able to say that either the Treasury or the Administration had initiated it.
- H.M.Jr: Why not just say - well, it is this Administration.
- Klotz: Well, it isn't, it is you.
- H.M.Jr: I did initiate it?
- Klotz: You did initiate it.
- H.M.Jr: All right. Put it down and argue about it.

"One of the most striking developments of these recent years has been the universal confidence in the American dollar as one of the very few certain things in a highly uncertain world.

"Some of our citizens who admit the strength of the dollar and the world's confidence in our currency, now suggest that confidence in our

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dollar has resulted in this country receiving too much gold.

"During the last 6 years we have acquired about \$10 billions of foreign gold."

"Foreign gold" or "gold from abroad"?

White: "Gold from abroad."

H.M.Jr: I throw these things at you. I am not going to argue, but if I feel strongly on anything, I will just say what I want. If you don't like it, don't use it.

"Why has so much gold come to the United States?"

The reason I say "foreign gold," there might be some gold sent abroad and come back here again.

White: I think it is best not to carry private gold as foreign or domestic.

H.M.Jr: I throw these things out and you can do anything you like with them. It might perfectly well be our own gold coming back again.

"Why has so much gold come to the United States?"

"In the first place, we have exported many billions of dollars worth of goods and services in excess of the amounts we have imported.

"Secondly, large volumes of foreign funds have come to this country to be placed and kept on deposit with our banks. Foreigners have sent their funds here for safekeeping because of the peace, stability, and security which this country enjoys.

"Thirdly, foreigners have made large investments in American industries because foreigners think American business is a safe and profitable investment. Finally, Americans have been withdrawing their funds from abroad and liquidating their foreign investments in large sums because they prefer the dollar to any other currency in the world.

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"It is for these reasons that we have had so large and continuing a favorable balance of payments; it is for these reasons that gold has come and is continuing to come to the United States.

"The continued acceptance of the gold that comes here is the only sound course of action open to us."

Klotz: Did you see this?

H.M.Jr: I told them about that, thanks.

"There are other conceivable courses of action but they would all have disastrous consequences.

"Take, for example, the proposal so frequently made to us that we stop buying gold. It has the charm of simplicity. All that we have to do is to prohibit gold imports by a Treasury order. But let me tell what I think would happen. The immediate reaction would be a sharp increase in the value of the dollar in terms of foreign currencies."

That is an awfully technical sentence, Harry. What I thought you might put there is, "As for example," and give a little example.

White: We might try it. We would have to select the currency and we were reluctant to do that.

H.M.Jr: Use the pound.

White: Well, I will see. These two sentences are difficult.

Gaston: That could be stated similarly in another way.

H.M.Jr: As I say, after all, it is very highly technical language. I was thinking of some simple example.

"Foreign currencies, in other words, would at once sharply depreciate and a chain of forces would be set in motion which would disrupt our trade.

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"First of all American products would be much more difficult to sell in foreign markets. This would not apply so much to war-goods --airplanes, armaments, etc. --"

You don't want to say there, "or is it obvious because they have to have these?"

White: No, I think that should be stated. This would not apply - they have to have these.

H.M.Jr: Yes.

White: But when it comes to a - they have to have those.

Gaston: Their necessity is so great that they would probably pay any price they had to pay.

H.M.Jr: Something like that.

"...but it would hit hard our export of hundreds of agricultural and industrial commodities not vital to the conduct of war. We would lose heavily in the very markets we will badly need when the war is over. Increased imports of foreign goods, at the same time, would react even more drastically on our domestic economy. It would be just those very items which compete with our domestic manufactures that would flood our home markets. We would not be encouraged --"

I don't understand that sentence. "We would not be encouraged to buy much more rubber or tin." I don't understand what that means.

White: The thought I had in mind there is that the goods that would flood our markets would be those that would compete with us. It wouldn't be tin and rubber that we don't produce.

H.M.Jr: That isn't clear, Harry.

White: No, it is not clear. We paragraphed that and put an additional sentence on that. "We would not be encouraged to buy much more rubber or tin. These are the commodities that we do not produce at home."

We will have to fix that up.

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H.M.Jr: Incidentally, --

White: The next sentence makes it clear.

H.M.Jr: Incidentally, one thing, in talking about the reasons the gold came here, the President used the subject which you used and dropped out, that one of the reasons why so much gold comes here is due to our high tariffs.

White: Well, that is implicit in trade. We can say, "One of the reasons for our large excess of exports --"

H.M.Jr: "Excess --"

White: "One of the reasons why we are --"

H.M.Jr: "We import relative --"

White: "...that we are not importing more --"

H.M.Jr: "...more --"

White: "...that we are not importing more and therefore having such an excess of exports, is the high tariff schedule that we will name the Tariff Act of 1930."

H.M.Jr: He mentioned it and I am throwing it at you.

White: It would have to go in earlier.

Gaston: It is a vital point in the picture.

H.M.Jr: Yes, and he put his hand on it that we don't mention it.

White: It isn't too sound, because our exports began increasing chiefly last year and this year and the tariff has been lowered steadily since 1934.

H.M.Jr: Harry, I would be the last one to have you put in something that isn't sound.

White: Well, we will get something.

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H.M.Jr: Touché! But you agree that sentence is not waterproof?

White: Right.

H.M.Jr: The rubber and tin sentence is not waterproof?

White: I see.

Klotz: Right.

H.M.Jr: Thank you. Harry looks a little tired this morning or my jokes are tired.

"But meat and dairy products, textiles, and hundreds of other manufactures would at once be subjected to greatly intensified competition from abroad. Furthermore, Americans who have investments abroad would find that they had suffered substantial losses overnight, just as foreigners with investments here would find that they had windfall gains overnight.

"So you see this simple remedy is, in effect, a proposal that would completely disrupt our foreign exchanges and our trade and greatly increase unemployment in this country. And so with the other naive proposals which some well-meaning citizens suggest as a remedy for our accumulating gold stocks.

"Shall we follow their advice and cut the price for gold? A moderate cut would be ineffective, and a cut sufficiently large to reduce our annual gold inflow by a billion or two --"

I don't like that "billion or two." It is a little flip.

White: We have to make it a large amount.

H.M.Jr: Then say, "by several billions." I mean, kind of bandying around."

White: They only have three.

Gaston: I wouldn't put any figure in at all.

White: You have to put a large amount there.

H.M.Jr: Don't do it the way it is. It is a little bit flip. "A billion or two, what is that, as Secretary of the Treasury?"

White: I see.

H.M.Jr: "...would introduce the same conditions as would follow on a prohibition of gold imports. It would mean a serious decrease in trade and a big increase in unemployment.

"Shall we discriminate against certain countries in the purchases of our gold? Such a policy would not even have the virtue of effectiveness. The active cooperation of practically the whole world would be required to prevent any one country's gold from circulating. Obviously this would be impossible under any circumstances, let alone at a time such as this. Besides, the value of gold depends upon its unqualified use and acceptance as an international medium of exchange. To limit its acceptance would mean to reduce its usefulness.

"There is yet another alternative which has always been open to us. Instead of taking gold we could have granted credit. Americans could have accumulated huge unsettled claims abroad. We have had experience with that system -- extensive experience -- in the decade that ended with the economic collapse of 1929. It is doubtful that Americans would want to repeat the experience.

"For the excess of goods we shipped and for the dollar credits we granted we have taken gold in the last six years instead of promissory notes. The phrase 'good as gold' still has real meaning in the world. I prefer the gold to pieces of foreign paper. I think most Americans do.

"Our gold policy is carefully adjusted to the realities of a complex world situation. There have been many glib suggestions for changing it. Examination of each of them

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has revealed, as in the examples I have mentioned, that in the effort to remedy fancied evils they would bring on real disaster.

"Of course, should basic conditions alter, should we be confronted with new and unforeseen economic and political developments, the government will necessarily take such action as will best protect American interests. It is to be prepared for such contingencies that the powers with respect to gold operations have been kept flexible. But nothing has appeared to date which would warrant any change in our gold policy.

"There is only one sound way in which we can work to reduce the inflow of gold and to promote the return of at least a part of the wealth it represents to useful service in the lands from which it came. That way is to do everything in our power to contribute to the return of peace to the world and to encourage reconstruction and the restoration of normal trade. With the restoration of enduring peace and economic stability abroad the gold problem will solve itself. Our great export surplus will drop, not because we shall sell less abroad but because we shall buy more. Foreign capital will be gradually repatriated - not because we drive it out but because it is attracted home by the reemergence of security abroad. Our investors will once again invest their funds abroad -- not because of the scarcity of opportunity at home but because of greatly enhanced opportunities for sound and profitable investments in other lands. And finally our tourists will spend hundreds of millions more in foreign countries.

"These are the developments which will automatically and gradually direct the flow of gold away from the United States. These are the developments upon which we must concentrate. We must concentrate on the promotion of further recovery here and peace and security abroad not in order to correct the gold situation, but because prosperity, peace and

security are in themselves the supreme ends of policy."

Now, what do you mean by that?

White: They are the highest goal of any social activity.

H.M.Jr: Or policy?

White: It says, "supreme ends of policy." We could say, "supreme ends of government."

H.M.Jr: No, I like "policy," but I just think - have it "policy" or "the government's policy."

White: No, it has to be of policy in general.

H.M.Jr: All right, leave it.

Gaston: Would you want "higher" instead of "supreme"?

White: I think "supreme" is the strongest word, and after all, it is peace and prosperity.

H.M.Jr: No, it is all right.

White: That is what we are chasing there.

H.M.Jr: It is all right.

"That their attainment will also solve the world's gold problem is only a by-product, but an important one.

"I should like finally to turn to the question of the continued usefulness of the gold we have and the gold we are going to get. The matter seems to be troubling some people."

White: Does that sound a little flip?

H.M.Jr: Yes. "The matter is troubling some people."

"Let me reassure you once and for all. As long as there are independent nations, and as long as there is international trade in goods and services, so long will it be necessary to settle

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international balances. Gold is the international medium of exchange par excellence. Its acceptability is universal; its utility as international money survives changes in economic systems. It is used and needed just as much by the purest democracies as by dictatorships --"

Harry, where is our pure democracy?

White: The United States. Those women wouldn't deny it.

H.M.Jr: What?

White: Well, it is thought here that even if the democracy were pure, we would still leave - we have taken the two extremes. "...by the purest democracies as by dictatorships." I suppose Norway was - no. I think it is permissible.

Gaston: Well, you could say "plain democracies."

H.M.Jr: It is all right. I don't like the "plain."

"....as much by capitalist economies as by socialist economies."

Instead of saying "socialist" I would just as lief say "bolshevist." What is the Russian Government, communist or bolshevist?

Gaston: They call it socialist.

White: The economic antithesis of capitalism is socialism.

Bernstein: If you want a parallel word for "purest democracy," how about "extreme dictatorship"?

H.M.Jr: Extreme?

Gaston: Extreme is good.

H.M.Jr: I think that is a good point.

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- White: Does that suggest possibly that we have a dictatorship here, but it is not extreme? Would that have that implication?
- Bernstein: Well, I think you are giving the two extremes, of a pure democracy and an extreme dictatorship.
- White: I think I should leave "purest" out if you have to put "extreme" in dictatorship. Well, we will argue it out.
- Klotz: I would.
- H.M.Jr: You would leave out the "purest"?
- Klotz: Yes.
- H.M.Jr: I don't like the words "purest democracies." There isn't such a thing.
- White: There isn't. It is an abstract.
- H.M.Jr: I would say it is used as much for the democracies as by the dictatorships and leave out the word "purest." I don't think you are a "purist" when you use the word "purest."
- White: "Pure" is a strong adjective. I think it is desirable for effect to have an adjective for both of them, which we will try to get.
- H.M.Jr: O. K.
- "And the fact that some countries find it possible to conduct their international trade without gold does not mean that they prefer to do so any more than people reading by candlelight do so because they prefer candles to electricity.
- "Gold does not lose its value because some countries are forced to resort to clearing arrangements, barter, import controls, and other substitutes. All these substitutes are admittedly a worse alternative. They are admittedly a method of conducting trade

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and finance which will only be adopted when a country does not possess adequate gold holdings. Governments resort wholly to these substitute methods for keeping a country's balance of payments in equilibrium only during times of great and prolonged stress and instability, and only when for one reason or another they have been unstable to prevent a loss of practically all their gold holdings. All countries would like to have more gold, and the countries which have the least are, you will find, countries which are striving most to add to their gold holdings.

"To be sure, if the political picture of the world should undergo a drastic change in the future so that instead of fifty or sixty independent nations there should exist only one or two groups dominated by ruthless powers, then international trade and finance may assume the character of domestic trade. There will cease to be independent monetary systems, as there will cease to be independent foreign policies. Balances between countries will be settled as balances between our states are settled now -- that is wholly by transfers of deposits. Under such circumstances it might well be that gold would no longer be needed. But under those circumstances, life would be so different, that the possible loss in the value of gold would, I am sure, be the least of our worries."

There is one definite change I would like. Instead of saying "the least of our worries," I would like to say "the least of our troubles."

Gaston: Yes. It is more colloquial.

R.M.Jr: I want one word of my own, please.

"Certain governments may boast of the day when independent democracies will disappear, I for one, have no fears that such boasts can be made good. I am as confident that gold will continue to be international money as I am that the majority of nations will succeed in

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maintaining their independence. With the return of peace and of normal economic and political relationships and barriers to the free flow of goods, capital, and services will be gradually lowered.

"One word more -- The swap we made and are making in return for gold was not a bad bargain. It enabled us to increase employment and recovery. We have expanded our exports and encouraged our domestic industry. And not least of all we have acquired the safest physical asset in the world.

"I suppose there may be some sincere people who have been disturbed by stories that this country has a monetary policy that threatens to cause the nation loss. If you meet such people, I hope you will be able to reassure them. You may tell them that the greatest and richest country of the world has the best and soundest monetary system and that there is not the slightest reason to fear that it will not remain sound.

"We can feel entirely comfortable in the possession of a supply of gold with which we can meet future demands on our monetary system without any shock to our economy. We can be prepared also to play the part we ought to play in the reconstruction of the world that must follow war's senseless destruction."

Herbert, the President is not interested in four ships for the Coast Guard to pick up nets.

Gaston: Buoys in place of nets. Not even two?

H.W.Jr: No; he said to inquire what you could buy or rent from existing fishing ships. As long as he isn't interested, let the Navy fight for it, see. If you will have this rewritten, he will give us the guns.

Gaston: Have it rewritten to cover only the guns?

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H.M.Jr: Only the guns.

Gaston: The most essential thing is the listening apparatus.

H.M.Jr: Oh no, just leave out the four ships.

Gaston: Of course, actually, this whole thing should be the Navy's responsibility of making preparations.

H.M.Jr: He has had the thing for two hours.

(Telephone conversation with Dr. Viner follows:)

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White: Do you want to get in touch with Mrs. McAllister? She very much wants a preliminary draft. She called up a half dozen times yesterday.

H.M.Jr: She gets it tonight when the press gets it.

White: Is it necessary to tell her the change in topic?

H.M.Jr: Oh, yes. Is she back?

White: Didn't she call up personally?

Shanahan: It was the head of the publicity department.

H.M.Jr: That is up to Chick Schwarz. I will tell Chick. He can handle the thing. Now, when do you fellows want to see me again?

White: I don't think it will take more than a rather brief time. Whenever it is convenient for you.

H.M.Jr: Does 3:00 o'clock rush you too much? I will hold 3:00 o'clock and if you are not ready at 3:00, I will see you when you are ready.

Gaston: I think we will be ready.

