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TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE January 22, 1941

TO Secretary Morgenthau
FROM Mr. Cochran

At 9:25 this morning Dr. White asked me by telephone if I would attend to the clearance through the Department of State of the letter upon British assets and liabilities which had just been completed for submission to Congress, and which I had checked with Dr. White after coming out of the meeting held at 9:10, in the Secretary's office. Dr. White sent me the Secretary's memorandum to him of January 21 requesting this clearance.

I immediately sent a special messenger to Dr. Feis' office taking my copy of the statement. Dr. Feis had not yet arrived, but I insisted to his secretary that he give immediate attention to the document as soon as he came in, and then call me back, since we hoped to deliver this at the Capitol at 10 o'clock and thereafter have it released.

I called Dr. Feis' office again a few minutes after sending the document, and spoke with Mr. Livesey upon learning that Feis had not yet arrived. Livesey promised to try to get the document cleared with Secretary Hull by 10 o'clock. Messrs. Cox, Kuhn and Schwarz went on to the Capitol with the arrangement that Mr. Kuhn would telephone me back at 10 o'clock to see if I had obtained the necessary clearance.

Not having heard from the State Department by 10:05, when Mr. Kuhn called me back, I reached Dr. Feis on another telephone, while Mr. Kuhn waited. Feis told me that he had just discussed the document with Secretary Hull. Secretary Hull deferred to Secretary Morgenthau as to the wisdom of giving publicity to the statement in question. Secretary Hull desired further to make sure that the British agreed to such publicity. Feis said that naturally the State Department had not been able to go into the technical accuracy of the document.

I assured Dr. Feis that the document had been carefully checked by the British Treasury officials, as well as by the Board of Governors of the Federal Reserve System and the Department of Commerce. These had all agreed with the Treasury on the draft in question, and on publicity being given thereto. I thanked Dr. Feis for having taken the matter up with Secretary Hull and promised to send over clean copies of the document in its final form. Upon terminating the conversation with Dr. Feis, I gave the necessary clearance to Mr. Kuhn at 10:10.



January 22, 1941
10:40 a.m.

H.M.Jr: Hello.

Operator: Mr. Foley.

Ed Foley: Yes, Mr. Secretary.

H.M.Jr: Ed, on the English contract situation, Jones thinks it's a mistake for one of his corporations to buy this English wool for fear that it might offend some of the Western states who then might be against the bill.

F: Yeah.

H.M.Jr: I raised the question of whether we couldn't get a group of private banks in New York to loan this money. Now, I had hoped that the wool was still in the hands of the wool growers, but it isn't, but if you would assign to Philip Young one of your ablest men so that he could work just on this wool deal, you see, and see if we can't work something out to help the English.

F: O.K. I'll pick somebody and have them get in touch with Phil right away.

H.M.Jr: Well, give us one of your really tough fellows.

F: O.K., Mr. Secretary.

H.M.Jr: Will you?

F: You bet.

H.M.Jr: What's the name of that man who was over at W.P.A. or P.W.A. with you?

F: Chuck Kades?

H.M.Jr: Yeah. What's Chuck doing?

F: Well, he works on taxes and things of that kind with me. I can put him on it or put somebody on it that would be more familiar with the Johnson Act and the Neutrality Act.

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H.M.Jr: Who would that be?

F: Well, it would be Huntington but Huntington has been sick and his man is Feidler. I can put him on it.

H.M.Jr: Well, I'll leave it to you because I want a job on this if there is any possible way of doing a job. See?

F: Yeah.

H.M.Jr: We want it done and done fast.

F: All right. Well, I'll put Feidler on it and I'll look at it myself.

H.M.Jr: O. K.

F: O. K.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE January 22, 1941

TO Secretary Morgenthau
FROM Mr. Cochran

Mr. Pinsent, Financial Counselor of the British Embassy, telephoned me at 10:50 this morning. He said that Sir Edward Peacock would probably leave Lisbon by plane tomorrow. It was Pinsent's understanding that the plane which was to have left Lisbon on Sunday has been delayed until this date. Pinsent now asks whether the Secretary would approve the British idea of releasing upon Peacock's departure from Lisbon the press communique which the Treasury had worked over with Sir Frederick Phillips. The British believe it more satisfactory to take the Lisbon departure rather than the uncertain hour of quitting Bermuda as the proper time of the release of the communique. I told Pinsent I would speak to the Secretary on this point.

*See memo from J. M. S.
copy to Cochran
dated 1/23/41 -*

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 22, 1941

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. T. Carlyle Gifford telephoned me from New York at 11:30 this morning. He reminded me that during the past five days the New York stock market had dropped about five points. He said that he had been able to keep up the totals of his sales for the last day or two to a fairly good figure only through disposing of certain lots of United States Government bonds. He now feels that the market has been dropping too steadily. He is inclined to move a little gently in the sale of his securities in the immediate future to see if British official sales may have been responsible for the pressure.

I told Mr. Gifford that I was bringing his daily statements to the attention of the Secretary and would also let the Secretary have the above information.

*see memo to Cochran
from Day dated 1/23/41*

January 22, 1941
12:20 p.m.

RE OPEN MARKET

Present: Mr. Murphy
Mr. Haas
Mr. Odegarde
Mr. Hadley
Mr. Bell
Mrs. Klotz

H.M.Jr: If it is to be a five year, what has it got to be?

Haas: One. It is very sweet.

H.M.Jr: And a three quarters, how far can I go?

Hadley: Three years and eleven months.

H.M.Jr: Talk up.

Hadley: Three years, eleven months.

H.M.Jr: Are you fellows together?

Haas: That is right.

Murphy: Well, we thought that it would probably be better - that was the recommendation we sent you yesterday afternoon.

H.M.Jr: What do you recommend now?

Murphy: If you cut that three months further, to September, 1944 --

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Haas: That is sweet enough.

H.M.Jr: Now Dan, let's see what you have got.

Bell: First of Boston says that a three quarters per cent maturing December 15, 1944, will go if the amount is not over 750 million. They say that if you want to go out the full five years, it will take a one per cent coupon but they are afraid the one per cent coupon will have an adverse effect on all the other outstanding issues, and they do not recommend it. If it is over 750 - if it is more than 700 million, they all recommend two issues.

H.M.Jr: Well, you and I know it is going to be 600 at the moment.

Bell: Yes. Repp and Belmar, the Discount Corporation, said that their first choice would be a three quarters per cent note for December 15, 1944, and they would think that that ought to sell somewhere around 19 to 22/32nds. You could sell five eights, March '44, a half per cent, December '43, and possibly a three eights, March '43.

H.M.Jr: Could I read the stuff, if you have got it typed?

Bell: Yes, it is all typed. It is underlined a little in spots, but you can read it. It is quite large. I was just giving you the summary.

H.M.Jr: I will give it back to you.

Bell: Do you want me to continue?

H.M.Jr: Please.

Klotz: It is small type.

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Bell: Repp says that if it is 500 million, three quarters, December '44, and if it is over 500 million, he would recommend a three quarters September '44. That is what Murphy just gave you. Devine. If the Treasury wanted to do a five year, it would take one per cent. He doesn't recommend. His first choice from the point of view of the market would be to sell 500 million of half per cent notes due September 15, '43. He said the market is thin and the people are likely to check around and see whatever it is going to do owing principally to the recent reserve of Congress about the Reserve System.

The second choice would be a three quarters per cent note of September 15, 1944, which he believes would not affect the market as much as the longer seven eighths or one per cent note. Burgess and Kane says it is a matter of taste. You could start at a half per cent coupon and work up. Their first choice is a half per cent note or a '43. However, the three quarters per cent would go but you would have to shorten the maturity one year over the other, and the other was --

Hadley: December, '45.

Bell: So this would come back to December '44. Green of the Chase National said if the offer is over 500, he would recommend two issues. His first choice is also a half per cent note, March, '43. However, he believed the Treasury could sell a three quarter per cent note of September 15, '44, or a five year one but he would not recommend the latter. His choice of two issues - well, that is in cases of two issues.

Garner of Guaranty's recommendation is for a three quarters, September, '44. That is about

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all of it. September '44 at three quarters per cent seems to be the consensus.

H.M.Jr: Now, who am I going to call up?

Bell: I would call Rouse and let - you could call Sproul if you want to, but Rouse has been following it all morning and Devine and Lepp are standing by.

Klotz: Did you congratulate him? (Sproul)

H.M.Jr: I don't know.

Bell: You did that the day of the dinner.

H.M.Jr: Did I? I don't think I wrote him a letter.

Klotz: Is it too late now?

H.M.Jr: Yes.

Bell: George, what do you figure the September '44, three quarters, will go to?

Haas: Twenty-three.

H.M.Jr: (To McKay) If Professor Odegarde is here, tell him to come in. He can sit here and listen. Have you spoken to the Fed?

Bell: No, I haven't.

Murphy: Yesterday we recommended the December '44, and Mr. Haas and I had some conversation this morning, and he thought it would be better if we sweetened it by three months, because of the general bearish tone, and that is how we happened to be saying September now rather than December. It is upping the premium from 18 to 23.

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H.M.Jr: You know we are going to have to be back again in a couple of weeks for another 500 million.

Haas: I would rather do that than make this too big now. The fact that you have announced it, I think, is important - to stay by it.

H.M.Jr: The 500?

Haas: Yes.

H.M.Jr: Dan thinks if we make it six we might be able to get by until the 15th of March.

Hadley: I think the market would like it much better if we could do a little more now and be out until the 15th of March.

H.M.Jr: So would I.

Bell: That would give you 650 or 660, somewhere along there.

H.M.Jr: I would love to do a five year and show what this Federal Reserve monkey business has cost us. That is the way I would like to do it. There is no way to show it.

(Professor Odegard entered the conference.)

(Telephone conversation with Mr. Devine follows:)

January 22, 1941
12:35 p.m.

H.M.Jr: Hello.

Operator: Mr. Devine.

Mr. C.J.
Devine: Hello, Mr. Secretary.

H.M.Jr: How are you?

D: Fine, and you?

H.M.Jr: Well, I'm alive.

D: I guess they keep you very busy, don't they?

H.M.Jr: Yes, they do.

D: How do you ever keep track of everything?

H.M.Jr: Well, I don't know.

D: Just keep going I guess.

H.M.Jr: That's it. I thought you were going to come down here and help me.

D: Well, I tell you, you see what I did the end of the year. I liquidated the corporation and formed a partnership so I could jump out any time.

H.M.Jr: Yeah. Well, if you're at all interested

D: I really am, I'm on the fence. That's why I liquidated the corporation. It cost me \$370,000 in taxes to do that which I'd never have to pay if I just remained as I was but I thought if I did jump and want to do something else why I wouldn't have so many ramifications to go through.

H.M.Jr: Well, why don't you come down here Friday and talk to me. The issue will be over then.

D: All right. Suppose I drop down on Friday.

H.M.Jr: 10:00 o'clock.

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- D: 10:00 o'clock Friday.
- H.M.Jr: Yeah. Now, let me ask you this. What does it look like to you?
- D: Well, I've gone over the thing since I talked with Rouse and Miller up at the Fed. this morning and I feel this way: have you got the time to go over the whole thing?
- H.M.Jr: I've got all the time in the world.
- D: All right. To sell a one, it's too rich in the first place, in the second place I wouldn't like to lend the impression that the first Defense Note was going at $3/4$ ths and the second one at 1 and the third one might go at $1-1/4$. That's why I don't like a 1, plus the fact that it's worth at least par and $3/4$ ths. Then the next one would be $7/8$ ths. Well, $7/8$ ths would have to be June, 1945. That issue would go over and go over well. Of course again it has to some extent an effect that the first was $3/4$ ths, this one was $7/8$ ths and the next is 1, but not as great as the first one.
- H.M.Jr: Yeah.
- D: My preference would be a $3/4$ ths, same coupon, due in $3\frac{1}{2}$ years. You could make it August 1st, 1944 and it would positively be worth at least $101\frac{1}{2}$, slightly below or slightly more, it wouldn't change the coupon, it wouldn't hurt the outstanding $3/4$ ths
- H.M.Jr: Wait a minute, Chris, let me see. I've got a table here before me. You're talking about a $3/4$ ths, 4 years and what?
- D: A $3/4$ ths, $3\frac{1}{2}$ year note.
- H.M.Jr: Yes, $3\frac{1}{2}$ year. Just a minute. $3\frac{1}{2}$ year, $3/4$ ths. Now how do you price that?
- D: I price that, a $3\frac{1}{2}$ year, $3/4$ ths at about between a 60 and a 62.
- H.M.Jr: Yeah, and how much premium?

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- D: That would be somewhere around par and 1/2. A 61 on an August maturity is exactly par and 1/2.
- H.M.Jr: I see.
- D: Now if you wanted to be a little more generous, which you truly do not have to be, why you could make it June, 1944.
- H.M.Jr: How about September?
- D: September is a shade over the line.
- H.M.Jr: You mean - which way?
- D: I think it is a little bit too lean.
- H.M.Jr: Well, this time you're much more on the rich side than you've been before. Why is that?
- D: Well, no matter what you sell, no matter what you sell, if you sell over 500 million the allotment is going to be at least 20%. Now for two reasons: I've been checking with banks around all the way across the country through the wire system here in our offices and I find out this feeling, that they are not going to go in for quite as many this time because they want to see what's going to happen to this Reserve bill and they know that there is plenty more coming. That's why I made over at the Federal this morning the suggestion that to be cagey, if you sold 1/2 of 1% note due in September '43 why it wouldn't necessarily cause the market to run away but it would be a stabilizing influence on the market.
- H.M.Jr: If we did what?
- D: If you sold a 1/2 of 1% note due in September '43 - now I realize that's short and you do not have to sell anything that short, but the effect on the market would be to stabilize it. It may temporarily do a little better because the tendency would be - well, we're not going to get additional higher coupons on each successive piece of financing. It would stabilize the market; I have no doubt about that.

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- H.M.Jr: Well, what premium would that have?
- D: Not so much, par and 10/32nds perhaps. Somewhere around a 38 basis.
- H.M.Jr: But you think 1/2 of 1% would stabilize it?
- D: Absolutely. The shorter you make this issue - bear in mind, I think you can sell anything you want in the market, the market isn't that poor, but it has a tendency and has had a tendency to drift. The feeling I would get of the market - it's sort of a wishy-washy market, it hasn't any firm tone underlying it at all. It could very easily go off a point or 1-1/4 points in the next two or three weeks. Now a shorter note would tend to eliminate some of that feeling and sort of stabilize the market at this level and it may, as I say, even have a tendency to rally which would worry me.
- H.M.Jr: Yeah. Well
- D: But as the best bet, the 3/4ths.
- H.M.Jr: You're a little nervous this time, aren't you?
- D: Just a little bit. I'm nervous from the standpoint that I'd like to see you pick the right thing and have it go over well because it is the beginning of a lot of financing.
- H.M.Jr: Yeah. Well, I don't see how you price the September, '43. Our boys say about 4/32nds.
- D: Well, I price the September '43 on about a 3/8ths basis. Let's see - I price it close to a 3/8ths basis. After all you have September 1 to '43 outstanding now and September 1's - I'm sorry, I'm very sorry. I said - let me see. Yeah, September 1 to '43 right now are running .19. Now certainly additional notes in there are worth a 38.

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H.M.Jr: Well, we've got slide rules and the boys can figure it, but I get how you feel on it anyway.

D: Yeah.

H.M.Jr: Are you going out for lunch or will you be around in case I want to call you again?

D: I'll be right here until I leave here tonight.

H.M.Jr: O. K.

D: Thank you.

H.M.Jr: I'll be seeing you Friday at 10:00 o'clock.

D: Yeah.

H.M.Jr: Good-bye.

D: Good-bye. Thank you very much.

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H.M.Jr: I thought you (Odegarde) might be interested in seeing how we price this stuff. How did you do?

Odegarde: I got in on the middle of it.

H.M.Jr: Well, you know you just got in at the start. This is the first one. We have never done it so late, but we could only get in to see the President this morning.

Hadley: Here are his estimates on that '43 stuff. They seem quite out of balance.

(Telephone conversation with Mr. Sproul follows.)

January 22, 1941
12:40 p.m.

H.M.Jr: Hello.

Operator: Mr. Sproul.

Allen
Sproul: Hello, Mr. Secretary.

H.M.Jr: Hello, Allen.

S: I'm sitting here with Mr. Rouse. Hello?

H.M.Jr: Well, if you had the responsibility of writing the ticket, how would you write it?

S: Well, do you want me to answer or Mr. Rouse to answer in the light of his discussions of the market this morning.

H.M.Jr: Well, I've had what Rouse thinks through Bell.

S: I see. Looking at it both from your standpoint and the market standpoint I'd write it for $\frac{3}{4}$ ths for September '44 and go up to whatever amount of cash you need to carry you up into March; that is, assuming that would be something - a billion or under..

H.M.Jr: Well, we're talking 5 or 600 millions.

S: Well then down in 500 or 600 millions I think a $\frac{3}{4}$ ths for September '44 would be the best bet both from your standpoint and the market standpoint.

H.M.Jr: I'm kind of interested in a $\frac{1}{2}$ of 1%.

S: Well, there are some people in the market particularly interested in that I understand. They think it would be put away and kept away better than anything else you could put out but it seems to me it brings the maturity pretty close in when you consider the amount of financing and refinancing that is going to have to be done in the next two years.

H.M.Jr: True but which would stabilize the market more: $\frac{1}{2}$ of a percent note or $\frac{3}{4}$ ths?

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- S: My guess would be that the 1/2 would because there'd be less secondary distribution on it, it would be more largely taken and put away. What maturity did you have in mind there? We had suggestions anywhere from March '43 to September '43, the latter getting out as far as September '43, I think, is going out pretty far.
- H.M.Jr: Well, I don't know how our boys have figured it. Let me ask them a minute. (Talks aside). ^{1/} Well, our boys say here that they wouldn't want to go any closer than March '43. They figure that at 10/32nds. What do you figure that?
- S: Just a minute. (Talks aside). The same.
- H.M.Jr: The same. Is that enough, Allen?
- S: I think it is enough for 1/2% yes. Plenty.
- H.M.Jr: You see - well, I needn't tell you, it's water over the damn, but that Federal Reserve System statement, you know, has got us all upset.
- S: Well, there are other elements in the market too. I think that is certainly one of them but there are others.
- H.M.Jr: Well, such as.
- S: Well, such as the whole financing program which is ahead of us. I think the market has that in mind too. They don't expect - I don't think that we can go through this whole financing program on the present level of interest rates.
- H.M.Jr: Allen, do you think that if I did a 1/2% it would be a sign of weakness?
- S: No, I do not. No.
- H.M.Jr: Well, do you mind sticking around a little bit so I can call you back? You see, the President was 45 minutes late this morning so it has made me late all along the line.

1/ Talks aside.

H.M.Jr: How do you go about it?

D. W. Bell: March '43 seems as thin as we want to go.

Mr. Murphy: Our curve

D. W. Bell: Our curve runs a little higher, but I should say March '43.

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- S: (Laughs). You ought to speak to him about that.
- H.M.Jr: Well, he had to tell us the story of how he held up Marie Dressler on the top of a rail while she made a baby bond speech and then she fell over backwards on him and a policeman and crushed the two of them, and that took fifteen minutes.
- S: (Laughs). Well, it's interesting anyway.
- H.M.Jr: Well, you see what you've got ahead of you. How are we going to sell bonds?
- S: I'd pick someone a little less hefty.
- H.M.Jr: Yeah, but she had a good voice. All right.
- S: Well, I'll be here and Bob Rouse will be here.
- H.M.Jr: If you don't mind, another ten or fifteen minutes.
- S: All right.

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Bell: June, '43, has a billion dollar maturity, and September, '43, has a billion six with the October 15 bonds which come in there.

H.M.Jr: Six?

Bell: No, the 450 million of the '43 is '43-'47, three eights, and the October '43 is a billion four of the '43-'45's.

H.M.Jr: How about the five eights? You see, they have got that 13/32nds. They have got it here --

Hadley: Three years.

H.M.Jr: Two, one, '44.

Bell: Well, you have got two billion dollars maturing in March, 15. You have got 500 million of notes maturing in March '15 and then there is a billion and a half of bonds callable in April, '44, so that you could have financing in February, March, and April.

H.M.Jr: We will have them every month from now on anyway. Have they got a copy of this? I don't want to hear afterward that they are apart from us. Are you fellows together that we could do two years, one and a half - do it three, 15, '43?

Hadley: Yes.

Murphy: Yes.

Haas: Yes.

(Telephone conversation with Mr. Eccles follows:)

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H.M.Jr: Now I want to call up Repp.

Bell: Yes, Herbert Repp, Discount Corporation.

H.M.Jr: This will give you (Odegarde) a little insight on how you decide to borrow 500 or 600 million dollars.

Odegarde: It doesn't give me any insight on how you keep them straight.

H.M.Jr: What, what these people tell you?

Odegarde: How you follow all these different issues and maturity dates and so on.

H.M.Jr: I read your memorandum and I was very enthusiastic about it; and we have got to go to town next week.

Odegarde: Did you read it all?

H.M.Jr: Every last word of it, and some of it twice. We are going to try to get a bill introduced next week.

Odegarde: Were there any additions to those suggestions?

H.M.Jr: No, the main thing that I want you to think about is who in town has done the best publicity job; and if you can make up your mind who has done the best kind of job, we will just borrow him and if he makes good we will keep him. Take this man in AAA. Who is the man who has done the best job, and I will just borrow him and if he makes good, I will just take him over. If you could be thinking along those lines. I mean, that is better, I think, than going on the outside, don't you?

Odegarde: Better.

January 22, 1941
12:50 p.m.

H.M.Jr: Hello.

Operator: Chairman Eccles.

Marriner
Eccles: Hello.

H.M.Jr: Marriner, good morning.

E: Hello, Henry. How are you today?

H.M.Jr: Oh, I'm a little under the weather but
that's just

E: What's the matter? Got the flu or something?

H.M.Jr: No, just a little bit over-tired, but as the
family says, that's not news.

E: (Laughs).

H.M.Jr: Marriner, I got out late from seeing the
President so I'll have to work late on this -
I mean, I'm up against the clock on this
financing and I suppose you've been in touch
- we're being advised anywhere from - to sell
a 1/2% note up to 3/4ths, somewhere in there.
The 1/2% would be March 15, 1943.

E: Well, here's the way I look at the thing.
The December '44 in the 3/4 note in the market
this morning would be about 100-18/32nds.
The September '44 3/4 note, that's three
months shorter maturity, is 23/32nds.

H.M.Jr: You're a few 32nds higher on both of those.
That's immaterial.

E: Well, it depends on which one of your fellows
you talk with.

H.M.Jr: That's right.

E: The fellow that - we've usually been right
on this and - well, I mean, there's one of
your fellows and Pizer have been right
on this thing.

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H.M.Jr: Yeah.

E: Well, anyway, there isn't an awful lot of difference. Now, there'd be no question about the September, certainly no question about it, at 23/32nds. That does look to be quite a premium however for that short a maturity. On the 1/2 of 1% yield, of course that would put it into the '43 class.

H.M.Jr: That's a right, March 15th.

E: Well, you could put it in June. I think you can put it in June '43. That's only a 2-year note and that still gives you a premium of 1/2 point. Now 1/2 a point is a better premium on a 2-year note

H.M.Jr: I think you're wrong on that Marriner.

E: Well, 15/32nds.

H.M.Jr: Well, our boys gave me 2 years, 3/15/43, and I think it had 10/32nds.

E: You mean on March '43?

H.M.Jr: Yeah.

E: Well, they're figuring - I don't know how they figure it. Well, anyway it doesn't make much difference. A 2-year note then - June of course would be a little over 2 years - 2 years and 3 months and a 2-year note would certainly suit me. I feel and I have felt right along that the shorter the maturity, until Congress has determined what they are going to do with reference to this whole situation, the better, because the banks are going to take all of this stuff anyway and a lot of this stuff will sooner or later be refunded, we hope, into savings so that the shorter the maturity, as far as I'm personally concerned, the better.

H.M.Jr: Yeah. You wouldn't care then

E: I wouldn't care personally at all. I haven't talked to the others about it. They seemed to express some preference for the 2 and 3/4s the other day on the September '44 3/4 note. Now of course that is a little

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over 2 year longer note. I think if I were doing it personally, I would take the 2-year note in the 1/2.

H.M.Jr: Well, the 2-year in the 1/2.

E: 2-year at 1/2, yeah - the '43 maturity, with 1/2% coupon.

H.M.Jr: Yeah. That's what you prefer.

E: I would personally prefer that but I don't feel very strongly about it. How do you feel?

H.M.Jr: Well, I've only talked to a few people and I'm surprised that they seem to think that the market is a little bit more nervous than I realized and they think that a 1/2% coupon, that they'd put it away in a box and there'd be less dealing in it and it would be a stabilizing influence.

E: Well, I think it's - you're getting a little lower yield, you're only paying 1/2% for 2-year money, you're only paying 1/2 for over 2-year money and before the 2-year period is over the whole picture is going to have to be revamped anyway in the light of developments during the next two years which are inevitable. You're going to have to do a lot of financing through baby bonds and savings and so forth so that if you've got these short maturities I would sooner save the - shave the 1/4 of 1% for the Treasury on it inasmuch as it's going to be a short maturity anyway.

H.M.Jr: Of course the other criticism is, well, if you can go three years why go two, but either one would satisfy you?

E: Either one would satisfy me.

H.M.Jr: All right. Then if it's agreeable we'll work on it a little bit more and Bell will call you back a little later.

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E: I'll check with Piser and see where he's off on these estimates because apparently he's figured a little bit higher.....

H.M.Jr: Would you tell Piser to stay at his phone during lunch hour so we can call him?

E: Yeah, I'll tell him to do that and see where he's off on these premiums here because he must have had some basis for figuring this and apparently there is quite a little difference.

H.M.Jr: Well, if he could stay at his phone so our boys could call him back

E: I'll tell him to do that.

H.M.Jr: Thank you.

E: All right. Good-bye.

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- H.M.Jr: Out of all these 117 men - Mr. Odegarde listed 117 - not men, but offices of press relations in Washington, 117 different groups. Is that right?
- Odegarde: There are 117 information offices serving 136 agencies.
- H.M.Jr: And no correlation between them whatsoever.
- Odegarde: Well, there is the correlation you get through Lowell Mellett.
- H.M.Jr: But if you could be thinking very hard, and I think you might talk to Lowell today - if you and Ferdie Kuhn could ask to see him and say, "Now who is the very best man who has done an outstanding job and we want to borrow him, rather than go out and try to get somebody new."
- Odegarde: The suggestion was made the other day in Agriculture that the best job might be done by someone who is an administrator rather than press relations.
- H.M.Jr: No. I want a fellow on that just oozes ideas, is going to give me ten times as many ideas. On the administrative side, we are all right.
- Odegarde: That was my suggestion.
- H.M.Jr: We are all right on the administrative side, but this setup that you had - to call for the second men, wasn't it? It was a director of publicity, isn't that what you call it?
- Odegarde: Yes.
- H.M.Jr: It wouldn't be WPA, would it?
- Odegarde: I don't think so.

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H.M.Jr: Would it be three A's?

Odegarde: I want to see the people over in Securities.

H.M.Jr: Would you hit that today?

Odegarde: Yes, I will do that.

(Telephone conversation with Mr. Repp follows:)

January 22, 1941
1:00 p.m.

Robert Repp: Hello, Mr. Secretary.

H.M.Jr: How are you?

R: Fine, thank you.

H.M.Jr: It's going to be tough today, you won't have a chance to refer to your partner - going to have to make up your own mind.

R: (Laughs). You know we never talk anyway.

H.M.Jr: Oh, no. You just come down in the same drawing room and never talk to each other.

R: Yeah, that's right.

H.M.Jr: Well, now if you had to write the ticket how would you write it?

R: Well, it would depend on the amount, Mr. Secretary.

H.M.Jr: Well, between 500 and 600 million.

R: Between \$500 and \$600 millions, in that amount, I would do a December, 1944, 3/4.

H.M.Jr: Wait a minute, now. Wait a minute. December, 3/4s, huh?

R: Yeah.

H.M.Jr: What do you figure that?

R: That would be worth about par and 1/2 to par, 19/32nds.

H.M.Jr: I see. How uneasy is the market, Repp?

R: Why the market is - it is uneasy, Mr. Secretary. It's awaiting various news items that will come out concerning the general plan of financing and the uncertainty in the market is the thing that is making it uneasy. Of course it realizes it will have to take

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larger amounts in the next year or year and a half and they are waiting for the thing to be refined a little bit so they can base their judgment as to how to adjust their positions and what they are expected to do.

- H.M.Jr: Well, let me ask you this: which would stabilize the market more, 1/2 of a percent note or 3/4's.
- R: I should say a 3/4.
- H.M.Jr: Really. I see. Will they put it away?
- R: I think they will, yes, in that amount.
- H.M.Jr: And it will go well?
- R: It will go quite well, yes.
- H.M.Jr: Which would go better, 1/2 of a percent or 3/4's?
- R: I would say a 3/4 in the amount 5 or 600 million, a 3/4.
- H.M.Jr: Is that right?
- R: Yes, that's my opinion. Of course, an issue of this type appeals to your larger banks throughout the country and they also are the secondary market for it. A coupon at this rate hasn't a generally wide appeal although it will be subscribed. Now last time we had a \$4 billions worth subscription and it is reasonable to expect we'll have the same or possibly slightly less and the allotments will be a little larger.
- H.M.Jr: But you favor a December 15th?
- R: For an amount - I just want to make myself clear on that - for an amount not to exceed \$600 million.
- H.M.Jr: That's right.
- R: Anything larger than that I would go to a September, 1944.

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H.M.Jr: And how did you figure the premium on that?

R: Between 16 and 19/32nds.

H.M.Jr: O. K. Well, just a second and let me speak
 to Bell. Just hold on a minute. (Talks aside).
 O. K., Repp. Thank you.

R: All right, Mr. Secretary. Good-bye.

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Murphy: I talked to Piser this morning, Mr. Secretary, and he had the same figures that we had for everything except the five year. That is the basis of Eccles' statement that part of the staff had the same results.

H.M.Jr: I see. Who haven't I called now?

Bell: You have called them all. You said you would call Sproul back.

Klotz: Yes, you told him to wait.

H.M.Jr: Each fellow write on a piece of paper, the four of you, whether you want a half or three quarters and put your initials on it.

Haas: This will be a landslide.

H.M.Jr: Do you think so?

Klotz: He peeked.

H.M.Jr: Did he peek?

Klotz: Yes.

H.M.Jr: Well, Mr. Bell is for three quarters, September '44. Mr. Hadley is for a three quarters. George is for a three quarters. Aw, they are all for a three quarters.

Now, I am going to be very, very honest. I was leaning for the half until I heard that Eccles was for it. - (Laughter) - It will look much better from his standpoint, you see. If it is a half a per cent, he said it didn't hurt the market if we brought in a half, but if we come along with a three quarters and have to go about two years shorter, it shows how much his statement hurt.

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- Bell: You have got a direct comparison now with the other financing.
- H.M.Jr: Yes.
- Haas: And what Devine said --
- H.M.Jr: Of course, I never would be influenced by anything like personal feeling. (Laughter)
- Bell: I just don't see the difference, George, between a half and three quarters in this market.
- Haas: No, even Devine who suggested it came back and said three quarters was the first - you know, even Devine, when you finally pinned him down, the last word he said, "Well, three quarters was the first choice," even though he suggested the half.
- Hadley: I think if you had a half you would give an indication to the market that you didn't have confidence in the market. I think if you stick to the same coupon, it is better instead of backing down on such a short term, unless you want to go through a lot of explanations to the market.
- Murphy: Absolutely.
- H.M.Jr: Hadley is on the low on all of this, but I think he is playing safe this time.
- (Telephone conversation with Mr. Piser follows:)

January 22, 1941
1:08 p.m.

H.M.Jr: Hello.

LeRoy M. Piser: Hello.

H.M.Jr: Piser, this is Morgenthau speaking.

P: Yes, Mr. Secretary.

H.M.Jr: How do you figure a $3/4$ note, I mean, to price it to sell.

P: For September '44 I get a premium of $23/32$ nds.

H.M.Jr: Just one second, please. September '44 you get how much?

P: $23/32$ nds.

H.M.Jr: And is that your choice?

P: That would be my first choice, yes.

H.M.Jr: September of '44. And that's your first choice. What's your second choice?

P: My second choice would be a December '44, which I get at a premium of $18/32$ nds.

H.M.Jr: Don't you think that's a little thin?

P: That might be, yes. That's the reason for choosing September first, that plus the fact that the maturities already in September '44 are smaller than in December '44.

H.M.Jr: Thank you, but you'll stand by won't you until we get through on this?

P: Yes.

H.M.Jr: Thank you.

P: All right, sir.

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- H.M.Jr: I guess that is what we will do. I can see why Eccles wants to do a half. Are you all together?
- Haas: Yes, that little difference, Mr. Secretary, that has come up in this price - the error in this is larger than the difference between us.
- H.M.Jr: The air is what?
- Klotz: The area --
- Haas: Error.
- H.M.Jr: I couldn't tell which he was talking about.
- Murphy: The area of error is smaller. (Laughter)
- H.M.Jr: I think it will be - what, September?
- Bell: That would be mine.
- H.M.Jr: Who is this fellow Hendricks they spoke about over there?
- Bell: He is the personnel man in the Department of Agriculture. He has been there a number of years. He took Dr. Stockberger's place. He has been there for a century, almost.
- H.M.Jr: That isn't the kind of man I want, is it?
- Bell: No, I don't think so. I think the best man in Agriculture is Eisenhower; but again, Eisenhower has been in the Government service a long time and it is a little bad. They get their ideas along Governmental lines, and they don't get any ideas.
- Klotz: How about our own people?

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H.M.Jr: We haven't got any. They are there, but this is going to be so vast - we will take everything they have, but I am not satisfied. They will stay there.

Bell: Well, I think this ought to be separate from that thing downstairs.

H.M.Jr: You do?

Bell: Yes.

H.M.Jr: But you would use Bryan?

Bell: Yes, but I would leave him there on savings bonds and under Public Service. That is a manufacturing end. Let's leave that alone and put your publicity aside on that organization.

(Telephone conversation with Mr. Sproul follows.)

January 22, 1941
1:12 p.m.

H.M.Jr: Hello.

Operator: Sproul.

Allen
Sproul: Hello.

H.M.Jr: Well, now, refresh my memory, will you?
What's your No. 1 choice, Allen?

S: My No. 1 choice was the $3/4$ of September '44,
but if you have in mind as a prime consideration
the thing that would require the least market
readjustment, I would then say the $1/2\%$ and
while you could go out to September '43 on
that, I think with that requirement in mind
I'd do it for the shorter period, possibly
March '43.

H.M.Jr: Well, we've been around the lot and it's
pretty well in agreement here in the Treasury
on September '44, $3/4$'s percent.

S: Well, that would be my first choice. I
think it would be better from your stand-
point and would be good in the market.

H.M.Jr: 600 million.

S: 600.

H.M.Jr: Is that all right?

S: Sounds good to me.

H.M.Jr: Well, it's sold.

S: Good. All right. We'll be ready.

H.M.Jr: Thank you.

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H.M.Jr: How is that, Mr. Bell? I didn't tell any funny stories, either.

Bell: Well, it would have taken longer if you had. Do you want anything before you go to lunch? I haven't written anything this time. You had me in the dark.

H.M.Jr: Before I go to lunch? Just a smile. No, you get the thing ready and any time - I will tell you what I am going to do.

January 22, 1941
10:35 a.m.

RE BRITISH PURCHASING PROGRAM

Present: Mr. Purvis
Mr. Young
Mr. Phillips
Mrs. Klotz

H.M.Jr: Well, we had unbelievable success. I will talk a little fast; and then if there is anything I overlook, Philip Young can explain. I am due at the White House.

Purvis: Quite.

H.M.Jr: To boil down what has happened, the Army and Navy are proposing to certify to the President of the United States that they can place the orders for the 883 million dollars worth of United States type stuff, and that is going to - when they have certified to the President, the President directs Jones and Jones will go ahead and order the stuff.

Now, what he is proposing to do is to order - place an order for a third of the 883, give the manufacturer a firm order for a third and say that the balance will be coming along as we need it, because Knudsen said if they got an order for a third, they could get started, you see, of what the total amount is. The reason they are doing it so gingerly is that they are afraid if they splash the 883, it would hurt the bill because they say they have found a way to do it, and they don't need the

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bill and they circumvent it, you see, and Stimson - when Jones came through with this this morning without any pressure on him - he said he worked until midnight on this. He said he worked all afternoon and he worked until midnight, but when he came through with this suggestion, Stimson was knocked off his pins and didn't know whether he was ready to do it.

Purvis: That is very interesting.

H.M.Jr: Is that right?

Young: Yes, that is right.

H.M.Jr: He was knocked off his pins and didn't know whether he was ready to do it, and McCloy was very helpful on that; and Frank Knox said, "Well, whatever Stimson will do I will do."

Purvis: So that there is a sort of broad authority to get ahead with 883, but to go at it on the basis of placing a third and giving the manufacturer the chance to know that it is working out to a bigger sum.

H.M.Jr: Oh yes.

Purvis: A bigger quantity.

H.M.Jr: He will know, for instance - if you want a million 800,000 from the York Safe & Lock, and they know that the order is a million 800,000 but he gets an order for 600,000, with an option on the balance.....

Purvis: That enables him to start his planning and get it going.

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- H.M.Jr: Now, as to the English type stuff, they propose to continue with these deals of buying up your contracts of United States standard stuff.
- Purvis: It sounds to me like Champaigne for lunch.
- H.M.Jr: I am going to tell this to the President when I see him at eleven. I just want to get this over to Sir Frederick. They are going to continue - McCloy - buying up your United States standard contracts; but whatever money becomes available from that, they would like you to use it on your English standard stuff, you see, and Stimson said if that is not what they are going to do, he said, "I will issue an order to stop it now."
- In other words, if they are successful in getting 45 million or five million from buying up these contracts, they would like you to use that money, whatever they can make available, for English standard stuff. Is that agreeable to you?
- Phillips: That is agreeable.
- Purvis: Oh yes.
- H.M.Jr: Because I understood from Young that you were not sure about it.
- Purvis: Well, we can manage that.
- H.M.Jr: And Jones is going to continue to buy up whatever plants he can. That will go ahead just the same. I mean, Jones will continue to buy any plant that you have got - I mean, if you have paid for a powder factory, he will buy it and if you have got anything else that you can sell, he will buy it; and whatever

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dollars you get from that will go toward your English.

Now, he doesn't feel that he can buy this wool for this reason, that if he bought 250 million pounds of wool, that the whole western block of wool growers might go against this bill, but I got this idea some time ago from Lovett, and he thought you could get up a bunch of bankers in New York who could buy this wool provided that this wool was still in the hands of the growers or in private citizens' hands in Australia.

Phillips: I am afraid we have taken over the whole crop, lock, stock, and barrel. However, I will look into that and see what we can do.

H.M.Jr: well, if you could, and ask Foley to lend them Cox on this to help them.

Young: Yes.

Purvis: Yes. He is an ingenious --

Young: Cox is up on the Hill.

H.M.Jr: Well, tell Foley to give them somebody, you see, to assign somebody. I will tell Foley myself.

(Unrecorded telephone conversation with Mr. Foley:)

H.M.Jr: He says Huntington Cairns would normally do it, but he is sick; so it will be Fiedler. So, they are leaving it to us to work on the English stuff, you see; and the shape it is in now, if Stimson - and we have got to rely on McCloy and I think that within a day or so they will get these letters to the President

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and begin to move in on this list of stuff which I have given them, and then if Sir Frederick and you and I can see where we can raise every dollar available to get for the 375 million - to get it for the British. And then at the last minute McCloy brought up the 300 million for the airplane plant, but he brought it up too late. It was brought up too late in the meeting, and you could see that Stimson got all confused.

Purvis: It was dangerous.

H.M.Jr: So somebody said, "Well, let's forget about it," but we can bring it up again; but you see we started I think on December 2, the President said this is what he wanted done, and it has taken from now until the - from December 2 until now to get Jones to do this.

Purvis: Still my congratulations, because I think that is not too long a time knowing the difficulties of this situation.

H.M.Jr: Well, you could have knocked me over with a pin, but I called him up yesterday and told him, and the meeting which I thought he was going to come to yesterday, the disagreeable one, he ducked it; and he said, "I didn't come because I didn't want to get upset with Marriner Eccles so I didn't come." He said, "I was working on this until midnight. The answer has been there all the time, but he wouldn't do it. The way I put it to them was this.

"Gentlemen, there is a billion and a half to be ordered; and if we do everything that we can, we can raise about 10% of what they need."

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And I think finally Jones has got it through his head - he again went through the motions, "Why can't they put up the securities as collateral," and I finally explained to him that all that collateral was up once and we can't put it up twice.

Purvis: Which, as a banker, he should appreciate.

H.M.Jr: I think it is in pretty good shape.

Purvis: Actually, perhaps some of this getting other people to knowing something about it may have helped. The pressure is apparently - all of them begin to feel that something has got to be done to help.

H.M.Jr: Oh, it is a combination of spices which finally make the pudding.

Purvis: Since December 2. But I think it is a good job. I am immensely relieved. I frankly couldn't sleep last night.

H.M.Jr: Well, I made up my mind - I was staying behind. I am going over on financing to see the President. I made up my mind - I have been pacing the floor since a quarter of six this morning - that I was going to say to the President, "Now look, I haven't bothered you with this, but it has got to the point where you have just got to set an afternoon aside and knock their heads together." But now I can go over and say, "I have saved it." But the amusing thing was, already Stimson kind of backed away from it, but I think he is going to be all right.

Young: He will be all right.

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- H.M.Jr: My estimate of McCloy has gone up, though.
- Purvis: I think the thing you can say for McCloy is that he is terribly keen to do it, and he tries all sorts of ways and means.
- H.M.Jr: Awfully anxious to do it. And Knudsen was fine and then another thing, which they said, and I am passing this on to you, that after the bill goes through, they said for the first time that they expect to order United States and British standard stuff, but I wouldn't take that too seriously. And the other thing that they are going to do - Phil, remember this - they are going to comb your list of so-called English and they think there are a number of things in there that can be brought across the line.
- Purvis: That, of course, is the most hopeful line.
- H.M.Jr: Like the Beaufort guns.
- Purvis: Right, which is an international thing. I was saying that to McCloy yesterday. It is accepted in every country.
- H.M.Jr: McCloy said, "After all, it shoots and it throws things and if it does for the English, why can't it for United States."
- Purvis: And it also does for the English and the French.
- H.M.Jr: He says, "It throws things so if it does it for the English, why can't it for United States."
- Purvis: It is a common sense attack.
- H.M.Jr: I think it is - now, Sir Frederick, if you would be exploring where you can raise some

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money for the English stuff and then maybe tomorrow we can get together again.

Purvis: Excellent.

H.M.Jr: This is what Mr. Young gave me this morning.
(Referring to Attachment No. 1)

I didn't give them --

Young: The copies.

H.M.Jr: I didn't think it was good for them.

Young: I didn't either.

Purvis: Did you have some more?

H.M.Jr: Some figures that George has on what you have ordered to date.

Phillips: When you say ordered from, it may mean that this has been taken before.

H.M.Jr: I don't know, but I didn't raise it today.

Purvis: I asked for a statement last week. It has just arrived. They have probably been working together. I will probably get my copy today, too.

H.M.Jr: I got this this morning, but I thought it might muddy the waters a little bit.

Purvis: Oh, I think that could be locked away for good.

Young: We will give you a copy of it. (Laughter)

Purvis: It is probably done in conjunction.

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H.M.Jr: I think that is a good day's work.

Purvis: Congratulations and many thanks again for the determination with which you have gone at it. That would make it look as if it would move after the initial decision was taken, because that depends on the spirit, doesn't it?

H.M.Jr: The spirit was fine, and I think all the dinners and parties that you have attended all bore fruit and you see, we started off by Knox saying, "Well, what about my plan," and I said, "Well, if you listen I think you will see what happens to it," but it all went through.

The spirit is here. And this will move now. It is really settled.

Purvis: Thank you.

(Million Dollars)

4. Amounts urgently required for British type war materials:

For product -----	\$345	
For plant facilities -----	<u>\$ 31</u>	
Total -----		\$376

5. Amounts recoverable from transfer of contracts and plant facilities (see item "2") ----- \$154

Balance of British type contracts for which no funds available -----		<u>\$222</u>
--	--	--------------

6. Amounts urgently required for U.S. type war materials:

For product -----	\$836 ^{2/}	
For plant facilities -----	<u>\$ 48 ^{2/}</u>	
Total -----		\$884

Additional requirement for aircraft plant facilities for contracts to be placed after February -----		\$300
--	--	-------

U.S. type contracts for which no funds available		<u>\$1184</u>
--	--	---------------

^{2/} These figures do not include approximately \$200,000,000 of contracts for U.S. types (plus \$22,000,000 of plant facilities) originally proposed to be placed with the \$230,000,000 of War Department funds referred to in 2 (a) above.

