

DIARY

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FS

GRAY

London

Dated September 8, 1938

Rec'd 1:20 p.m.

Secretary of State,  
Washington.

884, September 8, 5 p.m.

FOR TREASURY FROM BUTTERWORTH.

The dollar opened at 4.82 $\frac{5}{8}$  bid due to the over night news of the Mahrish-Ostrau incident and the consequent termination of the Czech-Sudeten negotiations. The British control gave decided support at that figure and later at 4.82  $\frac{3}{8}$  and the rate gradually worked back to the opening figure. New York came in a seller of dollars.

Gold fixing was again large, 655 bars at 144 shillings one one-half pence. The British fund gave post fixing gold at one half pence less.

The franc continued steady at 178  $\frac{5}{16}$ s; the volume of trading was smaller than yesterday.

CSB

KENNEDY

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: September 8, 1938, 4 p.m.

NO.: 1412

FROM COCHRAN.

The French control had lost around 250 thousand pounds by four o'clock. The British control had lost 14,000,000 dollars, and 2,000,000 sterling of gold. On both Paris and London markets the principal activity came in early trading. There has been comparative quiet the remainder of the day. September 1 statement of the Bank of France showed no important changes. Coverage was 46.44 versus 46.65.

Today the belga is firmer, following the attack on it yesterday. Because of the fact that the French franc has followed sterling downward, and because the Dutch florin and the Swiss franc have shown more of a tendency to weaken with the pound than to stand by the dollar, it is thought likely that the position of the belga attached to gold and appreciating with the dollar against the currencies of other European countries may become vulnerable; particularly so as speculators are likely to attack this currency for in view of the economic situation of Belgium, the belga was already perhaps overvalued against the French franc before the beginning of the present movement. Furthermore there has been gossip recently that the belga has been cut loose from

- 2 -

from gold and is permitted to follow sterling.

In confidence I have been given to understand that some of my Dutch central banking friends would like to see the belga follow sterling, and if depreciation of sterling becomes important, they themselves are determined that the florin should follow sterling. It is the belief of the Dutch that they will have to do this because of sterling competition in shipping, and in the Dutch Indies and other areas in the Far East. These friends would like to see the Belgians do the same principally because such action would bring more pressure on Great Britain to hold the pound. A sterling bloc gives Great Britain certain advantages, but trade benefits from further depreciation of the British pound are lessened if the currencies of more and more of the competing industrial and shipping nations are tied to sterling, with corresponding lowering of those currencies with the pound.

END SECTIONS ONE, TWO AND THREE

BULLITT.

EA:LWW

4

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

DATE: September 8, 4 p.m.

NO.: 1412

SECTION FOUR

While no benefits are derived by the British from this, it naturally works against American trade to have such a number of currencies depreciating against the dollar. A group of the French who have rather complacently witnessed the franc going down with sterling are commencing to worry lest, if the pound moves back the other way, the franc may not show a similar recuperative power and France will thus have suffered a new devaluation.

From Stockholm Governor Rooth writes me that if there should be a further depreciation of the New Zealand pound, he believes the Farmers Party in Denmark will begin a political campaign in favor of a corresponding depreciation in the Danish kroner.

END OF MESSAGE

BULLITT

EA:DJW

September 8, 1938.  
4:15 p.m.

H.M.Jr: Hello.  
Herbert  
Feis : Henry. Is this convenient or shall I call later?

H.M.Jr: Pardon me.

F: Is this convenient or shall I call later?

H.M.Jr: Well, if it's not more than a fifteen minute telephone call.

F: That's right. First, we reported on China.

H.M.Jr: Yes.

F: And the Secretary said he still stood about where we had reported and I concluded by saying that I now thought definitely the point was reached where Hamilton and myself couldn't be any further use as interpreter and that, please, the first convenient opportunity you were expecting him to discuss it with him, and he said, "Yes", that he would do so.

H.M.Jr: Thank you, but -

F: I beg your pardon.

H.M.Jr: But the move will be from him.

F: That's right. He's still turning it over in his mind. I told him that what he hadn't known, and that this fellow was coming by clipper.

H.M.Jr: I see.

F: You see?

H.M.Jr: Yes.

F: On the other matter, the slip you gave me.

H.M.Jr: Yes.

