

DIARY

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September 1, 1938

To: The Secretary
From: Mr. Magill

Pursuant to our conversation yesterday, I have listed below a number of men who have distinguished themselves by various types of contributions in the field of taxation. I have tried to include men of varying professional training and experience; and also men who are liberal and objective in their point of view on public questions.

- | | | |
|----------------------|---|-------------------|
| Arthur Anderson | Accountant | Chicago, Ill. |
| Henry S. Dennison | President, Dennison Manufacturing Company | Framingham, Mass. |
| J. Frederic Dewhurst | Economist, Twentieth Century Fund (for social security taxes) | New York City |
| Harold Groves | Professor of Public Finance | Madison, Wisc. |
| Robert M. Haig | Professor of Public Finance, Columbia University | New York City |
| Simeon Leland | Illinois Tax Commission; Professor of Public Finance | Chicago, Ill. |
| John M. Maguire | Professor of Law, Harvard University | Cambridge, Mass. |
| Randolph Paul | Lawyer | New York City |
| Carl Shoup | Professor of Economics, Columbia University | New York City |
| Roger J. Traynor | Professor of Law, University of California | Berkeley, Calif. |

Rm

September 1, 1938

To: The Secretary

From: Mr. Magill

Pursuant to your request, Mr. Shoup and I have given a good deal of thought this summer to the preparation of a list of names of men from whom five or six might be selected to serve on the proposed commission on Federal-State fiscal coordination. In building up the list, we proceeded on the premise that persons very well known to the general public would be most suitable. Since the commission will have no power to enforce its recommendations, the results to flow from its work will depend largely on the prestige of the group. In the second place, it is our conclusion that no member of the commission should be closely identified with, or be regarded as representing a particular public or private interest that would be directly involved in any plan of coordination. Members need not be technically qualified in the fiscal field, since we assume that the commission would employ a director of research and a research staff to inform them on technical matters.

With these qualifications in mind we append a list of possibilities. The list is not of course definitive.

Rm

University Presidents

Edmund E. Day	President, Cornell University	Ithaca, New York
Clarence A. Dykstra	President, University of Wisconsin	Madison, Wisconsin
Frank P. Graham	President, University of North Carolina	Chapel Hill, North Carolina
Robert G. Sproul	President, University of California	Berkeley, California

University Professors

Charles E. Clark	Dean, Yale University Law School	New Haven, Connecticut
Felix Frankfurter	Harvard University	Cambridge, Massachusetts
Herbert F. Goodrich	Dean, University of Pennsylvania Law School	Philadelphia, Pennsylvania
Robert M. Haig	Columbia University	New York City
James McC. Landis	Dean, Harvard University Law School	Cambridge, Massachusetts

Lawyers

Charles P. Taft II		Cincinnati, Ohio
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Newspaper Publishers

Eugene Meyer	Washington Post	New York City and Washington, D. C.
Joseph M. Patterson	New York Daily News	New York City

Business Executives

Myron C. Taylor	Former Chairman of Board, U. S. Steel	New York City
Gen. Robert E. Wood	President, Sears Roebuck and Company	Chicago, Illinois

Sept 1

My dear Mr. President:

Pursuant to your recent conversation with Mr. Magill, I am reporting to you on the progress which the Treasury Department has made in preparation for legislation to carry out the proposals in your message to Congress of April 25, 1938, for termination of intergovernmental tax exemptions.

The following material for this purpose is now ready:

1. A draft of legislation which is brief and simple in concept and consists of the following provisions:

- a. An amendment to the general definition of gross income in the Revenue Act to provide expressly that income received from the United States, the District of Columbia, the States, Territories and their political subdivisions, is to be taxable. This will be the basis for taxation of salaries of State and local officers and employees.
- b. Additions to the provisions of the Revenue Act relating to tax-free interest: (1) to make it clear that interest on all bonds issued after the date of enactment shall be fully taxable; and (2) to limit the operation of the existing exemption provisions with respect to interest on bonds of the United States, the District of Columbia, the States, Territories and their political subdivisions, to bonds issued before the date of enactment of the new legislation.

- c. A consent permitting the States (including their political subdivisions) to tax income received as compensation for services rendered as an officer or employee of the United States, and income received as interest on obligations of the United States and its instrumentalities.
- d. A separability clause which, in addition to the usual language, provides that the consent for the States to tax salaries paid by the United States shall not operate if any of the provisions for Federal taxation of State or local salaries are held unconstitutional. The clause also provides that the consent for the States to tax interest on obligations of the United States shall not operate if any of the provisions for taxation of interest on State or local bonds are held unconstitutional.

2. An extensive memorandum setting forth the economic effects of the existing tax exemptions, the reasons for their elimination, and the probable effects of the proposed legislation upon Federal and State fiscal affairs.

3. Schedules and other statistical data pertinent to the ownership and amount of outstanding State, municipal and Federal bonds.

4. A collection of all the material which has been written on the subject of tax exemptions in periodicals, books, etc.

All of the foregoing material is now ready for use; and additional supporting data is in process of preparation. We shall be glad to discuss any of it with you at your convenience.

Faithfully,

The President,

The White House.

TNT/RM/mah
8/31/38

S. R. M.

September 1, 1938

To: The Secretary

From: Mr. Magill

Pursuant to your request, Mr. Shoup and I have given a good deal of thought this summer to the preparation of a list of names of men from whom five or six might be selected to serve on the proposed commission on Federal-State fiscal coordination. In building up the list, we proceeded on the premise that persons very well known to the general public would be most suitable. Since the commission will have no power to enforce its recommendations, the results to flow from its work will depend largely on the prestige of the group. In the second place, it is our conclusion that no member of the commission should be closely identified with, or be regarded as representing a particular public or private interest that would be directly involved in any plan of coordination. Members need not be technically qualified in the fiscal field, since we assume that the commission would employ a director of research and a research staff to inform them on technical matters.

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EM:cs

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Frank F. Graham	President, University of North Carolina	Chapel Hill, North Carolina
Robert G. Sproul	President, University of California	Berkeley, California

University Professors

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Felix Frankfurter	Harvard University	Cambridge, Massachusetts
Herbert F. Goodrich	Dean, University of Pennsylvania Law School	Philadelphia, Pennsylvania
Robert M. Haig	Columbia University	New York City
James McC. Landis	Dean, Harvard University Law School	Cambridge, Massachusetts

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Gen. Robert H. Wood	President, Sears Roebuck and Company	Chicago, Illinois

September 1, 1938

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Arthur Anderson	Accountant	Chicago, Ill.
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Robert M. Haig	Professor of Public Finance, Columbia University	New York City
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John N. Maguire	Professor of Law, Harvard University	Cambridge, Mass.
Randolph Paul	Lawyer	New York City
Carl Shoup	Professor of Economics, Columbia University	New York City
Roger J. Traynor	Professor of Law, University of California	Berkeley, Calif.

Treasury Department

TELEGRAPH OFFICE

1938 SEP 1 PM 3 15

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NANTUCKET MASSACHUSETTS 2 P M SEPTEMBER FIRST 38

SECRETARY MORGENTHAU

WASHN D C

GREATLY APPRECIATE YOUR KIND INVITATION AND REGRET I COULD NOT GET
THERE WITHOUT FLYING STOP PORTERS HAS CABLED ME FROM LONDON FIRSTLY
CONCERNING WAR PROSPECT AND SECONDLY ABOUT EXCHANGE SITUATION AS
FOLLOWS RELIABLE INFORMATION YOUR FIRST POINT OBTAINABLE ONLY FROM
ADOLF STOP HOPEFUL NOW THAT SOME FORMULA CAN BE FOUND WHICH WILL
PATCH MATTER THOUGH DOUBTFUL ANY PERMANENT AMICABLE SETTLEMENT WILL
BE REACHED NOW STOP IMMEDIATE OUTLOOK STERLING WEAK THOUGH PANIC
SELLING OF THE PAST FEW DAYS HAS CEASED STOP SELLING LARGE FOREIGN
OWNED BALANCES HELD IN LONDON STOP NORMAL TENDENCY WOULD BE FOR

Treasury Department

508U SHEET 2

TELEGRAPH OFFICE

WEAK POUND APART FROM POLITICS AND DOUBTFUL WHETHER STERLING WILL
RETURN UNTIL INTERNATIONAL SITUATION CLEAR STOP TAKING LONGER VIEW
RATE NOT EXPECTED FLUCTUATE MUCH EITHER SIDE OLD PARITY STOP FEELING
REGARDING FRANC FOR COMING MONTHS BEARISH.

J E CRANE

305P

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE SEP 1 1938

TO Secretary Morgenthau
FROM Herman Oliphant

Reference is made to a plan for financing the export of surplus wheat or wheat flour embodied in a memorandum agreement between the Secretary of Agriculture, Reconstruction Finance Corporation and the Federal Surplus Commodities Corporation, as modified by a letter dated August 22, 1938 addressed to the Reconstruction Finance Corporation by the Secretary of Agriculture and the Federal Surplus Commodities Corporation.

An examination of the legal aspects of the proposal has failed to disclose any substantial objection to its consummation.

In brief, the plan provides for the borrowing by the Federal Surplus Commodities Corporation from the Reconstruction Finance Corporation of not to exceed \$30,000,000. The proceeds of this loan are to be used by the Federal Surplus Commodities Corporation to purchase wheat or wheat flour suitable for export. The corporation is to sell the commodities so purchased to customary export brokers for foreign export with adequate guarantees that the wheat or flour will be actually exported. As part of the plan, the Secretary of Agriculture agrees to indemnify the Federal Surplus Commodities Corporation for any losses which it incurs in the transaction, the indemnity to be paid pursuant to Clause (1) of Section 32 of the Agricultural Adjustment Act, as amended.

We have been advised that the plan has been approved by the parties to the memorandum agreement as well as by the Acting Comptroller General.

We have also been advised by the Commissioner of Accounts and Deposits that the Secretary of Agriculture has available \$12,500,000 pursuant to Section 32 which is the amount the Secretary of Agriculture has determined will be sufficient to carry out his agreement to indemnify.

With respect to the legal problems involved in the plan, the Reconstruction Finance Corporation is authorized to make loans to the Federal Surplus Commodities Corporation under the authority of Section 201(c) of the Emergency Relief and Construction Act of 1932 (U.S.C., title 15, sec. 605 b (c)) which provides:

"(c) Financing sales of agricultural products in foreign markets. In order that the surpluses of agricultural products may not have a depressing effect upon current prices of such

- 2 -

products, the corporation is authorized and directed to make loans, in such amounts as may in its judgment be necessary, for the purpose of financing sales of such surpluses in the markets of foreign countries in which such sales can not be financed in the normal course of commerce; but no such sales shall be financed by the corporation if, in its judgment, such sales will affect adversely the world markets for such products: Provided, however, That no such loan shall be made to finance the sale in the markets of foreign countries of cotton owned by the Federal Farm Board or the Cotton Stabilization Corporation."

The authority of the Federal Surplus Commodities Corporation to use such funds in purchasing surplus wheat, and to sell such wheat for export, is found in sub-paragraphs (i) and (m) of the third paragraph of its Certificate of Incorporation, which read as follows:

"(i) To purchase, or otherwise acquire, to hold, or otherwise to deal in, to sell or otherwise dispose of any and all agricultural and/or other commodities, and/or products thereof and to loan and/or borrow money upon the same;

"(m) Without limiting the generality of the foregoing, to borrow money for the purpose of (1) purchasing, storing, handling, and/or processing agricultural and/or other commodities and/or products thereof or any surplus of the same and (2) disposing of or removing the same through orderly marketing in the United States and/or elsewhere;"

The authority for the Secretary of Agriculture to pay the indemnities provided for in the plan is found in Clause (1) of Section 32 of the Agricultural Adjustment Act, as amended, which appropriates an amount equal to 30 per cent of the gross receipts from the duties collected under the customs laws in each year, which funds shall be used by the Secretary of Agriculture only to

"(1) encourage the exportation of agricultural commodities and products thereof by the payment of benefits in connection with the exportation thereof or of indemnities for losses incurred in connection with such exportation or by payment to producers in connection with the production of that part of any agricultural commodity required for domestic consumption;"

It is believed that the statutes and charter provisions referred to above contain sufficient legal authority for putting into effect the plan outlined.

Samuel O. Roberts

SEP 1 1938

Secretary Morgenthau

German Oliphant

Reference is made to a plan for financing the export of surplus wheat or wheat flour embodied in a memorandum agreement between the Secretary of Agriculture, Reconstruction Finance Corporation and the Federal Surplus Commodities Corporation, as modified by a letter dated August 22, 1938 addressed to the Reconstruction Finance Corporation by the Secretary of Agriculture and the Federal Surplus Commodities Corporation.

An examination of the legal aspects of the proposal has failed to disclose any substantial objection to its consummation.

In brief, the plan provides for the borrowing by the Federal Surplus Commodities Corporation from the Reconstruction Finance Corporation of not to exceed \$30,000,000. The proceeds of this loan are to be used by the Federal Surplus Commodities Corporation to purchase wheat or wheat flour suitable for export. The corporation is to sell the commodities to purchased to customary export brokers for foreign export with adequate guarantees that the wheat or flour will be actually exported. As part of the plan, the Secretary of Agriculture agrees to indemnify the Federal Surplus Commodities Corporation for any losses which it incurs in the transaction, the indemnity to be paid pursuant to Clause (1) of Section 32 of the Agricultural Adjustment Act, as amended.

We have been advised that the plan has been approved by the parties to the memorandum agreement as well as by the Acting Comptroller General.

We have also been advised by the Commissioner of Accounts and Deposits that the Secretary of Agriculture has available \$12,500,000 pursuant to Section 32 which is the amount the Secretary of Agriculture has determined will be sufficient to carry out his agreement to indemnify.

With respect to the legal problems involved in the plan, the Reconstruction Finance Corporation is authorized to make loans to the Federal Surplus Commodities Corporation under the authority of Section 201(e) of the Emergency Relief and Construction Act of 1932 (U.S.C., title 15, sec. 605 b (c)) which provides:

"(c) Financing sales of agricultural products in foreign markets. In order that the surpluses of agricultural products may not have a depressing effect upon current prices of such

- 2 -

products, the corporation is authorized and directed to make loans, in such amounts as may in its judgment be necessary, for the purpose of financing sales of such surpluses in the markets of foreign countries in which such sales can not be financed in the normal course of commerce; but no such sales shall be financed by the corporation if, in its judgment, such sales will affect adversely the world markets for such products: Provided, however, That no such loan shall be made to finance the sale in the markets of foreign countries of cotton owned by the Federal Farm Board or the Cotton Stabilization Corporation."

The authority of the Federal Surplus Commodities Corporation to use such funds in purchasing surplus wheat, and to sell such wheat for export, is found in sub-paragraphs (1) and (a) of the third paragraph of its Certificate of Incorporation, which reads as follows:

"(1) To purchase, or otherwise acquire, to hold, or otherwise to deal in, to sell or otherwise dispose of any and all agricultural and/or other commodities, and/or products thereof and to loan and/or borrow money upon the same;

"(a) Without limiting the generality of the foregoing, to borrow money for the purpose of (1) purchasing, storing, handling, and/or processing agricultural and/or other commodities and/or products thereof or any surplus of the same and (2) disposing of or removing the same through orderly marketing in the United States and/or elsewhere;"

The authority for the Secretary of Agriculture to pay the indemnities provided for in the plan is found in Clause (1) of Section 32 of the Agricultural Adjustment Act, as amended, which appropriates an amount equal to 30 per cent of the gross receipts from the duties collected under the customs laws in each year, which funds shall be used by the Secretary of Agriculture only to

"(1) encourage the exportation of agricultural commodities and products thereof by the payment of benefits in connection with the exportation thereof or of indemnities for losses incurred in connection with such exportation or by payment to producers in connection with the production of that part of any agricultural commodity required for domestic consumption;"

It is believed that the statutes and charter provisions referred to above contain sufficient legal authority for putting into effect the plan outlined.

NOT:EdF:msf
9/1/38

(COPY)

August 22, 1938

Reconstruction Finance Corporation,

Washington, D. C.

Gentlemen:

Reference is made to the Memorandum of Agreement between the Secretary of Agriculture, the Reconstruction Finance Corporation, and the Federal Surplus Commodities Corporation, which was made a part of the latter Corporation's application, dated August 19, 1938, for a loan of not to exceed \$30,000,000 in connection with a program formulated by the Secretary of Agriculture, with the approval of the President, for the exportation of surplus wheat.

Said agreement shall be considered to be modified, or supplemented, as follows:

1. The reference to the "special deposit account in the United States Treasury," in Section 1 of said agreement, shall be amended to read "special deposit account with the Treasurer of the United States", and the disbursements from said account shall be made solely for the purpose of carrying out said Memorandum of Agreement. The working title of the account shall be "Control Account for Purchase of Export Wheat and Flour."
2. The sales proceeds from the wheat or wheat flour sold by the Federal Surplus Commodities Corporation will be deposited in said special account immediately upon receipt, or remitted to the Reconstruction Finance Corporation to be applied upon the indebtedness of said Federal Surplus Commodities Corporation. All indemnity payments by the Secretary of Agriculture will be paid by Federal Surplus Commodities Corporation to Reconstruction Finance Corporation to be applied, likewise, on said indebtedness.
3. All wheat or wheat flour purchased by the Federal Surplus Commodities Corporation will be sold only for cash, either on the basis of sight drafts with documents of title attached, or upon delivery of certified checks.

- 2 -

4. All wheat or wheat flour acquired by the Federal Surplus Commodities Corporation, which has not been sold for export prior to June 30, 1939, will be purchased by the Secretary of Agriculture pursuant to Section 7 of said agreement not later than June 30, 1939.

Secretary of Agriculture of the
United States of America

Executive Committee, Federal Surplus
Commodities Corporation

ACCEPTED

RECONSTRUCTION FINANCE CORPORATION

By _____

MEMORANDUM AGREEMENT BETWEEN THE SECRETARY
OF AGRICULTURE, RECONSTRUCTION FINANCE
CORPORATION, AND FEDERAL SURPLUS COMMODITIES
CORPORATION WITH RESPECT TO A LOAN TO THE
FEDERAL SURPLUS COMMODITIES CORPORATION.

WHEREAS, the Secretary of Agriculture, with the approval of the President, will attempt to export approximately 100,000,000 bushels of wheat or wheat flour to foreign markets; and

WHEREAS, the facilities of the Federal Surplus Commodities Corporation will be utilized in carrying out the program; and

WHEREAS, a loan of not to exceed \$30,000,000 from the Reconstruction Finance Corporation is necessary for the purpose of carrying out said program; and

WHEREAS, in order to carry out this program effectively, it becomes necessary to buy, sell, and make available wheat and wheat flour to foreign markets as expeditiously as commercial practice requires, thus necessitating the retention of all title documents in the hands of the Federal Surplus Commodities Corporation;

NOW, THEREFORE, it is mutually agreed as follows:

1. The Reconstruction Finance Corporation agrees to lend not to exceed \$30,000,000 to the Federal Surplus Commodities Corporation. Amounts up to \$30,000,000 will be released to the Federal Surplus Commodities Corporation upon its request and deposited to its credit in a special deposit account in the United States Treasury, to be disbursed by Mr. G. F. Allen as Disbursing Agent of the Federal Surplus Commodities Corporation.

-2-

2. The Federal Surplus Commodities Corporation agrees to use this loan, or any part thereof, to purchase wheat or wheat flour suitable for export. The price to be paid for said wheat or wheat flour will be fixed by the Secretary of Agriculture or his agent.

3. The Federal Surplus Commodities Corporation agrees to sell the wheat or wheat flour purchased pursuant to paragraph 2 hereof to customary export brokers for foreign export at prices to be determined by the Secretary of Agriculture or his agent. The exporter shall be required to give bond that the wheat or wheat flour sold to him for foreign export will be actually exported within a period of time to be fixed by the Federal Surplus Commodities Corporation; and the exporter shall be required to make such arrangements as will insure the Federal Surplus Commodities Corporation against the possibility of credit losses. Purchases of wheat and wheat flour for export purposes shall not be made later than June 30, 1939.

4. The Federal Surplus Commodities Corporation agrees to execute a promissory note or notes as the Reconstruction Finance Corporation may require and to repay said loan, plus interest accrued not later than November 30, 1939.

5. The Secretary of Agriculture of the United States of America agrees to indemnify the Federal Surplus Commodities Corporation for losses incurred, by it, if any. The rate of indemnity shall be the difference between the purchase price and the sales price plus

-3-

all charges and expenses incidental thereto. Such indemnity shall be paid pursuant to Clause 1 of Section 32, Public No. 320, 74th Congress, approved August 24, 1935, as amended.

6. The sales prices of said wheat or wheat flour plus the indemnity payments, if any, will be sufficient to maintain a final balance in the special deposit account equal to the actual amount borrowed from the Reconstruction Finance Corporation, plus interest accrued.

7. In the event there remains wheat or wheat flour in the hands of the Federal Surplus Commodities Corporation which can not be exported into foreign markets, the Secretary of Agriculture agrees to purchase same pursuant to the provisions of Clause (2) of Section 32, Public No. 320, 74th Congress, approved August 24, 1935, as amended.

8. The Secretary and the Federal Surplus Commodities Corporation agree to furnish the Reconstruction Finance Corporation such reports and information with reference to the operation of the program as the Reconstruction Finance Corporation may request.

Secretary of Agriculture of the
United States of America

Reconstruction Finance Corporation

Executive Committee, Federal Surplus
Commodities Corporation.

CONFIDENTIAL

19 A

WAR DEPARTMENT
WAR DEPARTMENT GENERAL STAFF
MILITARY INTELLIGENCE DIVISION, G-2
WASHINGTON, D. C.

G-2
J M

G-2/2557-204

September 1, 1938.

MEMORANDUM FOR THE CHIEF OF STAFF:

Subject: The present European situation.

There are more known factors in the European situation today than is generally the case. But when all these factors are weighed no conclusions are justified as to when or how the crisis may be precipitated. The reason for this is that one man, Hitler, is in the position to precipitate or postpone the crisis. No one can say what is locked in Hitler's mind. There is little doubt that he intends ultimately to force a solution of the Czechoslovakian situation in accordance with the German will, but it is questionable if the Fuehrer himself at this time has irrevocably decided upon the moment he will act.

The known facts and straws in the wind indicating that Germany may force a liquidation of the Czechoslovakian situation at an early date, are as follows:

The elaborate German mobilization for maneuvers, equally effective for gaining advantage in war mobilization if the crisis is to be faced.

The concentration of efforts on the western fortifications at the expense of all the long-range industrial plans.

The recent closing of all fortified areas to officers of other armies, including areas bordering Czechoslovakia.

The persistence of the virulent German press campaign against Czechoslovakia, keeping the population in a high pitch of excitement.

The repeated assertion of German authorities that the solution cannot indefinitely be postponed.

The facts, well known in German military circles, of the present inefficiency of the French air

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forces, the British land forces, and the general incompleteness of the British preparedness objectives.

All concessions on the part of the Czech Government are cynically rejected by Sudeten leaders as being insufficient.

A large part of the British population, some responsible officials, and certain French leaders are unwilling to submit themselves to the danger of a war in defense of Czechoslovakia.

The British Government, while taking a firm stand for compromise on both sides, has not categorically declared it will support France in her commitments to come to Czechoslovakia's aid.

The Czech Army, unsupported, could offer resistance to the German forces only for a limited time.

The general concern over the immediate possibilities of a crisis is reflected in the hoarding of gold in Europe and the renewed flow of gold to the United States.

Germany is known to be seriously discussing with Japan the proposal to transform the Anti-Communist Pact into a military alliance.

Some known factors which might tend to postpone the crisis beyond this year are:

Germany's unpreparedness for a long war arising from lack of trained cadres, incompleteness of her heavy armament program, shortage of war reserves and general economic resources.

The absence of sure allies. Although Italy is believed to be more intimately involved with Germany than is popularly conceived in the United States, there is no high degree of confidence in Italy's loyalty or military capacity among German Reichswehr officers. Hungary may have been brought somewhat closer to Germany as a result of the Horthy visit, but the Hungarians are primarily desirous of a peaceful solution of Eastern European affairs. Polish leaders of the Beck school have strong German leanings but Poland can hardly be reckoned upon as a dependable ally. Germany is believed to have no ally at the moment prepared to join in a European war.

CONFIDENTIAL

France and Russia have asserted their intention to support Czechoslovakia in the event of a forceful solution by Germany.

While Great Britain has made no categorical statement of her position in the isolated event of Germany marching against Czechoslovakia, she seems to have left little doubt of her intentions once France should become involved.

The mobilization of the North Sea Fleet is pertinent as showing the seriousness of British intentions.

The Spanish situation has been rendered less favorable to Germany and Italy by the recent increased resistance of the Loyalist forces.

The argument is reasonable that Germany's recent moves are in the nature of intimidation, with a view to effecting a favorable first-step solution of the Sudeten problem without recourse to arms; in other words, that Germany is bluffing. It is probably true that Great Britain and France are likewise bluffing within restricted limits. Great Britain is diplomatically maneuvering Germany into the position of "war guilt." This is not without effect upon Germany since the war-guilt clause of the Versailles Treaty was deeply resented by all Germans.

The latest information from France in the State Department tends to indicate a slight alleviation in the European tension. However, the situation is admittedly considered serious in British official circles and will continue to be so until some clearer indications of Germany's designs emerge, possibly from the coming Party meeting in Nuremberg.

Since Hitler's fundamental policy is to effect the economic and political hegemony of Southeastern Europe without precipitating a general European war, he is still hopeful of not throwing Great Britain irrevocably into the French-Russian camp. Consequently Great Britain's attitude is believed to be the most vital factor in Hitler's pending decision.

Conclusions:

The emergence of a serious crisis involving force in the solution of the Czechoslovakian affair depends almost uniquely upon Hitler, whose mental processes nobody can predict.

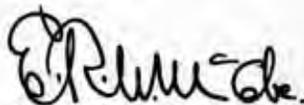
Perhaps the most important factor bearing upon Hitler's decision is the firmness of the British attitude which, in

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turn, most decisively affects the consolidation of forces which Germany must face.

From a logical point of view it does not seem reasonable that Hitler will force the issue this year to the point of bringing on a European war. However, his mental processes being unpredictable, from an American national point of view, the probabilities of an immediate major crisis in Europe are sufficiently high to justify more than remote precautionary measures.



E. R. W. McCABE,
Colonel, General Staff,
Assistant Chief of Staff, G-2.

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CONFIDENTIAL

September 1, 1938

The following is HM, Jr's conversation with the President over the telephone this morning:

"I thought you would like to know that Cordell called me last night and cross-examined me on this whole business and was quite disturbed about it. He said to me, 'Just what is your idea?'. So I said, 'It is very simple and it is to be a deterrent towards Germany.'

"Well, he had the whole thing confused and he said he thought that it was our intention to combine the gold fund and the tariff, together, and I disabused him on that. What Taylor said was to combine giving England and France the right to deposit gold here, with a price guarantee for twelve months, with the plan of using the Export-Import Bank as a depository.

"Kennedy's and Bullitt's cables do not gee. They are different. It looks as though Chamberlain is lying."

At this point the President said, "In other words, the reports from the press on what Chamberlain has said do not gee with what Chamberlain told Kennedy. The press has deliberately distorted the British position, which is possible, or Chamberlain told two stories, one to Germany and France, and one to us. It is a nice kettle of fish. There is nothing more disturbing this morning?" and HM, Jr answered, "No."

The President then said, "I am inclined to think that in some way Kennedy should give out in London some kind of a statement and cuss out the press." HM, Jr's comment was, "That was unfortunate. There was so much in the press that Kennedy said this and Kennedy said that."

Continuing, HM, Jr said to the President, "One thing that Cordell told me was that the Czechoslovakian charge was in to see Moffett this morning and said there was nothing to worry about, so my answer to him was 'If I am not mistaken, wasn't that the same thing that the Austrian Minister told us before the Anschluss?'" The President said, "Yes, that's right."

After the President and the Secretary had concluded

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their conversation, HM,Jr dictated the following:

What the President said was, "From accounts that I am getting, it seems that Chamberlain is telling one story in London and another in Paris and they are contrary." And he said, "Do you think that Chamberlain is lying or is he playing both ends?" and I said I think that Chamberlain is lying to us. The President also said, "Don't you think perhaps we ought to have Kennedy give out a statement contradicting the impression that the British have asked us what we would do in case of war, as reported in this morning's papers?" and I said Kennedy should give out some kind of a denial.

September 1, 1938

10:30 a. m.

Present:

Mr. Oliphant
Mr. Taylor
Mr. Lochhead
Dr. White
Mrs. Klotz

There was an entirely new set of documents prepared this morning, with several alternatives, for the use of the Secretary when he calls to see the President at 11 o'clock. These papers were brought in to the Secretary a few moments before he was due to leave for the White House and Mr. Taylor tried to go over them hurriedly and point out the various changes which had been made since last night.

The Secretary explained that it would be impossible for him to concentrate on the various changes in so short a time before seeing the President and refused to make a snap decision. He said what he was going to do was to go over and discuss the question generally with the President and Secretary Hull and he could always refer back to these papers when the President had decided what he proposed to do and he, the Secretary, did not want to pass a snap judgment on the papers at the moment.

TREASURY DEPARTMENT

Washington, D. C.

FOR IMMEDIATE RELEASE.

1938.

By authority of the President, the Secretary of the Treasury makes the following statements:

Supplementing the arrangements which have been made in pursuance of the Tripartite accord, the Government of the United States has advised the British Government and the French Government of the following additional steps which this Government is taking in order to carry out one of the fundamental objectives of the Tripartite accord, namely, "to foster those conditions which safeguard peace and will best contribute to the reestablishment of order in international economic relations":

1. Great Britain and France will be allowed at any time freely to withdraw or to export any gold which either of such governments, directly or through any agency designated by them, holds under earmark in this country.

2. This Government will at any time desired by Great Britain and France purchase such gold with dollars at the rate specified in Section 42 of the Provisional Gold Regulations issued under the Gold Reserve Act of 1934, for the purpose of enabling Great Britain and France to utilize the dollars thus obtained to purchase supplies in this country.

Alternative page 2

e) Twelve months clause and Export-Import clause

- 2 -

3. The United States will also, at any time during the next twelve months and for the limited purpose stated in item No. 2 above, purchase the gold thus earmarked by the governments of Great Britain and France in this country at the rate now stipulated in Section 42 of the Provisional Gold Regulations, and, for such gold thus earmarked hereafter, at the Treasury buying price for gold prevailing at the time of the earmarking of the gold.

The dollars thus made available will be deposited with the Export-Import Bank in accounts in the names of the governments of Great Britain and France, or agencies designated by them, and the facilities of the Export-Import Bank will be made available for the disbursement of such funds.

Alternative page 2

(b) Period of time fixed by United States

- 2 -

3. The United States will also, for the limited purpose stated in item No. 2 above, and for such period of time as may be fixed by the United States for consummating any purchase for which any such credit is established, purchase the gold thus earmarked by the governments of Great Britain and France in this country at the rate now stipulated in Section 42 of the Provisional Gold Regulations, and, for such gold thus earmarked hereafter, at the Treasury buying price for gold prevailing at the time of the earmarking of the gold.

alternative page 2

(c) Period of time fixed by Export-Import Bank
and Export-Import Bank clause.

- 2 -

3. The United States will also, for the limited purpose stated in item No. 2 above, and for such period of time as may be fixed by the Export-Import Bank, referred to below, for consummating any purchase for which any such credit is established, purchase the gold thus earmarked by the Governments of Great Britain and France in this country at the rate now stipulated in Section 42 of the Provisional Gold Regulations, and, for such gold thus earmarked hereafter, at the Treasury buying price for gold prevailing at the time of the earmarking of the gold.

The dollars thus made available will be deposited with the Export-Import Bank in accounts in the names of the governments of Great Britain and France, or agencies designated by them, and the facilities of the Export-Import Bank will be made available for the disbursement of such funds.

Taylor's suggestion.

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TREASURY DEPARTMENT

Washington, D.C.

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FOR IMMEDIATE RELEASE.

1938.

By authority of the President, the Secretary of the Treasury makes the following statement:

Supplementing the arrangements which have been made in pursuance of the Tripartite accord, the Government of the United States has advised the British Government and the French Government of the following additional steps which this Government is taking in order to carry out one of the fundamental objectives of the Tripartite accord, namely, "to foster those conditions which safeguard peace and will best contribute to the restoration of order in international economic relations."

The Export-Import Bank has established special accounts for the Governments of France and Great Britain.

Through these facilities

1. The Governments of Great Britain and France will be enabled at any time freely to withdraw or export any gold which either of such Governments, directly or through any agency designated by them, holds under earmark in this country;

2. This Government will at any time desired by Great Britain and France purchase such gold with dollars at the rate specified in Section 42 of the Provisional Gold Regulations issued under the Gold Reserve Act of 1934, for the purpose of enabling Great Britain and France to utilize the dollars thus obtained to purchase supplies in this country.

- 2 -

3. The United States will also, for the limited purpose stated in item 2 above and for such period of time as may be fixed by the Export-Import Bank for consummating any purchase for which any such credit is established, purchase the gold thus earmarked by the Governments of Great Britain and France in this country at the rate now stipulated in Section 42 of the Provisional Gold Regulations, and for such gold thus earmarked hereafter, at the Treasury buying rate for gold prevailing at the time of the earmarking of the gold.

September 1, 1938

12 Noon

Present:

Mr. Oliphant
Mr. Taylor
Mr. Lochhead
Dr. White
Mrs. Klotz

HM, Jr: This is more confidential than usual.

The conference with the President, attended by Mr. Hull, myself, and Mr. Taylor and Mr. Oliphant, began by Hull saying he would like to say a few words about the general situation. The President interrupted, saying he had not seen any State Department cables. They were brought to him and he read them while Hull talked.

Hull pointed out that, appealing to the moderate forces in Germany, Britain was talking one way to the French and another way to the Germans and a third way to Kennedy. He went on to say that he thought the Germans wished to force the situation and see how things developed; that they felt that there was quite a possibility that they would be able to jockey things around so that they would be able to get their wishes in Czechoslovakia without any war, but some incident might occur as a result of that which would create a conflagration.

The sum and substance of Hull's remarks was our position should be exactly as outlined in the President's speeches and his speeches and that we should say nothing or do nothing while this period was going on, except refer to those statements.

In this cable (which I hope to get a copy of, this afternoon) Kennedy says that Halifax put it up to Kennedy to find out what the United States would do if England did not fight and the President then pointed out that on the ticker Halifax was supposed to have said to Kennedy 'What would we do if Great Britain did fight?' and the President

-2-

said Kennedy must have been doing some talking. He said the English were giving Bullitt a different story.

The President said that Chamberlain was "slippery"; you could not trust him under any circumstances and that Chamberlain was playing the usual game of the British -- peace at any price -- and would try to place the blame on the United States for fighting or not fighting, and his inquiry to Kennedy was designed to place the blame on us, so that if they went in it was on account of the support they would have gotten from us and, if they did not, it was because we held back. Chamberlain was interested in peace at any price if he could get away with it and save his face.

It seems that within the last 48 hours Kennedy submitted a speech which he intended to deliver in Scotland in which he said, "I can't for the life of me understand why anybody would want to go to war to save the Czechs." The State Department struck that statement out.

Then the President said, "Who would have thought that the English could take into camp a red-headed Irishman?" He said, "The young man needs his wrist slapped rather hard." He also said, "No matter what you say about Bingham, he never became pro-British."

I got the impression that the President felt that not only was Kennedy talking to the press, but he was definitely trying to force the President's hand in this manner in his process of playing the Chamberlain game.

Mr. Hull summed up by saying that he felt that in view of the present situation we should not do anything and the President said we can take these plans and put them in our middle drawer and we can get at them in a moment's notice.

The President today said that he bet three-to-one that the Germans will be able to accomplish their objectives and yesterday he said that he bet three-to-one that there would be no war.

I agreed that under the present circumstances and particularly with the press stories that the English were

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waiting to hear from us what we would do if they went to war, it would be a mistake to make any gestures, publicly or privately, at this time.

The President asked Hull how he intended to answer Kennedy's cablegram. Hull suggested that the reply was that we would feel constrained to take both matters up and consider them whenever they arose. The President said he would be inclined to say what Hull had said to the press yesterday, namely, that the attitude of the United States towards the European situation had not changed from what had been publicly said by the President and Mr. Hull.

In reading from Kennedy's despatch telling of his conversation with Halifax, it appeared that the Germans now have before them the last proposal of the Czechs and had asked for two or three days to consider it, and the President did say that the matter is still in the negotiation stage.

Another comment in Kennedy's cable was that Runciman had reported back to Halifax that Benes was not playing ball and had asked Halifax to twist Benes' tail, which Halifax had done in the form of a cable to Benes.