MEMORANDUM

January 23, 1941.

TO: Secretary Morgenthau
FROM: Mr. Sullivan

SUBJECT: Conference at the White House.
Present: President Roosevelt,
Secretary Morgenthau,
Under Secretary Bell,
Mr. Sullivan.

The Secretary presented the President with a memorandum dealing with pending finances of 500,000,000 National Defense notes. The President commented on how poor we were and asked Under Secretary Bell how much money we had on March 4, 1933, and Mr. Bell replied \$156,000,000. The President approved the immediate issuance of the 500,000,000 National Defense notes and then discussed the raising of additional cash in the amount of 1 billion dollars and the refunding of 1 1/4 billion dollars of maturities in March. He suggested our consideration of a type of securities which would be cashable at par at all times and said he thought it would serve the double purpose of (1) freeing the people from the fear of not being able to get the cash when they needed it, and (2) preventing deflation by preventing these bonds from dropping very far below par.

The Secretary presented the memorandum on the legislation to make all future issues of Federal securities taxable. The President objected to any move which could be interpreted as Treasury conviction that appropriations could not be made beyond the stabilized debt limit. The Secretary and Mr. Bell explained to him they would have no difficulty in increasing the debt limit and that it would be much easier to work the problem out with Congress. The President then stated that no definite amount to which the limit should be increased should be formally recommended by the Treasury and that this bill should be a committee bill rather than a Treasury bill.

The Secretary then presented the President with the memorandum relating to reciprocal taxation of Federal, State and municipal securities. The President inquired if this was along the lines of the Glass Plan and Mr. Sullivan replied that it was not, that this bill called for taxation of all future issues of State and municipal securities by the Federal Government and taxation of future issues of Federal securities by the States. The President nodded approval but did not indicate whether or not this should be a Treasury bill or a committee bill.

JLS

January 22, 1941

TO THE PRESIDENT:

The Treasury's working balance is, at the present time, down to \$742,000,000 and by the end of January it will be down to approximately \$500,000,000. It is, therefore, necessary for us to raise an additional amount of new cash at this time to meet heavy expenditures for the next thirty days. I propose, therefore, offering on Thursday of this week \$500,000,000 of National Defense notes, the income from which will be subject to all Federal taxes.

If our legislation to raise the debt limit and to tax the income from all Federal securities is passed before the middle of February, I contemplate an issue of Reconstruction Finance Corporation securities during that month in the amount of about \$500,000,000. This will enable that Corporation to meet its commitments as well as return to the Treasury some \$350,000,000 of capital funds as recommended in your 1941 Budget. If this legislation is not enacted by that time, I may have to offer another issue of Defense notes.

When this legislation is passed, I also contemplate issuing before March fifteenth around \$1,000,000,000 of Treasury securities for new cash and, in addition, refunding \$1,222,000,000 of securities maturing on March fifteenth. It is hoped that the Treasury can at this time issue a long-term Treasury bond, the income from which will be subject to all Federal taxes.

DW:KLN

MEMORANDUM FOR THE PRESIDENT

There is attached a draft of a bill relating to the public debt and the status of future Federal obligations from the standpoint of exemption from taxation, which I propose to recommend to Congress if it meets with your approval.

The bill entitled "A Bill To amend the Second Liberty Bond Act, as amended, and for other purposes," would accomplish the following objectives:

(a) It would fix the ceiling on the public debt at \$60,000,000,000, an increase of \$11,000,000,000 over the present statutory combined debt limit of \$49,000,000,000. The new limit, of course, would not include guaranteed obligations issued by the Reconstruction Finance Corporation and similar agencies.

(b) It would give the Secretary of the Treasury greater and more flexible authority

- 2 -

over Savings Bonds as a financing medium by giving him discretion (1) to fix their denominations, (2) to determine the aggregate face amount of them which may be held by one person at one time, and (3) to issue them on an interest-bearing as well as a discount basis.

(c) It would authorize the Secretary of the Treasury to issue, in the same manner as Savings Bonds are issued, a new obligation similar to the old War Savings Certificate called a "Treasury Savings Certificate."

(d) It would eliminate the partition between the general debt limitation of \$45,000,000,000 and the National Defense limitation of \$4,000,000,000, and would repeal that section of the Revenue Act of 1940 which earmarks certain taxes levied under that Act for the purpose of retiring, over a five-year period, any National Defense obligations issued under the National Defense debt limitation.

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(c) It would remove from all Federal obligations (including those of corporations and other agencies of the Government) issued in the future the privileges of exemption from Federal taxation which they now enjoy.

HEV:LJB:fm 1-21-42

A BILL

To amend the Second Liberty Bond Act, as amended, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the Public Debt Act of 1941.

Sec. 2. Section 21(a) of the Second Liberty Bond Act, as amended, is hereby further amended to read as follows:

"Sec. 21. The face amount of obligations issued under the authority of this Act shall not exceed in the aggregate _____ outstanding at any one time."

Sec. 3. Section 22 of the Second Liberty Bond Act, as amended (U.S.C., title 31, sec. 757c) is hereby amended to read as follows:

"Sec. 22. (a) The Secretary of the Treasury is authorized to issue, from time to time, through the Postal Service or otherwise, United States savings bonds and United States Treasury savings certificates, the proceeds of which shall be available to meet any expenditures authorized by law, and to retire any outstanding obligations of the United States bearing interest or issued on a discount basis. The various issues and series of the savings bonds and the savings certificates shall be in such forms, shall be offered in such amounts, subject to the limitation imposed by section 21 of this Act, as amended, and shall be issued in such manner and subject to such terms and conditions consistent with subsections (b), (c), and (d) hereof, and including any restrictions on their transfer, as the Secretary of the Treasury may from time to time prescribe.

"(b) Savings bonds and savings certificates may be issued on an interest-bearing basis, on a discount basis, or on a combination interest-bearing and discount basis and shall mature, in the case of bonds, not more than twenty years, and in the case of certificates, not more than ten years from the date as of which issued. Such bonds and certificates may be sold at such price or prices,

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redemmed before maturity upon such terms and conditions as the Secretary of the Treasury may prescribe: Provided, that the interest rate on, and the issue price of savings bonds and savings certificates and the terms upon which they may be redeemed shall be such as to afford an investment yield not in excess of three per centum per annum, compounded semiannually. The denominations of savings bonds and of savings certificates shall be such as the Secretary of the Treasury may from time to time determine and shall be expressed in terms of their maturity values. The Secretary of the Treasury is authorized, in his discretion, at any time or from time to time, by regulation to fix the amount of savings bonds and savings certificates that may be held by any one person at any one time.

"(c) The Secretary of the Treasury may, under such regulations and upon such terms and conditions as he may prescribe, issue, or cause to be issued, stamps, or may provide any other means to evidence payments for or on account of the savings bonds and savings certificates authorized by this section, and he may, in his discretion, make provision for the exchange of savings certificates for savings bonds.

"(d) For purposes of taxation any increment in value represented by the difference between the price paid and the redemption value received (whether at or before maturity) for savings bonds and savings certificates shall be considered as interest. The savings bonds and the savings certificates shall not bear the circulation privilege.

"(e) The appropriation for expenses provided by section 10 of this Act and extended by the Act of June 16, 1921 (U.S.C., title 31, secs. 760 and 761), shall be available for all necessary expenses under this section, and the Secretary of the Treasury is authorized to advance, from time to time, to the Postmaster General from such appropriation such sums as are shown to be required for the expenses of the Post Office Department, in connection with the handling of bonds, certificates, and stamps or other means provided to evidence payments.

"(f) The board of trustees of the Postal Savings System is authorized to permit, subject to such regulations as it may from time to time prescribe, the withdrawal of deposits on less than sixty days' notice for

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the purpose of acquiring savings bonds and savings certificates which may be offered by the Secretary of the Treasury; and in such cases to make payment of interest to the date of withdrawal whether or not a regular interest payment date. No further original issue of bonds authorized by section 10 of the Act approved June 25, 1910 (U.S.C., title 39, sec. 760), shall be made after July 1, 1935.

"(g) At the request of the Secretary of the Treasury the Postmaster General, under such regulations as he may prescribe, shall require the employees of the Post Office Department and of the Postal Service to perform, without extra compensation, such fiscal agency services as may be desirable and practicable in connection with the issue, delivery, safekeeping, redemption, or payment of the savings bonds and savings certificates, or in connection with any stamps or other means provided to evidence payments."

Sec. 4 (a). Notwithstanding any other provision of law all obligations issued under authority of the Second Liberty Bond Act, as amended, and all obligations which by their terms bear interest or which are sold on a discount basis issued under authority of any other law by any instrumentality, corporation or agency of the United States or by any other corporation or entity created by, organized under, or established pursuant to authority contained in, any Act of Congress shall, as to both principal and interest or other increment, be subject to all taxes now or hereafter imposed by the United States: Provided, That any such obligations which the United States or any such instrumentality, corporation, agency or entity has, prior to the effective date of this Act, contracted to issue at a future date, shall when issued bear such tax exemption privileges as are provided in the law authorizing their issuance.

(b). The provisions of this section shall, with respect to such ob-

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bligations, be considered as amendatory of and supplementary to the respective Acts or parts of Acts authorizing the issuance of such obligations, as amended and supplemented.

Sec. 5. Section 32 of the Act approved June 13, 1898, as amended (U.S.C., title 31, sec. 756); section 6 of the First Liberty Bond Act, as amended (U.S.C., title 31, sec. 755); section 6 of the Second Liberty Bond Act, as amended (U.S.C., title 31, sec. 757); section 5(d) of the Second Liberty Bond Act, as amended (U.S.C., title 31, sec. 754(d)); and sections 301 and 302 of title III of the Revenue Act of 1940 (54 Stat. 526); are hereby repealed.

Sec. 6. Nothing contained in this Act shall be deemed to alter or amend in any way the terms of any of the obligations described in section 4 hereof, issued prior to the effective date of this Act, or to impair or otherwise affect any rights, privileges, or remedies accruing to the holders of such obligations under the terms thereof or under the laws authorizing their issuance.

Sec. 7. This Act shall become effective on the first day of the month following the date of its approval by the President.

MEMORANDUM FOR THE PRESIDENT

There is attached a bill relating to the status of state and municipal obligations from the standpoint of exemption from taxation which I propose to recommend to Congress if it meets with your approval.

The purpose of the bill is to provide the balance of the legislation necessary to enable us to complete our program of elimination of tax-exempt securities. This purpose would be accomplished by:

(a) Making obligations issued in the future by any State, Territory, municipality, or other public body subject to income taxation by the Federal Government. To permit public bodies to take advantage of favorable market conditions, provision has been made for the refunding of outstanding callable bonds with tax exemption for the same period as the original issue.

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(b) Consent to non-discriminatory taxation by States of the interest on all Federal obligations issued in the future.

I think it would be good strategy to have this bill acted upon by Congress after Congress has acted upon the proposed bill dealing with the taxable status of future Federal securities.

LJB/EHFJr/fm
1/21'41

9. 76. 575

(The dates herein used are based on the assumption that the bill will be enacted in April, 1941, so that an interval of about 60 days will exist between its enactment and the date separating the taxable issues from the tax-exempt issues.)

A BILL

To provide for the reciprocal income taxation of public obligations, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Public Bond Tax Act of 1941."

Sec. 2. Section 22(b)(4) of the Internal Revenue Code is amended to read as follows:

"(4) **TAX-FREE INTEREST.**—To the extent provided in section 116(b), interest upon obligations issued by (A) a State, Territory, or any political subdivision thereof, or the District of Columbia, or any agency or instrumentality of any one or more of the foregoing; or (B) a corporation organized under Act of Congress, if such corporation is an instrumentality of the United States (as defined in section 116(b)); or (C) the United States or any of its possessions. Every person owning any of the obligations enumerated in clause (A), (B), or (C) shall, in the return required by this chapter, submit a statement showing the number and amount of such obligations owned by him and the income received therefrom, in such form and with such information as the Commissioner may require."

Sec. 3. Sections 25(a)(1) and (2) of the Internal Revenue Code are amended to read as follows:

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"(1) **INTEREST ON UNITED STATES OBLIGATIONS.**—The amount received as interest upon obligations of the United States if such interest is included in gross income under section 22, and if under the Act authorizing the issue of such obligations, as amended and supplemented (including the amendatory and supplementary provisions of section 4 of the Public Debt Act of 1941), such interest is exempt from normal tax.

"(2) **INTEREST ON OBLIGATIONS OF INSTRUMENTALITIES OF THE UNITED STATES.**—The amount received as interest upon obligations of a corporation organized under Act of Congress, if (A) such corporation is an instrumentality of the United States (as defined in section 116(b)); and (B) such interest is included in gross income under section 22; and (C) under the Act authorizing the issue of such obligation, as amended and supplemented (including the amendatory and supplementary provisions of section 4 of the Public Debt Act of 1941), such interest is exempt from normal tax."

Sec. 4. Section 116 of the Internal Revenue Code is amended by inserting after subsection (a) a new subsection to read as follows:

"(b) **TAX-FREE INTEREST.**—Interest upon obligations issued

- (1) before July 1, 1941, by a State, Territory, or any political subdivision thereof, or the District of Columbia, or any agency or instrumentality of any one or more of the foregoing; or
- (2) by a corporation organized under Act of Congress, if such

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corporation is an instrumentality of the United States; or (j) by the United States or any of its possessions. In the case of obligations of the United States issued after September 1, 1917 (other than postal savings certificates of deposit), and in the case of obligations of a corporation organized under Act of Congress the interest shall be exempt only if and to the extent provided in the respective Acts authorizing the issue thereof, as amended and supplemented (including the amendatory and supplementary provisions of section 4 of the Public Debt Act of 1941), and shall be excluded from gross income only if and to the extent it is wholly exempt from the taxes imposed by this chapter. The term 'instrumentality of the United States' means instrumentality, corporation or agency of the United States, or any other corporation or entity created by, organized under, or established pursuant to authority contained in, any Act of Congress. For the purposes of this subsection:

"(1) In determining whether an obligation is issued after June 30, 1941, and whether an obligation is issued after the date of enactment of the Public Bond Tax Act of 1941 (hereinafter called 'enactment date'), it shall in either case be considered to be issued after such date, if any part of the payment therefor is received by the obligor after such date, or delivery thereof is made by the obligor after such date.

"(2) Obligations which merely replace lost, mutilated, defaced, or destroyed obligations, or obligations of larger or smaller denominations, and obligations in registered form or with coupons which merely replace obligations with coupons or in registered form, shall be treated as if they were the obligations replaced.

"(3) (A) If the terms of an obligation issued before July 1, 1941, the maturity of which on statement date is later than June 30, 1941, are, after statement date, changed so as to increase the principal amount or interest rate or to extend the maturity, then such obligation shall (as to interest accruing for any period after the date of the change or June 30, 1941, whichever is later) be considered as issued after such later date.

"(B) In the case of an obligation issued after the statement date and before July 1, 1941, such obligation shall (as to interest accruing for any period after June 30, 1941) be considered as issued after June 30, 1941, if any part of the proceeds of the issue of which the obligation is a part, or if any obligation of the issue, is devoted to the retirement or refunding of an obligation the maturity of which on statement date was later than December 31, 1941. For the purposes of this subparagraph, December 31, 1941, shall be considered the maturity, on statement date, of an obligation the interest on which ceases to run before

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January 1, 1942, by reason of such obligation being called for redemption in accordance with the terms thereof as they existed on enactment date.

"(4) If an obligation is issued after June 30, 1941 (hereinafter called 'refunding obligation'), and if —

"(A) the issue of which it is a part (hereinafter called 'new issue') is issued for the purpose of refunding one or more obligations (hereinafter called 'refunded obligations'); and

"(B) all refunded obligations have the same exemption expiration date, as defined in subparagraph (J); and

"(C) no obligations, other than those of the new issue, have been issued for the purpose of refunding any of the refunded obligations; and

"(D) the aggregate principal amount of the new issue is not in excess of the aggregate principal amount of the refunded obligations; and

"(E) interest on each of the refunded obligations ceases (by reason of such obligation, being called for redemption, in accordance with the terms thereof as they existed on enactment date, or the date of issue, whichever is later) to run upon a date not more than seven months after the date upon

which interest on the refunding obligation begins to run; and

"(F) interest on each of the refunded obligations, for the period at the end of which it ceases to run by reason of such call for redemption, is considered as interest on an obligation issued before July 1, 1941; and

"(G) the refunding obligation, in its terms, states the exemption expiration date of, and identifies, the refunded obligations; and

"(H) the interest rate on the refunding obligations for any period ending on or before the exemption expiration date of the refunded obligations is not higher than the interest rate which any of the refunded obligations had, or would (if such obligation had not been called for redemption) have had, for the corresponding period;

then the refunding obligation shall be considered as issued before July 1, 1941, as to so much of the interest as accrues for any period ending before or on the exemption expiration date of the refunded obligations, and shall be considered as issued after June 30, 1941, as to the remainder of such interest. For the purposes of this paragraph--

"(I) several obligations shall be considered as one issue, only if such is identical with all

the others in maturity, interest rate, terms and conditions, and recitals, but the fact that the denominations differ, or that some are registered and some in coupon form shall be disregarded.

"(J) 'Exemption expiration date' means--

"(i) with respect to a refunded obligation issued before July 1, 1941, the date of maturity which the obligation had on June 30, 1941;

"(ii) with respect to a refunded obligation issued after June 30, 1941, the date as of which interest thereon would (if the obligation had not been called for redemption) have ceased to be considered as interest on an obligation issued before July 1, 1941."

Sec. 5. (a) The United States hereby consents to the taxation, under an income tax, of interest upon, and gain from the sale or other disposition of, obligations issued after June 30, 1941, by the United States, any Territory or possession or political subdivision thereof, the District of Columbia, or any agency or instrumentality of any one or more of the foregoing, by any duly constituted taxing authority having jurisdiction to tax such interest and gain, if such taxation does not discriminate against such interest or gain because of its source. The consent given in this section shall not affect those obligations issued after

June 30, 1941 which the United States or any agency or instrumentality thereof has prior to June 30, 1941 contracted to issue at a future date with such tax exemption privileges with respect to taxation by any State, county, municipality, or local taxing authority as are provided in the law authorizing their issuance, as amended and supplemented. As used in this subsection, agency or instrumentality of the United States includes any corporation of the United States and any corporation or entity created by, organized under, or established pursuant to authority contained in, any Act of Congress.

(b) For the purposes of this section—

(1) In determining whether an obligation is issued after June 30, 1941, it shall be considered to be issued after such date if any part of the payment therefor is received by the obligor after such date, or delivery thereof is made by the obligor after such date.

(2) Obligations which merely replace lost, mutilated, defaced, or destroyed obligations, or obligations of larger or smaller denominations, and obligations in registered form or with coupons which merely replace obligations with coupons or in registered form, shall be treated as if they were the obligations replaced.

(c) The provisions of this section shall, with respect to any obligation, be considered as amendatory of and supplementary to the respective Acts or parts of Acts authorizing the issue of such obligation as amended and supplemented.

January 22, 1941

MEMORANDUM FOR THE PRESIDENT:

In your Budget Message you made the following statement:

* * * I am assuming that the Congress will accept the recommendation of the Secretary of the Treasury that the earmarking of taxes for retirement of defense obligations be repealed; * * *

The Budget document shows, based on the program set out therein, that the gross public debt will be \$49,157,000,000 on June 30, 1941, and \$58,367,000,000 on June 30, 1942. These two figures do not take into consideration the future accruals on Savings Bonds nor any contemplated aid to Great Britain. According to Treasury estimates, the balance of the borrowing authority under the combined debt limitations of \$49,000,000,000 will be exhausted in May of this year. It will, therefore, be necessary for the Treasury to ask Congress for an immediate increase in our debt limitation, and we should like to ask at the same time the elimination of the partition between the general limitation and the National Defense limitation, and the repeal of the provisions setting up the special fund into which earmarked taxes are to be deposited for the purpose of retiring any outstanding National Defense securities.

In view of the Budget program and the additional financing which may be expected of the Treasury under the Lend-Lease Bill for

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Great Britain, I recommend that the public debt limitation be fixed at \$60,000,000,000.

The following table shows the Treasury's financing problem for the next eighteen months (exclusive of Savings Bonds, Treasury bills, and Trust funds):

	January - June, 1941	July, 1941- June, 1942	Total
(In millions of dollars)			
Treasury -			
New cash	\$ 3,500	\$ 6,750	\$ 10,250
Refundings	1,786	1,464	3,190
Governmental Corporations:			
New cash	560	1,000	1,560
Refundings	-	1,678	1,678
	\$ 5,786	\$10,892	\$ 16,678

FVS:MLL

January 22, 1941
2:36 p.m.

H.M.Jr: Hello.

Cong. Doughton's
Secretary: Yes, sir, Mr. Secretary.

H.M.Jr: Is Mr. Doughton in town?

S: Yes, sir, he is.

H.M.Jr: Well, I've got to know whether he can come tomorrow morning or not. I've got Senator Harrison, Senator George and Mr. Cooper all tied up.

S: I know that he can come but I will contact him from the floor immediately, Mr. Secretary, and then call you back.

H.M.Jr: I wish you would. I've really got to know.

S: All right, sir. I know that he can but I'll confirm that immediately. I'll go over there myself.

H.M.Jr: And will you call back?

S: Yes, sir. I'll go over there right now.

H.M.Jr: Thank you.

January 22, 1941
2:58 p.m.

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H.M.Jr: Hello

Operator: Congressman Doughton.

Robert Doughton: Secretary, this is Bob Doughton. How are you, Henry?

H.M.Jr: I'ee all right. How're you?

D: First rate, thank you. I just, through my secretary, got your kind invitation.

H.M.Jr: Yeah.

D: What's the occasion and how long will we probably be down there?

H.M.Jr: Well, the occasion is this: I saw the President today and we need some changes in our law about raising our money. I want to draw your attention to the fact that we're approaching the debt limit.

D: Death limit.

H.M.Jr: Debt limit - not death.

D: (Laugh) Well, I'm glad it's debt, not death.

H.M.Jr: No, death and taxes. This is debt, and then this question about tax exempts on Governments.

D: Well, that's one thing I've been thinking I'd come down and discuss with you and see if you were going to press that and if so we'd better get at it. We've got a tax bill - if we're not why it wouldn't be so important.

H.M.Jr: What are you doing around 9:30 tomorrow morning?

D: Well, these National Defense people wanted an amendment to this excess profits tax bill and they want it done - get through Congress before the 5th of February. There's a deadline there that they say has got to be

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removed or it'll hamper their National Defense program. I introduced a Joint Resolution today and was going to call my Committee in the morning at 10:30 but I can do it a little later. I haven't called it yet and of course I'll come to your meeting.

H.M.Jr: Well, if you could be here at 9:30 - if you're not here there's no use having any meeting.

D: How's that?

H.M.Jr: If you don't come, there won't be any meeting.

D: Well, but I'll come.

H.M.Jr: All right.

D: We'll probably be down there an hour or two, won't we?

H.M.Jr: God, I hope not.

D: Well, probably how long would you expect?

H.M.Jr: Oh, an hour.

D: 9:30 to 10:30. Think I could safely call a meeting for 11:00?

H.M.Jr: I think it would be safe.

D: Up here?

H.M.Jr: Yes, sir.

D: Well, I'll just call my meeting then for 11:00 to consider my Joint Resolution.

H.M.Jr: Fine.

D: Who all will be in our meeting tomorrow?

H.M.Jr: Well, if it's agreeable to you, I thought I'd have Senator Harrison, Senator George and Jere Cooper.

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D: Always happy to have Senator Harrison, oh, yes, and Senator George and Jere Cooper.

H.M.Jr: That's about all unless you had somebody in mind.

D: No, I wouldn't have anybody unless you wanted to invite old man Tom. He is the ranking Democrat. He's not - we haven't organized any sub-committees yet you know, but I think he told me he was going home today anyhow.

H.M.Jr: Well, then, that leaves him out.

D: Yeah, he's mighty good always and I think would appreciate a little recognition. I think he has felt a little hurt that some boys below him on the committee have received more recognition although he hasn't complained. He's one of the loveliest characters in the world. Well, all right, just whoever you want to invite, you know, is always satisfactory and pleasing to me.

H.M.Jr: Well, 9:30 tomorrow morning?

D: At your office.

H.M.Jr: Yes.

D: I'll be there and I'll set my meeting for 11 o'clock.

H.M.Jr: Wonderful.

D: And then you think I'll be able to get back?

H.M.Jr: Yes, sir!

D: Thank you very much.

H.M.Jr: Thank you.

January 22, 1941
3:00 p.m.

RE DEBT LIMIT

Present: Mr. Bell
Mr. Sullivan
Mr. Schwarz
Mr. Kuhn
Mr. Foley
Mrs. Klotz

H.M.Jr: While I am waiting for Bell to come in,
what did you do on the Hill?

Kuhn: We couldn't get to Bloom until after the
hearing. He said he would have to call
his committee together and put that in the
record before releasing it, so he held up
the press releases. That means we are going
to have to hold up the letter to Tinkham
until we get word to him.

H.M.Jr: You don't know what happened?

Kuhn: Not after that.

H.M.Jr: He is going to let you know?

Schwarz: We will get word back as soon as the committee
has approved that as a part of the record.
He suggested holding it up until Friday or
Saturday, and we urged him to speed it along
because the longer that difference in the
Federal Reserve figures and ours is un-
reconciled, the more editorials we might
have, questions.

- 2 -

He said he would do it.

H.M.Jr:

I am trying to clear a half dozen things.

Dan, tomorrow morning at 9:30 I expect Harrison, George - I have heard from them. Also Doughton and Cooper. I haven't heard from Doughton, but I have got his man on the floor trying to get him. They are coming in here at 9:30, at which time I am going to put up what we talked to the President, and I want Foley and Sullivan here; but I am looking to you to have ready for me what we took over to the President, except to change it so that we won't ask for a fixed amount. We will draw their attention to the fact that if we borrow all of this money, we will exceed the debt limit; and we are just bringing it to their attention, to have it read the way the President asked us to do it, you see, which leaves it open. But we will carry it out. I expect to tell them that my position is that I would like to see it raised to an amount equal to what has been appropriated. So there is no misunderstanding, I am looking to you to have it here at 9:30.

(Telephone conversation with Mr. Doughton follows:)

- 3 -

Sullivan: I think it is Tom Collins from Brooklyn.

H.M.Jr: Did you know about this?

Sullivan: This is an amendment which merely allows them to go beyond February 5 and certify these defense things.

H.M.Jr: This isn't the thing that you talked about after we left the President?

Sullivan: Not at all, sir, and we are keeping strictly out of this. You remember they tried to get Treasury in last summer, to join in the certification, and so when Mr. Greenbaum came over, I told him that we neither approved or disapproved. We interposed no objection, so we don't want to get in on it. This is a defense matter, and none of our affair.

H.M.Jr: Oh, this is where all those three agencies certify?

Sullivan: That is right, and they haven't been able to - I think - I don't know. Have you heard about anything being decided on it, Dan?

Bell: No.

H.M.Jr: Then if they are having a meeting tomorrow, it is very timely that we have this meeting in the morning. I have got a call in for Barkley and the Speaker to tell them about this meeting. After eight years I learned a little..... But I am looking to you, Dan, to have that thing.

Bell: Yes, I will have it.

H.M.Jr: All right. We will have the same thing we took to the President, except --

- 4 -

Bell: Current financing.

H.M.Jr: We won't mention a figure. Now, I think we ought to show them what the borrowing is going to be just the way it was in that thing, for six months and 18 months.

Bell: All right. There is 17 billion dollars piled up there for financing.

H.M.Jr: Would you have a figure - what the figure would be if it included - to raise the debt up to the amount of the appropriations.

Bell: Sixty-three billion dollars if you include the estimates in the Budget.

H.M.Jr: Because you know Harry Burns said he would go along.

Bell: Yes.

H.M.Jr: Now, do you (Sullivan) want to ask me anything between now and 9:30 tomorrow morning?

Sullivan: No, sir.

H.M.Jr: Do you, Ed?

Foley: No.

H.M.Jr: Anybody else?

Foley: Are you going to use the same bill, Dan, except just use the figure out, or are you going to use the other one that doesn't mention any figure? You know we had it both ways, yesterday.

Bell: No, we will use the bill with a blank figure.

- 5 -

The Secretary, I think, made it quite plain to the President that he thought a figure ought to go in, but we wouldn't put it in.

- H.M.Jr: The President tried his best to - doesn't want the Treasury to name a figure, and he has changed a little bit from his Budget message. He wants us to say that it is Congress' responsibility. I have done that consistently, Ed. Is that right?
- Bell: That is right.
- Schwarz: You have done that in all your public statements.
- Bell: And I think the figure ought to be fixed up at this meeting tomorrow and ought to go in that bill when they introduce it.
- H.M.Jr: They will mention a figure, but I can't go along with the President on this.
- Sullivan: He also said that was to be a committee bill.
- H.M.Jr: They are all committee bills.
- Bell: Yes, they are all committee bills.
- H.M.Jr: Except those bills which are Foley Bills. (Laughter)
- Well, that is about all. Ed, you have got word that you are to go up with me on the Hill at 3:15 tomorrow?
- Foley: Yes.
- H.M.Jr: All right. After this, I am going home. I am under the weather. Has anybody got anything else for me?

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Kuhn: You asked yesterday for the full text of what Bell said about the direct investments. I have been through it, and there is nothing in a long speech on that subject except what was in the newspapers. I have it here if you want it.

H.M.Jr: I would hate to see it.

Kuhn: There is no need of it.

Schwarz: I brought along the text of Norman Thomas' talk this morning. I don't think you need that either.

H.M.Jr: No. O.K., gents.

Bell: Then your three o'clock meeting is off? It is Federal Reserve.

H.M.Jr: That is very mean of you, Dan.

Bell: It is all right with me. I would just put it in the safe permanently.

H.M.Jr: Why?

Nell: I don't think I would pull it out until I have to.

H.M.Jr: Oh I am, but I am not going to answer it today.

Foley: Is Hull going on first or is this just a preliminary?

H.M.Jr: This is a - what do you call it --

Foley: Rehearsal.

H.M.Jr: Rehearsal. This is a strategy meeting tomorrow.

- 7 -

Foley: Oh, I see, I thought we were appearing.

H.M.Jr: No, this is a strategy meeting.

Foley: Because I had to call in for Barkley to find out what happened, but I got your message so I canceled the call.

Kuhn: Monday morning I think they start.

Foley: Oh, is it? I didn't hear.

Kuhn: It was just on the ticker.

H.M.Jr: Okeydoke, gents.

January 22, 1941
3:19 p.m.

H.M.Jr: Hello, Henry talking.

Sen. Alben
Barkley: Yeah.

H.M.Jr: Alben, just to keep my lines straight with you, tomorrow morning I've asked Harrison and George and Doughton and Jere Cooper to come in to talk about some legislation we need on the debt limit and on this taxing Federal bonds and so forth and so on.

B: Yeah.

H.M.Jr: Now how would you like me to keep you posted so that I can get your advice?

B: Why, all right. I'd be glad for you to.

H.M.Jr: Would you want me to do it before tomorrow or after the meeting tomorrow or how would you like me to do it?

B: Well, anyway you want to.

H.M.Jr: Well, you tell me and I'll do it the way

B: Well, maybe you'd better wait until afterwards.

H.M.Jr: And then get in touch with you?

B: Yeah.

H.M.Jr: O. K., because

B: If you want me to come to the meeting, I can do that.

H.M.Jr: Oh, I'd love it.

B: Well, what time is it?

H.M.Jr: 9:30, at the Treasury.

B: Well, if you want me to do it

- 2 -

H.M.Jr: Well, I hesitated to ask you because I know how busy you are.

B: But still I can get the information better right there than I could - and save your time too.

H.M.Jr: Well, that would be wonderful.

B: All right.

H.M.Jr: 9:30.

B: 9:30.

H.M.Jr: Thank you so much.

B: All right. Good-bye.

January 22, 1941
3:25 p.m.

H.M.Jr: Hello.

Operator: Speaker Rayburn.

H.M.Jr: Hello.

Sam Rayburn: Henry?

H.M.Jr: Yes, Sam.

R: Down in our District we have a chief bank examiner who has reached the retirement age. Now there are a lot of bankers writing about him and so forth and so forth. Now, if you feel like extending it why that I think would be all right with all of us, but if you decide not to do that, there's a fellow down there who is his assistant named Sanelin who's a mighty, mighty good man.

H.M.Jr: Now, let me get this straight. Who is the fellow who is going to resign?

R: Collier. Collier has reached retirement age - he's 70.

H.M.Jr: Collier.

R: He's the Chief down in that Dallas District, and his Chief assistant, or whatever they call it, is a man named Sanelin. I say if it is decided not to extend Mr. Collier's time why this man Sanelin is a powerful good man.

H.M.Jr: Sam, tip me off. Which way would you like it?

R: Well, Collier of course is 70 and he's hard of hearing and

H.M.Jr: O. K.

R: See what I mean?

H.M.Jr: O. K.

R: All right.

- 2 -

H.M.Jr: Now, let me ask you one?

R: Yes.

H.M.Jr: Tomorrow morning into my office are coming Barkley, Harrison, George, Bob Doughton and Jere Cooper on some legislation that we need and we talked to the President about it this morning. It has to do with the debt limit and taxing Government bonds and State bonds and if you weren't too busy I'd consider it a great compliment if you'd come and sit in with us.

R: What time is it?

H.M.Jr: It's at 9:30.

R: Yeah, that'll be all right. I'll be there, unless I get tied up somehow and I don't think I will.

H.M.Jr: Well, if you could and could spare the time why it would be very helpful to me.

R: Fine. Thank you, Henry, I'll be there.

H.M.Jr: Thank you.

January 22, 1941.

My dear Mr. Tinkham:

Before receiving your letter of January 18th I had prepared further information, including detailed figures, for submission to your Committee. I am sending herewith a copy of this material which has now gone to your Chairman.

You will find, I think, that this material answers the questions which you have raised.

Sincerely yours,

(Signed) H. Macomber, Jr.

Hon. George Halden Tinkham,
House of Representatives,
Washington, D. C.

Y-22-41 Taken up on Hill by
Mr. Kuhn and others Brought
back and sent to Mr. Tinkham
by Special Messenger 3:25
by Kuhn's office.

FK:bls
1/21/41

FILE COPY

The Secretary of the Treasury
Washington

COPY

January 21, 1941

My dear Mr. Bloom:

When I appeared before your Committee on January 15, I presented figures of the British dollar position as submitted to me by the British Treasury. Since then the British Treasury has communicated to me a more recent figure of their gold holdings. I submit this revised figure to you without delay, as I want the Committee to have the latest information in the possession of the Treasury.

The figure the British had previously submitted to me of their total gold holdings (as of January 1, 1941) was \$238 million; the revised figure is \$292 million, or \$54 million greater. The earlier British table included \$33 million of gold scattered in various parts of the world, and not available for payments here; the new table makes this figure only \$30 million, which means that \$3 million more are available for use. On the other hand, the British Treasury has submitted to me an additional debit item of \$21 million, representing commitments already made on account of forward exchange contracts. This figure was not in our possession on January 15th and did not appear in my original table of British liabilities.

The difference between the present total and my earlier total is, therefore, a net increase of \$36 million in British dollar and gold assets which are available to pay for war supplies in this country.

The following table of the United Kingdom's gold and dollar assets contains the revised figure of gold holdings on December 31, 1940, and to that extent supersedes the table I presented to you on January 15th. The present table includes also a set of figures which the British Treasury has just given us as to their gold and dollar exchange position on August 31, 1939, just before the outbreak of war. All the figures in the present table are supplied by the British except the estimate of private dollar balances, marked with an asterisk, which is taken from United States Treasury data.

- 2 -

Gold and Dollar Exchange Assets of U.K.

	Aug. 31, 1939	Dec. 31, 1940
	(In Millions)	
Gold.....	\$2,038	\$ 292
Official dollar balances.....	50	54
*Private dollar balances.....	545	305
Marketable U.S. securities.....	950	616
Direct and miscellaneous investments in U.S.....	<u>900</u>	<u>900</u>
Total gold and dollar exchange assets.....	\$4,483	\$ 2,167

From the total British gold and dollar exchange assets of \$2,167 million on December 31, 1940, the British exclude as unavailable \$305 million of private dollar balances regarded as necessary for the conduct of business, \$30 million of gold scattered in different parts of the world, and \$21 million (the figure I mentioned earlier in this statement) on account of forward exchange contracts. This leaves a total of \$1,611 million in gold and dollar exchange assets which the British regard as available, as compared with a figure of \$1,775 million in the original table I presented to the Committee.

It may be of interest to you to compare the British figures of their position on August 31, 1939, with the figures published in the Federal Reserve Bulletin of January, 1941. The Federal Reserve Bulletin estimated British gold and dollar resources as of August 31, 1939, as follows:

(In millions of dollars)

Gold.....	\$2,000
Dollar balances.....	595
Market securities.....	1,080
Direct and miscellaneous investments in the U.S.....	<u>1,185</u>
Total.....	\$4,360

- 3 -

The only significant difference between this estimate of the Federal Reserve Board and the British Treasury statement is in the figures of marketable securities and direct and miscellaneous investments in the United States.

The Federal Reserve Board's estimates of the United Kingdom's holdings of U. S. securities and direct and other investments in the United States as of August 31, 1939, were based on U. S. Department of Commerce data. The difference of \$130,000,000 in market securities is as might be expected between estimates built up from entirely independent sources of information -- particularly as nominee accounts are involved and the dates as of which the British have valued their investments differ somewhat from those of the Department of Commerce. Both estimates are based on market values. The Department of Commerce estimates of the value of so-called direct and miscellaneous investments do not purport to represent liquidating value since these figures are based on book value and on the capitalization of earnings, respectively. The figure of the British Treasury for direct and miscellaneous investments, stated to be "not in excess of \$900 million", is a tentative estimate that will be revised as more exact information as to the sum of such investments is obtained by the British Treasury and as evidence of their liquidation value accumulates.

How was it possible for British assets to shrink so rapidly between the start of the war and the end of 1940? The shrinkage, as you will have seen from the first table submitted today, amounted to \$2,316 million. The explanation will be found in the following table of the balance of payments of the British Empire, excluding Canada and Newfoundland, with respect to all transactions requiring settlement in dollars or in gold. This table, which I now submit to the Committee, was compiled by economists of the Treasury Department, the Department of Commerce and the Federal Reserve Board, on the basis of data supplied by the British Treasury.

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Estimated Gold and Dollar Expenditures and Receipts of British Empire, Excluding Canada and Newfoundland, from September 1, 1939 to December 31, 1940*

(In Millions of U.S. Dollars)

Gold and Dollar Expenditures

A. Payments to the United States by United Kingdom.			
1.	On British Government orders in the United States.....		\$1,380
	Goods delivered.....	\$660	
	Advance payments.....	570	
	Capital assistance.....	150	
2.	For other merchandise imports from the United States.....		705
3.	For shipping, interest, etc.....		<u>197</u>
	Shipping disbursements.....	125	
	Interest and dividends.....	48	
	Miscellaneous (chiefly film royalties).....	24	
			\$2,282
B. Payments to the United States by Empire countries, excluding U.K. and Canada			
1.	For commodity imports.....		435
2.	For shipping, interest, etc.....		<u>48</u>
	Interest and dividends.....	\$ 40	
	Shipping (net).....	8	
			483
C. Payments by Empire countries, excluding Canada, to areas outside the U.S. requiring gold or dollars			
1.	Payments by Empire countries (chiefly U.K.) to areas outside the U.S. and Canada requiring gold or dollars.....		550
2.	Gold payments by Empire countries to Canada and Newfoundland (net)**.....		<u>225</u>
			775
D. Withdrawal of Capital			
1.	By American and others, through sale of free sterling to American importers		300
2.	By repayment of outstanding export credits as required by our Neutrality Act		200
3.	By liquidation of forward exchange position in dollars.....		<u>235</u>
			735

* Compiled from data furnished by British Treasury

** For details see supplementary table appended.

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Gold and Dollar Expenditures
(Cont.)

E. Residual - Miscellaneous items and errors of estimation.....		\$ 71	
Total gold and dollar requirements for all transactions.....			<u>4,346</u>
<u>Gold and Dollar Receipts</u>			
A. Receipts from United States by United Kingdom			
1. From merchandise exports.....	\$ 205		
2. From interest, shipping, etc.	<u>140</u>	345	
Interest and dividends.....	\$ 85		
Shipping earnings	35		
Remittances from insurance companies	20		
B. Receipts from United States by Empire countries, excluding U. K. and Canada			
1. From merchandise exports	640		
2. From tourist travel, remittances, etc. (net).....	<u>30</u>	670	
C. Dollar receipts by Empire countries, excluding Canada, from areas outside the U. S.			50
D. Receipts from sale of Empire gold (new production and dishoarding).....			<u>965</u>
Total gold and dollar receipts by Empire countries, excluding Canada			\$2,030
Total drain on gold and dollar resources of British Empire, excluding Canada and Newfoundland, Sept. 1, 1939 to Dec. 31, 1940			<u>2,316</u>
Total gold and dollar requirements for all transactions			<u>\$4,346</u>

Supplementary Table

Estimated Expenditures and Receipts of Canada and Newfoundland
With the Rest of the British Empire from September 1, 1939 to
December 31, 1940

(In Millions of U.S. Dollars)

A. Payments to Canada and Newfoundland by Empire countries			
1.	For purchases from Canada and Newfoundland by the United Kingdom,.....	\$795	
2.	For purchases from Canada by other Empire countries.....	125	
3.	Other payments to Canada by Empire countries.....	<u>10</u>	\$930
B. Receipts from Canada and Newfoundland by Empire countries			
1.	From merchandise exports to Canada and Newfoundland by U.K.	170	
2.	From merchandise exports to Canada by other Empire countries.....	100	
3.	From interest and dividends paid by Canada to United Kingdom.....	85	
4.	Other U.K. receipts from Canada, principally Canadian Expeditionary Forces.....	<u>20</u>	<u>375</u>
British Empire deficit with Canada and Newfoundland on merchandise, interest and dividends, etc.....			555
Canadian assistance to U.K. -- repatriation of British-held Canadian securities and increase in sterling balances held by Canada.....			<u>330</u>
Gold payments by British Empire countries with Canada and Newfoundland Sept. 1, 1939 to Dec. 31, 1940.....			<u>225</u>

I hope the foregoing figures will be helpful to the Committee.

Sincerely,

(Signed) HENRY MORGENTHAU, JR.,

Secretary of the Treasury.

Honorable Sol Bloom, Chairman
Committee on Foreign Relations,
House of Representatives,
Washington, D.C.

COMMITTEE ON FOREIGN AFFAIRS

Congress of the United States
House of Representatives
Washington, D. C.

January 18, 1941

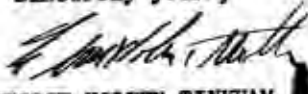
The Honorable
The Secretary of the Treasury
Washington, D. C.

Dear Sir:

May I ask how you explain the discrepancies between your statement before the House Committee on Foreign Affairs in relation to British financial resources and the more or less rough estimates made by the Board of Governors of the Federal Reserve System in August, 1939? Then, I understand British gold assets were calculated to be about \$2,000,000,000, compared with slightly more than one-tenth of this amount now; holdings of United States securities, at \$1,080,000,000 then, against \$616,000,000 now; dollar balances, private as well as official, \$595,000,000 then, \$359,000,000 now. In other words, there was a total shrinkage between these two sets of figures covering liquid assets from \$3,675,000,000 to \$1,213,000,000. With the non-liquid assets, representing direct and other investments, the disparity was less marked, it is true, being \$1,185,000,000 then and about \$900,000,000 now.

I should appreciate an answer as soon as possible.

Sincerely yours,


GEORGE HOLDEN TINKHAM

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

STRICTLY CONFIDENTIAL

DATE January 22, 1941

TO Secretary Morgenthau

FROM Mr. Klaus

FBI reports:

December 18, 1940--January 6, 1941. Surveillance of Axel Wenner-Gren continued. It appears, among other things, that Axel Wenner-Gren is in communication with H. A. Brassert Company, which is said to control practically all the iron ore needed in German war industries and acts as holding company for Goering's stockholdings in these concerns. Brassert is said to be related to Goering. Wenner-Gren is said to claim that he was called to Europe during the Finnish-Russian conflict to act as mediator and that he felt it was he who influenced Goering against dragging Sweden into the war.

January 16. An informant who claims to have been in charge of Austrian counterespionage prior to the Anschluss says that a German agent and spurious refugee called Weisblatt is now in South America trying to establish a base in some country which could be used as a landing point for thousands of German civilian planes to constitute an effective reminder to the United States as to the German aerial power; Weisblatt was the main German agent in Spain prior to the Spanish civil war and was active in France prior to the capitulation and left France for Brazil and Argentina on a passport given him by Abetz (according to the informant).