H.M.Jr: The only appointment I have this afternoon is at 4:00. Would you rather see me after 4:00? Let me do it this way. I am going home to rest. When I come back I will call you and see where you are. How is that? The only appointment I have is at 4:00 and it will take 15 minutes.

(Mr. Schwarz entered the conference)

This speech won't be ready until sometime after 4:00 and you have got to take care of these women.

Schwarz: And the distribution?

H.M.Jr: Did I tell you we wanted half a dozen seats?

Schwarz: I took care of that.

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White: You are going to take care of the distribution?
H.M.Jr: Of the speech or the seats?
White: He said the distribution of the women.
H.M.Jr: Have the boys been asking any more?
Schwarz: They are eager for it.
H.M.Jr: I wouldn't tell them until 5:00.
Schwarz: It is just as well to avoid the temptation for any of the morning papers to predict it.
H.M.Jr: When does the ship change over?
Schwarz: The wire service is about 10:00 p.m.
H.M.Jr: I mean for tomorrow.
Schwarz: They close down about 3:00 a.m.
H.M.Jr: Why not tell them they can't expect the thing before 6:00 tonight? Between 5:00 and 6:00.

I have taken the liberty of departing from the topic which was originally assigned to me when I was asked to address this meeting, in order to talk to you about the money of the United States -- and particularly about gold. I do this because I think the subject is one in which all of you are interested; and it is one about which you may be asked a good many questions as the year proceeds.

One thing you will hardly need to be told about our monetary system; that is, that the American dollar is the soundest unit of currency in the world. Its value is unquestioned here at home and it is not questioned anywhere else in the world.

It is a solid rock of strength and stability amid all the monetary confusion created by aggression and war. It is more than a domestic currency; it has become in the last few years more and more an international currency. People throughout the world who are driven by disaster and fear to hoard currency prefer to hoard the currency of the United States, if they can get it.

We have tried through many means to facilitate stability in the currencies of the world. An outstanding example of an effort which we initiated is the Tripartite Accord of September, 1936. In all, the six leading democracies of the world have subscribed to the principles of that Accord. Further progress in the field of international finance and

trade must be deferred by reason of the catalysis
in Europe.

One of the most striking developments of
these recent years has been the universal confidence
in the American dollar as one of the very few certain
things in a highly uncertain world.

Some of our citizens who admit the strength
of the dollar and the world's confidence in our
currency, now suggest that confidence in our dollar
has resulted in this country receiving too much gold.

During the last 6 years we have acquired about
\$10 billions of foreign gold.

Why has so much gold come to the United States?

In the first place, we have exported many
billions of dollars worth of goods and services in
excess of the amounts we have imported.

Secondly, large volumes of foreign funds have come to this country to be placed and kept on deposit with our banks. Foreigners have sent their funds here for safekeeping because of the peace, stability, and security which this country enjoys.

Thirdly, foreigners have made large investments in American industries because foreigners think American business is a safe and profitable investment. Finally, Americans have been withdrawing their funds from abroad and liquidating their foreign investments in large sums because they prefer the dollar to any other currency in the world.

It is for these reasons that we have had so large and continuing a favorable balance of payments

it is for these reasons that gold has come and is continuing to come to the United States.

The continued acceptance of the gold that comes here is the only sound course of action open to us. There are other conceivable courses of action but they would all have disastrous consequences.

Take, for example, the proposal so frequently made to us that we stop buying gold. It has the charm of simplicity. All that we have to do is to prohibit gold imports by a Treasury order. But let me tell what I think would happen. The immediate reaction would be a sharp increase in the value of the dollar in terms of foreign currencies. Foreign currencies, in other words, would at once sharply depreciate and a chain of forces would be set in motion which would disrupt our trade.

First of all American products would be much more difficult to sell in foreign markets. This would not apply so much to war goods -- airplanes, armaments, etc. -- but it would hit hard our export of hundreds of agricultural and industrial commodities not vital to the conduct of war. We would lose heavily in the very markets we will badly need when the war is over. Increased imports of foreign goods, at the same time, would react even more drastically on our domestic economy. It would be just those very items which compete with our domestic manufactures that would flood our home markets. We would not be encouraged to buy much more rubber or tin.

But meat and dairy products, textiles, and hundreds of other manufactures would at once be subjected to greatly intensified competition from abroad. Furthermore, Americans who have investments abroad would find that they had suffered substantial losses overnight, just as foreigners with investments here would find that they had windfall gains overnight.

So you see this simple remedy is, in effect, a proposal that would completely disrupt our foreign exchanges and our trade and greatly increase unemployment in this country. And so with the other naive proposals which some well-meaning citizens suggest as a remedy for our accumulating gold stocks.

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Shall we follow their advice and cut the price for gold? A moderate cut would be ineffective, and a cut sufficiently large to reduce our annual gold inflow by a billion or two would introduce the same conditions as would follow on a prohibition of gold imports. It would mean a serious decrease in trade and a big increase in unemployment.

Shall we discriminate against certain countries in the purchases of our gold? Such a policy would not even have the virtue of effectiveness. The active cooperation of practically the whole world would be required to prevent any one country's gold from circulating.

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Obviously this would be impossible under any circumstances, let alone at a time such as this. Besides, the value of gold depends upon its unqualified use and acceptance as an international medium of exchange. To limit its acceptance would mean to reduce its usefulness.

There is yet another alternative which has always been open to us. Instead of taking gold we could have granted credit. Americans could have accumulated huge unsettled claims abroad. We have had experience with that system -- extensive experience -- in the decade that ended with the economic collapse of 1929. It is doubtful that Americans would want to repeat the experience.

For the excess of goods we shipped and for the dollar credits we granted we have taken gold in the last six years instead of promissory notes. The phrase "good as gold" still has real meaning in the world. I prefer the gold to pieces of foreign paper. I think most Americans do.

Our gold policy is carefully adjusted to the realities of a complex world situation. There have been many glib suggestions for changing it. Examination of each of them has revealed, as in the examples I have mentioned, that in the effort to remedy financial ills they would bring on real disaster.

Of course, should basic conditions alter, should we be confronted with new and unforeseen economic and political developments, the government

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will necessarily take such action as will best protect American interests. It is to be prepared for such contingencies that the powers with respect to gold operations have been kept flexible. But nothing has appeared to date which would warrant any change in our gold policy.

There is only one sound way in which we can work to reduce the inflow of gold and to promote the return of at least a part of the wealth it represents to useful service in the lands from which it came. That way is to do everything in our power to contribute to the return of peace to the world and to encourage reconstruction and the restoration of normal trade. With the restoration of enduring peace and economic stability abroad the gold problem will solve itself.

Our great export surplus will drop, not because we shall sell less abroad but because we shall buy more. Foreign capital will be gradually repatriated - not because we drive it out but because it is attracted home by the resurgence of security abroad. Our investors will once again invest their funds abroad - not because of the security of opportunity at home but because of greatly enhanced opportunities for sound and profitable investments in other lands. And finally our tourists will spend hundreds of millions more in foreign countries.

These are the developments which will automatically and gradually direct the flow of gold away from the United States. These are the developments upon which we must concentrate.

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We must concentrate on the promotion of further recovery here and peace and security abroad not in order to correct the gold situation, but because prosperity, peace and security are in themselves the supreme ends of policy. That their attainment will also solve the world's gold problem is only a by-product, but an important one.

I should like finally to turn to the question of the continued usefulness of the gold we have and the gold we are going to get. The matter seems to be troubling some people.

Let me reassure you once and for all. As long as there are independent nations, and as long as there is international trade in goods and services, so long will it be necessary to settle international

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balance. Gold is the international medium of exchange par excellence. Its acceptability is universal; its utility as international money survives changes in economic systems. It is used and needed just as much by the purest democracies as by dictatorships -- as much by capitalist economies as by socialist economies. It is the refined instrument of international exchange of goods and services, as well as an essential ingredient in the more complex international financial transactions -- an instrument that has functioned without challenge for hundreds of years. Every foreign country wishes it had more of it; no foreign country likes to lose any of it; all countries accumulate it as soon as they can afford to do so.

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And the fact that some countries find it possible to conduct their international trade without gold does not mean that they prefer to do so any more than people reading by candlelight do so because they prefer candles to electricity.

Gold does not lose its value because some countries are forced to resort to clearing arrangements, barter, import controls, and other substitutes. All these substitutes are admittedly a worse alternative. They are admittedly a method of conducting trade and finance which will only be adopted when a country does not possess adequate gold holdings. Governments resort wholly to these substitute methods for keeping a country's balance of payments in equilibrium only during times of great and prolonged

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stress and instability, and only when for one reason or another they have been unable to prevent a loss of practically all their gold holdings. All countries would like to have more gold, and the countries which have the least are, you will find, countries which are striving most to add to their gold holdings.

To be sure, if the political picture of the world should undergo a drastic change in the future so that instead of fifty or sixty independent nations there should exist only one or two groups dominated by ruthless powers, then international trade and finance may assume the character of domestic trade.

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There will cease to be independent monetary systems,
as there will cease to be independent foreign
policies. Balances between countries will be settled
as balances between our states are settled now --
that is wholly by transfers of deposits. Under such
circumstances it might well be that gold would no
longer be needed. But under those circumstances,
life would be so different, that the possible loss in the
value of gold would, I am sure, be the least of our
worries.

Certain governments may boast of the day when
independent democracies will disappear, I for one,
have no fears that such boasts can be made good.

I am as confident that gold will continue to be international money as I am that the majority of nations will succeed in maintaining their independence. With the return of peace and of normal economic and political relationships and barriers to the free flow of goods, capital, and services will be gradually lowered.

One word more -- The swap we made and are making in return for gold was not a bad bargain. It enabled us to increase employment and recovery. We have expanded our exports and encouraged our domestic industry. And not least of all we have acquired the safest physical asset in the world.

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I suppose there may be some sincere people who have been disturbed by stories that this country has a monetary policy that threatens to cause the nation's loss. If you meet such people, I hope you will be able to reassure them. You may tell them that the greatest and richest country of the world has the best and soundest monetary system and that there is not the slightest reason to fear that it will not remain sound.

We can feel entirely comfortable in the possession of a supply of gold with which we can meet future demands on our monetary system without any shock to our economy. We can be prepared also to play the part we ought to play in the reconstruction of the world that must follow war's senseless destruction.

Treasury Department #40
Division of Monetary Research

Date.....

To:

5/1/40

From:

Draft discussed at meeting in
Secretary's office, 11:15 a.m.,
May 2, 1940.

(This is the draft which was
delivered at the Secretary's home
by messenger the night before.)

I have taken the liberty of departing from the topic which was originally assigned to me when I was asked to address this meeting, in order to talk to you about the money of the United States -- and particularly about gold. I do this because I think the subject is one in which all of you are interested; and it is one about which you may be asked a good many questions as the year proceeds.

One thing you will hardly need to be told about our monetary system; that is, that the American dollar is the soundest unit of currency in the world. Its value is unquestioned here at home and it is not questioned anywhere else in the world.

It is a solid rock of strength and stability amid all the monetary confusion created by aggression and war. It is more than a domestic currency; it has become in the last few years more and more an international currency. People throughout the world who are driven by disaster and fear to hoard currency prefer to hoard the currency of the United States, if they can get it.

We have tried through many means to facilitate stability in the currencies of the world. An outstanding example of an effort which we initiated is the Tripartite Accord of September, 1936. In all, the six leading democracies of the world have subscribed to the principles of that Accord. Further progress in the field of international finance and

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trade must be deferred by reason of the cataclysm in Europe.

One of the most striking developments of these recent years has been the universal confidence in the American dollar as one of the very few certain things in a highly uncertain world.

Some of our citizens who admit the strength of the dollar and the world's confidence in our currency, now suggest that confidence in our dollar has resulted in this country receiving too much gold.

During the last 6 years we have acquired about \$10 billions of foreign gold.

Why has so much gold come to the United States?

In the first place, we have exported many billions of dollars worth of goods and services in excess of the amounts we have imported.

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Secondly, largely volumes of foreign funds have come to this country to be placed and kept on deposit with out banks. Foreigners have sent their funds here for safekeeping because of the peace, stability, and security which this country enjoys.

Thirdly, foreigners have made large investments in American industries because foreigners think American business is a safe and profitable investment. Finally, Americans have been withdrawing their funds from abroad and liquidating their foreign investments in large sums because they prefer the dollar to any other currency in the world.

It is for these reasons that we have had so large and continuing a favorable balance of payments;

~~the gold itself does not buy~~
~~independently - 5 - payments~~
~~it is for these reasons that gold has come and is~~
~~not the government~~

continuing to come to the United States.

The continued acceptance of the gold that comes here is the only sound course of action open to us. There are other conceivable courses of action but they would all have disastrous consequences.

Take, for example, the proposal so frequently made to us that we stop buying gold. It has the charm of simplicity. All that we have to do is to prohibit gold imports by a Treasury order. But let me tell what I think would happen. The immediate reaction would be a sharp increase in the value of the dollar in terms of foreign currencies. Foreign currencies, in other words, would at once sharply depreciate and a chain of forces would be set in motion which would disrupt our trade.

First of all American products would be much more difficult to sell in foreign markets. This would not apply so much to war goods -- airplanes, armaments, etc. -- but it would hit hard our export of hundreds of agricultural and industrial commodities not vital to the conduct of war. We would lose heavily in the very markets we will badly need when the war is over. Increased imports of foreign goods, at the same time, would react even more drastically on our domestic economy. It would be just those very items which compete with our domestic manufactures that would flood our home markets. We would not be encouraged to buy much more rubber or tin.

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But meat and dairy products, textiles, and hundreds of other manufactures would at once be subjected to greatly intensified competition from abroad. Furthermore, Americans who have investments abroad would find that they had suffered substantial losses overnight, just as foreigners with investments here would find that they had windfall gains overnight.

So you see this simple remedy is, in effect, a proposal that would completely disrupt our foreign exchanges and our trade and greatly increase unemployment in this country. And so with the other naive proposals which some well-meaning citizens suggest as a remedy for our accumulating gold stocks.

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Shall we follow their advice and cut the price for gold? A moderate cut would be ineffective, and a cut sufficiently large to reduce our annual gold inflow by a billion or two would introduce the same conditions as would follow on a prohibition of gold imports. It would mean a serious decrease in trade and a big increase in unemployment.

Shall we discriminate against certain countries in the purchases of our gold? Such a policy would not even have the virtue of effectiveness. The active cooperation of practically the whole world would be required to prevent any one country's gold from circulating.

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Obviously this would be impossible under any circumstances, let alone at a time such as this. Besides, the value of gold depends upon its unqualified use and acceptance as an international medium of exchange. To limit its acceptance would mean to reduce its usefulness.

There is yet another alternative which has always been open to us. Instead of taking gold we could have granted credit. Americans could have accumulated huge unsettled claims abroad. We have had experience with that system -- extensive experience -- in the decade that ended with the economic collapse of 1929. It is doubtful that Americans would want to repeat the experience.

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For the excess of goods we shipped and for the dollar credits we granted we have taken gold in the last six years instead of promissory notes. The phrase "good as gold" still has real meaning in the world. I prefer the gold to pieces of foreign paper. I think most Americans do.

Our gold policy is carefully adjusted to the realities of a complex world situation. There have been many glib suggestions for changing it. Examination of each of them has revealed, as in the examples I have mentioned, that in the effort to remedy fancied evils they would bring on real disaster.

Of course, should basic conditions alter, should we be confronted with new and unforeseen economic and political developments, the government

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will necessarily take such action as will best protect American interests. It is to be prepared for such contingencies that the powers with respect to gold operations have been kept flexible. But nothing has appeared to date which would warrant any change in our gold policy.