I am just where I was yesterday. I still say it is fifty-fifty. Anything may happen. I think, in view of these press stories which were fed out by Kennedy, it would be very difficult for us to do anything without playing the British game. We are in the position now that anything we do now makes us a party either way, a party to their fighting or not fighting. They have us, for the moment, stymied. Kennedy is playing with the British Foreign Office and the Prime Minister. He has spilled the beans, and the President knows that.

I made sure to ask the President whether he had received any communication from Kennedy and the President told me that he has had no communications from Kennedy for the last few days. During the meeting today, they brought in to the President the United Press ticker and the President read it out loud.

OFFICIAL CIRCLES TODAY INDICATED BELIEF THAT EUROPEAN WAR TENSION IS EASING AND THAT THE U.S. WILL NOT BECOME INVOLVED IN DIPLOMATIC EFFORTS TO END THE GERMAN-CZECH CRISIS.

REPORTS FROM EUROPEAN CAPITALS RECEIVED HERE REFLECTED A CALMER ATMOSPHERE THAN DURING THE PAST SEVERAL DAYS, WITH INDICATIONS THAT THE LONG HERALDED "HOW DOWN" BETWEEN DEMOCRACIES AND DICTATORIAL POWERS WOULD BE POSTPONED FOR A WHILE.

EASING OF THE EUROPEAN TENSION APPEARED TO POSTPONED FOR THE TIME BEING ANY POSSIBILITY THAT PRESIDENT ROOSEVELT OR SECRETARY HULL WOULD MAKE ANY NEW PUBLIC PRONOUNCEMENT OF THIS GOVERNMENT'S POSITION OR PROBABLE COURSE OF ACTION.

BOTH THE PRESIDENT AND HULL ARE KNOWN TO FEEL THAT THE U.S. POSITION HAS BEEN CLEARLY AND REPEATEDLY STATED IN THE PUBLIC DECLARATIONS OF BOTH OFFICIALS, THE LATEST OF WHICH WAS HULL'S RADIO SPEECH ON AUG. 16 AND MR. ROOSEVELT'S SPEECH AT KINGSTON, ONT.

9/1--R1108A

ADD EUROPEAN CRISIS (TIMED 1105A)

DIPLOMATIC DISPATCHES INDICATING EASING OF EUROPEAN TENSION WAS SUPPORTED BY BELIEF OF LEADING MILITARY ADVISERS THAT THE EUROPEAN NATIONS WOULD NOT GO TO WAR AT THIS TIME.

MILITARY STRATEGISTS POINTED OUT TO CIVILIAN ADMINISTRATION OFFICIALS THEIR BELIEF THAT MILITARY OPERATIONS IN EUROPE NOW WERE LIKELY TO RESULT IN AN IMMEDIATE MILITARY STALEMATE AND THAT OPERATIONS MUST THEN ASSUME THE CHARACTER OF A LONG-TERM SEIGE.

MILITARY ADVISERS SAID THEY BELIEVED THAT IF GERMANY DECIDED TO RISK ALL BY AN INVASION OF CZECHOSLOVAKIA, NO POWER IN EUROPE COULD PREVENT THE GERMAN ARMY FROM OVERRUNNING THE LITTLE CENTRAL EUROPEAN REPUBLIC.

THEY SAID FRANCE COULD NOT HOPE SUCCESSFULLY TO PENETRATE DEEPLY INTO GERMANY IN AN ATTEMPTED INVASION FROM THE WEST.

9/1--R1136A

LONDON.--EUROPE'S VITAL INTEREST IN THE ATTITUDE OF THE U.S. TOWARD THE CZECH CRISIS WAS EMPHASIZED TODAY WHEN AMBASSADOR JOSEPH P. KENNEDY WAS REPORTED TO HAVE PASSED ON TO PRESIDENT ROOSEVELT INQUIRIES REGARDING AMERICAN POLICY.

KENNEDY WAS UNDERSTOOD TO HAVE TELEPHONED MR. ROOSEVELT, PRINCIPALLY IN REGARD TO DOMESTIC QUESTIONS BUT ALSO TO DISCUSS ASPECTS OF THE EUROPEAN CRISIS BEARING ON U.S. POLICY.

TWO FACTORS STOOD OUT IN THIS CONNECTION:

1. THE POSSIBILITY THAT PRESIDENT ROOSEVELT WOULD MAKE SOME SIGN OF APPROVAL OF THE UNITED EUROPEAN DIPLOMATIC FRONT DESIGNED TO DISCOURAGE A GERMAN BLOW AT THE CZECHS. BRITISH LEADERS WERE BELIEVED TO HAVE SOUNDED OUT KENNEDY IN THIS RESPECT WITHOUT IN ANY WAY REQUESTING THAT THE PRESIDENT TAKE SUCH ACTION.

2. THE EFFECT OF THE U.S. NEUTRALITY LAW ON GREAT BRITAIN AND HER ALLIES IN EVENT OF ANOTHER WORLD WAR.

9/1--R1110A

ACCORDING TO ONE SOURCE, THERE IS A STRONG BELIEF THAT MR. ROOSEVELT MAY MAKE A NEW PRONOUNCEMENT THAT WOULD BE DESIGNED TO BOLSTER BRITAIN'S WARNING TO GERMANY OF THE PERIL OF USING FORCE TO SETTLE THE CZECHOSLOVAK MINORITY DISPUTE.

BRITISH SOURCES BELIEVED THAT THE QUESTION OF A ROOSEVELT PRONOUNCEMENT WOULD NOT BE DECIDED UNTIL THERE ARE FURTHER DEVELOPMENTS AT PRAGUE, PARTICULARLY UNTIL IT IS DETERMINED WHETHER THE SUBETEN LEADERS WILL ACCEPT THE NEW CZECH CONCESSIONS AS A BASIS FOR FURTHER NEGOTIATION.

IT WAS EMPHASIZED THAT THE INTEREST OF BRITAIN IN THE ATTITUDE OF WASHINGTON MUST NOT BE CONSTRUED AS AN EFFORT TO OBTAIN ACTIVE U.S. PARTICIPATION BUT AN ATTEMPT TO DETERMINE THE EFFECT OF THE AMERICAN NEUTRALITY ACT IN EVENT OF WAR IN EUROPE.

9/1--R1117A

September 1, 1938

4:30 pm

Mr. Moffett came in again today, at 4:30, and gave the Secretary a copy of the cable which had been sent, at Mr. Morgenthau's request, to the American Legation at Berne requesting Royall Tyler to go to Germany. Mr. Moffett also gave the Secretary a copy of Mr. Tyler's reply in which he said he would be very glad to go, but he would have to confide the nature of his mission to Mr. Loveday. HM, Jr gave his approval.

Mr. Moffett permitted Mr. Morgenthau to read the original cable from Kennedy and left with him the paraphrase.

Before he left, Mr. Moffett said that the English are just trying to find an excuse to pin their decision on the United States.

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PARAPHRASE OF TELEGRAM

TO: American Legation, Bern

DATED: August 30

STRICTLY CONFIDENTIAL

The Minister was asked to approach Mr. Royal Tyler who was understood to be at the present moment in Geneva and tell him that Mr. Morgenthau would appreciate it if he were without delay, and apparently on his own initiative, to make a trip around Germany with a view to appraising economic and financial conditions. When he returns he should send his report, marked QUOTE For the Secretary of the Treasury UNQUOTE by means of a cipher telegram through the Legation at Bern. The Secretary of the Treasury requests that the report be not abbreviated but be given in full. The Minister is asked to caution Mr. Tyler that absolute secrecy is essential and that it is hoped that he can leave with the least possible delay. The Treasury is prepared to offer an honorarium of twenty five dollars (\$25) a day and to defray Mr. Tyler's expenses.

PARAPHRASE OF TELEGRAM

From: American Chargé d'Affaires ad interim, Bern

Dated: September 1, 10 a.m.

No. 59

In reply to the Department's telegram of August 30, the Chargé d'Affaires replied that he saw Mr. Tyler in Geneva on August 31 and gave him the gist of Mr. Morgenthau's message. Mr. Tyler stated that he was desirous of doing what he can but he is not in a position to depart from Geneva, even on leave of absence unless he gives his address to the Director of the Financial Section, Mr. Loveday, because if unexplained, his proposed destination would raise queries in Loveday's mind. Mr. Tyler will go gerent for the complete discretion of Mr. Loveday, and believes that the only way in which he could prevent suspicion and preserve secrecy would be to tell him the truth in confidence. The Chargé d'Affaires would like instructions on this point.

Mr. Tyler could start in a few days and would like to know how long a trip is envisaged. He could make a longer one but supposes that a week or ten days would suffice.

PARAPHRASE OF STRICTLY CONFIDENTIAL TELE-
GRAM FOR THE SECRETARY

From Paris
No. 1370
August 30, 6 p.m.

Undoubtedly our Legation at Prague has already reported to the Department concerning the latest proposal to the Sudeten Germans from the Czechoslovak Government.

Osusky, the Czechoslovak Minister to France, and members of the French Government as well have told me that this proposal provides for dividing Czechoslovakia into 23 separate cantons. At least three Sudeten cantons would be set up adjacent to the German border and elsewhere there would be one other Sudeten canton. It has further been suggested by the Czechoslovaks that instead of the central Government appointing prefects for these cantons the electors thereof should select them.

This proposal has been accepted by the Sudeten leaders as a basis for discussion. I was told by Osusky today that there would begin today in Prague discussions of the proposal and that it was believed by the Czechs that the Sudetens would give a definite answer within a week.

SECTION TWO Concerning the German Ambassador's demarche and that of the German Ministers in Bucharest and Hlad and concerning the German mobilization, the opinion of the Czechoslovak Government, according to Osusky, was that these acts did not indicate that the German Government had decided to go to war but
were

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rather to be considered as efforts to intimidate Czechoslovakia's friends. Osusky continued by saying-- and several French Cabinet officers and Blum have expressed the same opinion--that the danger was that the German indications of an intention to go to war would be carried so far that the people in Germany would become unbearably aroused and that the Czechoslovak army would be seized by intense excitement as well.

All French Government members with whom I have had conversations recently, as well as Osusky, believe that the Hungarian factor which I referred to in telegrams 1349, August 26, 3 p.m., and 1355, August 28, midnight, is still prominently before Hitler in his calculations. The view of the French at present appears to be, accordingly, that while the German mobilization and accompanying gestures do not mean that there is a clear-cut intention to begin war, in the circumstances it is wise to behave as if war were about to commence.

PARAPHRASE OF TELEGRAM

FROM: London

DATED: August 30

Mr. Kennedy reports that he had talked with Mr. Chamberlain between the meeting of the Cabinet and his departure for Balmoral.

Mr. Chamberlain did not look at all well.

He made no secret of his being disturbed about the situation in Czechoslovakia. With the single exception of the report from Ashdon - Gwatkin all Mr. Chamberlain's reports are to the effect that Hitler is determined to take Czechoslovakia if possible peacefully, but if necessary with arms. If the matter were purely one for decision between Czechs and Sudetens, Lord Runciman believes that an amicable settlement would be possible, but unfortunately matters rest with Hitler. Apparently Hitler believes that France is not ready to fight and that England does not want to fight.

Mr. Chamberlain said in reply to a question that he felt that from a psychological point of view the two speeches by the President and Secretary Hull had produced an excellent effect. However, very little real information relating to world peace reaches Hitler any more; he is being kept, figuratively speaking, high on a
mountain

-2-

mountain peak and is being advised by the group which wishes war (Mr. Chamberlain thinks that this unfortunately includes Ribbentrop), that given the premise that France is not prepared to march and that England won't join, the present is the moment to add new prestige to Germany's cause.

Mr. Kennedy asked Mr. Chamberlain if he had as yet determined whether he was disposed to go to war if France did. He replied that he very much feared England might be forced into a war but that he definitely would not go until he was forced thereto. He also said that he and the French were agreed that the latter would not declare war until they had consulted with England. The French had not wanted to agree to this even though they had to make a choice between breaking their treaty obligations or fighting a war which they knew they must lose. Mr. Chamberlain, however, said that he had convinced them that if England were expected to go along they must have this agreement.

Sir Neville Henderson, British Ambassador to Berlin, had advised Chamberlain against any further speeches as far from encouraging the moderates in Germany to fight against the war the effect was just the opposite.

In spite of all the foregoing Mr. Chamberlain remains
hopeful

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hopeful that war will be avoided. He thinks that the situation will remain as it is until after Hitler's speech September 6th. Chamberlain had had no word as yet as to the alleged meeting between Beneš and Henlein. Some members of the British Cabinet feel that Hitler's prestige will increase so fast, if he is not checked now, that he could not be stopped later. Mr. Chamberlain was not ready to accept this thesis. He felt that Hitler had lost much public opinion in the United States as a result of the Anschluss and he believed that the smaller countries, - notably in the Balkans, - will be unwilling to be regimented in the same way as was Austria.

Mr. Kennedy's own impression is that he feels war to be about 50-50. Even should Hitler strike Mr. Kennedy believes that ^{Mr. Chamberlain} ~~he~~ will influence France to keep out. Even if France goes to war some time will elapse before Britain follows but Mr. Chamberlain believes that he will have to. Apparently Hitler believes that if the Germans march into Czechoslovakia the war will be over almost instantaneously. Mr. Chamberlain does not agree with that at all believing that the Czechs will fight hard and that public opinion will become aroused and force France and England into the arena. Today British public opinion is against going to

war

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war for Czechoslovakia but whether that would remain so if France were involved is not clear. He does not forget that it is easy enough to get into a war but it is not clear what would be proved thereby. Mr. Chamberlain continues to hope that if Britain stays out something may happen for the good of the world.

Mr. Kennedy concludes that he looks badly, is worried without being jittery, but is still the best bet in Europe against war.

This is a paraphrase of Ambassador Kennedy's cable which was referred to at the conference at the White House on September 1 at 11 o'clock.

PARAPHRASE OF TELEGRAM

From: London.

Dated: August 31.

Mr. Kennedy reported that he has had a talk with Lord Halifax. The cable the latter received this morning from Lord Runciman is less encouraging. Beneš is reported not to be going through as he should and Lord Halifax complying with a request from Lord Runciman has "twisted Beneš tail". No answer will be given by the Sudetens to the Czech proposition given Henlein yesterday before Thursday or Friday. Possibly Masaryk may be able to give Mr. Kennedy a copy of the Czechoslovak proposals today or tomorrow.

Mr. Kennedy reports that popular opinion is definitely opposed to going to war for Czechoslovakia. According to Lord Halifax the French don't want to fight either. Lord Halifax would be glad to know what would be the reaction in the United States should the Germans in Czechoslovakia fight with the Czechs and yet England not go along. Mr. Kennedy replied that much would depend on the attitude of the President as to whether in his opinion Great Britain should be encouraged to fight or whether he would contend that they ought to remain out of war just as long as possible. Lord Halifax would keep in touch with Mr. Kennedy on this point as it is clear they cannot prepare for this emergency "without hinting their hand to Germany". Lord Halifax

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in replying to a question said he did not think that Germany was bluffing entirely. He believes that Hitler hopes to get what he wants without fighting but that by profiting by the situation as he thinks he sees it this might be a good time to march.

In reply to a question as to the Spanish situation Lord Halifax said there were no new developments. If the Czech situation were settled and disposed of he thought they could envisage peace for some time to come. He believed that the trouble with Italy lies in the fact that both the Italian and British at the time of signing their agreement calculated that the war would end within two months. As a result Lord Halifax does not take the hostile attitude toward the Italians that certain people believe he should. The Italians undertook to furnish supplies and equipment to their people who were fighting in Spain at that moment. In addition to the above he thinks they are probably adding enough to offset what they estimate the Loyalists are getting from France and Russia. He doesn't like the situation but does not consider it important enough to row about. Mr. Kennedy then presented the Jewish question. Lord Halifax said he was not well posted on it except that Lord Winterton had told him *** (Goebbels) Goebbels in Berlin as to presenting Jews, numbers not yet estimated in Rhodesia and Kenya. He feels that
proportionately

-3-

proportionately as the situation of the Austrian and German Jews is settled, other countries who wish to encourage the emigration of their Jews will find encouragement to pursue policies designed to rid themselves of the Jews in the hopes that America, England and France may find some way of caring for them.

According to Lord Halifax the British are giving instructions to make no more speeches on the German-Czech situation, believing that everything has been said that ought to be. Like Chamberlain he feels strongly that silence on their part will get the best results and hopes that we feel the same.

Vonsittart is apparently more or less back in favor and is being consulted constantly. Mr. Kennedy asks for an expression of opinion as to "handling the British attitude" in the event that Hitler should march and England should not march. He believes that Mr. Chamberlain and Lord Halifax would appreciate our reaction and judgment as to what would be done on this point as far as American public opinion is concerned.

PARAPHRASE OF STRICTLY CONFIDENTIAL TELE-
GRAM FOR THE SECRETARY

From Paris
No. 1372
August 31, 3 p.m.

Last night Bonnet and I had a conversation. According to him it had been decided by the British Government yesterday afternoon to give an instruction to the British Ambassador to Germany, Mr. Henderson, which he was to read to the German Government and which would make it thoroughly clear that should German forces cross the Czechoslovak border and should the French commence war upon Germany the British would join the war on France's side.

It is still Bonnet's inclination to believe that the preparations on the part of Germany for war and the indications of a readiness to go to war should be considered as part of an attempt to frighten Czechoslovakia's friends and to secure by a tremendous bluff rather than through warfare a settlement satisfactory to Hitler of the Sudeten question. It was remarked, however, by the Minister for Air, Guy la Chambre, who was present at our conversation, that the current German mobilization of 1,900,000 men is so costly that it is difficult to maintain the belief that the Germans are making so gigantic an expenditure for the sole purpose of lending force to a diplomatic maneuver.

Great importance in the present situation was

attributed

-2-

attributed by Bonnet to the Polish factor. According to him, should any responsible Polish statesman express himself as the President and you had expressed yourselves, he felt that no risk of a war being started by Germany would exist. His principal nightmare just now, he remarked, was the prospect that if Russia should try to despatch to the support of Czechoslovakia an army, war would be declared on the Russians by Poland and by Rumania. He continued by expressing his certainty, derived from his latest talks with the Russians, that Russia would not only pledge herself to Poland that no effort would be made to cross under any circumstances Polish ground but also that Russia would be ready to furnish to Poland ammunition, arms, and other war materiel on the condition that the Polish would actively support the Czechs.

SECTION TWO. He understood, he said, that there would be full justification for Poland to consider as valueless any pledges which the Russians might make not to enter Poland, but he expressed the hope that something might be accomplished if the Russians should really furnish materials of war. At present it was evident that everything possible would be done by Rumania and Poland to stay neutral for as long as they could. The meaning of this was that Russian help, except in the form of airplanes, could not reach the Czechs.

La

-3-

La Chambre, the Minister for Air, held the view that in the recent purges the ablest Soviet airplane designers and constructors as well as the best shop foremen had been killed and that the Soviet planes were deteriorating in quality.

With regard to the most recent Czechoslovak proposals which I outlined in no. 1370 of August 30, 6 p.m. for the division of Czechoslovakia into 23 cantons with each canton to elect its own prefect, Bonnet considered that this was a most important concession. He was not very hopeful that the Sudetens would accept these proposals but believed that they would give to Runciman a good basis upon which his negotiations could be continued. Finally, Bonnet remarked that should it be possible for September to pass without war as a consequence of a temporary compromise of some sort or other on the Sudeten situation, it was his intention to commence intensively in October an effort to bring about an agreement between Germany and France.

Speaking generally, the French remain calm and are not convinced of the inevitability of war. The military and the members of the Government are ready for anything that may happen and are alert. Outside the Government the French people continue to enjoy their summer vacations happily.

PARAPHRASE OF TELEGRAM

To: Amlegation, Bern, Switzerland

Dated: September 1, 1938

The Chargé d'Affaires is instructed to inform Mr. Tyler Mr. Morgenthau is delighted that he can accept and estimates that a week or ten days should be sufficient for his trip. Mr. Tyler is authorized by the Secretary of the Treasury to tell Loveday in strictest confidence as to the nature of his trip.

September 1, 1938

Lochhead reported to the Secretary today that owing to the purchase of \$28,000,000 in London, the other day, the Stabilization Fund's cash account is now overdrawn \$4,000,000. He said, "The question comes up, do we want to replenish that amount in minor amounts, say \$10,000,000, instead of big blocks, just to keep it going?" The Secretary answered, "Yes, in no big blocks."

Lochhead said, "The next point is with that gold over there, that will bring me up to about \$50,000,000 in London." HM, Jr's comment was "Too much." Lochhead explained, "Of course we can't use American boats. There is only one available a week and the question is, in view of the fact that we have \$60,000,000 worth, whether you would want to use any other boats. HM, Jr: replied, "Yes; right away -- British, French, or anything. That's too much gold. Or Dutch? What's the matter with the Dutch?" Lochhead answered, "We might have one Dutch boat." HM, Jr's instructions to Lochhead were, "Well, go to work and see what you have got."

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 3, 1938. *10 7-1 (date of meeting)*

TO Miss Chauncey

FROM Mr. White

Notes on meeting at Secretary's home, Thursday,
September 1, 1938, 7:30 P. M.

Present at dinner and conference following:

Secretary Morgenthau	Messrs.: Williams
Messrs.: Taylor	Warren
Oliphant	Knoke
Lochhead	Stewart
Rentschler	Riefler
Leffingwell	White
Harrison	

After dinner the Secretary opened the discussion by stating that he had called the conference for the purpose of exploring the possible monetary problems which the Treasury would be confronted with in the event war broke out in Europe and/or in the event that sterling continued to decline. He stated that it was not at all certain that either of these two events would occur but that the situation abroad, as they all knew, was quite acute and that he felt it was preferable to discuss the immediate problems that might arise and the various ways of handling them before and not after the problems "blew up in his face". He presumed that the meeting would be kept confidential as there was no need to unnecessarily worry the American public. He asked the men to express their views frankly on the problems they felt would be likely to develop and what they felt the Treasury should do about them.

Mr. Harrison opened the discussion saying that though there was no precedent to serve as a useful guide as to what might happen, he felt that a similar situation might develop with regard to exchange rates as occurred in the first few days of the war of 1914 when sterling exchange rose precipitously for a short time because of the inability to ship gold to England to meet commitments. He also stated that we ought to be prepared to meet the possibility of large movements of gold either in or out. He felt before any answer to the question as to what should be done could be offered it was essential that the Treasury should make up its mind as to what was to be its gold policy in the event of an outbreak of war.

Mr. Leffingwell commented that the rise in sterling in 1914 was due to an unusual situation and lasted only a very short period.

Miss Chauncey - 2

Mr. Rentschler added that during those days one of the chief reasons for the exchange difficulty was the necessity for a large payment by the City of New York to England. Both Leffingwell and Rentschler expressed the view that a similar circumstance bringing about a sharp rise in sterling would not be likely to occur as the movement would probably be from sterling to the dollar and that in any event it would be over so brief a period as to be a matter of no prime importance.

Leffingwell said that the direction in which hysterical movements would go was impossible to foresee but that it was his opinion that the flow of gold would be more apt to be in than out. He said that the all-important question is "Will the Treasury be willing to buy and sell all gold that is offered or demanded at the \$35 price". It was extremely important, he stated, for the Treasury to continue that program as nothing could be calculated to reduce hysterical gold movements more than assurance by the United States Treasury that the United States would continue to buy and sell gold at the fixed price of \$35 an ounce.

Harrison responded that if he had to bet he probably would bet that gold would come in rather than out but that nevertheless we could not be certain and that we had to be prepared for both eventualities. He said that whether gold would come in or out would depend chiefly on whether or not our Neutrality legislation would be invoked. If the Neutrality Act were to be invoked against England and France we would find that foreigners would liquidate their American holdings and try to get gold out of the country in the expectation of using it in the countries where they could freely purchase materials. Harrison pointed out that there were \$6 billion foreign investments and \$1 1/2 billion foreign balances and that a substantial portion of that would be liquidated and the outflow of gold that might take place would be very large, if the Neutrality Act were invoked.

Taylor and Leffingwell likewise expressed the views that there would be large immediate liquidation of securities held by foreigners.

Mr. Rentschler believed that the liquidation of securities would be an orderly process rather than a sudden dumping of large amounts of securities but he reiterated the view expressed by Harrison and Leffingwell that the invocation of the Neutrality Act would be a supremely important factor in causing foreigners to withdraw balances and consequently would want to get their gold out where they could use it.

The Secretary stated that he was a little bit surprised that they felt the invocation of the Neutrality Act would be so important a factor in preventing exports from the United States and causing foreigners to liquidate their holdings here and withdraw funds to other countries. He said that in the first place the Neutrality Act prohibited the export only of arms, ammunition and implements of war and that that restriction left a very large range of commodities which they could purchase. He said furthermore

Miss Chauncey - 3

that he didn't see why the invocation of the Neutrality Act would cause England and France to transfer funds from the United States to Latin American countries inasmuch as there was very little that Latin American countries could export to Europe that could not be purchased in the United States under the Neutrality Act.

Mr. Feis and Mr. Taylor agreed with the Secretary that the conditions of the Neutrality Act permitted the sale of a very wide range of commodities.

Mr. Williams said that it was his opinion that the belligerent governments might prefer to maintain their current rates of exchange in the event of war rather than to permit currency to depreciate inasmuch as they had to purchase a large quantity of goods at such time and it would be easier for them to make such purchases if their currency did not depreciate. He therefore felt that England might not wish to see a lower pound if she felt war were imminent.

Mr. Leffingwell said that it was very important that England and the United States cooperate and that it might be wise to find out what it is the British want us to do with respect to sterling and then we could cooperate with them.

The Secretary responded that the important question was not what the British wanted us to do but rather what was good for the United States to do.

Mr. Leffingwell said "Of course, but you can't fix the price of sterling. England will have to do that. The important question is are you willing to continue to take gold freely at the present price."

The Secretary said that he saw no reason now why the price of gold should be reduced in the near future.

Mr. Harrison asked if the United States Treasury was ready to take gold in England and leave it there. The Secretary said that was a problem that we are studying now but for obvious reasons he does not want to pile up gold in England beyond our ability to eliminate risks of holding or moving the gold inherent in the current situation.

Mr. Rentschler expressed the view that England would put on exchange control in the event of war.

Mr. Stewart thought that they would put on some form of restriction though they might not call it exchange control.

Mr. Rentschler again emphasized how important it was for the world as a whole to be assured that the United States would take all the gold that came along. Mr. Bailey and Mr. Leffingwell echoed his sentiments.

Miss Chauncey - 4

Mr. Rentschler said that what the United States did when we sterilized gold and indicated to the world that we would let gold go to work was a very excellent thing.

Mr. Stewart stated that he felt very disinclined to use any earlier war as a pattern from which to draw conclusions as to what would happen in the next outbreak. Wars never repeat themselves, he said. He furthermore thought that ways would doubtless be found to evade the Johnson Act if the conditions are such as to make an extension of credit for the purchase of goods to certain countries popular.

Mr. Bailey expressed the view that the interpretation of both Neutrality Act and the Johnson Act would be very elastic and that what actually would be permitted under those acts depended very much upon the state of public mind with respect to facilitating exports to certain countries.

Mr. Stewart said that the apprehension of war may force the Secretary to reconsider the appropriateness of the dollar sterling rate. As it passes \$4.86 he will have to consider at what level sterling would stop. He said he didn't feel that it was wise to attach too much importance to a range of 15 cents over and above \$4.86 but that beyond that range it was a matter of considerable importance to the United States what level was to be achieved.

Mr. Williams stated that there was no telling what sterling would do if it broke through \$4.86.

Mr. Riefler stated that there wasn't much he could say as the problems presented by the Secretary were a little too broad. He said the only problem immediately before us is the flow of "nervous" funds. He was of the opinion that we ought to continue to take "nervous" money in order to relieve the situation. "The British are holding the hot end of the poker"; they have a lot of foreign balances and that they are vulnerable. With regard to the second phase of a war he said we would have ample time to develop a change in policy, if desired. He thought that the British would impose exchange controls, would obtain possession of foreign securities of their nationals, and liquidate those securities in an orderly fashion.

Mr. Feis commented that instead of the problems raised by the Secretary being too broad he felt that they were not broad enough; that they ought to be expanded to include the problem of how to utilize our enormous gold holdings. He felt that there might be some solution worked out providing for the exchange of our gold for essential commodities needed for defense.

Mr. Stewart said that there was another aspect of the problem which was of interest, namely the relationship of international capital flows to relative interest rates. He said that in recent months the risk element in exchange speculation had dominated the international movement of capital. This

Miss Chauncey - 5

situation might, however, change. It might happen that interest rates abroad may rise sufficiently to induce outward movement of capital seeking the possibility of higher earnings on short-term loans. Mr. Lochhead remarked that French short-term rates had been very high for many years; nevertheless capital was withheld from France rather than retracted. Mr. Stewart conceded that that would take place only when the present currency fears and political uncertainty had been greatly reduced.

Mr. Warren stated that the character of the recent capital movements had a good deal of the element of fright in it but that even allowing for that element a substantial portion of the inflow was due to our favorable balance of trade. If the fright element in the international capital movements were to die down our favorable balance of trade would raise a gold problem. He felt that the large export surplus would continue - might even grow larger and that so favorable a balance of trade would bring in such large gold flows as to create serious exchange problems for other countries. He said it was necessary for the United States to decide whether it is going to have "a fixed price for gold as a pivot for its policy, or a given rate of dollars to sterling as its pivot". The movement of sterling from \$5 to \$4.36 he did not believe to be an extraordinary one and he thought a lower sterling rate could be accepted without any harm to the United States. However, he felt that when sterling dropped below a certain point it would be necessary to decide whether it was more important at that time to maintain a fixed price for gold or whether it was preferable to alter the price of gold in order to prevent further changes in the dollar sterling rate.

Mr. Ransom asked what would be the effect of continued imports of gold on our economy. Mr. Rentschler answered that the world has suffered most from sterilizing gold in the broader sense and that the important thing was to let gold do its work. Mr. Rentschler stated that the policy of desterilization of gold has been the best thing that has happened during the past year to give people confidence.

The Secretary thanked them all for coming and freely discussing the problems which might confront the Treasury in the near future. He trusted they would all regard whatever was said in the meeting as confidential.

The meeting adjourned at 11:30 o'clock.

Sept. 1, 1938

Earle Bailie
Gordon Rentschler
Russell C. Leffingwell
Herman Oliphant
Win Riefler
George Harrison
L. W. Knoke
Wayne C. Taylor
Walter Stewart
Robert B. Warren
Archie Lochhead
Harry White
Professor John H. Williams
Ronald Ransom

Herbert Feis joined us after
dinner.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 1, 1938

TO Secretary Morgenthau

FROM A. Lochhead

At close of business August 30, 1938, the Federal Reserve Bank of New York held the following amounts of gold in safekeeping for the Central Banks of the countries listed below (This gold is held in safekeeping by the Federal Reserve Bank of New York in accordance with license granted to that bank by the Treasury):

<u>Country</u>	<u>Amount</u>	<u>Total</u>
France	\$102,573,000	
Holland	64,815,000	
Latvia	874,000	
Norway	4,979,000	
Sweden	54,483,000	
Switzerland	165,229,000	
" B. I. S.	299,000	\$393,252,000
Canada	2,128,000	
Colombia	2,109,000	
Guatemala	1,478,000	
Mexico	16,699,000	
China	1,107,000	
* Japan	17,623,000	41,144,000

* Deposited with Federal Reserve Bank of San Francisco for account of Federal Reserve Bank of New York.

TOTAL 434,396,000

FEDERAL RESERVE BANK
OF NEW YORK

85

OFFICE CORRESPONDENCE

DATE September 1, 1938.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

L. W. Knoke

BANK OF ENGLAND.

I called Bolton around noontime. The day had started quiet enough, he said, but a considerable demand for gold had developed shortly after the opening. During the last two hours he had sold about £500,000 worth of gold but that didn't seem to have much effect on the market, the dollar continuing on the bid side. For the last fifteen minutes or so he had sold a total of about \$3,000,000 (\$2,000,000 to the Swedes, \$300,000 to the Argentine and about \$700,000 in the market). I explained that we had found it advisable to buy some sterling here and had taken so far just over 200,000 pounds; City Bank, (on an order from Buenos Aires we understand) and Dreyfus, had been the principal sellers. Bolton thought that this probably had to do with a big wheat operation, details of which, however, he didn't know.

There were two new centers of nervousness now, the Swedes and the Belgians. The former were in a state of panic and were running around in circles. Why, nobody knew. True enough, they had large funds in the London market but their total holdings of foreign exchange were pretty considerable. Of late they had been steady buyers of dollars and had also converted sterling into gold. The Belgians were beginning to realize that they were in a vulnerable position from the economic point of view and a considerable demand for dollars had developed there with the result that the undertone of the belge was weaker than it had been for some time.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE September 1, 1936.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND

L. W. Knoke

B

Generally speaking the London market was determined to be optimistic, everybody there exaggerating the good news and trying to forget the bad. Altogether they were too optimistic, he thought.

I asked what he thought of our operations in this market. Bolton seemed to be in entire agreement. The worst thing to happen was for the people to think that they couldn't deal in the market and that was enough justification for our operating here. Their principal occupation, and of late the most important one, had been for them to help to make a market in which legitimate transactions could be put through.

The French situation seemed to be calming down; nevertheless he thought the chances of further labor disputes in Paris in the near future were growing.

LWK:KW

JR

GRAY

London

Dated September 1, 1938

Rec'd 1:16 p.m.

Secretary of State,
Washington.

RUSH.

853, September 1, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

The dollar opened at 4.85-3/4 offered and the rate moved up to 4.86-1/4. However, just before fixing it turned sharply due probably to the reported frontier incident and gold fixing, which previously was expected to be small, totaled 461 bars at 143 shillings one-half pence. The demand for dollars continued thereafter unabated and at one time the rate went to 4.85-3/8. Likewise gold purchases after fixing were very large at prices up to three pence over the fixing. Gold coins were not in demand and the franc remained idle and steady.

KENNEDY

RR:CSB

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

DATE: September 1, 6 p.m.

NO.: 1382

FROM COCHRAN.

At 5:30 this afternoon I talked with the Bank of France, and by that hour the French stabilization fund had lost only 300,000 pounds holding rate at 178.31 on a market which was comparatively quiet. The Control is continuing to keep three months sterling at 3-3/4. My contact has learned from London that intervention in behalf of sterling there had cost 600,000 pounds up until 2 p.m. As a result of another unfavorable report regarding the Czech situation, a quiet afternoon had been followed by renewed pressure on the pound late this evening. Official support has caused some improvement in French rentes.

EA:DJW

JR

PLAIN

London

Dated September 2, 1938

Rec'd 8:45 a.m.

Secretary of State,
Washington.

855, September 2, 1 p.m.

FOR TREASURY FROM BUTTERWORTH.

In the circumstances the following comment in today's TIMES and particularly the concluding paragraph, may be of interest. It may also be worth while to compare this expression of attitude with that quoted in the 3rd paragraph of my 849, August 31, 6 p.m., and in the 4th paragraph of my 720, August 4, 6 p.m.

"As if to rub in the fact that no mystic significance is attached under the tripartite agreement to the maintenance of the old sterling-dollar parity the 'control' apparently absented itself completely from the foreign exchange market yesterday; and the result was that sterling, after an early firm tendency had been abruptly reversed, was allowed to slide rather sharply, so that it closed 5/16 C lower on the day at 4.85-7/16 after having been down to 4.85-9/32. The renewed weakness of sterling led to the reappearance of a fair demand for gold for arbitrage but it did not so far as could

-2- #835, September 2, 1 p.m., from London.

could be seen cause much fresh apprehension regarding sterling's prospects. There is a more general disposition to feel that the crossing of the old parity is a milestone of sentimental rather than practical importance and that, whether sterling at around its present level is inherently weak or not, the movements of the past two months have had relatively little bearing on that question. Perhaps the 'control' may consider itself rather fortunate in that the definite crossing of the old par rate this week has led to as little selling of sterling as it has. But this step once taken, its depressing psychological influence should from now on gradually wear off. The view expressed from Washington on Tuesday that the old parity was not a rate to which the United States of America attached any particular significance together with the absence of the 'control' from yesterday's market should not be read as a sign of any indifference to the decline in sterling. The deduction is rather that the failure to hold sterling at above 4.86 is not to be regarded in any sense as an important practical landmark and does not preclude the possibility of sterling being cushioned by the 'control' at a rate somewhere near the present.

The

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-3- #835, September 2, 1 p.m., from London.