F: He was in - he was in one of his best moods, and began by speculating who in the - in the third office, next yours, had dictated it.

H.M.Jr: In the office next to mine?  
F: That's right.  
H.M.Jr: How did he mean?  
F: Well, he wondered why it was necessary, thinking couldn't this be done by oral communication and saying he was fully cognizant of it - in fact had put it up to the Ambassador -  
H.M.Jr: Yes.  
F: Just today.  
H.M.Jr: I see.  
F: Which is really true, and therefore wondered whether he could let it go at this, with his real full cognizance of it.  
H.M.Jr: Yes.  
F: And with an instruction which he, on the spot, delivered to me to take that slip into, say Hawkins.  
H.M.Jr: Yes.  
F: And bring it before them.  
H.M.Jr: I see. And let it go that way.  
F: That's right.  
H.M.Jr: Well, I'll say this, yes, I'll let it go that way until next Tuesday, then I'll re-examine it.  
F: All right, .sir.  
H.M.Jr: How's that?  
F: That's right, because it won't come without further -  
H.M.Jr: No, no.  
F: You won't just send it over?

H.M.Jr: No. No, positively not.  
F: Thank you.  
H.M.Jr: Thank you Herbert.  
F: Right, sir.  
H.M.Jr: Goodbye.  
F: Goodbye.

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE September 8, 1928.

TO: CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

FROM: L. W. Knoke

DE NEDERLANDSCHE BANK.

de Jongh called today at 9:50 and referring to his cable #97 (see enclosure) he inquired whether the requests made therein were agreeable. I told him that everything seemed fine and I was glad that he had acted along the lines discussed by us yesterday over the telephone.

Things were rather more quiet in Amsterdam today and he had done only \$150,000 so far. He asked whether we intended to ship the rest of the gold next week and I told him that we had covered on the Nieuw Amsterdam and would ask him to arrange for shipment in a day or so. He was interested in this information, he continued, because it was their intention to ship some more gold on the same boat for their own account to replenish their gold holdings here. I answered that that seemed to me a very orderly program.

LWK:KW

**C O P Y**

**Sent and received 8 97 for Knoke**

**Paragraph 1 Please transfer our whole gold account B to our gold account A.**

**Paragraph 2 Release from our gold account A gold bars to an aggregate fine weight of approximately 77,175 fine ounces gold.**

**Paragraph 3 Please buy from us the gold thus released crediting our dollar account A with proceeds.**

**Paragraph 4 Charge said account and pay \$2,694,000 to Guaranty Trust Company of New York for our account all value September 9.**

**TEST OK**

**DE JONGH**

Close SEPT. 8, 1938

GOLD HELD IN LONDON

\$99,000,000

GOLD HELD IN AMSTERDAM

\$20,845,000

Insurance arranged for following ships:

<u>Line</u>	<u>Steamship</u>	<u>Amount</u>	<u>Amount</u>
9	Washington	\$11,400,000	
10	De Grasse	10,000,000	
10	Rotterdam		\$11,000,000
14	Queen Mary	10,000,000	
16	Pres. Harding	10,700,000	
17	Brittanic	11,000,000	
17	Champlain	10,000,000	
17	Nieuw Amsterdam		11,000,000
21	Manhattan	12,000,000	
21	Normandie	10,000,000	
		<hr/>	<hr/>
		\$85,100,000	\$22,000,000

September 8, 1938

9:15 a. m.

Present:

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

HM, Jr.: The Spanish Ambassador is coming to have supper with me tonight and what I would like to do is have you fellows get together, and I will see you again at 2:30. I want a thumb-nail sketch so that we can find a way to do it. We have just got to find a way. Included in your letter, I want a letter to the President in which I want formally to ask his approval to employ Mr. Stimson and 'would he please write approved and send to the Attorney General' and I will give him that on Monday when I go up to see him. I want it in a letter: My dear Mr. President: For the following reasons it is necessary to employ Mr. Stimson, and put down in the corner 'Approved' and write it so he will in turn instruct the Attorney General. That does not necessarily have to be here at 2:30, but I want to take it up when I go up Monday, because I know perfectly well that, barring instructions from the President -- I want to continue to buy from that fellow and you fellows have to be just smart enough to outsmart Sullivan and Cromwell and still win.