There is only one sound way in which we can work to reduce the inflow of gold and to promote the return of at least a part of the wealth it represents to useful service in the lands from which it came. That way is to do everything in our power to contribute to the return of peace to the world and to encourage reconstruction and the restoration of normal trade. With the restoration of enduring peace and economic stability abroad the gold problem will solve itself.

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Our great export surplus will drop, not because we shall sell less abroad but because we shall buy more. Foreign capital will be gradually repatriated - not because we drive it out but because it is attracted home by the reemergence of security abroad. Our investors will once again invest their funds abroad -- not because of the scarcity of opportunity at home but because of greatly enhanced opportunities for sound and profitable investments in other lands. And finally our tourists will spend hundreds of millions more in foreign countries.

These are the developments which will automatically and gradually direct the flow of gold away from the United States. These are the developments upon which we must concentrate.

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We must concentrate on the promotion of further recovery here and peace and security abroad not in order to correct the gold situation, but because prosperity, peace and security are in themselves the supreme ends of policy. That their attainment will also solve the world's gold problem is only a by-product, but an important one.

I should like finally to turn to the question of the continued usefulness of the gold we have and the gold we are going to get. The matter seems to be troubling some people.

Let me reassure you once and for all. As long as there are independent nations, and as long as there is international trade in goods and services, so long will it be necessary to settle international

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balances. Gold is the international medium of exchange par excellence. Its acceptability is universal; its utility as international money survives changes in economic systems. It is used and needed just as much by the purest democracies as by dictatorships -- as much by capitalist economies as by socialist economies. It is the refined instrument of international exchange of goods and services, as well as an essential ingredient in the more complex international financial transactions -- an instrument that has functioned without challenge for hundreds of years. Every foreign country wishes it had more of it; no foreign country likes to lose any of it; all countries accumulate it as soon as they can afford to do so.

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11/31/50

original

talk at 11/31/50

A Day in the Treasury

Your very able director, Mrs. McAllister, has asked me to give you some idea of what we do in the Treasury. I believe that I can do that best by taking you behind the scenes and with the help of your imaginations let you experience a Day in the Treasury.

The Treasury does many things besides collecting taxes. It spends money; it borrows money, prints money and engages in gold and silver transactions and makes the purchases of supplies for the Federal Government. The Treasury Department has been in the "Racket-busting" game long before it became campaign-appeal material. For more than seventy-five years our agents have brought criminals to justice. Working efficiently and effectively Treasury agents run down smugglers, counterfeiters of our currency, violators of our liquor laws, income tax laws, and narcotic laws. The Treasury supervises national banks and examines your baggage when you return from abroad. It takes care of lighthouses; patrols almost every mile of our enormous shore line at least once a day; helps boats in distress; enforces

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the Tariff Act and neutrality legislation, keeps government accounts, and until this year took care of Public Health and construction of Federal buildings, when under the Reorganization Plan those services were departmentalized. We administer the two billion dollar stabilization fund and protect the internal and external value of the dollar. We even print postage stamps.

You might wonder how so many activities can possibly be coordinated into one department. The secret is efficient personnel. An essential of good administration is to separate the important from the unimportant; policy from routine. Only if the less important and the routine are delegated to capable assistants is it possible to get through the day. An equally essential prerequisite of good administration is to select a staff of highly competent, loyal, and able assistants who will supervise the routine work of the different branches of Treasury activity and are available for consultation on important matters of policy. I need not remind you ladies that some of our outstanding executives in the Treasury are women. You all know

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Mrs. Nellie Taylor Ross, Director of the Mint, and Mrs. Marion Banister, our Assistant Treasurer, to mention only two of the many women who hold important positions with us.

Our official day begins at 9 o'clock but most of the executives are at their desks before that hour. During my years in Washington, I have been grateful for the habit, formed long ago, of getting up at half past six. This gives me an opportunity to glance through the leading newspapers and finish examining the reports and documents which I took home the evening before. Often by seven-thirty I have talked to one or more of my assistants by telephone and it is not unusual for one of them to walk the two miles from my home to the office in order to discuss some problem which I may not have time to consider later in the day.

Scheduled appointments in my office begin at 8:45 when Mr. Merle Cochran, the director of our two billion dollar stabilization fund reports on developments in the leading foreign money markets of the world. By that hour, Mr. Cochran has been in telephonic communication with our fiscal agent,

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the Federal Reserve Bank in New York and with Treasury representatives in the leading financial centres of the world. It is his business to watch the world's money markets, and to bring to my attention matters of importance arising with respect to the silver, gold, and foreign exchange and capital markets. Together we plan the day's operations of the stabilization fund which, as you know, was provided for by Congress in the Gold Reserve Act of 1934 to prevent undue fluctuation in the value of the American dollar. Occasionally, connected with this operation, there are emergencies which require immediate action and there are times when it is necessary to call London or Paris to give instructions to our representatives in Europe. Remember that we start our day five or more hours later and therefore have that much advantage over the European Nations.

At nine-thirty I hold a staff meeting which lasts from a half hour to an hour depending upon the kind of problems that come before us. This meeting is attended by a dozen or more of my assistants and advisers. I like to look upon

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this group as a sort of Treasury Cabinet. It is not a formal cabinet but consists of those whose departments and bureaus are closest to the special problems of policy which confront the Treasury from day to day, and who are, therefore, in a position to contribute most.

There are a great many people who think that Treasury activities are confined to the highly unpopular sport of collecting taxes and who fear that when they hear from the Treasury it must be because there is something wrong with their income tax returns. We had an amusing example of that last week. One of the Assistant Secretaries called up an important business firm in Chicago to obtain some needed information. When the Washington telephone operator announced that the Assistant Secretary of the Treasury was calling, there appeared to be considerable to-do at the other end. After much delay Chicago reported that the President of the firm was out; the three Vice-Presidents were out too; everybody was out. Apparently there had been an exodus in the middle of a working morning and one lone

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stenographer was holding the fort. About a half hour later the Attorney for the company anxiously called back to find out what the Treasury Department wanted from his concern and was much relieved to know it was only some technical information. So the next time you get a telephone call from the Treasury don't run for your lawyer.

I think you will be interested in what happens at one of my nine-thirty meetings. First, we hear the report of the Under Secretary. Sometimes he will raise questions on preparation for a bond flotation. Questions of rates, amounts and timing must be settled before the United States Treasury goes into the market to borrow money. Actually, before a large financing operation is undertaken, many days are devoted to a careful examination of market prospects which in times like these involves analysis of the foreign situation. The Treasury's economic division always prepares preliminary reports on the money market in anticipation of conferences on a bond issue. All the government borrowing, including that of independent

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agencies such as the Reconstruction Finance Corporation and the United States Housing Authority, is undertaken with the cooperation of the Treasury to make sure there is no conflict in the money market and that the agencies are borrowing at the best available rate. The Under Secretary may have some questions pertaining to the national banks or the Federal budget. These matters are brought up in staff meeting for open discussion and consideration. Next, the Assistant Secretary in charge of the Coast Guard, Secret Service, Narcotics, and Enforcement of Neutrality Laws may wish to discuss the rounding up of smugglers shipping narcotics out of Marseilles to New York or the discovery of a new counterfeiting gang which has been turning out bogus fifty-dollar bills.

It is interesting to note that since the enactment of the Marihuana Act of 1937, Treasury agents have destroyed over 20,000 acres of this weed which is used in the manufacture of drugged cigarettes. By thus destroying the source, we are stamping out the traffic and illicit use of Marihuana.

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Recently we closed a narcotic case which attained national prominence and which many of you may have read about in the newspapers. For some time our agents were aware of large quantities of drugs being smuggled into the country. Upon investigation they discovered that these were being bought in Shanghai and the Japanese concession at Tientsin, China, and were being shipped into this country via France. It was estimated that within approximately twelve months sufficient drugs had been smuggled through the Port of New York to supply a year's needs of 10,000 addicts or one-fifth of the drug traffic. The case was finally broken and resulted in the indictment of 30 persons among whom was a gangster best known by his alias of "Lepke". In 1932 this man was the acknowledged leader of a well-organized and lucrative fur and garment racket. At the time of his indictment he was a fugitive from justice having forfeited bail of \$10,000 on anti-trust charges. The Federal Bureau of Investigation offered a reward of \$5,000 for his apprehension. The New York District Attorney raised the ante to

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\$30,000 "dead or alive", but Lepke eventually surrendered in August 1939. He is now serving a twelve-year sentence in a Federal penitentiary for conspiracy to violate the laws relating to narcotic drugs.

As you know, the Treasury has a monopoly on the printing of our currency and it does not look favorably upon competition. Counterfeit notes totaling \$365,367 were seized during 1939 by our Secret Service agents. Over \$52,000 was confiscated in counterfeit coins. The losses to the public through counterfeit notes in circulation during 1938 amounted to almost \$319,000. During 1939 - due to the unceasing vigilance of Treasury agents - there was a thirty percent decrease in the circulation of phoney money.

Another Assistant Secretary in charge of the Bureau of Internal Revenue and Taxation may come to the staff meeting seeking advice on the closing agreement with some contractor who is doing business with the War or Navy Department under the Vinson-Trammell Act, which provides that any profit

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in excess of ten percent of the total contract price on naval construction is to be paid into the Treasury. The Treasury also makes closing agreements between armament manufacturers and the Government. In this connection, we have established a new policy of publishing these agreements in full so that the public will at all times know the arrangements their Government is making.

Very frequently there are important tax matters calling for discussion. As a principle of tax collection we have tried at all times to be fair. We have impressed upon the taxpayer that he can always get a hearing himself right in his own district. He does not have to come to Washington. We have decentralized the Bureau of Internal Revenue so that there are offices in all the large cities where a man can go to iron out his difficulties. The Treasury does not permit any tax case to be settled privately or secretly. It was very shocking to some of us who came to Washington in 1932 to learn of the number of persons who try to defraud the Government in their tax statements. Our policy has been to let

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the chips fall where they may and it has been maintained regardless of how much influence a man or woman may have. It has been an incessant and never ending fight to run down fraud and eliminate illegal tax evasion. We find that, on the whole, men and women are becoming more conscious of their obligations to support honest Government. Today the Federal Government is giving its citizens better service than ever before and most people are willing to pay their share for its upkeep.

Remember - we are still in the staff meeting. The General Counsel may have some knotty problem to lay before the group. He has 445 lawyers working under him. I believe this is the second largest legal staff in the country. I need not tell this audience that 445 lawyers mean plenty of trouble. Of course, only those legal matters involving policy or special decision are brought up at staff meetings. We always have cases pending before the Supreme Court or the Board of Tax Appeals or the Court of Customs and before the numerous Federal courts throughout the country.

Another subject which is likely to come up at the meeting is that of personnel. My Administrative Assistant has the job of looking after the personnel problems of 73,000 employees and oftentimes there are cases which need special attention. The welfare of the people working for the Treasury is a major consideration and we have a rule that if any employee feels that he is unfairly treated he can always come to me personally as a final court of appeal. Another duty of this Assistant is to investigate all persons applying for the more important positions in the Treasury.

Then the Commissioner of Customs may make a report. His Bureau is responsible for patrolling our borders, preventing smuggling, collecting import duties, and excluding improper literature and paintings. Incidentally, the largest single seizure of smuggled goods made by our Customs Service involved uncut diamonds weighing 3,395.61 karats at a domestic value of \$286,346. These diamonds were concealed in a false compartment of a small overnight bag in the possession of a woman passenger on a transatlantic liner. The arrest of this woman disclosed the activities of an international diamond

smuggling syndicate which had been operating for over ten years in this country, England, France, and Belgium. The case eventually involved fifty-five defendants located here and abroad.

In the matter of protecting the public from obscene literature and pictures, the Treasury now has authorities on these subjects so that no real work of art is excluded on "Comstockian" grounds nor can indecent material get by under the guise of art.

Another member at our staff meeting is the Director of our Division of Monetary Research who keeps us posted on current economic developments and prepares reports on domestic and international economic problems with which we have to deal. Dr. Harry White will tell you about this work in a few minutes.

Then we have the report of the Treasury representative on the Export-Import Bank who gives us the status of negotiations of loans to various countries such as Finland, Norway, Sweden, and China. He also assists on matters pertaining particularly to South America. With reference to the

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Export-Import Bank a strange case came before the Treasury Department last year which illustrates the ramifications of Treasury operations. It involved the investigation of a disease on the China-Burma border that had been ravaging the country year after year. What interested the Treasury in that remote and inaccessible area was the fact that a loan had been extended to the Chinese Government and the repayment was in danger because shipments of tung oil to the United States over the new China-Burma highway were blocked. This tung oil provides the money for servicing the debt. It was impossible to maintain traffic in the wet season because of the prevalence of the disease. When it was brought to our attention, we got busy at once and had three United States Public Health Service men sent there to investigate the trouble. They discovered that the disease was malignant malaria and initiated steps to stamp out the epidemic. The Treasury was, of course, interested in having the loan repaid. The fact that by facilitating the repayment of the loan we were also saving thousands of lives made that particular task a very gratifying one.

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The staff meeting is in reality a meeting of minds. Each person contributes from his knowledge and experience. Problems which are not solved are assigned to someone who will make a later report or call an inter-bureau conference. When the staff meeting is over each executive returns to his division or bureau or department and in turn gets reports from his assistants which he considers and discusses in much the same way as we did in my office. Each one has innumerable telephone calls, conferences, appointments, and a sheaf of correspondence. Every minute of the day is filled and for all of us the days are long.

To give you an idea of the variety of problems that come before me for policy decisions, I jotted down some items which happened to come up for consideration on a single day. Here they are:

A loan project to Ecuador; the Annenberg tax case; proposed Argentine trade agreement; activities of British and French Purchasing Mission; Bank for North and South America; Colombian debt settlement negotiations; plan to finance tin and tungsten exports from China to the United States; certificate

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plan for agriculture; weekly report on business situation for the President; purchasing of stock piles of strategic materials; port delay of shipments of Red Cross supplies to Finland and a Tennessee Valley Authority financing proposal. These are in addition to the matters which may develop out of the staff meeting. You can readily see that a job at the Treasury is not likely to put one in a "rut".

Frequently Senators and Congressmen drop in to discuss proposed legislation or some Treasury activity. Sometimes there are financial representatives of foreign countries who come to take up inter-governmental economic matters. All Government officials are, of course, subject to call from the President.

I usually take advantage of the luncheon period and eat with members of my staff, or men from other Departments, or visitors, in order to discuss problems in a more genial or philosophical mood than would be possible in a more formal atmosphere. Almost every Monday I lunch with the President. We discuss urgent problems and the President

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frequently assigns to me special duties, and I take this opportunity to discuss with him the special matters which he has asked me to look into. On Friday there is the Cabinet meeting for which preparation has to be made.

On the international front the Treasury receives literally hundreds of cables, reports, and consular dispatches from all parts of the world each week. We get hundreds of plans proposing monetary and fiscal changes but most of them are crank panaceas. When one merits the President's attention, a report is prepared for him. You may be interested to know that, as befits a democratic government, we answer every letter - and we receive thousands each week.

In this administration we have made it a policy when special problems arise to consult the best qualified persons in the country. When we have an extraordinary situation we call in the experts, as we did when complications were created by the European War. The great advantage of this procedure is that people from the outside frequently bring in fresh points of view. There are times when

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special banking and monetary problems warrant consultation and conferences with outstanding men in their respective fields. I remember one occasion when we called upon a dozen of the foremost financiers of the country. They responded immediately and gave unstintingly of their time and energy during a national emergency. It is very encouraging to realize how some of the most important men in the country in their respective fields gladly lay aside their own duties to come to Washington, sometimes on a few hours notice, to contribute, generally without pay, to the solution of the nation's problems.