The fact that the decline in sterling has in practice been largely accounted for by movements of funds based on political considerations does not dispose of the fact that the decline would in all probability have been justified in any case on more purely economic grounds. The fact that prices of British industrial products have risen appreciably over the last 18 months while in America prices have fallen is certainly prima facie evidence that some adjustment was desirable and it is a matter of common experience that British exporters had been finding it steadily less easy to quote competitive prices. It is true that during the first seven months of this year Britain's adverse visible balance of trade showed only a very slight increase as against 1937. But the first seven months of 1937 covered the period during which the prices of imported primary commodities were at their height and consequently the adverse visible balance should have been at its maximum. A compensating improvement in the balance of trade could reasonably have been anticipated during the first eight months of this year and the fact that it did not materialize suggests some overvaluation of sterling during that period, particularly

-4- #835, September 2, 1 p.m., from London.

particularly as the improvement in the United States of America favorable balance was considerable in the circumstances the evident willingness of Washington to regard the recent decline in sterling with a more or less kindly eye is naturally welcome. Apparently Washington is prepared to take a more elastic view of the permissible movement of the sterling-dollar rate under the tripartite agreement than seemed likely a few months ago. And it is certainly desirable that the appropriate rate should be considered without any preconceived precise standards drawn from the past. But naturally the question whether the present is an appropriate rate or not cannot in any case be practically tested until political conditions are more settled than they are now".

The dollar opened at 4.85-3/8-1/2 bid and the demand rapidly increased just before the gold fixing of 480 bars at 143S.4D. In the face of the very large dollar demand the rate was allowed to slip to 4.84-5/8 at which point the authorities have apparently stepped in and offered dollars. The demand for gold continued after fixing with substantial amounts being done at 1D. and now at 2D. over the fixing price.

KENNEDY

RR

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WAR DEPARTMENT
WAR DEPARTMENT GENERAL STAFF
MILITARY INTELLIGENCE DIVISION, G-2
WASHINGTON, D. C.

G-2
J M

September 2, 1938.

llh
MEMORANDUM NO. 2 FOR THE CHIEF OF STAFF:

Subject: The present European situation to
midnight, September 1-2, 1938.

The fundamental situation in Europe as discussed in the Memorandum dated September 1, 1938 remains unchanged. The conclusions in that Memorandum likewise admit of no modification as a result of any known developments. Hitler's acceptance or rejection of the Third Czech proposals through the puppet Henlein, is a decisive factor in the immediate peaceful solution of the Sudeten problem.

From a careful analysis of the press reports and official despatches, the British efforts to mediate the controversy are very active, both through the British Ambassador in Berlin and through Runciman's direct contact between Henlein and the Prague Government. The physical movements of the key personalities are known, but, despite the press conjectures, and limited official reports, considerable secrecy veils the actual proposals and counterproposals now under negotiation.

The first two Czech proposals having been rejected, it is known that Prague has in the Third set of proposals conceded the federal principle by the division of the country into gaus or districts, each of which enjoys a cantonal status modeled somewhat after the Swiss Confederation. Within the several cantons is permitted a high degree of local rights, or States' rights as we would know them. The principle of complete local racial autonomy is not conceded but proportional representation throughout the nation as a whole is provided. The provision of a federal gendarmerie is a huge stumbling block to Germany's acceptance. The scheme is very complicated and would require a long time to put it in effect. It appears that it is these proposals which Henlein discussed yesterday at Berchtesgaden with Hitler in the presence of Goering, Goebbels and Hess, after which he flew back to Czechoslovakia. Press rumors, and they are rumors only, indicate that Hitler suggested counterproposals or modifications, including the immediate implementation of the new Sudeten status rather than after an interval of time for feelings to subside, as proposed by the Czechs. It is believed that further and even more drastic detailed

CONFIDENTIAL

CONFIDENTIAL

compromises will be demanded by Hitler.

Superficially it would seem that some progress is being made in the settlement of a difficult question. The acceptance of modified proposals by Germany would create a detente in the situation as far as an immediate crisis is concerned. However, it is not believed that Hitler is genuinely seeking a solution which ultimately will leave the Sudetens permanently in Czechoslovakia. The Swiss Confederation is grounded on long history and sound tradition. A cantonal status for minorities in Czechoslovakia would be a fragile political crystallization in which German influence could gradually disintegrate by slow processes what Hitler now seems hesitant to effect immediately by force.

Momentary factors indicating German intention to create a crisis by an immediately forceful solution are entirely lacking in the past twenty-four hours. On the contrary there is a relaxation of tension generally among the countries most involved. It is believed that both sides desire a continuance of the negotiations for the time being.

The momentary factors indicating that the crisis will not immediately be precipitated are:

The vast importance to the Nazi Party of the Party meeting in Nuremberg which for many reasons it would be undesirable to disrupt by acute involvement in Sudeten issue.

The marked diminuendo in the Nazi press of virulent anti-Czech propoganda.

The absence of any known unusual military activity in Germany or elsewhere.

The continued effectiveness of the British representatives in efforts to effect a compromise solution.

Conclusions:

General conclusions expressed in Memorandum of September 1 are unchanged, except that it appears highly probable that an acute crisis will be postponed at least until after the Party meeting, beginning September 5.

td

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WAR DEPARTMENT
OFFICE OF THE CHIEF OF STAFF
WASHINGTON, D. C.

September 2, 1938.

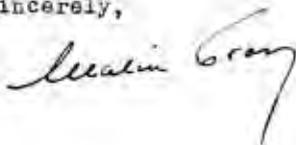
Dear Mr. Secretary:

Herewith is an estimate of the general situation. It is really a continuation of the previous estimate which is now twenty-four hours old.

I also enclose a very confidential table giving you the war requirements and strategic materials which we need for a serious effort and which we cannot now produce in this country. There are one or two exceptions to this which speak for themselves, such as hides for leather and wool, I think, is another item which we have in part but would have to supplement for immediate use. It just happens in this connection that the overseas lane to the market would be open. The priority of the strategic materials is given in the left-hand column.

If you wish any change in the form of this information, please so indicate to me and I will endeavor to comply with your wishes.

Sincerely,



encl.

September 2, 1938.
8:52 a.m.

H.M.Jr: Hello.

Operator: Admiral Leahy is away until next Tuesday.

H.M.Jr: Who's there?

O: His aide is there.

H.M.Jr: Let me talk to him.

O: All right. Commander Denfeld.

H.M.Jr: Commander who?

O: D-e-n-f-e-l-d.

H.M.Jr: Denfeld.

O: Go ahead.

H.M.Jr: Hello.

Commander Denfeld: This is Commander Denfeld, Mr. Secretary.

H.M.Jr: Good morning.

D: Good morning, sir.

H.M.Jr: I want to ask you for some information. I may want to ask the President to have - to ask the Navy to have in readiness a cruiser to take gold from England to the United States.

D: Yes.

H.M.Jr: In case of Trouble you see.

D: Yes.

H.M.Jr: We've got a lot of gold over there. This is, of course, extra-confidential.

D: Yes, sir.

H.M.Jr: And I can't get it on any boats because the English have gotten the boats loaded up with their gold.

D: Yes, sir.

H.M.Jr: Now, I just wondered if you might think about it, and then advise me just what sort of a request I should make, you see.

D: Yes, sir.

H.M.Jr: I mean whether the Omaha that's down in
whether you'd use her or
just - if the President decided to do it, I
mean what would be the best way to do it.

D: Well I'm sure Mr. Secretary we can have something. There's one or two boats about to go over there for shakedown cruises.

H.M.Jr: Are they?

D: And - new cruises and they could do it, but I'll look into it and -

H.M.Jr: Could you call me back this forenoon?

D: Yes, sir, I will.

H.M.Jr: Naturally, if anything like this got out it would scare people to death.

D: Yes, sir.

H.M.Jr: But the thought is that - I mean - if I could get something it would be within twenty-four hours, you see?

D: Yes, sir.

H.M.Jr: I wouldn't want to wait until she could get under way and leave this shore.

D: Yes, sir.

H.M.Jr: So think about it and also - the closest she could get to London the better of course.

D: Yes, sir.

H.M.Jr: That's where the gold is.

D: Yes, sir.

- 3 -

H.M.Jr: You call me back.

D: Yes, I will.

H.M.Jr: Thank you.

D: All right, sir.

September 2, 1938.
9:28 a.m.

Operator: Go ahead.

H.M.Jr:
Commander
Denfeld: Hello.

Denfeld: Yes, sir. The new cruiser Nashville is over there now.

H.M.Jr: Yes.

D: And she's - she arrives in Stockholm on the third of September.

H.M.Jr: Uh-huh.

D: And she leaves there the fifth and goes to Gottberg and then from there to Portland, England.

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

D: And so she'd be right available anytime you want it.

H.M.Jr: Well, now -

D: She leaves Portland on the seventeenth of September to come home, but between now and then she'll be right around there.

H.M.Jr: What - what's her name?

D: The Nashville.

H.M.Jr: Is - is that one of the new ones?

D: That's one of the new ones.

H.M.Jr: What can she cruise at?

D: Well, she can -

H.M.Jr: Over thirty knots.

D: Oh yes, if necessary.

H.M.Jr: What?

D: Yes, if necessary.

- 2 -

H.M.Jr: Well, could I have this sort of informal understanding with you?

D: Oh yes, sir.

H.M.Jr: That the Nashville - she's there until -

D: She leaves Portland, England on the seventeenth of September.

H.M.Jr: Portland, England. And would it be asking too much to just call me up, say on the sixteenth, and check with me?

D: Yes, sir, we'll be glad to.

H.M.Jr: Call up - call up on the fifteenth.

D: Yes, sir.

H.M.Jr: Call me on the fifteenth and check, and I can then see how much gold we have on hand.

D: Yes, sir, and anything - any time in between times, she can get over there in a day easily.

H.M.Jr: Well, that - that's perfect.

D: Yes, sir. And she can go to Graves End which is only about thirty miles from London.

H.M.Jr: Graves End.

D: Yes. That's only about thirty miles from London.

H.M.Jr: Oh, that's grand. Well, that's perfect. But if you'd make a note to call me, say on the fifteenth to check.

D: Yes, sir.

H.M.Jr: And that would - then I could see how much gold we have on hand.

D: Anytime, in between time, Mr. Secretary, if you'd just let us know, by phone, why we'll do anything you say.

- 4 -

H.M.Jr: And -well that's perfect.

D: Yes, sir.

H.M.Jr: Thank you so much.

D: All right, sir.

FEDERAL RESERVE BANK
OF NEW YORK

79

OFFICE CORRESPONDENCE

DATE September 2, 1936.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

L. W. Knoke

Mr. Bolton called at 12:10. They had had a much easier day today due to more favorable reports on the continent. However, he warned not to forget that none of these news were official but rather interpretations of journalists and correspondents. He had spoken to Prague today and Prague had made it a point to emphasize the unofficial character of all these reports.

The exchange market is quite a political one, Bolton continued, with the whole world's attention concentrated on the dollar-sterling rate. The French seemed to be sitting on the sidelines but there seems to be considerable agitation there over the question of the 40-hour week with a rather important strike pending in the textile district. If Central European news should further improve it was quite possible, he thought, that the franc would once again come into the limelight.

So far Bolton has sold \$2,000,000 and about £2,500,000 worth of gold. A good deal of the latter has gone to central banks (the Swedes and the Dutch in particular). Although the rate had moved considerably since he made his dollar sales he had not dared buy any back lest he choke the upward movement in its infancy. If the market should improve much further after London was closed and if we get a chance to sell some, nobody in London would grumble at getting a little gold back after the continual outpourings now for almost a month.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE September 2, 1958.

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

FROM L. W. Knoke

BANK OF ENGLAND.

2

Bolton inquired whether Washington had any views on sterling and francs at all. He inquired as to francs particularly because, as he said, he felt that that currency might cause more headaches in the future.

LWK:KW.

FEDERAL RESERVE BANK
OF NEW YORKDATE September 2, 1928.

OFFICE CORRESPONDENCE

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH
DE NEDERLANDSCHE BANK.

L. W. Knoke

Mr. de Jongh called this morning at 10:20. The markets in Europe were in a pretty nervous state. Dollars were going up again in London and Amsterdam; so far the guilder was holding its own. However, he felt that the time was drawing near (may be today or tomorrow) when it would become necessary for them to give support to their currency by the sale of dollars, for which purpose they would like to avail themselves of our previous arrangement under which they would get dollars against gold earmarked in their vaults for shipment by first available direct steamer. This arrangement, de Jongh thought, was still valid. I pointed out that although I didn't have the details before me I was reasonably sure he, upon reexamination, would find that it had expired because our Treasury had always made it a point to put a time limit on all such engagements. If he agreed with me and if it became necessary for him to have dollars, I suggested that he send us a cable asking for renewal of the old arrangements and I assured him that we would get busy at once and try and obtain the Treasury's approval.

LWK:KW

MG

GRAY

London

Dated September 2, 1938.

Rec'd 12:24 p.m.

Secretary of State,
Washington.

RUSH

858, September 2, 5 p.m.

FOR TREASURY FROM BUTTERWORTH.

The dollar and gold continued bid until about 4:30 this afternoon when Reuter ticker report appeared to the effect that Hitler and Henlein had agreed to accept the proposed Czech terms. The market immediately turned round and both dollar and gold were heavily offered. The dollar moved rapidly from 4,845/8ths to 4,853/8ths and gold from 143 shillings 7 pence to 143 shillings 5 pence with few takers.

KENNEDY

RR

4 11 53 38

300 3
 1000 1000 1000
 1000 1000 1000

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

DATE: September 2, 6 p.m.

NO.: 1388

FROM COCHRAN.

Today the French stabilization fund, with an expenditure of three hundred thousand pounds, held rate at 178.29 to 178.30 on a quiet market. My friend told me at 5:30 that London had lost only one and a half million pounds sterling of gold today, although the dollar rate had dropped below 4.85. Official support has again slightly bettered French rentes.

BULLITT

RECEIVED

EA:DJW

RECEIVED

RECEIVED

C A B L E

84

From: Treasury Attache Jacobson,
Shanghai, China

Date: September 2, 1938

For the Secretary.

Current situation week ended August 31, 1938. Support for dollar continues and exchange has remained quiet and steady. Call money has been at 5% throughout week. Share market has been buoyant and cheerful with good business in industrial and utility sections but bond market is slow. Comparing July with June trade of Shanghai showed imports up 28.9% exports up 32.4 and total trade up 30.5%. As compared with July, 1930 imports were down 68.8% exports were down 62% and total trade was down 66%. Local Bureau of Nanking Reformed Government has reportedly notified 180 Shanghai Customs brokers that they must register with it but many are said to have refused. Export tax of \$64 per case has recently been laid on locally brewed beer shipped from Shanghai its intrinsic value being \$18 per case. Peking Provisional Government has decided that Federal Reserve Bank is to take up financing of industry/and agriculture in North China by rediscount of bills offered by other banks. Only banks which have currently been doing such financing are the provisional banks in comparatively small amounts. Same Government is also reported about to establish export and import trade linking system in Shangtung. Fifty-seven factories including 24 machine total factories are stated to have moved from

lower Yangtze Valley to Szechuan during past few months and National Government is advancing them \$1,200,000 toward cost of new work shops. The offer gold campaign seems to have produced about \$2,500,000 from Province of Kwangtung. Silk exports from Kwangtung are highest in recent years and low Canton exchange has stimulated exports in general but available quantity of products from interior has been reduced by interruption of rail traffic. Cost of living in Canton has not risen much so far. Traffic has been suspended by China national aviation and Eurasia Airlines following recent attack on latter's plane near Canton. Japan Air Transport Company is to increase its capital this fall from ten to fifty million yen presumably to cover expansion in China. Japanese Steamship Lines have established new services to South America providing increased frequency and greater speed. Japanese Ministry to Finance is drafting new regulations for gold control which will in effect prohibit any use of metal whatever except for medical purposes. Japanese export and import linking system which has been enforced especially with regard to cotton and wool is reported to be causing great difficulties in cotton textile export trade so that some merchants have been forced out of business. Malayan statistics for July show that in that month Japan took only 1/3 as much rubber and 1/4 as much tin as her January to June monthly average. For first half of this year Japanese trade with Malaya showed an adverse balance in ratio of 4 to 1 Japanese exports to that country being only 1/4 what they were doing first half of 1937. According to Japan Times restriction of raw material supply is causing closure of Japanese factories and Government estimates there will eventually be thrown out of employment

800,000 factory workers and 500,000 workers in offices and stores or a total of 1,300,000 workers on whose earnings 4,000,000 people depend for their living. Plans are being discussed to divert these workers to other manufacturing lines and to household service to return them to farms and to encourage immigration but great difficulties stand in way of these plans and Times thinks that nothing at all effective has yet been suggested.

GROUP MEETING

September 2, 1938.
9:30 A. M.

Present: Mr. Oliphant
Mr. Gaston
Mr. Haas
Mr. Taylor
Mr. Lochhead
Mr. White
Mr. Upham
Mr. McReynolds
Mrs. Klotz

McReynolds: The individual match at Camp Perry was won by one of the Coast Guard boys. The team came out fourth.

H.M.Jr: Wonderful! Heartiest congratulations! Where's Steve?

You got a pencil (McReynolds)? At eight o'clock this morning - (to Mr. Oliphant:) Are you in a good humor? - Mr. Oliphant's friend, Tommy Corcoran called me up.

Oliphant: I'll tell you what went before that.

H.M.Jr: I bet you don't know what it is.

Oliphant: He called yesterday. He wanted to know if there was a man in this Treasury by the name of Farrar.

H.M.Jr: Fred H. Farrar, Bureau of Engraving, Loans and Currency. He is supposed, in 1936, to have made an investigation of the Civil Service Employees Enforcement groups of the Navy Yard, Bureau of Engraving, and Loans and Currency. They are all supposed to be lousy. I told him I'd bet him ten to one that Mr. Farrar never made such an investigation; but he would like Mr. Early to have it by eleven o'clock this morning, because the President is seeing Senator Brown at eleven thirty. Can I forget it?

McReynolds: Yes. He's supposed to have made an investigation of?

Eldson on list furnished by landscape section 88
Specs. sent 8/22

Hicks on same list - specs. sent 8/22

Grand View requested specs. 8/24

Letter received 8/25 - specs. sent 8/25

No request received from Bahret for specifications

- 8/22 Ten sets of specs. sent to P.M.
- 8/22 Authorized by Division of Printing
- 8/23 Sent out by Div. of Printing
- 8/27 Appeared in newspaper (Enterprise)
- 8/29 Bids opened in Washington

12:00

See Secretary
Re: Pangkupsil



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

30

September 1, 1938.

MEMORANDUM TO THE SECRETARY:

The bids for the proposed landscape work at Poughkeepsie were opened on August 29 and the following bids were received:

Eidson Landscape Co., of Bala, Pa.	\$7400.00
Grand View Nurseries of Mt. Vernon, N.Y.	7679.00
Alfred E. Bahret, Inc., of Poughkeepsie	11498.50
Hicks Nurseries, Inc., of Westbury, N.Y.	13411.88

The specifications are quite lengthy as to the work to be done and contain a special provision to the following effect:

"It is expected that the President of the United States will dedicate this building on September 18, 1938. All landscape work (planting and sodding) from the broken line "A-A" shown on the drawing to the sidewalk on Mansion Street shall be in place on or before September 16, 1938."

The Eidson Landscape Company appear fully qualified to do this work as they have done all the landscape work in the Triangle Area.

The contract has not been awarded pending instructions from the Secretary; but if the landscape work is to be finished in readiness for the dedication of the building on September 18, 1938, it is important that the contract should be awarded at an early date.

Incidentally, the design and plan for the landscaping work was developed only after full consultation with Mr. Gilmore Clarke and his various comments and suggestions were adopted. Mr. Clarke approved, in fact, the final drawing.

[Signature]
Director of Procurement.

MEMORANDUM FOR H.M.JR:

In Re: Landscaping of Poughkeepsie
Post Office

E.R. sent Mr. Alfred Barrett, landscaping architect of Violet Avenue, to see me.

He claims that he has been inquiring when the bids would be let for the Poughkeepsie Post Office. Finally the specifications were received by Mr. Lavery, Postmaster, on Wednesday August 24th, having been mailed from Washington August 22. Mr. Barrett saw the specification Thursday, August 25 and it was required for the bids to be in Washington Monday, August 29th. However most Poughkeepsie landscapers had no chance to bid, as it was not until Saturday, August 27 that Procurement advertised in the Poughkeepsie papers for bids. Mr. Barrett had been advised that this must be done, as Procurement has made it impossible for local people to compete, because bids are not called for until the last moment. The gossip is that the specifications are drawn up in such a way and held until the last moment so as to favor certain landscapers. He was told that a nursery known as Grandview and also by the name of Mt. Vernon has a man in

Washington and would most likely get the contract. The lowest bid is \$7,400.00. The next \$7,679.00 (This is the Mt. Vernon). Barret's is about \$11,000.00 and Hicks \$13,000.00. There are several other higher ones. I went over the planting with Robert. It is very beautiful, but calls for very expensive things such as 2 Japanese yews ten feet high - and a spread of ten feet;- 25 white dogwood 10 - 12 feet high 8 foot spread; 7 elms 35 - 40 feet high; mountain laurel, etc. As Barret and Robert explained these things can be bought, but they are expensive and only a few nurseries carry them. Therefor the bidders should be given time to ask for prices before sending in their bids.

Robert also tells me that if the elms are planted this Fall many may die, and that the laurel should be put on the north side instead of the west. He says the contract should read that if these die they must be replaced by the landscape people. These are all details with which you may not wish to be bothered but Mr. Barret's point is this -- that local people get no chance to bid fairly due to the time element, and that it looks as if certain landscapers had the inside track. This job is to be started September 15 and it is most likely too late to do anything about it, but Rhinebeck and Wappingers Post Offices will have landscaping and he hopes the local people will have a chance. He also claims the same method was used in Beacon as in Poughkeepsie.

- 3 -

I am sending you this for what it is worth -- the specifications are signed by Reynolds, but they seem to think the people lower down are responsible for the trouble.

/s/ E.F.M.

Eleanor made a great point of my seeing this man.

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H.M.Jr: The Civil Service Employees' Enforcement, of the Navy Yard, Bureau of Engraving, and Loans and Currency.

Oliphant: We talked it over. I said

H.M.Jr: I was amazed that he called me.

McReynolds: When was he supposed to make this investigation, did he say?

H.M.Jr: In '36. And you (Oliphant) hadn't called me yet?

Oliphant: I told him it was a little late. I told him I thought he should make it about seven. I have just been waiting for a good opportunity to talk it over with you.

H.M.Jr: Yeah. That's number one, Mac.

Oliphant: We looked it up, and found we only had one name, and Micky found two names of Farrar.

H.M.Jr: We're not investigating the Navy Yard Enforcement.

McReynolds: If this fellow worked for the Treasury in 1936, you can be assured he'd do it.

H.M.Jr: Mac, this is a note that Mrs. Morgenthau and Mr. Roosevelt sent me about landscape work on the Poughkeepsie Post Office. On the face of it, it looks to me that they really didn't give the people enough time, see? I wish you'd get it over to Peoples, and let Peoples come up here at twelve o'clock; I'll talk to him about it.

McReynolds: Twelve o'clock.

H.M.Jr: It looks to me as though they gave the people, locally, about one day's time to bid. That is the only contract I have today. And tell Peoples I thank him for taking care of Arthur Carpenter.

(Side conversation with Mrs. Klotz.)

H.M.Jr: Oh swell, Mac. Mac's going away in a blaze of glory. When are you leaving, Mac?

McReynolds: About half past two this afternoon, if I may. I'll be back on the ninth.

H.M.Jr: Well, don't come around, and don't talk to the office, and just have a good time.

McReynolds: Thank you.

H.M.Jr: Unless there is a great emergency.

McReynolds: The office will know where to get me.

H.M.Jr: The most interesting thing on the ticker is that the headlines of all the papers are wrong about Henlein. Henlein is still in Berchtesgaden. He and Ribbentrop are now seeing Hitler. He didn't go back. They are quite contrary. And also, it said on the ticker, that Henlein came to see Hitler with the knowledge of frontsmen, and himself. This is the same story.

Another thing I am marking - of course, all this stuff is confidential - the cruiser Nashville is now in European waters, on a shake-down cruise, and will be in the vicinity of Portland, England, until September 17. She's a brand new cruiser, and she can go to Gravesend, within thirty miles, and they will not take her out of those waters without first talking to me, so I don't think we ought to worry. She's in Sweden right now, but it's over-night to Gravesend, but she's moving down to Portland, England.

Oliphant: That will save insurance, too, doesn't it?

H.M.Jr: What is the rate of insurance on a million dollars worth of gold?

Lockhead: Well, the rate, for a million dollars worth of freight - on every million the freight charges are - a quarter, that is, and the insurance charges is about an eighth. It makes three thousand seven hundred fifty dollars on every million.

H.M.Jr: What?

Lockhead: Three thousand seven hundred fifty dollars on every million. Your freight, of course, is one of the important charges.

Oliphant: That's a sizeable amount. Multiply that by thirty and that is a real sum.

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Lochhead: What we've done is to engage insurance - I've done that.

H.M.Jr: I am not worrying now, knowing that the Nashville is there.....

Lochhead: We're going ahead and keeping shipping it out. We can always, if anything comes up, put that boat in and cancel all that insurance. I have had to give instructions to have it boxed. I am keeping that right up. We have to give notice - six or seven days' notice now, in order to let them get it boxed.

H.M.Jr: I still say that is one worry now. We've got seventy-two million dollars in London, as of last night.

Gaston: That's a pretty good freight rate - twenty-five hundred million dollars a ton.

H.M.Jr: Who's going to be here tomorrow?

Lochhead: I'll be here.

McReynolds: I won't be here.

H.M.Jr: Well, I'll have an airplane standing by. I think it's all right, don't you?

Taylor: You mean for you to go?

H.M.Jr: At the farm.

Taylor: Yeah.

Oliphant: You want me there today or tomorrow?

H.M.Jr: Where will you be?

Oliphant: Just at the Bay.

H.M.Jr: By the time I phone for an airplane, you can get in your suit and come over.

Oliphant: Yes.

Taylor: I think we might have a little extra service down here in the way of ticker views, whatever stuff that might come in, during Saturday and Sunday and Monday there.

H.M.Jr: Well, will you and Lochhead work that out.

Taylor: Because then you can't tell what's going to happen, and

H.M.Jr: Tell Miss Chauncey and Bob to not get - are they going away?

Klotz: Away?

H.M.Jr: Are they going to be out of town? Keep one of them in town. I wouldn't let both of them go out of town.

Gliphant: I'll be right at the telephone all the time.

H.M.Jr: Well, we have day and night service on the phone now, anyway.

McReynolds: We have a boy in all the time.

H.M.Jr: (Over telephone:) We've got day and night phone service now, don't we?

Operator: We've got twenty-four hours.

H.M.Jr: (Over telephone:) Mr. Moffat, State Department, please.

McReynolds: We've got a boy we put on at night.
Tom Corcoran also called me at the house last night.

H.M.Jr: On this thing?

McReynolds: I don't know what he called about. I was out, but I got the note.

H.M.Jr: As a matter of fact, what he said to me was, "Is it all right for me to take this up with Chatfield Taylor?" I said, "As long as you give me the details I'll take it up with Chatfield Taylor and I'll do it myself."

Taylor: Thank you.

H.M.Jr: (Telephone conversation with Mr. Moffat of the State Department, at 9:44 A. M., attached.)

September 2, 1938.
9:44 a.m.

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H.M.Jr: Hello.

Operator: Mr. Moffatt.

H.M.Jr: Hello.

Moffatt: Good morning, sir. How are you?

H.M.Jr: How are you?

M: All right.

H.M.Jr: What's new, if anything, this morning.

M: Only one telegram in of any interest at all today.

H.M.Jr: Yes.

M: That's from Prague.

H.M.Jr: Yes.

M: The gist of which is that Runciman is now working out his own plans to submit if and when there's a breakdown.

H.M.Jr: Uh-huh.

M: From what Carl gets the plan does not particularly practicable.

H.M.Jr: Uh-huh.

M: It would be enormously expensive. It would require all sorts of re-districting, and also it has this new feature which hasn't been mentioned before. It would probably contain a British loan of possibly as much as a billion crowns which he said might conceivably go to the relief of the Sudeten areas.

H.M.Jr: Really.

M: But his source was, as he put it, one closely associated with the Sudeten moderates.

H.M.Jr: Uh-huh.

M: And the whole tenor of the telegram is don't put too much attention to this, I just have to report it.

H.M.Jr: I understand.

M: Now, there's nothing else from London, nothing from Paris.

H.M.Jr: Now you see the news ticker which says that Henlein is still in Berchtesgaden.

M: Yes.

H.M.Jr: Contrary to what the newspaper says.

M: Yes.

H.M.Jr: What?

M: I - my ticker hasn't come up yet.

H.M.Jr: Well, ours - I mean - I think - and the ticker came over this morning and Ribbentrop has joined the group there.

M: Uh-huh.

H.M.Jr: And that Henlein is still there.

M: Yes.

H.M.Jr: Which is just opposite from what the papers said.

M: Yes.

H.M.Jr: And outside of that why we have nothing.

M: Good. Well now, we'll probably be getting stuff in throughout the day.

H.M.Jr: Right. Thank you.

M: All right, sir.

H.M.Jr: Thank you.

H.M.Jr: You couldn't get it? That Runciman is working on his own plan, which includes a billion pound loan to the Sudeten-Czechoslovakia

Taylor: A million pound!

Gaston: A million!

White: A million.

Oliphant: He said a billion.

H.M.Jr: He said a billion.

Gaston: Oh, that couldn't be. Five million dollars more than the amount of the British debt to the United States.

H.M.Jr: Maybe we can carry out this. (Laughter.) Thought maybe he's advising them.

Taylor: Three and a half million Sudetens. How much is that a head?

H.M.Jr: Well, it would be cheap.

Well, I've got nothing. Anybody got anything for me?

Taylor: I've got

Oliphant: I'd like to discuss a matter with you and Mac, just a minute.

Upham: Diggs talked to the people in National City and Chase yesterday and they are all convinced there is not going to be any war and they referred to a payment which the German Government cabled over yesterday, or the day before, in some substantial amount, which has been in litigation about three years, saying if they plan to go to war any time soon they certainly wouldn't pay that.

Taylor: That's fine.

H.M.Jr: Well, all right. We'll just add that to the picture puzzle.

White: Antiques.

- 7 -

H.M.Jr: What do you have, Haas?

Haas: I've only got this trend, on stock prices. That is Italy - Milan.

H.M.Jr: Well, that starts to go off in February, don't they?

Haas: That's right. The Japanese curve from the data I have seen so far, I think the curve is going to be about the shape as that. It appears we're going to have to take individual stock prices and make up our own. You want that put on the other?

H.M.Jr: Yeah. Just one minute and I'll give this right back to you. O. K.

Haas: Uh huh.

Taylor: Archie and I would like to talk to you about Brazil for about five minutes.

H.M.Jr: O. K.

Taylor: And then in the British Trade Agreement negotiations, antiques have been found on the free list. Now there is a question in the Treasury

H.M.Jr: With or without worm holes?

Taylor: That has not been mentioned. The Administrative and Customs, and Mr. McReynolds supporting them, urgently think that that is a mistake to do that on account of difficulty about those worm holes, and so on. Now, do you wish to raise that at this point?

H.M.Jr: (Emphatically) No!

Taylor: Period.

White: It's not too late.

Oliphant: Well, I wouldn't want to delay the agreement one day for it even though I feel very strongly about it.

H.M.Jr: I know enough about the worm holes in antiques to know they should not be on the free list, but believe me, I don't want them hanging anything on my door step.

- 8 -

Taylor: That's what I told Mr. Johnson, but I would confirm this.

H.M.Jr: If the thing should quiet down and you still have no trade agreement, which is possible, then I would resurrect the worm holes. I think Mr. Johnson is absolutely right, but

McReynolds: He was right in bringing it up.

H.M.Jr: but it's just a question of the propriety and the importance of worm holes.
What else?

Taylor: That's the only thing.

H.M.Jr: I see you, and Archie wants to see me. Let me get Mac started.

Oliphant: It will just take a couple minutes.

H.M.Jr: All right, come on. You people wait; and you two wait.

TREASURY DEPARTMENT
Office of the Secretary
Secret Service Division

103

MEMORANDUM
September 2, 1938

To: Mrs. Klotz
From: Chief Wilson

Attached is a tentative schedule
of the President's engagements for
Sunday, September 4, 1938.

If we are advised of any change
in the arrangements we will send you
an amended schedule.

Sunday, September 4, 1938

Leave Washington at 10:00 A.M., motor to Morgantown.
After arrival inspect Bridge site.

Leave Morgantown on Potomac after inspection. Arrive
Critchfield Monday, September 5, 9:00 A.M.

Drive Critchfield to Salsbury, 40 miles, arrive 10:30 A.M.
Brief speech.

About 11:00 A.M. drive to Denton. Have noon-day dinner with
Representative Goldsborough. Speech at 2:00 P.M. to last
about 30 minutes.

2:35 P.M. leave Denton for Matapeake Ferry for Annapolis.
About one hour across.



OFFICE OF THE CHIEF
SECRET SERVICE DIVISION

TREASURY DEPARTMENT
WASHINGTON, D. C.

September 2, 1938

Memorandum for Mrs. Klotz,
From Mr. Wilson.

I am attaching herewith tentative program
of the Presidential Party for Sunday and Monday,
September 4 and 5, 1938.

If there is any change in this schedule I
will advise you promptly.

(TENTATIVE)

MORGANTOWN - DENTON PROGRAM
 SUNDAY AND MONDAY SEPTEMBER 4-5 1938

Lv. Washington Sunday morning	10:30 a.m.
Ar. Morgantown Ferry via Newberg & Matthews Farm	
Bridge site	12:30 p.m.
Approaching Ferry greet crowd located in field	

MONDAY Sept. 5, 1938

Ar. Crisfield	9:00 a.m.
Lv. Crisfield	9:30 a.m.
Ar. Salisbury	10:30 a.m.
Greetings from car	
Lv. Salisbury	10:45 a.m.
Ar. Denton via Federalsburg	12:45 p.m.
Informal luncheon	1:00 p.m.
Speech	2:00 p.m.
Lv. Denton	2:40 p.m.
Ar. Matapeake Ferry	4:00 p.m.
Ar. Annapolis	5:00 p.m.
Ar. Washington	6:15 p.m.

September 2, 1938

Harry Hopkins handed the attached to me at Cabinet today.

THE WHITE HOUSE
WASHINGTON

108

My dear Mr Secretary:-

News Bulletin No 1

- A. Wallace is unhappy - cause
wheat + other trouble
- B. Dan is just the same
thanks you
- C. Fanny is on both sides still.
- D. The lady of State would
like to see the lady of
War in Canada and why
not?
- E. The lady of War wants to
stay + so does Heber
- F. Fanny is still away
- G. And how are you
Fanny

September 3, 1938

The Chinese Ambassador called on me on the farm as a result of his having seen the President last Thursday. He seemed to be under the impression, as a result of his interview with the President, that he could arrange for a \$25,000,000 loan with which to buy medical supplies, cattle, grey goods, flour, etc.

The President brought this Chinese question up at Cabinet. He said he had had or would talk to Norman Davis and suggest that they send material through the Red Cross. Mr. Hull spoke up and said they were thinking of assisting the Chinese to buy materials which might be considered for relief purposes, but there was no statement made at Cabinet which led me to believe that the matter was settled.

Friday morning I got a request from the State Department that the Far Eastern Division wanted to see me alone in regard to the Chinese loan. I gave them an appointment for Tuesday.

Before seeing the Ambassador I read the correspondence from Magill in connection with the Chinese loan, particularly Bullitt's letter.

I found the Ambassador was under the impression that the whole matter was settled. I told him not to advise his Government that the matter was settled as the President had not instructed me to go ahead with his and that while I was in favor of making the Chinese a loan, and have been for over two months, that the matter had not cleared the State Department. I told the Ambassador that if the President and Mr. Hull would say "yes", that I could settle the matter with him in twenty-four hours.

The President mentioned at Cabinet that the Chinese would repay us in kind; namely, would pay us back, say, in flour. I asked the Chinese Ambassador whether this was his idea. He said no, that this was the President's idea. I said personally I thought it was much better to make it a dollar loan repayable in dollars and he agreed emphatically with me. He said that he thought they could take some of this material right into Shanghai

-2-

and that the Japanese would not seize the material as it was for relief purposes. I doubted this and he said that we could make one test shipment. I asked him if we could get into China another way and he said through Hongkong or Saigon.

I asked him how much time they had and he said they had no time to spare; if they were going to get the materials into China, it would take at least two or three months. He said there are 50,000,000 people in China who need help before winter comes.

He asked me if there was any reason why they couldn't now give publicity to the purchase of silver. I said there was no reason and that I would be glad to see them do so and that I had requested Professor Buck on his return to give it publicity.

PARAPHRASE OF TELEGRAM

From: Amlegation, Bern

Dated: September 3, 1938

Tyler leaves September 6th.

MJD

GRAY

Bombay

Dated September 3, 1938.

Rec'd. 7 a. m.

Secretary of State,
Washington.

September 3, 11 a. m.

FOR THE SECRETARY OF THE TREASURY.

Due to the tense Europe situation ready silver advanced sharply from rupees 50-13 per 100 tolas to 51-4 but with ease-ment closed at 50-12. Stocks estimated at 2500 bars average daily offtake 20 bars. Imports during the week 173 bars.