One of the thoughts I had -- if the American Line is so frightened, take it up with the French Line and ask the French Line whether they will.

Mr. Lochhead: They have notified every steamship company in New York; they put every steamship company operating in the Atlantic on notice. The American Line is still the best line.

HM, Jr.: All right. Supposing we take title as soon as it goes on board in France.

Mr. Lochhead: We do.

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HM, Jr: We did that in China; we have taken title once it was on board at Shanghai.

Mr. Lochhead: We take it that way now on these Spanish shipments.

HM, Jr: Supposing a boat comes into Havre and they have so much silver and we take title and pay the check to them over there and title passes over there.

Mr. Oliphant: Who is the dominating factor in the American Lines? Who really makes decisions. P. S. Franklin?

HM, Jr: But, Herman .....

Mr. Oliphant: I have not taken a look at it. It was handled while I was away.

HM, Jr: I appreciate that and while I am gone, until the pressure is put on, nothing happens, but I am putting pressure on. I want you to come back at 2:30 and we will go over it again.

Mr. Oliphant: Huntington Cairns was left a little uncertain about policy during your absence, but that is cleared up.

Dr. White: Isn't it possible to buy it in Paris and pay for it in Paris?

HM, Jr: No, I don't want to go beyond that.

Mr. Lochhead: Half a dozen ways you can fix it up.

HM, Jr: I am ready to pass the check on, Harry, once it's on board ship, but I don't want to go beyond that.

Dr. White: You can send somebody over there.

Mr. Lochhead: Regular commercial transaction.

Mr. Oliphant: I have the idea.

HM, Jr: Now the other thing -- I don't know whether

-3-

I have the letter here. What I thought we would do is this: this thing here about "I wish to call your attention to the relationship between the fall of Sterling in recent months and the trade agreement now being negotiated between the United States and the United Kingdom."

Dr. White: I can give you some more information about that.

HM,Jr: What I was thinking about was this: I thought the courteous thing to do is, after all the State Department is coming in at 11:30. I thought I would ask Feis to stay behind and say we are thinking of sending Mr. Hull a letter like this. We would like, before we put it in a formal statement, we would like to give them 24 hours on it.

Dr. White: Something about the tone of that ....

HM,Jr: I don't like the tone. I am giving it back to you, but if between now and 11:30, if it isn't rushing you too much, you could give me something else. Let Feis sleep on it.

Dr. White: I think you also had in mind giving it to the President. Did you drop that opinion?

HM,Jr: The first thing is to do it informally with Mr. Hull. That's the courteous thing. This is the apple of his eye and to get a letter cold from me, especially when you get all through and done Sterling is not fluctuating so terribly much.

Dr. White: I was talking to Hawkins, who is Chairman of the Concessions Committee. They are worried too, because he agreed that many of the concessions which have been granted have already been neutralized by this drop.

Incidentally, you want to know about the status of it. This was yesterday afternoon and the British turned down flatly on everything they asked, flatly, categorically, and they are going to get some more data on one item, lumber, which they will have today or tomorrow, then they are going to have another meeting and if the British turned down that request, Hawkins tells

-4-

me, but I don't think that necessarily they will, they feel like turning the whole thing down flat.

HM, Jr: That's all the more reason why we don't want to give them a chance to say the trade treaty broke down because Morgenthau slipped on this Sterling business.

I would write a letter to the President, to go in the pouch, and mark it strictly confidential:

My dear Mr. President:

Last week, when we saw you, you asked whether it was possible, in case of trouble abroad, for you to intern vessels of the belligerents.

Mr. Oliphant has furnished me with the following statute, which I think covers completely what you had in mind.

Yours sincerely,"

oOo-oOo

Treasury Department  
Division of Monetary Research

Date 9/8.....1938

To: Miss Chauncey

Attached was sent to Mrs. Klots 9/2/38 with note: "Appended is a suggested draft of a note the Secretary thought he might want to send to the President and Secretary Hull at once."

L. Shanahan

MR. WHITE  
Branch 2058 - Room 200

COPY

I wish to call your attention to the relationship between the fall of sterling in recent months and the trade agreement now being negotiated between the United States and the United Kingdom.