The day at the office ends finding me - like many members of the Treasury staff - faced with the accumulation of the day's mail to sign. But this is not the end of our day's work. The reports I get are so voluminous and so numerous that I seldom get a chance to read them at the office during the day. They become my homework. Frequently Treasury officials have a conference after dinner or return to their offices to burn the midnight oil.

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A Day in the Treasury is typical of any Government official's day. Unquestionably the United States Government asks a great deal of its workers but it also offers a stimulus which is tonic, and which year by year is drawing men and women of very high calibre into the Federal service. A day of effective service is possible only through the cooperation and the harmonized action of an entire department. I may be prejudiced, but I believe that we have attained an esprit de corps in the Treasury which is unsurpassed by any other Government agency.

May 2, 1940

4:30 p.m.

Present:

Mr. Graves
Mr. Helvering
Mrs. Klotz

HM, Jr: According to Mr. Graves, I see you have done it; settled.

Mr. Helvering: Well, yes. We got some returns.

HM, Jr: It kind of took my breath away. I did not know you were up to that point, but

Mr. Helvering: Mr. Secretary, the principal thing I had in mind was to get this fellow on a sworn statement for those years that he absolutely had not reported his income. Now, of course

HM, Jr: You mean he did not report any income?

Mr. Graves: For the years he was Governor. Filed no return at all.

Mr. Helvering: And Mr. Graves will tell you we may have to give him every deduction he's entitled to.

Mr. Graves: He has, in these 6 years, he had income which he should have reported, but did not, of \$47,000.

HM, Jr: He admits that?

Mr. Graves: Signed a return showing that.

HM, Jr: \$47,000?

Mr. Graves: \$47,000.

HM, Jr: Over six years?

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Mr. Graves: Six years. There is the total of that thing by year showing source of his income, the amount report, amount he paid and amount of additional tax he is now paying.

(Mr. Graves and HM, Jr discussed the attached chart .)

HM, Jr: And you changed your mind and did nothing criminally about this?

Mr. Helvering: I don't think there is any basis on which we could be successful in a criminal prosecution.

HM, Jr: Excuse me. (To Mrs. Klotz) The next time I see the President I want to show him that (attached statement.)

Mr. Helvering: Now, understand, Mr. Secretary, that there is over \$20,000 from the Sullivan firm.

Mr. Graves: Mr. Hays.

Mr. Helvering: That is not in this amount. He made a very vigorous protest about that going in and I think and Mr. Graves

Mr. Graves: We have no proof, Mr. Morgenthau.

HM, Jr: That his father did not keep it?

Mr. Graves: We knew his father passed some, if not all, on to McNutt, but McNutt's claim throughout was the amounts he received from his father in that connection were in fact repayments of loans which he had made to his father. We were unsuccessful in our effort to find the checks. If we could have had our hands on the checks we would have had endorsements which would have been some evidence. The reason I told the boys they might withdraw on that was that McNutt said in effect "I will pay that if I have to, because you boys have me, but you have no right to it and I will be paying it simply because you will have forced me." It did not seem to me the additional tax amount we

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might get from him would justify proceeding against this man and he would apparently have a feeling we took it away from him at the point of a gun. We are not precluded against any further action that is indicated should we get additional proof.

HM,Jr: But you are not investigating any more?

Mr. Graves: Not investigating, but today we are having our hearing with Bowman Elder at Indianapolis and while I have no confidence that anything will come out of that, there is always a possibility that Mr. Elder will talk about this anyway, which we are attempting to tax to him, for the reason he won't tell who he paid it to.

HM,Jr: Let me ask you a question. You have been here 7½ years. Do you know of any case where a Presidential appointee has been under similar circumstances, that we have run into a Presidential appointee who had \$47,000 income over 5 years that he failed to report?

Mr. Helvering: No. I don't recall anybody. Had a Congressman.

HM,Jr: Well, I think it is up to me to bring it to the President's attention. I don't know what he will do about it. I just want to say this. I did not know, this last time, that you were going to go in, take his money. The time before when you said you were going to see him you said that's what you were going to do. That's why I was kind of surprised.

Mr. Graves: I am to blame for that. I tried to get a clearance, but I did not make myself clear.

HM,Jr: You said you were going to see him and you said you were not ready and you postponed the meeting.

Mr. Helvering: That's right.

HM,Jr: Then I said before we settle I want to

-4-

sit down and talk, but we did not question it because you were not going to see him, the next day.

Mr. Graves: That's right. We postponed it.

HM, Jr: Then you had another meeting and I had it in my mind we would meet again.

Mr. Graves: You may not remember when I was in here to meet Miss Knight, I stayed behind and told you I thought we were in position and we were meeting the next day and would proceed on that basis.

HM, Jr: It did not ring the bell, but as I told you over the phone, I asked you two gentlemen to do it and you have full authority and if this is what you think is best, I am satisfied.

Mr. Graves: It cuts off no other action that we might want to take.

HM, Jr: What I told the President was this -- and watch the papers, if McNutt begins to feed some more poison to the columnists, then by God! I am going to send for him and read the riot act to him. As the President said this morning, we have been very dignified about this thing and kept our peace, but if he starts blowing how he has always paid his tax then I think I will send for him myself.

Mr. Helvering: Of course, when you think of that, as a salaried man, that's a pretty fair deficiency in tax especially in those years when he had from \$6,000 to \$13,000 income besides all these salaried things and failed to report it.

HM, Jr: I know it. I would not want it on my record. O.K. gentlemen, I will be seeing you again.

Mr. Helvering: Just like to report to you a little. We have been in a two day -- Monday and Tuesday and off yesterday -- to get some figures and all day today conference on Annenberg case.

HM, Jr: A little birdie told me that.

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Mr. Helvering: And we have not gotten very far. As is usual in cases like this, they want us to accept what was done after we started the investigation and what they intended to do back in 1926, 1928, 1931 or whatever the particular instrument our consideration is. I think they realize by now that he owes considerable tax.

HM, Jr: Well, when you get around to it and before you sign, will you give me a chance to listen?

Mr. Helvering: Oh, yes. Of course I told the head attorney day before yesterday that his offer of \$2,500,000 is frivolous as far as we are concerned.

HM, Jr: When you are ready and before you commit yourself, I would like to know about it please.

oOo-oOo

TO:

184

6162.32
5518.48
13916.10
14306.56
8639.72
3998.66

57541.84
1448.69

47092.95 *unreported income*

From: MR. GRAVES

CORRECTED NET INCOME AND ADDITIONAL TAXES

<u>Item</u>	<u>1933</u>	<u>1934</u>	<u>1935</u>	<u>1936</u>	<u>1937</u>	<u>1938</u>
Income from speeches	\$1,480.86	\$2,341.77	\$1,213.25	\$1,319.50	\$640.00	----
Dividends:						
K.V.B. Corporation	----	2,518.05	1,810.49	1,449.38	2,710.98	\$1,373.66
Others	119.33	86.77	114.11	274.97	491.88	411.71
Other income:						
Poker winnings	650.00	300.00	200.00	473.00	398.00	----
Unidentified deposits	4,312.13	709.39	10,772.42	8,062.15	1,249.78	222.13
Interest received	----	12.50	255.83	544.87	754.15	717.52
Rents	----	----	----	120.00	----	100.89
Profit on sales of stocks	----	----	----	2,512.69	1,284.92	(37.25)
Taxable Salary as High Commissioner	----	----	----	----	1,400.00	1,500.00
Total Income	6,562.32	5,968.48	14,366.10	14,756.56	8,929.72	4,288.66
Deductions	400.00	450.00	450.00	450.00	290.00	290.00
Net Income	6,162.32	5,518.48	13,916.10	14,306.56	8,639.72	3,998.66
Net Income Reported	None	None	None	None	3,432.67	2,016.22
Taxes paid	None	None	None	None	85.31	32.58
Additional Taxes	127.34	None	722.79	842.72	370.27	75.37
Penalties	31.84	None	180.70	210.68	None	None
Interest	46.79	None	178.86	157.98	47.19	5.08
Total additional	205.97	None	1,082.35	1,211.38	417.46	80.45

Summary

Additional Taxes	\$2,138.49
Penalty	423.22
Interest	435.90
	<u>2,997.61</u>

May 2, 1940
12:19 p.m.

H.M.Jr: Hello.

Operator: Go ahead please.

H.M.Jr: Hello.

Arthur
Purvis: Hello, Mr. Secretary.

H.M.Jr: How are you?

P: Very well, thank you. And you?

H.M.Jr: I'm all right, and my decks are clear now.

P: Oh, good.

H.M.Jr: Mr. Purvis, I don't know whether you have anything that's pressing. Have you?

P: There are one or two things that might be quite pressing but we don't -- we don't know the exact situation of them so that it might be later today before I'd quite know that. Is it -- would it be better next week from your view?

H.M.Jr: Well, here's the point. This is what I've been fussing with. I'm giving a speech tomorrow on gold.

P: Oh, yes.

H.M.Jr: And it's finished and I -- I only talk -- I haven't talked in two years so it's very -- it isn't easy for me to do it.

P: No, it -- I know, one has to sort of school oneself up to that.

H.M.Jr: When one does it every week it's different.

P: Yes, exactly.

H.M.Jr: I'll be over there from 10:30 to around 11:00, but I could see you after that if you -- if it's important.

- 2 -

P: Well, the only thing that I've found after speaking under those conditions is that there's a certain let-down that comes which really makes one disinclined for any discussions that you don't have to have. I don't know whether you feel that but I definitely felt that.

H.M.Jr: Yes.

P: And I -- might I therefore leave it this way. Could I -- could I, make up my mind -- say -- and telephone you this afternoon?

H.M.Jr: Absolutely. Supposing.....

P: Because I will try then, if we could, to leave it to Monday. Would it be possible on Monday?

H.M.Jr: Well, I tell you what I'm going to do. Monday I expect to visit Allison.

P: Oh, yes.

H.M.Jr: I'm going out to Allison Monday.

P: Yes, I see.

H.M.Jr: But I will be back Tuesday.

P: Yes.

H.M.Jr: So it will be quite all right.

P: Well now then in that case I'll try and leave it until Tuesday and if there were anything very important could I telephone you this afternoon and we might be able to dispose of it on the telephone.

H.M.Jr: Surely. Now, I have this for you. If you people need smokeless powder badly.....

P: We do, very.

H.M.Jr: Well then, I can get you two and half million pounds from DuPont right away.

P: Really?

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H.M.Jr: Yes.

P: Would you be willing to let us start that straight-away without waiting for the

H.M.Jr: Yes.

P: I'm sure it's going to come.

H.M.Jr: Yes, but I mean when I say right away, within thirty days. I mean, if -- if you said you wanted it I can tell -- have an order to DuPont within -- well, I think say the first of June, beginning the first of June they can release at the rate of -- I think whatever -- 25,000 pounds a day.

P: Is that it, 25,000 a day.

H.M.Jr: Yes.

P: That would be very valuable.

H.M.Jr: But anyway I -- it -- at the rate of two and a half million pounds a year. I don't know what it is a day.

P: Yes, quite.

H.M.Jr: If that -- and then I wouldn't wait on the other.

P: Very good, because I'm sure the other will come through.

H.M.Jr: Well, if you want that.....

P: We would like that.

H.M.Jr:then I will start that in motion at once.

P: Thank you very much. We will take that with the greatest pleasure.

H.M.Jr: But I'll start that -- I went down to the Navy factory yesterday and -- and they are -- that's where I was yesterday.

P: Yes.

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H.M.Jr: And they can spare it because they can increase their own output.

P: Very good. Oh, that will be excellent because.....

H.M.Jr: They have a contract with DuPont for two and a half million pounds which they are willing to release.

P: Very good indeed.

H.M.Jr: Yeah.

P: Thank you very much. Now then I'll -- I can tell our people then that starting about the first of June we will be able to deliver at the rate of two and a half million pounds per year.

H.M.Jr: That's right.

P: Thank you very much indeed, Mr. Secretary.

H.M.Jr. O. K.

P: Then if I could ring you again if there's anything very urgent and if not we leave it until Tuesday.

H.M.Jr: If you want -- yes, if you want to call me the best time is between three and four our time here, Washington.

P: Oh, of course, that's -- I've got to remember that.

H.M.Jr: Standard time.

P: That's between four and five with us.

H.M.Jr: Right.

P: Thank you very much indeed.

H.M.Jr: O. K.

P: Goodbye.

May 2, 1940

MEMORANDUM FOR THE SECRETARY:

Shipping Situation

Remarkable strength in charter rates and prices for U. S. Flag tonnage was the sole tangible development to emerge from the near-chaos of the Pacific Coast freight and charter market last week. For the rest, the combination of war and flag uncertainties, a limited inquiry and an extreme scarcity of space, was too much for ordinary analysis. Conditions were too badly upset on both the carrier and the shipper sides. With only about 10 per cent of the world's tramp fleet left out of belligerent control, shippers were afraid to make sales and commitments until they were sure of space, and besides, buying demand was not very sharp. There was growing concern, too, over unreliable charterers and purchasers. New world business was close to a standstill until the atmosphere has cleared.

Most interesting charter of the week was that of two Matson 5500-ton freighters for 18 months, bare boat. The rate, not confirmed, was widely reported as \$3.50, a new high. In any event, \$5.50 could have been done easily on American time charters and private buyers seemingly were willing to pay \$60 for U. S. freighters, in class and operating. The Scandinavian invasion has abetted the swing to U. S. ships for foreign commerce.

Some very tentative quotations heard last week were: scrap to the Orient, \$16 asked; lumber to North China, \$30 to \$35; wheat to Vladivostok, \$14; lumber to Australia, \$32 to \$35; inter-coastal lumber, \$19 to \$20.

Basil Harris.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE May 2, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

I told Mr. Knoke by telephone this afternoon of our interest in finding out how much copper had been purchased by Italy in this country since April 1, 1940. Mr. Knoke immediately got in touch with his contact in the Guaranty Trust. The latter is going through their records to find out what payments for copper were ordered by the Italians during April, and also what copper credits were opened for Italy during the month. The Guaranty hoped to have this information available by next Monday. Knoke is making a similar request of the Chase Bank, the other institution in New York through which we are aware that the Italians have been making payments for copper.

In regard to the day's transactions, Knoke stated that the Guaranty Trust had reported that a check had been drawn on it by the Banco Commerciale Italiano for \$1,275,000 payable to the Copper Export Association, Inc.

The Guaranty also reported a check drawn on it by the B.C.I. payable to General Motors Overseas Corporation for \$60,000.

My recollection is that Dr. White is providing the Secretary regularly with our Customs statistics showing exports of copper to Italy. If we desire earlier data, such as that which we are now receiving from banking sources, we could not be assured that we had complete information unless we canvassed the banking community. For the present, I think we should limit our inquiries in banking circles to those institutions which we know are financing Italian purchases. On the other hand, we might contact the Copper Export Association and perhaps other copper exporters with the view to being kept currently informed by them.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 1, 1940

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TO Secretary Morgenthau

STRICTLY CONFIDENTIAL

FROM Mr. Cochran

I talked by telephone with Knoke this afternoon at 3:25. He said that there had really been no significant banking operations as reported to him, insofar as Italian accounts are involved. He mentioned the following as transactions which had been brought to his attention, and which he relayed to us, but which he thought we would find of little interest:

Chase Bank reported a transfer of \$100,000 from their bank to Schroeder, made from the account of the Banco di Lavori to the account of the same institution with Schroeder.