January 17. Vera Montgomery appears to be working with the Brady brothers of Dallas, Texas, on an oil deal, the details of which are not yet known to FBI; Floz, husband of Vera, has said that he is going to Washington because "they said they needed someone down there" and has advised his wife to "be careful."

January 18. The National Chemical Corporation, 82 Wall Street, New York City, offered in October 1940 for delivery by Clipper 2,000 kilograms of fine silver and 1,000 kilograms of fine platinum to someone in Switzerland and proposed to ship high speed steels on an export license with or without navicert to Lisbon.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE JAN 22 1941

TO Secretary Morgenthau

FROM Mr. Foley

Re: Final report on activities of
Legislative Section, Office
of the General Counsel, during
the 76th Congress.

It is gratifying to be able to report to you that from the standpoint of the number of bills enacted the 76th Congress was the most successful one we have had since the establishment of the Legislative Section in this office in the summer of 1934 and the centralization in it (with some exceptions) of Treasury legislative activities. The following summary of the record of this office during the three Congresses in which it has been in existence tells the story:

<u>Congress</u>	<u>Number of Treasury sponsored bills enacted</u>	<u>Number of Treasury sponsored bills actively pending at the end of the Congress which failed of enactment</u>
76th (1939-40)	50	8
75th (1937-8)	35	11
74th (1935-6)	40	8

A considerable number of Treasury measures of real importance were included among the fifty bills enacted during the 76th Congress.

- 2 -

Thus, the following were among the bills enacted during the 3rd session of that Congress:

legislation providing a uniform method of restricting and regulating the delivery of Government checks drawn to payees residing in foreign countries where, in the opinion of the Secretary of the Treasury, there is not reasonable assurance of actual delivery of such checks to the payees and the ability of the payees to negotiate the checks for full value;

legislation covering gaps in existing law with respect to the Treasury's authority to sell, exchange, or otherwise deal with railroad securities acquired by the Government as an incident to Federal control of the railroads during the last war;

legislation (which we have been trying to get enacted for several Congresses) simplifying the accounts of the Treasurer of the United States by covering into the Treasury as miscellaneous receipts the balance of the so-called 5% fund relating to deposits for redemption of national-bank and Federal Reserve bank notes, which are no longer being issued;

legislation removing all possible doubts about the regulatory authority of the President and the Secretary of the Treasury in connection with foreign funds control and ratifying action previously taken in this field;

legislation authorizing an increase in the size of the White House police force;

legislation eliminating an administratively troublesome requirement in connection with the use of vehicles for Government travel;

legislation giving the Secretary of the Treasury necessary additional authority in connection with his statutory responsibility of preventing the importation from abroad of piratical copies of works copyrighted in the United States;

several important pieces of Coast Guard legislation, including an amendment to the act providing a system for the retirement and placing out of line of promotion of commissioned Coast

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Guard officers so as to incorporate in that act changes which experience under it shows are necessary to make it workable, and an omnibus bill making a large number of necessary amendments to existing Coast Guard laws in the interests of clarification and better administration;

legislation (which we have been seeking for a number of years) authorizing payment by the United States of the expenses of returning to their homes the remains, families, and effects of Federal employees dying abroad, and the remains of Federal employees dying while travelling on official business in this country; and

legislation covering disallowances and adjustments amounting to about \$170,000 in the accounts of the chief disbursing officer and the present and former Treasurers of the United States.

The 2nd session of the 76th Congress was, of course, the short, special session which was restricted to consideration of the Neutrality Bill. No Treasury legislation was enacted and, indeed, only one public law of any character, aside from the Neutrality Act, became law during this session.

Among the important Treasury measures enacted during the 1st session of the 76th Congress were the following:

the Second Liberty Bond Act amendment removing the \$30,000,000,000 bond limitation provision from the Public Debt authorization;

legislation extending and streamlining the highly successful Government Losses in Shipment Act which this Department sponsored and obtained enactment of in 1937;

several important Coast Guard measures, including the so-called Coast Guard national defense bill authorizing the construction of three large cutters, establishment of an Alaskan base and air station, and the purchase of fifteen seaplanes, a bill increasing the line officers of the Coast Guard by 154 and establishing the rank of

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rear admiral for the offices of Assistant Commandant and Chief Engineer of the Coast Guard, a bill establishing a voluntary and involuntary retirement system for Coast Guard enlisted men of 20 years or more service, and a bill establishing the Coast Guard Reserve to be composed of private yachtsmen and motorboat owners who will voluntarily assist the Coast Guard and encourage law observance;

several important Treasury law-enforcement measures, including a bill to subject to forfeiture vessels, vehicles, and aircraft used to facilitate violation of the narcotic laws, the counterfeiting laws, and the National Firearms Act;

a big relief bill covering disallowances and adjustments in the accounts of present and former Treasurers, disbursing officers, and others (this bill, one of the largest of its kind on record, covered over \$1,100,000 in disallowances and adjustments, and dealt with matters which had been hanging fire for many years, some dating back to wartime days); and

the bill extending the powers of the President relating to the Stabilization Fund, the devaluation of the dollar, and the purchase of silver, until June, 1941 (this bill, as you will remember, gave us the hottest fight we had during the entire Congress).

Eight Treasury sponsored bills were actively pending in Congress at the final adjournment on January 3, 1941. These bills, of course, died with the end of the Congress and will have to be reintroduced and pressed to enactment in the 77th Congress. Some of them failed of enactment in the 76th Congress because they were introduced too late in the last session to get consideration, and some were stalled by opposition from other governmental agencies (the Comptroller General in one case, and the United States Employees' Compensation Commission in another) or from private interests. We are satisfied that we can secure the enactment of most, if not all, of these bills during the new Congress.

We also, of course, did a great deal of work on other legislation, notably the various Revenue Acts of 1939 and 1940, the Social Security Act amendments of 1939, various defense measures of 1940

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(all of which were enacted into law), and the big 1939 lending bill, which did not become law. None of these bills, however, strictly speaking, could be described as a Treasury bill.

Aside from the foregoing, the Legislative Section of this office handled a total of 1154 Treasury reports on legislation during the 76th Congress. Of this number, 696 were reports to committees of Congress, 223 were reports to the Bureau of the Budget on pending or proposed legislation, and 235 were reports to the Bureau of the Budget on enrolled bills to assist the President in determining whether or not to approve these bills.

The Legislative Section transacted legislative business with the legislative counsel of both the House and Senate, and worked with, and appeared before, virtually all the major and many minor committees of both Houses of Congress, during the 76th Congress. In addition, it drafted, or assisted in drafting, much legislation not covered by this report, such as bills which are still in process, bills which have been submitted to, but not yet cleared by, the Bureau of the Budget, bills which were completed but which, for one reason or another, the appropriate administrative officers decided not to submit to Congress at this time, bills prepared as a courtesy accommodation to members of Congress, etc. The Legislative Section also opposed legislation objectionable to the Treasury Department and drafted, or participated in drafting, a considerable number of Executive Orders, Proclamations, and proposed Reorganization Plans. In addition, this Section did a large amount of research work on

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legislative and other problems of interest to the Department, and generally endeavored to keep the various bureaus and branches of the Department advised about all phases of legislative matters in which they were interested.

The National Defense Program, during the last session of Congress and the accelerated legislative activity in connection therewith, resulted in a considerable increase in the Legislative Section's work in order to keep the many interested Treasury officers advised about the progress of, and other matters of interest to them in connection with, defense legislation. In this connection, also, the Section has cooperated with the Legislative Reference Service of the Library of Congress in preparing mimeographed analyses of defense bills and legal memoranda of various kinds for the use of the Defense Commission.

The attached progress report shows, in tabular form, the results we obtained during the 76th Congress in connection with bills sponsored by the Treasury.

S. N. F. H.

FINAL PROGRESS REPORT ON TREASURY
LEGISLATION DURING THE 76th CONGRESS.

A. TREASURY SPONSORED BILLS ENACTED
DURING 76th CONGRESS.

I. Treasury sponsored bills
enacted during First
Session of 76th Congress
(1939).

<u>BILLS</u>	<u>BRIEF EXPLANATION</u>	<u>APPROVED</u>	<u>PUBLIC OR PRIVATE NUMBER</u>
1. H.J. Res. 110 (S.J. Res. 75) Coyle, Commander Henry- foreign decoration	Permits acceptance of medal from Greece.	Mar. 28, 1939	Private Res. No. 1
2. S. 529 Relief of Margaret Rose Uncapher	Authorizes payment of balance due as compen- sation for post office site.	Apr. 15, 1939	Private No. 26
3. H.R. 3231 Coast Guard Mailing of firearms	Extends to Coast Guard officers privileges enjoyed by officers of other military services of sending firearms through mails.	May 15, 1939	Public No. 77
4. S. 2244 (H.R. 5836) Lizzie Beck bequest	Authorizes the U.S. to accept certain real estate devised to it by Lizzie Beck, Mena, Ark.	May 22, 1939	Public No. 84
5. S. 595 (H.R. 5738) Coast Guard 20 year retirement	Establishes voluntary and involuntary re- tirement system for enlisted men with 20 years or more service.	May 24, 1939	Public No. 87

I. Treasury sponsored bills enacted during First Session of 76th Congress (1939). — (Continued)

<u>BILLS</u>	<u>BRIEF EXPLANATION</u>	<u>APPROVED</u>	<u>PUBLIC OR PRIVATE NUMBER</u>
6. S. 1876 (H.R. 4982) Coast Guard readjust commissioned personnel	Increases line officers of Coast Guard by 154, and establishes rank of rear admiral for offices of Assistant Commandant and Chief Engineer.	May 24, 1939	Public No. 89
7. H.R. 4131 (S. 528) Relief of Melvin Gerard Alvey	Compensates enlisted man for personal property lost in fire at Nome, Alaska.	May 31, 1939	Private No. 46
8. S. 1369 (H.R. 4246) Coast Guard national defense	Authorizes Secretary of the Treasury to construct three cutters, establish Alaska base and air station, and purchase fifteen seaplanes. Over \$14,000,000 involved.	June 2, 1939	Public No. 104
9. S. 2404 (H.R. 6017) Portland, Oregon, Courthouse	Authorizes demolition of old post office building.	June 13, 1939	Public No. 128
10. H.R. 5966 (S. 2258) Coast Guard Reserve	Establishes voluntary reserve of private yachtsmen and motorboat owners to assist Coast Guard and encourage law observance.	June 23, 1939	Public No. 152
11. H.R. 3325 Stabilization Fund	Continues powers relating to stabilization fund, devaluation of the dollar, and purchase of silver.	July 6, 1939	Public No. 165
12. S. 2167 (H.R. 5349) Coast Guard Hurricane Relief	Authorizes reimbursement of Coast Guard personnel for losses of personal property in 1938 hurricane.	July 15, 1939	Private No. 93

I. Treasury sponsored bills enacted during First Session of 76th Congress (1939). — (Continued)

<u>BILLS</u>	<u>BRIEF EXPLANATION</u>	<u>APPROVED</u>	<u>PUBLIC OR PRIVATE NUMBER</u>
13. H.R. 5346 (S. 1953) Relief of Mrs. A. R. Barnard and others (Stephens, Prairie, and Mrs. Needles)	Provides compensation for loss of life and motorboat in attempt to help Coast Guard boat.	July 15, 1939	Private No. 95
14. H.R. 5748 Second Liberty Bond Act amendment.	Removes \$30,000,000,000 bond limitation partition in the Public Debt authorization.	July 20, 1939	Public No. 201
15. H.R. 5375 (S. 2166) Coast Guard Nautical Education	Authorizes Commandant of Coast Guard to detail officers to state and territorial nautical schools to give nautical instruction.	August 4, 1939	Public No. 258
16. S. 1882 (H.R. 5896) Relief of Thomas A. Ross	Compensates Coast Guard enlisted man for loss of personal property in a fire in Nome, Alaska.	August 4, 1939	Private No. 125
17. S. 1156 (H.R. 2742) Morehead City Target Range	Transfers target range at Morehead City, North Carolina, from War Department to Treasury. (Coast Guard)	August 5, 1939	Public No. 268
18. H.R. 7288 (S. 2859) Lighthouse Service personnel	Provides for the induction into the Coast Guard military establishment in ranks, grades, or ratings appropriate to their qualifications, experience and lengths of service as determined by the Secretary of certain professional, scientific, and other personnel of the Lighthouse Service which was transferred to the Coast Guard by Re-organization Plan No. II.	August 5, 1939	Public No. 291

I. Treasury sponsored bills enacted during First Session of 76th Congress (1939). — (Continued)

<u>BILLS</u>	<u>BRIEF EXPLANATION</u>	<u>APPROVED</u>	<u>PUBLIC OR PRIVATE NUMBER</u>
19. H.R. 5611 Coast Guard District Commanders and constructors	Places District Commanders and constructors in the line of the Coast Guard and abolishes the district commander and constructor corps, thus doing away with the last of the special service corps of the Coast Guard.	August 5, 1939	Public No. 292
20. H.R. 6555 Evidence - purchase of	Permits advance of funds elsewhere appropriated by Congress to narcotic and customs officers to purchase evidence and information of violations of narcotic and customs laws.	August 7, 1939	Public No. 339
21. S. 1899 Surgeon General - Assistant to	Creates office of Assistant to Surgeon General with rank of brigadier general and authorizes detail of Public Health Service officers to serve in such office.	August 9, 1939	Public No. 345
22. H.R. 6021 (S. 2473) Akron, Ohio, post office	Repeals law fixing minimum price of \$100,000 for sale by Government of old post office building and site at Akron, Ohio.	August 9, 1939	Public No. 356
23. H.R. 6556 Seizure and forfeiture of vessels, vehicles and aircraft	Provides for seizure and forfeiture of vessels, vehicles and aircraft used in violating narcotic, and counterfeiting laws and National Firearms Act.	August 9, 1939	Public No. 357

I. Treasury sponsored bills enacted during First Session of 76th Congress (1939). — (Continued)

<u>BILLS</u>	<u>BRIEF EXPLANATION</u>	<u>APPROVED</u>	<u>PUBLIC OR PRIVATE NUMBER</u>
24. S. 1540 National Advisory Health Council pay	Permits Secretary of the Treasury to compensate nongovernmental members of the National Advisory Health Council at rate of not to exceed \$25 per diem instead of \$10.	August 10, 1939	Public No. 364
25. H.R. 6747 Lighthouse Service retirements	Permits retirement at age of 64 instead of 65 of certain Lighthouse Service personnel who have 30 or more years of service and whose positions may be abolished as a result of the consolidation of the Lighthouse Service with Coast Guard effected by Reorganization Plan No. II.	August 10, 1939	Public No. 370
26. H.R. 6614 Government Losses in Shipment insurance bill	Extends scope of Government Losses in Shipment Act of 1937, which was sponsored by the Treasury, and generally streamlines that Act and remedies difficulties which administration of that Act has disclosed.	August 10, 1939	Public No. 378
27. H.R. 7049 (S. 2706) Relief of Summers, Allen, and Syles, etc.	Adjusts accounts of present and former disbursing officers and treasurers of the United States and covers disallowed salary payments to the late Captain William R. Syles in his capacity as Assistant Deputy Commissioner of Alcohol Tax Unit. Over \$1,100,000 in disallowances and adjustments are covered by this bill, which makes it one of the largest of its kind on record.	August 10, 1939	Private No. 250

II. Treasury sponsored bills enacted during Third Session of the 76th Congress (1940).

<u>BILLS</u>	<u>BRIEF EXPLANATION</u>	<u>APPROVED</u>	<u>PUBLIC OR PRIVATE NUMBER</u>
28. S. 2689 Copyright bill	Gives the Secretary of the Treasury and the Postmaster General authority commensurate with their statutory responsibility of preventing the importation from abroad of piratical copies of works copyrighted in the United States or copies which have not been produced in accordance with the manufacturing conditions of the Copyright Act.	April 11, 1940	Public No. 450
29. H.R. 8540 Increase in White House police force	Authorizes an increase in the White House police force of 1 lieutenant, 1 sergeant, and 18 privates, thus increasing total force from 60 to 80.	April 22, 1940	Public No. 476
30. H.R. 6693 Auto mileage bill	Eliminates the requirement that vehicles used for official travel must be personally and exclusively owned by the Government traveller involved.	April 25, 1940	Public No. 485
31. S.J. Res. 252 (H.J. Res. 522) Foreign Funds Control	Removes all possible doubts about the regulatory authority of the President and the Secretary of the Treasury in connection with foreign funds control, and ratifies action previously taken in this field.	May 7, 1940	Public Res. No. 69

*Note: The second session of the 76th Congress was a short special session in the Fall of 1939 devoted to the consideration of the Neutrality Bill. No Treasury legislation and only two public acts of any character were enacted during this session.

II. Treasury sponsored bills enacted during Third Session of the 76th Congress (1940). — (Continued)

<u>BILLS</u>	<u>BRIEF EXPLANATION</u>	<u>APPROVED</u>	<u>PUBLIC OR PRIVATE NUMBER</u>
32. H.R. 8423 (S. 3599) The retirement and placing out of line of promotion of Coast Guard officers.	Amends Act of January 12, 1938 (which provided a system for the retirement and the placing out of line of promotion of commissioned officers of the Coast Guard) to incorporate changes which experience under that Act shows are necessary to make it workable. Principal change is elimination of officer's right to appear in person or by counsel before the personnel board and substitution for this of the right to have two different personnel boards pass on his case before he can be finally retired or placed out of line of promotion.	June 6, 1940	Public No. 556
33. H.R. 8357 (S. 3600) Coast Guard depot and servicing base	Provides for enlargement of Coast Guard depot at Seattle, Washington, and for establishment of a Coast Guard servicing base at or near Chattanooga, Tennessee.	June 6, 1940	Public No. 557
34. H.R. 9553 (S. 3865) Omnibus Coast Guard bill	Makes a large number of miscellaneous amendments of existing Coast Guard laws in the interests of clarification and better administration. The bill includes provisions: for adjustments in the retired rank and pay of officers who have served as engineer in chief or Assistant Commandant; clarifying the law relating to the discontinuance and reestablishment of light stations and Coast Guard stations; relating to the retirement of former Lighthouse Service employees; defining more precisely Coast Guard liability for expenses of Coast Guard Reserve boats loaned to the Coast Guard; etc.	June 6, 1940	Public No. 564

II. Treasury sponsored bills enacted
during Third Session of the 76th
Congress (1940). — (Continued)

<u>BILLS</u>	<u>BRIEF EXPLANATION</u>	<u>APPROVED</u>	<u>PUBLIC OR PRIVATE NUMBER</u>
35. S. 3307 (H.R. 8097) Amending Coast Guard relief bill for dependents of Vern A. Needles	Amends Act of July 15, 1939 (providing relief for widow of Vern A. Needles who lost his life while aiding a disabled Coast Guard boat) to divide money appropriated by that Act to Mrs. Needles (\$5000) equally between her and Needles' infant son by a prior marriage whose existence was not known when original relief bill passed Congress in 1939.	June 6, 1940	Private No. 338
36. S. 3487 (H.R. 8722) Relief for heirs of Lt. Clemmer of the Coast Guard	Authorizes the Secretary of the Treasury to transfer to the widow and children of Lt. Clemmer of the Coast Guard the license rights to a radio-direction-finding-system invention of Clemmer's, the commercial rights to which he had unintentionally assigned to the United States.	June 7, 1940	Private No. 350
37. S. 3304 (H.R. 7492) Relief for Private Kuner of Secret Service	Validates salary payments made to J. Frank Kuner, a Secret Service Uniformed Force private, which were technically illegal because he was not a citizen, though neither Kuner nor Treasury was aware of this fact.	June 8, 1940	Private No. 352
38. H.R. 9441 (S. 3775) Accepting grant of South Carolina land for Coast Guard purposes	Accepts the grant to the United States of certain land on Sullivans Island (Charleston County, S. C.) by the State of South Carolina and authorizes its use by the Coast Guard.	June 8, 1940	Public No. 582

II. Treasury sponsored bills enacted during Third Session of the 76th Congress (1940). — (Continued)

<u>BILLS</u>	<u>BRIEF EXPLANATION</u>	<u>APPROVED</u>	<u>PUBLIC OR PRIVATE NUMBER</u>
39. S. 3959 (H.R. 9349) Easement granted over Coast Guard Reservation at Fort Lauderdale, Florida	Authorizes the Secretary of the Treasury to grant easements for highway and utility purposes to the City of Fort Lauderdale, Florida, over the Coast Guard Reservation (known as Base Six) at Fort Lauderdale.	June 13, 1940	Public No. 625
40. S. 3958 Easement granted over Coast Guard Reservation at Flagler Beach, Florida	Authorizes the Secretary of the Treasury to grant to the Road Department of the State of Florida an easement for a road right-of-way over the Coast Guard Reservation at Flagler Beach, Florida.	June 25, 1940	Public No. 661
41. S. 3899 Return to U.S. of remains of employees dying abroad	Authorizes payment by the United States of the expenses of returning to their homes the remains, families, and effects of Federal employees dying abroad, and the remains of Federal employees dying while travelling on official business in the U.S.	July 8, 1940	Public No. 729
42. S. 4032 (H.R. 10035) Penston (Coast Guard) relief bill	Reimburses Philip A. Penston, Coast Guard pharmacist's mate, for the value (\$1267) of personal and household effects lost during the hurricane of September 21, 1938, at New London, Connecticut.	July 11, 1940	Private No. 488
43. H.R. 10014 (S. 4112) Amending Transportation Act, 1920.	Covers gaps in existing law with respect to the Treasury's authority to sell, exchange, or otherwise deal with railroad securities acquired by the Government as an incident to Federal control of the railroads during the last war.	August 13, 1940	Public No. 766

II. Treasury sponsored bills enacted
during Third Session of the 76th
Congress (1940). — (Continued)

<u>BILLS</u>	<u>BRIEF EXPLANATION</u>	<u>APPROVED</u>	<u>PUBLIC OR PRIVATE NUMBER</u>
44. H.R. 10337 (S. 4274) Recall to duty of retired Coast Guard officers	Authorizes the Secretary of the Treasury to order retired Coast Guard commissioned or warrant officers to active duty at any time with their consent.	October 9, 1940	Public No. 810
45. S. 4353 Regulation of delivery of certain checks to foreign countries	Provides a uniform method of restricting and regulating the delivery of Government checks drawn to payees residing in foreign countries, where, in the opinion of the Secretary of the Treasury, there is not reasonable assurance of actual delivery of such checks to the payees and the ability of the payees to negotiate the checks for full value.	October 9, 1940	Public No. 828
46. S. 3778 (H.R. 9086) Customs and Immigra- tion Border Facili- ties	Authorizes erection of protective gates and fences, and better buildings than presently authorized, for the enforcement of the customs and immigration laws along the Canadian and Mexican borders of the United States.	October 10, 1940	Public No. 830
47. S. 844 (H.R. 2541) Simplifying U.S. Treasurer's accounts	Simplifies the accounts of the Treasurer of the United States by covering into the Treasury as miscellaneous receipts the balance of the so-called 5% fund relating to deposits for redemption of national-bank and Federal Reserve bank notes which are no longer being issued.	October 10, 1940	Public No. 832

II. Treasury sponsored bills enacted during Third Session of the 76th Congress (1940). -- (Continued)

<u>BILLS</u>	<u>BRIEF EXPLANATION</u>	<u>APPROVED</u>	<u>PUBLIC OR PRIVATE NUMBER</u>
48. H.R. 10246 Jurisdiction over Stony Point Light Station Reservation	Amends Act of July 30, 1937 (authorizing conveyance by the United States of certain portions of the Stony Point Light Station Reservation to the New York Palisades Interstate Park Commission), in order to remove all doubt as to the State's criminal and civil jurisdiction over the property in question.	October 10, 1940	Public No. 243
49. H.R. 10354 (S. 4231) Relief for chief disbursing officer and present and certain former U.S. Treasurers	Provides relief for Guy Allen, chief disbursing officer, on account of certain disallowances in his accounts, and for present and three former Treasurers of the United States on account of certain unavailable items in their accounts in check-reclamation and adjusted-service bond cases. All payments covered were made in good faith and without negligence. About \$170,000 is involved in all.	October 14, 1940	Private No. 632
50. H.R. 10194 (S. 4139) Relief for late John L. Summers, former Treasury disbursing clerk	Provides relief for the late John L. Summers, Treasury disbursing clerk on account of \$12,000 in disallowances against his accounts for disbursements made by him in 1934 and 1935 in good faith and without negligence. Also covers any other similar disallowances which may be raised against his accounts more than three years after he made payment. The Comptroller General was holding up payment of Mr. Summers' retirement funds to his beneficiaries pending adjournment of these disallowances.	October 14, 1940	Private No. 636

B. TREASURY SPONSORED BILLS ACTIVELY
PENDING IN CONGRESS AT THE END OF
THE 76th CONGRESS (JANUARY 3, 1941).

<u>BILLS</u>	<u>BRIEF EXPLANATION</u>	<u>STATUS AT END OF 76th CONGRESS</u>	<u>REMARKS</u>
1. S. 3408 Counterfeiting conspiracies	Makes the penalty for conspiring to violate counterfeiting laws the same as the penalty for the substantive offense of counterfeiting.	Bill pending before Senate Judiciary Committee.	We expect to secure enactment of this bill during the first session of the 77th Congress.
2. H.R. 10397 (H.R. 10175) Customs leases	Authorizes Customs to enter into ten year leases on buildings and grounds abroad. At present they must be renewed annually.	Bills pending before House Public Buildings and Grounds Committee.	This bill was held up by objections to certain phases of it on the part of the Federal Works Agency. We hope to iron these out and get it enacted during the new session of Congress.
3. Settlement on lost or stolen checks (no number, bill not yet intro- duced)	Authorizes the Treasurer of the United States to make settlement in advance of reclamation with payees of lost or stolen checks which have been paid on forged endorsements.	No bill introduced but Treasury draft bill and letter of submission pending before Senate Banking and Currency Committee and House Committee on Expenditures in the Executive Departments.	Submitted to Congress too late in the last session to receive consideration.
4. S. 3175 Custom faci- lities at International toll bridges	Requires International toll bridges (i.e., along Mexican and Canadian borders) to furnish free inspectional facilities for customs and other Federal officers necessarily stationed there.	Bill pending before Senate Finance Committee.	Opposition of private interests and the consequent necessity for public hearings on this bill prevented the busy Senate Finance Committee from considering this bill during the last

B. TREASURY SPONSORED BILLS ACTIVELY PENDING
IN CONGRESS AT THE END OF THE 76th
CONGRESS (JANUARY 3, 1941). -- (Continued)

<u>BILLS</u>	<u>BRIEF EXPLANATION</u>	<u>STATUS AT END OF 76th CONGRESS</u>	<u>REMARKS</u>
5. S. 3383 Future adjustments in Treasurer's accounts	Relieves the Treasurer of the United States of charges or disallowances in his accounts arising out of improper payments or deliveries of checks and other instruments when such payments or deliveries were made without any fraud or negligence on the part of the Treasurer or his employees.	Passes Senate April 10, 1940; pending before House Committee on Expenditures in the Executive Departments.	This bill was pigeon-holed by the House Committee because of the Comptroller General's objections to it.
6. H.R. 9995 (S. 4109) Exchange of Coast Guard sites	Authorizes the exchange of two Coast Guard sites in Florida (one at Miami Beach and the other at Fort Lauderdale) for other property and facilities more advantageous to the Government.	Passed House June 17, 1940; pending before Senate Commerce Committee.	This bill died in the Senate Commerce Committee because of a feeling on the part of some members of the Committee that Senator Pepper was interested in the matter and that the Committee had already done enough for him. There will be no trouble securing its enactment in the 77th Congress.
7. H.R. 6767 (S. 3799) Enforcement officers' death and disability benefits	Authorizes an increase in the death and disability compensation payable to Federal enforcement officers and their dependents when such officers are killed or disabled while engaged in hazardous work.	Passed House March 18, 1940; pending before Senate Committee on Education and Labor.	This bill was stalled in the Senate Committee by opposition on the part of the United States Employees Compensation Commission.

B. TREASURY SPONSORED BILLS ACTIVELY PENDING
IN CONGRESS AT THE END OF THE 76th
CONGRESS (JANUARY 3, 1941). — (Continued)

<u>BILLS</u>	<u>BRIEF EXPLANATION</u>	<u>STATUS AT END OF 76th CONGRESS</u>	<u>REMARKS</u>
8. S. 4413 (H.R. 10652) Coast Guard Auxiliary and Reserve	Repeals the Coast Guard Reserve Act of 1939, and substitutes a Coast Guard Auxiliary for the Reserve established by that Act, and creates a new Coast Guard Reserve patterned after the Naval Reserve.	Bill pending before the Senate Commerce Committee and the House Committee on Merchant Marine and Fisheries.	This lengthy and important bill was not submitted to Congress till October 1940, too late to re- ceive consideration in the 76th Congress.

TELEGRAM RECEIVED

From Rome

Dated January 22, 1940

Secretary of State,
Washington.

51, January 22, 6 p.m.

Council of Ministers on January 20 approved draft of the 1940-41 budget. Expenditures total 34,895 million lire, revenue 29,002 million, deficit 5,893 million. Appropriations for War, Navy and Air total 10,843 millions or 31% of total budget; this is an increase of 2,560 millions over present fiscal year. With two exceptions all Ministries have increased budgets.

The press this afternoon is careful to point out that the above refers to "normal" budget and that unforeseen events may lead to further increases.

A simultaneous announcement was made of a new issue of 9 year Treasury bonds at 97 1/2. Subscriptions begin February 15. Proceeds will be used to finance the new budget expenditures and to pay off maturing Treasury notes.

PHILLIPS.

TO THE SECRETARY OF STATE
RECEIVED JAN 23 1940
1941 MAR 15 10:11 AM
SECRETARY OF STATE

PARAPHRASE

CONFIDENTIAL

A telegram (no. 100) of January 22, 1941, from the American Consul General at Shanghai reads substantially as follows:

Deposits have been made with about forty Chinese banks in Shanghai by the new Central Reserve Bank. Each deposit, which is in new notes, is twenty-five or fifty thousand Central Reserve Bank yuan. The Chinese banks with whom the deposits were made issued ordinary pass-books of the type used for saving accounts or opened accounts current and issued check books bearing a rubber stamp notation to the effect that the checks are to be paid only in the new currency. No interest was asked on the deposits or is to be credited to them. Although it is not confirmed there is a report to the effect that deposits in the new notes of 100,000 Central Reserve Bank yuan each have been accepted by the Bank of Communications and the Bank of China. However, according to the report such deposits have not yet been offered to the Central Bank of China. The new Central Reserve Bank ~~also~~ required several selected prominent Chinese commercial banks also to accept deposits of 500,000 yuan each in Chinese national currency. This is interpreted as a part of the policy of the new Central Reserve Bank to use the Chinese commercial banks as agents for conversions into Chinese national currency from notes when notes are presented

CONFIDENTIAL

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presented by the public. It is understood that British and American banks have declined to accept deposits in the currency of the new Central Reserve Bank. It is the opinion of Chinese bankers that before long the new notes in the smaller denominations will be given as change to passengers by the tramways and buses in the French Concession.

January 21, 1941

File

Mr. Cochran

At noon on Saturday, January 18, Minister Procope of Finland called on me. He asked whether I had been able to obtain any reaction from Secretary Mergenthau to the Minister's inquiry made from me in December as to the possibility of a Stabilization Fund operation for the benefit of Finland. I told the Minister that the Secretary had been too busy for me to broach this subject to date.

At 10 o'clock yesterday morning I reported Minister Procope's visit orally to Secretary Mergenthau. I volunteered the idea that I did not think this was a field in which the Stabilization Fund should enter. That is, the importance of the Finn mark-dollar relationship is not sufficiently important to warrant a Stabilization Fund intervention. This is especially true since Finland's trade with the United States has been so considerably cut off, and since Finland's trade relationships with Germany and Russia have grown. I thought that if the Stabilization Fund entered into an agreement with Finland, it might logically be called upon to help other unfortunate countries in Europe in a way upon which we have not yet embarked (aside possibly from China). The Secretary thought the assistance could more appropriately come from the Export-Import Bank, and made the suggestion that Minister Procope see Secretary Jones. I told the Secretary that I had already made this suggestion to Minister Procope and had learned that he had already seen Mr. Jones. The Minister, it appeared, had not received such encouragement from Mr. Jones on the idea of a further credit, since it could not be made clear to Mr. Jones how another loan could be repaid through Finnish exports. The Minister still hoped, however, that with a more generous treatment of Finnish shipping by the British, it might be possible to get out more Finnish pulp and paper to the United States and he hoped that he could make some arrangement with Mr. Jones on these commodities.

It was understood that Minister Procope would get in touch with me again in a few days. When he does, I shall explain the Secretary's position.



TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE January 22, 1941

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£75,000
Purchased from commercial concerns	£10,000

Open market sterling was again quoted at 4.03-1/2. Transactions of the reporting banks were:

Sold to commercial concerns	£11,000
Purchased from commercial concerns	-0-

The Canadian dollar discount, which widened abruptly to 17-1/4% yesterday afternoon, opened at the improved level of 16% today. It immediately became weak, however, and again touched the low of 17-1/4% at the close.

The Argentine free peso opened at .2375 this morning, as compared with last night's close of .2370. The rate remained steady throughout the day, closing at .2375.

Closing quotations for the other currencies were:

Swiss franc	.2321
Swedish krona	.2385
Reichsmark	.4005
Lira	.0505
Brazilian milreis (free)	.0505
Mexican peso	.2066
Cuban peso	7-7/8% discount
Chinese yuan	.05-1/2

By order and for account of the Bank of Sweden, the Federal Reserve Bank of New York purchased 500,000 Argentine pesos at the free rate from the National City Bank.

We sold \$2,000,000 in gold to the Bank of Portugal, which was added to its earmarked account.

Under licenses previously issued, the Federal Reserve Bank of New York transferred from the account of the Central Bank of El Salvador gold valued at approximately \$284,900 to account No. 6 of the B.I.S. This transfer raises the amount of gold in B.I.S. account No. 6 to approximately \$1,121,340; gold in this account is owned by the Central Bank of El Salvador and is pledged to secure repayment of credits granted that bank by the B.I.S.

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The Federal Reserve Bank of New York reported that the Central Bank of El Salvador repaid \$200,000 of the three-month loans previously made to it by the Federal. Upon repayment, the Federal transferred \$227,820 worth of gold from the collateral account to the Salvadorean bank's own earmarked account. The amount of loans outstanding is now \$385,000, secured by \$435,891 in gold.

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

\$3,026,000	from Canada, shipped by the Bank of Canada, Ottawa, to the Irving Trust Company, New York, for account of the Banque Mellie Iran, Tehran, for sale to the New York Assay Office.
421,000	from Peru, shipped by the Central Reserve Bank of Peru to the Federal Reserve Bank of New York, to be earmarked for its account.
<u>\$3,447,000</u>	Total

The Bombay gold price was equivalent to \$34.08, a decline of 3¢. Silver was 3/16¢ lower at the equivalent of 44.87¢.

The prices fixed in London for spot and forward silver were both unchanged, at 23-3/16d and 23-1/8d respectively. The dollar equivalents were 42.10¢ and 41.99¢.

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 two purchases of silver totaling 175,000 ounces under the Silver Purchase Act. One of these, amounting to 100,000 ounces, represented a sale from inventory, and the other 75,000 ounces consisted of new production from foreign countries, for forward delivery.

BMS

CONFIDENTIAL

January 22, 1941

Under Secretary Bell

Mr. Cochran

Since we have had no word from the British for several days in regard to negotiations with respect to stabilization loans to China, I took up with Mr. Pincent yesterday, at Mr. Bell's suggestion, the question of our time schedule. Mr. Pincent told me by telephone yesterday evening that he thought Mr. Rogers had arrived in London last Saturday. He was aware that Mr. Soong and Dr. Young have received messages directly from Mr. Rogers since the latter reached London. The British Embassy and Treasury officials here, however, have not had any message from Rogers. Pincent promised to look into the question.



HMC:1sp-2/22/41

LONDON

Dated January 22, 1941

Rec'd. 3 p.m.

Secretary of State,

Washington.

250, January 22, 8 p.m.

During a call at the British Treasury yesterday, Norman Young of the Far Eastern Department opened a conversation regarding a draft agreement concerning credits for China that has been received within the last day or two from Sir Frederick Phillips with a request for the British Treasury's comments. Since the Embassy is not informed on this subject it is possible only to report the tenor of Young's remarks which were to the effect that the British Treasury finds it very difficult to reach any conclusions as to the machinery proposed, without knowing more as to the policy that it is proposed to follow vis-a-vis the new Japanese-controlled Central Bank in China. The British Treasury is apprehensive as to the possibility that substantial portions of the new credits might find their way into Japanese hands, saying that was based in part on recent past experience (reported by them to Phillips by confidential cable), and partly on the fact that the Japanese have fixed their exchange rate this time at much more reasonable figure than was the case in North China. The British Treasury regards this whole problem as an exceedingly difficult one, as one of the best "headache producers" before it today.

Please inform Treasury.

JOHNSON.

YFV

eh:copy

January 22, 1941

Pine

Mr. Goddard

At 3:15 this afternoon Secretary Berenson called me to his office to meet Mr. J. A. Moffett, head of the California Texas Oil Company, Limited, whose main office is in New York. Mr. Moffett came to my office and left with me the attached memo. The first is an office memorandum to him showing what the financial accounts. The first is an office memorandum to him showing what the financial position of his company may be under certain new regulations of the London Exchange Control. The second is a circular from the treasurer of his concern setting forth a memorandum dated December 12 from the Bank of England in regard to payment for oil imports into the sterling area, upon which memorandum number one is calculated.

Mr. Moffett explained to me that his company is half owned by the Standard Oil of California and half by the Texas Company. It was set up a few years ago to handle business east of the Sun. It has the Bahrein petroleum concession. Since Bahrein is in a British protectorate, it has also been necessary for the concern to be incorporated in Canada. At Ottawa it maintains only a lawyer to represent it, the values being conducted from New York. It is entirely American owned. The business aside in producing and distributing petroleum and its products in the East, that is, east of Suez, including India, South Africa, Australia, New Zealand, Ceylon, the Philippine Islands, etc.

Mr. Moffett realizes that since the business of his company is principally in the sterling area that it may have to expect some measures to prevent the hitherto free conversion of its sterling receipts, at the official rate, into free dollars.

He does not yet desire to enter any protest against the Bank of England regulations as set forth in the attached memorandum. His company evidently has prospered, yielding a profit of \$12,000,000 last year or \$1,000,000 per month, all of which was brought into United States in dollars and made available to the parent concern. Mr. Moffett is taking the precaution, however, of trying to see what future prospects may be. If it appears that the receipts of his concern are to be substantially blocked in sterling, he plans to look around and see what investments in real estate, etc., may be made in Australia and other sterling areas in the Far East. He hopes that the British will at least permit sufficient conversion of sterling to keep up the New York payroll and other expenses in dollars. It is understood that Mr. Moffett desires no action on the Treasury's side unless we hear from him further.

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Treasury Department
Division of Monetary Research

Date.....19

To: Secretary Morgenthau

Mr. White

You may be interested in glancing at this memo., based on a Dep't. of Agriculture study, which gives a definitely lower estimate of possible Danubian agricultural assistance to Germany than is commonly made.

MR. WHITE
Branch 2058 - Room 210

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE January 22, 1941

TO Mr. White
FROM Mr. Snider

Subject: Danubian agricultural assistance to Germany.

1. Danubian agricultural surpluses are not sufficient either at present or probably in the near future to meet the war-time needs of German and German-dominated populations for food and feedstuff supplies.

2. Particularly on account of unusually adverse weather and crop conditions and war mobilization, 1940 Danubian surpluses were sharply reduced: 1940-41 wheat exports will amount to only one-sixth and those of corn to two-thirds of the 1935-39 average exports; they will meet only 30% of the pre-war European and 40% of the greater German wheat exports, and only 6% of the European and 13% of the German pre-war imports.

3. The inability of Hungary, Rumania, Bulgaria and Yugoslavia to furnish continental food-deficit countries with needed supplies is a result of more than temporary unfavorable weather conditions and the exigencies of mobilization. During 1935-39 total exports of these countries fell short of German import needs by 36% for feed grains, 95% for butter, 48% for eggs, 92% for oil seeds and 97% for oilcake. In spite of all efforts Germany actually obtained only 27% of Danubian wheat surpluses and 47% of corn exports during that period.

4. The prospects for a future expansion of agricultural production in the Southeastern European countries

- 2 -

are not favorable. The existence of unfavorable social conditions (illiteracy, etc.) and a backward economic structure (uneconomic distribution of land holdings, lack of capital, etc.) serves to make an expansion in farm production in the next few years improbable.

(The above is a condensed summary of a monograph by Frederick Strauss entitled "War-time Agricultural Surpluses of the Danube Basin," appearing in the December 1940 issue of Foreign Agriculture, a monthly publication of the United States Department of Agriculture.)

VOL. IV, No. 12

December 1940

Foreign Agriculture

*..... a Review of Foreign
Farm Policy, Production,
and Trade*

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WARTIME AGRICULTURAL SURPLUSES OF THE DANUBE BASIN . . .

By Frederick Strauss*

The present war has tended to reduce the food supplies of continental Europe for two reasons: (1) domestic production in both belligerent and neutral countries has been adversely affected by shortages of fertilizers, labor, and farm machinery, by transportation difficulties, and by actual devastation; and (2) supplies from overseas have been sharply curtailed by the British blockade. Under these conditions the Danube Basin is of special significance, since it is one of the chief potential sources of supply for farm products sorely needed by Greater Germany, Italy, the conquered countries, and the still neutral countries of Europe. The objective of this study, therefore, is to determine the potentialities of the four Danubian countries as sources of supply for a blockaded Europe during the current war.

THE PLACE OF THE DANUBE BASIN IN THE EUROPEAN ECONOMY

The countries of the lower Danube Basin - Rumania, Hungary, Yugoslavia, and Bulgaria - have long been the most important European producers of staple farm surpluses. Since 1933 National Socialist Germany has been exerting great effort to bring about an expansion in the farm output of the Danubian countries and to establish itself as the dominating factor in determining the distribution of their agricultural surpluses.

The importance of the Danube Basin as a potential source of supply for farm products has been greatly enhanced by the war. The British blockade of Norway, the Netherlands, Belgium, France, Italy, and North Africa has further increased the demand for the Danubian foodstuffs and feedstuffs. The maintenance of livestock production and the assurance of adequate food supplies generally in the countries under German domination depend to a considerable extent on the volume of food and feedstuff supplies forthcoming from the Danubian countries during the war.

Italy and Switzerland also are increasingly attempting to draw upon the agricultural resources of the Danube Basin. Efforts by the United Kingdom to contract for large deliveries of farm products from Danubian areas were terminated with the entry of Italy into the war. Exports formerly sent to the British market will now be available for shipment to the countries under German and Italian domination, as far as current surpluses allow.

* Agricultural Economist. This article prepared while on temporary detail to the Office of Foreign Agricultural Relations.

It is obvious that the Danube Basin must remain, for the present at least, the chief potential foreign source of supply for the farm products needed by Greater Germany and by the conquered and the still neutral European countries. The crucial question is the extent to which the Danube Basin will be able to meet the sharply increased demand for such products. For the immediate future, this ability will be determined largely by current crop conditions, the effects of war on the acreage planted to various crops, by the efficiency of transportation facilities, and by changes in domestic consumption brought about by the present war.

An appraisal of potential exports during a long war must take into consideration a number of other important factors, outstanding among them the question of whether or not the countries of the Danube Basin can adapt their farm practices to specific wartime demands. The answer to that question involves a consideration of the structure of the Danubian farm economies, the adaptability of the farm populations to changed conditions, and the possible effects of the war on agricultural practices. Since these factors vary widely among the four countries of the Danube Basin, the problem has been approached by treating each of the countries individually.

The question of export potentialities of the individual Danubian countries in a war of long duration is discussed separately for each country. At this point, therefore, the reader will be given only a composite picture of the problems involved in the question of export potentialities of the Danube Basin as a whole, and of the relation between the magnitude of total potential Danubian surpluses and the total import needs of a blockaded deficit Europe.

ROLE OF THE DANUBE BASIN BEFORE THE WAR

The European countries now blockaded by the British were far from self-sufficient in essential farm products before the outbreak of war. To indicate the situation only with respect to such strategic products as bread grains and feedstuffs, blockaded deficit Europe imported about 14 percent of its apparent bread grain needs and over 20 percent of its total feed-grain requirements. These summary figures hide the significant fact that in some of the countries the role of imports was still more important; for instance, the countries now under complete German domination imported over 50 percent of their bread-grain and nearly 50 percent of their feed-grain requirements.