On April 26, 1938 when the United States made a major part of its offers to the British Government the sterling-dollar rate was \$4.987. By September 1, 1938 the rate had fallen to \$4.855. The fall in the sterling-dollar rate which has already taken place has increased the value of the concessions offered to the United Kingdom and diminished the value of the concessions offered to us by the United Kingdom. A further fall in the sterling-dollar rate will accentuate the change in the relative values of the concessions.

⊖  
Copy of Material taken to

White House by HO - 11:00 A.M., 9/1/38

Copy

## Title 50, sec. 191, U. S. C.

"Whenever the President by proclamation or Executive order declares a national emergency to exist by reason of actual or threatened war, insurrection, or invasion, or disturbance or threatened disturbance of the international relations of the United States, the Secretary of the Treasury may make, subject to the approval of the President, rules and regulations governing the anchorage and movement of any vessel, foreign or domestic, in the territorial waters of the United States, may inspect such vessel at any time, place guards thereon, and, if necessary in his opinion in order to secure such vessels from damage or injury, or to prevent damage or injury to any harbor or waters of the United States, or to secure the observance of the rights and obligations of the United States, may take, by and with the consent of the President, for such purposes, full possession and control of such vessel and remove therefrom the officers and crew thereof and all other persons not specially authorized by him to go or remain on board thereof.

"Within the territory and waters of the Canal Zone the Governor of the Panama Canal, with the approval of the President, shall exercise all the powers conferred by this section on the Secretary of the Treasury. (June 15, 1917, c. 30, Title II, sec. 1, 40 Stat. 220.)"

September 8, 1938

19

My dear Mr. President:

Last week, when we saw you, you asked whether it was possible, in case of trouble abroad, for you to intern vessels of the belligerents.

Mr. Oliphant has furnished me with the inclosed statement, which I think covers completely what you had in mind.

Yours sincerely,

The President,  
Hyde Park, New York.

September 8, 1938

20

My dear Mr. President:

Last week, when we saw you, you asked whether it was possible, in case of trouble abroad, for you to intern vessels of the belligerents.

Mr. Oliphant has furnished me with the inclosed statement, which I think covers completely what you had in mind.

Yours sincerely,

The President,  
Hyde Park, New York.

September 8, 1938

21

My dear Mr. President:

Last week, when we saw you, you asked whether it was possible, in case of trouble abroad, for you to intern vessels of the belligerents.

Mr. Cliphant has furnished me with the inclosed statement, which I think covers completely what you had in mind.

Yours sincerely,

The President,

Hyde Park, New York.

September 8, 1938  
11:30 a. m.

Present:

Mr. Taylor  
Dr. White  
Mr. Lochhead

Followed by:

Mr. Hamilton  
Dr. Feis

Mr. Taylor: Do you want to hear a formula or would you prefer to wait for the State Department:

HM, Jr: Go ahead.

Mr. Taylor: Briefly, the Surplus Commodities Corporation, if they had the money, can own and store commodities. You can get them the money through the Export-Import Bank, which in turn gets its money from R. F. C. ....

HM, Jr: ... which, in turn, gets its money from the Treasury.

Mr. Taylor: Also, you can get a tentative commitment from the Army and/or the Navy that they will purchase this particular stuff when, as and if they had the dough to do it with.

HM, Jr: That's not bad. Let's see. The ball starts with...?

Mr. Taylor: Surplus Commodities Corporation.

HM, Jr: And from Surplus Commodities Corporation to the Export-Import Bank to R. F. C. to Treasury, with commitment .....

Mr. Taylor: ... to the Army and Navy. And also,

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the Army and Navy can store the stuff, which is very important.

HM, Jr: Is that all legalized?

Mr. Taylor: Here it is. (Present memorandum to Secretary.)

HM, Jr: I thought everybody said it could not be done.

Mr. Taylor: Didn't put the first team in!

(At this point, Mr. Hamilton and Dr. Feis joined the group.)

HM, Jr: Well, do you have all the morals of the Chinese situation straightened out?

Dr. Feis: No, but I thought it might be useful to recount our talk with Mr. Hull.

He just felt there was a lot of numerous questions that ought to be lived with a while longer and throughout which you would want to keep judgment in suspense until he and you might talk, and these were some of them: the first -- as I said, he felt the thing still was one requiring very delicate handling at these stages and that, therefore, the question of method and of form had essential importance and, in that connection, wondered whether the thing might possibly be either set up, or presented, as a reinstatement of the old R. F. C. transaction; whether in some way some variation of that form could be used.