Due to the dollar appreciation and Europe situation ready gold advanced from rupees 36-0-6 per tola to 36-4-6 closed at 36-3.

WATERMAN

MJD

GRAY

London

Dated September 3, 1938.

Rec'd, 8:30 a. m.

Secretary of State,
Washington.

862, September 3, noon.

FOR TREASURY FROM BUTTERWORTH.

The dollar opened steady at 4.85½. Again just before gold fixing it turned bid and was allowed to go to 4.84-3/4. Likewise gold was in demand, 264 bars being sold at 143 shillings 5 pence. The too ready optimism engendered by Reuter's report of yesterday afternoon is disappearing.

KENNEDY

GM
CSB

TELEGRAM SHEET

114

JR

September 3, 1938

AMEMBASSY

RIO DE JANEIRO (BRAZIL)

102.

Your 203, August 25, 3 p.m.

The following strictly confidential communication is telegraphed you at the request of the Federal Reserve Bank of New York for delivery to the Bank of Brazil:

*September 2, 1938, Banco do Brasil, Rio de Janeiro, Brazil.

Dear Sirs:

We refer to your letter dated August 24, 1938, addressed to the American Ambassador at Rio de Janeiro.

We have been authorized by the Secretary of the Treasury of the United States to advise you as follows:

We, as fiscal agent of the United States, are prepared to receive gold sent to us from abroad by you or your government and to hold the same under earmark and deal therewith as provided in the arrangement contained in the letter dated July 15, 1937, from the Secretary of the Treasury of the United States to the Minister of Finance of Brazil, as supplemented by this letter.

Item (4) of said letter of July 15, 1937, provided that milreis shall be repurchased 'at such times as may be mutually agreed upon when such milreis are purchased from you by us, ***.' Until further notice we are prepared to agree that any or all milreis purchased by us from you under such arrangement shall be repurchased (in United States dollars) by you from us no later than one year after the date of the purchase from you by us, at the same rate or rates of exchange at which such milreis shall have been purchased from you by us. If prior to the expiration of such one-year period you request that such date be extended for a further period of time, consideration will be given to such request.

-2- #102, September 3, 4 p.m., to Rio de Janeiro.

We also agree with your request to modify the last sentence of item (4) of said letter of July 15, 1937, to read as follows:

'In the absence of any such request milreis in the amount of such accrued interest shall be purchased (in United States dollars) by you from us at said rate or rates of exchange at the end of each successive six-month period from and after the date of the purchase of the milreis by us from you and upon the termination of this arrangement.'

We assume that your designation as fiscal agent of the United States of Brazil to enter into the arrangement contemplated by the letter of July 15, 1937, as supplemented and modified herein, will be confirmed to our Secretary of the Treasury or to us by your Government.

We will use our best efforts to make arrangements for refining on arrival for account of the Brazilian Government, such gold as may be shipped. Before we could obtain an estimate of the cost of refining, we would need to know whether the gold consists of coins or bars and the approximate fineness thereof, and, if bars, the approximate weight of each bar.

Very truly yours, L. W. Enoks, Vice President."

HULL
(FL)

EA:FL:EB



PARAPHRASE OF SECTION THREE, TELEGRAM NO. 1394 OF
SEPTEMBER 5, 1938, FROM THE AMERICAN EMBASSY, PARIS, FRANCE

My private banking friend mentioned above was informed by an official of the French Ministry of Finance that France needed a conversion of Government debt, but that it would be foolish to carry out such a step now before consummation of heavy borrowing to meet the requirements of the Treasury. It is my friend's opinion that the franc is destined to weaken until the French Government faces its economic and budgetary problems in a more realistic way.

END MESSAGE.

BULLITT.

EA:LWW

FEDERAL RESERVE BANK
OF NEW YORK

117

OFFICE CORRESPONDENCE

DATE September 5, 1938.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

L. W. Knoke

Bolton called me at my home at 1:10 p.m. There had been no news at the time business opened and the market evidently considering this ominous had attacked sterling with such vehemence that matters had almost gotten out of hand. The fund first supported at 4.83 and had to give up \$10,000,000 within five minutes. After that it supported at 4.82 1/2 to 4.82 1/4 and the total losses of the day were \$35,000,000 plus about \$25,000,000 worth of gold sold to the Swiss and to the Dutch. Speculative attacks on the sterling had been fanned by press reports talking of 150 shillings for gold and the dollar at 4.60-4.20; also by reports received from France during the day to the effect that the country was partly mobilizing, that all officers had been put on notice, that all telephone people were on 24-hour service and all technicians had been told to hold themselves in readiness. The latest news from Germany-Czechoslovakia was to the effect that the Czechoslovakian Cabinet was meeting to consider its final offer to the Sudeten Germans.

Bolton mentioned that he was shipping £3,000,000 gold on the Aquitania leaving today and was arranging for another shipment on the Laconia.

LWK:KV

fs

GRAY

London

Dated September 5, 1938

Rec'd 12:40 p.m.

Secretary of State,
Washington.

867, September 5, 5 p.m.

FOR TREASURY FROM BUTTERWORTH.

With reference to my telegram 855, September 2, 1 p.m., I quote below the comment in today's TIMES:

"The negative reaction of the stock markets to political circumstances which in former days would have provoked them to all too active positive action has not been duplicated by the exchange and bullion markets. The same circumstances which have been accepted in the stock markets in recent weeks as a motive for avoiding both purchases and what is more significant sales of securities-- witness the almost complete lack of business--have led in the exchange and gold markets to a marked intensification of activity. The latest indication of this is the suggestion via the rates payable for the reinsurance of marine risks, that available shipping facilities may be becoming technically insufficient to cope with the flow of gold from Europe to the United States. During the past month alone shipments of gold from this country have totalled something

FS 2-No.867, September 5, 5 p.m. from London

something like 25,000,000 pounds. The aggregate turnover in the bullion market has of course been much greater though it must not be assumed that the turnover is necessarily a precise measure of the loss of gold by the Exchange fund. On the contrary it almost certainly is not. About 35,000,000 pounds covers the amount of gold sold at the fixing and the post fixing sales have possibly been as much again. But some of the buyers at the fixing have resold the gold afterwards. Even 35,000,000 pounds, however, is a quite abnormal figure, ignoring a certain tendency to periodic abnormality in the bullion market these days.

This sensitiveness of the bullion market as a political barometer is in its way instinctive. The present generation on the continent has an all too tender recollection of what happens to currency and stock exchange values as a result of war and the present movement into gold reflects in part a belief independent of profit considerations that gold provides greater security than either. This has been only one element in the market however. The increase in the purely hoarding demand for gold has coincided with an intensification of the demand for dollars furnishing capital and current account as
against

FS 3-No. 867, September 5, 5 p.m. from London

against sterling and to a less extent continental currencies on purely economic considerations. As such this has probably been a minor factor but not so the related factor of the expectation of a gold profit through a further fall in sterling in terms of dollars. As a result of that expectation gold has become a medium for considerable professional speculation, expressed partly in the arbitrage shipments of bullion to New York against sales of dollars, partly in the purchases and resales of the metal itself. To what extent such speculative activity has been facilitated by the removal a few months ago of the ban on bank loans secured on gold together with that on hoarding of gold coins and by the provision of means for forward dealings on gold must remain an open question. But it should be observed that the change in the official attitude in this connection was influenced by the knowledge, forced home by the gold scare of last year, that ownership of gold by the public represents an effective form of sterilization and as such may be helpful when the gold movement is in the other direction, if the ban were reimposed it would mean, when the gold tide changed, a corresponding increase in the cost of official sterilization. Meanwhile not all of the shipments of gold to New York represent arbitrage operations. A fair proportion are presumably direct sales by
the

FS 4-No. 867, September 5, 5 p.m. from London

the exchange fund to the American Treasury. Private or official they provide a certain support for sterling pending the reversal of the current political and economic downgrade which is after all the ultimate function for which the gold in the fund was accumulated."

The dollar opened at 4.84 and shortly thereafterwards the demand became heavy due according to exchange dealers to the fact that no concrete good news was produced over the week-end and at the same time the French reserivist measures occurred. The dollar immediately moved to 4.83½ without any appreciable business being done and rapidly went to 4.82½ at which point the British authorities apparently gave support. The volume of trading has been large. Gold fixing was also unusually large, 647 bars being dealt in at 144s 1d. Later the British fund gave gold at 1d over the fixing price and at 2d. For the first time in many days the franc has also been under pressure.

NPL

KENNEDY

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: September 5, 1938, 6 p.m.

NO.: 1394

FROM COCHRAN.

I had a talk with my friend at five p.m. He had just talked with London, where at that hour British control had yielded 28 million dollars and 4 million sterling of gold to hold rate at 482.20 to .30; his British friends he said had been considerably worried about some 400 million pounds of sterling balances which came in from abroad and had been built into a top-heavy structure. The immediate cause of the toppling is the Czech situation. It is proving very costly to resist downward tumbling now that the old line of parity has been wiped out.

By five o'clock the French control had lost 400 thousand pounds in order to keep the rate steady around 178.30.

Today I had lunch with Porters of Standard Oil and a Paris Morgan partner. In Porters' opinion, the equalization fund of Great Britain would limit its action to opposing fluctuations. But he did not think it would try to stop the whole trend of the market, which would entail sacrifices comparable to those made
in

- 2 -

in the past by the French fund. Porters laid emphasis on the nervousness of continental holders of sterling because of the Czech situation. He said that this as well as the seasonal demand for dollars had to be met by the British monetary authorities. Friends of Porters in Germany have told him that workmen there are becoming more dissatisfied since the Reichsmark buys less food for them and more labor from them.

BULLITT.

EA:LWW

GOLD FIELD IN LONDON

Close SEPT. 5, 1938

\$68,500,000

Insurance arranged for following ships:

<u>Sailing</u>	<u>Steamship</u>	<u>Amount</u>
Sept. 7	Normandie	5,000,000
" 7	Aquatania	5,000,000
" 9	Washington	12,000,000
" 10	De Grasse	10,000,000
" 14	Queen Mary	10,000,000
" 16	Pres. Harding	12,000,000
" 21	Manhattan	12,000,000
		<hr/>
		66,000,000

FS

GRAY

Berlin (part air)

Dated September 6, 1938

Rec'd 7:50 a.m. 7th

Secretary of State,
Washington.

417, September 6, 3 p.m.

11. FOR TREASURY FROM HEATH.

The last Reichsbank report shows that on August 31 total currency circulation stood at 8,935,000,000 reichmarks as compared with 8,705,000,000 reichmarks on July 31, 1938, and 797,000,000 reichmarks on August 31, 1937. The Reichsbank bill portfolio stood at 6,647,000,000 reichmarks as compared with 6,247,000,000 reichmarks at the end of July, 1938 and 5,283,000,000 reichmarks at the end of 1937. During the first week of September the money market was characterized by great liquidity. A large series of interest bearing Treasury certificates fell due on the first of September (exact amount not revealed) and new Treasury bills offered were less in amount than the increase in funds from this source. On September 3 the rates for call money varied from $2 \frac{3}{8}$ to $2 \frac{5}{8}$ which were about $\frac{3}{8}$ of 1% under the rates obtaining a month ago.

The

FS 2-No. 417, September 6, 3 p.m. from Berlin

The stock market has shown a stability and even a slight recovery during the last week. For the fourth week of August the stock market index (1924-1925 equals 100) stood at 101.6 as compared with 100.7 for the preceding week. As a result of the closing of the tourist season and more importantly the fear of war the rate for registered marks--which is more or less a freely fluctuating currency-- fell from 4.50 early in August to about 6 to the dollar on September 3.

An interesting development in the capital market was the decision of the financial authorities to extend the Austrian system of postal savings accounts to all post offices in the Reich. Austrian postal savings accounts are understood to total about only 100,000,000 marks. According to the FRANKFURTER ZEITUNG it is hoped that the extension of the Austrian postal savings system to Germany proper will result in a short time in increasing postal savings deposits to a total of 1,000,000,000 marks which compares with 18,000,000,000 marks savings deposits in the regular banks. Postal depositors will receive the same interest--3%-- on their savings as do depositors at ordinary banks.

In July there was again a slight net importation of
gold

FS 3-No. 417, September 6, 3 p.m. from Berlin

gold amounting to 3,500,000 reichmarks bringing total
gold imports for Germany proper to 94,500,000 reichmarks
for the first seven months of 1938.

KLP:CSB

WILSON

AA

MG

GRAY

London

Dated September 6, 1938.

Rec'd 2:30 p.m.

Secretary of State,
Washington.

873, September 6, 6 p.m.

FOR TREASURY FROM BUTTENTORTH.

The dollar opened at 4.82 $\frac{1}{2}$ bid and quickly went to 4.81 $\frac{1}{2}$. It then turned on vague rumors that Hitler had agreed to accept the Czech proposals and gradually moved up to as high as 4.83 $\frac{1}{2}$. When in due course this optimism receded it moved back to 4.82-3/8. Gold underwent similar fluctuations. 474 bars at 144 shillings 2 $\frac{1}{2}$ pence were dealt in at fixing and immediately after fixing the price rose a half penny. With the weakening of the dollar it fell to 144 shillings and later the British fund gave gold freely at 144.2 $\frac{1}{2}$ pence which caused the dollar to remain steady at 4.82-3/8. The dollar forward rates have moved out, six months to two cents and three months to 1-3/8ths. It is perhaps profitable to transfer funds to New York, a three months switch would yield 1 $\frac{1}{2}$ % plus any interest yield obtainable.

The franc was steady but again under some pressure.

The unemployment returns for August 15 published today
while

Page 2, #873 from London

while recording a decrease in the numbers out of work of 13,780 cannot be taken as an indication of a turn in the business trend, the reduction being due largely to termination of holidays in Scotland. The returns show increases again in unemployment in the textile, engineering and iron and steel industries. Total unemployment at 1,759,242 stood on a comparable basis at about 451,000 more than a year ago.

KENNEDY

CSB

STRICTLY CONFIDENTIAL

Paris, September 6, 1938.

My dear Mr. Secretary:

At 3.30 this afternoon Mr. Rueff asked me to come over to the Ministry of Finance to receive a message.. After his return from visiting the British Treasury in London, Rueff had telephoned me on Friday, August 26, to the effect that he had found the British Treasury sympathetically interested in the American proposal for assisting the franc, but that it had been deemed advisable to refer the question to the Central Banks of England and France for analytical study.

When Rueff received me this afternoon he told me that, after consultation with the Bank of France, the French Minister of Finance desired to let you know that he was extremely grateful for the suggestion in regard to lending assistance to the franc. It was felt, however, and particularly in view of the current international political situation, that the proposed plan might even increase speculation in the forward franc, and that it would be difficult to avoid publicity if
the . . .

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

STRICTLY CONFIDENTIAL

Paris, September 6, 1936.

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the . . .

The Honorable Henry Morgenthau, Junior,

Secretary of the Treasury,

Washington, D.C.

- 2 -

the plan should be undertaken. The Minister was most appreciative of the interest which you had shown and would welcome any other suggestion that you might see fit to make toward the same end of strengthening Tripartite cooperation. Since our proposal had been advanced orally, Rueff asked that we consider this as their verbal reply. It was obvious that he, as well as Minister Marchandau, had been really moved by your desire to lend them a hand in the present circumstances and that they regretted very much that such technical support as we had devised to date apparently would not relieve the situation.

Rueff thought the international political situation easier today, but realized that the atmosphere would be tense for several weeks to come. He said that the Treasury position had not yet become difficult and that no plans had yet been made for new financing.

I gave you the above information by telephone at 4.30 this evening. I am not making this a matter of Embassy record.

Faithfully yours,

STRICTLY CONFIDENTIAL

Paris, September 6, 1936.

My dear Mr. Secretary:

At 3.30 this afternoon Mr. Rueff asked me to come over to the Ministry of Finance to receive a message. After his return from visiting the British Treasury in London, Rueff had telephoned me on Friday, August 26, to the effect that he had found the British Treasury sympathetically interested in the American proposal for assisting the franc, but that it had been deemed advisable to refer the question to the Central Banks of England and France for analytical study.

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the . . .

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

- 2 -

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Faithfully yours,

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro

DATE: September 6, 4 p.m.

NO.: 211.

STRICTLY CONFIDENTIAL.

A purely unofficial understanding has been arrived at between the President of the Export-Import Bank and the Bank of Brazil under which the Bank has agreed to guarantee payment of credits to the Brazil/^{ian}Government for the sale of American products. For the Bank of Brazil this represents an entirely new practice as it has consistently denied extending such facilities in the past. Only purchases made in the United States are covered by this plan which restricts those which are in part at least financed by the Export-Import Bank.

I am informed by the Bank of Brazil that in view of the European situation, it plans to dispose of British bonds to the nominal value of a million pounds and to buy a corresponding amount of Government bonds of the United States.

In addition, I am informed by the Bank that it is seriously considering severing relations with the British banking firm of Rothschild with which it has been doing business for thirty years. The Bank says it desires to
establish

-2-

establish closer connections with American banks and that it resents what it believes to be the highhanded attitude of Rothschilds.

Please inform Commerce.

CAFFERY

EA:DJW

13033

13 700

RECEIVED
COMMERCIAL BANKING
SECTION
MAY 13 1954

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: September 6, 1938

NO.: 1397

FROM COCHRAN.

At 4:15 p.m. I talked with the Bank of France. I was told the French stabilization fund had had a light day at 178.29 to .30, and the Bank understood that the British had done only one-third as much as was done yesterday. Still active market in London, with rates moving widely. However, more hopeful news regarding Czech situation has caused improvement both in London and Paris today.

This afternoon I went to see Rueff. Rueff told me that the French Treasury situation is not yet difficult, and they have not yet evolved new financing plans.

Rueff expects that for several weeks the international political situation will continue to be tense. The French he said are not particularly worried about sterling depreciation since the franc was moving with the pound. I asked about the outlook for the belga and the lira if the present decline in sterling continues, but he would make no comment, nor would he estimate the level to which the pound may fall. Rueff said he did not know what the plans of the British were in this regard.

BULLITT.

EA:LWW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: September 8, 1938, 5 p.m.

NO.: 1398

STRICTLY CONFIDENTIAL.

Today the Chinese Ambassador in Paris advised me that Mr. K. P. Chen had not been well, and had not been able to leave China; Mr. Chen had previously made plans to go to Washington, arriving there before Secretary of the Treasury Morgenthau returned from Europe. It had been the intention of the Chinese Government to send Mr. Sing Loh Hsu in place of Mr. Chen; however, Mr. Hsu had been in an airplane accident recently and had been killed. In view of this, Mr. Chen, although he is not yet in good health, nevertheless has made plans to sail from China on the tenth of September. He expects to arrive in Washington on the second or third of October. The Chinese Ambassador here received a message by telegraph from the Chinese Minister of Finance, asking that he contact me and ask me to inquire of Secretary Morgenthau whether it would be convenient for him to see Mr. Chen on or about the second or third of October.

Will you please ask the Secretary of the Treasury about this matter, and let me know by telegraph what reply to make to the Chinese Ambassador?

BULLITT.

EA:LWW



DEPARTMENT OF STATE
WASHINGTON

July 18, 1939.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and, in accordance with a request from Mr. Lochhead's Office, encloses for his information two copies of paraphrase of strictly confidential telegram No. 1398 of September 6, 1938, from the American Embassy, Paris, with regard to the visit of Mr. Chen to the United States.

RECEIVED

4:20 P.

JUL 18 1939

TREASURY DEPARTMENT
Office of the Secretary
Technical Assistant to the Secretary

Enclosure:

2 copies of paraphrase,
No. 1398 of September 6,
1938, from Paris.

js

GOLD HELD IN LONDON

Close SEPT. 6, 1938

\$64,000,000

Insurance arranged for following ships:

<u>Sailing</u>	<u>Steamship</u>	<u>Amount</u>
Sept. 7	Aquatania	\$5,000,000
" 9	Washington	12,000,000
" 10	De Grasse	10,000,000
" 14	Queen Mary	10,000,000
" 16	Pres. Harding	12,000,000
" 21	Manhattan	12,000,000
		<hr/>
		\$61,000,000

Confidential

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 6, 1938.

to Secretary Morgenthau

from Mr. White

Subject: The sterling decline and the Tripartite Accord.

- 1. How low shall we see sterling decline before taking some action?
- 2. What action should we take now?
- 3. What measures of defense can we take later, if necessary?

1. How low shall we see sterling decline before taking action?

(a) As indicated in my previous memorandum on the sterling situation a clear justification for lower sterling at this time cannot be deduced on information available to us.

Notwithstanding the several arguments that might be advanced in favor of lower sterling, the total economic situation does not appear to justify a lower level for sterling under present circumstances. It is possible that additional confidential data that the British Treasury could supply us with might throw a somewhat different light on the matter, but there is no a priori ground for expecting that such additional information will weaken rather than strengthen our contention.

(b) A drop in sterling to \$4.80 is not likely to directly hurt our trade or our business to a noticeable extent. The chief disadvantage of such a decline will be indirect through the accentuation of monetary uncertainty. The recent decline in sterling has reintroduced exchange instability, and increased gold hoarding, both the short and long run effects of which are inimical to world economic recovery.

However, I do not believe that under the terms of the Tripartite Accord and in view of the total circumstances we are justified in registering any strenuous objection to a decline in sterling to \$4.80. I believe it would have been better for all concerned had sterling been pegged around \$4.86. But the decision on that policy rests wholly with the British Treasury. In conducting its operations it must be the judge as to whether it is wise to permit sterling to decline under pressure even to \$4.80.

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(c) The danger for us is that fluctuations in sterling while starting out apparently as a result of flight from sterling, may gradually develop into a downward trend. We cannot reasonably take any action with respect to fluctuations of sterling between \$4.80 and \$4.86 but we want to be certain that sterling doesn't move successively to lower levels without our first having decided what our policy is to be in that event, and without taking the preliminary first steps to protect ourselves against an unreasonable decline.

If sterling drops substantially below \$4.80, our foreign trade and our domestic business will be adversely affected. It must be remembered that sterling declines will sooner or later be accompanied by declines in many other currencies important to us. How serious the total effect would be on business conditions here no one can say, but certainly it would be harmful enough to warrant careful reexamination of the situation before we are accompanied by a fait accompli.

Therefore, I believe we ought to take some action as soon as sterling touches \$4.80.

2. Our first step should be a request for statement of British intentions.

As soon as sterling drops to \$4.80 or even \$4.81 we ought to ask the British Treasury to tell us just how much they intend to let sterling drop. We ought to know what criteria they are now applying in their dollar-sterling operations, whether they intend to push sterling up if the European political crisis subsides, or whether they will let sterling drift lower in any case.

It is a question that we can very reasonably ask them at this time under the terms of the Tripartite Accord.

We would be in a much better position to know what to do next after we have received an answer to that question from the British Treasury no matter what their answer may be.

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3. What steps we could take later if necessary:

(a) If the British Treasury in answer claims that economic conditions warrant a lower level for sterling, it would be reasonable for us to request that the matter be made subject to discussion, that all pertinent information be made available to us inasmuch as from the information now available we do not agree that a lower level for sterling is warranted. The Tripartite Accord was designed in part just for such conversations.

(b) Should their answer to our question be evasive we could inform them that we might regard any further substantial decline in sterling as a violation of the Tripartite Accord.

We could, if deemed wise at that time, even inform them that we reserve the right from then on to take such action as is necessary to protect the position of the dollar.

(c) Should the British Treasury answer that they cannot hold sterling with the present pressure against it, then it would seem quite in order for them to indicate what their policy will be if and when that pressure is removed.

The question is: Would England be seeking a competitive advantage by letting sterling decline to a level lower than 16.80, or is a lower level justified by the total economic situation.

If we believe the facts bear out the former rather than the latter, we would be justified in holding that England is in our opinion violating the Tripartite Accord.

(d) If the course of sterling continues downward and the British explanation of their action is unsatisfactory to us, there are several steps we can take, the mere suggestion of which would cause the British Treasury to hesitate before acting in a way contrary to what we believe to be in the interests of members of the Tripartite Accord.

We could, if the situation warranted such drastic measures, undertake any or several of the following:

- (1') Publicly announce it as our opinion that England has, by seeking a competitive exchange advantage, violated the Tripartite Accord.
- (2') Re-open consideration of the terms of the proposed Trade Agreement, or if the agreement has gone into effect, invoke the hedge clause referring to exchange variations.

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- (3') Raise the Treasury buying price for foreign gold concomitantly with the sterling price for gold.
- (4') Operate heavily against sterling converting our sterling balances into gold at once. (This could involve slight losses for our fund on the exchange operations, but such losses should not be the decisive consideration.)

The mere serious indication that we might take some of the above steps would, I believe, cause the British Treasury to check a decline below \$4.80 until they obtained our acquiescence.

The chief and decisive weapon in our arsenal is that England needs our good will much more than we need hers at the present time.

GROUP MEETING

September 6, 1938.
9:30 A. M.

Present: Mr. Magill
Mr. Oliphant
Mr. Gaston
Mr. Haas
Mr. Taylor
Mr. Lochhead
Mr. White
Mr. Upham
Mr. Gibbons
Mr. Bell
Mr. Thompson
Mrs. Klotz

H.M.Jr: I did everything but read your memorandum.

Magill: How you do surprise me.

H.M.Jr: Before you question me. All I had to do was to look at the way it was framed and I said, "My God."

Magill: I'm glad you have a sense of guilt; I can see it written all over you.

H.M.Jr: I haven't even got a sense of guilt, but my tennis was much better than it should be. So we'll see. . We'll see what we see. Got a lot more. I tell you, I didn't want to embarrass Johnny Hanes by being.....

Magill: Well, that's fair enough.

H.M.Jr: Well, we'll see what we see. Everything else quiet on the Potoma, Hudson, and East River?

Magill: Very quiet. You know how it was over the week-end.

H.M.Jr: I've got to tell you people a funny story. Last night, with the President, about the selling of his Christmas trees, which he grows. I said, "I've got this man ready, but he's a tough guy. I saw him and he wanted to know how much. I told him, 'I'll price a million dollars worth of bonds without the President's thoughts, but I refuse to price a thousand Christmas trees.' You'll just

have to see him yourself." So, "Well, Mac," he said, "Thursday, what about Thursday?" He said, "You know, Mr. President, you said you wouldn't see anybody Thursday; you've got this Youth Congress on your hands." "That's right, I can't see anybody Thursday." I said, "Well, it's no favor," I said, "you've got a lot of other places to buy - Nova Scotia...." He said, "Let me see - Thursday - Youth Congress - tell you what you do; I've got to show him those trees myself. You tell him to be at the big house at two o'clock and I'll take him around the place for the afternoon."

I'll bet you he spent all afternoon. If I can tell one more story, which I don't think I have ever told - it's very much in the same order.

A fellow by the name of Penfield - came from Pennsylvania - a very large contributor to Woodrow Wilson's campaign.

Bell: Wasn't he an Ambassador?

H.K.Jr: Yes. He'd been trying his best to see the President. He sent his head gardner - he was a very wealthy man - he sent his gardner out to present the President these chrysanthemums. Woodrow Wilson said, "Who brought them?" "Mr. So-and-so's gardner." "Well, bring him in." And he had him in for two hours, and talked about chrysanthemums, fertilizer, soil, heat, temperature, etc. When Penfield heard about it he said, "Why the dirty so-and-so; he won't give me two minutes, but he gives my head gardner two hours."

(Laughter)

H.K.Jr: It's a true story, too.

Gibbons: He was an awful flop - Penfield.

H.K.Jr: Oh, terrible - terrible. So Mr. Langley, of Grand Union will get an afternoon, but Bell and I - I am putting the two together with the hope there is a basis of selling the Christmas trees - he may see you and me.

(Nods to Mr. Magill.)

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Magill: (Nods "Nothing.")

B.L.Jr: (Nods to Mr. Oliphant.)

Oliphant: (Nods "Nothing.")

B.L.Jr: Oh, I have something here. With all respect to the rest of the Treasury, I am not satisfied, inasmuch as the lawyer - I sent this radio message in regard to our action on the selling of this marble. You gave me a report, and I am not - it is not satisfactory to me. In other words, they don't explain in their memorandum whether they - whether this was the first marble ever bought from Colonel Berry or not. They simply say, "We bought twenty-seven samples." Well, did we buy these twenty-seven samples? I don't know how much you (Magill) know about it.

Magill: I don't know anything about it.

B.L.Jr: Well, this is a very unsatisfactory memorandum, and you see, it's this attorney that gives all this to Biddle. What I want to know is this, Herman: This Chief Geologist for T. V. A. claims that we specified a marble which was only procurable in the marble quarries of one Berry, and that we paid twice as much for this marble as it was worth and in that way established the price for this golden quarter. Now Procurement comes back with a long rigmarole that they bought twenty-seven lots of marble, and it is a sub-contracted size, but the fact remains, we do not answer the charges, "How did we come to do it in the first place?" See? And I read this thing very carefully, and I am not satisfied.

If you will step here a minute, (Mr. Oliphant) I'll show you this. I am not satisfied. This is the Eckel report here, and it says here: "It is evident that, if this procedure continues very high values can be given to all of the worthless mineral resources of the Norris area. Because if one government agency buys them at a high price, it will be entirely impossible for us to establish in court the fact that they are really useless in a free competitive market."

Now that is the so-called Eckel statement, and Procurement just doesn't answer it. Now they just don't answer it. They say they bought twenty-seven - well they could have bought twenty-six lots after that, but how did they come to buy it in the first place? And only last December? They now change the thing, and they now name the thing, or something like it, but it doesn't answer it. And if I got hold of that and read it, on the outside, I'd say - well, I don't know. See?

Oliphant: Well, I'll handle it personally.

H.M.Jr: Thanks. Now I think we ought to move very - reasonably fast.

(To Mrs. Klotz:) That was handed to me by Hopkins at the last Cabinet meeting. (Hands her paper.)

We had a very important business meeting at Cabinet last week, and I got this memorandum from Hopkins:

"My dear Mr. Secretary. News Bulletin No. 1.

- A. Wallace is unhappy - cause wheat plus other trouble.
- B. Dan^(meaning Roper) is just the same thank you.
- C. Fanny is on both sides still.
- D. The Secretary of State would like to see the Secretary of War in Canada, and why not?
- E. The Secretary of War wants to stay, and so does Helvering.
- F. Farley is still away.
- G. And how are you?

Harry."

(Laughter)

Marvelous. The only bright spot in the whole Cabinet meeting. It's perfect, isn't it?

And if you will give me that memorandum on shipping in time of war - what?

Oliphant: Uh huh.

H.A.Jr: (Nods to Mr. Gaston.)

Gaston: Lindley wrote his Sunday column about political contributions by employees and used Mr. Oliphant's memorandum as the basis, and the Post ran your picture with the story.

H.J.Jr: I didn't see it.

Oliphant: One of your good pictures.

Haas: A terrible picture.

H.S.Jr: Could I see it?

Gaston: I'll dig it up for you. Will we have any press conference today?

H.S.Jr: No.

Gaston: No?

H.A.Jr: No.

Gaston: Drew Pearson is extremely anxious to get you to make some statement about Mr. Tydings and the Coast Guard Depot. It's practically going to decide the election in Maryland, and if you don't do it, it's favoring Mr. Tydings.

H.A.Jr: Well, my political advisor, unofficially, and my official Assistant Secretary in Charge of Coast Guard, is back. Could you get a more happy combination?

Gibbons: He's just simply annoyed me to death on that Maryland situation.

H.A.Jr: Have him call on Mr. Gibbons. It's a happy coincidence.

Gibbons: I happened to run into Jim Farley in the restaurant last night, and he remarked, that it's too bad we can't send Drew Pearson to Alaska and keep him there.

Gaston: Our friend, Mr. Theodor^e Goldsmith, on his figure this morning, he says seven fifty cash.

H.M.Jr: Are we good for two?

Gaston: We're good for two.

H.M.Jr: All right. Well, that gives me three alternatives; one, do nothing; two, I'd give them something just so they'd have something to argue about - half a billion to a billion cash; and, three, raise cash and give the December maturities a chance to convert. I said I'd call them all back tomorrow morning. I'm putting it up to a dozen fellows, scattered all over the United States.

What else? What other good news?

Gaston: Well, Mr. Schwarz came back from Chicago. He's seen everybody in Chicago there, politically, who is hostile. He doesn't know whether they're getting any approval of the decentralization. Beck said he thought it was a good thing, but he wouldn't dare do it on account of McCormack's attitude.

H.M.Jr: Anything else?

Gaston: That's all.

H.M.Jr: George?

Haas: I haven't got anything very important.

H.M.Jr: Well, I've got something for you, and I want it snappy too. I want - which line index do you consider is the most reliable on business - which index? I mean, taking one index.

Haas: Well, I don't think that can be intelligently answered, categorically. It depends upon.....

H.M.Jr: Well, I'll take, for my purpose, the New York Times Business Index. What I want is that line of expenditure which you showed us the other day. I want to put it down on my desk. I want to have it the same size, not necessarily the same ratio. The Times Business Index. Then, I want the Bureau of Labor Employment Index.

Haas: Factory employment, huh?

H.M.Jr: Factory employment, and then I want Hopkins' employment - the number of people that he employs, see?

Haas: That figure that he gives out - the number on his roll?

H.M.Jr: Right. In other words, I want to take your figure, the New York Times, Miss Perkins' list, and then Hopkins'. Now what I am trying to find out is, here we've got a new figure, a new index of Federal expenditure, a thing we never had before. Is that right? I want to lay that down over the last couple years - Bureau of Labor Factory, Hopkins', and Business, and see if those four things - if they move together.

Haas: Uh huh.

H.M.Jr: See? You get the idea?

Haas: Yes sir.

H.M.Jr: In other words, you give me one. In other words, if I had the sole responsibility, are Government expenditures, private employment, government employment, and business conditions - now do those - is there any correlation between those things whatsoever?

Haas: Yes sir.

H.M.Jr: I haven't seen them laid down together.

Haas: I have another scheme I was working on.

H.M.Jr: I'd like to have that fairly fast.

White: One of our men has been working partly informally along with Curry's men, on an attempt to push that thing a little bit further into its appropriate refinements. They have recently issued a report, independently. It is a rather long report and a technical report, which has a very important bearing on this matter, and uses what was formerly known - we called your attention to the net contribution. It explains it, and it indicates its position so that I think if you are going to do anything that's going to lead the Treasury on this, if you are going to show it to the President, or anyone else, I think you first ought to become intimately acquainted with it.

H.M.Jr: Show it to George.

- Haas: I've got it; Curry sent me a copy.
- H.M.Jr: Oh, excuse me. And then Social Security - you've got a figure of the total number of people receiving Government aid. Get that figure, plus the Hopkins one. See, the Social Security. Am I right, Dan?
- Bell: They put it out - that's all.
- H.M.Jr: And talk with Harry, and let him see this thing, will you?
- Haas: Yeah.
- H.M.Jr: You get what I'm working at? If anybody has any contribution, give it to George. But get the Social Security list. It gives all benefits, doesn't it?
- Haas: It includes State, Federal, local, and everything.
- H.M.Jr: Does it include Agriculture too? I don't care if you bring me in too many charts; if you have something better than the New York Times I don't know whether the cost of living will enter into this thing.
- Haas: I've got one which is in process. It has eleven curves on it. This point you raise should be done separately. It's a little different view point than this.
- H.M.Jr: When you've got that ready, let me know. If anybody's got any contributions, talk as frankly and vigorously as you feel. I want to get it quick.
- White: My guess is in the next couple months or so you will feel a good deal better if you take a look at that report - either of a digest summary of what the report is, or you might glance through it yourself.
- H.M.Jr: Anything now, but I tell you, the purpose is to let you people know what I am thinking, and if you've got something you want to feed to me, all right, but I want to filter through George.
- Wayne?

Taylor: We're in pretty good shape on this exchange control stuff, if you want to talk about that any time today.

H.M.Jr: Yeah. Well, here's my thing; I've got all these calls. I'm going to start on them again, ten to eleven, and you're coming in again on China at eleven. Who will be here at eleven?

Taylor: Feis and Hamilton; I don't know who else.

H.M.Jr: Proposed loan.

Taylor: Relief, and loan, and so on.

H.M.Jr: Harry, you'd better sit in on that. I've had a visit with the Chinese Ambassador at the house. If you will come in five minutes of eleven I can tell you in two and a half minutes what he said and two and a half minutes, what the President said. Somebody has been eating of the lotus flower because they've certainly got hallucinations. So if you people come in at five minutes of eleven....

Anything else?

Taylor: (Nods "No.")

H.M.Jr: (Nods to Mr. Lochhead.)

Lochhead: In connection with the China, I've got the cable in now from Buck in which he mentions about Chen's proposed itinerary, and asking for a prompt reply on it, so I imagine it's a part of this.

H.M.Jr: You be here at five minutes of eleven too. You're a Chinese Chow Mein expert.

Klotz: Poor Archie.

H.M.Jr: God, I wish you'd see him stuff it away.