There was a check drawn by the New York agency of the Banco Commerciale Italiano to Ford for \$50,000.

There was a transfer from an Italian Insurance Company in Trieste to a bank in Zurich for \$50,000.

Two payments were ordered by the Italian Credit Institute to be made by the Chase and National City Banks, each in the sum of \$200,000, on account of coupon payments for the Public Utilities Ministry in Italy.

The Italian Credit Institute ordered a payment by the Chase Bank of \$700,000 to Kennecott, under an old credit. This last transaction shows that Italy is still buying copper.

I talked by telephone this afternoon also with Mr. Samuel Reber, the F.S.O. in the Department of State who handles the Italian desk. He stated that no cabled reports had been received from the Embassy in Rome today. He has promised to telephone me regularly whenever he has any fresh Italian information that he can pass on to us.

A.M.P.

Try and find out how much copper they have bought since April 1st

DOW JONES
10:35 (E.S.T.)
May 1, 1940

MILAN STOCK MARKET

Closing prices on Milan Stock Exchange follow, in lire:

	<u>TODAY</u>	<u>YESTERDAY</u>
Adriatic	202-3/4	202
Edison Electric	347-3/4	347-1/2
S I P	66-1/2	65-3/4
Merid Electric	368	369
Terni Electric	235-1/2	234
Unes Electric	14 70	14 60
Fiat	513	510
Montecatini	208-1/2	208-1/4
Pirelli Italian	1 664	1 665
Italcable	159	159
Bond		
Italian Conv 3 1-25 1934	65 62	65 50

DOW JONES
9:55 (E.S.T.)
May 1, 1940

ITALIAN EXCESS PROFITS TAX

Rome - Italian Cabinet today decreed a special excess profits tax on earnings attributable to war conditions, according to Associated Press.

The Tax, graduated from 10 to 60 percent, will be applied when the total annual earning exceeds 12,000 lire.

WGNB
10:03 a.m. (E.S.T.)
May 1, 1940

ROME -- United States Ambassador Phillips called on Premier Mussolini and was said to have been informed by Il Duce that no sudden change will be made in Italy's position relative to the war.

Phillips called on Mussolini, it was said, to ascertain if possible what the Italian position is in the present international situation in view of the sharpened tone of Italian official and newspaper statements relative to the Allies.

He spent 45 minutes with the Premier and after the meeting it was said that Mussolini advised him no sudden change in the present Italian position of non-belligerency is in prospect.

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WCNS
11:55 a.m. (E.S.T.)
May 1, 1940

Increasing Allied-Italian friction, which resulted in the ordering of all British ships out of the Mediterranean, may cause tightening of blockades restrictions on American exports to Italy, the United Press reports.

That Italy is aware of the situation is indicated by dispatch of a special diplomatic envoy, Count Adolpho Alessandrini, to the U. S. to deal with problems of "Maritime Traffic." He will arrive in New York about May 9, according to the Italian Embassy.

No details of his mission were revealed, but commercial shipping is the most important phase of maritime traffic with Italy so far as Italian needs are concerned. Italy's imports of important raw materials from sources other than America have been greatly reduced since the war.

WCNS
2:04 p.m. (E.S.T.)
May 1, 1940

Undersecretary of State Welles said today that the State Department was following the situation in the Mediterranean constantly but that there was no change whatever in the U. S. position.

Welles' comment was made in answer to questions regarding U. S. attitude in view of the British decision to route its ships around Africa rather than through the Mediterranean.

Welles said that he had received no report from Ambassador Phillips on the latter's call on Premier Mussolini.

WCNS
4:33 p.m. (E.S.T.)
May 1, 1940

Rome - Italy assured the U. S. and Great Britain today that she is not planning to enter the war at the present moment, it is said authoritatively.

The assurance was said to have been given personally by Premier Mussolini to William Phillips, U. S. Ambassador. Simultaneously a similar statement was said to have been made to the British Charge D'Affaires, Sir Noel Charles, by Foreign Minister, Count Ciano.

ConfidentialPARAPHRASE

A telegram (no. 373) of May 2, 1940, from the American Consulate General at Shanghai reads substantially as follows:

Text of message from American Information Committee sent through Manila amateur radio supplied at my request today by Committee Chairman is as follows:

"Honorable Cordell Hull, Secretary of State, Washington, District of Columbia. Strongly recommend present as most strategic opportunity make loan China purpose stabilizing currency object forestalling further attacks against Chinese national currency through creation another puppet Central Bank operated by Japanese army and Wang Ching-wei Regime, Nanking. Thought certain Japanese planning exchange control here similar cases Tientsin which discriminatory American trade other interests here, elsewhere. Currency stabilization loan would bolster Chinese morale, preserve unity, maintain confidence people recognized Sino National Government. Such loan could be jointly managed under currency management agreement profitable both countries. American Information Committee".

The

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The message was inspired by a conversation which certain members of the Information Committee had with Dr. Paul Monroe who passed through Shanghai last week-end homeward bound on President Pierce following a meeting of the Chinese Foundation in Hong Kong. He was of the opinion that the British fund was practically exhausted and unless something were done Shanghai there might be a complete collapse of Chinese currency. On April 28, the Committee was informed in confidence by Dr. Monroe that at that time there remained in the stabilization fund less than \$1,500,000. Dr. Monroe was anxious that it not appear that the initiative had come from the Chinese authorities and he did not suggest that the Committee send the telegram. However, the idea of the telegram grew out of the Committee's discussion and there is no doubt that the Committee was influenced by the fact that Dr. Monroe had talked recently in Chungking with General Chiang Kai-shek.

Publicity given in Shanghai and in Washington to the recommendation, in advance of the receipt of the telegram by the State Department, implying that the existing stabilization fund being operated by the Hong Kong and Shanghai bank was almost exhausted encouraged heavy
buying

-3-

buying from the Control on May 1 which led the Control to refuse to sell on the morning of May 2 and caused the Chinese dollar to weaken considerably.

The Committee failed to consult the Consulate General or local American bankers before sending this telegram or giving it local publicity and has only now (May 2) supplied copies of the telegram to the American Chamber of Commerce and American Association.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 2, 1940

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

Export freight receipts hold at steady level

The remarkable steadiness shown by receipts of export freight at New York over the past several months has continued through April. (See Chart 1 and table attached). In the past two weeks, it will be noted, the export receipts at New York have shown a rising tendency, contrary to the trend at other ports in this area.

During the week ended April 27, an increase of 213 cars in export freight receipts at New York was offset by a decline of 309 cars in receipts at 9 other North Atlantic ports, leaving receipts in the North Atlantic area 96 cars lower for the week.

Exports sharply higher

The volume of freight exported from New York during the week ended April 27 was 733 cars higher than in the previous week, when exports were affected by the invasion of Scandinavia, according to figures derived from reported data. (See Chart 2).

With the larger export movement, lighterage freight in storage and on hand for unloading at New York has declined slightly, the April 27 figures showing a reduction of 145 cars from the previous week. (See Chart 3).

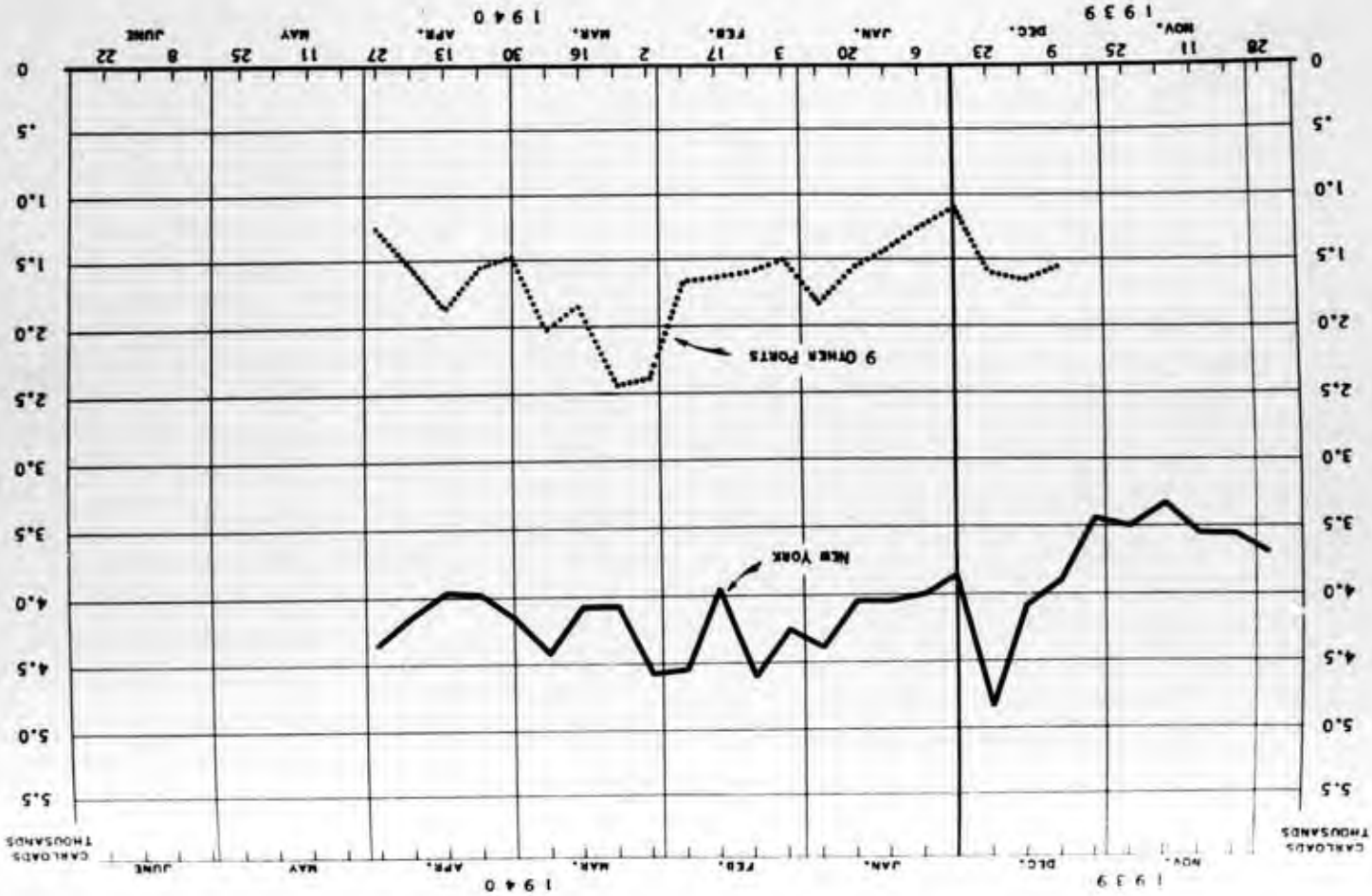
RECEIPTS OF FREIGHT FOR EXPORT AT NEW YORK
AND AT NINE OTHER NORTH ATLANTIC PORTS

Week ended 1939-40	New York <u>1/</u> (-----)	Nine other North Atlantic ports <u>2/</u> In carloads -----)	Total
October 28	3,707		
November 4	3,562		
November 11	3,547		
November 18	3,334		
November 25	3,497		
December 2	3,435		
December 9	3,922	1,548	5,470
December 16	4,088	1,658	5,746
December 23	4,848	1,602	6,450
December 30	3,856	1,104	4,960
January 6	4,000	1,251	5,251
January 13	4,056	1,433	5,489
January 20	4,060	1,557	5,617
January 27	4,389	1,825	6,214
February 3	4,274	1,498	5,772
February 10	4,617	1,590	6,207
February 17	3,974	1,637	5,611
February 24	4,550	1,667	6,217
March 2	4,577	2,388	6,965
March 9	4,059	2,448	6,507
March 16	4,072	1,845	5,917
March 23	4,424	2,033	6,457
March 30	4,150	1,492	5,642
April 6	3,979	1,551	5,530
April 13	3,957	1,866	5,823
April 20	4,133	1,557	5,690
April 27	4,346	1,248	5,594

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

2/ Source: Association of American Railroads, Car Service Division, Report of Carload Freight for Export and Coastal Vessel Movement. Includes Searsport, Portland, Boston, Providence, Philadelphia, Chester, Wilmington, Del., Baltimore, and Norfolk (or Hampton Roads).

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



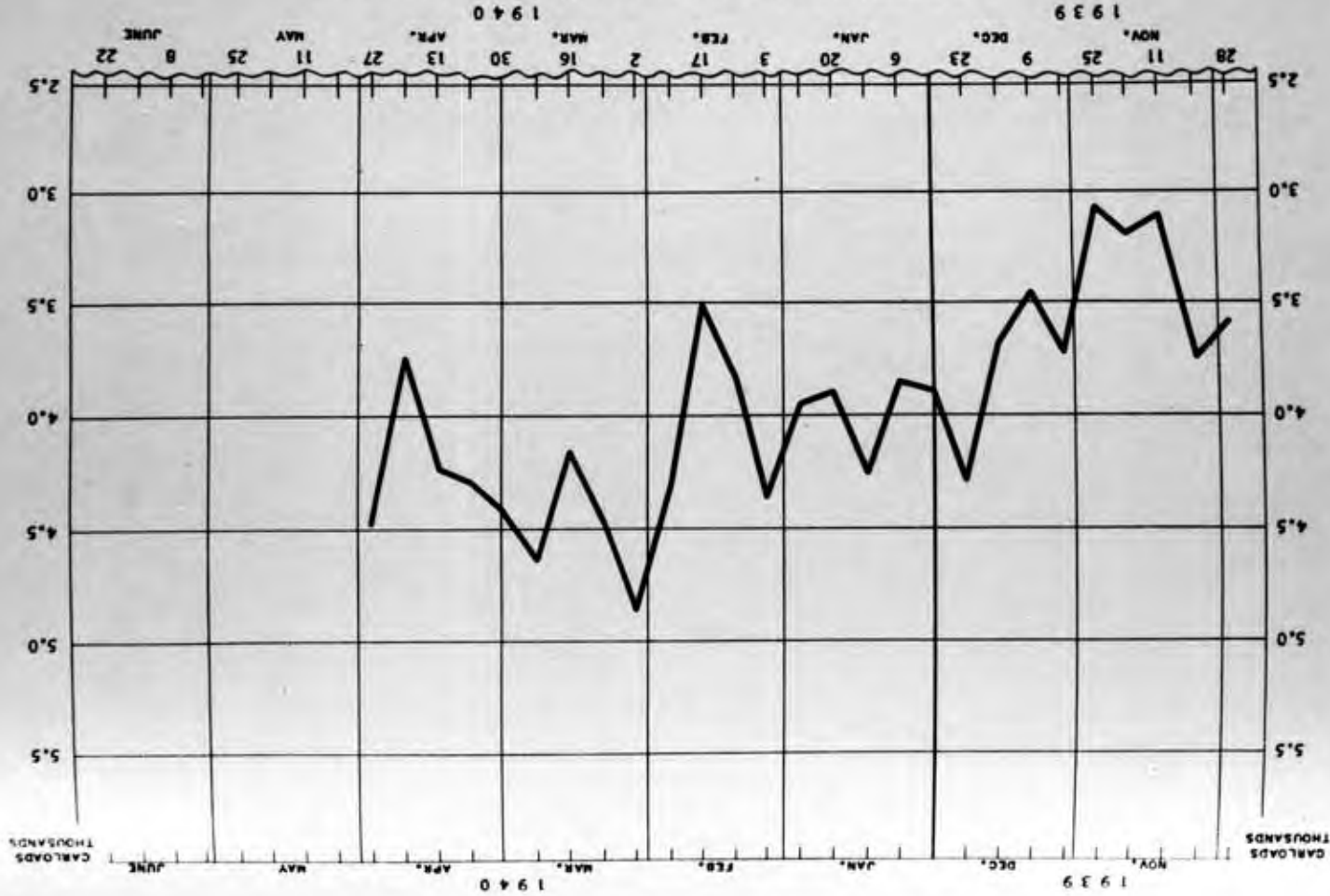
Office of the Secretary of the Treasury
Division of Economic and Statistics

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Chart 1

200

CARLOADS OF FREIGHT EXPORTED FROM NEW YORK *



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

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

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



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

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

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Regraded Unclassified

202
Chart 3

TELEGRAM SENT

PLAIN

May 2, 1940

AMEMBASSY,

LONDON.