Then, as for name, it was fairly definite the opinion that, at any rate for the time being, to expand this thing into relief and rehabilitation would be a fairly chance-y business. He thought it would be wiser, at any rate at this stage, just to leave it in the relief category and that without necessarily involving any determination as to just what commodities would go, or might go, under the credit.

Then he threw out the suggestion that furthermore to sustain that form, mightn't it be feasible for the

-3-

Chinese Government to set up some organization that they would call a relief organization, to acquire this stuff, so that you would have something in the form of a relief organization operating on both ends.

Now, in that portion giving his reasons for caution, there were both internal and external considerations. The external would be not only the question of whether Japan might make a political issue of it, but also as affecting their interference with the actual shipments. And as far as internal considerations, the desirability of knowing how both public opinion and opinion on the Hill would respond -- the danger of having it said that here at first we evaded the law of Congress by not invoking the Neutrality Act and going further on neutrality by this financial transaction. But that is a thing he felt we ought to keep under careful observation. And for that reason again form is important and slowness of pace important.

HM, Jr: We are no further than we were two months ago. We are just where we were two months ago, before I went away. Exactly where we were!

Mr. Hamilton: Were you talking relief then?

HM, Jr: Well, remove that possibility, but all the question marks are all there, only two months ago Mr. Hull thought we ought to make the same offer to Japan. Has that been dropped?

Dr. Feis: He did not mention it.

Mr. Hamilton: He did not mention that. He did mention some analogous question, whether these relief supplies would go in territory under Japanese control -- Shanghai.

HM, Jr: Before he said we ought to make the same offer to the Japanese. At that time, relief was not up. It was more the kind of a loan.

Mr. Hamilton: That was more in the nature of our disposing of some agricultural surplus commodities.

The Secretary said he just threw these thoughts out.

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HM, Jr: I am going to be terribly honest, because so many things are happening and we just have so many hours a day. I am not going to try to sell this to Mr. Hull. It's up to the President of the United States. I am not going to be in the position of trying to sell it or put any pressure on it. The President says he wants to do something. He told the Chinese Ambassador he wants to do something now.

Mr. Hamilton: This problem of distribution .....

HM, Jr: I want to make it plain. I am not going to be put in the position of high-pressuring the State Department. I have stated my position clearly and I have not changed any. Whatever risks are involved, I am willing to take my proportion of risks for recommending this, but I think it's right where it was -- it's now between Mr. Hull and the President. That's all. I am not ....

Dr. Feis: I think the chief difference is Chen is coming over. The Secretary knows he's coming over. That will produce a necessity for deciding some of these questions.

HM, Jr: I think they should be and I think they should be decided pronto. I think the situation is critical. I personally think whatever risk there is, we should be willing to take it.

I think the suggestion of doing business with a -- let the Chinese set up a relief organization, I think it's a swell idea. I think that's fine. I am sure they could do it. I think that's excellent.

Dr. Feis: And these are not conclusions of the Secretary. He felt he wanted to live with it for a couple of days and these are reasons -- I am trying to explain the reasons why he felt he wanted to live with it.

HM, Jr: I think the suggestion of having them set up a relief organization, to be on the receiving end, is a very good idea.

Dr. Feis: Then we also talked some of the relationship of the British and French action and again

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nothing conclusive reached, but see, if you agree, there is a tendency to believe it might also be best for us to go ahead and make our own decision, tell the British and French, hope that they would do something similar, but not coordinated.

HM, Jr: Oh, I agree with you on that! Oh, I think we ought to do it and after we do it, tell them about it. After all, the President is opposed to making it joint.

Mr. Hamilton: Or even try to give it simultaneously?

HM, Jr: I wouldn't fuss around with that. I am in complete agreement. I think it's just a waste of time.

Dr. Feig: Only one thing, I think the Secretary thinks if we do this, the chances of getting it over there without interference by the Japanese are much less if we appear to be heading something of a joint character.

HM, Jr: And they have troubles enough of their own over there. I would just go ahead just the way we conduct any other transaction. We don't make any conditions. I am sure the French and British would and I would not want to be an innocent party to having them use us as a lever to get whatever conditions they want out of the Chinese. All we want is their friendship.