Lochhead: I might say that I am just providing a cover for the Secretary.

H.M.Jr: A darned good cover, too. I'll take you along any time to cover up.

Lochhead: He's got me stopped there.

The exchanges are much quieter; they are still erratic, of course, but they are ranging between 4.82 3/4 and 4.83 1/4. I'll have to wait until late this afternoon to get the returns in.

H.M.Jr: Give it to me as soon as you can, every day, will you, from now on, what our net gold position is.

Lockhead: (Nods "Yes.")

H.M.Jr: Harry?

White: I have a little memo here on sterling situation. I think we ought to do something, and I think we ought to spend a little time talking over what we might do before it's too late. I think there is a first step we could reasonably take without committing ourselves in any way, and putting ourselves

H.M.Jr: If this Chinese thing doesn't take too long maybe we can do a little sterling afterwards.

Cy?

Upham: Smyth is in the hospital; he was operated on Friday for appendicitis.

H.M.Jr: Doing nicely?

Upham: Doing nicely.

H.M.Jr: Jefty O'Connor sent me a telegram yesterday afternoon. He gets in at ten this morning. We'll have to see him.

Klotz: Yes.

Upham: He talked to Diggs yesterday from Los Angeles, and mentioned a number of plans that would keep him there, and said nothing about coming here.

H.M.Jr: Well, it's a secret. (To Mrs. Klotz:) When can we see him?

Klotz: (Low)

H.M.Jr: Let's tell him ten thirty, and say he may have to wait a few minutes, but he should be here at ten thirty.

(Nods to Mr. Gibbons.)

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- Gibbons: Would you be interested in reading a letter from Al Cohn?
- H.M.Jr: Sure. The family is all sore at me for letting Al Cohn go.
- Gibbons: That's very funny.
- H.M.Jr: I'll read it later.
- Gibbons: He sent me a telegram, and said Jefty would come out fifth, but he misled you, he came out sixth.
- H.M.Jr: All right. Say, listen, I wish you'd get busy and see why - I want a permanent radio station for Coast Guard somewhere within the vicinity of Washington. We're no nearer today than three years ago.
- Gibbons: You worked on that; it nearly broke - Waesche told me that now the Budget Director won't let him - cut out his request for money to buy a place. It's to come out of National Park money. They turned that down.
- H.M.Jr: Well, the Director of the Budget isn't here, but he's available after ten o'clock. But they ought to have one.
- Bell: As far as the Budget was concerned, I think it was approved, since I came back. We talked about it at staff meeting one day.
- Gibbons: There was a memo on my desk that told me to call Waesche.
- H.M.Jr: I don't want a memo, I want a little action.
- Gibbons: That's his story to me.
- H.M.Jr: Well, see if we can't get it fixed.
- Gibbons: We performed a miracle on that three two. For two years we were trying to get title to property in authority through the Justice Department. They had three million two hundred thousand, through this P. W. A. allocations, and no titles to it; had twenty-four sites and only ten days to clear titles to them.

- H.H.Jr: Well, anyway, will you, particularly the radio station?
- Gibbons: Yes. You spoke to me about it before I went away. They say now they can't get it until they get an appropriation. In other words, Ickes, and this Public Park outfit.....
- H.H.Jr: Well, they've got a site, I understand, and they need a little money. Not an awful lot of money - twenty thousand or something like that.
- Gibbons: Yes, it's a small amount of money.
- H.H.Jr: But they really ought to have it.
- Gibbons: They had it 'in' at one time and it was kicked out.
- H.H.Jr: Well, see if you can't get it, will you?
- Gibbons: I know what this is; that is on those architects. This fellow wants an architect, and I turned him over
- H.H.Jr: All right.
- Hell: I think we might send this telegram this morning, telling them everything is ready, and also it provides for a notice to the banks. We can expect that tomorrow.

The only other thing I have, you may recall last year when we started sending out checks on the unemployment trust funds, that the states were requisitioning a great deal more than they needed, but there wasn't much we could do about it, but call it to the attention of the Board. The Board is now investigating and the counsel down there said the purpose of those excess requisitions was to give the banks some balances for compensation of the banks' handling the business, and the Board has now ruled that is illegal, so it puts the proposition up to us to try to work it out along depositary lines. I think we can do it. It will cost us some money. That is, it will cost us some balances, but before January rolls around I think we should try to work out something from the legislative standpoint, and put the balances in the Treasury of the United States.

H.M.Jr: I don't think I want to do that. I want to understand it fully.

Bell: May I go ahead and do some preliminary work on the depository angle?

H.M.Jr: Surely.

Bell: We've got to do something. Without it, they won't handle it at all.

H.M.Jr: Will you talk to me about it? I'd like to go into that whole business.

Bell: Right.

H.M.Jr: (Nods to Mr. Thompson.)

Thompson: (Nods "Nothing.")

H.M.Jr: All right, gentlemen.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE September 6, 1938

TO Secretary Morgenthau

FROM Mr. Haas *HA*

Subject: The Business Situation,
Week Ending September 3, 1938.

*AAA*Features of the present outlook

A general expectation exists, both in this country and abroad, that business activity in the United States will improve substantially after Labor Day, since the automobile and construction industries are expected at that time to add further strength to the current business trend.

We see little in the present situation to justify a confident belief in a further substantial improvement this fall. On the contrary, recent foreign developments have changed the business outlook to one of uncertainty, with the chances now probably less than 50-50 that industrial production during the remainder of the year will average above current levels of around 85 for the F.R.B. index. Weakness in the foreign situation, through its depressing influence on commodity prices and its effect on new ordering, has acted as a strongly opposing factor to the recovery forces developing in this country.

The widespread belief that business will improve during September has caused some stocking of goods, which is in itself a weak feature of the present outlook. It means that a considerable part of the improvement may have already been anticipated. In the steel industry, for example, some estimates credit 65 percent of the recent increase in activity to production for inventories rather than for orders, in anticipation of increased automobile company demand after Labor Day. Lumber inventories are also reported to have increased because of anticipated demand from the construction industry.

The business level during the next few months will be affected to an important degree by the trend of stock prices. There seems little doubt that the stock market foundation has been weakened by the decline in commodity prices and by weakness in security prices abroad. After recovering 50 percent of the ground lost since 1937, prices of industrial stocks have

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been unable to make further headway since the middle of July, while utility and railroad stocks since that time have been in a declining trend.

The next week or two, we believe, will be a critical period for security prices, commodity prices, and business. Our analysis indicates that September is likely to prove a month of disappointment, though the outlook might be materially improved if a solution to the Czechoslovakian problem of a more or less permanent nature should be found.

Although various recovery influences continue to support the business trend, our analysis of current business data indicates the possibility of at least a temporary irregularity or weakening in this trend during the fall months, which may depend largely upon the outcome of the situation in Europe. Our index of new orders has shown a declining tendency during August, with no evidence of a fall upturn except to some extent in textiles. While basic conditions in the automobile industry appear very favorable, the lack of demand for steel from the automobile companies suggests that they may follow a more cautious production policy than previously expected. While a further improvement in residential construction and in heavy construction is indicated, the volume so far is not sufficiently large to carry business forward without the help of other industries.

New York Times index higher

The New York Times business index in the week ended August 27 reached 84.8, as compared with 84.2 (revised) for the previous week. Greater than seasonal increases in steel and lumber output and in miscellaneous carloadings featured the week's gains. Other carloadings were also higher, and electric power output held steady. Automobile production declined, however, and cotton mill activity failed to show a seasonal gain.

The foreign situation

European developments during the past week, which have pointed toward a more critical war outlook, have added further deflationary pressure to prices. The decline in sterling exchange to a new low, below its former par, provides some evidence of the weight of these developments. Although commodity prices during the week have held up well in the face of weakening foreign currencies, our experience of the past several months has shown that such developments usually do not affect commodity prices until a week or more after exchange rates have declined.

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Steel activity increased

An increase in the rate of steel activity this week to 44.0 percent of capacity, as compared with 42.8 percent during the previous week, extends the recovery in steel operations during the past two months to more than one-third of the amount lost since last summer. The more recent upturn, however, has not been accompanied by an expansion of steel orders, judging from reports received from the U. S. Steel Corporation (See Chart 1). Orders received during the week ended August 25 were equal to about 33 percent of capacity, the same as in the previous week.

It is possible that the independent companies, specializing more largely in light steel products, are receiving orders at a somewhat higher rate than U. S. Steel. Trade comments indicate a moderate gain in demand from miscellaneous sources recently, which would include mostly the lighter products. On the other hand, the Journal of Commerce estimates that only about 35 percent of the recent increase in steel operations has been in response to actual orders, and that 65 percent has gone to build up steel mill inventories in anticipation of increased demand next month.

Practically no buying of steel by the automobile companies has yet appeared, with the exception of a large order from the Buick Company. Some have commented on the slowness of steel demand from the automobile companies as evidence that they are not planning to increase production as rapidly as had previously been expected, but are taking a more cautious view of the business outlook, and will base production schedules on actual sales returns.

The textile situation

A seasonal return in textile buying is usually to be expected during the early fall. A tendency in this direction has been shown in orders of Pacific Mills during the last week of August and in orders of Cannon Mills during the week before. (See Chart 2.) For five or six weeks previously, however, sales of cloth by mills were far below production, according to the New York Cotton Exchange Service, and mill activity was maintained largely on the backlog of orders booked during June. On last week's increase in sales, mills sold close to their production, but during the current week cloth sales have again fallen off. Spinners are very dissatisfied with present yarn and cloth prices, asserting that they are below cost.

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The current foreign business situation, as reflected in the textile business, does not appear encouraging, according to cabled reports to the New York Cotton Exchange Service. In England the spinning and weaving mills are still losing ground, with sales below production and mill curtailment being extended. France reports that demand for goods is poor and the outlook uncertain because of domestic and foreign political difficulties. Italy reports mill activity down 5 percent, but sales balancing output. Holland reports sales below production and unemployment increasing. Switzerland reports mill sales negligible and the outlook discouraging. Czechoslovakia reports mill order lists contracting, and stocks of yarn large.

Owing to favorable weather for weevil control and crop growth over most of the cotton belt, some increase in the government crop estimate next week is generally expected. The Journal of Commerce, which has a good record in forecasting the cotton crop, places it at 12,189,000 bales, which compares with the last government estimate of 11,988,000 bales.

The construction outlook

A study of the forecasting value of Federal Housing Administration data on mortgages selected for appraisal shows a rather definite two-months' lag between these figures and the F. W. Dodge residential contract awards. Under the new amendments, however, the Federal Housing Administration has covered a greater percentage of total residential construction, hence the 100 percent increase in Federal Housing Administration volume this year foreshadows but a slight increase in actual construction over 1937.

A significant feature of the Federal Housing Administration data is the fact that mortgages selected for appraisal during August have been maintained at a high level, averaging slightly higher than in June or July. (See Chart 3). This is contrary to last year's declining trend. Judging from our study, this indicates the probability of some further improvement in contract awards during September and October.

Heavy construction awards during the week ended September 1 were 25 percent higher than in the corresponding week

Secretary Morgenthau - 5

last year, though showing some decline from last week's figure. The increase is due entirely to increased public construction, almost entirely in the state and municipal category. Private construction has not yet begun to pick up, being 26 percent below last year for the week mentioned.

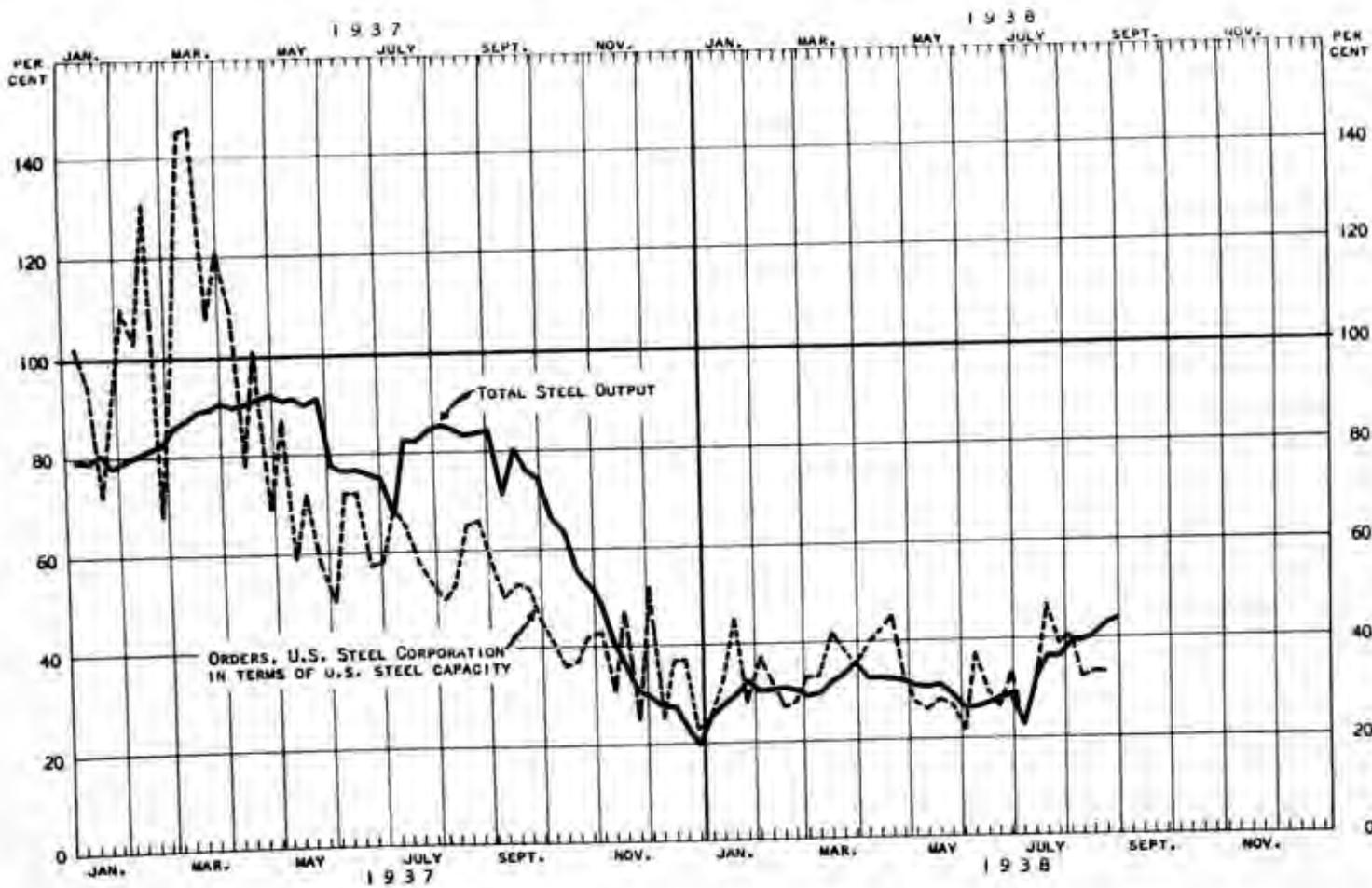
Power production heading for all-time peak

A rapid improvement in electric power production during the recent upturn in business activity has carried it within 4.5 percent of the all-time peak established last fall. If no further general business improvement occurs during the remainder of the year, but merely the normal seasonal increase and trend allowance as used in the New York Times Index of power production, the output would reach within 2.0 percent of last year's peak by the end of this year. During 1937 as a whole, the utility industry was operating nearer to capacity than in any previous year, going back to 1921. A production of 3,269 kilowatt hours per kilowatt of capacity for all plants in 1937 compares with a previous peak of 3,164 kilowatt hours in 1923.

Some increase in efficiency of production methods, together with a levelling out of the seasonal load variations has occurred since 1923, tending to make a somewhat larger output possible per unit of capacity. This may have been offset, however, by the obsolescence of plants which would have been replaced under normal conditions. The nearness of the industry to capacity operations at present, under depression conditions, seems significant in two ways: (1) The shortage of capacity, which is most pronounced in the industrial areas, may tend to retard an expansion of industrial production, if not previously remedied. (2) Utility construction looms as a potential supporting factor to business in the relatively near future.

Following the 1923 shortage of power capacity, \$908 millions was spent for utility expansion by the power industry in 1924. This stood as a record until 1930, when, \$919 millions were spent for expansion following a severe test of electrical capacity in 1929.

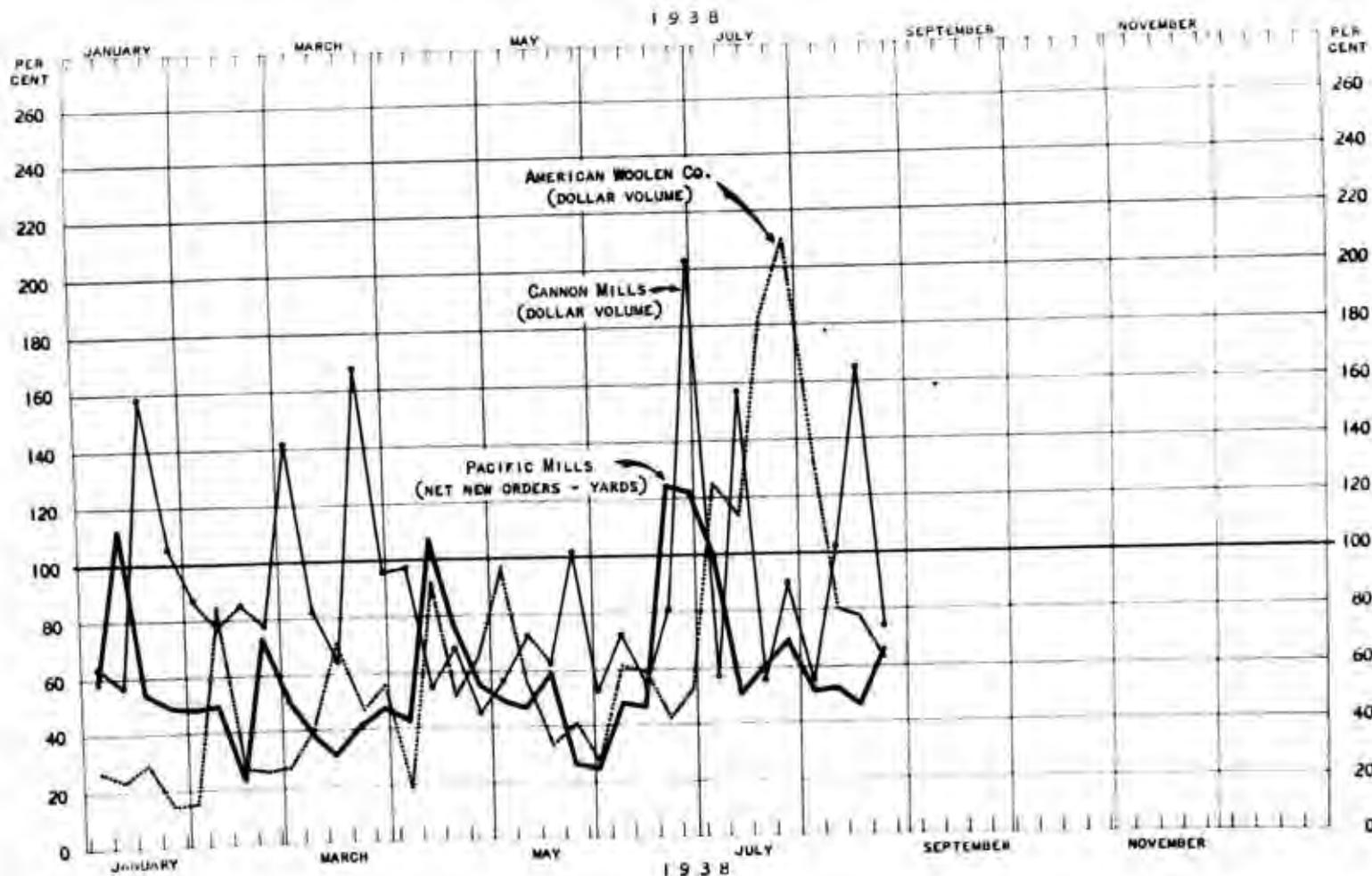
TOTAL STEEL INGOT PRODUCTION AND U.S. STEEL CORPORATION ORDERS
Expressed in Percent of Capacity



104

Chart 1
CONFIDENTIAL

WEEKLY NEW ORDERS - TEXTILE COMPANIES
1936 = 100



165

Chart 2
CONFIDENTIAL

1 - 91

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

Regraded Unclassified



Lockhead
White *BR 135*
167
JW

TREASURY DEPARTMENT
WASHINGTON

Hong Kong, September 6th, 1938.

The Honorable

Secretary Henry Morgenthau, Jr.,
Secretary of Treasury,
Washington, D.C.

Dear Mr. Morgenthau,

I am enclosing information obtained in a number of important interviews.

K. P. Chen is not in good health, but he has finally consented to proceed to Washington. His illness is diabetes, and I hope that after he is finished with your interview he can have the best medical attention in America. Please extend him any possible kindness, as the situation in China is a very emotional one for a man of his sensitiveness. He has been working hard on a practical program, and he has carefully considered the internal situation in both the United States and China, and I am sure you will be favorably impressed. Mr. Nicholson is presenting you with the broad outlines of Mr. Chen's proposals in advance of Mr. Chen's arrival, so that you can be giving it consideration before you see him. In his proposals Mr. Chen is taking a very realistic view, and is making only a modest request. If you can offer a better plan it would naturally be appreciated.

The good crops in China make a purely agricultural commodity loan to China of limited value to the Chinese. Such a loan would probably prove very unpopular in China unless there is some way by which other commodities more urgently needed can also be included. Cash is, of course, the outstanding and crying need. Cash is wanted for munitions, for maintaining the currency, and for payment of foreign loan obligations. There is a widespread feeling in financial quarters of the importance of holding the currency at some definite level.

While in the States I was impressed with the large number of United States officials giving time and thought to the methods by which China might be helped within the present framework of the Government. The desire to be of help to China was very apparent, not only among almost all the officials I met but also among civilians. I believe the voice of those who want assistance rendered to China, without involving us in war, would be louder than that of the isolation and peace groups, if those desiring that such aid be offered were organized to express their opinion.

Respectfully yours,

J. Lossing Buck
J. Lossing Buck
Treasury Representative in China

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Interview with the Generalissimo and Madame Chiang Kai-shek

Hankow, August 27th, 1938.

The Generalissimo requests me to express to you and the President his deep appreciation of the very substantial assistance the Treasury has rendered in purchasing the large quantities of silver from China. His attitude reveals clearly his realization of the importance of these purchases to China, and his very definite feeling of your cooperation and sympathy, expressed in a practical and helpful way. His expression was obviously genuine and denotes a feeling of a bond with you.

He states emphatically that China has war supplies sufficient for two years, and that Russia is helping substantially with such supplies.

He states that China is weak financially. He requests me to convey to you and the President his great hope and that of the Chinese people that the United States will aid China financially, as she needs this help from the United States very urgently.

Madame stated: "We need more aeroplanes from the United States. We like American planes, and our men are trained to use them."

Both the Generalissimo and Madame Chiang are very much upset over the fact that Ambassador Wang did not consult you and the State Department as requested by Dr. Kung, about his negotiation for a large private loan. The Ambassador wired Kung that he had consulted you and the State Department, when on the contrary he had not done so in any thorough way. Both the Generalissimo and Madame Chiang are afraid that it may look to you as though something was being done behind your back. They are very anxious for you to realize that they not only want you kept fully informed of any such negotiations, but that they want your approval also.

The Generalissimo is, as usual, in good spirits, apparently feeling very much the master of the situation, and looks well. Madame Chiang appeared rather weary. It is quite evident from my interview that they feel a special tie with the American people and desire China's development to be linked with America as well as with other countries, such as Great Britain and France.

I spoke to Madame about the rumours of Kung's dealings. She stated emphatically: "Kung has never had any shady dealings. The next time you hear of such rumours ask for special instances."

Interview with Minister H. H. Kung

Chungking, August 21st - 26th, 1938.

(Dr. Kung asked me to see him on August 21st at 11 AM and to stay for lunch. We talked until 4 PM. I saw Dr. Kung several other times also.)

Dr. Kung stated that he was waiting for my visit before making final arrangements about your request for K. P. Chen. He had already asked Chen to go, but Chen had declined on account of health. Dr. Kung stated that he felt Chen should go. I thought Chen's only reason was not health, although that was an important one. Kung sent more telegrams urging him to go, and I also wrote him, telling him again of the importance of his acceptance of Kung's request, and that Kung was giving him full power of negotiation. Kung even suggested that Chen could take his lead from you in any agreement, as he trusts you implicitly. Chen finally accepted on August 25th. His first reluctance was also due to his desire to have a practical proposition, and to be certain of full power of negotiation.

Dr. Kung stated that a commodity loan for China, including all kinds of articles, would be welcomed.

Dr. Kung's attitude is one of complete trust in you, and of wanting you informed of any arrangements of Ambassador Wang with private interests. Dr. Kung has taken me into his confidence and has told me about most of the details of the negotiations of

Ambassador Wang and Leonard Hsu with private interests. Dr. Kung is afraid that in spite of repeated warnings the Ambassador has again unknowingly been negotiating with irresponsible persons in his ardent desire to obtain financial help for China. I know something about these negotiations through Leonard Hsu, but have no means of knowing for certain whether or not they are bona fide. Dr. Hsu is, I believe, honest in his feeling that there are certain private funds available for investment in China. According to Dr. Hsu, you were to be informed at the proper moment in the course of the negotiations. I mention this matter because it is very important for you to know that Dr. Kung from the very first had instructed Ambassador Wang to keep you and the State Department fully informed of any negotiations. Wang cabled Kung that he had done so, when on the contrary he either had not done so, or if he had it was in such a general way as to be of no real value.

Dr. Kung explained to me very confidentially that he was thinking of declaring a moratorium. He pulled out of his desk drawer a sheet showing foreign loan obligations due for August, September and October. The sum for September is the largest, amounting to five million pounds sterling. He also showed me a letter from T. V. Soong, expressing his sympathy with Kung in the necessity of making such a momentous decision.

T. V. Soong may go to England, as the British are apparently still interested in further aid to China. The British have made available 12 million pounds sterling in credits for manufactured goods, chiefly for a railroad from Burma into West China.

He stated that he would like T. V. Soong to be Minister of Finance, as he himself has too much to do, and that T. V. would like the position, to have a chance to make a better record than previously. The Generalissimo, however, is unwilling.

Dr. Kung states in general terms that revenues are ten per cent of normal, and expenditures twenty times normal.

In regard to the rumours about the honesty of Kung's dealings, Dr. Kung is wondering what to do. He states they originate from several opposing groups. I think his chief difficulty is with his subordinates, and several people have told me that he should have a housecleaning. I presume Kung's nature is such that he finds this difficult. I doubt if much can be laid to him personally in his financial dealings; at least I would want proof first before accepting the rumours at face value.

He stated that the Generalissimo and Madame Chiang had a close call during a recent bombing raid at Wuchang (Hankow). A bomb fell at the entrance of their dugout and affected Madame Chiang's hearing temporarily. It shattered all the windows in their house.

In regard to the defence of Hankow, Dr. Kung stated that it would be defended much more strongly than originally intended.

Interview with K. P. Chen, Manager of the Foreign Trade Commission
Hong Kong, August 15th and September 2nd, 1938.

"The Foreign Trade Commission has a capital of 20 million Yuan for purchasing products for shipment abroad, but it cannot be fully used. A barter arrangement has been made with Russia to the extent of 14 million Yuan, for the purchase of Chinese products, chiefly tea, in return for war supplies.

"There will be a big change in China after this war. The youth of China are idealizing the Chinese communists as the saviours of China, and are joining their ranks in large numbers, looking to Russia as the only country which will come to the aid of China. The present generation of leaders of China will have to make drastic changes if this trend is to be averted.

"Sun Fo, who recently returned from Russia, has tried to convince the Generalissimo that Russia is the only country which can help China, and that China must give up any link with Britain, France, and the United States. The Generalissimo turned down these proposals flatly, as he desires to tie China's destiny more closely with that of Britain, the United States, and France."

Interview with T. V. Soong

Hong Kong, August 19th, 1938.

T. V. Soong asked me what I thought of his making a private trip to England and France, and later to America, to ascertain the possibilities of financial aid. He stated that he was urging K. P. Chen to accept Dr. Kung's request for Chen to see you.

He stated that while Hankow will be more strongly defended than originally intended, still it would not be so defended at too great a cost of men and equipment. He reported that seventy Japanese war vessels have been damaged by the Chinese air force in the drive on Hankow.

Interview with Pei Tzu-yea, Manager, Bank of China

Hong Kong, August 18th, 1938.

"Financially China is very weak, but economically strong. I am working on the use China could make of a commodity loan, such as wheat and cotton cloth, and believe it is practical and that it would be of considerable help to China.

"The Central Government's notes are still the chief medium of circulation in North China.

"The exchange value of the Yuan is being held in the same way that the military forces are holding territory. We hold exchange as long as practical at a given level, and when necessary let it drop, and then hold it as long as possible at the new level."

Mr. Pei is one of the chief persons responsible for the foreign exchange policy.

Interview with Mr. Cyril Rogers, Bank of England Adviser,
Ministry of Finance.

Hong Kong. August 18th, 1938.

"China is in desperate need of immediate financial help. Two months from now will be too late. I flew back to London to obtain a loan, made visits to Paris and Geneva, talked with British leaders and helped set the stage for the consideration of a loan to China. The sentiment among officials was about fifty-fifty for and against help, but the final official action was against.

"The American refusal to participate was a blow, and I wonder if it represents Washington's real and permanent attitude.

"I still have hope that England will do something."

Interview with S. Y. Leung, of the "South China Morning Post"
(Reporter on South China politics)

Hong Kong, August 18th, 1938.

"South China is strongly linked with the Central Government in its ruling personnel, and there is no possibility of a break with the Central Government." (I can obtain no reliable opinion contrary to this interpretation. J.L.B.)

"The Japanese Consul-General has returned to Hong Kong, and Japanese merchants are rapidly coming back. This is a sign that the Japanese expect no trouble in Hong Kong or South China."

Judge Allman, Shanghai lawyer, formerly in the United States Consular service in China, in conversation with my secretary, Miss Saunders

Hong Kong, July 23rd, 1938.

Judge Allman has just been up to Hankow and is now waiting here for a boat to return to Shanghai. While in Hankow he saw Kung, Donald, and Johnson. Dr. Kung apparently did not tell him anything new: just the determined resistance angle, with infiltration of guerillas into occupied territory. Judge Allman thinks that Donald is doing all Madame Chiang's thinking for her, which is not so good if true, though he considers Donald's outlook sound. As for the Ambassador - Allman is most disgusted with him, and thinks he is suffering from shellshock. His attitude that Americans have no future in China and might as well go right away is so defeatist that Allman considers it is even a help to the Japanese. Judge Allman had a long talk with Johnson, and told him that he knew a lot of Americans who don't feel that way, but he feels that it is a sort of mania with Johnson now.

Interview with K. S. Sie, Director, National Agricultural
Research Bureau.

Chungking, August 23rd, 1938.

"The harvests in China have been excellent this year - a bumper crop. Just the other day I was out in the country, and the farmers reported a rice crop 10 per cent above normal. It would be very difficult for China to absorb the surplus crops of America under such conditions."

Interview with C. L. Chien, Vice-Minister of Economic Affairs,
in charge of Agriculture

Chungking, August 23rd, 1938.

"An agricultural commodity loan seems impractical for China unless enough manufactured products can be included. What we need is cash to support the currency, and cash or credit to purchase munitions."

Interview with Han Li-wu, Director of the Board of Trustees for the Administration of the Boxer Indemnity Funds, remitted by the British Government.

Chungking, August 23rd, 1938.

"The Chinese will to resist is as strong as ever. Internal political unity has increased. The Japanese are finding themselves in increasing difficulty in three ways: the stubborn resistance of the Chinese troops, epidemics and disease among 60 per cent of the Japanese troops, and the stiffening international attitude toward Japan. The fall of Hankow will not mean any change in China's internal political affairs.

"The new British Ambassador is active and frank and is working in China's interests. The American Ambassador is liked less than ever, and is considered merely a telegraph office. He is isolated on the other side of the River and has few interviews. Now that China is changing her Ambassador to the United States, we hope the United States will change her Ambassador to China."

Interview with Mr. Heinrich Boss, Netherlands Consul-General
Chungking, August 20th, 1938.

"I visited Nanking in June, and found conditions much better than in January, but still sickening. I talked with a Japanese Colonel, who stated: 'The Chinese only laugh when they are unhappy, so we must treat them cruelly.' As we rode along the streets I pointed to the burned houses and open doorways of destroyed buildings, and remarked: 'The Open Door Policy!'.

"The Japanese treat the Chinese as mere animals, but on the contrary, the Japanese are the animals. The Chinese must still bow and salute Japanese sentries. I said to the Colonel: 'Do you know that this policy of treating the Chinese in this way only makes them hate you all the more; that outwardly they may smile, but inwardly they feel like stabbing every Japanese in the back?' At the end of the interview the Colonel said: 'I will remember what you have told me when I return to Tokyo.'"

Interview with General Li Tsung-ren, Commander Fifth Military Area

Hankow, August 27th, 1938.

(I called on General Li, and later the same I had an outdoor meal with his party at East Lake, Hankow.)

"The war will last for another year. The guerilla method of warfare is effective. The guerilla campaign is conducted through centralized headquarters. I have already explained to Colonel Stilwell (U.S. Military Attaché at Hankow) when he visited me at Hsuehowfu that America's defence would be much easier and cheaper if she should use a small amount of the funds now going into battleships to finance China." General Li appeared very confident of China's ultimate victory.

During the luncheon Mr. Kao, a Councillor of the Ministry of Foreign Affairs, and other members of the group explained to me the significance of a statement of the Generalissimo, published in the vernacular morning paper that day.

The Generalissimo referred to the rumour of mediation by Italy, and stated in effect that China now knew what countries were her friends, and which were assisting her enemy; the rumours of mediation emanating from London were obviously of enemy origin. China will never accept mediation from friends of her enemy. The group interpreted this statement as the clearest pronouncement yet

made by the Generalissimo, and declared that its significance lay in the definiteness with which the Generalissimo indicated that China would not accept the cooperation or mediation of Fascist powers.

Interview with Colonel Stilwell, U. S. Military Attaché
Hankow, August 30th, 1938.

"Hankow may be the Gettysburg of this war. The capture of Hankow is apparently months away - if it is captured at all. The Chinese could hold the Japanese if they would use their full strength, and if the officers would stay closer to their men, rather than so far back of the lines. The men are entitled to better leadership. The forts of Matong, at the boom on the Yangtze, were lost without the firing of more than a shot or two because the Commander was at Kiukiang, and the officers at the forts could not fire without orders.

"Guerilla warfare never won a war yet. The guerillas are not sufficiently centrally organized to be very effective. The performance of the organized military forces demonstrates the impracticability of effective guerilla warfare.

"No one knows how many Russian advisers are here, but there are considerable numbers, including those who are with the Chinese divisional commanders.

"The size of the Chinese air force is also unknown.

Colonel Stilwell, like most other American officials and citizens in China, feels that the policy of our Government should be more positive in the present situation, and that help to China in

the way of financial loans and military equipment is much better defence for us than only the building of our own defence equipment. A very small proportion of the cost of such defence, if given to China, would be much more effective.

Interview with Captain Carlson, U. S. Marine Attaché

Hankow, August 29th, 1938.

"I have just returned from a trip to Suiyuan through Shensi and back through Hopei, Shantung, Anhwei and Honan, following Chinese occupied territory, even with the lines of Japanese occupied regions. The guerilla and partisan organization of the Eighth Route Army is quite effective and I believe will be an important factor in favor of China. A line of guerilla organization is in the process of formation to the North into Manchukuo, to connect with similar guerilla units working southward from Eastern Manchukuo.

"One of the chief shortcomings of the Chinese armies in their warfare is their apparent inability to put their last ounce of energy into winning a battle, or at least into inflicting maximum losses on the Japanese.

"I would like to see our Government take a more positive attitude toward this whole affair."

Interview with Mr. Yates McDaniel of the Associated Press
Hankow, August 26th, 1938.

"When and how this war will end seems as obscure as ever. The general opinion is that Hankow can be held for another two months, if it falls at all.

"All the factors for internal political disunity still exist but there is no clear indication that any such disunity will occur. The fall of Hankow might have a tendency to make these factors of possible disunity more apparent.

"It looks as though General Li Tsung-ren (of Kwangsi), who is now in charge of the Fifth Military Area in Central China would gradually work more closely with the Eighth Route Army in their partisan movement and guerilla tactics."

Interview with Mr. Kan Chai-ho, Vice-Minister of Foreign Affairs.
Hankow, August 27th, 1938.

"As an official in the Ministry of Foreign Affairs and a member of the War Senate, I am interested in the situation in America vis-à-vis China. I understand the American officials are far ahead of the American people, and are trying to lead the people away from an isolation policy. I suppose the Republican leaders would oppose any positive policy of the President toward China. Would Mr. Farley support the President fully in a positive policy? Who are the isolationists? bankers, merchants, farmers, or who?"