804, second.

FOR BUTTERWORTH FROM THE SECRETARY OF THE TREASURY.

Following is the text of an address Secretary of the Treasury is delivering 10:30 a.m., Eastern Standard Time, May 3, at Washington:

CK -2- #804, May 2, to London.

"I am particularly pleased to be able to talk to you today because I am in such hearty accord with the purpose of this series of meetings, which I understand to be education for democracy. I applaud the initiative and the public spirit of the leaders of the Women's Division of the Democratic National Committee in making this notable convention possible.

In considering your invitation it seemed to me that I might contribute most to stimulation of your thought on the problems of democratic government by talking to you about the money of the United States, and particularly about gold. I have chosen this subject because I think it is one in which all of you are interested; and it is one about which you may be asked a good many questions as the year proceeds.

One thing you will hardly need to be told about our monetary system; that is, that the American dollar is the soundest unit of currency in the world. Its value is unquestioned here at home and it is not questioned anywhere else in the world. It is a solid rock of strength and stability amid all the monetary confusion created by aggression and war. It is more than a domestic currency; it has become in the last few years more and more an international currency. People through-

out the world who are driven by disaster and fear to hoard currency prefer to hoard the currency of the United States, when they can get it.

We have tried through many means to facilitate stability in the currencies of the world. An outstanding example is the Tripartite Accord which we initiated in September, 1936. In all, six of the leading democracies of the world have subscribed to the principles of that Accord. Unfortunately, the progress we were making in the field of international finance and trade has been interrupted by the cataclysm in Europe.

One of the most striking developments of these recent years has been the universal confidence in the American dollar as one of the very few certain things in a highly uncertain world.

Some of our citizens who admit the strength of the dollar and the world's confidence in our currency now suggest that confidence in our dollar has resulted in this country receiving too much gold.

During the last 6 years we have acquired about \$10 billions of gold from abroad.

Why has so much gold come to the United States?

In the first place, we have exported many billions of dollars' worth of goods and services in excess of the amounts we have imported. Secondly, large amounts of foreign funds have come to this country to be placed and kept on deposit with our banks. Foreigners have sent their funds here for safekeeping because of the peace,

-4- 1904, May 2, to London.

stability, and security which this country enjoys.

Thirdly, foreigners have made large investments in American industries because they regard American business as a safe and profitable investment. Finally, Americans have been withdrawing their funds from abroad and liquidating their foreign investments in large sums because they prefer the dollar to any other currency.

It is for these reasons that we have had so large a favorable balance of payments; it is for these reasons that gold has come and is continuing to come to the United States.

Gold moves from country to country not as a commodity but as a means of payment, the one final medium through which international settlements are made.

The continued acceptance of the gold that comes here is the only sound course of action open to us. There are, it is true, other courses of action theoretically possible, but they would all have disastrous consequences.

Take, for example, the proposal so frequently made to us that we stop buying gold. It has the charm of simplicity. All that we have to do is to issue an appropriate Treasury order. But let me tell you what I think would happen. Dollars abroad would instantly become very scarce and more costly, and the foreigner would find it much more expensive to buy American goods. For example, the British pound, the Canadian dollar, the

-5- #804, May 2, to London.

the French franc, the Dutch guilder would at once sharply depreciate. A chain of forces would be set in motion which would disrupt our trade, seriously discourage what remains of world commerce and remove from world finance the strongest element of stability.

The cessation of gold purchases would have the following three immediate effects of great importance to us:

Firstly, the sale of American products in foreign markets would be made much more difficult. This would not apply so much to war materials, which foreign countries want so urgently, but it would hit hard our export of hundreds of agricultural and industrial commodities not vital to the conduct of the war. We would lose heavily in the very markets we will badly need when the war is over.

Secondly, there would result an immediate flood of imports of cheapened foreign goods, which would deal an even more serious blow to labor, industry and agriculture in America. The very items which compete with our domestic products would deluge our home markets. Meat and dairy products, textiles and hundreds of other articles would at once be subjected to greatly intensified competition from abroad.

Thirdly, Americans who have investments abroad would find that they had suffered substantial dollar losses

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overnight just as foreigners with investments here would find that they had windfall gains overnight.

So you see this simple remedy is, in effect, a proposal that would completely disrupt our foreign exchanges and our trade and greatly increase unemployment in this country. And so with the other naive proposals which some well-meaning citizens suggest as a remedy for our accumulating gold stocks.

Shall we follow their advice and cut the price for gold? A moderate cut would be ineffective, and a cut in price sufficiently large to have a significant effect on the gold inflow would introduce the same conditions as would follow prohibition of gold imports. This also would cause a serious decrease in our trade and a big increase in unemployment.

Shall we, as some have suggested, discriminate against certain countries in our purchases of gold? Such a policy would not even have the virtue of effectiveness. The active cooperation of practically the entire world would be required to prevent any one country's gold from entering the world's markets and reaching the United States. Obviously this would be impossible even in normal times, let alone at a time such as this. Besides, the value of gold is proportionate to its unqualified use and acceptance as an international medium of exchange. To

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limit its acceptance would mean to reduce its usefulness.

There is yet another alternative which has always been open to us. Instead of taking gold we could have granted credit. Americans could again have accumulated huge unsettled claims abroad. We have had experience with that system -- extensive experience -- in the decade that ended with the economic collapse of 1929. It is doubtful that Americans would want to repeat that experience.

For the excess of goods we shipped and for the dollar credits we granted we have taken gold in the last six years instead of promissory notes. The phrase "good as gold" still has real meaning in the world. I prefer the gold to pieces of foreign paper. I think most Americans agree with me.

Our gold policy is carefully adjusted to the realities of a complex world situation. There have been many glib suggestions for changing that policy. Examination of each of these suggestions has revealed, as in the examples I have mentioned, that in the effort to remedy fancied evils they would bring on real disaster.

Of course, should basic conditions alter, should we be confronted with new and unforeseen economic and political developments, the government will necessarily take such action as will best protect American interests. It

-8- #804, May 2, to London.

is to be prepared for such contingencies that the powers with respect to gold operations have been kept flexible. The Treasury is constantly observing, analyzing and studying the course of events in their relation to monetary problems in which this country is interested. But nothing has yet appeared which would warrant any change in our gold policy.

There is only one sound way in which we can work to reduce the inflow of gold and to promote the return of at least a part of the wealth it represents to useful service in the lands from which it came. That way is to do everything in our power to contribute to the return of peace to the world and to encourage reconstruction and the restoration of normal trade. With the restoration of enduring peace and economic stability abroad the gold problem will solve itself. Our great export surplus will drop--not because we shall sell less abroad but because we shall buy more. Foreign capital will be gradually repatriated -- not because we drive it out but because it is attracted home by the reemergence of security abroad. Our investors will once again invest their funds abroad -- not because of the scarcity of opportunity at home but because of greatly enhanced opportunities for sound and profitable investments in other lands. And finally our tourists will spend hundreds of millions more in foreign countries.

-9- #804, May 2, to London.

These are the developments which will automatically and gradually direct the flow of gold away from the United States. These are the developments upon which we must concentrate. We must concentrate on the promotion of further recovery here and peace and security abroad not in order to correct the gold situation, but because prosperity, peace and security are in themselves the supreme ends of governmental policy. That their attainment will also solve the world's gold problem in only a by-product, but an important one.

I should like finally to turn to the question of the continued usefulness of the gold we have and the gold we are going to get. This is a matter that is troubling some people.

Let me reassure you once and for all. As long as there are independent nations, and as long as there is international trade in goods and services, so long will it be necessary to settle international balances. Gold is the international medium of exchange par excellence. Its acceptability is universal; its utility as international money survives changes in economic systems. It is used and needed just as much by the freest democracies as by the most rigid dictatorships -- as much by capitalist economies as by socialist economies. It is the refined

-10- #804, May 2, to London.

instrument of international exchange of goods and services, as well as an essential ingredient in the more complex international financial transactions -- an instrument that has functioned without challenge for hundreds of years. Every foreign country wishes it had more of it; no foreign country likes to lose any of it; all countries accumulate it as soon as they can afford to do so. And the fact that some countries find it possible to conduct their international trade without gold does not mean that they prefer to do so any more than people reading by candlelight do so because they prefer candles to electricity.

Gold does not lose its value because some countries are forced to resort to clearing arrangements, barter, import controls, and other substitutes. All these substitutes are admittedly worse alternatives. They are methods of conducting trade and finance which will only be adopted when a country does not possess adequate gold holdings. Governments resort wholly to these substitute methods for keeping a country's balance of payments in equilibrium only during times of great and prolonged stress and instability, and only when for one reason or another they have been unable to prevent the loss of most of their gold holdings. All countries would like to have more gold, and the countries which have the least are,

-11- #804, May 2, to London.

you will find, countries which are striving most to add to their gold holdings. They do so because they know that an adequate supply of gold promotes economic strength and furthers financial stability.

To be sure, if the political picture of the world should undergo a drastic change in the future, so that instead of fifty or sixty independent nations there should exist only one or two groups dominated by ruthless powers, then international trade and finance may assume the character of domestic trade. There would cease to be independent monetary systems, as there would cease to be independent foreign policies. Balances between countries would be settled as balances between our states are now settled -- that is, by transfers of deposits. Under such circumstances it might well be that gold would no longer be needed. But under those circumstances life would be so different that the possible loss in the value of gold would, I am sure, be the least of our troubles.

Certain governments may boast of the day when independent democracies will disappear. I, for one, have no fears that such boasts can be made good. I am as confident that gold will continue to be used as the medium of international payments as I am that the majority of nations will succeed in maintaining their independence. With the return of peace and of normal economic and

political relationships, the present barriers to the free flow of goods, capital, and services will be gradually lowered, and gold will inevitably play its indispensable role in making that result possible.

One word more -- the exchange we made and are making in return for gold is a good bargain for us. It has enabled us to increase employment and recovery. It has made possible the utilization of labor, capital, machinery and resources that would otherwise have been idle. We have expanded our exports and encouraged our domestic industry. And, moreover, we have at the same time acquired the safest physical asset in the world.

There are some sincere people who have been disturbed by stories that this country had a monetary policy that threatens to cause loss to the nation. If you meet such people I hope you will reassure them. You may tell them that the greatest and richest country of the world has the best and soundest monetary system and that there is no reason to fear that it will not remain sound.

We can feel entirely comfortable in the possession of a supply of gold with which we can meet future demands on our monetary system without any shock to our economy. We can be prepared also to play the part we ought to play

: in

-13- #804, May 2, to London.

in the reconstruction of the world that must follow the senseless destruction of war."

WELLES, Acting.
(HF)

EA:FL:MEG

SEND SAME TO: Paris as Department's 329, second, for
Matthews from the Secretary of the Treasury.

Berlin as Department's 1141, second, for
Heath from the Secretary of the Treasury.

JR

PLAIN

London

Dated May 2, 1940

Rec'd 1:30 p.m.

Secretary of State,
Washington.

1104, May 2.

FOR TREASURY FROM BUTTERWORTH.

1. Even some of the initial supporters of Sir John Simon's budget proposals are developing into critics. For instance now the TIMES in an editorial states that the Chancellor of the Exchequer "has to explain why he estimates our war expenditure during the current year at the alarmingly low figure of pounds 2,000 million". The TIMES also takes the view that the reasons for supposing that the rate of voluntary lending will be adequate have yet to be clearly demonstrated. The editorial concludes: "Indeed the more the budget is studied the more it appears to be provisional both in its details and in its spirit and the more likely does another budget in the near future appear to be."

2. In the course of a conversation the British Treasury reviewed the status of its clearing and payments agreements

-2- #1104, May 2, from London.

agreements as follows: clearing agreements: (a) Spain (recently concluded), (b) Italy (changes under negotiation), (c) Turkey (will work well for a while), (d) Rumania (changes under negotiation).

Payments agreements have been concluded with (a) Sweden, (b) Norway (which is being patched up to fit the existing circumstances), (c) Denmark (no longer operative), (d) Argentine. There is a temporary arrangement with Yugoslavia and it is hoped to negotiate a more formal agreement. There are also arrangements with Uruguay to ensure that the proceeds of imports from Uruguay are spent in the United Kingdom and the sterling area. There is a similar arrangement with Bulgaria to ensure that the bulk of the proceeds of imports from Bulgaria are spent in the United Kingdom and the sterling area and an arrangement with Hungary providing for a smaller proportion. It is the intention of the British Treasury to continue to make payments agreements of one type or another, formal or informal as soon as possible.

KENNEDY

DDM

JT

GRAY

PARIS

Dated May 2, 1940

Rec'd 4:22 p.m.

Secretary of State,
Washington.

566, May 2, 7 p.m. (SECTION ONE)
FOR THE TREASURY.

Additional changes in the exchange control regulations are embodied in two decrees and an arrêté published in today's Journal Officiel. The wording of Article II of the basic decree of September 9 prohibiting and regulating in time of war the export of capital, foreign exchange operations and trading in gold (see despatch No. 5105, September 18, 1939) is amended so as to add to the operations which the Government may regulate by decree "all sessions and arbitrages of foreign exchange and currencies, hypothecations relating to real or personal properties or rights existent abroad."

BULLITT

LMS

JT

GRAY

PARIS

Dated May 2, 1940

Rec'd 4:52 p.m.

Secretary of State,
Washington.

566, May 2, 7 p.m. (SECTION TWO)

Hitherto these regulatory powers were limited to operations relating to foreign stocks and bonds and other foreign property titles or evidence of indebtedness. A member of my staff called upon Dhavernas to inquire as to the reason for this change in wording. Dhavernas, who had assisted in drafting the measure, said that the change was needed in order to give the foreign exchange office "legal authority" to regulate these additional operations. He pointed out that the instructions which have been issued by the office in regard to cessions and arbitrages of foreign exchange and transactions in real and personal property situated abroad were in the form of notices to its "approved intermediaries" and hence did not possess the full legal basis of a decree.

BULLITT

LMS

JT

GRAY

PARIS

Dated May 2, 1940

Rec'd 5:24 p.m.

Secretary of State,
Washington.

566, May 2, 7 p.m. (SECTION THREE)

The decree of September 9 fixing the terms of application as amended of the afore mentioned decree (see Embassy's telegram No. 467, April 12, 7 p.m.) is canceled and replaced by a new one. The principal changes embodied in it are that nationals of France who reside in the country (including foreign corporations, companies, et cetera, in so far as their establishments in France are concerned) are forbidden: (a) to effect either in France or abroad, arbitrage operations with belgas, Canadian dollars, United States dollars, Portuguese escudos, Dutch florins, Dutch East Indies florins, Luxemburg francs, Swiss francs, and Argentine pesos (known as "A" foreign currencies; (b) to carry on operations abroad relating foreign stocks and bonds issued or quoted in Argentina, Belgium, Canada, United States, the Netherlands, Luxemburg, Portugal, Switzerland, and the Tangier International Zone (known as "D" countries); (c) to carry on any operations in France in "D" foreign securities when the prospective purchaser is a foreigner residing in France.