Moreover, the relatively favorable position of continental Europe with regard to most animal products was more apparent than real. Denmark and the Netherlands had been able to supply the bulk of the import needs of continental Europe for hog products, butter, and eggs. These exports, however, depended largely on the availability of corn, oilseeds, and oilcake from overseas countries. Of the total peacetime net imports of bread grains and feedstuffs (including feed grains, oilseeds, and oilcake) by continental deficit Europe, the Danube Basin could supply only a minor part.

As shown in table 1, the Danube Basin furnished only 37 percent of the continental European wheat imports, 17 percent of the rye imports, 19 percent of the corn imports, 3 percent of the oats imports, and 23 percent of the barley imports.

TABLE I. Average pre-war net exports of the Danubian Basin and average pre-war net imports of blockaded continental Europe

COUNTRY	BREAD GRAINS			FEED GRAINS				OIL-SEEDS ¹	OIL-CAKE ¹	DRY BEANS	EGGS	BUTTER
	WHEAT	RYE	TOTAL	CORN	OATS	BARLEY	TOTAL					
	1,000	1,000	1,000	1,000	1,000	1,000	1,000					
Danubian net exports: ²	tons	tons	tons	tons	tons	tons	tons	tons	tons	tons	tons	tons
Czechoslovakia	890	77	967	691	11	808	807	66	39	47	13	0
Hungary	877	55	932	-85	3	8	-18	-8	0	19	11	4
Yugoslavia	230	2	232	389	4	4	397	0	3	22	12	0
Bulgaria	142	0	142	55	1	5	60	0	11	12	18	0
Total Danube Basin	1,680	141	1,821	1,018	18	206	1,237	61	64	116	53	4
Continental European net imports: ³												
Germany	-748	-190	-938	-1,343	-152	-891	-1,610	-604	-1,997	-33	-35	-38
Austria	-130	-130	-260	-871	-29	-83	-489	-32	-0	-2	-0	3
Czechoslovakia	-119	-39	-177	-93	38	49	-19	-22	-77	-4	-8	0
Total Greater Germany	-994	-319	-1,313	-1,707	-138	-861	-1,208	-658	-1,328	-39	-103	-36
Denmark	-363	-178	-541	-402	-38	68	-261	-29	-237	0	26	164
Norway	-338	-148	-486	-182	-3	-18	-173	-6	-44	-7	1	0
Belgium	-1,122	-124	-1,246	-906	-45	-600	-1,372	-68	-178	-3	-11	-3
Netherlands	-875	-18	-893	-1,013	-18	-285	-1,288	-84	-261	-2	20	58
Total German-dominated countries	-3,309	-475	-3,784	-3,432	-94	-864	-3,192	-280	-1,000	-19	163	219
France ⁴	-149	-1	-150	-770	-49	-198	-1,011	-481	-993	-25	-12	-4
Italy	-608	-15	-623	-108	-87	-82	-305	-77	-44	-36	-6	0
Switzerland ⁵	-807	-20	-827	-107	-216	-145	-468	-23	0	-3	-18	-1
Greece ⁵	-807	0	-807	-82	-2	-12	-76	11	0	-30	-1	0
Total imports	-8,074	-826	-8,900	-9,244	-571	-1,334	-7,129	-1,015	-3,064	-136	28	126
Danube Basin exports as percentage of	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent
Greater Germany's imports	190.0	39.7	156.0	59.4	16.0	119.0	84.0	7.8	289.1	51.0	5.1	3.2
Percentage of total deficit European imports:	37.3	17.1	34.4	19.3	2.1	22.1	18.7	3.7	86.4	-	-	1.3

¹ Net imports and net exports of oilseeds and oilcake are averages for the 5 years 1922-1927. Oilseeds are in terms of oil equivalent.

² 1928-1938 average for bread and feed grains; 1928-1938 average for dry beans, butter, and eggs.

³ Net imports (-) are averages for the 4 years 1926-1929.

⁴ For purely technical reasons France is not classified as a German-dominated region.

⁵ Although not subject to the British blockade, Greece and Switzerland are regular purchasers of Danubian surpluses.

Compiled from official sources.

Danubian Surpluses

To the imports of oilcake necessary for the maintenance of the European livestock industry, the Danubian countries contributed little more than 1 percent. With respect to oilseed imports - the most important raw material for edible fats in most of these countries - less than 4 percent was derived from the Danube Basin. Most of these products came from countries to which continental Europe has no access under present blockade conditions.

Even if Greater Germany had succeeded in monopolizing Danubian surpluses before the war, they still would have met fully the German peacetime import needs only for bread grains and dry beans. During 1935-1939, for example, total Danubian exports fell short of German import needs by 36 percent for feed grains, 95 percent for butter, 48 percent for eggs, 92 percent for oilseeds, and 97 percent for oilcake. In spite of all efforts Germany actually obtained only 27 percent of the Danubian wheat surpluses and 47 percent of the corn exports during that period.

ROLE OF THE DANUBE BASIN DURING THE WAR

Germany now virtually dominates Rumania and Hungary, the most important Danubian surplus producers, and it is safe to anticipate that at best only a small part of the Yugoslavian and Bulgarian surpluses will find its way to other former customers, except Italy.

The relative importance of the Danubian farm surpluses during this war, for the Axis as well as for total continental European needs, will be determined by two sets of factors: (1) changed import requirements of the deficit countries as a result of war rationing and specific war influences on their domestic farm production; and (2) expansion potentialities of Danubian farm surpluses within the next few years.

EUROPEAN NEEDS

It must be assumed that Germany and Italy will do everything possible to maintain their productive capacity of war instruments and the striking power of their armies. Therefore, those countries will endeavor to maintain at least the food rations that have been in force since the outbreak of the war. On the basis of the rations now prevailing in Germany, and considering the needs of the army and the occupational shifts resulting from the war, the wartime needs for most of the products that can be obtained from the Danube Basin are well above peacetime levels. The minimum wartime German bread grain requirements, for instance, exceed peacetime needs by roughly 20 percent. These additional needs alone correspond approximately to the total average Danubian bread grain exports for 1935-1939.

The effects of the war on domestic farm production in most continental European deficit countries are no less important. Intensive farming methods, built on the application of fertilizers and intensive labor, prevail in virtually all of those countries. Germany in particular has since 1933 pursued a policy of increasing yields per acre by exactly such methods of intensification, accompanied by increased mechanization. Lack of some essential fertilizers, especially phosphates, a varying degree

of labor shortage, reduced numbers of draft animals, impossibility of further mechanization, and shortages of fuel, binder twine, and other essentials, necessarily tend to curtail farm production in continental Europe. Moreover, since by far the greater part of the formerly imported feed concentrates will be unobtainable as long as the British blockade remains effective, meat and dairy production will be reduced in the highly important livestock economies. In general, domestic production in all of the continental European deficit countries cannot be maintained during the war, and will decrease continually as the war is prolonged. On the other hand, the total requirements for bread grains and the import needs for feed grains and feed concentrates are greater than before the war, at least in the belligerent countries.

DANUBIAN SURPLUSES

The 1940 Danubian surpluses were sharply diminished by adverse weather conditions. The unusually severe winter of 1939-1940 affected most crops, greatly reducing yields. In addition, the late spring and extensive floods retarded and curtailed spring sowings; and large-scale mobilization, particularly in Rumania, led to a sizeable reduction of the winter grain acreage in most Danubian countries. To these handicaps must be added the effect of the territorial changes in Rumania. Bessarabia, now ceded to the Soviet Union, produced normally one-fifth of the Rumanian wheat and corn crops, and three-fourths of the oilseeds. The wheat loss this year will be even more serious, since the arid region of Bessarabia enjoyed favorable crop conditions, whereas crops in the rest of Rumania were short.

Unless the Danubian countries are deprived, by pressure, of part of their own urgent requirements, the total Danubian exports of wheat will hardly exceed 10 million bushels, and those of corn 25 million bushels. This compares with pre-war imports by deficit Europe of 170 million bushels of wheat and 190 million bushels of corn. The 1940-41 Danubian wheat exports will thus amount to only one-sixth, and those of corn to two-thirds, of the 1935-1939 exports. They will meet only 30 percent of the pre-war European and 40 percent of the Greater German wheat imports, and only 6 percent of the European and 13 percent of the German pre-war corn imports.

On the basis of detailed analysis of the social and economic structure of the Danubian countries, it is believed that there is little likelihood of an expansion in farm production in the next few years. In some of the countries, peculiarities of peasants' attitudes, racial habits, and a high degree of illiteracy make it improbable that educational methods could accomplish production expansion in a few years, since traditions and customs are likely to interfere with adoption of new modes of living and progressive farming methods. The uneconomic size of the farm holdings in Rumania, Bulgaria, and Yugoslavia remains another serious difficulty hampering rapid improvements in farm conditions. Only a slow process of intensifying the agriculture of these regions holds out hope for future expansion of production. Even then it is doubtful whether such a process can be carried out without accompanying improvements in the standard of living of the peasants, a factor that would reduce potential export surpluses. Other factors that would seem to prevent significant increases of exportable surpluses within a short time are discussed in the report.

RUMANIA

Rumanian economists claim that even before the recent territorial revisions agricultural production in that country met only 78 percent of the country's actual food needs, and that exports - constituting 15 to 20 percent of the production - do not represent actual surpluses, but rather food that should be consumed domestically. In order to furnish sufficient food for the population and at the same time maintain agricultural exports at existing levels, it is believed that an increase in production of nearly 30 percent would be required.¹

In times like the present, when strong economic and political pressure is being placed on Rumania to provide increased exports of virtually all farm products, these politicians might appear to be of merely theoretical interest; yet the bulk of Rumanian farm exports undoubtedly has been made possible largely as a result and at the cost of a generally low level of domestic food consumption.

The retarded development of the Rumanian economy, especially of the farm economy, complicates the problem of potential farm exports during the current war. Moreover, in a time of emergency, when a substantial part of the working population is drafted for military service or shifted into occupations typical of a war economy, the ensuing rise in food consumption is bound to curtail farm exports. Indications are, however, that German authorities are intent on bringing about a demobilization of the Rumanian Army and a rigid system of food rationing is under consideration.

A number of factors in the structure and operation of Rumanian farm economy, as well as existing natural conditions, limit the possibilities of expansion in farm production and make changes in the production pattern unusually difficult, at least during the next 2 or 3 years. Since the primary purpose of this study is to determine the extent to which agricultural surpluses may be forthcoming from Rumania during the next few years, only those factors pertinent in ascertaining this possibility will be considered.

THE AGRICULTURAL STRUCTURE OF RUMANIA²

In 1939 the population of Rumania was slightly in excess of 20 million. The predominantly agricultural character of the economy is shown by the fact that in 1939 approximately 30 percent of the gainfully occupied population was engaged in agriculture and forestry and about 9 percent in mining, industry, and transportation. In spite of the territorial gains resulting from the World War, the occupational distribution did not change noticeably throughout the post-war period.

CHANGES IN GRAIN PRODUCTION

The "Old Kingdom" of Rumania, as constituted before the World War, was especially important as a producer and exporter of grain. During the 5 years preceding

¹ A. Brancu, *Opinia Economica* before the Romanian Society of Bucharest, in March 1941.
² For a more complete description of Rumanian farm economy, this section deals largely with production of grain, production and exports.

the World War 72.1 percent of the country's wheat production, nearly 73 percent of the rye, about 78 percent of the barley, 41 percent of the oats, and 39 percent of the corn were exported.³ The acquisition of the former Austrian province of Bukovina, the former Hungarian provinces now included in Transylvania, Russian Bessarabia (occupied by Rumania in 1920), and Dobrogea, enlarged the country to more than twice the size of the old Kingdom.⁴ The area that could be seeded to field crops was likewise increased to more than twice the pre-World-War acreage.

The increase in area, however, did not result in a corresponding rise in grain production after the World War (see table 2). Characteristic of the pre-World-War situation was the relative stability in the total acreage sown to various grain crops. However, a comparison of production before and after the World War shows that during the post-war period important shifts were taking place almost continuously. During 1928-1932, for example, the production of wheat and rye declined to two-thirds of the pre-World-War level, whereas that of barley surpassed the 1909-1913 production by more than a third, and that of corn and oats by about 4 percent.

Since 1928-1932 grain crop distribution has again changed noticeably; production of wheat and rye has tended to regain its losses, though still more than 10 and 15 percent, respectively below that of 1909-1913. Corn production, on the other hand, is now about 10 percent above the pre-World-War level. The production of barley, which increased noticeably during the first decade after the World War, is now nearly 30 percent below that of 1909-1913; the output of oats has reversed its tendency and is now nearly 40 percent below the 1909-1913 level.

CHANGE IN EXPORTABLE GRAIN SURPLUSES

The development of Rumanian exportable grain surpluses is of special significance. During 1909-1913 the areas comparable with Greater Rumania (including annexations following the World War) exported 44.9 percent of the gross production of wheat, 41.8 percent of the rye, 49.5 percent of the barley, 28.9 percent of the oats, and 33.2 percent of the corn.

A fundamental change in Rumania's grain export position is evidenced when the ratio of exports to production in 1909-1913 is compared with the present ratio. Only 20 percent of the wheat was exported during 1935-1939, as compared with 45 percent in 1909-1913. The decrease in this ratio is even sharper for the other grains; for example, the corn export ratio fell from 33 percent during 1909-1913 to 10 percent in 1935-1939. Only 2 percent of the 1935-1939 production of oats was exported, as compared with 29 percent during 1909-1913.

The 1935-1939 level of exports was without exception still far below that of 1909-1913, despite favorable export conditions and unusually good crops in 1938 and

³ These percentages refer to net production (i.e., total production less seed, bud, and waste). The ratio of exports to gross production is given in table 2.

⁴ Recent territorial losses are disregarded throughout the sections dealing with the 1913 level and pattern of agriculture; they are, however, covered on pages 700-711.

1939. Only 40 percent of the 1909-1913 volume of wheat, 37 percent of barley, 33 percent of rye and corn, and 4 percent of oats exports was available during 1935-1939.

Table 3. Rumanian grain production and net exports, averages 1909-1913, 1926-1932, 1933-1937, and 1935-1939

PERIOD	WHEAT		RYE		BARLEY		OATS		CORN	
	PRODUC-	NET	PRODUC-	NET	PRODUC-	NET	PRODUC-	NET	PRODUC-	NET
	TION	EXPORTS	TION	EXPORTS	TION	EXPORTS	TION	EXPORTS	TION	EXPORTS
	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
	bushels	bushels	bushels	bushels	bushels	bushels	bushels	bushels	bushels	bushels
Old Kingdom										
1909-1913	89,746	54,434	5,000	3,307	87,130	10,741	30,010	10,421	102,810	36,730
Overall										
Rumania										
1909-1913	104,070	71,879	30,027	8,379	88,284	30,772	63,294	19,420	105,550	64,800
1926-1932	101,392	11,300	13,803	1,467	87,307	42,164	69,282	3,052	202,078	37,720
1933-1937	111,788	15,743	14,839	2,955	67,000	18,130	40,792	1,034	197,870	27,600
1935-1939	140,916	26,340	17,136	2,742	40,462	11,933	40,002	705	211,691	24,000
Index										
1909-1913	100	100	100	100	100	100	100	100	100	100
1926-1932	87.2	15.9	66.8	17.4	132.7	130.4	103.9	16.6	104.1	56.2
1933-1937	70.5	18.3	73.2	28.1	87.8	38.1	71.9	0.6	101.7	42.8
1935-1939	88.2	39.8	84.5	32.2	71.6	36.9	62.7	0.8	106.9	32.5
Net exports										
As percent										
Age of	Percent		Percent		Percent		Percent		Percent	
production										
1909-1913	44.0		41.8		43.8		28.0		33.2	
1926-1932	10.9		10.6		48.3		4.6		36.6	
1933-1937	14.3		45.9		21.5		2.8		34.0	
1935-1939	20.1		48.0		29.5		1.8		30.0	

Compiled from official sources.

EFFECT OF LAND REFORM ON FARM EFFICIENCY

The reasons for the decrease in grain production, particularly of exportable surpluses, need not be traced in detail. However, in order to determine the volume of exports that may be expected from Rumania during the next few years, it is necessary to ascertain whether the post-war decrease was brought about by random factors easily remedied in time of emergency or by more fundamental structural factors that do not permit of reversal within a relatively short time.

The distribution of land in Rumania, where the majority of the farm population was not freed from serfdom until 1864, is important in determining farm practices and thus crop yields and production. Before the World War, land distribution was characterized by holdings of two extremes in size: the small, uneconomical peasant farms averaging not quite 10 acres; and the large estates, averaging 3,500 acres. About 90 percent of the crop acreage was composed of holdings of less than 25 acres, where-

as estates of more than 1,250 acres accounted for 38 percent. Of the farm owners, 95.4 percent, or about a million peasants, owned only slightly more land than the 0.2 percent represented by 2,000 estate owners. Medium-sized farms, usually the most efficient under European farming conditions, were virtually nonexistent except in Transylvania, which at that time was part of the Austro-Hungarian empire.

Another characteristic of pre-war agriculture was the relatively small number of landless farm laborers (only 200,000 in 1913) despite the prevalence of large estates. This is explained largely by the history of the inequality of Rumanian land division. After the emancipation of the serfs, the size of the peasant holdings was barely sufficient to provide them with a meager subsistence, especially since the soil of the holdings was usually of poor quality. Consequently, a considerable portion of many large estates was rented in small lots to peasants and croppers. The estate owners depended on the peasants not only as farm helpers, but also for the use of their draft animals and, to a lesser degree, their primitive farm implements. Consequently the number of landless workers was relatively small.

The large estates (*latifundia*) of Greater Rumania were for the most part operated efficiently and upon much the same principles as in Germany or France. Managers, frequently imported from neighboring countries, were usually well trained in advanced agricultural methods. The seed beds were carefully prepared in season, rational systems of crop rotation were employed, improved varieties of seed were used, the poorer soils were fertilized, and modern machinery was extensively employed, although at the time of the World War harvesting with a sickle was still common. In regions of uncertain rainfall up-to-date methods of moisture conservation were used.

The size and topography of the peasants' fields, however, permitted the use of only the simplest type of machinery and most primitive methods of cultivation, often dating back 2,000 years to the time when the country was settled by farmers emigrating from ancient Rome.⁹ It is not surprising, therefore, that crop yields on large estates were considerably higher than on peasant farms.

TABLE 3.—Grain crop yields on large estates and peasant holdings in the old Kingdom of Rumania, average 1908-1912

CROP	LARGE ESTATES	SMALL PEASANT HOLDINGS	YIELD ON LARGE ESTATES AS PERCENT AGE OF YIELD OF PEASANT HOLDINGS
	Bushels	Bushels	Percent
Wheat	20.1	17.7	113.6
Rye	16.2	14.2	118.2
Barley	21.4	18.0	118.8
Oats	28.9	22.9	125.7
Corn	23.2	19.0	123.1

⁹Compiled from official sources.

⁹ Michael, Louis B., *Agricultural Survey of Europe; The Danube Basin. Part 2: Rumania, Bulgaria and Yugoslavia*, Tech. Bul. No. 166, U. S. Dept. Agr., pp. 18-19.

Toward the end of the World War, when the Central Powers had occupied part of Rumania, the peasant army made continuation of the war dependent on the promise of a radical land reform, which was effected by a decree of December 16, 1918. It was the original intention of the government to hold the expropriated estates under public control and to operate the land under cooperative management. When it became apparent that this plan could not be realized, the land was subdivided into small plots. The result of this reform, affecting about 15 million acres of a total agricultural area of 42 million, was that 35 percent of the acreage formerly operated under relatively efficient methods came into the possession of peasants who were not equipped to maintain the former level of efficiency.

The backwardness and lack of ambition of the Rumanian peasant may be explained by a number of factors. The peasants are descendants of serfs, who were exploited by the Turks until the middle of the nineteenth century and dominated by local landlords until their liberation. Even after their emancipation, and until the outbreak of the World War, the peasants were entirely dependent on the large estates. These conditions were not conducive to the development of initiative or efficiency. Moreover, the percentage of illiteracy among the peasants is high. It is also significant from the point of view of efficiency and productiveness that a good deal of the farm work is done by women and children, and that there are 108 days in the year - chiefly church and national holidays - during which the peasant feels that he is obligated to do no work.⁶ Adding the winter days and other periods of adverse weather conditions, there remain only about 60 days for actual field work.

It is improbable that such a situation can be remedied in a few years. Only large-scale and slowly-working educational measures can be depended on to change the peasant's reluctance to adopt ways of living and farming methods that differ from those handed down from generation to generation.

Since the World War little effort has been made to raise the social and intellectual standards of the peasants.⁷ Existing difficulties might have been overcome eventually if the original plans for cooperative management had been realized. The land reform failed to remove the chief obstacle in the way of efficient farming - the uneconomic size of peasant holdings. The peasant family received an average of only 6 to 7 acres.

The apparent advantages of the subdivision of the large estates could not be maintained.⁸ Since farms in Rumania are divided in equal parts among the heirs, the small peasant holdings had to be parcelled into still smaller and smaller units as population increased. A further impediment to efficiency lies in the fact that the holdings of an individual peasant consist of lots scattered in different locations,

⁶ *Ibid.*, p. 10.

⁷ Peterfield, *op. cit.*, *World Without End: the Saga of Southeastern Europe*, New York, 1930, p. 488.

⁸ According to Peter F. Drucker (in "Can Germany Win the Balkans," *Harpers Magazine*, Jan. 1939, p. 152), much of the initial improvement in the peasants' situation has been lost. The small farmers could not obtain credit and were obliged to seek financial assistance from their former landlords, to whom they gradually pledged all their property. As a result, not more than a twentieth of the farmer-owners installed by the land reform are still in real control of their land.

which cannot be operated as a single farm. Moreover, throughout most of the post-war period emigration was rigidly restricted, and opportunities for nonagricultural employment were - and still are - extremely limited.

Under these circumstances it is not surprising that the land reform adversely affected both the quantity and quality of Rumanian crops and farm exports. A period of low production, extremely small export surpluses, and sharply decreased farm income persisted a decade after the inauguration of the reform measures. The transfer to peasant ownership of 15 million acres previously efficiently operated by the estates would have alone caused a considerable decrease in production and yield. Before the land reform 51 percent of the total wheat acreage, 34 percent of the oats, 25 percent of the barley, 12 percent of the rye, and 13 percent of the corn were grown on the estates.

The retrogression of farming methods and the resulting decrease in the production of some crops and in all exports have, therefore, been due to factors that cannot be readily altered. Of these factors only the most important have been mentioned. Many others, institutional as well as natural, are likely to prevent rapid expansion of production and exports, even though strong pressure may be exercised to bring about such expansion. An educational program followed over a long period of years would no doubt bring about a gradual improvement in farming methods; as a result crop yields and livestock production might be increased to the point of regaining the pre-World-War level of cereal exports and expanding the exports of livestock and its products. Such an improvement, however, would require complete revamping of the farm economy, necessitating an extensive educational program, consolidation of the scattered farm lots, and vast expenditures for fertilizers, farm machinery, and transportation facilities - a program not possible of completion within a few years.

EFFECTS OF SOIL AND CLIMATE ON GRAIN PRODUCTION

On the whole, physical conditions present no serious obstacle to expansion of Rumanian agriculture - especially to an increase in grain production - provided farming methods are adjusted to existing soil and climatic conditions. Although the soils of the hilly sections are somewhat deficient in humus and nutrients, since humidity and rainfall wash away the soluble components, those of the plains are unusually fertile, rich in such plant nutrients as potash and nitrogen (though frequently deficient in phosphorus).

The plains, exposed to extremes of rainfall and temperature, are actually semiarid steppes, whose productive properties depend entirely on sufficient and uniform moisture. Eastern Rumania, Dobrogea, and southern Bessarabia are the driest regions of the entire Danube Basin. Here the spring and fall seasons are short and the summers long and hot. Droughts are frequent; rainfall occurs largely in the form of a few heavy downpours. As a rule satisfactory crop yields are possible only when moisture-conserving methods are constantly applied. Managers of the large estates knew how to overcome this handicap to a considerable extent; the peasants, however, depend on natural rainfall, and as a result crop failures occur whenever unfavorable weather conditions prevail.

INVESTMENT IN AGRICULTURAL MACHINERY

The typical Rumanian peasant farm is equipped with only the crudest and most inefficient farm implements. The average investment per acre in farm tools is only half of that in Bulgaria, a third of that in former Poland, and one-fifteenth of the investment in Germany.

TABLE 4.—Relation of Investment in agricultural implements to wheat yields

COUNTRY	INVESTMENT IN AGRICULTURAL IMPLEMENTS PER ACRE	WHEAT YIELD PER ACRE	INDEX	
			INVESTMENT PER ACRE	WHEAT YIELD PER ACRE
	Lei	Bushels	Index	Index
Rumania	408	9.5	100	100
Bulgaria	809	14.5	200	154
Poland	1,214	15.9	300	167
Germany	6,070	22.8	1,500	241
Switzerland	17,402	24.8	4,300	262

Based on figures compiled by Dr. A. Cherdvarencu (see Footnote 1).

Additional farm machinery is necessary if production is to be maintained at even the present level. The Institute for Agricultural Research at Bucharest reports that the total value of Rumanian farm equipment is only about 14 billion lei (about 98 million dollars). In many cases the equipment is not only antiquated, but beyond repair. Many peasants still use wooden plows, and often one plow must be used by five farms. Replacement of the completely obsolete equipment, with provision for the most urgent additions, would require an expenditure amounting to more than the total value of the present machinery.

Obviously, such a situation cannot be remedied in a short time. German authorities, who have a special interest in improving the situation, have pointed out that there are numerous difficulties. Because of topographic conditions, only specific types of machinery can be used. High duties and other levies, as well as inland and ocean freight rates (the latter usually representing from 30 to 40 percent of the value of the machinery in the manufacturer's price) constitute a severe handicap. The credit problem presents another difficulty; the peasant cannot pay cash for his equipment, and the seller, who retains no title in the property sold and no right to repossession in case of default, assumes a high risk in such sales. The National Cooperative Institute may act as an intermediary, but may vouch only for members of cooperatives.²

The Ministry of Agriculture recently recommended the expenditure within the next 5 years of 1.3 billion lei (about 9 million dollars) for farm machinery, to

² *Industri-Verlag, "Ruslandens Bedarf an Landmaschinen,"* (Russia's farm machinery needs) Jan. 5, 1948.

to provided by the National Cooperative Institute, largely through imports from Germany. Germany, however, will probably not be able to export much farm machinery for the duration of the war; moreover, in 5 years only a small part of actual requirements would be supplied.¹⁰ The plan also envisaged the abolition, at least in part, of duties and taxes on imported machinery.

The long-run possibilities for improving farm methods and expanding production will not here be evaluated. As for the immediate future, however, and even for the next half-decade, it may be safely stated that no appreciable change may be expected.

THE PATTERN OF RUMANIAN AGRICULTURAL PRODUCTION

Grain crops constitute the basis of Rumanian farm economy; partly because of natural factors but also because of the widespread indifference of the peasants toward the introduction of new crops and farming systems. Table 5 shows the prevailing pattern of Rumanian agricultural production.

LAND UTILIZATION IN GREATER RUMANIA

In the year 1938, of a total area of about 74 million acres approximately 33 million, or 45.6 percent, consisted of arable land; 11 million, or 14.8 percent, of permanent meadows and pastures; and 1.6 million, or 2.1 percent, of tree and bush crops. Forests constitute 21.5 percent of the total, and the remaining 16 percent is unproductive. The importance of grain crops is shown by the fact that they account for 83.8 percent of the arable land. Corn is by far the most important single crop, grown on 37.2 percent of all arable land, followed by wheat (28.4 percent) and barley (9.5 percent). The remaining 14.2 percent is divided almost equally among food crops, fiber plants, oilseeds, and tobacco.

The production pattern of Rumania has shown only minor changes during the past 10 or 12 years; however, this is not necessarily proof that strong German pressure may not succeed in increasing agricultural production in some fields. It should not be overlooked, however, that such pressure has been exerted more or less continuously since 1934. Moreover, the depression of the 1930's should have stimulated definite shifts in acreage, but it resulted only in governmental recommendations for such shifts. Present indications are that official propaganda or pressure alone will not be able to induce the peasants to reorganize their crop system within the course of the next few years.

Since the late 1920's the acreage planted to grain crops has shown little change (see table 5). During the 5-year period 1935-1939 the level of grain acreage was 3.5 percent above that of 1928-1932. Since 1936 a downward tendency has prevailed; however, this tendency is too slight to conclude that it occurred as a result of

¹⁰ According to the plan drawn up by Professor JONASCU-BIANCHI (Rumanian Minister of Agriculture and Domains), published in *Argus*, Mar. 31, 1940.

the government's recommendation for a reduction in grain acreage in favor of legumes, fibers, oilseeds, and fodder crops to meet changes in the export demand. On the contrary, there is reason to believe that the decrease in total grain acreage is due largely to random factors.

TABLE 5. Land utilization in Greater Rumania, 1938¹

LAND USE	AREA	PERCENTAGE
	1,000 acres	Percent
Total area of Rumania	72,906	100.0
Arable land	33,223	45.6
Deposited meadow and pasture	10,806	14.8
Wood and bush crops	1,564	2.1
Woods and forests	15,650	21.5
Uncultivated area	11,658	16.0
Percent arable land		
Wheat	12,348	37.2
Barley	8,797	26.5
Maize	634	1.9
Other cereals	2,958	8.9
Legumes	300	0.9
Oilseeds	1,609	4.8
Other crops	1,191	3.6
Total	27,853	83.8
Meadows	306	0.9
Pasture	121	0.4
Wood	54	0.2
Bush crops	10	0.03
Woods	476	1.4
Other	54	0.2
Woods and forests	67	0.2
Uncultivated area	101	0.3
Uncultivated gardens	90	0.3
Total	1,191	3.6
Industrial crops		
Wool	126	0.4
Flax	12	0.04
Linseed	12	0.04
Other seeds	497	1.5
Other	205	0.6
Other	5	0.02
Other	156	0.4
Other	42	0.1
Other	119	0.4
Total	1,201	3.6
Fodder crops		
Alfalfa	366	—
Other	469	—
Other	413	—
Fodder crops	114	—
Total	1,992	—
Tree and bush crops		
Vines	913	—
Orchards of plum trees	371	—
Other orchards	279	—
Total	1,564	—

¹Minor crops are contained in the subtotals, but are not given individually.
Based on figures in the International Yearbook of Agricultural Statistics, 1938-39.

It is especially noteworthy that on the whole the acreage changes in the various grains conflict with governmental recommendations. The government demanded a reduction in wheat and corn acreage and an increase in barley and oats; but between 1928-1932 and 1935-1938 the wheat acreage increased nearly 20 percent and the corn

acreage 10 percent, while oats and barley decreased 30 and 25 percent, respectively. Since 1936 the acreage under oats has been reduced 26.7 percent and that under barley 32 percent, while the wheat acreage increased 19 percent. Only the 6-percent decrease in corn acreage was in line with official recommendations.

In the food materials of all countries under German influence there is at present a marked deficiency in protein of both animal and vegetable origin; consequently, leguminous plants have attained added importance because of their high protein content. Thus far, however, Rumanian farmers have made no effort to expand the acreage of such plants as beans, peas, and lentils - since 1936, in fact, a decrease of 10 percent has occurred. Also, the acreage planted to textile fibers, the products of which are in great demand domestically and in all German-dominated countries, has shown no increase since 1934.

TABLE 6. Crop acreages in Greater Rumania, averages 1928-1932, 1935-1939, and 1935-1939; annual 1933 to 1939

CROP	AVERAGES			1933	1934	1935	1936	1937	1938	1939
	1928-1932	1935-1939	1935-1939							
	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
	acres	acres	acres	acres	acres	acres	acres	acres	acres	acres
Cereals:										
Wheat	11,470	12,565	12,611	11,925	12,366	12,772	12,926	12,740	12,348	12,157
Wheat	7,879	8,212	8,032	7,700	7,609	8,405	8,480	8,777	9,435	10,079
Rye	887	991	1,076	965	911	980	1,041	1,082	1,191	1,107
Barley	4,687	4,123	3,533	4,485	4,331	4,079	3,980	3,739	3,188	2,708
Oats	2,511	1,898	1,792	2,050	2,044	1,970	1,986	1,939	1,609	1,455
Total	27,114	27,687	28,065	27,121	27,263	28,277	28,486	28,287	27,741	27,526
Beans	257	257	298	258	277	245	259	247	208	
Peas			110	42	74	(3)	129	109	121	
Lentils			44	40	37	(2)	40	49	54	
Other	151	119	122	118	114	114	124	130	120	
Flax and seed	83	83	60	47	64	77	74	84	37	
Potato		3	8	5	2	2	9	5	12	
Conferences			478	402	397	472	504	594	497	
Deposited	163	190	219	96	143	314	227	125	205	
Others		83	103		4	58	119	241	106	
Soybeans	55	36	50	25	25	44	44	35	49	
Sugar beets	84	87	88	106	81	91	72	74	119	
Potatoes	487	514	514	489	504	511	535	558	676	

¹ Average 1928-1932.

² Data not available.

Compiled from International Yearbook of Agricultural Statistics, International Institute of Agriculture, for 1936-37 to 1938-39 and official data in the Office of Foreign Agricultural Relations for other years.

Germany has been bending every effort to stimulate increased production of oilaginous plants, particularly soybeans. A German-Rumanian company, "Soia," controlled largely by the German Dye Trust, was founded in 1934 for the purpose of

contracting with Rumanian peasants for the cultivation of soybeans, previously unknown in southeastern Europe. After much experimentation to determine the most suitable soils and seed, it was found that Bessarabia offered the best prospects for soybean production. As a result 80 percent of the total Rumanian soybean acreage was located in Bessarabia - which has now been ceded to the Soviet Union. During the first few years the number of peasants with whom contracts (for 2.5 acres each) were concluded increased rapidly, reaching 74,000 in 1937. In 1938 only the most efficient farmers were allotted seed and given instructions, and the number of producers was cut in half. In 1939, however, the upward trend was resumed, and is expected to continue as long as Germany offers its present high prices for soybeans. The available supply of farm labor, draft animals, and tractors, however, as well as natural factors and prices of competitive crops will partly determine the future level of production. No noticeable expansion has recently taken place in the acreage of other oil-bearing plants.

LOW YIELDS AND PRODUCTION

The outstanding characteristics of Rumanian agricultural production are the low level of and extreme variation in crop yields, resulting chiefly from backward farming methods and inability to provide for adequate moisture conservation. Application of manure is rare, and commercial fertilizers are practically never used in spite of the general deficiency of phosphorus in the soil. According to Rumanian officials³¹ the soils of even the best districts are in danger of becoming depleted unless the use of fertilizers is increased.

The primitive rotation system in Rumania results in low yields even for grains. The yield of corn in 1935-1939 was 28.2 percent, that of barley 24.6 percent, that of oats 20.9 percent below the 1909-1913 level, and even the wheat yield was 8.6 percent below 1909-1913. Adequate yields from crops now in greatest demand (such as fibers, legumes and oil-bearing plants) can be obtained only if the government makes available the right qualities of seed and instructs the peasants in more efficient methods. It is obvious that the prevalence of low yields during more than two decades cannot be remedied immediately except during years of unusually favorable weather, even if sufficient fertilizers, modern farm equipment, and high-quality seed could be supplied.

No less disturbing is the extreme variation in yields. During 1930-1939 the percentage deviation from the average yield was 23.3 percent for barley, 19.4 percent for wheat, 15.6 percent for rye, 14.7 percent for oats, and 9.9 percent for corn. This instability in yield explains largely the variability of Rumanian grain production, as well as the wide fluctuation in exports. Table 7 shows the yields of grain crops during the past two decades.

For a number of reasons corn is the Rumanian peasant's most important grain crop. First of all, corn is his chief food grain; it is estimated that only 3 million

³¹ Lepetit, *op. cit.*, p. 14. See also study on Rumanian peasants - Correspondence, *Washington Post*, May 1, 1939, p. 4.

people of a total of 20 million regularly consume wheat as a bread grain. Moreover, farm operations in production of corn may be performed largely by hand; and only 0.3 bushel of seed per acre is required as compared with 3.3 bushels for wheat, thus reducing production outlays. Because of the peasant's familiarity with corn and the suitability of the climate for that crop, fluctuations in production are smaller than those of other grains except in years of extremely adverse climatic conditions. During 1930-1939 the deviation from the average production was 10 percent, due almost entirely to variations in yield.

TABLE 7.—Yields per acre of Rumanian grain crops, averages 1900-1913, 1928-1932, 1933-1937, 1935-1939, 1930-1939; annual 1935 to 1939

YEAR	CORN	WHEAT	RYE	BARLEY	OATS
	Bushels	Bushels	Bushels	Bushels	Bushels
Annual:					
1935	15.0	15.5	18.3	19.3	27.1
1936	15.4	10.1	9.1	9.2	19.0
1937	16.6	11.4	13.3	10.4	20.8
1938	17.0	15.2	17.1	16.6	29.4
1939	14.7	15.7	16.4	11.3	18.2
1930	16.3	18.8	17.1	12.1	19.8
1931	19.5	16.2	15.9	13.8	23.1
Average:					
1900-1913	23.4	16.7	16.1	18.2	26.2
1928-1932	17.7	10.5	10.0	18.6	26.7
1933-1937	15.7	13.6	15.0	13.8	22.9
1935-1939	16.8	15.6	15.9	13.6	22.3
1930-1939	17.1	14.4	15.2	14.6	23.1
Average deviation from					
1930-1939 mean yield	1.7	2.8	2.4	2.4	3.4
	Percent	Percent	Percent	Percent	Percent
Percentage deviation	9.9	19.4	15.6	23.3	14.7

Compiled from official sources.

The variability of the annual wheat crop, on the other hand, is more than twice that of corn. During and immediately after the World War the wheat situation was affected by war influences, and later by the effects of the land reform. Before 1931 various governmental measures were undertaken to improve conditions, but with little success. In 1931 a wheat valorization program combined with a system of export premiums was initiated in the hope of raising the domestic price level. The system was modified in 1933 to one of government purchase of wheat when the domestic price fell below a fixed minimum. The new system maintained domestic prices at about twice the world market prices. Since 1935 a combination program has been followed of export premiums, minimum domestic prices, and government purchases.

Barley production is the most unstable of that of all Rumanian crops, the deviation from the average of 1930-1939 amounting to 23.3 percent, of which two-thirds

was due to variations in yield and one-third to variations in acreage. Production has been declining steadily; the average crop for 1935-1939 was only 46.9 million bushels, as compared with 57 million for 1933-1937 and 67.3 million during 1928-1932. Production of oats is also declining, but the annual crop fluctuations are not so sharp, being more nearly equal to those of wheat.

TABLE 8.—Production of Rumanian farm crops, averages 1928-1932, 1933-1937, 1935-1939; annual 1935 to 1939

CROP	UNIT	AVERAGES		1935	1936	1937	1938	1939
		1928-1932	1933-1937					
		Thou-	Thou-	Thou-	Thou-	Thou-	Thou-	Thou-
		sands	sands	sands	sands	sands	sands	sands
Corn	Bu.	202,500	167,670	211,891	211,767	230,932	167,071	201,450
Wheat	Bu.	107,349	111,788	140,810	95,439	128,717	158,166	177,166
Rye	Bu.	12,593	14,829	17,120	13,724	17,624	17,768	20,261
Barley	Bu.	97,307	57,030	46,803	42,430	74,021	42,127	28,222
Oats	Bu.	68,262	45,792	40,002	40,904	59,362	35,328	21,902
Beans	Bu.	2,960	2,630	-	2,712	2,464	1,880	1,716
Potatoes	Ton	69,782	69,692	-	74,298	71,300	79,768	61,441
Sugar beets	Ton	781	634	-	690	460	549	806
Hemp	Ton	24	20	-	48	82	39	33
Flax	Ton	4	10	-	10	12	10	7
Cotton	Bale	-	1,015	-	461	1,324	2,300	2,707
Sunflower seed	Ton	-	191	-	170	211	191	200
Rapeseed	Ton	30	36	-	12	41	75	54
Soybeans	Ton	-	-	-	-	-	-	-
Tobacco	Ton	18	11	-	14	16	11	14

Compiled from International Yearbook of Agricultural Statistics and official data in the *Of-Five of Foreign Agricultural Relations*.

Of the remaining crops, only a few are of importance to this study. Production of legumes shows wide annual fluctuations, but without any evident tendency toward increase. Potatoes and sugar beets are grown for domestic consumption only. Production of fiber crops, particularly cotton, is entirely inadequate to meet domestic needs; the fivefold increase in production since 1935 still meets only 3 percent of Rumanian requirements.

Except in the case of soybeans, no increase has taken place in the production of oleaginous plants. Normally 75 percent of the sunflower seed, 70 percent of the hemp seed, 65 percent of the flaxseed, and about 50 percent of the rapeseed were consumed domestically before the recent territorial changes. At present, total production of oilseeds is insufficient to meet domestic needs.

Fruit production has suffered from backward methods of cultivation, handling, and processing. The number of plum trees, constituting more than 60 percent of all fruit-bearing trees, is placed at 49 million; but the average yield per tree is very low, amounting to only 17 pounds as compared with 85 pounds in Yugoslavia and in

California.¹² In addition, the fruit is of inferior quality, with the result that only 25 percent of the crop can be consumed as fresh fruit or as dried fruit or jam. The remaining 75 percent is used in the manufacture of plum brandy.

In 1937 the 8 million apple trees in Greater Rumania produced a crop of 860,000 short tons. In the same year 115,000 tons of pears, 408,000 tons of walnuts, and 34,000 tons of quinces were produced. Rumania exports little fruit, because of the generally low quality and the lack of a standardized product; according to official estimates only 1 percent of the total production was exported in 1937. There are long-time possibilities of improving both quality and quantity of the fruit crops and of exporting larger surpluses; these, however, cannot be realized within the next few years.

THE LIVESTOCK ECONOMY

Although the predominance of small farms should be favorable for the development of an intensive livestock industry, the proportion of animals to population is very low. Hog numbers per capita in Yugoslavia, former Poland, and former Austria are twice those in Rumania; and in Germany and Hungary three times as great.

TABLE 9.—Livestock numbers in Rumania, 1937

KIND	NUMBERS	KIND	NUMBERS
	Thousands		Thousands
Horses	3,065	Goats	408
Cattle	4,184	Hogs	3,170
Milk cows	3,110	Poultry	73,897
Sheep	13,373		

Compiled from official sources.

Meat consumption in Rumania is very low; in the years 1926-1935 it fluctuated between 5.5 and 11.2 pounds per person for the peasants and between 20.2 and 26.6 pounds for the urban population. The government has been attempting, however, to improve livestock breeds and encourage increased consumption. Rumanian exports of livestock and its products are relatively unimportant, and prospects for greater surpluses in the near future are not favorable. Increased exports are not possible without an increase in livestock numbers and the development of better breeds - conditions that depend in turn on the establishment of a better feedstuff basis and the peasant's adoption of advanced methods of animal husbandry.

Production of dairy products is insignificant. A total of only about 600 million gallons of milk is produced per year; a quantity barely sufficient to meet domestic needs in spite of the low level of domestic consumption. It is believed that

¹² Arcadian, Nicolae P., "Agricultural raw materials used in the Rumanian food industry." *Correspondence Economique Roumaine*, No. 3, 1932, p. 39.

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TABLE 11.—Rumanian exports of agricultural products, 1923-1939
[Net exports for calendar year]

PRODUCT	UNIT	1923	1924	1925	1926	1927	1928	1929
		: Thou- : : sands :	: Thou- : : sands :	: Thou- : : sands :	: Thou- : : sands :	: Thou- : : sands :	: Thou- : : sands :	: Thou- : : sands :
Grains:								
Corn	Bu. :	42,206:	20,869:	24,993:	30,360:	30,598:	9,521:	10,932:
Wheat	Bu. :	223:	5:	9,274:	22,438:	35,788:	32,420:	40,781:
Barley	Bu. :	28,553:	15,316:	8,149:	23,977:	14,656:	7,964:	4,921:
Oats	Bu. :	1,615:	28:	1,144:	1,174:	1,211:	0:	0:
Rye	Bu. :	0:	0:	368:	1,190:	10,219:	858:	1,079:
Oilseeds and legumes:								
Oilseeds	Ton :	- :	- :	148:	60:	120:	129:	123:
Oilcake	Ton :	- :	- :	85:	101:	111:	98:	85:
Legumes	Bu. :	- :	- :	3,564:	2,609:	2,499:	1,690:	2,315:
Fruits and nuts:								
Apples	Ton :	- :	- :	11:	26:	18:	11:	11:
Fruites	Ton :	- :	- :	4:	2:	3:	2:	4:
Grapes	Ton :	1:	2:	2:	2:	2:	2:	- :
Nuts	Ton :	- :	- :	6:	8:	12:	8:	5:
Livestock and products:								
Cattle	Head:	18:	46:	69:	41:	43:	40:	- :
Hogs	Head:	105:	71:	43:	204:	190:	107:	- :
Sheep	Head:	2:	95:	79:	19:	19:	46:	- :
Poultry	Head:	2,568:	3,504:	3,192:	2,830:	2,533:	1,248:	- :
Animal products	Ton :	15:	16:	17:	25:	23:	21:	- :

Compiled from International Yearbook of Agricultural Statistics and various official sources.