It is very evident from these and other remarks of Mr. Kan that considerable attention is being given to the internal political situation in the United States.

Interview with Hollington Tong, Publicity Bureau of the Ministry
of Foreign Affairs

Hankow, September 1st, 1938.

"We are trying to tell only the truth in our publicity. We may not tell all the truth, but at least the statements we make can be borne out by facts.

"There are one hundred Tass News Agency reporters at the front, and they are sending back lots of press material to Russia. Most of this is so worded that it does not need much censoring."

Interview with the Havas News Correspondent

Hankow, August 31st, 1938.

"I have just returned from the front at Juichang, Kiangsi. The morale of the soldiers is excellent, the fighting is going well, the lines are deep. There are many Russian assistants and advisers at the front, one with each regiment, some are also assisting with transport. Russian political bureaus are also being inaugurated. We may not like it, but it may be a favorable factor in winning the war."

Interview with George Shephard, an American holding a special appointment from the Generalissimo and Madame Chiang in the New Life Movement.

Hankow, August 31st, 1938.

(Mr. Shephard does a great deal of work checking up on graft and other rascality.)

"The letters I see from missionaries, International Red Cross workers, and other persons from various cities occupied by the Japanese indicate that what went on and goes on in Hankow is duplicated in every other city. At Iweitch, Honan, one of the missionaries talked with a Japanese Colonel about the behavior of the Japanese soldiers. The Colonel replied: 'What can the Chinese expect? They are a conquered people. We own their bodies to do with as we please; we own the products of their soil, and even the minerals in the earth.'

"In another city the merchants tried to appease the Japanese by welcoming them with tea and cakes, but within a couple of days the Japanese were raping all their women."

Shephard admitted the presence of four or five Russian military advisers, but questioned the report of the Havas reporter that there are many Russian advisers with Chinese officers at the front.

Interview with T. C. Fan, Director of a private organization under the National Christian Council, for the care of wounded soldiers in transit.

Hankow, August 30th, 1938.

"The number of wounded per day is 1500 to 2000 from the front below Hankow. The medical facilities are inadequate, although there are five organizations participating in the care of the wounded. The wounded are being sent, to a large extent, to small villages where hospitals do not exist."

Interview with An Ngo,

Hankow, September 1st, 1938.

(A well-known woman writer and a political leader, in touch with Chinese Communists and most of China's leaders, including Madame Chiang. A person of vitality, and with the interests of the common people at heart. She is responsible for organizing the relief work for 8,000 war orphans.)

"Did you return with a good sized loan for China? Your country can help us easily with a loan, and it is our greatest need at present.

"It is important for you to meet General Chen Chen, who is in charge of the defence of Hankow, and one who is most trusted by the Generalissimo. You should also see General Li Tsung-ren and General Pai Chung-hsi."

(I feel this suggestion was made because An Ngo feels these men will play a more important role in the future, and because of their friendliness to the Chinese Communists. J.L.B.)

"I have with me twenty-five personal letters to soldiers at the front. A post card (stamped) is sent with each letter for a reply. There is a corps of people writing such letters to three million soldiers, the purpose of which is to link the people and the soldiers in a common cause."

(An Ngo, herself, who writes poems and sonnets, gives a good deal of her time writing for the tracts distributed among soldiers.)

"The defence of Hankow will be much more effective than that of Shanghai, Nanking, or Hsuehowfu. China lost much face over the way Nanking was lost, but now that she has had experience, Hankow will be a different story. The Chinese have eleven divisions at Hankow and one million men in the war area to the East. The troops will do their utmost to hold Hankow. If the Japanese should occupy Hankow the Chinese troops will surround the Japanese. There is now a big change in the strength of Chinese fighting, because of better organization.

"The attitude of the Chinese toward other countries is one of not expecting much help. We are in a life and death struggle and we are chiefly concerned with living or dying. If other countries come to our assistance, well and good; but in general the Chinese are depending on their own strength. However, we do need financial help desperately. The attitude of the Chinese toward the United States is better than just after the beginning of the war. But the question is not so much one of what is China's attitude toward the United States, but of her attitude toward China. China will know the attitude of other countries toward her by their actions. America has a chance to become a world leader by taking a more positive action. If neither America nor any other country takes such

action, even China herself may become a world leader. It is the person or the country which does things which makes that person or country a leader.

"Not much is said about Russian help, but every one knows what planes are flying in the air, and results of air combats are known from the number of the squadron participating, not by name whether Russian or American planes as such. Russian help is being accepted quietly, and is welcomed, but is directly to the Central Government and not to the Eighth Route Army."

Yunnanfu-Burma Road

Information from Colonel Stilwell, U. S. Military Attaché, and from J. J. Taylor, League of Nations Representative, indicates that the Yunnanfu-Burma Road is not yet completed. Moreover, various difficulties are being experienced: slowness of workmen, bad construction, and apparently ineffective organization. The Central Government has sent a representative to try and improve the situation.

Henryang (Hunan) - Kweilin (Kwangsi) Railroad

J. J. Taylor of the League of Nations reports that the railroad between Henryang (Hunan) and Kweilin (Kwangsi) is nearly completed. Over two hundred thousand men were used for its construction, and the League of Nations has controlled malaria in that area by the use of two and one-half tons of quinine.

Harry White
show me this R.R. on a map
1/21/2

Chungking.

August 19th - 26th, 1938.

I landed in Chungking after a flight of five and one-half hours from Hong Kong, on a rainy day. Fortunately there was an opening in the clouds, so that the plane came down over the River rather than on a mountain peak. The island air port in the River ordinarily used was flooded by unusually high water, so we landed on a military field thirty miles away. The passengers were dumped in the middle of a field, with grass a foot high. It began to rain, and passengers without raincoats were soaked before reaching a shack ten minutes away. The transfer to Chungking was by a small Stinson four-passenger plane. It gave one the feeling of being landed at the end of the world.

Chungking is as alive with people as an anthill is with ants. Rooms are as scarce as hen's teeth, literally. Fortunately, K.P.Chen had telegraphed beforehand and fixed me up comfortably in his house, rented by the Foreign Trade Commission. It is one of the best houses, if not the best in Chungking. Dr. Kung also offered to put me up after my arrival. The Manager of K. P. Chen's bank loaned me his car part of the time. The distances in Chungking are great, and it is not only slow but dangerous to travel on the streets by chair or rickshaw. There is one shop serving good ice cream, but it is only clean by comparison with other places in the city. Chungking has a long way to go yet in its modernization. A building boom is on, and materials and labor are more than double

their costs a year ago. It is so difficult to get around, and there are so few cars, that most people do not go out at night. No one likes Chungking.

En route from Chungking to Hankow, August 26th, 1938.

The American pilot on the Chinese National Aviation Company plane on which I travelled from Chungking to Hankow was very much worked up over the Japanese attack on the Chinese National Aviation Company's plane on August 24th. He said: "If our Government does not handle this affair, we American pilots will. We can give these Japanese a lesson they will not forget. I would like to see a Japanese plane attack my plane over these Szechuen mountains. I would give them a chase they would not forget, and I would lead and lose them in some one of these mountain valleys."

The Ichang airfield at the mouth of the Yangtze Gorges, and where I changed planes, gives the appearance of having suffered a very bad case of measles. It was full of covered bomb holes. Buildings adjacent to the field were shattered. Several planes of various types were camouflaged under trees at the edges of the field.

Along the Yangtze River front at Ichang there was evidence of shipments from Hankow of machinery and equipment from industrial concerns moving up river.

The Wuhan Cities.

August 26th - September 1st, 1938.

The Wuhan cities of Hankow, Wuchang, and Hanyang, have been affected rather differently by the war. Hankow's population gives the appearance of being reduced about one-half. The French Concession barricades are still being increased and strengthened by the French. The other special areas, such as the former British Concession, having varying degrees of foreign participation and administration, have erected strong gates in each street where the border line is crossed. The concrete and earth dyke, and the street along the entire water front of Hankow is being fortified with trenches, machine gun nests, and the like, in preparation for street fighting. It is said that this is being done at the insistence of the Chinese Communists.

Wuchang is practically a deserted city after the severe bombings it has experienced. Along the main thoroughfare, on two separate visits, I did not see more than two or three persons per block. Many buildings have been demolished by bombs, and others badly shaken and the windows shattered.

Hanyang is also reported to be largely deserted.

September 8, 1938

10:55 a. m.

Present:

- Mr. Oliphant
- Mr. Taylor
- Mr. Lochhead
- Dr. White

HM, Jr: On this Chinese loan. The Chinese Ambassador beat it up there to see me. Got off the train at Wilmington and hot-footed it up to the Farm and, coming fresh from the President, he was all ready to get what he thought was a \$25,000,000 loan. In discussing it at Cabinet, there was some talk about medical supplies and Mr. Hull said something about a relief loan.

And I said, 'Now wait a minute, Mr. Ambassador. Don't send back any word that you have a loan, because I have not heard anything from the President. I don't know whether the State Department will say anything. Don't send anything back.'

Well, he though the President gave him the distinct understanding it was all settled; that we would lend them flour and they were going to pay us back with flour. I said to the Chinese Ambassador, 'Where did you get that idea?' and he said from the President, which the President flatly denied and said it was the Chinese idea. I said to the Ambassador, 'Would you rather have us lend you the money to buy flour and you pay us back in dollars?' and he said 'We would much prefer that.'

Then I asked the President about it last night. He said he had not agreed to anything; had not made any promises; was kind of vague about the whole thing; talked in terms of buying medical supplies or getting Christmas ships over. And then he said, 'The State Department says they are holding the bag because Wayne Taylor is opposed to it.'

Mr. Taylor: I have been very clear on that.

HM, Jr: I am just telling you what he said. I said,

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'All I know is what I put in my cable.'

So I said to the President, "How do you feel?" He said, "I am enthusiastic to do something." I said, "What?" He said, "Well, something -- maybe something in the way of relief." I said, "What you really want me to do is to work the thing out and if we can agree among the Departments, bring it to you." He said, "That's right."

September 8, 1938

11 o'clock

Present:

Mr. Moffett, State Department,
 Mr. Hamilton, State Department,
 Dr. Feis, State Department,
 Mr. Oliphant
 Mr. Taylor
 Mr. Lochhead
 Dr. White

HM, Jr: Well, I am ready to sit at the feet of the State Department.

Mr. Hamilton: We thought it would be useful, Mr. Secretary, to clarify some of these various projects that are being presented.

As you probably know, the Chinese Ambassador has been in to see the Secretary of State a number of times with a view to their being revived or reinstated the balance of the R. F. C. credit of 1933, amounting to some \$30,000,000, and the last approach made by the Chinese Ambassador to Mr. Hull has been along the lines of credit for relief purposes. He mentioned cotton cloth, wheat flour, and also mentioned raw cotton which, he said, would be useful to the Chinese during the winter months in padding their clothes. As we all know, they do use cotton extensively in padding their clothes. We have not said anything definitive to the Chinese Ambassador.

We noticed that there was some talk, for a while, of K. P. Chen's coming over. Mr. Hull mentioned it. And in case that he couldn't, some substitute for K. P. Chen would come over.

HM, Jr: The substitute was killed and Chen is coming now. Read this cable out loud, Archie.

Mr. Lochhead: (Reading) "K. P. Chen has definitely decided to visit Washington and will leave for Los Angeles

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*September 10 on PRESIDENT CLEVELAND with his secretary, R. D. Ren. Other member of the party not yet decided upon. PRESIDENT CLEVELAND proceeding directly via Honolulu, not stopping Japan, to arrive Los Angeles Oct. 2." Also this one: "Kung requests me enquire if Chen's proposed time of arrival is satisfactory to you in view original request to arrive September. Chen's family objects his travelling by air, but he apparently prepared to do so if necessary. He prefers present plan, partly because Nicholson will arrive mid September and will outline Chen's proposal to you. Chen thinks this will give you time consider it by time his arrival early October. Immediate reply desired. Hsi Temou has accepted Chen's invitation accompany him. He is excellent man and has been in direct charge exchange operations for Central Bank."

You remember there was another man suggested as an alternative for Chen. He was killed; shot down by an aeroplane.

HM, Jr: To give you people the whole picture of what I have done -- when I arrived in Paris, one of the first things that Mr. Bullitt said was that Wellington Koo was very anxious to see me. So I said I was not particularly anxious to see him, but on the insistence of Mr. Bullitt I said I would see him. And I think you people know there has been a lot of talk among the French and English which, when it is all boiled down, is that if we make a loan, they will make one, at least as I understand it plus the letter which I have from Bullitt.

So I told Wellington Koo that as far as I could tell, their silver would last until about the first of January, and then what? Furthermore, it seemed as though the buying they are doing of supplies is pretty well scattered all over the lot and that they had no central Government purchasing agent; bought through brokers, and so on, and that in view of our great interest in the future of China -- this is exactly what I said: If K. P. Chen, whom I had successful relations with before, would come, he would receive a warm welcome in Washington. I repeated it two or three times: he would receive, maybe I said "hearty" welcome in Washington. "I can't go beyond that." But, I said, somebody should come over who would be familiar with the situation and, I said, wouldn't tell me a lot of bedtime stories about the Chinese situation because when

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Mr. Chen was here he always talked very frankly and whatever he told us has proved to be facts. And he is the only Chinese representative here since I have been here who talked facts and did not give me a lot of fairy tales.

So on the basis of that, Koo sent a message and then Chen said he was ill and had a substitute and he was killed in that plane. And I figured, well, when they sent word 'Did I want to decide?', I figured the thing had waited so long it could wait two weeks longer until I got back and saw how keen the President and Mr. Hull were on making loans. And I am not sure whether you are familiar with the telegram Mr. Wallace sent me on the Chinese loan.

Mr. Hamilton: No.

HM, Jr: You might as well have the whole picture. He sent me a telegram. It was very urgent; very imperative. I forget the figure -- for some reason nobody saw it -- large figure mentioned for a wheat loan and that people in the Treasury were holding it up and would I do something about it. So I cabled back -- and that's in the State Department file which came over to me from Mr. Hull -- that I was not familiar with the details since I left, but I personally was in favor of making a flour and gray goods loan, but I said, after the return of the President, if everybody including the State Department were favorable to such a loan and there were people in the Treasury who thought it was unwise, I would get into it.

Well, there has been time and this has been the first time to discuss it other than what was mentioned at Cabinet when Mr. Hull talked, for the first time, about a relief loan. The President told me I should see Ambassador Wang. When I came back from Cabinet I had a phone message from the Ambassador wanting to see me, but I said I was leaving in five minutes. They caught him somewhere between here and Philadelphia and they got him off the train and he turned around and came up to the Farm to see me Saturday afternoon.

Well, the Ambassador came there with the distinct impression, after seeing the President, that he had a

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loan all fixed and settled for around \$25,000,000; thought all I had to do was get busy and write the check. So I said to him, 'This is too important; too many people at stake; too many lives involved. You had better not send any cables back. I don't know how the President feels or how Mr. Hull feels. As far as I am concerned, it is just where it was two months ago. The State Department has it under consideration.'

So I saw the President last night before he left, and he told me he made no promises of any kind to Ambassador Wang. Nothing! And that it was Wang's suggestion that if they bought flour, they pay it back in flour, which I personally think is stupid, because it is much easier to make a dollar loan and then let them buy flour or gray goods and export it and then we will take our chances of getting paid back in dollars, but they have made some suggestion that they buy flour and then in so many years pay us back so many barrels. Well, I can just see Henry Wallace who talks of getting rid of 10 million barrels of flour and sometime at the option of the Chinese they are going to pay us back 10 million barrels of flour!

So I cautioned Wang very, very much, not to cable anything back because, I said, there was nothing. And after talking to the President last night I was more up in the air than ever. And what the President finally said was, he was very sympathetic towards doing something and has in mind something like Christmas ships under the Red Cross. I said, 'You can't raise any money, Mr. President. They have tried to raise \$900,000 and you haven't got anywhere and you won't get anywhere, and either you would want to do it or not. He said, 'I am very sympathetic to the thing. Work it out with the State Department and Agriculture.' And his last word -- I am giving you everything I know so you have it all -- he said, '\$10,000,000 or \$15,000,000 and then let's wait to see if it gets there and we can take it up again', but he again reiterated and said, 'Work it out and see what we can do.'

That, gentlemen, is the whole story as of eleven o'clock last night fresh from the President and I am giving you everything I have, but I don't know what's

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in your minds.

Mr. Hamilton: This morning Mr. Moffett and I talked with Mr. Norman Davis and Mr. Moffett might outline what the Red Cross has in mind with Spain, because that also has a bearing on the relief problem in China. The same course might be followed.

Mr. Moffett: What we worked out in Spain turned out to be purely relief. In other words, Agriculture is giving a certain amount of wheat; somebody else is milling it; the Maritime Commission is going to transport it unused cargo space on their regular runs; the Friends are going to distribute it, and it works out that the Red Cross can deliver it at a cost of about \$1.00 a barrel of flour out of their funds. But that's a rather different proposition from this other thing.

HM, Jr: The Department of Agriculture is going to give the flour, to begin with?

Mr. Moffett: The Red Cross. They don't call it a gift, but in effect they will give for the cost of the milling.

Mr. Hamilton: Some sort of internal rebate. Mr. Tapp mentioned it in the conference we had and Mr. Davis said this morning if the Red Cross went through on this proposition with Spain, they would have to have in mind doing the same thing with reference to China.

Mr. Moffett: Where the need is greatest. Theoretically, both, but it will be a 6 to 1 or 7 to 1 division with most of it in the Barcelona area.

HM, Jr: Let's be terribly frank, because we are all busy and don't want to kid the Chinese about this thing. Has the State Department -- are you ready to go any further than this question of how to deal with the Chinese?

Mr. Hamilton: As I understand Mr. Hull's attitude, a relief credit -- a credit which could be called for relief purposes -- he would like to have us explore that.

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HM, Jr: That's the word he used at Cabinet.

Mr. Hamilton: We wondered this morning if we could broaden that; could work on a formula of relief and rehabilitation, and within that formula we could bring things such as trucks, which the Chinese could tell us would be used for relief purposes and that's all we need to know, and as many commodities as we could get under that kind of formula. Is that your understanding?

Dr. Feis: I don't think the Secretary has made up his mind. I would say it that way. I think he too is wanting to listen and reflect. I think there is no use whatsoever in fooling around with the Spanish formula.

Mr. Moffett: I don't either.

Dr. Feis: I agree with Moffett. I don't think it is wise. I think the decision is to be made as to whether we provide something that could be called relief, but would go to the Chinese Government forces, disposed of by the Chinese Government and to consist of, in the first place, cotton, cotton manufactures, flour; and whether or not it could go beyond that is where I reach certainly the point of uncertainty as trying to interpret Mr. Hull's mind. I think it was a little bit new to him the one time it was brought up to him and I don't think he has made any decision.

HM, Jr: Much as I like the Chinese, I would hesitate including anything such as trucks.

Mr. Hamilton: What is in your mind? Could you give us an example?

HM, Jr: I think they need cotton. They need flour. They need medical supplies.

Mr. Hamilton: And your cotton and flour could be sent them in only very limited quantities. I don't think they could use very big quantities of either.

HM, Jr: Why?

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Mr. Hamilton: First, question of transportation and distribution. By the time deliveries could be effected, presumably Hankow would have fallen. I talked to the Chinese Ambassador how they would distribute. He suggested through local magistrates or American missionaries. But that does not solve the problem of how to radiate it out to the main centers.

The Chinese of South China are rice eaters, not flour eaters. The Chinese have had very good crops this year. Their problem in the agricultural world, as nearly as we know it, is one of distribution rather than supplies themselves. I don't think -- it might run \$3,000,000 or \$5,000,000 or \$10,000,000, but certainly, in my estimate, it would not go beyond that.

HM, Jr: Here's the way I feel. I don't know how you feel about K. P. Chen coming here and I wish you would express an opinion. If Bullitt is right that we break the ice on this thing and that the French will come along right away and possibly the English, from the standpoint of the Chinese it's terribly important -- if it's only \$5,000,000 -- psychologically it's terribly important, the time element, if we are going to get it in before the poor devils freeze to death. So I would not mind if it was \$1,000,000 or \$3,000,000, but if something is done -- Wellington Koo, if he multiplies it by 100, that is not our fault.

I am terribly honest. A battleship today costs \$80,000,000. We are talking about the future of the Pacific for the next 100 years and if the money we loan them -- mentally I am writing every dollar off. I am not counting on getting a dollar back. If the poor fellows can, they will pay us back. They are not in default now. They have certainly treated us better than the European countries have done with less to do it with and it's just a question whether the United States Government says, Here's the fate of the Pacific at stake. Do we want to do something? Do we want to show these people our friendship and do we want to do it in a substantial way? Personally, I do, not as Secretary of the Treasury, but as a member of this Administration. I am very keen to do it.

Mr. Moffett: I think Mr. Hull would like to do a start on a relief basis and then six months later expand it.

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HM, Jr: I would like to make a start. I would like to break this jam and then see how good the French and English will be.

Now, Wang says he will take this through Hong Kong and Saigon. They are open. I said, 'How about this thing of safe conduct and taking it up through Shanghai?' I said, 'You are just wasting it. Whatever you take they will just grab it off. If you ask me, I wouldn't do it.'

Mr. Hamilton: Has it been in the mind of anyone that we should extend credit to China for grey goods and wheat flour and then permit China to sell those commodities on the open market?

HM, Jr: That would be in the terms of the loan.

Mr. Hamilton: That would really be permitting China to dump these commodities.

HM, Jr: Personally I would be opposed to it.

Mr. Hamilton: To my mind, this third matter of giving China certain relief commodities does not really help China very much financially; does not give her any foreign exchange.

HM, Jr: All true. But I think it ought to be and I think it would be a tremendous help to their morale.

Mr. Hamilton: I agree with you.

HM, Jr: They can go around and peddle this stuff in Moscow, London and Paris that the United States Government is coming in, what are you fellows going to do. I think it would be a great help to their morale and each month as they see that their cash is running out, they are right up against it, and I take it the Administration wants them to put up as good a fight against Japan as possible. If we do, what about it?

Dr. Feig: You start something limited to these commodities as a relief loan. You score a psychological effect. Personally I think something more than mere psychological assistance is required and justified, but that might be an excellent first step. Beyond that, I

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I know that, for example, Bullitt and Jesse Jones are ready to recommend something far more reaching. I heard Jesse Jones, in Paris, speak up to \$100,000,000 or \$200,000,000.

HM, Jr: So Bullitt told me. Bullitt has an excellent table!

Dr. Feis: I was present.

HM, Jr: I still say Bullitt has an excellent table!

Dr. Feis: No. Jones would go through with him. In fact, he ran it up from \$100,000,000 to \$200,000,000.

HM, Jr: I still say Bullitt has an excellent table! I know Jesse after five years!

Dr. Feig: All right. Then Bullitt states that he knows the French will go along. I don't know.

Mr. Taylor: What with?

Dr. Feis: Oh, they can do that. As regards the British, the Cabinet turned down a decision calling for independent British action. Very substantial reason for believing that through their Credit Guarantees Department they would extend some credit if they knew we would.

HM, Jr: Sure.

Dr. White: There is some merit in reconsidering the title of the loan, even though actual commodities may vary, from Relief Loan to Relief and Rehabilitation Loan. The mere name 'rehabilitation' would seem to be a very powerful factor in getting the psychological effect you want and paves the way for expanding later.

HM, Jr: I will go as far as Mr. Hull.

Mr. Hamilton: His thought is, if we do anything, it is probably better, from a tactical point of view, to call this a reinstatement of part of the old R. F. C. credit.

Mr. Oliphant: How much is there of that?

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HM,Jr: It's all cancelled.

Mr. Hamilton: It's all cancelled, but I think what Mr. Hull is thinking about, and I agree with this thought, it would be easier to explain to the Japanese.

HM,Jr: It's all right with me.

Mr. Hamilton: It's window dressing.

HM,Jr: It's all right with me. I would like to say we will concentrate on this and decide we will do the damn thing or simply say no. But I don't know why we can't put enough time on it

Mr. Oliphant: What would you think of rehabilitating Jones' old commitments and then not worry about how much is going to be used?

HM,Jr: That's all right if Mr. Hull will say the trucks are for distributing this wheat and flour.

Mr. Hamilton: I said that.

HM,Jr: Fine. This thing is up. I don't know how far you people have traveled along this road. I know where you were two months ago and I will not embarrass you by reminding you, but anything on that I think you will find me ready to go. I think it would be a mistake to give these people the right to resell. That's a definite mistake, but you wink your eye and I will wink mine, and we will go.

Mr. Hamilton: Is it worthwhile trying to come down to any practical details with the Chinese Ambassador here? I rather doubt Mr. Chen would be any better to deal with.

HM,Jr: You people have got a situation. Personally, I would rather wait for Chen, but I don't know how you people feel about Wang. I have never discussed it. I take it Wang has heard Chen is coming and wants to get it settled to get the fruits of it himself. But I never feel I am anywhere with Mr. Wang and personally I have no confidence in Mr. Wang.

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Mr. Hamilton: I haven't very much.

HM, Jr: And if Mr. Chen told me, gave me his word, that this would not be resold I would ten times rather have Mr. Chen's word than all the signed documents in the world. I remember, the last time, I told Mr. Chen 'I don't care what anybody fixes up on a piece of paper; I want your word what you are going to do with silver and foreign exchange. If I get your word, what they sign I don't care.' That's the way I feel about Chen. Do you feel the same?

Mr. Hamilton: I don't know him as well as you do.

HM, Jr: He was here seven weeks and everything he said he lived up to. And he knows the situation.

Mr. Lochhead: Chen knows these problems of distribution and will approach them with a practical mind, whereas the Ambassador will approach them with a theoretical mind. I think Chen has been trying very hard to get things out of China for export, so he will know the situation.

Mr. Cliphant: How about talking about a reinstatement of the R. F. C. credit and then using him, when he gets here, to work out the details of execution?

HM, Jr: The trouble is if we start something Wang will stay, but with Wang out of Washington and Chen to do business with alone, we could move much faster.

(At this point, the record was interrupted to answer the White House phone and HM, Jr spoke to Postmaster General Farley.)

Dr. Feis: I take it that Herman meant we should make up our minds pending Chen's visit.

Mr. Cliphant: I said time was of the essence and the earlier you get the psychological effect, that much more valuable it would be.

HM, Jr: We can get Chen here in ten days. We will ask him to fly.

Mr. Hamilton: Is that advisable? Are we far enough along to encourage his hopes, his expectations?

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HM, Jr: You fellows over there -- as far as I am concerned, I can make up my mind on the spot. Let's really get down to it.

Mr. Hamilton: The difficulty, as far as I see it, we call it relief and rehabilitation. I am doubtful, when we come down to grips with the situation, we find it's very practical to do anything, to go very far.

HM, Jr: Here's what you can do. After I am through, if I am not legal -- I am not saying whether it's good finance, but if I am illegal in my statement, tell me. The United States Government can, through the Federal Reserve or Commodity Credit, I don't know which it would be

Dr. White: R. F. C.

HM, Jr: ... R. F. C. -- can decide it could offer the Chinese Government credit for 'X' millions of dollars. A rose by any other name will smell as sweet when you call it. But if the President of the United States will direct Mr. Jesse Jones that it is his wish that R. F. C. should extend credit to the Chinese Government, that's all there is to it.

Mr. Cliphant: That's right.

Dr. Feis: That's right.

HM, Jr: That's the whole business. You can call it any name you want, give it any window dressing, but the President, Jones, Hull, Wallace and myself are the people who can decide it. I am for it. It gets down to Mr. Hull.

Mr. Hamilton: Suppose that would be announced. Then we come down to concrete commodities. And then suppose we find that China does not want it, can't use it. We don't want this whole thing to bog down.

HM, Jr: All right. Suppose he says he does not want cotton. He comes over here. Certainly if we say to them, you are going to have a credit of \$10,000,000 or \$15,000,000; what do you want to buy that can only

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be used for relief or reconstruction purposes; give us a list.

Mr. Oliphant: Your point is that the letter to Jesse Jones would immediately give you the psychological effect and put the English and French on their toes.

HM, Jr.: I was not thinking that far. I take it we are in agreement, we would rather do business with Chen than Wang?

Mr. Hamilton: I think so.

Dr. Feis: I think so.

HM, Jr.: On the Treasury side?

(Mr. Oliphant, Mr. Taylor, Dr. White and Mr. Lockhead all nodded assent.)

O.K. Then the question gets down for Mr. Hull to cross that bridge, which I don't believe he has crossed yet, that he is willing to say to the President of the United States 'I am agreeable that the R. F. C. make an 'X' million loan to the Chinese Government for relief and reconstruction purposes. That ends it.

Mr. Hamilton: Do you think it is going too slow to ask China, what could you take under such a formula?

HM, Jr.: Yes. I think we ought to first decide we want to do it. I think we ought to cross that clean-cut bridge, which has not yet been crossed, that Mr. Hull will approve, as Secretary of State, that R. F. C. make such credit available. And then, having done that, this is the formula that I would follow: get your decision, wire Chen that the United States Government is willing to extend credit to your Government for relief and reconstruction; if you will, knowing that, the sooner you can come here and advise us what kind of commodities you need under that. And then tell them 'You know how important it is and you get here as quickly as the situation calls for'.

Dr. Feis: The bridge would likely to be automatically crossed this way. I think, Mr. Secretary, that

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that would be done -- Jones would do it through the Export-Import Bank and it would be in the form of a resolution authorizing the loan, under conditions making for effective use of this credit. Something of that sort. That puts Jones and yourself, or whoever negotiated, in position to take in talks with Chen whether they could use these commodities effectively and what commodities they could use effectively.

HM, Jr: Yes, but it all gets back to the point that Mr. Hull has to be willing to say that he is willing to tell the President and Jones and myself that he is willing, as Secretary of State, to say that it is not contrary to the foreign policy of this Government that such a Government credit be extended through the R. F. C. or any other instrumentality that R. F. C. chooses to designate dealing directly with the Chinese Government.

Mr. Moffett: I think it is reduced to the simplest terms.

HM, Jr: That's exactly where it was two months ago.

Dr. Feis: He will either go along unqualifiedly or he will want to add a clause.

HM, Jr: But that's where it is, gentlemen.

Mr. Hamilton: Let's put it up to him and either get in touch with you directly or ask Mr. Hull to see you.

HM, Jr: I will be delighted to call on Mr. Hull. 'We are on a very good working basis,....'

Mr. Moffett: we want to clear the air.'

HM, Jr: Yes. If one of you gentlemen will say to me Mr. Hull is ready to talk, I will be delighted to come over and call on Mr. Hull. But there is no use talking about Christmas ships and all the rest of the stuff. This is the thing.

Mr. Moffett: I think it is.

Mr. Lochhead: It is now the 7th of September and

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and his boat sails the 10th. Shall we tell him not to take the boat?

HM, Jr: No. Let these gentlemen take the word back to Mr. Hull that Mr. Chen will sail on the 10th and

Mr. Hamilton: Doesn't the ship stop at the Philippines?

HM, Jr: The next stop is Honolulu, which is two weeks.

Mr. Lockhead: They are not stopping at Japan.

Dr. White: He said he would travel by air if you wished it.

HM, Jr: If you want to save a couple of weeks, we ought to let him know before the 10th. I would answer him this way: unless he hears to the contrary, I suggest he sail on this boat. In the meantime, tell him to make reservation on the first clipper that leaves Hong Kong.

Mr. Hull ought to be able to make up his mind in 24 hours. He has had two months. He has got a deadline. Here's the 6th and this fellow wants to sail on the 10th.

Mr. Moffett: It's the 7th over there.

Dr. Feis: Let's go back and see what we can do.

Mr. Hamilton: This proposition (see attached memorandum entitled Purchase of tungsten from China) was put to us by K. G. Lee a couple of months ago. The Army said they would like to have a reserve supply of tungsten. They have no funds to get it. Mr. Lockhead tells me the Export-Import might possibly finance it. That would give China foreign exchange.

HM, Jr: We are working on this and I have been in touch with General Craig, but -- no one can be more frank with you people -- I think if you raise this at this time it would muddy the water, in the sense that what I would like to see is a straight Government credit made

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by R. F. C. or their instrumentality to the Chinese Government, You bring up this question of tungsten, you bring up this thing the President has been talking about -- a three-cornered trade, using Brazilian coffee as an example, and if anybody can answer that question, I can't. Feis was interested in this bill, \$25,000,000 roughly for the Army. I am not saying it can't be done.

Dr. Feis: When I get that bill through I will retire for life.

HM, Jr.: But if I flash this at this time, I think it will muddy the water. But it does not mean that I will not work just as hard on it. And we are now. I don't want to have this and say we will take this for flour, because we can't find any legal way to do this at present.

Dr. Feis: It will take an Act of Congress.

HM, Jr.: And as long as I have you people here, what's fresh from Europe?

Mr. Moffett: Nothing today beyond what I told you last night.

HM, Jr.: The exchange situation is much better.

Mr. Moffett: In other words, the supposition is that under British pressure the Czechs are giving what is wanted.

HM, Jr.: Yesterday, very confidentially, in dollars and gold, it cost London \$60,000,000 to hold the Pound where it was, 4.82 and a fraction. This is all very much in the room. Plus we knew we bought \$20,000,000 from Holland. Now today the pound is where?

Mr. Lochhead: Holding around 4.82½ or 4.83.

HM, Jr.: But not expensive. But yesterday it cost them \$60,000,000 and today, how much so far?

Mr. Lochhead: About one-third. About \$5,000,000 \$8,000,000, in dollars.

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HM, Jr: Our foreign exchange people seem to feel better. They feel two-thirds better.

Mr. Lochhead: The market was entirely out of hand yesterday.

HM, Jr: It was panicky.

Mr. Moffett: The supposition can only be that British pressure on Benes has been largely effective. That's the only change I can see in the situation.

HM, Jr: Is there any way I could find out when Mr. Hitler is going to make his speech?

Mr. Moffett: He was to start at 8 o'clock, our time.

Mr. Lochhead: But he is making six speeches and the one today did not cover Czechoslovakia.

Mr. Hamilton: The Czechs think he may on Friday cover it and I saw a press flash that he may postpone it to Monday.

HM, Jr: But we have nothing from Bullitt or Kennedy or Carr or Wilson?

Mr. Moffett: No. Just the one I told you about. Wilson is down there now so he can't communicate very well.

HM, Jr: Well, the next move is with you people and you have this date of sailing of this gentleman, and if Wang should call me up or anything I will simply say that I am studying the matter.

Mr. Hamilton: He has asked for an appointment to see Mr. Hull tomorrow morning, I suppose on the same thing.

HM, Jr: He certainly left the President -- not to be repeated -- thinking he had \$25,000,000 in his vest pocket and I thought the kindest thing I could do would be to be brutally frank with him, which I was and told him please not to think he had anything. And I am glad

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you people feel as I do that you would just as lief see him out of town and do business with K. P. Chen.

Mr. Hamilton: Some of us would not express it that frankly.

This was handed to me by Mr. Hamilton of the State Department and a copy is being given to Mr. Oliphant, Mr. Taylor and Mr. White.

Purchase of tungsten from China

A suggestion has come from a prominent Chinese business man that an arrangement be made whereby the American Government (or some agency thereof) would purchase and the Chinese Government (or some agency thereof) would sell a supply of tungsten. This proposer states that the Chinese are selling tungsten to Germany and Italy and are getting the tungsten out of China by way of Hong Kong; and that the Chinese are buying against the proceeds needed supplies. This proposer states that China might be able to supply for sale to the United States as much as 750 tons of tungsten per month, and that the current market price is about \$1,100 per ton. This proposer suggests an arrangement whereby some such amount per month over a period of many months would be contracted for. -- This Department has made inquiry of the War Department and has ascertained that the War Department is desirous that a reserve supply of tungsten be obtained, that the War Department would be favorable in principle to the making of a substantial purchase, and that the War Department estimates indicate that a figure of 6,000 tons for a reserve supply of tungsten for our general national needs would not be excessive.



HEADQUARTERS

ADDRESS THE COMMANDANT, U. S. COAST GUARD
AND REFER TO NO.

227

TREASURY DEPARTMENT

UNITED STATES COAST GUARD

WASHINGTON

September 5, 1938

From: Spagent, Hongkong, China
To : Secretary of the Treasury

Message from Professor Buck.

Kung requests me enquire if Chen's proposed time of arrival is satisfactory to you in view original request to arrive September. Chen's family objects his travelling by air, but he apparently prepared do so if necessary. He prefers present plan, partly because Nicholson will arrive mid September and will outline Chen's proposal to you. Chen thinks this will give you time consider it by time his arrival early October. Immediate reply desired.

Hsi Temou has accepted Chen's invitation accompany him. He is excellent man and has been in direct charge exchange operations for Central Bank.