BULLITT

NK:LMS

JT

GRAY

PARIS

Dated May 2, 1940

Rec'd 4:55 p.m.

Secretary of State,
Washington.

566, May 2, 7 p.m. (SECTION FOUR)

In commenting on these changes, Dhavernas said that the decree dated April 9 forbidding all arbitrages in foreign exchange with other foreign exchange (see Embassy's telegram No. 467, April 12, 7 p.m.) had been "put through in a hurry" and had been found to be "too harsh". Hence it was now amended so as to apply only to arbitrages with "A" foreign currencies. He added: "We do not care whether or not arbitrages are carried on between foreign currencies of minor importance". Similarly, he said that the Foreign Exchange office wished to control the activities of French nationals in "D" foreign securities but that it had little interest in regard to their activities in other foreign securities.

BULLITT

NK:IMS

JT

GRAY

PARIS

Dated May 2, 7 p.m.

Rec'd 5:18 p.m.

Secretary of State,
Washington.

566, May 2, 7 p.m. (SECTION FIVE)

The Embassy has received numerous inquiries during the day on American stockbrokers having offices in Paris who consider that Article I paragraph one of today's decree fixing the terms of application of the above mentioned decree of September 9, would force them to stop taking orders from Americans and other foreigners residing in France to buy or sell securities on the New York stock exchange. This paragraph provides that "the acquisition of real or personal property and of any rights whatever situated abroad or expressed in foreign currencies unless ceded by persons referred to in Article III (i.e. residents of France) and unless the operation be carried out on French territory" shall be considered as exports of capital and hence prohibited unless authorized by the Minister of Finance. This wording is exactly the same as that appearing in the original decree of September 9, 1939 which thus far has not prevented brokers from carrying out orders in behalf of
foreigners

-2- #566, May 2, 7 p.m. (SECTION FIVE) from Paris

foreigners residing in France. Furthermore, Dhavernas stated that the French Government did not intend to stop foreign residents of France from purchasing dollar securities on New York provided such securities were purchased with pre-war dollar balances held in New York or through the reinvestment of foreign securities.

BULLITT

JRL:LMS

JT

GRAY

PARIS

Dated May 2, 1940

Rec'd 5 p.m.

Secretary of State,
Washington.

566, May 2, 7 p.m. (SECTION SIX)

The arrete of November 30, describing prohibited or authorized operations (Embassy's telegram No. 437, April 12, 7 p.m.) is canceled and replaced by a new arrete which embodies the various changes in the exchange control regulations referred to above.

Presumably in order to decrease the consumption of sugar, a decree appearing in today's *Journal Officiel* provides that saccharine may be used in the manufacture of sparkling wines, dessert wines, cider, spirits, liqueurs (except those prepared for export) lemonades and drinks of coffee and tea.

A Bank of France statement for April 25, which was published today, shows no further advances to the state while the note circulation declined 158,000,000 francs.

Deposits in National (Postal) Savings Banks during the period April 1 - 15, amounted to 368,000,000 francs and withdrawals, 231,000,000. The excess of deposits over
withdrawals

-2- #566, May 2, 7 p.m. (SECTION SIX) from Paris

withdrawals since January 1 has been over 1,000,000,000 francs.

The securities market turned upward today and recovered a large part of yesterday's losses.

(END OF MESSAGE)

BULLITT

JWR:LMS

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE May 2, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

The foreign exchange market was quiet today. Sterling, after opening at 3.49-1/2, moved up to a high of 3.50-5/8 in the mid-morning and then returned to 3.49-3/4 by noontime. A slightly easier tendency was in evidence during the afternoon and sterling touched a low of 3.48-1/2 at the close.

Sales of spot sterling by the six reporting banks totaled £403,000, from the following sources:

By commercial concerns.....	£ 232,000
By foreign banks (Europe and Near East).....	£ 171,000
Total.....	£ 403,000

Purchases of spot sterling amounted to £255,000, as indicated below:

By commercial concerns.....	£ 133,000
By foreign banks (Far East, Europe and South America).....	£ 122,000
Total.....	£ 255,000

The following reporting banks sold cotton bills totaling £47,000 to the British Control on the basis of the official rate of 4.02-1/2:

£ 38,000 by the Irving Trust Company
5,000 by the Guaranty Trust Company
3,000 by the Chase National Bank
1,000 by the Bankers Trust Company
<u>£ 47,000 Total</u>

The other important currencies closed as follows:

French francs	.0197-1/2
Guilders	.5309
Swiss francs	.2242-1/2
Belgas	.1682
Canadian dollars	15-1/4% discount

The rate for the Swedish krona has exhibited a firm tendency in the last few days and today it was quoted at .2383.

The Shanghai yuan rate fell one full cent in Shanghai today, from 5-31/32¢ to 4-31/32¢. The yuan also depreciated in terms of sterling, moving off 3/4d to 3-1/4d, as against the previous post-September low of 4d. This currency has received frequent support from a Shanghai control group during the last three or four years. We were informed that this control had stepped out of the Shanghai exchange market today. One New York banker expressed the opinion that it was primarily Japanese speculative selling of the yuan against sterling which accounted for the pressure on the former currency. Other market opinion appears to be divided in regard to today's withdrawal of the Shanghai control. According to cable advice which we received from Shanghai a few days ago, majority opinion in Chinese financial circles was to the effect that a large import excess was likely in the next two months and that this would result in a lower yuan rate. A news despatch received from Shanghai today also states the market belief that China's continuous unfavorable trade balance led the control to allow the yuan to find a new level which would be easier to maintain. A news report from London, on the other hand, notes that London banking circles point to recent satisfactory Chinese Customs returns as evidence that China's trade does not warrant a fall in the currency. The belief is therefore held in London that the withdrawal of the exchange control from support of the yuan in all probability represents a strategic move in the face of a wave of speculative selling.

There were no gold transactions consummated by us today.

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

\$ 8,431,000	from Canada, representing two shipments from Vancouver by the Bank of Canada to the Federal Reserve Bank of San Francisco, for account of the Bank of England, for sale to the U. S. Mint.
5,520,000	from Italy, shipped by the Bank of Italy for its own account to the Federal Reserve Bank of New York, for sale to the U. S. Assay Office.
<u>\$13,951,000</u>	Total

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

\$2,728,000	from Italy, shipped by the Bank of Italy to the Federal Reserve Bank of New York.
1,760,000	from England, shipped by the Chase National Bank, London, to the Federal Reserve Bank of New York, probably for account of the Central Bank of Bolivia. (Both of the shipments recently made by the Chase National Bank, London, to the Federal were for account of the Bolivian Bank.)
45,000	from England, shipped by the National City Bank, London, to its head office in New York.
28,000	from England, shipped by Westminster Bank, London, to the Chase National Bank, New York.

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- 17,000 from England, shipped by the Westminster Bank, London, to the Irving Trust Company, New York.
5,000 from England, shipped by S. Japhet and Company, London, to the National City Bank, New York.
4,000 from England, shipped by S. Japhet and Company, London, to Jules and Anna Vischniak, New York.
\$4,587,000 Total

The disposition of the first two shipments listed above is unknown at the present time, and the others will be sold to the U. S. Assay Office at New York.

The Bombay spot silver quotation was slightly lower at an equivalent of 42.25¢.

In London, the prices fixed for spot and forward silver both rose 1/16d to 21-1/2d and 21-3/8d respectively. The U. S. equivalents were 33.81¢ and 33.35¢.

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

We made five purchases of silver totaling 3,007,000 ounces of silver under the Silver Purchase Act. Of this amount, 250,000 ounces represented sales from inventory, and the remaining 2,757,000 ounces consisted of new production from foreign countries, for forward delivery.



May 2, 1940
11:13 a.m.

H.M.Jr: Hello.

Operator: Jesse Jones. There you are.

H.M.Jr: Hello.

Jesse Jones: Hello, Henry.

H.M.Jr: How's Jesse?

J: How are you?

H.M.Jr: O. K.

J: Now let me see, I had one or two things to talk to you about.

H.M.Jr: Well, I'll lend you some money if you want it at the usual rate, 5 per cent.

J: Oh, 5 per cent.

H.M.Jr: Yeah.

J: 10 per cent so the -- so the Fortune said that I was 10 per cent Jones.

H.M.Jr: (Laughs) I see.

J: I think they kind of raised the rate on me.

H.M.Jr: Well, I lend it to you at 5 and you can re-lend it at 10, that's good business.

J: That's right. I wanted to see you sometime, if I could, I think, this afternoon about some possible legislation, about how we're going to give you that money.

H.M.Jr: Right.

J: And so forth and so on.

H.M.Jr: How would four o'clock be?

- 2 -

J: That would suit me.

H.M.Jr: Can I have Dan and Foley here?

J: I'd like for you to, yeah.

H.M.Jr: I'll have Dan and Foley here.

J: O. K.

H.M.Jr: I'll be glad to see you.

J: Goodbye.

May 2, 1940
11:57 a.m.

H.M.Jr: Hello.

Operator: Dr. Viner is ready.

H.M.Jr: Hello.

O: There you are.

H.M.Jr: Hello.

Jacob Viner: Hello.

H.M.Jr: Jake?

V: Yes.

H.M.Jr: My people are here that are helping me on this talk and you're on the loudspeaker.

V: Yes.

H.M.Jr: Any suggestions, criticisms, et cetera, et cetera?

V: Did you get my wire?

H.M.Jr: No.

V: Why, I sent you a wire through the Secret Service.

H.M.Jr: (Laughs) Wait a minute, let me.....

V: And they said they'd get it right through.

H.M.Jr: Here comes -- here comes Mr. McKay now. I've got it here. Can you hold on a minute?

V: Yes.

H.M.Jr: Do you mind if I read this out loud to my crowd?

V: No.

H.M.Jr: Just be a good boy for a minute, please.

V: Yes.

- 2 -

H.M.Jr: (Reads Viner's wire aside to group.)
Well, Jake.....

V: Yes.

H.M.Jr:from you I would say that is one of the highest compliments any speech of mine has ever received.

V: That's fine.

H.M.Jr: So -- do you know what Harry White said?

V: No.

H.M.Jr: Always from now on our contact should be by teletype.

V: (Laughs) Well, I -- I think it would have been just the same in any other form.

H.M.Jr: I know. Well, I'm ever so much obliged. I appreciate -- I hope I didn't inconvenience you.

V: Not at all.

H.M.Jr: Jake, for your own information, I'm going to be in Chicago Saturday and Sunday and I'd like to have a chance to say hello.

V: Will you have dinner with us Saturday night?

H.M.Jr: I don't know what Henry is arranging. Would you -- could I find out from him?

V: Yes.

H.M.Jr: Supposing I -- I'll send him a.....

V: Henry.

H.M.Jr: What?

V: It would include Henry.

H.M.Jr: Of course. I will send him a telegram.

V: All right.

- 3 -

H.M.Jr: That's very kind -- if I can't -- if he has made some other arrangements I'll tell you and then maybe I can.....

V: All right. I'd like to see you anyway.

H.M.Jr: I'd like to see you and Mrs. Viner.

V: All right.

H.M.Jr: Thank you, Jake.

V: You're welcome.

H.M.Jr: Goodbye.

May 2, 1940
12:13 p.m.

H.M.Jr: Hello.

Operator: Captain Harry Collins.

H.M.Jr: Right.

O: Go ahead, please.

H.M.Jr: Harry.....

Harry Collins: Good morning, sir.

H.M.Jr: I haven't read any memorandums in two days. You may have sent me one. What about those Pratt and Whitney engines that.....

C: Mr. Secretary, I've been working steadily on that. I had quite a session yesterday with Wilson.

H.M.Jr: You're not ready to report yet?

C: No, sir, I am not because.....

H.M.Jr: Well, you're not.....

C:Major Lyons -- Major Lyons is at Dayton this morning. Brett has been out of town and only got back last night, sir.

H.M.Jr: But you're not ready?

C: I'm not ready on the answer, sir.

H.M.Jr: O. K.

C: All right, sir.

H.M.Jr: Thank you.

C: Anything today?

H.M.Jr: No. No, I called off Purvis.

C: Aye, aye, sir.

- 2 -

H.M.Jr: I'm doing a speech.

C: Yes, sir.

H.M.Jr: I got it out of my system.

C: Yes, sir. Well, I'm working on another matter that I'll have for you as soon as I can get some more dope out on it.

H.M.Jr: All right. Thank you.

C: You're welcome, sir. Goodbye.

May 2, 1940
3:33 p.m.

H.M.Jr: Hello.

Operator: I have Colonel Burns.

H.M.Jr: Thank you.

O: You're welcome. Go ahead, please.

H.M.Jr: Hello.

Burns: Hello, Mr. Secretary. This is Colonel Burns.

H.M.Jr: Right. Have you heard from General Watson?

B: About what, sir?

H.M.Jr: About my going to Allison?

B: Yes, sir. Yes, sir, I've heard from him and we're planning on being there early Monday morning.

H.M.Jr: Right. Now, will you let Allison know that I'm coming?

B: Yes, sir.

H.M.Jr: I think the man's name out there is Evans.

B: Evans, yes. Well, he's the Vice President of the General Motors and Kreuzer is the man out there, but anyhow we'll let everybody concerned know.

H.M.Jr: Right.

B: At what hour will you be there, Mr. Secretary?

H.M.Jr: Well, what I figured on, I ought to get there between nine and ten -- I don't know what time they're on. Is it -- are they on -- they are an hour ahead of us here, aren't they?

B: Yes, sir. Well, hold on here. That's time ordinarily is one hour behind us but they're probably on daylight saving so I suppose it will be about the same.

- 2 -

H.M.Jr: Well, I'll try and get there -- it's midwest, isn't it, Central Time?

B: Yes, sir.

H.M.Jr: I'll try and get there between nine and ten. Now, if you could -- if I could -- if you could let Lieutenant McKay, who will be with me, who is here in the Treasury now, if you could let him know today or tomorrow who to advise.

B: Yes, sir. We will.

H.M.Jr: When we take off from Chicago we could phone somebody, you see?

B: Yes, sir. We will. I'll make all the arrangements with Lieutenant McKay then.

H.M.Jr: Will you? And also tell him what airport to land on. I'll be coming by plane, in my own plane, from Chicago.

B: Yes, sir.

H.M.Jr: What airport to land on and we could when we take off from Chicago we could have someone phone.

B: Yes, sir.

H.M.Jr: I'm not particularly anxious for publicity.

B: All right, we'll keep it all under cover, Mr. Secretary.

H.M.Jr: As best we can. Now, I thought on the way back -- General Brett will be with us, won't he?

B: Yes, sir.

H.M.Jr: That I'd like to stop at Dayton.

B: Yes, sir. He's hoping you will do that.

H.M.Jr: Yeah, I'd like to do that.

B: Yes, sir.

- 3 -

H.M.Jr: And he'll have all the figures I suppose of the orders that they have and how far behind and all the rest of that.

B: Yes, sir. We'll have all of that.

H.M.Jr: Fine. Thank you. I'll look forward to seeing you Monday.

B: All right, sir, we'll be there.

H.M.Jr: And Lieutenant McKay will be with me. He knows where I'm staying in Chicago and if you wouldn't mind contacting him. You know him, he's outside in my reception room.

B: Yes, sir. Yes, sir, we'll be in touch with him.

H.M.Jr: Thank you.

B: All right, sir.