TABLE 12.—Rumanian exports of grains, averages 1928-1932, 1933-1937,
and 1935-1939

PERIOD	CORN	WHEAT	BARLEY	OATS	RYE
Average:	: Bushels :	: Bushels :	: Bushels :	: Bushels :	: Bushels :
1928-1932	37,720:	11,563:	42,164:	3,062:	1,457:
1933-1937	27,808:	13,743:	18,130:	1,034:	2,355:
1935-1939	21,082:	29,340:	11,833:	706:	3,743:

Compiled from official sources.

Exports of grains, constituting from half to two-thirds of the total agricultural exports, reflect clearly the characteristic sharp fluctuations in production. Corn exports ranged during the last 5 years from a low of 9.5 million bushels in 1935 to a high of 30.4 million in 1936. On the whole, however, the volume of corn exports is declining; the 1935-1939 level was 17.5 percent below that of 1928-1932.

The wheat export situation has improved significantly since 1933, largely because of the sharp increase in acreage and production. Although the Rumanian govern-

ment recommended reduction of the wheat acreage in favor of feed crops and industrial plants, its policy actually stimulated increased production and exports of wheat. Government support of the wheat market is still being continued.

Barley exports have greatly diminished as a result of the acreage reduction since 1933; the volume of exports during 1935-1939 was only 29.3 percent of that during 1928-1932. Reduced acreage and production caused a similar, though sharper, decrease in exports of oats, and in 1938 and 1939 no shipments at all were made.

Despite the activities of the German-controlled Soia Company, which purchases the entire soybean crop for shipment to Germany at high fixed prices, the export volume of all oilseeds has not expanded during the last few years. An increase in soybean exports has been accompanied by a reduction in shipments of rapeseed and sunflower seed, as well as of oilcake. Exports of legumes fluctuate around a level of 2.5 million bushels annually.

Fruit exports as a whole are insignificant, averaging only 28,000 tons annually during 1935-1939. A maximum of 38,000 tons was exported in 1935 as compared with a minimum of 20,000 in 1939. The relative unimportance of these exports is apparent when this figure is contrasted with German fruit imports during 1938 of 536,000 tons.

Exports of livestock products fluctuate in accordance with the domestic feed situation. Live animals represent about 50 percent of the export value of the animal products group. The maximum quantities available for export in any year since 1933 were 200,000 hogs and 70,000 cattle, equal to about 30,000 tons of dressed meat. The annual exportation of animal products has never exceeded 25,000 tons.

GEOGRAPHIC DISTRIBUTION OF RUMANIAN FOREIGN TRADE

With the German domination of Rumania, as well as of practically all the countries of central and northwestern Europe, future Rumanian trade relations will undoubtedly be largely controlled by Germany. Nevertheless an analysis of the geographic distribution of Rumanian agricultural exports during the past few years is of more than theoretical interest. It reveals the dependence of various European importers on Rumanian farm products and the extent to which anticipated changes are likely to alter the direction and volume of such exports.

GERMAN RUMANIAN TRADE RELATIONS

In spite of its territorial expansion after the World War, Rumania suffered severely from the trade dislocations following the breakdown of the Austro-Hungarian monarchy. The export situation became even more critical during the world depression. As a result the government was forced to institute rigid foreign exchange control and other regulations to control the nation's foreign trade and international payments, with most trade regulated by clearing agreements. Transactions with free-exchange countries, however, furnished most of the active trade balance

necessary to obtain sufficient foreign exchange for servicing the foreign debt and for imports of such essential products as cotton, iron ore, and machinery.

Germany began its economic drive into southeastern Europe in 1934, at a time when the Danubian countries faced serious difficulties in disposing of their agricultural surpluses. Since the Danubian countries export principally farm products and raw materials (needed by the Reich) and import manufactured products that Germany can normally supply, this complementary trade greatly facilitated transactions between Germany and the Southeast.

The proximity of the Danubian states to Germany, especially important under blockade conditions, also favored the flow of trade between the countries. In addition, the controlled trade and exchange conditions of the Danubian countries could easily be adjusted to German foreign trade methods, since most of the German clearing agreements provided for a complete balance of exports and imports through clearing accounts, which did not require the acquisition of foreign exchange.

Normally these favorable conditions should have enormously increased trade relations between Germany and the countries of the Danube Basin; however, the expansion was in most cases far less rapid than was anticipated, partly because of Germany's inability to export the desired quantities and qualities of manufactured goods. This inability may in turn be attributed to the fact that the German rearmament program taxed the nation's economy so severely that the demands of the Danubian countries for industrial goods could not be supplied.

The trade situation was further complicated by the fact that Germany was in a position to drive hard bargains and frequently forced upon the southeastern countries products that they did not need, or allowed clearing balances to pile up in the German favor, thus virtually borrowing funds from the Danubian states.¹⁸ Delayed deliveries of German goods, often of unsatisfactory quality, together with the desire of the Danubian countries to avoid a German trade monopoly, served to prevent a more pronounced expansion of their trade with Germany.

The absorption of Austria and Czechoslovakia tremendously increased the German sphere of influence. As far as Rumanian farm exports were concerned, however, the effects were slight. A comparison of Germany's share in Rumanian exports during 1928-1932 with its share during the subsequent trade drive in southeastern Europe shows that Germany and Austria together took 27.5 percent of all Rumanian exports before and only 28.1 percent during the drive, including Czechoslovakia, the share of Greater Germany during these two periods was 34.1 and 36.4 percent, respectively.

In March 1939 a new German-Rumanian trade agreement was concluded, which originally provided for a complete reorientation of Rumanian economy in accordance with German import needs. Since the agreement stipulated that a bilaterally balanced trade should continue to be maintained and that the requirements and interests of

¹⁸ Richter, Hans. "Southeastern Europe's trade increasingly dominated by Germany," *Foreign Agriculture*, vol. III, May 1939, pp. 188-178.

Rumania in her trade with other countries were to be considered, no immediate sharp expansion in trade was anticipated. It is significant, however, that in 1939 Greater Germany purchased 43.2 percent of the total Rumanian exports, largely as a result of the agreement. In the same year Greater Germany furnished 56.1 percent of the Rumanian import needs, as compared with 53.6 percent in 1935-1939 and 48.8 percent in 1928-1932.

TRADE RELATIONS WITH COUNTRIES OTHER THAN GERMANY

In spite of the decided tendency to strengthen trade with Germany, the necessity for securing raw materials and manufactured goods that Germany could not supply forced Rumania to maintain trade with free-currency countries. To such countries as Belgium, the Netherlands, Denmark, and Poland - now under complete German domination - Rumania sold 7.4 percent of her exports in 1935-1937 and bought from them 6.7 percent of her total imports.

Italy also exerted effort in 1939 to intensify her trade relations with Rumania. The Italian-Rumanian trade agreement effective January 1, 1939, envisaged an annual volume of trade valued at 5 billion lei (about 37 million dollars). In the 5 preceding years total annual trade had never exceeded 3.5 billion lei, and in 1938 it amounted to only 2.5 billion.¹⁴ The largest increase proposed was on Italian imports of wheat and petroleum, which Germany also needs. Actually, Italian-Rumanian trade in 1939 reached a value of 5.236 billion lei, with Italy taking 12.1 percent of Rumania's exports as compared with 6.2 percent in 1938 and 9.3 percent in 1935-1939. Rumanian imports of Italian products rose from 5 percent in 1938 and 5.5 percent in 1935-1939 to 8.9 percent in 1939.

A trade agreement with the United Kingdom also resulted in a sharp increase in Rumanian exports to that market; in 1939 the United Kingdom took 14.1 percent of total Rumanian exports as compared with 11.1 percent in 1938. On the other hand, Rumanian imports from that market decreased. Since it is unlikely that British-Rumanian trade can be maintained during the war, former Rumanian exports to Britain appear virtually the only potential reserve for increased exports to the agriculturally deficient countries of the Continent. Any attempt by Greater Germany or Italy to import quantities of Rumanian agricultural surpluses larger than their 1939 takings - plus Britain's former share - would further deprive the other Danubian countries, as well as Switzerland and the German-dominated territories, of part of the imports they formerly took from Rumania.

GEOGRAPHIC DISTRIBUTION OF RUMANIAN FARM EXPORTS

As a consequence of the recent political rearrangements, the geographic distribution of Rumanian farm surpluses is expected to show significant changes from the distribution prevailing before the outbreak of war.

¹⁴ U. S. Department of Agriculture, Special Rept. No. 368 of the Agricultural Attaché, "Rumania: recent trade agreements," Belgrade, Yugoslavia, Feb. 4, 1939.

In order to determine the nature of the changes expected in geographic distribution of Rumanian farm exports it is necessary to examine the direction of farm exports during the last few years. The actual trend in the near future will depend largely on the size of current crops, changes in domestic consumption, the degree of disorganization of trade routes, availability of transportation facilities, and the willingness of Germany and Italy to admit former Rumanian customers now under their domination to participate in the purchase of Rumanian agricultural surpluses.

Bread grains: Germany began to purchase Rumanian wheat in 1937, when the German policy of storing bread grains for emergency purposes was initiated. German purchases in 1939 give a better indication of the potential future minimum demand on Rumania than would an average covering years during which Germany had access to overseas markets. Thus in 1939 Greater Germany took 25 percent of Rumanian wheat exports, at a time when German wheat production reached a near-record level.

The share of the United Kingdom in total Rumanian wheat exports in 1939 was 31 percent. The wheat formerly exported to Britain may now serve to offset to some extent the deficiencies in Germany, as well as in the territories under German domination, which purchased about 20 percent of the Rumanian wheat surplus during 1935-1939. Italy's share increased sharply in 1939 over the 2 preceding years, but Italy had been a large importer of Rumanian wheat in 1935 and 1936. Of the small Rumanian rye surplus, Greater Germany usually has bought either the total supply or the largest part, except in 1939, when Italy and the countries now dominated by Germany took two-thirds.

Feed grains: The European feedstuff situation is likely to remain critical even in years of unusually large Danubian surpluses. As long as the British blockade is in force, Germany and the other European livestock-producing countries that are deficient in feedstuffs will be deprived of most of their imports of corn and concentrated feeds, which they had purchased regularly from overseas countries. Germany proper did not depend greatly on Rumanian corn before the outbreak of the war except in 1937, when it took 60 percent of the Rumanian surplus. During 1935-1939 the German share was only 25 percent. The proportion taken by Greater Germany, however, represented 50 percent of the total. The Netherlands, Belgium, and Denmark increased their Rumanian purchases to 16 percent in 1938 and 10 percent in 1939; however, if their livestock industries are to be maintained at even present levels, a much greater volume of exports to these countries will be necessary.

Great Britain's share in Rumanian corn exports of 30 and 23 percent in 1938 and 1939, respectively, would if diverted to the occupied countries ease the feedstuffs situation there, but both Germany and Italy will undoubtedly demand much greater quantities from Rumania than before the war. Rumanian exports of corn to other southeastern European countries, amounting to 17 percent of the total in 1935-1939, cannot be curtailed without endangering the livestock exportation of those countries to Germany and Italy.

The geographic distribution of Rumania's exports of barley was similar to that of corn during 1935-1939. Since 1937 however, Greater Germany's share had

increased sharply. Of total Rumanian barley exports in recent years, between two-thirds and three-fourths has gone to Germany, Austria, and Czechoslovakia. Greater Germany took 80 percent of the exports, and the remainder went to Hungary and other European livestock-producing countries.

Denmark and the Netherlands imported nearly half of the Rumanian surplus of oilcake. The 16 percent taken by England and France, now divertable to other countries, cannot offset the serious deficiency in the Netherlands, Denmark, and Germany. The bulk of the Rumanian oilseed exports was taken by Greater Germany; only small quantities went to Italy and the conquered territories. Because of the cession of Bessarabia, the Rumanian oilseed crops cannot meet even domestic requirements. One-fifth of the legumes was formerly shipped to Great Britain and France; Germany had increased its share to 62 percent in 1939. The small surplus of fruit went almost exclusively to Greater Germany.

POTENTIAL FARM SURPLUSES DURING AND AFTER 1940-41

The preceding discussion has pertained to Greater Rumania, including Bessarabia and northern Bukovina, now ceded to the Soviet Union; northern Transylvania, now ceded to Hungary; and southern Dobrogea, now ceded to Bulgaria. The ceded territories represent important farm-surplus-producing areas, and their loss is bound to affect the future volume of Rumanian farm production and exports. The surpluses of the territories ceded to Hungary and Bulgaria will still be available to continental Europe in the future. These territorial changes, therefore, affect merely the agricultural economies of the immediate countries concerned. The cession of Bessarabia and northern Bukovina to Russia, however, probably represents a definite loss of important surpluses to the European deficit countries.

Bessarabia and northern Bukovina covered an area of about 12 million acres, or 17 percent of the area of Greater Rumania. The relative loss in arable land is even greater, amounting to 8 million acres, or 23 percent of the former total arable area. The loss of these two territories will noticeably reduce the volume of most farm exports, since they contributed normally nearly 19 percent of the total Rumanian wheat production and over 20 percent of the corn. The relative loss in this year's grain output is much greater, since Bessarabia is the only section that did not suffer from the heavy rains which damaged crops throughout the Danube Basin.

The cession of Bessarabia and northern Bukovina also resulted in the loss of 29 percent of the potato crop and 32 percent of the sugar beets. These losses, however, will affect only the domestic economy. On the other hand, a reduction of 17 percent in cattle numbers and of 20 percent in numbers of hogs and sheep will probably correspondingly reduce the exports of animal products. Although little livestock was exported from Bessarabia, some quantities were shipped to deficit regions within Rumania.

The effect of these territorial losses on the future exports of oleaginous products is especially serious. The loss of Bessarabia, where in 1938 75 percent of

the total sunflower seeds and 80 percent of all the soybeans were produced, will make it impossible for Rumania to export oilseeds for many years. Even domestic requirements, in fact, will probably not be supplied.

The principal result of the cession to Hungary of mountainous northern Transylvania is that future Rumanian grain production will be reduced by about 9 percent. This loss reduced the total area of Rumania by 14 percent and the population by about 13 percent.

The cession of southern Dobrogea will affect Rumanian economy less seriously than the loss of Bessarabia. It will, however, considerably increase Bulgarian surpluses: the Bulgarian wheat crop will be increased by 9 percent; the rye crop by 45 percent; corn and barley, 18 percent; oats, 12 percent; and dry beans, 67 percent. Southern Dobrogea is very fertile; nearly 70 percent of the total area is in grains.

THE 1940 OUTLOOK

The Rumanian crops of 1940 were affected by two unfavorable factors - one directly connected with the war and the other resulting from the adverse climatic conditions during last winter and spring.

Like most other countries of southeastern Europe, Rumania felt obliged to mobilize an army of between 1.5 and 2 million men, who as a result were not available for their peacetime occupations, chiefly farming. Although much farm work is performed by women and children, the mobilization, as well as the withdrawal of many draft animals for military use, is known to have affected production adversely. Rumania did not yield to the German demand that men be returned to their farms to plant the spring cereals, and the compromise of putting youth to work on farms only partly overcame the acute labor shortage. The principal result was a sharp reduction in the area sown to winter cereals. However, a large proportion of the army was released in July, so that the shortage was somewhat relieved at harvest time.

The resulting situation appears to have been especially harmful to the wheat crop. According to the latest semiofficial information, the decrease in acreage, combined with the effects of the exceptionally severe winter, late and rainy spring, and devastation by floods, resulted in a total wheat crop in Greater Rumania of only 89 million bushels, as compared with 184 million in 1939 and 177 million in 1938. This would mean a reduction of 45.7 percent from 1939 and 49.7 percent from 1938.

The loss of Bessarabia and northern Bukovina further aggravated the wheat situation for the 1940-41 marketing year. Indications are that the present territory of Rumania produced only 60 million bushels this year; adding the estimated carry-over of 17 million leaves a total supply of about 77 million bushels. Assuming normal consumption, domestic requirements will amount to 93 million bushels, or 26 million more than the estimated crop.

The Rumanian Government has prohibited exportation of wheat in order to safeguard supplies for domestic consumption; moreover, it is contemplating an enforced

reduction of the wheat content of flour. This procedure may somewhat alleviate the anticipated domestic shortage, but will not provide export surpluses in 1940-41. Furthermore, the army mobilization resulted in a sharp increase in domestic wheat consumption: although the Rumanian farmer consumes very little wheat, as a soldier he receives a much more nearly adequate diet and consumes an even higher bread ration than the average Rumanian city dweller. For all these reasons, it is certain that wheat exports will be impossible in 1940-41, despite pressure from the belligerents. Undoubtedly, German demands for the army of occupation represent an added strain.

This year's rye crop of about 7 million bushels (for present boundaries) will meet only about 40 percent of domestic requirements. In view of the shortage the government has prohibited all rye exports.

Exports of barley have been prohibited since November 1939. The 1940 crop is believed to be about 5 million bushels in excess of domestic requirements. Rumania has had no surplus of oats during the last few years, and exports have been prohibited since October 18, 1939.

The corn situation looks somewhat more promising. The government urgently recommended the planting of corn and barley this spring on a part of the acreage that could not be sown to wheat last fall. Semiofficial estimates place the 1940 corn crop for present boundaries at about 160 million bushels and the 1939 carry-over at 15 million; domestic requirements are estimated at about 155 million bushels. The supply, however, is not sufficient to compensate for the shortage of wheat and rye. Any corn exports would be at the cost of further reducing the Rumanian standard of living, which is already low.

Prospects for increased exports of oilseeds are unfavorable. Even before the cession of Bessarabia and northern Bukovina exports of sunflower, castor, rape, hemp, and flaxseed were prohibited; the present territory does not produce enough oilseeds to meet domestic requirements. The soybean situation has completely changed as a result of the territorial losses. Since most of the soybean and sunflower seed was produced in Bessarabia, Rumania will face serious difficulties in meeting domestic requirements. Rumanian soybean plantings in 1940 amounted to only 54,000 acres, as compared with 256,000 in 1939, and production was no doubt correspondingly reduced.

Little information is available concerning prospects for the exportation of animal products. Meat consumption has been restricted by the introduction of three meatless days a week. Mobilization and the intensified rearmament program have, however, increased sharply the number of meat consumers and the per-capita consumption. It is certain that no increase in exports is possible; in fact, a decrease is likely in view of the damage suffered by livestock as a result of floods. The cession of Bessarabia and northern Bukovina will also tend to reduce livestock exports.

THE OUTLOOK AFTER 1940-1941

Unquestionably, Rumanian farm production - especially of animal products and farm products for industrial use - could be greatly expanded in the future if certain

prerequisites were fulfilled. Among these prerequisites are the widespread education of peasants in the science of modern agriculture, adoption of improved methods of farming and livestock breeding, of greater attention to seed selection, increased use of fertilizers and modern agricultural machinery, and elimination of strip farming - in short, a reorganization of the entire Rumanian farm economy.

THE FIVE-YEAR PLAN

During the past 5 or 6 years effort has been made toward accomplishment of these objectives, stimulated especially by the law of March 1937 for the encouragement of Rumanian agriculture. Moreover, the German-Rumanian trade agreement of 1939 provided for a sweeping reorganization of agriculture under the supervision of German experts. The Agricultural Five-Year Plan, drawn up by the Rumanian Minister of Agriculture in March 1940, is the latest attempt in this direction. In spite of all these measures, however, little fundamental improvement has yet been accomplished.

The object of the Five-Year Plan is much the same as that of the 1937 law and of the German proposals in the trade agreement. Recognizing the necessity of a far-reaching educational program, the plan provides for the establishment of a network of farm organizations to secure the active cooperation of the farmers. It also recognizes that a prerequisite for the improvement of agricultural conditions is the stabilization and consolidation of farm ownership, and toward that end is proceeding with the division of land - which has not been completed even after 20 years of agrarian reform - and the consolidation of strip farms. Many economists believe, however, that consolidation of strip farms is impossible except under a system that will entirely disregard individual rights.

Although it is realized that grain crops produce the best results under existing conditions and require less care and labor than other crops, the Five-Year Plan¹⁵ provides for a reduction during the next 5 years of 2 million acres, or 25 percent, in the present wheat acreage. Corn acreage is to be reduced by 12 percent. The present level of production, however, is to be maintained and even increased by improving yields through better seed selection, the application of fertilizers, and the control of plant diseases. The acreage retired from grain crops, together with 700,000 acres of reclaimed wastelands, is to be used to expand production of industrial and fodder crops.

Considering the present status of the Rumanian peasant, it is obvious that the objectives of the Five-Year Plan cannot be realized within the next few years. Nevertheless, the plan suggests the possibility of interesting modifications in Rumanian farm production over a longer period of time.

Altogether the plan would involve the transfer of 4.2 million acres formerly planted to corn and wheat - with which the peasant is sufficiently familiar to obtain at least low yields - to crops that require more care and more intensive preparation.

¹⁵ The plan was set up prior to the recent territorial changes. Undoubtedly the territorial losses will effect corresponding changes in the production plans.

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Considering the present status of the Rumanian peasant, it is obvious that the objectives of the Five-Year Plan cannot be realized within the next few years. Nevertheless, the plan suggests the possibility of interesting modifications in Rumanian farm production over a longer period of time.

Altogether the plan would involve the transfer of 4.2 million acres formerly planted to corn and wheat - with which the peasant is sufficiently familiar to obtain at least low yields - to crops that require more care and more intensive preparation.

¹⁵ The plan was set up prior to the recent territorial changes. Undoubtedly the territorial issues will effect corresponding changes in the production plans.

with the cultivation of which the peasant is largely unfamiliar. The educational preparation necessary cannot be accomplished in a short time under existing conditions. Furthermore, it is recognized that a sharp increase in the use of fertilizers, especially phosphate, is essential; and there is now a shortage of phosphates in all countries under German domination and in Germany itself. It is also doubtful whether farm machinery can be made available to nearly the number of units called for by the plan.

TABLE 13.—Proposed acreage changes in crops other than grains under the Rumanian Five-Year Plan

CROP	AVERAGE ACREAGE	AREA TO BE	INCREASE
	1935-1939	SOWN BY 1944	OVER 1935-1939
	1,000 acres	1,000 acres	Percent
Fiber plants:			
Flax	6.3	297	4,600
Hemp	126.3	371	290
Cotton	11.9	259	2,100
Oilseeds:			
Sunflower seed	472	741	57
Rapeseed	89	371	70
Poppies	8	18	200
Peanuts	0	5	—
Castor beans	3	30	900
Legumes:			
Peas	116	494	330
Beans	225	494	120
Lentils	44	173	290
Soybeans	163	385	140
Forage crops:			
Alfalfa	347	494	42
Clover	450	618	37
Beets	111	247	120
Sugar beets	97	148	50

Compiled from official sources.

CONCLUSIONS

Although it is impossible to evaluate possible developments, it appears certain that no more than minor changes in Rumanian agriculture may be expected within the next few years. This conclusion is based on an appraisal of the difficulties previously mentioned, of the additional complications caused by the war, and of the many unsuccessful attempts at production expansion in the past. In general it is believed that the existing pattern of Rumanian production will continue for at least the next 2 or 3 years. There may be some increase in oilseed and legume acreage; however, in view of the current war-induced shortages in European grain supplies, it can hardly be expected that the Rumanian peasants or the government itself will be induced to curtail cereal acreage in favor of industrial crops.

The Five-Year Plan recognizes that in many sections of Rumania the diet of the peasants is often unvaried and poor, and that any expansion and diversification of production must be accompanied by an improvement in the peasant's standard of living. Such an improvement, however, would necessitate increased domestic consumption, which in turn would tend to limit any increase in export surpluses.

During the present war any significant expansion of production is unlikely. There appears to be little probability of a material increase in exports during 1941 and 1942 from the reduced territories of Rumania. The cession of Bessarabia and northern Bukovina will reduce the exports of grains by at least 20 percent from the pre-war average. Many years will probably be required before exportation of oil-seeds, legumes, and other specialty crops will again be possible. On the whole, it appears unlikely that either the composition or magnitude of Rumanian farm production will show any important change during the next several years, insofar as meeting the deficits of other European countries is concerned.

HUNGARY

Although far less important than Rumania as a supplier of agricultural products to the deficit countries of Europe after the World War, Hungary regularly furnished large exports of wheat, some surpluses of live animals and meat products, and various crop specialties. The pattern of farm production in Hungary is similar to that of Rumania, but the structure of its farm economy, its production methods, and the general problems confronting agriculture are sufficiently different to warrant consideration.

THE AGRICULTURAL STRUCTURE OF HUNGARY

Pre-World-War Hungary, with a population of 21 million, was an integral part of the Austro-Hungarian monarchy. Hungarian agriculture had at its disposal a free market of more than 50 million consumers. Largely because of natural advantages, pre-World-War governmental policy was directed toward maintaining the predominantly agricultural character of the country, except for industries closely connected with agriculture, such as the milling industry, sugar refining, and other enterprises processing farm products.

Hungary probably suffered more than any other Danubian country from the changes brought about by the peace treaties following the World War. The Treaty of Trianon reduced the area of Hungary to less than one-third its former size and the population to about 8 million people. These dislocations could not be overcome without many difficulties and great strain on the national economy. Lack of markets for the agricultural surpluses immediately after the World War, the resulting difficulty in settling the international balance of payments, and the impossibility of employing the bulk of the working population in agriculture naturally resulted in increased industrialization during the post-war period.

Statistics on occupational distribution reveal that post-war Hungary has been rapidly losing its character as a predominantly agricultural country, and that the

post-war population increase has been absorbed largely by nonagricultural industries. Territorial acquisitions following the dismemberment of Czechoslovakia did not basically alter the economic structure, although they increased Hungary's area by about 13 percent and its population by about 12 percent. The annexation of northern Transylvania in 1940 further increased the Hungarian population by 2.4 million and the crop acreage by 3.7 million acres, or about 27 percent.

The farm economy of pre-World-War Hungary had a pronounced feudal character. Nearly a third of the area was held by 4,000 large estates, whereas 2.4 million peasants owned little more than half the total area. Unlike the situation in Rumania, there were about 800,000 farm workers without land, who constituted the principal labor force of the estates. There were 500,000 peasants whose average holdings of 2 or 3 acres were insufficient to provide a living, and who for that reason might also be included in the category of landless rural workers.

POST-WORLD WAR LAND REFORM MEASURES

Land reform after the World War changed the distribution of holdings comparatively little. About 36 percent of the total area is still owned by a few large proprietors and only 47 percent by the peasants.¹⁶ The agrarian law of 1920 was not intended to bring about a radical division of large estates, as in Rumania, but merely to give small holdings to landless farm workers. The size of these holdings, however, was fixed at 4.2 acres, far too low to provide even a meager subsistence. It is estimated that between 1920 and 1935 the area in estates was reduced from 8.2 million acres to 6.8 million, or by 17.2 percent. At the same time, the area in small holdings increased from 10.9 to 11.9 million acres, and the number of landless workers declined from 754,000 to 563,000. At present, however, 43 percent of the farm land is still held by large estates, averaging 5,613 acres in size, and by farms exceeding 280 acres. Of these estates 1,300, or only 0.1 percent of total holdings, comprise 30 percent of all farm land. On the other hand, 85 percent of all farms are less than 14 acres in size and constitute less than 20 percent of the total farm land. Fully 40 percent of the farm population is still without any land.

Thus, of a total population of 9 million in the 1930's the landless workers with their families constituted 1.3 million, or 14 percent. An additional 600,000 workers, or 7 percent, were permanently employed on large farms and estates, while 1.1 million people, or 12 percent, lived on farms of less than 7 acres, where they existed on an extremely low standard of living. These "3 million beggars" constitute one of the most serious economic and political problems confronting Hungary.¹⁷

The need for further land reform measures has been recognized by the government, and attempts have been made to remedy the situation. The Settlement Act, adopted in 1936, offered a plan for progressive liberation of entailed properties.

¹⁶ *Hungarian Economic Yearbook*, 1936, p. 23.

¹⁷ *Ibid.*, also *István Oscar*, "Feudal Agrarianism in Hungary," *Foreign Affairs*, July 1928, p. 214, and U. S. Department of Agriculture, Office of Foreign Agricultural Relations, April 1931, Sept. No. 300, "Hungarian agricultural policy in 1928," *Belgrade*, Dec. 12, 1929.

More than a quarter of the land in Hungary is entailed, and belongs to the church, to municipalities, or to banks; or it represents *Fidei Commisso* (properties with family entail). The law provided for a gradual distribution to the peasants of about 300,000 acres of such entailed land. Furthermore, the Settlement Act was intended to assist small peasant farmers in expanding their farms to a more efficient size of between 7 and 14 acres. So far little progress has been made under the Act. Early in 1939 a total of only 40,000 acres had been leased to 13,000 families.

In connection with a far-reaching 5-year plan of rearmament and reconstruction initiated in March 1938, an acceleration of rural settlement, with emphasis on small leaseholds, was planned. Under the plan 1.1 million acres, or about 17 percent of the acreage still held in large estates, was to be used for settlement purposes over a period of years. A new bill introduced in January 1939 would make available for small leaseholds 2.4 million acres to be taken from large estates, from Jewish landowners, and from foreigners.

PROBABLE EFFECTS OF LAND REFORM MEASURES

The realization of the proposed Hungarian land reform measures may somewhat alleviate the present plight of the rural proletariat, but no radical or prompt change may be expected. In appraising the fundamental position of the Hungarian farm economy, it must be remembered that even a far more radical land reform - that is, the distribution among farm workers and small peasants of the total acreage now held by large estates - would still fail to provide these groups with holdings of even sub-marginal size.

In contrast to Rumania, where the breaking up of the large estates resulted in a relative deterioration of farm practices and a corresponding decline in exportable surpluses, the Hungarian land reform measures thus far have not appreciably affected farming methods, the composition of total farm production, or altered the prospect for potential surpluses.

Farm practices on the larger farms in Hungary are far superior to those of the peasant holdings in other countries in southeastern Europe, and are more nearly comparable to those in western Europe. Since the Hungarian farm economy is characterized by a large number of farm laborers accustomed to the relatively advanced methods of the large estates, it is probable that even with a rapid expansion of small leaseholds the general farm practices would still remain far superior to those of Rumania. Nevertheless, the peasants are in urgent need of agricultural training. The government is said to be considering plans for the improvement of agricultural education.

Should proposed land reform measures be carried out, certain shifts in farm production could be expected to take place - from crop to livestock production, for example, and from cereals to industrial crops. It is unlikely, however, that such reforms would result in an expansion of total farm production; it is more probable that these shifts would tend to raise the living standards of peasants and farm laborers and to decrease the volume of farm products available for export.

PATTERN OF HUNGARIAN FARM PRODUCTION

The character of Hungarian farm production is largely determined by natural and climatic conditions, and only partly by the system of land distribution. Hungary is a level country, 60 percent of the total area consisting of arable land. The great Danubian plain, covering the central and eastern sections, constitutes the greater part of the country; the northwestern part is formed by the small Danubian plain. As a result Hungary possesses a larger share of prairie soil than any other country of southeastern Europe. This in itself explains the predominance of grain crops, particularly of wheat, in the Hungarian farming system.

LAND UTILIZATION

Table 14 gives a concise picture of the land utilization in Hungary in 1938. Grain crops occupied 73.4 percent of the total agricultural land. Wheat was the most important single crop, accounting for 28.4 percent of the arable area, followed by corn with 19.5 percent. The acreage planted to rye, barley, and oats together was less than that of wheat alone, and only slightly more than that of corn. Aside from cereals the potato crop was the only one of great importance, accounting for 5.2 percent of the cultivated area. Legumes and vegetables constitute only about 1 percent each. It should be noted, however, that legumes and other vegetables are grown chiefly in household gardens and are not recorded in official statistics, which include only the crop grown on areas registered in the "Land-book." Industrial crops, of which sugar beets alone made up 0.8 percent, were grown on 2.1 percent of the arable land.

DEVELOPMENT OF CROP ACREAGE

Table 15 shows the changes in the distribution of crop acreage during the last decade. It should be noted that the 1939 figures are not strictly comparable with those for the preceding years, since they include acreages of the newly acquired territories. According to official estimates,¹⁸ the acquisition of new territories in 1938 and 1939 increased wheat acreage by 13 percent, of rye by 16 percent, barley by 23 percent, oats 5.5 percent, potatoes 19 percent, and sugar beets 50 percent. Northern Transylvania added another 18 percent to Hungarian wheat production, 22 percent to corn, about 6 percent to rye and barley, and 37 percent to oats.

Except for the usual annual fluctuations, and disregarding territorial acquisitions, the total grain acreage has remained remarkably stable. The average grain acreage during 1935-1939 was about equal to that for 1928-1932. The Hungarian Government has repeatedly recommended a shift from grains to legumes and industrial plants. Thus far, however, virtually no changes have occurred in the acreages devoted to industrial plants. Certain shifts in legume acreage have taken place, but without any marked upward trend.

¹⁸ International Institute of Agriculture, *Monthly Bulletin of Agricultural Economics and Sociology*, Feb. 1938.

TABLE 14.—Land utilization in Hungary, 1938

LAND USE	ACREAGE		PERCENTAGE OF TOTAL AREA	
	1,000 acres		Percent	
Total area of Hungary	23,000	:	100.0	
Arable land	13,866	:	60.3	
Permanent meadows and pastures	1,596	:	6.9	
Tree and bush crops	828	:	3.6	
Woods and forests	2,728	:	11.9	
Uncultivated productive land	74	:	.3	
Unproductive land	1,512	:	6.6	
		:	Percent of arable land	
Grains	10,178	:	73.4	
Winter wheat	3,954	:	28.5	
Spring wheat	54	:	.4	
Corn	2,907	:	19.5	
Spring barley	909	:	6.6	
Winter barley	214	:	1.6	
Eye and maslin	1,564	:	11.3	
Oats	554	:	4.0	
Food crops	971	:	7.0	
Total legumes	124	:	.9	
Beans, dry	10	:	.1	
Lentils	35	:	.2	
Peas, dry	79	:	.6	
Potatoes	719	:	5.2	
Cabbage	15	:	.1	
Melons and watermelons	42	:	.3	
Onions	15	:	.1	
Fiber plants:		:		
Hemp	37	:	.2	
Flax	8	:	.1	
Oleaginous plants:		:		
Hemp	35	:	.2	
Flax	20	:	.1	
Rape	27	:	.2	
Poppy	20	:	.1	
Sunflowers	17	:	.1	
Other plants:		:		
Sugar beets	109	:	.8	
Tobacco	35	:	.2	
	Millions	:		
Fruit trees	33.6	:	-	
Plum	9.6	:	-	
Apple	6.0	:	-	

Foreign Agriculture

The total acreage in fibers during 1935-1938 was still the same as that for 1928-1932. Flax covered a smaller acreage, but the reduction was offset by a corresponding increase in hemp acreage. Shifts also occurred in acreage of the various oleaginous plants, but no real expansion took place. German sources state that the Hungarian Government realizes now that shifts from grains to industrial plants cannot be obtained merely by propaganda methods, and that some form of coercion must be exercised.

TABLE 15. Hungarian crop acreage, averages 1928-1932, 1933-1937, 1935-1938; annual 1935 to 1938

CROP	AVERAGES			1935	1936	1937	1938	1938
	1928-1932	1933-1937	1935-1938					
	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
	acres	acres	acres	acres	acres	acres	acres	acres
Grains								
Wheat	3,988	3,919	3,887	4,138	4,098	3,865	4,000	4,608
Corn	2,726	2,840	2,877	2,843	2,810	2,884	2,901	3,156
Rye	1,078	1,581	1,854	1,527	1,607	1,499	1,602	1,728
Barley	1,132	1,156	1,194	1,087	1,161	1,155	1,121	1,244
Oats	628	645	639	602	582	670	654	628
			1935-1938					
Legumes		109	115	101	111	124	124	
Beans		11	10	8	10	10	10	
Peas		80	69	58	64	77	78	
Lentils		38	35	35	37	37	35	
Potatoes	894	720	719	894	724	780	719	
Hemp	30	28	32	22	22	35	37	
Flax	29	12	8	10	10	10	7	
Oilseeds		108	101	107	98	95	114	
Peanut seeds		28	18	10	17	20	20	
Linseed	22	27	27	20	22	20	20	
Rapeseed	20	28	32	22	22	25	27	
Rapeseed	25	24	24	27	17	18	27	
Sugar beets	166	115	118	116	121	115	108	
Tabacco	52	39	25	27	27	25	25	

Compiled from *International Yearbook of Agricultural Statistics* and various official sources.

VARIATIONS IN CROP YIELDS

The average level of crop yields in Hungary far surpasses that of Rumania and the other Danubian countries. This is due partly to soil properties and partly to more advanced farming methods.

Except for a relatively small unproductive section of the Great Plain and a sandy region in the northeast, the prairie soil is rich in plant nutrients and is especially favorable for cereals. The climate, however, is characterized by extremes of heat and cold, and by drought and torrential rains. Generally, there are annually two periods of 2 or more weeks of drought, frequently occurring in the growing

season. A further danger to crop yields arises from winds in March and April that dry out the newly turned furrows.¹⁸

The methods of moisture conservation, particularly on peasant farms, are frequently insufficient to overcome these handicaps. The situation may eventually be improved by a reforestation of the Great Plain. Although special provisions have been made since 1923 to reforest selected regions, only 90,000 acres of a total of 750,000 in need of reforestation had been improved by 1936. More extensive irrigation and reforestation plans have recently been proposed, but no significant change may be expected for many years.

The Hungarian yields of grain crops, unlike those of Rumania, have not declined as compared with the pre-World-War period. With the exception of rye, the average yields during 1935-1939 were higher than in 1909-1913 or in 1928-1932, due largely to the favorable corn yield in 1936-1938 and the heavy wheat, barley, and oat crops in 1938 and 1939. Wheat shows relatively the least instability in yield. During 1930-1938, the average deviation from the mean yield was 10 percent. This is little more than half the amplitude of variation existing in Rumania. Nevertheless, there was a wide difference between the minimum yield of 17 bushels per acre in 1934 and the maximum of 24.7 in 1938.

Corn yields are extremely variable: the average deviation from the mean yield during 1930-1938 amounted to 21.1 percent, as compared with the average deviation in Rumania of 9.9 percent. During 1930-1938 Hungarian corn yields fluctuated from a minimum of 19.6 bushels per acre to a maximum of 36.8 bushels, a maximum difference of 88 percent. The variation in yield of barley, oats, and rye is slightly larger than of wheat.

Since changes in the total grain acreage were slight during the last decade - disregarding territorial changes - the fluctuations in production were determined largely by variation in yields. Among cereals, wheat production is relatively most constant. Corn production, however, varies widely.

During the last 10 years Hungarian wheat growers have enjoyed various forms of government aid, directed toward keeping domestic prices above the world market price. Since 1934 the Hungarian bread-grain policy, aided substantially by the export agreements with Italy and Austria, has in general been one of maintaining minimum prices. Government assistance was particularly successful in seed selection. It is estimated that in 1935 two-thirds of the total wheat acreage was sown with four types of improved seed. Greater stability of production in the future will depend largely on the program of reforestation of the Great Plain.

Some progress has been made in obtaining better crops of alfalfa, which is noted for its resistance to drought and frost, but the expansion has occurred largely at the expense of vetch. The total production of legumes, like that of fibers and

18. Michael, Louis G., "Agricultural survey of Europe - Hungary," U. S. Department of Agriculture, Tech. Bul. 180, Jan. 1930; also *Wheat Studies of the Food Research Institute*, vol. 1 "The Doubtful South as a producer and exporter."

oilseeds, has remained virtually unchanged. Fiber and oilseed production meets only a small share of domestic needs. As already indicated, official recommendations for expanding acreages devoted to commercial crops have so far been largely unsuccessful.

TABLE 16—Production and yield of Hungarian grain crops, averages 1909-1913, 1928-1932, 1933-1937, 1938-1939; annual 1934 to 1938

GRAIN	PRODUCTION					YIELD				
	WHEAT	CORN	RYE	BARLEY	OATS	WHEAT	CORN	RYE	BARLEY	OATS
	1,000	1,000	1,000	1,000	1,000					
Average:	bushels	bushels	bushels	bushels	bushels	Bushels	Bushels	Bushels	Bushels	Bushels
1909-1913	71,400	80,810	31,360	32,370	28,400	19.3	27.7	19.6	24.5	33.5
1928-1932	79,108	73,308	26,895	28,889	31,770	18.9	24.4	19.3	25.5	34.3
1933-1937	91,878	84,078	28,628	29,061	19,325	20.7	29.8	18.0	25.2	35.2
1938-1939	85,787	92,632	28,191	26,654	19,775	22.3	31.4	18.8	25.7	35.6
1934	84,224	82,599	24,360	24,829	17,968	20.4	19.6	16.8	24.3	33.7
1935	84,224	85,637	26,650	25,557	16,941	21.8	26.3	17.5	25.9	34.1
1936	97,789	102,986	28,114	30,237	18,048	19.7	30.8	18.2	22.1	33.7
1937	72,194	108,606	24,325	25,579	19,620	24.7	35.1	20.3	28.7	38.8
1938	99,778	104,789	31,878	33,252	21,352	24.3	28.1	20.4	28.7	38.6
1939	112,767	88,612	35,910	35,847	24,576	17.1	29.7	15.4	21.2	35.4

1938-1939, four year average since 1939 figures include crops in new territories.

Compiled from International Yearbook of Agricultural Statistics.

Table 17—Hungarian production of crops other than grains, average 1935-1938; annual 1933 to 1938

CROP	AVERAGE	1933	1934	1935	1936	1937	1938
	1935-1938	1,000 tons	1,000 tons	1,000 tons	1,000 tons	1,000 tons	1,000 tons
Beans, dry	5.9	5.9	5.9	2.5	4.4	4.5	9.7
Lentils	9.2	9.5	7.7	8.9	8.8	10.1	9.1
Peas, dry	29.8	27.8	23.1	22.9	38.1	41.9	45.9
Total legumes	44.9	43.1	36.1	34.3	41.3	56.6	58.7
Wool	9.8	7.4	7.2	5.7	10.2	11.2	12.2
Flax	1.5	1.8	1.3	1.1	1.9	1.8	1.7
Total fibers	11.4	9.0	8.5	6.8	12.1	13.0	13.9
Seapseed	4.8	2.2	2.3	2.3	2.3	5.4	4.7
Flaxseed	9.8	5.5	9.0	7.1	12.9	7.9	11.5
Rapeseed	9.5	5.0	9.1	11.5	7.4	6.5	19.0
Poppseed	4.3	10.7	7.3	3.6	4.4	4.0	4.8
Sunflower seed	6.0	3.2	5.5	4.2	5.7	8.7	8.2
Linseed	7.4	5.0	5.7	7.1	6.7	5.8	9.8
Total oilseeds	41.0	35.3	41.9	37.0	48.4	35.6	51.3
Potatoes	2,196	1,906	2,170	1,422	2,619	2,637	2,205
Sugar beets	1,090	1,041	1,016	845	1,220	1,227	1,089
Tobacco	22.4	25.2	20.1	23.5	25.1	23.8	22.5

Compiled from International Yearbook of Agricultural Statistics and various official sources.

THE LIVESTOCK ECONOMY

Livestock and poultry play an important part in Hungarian agriculture, contributing nearly 30 percent to the total farm income in 1934-1935²⁰ and over 31 percent in 1936-1937.²¹ Rapid expansion in the livestock industry, however, is handicapped by the uncertainty of feed supplies. Before the World War, the feedstuff basis was guaranteed by the surpluses of districts later ceded to Rumania and Yugoslavia. The extreme variability of Hungarian corn yields constitutes an especially serious limiting factor. During the greater part of the post-war period there was also the difficulty of limited export opportunities for livestock and meat products. Even after the government succeeded in obtaining rather constant export outlets, however, the increase in livestock numbers was very slow.

The number of cattle on farms in Hungary, according to the spring census in 1938, was 1,882,000, as compared with 1,678,000 in 1934 and 1,819,000 in 1929. About 80 percent of the cattle in Hungary are now owned by small peasant farmers. Great efforts have been made to improve the quality of cattle by selecting better breeds and introducing more adequate feeding methods. The average annual milk yield per cow has been increased from 355 gallons in 1924 to 435 gallons in 1937. As a result, the total milk production of 400 million gallons now exceeds domestic needs, thus allowing for some butter exports. Ten years ago Hungary imported butter.

According to recent estimates, the number of hogs in Hungary in 1939 was 5.5 million. In addition there were about 300,000 hogs in the regions ceded to Hungary in November 1939.²² In line with the changed export demand, there has been a decided tendency to increase the number of lard-type hogs, the proportion of which in total hog numbers rose from 5.8 percent in 1924 to 17.5 percent in 1937.