HEADQUARTERS

ADDRESS THE COMMANDANT, U. S. COAST GUARD
AND REFER TO ME.

TREASURY DEPARTMENT

UNITED STATES COAST GUARD

WASHINGTON

September 2, 1938

228

SECRET

From: Spagent, Shanghai, China
To : Secretary of the Treasury

Message from Miss Jacobson.

K. P. Chen has definitely decided to visit Washington and will leave for Los Angeles September 10 on PRESIDENT CLEVELAND with his secretary, R. D. Ren. Other member of the party not yet decided upon. PRESIDENT CLEVELAND proceeding directly via Honolulu, not stopping Japan, to arrive Los Angeles Oct. 2.



HEADQUARTERS

ADDRESS THE COMMANDANT, U. S. COAST GUARD,
AND REFER TO NO.

TREASURY DEPARTMENT
UNITED STATES COAST GUARD

229

WASHINGTON 25 August, 1938.

From: Spagent, Hongkong, China, via USS MINDANAO.
To : Secretary of the Treasury.

Message from Professor Buck.

From Chungking. Kung states doubtful Chen can leave on account health and inquires if Sing Loh Hsu, Manager National Commercial Bank, will be acceptable. He is same type as Chen, enjoys high standing, recommended also by T. V. Soong. Please reply earliest possible as party plans to leave by Clipper August 28.

Nicholson adds following:

Sincerely regret to report that Sing Loh Hsu was victim of disaster while en route by plane to Chungking yesterday and is now dead.



HEADQUARTERS

APPROVED THE COMMISSARY, U. S. COAST GUARD
AND NOTED TO HQ.

TREASURY DEPARTMENT
UNITED STATES COAST GUARD

230

WASHINGTON 24 August, 1938.

From: Spagent, Hongkong, China.
To : Secretary of the Treasury.

Message from Mr. Nicholson.

STRICTLY CONFIDENTIAL.

Have interviewed K. F. Chen and found him quite improved in health. He has been suffering from nervous exhaustion apparently resulting in diabetic condition, for which he is undergoing insulin treatment, with rapid improvement. I believe he is anxious to accept your invitation but hesitates partly because of undergoing course of treatment and partly because he is unsatisfied that any concrete practical plan is ready for presentation. May be able to undertake trip via Clipper middle of September, barring unforeseen events. Meantime, I understand situation so critical it is deemed necessary to send representative immediately by Clipper and Sing Loh Hsu is being considered in case Chen is not available. Sing Loh Hsu is a practical banker, age 48, educated Nanyang College, Shanghai, Bachelor of Science degree Birmingham University, Bachelor of Commerce degree Victoria University; studied political science, Finance Section, Paris University; successively attached Ministry of Finance and Bank of China, Peking, and National Commercial Bank, Shanghai, of which he is presently Managing Director and General Manager; concurrently Chairman Talsan Insurance Company; twice elected Chinese member Shanghai Municipal Council. He has no political affiliations and enjoys independent position in local banking world.

After several Chen interviews, I believe he has concrete proposition for your consideration, which in my opinion is practical, on subject political reaction, unnecessary any diplomatic representatives and well within realm of commercial activities.

Today Chen is submitting this plan to Kung for his consideration and approval. Plan briefly is as follows: Chinese government seeks loan of 100,000,000, repayment in future deliveries of wood and oil over a ten-year spread. If required, syndicate underwriting loan may be granted exclusive selling right in U.S. A. If necessary Chinese government will

establish local board control purchase etc. Chen furnished me figures and details which I am bringing to Washington, leaving Hongkong, August 25, arriving Washington September 17. En route New York to assist Attorney General to prepare case October term Customs Court, and appear as witness therein.

According to telegram Chen received from Kung today urging him to proceed to Washington, it is evident that Chinese government has no concrete practical plan to offer you. In message Kung offers Chen full power to negotiate and assures him he will be held blameless in event of failure. After interview today Chen practically decided to undertake mission proceeding via Clipper about middle of September, if agreeable to you.

For your information, present situation about as follows: War expenditure about 100,000,000 local dollars per month just in China. Certain amount of this expense, such as payment to troops, returns to government banks and therefore note issue has not greatly increased. Government has overdraft with government banks and this has increased. Purchases abroad of ammunition etc. are handled by Central Trust and payment has been in form of promissory notes which fall due from time to time and are met with proceeds from silver sales. Suspect some of these are overdue. There is enough ammunition on hand to last until next April. Revenue is so small and uncertain it cannot be depended upon to finance war. Effect of immediate financial assistance will be two fold: First, it will have decided psychological effect on Chinese people and secondly, will increase foreign currency holdings to meet the requirement for prolongation of resistance. Hope to have figures for you tomorrow.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: Hong Kong via N.R.

DATE: September 6, 1938, 4 p.m.

The following is a strictly confidential report from Mr. McHugh:

I am informed by Rogers that at the forthcoming session of the League of Nations on the ninth of September Kung intends to have Wellington Koo present a demand that a loan similar to those made to various European countries in the past be granted to China. If the demand is refused, China will threaten withdrawal.

Rogers told me that he tried to make it clear to Kung that there is no present hope of such a loan being granted because the idea has already been rejected by London, which is today the dominating influence in the League. He also told Kung that such a request would only give away to Japan the present financial crisis of China, which would result in encouraging the Japanese to redouble their efforts in the war just at a time when they are not sure how things stand. Another point he made to Kung was that the League has served China well in many ways up to the present, and in the reconstruction work which must follow the present conflict, the Chinese will have real need of the assistance of the League.

However, Rogers could not convince Kung, who remained
bitter

- 3 -

bitter on the question of the failure of the Western nations to give assistance to China, and Kung was determined to proceed with the idea of demanding a loan from the League.

Then Rogers himself sent a cable to the representative of the British at Geneva. In it he suggested that China's request be forestalled by offering to suspend the annual subscription in the amount of 1,400,000 Swiss francs which she would have to contribute, and if necessary to make up the deficit in the budget of the League, get other member states to do so. When Rogers arrived here he found an adverse reply to this suggestion. However, he said he hoped to approach the question from another angle and get favorable consideration for it.

SOUTHARD.

EA:LWW

PARAPHRASE OF CABLE

From: Professor Buck
Shanghai, China

Date: September 6, 1938

After four hour trip by Seeplane with Chinese pilot arrived in Hongkong from Hankow on September 1. Opinion is that Hankow will be held for months. Very good crops. Most vulnerable point considered China's finances. Military situation encouraging.

In my interview with Chiang Kai Shek on August 27 he requested that I convey to Secretary Morgenthau and the President his great appreciation of silver purchases which are an effective help to China. From his attitude he indicated realization of your generous sympathetic assistance to China. Generalissimo stated China has sufficient war supplies for two years. They are receiving considerable supplies from Russia. He asked that I please tell the President and Secretary Morgenthau that the Chinese are looking to America for further help in their urgent financial need and his people will gratefully appreciate and remember any such help. According to Madame Chiang the Chinese prefer American planes both for performance and because their air force is trained to use them. Because of sympathetic interest taken in China at this time both Chiang Kai Shek and Madame's attitude indicated feeling of kinship with President and Secretary Morgenthau.

The financial negotiations with private interests carried on by Ambassador Wang and which were not reported to you as Dr. Kung requested has greatly incensed them as their attitude is one of wanting your approval and knowledge of any such negotiations.

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NOTES

on

Extent to which aid can be given C-Z in event of German Attack.

I. By the advance of land forces —

1. From the west:

Aside from the new German fortifications, the major obstacles here are the very formidable barrier offered by the Rhine, the distance to be traversed (300 miles), and the paucity of communications unless the advance be made on a wide front embracing the major part of South Germany.

Considering the inherent superiority of modern defense it appears certain that an advance could pass the barrier of the Rhine only after prolonged and costly operations, and that it could reach Bohemia in effective strength only if internal factors brought about a dissolution of organized German resistance.

2. From the east:

Here Poland is the key to the situation. If Poland be neutral but Roumania acquiescent, a small Russian force could be advanced through that country a distance of 250 miles to the eastern end of Slovakia. The force would have to be greatly restricted in size because of the almost complete dearth of communications.

If it is to influence the situation materially the Russian advance must be extended westward the entire length of Slovakia (about 300 miles) where it will be confronted with the barrier offered by the Carpathians. The force that could be so advanced and effectively supported would be so small that it would create little more than a minor diversion from the German standpoint.

II. By air forces —

Allied air forces could be dispatched promptly to C-Z and so employed as to impose minor delays and greater losses upon the German invasion. As has been repeatedly demonstrated in the current operations in Spain and China, the operations of such air forces can not gain the decision over organized ground forces, and the danger to be anticipated in their employment is that it will bring about a general aerial war in Europe.

III. Conclusion.

In brief it may be said that without Polish aid the military measures open to the prospective Allies will be wholly inadequate to afford timely relief to G-Z in the event of a German attack, unless there be such disunity in the German nation as to preclude the organized military effort of which that nation is potentially capable.

An attempt by the Allies to render military aid to G-Z may be expected to result in an early stabilization of the ground forces on both the East and West fronts, possibly accompanied by a general aerial war, and a prolonged investment of Germany by land and sea. The economic effects of such an investment would appear to be far more promising to the Allies than any purely military measures that they are capable of undertaking.

This is a purely military ^{assessment} ~~assessment~~. Prepared by an expert, and checked by the staff here.

Very Secret

CONFIDENTIAL

234C

WAR DEPARTMENT
WAR DEPARTMENT GENERAL STAFF
MILITARY INTELLIGENCE DIVISION, W-4
WASHINGTON, D. C.

G-2
J M

G-2/2657-204

September 6, 1938.

Handwritten initials
MEMORANDUM NO. 4 FOR THE CHIEF OF STAFF:

Subject: The present European situation.

Frequent journalistic accounts appearing in the press today conclude that the critical situation in Europe could be solved by a threat of war against Germany by the combination France, Soviet Russia and Great Britain. The argument is based on relative military strengths arrived at by mathematical additions of men, guns and ships, with little consideration to the possible military employment of these abstract figures.

The idea back of these amateur military estimates seems to be that the German General Staff would force Hitler to desist from employing military pressure in her expansion eastward if only Great Britain would categorically back France and Russia in demanding a negotiated settlement of the Sudeten affair. In other words, that the serious threat of a preventative war, or a preventative war itself, against Germany would restore peace in Europe.

The facts are that a preventative war conceived to avoid a greater war would result in the very thing it is desired to avoid. A preventative war would set Europe ablaze as effectively as the future general war it is hoped to forestall.

Germany is in a most favorable position to resist any military intervention by the two democratic nations and Soviet Russia. Italy at best would be neutral; and probably an ally of Germany, to judge from Mussolini's Genoa speech. The Scandinavian countries, Holland, Belgium and Switzerland unquestionably would be neutral. France could intervene on land only by throwing her forces futilely against the German fortifications on the north and the Rhine on the south. All recent military operations have proved the defense to be so strong that there is no possibility of breaking through except by slow, costly concentrations of superior resources, which superiority is lacking in France today. British land forces in the beginning would be negligible. France would have to retain strong garrisons along the Italian frontier in the event of Italy's neutrality and stronger defensive forces if Italy were Germany's ally. French aviation is inferior; British air forces in a formative state of development.

CONFIDENTIAL

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The British Navy could no more enter the Baltic today and forbid to Germany the mineral resources of Sweden, than she could in 1914-18. She would have to hold the mass of her fleet inactive in the North Sea to prevent submarine and surface raids. Depending upon Italy's attitude, the Mediterranean would absorb precautionary naval forces of both France and Britain or major naval strength to keep France's lines open to North Africa and to dominate strategically the precarious narrow seas covered by Italy's well distributed land bases for sea and air forces. If Japan should be drawn into the war, which is not improbable, the Japanese naval forces, not now seriously engaged, would be a disastrous factor to all British interests in the Far East.

Soviet Russia is blocked by Poland and Rumania from direct intervention by land and is threatened by Japan in Siberia if she becomes deeply involved in Europe. Her navy in Baltic waters is negligible. She could assist Czechoslovakia only in the air, and then only for that brief period prior to the German occupation.

Germany, from a central position, freed from the necessity of access to the sea in the early stages of the war by her superlative economic war planning, could hold France with a few army corps in front of the fortified lines and the Rhine in the west, and bring Czechoslovakia so quickly to her knees that the neutral countries of Eastern and Southeastern Europe would be intimidated into acceptance of Germany's will. Whereas Germany's three enemies would be effectively held in place against formidable defensive obstacles, natural and artificial, German forces would have a long period of freedom to maneuver her armies at will to the eastward to obtain by force or intimidation further raw materials to continue the war, and probably allies as well.

German air forces, with their existing predominance in bombing planes, could effect tremendous destruction in neutralizing the building up of France's and Great Britain's war potential. The estimates of numerous competent American observers and manufacturers are that the rate of increase in Germany's air productivity is vastly superior to that of France and Britain combined. This would seem to be limited only by the continued availability of necessary raw materials.

This is a hasty presentation of a few outstanding factors in a situation which has been too casually presented as a favorable opportunity for the non-aggressive nations to prevent the future dangerous expansion of Germany -- to wage a hasty war to prevent a future war.

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Whether time works to the advantage of Germany or the democracies it is difficult to predict. Whether forces within Germany itself will negate some of the dangerous forces inherent in German dynamism no one can say. It can definitely be stated that a preventative war now started would be a serious one, and catastrophic in the beginning for the democracies.

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CONFIDENTIAL

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WAR DEPARTMENT
OFFICE OF THE CHIEF OF STAFF
WASHINGTON, D. C.

September 7, 1938.

MEMORANDUM for Secretary Morgenthau:

My dear Mr. Secretary:

This Memorandum No. 5 is, except for the last paragraph, largely political. There is no change in the military situation since the preparation of Memorandum No. 4, which you received yesterday.



September 7, 1938.

MEMORANDUM for Secretary Morgenthau:

My dear Mr. Secretary:

This Memorandum No. 5 is, except for the last paragraph, largely political. There is no change in the military situation since the preparation of Memorandum No. 4, which you received yesterday.

CONFIDENTIAL

WAR DEPARTMENT
WAR DEPARTMENT GENERAL STAFF
MILITARY INTELLIGENCE DIVISION, B-1
WASHINGTON, D. C.

2811
D-2
J M

6-2/2857-204

W. H. B.
September 7, 1938.

MEMORANDUM NO. 5 FOR THE CHIEF OF STAFF:

Subject: The present European situation to
midnight, September 6-7, 1938.

Since the last memorandum dealing specifically with the events in the Sudeten Affair, it has become clear that Henlein returned from his last week interviews with Hitler with a refusal to accept the Third Czech proposals. It is not known what exactly were Hitler's demands, but judging from the known developments it seems that Henlein was advised to stand on the Eight Carlsbad Points. Under strong pressure from the British, the Czech Cabinet on September 6 formulated "last word" concessions to the Sudetens. The details of these still secret concessions are believed to accede largely to the Eight Points, while maintaining the inclusion of the Sudeten area within the federal Czech system.

The last concessions may be such as to strain the Government's position with the Czech people; and they may not yet be sufficient to satisfy the exigent Hitler. Henlein is now attending the Party Congress in Nuremberg where he and Hitler have the latest proposals under consideration.

Shorn of all its pretenses, the situation is that under threat of military intervention Hitler has demanded of the Czechs successive concessions to the extent of placing the Sudeten Germans in an autonomous status from which the next step, the demand for annexation to Germany, cannot logically be forestalled. In this diplomatic maneuver the British Government, and to a lesser degree the French, have been the agents of coercing the Czechs into successive concessions in order to avoid the threat of German forceful action and the possibility of a general war. Czechoslovakia has been forced to make the preliminary disgorgement, unquestionably to be followed by complete disgorgement, in the cause of prolonging European peace.

Hitler has postponed mention in the Party Congress of the Czech issue until a later date with a view either to announcing a complete victory obtained by "peaceful means," or the issuance of further threats if his full demands are not met.

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CONFIDENTIAL

Thus the critical situation in Europe will not end immediately whatever may be the terms of the first disgorgement, since the complete disgorgement is written on the Nazi calendar.

Diplomacy has never been more openly reinforced by armed strength than it is in Europe today. Gradual mobilization and the concentration of military and naval forces is undisguised except as to details. Germany has mobilized to the estimated strength of at least 1,300,000 men and the western fortifications south of Holland have been occupied by the advancement of the units of the three regional corps of three divisions each, with a fourth corps in reserve. In France the regional five infantry divisions, one mechanized division and one cavalry division are engaged in precautionary maneuvers in the fortified regions north of the Seine. Reservists of the fortress units of unknown strength have been called to the colors, arms and equipment are being prepared for service in mobilization centers, and all leaves have been cancelled. The British fleet is on maneuvers in the North Sea, as is the German fleet off Heligoland.

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CONFIDENTIAL

September 7, 1938.
11:54 a.m.

H.M.Jr: Hello.

Operator: Ambassador Bullitt. Go ahead.

H.M.Jr: Hello.

Ambass. Bullitt: Hello Henry.

H.M.Jr: How are you?

B: Fine, I'm glad to hear your voice.

H.M.Jr: How's my belle Paree?

B: What?

H.M.Jr: How is everything in France?

B: Oh, fine. Henry?

H.M.Jr: Yes.

B: My own feeling has been, at this time, consistently optimistic.

H.M.Jr: Uh-huh.

B: And remains so.

H.M.Jr: Good. Now, I - all I need is - I need peace for Thursday and Friday.

B: What is today?

H.M.Jr: Today is Wednesday.

B: Well, I think you're set for it.

H.M.Jr: Yes, I just want two days to turn around in - Thursday and Friday.

B: Yes, well now I think - you mean tomorrow and the next day.

H.M.Jr: That's right.

B: You're practically safe Henry.

H.M.Jr: I am.

- 2 -

B: I think so.

H.M.Jr: That's what Joe said.

B: Yes.

H.M.Jr: Joe said he was a hundred per cent sure for two days.

B: Yes.

H.M.Jr: And -

B: Henry?

H.M.Jr: Yes.

B: I - what I believe - now this is obviously guess work.

H.M.Jr: Yes.

B: Because you're apt to days and there's a lot of things you don't know.

H.M.Jr: Yes.

B: But my guess is that there will be a critical situation on - for another brief period - and that then it will begin to improve and that there will be a genuine appeasement, at least a temporary one. I do not believe that we're going to run into war.

H.M.Jr: I see. Did you say a temporary appeasement?

B: I believe we'll get a temporary appeasement in another ten days or so.

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

B: I hope so. My guess is that that is the best chance.

H.M.Jr: Uh-huh.

B: My guess is that that is - that there's a better chance of that happening than a catastrophe.

- 3 -

H.M.Jr: Well, that's all to the good, but for my own immediate problem,

B: Well, listen, you don't - I think you're practically safe in that.

H.M.Jr: Good.

B: Perfectly safe.

H.M.Jr: All right. What else do you know?

B: Well,

H.M.Jr: What?

B: I sent you a telegram yesterday.

H.M.Jr: Yes.

B: And which was probably communicated to you by the Department. Have you got it yet?

H.M.Jr: Well, no, I saw your regular cable, I mean to Mr. Hull, of last night.

B: About the visit of a particular gentleman.

H.M.Jr: No.

B: Well, they just haven't sent it over to you, I guess you'll get it late this afternoon, or tomorrow morning then.

H.M.Jr: Well, you remember the day that you gave me caviar at eleven o'clock in the morning?

B: Yes.

H.M.Jr: And we - you had a third man there.

B: Yes.

H.M.Jr: Well now, his brother, so to speak, -

B: Yes.

H.M.Jr: The fellow that I wanted.

- 4 -

Q: Yes.

W.C.Jr: Is sailing on - this week.

B: Yes. That's fine.

W.C.Jr: He's coming.

B: I'm - well, that's what I sent the telegram about.

W.C.Jr: Oh, you - did you know that he was coming?

B: Well, that's what I sent the telegram about.

W.C.Jr: What's that?

B: About that subject. The question was whether you wanted - still wanted to see him or not.

W.C.Jr: Well, he's sailing.

B: Well, yes, but the question was that ^{the} arrangements have been made - that word was sent which I was to communicate to you and ask you if you still wanted to see him.

W.C.Jr: Well I'd better wait until I get your cable because I sent him word to come on.

B: Well, that's right, but you - you'll get it. Just ask the Department to give it to you.

W.C.Jr: Yes.

B: You'll get it in the course of today, certainly.

W.C.Jr: Well, I don't quite get it but I can wait, but this particular fellow that I wanted, you know. Hello.

B: Yes. Henry?

W.C.Jr: Yes.

B: Henry.

W.C.Jr: Yes.

B: I will write you a letter comparing some comments on that whole situation, which I think you'll find of some interest.

H.M.Jr: Well, I need the stuff because you remember where I told you it was bogged down when I left?

B: Yes.

H.M.Jr: I - I mean two months ago.

B: Yes.

H.M.Jr: Well it's exactly in that man's lapas of last night.

B: Yes.

H.M.Jr: And I - up to date - have made no headway.

B: Yes.

H.M.Jr: Do you understand me?

B: I understand perfectly.

H.M.Jr: And they had a delegation of three men over here yesterday to see me and they're coming back again tomorrow.

B: Yes.

H.M.Jr: But - they're working on it, and the people under him.

B: Yes.

H.M.Jr: Are very sympathetic and want to do something. Hello.

B: I'll write you about that, today or tomorrow.

H.M.Jr: Yes.

B: And meanwhile you'll get that cable of mine.

H.M.Jr: All right.

B: Fine. Well, God bless you Henry. Take care of yourself.

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H.M.Jr: Same to you.

B: Goodbye boy.

H.M.Jr: Goodbye.

GROUP MEETING

September 7, 1938.
9:30 A. M.

Present: Mr. Magill
Mr. Oliphant
Mr. Gaston
Mr. Haas
Mr. Taylor
Mr. Lochhead
Mr. White
Mr. Gibbons
Mr. Upham
Mr. Hanes
Mr. Bell
Mr. Thompson
Mrs. Klotz

H.M.Jr: I am not going to have a very long meeting today on account of the Government bond issue.

Ros?

Magill: Nothing.

H.M.Jr: Herman, you called yesterday. Anything special?

Oliphant: No. Did you get - you missed Ed this morning.

H.M.Jr: He missed me. I got a message for the President from him.

Look, I thought I went into a very careful explanation that the State Department wanted this fine against this boat mitigated, and this comes in, with ten signatures, on my desk, recommending it.

Oliphant: Recommending.....

H.M.Jr: ... full payment. So I tell you what you do, Steve. Take this thing over just the way it is, or send for what's-his-name - Fuller?

Gibbons: Uh huh. But we're not recommending the mitigation of the penalty.

H.M.Jr: No, you're recommending the full payment.

- 2 -

Gibbons: You can't do it, unless you mitigate evarybody else's.

E.H.Jr: I can't help it; Mr. Hull wants this case mitigated. I want you to send for the head - Mr. Fuller - and let Mr. Fuller read this report, and after he's read the report, make him put in writing whether he thinks we should or should not mitigate this. I don't want any verbal stuff; I want it in writing.

Gibbons: I didn't know Mr. Hull spoke to you.

W.C.Jr: He personally told me that the Danesfield - this is very unfair - this is the most responsible one of the Danish businessmen and he thinks it's too much, etc., and so on. Inasmuch as Mr. Hull personally talked to me, I want to do him the courtesy. Let Fuller come over here and see you, and say he should read this thing and after he's read this thing, from the standpoint of narcotic enforcement, does he still - will he recommend a mitigation? I want it in writing.

Gibbons: O. K.

W.C.Jr: If you please.

Gibbons: Yes sir.

E.H.Jr: All right.

Oliphant: That matter you gave me yesterday, I quite agree with you, in going into it, on the marble, that that is not an adequate answer. To get at the facts, we ought to talk to some of the people in Procurement. Mr. Thompson

W.C.Jr: Send for anybody you want to.

Oliphant: You want me to do it?

W.C.Jr: Inasmuch as we have to present it to the lawyer who is investigating the T. V. A., I thought I'd let you do it because if that lawyer is any good, he wouldn't accept that as an explanation of why we sold that marble.

Oliphant: It's inadequate. Well, I'll work with Thompson.

- 3 -

- H.M.Jr: Well, I want a brief to present - what's-his-name - Biddle. I'd like to satisfy Biddle. While we're on that, couldn't I twist Senator Sheppard's tale a little bit on that question of voluntary gifts? I wrote him a letter and he's never answered it. Isn't there some way of writing him a letter and say, inasmuch as he's smeared me in the papers, will he put up or shut up, or something?
- Haston: Yes. The articles in the papers led us to believe he has a different interpretation of the law from ours and if he has not read our orders, does he have a different view.
- H.M.Jr: Supposing you and Herman prepare me a nice little letter. Be a little noble about it, will you, and see just - let's put him on the spot.
- Gibbons: You ought to point out that you are a little broad-minded.
- H.M.Jr: I'd just kind of like a nice letter, will you?
- Oliphant: There is one background fact that may be an explanation. Glavis is his chief investigator.
- H.M.Jr: Fine.
- Oliphant: So, it may be
- H.M.Jr: Well, that's fine, but I still say, let's put it right back. He's made these statements; does he - does he think he's right, or does he think I'm right, and I'll be very glad to hear from him. But I'd like to know, because election days are getting nearer. You know, between the two of you.
- Gaston: All right.
- H.M.Jr: Give me the best you've got.
- Gibbons: He ran for an elective office; let him submit his campaign.
- Taylor: He's not running this year.
- H.M.Jr: All right. Herbert?
- Gaston: I haven't anything else.

H.M.Jr: George.

Haas: I have your book; I don't know if you want to take time to look at it.

H.M.Jr: No, only Government bonds today. What?

Haas: We'll go ahead and work on them.

H.M.Jr: Work on them?

Haas: On those charts.

H.M.Jr: You are not ready, are you?

Haas: I've just got some rough ones here, to see how they look. We're making those, and some others.

H.M.Jr: Do they look interesting?

Haas: They look interesting, but the correlation is not synchronous with the pump priming. There is a drag.

H.M.Jr: Wayne?

Taylor: (Nods "Nothing.")

H.M.Jr: Archie?

Lochhead: Sterling is holding about the same. We have a cable from London. We are getting thirty-one million of that today.

H.M.Jr: And that is still in England?

Lochhead: That's right. I am engaging all insurance.

H.M.Jr: Will you tell Mr. Knoke, for me, that a forty-eight hour lag in notification is too slow. I want to know every day. If they are going to dump thirty million dollars worth of gold on Monday's operation, I don't want to know it Wednesday morning; I want to know that Tuesday morning. They've got to let me know each day.

Lochhead: Of course, it's a two-day delivery.

H.M.Jr: Well, put it up to him and see what is the answer. That's thirty million in one day, and to wait forty-

- 5 -

eight hours to know how much I've got, that's awfully slow.

- Lochhead: I think the Bank of England and the Feds ought to be able to work out something between themselves on it.
- White: I'd like to put in a bid for your first free time, to consider the silver question. Archie and I agree that any time you may be confronted with several questions you might have to answer in a hurry, it would be difficult to answer unless we reexamine the situation, and it will take a little time, but I don't think it ought to slide indefinitely. Sometime, maybe soon after financing.
- W.S.Jr: It's all right; keep on bidding.
- White: I'll raise the ante next time.
- Lochhead: We are still paying forty-three.
- W.S.Jr: If Dr. Feis calls up and wants to come over on this Chinese thing - I spoke to him last night and told him to call you.
- Clota: Yes.
- W.S.Jr: Mr. Hull will see him at eleven tomorrow.
- Clota: We have James tomorrow.
- W.S.Jr: All right, eleven thirty, then.
Harry, you might look up your notes and see what Mooney said on Gold the last time he was down here.
- Taylor: Free market and raise the price.
- W.S.Jr: Well, see what he says this time.
- White: Free market and raise the price. I'll give you the details.
- W.S.Jr: If Feis comes, you fellows will get on these Chinese things for me, too.
- Taylor: Eleven thirty?
- W.S.Jr: Yeah.

Is Eurasian Company in China - is that the one the Germans

Gaston: That is the German one.

H.M.Jr: I see they had a plane shot down.

Gaston: Yes, yesterday.

H.M.Jr: Huh? (Nods to Mr. Hanes.) You?

Hanes: (Nods "Nothing.")

H.M.Jr: I was surprised at your former firm bringing out a Youngstown Sheet & Tube issue tomorrow, on the same day the Government brings out an issue. I was kind of curious if they knew if that was the same day. It's the first time since I've been Secretary of the Treasury that there's been a big issue on the same day of the week.

Hanes: I knew that they had a big issue, but I didn't know they were doing it tomorrow.

H.M.Jr: Well, could you, very informally, ask them about it? Can you do it without any embarrassment to yourself?

Hanes: Oh, surely. Did they know well enough in advance that you were going to do it?

H.M.Jr: Well, I announced it last Monday night.

Bell: The first day you were here.

H.M.Jr: Tuesday morning.

Hanes: That had to be in registration twenty days prior to the date.

H.M.Jr: They have known it since Tuesday, of last week.

Hanes: It would have gone in registration twenty days from tomorrow, if they are going to issue tomorrow, and the minute it becomes effective - the registration date becomes effective - then their commitment begins. They sell immediately their commitment.

H.M.Jr: It will be interesting to watch. It won't bother us, unless it went sour. Then it might. It's the first time there's ever been a really big - it's thirty million, isn't it? Of course, in England they never do it. They send out word, which I wouldn't want to do. I mean, they never let a private issue come out on the same day.

Hanes: I'll find out just what the details are.

H.M.Jr: You and Magill will see something of each other, because Magill is going up to New York Thursday night, so he's here for two days, and I thought maybe that you, he, and I might have lunch together tomorrow.

Magill: Fine. We're meeting right after this meeting.

H.M.Jr: Magill's giving me a - what do they call these - home courses? Is that what they call them?

Klotz: Correspondence course.

H.M.Jr: Giving me a correspondence course on taxes.

Oliphant: You can do that at home.

H.M.Jr: I could, if I could master it.

Magill: Two nights is all it takes.

Gaston: All you know is that it's Magill's.

H.M.Jr: Look what he gives me in two nights (Indicates thick booklet.) and that is only the half of it.

Magill: Well, I hope you can get it through the pores.

Gibbons: Don't read it, because what's in there now will be changed in the next session of Congress, maybe.

H.M.Jr: Steve?

Gibbons: No.

H.M.Jr: Cy?

Upham: Nothing.

H.M.Jr: Dan?

Bell: Nothing.

H.M.Jr: Thompson?

Thompson: Nothing.

H.M.Jr: Well, I am going to spend the morning on telephone calls, and see, I ought to be through - those fellows who are working with me on the bond issue, suppose you come back about half past eleven; I'll have all the calls.

Taylor: I've got to go to this Red Cross thing and it's at ten, and I ought to be back by then. It's this Spanish thing, on wheat.

H.M.Jr: That eleven thirty is more or less flexible.

Ros, will you stay?

September 7, 1938

The Secretary sent for Ed Foley and told him that over the telephone, last night, the President had said he wanted the five Treasury people mentioned in Mr. Laughlin's letter put back to work.

(Laughlin, who is Pecora's secretary and who is a district leader of Tammany Hall in the district in which O'Connor is running, wrote a letter to Tom Corcoran on August 15th on patronage. Tom Corcoran went on vacation and turned this letter over to Ed Foley and told him to hold it until he got further orders, the thought being that if the patronage was turned over to Fay, who is running against O'Connor in New York, it would strengthen Fay very much with the Tammany leaders. The importance of this whole thing is that this is one of the most important fights that the President has taken on, because if O'Connor is re-elected and goes back on the Rules Committee, matters would become very difficult.)

Foley was quite disturbed when the Secretary spoke to him about the President's request and said, "I do not want to get in bad with you. I don't know anything about these five men. The only thing I know is that I was told to hold the letter until further orders."

HM, Jr said he did not know that the request came originally from the President. "But," he said, "since it did and since you and I are both here to serve the President, we will do what he asks. However, I want you to talk to Steve Gibbons and also to Guy Helvering, because I have been holding up Guy Helvering's hand when he fired all of these men in Internal Revenue. We can't make an exception of these five. Perhaps they can put them on some other rolls than Internal Revenue for 90 days and then, after that, get rid of them."

NAMES COLONEL McINTYRE GAVE ME OVER TELEPHONE YESTERDAY.

1. Urgent

John Schaeffer

John Gaffney

Nichols Tagliamonte

All of these people were formerly employed on a temporary basis in the Internal Revenue office for the Third District of New York.

2. Not so urgent.

Thomas O'Neil

Robert Keavan

William Flood

So far as I have been able to determine none of these people has ever been employed by the Treasury Department.

September 8, 1938.

September 8, 1938

Foley having taken up with Steve Gibbons and Guy Helvering the matter of the reinstatement of the five Treasury employees, Gibbons reported that the people whom the President wanted reinstated were not among the group that Commissioner Helvering was cleaning up and, therefore, it made it easier for the Secretary to comply with the President's wishes and these men will be put on for 60 days.

Federal Surplus Commodities Corporation
Summary of Commodities Procured -
July 1, 1937 to September 7, 1938

(Figures in thousands)

Commodity	Unit	7/1/37	5/12/38	5/19/38	5/26/38	6/2/38	6/9/38	6/16/38	6/23/38	Total fiscal year ending 6/30/38	7/1/38	7/7/38	7/14/38	7/21/38	7/28/38	8/4/38	8/11/38	8/18/38	8/25/38	9/1/38	Total 7/1/38 to 9/7/38
		to 5/11/38	to 5/18/38	to 5/25/38	to 6/1/38	to 6/8/38	to 6/15/38	to 6/22/38	to 6/29/38		to 7/6/38	to 7/13/38	to 7/20/38	to 7/27/38	to 8/3/38	to 8/10/38	to 8/17/38	to 8/24/38	to 8/31/38	to 9/7/38	
1) Apples (Dried)	Pounds	14,774	-	-	-	-	-	-	-	14,557	-	-	-	-	-	-	-	-	-	-	(1)
2) Apples (Fresh)	Bushels	5,658	2	-	-	-	-	-	-	5,625	-	-	-	-	-	-	-	-	-	-	(2)
3) Artichokes (Dried)	Pounds	2,990	-	-	-	-	-	-	-	2,990	-	-	-	-	-	-	-	-	-	-	(3)
4) Beans (Dried)	Pounds	53,840	100	2,090	60	-	070	120	1,200	56,800	5	6	8	9	3	6	1	1	1	-	(4)
5) Beans (Snap)	Bushels	-	-	-	6	-	-	10	-	33	-	-	-	-	-	-	-	-	-	-	(5)
6) Beets (Fresh)	Bushels	-	-	-	-	-	-	-	8	11	6	7	16	15	9	5	6	5	5	2	76
7) Butter	Pounds	9,992	514	663	1,451	1,734	897	192	-	15,035	-	-	-	-	-	-	-	-	130	150	(7)
8) Cabbage	Bushels	676	214	38	58	3	-	-	-	950	26	40	51	45	40	36	30	28	81	56	673
9) Cane syrup	Gallons	-	-	-	-	-	-	54	133	237	107	2	11	7	7	6	7	30	12	8	107
10) Carrots	Bushels	-	-	-	-	-	-	-	-	-	1	2	-	-	-	-	-	-	12	8	71
11) Cauliflower	Crates	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	19	19
12) Celery	Crates	193	3	-	-	-	-	-	-	196	-	-	-	-	-	-	-	-	-	1	27
13) Cereal (Whole wheat)	Sacks	-	-	-	-	-	-	-	408	408	-	-	-	-	-	-	-	-	-	-	(13)
14) Cheese	Pounds	-	-	-	-	-	-	-	3,446	3,446	-	-	-	-	-	-	-	-	-	-	(14)
15) Corn	Sacks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2	1	1	-	8
16) Cotton fabric	Yards	656	92	-	-	238	-	12	129	1,133	-	-	-	-	-	-	-	10	48	1	69
17) Cottonseed oil	Pounds	3,780	-	-	-	-	-	-	-	9,780	-	-	-	-	-	-	-	-	-	-	(17)
18) Eggs (Shell)	Cases	270	-	-	-	-	-	-	-	270	-	-	-	-	-	-	-	-	-	-	(18)
19) Fish	Pounds	-	-	-	-	-	-	-	3,677	3,677	-	-	-	-	-	-	-	-	-	-	(19)
20) Flour	Barrels	-	7	3	125	-	515	-	1,649	2,699	-	-	-	-	-	-	-	-	-	-	(20)
21) Grapefruit	Boxes	272	48	38	42	19	10	-	-	401	-	-	-	-	-	-	-	-	-	464	(21)
22) Grapefruit juice	Cases	-	5	-	-	-	-	444	52	552	-	-	-	-	-	-	-	-	-	-	(22)
23) Oranges	Tons	8	-	-	-	-	-	-	-	8	-	-	-	-	-	-	-	-	-	-	(23)
24) Milk (Dry skis)	Pounds	8,642	-	-	7,940	-	-	5,000	-	21,582	-	-	-	-	-	-	-	-	2,661	5,960	6,641
25) Milk (Fluid)	Quarts	9,013	NBE	495	478	497	510	514	511	12,497	497	515	523	528	525	538	530	531	522	509	5,212
26) Onions	Pounds	3,000	-	-	-	-	-	-	-	3,000	-	-	-	-	-	-	-	-	-	-	-
27) Oranges	Boxes	1,730	50	31	14	10	11	54	57	1,932	2	46	300	25	8	11	22	16	22	7	401
28) Paper bags	Bags	8,175	-	-	8,400	-	-	5,250	-	21,825	-	-	-	-	-	-	-	-	-	50	254
29) Peaches (Dried)	Pounds	2,534	-	-	-	-	-	-	-	2,534	-	-	-	-	-	-	-	-	-	9,075	9,075
30) Peaches (Fresh)	Bushels	-	-	-	-	-	-	-	-	8	2	4	-	-	-	-	-	-	-	-	6
31) Peas (Dried)	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	31	96
32) Peas (Fresh)	Bushels	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	127
33) Peas (Dried)	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	31
34) Peas (Fresh)	Bushels	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3
35) Potatoes (Sweet)	Bushels	440	-	-	-	-	-	-	-	440	-	-	-	-	-	-	-	-	-	-	3
36) Potatoes (White)	Bushels	4,331	7	-	-	-	-	-	-	4,315	-	466	485	120	44	167	266	142	219	108	2,015
37) Potato starch & fl.	Pounds	2,842	-	-	-	-	-	-	-	2,562	-	-	-	-	-	-	-	-	-	-	37
38) Prunes (Dried)	Tons	24	-	-	-	-	-	-	-	55	-	-	-	-	-	-	-	-	-	-	11
39) Raisins	Tons	-	-	-	-	-	-	-	-	15	-	-	-	-	-	-	-	-	-	-	15
40) Rice (Milled)	Pounds	75,990	560	-	-	-	-	-	-	73,190	-	-	-	-	-	-	-	-	-	-	60
41) Tobacco	Pounds	-	-	1,000	-	1,600	-	900	-	3,500	-	-	-	-	-	-	-	-	-	-	145
42) Tomatoes (Canned)	Cases	50	-	-	-	-	-	-	-	50	3	-	-	-	-	-	7	18	22	22	89
43) Tomatoes (Fresh)	Bushels	-	-	-	-	-	-	-	-	282	-	-	-	-	-	-	-	-	-	-	43

September 10, 1938

War Department, Division of Research and Statistics.