H.M.Jr: Goodbye.

May 2, 1940
3:37 p.m.

H.M.Jr: Hello.

Operator: General Brett is out of the office for a few minutes.
Can I have him call you?

H.M.Jr: If you please.

O: Yes, sir.

3:42 p.m.

H.M.Jr: Hello.

General
Brett: How are you, Mr. Morgenthau?

H.M.Jr: Fine.

B: Good.

H.M.Jr: Am I going to have the pleasure of your company.....

B: I have already requested my orders. I am leaving
here Sunday afternoon, into Dayton that afternoon,
and over to Indianapolis, I'll be there at eight.

H.M.Jr: Wonderful.

B: On the sixth.

H.M.Jr: Monday, the sixth.

B: Yeah.

H.M.Jr: And I hope to stop at Dayton on the way back.

B: That's what I'm planning for you to do.

H.M.Jr: Fine. Is there more than one airport at Indianapolis?

B: Yes, sir. You land at the Municipal Airport.

H.M.Jr: Municipal Airport.

- 2 -

B: Yes, sir, and if you'll wire Kreuser before leaving, he will meet you.

H.M.Jr: Well, I spoke to Colonel Burns because evidently the White House spoke to him.

B: Yes, sir.

H.M.Jr: And I asked him to let Lieutenant McKay know who I should notify.

B: Yes, sir. Then it will be very well.

H.M.Jr: Because he'll be with me, but he's here now and.....

B: Well, if you -- have you any idea right now exactly the time you'll land at Indianapolis?

H.M.Jr: Well, I figure it will be somewhere around, between nine and ten Daylight Saving.

B: Between nine and ten Daylight Saving.

H.M.Jr: Yeah.

B: Okay-doke. Well, I'll see that you are met.

H.M.Jr: I'll be coming from Chicago.

B: You'll be coming from Chicago between nine and ten Daylight Saving on Monday, and I will see that they meet you and I'll be there waiting for you.

H.M.Jr: Well, that isn't necessary.

B: Well, I'll.....

H.M.Jr: But we'll.....

B: I'll plan to be there. I'll plan to be there at nine -- eight or nine and.....

H.M.Jr: Well, we'll phone when we take off from Chicago.

B: All right, sir.

H.M.Jr: I'll have somebody phone.

- 3 -

B: O. K.

H.M.Jr: Who'll they phone to?

B: What's that?

H.M.Jr: Who should they phone to?

B: Why, to the -- to Mr. Kreuser -- K-r-e-u-s-e-r.
Allison Engineering, Indianapolis.

H.M.Jr: Allison Engineering, Indianapolis. Well, that's
easy and it's a Municipal Airport.

B: Yes, sir.

H.M.Jr: Well, I think we'll have a good trip.

B: Yes, sir.

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

B: Then I'm counting on you going back to the Division
with me. That is going back to the Division and
taking a look there.

H.M.Jr: Oh, definitely.

B: Right.

H.M.Jr: I want to do that.

B: Yes, sir.

H.M.Jr: Thank you so much.

B: Thank you.

May 2, 1940

The Secretary talked with General Watson at 12:25. The gist of his conversation was as follows:

HM, Jr referred to his speech on gold and said that the President had approved it and was delighted with it.

He then said he had two things for him to handle:

(1) HM, Jr was going to visit the Allison Engine Company at Indianapolis on this coming Monday. He would like to have General Brett make the visit with him. Colonel Burns should go also if Assistant Secretary Johnson wanted him to go. Secretary Morgenthau will go from Chicago and be at Allison at 9 a.m., Monday morning.

(2) The U. S. Navy has a contract with Du Pont for 2,500,000 pounds of powder. HM, Jr was told yesterday during his visit to Indian Head that by putting on 175 more men there, to make two shifts, they could manufacture 2,500,000 pounds more powder at Indian Head. They are only working one shift there now. If they put on this second shift the Navy then can tell Du Pont to release 2,500,000 pounds of powder to the English. The President had O. K'd this this morning. It will be available within 30 days, that is, available as of June 1, 1940. HM, Jr was down there yesterday and Assistant Secretary Compton and Admiral Furlong approved, but want the President to tell them to do it.

May 1, 1940

The Secretary brought this material back with him today from a visit to Indian Head.

Indian Head, N.Y.O. & P.F. 4-15-42 500)

MANUFACTURE OF SMOKELESS POWDER

NAVAL POWDER FACTORY, INDIAN HEAD, MD.

1. PICKING AND DRYING HOUSE (COTTON).

The cotton used is cellulose in the form of cotton waste, shredded cotton rags, or short fibres from the cotton seed hulls, which has been given a through chemical treatment before receipt. This purified cotton is received in large, compressed bales with burlap or paper covering. The bales are broken open and sections carried to the

PICKER: The cotton is placed upon the apron of the picker, which conducts it between two horizontal toothed cylinders revolving at high speed in opposite directions, pulling in between them the cotton, tearing apart the knots and tangled lumps and then forcing the cotton to the **DRIERS**.

DRIERS: The driers have an endless, galvanized-iron, screen belt of coarse mesh which carries the cotton along slowly in the path of air currents heated to about 200° F. The cotton passes thru the dryer in about 20 minutes, the moisture being reduced from about 7% to 1%. The cotton is weighed into cans and when cooled, carried to the **NITRATING HOUSE**.

2. NITRATING HOUSE.

NITRATION: Two cans of cotton (32 lbs.) are emptied into a nitrating pot which contains 1600 lbs. mixed acid (sulfuric and nitric) at 33° C. The pots have revolving paddles which give a thorough agitation of the cotton and acid for 20 minutes. The cotton is converted into nitrocellulose containing approximately 12.60% nitrogen. This is called in the Navy "pyrocellulose". The charge (nitrocellulose and excess acid) is then run into a centrifugal wringer, below the dipping pot, where most of the spent acid is separated and later strengthened with fresh acid (fortifying) for use again. The nitrated cotton is caught in the basket whence it is forked into a trough of running water which carries it to the **BOILING TUBS**.

3. BOILING TUBS:

These are cylindrical wooden tubs in which the nitrocellulose is boiled 40 hours with 5 changes of water, then carried to the

4. PULPING AND POACHING HOUSE:

Here it is cut to a fine condition between knife edges in a **PULPER** and then further purified by 12 hours boiling with 8 changes of water and 10 cold water washings in **POACHING TUBS** holding 7200 lbs. of nitrocellulose. Each poacher charge represents a lot of nitrocellulose, is given a number and samples taken for chemical tests. After **SCREENING** to remove coarse material, the nitrocellulose is pumped to the **DEHYDRATING HOUSE**.

5. DEHYDRATING HOUSE:

The excess water is removed by the **DEWATERER AND CENTRIFUGAL WRINGERS** leaving about 26% moisture in the nitrocellulose. In this condition it goes to the **DEHYDRATING PRESSES** which press out the water replacing it with sufficient 95% alcohol for making the desired colloid when the ether is mixed with it in the **MIXING HOUSE**. A considerable quantity of dilute alcohol is collected from the dehydrating presses and sent back to the ether plant for recovery of the alcohol.

6. ETHER HOUSE:

The alcohol is obtained by purchase. The ether is made from alcohol by the action of sulfuric acid on the alcohol at a temperature of 130° C. The ether is washed and purified in the distillation. All alcohol and ether residues recovered are here redistilled and made ready for use again.

At present (1940) **ETHER** is ~~now~~ obtained by purchase as it is cheaper to buy on contract than to manufacture.

7. MIXING HOUSE:

The dehydrated blocks are brought to the mixing house in covered cans and dropped into the revolving cylindrical screen of the BLOCK BREAKER where the blocks are thoroughly broken up and screened without appreciable loss of alcohol. The fine material is then immediately carried to the MIXERS where ether, carrying sufficient diphenylamine to make .50% of the dry nitrocellulose, is added and the material kneaded in the mixers until a proper colloid is obtained. This colloid is pressed into a block and carried to the PRESS HOUSE.

8. PRESS HOUSE:

STRAINER (MACARONI) PRESS: This is a hydraulic press having in the bottom of the cylinder a brass plate thru which the colloid is forced coming out in macaroni-like strings. These strings are caught in the cylinder of a press below and reblocked to be carried to the die press.

DIE PRESS: In the die press, the powder is forced thru a die carrying pins of proper size for perforations and emerges in the form of a continuous cord which passes to a revolving disk CUTTER which cuts the cord into grains of proper length. A different size die is used for the different calibers of powder. There is now a considerable excess of solvent (ether-alcohol) in the powder grains which is removed by drying in the SOLVENT RECOVERY AND DRY HOUSE.

9. SOLVENT RECOVERY:

^{50°} The powder is placed in cans (3300 lbs. per can) thru which a continuous circulation of warm air at ~~25~~⁵⁰°C is made. This gradually takes up much of the excess solvent which is then condensed in refrigerating coils and collected in tanks for separation at the ether plant. The powder is run out from the cans and carried in boxes to the POWDER PICKING HOUSE.

10. POWDER PICKING HOUSE:

The powder is poured, a few boxes at a time, upon long tables with screen tops and carefully picked over by hand to remove all grains that are abnormal in size or appearance. The poor grains are sent to the reworking plant. The good powder is carried in boxes to the DRY HOUSES.

11. DRY HOUSES:

The powder is dried in bins by a circulation of warm air at not more than ~~40~~⁵⁰°C until the volatiles reach the amount required by the Navy specifications. This requires from 3 to 8 months depending upon the size of the powder. It then has to be blended and packed.

12. BLENDING TOWER:

The lots vary in amount from 25,000 lbs. to 500,000 lbs. depending on the caliber of the powder. To make a lot uniform, it is blended by passing by gravity from bins in the upper (4th) floor of the blending tower over a distributing cone into bins on the 3rd floor. When it has all collected on this floor, it is again passed over a similar cone and collected in bins on the second floor, from which the powder is run into boxes standing on platform scales for weighing. A five jar sample is taken for complete chemical tests at the laboratory.

13. PACKING AND STORAGE:

The boxes used are tested, galvanized iron or zinc-lined wooden boxes with rubber-gasketed, metal covers, nearly all of which hold 110 lbs. of powder. Each lot of powder is given a designation, stencilled on the box, showing where it was made and the serial number of the lot of this particular caliber.

Manufacture of Smokeless Powder. Page 2.

For example: IHHA Lot 40 means powder manufactured at Indian Head (IH) for 14'/50 (HA) cal. gun and that it is lot 40 of this particular caliber. Various letters such as D for DuPont, I for International, etc., designate the different manufacturers. The last one or two letters indicate the caliber and are published in a table in the powder specifications, for example, H stands for a 14'/45, H.A. for a 14'/50; C stands for 6'/40, C.B. for 6'/50, C.C. for 6'/53, etc.

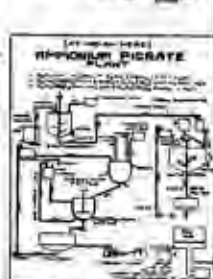
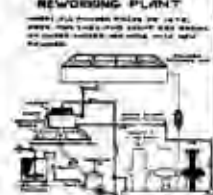
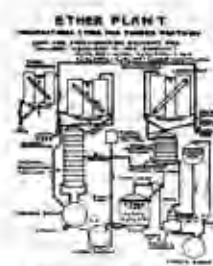
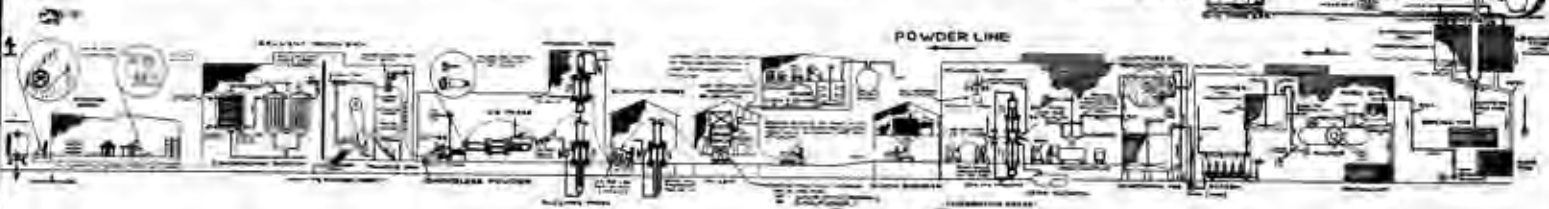
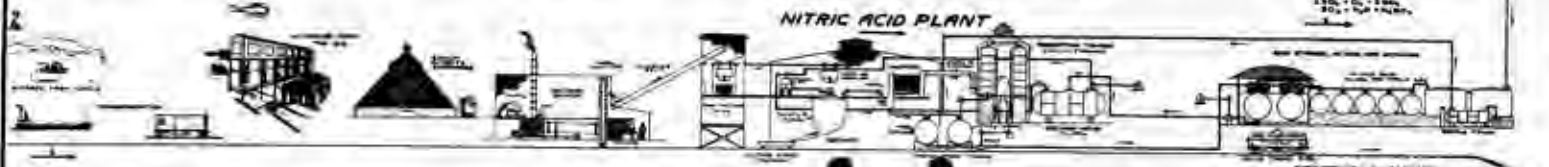
14. PROOF AND DISPOSITION:

A firing sample for proof at Dahlgren is selected from the lot of powder and the balance stored in a magazine until ordered shipped by the Bureau of Ordnance. On acceptance, the Bureau gives the lot of powder a service index number which is assigned in regular numerical sequence in the order of acceptance. These indexes are also designated by certain letters, for example SPDW 2132. The SP indicates smokeless powder, the D stands for diphenylamine (showing it is a stabilized powder,) the W stands for reworked; the number is the index number. Other letters used are R for rosaniline (used in 1908-09 as a colored indicator of the stability of the powder but has since been abandoned); B for a blend of two or more indexes, X for water dried (instead of the usual air drying), and F for flashless powder.

<D>

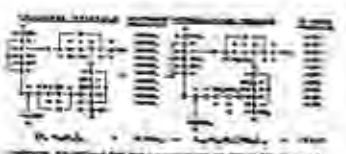
UNITED STATES NAVAL POWDER FACTORY INDIAN HEAD, MARYLAND FROM RAW MATERIALS TO SMOKELESS POWDER IN OPERATION SINCE 1890

347



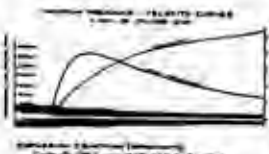
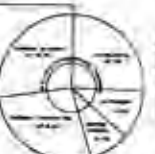
LIST OF MANUFACTURING PLANTS

1. The plant of which the sulphuric acid is produced, together with the sulphuric acid plant, is situated at Indian Head, Md., on the Potomac River.
2. The nitric acid plant is situated at Indian Head, Md., on the Potomac River.
3. The cotton purification plant is situated at Indian Head, Md., on the Potomac River.
4. The powder plant is situated at Indian Head, Md., on the Potomac River.
5. The reworking plant is situated at Indian Head, Md., on the Potomac River.
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POWDER FACTORY MARYLAND

DISTRIBUTION PER
POUND OF POWDER

ALS USED
UNDER

(Water coat)

SULPHUR

SULPHUR

DIPHENYLAMINE

001

002

003

004

005

006

007

008

009

SULPHUR
010

ENTER ON THESE CARDS DATA ON
ANNUAL REPORT - FICHE 10-10-10

011

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015

U. S. NAVAL POWDER FACTORY INDIAN HEAD, MD.		
FUNCTION	NAME	DATE
ARRANGED	Wm. C.
EXAMINED
DRAWN
TRACED

15143