Hungarian sheep numbers increased from a low of 1,087,000 head in 1934 to 1,629,000 in 1938. It is believed that the government policy of fixed domestic wool prices and of forcing the textile industry to take the entire domestic wool clip contributed largely to this expansion. Poultry represents an important source of income, particularly to the small peasants, furnishing about 6 percent of total farm income. Dead poultry and eggs also represent important export items.

AGRICULTURAL EXPORT TRADE

Agriculture contributes between 30 and 40 percent to the total national income of Hungary and industrially produced commodities about 52 percent.²³ Farm products, however, account for between 60 and 70 percent of the total export trade. Although in recent years the relative importance of agriculture in the total national

²⁰ Dr. Siegenau, D., "Agricultural exports from Hungary during the years 1929-1937," *Monthly Bulletin of Agricultural Economics and Zoology*, Aug. 1938, p. 2478.

²¹ *Hungarian Economic Yearbook*, 1939, p. 62.

²² U. S. Department of Agriculture, Office of Foreign Agricultural Relations, Special Report, "New Hungarian hog number estimates and feeding districts," Belgrade, May 17, 1939.

²³ *Hungarian Economic Yearbook*, 1939, p. 61.

income has decreased, the status of farm products in the export trade shows no downward tendency (see table 18).

The amplitude of the annual fluctuations in agricultural exports depends largely on the current size of the crops rather than on export demand. The fact that farm products represent the greater part of all exports has determined Hungarian foreign trade policy, and has led to many difficulties during the post-World-War period, when some of the important former deficit countries embarked upon a policy of increasing their self-sufficiency in foodstuffs.

TABLE 18. Hungarian exports by classes of products in percent of total value, 1934 to 1939

YEAR	PLANT PRODUCTS	LIVESTOCK AND ANIMAL PRODUCTS	PROCESSED FARM PRODUCTS	TOTAL AGRICULTURAL EXPORTS	ALL OTHER EXPORTS
	Percent	Percent	Percent	Percent	Percent
1934	30.7	31.5	5.0	67.5	32.5
1935	25.9	34.8	4.0	65.4	34.6
1936	31.4	30.1	4.5	66.0	34.0
1937	30.5	25.4	5.5	64.4	35.6
1938	32.3	30.5	(1)	62.8	37.2
1939	33.4	33.0	(1)	71.4	28.6

¹ Processed farm products, such as wine, canned meats, etc., are included in "Plant products" and "Livestock and animal products" for 1936 and 1939.

Hungarian Economic Yearbook, 1939 (data for 1934-1937); *Statistical Yearbook of Hungary*, 1939 (data for 1938-1939).

EXPORTS BY COUNTRY OF DESTINATION

Before the World War approximately 75 percent of the Hungarian farm surpluses found a free market in Austria, which in turn supplied 73 percent of the Hungarian import needs. During the first decade after the war, Hungarian foreign trade with the Succession States (Austria, Czechoslovakia, Rumania, and Yugoslavia) declined. In 1930, however, these countries still took 53.8 percent of the total exports and supplied 46.5 percent of Hungarian imports. Imports from Germany increased from 12.9 percent of the total in 1921 to 21.3 percent in 1930. During the world depression the direction of Hungarian trade changed relatively little. The share of Czechoslovakia decreased, but the shares of Austria, Germany, and Italy were well maintained.

As in the case of many other countries, foreign exchange difficulties forced Hungary to adopt a system of import regulations. In December 1932 the Hungarian Clearing Bureau for Agricultural Products and Foreign Trade was established for the purpose of arranging clearing agreements to facilitate exports. Since Hungary needed a number of raw materials that could not be supplied by the countries participating in the clearing system, efforts were also made to acquire freely convertible foreign exchange from Great Britain, Egypt, the United States, and Switzerland.

Since 1934 trade connections with Germany have been greatly strengthened in spite of a number of difficulties - outstanding among them the fact that Hungarian manufacturing industries in many instances require the same type of raw materials needed by German manufacturers. Hungary depended to a large extent on Germany for these raw materials, in exchange for Hungarian farm products. As a result of the German rearmament program, however, Hungary found it impossible to obtain from Germany its usual supplies of pig iron, cellulose, and other raw materials. Nevertheless, Germany's share in total Hungarian exports increased from 11.4 percent in 1933 to 22.2 percent in 1934.

Exports to Austria and Germany together declined gradually from 46.6 percent of the total in 1934 to 41.0 percent in 1937. After the inclusion of Austria in the Reich, however, and the intensification of the German trade drive into southeastern Europe, Hungarian exports to the Greater Reich increased to 45.7 percent of the total in 1938 and to 50.1 percent in 1939. Czechoslovakia's share, which in 1929 was 16.4 percent as compared with Germany's 11.6 percent, fell abruptly to less than 5 percent in 1934 and dwindled to 1.6 percent in 1939.

Italy, bound to Hungary and Austria politically as well as economically through the Rome agreement of 1934, noticeably improved its position in Hungarian trade. Its share was increased from 7 percent in 1929 to 8.3 percent in 1934 and to about 13 percent in 1935-1937. Although declining slightly in 1938, Hungarian exports to Italy increased to 15.5 percent in 1939.

The share of the Danubian countries in Hungarian trade has remained comparatively constant, at a little less than 10 percent of the total. Switzerland was also a steady customer, taking about 4 percent of all exports. The various European countries now under German domination bought regularly certain crop specialties that they are bound to need increasingly during the next few years. Until 1938 Great Britain maintained its share of about 8 percent. In 1939 transportation difficulties led to a sharp reduction in these exports, and trade with Great Britain has now entirely ceased.

Since two-thirds of the total Hungarian exports in recent years have been directed to Greater Germany (including Czechoslovakia) and Italy, and since the other Danubian countries and Switzerland have also enjoyed close trade relations, no marked changes in the geographic distribution of Hungarian exports may be expected, except for a diversion to the Axis powers of the share formerly taken by Great Britain.

THE COMPOSITION OF FARM EXPORTS

Wheat and live animals are the outstanding Hungarian farm exports, accounting in recent years for about 30 percent of the total exports and about 50 percent of the agricultural exports. Various measures have been adopted by the Hungarian Government to stimulate wheat exports. A grain certificate system coupled with outright export subsidies was in operation from 1930 to 1934. Exports were monopolized by an export syndicate, which also supervised a minimum-price guarantee introduced after the Rome

agreement of 1934. That agreement provided for wheat export quotas to Austria and Italy. Trade agreements with Germany, Switzerland, and several other countries also greatly improved the grain export position.

The magnitude of the annual wheat exports depends entirely on the size of the current crop. As a result the exports of wheat show sharp variations from year to year, ranging from 14.8 million bushels in 1935 to 40.6 million in 1939. Nevertheless, wheat exports represent relatively the most constant surpluses in the entire farm economy.

TABLE 19.—Principal Hungarian farm exports (net), averages 1928-1932, 1935-1939; annual 1934 to 1939

COMMODITY	AVERAGE	1934	1935	1936	1937	1938	1939	AVERAGE
	1928-1932	1934	1935	1936	1937	1938	1939	1935-1939
	Million bushels	Million bushels	Million bushels	Million bushels	Million bushels	Million bushels	Million bushels	Million bushels
Wheat	11.9	18.8	12.2	21.0	19.2	16.0	39.6	19.0
Flour	8.9	2.4	3.6	2.6	2.8	1.7	3.6	2.7
Total wheat	20.8	19.2	14.8	23.6	18.0	17.7	40.6	22.5
Corn	1.4	1.1	0.8	2.4	7.5	4.3	1.9	2.9
Rye	3.6	3.5	8	1.7	4.3	2.4	7	2.0
Berley	1.2	.6	2	0	.6	.2	.4	2
Oats	.6	.8		.8	.2			
Beans, dry	.3	7	3	4	1.1	2	.4	6
Peas, dry		.4	3	5	5	.6	.8	5
	Thousand tons	Thousand tons	Thousand tons	Thousand tons	Thousand tons	Thousand tons	Thousand tons	Thousand tons
Half		22	37	37	44	33	49	40
Oilseeds		16	22	18	18	18	14	16
Clover seed		8	10	16	17	13	11	13
Vegetables		22	22	60	41	26	23	28
Fruit, fresh		22	20	64	49	24	64	45
Tobacco	9	11	9	9	8	8	11	9
Meat, fresh		9	17	15	4	8	8	11
Poultry		20	26	23	26	26	22	26
Lard and bacon		14	26	21	23	21	18	21
Butter	1	4	3	6	7	4	1	4
Eggs	11	11	9	9	12	15	11	11
	Thousands	Thousands	Thousands	Thousands	Thousands	Thousands	Thousands	Thousands
Live cattle	94	70	70	77	108	55	75	77
Live hogs	160	126	123	175	166	229	229	227
Live sheep		46	35	36	44	24	28	32

Compiled from official sources.

Exports of other grains are insignificant, except in years of unusually favorable harvests. Rye surpluses, averaging 3.6 million bushels annually during 1928-1932, were reduced by almost 50 percent during 1935-1939, largely because of the small exports of 1935 and 1939. In the case of corn, the extreme variations in yield result

in corresponding fluctuations in the level of exports. In years of low yield Hungary must import considerable quantities of corn. During 1935-1939 net corn imports averaged about 1 million bushels a year. During 1928-1932 average annual exports amounted to 400,000 bushels.

On the whole, livestock exports have been well maintained. A decided tendency toward increased exports of live hogs is evident, but live cattle exports have declined. Exports of animal products, such as meat, lard, butter, dead poultry, and eggs, show considerable variation. Exports of fresh meat are small and have declined, whereas those of lard, poultry, and eggs have been rather stable. Butter exports increased slightly until 1937, but have been only nominal in recent years. Fruit and vegetable exports vary widely in accordance with annual yields, and no definite tendency is apparent.

GEOGRAPHIC DISTRIBUTION OF FARM EXPORTS

The importance of Germany as a market for Hungarian agricultural surpluses has increased sharply in recent years. In 1937, before the annexation of Austria Germany purchased 29.9 percent of total Hungarian farm exports. At that time Austria's share amounted to 23.1 percent, so that Germany and Austria together took 53 percent of the total.

As an immediate result of the annexation of Austria a new trade agreement between Hungary and Germany was signed on May 7, 1938, providing for higher quotas on imports of the more important Hungarian farm products. The intensification of Hungarian dependence on Greater Germany increased Germany's share of total Hungarian farm exports to 62 percent in 1938. Greater Germany and Italy together received almost three-fourths of all Hungarian agricultural surpluses.

Germany proper became interested in the Hungarian wheat surpluses only after 1938, but Greater Germany and Italy absorbed together nearly three-fourths of total Hungarian wheat exports during 1935-1939. Italy alone took 60 percent in 1939. Switzerland was the only other important customer, taking 14.4 percent in 1935-1939. Greece purchased Hungarian wheat only occasionally, as in 1937 and 1939, when its purchases amounted to about 6 percent of the total. No major shifts in wheat export markets appear likely during the next few years.

The small surplus of rye was exported almost entirely to Greater Germany and Italy. Corn exports are very irregular. In the frequent years of low yield, as in 1935, 1936, and 1939, Hungary depends largely on imports from Rumania and Yugoslavia. In good crop years the Scandinavian countries were important purchasers; in 1937, for example, their share of Hungarian corn exports amounted to over 50 percent of the total. In 1939, however, the total net surplus of 50,000 short tons was exported to Greater Germany. The small exports of barley go to Italy, Belgium, and Switzerland, which countries also take the surpluses of dry beans. About half the exports of dry peas are normally purchased by Germany. Great Britain's share of about 30 percent will now be available to either Germany or Italy.

Hungary is on a net import basis for oleaginous raw materials. Since the former imports of linseed and copra are now threatened, it is unlikely that even the insignificant oilseed exports of 1935-1939 can be maintained, the greater part of which was shipped to Greater Germany and Italy. Most of the Hungarian surpluses of fresh fruits have been taken regularly by Greater Germany. Switzerland and former Poland bought 9.6 and 7.3 percent, respectively, from 1935 to 1939.

Before 1938 Italy was the principal foreign market for Hungarian live cattle, but in 1938 and 1939 was exceeded by Greater Germany. The two countries have been virtually the only foreign markets since 1935. Much more important is the volume of live hog exports, for which former Austria and Czechoslovakia were the traditional markets. Greater Germany, therefore, absorbs the entire surplus. Until 1938 Great Britain imported between one-third and one-half the total poultry exports, the remainder going to Greater Germany. Italy entered the market in 1939, and during the next few years it may take the share formerly going to Britain. Most of the exports of lard, bacon, and eggs go to Greater Germany.

The future geographic distribution of Hungarian farm exports is expected to resemble that of 1938 and 1939, but with Germany predominating more than ever, since all of Hungary's former customers except Switzerland and perhaps Italy are now under German domination or cut off entirely. Only Great Britain's former share of the export trade (5.7 percent in 1937 and 6.9 percent in 1938) will be available to continental European importers in addition to their previous takings.

POTENTIAL FARM SURPLUSES DURING AND AFTER 1940-41

So far Hungarian export surpluses have probably been less affected by the war than have those of Rumania. Shortages of certain products essential to the Hungarian farm economy, especially of fertilizers and fuel, were evident immediately after the outbreak of war. Hungary regularly imported phosphates from French Africa and the United States. Since the use of such fertilizers increases plant resistance against climatic changes typical of Hungary, continued shortages are likely to affect adversely the quantity and quality of the crops and the export surpluses. Transportation difficulties and shortage of coal may also reduce the level of current farm production and exports.

THE 1940-41 OUTLOOK

At the time of the winter and spring sowings for the 1940 crop, the farm-labor shortage in Hungary resulting from partial mobilization appears to have been less acute than that in Rumania. The labor shortage was intensified at harvest time because of increased mobilization preceding the Hungarian demand for Transylvania, which was subsequently ceded by Rumania. These and the other factors previously mentioned, however, were of minor importance compared with the adverse effects of weather conditions on the size of the 1940-41 crops and, consequently, on the current export surpluses.

The unusually severe winter and extensive spring floods seriously damaged most of the Hungarian crops and jeopardized the potential surpluses of livestock products. In 1940, according to recent reliable estimates, the acreage of all cereals except corn was about 20 percent below that of 1939. The Hungarian Ministry of Agriculture stated early in May that serious frost and flood damage to winter seedings and retarded spring sowings necessitated shifts from bread cereals and barley and oats to corn.²⁴ Information recently received indicated that much of the wheat crop had lodged and that some rust had developed.

Reports indicate that the 1940 wheat crop was less than 80 percent of the 1939 crop. The total 1940-41 crop, including that of the new territories, is estimated at about 75 million bushels.²⁵ The 1939 Hungarian crop, excluding the crops of the new territories, amounted to 112.8 million bushels, as compared with the average of 85.4 million during 1935-1938 for Hungary as then constituted.

The 1940 rye crop probably did not exceed 30 million bushels, as compared with 25.3 million in 1939 - a decline of about 15 percent. The 1940 crop, however, in spite of increased area, will about equal the 1935-1938 average.

In view of the feed shortage prevailing as a result of the poor 1939 corn harvest, the Hungarian Government has ordered a sharp reduction in the milling ratio for bread grains in order to obtain larger supplies of bran. The milling ratio for wheat cannot exceed 75 percent, and that for rye 70 percent. The reduction ordered may increase domestic bread-grain needs by about 10 percent. In addition, army requirements have resulted in an increase in domestic consumption of bread grain. In view of these factors, no substantial exports of bread grains may be expected during the 1940-41 marketing season, even with pressure from outside of Hungary.

The 1940 barley crop was very poor. According to the International Institute of Agriculture, from 40 to 70 percent of the area of winter barley had to be plowed under.²⁶ The total 1940-41 crop is estimated at about 32 million bushels,²⁷ which represents a reduction of about 10 percent compared with the 1939 crop but only a slight reduction compared with the 1935-1938 average. Even the larger crops of the last decade provided only insignificant export surpluses. During 1935-1939 barley exports averaged 300,000 bushels annually; however, the 1940 crop will not meet domestic requirements. Reports indicate that winter oats suffered great damage. There were no exports of oats in 1938 and 1939, and no surpluses may be expected in 1940-41.

The 1940 corn crop may reach 110 million bushels, as compared with 89 million in 1939 and the 1935-1938 average of 93 million for Hungary as then constituted. Low corn yields in 1939 necessitated imports from neighboring Danubian countries. Exports are hardly possible in 1940-41 in view of the poor clover and alfalfa crops.

²⁴ *Internationales Getreidemarkt*, May 16, 1940.

²⁵ International Institute of Agriculture, *Monthly Crop Report and Agricultural Statistics*, Sept. 1940.

²⁶ *Ibid.*, May 1940.

²⁷ *Ibid.*, Sept. 1940.

Reports indicate that pastures had to be used prematurely because of a lack of fodder supplies, with a consequent deterioration of pasture conditions.

Exports of oilseeds were prohibited by the government as soon as it became apparent that the British blockade would cut off the usual imports of copra, whale oil, and other fats and oils. In order to increase the domestic supply of edible oils, a decree was issued compelling all corn producers to plant soybeans on the borders of their corn fields. A 1940 soybean area of 14,200 acres, as compared with 5,750 in 1939, was expected as a result of that measure, but no information is available as to developments or crop yields. A large part of the winter rapeseed crop was destroyed by frost and the weight of the snow, and the spring crop was retarded by cold and wet weather. It is believed unlikely that Hungarian oilseed crops in 1940 will be large enough to offset the loss of former imports.

Prospects for the 1940 fruit crops are far from promising. According to reliable reports, vineyards and fruit trees were greatly damaged by frost. It is estimated that from 80 to 100 percent of the peach trees, 70 percent of the cherry trees, and 30 to 40 percent of the apricot trees were destroyed.

The livestock industry was faced with serious difficulties following the short corn crop of 1939, and the severe winter and late spring intensified the shortages. The government attempted to remedy the situation by importing corn from Rumania. Indications are that hog numbers have been reduced during the past few months because of the feed shortage;²⁸ moreover, large numbers of hogs and other animals were killed by floods. Despite the introduction of meatless days, the domestic consumption of meat has increased as a result of greater industrial activity. All these factors will undoubtedly influence the level of potential livestock and meat exports during 1940-41. It is also feared that a new epidemic of hoof-and-mouth disease (which prevailed in 1938 and into 1939) may break out. In any case, it is certain that the 1940-41 surpluses of live animals, as well as of animal products, will fall far short of the 1939 exports.

THE OUTLOOK FOR THE NEXT FEW YEARS

The most urgent problem facing the Hungarian farm economy is that of improving the status of landless farm workers and peasants. This is possible only by a more rigid land reform or by transfer of large numbers to nonagricultural industries - measures not to be expected in the near future. In the meantime no significant shifts in the pattern of farm production may be anticipated.

No attempt has been made to appraise the effects on future farm production and surpluses of the proposed land reform, reforestation program, and various other contemplated measures. Should these measures be adopted, however, it is quite possible that the new leaseholds, aided by the cooperatives, would eventually considerably increase the total production of animal products and of fibers and oilseeds. In view

²⁸ Weekly Economic Report for May 8, 1940. From the American Consulate in Budapest, Hungary.

of the prevailing political situation, however, it is not likely that the reform measures will be made effective in the near future. Only minor changes may be anticipated during the next few years. The volume of export surpluses, therefore, will depend largely on current crop conditions and the effect of the war on the availability of farm labor, fertilizer supplies, and transportation facilities.

YUGOSLAVIA

Yugoslavia²⁹ is predominantly an agricultural country. According to the latest official census (in 1921) 78.9 percent of the gainfully occupied population was engaged in agriculture, 9.9 percent in industry, 2.6 percent in commerce, 1.7 percent in transportation, and 2.9 percent in public service and the professions. The occupational distribution has not changed significantly since that time. More recent unofficial estimates indicate that of the total population of 15.6 million, 81 percent is engaged in farming,³⁰ and the total number of farm holdings is estimated at 1,985,000. The average farm must provide food and shelter for 5.3 persons.

The efficiency of the Yugoslav farm economy varies sharply from region to region. In northern Yugoslavia farming methods are generally similar to those of Hungary, whereas in the remainder of the country they are about as primitive as in most parts of Rumania. Although Yugoslavia regularly produces surpluses of wheat, corn, livestock, and livestock products, it is not probable that production can be expanded rapidly enough in the near future to make any significant contribution toward offsetting the shortages of farm products in the deficit regions of Europe.

THE AGRICULTURAL PROBLEM IN YUGOSLAVIA

The Yugoslavian farm problem is one of providing sufficient agricultural land for the large and increasing farm population. About 42 percent of the total area consists of forests and unproductive land; and all of the country except the north-eastern section, which is a part of the Great Danubian Plain, is mountainous. Of the total area of 62 million acres, only 11.7 million, or less than one-fifth, are suitable for intensive agriculture. In 1938, 24.2 million acres of mountainous and poor land were utilized for farming purposes. A total agricultural area of 36 million acres, of which more than two-thirds is land of inferior quality, must furnish a livelihood for 10.6 million peasants and about 2 million landless farm workers.

It is estimated that under present farming conditions in Yugoslavia at least 25 acres are needed to provide adequate subsistence for one family. At present, however, only 10 percent of the holdings are farms of more than 25 acres. These

²⁹ See Van Praeger, G., *Die sozialökonomische Struktur der Jugoslawischen Landwirtschaft* (The Social and Economic Structure of Yugoslavian Agriculture), Berlin, 1937; *Wirtschafts-Enzyklopädie des Balkans*, "Die wirtschaftliche Lage der Balkanländer," The Economic Situation of the Balkans, vol. I, Belgrade, 1938; U. S. Department of State, Consular Report, "Agrarian reform in Yugoslavia, 1912-1940," Belgrade, March 14, 1940.

³⁰ Van Praeger, G., "Changes in the export of agricultural products from Yugoslavia," *Monthly Bulletin of Agricultural Economics and Sociology*, Jan. 1939.

larger holdings account for 45 percent of the total agricultural land. The holdings of the remaining 90 percent of the farm population average about 8 acres, of which, as a rule, only 5 acres are arable. Despite the land reform measures initiated in 1920, the uneconomical size of most Yugoslavian farm holdings remains the most serious obstacle in the way of a permanent improvement in agricultural conditions.

Yugoslavia was formed after the World War out of part of the former Austro-Hungarian Empire and all of the former Kingdoms of Montenegro and Serbia. Land distribution and farming conditions varied greatly in these regions. "Old Serbia" was a typical peasant country, with no large estates, whereas the former Turkish provinces of southern Serbia, as well as former Bosnia, Herzegovina, and Dalmatia, had preserved a feudal system in which the status of the peasants bordered on serfdom.

Although the agrarian reform measures initiated in 1920 abolished feudal relations in Yugoslavia, large-scale redistribution of land in southern Yugoslavia could not be effected, since most of the peasantry there had always operated small farms, though in a vassal relationship to their overlords. About 2.5 million acres were distributed among 250,000 families of former serfs as a result of the land reforms. The peasants, however, continued to live on the same small holdings as before, and made no changes in their primitive farming methods.

In the northern part of the country, comprising Slovenia, Croatia-Slavonia, and Voivodina, the situation was different. There the peasants had been freed in 1848. In contrast with the situation in southern Yugoslavia, only a small percentage of the total area represented peasant holdings. About 750 large estates, operated largely by farm workers, as in Hungary, comprised 2.7 million acres of land. In northern Yugoslavia as a result of the land reform measures 1.9 million acres formerly belonging to these estates have been distributed to 275,000 families of former farm workers and war veterans.

Altogether the agrarian reform redistributed 5.7 million acres, or 13 percent of the total productive area, among 765,000 families. The effect on farm practices and the level of production was slight, since most of the peasants continued to use primitive farming methods. In the north some retrogression in farm production may have resulted, but on the whole farming conditions there are still far superior to those in the southern section of Yugoslavia.

Southern Yugoslavia produces few farm surpluses; most of the small farms there are hardly able to produce enough for their own needs. The southern part of old Serbia, south Serbia, central Bosnia and Croatia, Dalmatia, Herzegovina, and Montenegro must import supplies from the north. The northern districts are virtually the only regions capable of producing crops for export. It is significant that illiteracy among the peasants increases progressively from less than 10 percent in the north to over 70 percent in the southern provinces. The few remaining large estates - maintained largely to produce high-quality seeds and improved breeds of livestock - use tractors and steam plows, and practice advanced methods of moisture conservation. In the north, iron plows are in general use even on peasant farms.

Nearly half the farmers in Yugoslavia are members of cooperative societies. The peasant cooperatives have been active in providing farm implements. The agricultural depression in 1929 interrupted this activity and led to a general deterioration of farming practices in the southern parts of the Kingdom.

As in Rumania, a serious obstacle to increased efficiency is the peasant's adherence to traditional customs and practices. In Slavonia, for instance, only 20 percent of the available working days are utilized for farm work. In Serbia there are 120 official and 80 unofficial holidays, so that only 160 working days remain.

Yugoslavia cannot solve the problem of its surplus agricultural population by land distribution alone, since there are few large estates left to divide. Moreover, most peasant holdings are already too small to provide even a meager subsistence. It is believed that farmers' conditions can be improved only by a slow process of agricultural intensification, which will require many years of education.

THE AGRICULTURAL PATTERN OF YUGOSLAVIA

Only about 20 percent of the total area of Yugoslavia consists of level land suitable for farming. The best of this land is located in the north and east, where 70 percent of the area is arable. Except in some valleys, soils in other sections of Yugoslavia are relatively unproductive. In the southwest the *karst*, covering about a fourth of the country, is predominantly barren, lacking surface water and to a large extent surface soil. In this region only from 10 to 20 percent of the land is arable.

Since the southern provinces produce very little for export, only the northern region will be considered here. The land of northern Yugoslavia consists largely of fertile prairie soil. The valleys are ordinarily protected from inundation by the dams on the Danube and Tisa rivers; but severe floods occasionally cause serious damage, as in 1927, when the Danube flooded 750,000 acres of land seeded to winter cereals.

Only spring crops like corn, dry beans, and hemp can be grown in northeastern Yugoslavia. The northern plain is open to the cold winds of the Alps and the Carpathian Mountains, and severe cold weather is frequent. The most serious handicap to production is the prevalence of cold northerly winds, which blow away the protective snow blanket and result in widespread damage, which usually cannot be offset by increased spring sowing. The summer temperature is excessively high, with little precipitation. The distribution of rain is usually favorable, however, since the greatest rainfall is in May and June. The months of July and August are very dry, resulting in premature ripening of cereals.

CROP PRODUCTION

As in Rumania and Hungary, grain crops are most important, accounting for by far the largest part of the cultivated land. In 1938, 15.2 million acres, or 82.2

percent, were planted to grains of a total arable area of 18.5 million acres. In some northern districts the proportion of grains was over 90 percent. Corn is the most important single crop, accounting for about 37 percent of the arable land, followed by wheat, with 29.3 percent.

Of other food crops, occupying 1.1 million acres (5.7 percent of the arable land) in 1933, potatoes alone accounted for 667,000 acres and legumes for 94,000. In the same year, of 455,000 acres, or 2.5 percent, devoted to industrial crops, over 40 percent was planted to fiber crops, chiefly hemp. Oilseeds occupied 129,000 acres and sugar beets and tobacco 72,000 and 42,000, respectively.

Since the peasants are traditionally familiar with the cultivation of wheat and corn, the acreage of both crops has tended to increase throughout the post-World-War period. During the recent depression, when cereal prices dropped rapidly, expansion of wheat and corn acreage appeared to the peasants the only means by which they could maintain their already low income. Between 1924 and 1934 wheat acreage increased from 4,423,000 to 5,002,000 acres, or by 13.1 percent. The expansion in corn acreage was even more pronounced, increasing from 4,924,000 acres in 1924 to 6,565,000 in 1934 - an increase of 32.8 percent. Since 1934 no clear-cut tendency has been apparent. Production of both wheat and corn has merely shown rather wide annual fluctuations, caused largely by the peculiar climatic conditions of Yugoslavia.

Barley and oats are grown only to meet the domestic bread- and feed-grain requirements. The oat acreage is limited to local needs in districts inhabited by Germans. None of these grains is important in the export trade.

As in Rumania and Hungary, crop yields vary widely from year to year. The instability of the wheat yield is 50 percent higher than in Hungary and nearly as high as that of Rumania. The average deviation from the mean yield between 1930 and 1939 amounted to 16.2 percent, as compared with 11.5 percent in Hungary. During this period the maximum fluctuation ranged from 11.1 bushels per acre in 1932 to 21.2 in 1938, the highest yield being nearly double the lowest.

The variability of the corn yield is equal to that of wheat, the average deviation from the mean being also 16.2 percent between 1930 and 1939. The volume of production of wheat and corn is largely determined by yields. The wheat crop fluctuated between 53.4 million bushels in 1932 and 111.3 million in 1938. The fluctuation in corn production is even more pronounced: the maximum crop of 210 million bushels in 1937 was nearly 3 times the minimum crop of 72 million in 1928.

Thus far Yugoslavian agricultural policy has favored cereal crops. Since 1930 the government has regulated wheat prices through the *Prizad* (The Privileged Export Company) - a joint stock company which purchases all wheat offered by farmers at prices well above current world market prices and attempts to find export outlets. Gradually similar subsidies have been introduced for other farm products. Since 1930 provisions have been made to establish the necessary storage facilities for cereals, fruits, eggs and other commodities. These plans are to be carried out by a new corporation known as "Sifoa, Inc.," working with the cooperatives.

Although the importance of grains has not decreased, there has been a tendency toward increased production of industrial crops. However, the expansion in fiber crops, oilseeds, tobacco, and sugar beets has been slight so far, and has not noticeably affected the general farm situation.

Among the fibers, hemp is most important. Since 1931, when 93,000 acres were planted, hemp acreage has increased gradually to 143,000. Between 1928-1932 and 1935-1938, production was doubled, rising from 26,600 to 53,700 short tons. Most of the increase occurred between 1933 and 1936, and little expansion has taken place since then. During the same period cotton production also increased, but the total crop is still insignificant, amounting in 1939 to 1,200 short tons as compared with 1,300 in 1938 and only 300 in 1933-1937. Present production meets only about 5 percent of the domestic needs, imports of cotton in 1938 amounted to 21,600 short tons, and imports of cotton yarns and textiles are also needed.

The acreage in legumes has remained unchanged during the last decade. The production of dry beans, which are of exceptionally high quality, usually exceeds domestic requirements; however, annual fluctuations in this crop are pronounced.

Oleaginous plants probably offer the best prospects for the future and should take an important place in a more intensive agriculture. Before 1938 the total production of oilseeds was insufficient to meet domestic needs, which are estimated at about 50,000 tons. In 1938 production for the first time about equaled these needs. The government has strongly urged a shift toward oleaginous plants, and since 1933 a continuous increase in production has been observed. The Yugoslav vegetable oil industry is obliged to purchase domestic seeds, prices for which are fixed by the government agency *Oljarica*. Since 1934 the cultivation of soybeans has been promoted by this company, though it has proceeded slowly to allow producers to become familiar with the requirements of soybean culture. About half the crop is used as feed.

Tobacco is produced in the regions of low rainfall. For many years the Yugoslavian Tobacco Monopoly has maintained control over production and marketing. During the depression the tobacco acreage was reduced from 54,400 acres in 1932 to 18,200 in 1934. By 1937, when the area planted amounted to 47,700 acres, most of this reduction had been recovered. Neither the 1938 area of 36,800 acres nor the 1939 area of 39,500, however, approached the 1937 level.

Indications are that the government desires to bring about an expansion of tobacco production. A decree of the Ministry of Finance on June 16, 1939, provided for a standardization of tobacco production and announced that only varieties approved by the Monopoly could be grown. The necessary seed is produced on experimental fields operated by the Monopoly. The National Tobacco Monopoly, created at the same time, promotes improved cultural practices and attempts to develop export outlets. Domestic consumption requires approximately 20 million pounds per year or about 50 percent of the present crop.²¹

²¹ U. S. Department of Agriculture, Office of Foreign Agricultural Relations, Special Report No. 980. "The Yugoslav Tobacco Situation," as of October 1, 1939. Released OLS 20-1989.

Foreign Agriculture

TABLE 30. Averages, production, and yield of Yugoslav grain crops, 1928-1939, 1933-1937, 1935-1939; annual 1933 to 1939

GRAIN	AVERAGES					1933	1934	1935	1936	1937	1938	1939
	1928-1932	1933-1937	1935-1939	1933	1934							
ACREAGE	1,000 acres	1,000 acres	1,000 acres	1,000 acres	1,000 acres	1,000 acres	1,000 acres	1,000 acres	1,000 acres	1,000 acres	1,000 acres	1,000 acres
Wheat	5,051	5,325	5,377	5,137	5,003	5,313	5,458	5,269	5,269	5,269	5,269	5,084
Corn	3,790	3,455	3,563	3,372	3,558	3,102	3,638	3,643	3,643	3,643	3,643	3,575
Rye	561	525	533	533	513	523	523	523	523	523	523	523
Barley	1,033	1,045	1,039	1,059	1,043	1,044	1,051	1,020	1,020	1,020	1,020	1,048
Oats	224	222	222	222	210	210	210	210	210	210	210	210
FIELD PER ACRE	Bush-els	Bush-els	Bush-els	Bush-els	Bush-els	Bush-els	Bush-els	Bush-els	Bush-els	Bush-els	Bush-els	Bush-els
Wheat	17.1	16.5	17.0	16.8	16.7	16.8	16.7	16.4	16.4	16.4	16.4	16.7
Corn	23.5	22.2	22.6	22.6	22.6	22.6	22.6	22.6	22.6	22.6	22.6	22.6
Rye	13.6	12.2	12.4	12.4	12.4	12.4	12.4	12.4	12.4	12.4	12.4	12.4
Barley	17.7	18.1	17.9	18.1	18.1	18.1	18.1	18.1	18.1	18.1	18.1	18.1
Oats	22.2	24.6	24.2	27.5	25.1	25.1	25.1	25.1	25.1	25.1	25.1	25.1
PRODUCTION	1,000 bushels	1,000 bushels	1,000 bushels	1,000 bushels	1,000 bushels	1,000 bushels	1,000 bushels	1,000 bushels	1,000 bushels	1,000 bushels	1,000 bushels	1,000 bushels
Wheat	86,170	89,324	90,518	86,532	88,248	73,100	107,424	92,228	111,330	104,428	104,428	104,428
Corn	137,317	176,400	173,178	140,831	200,909	119,222	305,946	250,061	187,229	146,432	146,432	146,432
Rye	7,913	5,222	5,428	5,222	7,928	7,928	8,002	8,243	8,243	8,243	8,243	8,243
Barley	18,317	18,372	18,318	21,307	18,322	17,348	19,431	17,590	10,348	19,477	19,477	19,477
Oats	21,164	22,102	21,755	22,563	22,971	10,144	22,042	20,355	22,408	22,408	22,408	22,408

International Yearbook of Agricultural Statistics and various official sources.

TABLE 31. Yugoslav production of crops other than grains, averages 1928-1932, 1933-1937, 1935-1939; annual 1933 to 1939

CROP	AVERAGES					1933	1934	1935	1936	1937	1938	1939
	1928-1932	1933-1937	1935-1939	1933	1934							
Food crops	1,000 bushels	1,000 bushels	1,000 bushels	1,000 bushels	1,000 bushels	1,000 bushels	1,000 bushels	1,000 bushels	1,000 bushels	1,000 bushels	1,000 bushels	1,000 bushels
Beans, dry	15.9	29.9	33.0	34.2	37.3	39.5	39.7	39.7	39.7	39.7	39.7	39.7
Potatoes	-	1,737	1,794	1,863	2,003	1,479	1,773	1,794	1,794	1,794	1,794	1,794
Peas	26.6	45.2	52.7	30.8	41.4	41.3	57.3	58.0	51.0	51.0	51.0	51.0
Flax	-	11.9	12.7	10.9	11.6	11.1	13.2	13.2	13.2	13.2	13.2	13.2
Cotton	5	1	1	1	1	1	1	1	1	1	1	1
Oilseeds	-	-	-	-	-	-	-	-	-	-	-	-
Rapeseed	1.4	2.7	2.3	1.7	2.1	2.3	2.6	2.6	2.6	2.6	2.6	2.6
Cottonseed	-	-	1.8	-	1.4	1.4	1.0	1.7	1.7	1.7	1.7	1.7
Rapeseed	5.7	10.2	10.3	3.1	6.0	11.1	12.1	9.0	9.0	9.0	9.0	9.0
Poppoysed	-	5.2	4.4	3.1	6.0	11.9	8.0	9.3	9.3	9.3	9.3	9.3
Soybeans	-	-	3.6	-	1.8	1.3	1.7	1.7	1.7	1.7	1.7	1.7
Sunflower seed	-	5.7	10.25	-	4.4	9.7	7.7	10.8	11.7	11.7	11.7	11.7
Total	-	-	-	81	10.7	25.8	25.0	30.5	34.3	34.3	34.3	34.3
Fruits	-	-	1	-	-	-	-	-	-	-	-	-
Plums	-	-	99.9	-	-	18.4	14.3	53.2	38.8	38.8	38.8	38.8
Apples	-	455.4	565.8	494.2	492.6	391.2	527.8	230.4	333.7	333.7	333.7	333.7
Peaches	-	183.0	100.7	84.5	125.0	153.6	125.1	120.4	120.4	120.4	120.4	120.4
Pears	-	20.3	30.9	-	17.3	7.9	28.6	37.0	37.0	37.0	37.0	37.0
Cherries	-	51.3	48.0	25.9	55.1	34.8	50.5	47.2	31.7	31.7	31.7	31.7
Tobacco	14.1	15.5	18.1	9.7	6.8	10.1	10.9	22.9	16.2	16.2	16.2	16.2

1 4-year average.

2 5-year average.

International Yearbook of Agricultural Statistics and various official sources.

In years of good crops there are large surpluses of plums and apples. Plums, however, show extremely variable yields. During 1933 to 1939, for example, the smallest plum crop - that of 1937 - was only 236,000 tons, compared with a record crop in 1939 of 1,650,000, or 7 times the 1937 production. Prunes are used in Yugoslavia chiefly for the distillation of a brandy known as *šljivovic*. The government has established commissions to control the quality of the prunes to be exported.

The development of an export market for the apple crop has been hindered by the great number of varieties grown in Yugoslavia. For that reason the authorities have attempted to limit production to a few varieties in order to provide possible increased exports of a standardized product.

THE LIVESTOCK ECONOMY

The importance of the livestock industry in Yugoslavia is shown by the fact that it provided 18.3 percent of the total national income in 1937, whereas all other branches of agriculture accounted for 24.6 percent.²² If stable export outlets can be found, an expansion of livestock production probably would be the most effective means of overcoming the ill effects of the pressure of farm population. Rapid expansion is jeopardized, however, by the precarious feedstuffs situation, which prevents a transfer from pasture feeding to more progressive stall feeding.

Before the land reform, the feudal economy made it impossible to produce feedstuffs in about a third of the territory comprising present Yugoslavia. Although the clover and alfalfa acreage has been expanded, the production of feedstuffs is still too limited to warrant a large increase in livestock numbers. The uncertainty of the corn yield is also a limiting factor. Furthermore, a change from an extensive to an intensive pastoral economy could only be accomplished over an extended period of time.

Nevertheless, various government measures have resulted in a gradual improvement of cattle and hog breeds. During the last decade a slight upward trend in livestock numbers has been apparent (see table 22). To many small peasant farmers, the sale of poultry and eggs represents virtually the only source of cash income.

TABLE 22.—Livestock numbers in Yugoslavia, 1925, 1934, 1938, and 1939

KIND	1925	1934	1938	1939
	: Thousands	: Thousands	: Thousands	: Thousands
Horses	1,106	1,208	1,264	1,273
Cattle	3,768	3,990	4,267	4,225
Hogs	2,802	2,792	3,451	3,503
Sheep	7,907	8,868	10,137	10,154
Poultry	16,800	21,500	22,800	22,500
	:	:	:	:

Compiled from official sources.

THE AGRICULTURAL EXPORT TRADE

Although exportable farm surpluses vary widely in accordance with crop yields, Yugoslavian agricultural exports constitute regularly between 50 and 60 percent of

²² The Royal Institute of International Affairs, *South-Eastern Europe, A Political and Economic Survey*, London, 1939, p. 144.

the value of all exports. Total Yugoslav farm exports are divided almost equally between vegetable and animal products.

Prior to 1930 Yugoslavia's imports exceeded the value of exports. The balance of payments was settled largely by emigrant remittances and by Germany's reparation payments. Since both these factors have now disappeared and hardly any capital import is forthcoming, Yugoslavia has had to make special efforts to maintain a high volume of exports. This is virtually the only method of assuring the country of sufficient foreign exchange to obtain her needed fibers and manufactured products.

TABLE 23.—Value of Yugoslavian exports by class of product, average 1935-1939, annual 1935 to 1939

CLASS OF PRODUCT	1935	1936	1937	1938	1939	AVERAGE 1935-1939
	: Million : dinars ¹	: Million : dinars	: Million : dinars	: Million : dinars	: Million : dinars	: Million : dinars
Total exports	4,090	4,378	6,373	5,047	5,521	5,048
Total farm exports	2,250	2,694	3,474	2,688	2,918	2,805
Vegetable products	1,132	1,243	1,939	1,368	1,923	1,404
Animal products	1,118	1,451	1,535	1,320	1,595	1,404
Forestry products	773	545	779	783	1,004	777
Mineral products	218	262	606	455	373	383
Metals	401	401	563	508	571	489
	PERCENTAGE OF TOTAL EXPORTS					
	: Percent	: Percent	: Percent	: Percent	: Percent	: Percent
Total farm exports	55.8	61.6	55.4	53.3	52.9	55.6
Vegetable products	50.3	46.1	55.8	50.9	45.3	49.9
Animal products	49.7	53.9	44.2	49.1	54.7	50.1
Forestry products	19.2	12.5	13.4	15.5	18.2	15.4
Mineral products	5.4	6.0	9.7	9.0	6.8	7.6
Metals	10.0	9.2	9.0	10.1	10.3	9.7

¹ One dinar at the current official rate of exchange = \$0.2420 cents.

² As percentage of total farm products

Compiled from official sources.

EXPORTS BY COUNTRY OF DESTINATION

Until 1935, when Yugoslavia participated in the League of Nations' economic sanctions against Italy, the Italian market was the principal outlet for Yugoslavian exports, taking more than 28 percent of the total. In 1935, however, Italy's share dropped to 16.7 percent and in 1936 to 3.1 percent; in 1939 it was still only 10.6 percent.

Germany's share in the export trade of Yugoslavia rose gradually until 1937. Contrary to the situation in Hungary, the annexation of Austria did not result in any marked increase in the combined purchases of Greater Germany. The German block,

consisting of Germany, Austria, and Czechoslovakia, now buys nearly half the total exports. Greater Germany and Italy together took 56 percent of the total exports during 1935-1939.

An increase in exports to Italy may be expected as a result of a trade agreement recently concluded. In September 1939 Yugoslavia owed Italy a clearing debt of 135 million dinars (about 3 million dollars), which was to be met by increased exports of timber, minerals, and farm products.

Exports to Great Britain had already declined to 5.6 percent of the total in 1939. France took less than 3 percent of total exports during 1935-1939. There is little possibility of a further expansion of Greater Germany's share except by the addition of the volume formerly taken by Great Britain, unless Belgium and the Netherlands, now under German domination, lose their share of 7.9 percent.

TABLE 24.—Exports from Yugoslavia by country of destination, average 1935-1939, annual 1935 to 1939

COUNTRY	1935	1936	1937	1938	1939	AVERAGE
	Million dinars	Million dinars	Million dinars	Million dinars	Million dinars	Million dinars
Germany	751	1,039	1,361	1,814	1,762	1,620
Austria	577	640	848	306		
Czechoslovakia	540	540	493	398	801	554
Greater Germany	1,868	2,219	2,702	2,518	2,563	2,374
Belgium, Netherlands ...	152	292	662	446	452	401
Great Britain	212	432	465	465	367	392
France	63	86	339	75	140	141
Italy	672	137	587	324	564	461
Switzerland	97	98	112	84	168	112
Rumania, Greece, Hungary:	385	450	456	397	499	431
United States	225	214	291	256	221	253
PERCENTAGE OF TOTAL EXPORTS						
	Percent	Percent	Percent	Percent	Percent	Percent
Germany	18.6	23.7	21.7	35.9	31.9	36.0
Austria	14.3	14.6	13.6	6.1		
Czechoslovakia	13.4	12.3	7.9	7.9	14.5	11.0
Greater Germany	46.3	50.7	43.1	49.9	46.4	47.0
Belgium, Netherlands ...	3.8	6.7	10.6	6.8	6.2	7.9
Great Britain	5.3	9.9	7.4	9.6	6.6	7.8
France	1.6	2.0	5.4	1.5	2.5	3.8
Italy	16.7	3.1	9.4	6.4	10.6	9.1
Switzerland	2.4	2.2	1.8	1.7	3.0	2.3
Rumania, Greece, Hungary:	9.1	10.3	7.3	7.9	8.8	8.5
United States	5.6	4.9	4.6	5.1	5.1	5.0

Compiled from *Statistique du commerce extérieur* (annual).