Weekly figures reported by Federal Surplus Commodities Corporation are based on telegraphic reports and are unclassified.
Fiscal year totals have been revised to include all contract cancellations and other adjustments.

Regraded Unclassified

September 7, 1938

Having received the attached cable from Professor Buck that K. P. Chen is leaving on the China Clipper on September 9th, HM, Jr sent for Capt. Lee, Aide to General Craig and gave him a copy of the cable.

The Secretary told Capt. Lee that he wanted Mr. Chen and his party to have some kind of protection at Manila and Honolulu, particularly Manila, because if the Japanese learn that Chen is on his way here they will kill him. He told Capt. Lee that the Treasury will give the Chinese all the protection that is necessary from California to Washington.

ADDRESS THE COMMANDANT, U. S. COAST GUARD
AND REFER TO NO.



HEADQUARTERS

TREASURY DEPARTMENT
UNITED STATES COAST GUARD
WASHINGTON

September 7, 1938

SECRET

From: Spagent, Hongkong, China
To : Secretary of the Treasury

Message from Professor Buck.

In view your message Chen and party leaving by Clipper scheduled depart Hongkong September 9.

Stringent financial situation in foreign exchange balances best illustrated by fact that Kung is considering moratorium on all foreign loan obligations.

SECRET

September 6, 1938

Mrs. H. S. Friedman

A. Lockheed

Please transmit the following cable in code to Professor Buck from
A. Lockheed:

"Suggest Chan look into Clipper schedule from both Hong Kong
and Honolulu in the event prompt arrival Washington
decided upon in next day or two LOCKHEAD"

September 6, 1938

Mrs. E. S. Friedman

A. Lockhead

Please transmit the following cable in code to Professor Bush
from Secretary Morgenthau:

* Your's September five STOP Chen's plan to sail
on PRESIDENT CLEVELAND September ten satisfactory
as far as can be determined at present MORGENTHAU*

September 7, 1938

HM, Jr called the President at Hyde Park at 1:15 and said to him, "How are you? I have made a very careful canvass and I talked to Joe Kennedy and Bullitt and they were so rash as to guarantee me peace for the rest of the week and, talking all around, everybody seems to think that the suggestion which I spoke to you about last night was all right. (When I spoke to him on the phone, last night, I gave him all the details of the financing.)

"Is it all right with you? We are borrowing \$700,000,000. (The President had no suggestions to make about the financing.) I am sending a Secret Service man on a plane with a formal letter on the financing for you to sign making it 'legitimate'.

"About a half an hour ago, Dow-Jones carried a flash that the Sudetens had accepted for study the proposal of the Czech Government and, on the strength of that, the market went up.

"I spoke to Ed Foley and I asked him to look into the matter you talked to me about last night and told him to talk it over with Steve Gibbons and Guy Helvering. I told him this morning. Ed Foley seems to know all about it." The President said, "Speed is the essence." (Full explanation of this matter is contained in record of Secretary's meeting with Ed Foley also dated Sept.7.)

"Thank you very much. Give Ed Flynn my best regards."

At the conclusion of the conversation, the Secretary said that the President told him that yesterday he bet 2 to 1 that there would be no war for two weeks and the President asked HM, Jr if he wanted to bet him and HM, Jr answered no; he did not want to bet on war. The President also told HM, Jr that Ed Flynn was sitting next to him.

September 7, 1938

T E L E G R A M (Via White House wire)

COL. HARVIN H. McINTYRE
POUGHKEEPSIE NEW YORK

I AM SENDING SECRET SERVICE OPERATOR HARVEY INGLEY
ON THE FOUR OCLOCK PLANE TO NEWARK AND THEN BY
AUTOMOBILE TO POUGHKEEPSIE STOP HE IS CARRYING
AUTHORIZATION FOR TOMORROWS FINANCING STOP WILL
APPRECIATE YOUR SEEING THAT INGLEY DELIVERS THIS
DOCUMENT TO THE PRESIDENT TONIGHT FOR HIS SIGNATURE
STOP WHAT ARE THE LATEST QUOTATIONS ON CHRISTMAS
TREES AS I AM IN THE MARKET FOR ONE

HENRY MORGENTHAU JR

September 8, 1938

TELEGRAM (VIA WHITE HOUSE WIRE)

Col. M. H. McIntyre,
Hyde Park, New York

DAN BELL AND I WOULD VERY MUCH LIKE TO SEE THE
PRESIDENT MONDAY MORNING SEPTEMBER TWELFTH STOP
WOULD APPRECIATE YOUR MAKING THE APPOINTMENT
FOR US STOP NOW TO GET DOWN TO REAL BUSINESS
MR LAING CHRISTMAS TREE EXPERT BUT NOT SANTA
CLAUS WILL ARRIVE AT THE BIG HOUSE TWO O'CLOCK
THURSDAY TO SEE THE PRESIDENT STOP PLEASE HAVE
THE SLEIGH BELLS READY

HENRY WORGENTHAU JR

Delivered to
Mr. Kuchler
at 10:50
by Mitchell

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE SEP 7 1938

TO Assistant Secretary Taylor

FROM Herman Oliphant

Re: Acquisition of Critical and Strategic
Materials Essential to the National Defense.

It would seem to be of paramount importance that in time of war, or when war is imminent and threatened, the United States should have on hand an adequate reserve supply of critical and strategic materials essential to the national defense. These materials are, in general, chemicals, manganese and other commodities which can not be obtained in sufficient quantities in the United States.

In the Navy Department appropriation act, 1939, there is a \$500,000 appropriation for the procurement and transportation of strategic and critical materials. The current appropriation to the War Department does not contain a similar provision for the purchase of such materials. However, the army appropriation act does contain a provision for the procurement and storage of ordnance materials and supplies, and authorizes the Chief of Ordnance to enter into contracts for the procurement of such materials to an amount not in excess of \$12,900,000. To the extent that strategic and critical materials are included in the term "ordnance material", it would appear that obligations may be created for their procurement under the War Department appropriation act, fiscal year 1939.

Under existing law the Reconstruction Finance Corporation has authority (Section 5 of the RPC Act) to make loans to banks, "to aid in financing agriculture, commerce, and industry". It is probable that under this authority the Reconstruction Finance Corporation could make loans to the Export-Import Bank, which in turn has sufficiently broad statutory and charter powers to make advances to Federal Surplus Commodities Corporation for the purpose of enabling that Corporation to make purchases abroad of strategic and critical materials. The authority of the Federal Surplus Commodities Corporation to make such purchases, and to

store, handle and sell the materials is reflected in paragraphs (i) and (m) of the third paragraph of its Certificate of Incorporation, which read as follows:

"(1) To purchase, or otherwise acquire, to hold, or otherwise to deal in, to sell or otherwise dispose of any and all agricultural and/or other commodities, and/or products thereof and to loan and/or borrow money upon the same;

"(m) Without limiting the generality of the foregoing, to borrow money for the purpose of (1) purchasing, storing, handling, and/or processing agricultural and/or other commodities and/or products thereof or any surplus of the same and (2) disposing of or removing the same through orderly marketing in the United States and/or elsewhere;"

Such material could be acquired and stored by Federal Surplus Commodities Corporation upon an understanding with the War and Navy Departments that the material would be held for sale to those Departments when, as, and if an appropriation were made for such purpose. It is not believed that any legal difficulties would be experienced in the matter of procurement of storage of the material. Section 1 of Executive Order No. 6166, which transferred procurement functions to the Procurement Division in the Treasury Department is very flexible and authorizes the Procurement Division, with the approval of the President, to distribute the functions of procurement to the various agencies of the Government in practically any manner deemed desirable in the interest of economy and efficiency. Both the Secretaries of War and of the Navy have authority to issue regulations governing storage of military supplies, and it is believed that satisfactory arrangements for such storage could be worked out between those Departments and the Procurement Division of the Treasury.

I am not at this time prepared to say that the Export-Import Bank has authority to purchase and hold the commodities in question.

Thomas C. Blanton



DEPARTMENT OF STATE
WASHINGTON

September 7, 1938.

My dear Mr. Secretary:

I enclose for your confidential information a paraphrase of telegram No. 418 of September 6, 1938, from the American Embassy, Berlin, transmitting the report of a conversation between the Ambassador and Mr. Brinkmann.

Sincerely yours,

Herbert Feis

Herbert Feis,
Adviser on International
Economic Affairs.

Enclosure:

Paraphrase.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin, Germany

DATE: September 6, 1938; rec'd Sept. 7, 7:45 a.m.

NO.: 418

Last night I had a conversation with Brinkmann, who said that the preliminary figures obtained as a result of the April 26 decree showed approximately 4 billion Reichsmarks of Jewish property in Germany. Brinkmann said the final results are not yet in, but he thinks that the final total will be only slightly more than this figure - which is very much less than was estimated earlier. Brinkmann in the same conversation said he estimated the total German foreign debt at 6 billion Reichsmarks. If interest on this latter amount is figured at 3 percent, an annual service of 180 million Reichsmarks would be required. Brinkmann claims that approximately 110 million Reichsmarks are being paid by Germany now.

Furthermore, Brinkmann said that even under the existing agreements, if importing countries would grant more liberal conditions Germany could increase its exports by 500 million marks. Such exports would of course make more foreign exchange available for service of debts. On the third of October Brinkmann expects to make a speech in Leipzig reviewing Germany's whole scope and trend under present economic policy, and perhaps he will give some indication of developments in the future.

It is requested that pertinent portions of this telegram be transmitted to the Treasury as strictly confidential information.

WILSON.

EA:LWW

Drainy

September 7, 1938.

Dear Mr. Laffingwell:

It was good of you to write me in detail as you did under date of September 2nd, and I have read your letter with interest.

Thank you also for saying that I may call upon you at any time I may wish to do so.

I hope that the rest of your stay in New Hampshire will be pleasant, and that you will return to New York later in the fall entirely restored to health.

Sincerely,

Henry Morgenthau, Jr.

Mr. R. C. Laffingwell,
23 Wall Street,
New York, New York.

OWB/dbs

Tricenus

265

23 Wall Street
New York

September 2, 1938

Dear Mr. Secretary:

I enjoyed so much the privilege of dining and talking with you last evening. I want you to know that far from thinking it a hardship to come down from New Hampshire to be with you I thought it an honor, and I liked very much being asked.

It occurs to me that it might be of some use to you to have a line from me summarizing my views.

1. I think the gold dollar should be maintained in accordance with the President's decree of 1934 and that gold should be received and paid out at the gold price fixed by that decree without limit as to amount and without restriction or delay. The one fixed point in a weak and weary and frightened world is the gold value of the dollar.

2. I think your policy of the tripartite agreement, which has now for a long time maintained flexible but orderly exchanges by cooperation between the nations, should be maintained. As you pointed out in your talks at Harvard, you have established exchanges which may bend but need not break. I am not disturbed by the current relative weakness of sterling vis-a-vis the dollar. It is not surprising in view of the British adverse balance of payments and the fear of European war. I think the British will wish to maintain a strong though not a pegged exchange, and that while there may be people in England who under peace conditions would

look upon some deterioration of the pound in relation to the dollar as advantageous from the point of view of British trade, just exactly the opposite view would be taken under the conditions which we were considering last night, of war or the fear of war. It becomes absolutely necessary for Great Britain to maintain a strong pound from the point of view of prestige and the necessitous purchases she would have to make for war purposes. I look upon the continued cooperation between the nations parties to the tripartite agreement as of vital importance to maintaining orderly as distinguished from pegged exchanges and from the point of view of beating off the foreign exchange speculator who is a vicious parasite and capable of doing infinite harm.

3. I assume that there will be no renewed sterilization of gold imports and no increase in reserve requirements. As you know I think these were among the principal factors in precipitating the depression of 1937-1938. But quite aside from this technical and mechanical sterilization of gold and of reserves, now happily abandoned, there is the sterilization through fear of adverse action by our own Government directed against our own business, and through fear of war in Europe, which is making money almost useless and leaving these gold imports sterile. Of course the Government of the United States cannot remove the fear of war in Europe, but it can if it will remove the fear of its own adverse action at home, which is sterilizing gold and reserves here, and may thus do much to bring about recovery and reemployment. This is no one-sided matter -- business must help, and must abandon some favorite dogmas, in order to bring about the necessary result.

4. I think our markets should be made more liquid and that consideration should be given by the Treasury and the Federal Reserve Board and the Securities Exchange Commission to the measures which ought to be put into effect in order to make them more liquid. Whatever may be the merits under conditions of peace and well being of restricted markets, it would become urgently important to broaden the markets to the fullest possible extent if a war should occur and the question should arise of our capacity to absorb foreign held American securities which Europeans would then have to sell. I think it of extraordinary importance that our own markets for stocks and bonds and commodities should be kept open under every and any condition. Closing the exchanges is a favorite device of the panic monger. It aggravates instead of ameliorating the condition in almost every instance.

5. I think it would become important for the Federal Reserve Banks to be prepared to buy Government securities, particularly the longer ones, in the event of war. One of the first manifestations of war would be the world-wide increase in the level of interest rates and the unloading of Government securities and other securities now selling at the highest prices and lowest yields of all times. It would become the duty of the Federal Reserve Banks to buy these and lend on them freely to prevent a disaster of the first magnitude to the whole economy of the country.

6. I fully agree with you that the British would never have a controlled exchange in the German sense, nor would they have a standstill or an embargo. They would however in my opinion restore the kind of control of the exchange which they put in effect

during the Great War with a view to ensuring the application of their nationals' foreign assets to the national needs in a war emergency.

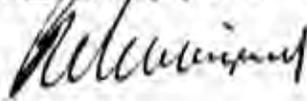
7. I have no doubt of the ability of this country to absorb foreign held American securities if we maintain a free gold market and a free exchange market and keep our stock and commodity exchanges open, provided the neutrality law and the decisions of the President under it do not unduly restrict our exports. On the other hand any general embargo of our exports would I should fear bring on such a depression as would make everything unsalable.

I say all these things with due diffidence because I was in the hospital all winter and spring, and have been vacationing in New Hampshire for the last month, and of course I am not in the least familiar with present conditions except as a newspaper reader. On the other hand many of the problems you are now confronting recall to me my Treasury experience during 1917-1920, and I hope on account of that experience I may be of some service to you now.

I am going back to New Hampshire and planning to stay there until the middle of this month. I hope indeed that you will feel free to call upon me in any way at any time if you think I might possibly be of service to you.

I am, my dear Mr. Secretary,

Faithfully yours



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

FEDERAL RESERVE BANK
OF NEW YORK

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OFFICE CORRESPONDENCE

DATE September 7, 1938.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

L. W. Knoke

Bolton called me today at 11:30 a.m. Since telling me in this morning's cable that he had sold \$6,000,000, Bolton said he had during the following hour done little except sell \$1,000,000 to the Swedes and \$500,000 to the Russians, but after New York had opened a little later he had lost another \$10,000,000 - making the total for the day so far just over \$17,000,000 - a certain amount of which had gone to Paris where there were slight signs of the French franc beginning to weaken. This renewed demand for dollars was possibly due to the absence of any news which is now evidently considered a bad sign; possibly also to the prevailing feeling in the market that the Czech proposals had not been received any too favorably in Berlin. There continued a strong feeling in many quarters that even apart from the European situation, sterling was a good sale. Yesterday's and today's operations seemed to indicate (see the widening discount on future sterling) that a short position was beginning to be built up as a result of which people were trying to borrow sterling for a few days. That might improve the technical position of that currency and ultimately be of assistance to his operations. At the moment, however, there were too many adverse factors yet and he was having difficulties in maintaining the rate between 4.82 and 4.83.

The weakness of the belga, he understood from Baudewyns, was due to a commercial order and did not represent a movement of capital. As a matter of fact yesterday the Belgians had gained

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE September 7, 1938.CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITH

L. W. Knoke

BANK OF ENGLAND.

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a little gold from him.

The guilder was a little easier today; he understood from de Jongh that as a result of our cable of last night de Jongh was going to be a little less active in his dealings in Amsterdam today.

Bolton stated that he was preparing another shipment of gold to New York for his account; to the extent of such shipment he would, of course, make less use of our order in London. I pointed out that of the order for \$50,000,000 given him this week there was very little left after Monday's and today's sales and he gave me to understand that he would feel a little better if we increased it. I replied I would see what could be done.

LGE:KW

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

CONFIDENTIAL FILE

DATE September 7, 1938.SUBJECT: TELEPHONE CONVERSATION WITH
THE NETHERLANDS BANK.

L. W. Knoke

I called de Jongh at 9:45 this morning and referred to my cable of yesterday (see enclosure) receipt of which de Jongh confirmed. They were arranging shipment per SS Statendam of 801 bars equal to 308,134 fine ounces; freight would be paid by them and we should pay for insurance here and debit their account.

I then referred to paragraph 2 of yesterday's cable and the conversation developed as follows:

K. "I must say we were flabbergasted to get your cable of Monday."

de J. "I would certainly have communicated with you but there was no opportunity."

K. "In a case like that you can always reach me at home. What I wanted to say is this; in the first place I am sure our Treasury is very willing and anxious to interpret the arrangement very liberally, but I want to refer you to paragraph 2 which, strictly speaking, provides for the conversion into gold by us of dollars acquired for the account of the Dutch Equalization Account and for the conversion into gold by you in Amsterdam of guilders acquired for our account as fiscal agent. That is, strictly speaking, the contents of paragraph 2. I am simply speaking of the literal interpretation of that paragraph. We would earmark here

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE September 7, 1956.CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITHL. W. KnokeTHE NETHERLANDS BANK.

gold against dollars which result from the sale of guilders as we have done in the past. On the other hand according to paragraph 2 you would earmark gold against guilders purchased by us. That is, strictly speaking, what paragraph 2 contains."

de J. "But it starts 'on the basis of reciprocity.' We understood that if you earmark gold for us in New York we could earmark gold for you here."

K. "That simply means that both countries agreed to the sale of gold to each other."

de J. "We have interpreted it slightly differently."

K. "I appreciate that from your operations. I repeat that the Treasury is quite willing and very anxious to interpret the arrangement very liberally. But I am sure they would prefer to discuss such operations before rather than after."

de J. "I telephoned you last Friday and mentioned that we might have to sell dollars to support our currency."

K. "It was for that reason that I sent you my cable of Friday night. However, all this is water over the dam. As regards the future, my point is this that if these operations assume too large proportions I would say it would be fairer all around if you also

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE September 7, 1933.CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITHL. W. KnoksTHE NETHERLANDS BANK.

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used some of your gold holdings in New York. Otherwise a situation might develop where you have your gold away from Europe and we have our gold in Europe, and that at a time when all of Europe is anxious to get its gold away from there. If your sales of dollars should continue further on a large scale I should imagine the fairer division of the burden would be for us to take some gold under earmark in Amsterdam and for you to release some of yours in New York. If after that more dollars are needed you would have to discuss the matter with me first; that would be a fair division of the burden."

de J. "But your gold here can be shipped immediately."

K. "True, if facilities are available; if you use your gold holdings here you can also ship from Amsterdam and replenish them that way."

de J. "In the first place, I want to assure you that I would have telephoned you Monday if it hadn't been that you were closed."

K. "Let me say that in the future you can probably always get me at home, through the bank. How was the market today?"

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE September 7, 1938.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

L. W. Knoke

THE NETHERLANDS BANK,

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de J. "Today it is very quiet. We only sold about \$800,000."

K. "As I indicated in the cable last night, you have for the time being \$4,000,000. If you need go beyond that I think it would be very helpful if you use some of your gold here and give us a chance to move some of our gold out of Amsterdam."

de J. "You would rather not have gold in London?"

K. "It would just complicate things for us."

de J. "How about Brussels?"

K. "That applies to the whole continent. Our difficulty is that we may be asked to make some similar arrangement for Belgium tomorrow and the result might be that we have ~~the~~ gold all over Europe when the Europeans themselves prefer to have their gold here. I think there must be some even distribution of the burden. For the time being, at least, you have these \$4,000,000 and if you have to go beyond that I assume you will give me a ring and meanwhile that you consider using some of your gold here."

de J. "Suppose we had to sell dollars tomorrow morning, in that case we shall ask you to release some of the gold earmarked."

K. "I think that would be a very fair distribution of the burden."

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE September 7, 1936.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

L. W. Knoks

THE NETHERLANDS BANK.

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de J. "In that case we will probably ship gold to you and ask you to earmark on receipt."

K. "You ship gold here to replenish such gold as you may have released in the meantime? I think that is a very orderly program."

de J. "About the small amount that we sold today. We have sent you a telegram telling the exact figure of the gold to be earmarked here."

K. "Let us have that early tomorrow morning so that we can put everything through without a hitch. Did you have any orders in the market yesterday?"

de J. "Nowhere. You understand that while we were selling dollars here on Monday we bought sterling and converted that into gold, that was done partly to be helpful to the Bank of England."

I concluded by saying that I was hopeful we now understood each other perfectly.

LWK:KW

COPY

September 6, 1938.

THE NETHERLANDS BANK

ATTENTION Mr. DE JONGH

- Paragraph 1 Your number 94 noted STOP Please earmark gold bars in earmarked account B in accordance with our number 62 and cable us early on September 8 exact amount of fine ounces so earmarked STOP
- Paragraph 2 Please release from earmark and ship to us freight prepaid per SS Statendam on September 10 about 308,000 fine ounces STOP We have covered insurance here from door to door at 7 cents per hundred dollars STOP Cable full details shipment STOP
- Paragraph 3 Before selling more than \$25,000,000 in the aggregate, including in such amount dollars already sold, please consult with us STOP This procedure is contemplated by our number 62 STOP
- Paragraph 4 I shall telephone you at 9:30 a.m. our time Wednesday STOP

Knoke

EDA

GRAY

LONDON

Dated September 7, 1938

Received 11:05 a.m.

Secretary of State

Washington

RUSH.

875, September 7, noon.

FOR SECRETARY MORGENTHAU FROM BUTTERWORTH.

STRICTLY CONFIDENTIAL.

Part one. Sir Richard Hopkins got in touch with me last evening and I met with him at 11 o'clock this morning. HE referred to our last conversation reported in No. 845 of August 31, 1 p.m., and said that he now had the conclusions reached by the Bank of France and the Bank of England/^{after} examining the technical aspects of the question. The two central banks took the view that in its present form and in the present conditions of the market the suggestion would not be likely to give the favorable results aimed at and that such assistance given to the forward market would be likely in practice to assist speculation. MOREOVER if the question of secrecy was important the two central banks feared that the existence of such forward operations could not be kept secret from the market.

Hopkins

EDA - 2 - #875, September 7, noon from London

Hopkins said that he had talked to Lenorcy, acting French Financial Attache, who was embarrassed that the French authorities had not been able to find a means of employing effectively this proposal of an added technique and was most anxious lest the United States find that its efforts were not appreciated. Hopkins understood from Lenorcy that Cochran was being given either yesterday or today a similar report of the opinions of the two central banks. For the British Treasury's part, Hopkins said he wished to indicate that they were prepared to join in trying to work something else out if it were thought desirable.

In connection with the secrecy aspect of the conclusions of the two central banks I repeated to Hopkins what I had told Phillips, reported in the third paragraph of number 824 of August 26, 6 p.m., and in this connection Hopkins confirmed Phillips' statement that there exists now an arrangement between the Bank of France and the Bank of England under which the latter on occasion operates in the forward franc market on behalf of the former but as agent not as principal. Hopkins added, however, that these operations were by no means extensive and of course the decision of monetary management in this respect rested firmly on the shoulders of the

the

EDA - 3 - #875, September 7, noon from London

the French.

Part two. Hopkins then volunteered the remark that meeting with me at this time made him feel that he should apologize about the rapidity of the pound's decline but that really what he should make his excuses for was the deplorable state of Europe as soon as twenty years after the last world war. He went on to emphasize that all European centers were naturally gravely disturbed and affected by the current situation, London perhaps the least of all. He said that nevertheless the pressure on the pound had been extraordinarily heavy; he had not yet heard about operations thus far this morning but happily yesterday was not nearly as bad as the day before. (He was obviously acutely conscious of the fact that the pound had been allowed to slip some two points when New York was closed for Labor Day). He further said that in his opinion -- and the question decidedly involved psychology -- the British equalization fund would have lost far more gold by a policy of holding firm and he added that since the United States would have had to acquire this gold the United States would have not liked it either. I merely remarked that the question as to what tactics would have produced the more desirable effect was the crux of the situation

EDA - 4 - #875, September 7, noon from London

situation and that led him to stress again his attitude that the method employed was the more efficacious. Hopkins then gave me to understand, in words which were sufficiently vague to make it impossible to quote but the purport of which was none the less clear, that the British authorities were not disposed at this time to let the pound go any further. He did not (repeat not) mention figures but I presume that he meant 4,80-81 as the bottom level. In view of my No. 825, August 26, 6 p.m., and the statement in the final paragraph of my No. 839, August 30, 6 p.m., I made no comment except to take note of his assertion. Hopkins also implied that he looked for, with any easement of the international situation, a corresponding reaction from the recent movement.

KENNEDY

CSB

Mj

EG

PLAIN

London

Dated September 7, 1938

Rec'd 2:35 p.m.

Secretary of State,
Washington.

881, September 7, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

The dollar opened at 4.82 1/4 bid and rapidly moved to 4.81 5/8 at which point the British authorities gave support and after gold fixing the rate moved up as high as 4.82 5/8. The British fund held it at 4.82 1/2 until New York opened a seller of dollars and the rate moved down to 4.82 1/4. The demand for dollars was larger than yesterday and the firm manner in which the British fund gave support is of interest in connection with part two of No. 875, September 7, noon. 502 bars were dealt in at fixing at 144S. 1D. The British fund later gave large amounts at 1D. over the fixing price and before the close at 2D.

KENNEDY

CSB

MG

PLAIN

London

Dated September 7, 1938.

Rec'd 3:05 p.m.

Secretary of State,
Washington.

ECO, September 7, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

An analysis of the ebb and flow of press comment in the first three days of this week may be worthwhile as indicating the gropings of city opinion to account for and justify the fall in the sterling rate below 4.85.

The political crisis is admitted in all quarters to be the main cause of the pressure on sterling; the FINANCIAL NEWS in particular insisted that fluctuations in the rate have followed the hour-to-hour interpretations of news of the situation in Czechoslovakia.

Nevertheless discussion of the overvaluation of sterling and of the trade balance of the sterling area vis a vis the United States continue to appear though the relative stress laid on this factor differs. For example the FINANCIAL NEWS in its leading editorial on Monday asserted that those who stress the temporary nature of the United States export surplus
and

Page 2, #880 from London

and make light of the United Kingdom adverse balance pay insufficient attention to the deterioration in the balance of payments of the Empire as a whole. After admitting that a rise in commodity prices would be favorable to sterling in time but asserting that it is too early to count on anything of the kind the editorial went on to say: "If capital continued to move towards the United States sterling must soon fall to the minimum level which America would accept/^{as} reasonable and at that point will require to be defended by substantial gold exports." THE FINANCIAL TIMES on the other hand in an editorial on Tuesday stated that though present economic considerations would put sterling at about 4.40 assuming it to be overvalued by about 10 per cent no permanence can be given to these considerations and therefore 4.70 would be a more reasonable limit to expect. Oscar Hobson financial editor of the NEWS CHRONICLE also stressed the temporary nature of the trade balance position and stated that he does not expect the pound to fall as low as 4.70 this year falling a European war in spite of the weakening effect on sterling of the uneconomic arms program and the hindrance to export recovery of steel price policy.

Most of the press on Tuesday reported that the pressure came almost entirely from the continent especially Holland and Switzerland while the FINANCIAL NEWS also attributed the maintenance

Page 3, #880 from London

maintenance in the wide forward discount on the belga to a belief that Belgium would soon join the sterling bloc. In his Lombard Street column today Einzig describes Holland, Switzerland and France as "honorary members of the sterling area" and refers to the systematic operations of the Dutch and Swiss controls to keep their currencies relatively steady in relation to sterling.

Probably of greatest interest in the press comment of the past three days are references to the belief that there is some definite understanding between the British and American authorities on the present movement of the rate of exchange. The FINANCIAL NEWS in its Monday leading editorial in discussing the fall to 4.84½ in the face of the reported American Treasury statement said: "Hence for all we know at present the effective limit of depreciation which American authorities are prepared to accept may already have been almost reached."

On the same day the FINANCIAL TIMES said: "One fact that seems to emerge from recent happenings is that a fresh understanding has been reached between ourselves and the United States authorities."

The following quotation from today's DAILY HERALD financial column expresses the feeling in the city perhaps

more

Page 4, #880 from London

more accurately and certainly more frankly than any comment to be found in the FINANCIAL PRESS or the more orthodox dailies. "The city is trying not to be alarmed at the pound's fall although yesterday's weakness in gilt-edged suggests that it is not happy about it. It would prefer to have an official statement confirming the reports that the fall is by arrangement with the American authorities and not altogether due to the force of continental and other pressures. There are plenty of reasons why the pound should fall but the apparent lack of concern displayed by the control is a little unnerving to some."

KENNEDY

OSB

TELEGRAM SENT

JB

GRAY

September 7, 1938

5 p.m.

AMEMBASSY

PARIS (FRANCE)

623.

FOR COCHRAN.

The following is being released for the morning newspapers, Thursday, September 8, 1938:

Secretary of the Treasury Morgenthau is today offering for subscription, through the Federal Reserve banks, \$400,000,000, or thereabouts, of 12-14 year 2-1/2 per cent Treasury bonds of 1950-52, at par and accrued interest, and an additional \$300,000,000, or thereabouts, of 1-1/8 per cent Treasury notes of Series A-1943, due June 15, 1943, at par and accrued interest from June 15, 1938. At the same time, the holders of 1-1/4 per cent Treasury notes of Series E-1938, maturing December 15, 1938, are offered the privilege of exchanging such maturing notes either for the Treasury bonds or the Treasury notes, the exchange to be made par for par with an adjustment of accrued interest as of September 15, 1938, and to the extent the exchange privilege

-2- #623, September 7, 5 p.m., to Paris.

privilege is availed of, the offering of bonds or of notes may be increased.

HULL
(HF)

SAME TO: AMEMBASSY, LONDON, ENGLAND as Department's 505,
September 7, 5 p.m., FOR BUTTERWORTH.

EA:HF:LNW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: September 7, 1938, 6 p.m.

NO.: 1408

RUSH

FROM COCHRAN.

This afternoon I had a telephone conversation with General Manager Golay of the Swiss Bank Corporation at Basel. Golay feels that there is a much better outlook in Europe since the British and French have shown their interest in avoidance of a war in Central Europe and are influencing the Czechs to make concessions to the Germans. For the present he does not think there is great danger, but he expects that for several months there will be a troubled atmosphere.

I talked with Governor Rooth of the Swedish Central Bank at Stockholm. He told me that he anticipates a long troublesome period, with the ultimate outcome of a plebiscite for Czechoslovakia whereby the German, Polish and Hungarian minorities will all declare themselves; in his opinion neither the British nor the French would go to war to stop such action. As for sterling, Rooth does not think it is overvalued at 4.86. He thinks that once better international political news turns the big capital movement from Europe to America, the present sterling-dollar rate should improve.

Last night I was visited by Archdeacon, the Berlin representative of Bankers Trust. He told me that the normal population of Nuremberg is 200,000, and that there

are

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are 800,000 people there now; he thought that it would take about a week after the end of the Nazi Congress on September 12 to transport the visitors to their homes. Archdeacon believed that the last speech which Hitler makes, on September 12, may be peaceful but that in the latter half of September there might be some aggressive move. Archdeacon told me that misguided people in the radical wing of the German Nazi party do not think that the French and British would fight to save the Czechs, and that ⁱⁿ this ignorance may be the greatest danger of a big war. Business people in Germany are hard up, he said, and are forced to sell their securities, while mobilization has made labor unhappy.

The Manager of the Paris branch of the National City Bank thinks that sterling will continue weak for some time, and that that the rate may even drop below that at present. He does not think that Germany will cause immediate trouble.

It is the opinion of one of the partners of the Paris branch of Morgans that Hitler will keep negotiating and will not precipitate trouble just now. This friend told me that some of the staff of his bank were called today to do military service in forts in the eastern part of France.

I had a talk with an American economist friend of mine who has just returned to Paris from Rome. While there he interviewed the Finance Minister, the Governor of the Bank
of

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of Italy (Azzolini) and the official who is in charge of exchange control, Guarneri. My friend said that he found the Italian budget situation is not too bad, but because of unfavorable balance of international payments, the country is obliged to go through heavy hardships. There has been a reduction in imports, particularly of wheat, and bad bread particularly has further lowered the standard of living. This season there have been many German tourists traveling in Italy and paying in travel lire, because a large unfavorable trade balance with Germany has been built up by Italy. There are not as many other tourists as had been expected by the Italians. On the whole sentiment toward Germany is not kindly, and Italians in high and low position are unanimously hoping that they will not be drawn into any conflict which may arise between the Germans and the Czechs.

I had a telephone conversation today with the President of the Bank for International Settlements, Beyen. He said that tension among Germans is very high. Beyen said that it was impossible for anyone to tell in advance what would transpire, since one man alone will decide this. If the Germans themselves were not so wrought up, he said, he would not be so worried. Beyen expects the next two weeks to be critical but he does not think there will be an explosion.

This afternoon at half-past four I had a talk with

the

- 4 -

the Bank of France. Pressure today had been heavier than yesterday, my friend told me. For the day the British equalization fund had lost approximately 5,000,000 sterling and the French 1,000,000 pounds. One-half of the French loss was to support the exchange; an order for national defense took up the other half. My friend said that the banking people of France do not think there will be conflict in Europe. He was told frankly by the economist of the London house of a leading firm of international bankers that the Czechs had been sold out.

For the month of August the unfavorable French trade balance was 1,273,000,000 francs; for the first eight months of 1938 the deficit totaled 11,732,000,000 francs as compared with the similar period for 1937 when it was 11,929,000,000.

END MESSAGE.

BULLITT.

GOLD HELD IN LONDON

Close SEPT. 7, 1938

\$90,500,000

Insurance arranged for following ships:

<u>Sailing</u>	<u>Steamship</u>	<u>Amount</u>
Sept. 9	Washington	\$12,000,000
Sept. 10	De Grasse	10,000,000
Sept. 14	Queen Mary	10,000,000
Sept. 16	Pres. Harding	12,000,000
Sept. 17	Brittanic	11,000,000
Sept. 17	Champlain	10,000,000
Sept. 21	Manhattan	12,000,000
		<hr/>
		\$77,000,000