Mr. Hamilton: Yes.

HM, Jr: I wouldn't want to have anything to do with that.

Dr. Feig: The British would probably try to get some -- quid pro quo.

HM, Jr: Sure! And they would hold up the thing until they got what they wanted. In all my dealings with the Chinese I keep impressing that we want their friendship.

Mr. Hamilton: That operates more to our advantage

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than a lot of small tangible things.

I think the problem now is to make up our minds in our own Department and we are just reporting.

Dr. Feis: That's right. And instead of just phoning the Secretary wants more time, I thought we would explain what is in his mind.

HM, Jr: I appreciate that, but I sincerely hope you people can see your way. And again, I think the latest suggestion of having an organization in China, I think that's a good idea.

What are you doing on the Spanish thing? How is that shaping up on the Spanish relief?

Mr. Taylor: I can tell you about that. The Red Cross yesterday took the following action, which is that they will accept and pay for the processing and made arrangements for shipping and delivering -- it's a rather complicated situation -- the U. S. Lines will make the delivery; the Spanish Government will furnish the trucks; an organization known as The Friends will do the distributing. They will do this on 250,000 barrels of wheat, which amounts to approximately 55,000 barrels of wheat, or 80,000. If that is not enough to carry them through the winter, they will consider very seriously repeating the operation for a similar amount. They figure that 20,000 barrels a month is about right, so that would take them for three months and then they are prepared to look very favorably on repeating the operation if the first one works.

HM, Jr: And the Red Cross will pay for the wheat?

Mr. Taylor: No.

HM, Jr: Who pays for the wheat?

Mr. Taylor: Surplus Commodities Corporation.

HM, Jr: They are going to pay for it?

Mr. Taylor: Yes.

Dr. White: Where does the Red Cross come in? The

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Friends distribute it and the Surplus Commodities Corporation pays for it.

Mr. Taylor: Red Cross pays for processing the wheat.

Mr. Hamilton: This is a gift from the Surplus Commodities Corporation.

Mr. Taylor: A gift from Surplus Commodities. The Red Cross pays for the processing.

HM,Jr: You mean to say there is a chance of that going through?

Mr. Taylor: That has been approved.

HM,Jr: When?

Mr. Taylor: Yesterday.

Mr. Hamilton: And the Red Cross is thinking of the same thing for China. In fact, Mr. Swift called me half an hour ago and read me the text of a telegram he wants me to send to his Advisory Committee in Shanghai, asking for the amounts of commodities, types of commodities, and things of that sort that could be sent there by the Red Cross. Now, does that cross wires in any way with this other proposition?

Mr. Taylor: No.

Dr. Feis: No.

HM,Jr: I am amazed!

Mr. Hamilton: You remember Mr. Tapp told us he could do that -- some sort of internal rebate.

Mr. Taylor: They may have to pay \$1.00.

Mr. Hamilton: Mr. Davis told me it cost about \$1.00 a barrel.

Mr. Taylor: I am talking about the 250,000 barrels. They may have to pay something nominal.

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Dr. White: A very curious phenomenon that a Government agency would give away Government property.

Mr. Hamilton: On the face, it's not a gift.

Mr. Taylor: In that Federal Surplus Commodities Corporation they have every power known to man, except running the Army and Navy, and I am not sure they can't do that.

HM, Jr: How much are they going to do, Wayne?

Mr. Taylor: 250,000 bushels.

HM, Jr: They are giving that to the Red Cross?

Mr. Taylor: Giving it to the Red Cross. They offered the Red Cross 1,000,000 bushels and the Red Cross could not handle 1,000,000 bushels for this particular purpose.

HM, Jr: And how much does it cost the Red Cross?

Mr. Taylor: \$1.00 a barrel.

HM, Jr: So it costs them \$50,000 or \$55,000?

Mr. Taylor: It will cost them \$60,000, they are sure, and they are authorized up to \$75,000, if this particular thing, this one shipment .....

HM, Jr: And The Friends handle the distribution and the Spanish distribute it with their trucks?

Mr. Taylor: No. They lend or give the trucks to the Red Cross and the Red Cross then turns it over to The Friends.

HM, Jr: Who pays for the transportation?