COMPOSITION OF AGRICULTURAL EXPORTS

In accordance with the predominance of corn and wheat in the production pattern of Yugoslavian agriculture, these grains constitute the principal agricultural export items. Since both crops are characterized by extreme fluctuations in yield, the surpluses available for export vary sharply from year to year. Even in years of favorable yields, most of the corn and wheat production is needed domestically. It is estimated that 57 percent of the population consumes cornbread exclusively and that only 24 percent consumes wheat.

The annual per-capita consumption of corn is 6.2 bushels and that of wheat 3.6. Domestic corn needs may be calculated as follows: for human consumption, about 95 million bushels; for feeding hogs and poultry, from 25 to 40; and for seed, about 6 million or a total of 125 to 140 million bushels. The consumption of wheat is estimated at 55 million bushels, to which must be added from 15 to 17 million for seed. Normally from 7 to 10 million bushels of wheat are carried over.²²

It is obvious that large exports are possible only if favorable yields prevail. Because of low yields, corn exports in 1935 and 1939 were below 4 million bushels whereas the 1937 exports, as a result of favorable yields in 1935 and 1937, were more than 8 times those of 1935 and 1939. The volume of wheat exports has been declining; the average for 1935-1939 was 30 percent below that of 1928-1932. Moreover, the annual fluctuations are pronounced. Between 1935 and 1939, for example, wheat exports ranged from a little over 1 million bushels in 1935 to 12 million in 1937. Exports of other grains are negligible. During 1938 and 1939 there were no exports of barley, oats, and rye.

Dry beans have long been important in Yugoslav farm exports. In line with the increased production during the last decade, average exports during 1935-1939 were 55 percent above the 1928-1932 level. The annual variations in exportable surpluses are not so sharp as those for grains. During the last 5 years, maximum exports of 49,000 tons in 1937 compare with minimum exports of 14,000 tons in 1939.

Hemp is the only industrial crop which has shown a continuously high level of exports during the last 5 years. The 1935-1939 export level was more than double that of 1928-1932.

With respect to oilseeds, Yugoslavia has not been in a position to supply her own needs. This is of special significance in view of the fact that oilseeds are urgently needed in all countries under German domination. Production and marketing are under the supervision of the government-controlled *Ujzarica*, an organization which maintains high domestic prices by virtually forcing producers to sign contracts for the entire harvest. Soybeans have been exported in small quantities, principally to Germany, the only country willing to pay the high price demanded. Total exports of soybeans amounted to 800 tons in 1937 and 4,700 in 1938. Of the 1939 crop of

²² These figures are tentative, based on computations by G. van Francke. The present consumption level is probably higher, since the partial mobilization and some shortages in other foods tend to increase the consumption of bread grains.

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10,100 tons, only 5,500 were taken by the *Ujarica*, partly for export; the remainder was used by the peasants as protein feed. In spite of government efforts to make the peasants expand their oilseed acreages, net imports of oilseeds increased from 11,000 tons in 1937 to 21,000 in 1939.

Yugoslav fruit crops, particularly prunes, apples, and grapes, are regularly above domestic needs. In years of favorable yield, as in 1939, it is difficult to find sufficient export outlets. During 1935-1939 exports of fresh fruit ranged between 29,000 and 77,000 tons annually. Exports of dried prunes fluctuated between 2,000 and 42,000 tons annually during the same period.

The Yugoslav livestock industry exports substantial quantities of live cattle, live hogs, pork, dead poultry, and eggs. Live cattle exports, however, were cut in half between 1928-1932 and 1935-1939, whereas live hog exports were well maintained. Exports of poultry and eggs usually exceed in value those of live cattle and hogs and are nearly equal to those of fresh pork.

TABLE 25.—Principal Yugoslavian farm exports, averages 1928-1932,
1935-1939; annual 1935 to 1939

COMMODITIES	AVERAGE 1928-1932	1935	1936	1937	1938	1939	AVERAGE 1935-1939
	Million bushels	Million bushels	Million bushels	Million bushels	Million bushels	Million bushels	Million bushels
Wheat, flour	10.5	1.2	11.0	12.1	4.5	7.9	7.0
Corn	8.0	10.3	3.6	28.6	18.4	3.7	13.0
Barley		0.2	0.1	0.5			0.3
Oats	-0.1	0.4		0.6			0.2
Rye		0.1	0.1	0.4			0.1
	Thousand tons	Thousand tons	Thousand tons	Thousand tons	Thousand tons	Thousand tons	Thousand tons
Beans, dry	16.0	30.0	19.0	49.0	30.0	14.0	28.0
Tobacco	3.1	6.7	4.1	4.0	6.1	3.5	4.9
Hops	3.6	4.0	4.0	2.6	3.9	3.4	3.6
Hemp	10.0	21.0	22.0	26.0	22.0	24.0	23.0
Flax	2.0	8.0	11.0	16.0	15.0		12.2
Fruit, fresh		77.0	64.0	29.0	69.0	75.0	62.8
Prunes, dry		14.0	30.0	10.0	8.0	42.0	29.8
Eggs	26.0	13.0	14.0	14.0	18.0	17.0	16.0
Cheese, butter	2.0	2.2	3.4	2.1	1.7	1.9	2.1
Meat, fresh		23.0	23.0	21.0	19.0	21.0	21.4
Meat products			3.0	3.0	3.0	3.7	3.2
Oilseeds			-3.7	-21.1	-14.2	-11.4	13.0
Animal fats			2.6	-0.2	-1.2	2.1	1.6
	Thousands	Thousands	Thousands	Thousands	Thousands	Thousands	Thousands
Live cattle	91.9	38.5	52.0	71.4	28.0	35.0	45.0
Live hogs	245.0	218.0	301.0	307.0	260.0	298.0	277.0

¹ Average 1928-1930.

² Average 1935-1939.

Compiled from official statistics.

GEOGRAPHIC DISTRIBUTION OF FARM EXPORTS

The greater part of the Yugoslavian agricultural surplus is sent to the markets of Central Europe. For some products, such as wheat and corn, the markets have changed from year to year, but for fruits and livestock products they have remained substantially the same during the last 5 years.

Austria, Czechoslovakia, and Italy were the principal purchasers of wheat throughout most of the post-war period. To a large extent, their wheat quotas were fixed by trade agreements. However, in 1936 and 1937, years of large export surpluses, Great Britain and France took more than 29 and 42 percent, respectively, of total wheat exports. In 1938 Greater Germany contracted for the entire surplus. In 1939, 86 percent went to Germany and the remainder to Italy. No wheat export surpluses may be expected during the 1940-41 marketing year. Surpluses in the next few years will be absorbed by Greater Germany and Italy.

The geographic distribution of corn exports has varied greatly from year to year. In 1935 and 1936 more than 80 percent was exported to the countries comprising Greater Germany. Their share, however, declined sharply in 1938 and 1939, when Great Britain and the Scandinavian and Low Countries entered the market. The Netherlands and Denmark, like Greater Germany, are now cut off from overseas supplies of feedstuffs. Consequently, they must depend largely on the corn surpluses of southeastern Europe. In view of urgent German needs there is little likelihood that these countries can obtain even a small part of their requirements.

Greece is normally Yugoslavia's chief market for dry beans, taking from 30 to 40 percent of the total surplus. The United States imported about 10 percent during 1935-1939, or a little less than Greater Germany. Exports have been prohibited since September 1939.

Most of the tobacco exports have normally been purchased by former Czechoslovakia. France and former Poland occasionally took small quantities. Germany is attempting to encourage production of Virginia tobacco in Yugoslavia, and in the future may take a portion of the total surpluses.

Greater Germany is by far the most important customer for Yugoslavian fruit. Only small quantities are exported to Switzerland. Poland purchased some dried prunes before 1939. No changes in the distribution of fruit exports may be expected.

Greater Germany and Italy took about 50 percent of all exports of live cattle during 1935-1939, and Greece and Great Britain each purchased about 10 percent. In 1939 nearly 90 percent went to the Axis powers, and Greece took a small share.

During the last few years virtually the entire surplus of live hogs and meat products and between half and two-thirds of the eggs have been exported to Germany, Austria, and Czechoslovakia. Switzerland and Italy took 20 and 10 percent, respectively, of the exports of eggs. Great Britain's share of 12 percent will now be available to Germany or Italy.

POTENTIAL FARM SURPLUSES DURING AND AFTER 1940-41

YEE 1940-41 OUTLOOK

As in Hungary, the volume of the 1940-41 surpluses of farm products will be affected largely by the adverse weather conditions of last winter and spring rather than by the direct influence of the war. Some shortage of farm labor and draft animals has persisted because of the mobilization; however, these factors alone probably would not have greatly affected the volume of crop surpluses and livestock exports in 1940-41 if average or better-than-average yields had been realized. Difficulties in obtaining formerly imported farm products are certain to diminish exports of fibers and oilseeds, since domestic products must now take the place of imports cut off by the British blockade.

The outlook for the 1940-41 wheat crop is far from promising. According to reliable information, the sowing of the winter wheat crop was restricted by bad weather in several important producing regions. This factor, together with the mobilization of many farmers, resulted in a reduction of 500,000 acres in the winter wheat acreage, or of about 9 percent. In addition, spring floods damaged 125,000 acres. Reports indicate that the 1940 crop was from 35 to 40 percent below that of 1939, and about 25 percent below the average for 1935-1939. No wheat exports are likely during 1940-41, especially since the rye crop is estimated at 20 percent below that of 1939 and 9 percent below the average for 1935-1938.

The 1940 production of barley, which serves as a bread grain for 10 percent of the population, is estimated at 24 percent below the 1939 crop and 20 percent below the 1935-1939 average. The oats crop is placed at 25 percent below that of 1939 and 17 percent below the 1935-1939 average. Unless supplies can be obtained from neighboring countries there will be a marked shortage of oats in Yugoslavia during 1940-41.

With respect to corn, however, the 1940 crop is estimated at 40 million bushels above the 1939 crop and 15 million above the average for 1935-1939. Although most of the apparent surplus would normally be retained to compensate for the shortage in other grain crops, German pressure may succeed in making about 20 million bushels available for export.

Since September 1939 exports of dry beans have been prohibited by government decrees. In view of the unfavorable bread-grain outlook, it is unlikely that this prohibition will be cancelled, even though the crop probably will be close to normal.

Root crops and oleaginous plants apparently suffered relatively little from the adverse weather conditions; however, Yugoslavia will need its total production of oilseeds for domestic purposes. It is improbable that Germany will receive an increased share of the soybean crop.

The severe winter and unfavorable spring seriously reduced the fruit crops. It is estimated that this year's prune crop probably did not amount to more than 20

percent of the 1939 crop, or 65 percent of the average for 1935-1939. The export surplus of prunes accordingly will be drastically reduced. The cold and wet spring also seriously damaged vine crops.

As a consequence of the feed shortage, a reduction in the number of lard-type hogs seems certain. In order to conserve supplies the government has introduced three meatless days a week.³⁴ In view of the feed shortage and the livestock losses resulting from floods and disease, it is believed that livestock numbers will be reduced during the 1940-41 marketing season. This may not affect the level of the 1940-41 exports of hogs, and it is possible that the shipments may again approach 300,000 hogs.

THE OUTLOOK AFTER 1940-41

As in Rumania and Hungary, the long-time possibilities of a more intensive farm production and of shifts to industrial crops depend largely on factors connected with the present land distribution and the status of the peasants. Yugoslavian economists are agreed that the most serious handicap to a permanent improvement of farming conditions lies in the existence of an excessive agricultural population and the uneconomic size of the average peasant holding.

The prevalence of uneconomic holdings tends to prevent an increase in productivity. Moreover, since most of the farms lack sufficient feedstuffs, the most effective means of bringing about an intensification of farming - namely, through an increase in livestock numbers - can be realized only after the feedstuffs basis has been greatly increased and the peasants have learned the essentials of progressive breeding and feeding methods. Lack of capital and the difficulties in maintaining a subsistence level of consumption on the small holdings seriously retard any rapid improvement in farming methods.³⁵ According to an investigation by the Yugoslavian agricultural cooperatives, only 438 of every 1,000 peasants possess iron plows, 183 have wooden plows, and 379 own none at all. There is urgent need of at least 100,000 additional iron plows.³⁶

Under the existing structure of the Yugoslavian farm economy, no essential shifts in production or increases in productivity may be expected during the next few years. The tendency toward acreage increases in industrial crops, such as oilseeds, fibers, and tobacco, may be accelerated. In view, however, of the lack of textiles and oilseeds formerly imported from abroad, an increase in the exportable surpluses of these crops is unlikely. No expansion in grain acreage may be expected. The export level will be determined by current yields. The conclusion seems warranted that a significant expansion in farm production must await improvement of the peasants' status. This in turn will tend to increase domestic consumption and thus curtail exportable surpluses.

³⁴ American Consulate, Belgrade, July 8, 1940.

³⁵ Mirkovic, Mijs, *Yugoslavian Agricultural Policy*, abstr. in *Südost-Economist*, March 29, 1940.

³⁶ *Südost-Echo*, Feb. 16, 1940.

BULGARIA

Bulgaria is the smallest of the countries constituting the Danube Basin, with a population of 5.3 million inhabitants. The territorial changes following the Balkan wars and the World War did not greatly alter the total area of the country. Of the districts ceded by Bulgaria to Rumania and Yugoslavia, comprising an area of 2.3 million acres, 50 percent consisted of plow land. On the other hand, of the 4 million acres gained from Turkey, less than 10 percent was plow land. These shifts had a marked effect on the production pattern of Bulgarian agriculture and on the composition of farm surpluses.

Over 80 percent of the population is engaged in farming, and farm products constitute 95 percent of all exports. The territorial changes necessarily affected the post-World-War development of the Bulgarian farm economy and the development of the national economy as well. Before the acquisition of southern Dobrogea from Rumania, of a total area of 25.5 million acres, only 10.1 million, or 39.6 percent, were arable. The return of this fertile region has noticeably improved the ratio of arable to total land, since 70 percent of the total area of southern Dobrogea is in grains.

Like most Danubian countries, Bulgaria was predominantly a grain-producing country before the World War. Grain exports during 1935-1939 declined by 58 percent for wheat, 75 percent for corn, 90 percent for rye, and 81 percent for barley, compared with 1909-1912. It is significant, however, that the country has made progress in adjusting agricultural production by the adoption of a more intensive agriculture, with the result that today increased exports of tobacco, fruits, and oilseeds partly offset the loss of grain exports.

THE AGRICULTURAL STRUCTURE OF BULGARIA

Outstanding problems confronting Bulgarian agriculture are those arising from the small-sized farms, scattered holdings, and the steadily increasing pressure of farm population. Even before the World War Bulgaria was a peasant country, with few large estates. In 1908 only 0.1 percent of the total number of farms consisted of holdings of more than 250 acres, covering 5.5 percent of the total area. About 45.5 percent of all farms had less than 5 acres, occupying only 6.9 percent of the total area. Most of the farms ranged between 5 and 75 acres, 42.3 percent ranging from 5 to 25 acres and 36.5 percent from 25 to 75.

Since even before the World War virtually all land was in small and medium-sized farms, it is obvious that land reform could make little change in land distribution. Nevertheless, the reform law of 1921 provided for expropriation of all holdings exceeding 75 acres. In 1924 and again in 1930, however, the expropriation measures were modified, with the result that the total area disposed of did not exceed 200,000 acres.

Population increase and continuous subdivision of land through inheritance have tended to reduce the size of the holdings. In 1926, of a total of 750,000 farms

427,000, or 57 percent, were less than 12.5 acres in extent.³⁷ At that time the average size of all farms was 15 acres. By 1934 it had declined to 12.5 acres.³⁸

Since opportunities in other occupations are limited, little migration from the land can take place. The problem of pressure of the surplus farm population is even more serious in Bulgaria than in the other Danubian countries. It is estimated that there are 5.8 farm workers for each 25 acres of land, as compared with 4.1 in Rumania, 4.0 in Yugoslavia, and 2.8 in Hungary.³⁹ Studies by the Bulgarian Institute of Agricultural Economics show that only about 60 percent of the supply of available labor can be effectively utilized.

These conditions indicate clearly that intensification of agriculture is the only solution of the problem of the farm labor surplus. It appears, however, that serious obstacles must be overcome before such intensification can be accomplished - foremost among them the existing system of landholdings, which make for inefficiency in the use of labor.

Through subdivision, resulting from inheritance and community legislation, the average Bulgarian farm of 12.5 acres now consists of 15 different strips of land, often widely separated. Between 7 and 10 percent of the human labor and 10 to 20 percent of the animal labor is wasted in traveling to and from these scattered fields.

The uneconomic size of farm holdings necessarily retards the adoption of advanced farming methods. Although some progress has been made in replacing wooden with iron plows, the Central Statistical Office estimates that in 1934 only 391,000 iron plows were in use, whereas the number of wooden plows totaled 457,000. On the average one iron plow served for the cultivation of 75 acres of land. Harrows were owned on only 5 percent of the farms.⁴⁰

To remedy this situation the government on April 29, 1939, enacted a law to facilitate the distribution of agricultural implements to farmers.⁴¹ Under this law the Agricultural and Cooperative Bank of Bulgaria was authorized to purchase and distribute farm implements against non-interest-bearing loans to be repaid in 5 years. It was provided that about 100,000 units, valued at 500 million leva⁴² would be supplied in 1939-40. In view of the difficulties resulting from the war, it seems highly improbable that more than a small fraction of this number will be supplied.

37 Melloff, J. St., *Die sozialökonomische Struktur der bulgarischen Landwirtschaft* (The Social and Economic Structure of Bulgarian Agriculture), Berlin, 1936, p. 118.

38 Royal Institute of International Affairs, *South-Eastern Europe, A Political and Economic Survey*, London, 1939, p. 170.

39 Gusanoff, Atanas, *Bulgarian Agriculture and Measures for its Improvement*, Sofia, 1936.

40 Melloff, J. St., *Op. Cit.*, pp. 28, 119.

41 International Institute of Agriculture, *Monthly Bulletin of Agricultural Economics and Sociology*, Dec. 1939, p. 848.

42 One lev at the August 1939 official rate of exchange (latest available quotation) = 1.01 cents.

To these difficulties must be added the inherent attitude of the Bulgarian peasant. "The extensive farm practices prevailing cannot be changed as rapidly as is desirable, since the psychological basis for a transition to intensive farming is still lacking and the traditional habits of most of the peasants cannot be easily overcome."⁴³ Nevertheless, a tendency toward more intensive agriculture may be observed.

PROGRESS TOWARD INTENSIFICATION OF AGRICULTURE

The authorities have exerted every effort to induce the peasants to expand production of crops requiring a larger supply of labor than is required for grains. The closer trade relations with Germany and the German demand for increased quantities of these products have accelerated this tendency. The shift from grain to industrial crops, however, has not yet progressed far. Moreover, the most effective means of intensifying the farming system - expansion of livestock production - faces serious obstacles.

The authorities are also endeavoring to educate the farmers by extension work, through the *agronomes*, or county agents. In addition the areas devoted to some crops are being regulated through government monopolies and by price-fixing and buying operations, and the government is distributing high-quality seeds and aiding financially in the construction of dairies and warehouses. These measures, it is believed, will encourage farmers to extend the production of more intensive crops.

Probably more progress toward intensification was made in Bulgaria during the post-World-War period than in any other Danubian country. Table 26 shows the expansion in specified crops, using the pre-World-War period (1908-1912 = 100) as a basis for comparison. It may be observed that the relative changes in acreage have been pronounced, not only when compared with the period prior to the World War, but also when compared with the 5-year period 1930-1934. It will also be noticed, however, that in spite of the rapid expansion, most of these crops still occupy a relatively small proportion of the total cultivated land (see table 27).

TABLE 26.—Acreage expansion of specified Bulgarian crops, averages, 1908-1912, 1930-1934, and 1938

YEAR	SUBFLOWERS	TOBACCO	COTTON	SUGAR BEETS	HEMP	ORCHARDS
	Index	Index	Index	Index	Index	Index
1908-1912 ..	100	100	100	100	100	100
1930-1934 ..	3,890	349	1,524	541	141	239
1938	8,000	600	3,990	541	270	390

1908-1912 and 1930-1934 data derived from J. St. Mallorff (see footnote 37); 1938 data compiled from official sources.

⁴³ Mallorff, J. St., *Op. cit.*, p. 108.

LAND UTILIZATION

As in all other Danubian countries, grain crops predominate in Bulgarian agriculture, although the proportion of grain acreage (67.7 percent of the cultivated land) is smaller than in any other Danubian country. About half the grain acreage is devoted to wheat, one-fourth to corn, and one-fourth to rye, barley, and oats. Of the food crops other than grains, which occupy 5 percent of the cultivated land, dry beans are by far the most important, accounting for half the area devoted to such crops.

The acreage in industrial crops has increased noticeably, but at present still accounts for only 8.7 percent of the total cultivated land. Oleaginous plants constitute the greater part of such acreage, followed by fiber crops, tobacco, and sugar.

It is characteristic of Bulgaria that in spite of the relative scarcity of land the prevailing primitive crop system allows 11.7 percent of the arable land to remain fallow each year. In this respect also progress has been made, for the share of fallow land was over 20 percent before the World War.

The present distribution of acreage among the various crops in 1938 is shown in table 27.

TABLE 27.—Distribution of Bulgarian crop acreage, 1938¹

LAND DISTRIBUTION	ACREAGE	PERCENTAGE OF CULTI- VATED LAND	LAND DISTRIBUTION	ACREAGE	PERCENTAGE OF CULTI- VATED LAND
Total grains	8,862	67.9	Total oilseeds	734	7.3
Wheat	3,447	34.1	Sunflower seed ..	467	4.6
Corn	1,730	17.1	Cottonseed	140	1.4
Barley	556	5.5	Rapeseed	54	.5
Rye	465	4.6	Soybeans	30	.3
Oats	356	3.5	Other	43	.4
Total food crops ..	504	5.0	Tobacco	89	.9
Beans	247	2.4	Sugar beets	30	.3
Watermelons	140	1.4	Rotation meadow ..		
Potatoes	49	.5	and other feed ..		
Peppers	15	.2	crops	645	6.4
Total fibers	172	1.7	Fallow	1,180	11.7
Cotton	140	1.4	Total culti-		
Hemp	25	.3	tivated land	10,099	
Flax	7	.1	Total acreage	25,488	

¹ Acreages of minor crops are included in the subtotals.

International Yearbook of Agricultural Statistics.

THE PATTERN OF AGRICULTURAL PRODUCTION

ACREAGE, YIELD, AND PRODUCTION OF PRINCIPAL CROPS

For about 70 percent of the Bulgarian population wheat and rye are the principal food grains, and the remaining 30 percent uses corn. The acreage and production of wheat and corn during the last two decades, however, have not kept pace with the population increase. As a result the available surpluses have been noticeably reduced. Few changes have taken place during the last decade in the total area devoted to grain crops. A slight increase in the wheat acreage was offset by a decrease in the acreage sown to corn, rye, barley, and oats. As a result of the government program of agricultural intensification, further reductions in grain acreage may be expected.⁴⁴

Better seed selection and a more advanced system of crop rotation may eventually increase average yields. Field experiments of the Sofia Experiment Station have shown that even a slight improvement in the rotation system, with increased use of fertilizers, will greatly raise the present yield of most grains.⁴⁵ It does not appear, however, that such improvements can be attained in the near future.

As in all other Danubian countries, climatic conditions in Bulgaria do not permit constant yields. The average deviation from the mean yield of wheat was 13.2 percent during 1930-1939, and that for corn was 9.4 percent. The record wheat yield of 1938 led to an average level of wheat production of 64.4 million bushels during 1935-1939, 20 percent above the average for 1933-1937 and 28 percent above that for 1928-1932. The extent of the crop fluctuations is shown by the fact that the 1938 crop of 79 million bushels was twice the size of the 1934 crop of 39.6 million, whereas the 1938 corn crop of 21 million bushels was little more than half the 1935 crop of 39.7 million.

Tobacco production, insignificant before the World War, has become the most important source of export surpluses, largely because of the acquisition after the Balkan war of extensive tobacco-growing districts from Turkey. The Ministry of Agriculture has endeavored to improve the quality of the tobacco crop by providing peasants with good plants, combatting various plant diseases, and establishing proper facilities for drying and manufacturing. The government virtually regulates the area that may be planted to tobacco each year. During the depression, this area was sharply restricted, but since that time much of the acreage reduction has been recovered as a result of improved export possibilities. The Agricultural and Cooperative Bank purchases tobacco at fixed prices whenever the market situation warrants this action.

Before the World War Bulgaria had to import more than 10,000 tons of sugar annually. During the last decade, however, domestic production of sugar beets has

⁴⁴ Mallory, *J. B.*, *op. cit.*, p. 124.

⁴⁵ It should be noted that the data on acreage and production after 1930 are not strictly comparable with those of the period before 1930, since the method of collecting these statistics has been changed.

been sufficient to meet total domestic needs. The government controls the sugar beet acreage through agreements with sugar refineries. This control explains in part the sharp annual fluctuations in production.

TABLE 28 - Acreage, yield, and production of Bulgarian grain crops, averages
1928-1932, 1933-1937, 1935-1939; annual 1933 to 1939

CROP	AVERAGES						1933	1934	1935	1936	1937	1938	1939
	1928-1932	1933-1937	1935-1939	1933	1934	1935							
	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
ACREAGE	acres	acres	acres	acres	acres	acres	acres	acres	acres	acres	acres	acres	acres
Wheat	2,931	3,020	3,080	3,097	3,114	3,729	3,956	3,233	3,449	3,004			
Rye	563	491	471	515	494	433	369	521	494	447			
Barley	607	543	539	602	566	501	537	540	555	563			
Oats	321	316	315	327	318	268	299	369	353	276			
Corn	1,757	1,720	1,674	1,799	1,692	1,775	1,659	1,685	1,731	1,537			
	Bush	Bush	Bush	Bush	Bush	Bush	Bush	Bush	Bush	Bush	Bush	Bush	Bush
YIELD PER ACRE:	cls	cls	cls	cls	cls	cls	cls	cls	cls	cls	cls	cls	cls
Wheat	17.1	17.7	20.8	17.9	17.7	17.6	20.4	20.1	22.2	22.8			
Rye	18.3	16.9	18.0	19.8	19.0	17.9	18.7	18.0	18.9	21.6			
Barley	24.7	24.8	27.9	26.4	25.3	27.5	28.1	29.4	27.3				
Oats	23.2	25.3	25.1	27.4	18.1	23.8	31.9	27.4	17.4	23.2			
Corn	17.9	20.5	20.8	20.8	18.4	22.4	20.9	20.1	12.1				
	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
PRODUCTION	bushels	bushels	bushels	bushels	bushels	bushels	bushels	bushels	bushels	bushels	bushels	bushels	bushels
Wheat	50,338	53,547	64,370	55,424	59,595	47,926	60,352	64,910	78,951	69,719			
Rye	9,527	8,283	8,483	9,883	8,438	7,767	8,188	9,387	7,397	9,474			
Barley	14,981	13,603	14,977	16,147	8,609	14,940	14,509	16,163	16,294	15,322			
Oats	7,441	7,984	8,159	8,947	5,132	6,379	9,388	10,994	6,137	9,810			
Corn	31,534	35,278	32,263	37,440	31,091	29,721	34,309	33,828	20,955				

1 1935-1938 average.

Compiled from International Yearbook of Agricultural Statistics and other official sources.

TABLE 29 - Bulgarian production of principal nongrain crops, averages
1929-1932, 1933-1937, 1935-1939; annual 1933 to 1939

CROP	AVERAGES						1933	1934	1935	1936	1937	1938	1939
	1929-1932	1933-1937	1935-1939	1933	1934	1935							
	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
	tons	tons	tons	tons	tons	tons	tons	tons	tons	tons	tons	tons	tons
Food crops													
Beans dry	53.9	61.1	50.7	57.0	45.7	61.2	70.2	61.3	7.6				
Potatoes	58.3	121.1	122.9	90.8	94.3	135.3	121.9	163.8	71.1				
Peppers				28.3	26.2		57.3	87.1	90.0				
Fibers													
Hemp	1.6	3.8	4.3	3.4	3.0	3.8	3.7	5.9	4.6				
Flax	.1	.2	.4	.2	.2	.4	.1	.6	.3				
Cotton	1.0	7.0	9.9	2.7	4.4	7.3	11.4	7.7					
Total	2.7	11.1	19.6	6.3	7.7	13.6	11.0	17.2	12.6				
Oilseeds													
Soybeans			11.9			19.3	9.5	12.8	7.8				
Peanuts		1.7	2.6	.3	.7	2.0	2.9	3.4	2.3				
Rapeseed	1.3	3.4	2.7	1.9	3.1	2.7	3.7	2.8	2.5				
Rapeseed		5.0	16.5	1.6	9.8	24.4	2.1	3.1	23.1	20			
Cottonseed		16.8	26.6	7.1	10.3	20.5	19.6	24.9	17.7	49			
Sesame seed	.3	2.6	1.6	2.6	3.1	3.7	3.1	1.5	.5				
Sunflower seed		134.3	156.7	84.4	90.3	132.7	181.2	193.0	181.6	150			
Sugar beets	875.1	169.5	160.2	331.0	21.5	172.7	89.7	234.4	144.6				
Tobacco	87.8	33.8	30.8	27.4	23.7	20.8	47.3	38.0	19.3	40			
Grapes	379.0	491.6	549.4	492.7	608.7	622.3	324.9	610.6	729.0	900			

1 1935-1938 average.

Compiled from International Yearbook of Agricultural Statistics and other official sources.

Among the fiber crops, cotton has shown the greatest expansion in recent years. Production increased ninefold between 1928-1932 and 1935-1938, but still falls short

of domestic needs. In 1938 and 1939, for instance, 14,000 and 12,000 short tons, respectively, were imported to supplement domestic production. The production of most oleaginous plants has increased greatly during the last decade. Sunflower seeds take first place among the oilseeds. The increased production of oilseeds has made Bulgaria virtually self-sufficient in vegetable oils. Rapeseed production has been predominantly for export. Cottonseed output has increased as a result of the expansion in production of lint cotton.

Rapid progress has also been made recently in the fruit industry. Largely because of the work of the government experiment stations, both quantity and quality of the fruit crops have improved noticeably. The most striking development was the success in the cultivation of table grapes (at the expense of wine grapes), brought about in response to the export demand for table varieties.

THE LIVESTOCK ECONOMY

The most serious handicap to the development of an intensive livestock industry in Bulgaria lies in the insufficiency of the domestic feed supply. Before the World War communal pastures furnished a considerable portion of the necessary fodder. As a result of the land reform, however, the area in communal pastures was reduced from 2.2 million acres in 1908 to less than 1 million at the present time. It is estimated that the present number of livestock in Bulgaria requires 2.8 billion carbohydrate units and 235 million protein units annually, even assuming that feeding takes place during only 180 days and that the animals utilize pastures during the rest of the year.⁴⁸ Under present conditions, however, only 2.0 billion carbohydrate units and 180 million protein units are produced annually. As a result there is an annual deficit of 30 percent in feed units and of 25 percent in protein units.

The government has made recommendations with a view to improving the feed-stuffs situation. The feedstuffs acreage recommended and the actual acreages are shown in table 30. It will be noted that no actual increase in the acreage planted to fodder crops has taken place since 1934, and that in most cases the 1938 acreage is only a fraction of the acreage anticipated in the government program.

TABLE 30.—Bulgarian feedstuffs acreage in 1934 and 1938, and 1940 acreage recommended by Bulgarian Government

COMMODITY	ACREAGE 1934	ACTUAL ACREAGE 1938	RECOMMENDED ACREAGE 1940	1938 ACREAGE AS PERCENT OF RECOM- MENDED ACREAGE
	1,000 acres	1,000 acres	1,000 acres	Percent
Vetch	427	560	464	52
Alfalfa	71	247	106	42
Espercent	(1)	247	2.4	1
Green corn	147	404	90	4
Forage millet	57	124	93	51
Mangels	87	148	16	11

¹ Negligible. *Bulgarian Agriculture and Measures for its Improvement*, L. Donsouff, 1944.

⁴⁸ Chiebarov, D. S., "Die bulgarische Tierzucht und ihre Probleme" (Bulgarian Livestock Economy and its Problems), *Zeitschrift der bulgarischen landwirtschaftlichen Gesellschaft*, vol. XXV, 1926.

The experiment stations and county agents have succeeded in bringing about some improvement in quality of poultry and eggs, which are the most important surplus products in the livestock industries. All categories of livestock, however, show a continual reduction in numbers, largely because of inadequate feed supplies. Table 31 gives Bulgarian livestock numbers in 1934.

TABLE 31.—Bulgarian livestock numbers, 1934

KIND	NUMBERS	KIND	NUMBERS
	Thousands		Thousands
Horses	532	Buffaloes	375
All cattle	1,498	Sheep	6,839
Milk cows	176	Hogs	909
All cows	281	Poultry	12,800

Compiled from official sources.

THE AGRICULTURAL EXPORT TRADE

Since Bulgaria has no important mineral or manufacturing industries, its exports consist almost exclusively of agricultural products. The nonagricultural population of a little over 1 million can consume only a fraction of the farm surpluses. To the Bulgarian economy, therefore, exports of farm products are essential for three reasons: (1) they provide most of the cash income of the peasant; (2) they are virtually the only means of securing foreign exchange for the necessary imports of fibers, textiles, and machinery; and (3) they provide funds for meeting the foreign debt service.

CHANGING COMPOSITION OF FARM EXPORTS

Territorial changes, as well as the progress attained in promoting the production of more intensive crops, have resulted in marked changes in the composition of Bulgarian farm exports (see table 32). Most striking are the shifts in the importance of grain and tobacco in the export trade. Before the World War, grain crops contributed nearly two-thirds to the total value of exports, whereas in 1935 and 1939 they constituted less than 10 percent of the total. The sharp decline in the importance of grain in the export trade may be attributed to the post-war loss of grain-surplus-producing regions, increased domestic consumption resulting from population growth, and the increase in surpluses of other farm products.

The pre-World-War place of cereals has now been taken by tobacco. Exports of tobacco were insignificant before the World War, whereas during the past decade this product has constituted the outstanding export item, representing about 40 percent of the value of all exports.

Hardly less significant is the increase in the export trade in fruits. Until the world depression, fruit exports constituted only a fraction of 1 percent of total exports. In the 1930's, however, a continually increasing importance is apparent. In 1939 fruit exports represented nearly 20 percent of total exports, and were 3 times those of grain.

Exports of live animals and meat products have always been relatively insignificant as a result of the unsatisfactory domestic feed situation. There has been a recent tendency toward reducing the exports of live animals in favor of meat products. Cattle and cheese exports have declined steadily. Eggs still represent the outstanding export product of the livestock economy.

Rose-oil exports, a Bulgarian monopoly, have suffered from the competition of synthetic substitutes in foreign markets. Oilseed exports showed a marked expansion until 1937; however, during 1938 and 1939 increased domestic utilization reduced the surpluses.

TABLE 32.—Composition of Bulgarian farm exports, 1939 with comparisons
[Expressed as percentages of value of total exports]

COMMODITY	1911	1922	1923	1926	1927	1928	1929
Grains and flour	64.3	8.9	12.8	14.0	18.7	9.5	7.4
Tobacco	1.0	45.3	41.3	32.3	32.1	42.4	41.0
Beans, dry	3.3	2.1	2.6	2.4	2.4	0.4	—
Fruit	0.2	0.8	4.3	9.4	7.5	17.5	19.2
Oilseeds	2.0	2.4	1.9	4.9	5.0	2.1	3.9
Cattle	1.2	1.9	0.7	1.0	1.2	0.8	0.3
Hogs	—	0.2	—	0.8	1.7	2.3	1.3
Poultry	0.5	0.4	1.2	0.3	0.5	0.5	0.2
Total live animals	4.5	3.4	2.0	2.2	3.4	3.6	1.7
Meat, poultry, fat	—	0.4	1.9	5.4	5.4	4.6	2.1
Cheese	2.4	1.2	1.2	1.1	0.7	1.0	0.3
Eggs	7.4	11.5	16.0	11.8	8.5	7.8	8.4
Hides	1.7	5.3	4.1	3.6	4.5	1.8	1.8
Rose-oil	4.1	5.4	1.8	1.3	1.3	1.2	1.3

Weltwirtschaftliches Archiv, "Die staatlichen Massnahmen zur Förderung der Ausfuhr der Agrarprodukte Bulgariens," by Milka Doyanova, March 1940, p. 420.

VOLUME OF FARM EXPORTS

Although farm exports form the basis of the Bulgarian economy, the absolute volume of most surpluses is small, particularly in comparison with the needs of the European deficit countries (see table 33).

Among the grains, only wheat and corn furnish continuous though varying surpluses. In relation to the surpluses of the other Danubian countries, however, Bulgarian corn exports are of minor significance. The level of corn exports during

1935-1939 was 57 percent below that of the average for 1928-1932. Corn exports show wide fluctuations. For example, in 1936 exports amounted to 4 million bushels, whereas in 1939 only 60,000 bushels were exported.

Wheat exports during 1935-1939 exceeded those of 1928-1932 by nearly 30 percent. Even the average 1935-1939 exports, however, were only one-sixth those of Rumania. The record 1937 exports of 7.2 million bushels would have met only one-sixth of the German wheat imports of that year, one-fifth of the Belgian, or one-third of the Dutch imports.

Between 1933 and 1937, exports of dry beans were large, and could have met about 75 percent of German requirements. During 1938 and 1939, however, the upward tendency in exports was reversed, partly because of crop fluctuations and partly as a result of government precautionary measures to safeguard domestic food supplies.

For the same reasons the increased production of oilseeds has been used largely to make Bulgaria independent of foreign sources. The sunflower-seed crop still provides most of the total oilseed exports. The peak was reached in 1937, when exports amounted to 47,700 short tons. In 1938 only 10,900 tons were exported. Increased exports of soybeans, however, may be expected in years of normal yields, since in 1940 the soybean area was increased to 100,000 acres, as compared with 44,000 in 1939. To the Bulgarian farm economy, oilseeds represent an important source of income. Even the high 1938 exports could have met only 3 percent of the total German imports of oilseeds. Likewise, the record oilcake exports of 1937 - 54,500 tons - amounted to no more than 2 percent of the German oilcake imports of that year.

The prosperity of 120,000 peasant holdings, representing one-sixth of the total number of Bulgarian farm holdings, depends on the exports of tobacco. The government regulates production according to market conditions and exercises control over the quality of the crop. Since export potentialities improved during the last few years, the number of tobacco growers increased. Exports during 1935-1939 were 23 percent above those for 1928-1932.

Grapes are now the most important fruit entering the Bulgarian export trade. The government has succeeded in inducing peasants to reduce their production of wine grapes and to expand the production of table grapes in response to the increased foreign demand for this fruit. As a result, exports of grapes rose rapidly from 3,500 tons in 1928-1932 to 45,100 in 1935-1939.

Exports of live animals and animal products have declined, largely because of the inadequacy of domestic feedstuffs. Live cattle exports have decreased sharply, but during the last few years live hogs have been exported in increasing numbers. Even these exports, however, amount to only about 10 percent of the exports of either Hungary or Yugoslavia. Exports of meat products, chiefly dressed poultry, have increased; however, the volume is still insignificant.

In general it appears that although Bulgarian farm surpluses, except for tobacco, are too small to go far toward meeting the urgent needs of the European

deficit countries, considerable progress has resulted from the various government measures in the field of production and export regulation. The application of government measures was begun in 1930, when a "Grain Administration" was established to lend support to peasants impoverished by the precipitous decline in the price of grain. A "Grain Monopoly" followed, and became an autonomous government agency in 1936.

The Grain Monopoly also exercises control over the exports of corn, sunflower, rapeseed and cottonseed products, hemp, and flax. The Agricultural and Cooperative Bank exercises similar control for tobacco and rose-oil. In addition a law has been in effect since 1935 regulating the quality of export products. These measures are closely integrated with a rigid control of foreign exchange and imports.

TABLE 33.—Bulgarian exports of agricultural products, averages 1928-1932, 1935-1939; annual 1933 to 1939

COMMODITY	AVERAGES		1933	1934	1935	1936	1937	1938	1939
	1928-1932	1935-1939							
	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
	bushels	bushels	bushels	bushels	bushels	bushels	bushels	bushels	bushels
Wheat	3,856	4,720	2,790	1,959	1,283	4,677	7,227	4,020	6,434
Rye	1,062	190	51	12	78	485	248	161	-
Barley	1,400	376	794	528	92	728	1,043	33	-
OATS	14	37	-	-	-	21	213	-	-
Corn	4,809	2,110	2,952	4,956	268	4,094	2,486	12,207	89
	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
	tons	tons	tons	tons	tons	tons	tons	tons	tons
Bran	-	26.2 ¹	26.1 ¹	23.2 ¹	11.1 ¹	28.5 ¹	55.6 ¹	6.3	14.1
Beans, dry	10.2 ¹	18.6 ¹	26.6 ¹	18.3 ¹	21.5 ¹	27.3 ¹	24.5 ¹	4.7	-
Rapeseed	14.6 ¹	6.0 ¹	.6 ¹	2.5 ¹	17.0 ¹	1.0 ¹	2.9 ¹	2.6 ¹	6.7
Soybeans	0	7.9 ¹	.1 ¹	.4 ¹	8.1 ¹	5.7 ¹	11.2 ¹	4.8 ¹	-
Cottonseed	1.1 ¹	2.2 ¹	1.9 ¹	0	2.0 ¹	1.8 ¹	7.2 ¹	0	0
Sunflower seed	20.0 ¹	37.4 ¹	11.8 ¹	12.2 ¹	52.2 ¹	51.2 ¹	47.7 ¹	10.8	24.8
Silocks	-	42.7 ¹	27.9 ¹	22.0 ¹	21.4 ¹	24.5 ¹	50.3 ¹	42.7 ¹	24.7
Tobacco	24.6 ¹	30.2 ¹	25.2 ¹	22.2 ¹	27.2 ¹	22.4 ¹	24.8 ¹	27.6 ¹	29.0
Grapes	2.5 ¹	45.1 ¹	11.8 ¹	21.6 ¹	28.1 ¹	26.0 ¹	40.3 ¹	64.1 ¹	57.6
Fruit	2.1 ¹	6.9 ¹	.8 ¹	4.6 ¹	10.9 ¹	6.1 ¹	4.0 ¹	12.1 ¹	10.9
Apples	0 ¹	7.2 ¹	.3 ¹	.1 ¹	5.6 ¹	6.2 ¹	.3 ¹	8.2 ¹	16.8
Meat products ²	2.1 ¹	6.9 ¹	2.0 ¹	3.1 ¹	5.1 ¹	2.7 ¹	8.3 ¹	8.5 ¹	4.0
Eggs	10.5 ¹	17.1 ¹	17.3 ¹	16.0 ¹	14.1 ¹	10.3 ¹	10.2 ¹	15.7 ¹	16.3
Cheese	1.2 ¹	1.6 ¹	1.3 ¹	1.3 ¹	2.1 ¹	2.0 ¹	1.6 ¹	1.6 ¹	.7
	Thou-	Thou-	Thou-	Thou-	Thou-	Thou-	Thou-	Thou-	Thou-
	sands	sands	sands	sands	sands	sands	sands	sands	sands
Cattle	12.2 ¹	8.5 ¹	6.0 ¹	12.1 ¹	12.1 ¹	6.1 ¹	12.6 ¹	6.7 ¹	2.2
Hogs	1.9 ¹	21.9 ¹	.4 ¹	1.8 ¹	1.1 ¹	12.8 ¹	29.4 ¹	45.1 ¹	22.3
Poultry	898	887	1,090	1,040	1,172	292	799	853	297

¹ 1928-1932 average.

² Including dressed poultry.

International Yearbook of Agricultural Statistics; Statistique du commerce extérieur (annual)

TOTAL BULGARIAN EXPORTS BY COUNTRY OF DESTINATION

Largely as a result of the changes in composition of farm exports, the direction of Bulgarian foreign trade has experienced marked shifts. Before the World War Bulgaria was indebted to Western Europe, particularly to Great Britain, France, and Belgium. Consequently, it exported most of its grain surpluses to those countries for debt service and for textile and machinery imports.

TABLE 34 Total exports by country of destination, 1939 with comparisons
[Expressed as percentages of value of total exports]

COUNTRY	1911	1920	1933	1934	1935	1936	1937	1938	1939	AVERAGE 1925-1939
Germany	12.4	29.8	36.0	42.7	48.0	47.6	43.1			
Austria	5.7	12.6	9.7	5.3	4.6	3.0	4.0	58.9	67.8	55.4
Czechoslovakia		4.8	3.5	3.6	6.9	3.3	5.6	4.6	3.3	4.7
Greater Germany	18.1	47.3	49.2	51.6	59.5	53.9	52.7	83.5	71.1	60.1
Italy	2.1	10.5	9.1	9.2	8.8	3.6	4.2	7.6	6.1	6.1
Great Britain	13.1	1.6	1.7	2.1	4.4	11.6	13.8	4.8	3.1	7.5
France	6.0	5.1	3.3	2.4	1.8	2.1	1.6	1.5	0.9	1.6
Netherlands, Belgium,										
Denmark, Norway	30.4	6.1	13.3	8.9	4.4	9.2	6.3	4.4	2.8	6.4
Poland		8.5	1.7	1.5	2.1	3.7	4.7	5.7	3.8	4.0
United States	0.6	1.7	1.1	0.7	1.0	2.6	3.8	3.4	3.4	2.6

Wirtschaftliches Anst., Warsa 1940, Statistique du Commerce exterieur, Sofia (annual)

The predominance of tobacco surpluses, which replaced former grain exports, eventually led to an increase in the share of the Bulgarian exports taken by Central Europe, from 20 percent before the World War to 60 percent in 1925, and to more than 70 percent in 1929. On the other hand, the Western European countries, which had purchased 50 percent of total Bulgarian exports before the World War, reduced their purchases to 14.6 percent of the total in 1925 and to 12.7 percent in 1929.

Germany was the principal market throughout the post-war period, whereas before the World War it took much less than Belgium and also less than Great Britain and Turkey. By 1933 Germany's share had increased to 36 percent of total Bulgarian exports. The annexation of Austria resulted in even more pronounced Bulgarian dependence on the German market. The combined purchases of Germany and Austria rose to 58.9 percent of Bulgaria's total exports in 1938 and to 67.8 percent in 1939.

The German trade drive into Southeastern Europe is partly responsible for the increased Bulgarian interest in industrial crops. In foreign trade policy, however, Bulgaria endeavored at the same time to expand exports to the free-currency countries. Actually exports to free-currency countries (Great Britain, the United States, the Scandinavian countries, Egypt, and Palestine) increased from 4.8 percent in 1927-1929

to 10.9 percent in 1933-1935, and to 25.4 percent in 1937.⁴⁷ In 1938 and 1939, however, the share of these countries fell to 13.1 and 10.3 percent, largely because of the decline in exports to Great Britain. At the same time Bulgarian exports to countries (other than Germany) with clearing agreements fell from 59.2 percent in 1930-1932 to 41.3 percent in 1933-1935, and to 14.3 percent in 1939.

Germany now virtually dominates the foreign trade of Bulgaria. Greater Germany takes 71 percent of the total exports. Italy, which ranks second, takes less than one-tenth as much as Germany. Great Britain's share of the exports was reduced to 3.1 percent in 1939. It is doubtful whether Britain's former purchases can be diverted to the Axis powers, because the Soviet Union, following the conclusion of a trade treaty in January 1940, has become a new outlet for such Bulgarian farm products as tobacco, hogs, rose-oil, and hides, in exchange for Russian oil, metals, machinery, and cotton.

GEOGRAPHIC DISTRIBUTION OF FARM EXPORTS

Since farm products comprise over 90 percent of the total Bulgarian exports, and since Germany and former Austria took more than two-thirds of the total in 1939, it is evident that only about one-third of the Bulgarian farm surplus has been available to other countries.

The greater part of Bulgaria's grain surpluses had to be sold to the free-exchange countries during 1935-1939, largely in order to obtain urgently needed foreign exchange for imports that could not be furnished by Germany. Great Britain was the principal market for wheat and corn, although about 10 percent of the exports of each went to Scandinavia and the Low Countries. Italy took about one-fifth of the wheat surplus. Germany did not enter the Bulgarian wheat market until 1937.

The greater part of any grain surpluses available during the present war probably will be absorbed by Germany, since exports to Great Britain will not be possible. Except for dry beans, sunflower seed, oilcake, and live cattle, by far the largest share of the exports has been sent to Germany, which contracted for the entire surplus of soybeans. In addition Germany has been importing about nine-tenths of the total Bulgarian exports of fruits, two-thirds of the tobacco, egg, and meat products exports, and about half the exports of hogs and poultry.

Scandinavia and the Low Countries took about one-third of the sunflower seed and nearly two-thirds of the oilcake exports. Italy was an important market for poultry and dry beans. Switzerland took about 15 percent of the exports of eggs. It is difficult to appraise the future role of Russia. The Russo-Bulgarian Trade agreement provides for the delivery of various Bulgarian farm products in exchange for Russian mineral oil, machinery, and fibers. It is believed, however, that Germany's share will at least be maintained.

⁴⁷ Pashov, K., "Exports of agricultural products from Bulgaria," *Monthly Bulletin of Agricultural Economics and Sociology*, Feb. 1940, p. 66; also Deyanova, *MIRK, Op. cit.*, p. 430.

POTENTIAL FARM SURPLUSES DURING AND AFTER 1940-41

Shortly after the outbreak of the present war the Bulgarian Government took steps to safeguard domestic stocks of foodstuffs and raw materials. On August 29, 1939, the exportation of cotton, flax, hemp, feedstuffs and hides was prohibited. A few days later exports of live animals, meat products (except bacon), cheese, butter and other animal fats, potatoes, and sugar were prohibited. Subsequently, however, the exportation of hogs and lard was again permitted.

THE 1940 41 OUTLOOK

According to recent information, it is believed that the 1940 acreage of the principal crops (tobacco, grains, oilseeds, and fruits) will be slightly above that of 1939, however, a delayed spring and heavy rains retarded growth by about a month and caused some damage to winter and early spring plantings.

Late spring plantings, particularly of tobacco, apparently were not greatly affected by adverse weather conditions. The tobacco crop is expected to exceed that of 1939. The 1940 wheat crop is estimated at about 70 million bushels, or about the same as that for 1939. It is not believed that any wheat export surplus will be available during the 1940-41 marketing season. The annual exports of wheat averaged 6.4 million bushels during 1935-1939. Prospects for corn and minor grain crops have been reported as promising in both quality and quantity. Corn exports, however, will hardly exceed 5 million bushels in 1940-41. The average for 1935-1939 was 2 million bushels.

The 1940 crop of sunflower seed and other oilseeds is estimated at about the same as the 1939 production. The extent of available export surpluses, however, will depend largely on government policy. The general quality of the 1940 fruit crops was poor, and fruit exports will be reduced from the 1939 level. The plum crop was small, and the grape crop was well below that of 1939.

THE OUTLOOK AFTER 1940 41

In all probability the Bulgarian Government will continue its efforts to promote the expansion of industrial crops. Increasing export surpluses of oilseeds and probably a further rise in fruit exports may be expected in years of normal yield. There is little likelihood, however, of an increase in exports of live animals and animal products during the next few years, since the volume of domestic feedstuffs supplies cannot readily be expanded.

According to the latest information, a 4-year agricultural plan is under consideration. Its main features are a large-scale irrigation program, an increase in supplies of farm implements, and a more extensive use of commercial fertilizers. However, large-scale delivery of farm equipment and commercial fertilizers does not appear possible for the duration of the war.

*Also see
Perron memo
of 1/21/41*

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*Contracts held
To Mr Young 1/21/41*

CONFIDENTIAL

ACTION REQUIRED

January 22, 1941

To: The Secretary
From: Mr. Young

Re: Approval of British Contracts

Attached herewith is the first group of contracts on which the British would like approval so that the orders may be placed. You will note that Sir Frederick Phillips has attached a letter of approval and that he has also signed the actual statement. All of these contracts are for machine tools.

I have advised the British informally that there is no objection.

F.Y.

O.K. 10m R

WILLARD HOTEL, WASHINGTON, D. C.



TELEPHONE REPUBLIC 7860

BRITISH PURCHASING COMMISSION

January 22, 1941.

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

Dear Mr. Secretary,

I write to inform you that I have approved and noted for the British Treasury all the machine tool contracts contained in "Application for Placement of Orders in the United States by the British Government". This statement is dated January 21, 1941. It shows the total value of the orders at \$5,853,611.03, and the initial payment thereon at \$1,545,836.54.

I have also signed the original of the statement at the end thereof, on page 4.

Yours very truly,

F Phillips

WILLARD HOTEL, WASHINGTON, D. C.



TELEPHONE REPUBLIC 7860

BRITISH PURCHASING COMMISSION

January 22, 1941.

Mr. Philip Young,
Assistant to the Treasurer,
Treasury Department,
Washington, D. C.

Dear Mr. Young,

We enclose herewith three copies of application for placement of orders in the United States. This statement is dated January 21, 1941, covers machine tools only and shows,

Total Value of Orders	\$5,853,611.03
Initial Payment	\$1,545,836.54

We also enclose a letter of Sir Frederick Phillips stating that these contracts have been noted and approved on behalf of the U. K. Treasury.

Yours very truly,

E. T. Ballantyne

January 22, 1941

Mr. Young

Secretary Morgenthau

see ans of 1/23/41

Please let me know how many Curtiss P-40s there are in New York awaiting shipment now, and while you are asking the English for that information, you might as well find out how many other planes there are awaiting shipment in New York. I would like to have this information from now on regularly once a week.

STRICTLY CONFIDENTIAL

Summary of Orders Placed by the British Government
Through the British Purchasing Commission after
December 19, 1940 ^{1/}

Preliminary Report for Period up to January 16, 1941

(In millions of dollars)

	Value of orders		
	Product	Capital	Total
99 contracts for \$50,000 and over	113.1	6.4	119.5
393 contracts for less than \$50,000	<u>2.5</u>	<u>.2</u>	<u>2.7</u>
Total: 492 contracts ^{2/}	115.6	6.6	122.2

Office of the Secretary of the Treasury,
Division of Research & Statistics.

January 22, 1941.

Excludes two orders for ships placed on December 20 with Todd-Bath Shipbuilding Corporation (amounting to \$4.2 millions and \$47.2 millions, respectively) and one order for airplanes placed on December 26 with Curtiss-Wright Corporation (amounting to \$13.6 millions). Also excludes orders placed during the week December 16-21 through the British Iron and Steel Corporation aggregating \$1,462 thousands.

Excludes an indeterminate number of contracts of the British Iron and Steel Corporation, the dollar values of which have been included in the above statement.

Orders Placed by the British Government
Through the British Purchasing Commission after
December 19, 1940 ^{1/}

STRICTLY CONFIDENTIAL

Preliminary Report for Period up to January 16, 1941

Date of order	Contractor	Description	Quantity	Value of order		
				Product	Capital	Total
Dec. 20	Pratt & Whitney Div. of Miles-Sement-Pond Co., West Hartford, Conn.	Jig borers, including additional equipment	10	\$ 111,840		\$ 111,840
Dec. 20	Gray Motor Co., Detroit, Mich.	Four cylinder Diesel engines completely equipped	88	306,954		306,954
Dec. 20	Kearney & Trecker Corp., Milwaukee, Wis.	#2H milling machines, extra equipment and wiring	15	72,825		72,825
Dec. 20	Pratt & Whitney Div. of Miles-Sement-Pond Corp., New York, N. Y.	Two-spindle reaming machines	10	60,687		60,687
Dec. 20	The Thompson Grinder Co., Springfield, Ohio	Surface grinding machines	7	70,490		70,490
Dec. 20	E. V. Biles Co., Brooklyn, N. Y.	Capital assistance to Remington Arms Co. for production of .50 caliber ammunition			\$ 387,450	387,450
Dec. 20	Automatic Machinery Mfg. Corp., Bridgeport, Conn.	Hydraulic dual milling machines, complete with equipment	25	123,750		123,750
Dec. 20	Pratt & Whitney Div. of Miles-Sement-Pond Co., West Hartford, Conn.	Jig borers, including equipment	7	112,545		112,545
Dec. 20	Pan American Airways Co., New York, N. Y.	Spares for Boeing Model 314 flying boats		335,224		335,224
Dec. 20	Consolidated Aircraft Corp., San Diego, Calif.	Bomb hoist and assembly for flying boats Single cable bomb hoist for flying boats	3 56	67,503		67,503
Dec. 20	Fairchild Aviation Corp., Jamaica, L. I., N. Y.	Spare parts for Cine camera guns		63,761		63,761
Dec. 20	Lockhead Aircraft Corp., Burbank, Calif.	Ammunition boxes and fittings for .50 cal. gun and 20 mm. cannon	667	167,417		167,417
Dec. 21	E. I. duPont de Nemours & Co., Arlington, N. J.	Methyl Methacrylate resin sheets	3,039	60,576		60,576
Dec. 21	Pratt & Whitney Div. of Miles-Sement-Pond Co., West Hartford, Conn.	Jig borers, including additional equipment	18	128,686		128,686
Dec. 21	General Machinery Corp., Miles Tool Works Div., Hamilton, Ohio	Time saver lathes, rests and equipment	25	440,825		440,825
Dec. 21	Cox & Stevens Aircraft Corp., Mineola, N. Y.	Reconditioned Douglas DC-2 transports equipped with engines, propellers, etc.	3	137,100		137,100
Dec. 21	Sperry Gyroscope Co., Inc., Brooklyn, N. Y.	Bombights and equipment	167	1,543,015		1,543,015
Dec. 23	Garter Carburetor Corp., St. Louis, Mo.	Purchase of RYG fuses Assembly and packing of RYG fuses Obsolescence expense charge	7,000 1,407,000	87,473		87,473
Dec. 23	R. E. LeBlond Machine Tool Co., Cincinnati, Ohio	10" x 24" bench lathes and extra equipment	150	140,058		140,058
Dec. 23	Ferrous Machine Co., Bridgeton, N. J.	Capital assistance to Western Cartridge Co.			291,000	291,000
Dec. 23	Porter McLeod Machine Tool Co., Inc., Hatfield, Mass.	Porter McLeod #2 cold metal sewing machines	25	75,552		75,552
Dec. 23	Simmons Machine Tool Corp., New York, N. Y.	Micro-speed drive lathes	32	95,430		95,430
Dec. 24	Lima Locomotive Works, Inc., Lima, Ohio	Drag shovel units, dragline mechanisms, and dragline buckets Chain crowd shovel attachments and clamshell grab #K-425 Buda engine complete with all accessories	10 4 1	67,852		67,852

(Continued on next page)

1/ Excludes two orders for ships placed on December 20 with Todd-Bath Shipbuilding Corporation (amounting to \$4.8 millions and \$47.2 millions, respectively) and one order for airplanes placed on December 26 with Curtiss-Wright Corporation (amounting to \$13.6 millions). Also excludes orders placed during the week December 16-21 through the British Iron and Steel Corporation aggregating \$1,462 thousands.

Orders Placed by the British Government
Through the British Purchasing Commission after
December 19, 1940 ^{1/}

STRICTLY CONFIDENTIAL

Preliminary Report for Period up to January 16, 1941

(Continued - 2)

Date of order	Contractor	Description	Quantity	Value of order		
				Product	Capital	Total
Dec. 26	Cincinnati Milling Mach. & Cincinnati Grinders, Inc., Cincinnati, Ohio	Vertical high speed dial type milling machines and equipment	22	\$ 151,371		\$ 151,371
Dec. 26	International Machine Tool Co., Indianapolis, Ind.	Turret lathes and extra equipment	50	299,700		299,700
Dec. 27	U. S. Steel Export Co., New York, N. Y.	Nitration toluol	1,740,000 gals.	522,000		522,000
Dec. 27	Easton Blackford Co., Simsbury, Conn.	Primazord instantaneous detonating fuses	15 mil. ft.	525,000		525,000
Dec. 27	Production Machine Co., Greenfield, Mass.	Hand screw machines with electrical and other additional equipment	150	290,325		290,325
Dec. 28	Kearney & Trecker Corp., Milwaukee, Wisc.	#2HL swivel head high speed vertical type milling machines	40	149,600		149,600
Dec. 28	Kearney & Trecker Corp., Milwaukee, Wisc.	#3H vertical type high speed Milwaukee milling machines	14	88,120		88,120
Dec. 28	Dewholl-Myant and Tannon Foundry Co., Jackson, Mich.	Miscellaneous items and capital assistance for drawings and patterns		1,231,400	\$ 14,690	1,246,090
Dec. 28	Tennessee Co., Inc., Beaver Falls, Penna.	Capital assistance for equipment to manufacture 20 mm. high explosive shells for Hispano guns	1,500,000	375,000	171,209	546,209
Dec. 28	Kenneth Mfg. Co., Detroit, Mich.	Fermath 225 h.p. "Sea Wolf" engines	140	234,000		234,000
Dec. 28-29		Iron and steel ordered by the British Iron & Steel Corp.				
		Pig iron	40,000 gr. tons	1,200,000		1,200,000
		Scrap steel & iron	1,717 gr. tons	34,340		34,340
		Commercial carbon steel	79,132 gr. tons	3,956,600		3,956,600
		Alloy and special purpose steel				
			9,019 gr. tons	1,574,325		1,574,325
Dec. 30	Warner & Swasey Co., Cleveland, Ohio	#4-A universal hollow hexagon turret lathes	3	95,540		95,540
Dec. 30	Morley Machinery Co., Inc., New York, N. Y.	#12-H high speed two-spindle vertical profile and milling machines	200	513,000		513,000
Dec. 30	Chisholm-Ryder Co., Inc., Niagara Falls, N.Y.	4" bar Lambert type horizontal boring, drilling, and milling machines, with standard equipment	40	500,000		500,000
Dec. 31	Brown & Sharpe Mfg. Co., Providence, R. I.	#005 automatic screw machines	58	95,592		95,592
		Freight charge to New York extra				
Dec. 31	Morley Machinery Co., Inc., New York, N. Y.	Reconditioned machine tools	23	61,350		61,350
Dec. 31	The National Acme Co., Cleveland, Ohio	2-1/4" Model "L" Bridley single spindle automatic machines and equipment	50		341,250	341,250
		Extra charge for wiring and mounting electrical equipment and boxing				
Dec. 31	United Aircraft Corp., East Hartford, Conn.	Hamilton standard hydromatic propellers	444	1,110,523		1,110,523
Dec. 31	Tennessee Coal, Iron & Railroad Co., c/o U. S. Steel Corp., New York, N. Y.	Nitration toluol	240,000 gals.	252,000		252,000
Jan. 2	Remington Arms Co., Bridgeport, Conn.	Cartridges	760,000	47,568		47,568

(Continued on next page)

1/ Excludes two orders for ships placed on December 20 with Todd-Bath shipbuilding Corporation (amounting to \$48.6 millions and \$47.2 millions, respectively) and one order for airplanes placed on December 26 with Curtiss-Wright Corporation (amounting to \$13.6 millions). Also excludes orders placed during the week December 16-21 through the British Iron and Steel Corporation aggregating \$1,462 thousands.

Orders Placed by the British Government
Through the British Purchasing Commission after
December 19, 1940 1/

STRICTLY CONFIDENTIAL

Preliminary Report for Period up to January 16, 1941

(Continued - 3)

Date of order	Contractor	Description	Quantity	Value of order		
				Product	Capital	Total
Jan. 2	Brown & Sharpe Mfg. Co., Providence, R. I.	#20 automatic screw machines	28	\$ 162,702		\$ 162,702
Jan. 2	Brown & Sharpe Mfg. Co., Providence, R. I.	#000 automatic screw machines and equipment	40	125,261		125,261
Jan. 3	United Aircraft Corp., East Hartford, Conn.	F. & W. double wasp engines R-2600, model 81A4-G F. & W. twin wasp engines R-1830, models 8304-G and 8103-G	1,438 510	45,921,206		45,921,206
Jan. 3	Higgins Industries, Inc., New Orleans, La.	36 ft. "Eureka" rescue boats	112	649,600		649,600
Jan. 3	Fay & Scott Dexter, Maine	Bullet canneldrilling machines	30	60,000		60,000
Jan. 3	Sisbolt Machine Co., Madison, Wisconsin	Turret lathes with bar feed attachment and collet chucks		2,622,000		2,622,000
Jan. 3	Cincinnati Milling Machine & Cincinnati Grinders, Inc., Cincinnati, Ohio	Milling machines	844	3,755,236		3,755,236
Jan. 3	Cincinnati Milling Machine & Cincinnati Grinders, Inc., Cincinnati, Ohio	18" milling machines with coolant pump, piping, and arbors	500	1,342,350		1,342,350
Jan. 3	R. K. Le Blonde Machine Tool Co., Cincinnati, Ohio	#2 deep hole drilling and reaming machines	4	52,938		52,938
Jan. 3	Brown & Sharpe Mfg. Co., Providence, R. I.	#3B plain milling machines #2 vertical milling machines #2 surface grinding machines	6 10 50	137,037		137,037
Jan. 3	Brown & Sharpe Mfg. Co., Providence, R. I.	#000 screw machines #00 screw machines #20 screw machines #1 wire feed screw machines #2 wire feed screw machines Additional equipment	12 8 12 6 6	132,347		132,347
Jan. 3	Sundstrand Machine Tool Co., Rockford, Ill.	#00 hydraulic feed rigid mills #0 rigid mills #1 rigid mills #2 electro-mills Equipment for above	15 12 12 3	111,930		111,930
Jan. 4	Lendis Tool Co., Waynesboro, Penna.	Hydraulic grinding machines and equipment	6	70,611		70,611
Jan. 4	The Ohio Machine Tool Co., Lenton, Ohio	Ohio production milling machines	20	125,000		125,000
Jan. 4	Lendis Tool Co., Waynesboro, Penna.	Various hydraulic grinding machines	150	712,498		712,498
Jan. 4	Cone Automatic Machine Co., Windsor, Vermont	1-1/2" six spindle conomatic bar machines, etc.	15	143,344		143,344
Jan. 4	Brown & Sharpe Mfg. Co., Providence, R. I.	#S-G high speed screw machines with electrical equipment	25	114,375		114,375
Jan. 4	The Foots-Burt Co., Cleveland, Ohio	1" and 1-1/2" single spindle automatic screw machines	40	223,125		223,125
Jan. 4	Scripps Motor Co., Detroit, Mich.	V-8 engines Sets of 12 volt electric equipment	100 100	53,005		53,005
Dec. 29- Jan. 4		Iron and steel ordered by the British Iron & Steel Corp.				
		Scrap steel & iron	3,773 gr. tons	75,460		75,460
		Commercial carbon steel	86,569 gr. tons	4,329,450		4,329,450
		Alloy and special purpose steel	8,634 gr. tons	647,550		647,550
		Drop forgings	11,869 gr. tons	4,154,150		4,154,150
Jan. 6	Brown & Sharpe Mfg. Co., Providence, R. I.	Various grinding and screw machines		147,918		147,918

(Continued on next page)

1/ Excludes two orders for ships placed on December 20 with Todd-Bath Shipbuilding Corporation (amounting to \$46.8 millions and \$47.2 millions, respectively) and one order for airplanes placed on December 26 with Curtiss-Wright Corporation (amounting to \$13.6 millions). Also excludes orders placed during the period December 16-21 through the British Iron and Steel Corporation aggregating \$1,462 thousands.

Orders Placed by the British Government
Through the British Purchasing Commission after
December 19, 1940 ^{1/}

STRICTLY CONFIDENTIAL

Preliminary Report for Period up to January 15, 1941

(Continued - 4)

Date of order :	Contractor	Description	Quantity	Value of order		
				Product	Capital	Total
Jan. 6	Jones & Laughlin Steel Products Co., New York, N. Y.	Nitration toluol	180,000 gals.	\$ 54,000		\$ 54,000
Jan. 6	Whaeling Steel Co., New York, N. Y.	Nitration toluol	200,000 gals.	60,000		60,000
Jan. 7	Wyman Gordon Co., Inc., Worcester, Mass.	Crankshaft forgings for Merlin engines	2,000	158,000		158,000
Jan. 7	Hood Rubber Co., Watertown, Mass.	Submarine battery containers with equipment; and Capital assistance		240,950	\$ 11,500	252,450
Jan. 7	Cincinnati Milling Machine and Cincinnati Grinders, Inc., Cincinnati, Ohio	Cincinnati Hydro-Tel vertical die-sinkers and equipment	11	233,651		233,651
Jan. 7	Loewy Engineering Co., Ltd., New York, N. Y.	2000 ton horizontal extrusion press plant	1	265,000		265,000
Jan. 7	Louis E. Emerman & Co., Chicago, Ill.	Used machine tools & equipment	17	120,655		120,655
Jan. 8	Great Lakes Steel Corp., Detroit, Mich.	Nitration toluol	180,000 gals.	54,000		54,000
Jan. 8	Brown & Sharpe Mfg. Co., Providence, R. I.	Screw-machines and equipment	72	272,027		272,027
Jan. 8	Warner & Swasey Co., Cleveland, Ohio.	Turret lathes and equipment	1,500	2,167,125		2,167,125
Jan. 8	Pratt & Whitney Div. of Siles-Bement-Pond Co., Hartford, Conn.	#18 two spindle rifling machines	5	55,440		55,440
Jan. 8	Delta Air Corp., Monroe, La.	Douglas DC-2 transports equipped with engines, propellers, navigation and radio equipment	4	170,720		170,720
Jan. 9	Gisholt Machine Co., Madison, Wis.	Turret lathes with collats and feed chucks, etc.	358	1,672,782		1,672,782
Jan. 9	Kent-Owens Machine Co., Toledo, Ohio.	1-8 hydraulic milling machines and equipment	175	320,950		320,950
Jan. 10	Caterpillar Tractor Co., Inc. Peoria, Ill.	Caterpillar Diesel tractors with equipment and spare parts		258,542		258,542
Jan. 10	Waterbury-Farrell Foundry & Machine Co., Waterbury, Conn.	Capital assistance for Remington Arms Co. for the production of ammunition	5		67,500	67,500
Jan. 10	Western Cartridge Co., East Alton, Ill.	Capital assistance for machines and equipment for production of ammunition, etc.		222,270	55,174	277,444
Jan. 10	United Aircraft Corp. East Hartford, Conn.	Hamilton standard hydromatic propellers	600	1,797,600		1,797,600
Jan. 11	National Fireworks, Inc., West Hanover, Mass.	Additional capital assistance for machine tools for 75 mm. shells			441,100	441,100
Jan. 11	U. S. L. Battery Corp., Long Island City, N. Y.	Additional capital assistance to facilitate production of 20 mm. inert projectiles			358,317	358,317
Jan. 4-11		Iron and steel ordered by the British Iron & Steel Corp.				
		Commercial carbon steel	51,536 gr. tons	2,319,912		2,319,912
		Alloy and special purpose steel	75,014 gr. tons	13,990,850		13,990,850
		Drop forgings	975 gr. tons	341,075		341,075
Jan. 13	Wayne Pump Co., Fort Wayne, Ind.	Capital assistance for machinery and equipment to produce 2 pounder high explosive shells	1,000,000	860,490	72,719	933,209
		Noes plugs, die cast	250,000			
		Base plugs, die cast	250,000			
		Steel base plugs	3,000			
		Fuzz hole plugs	3,000			

(Continued on next page)

1/ Excludes two orders for ships placed on December 20 with Todd-Bath Shipbuilding Corporation (amounting to \$45.8 millions and \$47.2 millions, respectively) and one order for airplanes placed on December 26 with Curtiss-Wright Corporation (amounting to \$13.6 millions). Also excludes orders placed during the week December 16-21 through the British Iron and Steel Corporation aggregating \$1,462 thousands.

Orders Placed by the British Government
Through the British Purchasing Commission after
December 19, 1940 ^{1/}

STRICTLY CONFIDENTIAL

Preliminary Report for Period up to January 16, 1941

(Continued - 5)

Date of order	Contractor	Description	Quantity	Value of order		
				Product	Capital	Total
Jan. 13	National Malleable and Steel Castings Co., Cleveland, Ohio	Cast steel square link mooring chains Mooring shackles	670 806	\$ 600,000		\$ 600,000
Jan. 15	Republic Steel Corp., Cleveland, Ohio	Additional capital assistance for production of armour plate for M3 tanks			\$ 3,750,000	3,750,000
Jan. 15	Tennessee Powder Co., Memphis, Tenn.	Additional capital assistance to aid production of TNT and DNT			160,100	160,100
Jan. 15	Tennessee Powder Co., Memphis, Tenn.	Additional capital assistance to aid production of rifle and cannon nitrocellulose			128,400	128,400
Jan. 15	Curtiss-Wright Corp., New York, N. Y.	Capital assistance to purchase special tools for construction of engines			56,000	56,000
Jan. 15	Hack Mfg. Corp. Long Island City, N. Y.	Spare parts for 330 Mack trucks		363,208		363,208
Jan. 15	Futnan Tool Co. Detroit, Mich.	Annular thread milling hubs Center drills	5,000 2,000	68,392		68,392
Jan. 15	National Fireworks, Inc., West Hanover, Mass.	2 pounder (naval) H. V. anti-aircraft complete rounds	1,000,000	1,720,000		1,720,000
Jan. 15	Union Switch & Signal Co., Swisecastle, Pa.	20 mm. Gerlikon H. E. shells	1,250,000	309,375		309,375
Jan. 15	Waterbury-Farrell Foundry & Machine Co. Waterbury, Conn.	Various machine tools	48	122,800		122,800
Jan. 16	New Jersey Powder Co., Kenil, N. J.	Additional capital assistance for powder plant			400,000	400,000
Jan. 16	Cleveland Automatic Machine Co. Cleveland, Ohio	Model "A" spindle automatic and cut-off attachments	10	59,952		59,952
Jan. 16	Horton Co., Worcester, Mass.	Grinding machines & equipment	13	77,775		77,775
Jan. 16	Cleveland Automatic Machine Co. Cleveland, Ohio	Model "A" spindle automatic and cut-off attachments	15	89,928		89,928
Jan. 16	John B. Stevens, Inc. New York, N. Y.	Screw machines and extra equipment	60	109,380		109,380
Jan. -	Kelsey-Hayes Wheel Co. Detroit, Mich.	Additional oxygen cylinders	9,604	79,233		79,233
Total, all orders of \$50,000 and over: 99 contracts ^{2/}				113,071,762	6,437,159	119,508,941
Combined total of orders for less than \$50,000: 393 contracts				2,538,651	158,629	2,697,280
Grand total: 492 contracts ^{2/}				115,610,413	6,595,788	122,206,221

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

January 22, 1941.

^{1/} Excludes two orders for ships placed on December 20 with Todd-Bath Shipbuilding Corporation (amounting to \$46.6 millions and \$47.2 millions, respectively) and one order for airplanes placed on December 26 with Curtiss-Wright Corporation (amounting to \$13.6 millions). Also excludes orders placed during the week December 16-21 through the British Iron and Steel Corporation aggregating \$1,462 thousands.

^{2/} Excludes an indeterminate number of contracts of the British Iron and Steel Corporation, the dollar values of which have been included in the above statement.

Conference Held in the Secretary's
Office on January 22nd, at 9:15 A. M.

(1941)

Those present were Secretary Morgenthau, Secretary of War Stimson, Secretary of Navy Knox, Secretary of Commerce Jones, Mr. William S. Knudsen, Mr. John J. McCloy, and Mr. Philip Young.

Secretary Morgenthau opened the conference by stating that the British wanted to place immediately in the United States about one and one-half billion dollars worth of orders, and that it appeared that the British could be helped only to a very limited extent by the Army taking over standard United States contracts. Secretary Jones asked why it took so long, and McCloy replied that it took considerable time to call in the manufacturers, readjust the contracts, and make the necessary changes in price.

Secretary Morgenthau said that McCloy and the Army people had been moving heaven and earth to get something accomplished along that line but that it took days to do it and that a short cut must be found. Secretary Knox said that the starting point must necessarily be the total amount of money which was currently available for such a job and added that certainly Jesse Jones didn't have a billion and one-half dollars on hand. Secretary Jones said he didn't have it, and that if he did he couldn't use it for that purpose.

He stated that the British had told him that the total was a billion one hundred million dollars. Secretary Morgenthau said that Purvis was sending over a list which should be there in a few minutes. (The list arrived shortly thereafter). Secretary Stimson inquired as to how much of the billion and a half total was represented by United States type goods. Young said that about 376 million dollars were British type and 884 million dollars was United States type.

Secretary Jones said that what would have to be done would be to take the most urgent items from the list and study those. Secretary Morgenthau said that a short cut must be found. Secretary Knox added that he thought it would be necessary to go to Congress. Mr. Knudsen also said that he thought an emergency appropriation would be necessary. It was Secretary Jones' reaction that if Congress were asked for the money it could probably be secured without much trouble.

Secretary Stimson said that he had no argument with the 380 million dollars worth of British type stuff, but he did feel that we should go easy in buying it. McCloy said he thought it was fictitious to talk about a distinction between British and United States types on the grounds that we would probably adopt some of the British type stuff anyway.

- 2 -

Knudsen said that he thought we ought to start with what we already know about, and in response McCloy said that, after all, the critical items on the British list were of standard type. Secretary Stimson stated that he thought two crises were coming along, one inside of four weeks, and another some time after next winter.

Secretary Jones asked Mr. Knudsen if he were buying for the British. Knudsen replied that he had been told at the White House that the Army and Navy were going to do it. He added that he didn't see how the United States could buy anything except United States type stuff until after the Lend-Lease Bill was passed; until that time the British would have to buy British type stuff with their own money.

Secretary Morgenthau asked if they would buy British type stuff after the bill was passed. To this question both Secretary Knox and Secretary Stimson replied yes provided that the President thought it was in defense of the United States. Secretary Stimson pointed out his testimony before the House Committee in which he stated that there should be only one purchasing channel and that the British purchasing agencies out in the field should be cut out.

Secretary Jones said let's put up something to shoot at as it would save time and suggested that the discussion start out with respect to plants. Mr. Knudsen asked as to how much was involved in setting up new plants and the materials for the new plants. Secretary Jones replied that there was a substantial amount needed for the facilities and to set up the machinery. He suggested that the War Department and Knudsen send a letter to the President telling Jones to go ahead and place the orders.

Secretary Stimson asked Jones how far he was prepared to go, and Secretary Jones replied that he would do all that needed to be done until Congress passed the Lend-Lease Bill. He added that he saw no reason why orders could not be placed for the product as well as the facilities. Further, it was Secretary Jones' reaction that the bill would be hurt if an appropriation for the British was requested before its passage.

Secretary Morgenthau asked Secretary Jones to repeat his position in order that it be made perfectly clear. Again Secretary Jones said if you people will request the President to request Jesse Jones to do it then it can be done, and at the same time the authorization should cover enough orders to make it worthwhile. Mr. Knudsen pointed out that all the orders could be placed and that actually only one-third of the amount of money would be necessary. In other words, only that portion of it which would have to be used for an initial down payment.

- 3 -

Secretary Jones said that he could commit enough money for that provided, of course, that the Secretary of War asked the President to direct Jones to do it. Secretary Morgenthau suggested taking York Safe and Lock as an example, which appeared on the detailed list of British contracts in the memorandum referred to above. Secretary Morgenthau asked Jones as to whether he could place the whole order for \$18,000 worth of bombs and ammunition with that company and actually give out the down payment. Secretary Jones said yes that he would order the goods if he had a request from the War Department and the Navy Department and the President.

Secretary Stimson said that he wanted to talk it over with his own people to be sure that the stuff on the British list was stuff that the United States Army needs and could use also. Secretary Jones pointed out that after all you didn't need to place an order for 883 million dollars of United States type goods just to start the talks.

Secretary Morgenthau again referred to the York Safe and Lock order and asked Mr. Knudsen if in his experience it helped to include options with the original order, evidently having in mind the thought that perhaps a small order could be placed with an option for extension. Mr. Knudsen said that was all right, and Secretary Jones added that you can be sure the plan is practical if he said it. Secretary Stimson pointed out that, after all, the President was the only one who had the authority to ask Jones to do it.

Secretary Knox inquired concerning the 376 million dollars worth of British type goods as to whether a legitimate loan could not be made. Secretary Jones replied that his people had done a lot of work on it. For example, the British would have to place an order on duPont, who, in turn, would want a 20 million dollar down payment, and then the RFC would lend the money to duPont against British collateral.

Secretary Knox pointed out that the British had already put up a lot of money in down payments. Secretary Morgenthau stated that they couldn't use the same collateral twice and inquired as to the possibility of Jones giving the British around \$100,000,000 for Australian wool, which the British could then use to offset the 375 million dollars of British type goods that they wanted to buy. Jones said that he could buy the wool if it were certified as a strategic and critical material. He said, however, that he thought it would be a dangerous thing to do as it might have an adverse reaction on the Hill. He said that he couldn't lend to the British or for the account of the British.

Secretary Morgenthau inquired if there was any objection to New York banks making such a loan. Secretary Jones replied that he thought that would be fine. Secretary Morgenthau said that he would inquire into that, but that, if he couldn't work it out, he would like to talk with someone in Jones' shop who knew about the wool business. Secretary Jones said for him to talk to Clayton or to Jones. It was Jones' reaction that the banks would shy away from it. Secretary Morgenthau pointed out, however, that the title would still remain in private hands.

Mr. Knudsen suggested that ⁸⁰⁰ million dollars worth of United States type goods be placed through Jones, 50 per cent down and 50 per cent more in sixty days. Secretary Morgenthau said that it would have to start with the Army and the Navy. Secretary Stimson said that he was afraid it would hurt the bill if the contemplated plan leaked out through the various contractors involved. Secretary Morgenthau said that he felt the President should not do anything without discussing it with the leaders on the Hill. Further, that considerable thought should be given to maintaining British morale.

Secretary Stimson stated that he thought of it all night and every night, and that he was worried about what he could say in the future when he had to testify again if this contemplated plan were put through in the meantime. Secretary Morgenthau said that it was in the laps of the other gentlemen present and that he felt Secretary Jones' attitude had cleared the atmosphere.

Secretary Jones said that he could trade out the deal with the various contractors so that each contractor had just enough to go ahead on. Secretary Stimson inquired as to what amount was necessary for a firm contract, and Mr. Knudsen replied about 30 per cent. Mr. Knudsen also inquired from Jones as to who was to give the order to the contractor. Secretary Jones replied that he didn't know yet as the machinery would have to be worked out. Presumably, the Army and Navy would negotiate the orders and then the RFC could place them.

Secretary Morgenthau asked if McCloy should continue his negotiations with the British, taking over as many contracts for United States type goods as possible. Secretary Stimson said that he thought McCloy should so continue as far as he could. Secretary Jones said that he could only buy an outstanding plant from the British, not every little piece of property.

Secretary Morgenthau said he was still troubled about what the British would do for money. McCloy stated that there was 300 million

dollars of aircraft manufacturing capacity included in the one billion dollars of proposed British contracts. He suggested that Secretary Jones go ahead and finance that as there was certainly no doubt about the United States needing it too. Mr. Morgenthau asked Secretary Jones if he could do it, and Jones replied that he didn't know if he could go so far as 300 million dollars. Secretary Stimson added that he didn't know whether or not he could certify to that extent.

McCloy repeated that the United States had to get that much capacity anyway. Secretary Knox stated that he thought Harry Hopkins should go up on the Hill and ask for the money. He added that the Navy got some money overnight for its share of the 12,000 plane scheme. Secretary Jones said that he thought the immediate program should be kept as small as possible in order that Congress should not be worried about it. It was his feeling that Congress would complain and criticize if the figures were too large. Secretary Stimson said that he guessed he was more conservative as he was worried about what the President would say if a real emergency for the United States came up overnight.

Secretary Morgenthau congratulated Secretary Jones and Secretary Stimson on the attitude which they had taken as it looked as though this might be the solution for carrying the British during the interim period pending the passage of the Lend-Lease Bill. He thanked the gentlemen for coming, and the meeting was adjourned with the understanding that Secretary Jones would talk it over with some of his people and also look into the wool situation a little more, while at the same time Secretary Stimson would go over the British list of proposed contracts to see how far the Army could certify as to what was necessary for both the United States and the British.

R.L.

January 22, 1941

Mr. White

Secretary Morgenthau

Please let me have your latest chart on shipping losses; also if you have a chart now showing tonnage delivered to England.

January 22, 1941

Mr. Haas

Secretary Morgenthau

Please let me know the next time you see me what the situation is at the Port of New York with respect to movement of goods out of the Port. The last time I saw the chart, merchandise was accumulating in New York.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE January 22, 1941

TO Secretary Mergenthau
FROM Mr. Haas *MA*
Subject: Export freight situation.

In response to your request of this morning, I am attaching herewith three charts showing the export freight situation at the Port of New York.

The volume of export freight accumulated at New York reached a peak in the first week of January, and then declined sharply. A slight increase was shown last week. (See Chart 1.)

The drop in accumulated export freight during the second week of January was due to a sharp increase in the amount exported during that week, coincident with a falling off in receipts. The exports fell off somewhat last week, however, (see Chart 2), while receipts of export freight at New York (Chart 3) showed an increase. It is likely that export freight receipts at New York and at other North Atlantic ports during the first two weeks of January were affected to some extent by reduced carloadings during the holiday period.

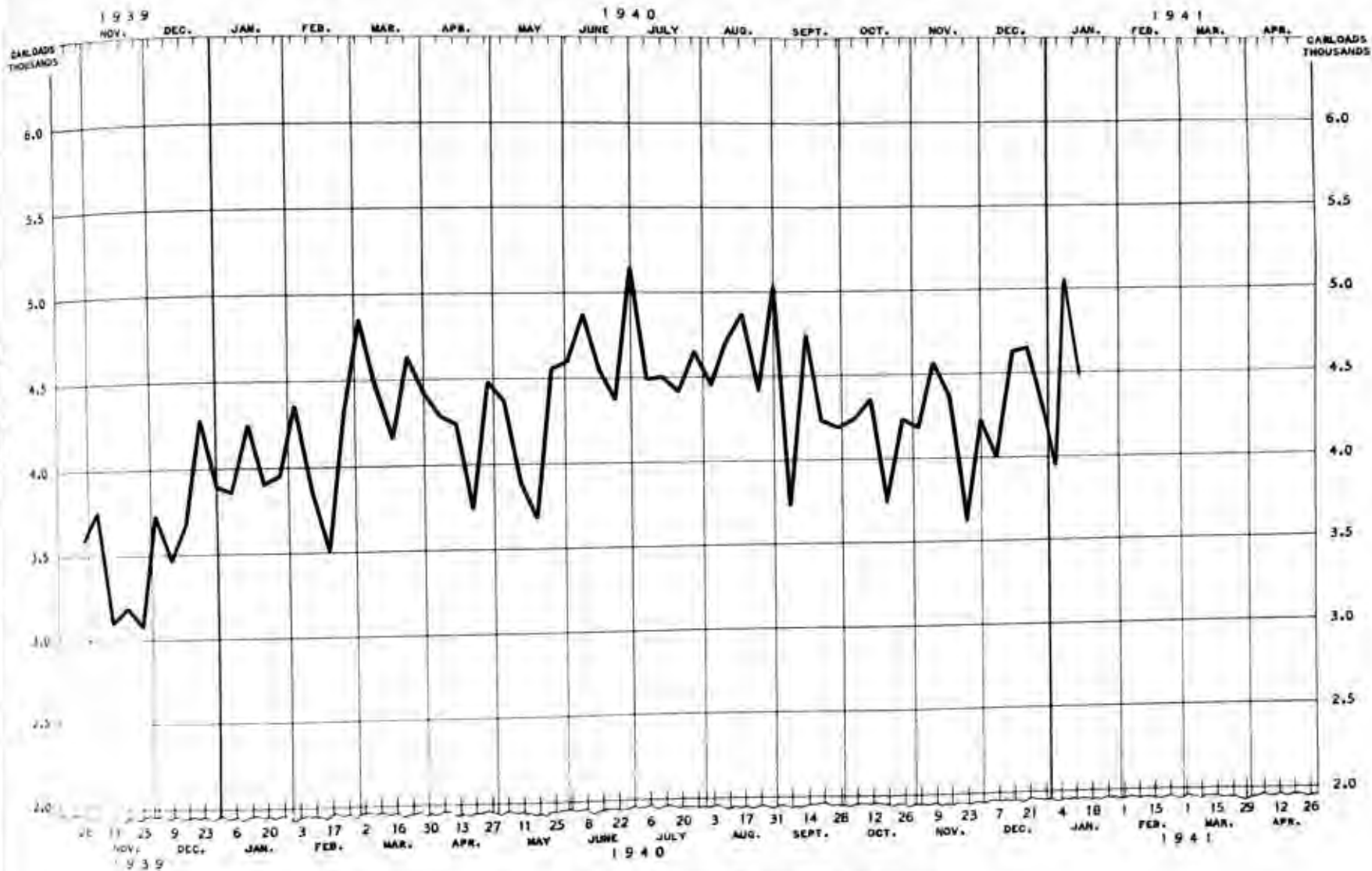
Attachments

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



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

CARLOADS OF FREIGHT EXPORTED FROM NEW YORK*

Chart 2
CONFIDENTIAL

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

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