Mr. Hamilton: The Government here. Free transportation on U. S. Lines in cargo space not otherwise booked.

HM, Jr: To?

Mr. Taylor: To either Bordeaux or Marseilles.

Dr. White: Who decides the relative distribution between the two contestants?

Mr. Taylor: The Friends.

Mr. Hamilton: Moffett said the other day it would be a 7 to 1 or a 6 to 1 distribution.

Dr. White: They have predetermined it already?

Mr. Taylor: Practically.

Mr. Hamilton: You don't think if they do the same thing for China, it will block this?

HM, Jr.: I think it will supplement it. I am just breathless at this Spanish deal!

Mr. Taylor: Let me tell you about the Chinese one.

HM, Jr.: Who put the Spanish one through? I would like to meet him.

Mr. Hamilton: Norman Davis.

HM, Jr.: Good for him!

Mr. Taylor: Also a fellow by the name of Roosevelt.

HM, Jr.: It's amazing!

Mr. Taylor: He, I think, was very convincing in his conversation with Mr. Norman Davis.

Dr. White: I don't think there has been a word in the papers at all.

Mr. Taylor: No; they have not made an announcement at all.

On the Chinese thing, this thing will probably go to Shanghai, because that is where the need is the greatest, and so on. They are talking about blankets, and wheat, plus medical supplies, but putting it up to the people in the Far East -- which is your (Hamilton's) telegram -- to indicate what they want. Their feeling

is that the maximum amount of wheat or flour that they could take usefully is 25,000 barrels, and they get that figure from the Chinese.

Dr. White: 25,000 barrels, total?

Mr. Taylor: 25,000 barrels for this winter period.

Dr. White: Seems a very, very small figure.

Mr. Taylor: Well, it is.

Dr. White: Supposed to be 35,000,000 people half starved to death.

Mr. Taylor: They said they can only go on the figure they get from the Chinese out there. Blankets, certain types of medical supplies, cotton, in one form or another, yes; but they don't know how much.

Mr. Hamilton: It would ten to remove one of the chances that Japan would object.

Mr. Taylor: Mr. Davis felt that on that basis let the Red Cross handle it. They would be able to get an agreement from the Japanese that the shipment would go through and it would be very advisable to get that.

HM, Jr: Of course, I am tickled to death, but we have fussed around with this other thing and, of course, it's just a question -- we arrive at the same end; the aim is to get some stuff in there to help these poor devils. If by going around four blocks, instead of just crossing the street, you can arrive at it that way, it's all right with me.

(To Dr. Feis) Just a minute, Herbert. I am thinking of sending that (gave him ribbon copy of the attached memorandum) but before I did, I wanted to give him and you the courtesy of reading it first.

Mr. Hamilton: (To Mr. Taylor; Are you on the Red Cross Board?

Mr. Taylor: Yes.

One other suggestion that did not seem to meet any

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tremendous enthusiasm, which was that they would, particularly for the southern part which is the rice-eating section, they would ship some flour or some wheat down to French Indo-China or wherever it might be and sell it there and purchase rice and ship the rice in, but that sounds quite complicated.

Dr. White: What would Indo-China do with wheat?

Mr. Taylor: They think they have a place they can use it, but nobody paid very much attention to that suggestion.

Mr. Hamilton: You would run into the question of dumping before you got through.

HM, Jr: (To Dr. Feis) I want you to show it to Mr. Hull.

Dr. Feis: You want that third paragraph in? It be construed as a suggestion that we suspend negotiations until such time as you can get from the British Treasury satisfactory assurances regarding the future of the Pound-Sterling.

HM, Jr: Well, suppose we leave that third paragraph off. (Tore off the third paragraph.)

Dr. Feis: You know the clause that there is in the trade agreement.

HM, Jr: I know.

Dr. Feis: And even that they did not want; we had to struggle with them.

HM, Jr: If we leave off the third paragraph?

Dr. Feis: I think then actually it might be a useful document for our negotiations to have in hand.

HM, Jr: You don't mind taking it?

Dr. Feis: No, sir.

HM, Jr: And tell him that unless he sees something

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contrary, we will send it in regular form, or any particular word you want changed.

Dr. Feis: All right, sir.

HM, Jr.: What would be a reasonable time to expect an answer?

Dr. Feis: I think rather promptly. The one big obstacle is the Mexican question, the significance of which increases every day, and the Secretary is living with it every day.

HM, Jr.: I don't want to set a time limit.

Dr. Feis: What my expectation would be, unless he has reached a decision, he is going to live with the Mexican question until he agrees on a reply. He has called a meeting this afternoon with some of the trade agreement people about this communication.

HM, Jr.: Do you think, from the standpoint of the Treasury, we ought to send such a letter?

Dr. Feis: As it stands now, without that third paragraph, it would be taken as a notification on the part of the Treasury, whose duty it is to watch currency matters, to the State Department as to what is going on.

HM, Jr.: That's all. And calling it to their attention in that form puts you on notice.

Dr. Feis: That's right, which is the duty of the Department, and in this form also -- what I am saying now is complete conjecture, it is just possible, if Mr. Hull wants to take your letter out of his desk drawer when next talking with the British Ambassador 'see, here the Treasury has called this to our attention' it might do some good; it might do some harm.

HM, Jr.: It might help the price of Sterling. It might be a way to get word back to the British Treasury that I am worried about Sterling.

Dr. White: If that is the objective, might not the third paragraph be all right?

HM, Jr.: No, I think he's right.

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Dr. Feis: You really have no idea how extraordinarily ramified and burdensome this darn negotiation is. That sounds like an easy phrase "to reexamine the terms". This darn negotiation is one now reaching out into every Dominion with every Crown colony and the rest. The wires are tremendous and there are committees meeting morning and afternoon. Morning and afternoon. With the thing somewhere within firing range. The suggestion that it be re-examined now would make for complete consternation.

HM, Jr: I don't want him to do that.

Dr. Feis: But I think to introduce that fall of Sterling into the picture, it's quite reasonable. That is a factor that has entered.

HM, Jr: Why am I doing this? I feel the responsibility. Sterling has dropped from roughly \$5.00 to \$4.82 since you started and inasmuch as through Customs we have to figure these things for you and the base is constantly changing, I feel it was up to me to go on record on this thing, but the reason I am doing it in this manner, the last thing I want to do is to make it any more difficult for Mr. Hull. I wish you would tell him that.

Dr. Feis: All right, sir.

And then if I may summarize. First, on the Chinese situation, to report to the Secretary that we recounted to you his sense of wanting to live with the question some time longer and his reasons for it, and that you said you understood that; that you did not want to be in the position of bringing pressure on his judgment and that you, therefore, await some further indication of his judgment. Second, the suggestion regarding a Chinese organization seems to have possibilities. That's about all.

On this, the Sterling movement was of such consequence that you felt it proper to bring it to his attention and that in your mind was the thought that some such communication might be of use not only in the trade negotiations, but in getting back home to the British

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your preoccupation with the Sterling movement and in presenting it, the last thing you wanted to do was embarrass him in the conduct of the negotiations.

HM, Jr: And the last part, underline.

Dr. Feis: And you would appreciate hearing promptly.

oOo-oOo

Assistant Secretary Taylor

Herman Oliphant

SEP 7 1939

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 RFC 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:

"(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;"

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.

FHF:LCA:NOT:msf

(Signed) Herman Oliphant

September 9, 1938.

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There is one aspect of the fall of sterling which is disturbing me and which is doubtless giving you cause for concern, namely, the effect of the fall of sterling on the trade agreement now being negotiated between the United States and the United Kingdom. On April 26, 1938, when I understand the United States made a major part of its offers to the British Government, the sterling-dollar rate was \$4.957. Today the rate is around \$4.833, a drop of over 3 percent. This decline has, of course, already raised the value of the concessions offered to the United Kingdom and lowered the value of the concessions offered by the United Kingdom to us.

What disturbs me particularly is not the fall which has already taken place so much as the possibility of a further decline. The British financial press contains frequent comment to the effect that sterling even now is overvalued with respect to the dollar. Officially we have received no indication that a lower sterling rate is contemplated nor have we yet decided what action the Treasury Department would take in the event of a further drop in sterling. However, it is clear that in view of the relatively small reductions in the duties offered us on numerous American exports to Great Britain any further decline might completely neutralize many of the benefits we had hoped to obtain for our export concessions as well as increase the value of the concessions granted to the British.

It is possible that any further decline might warrant a reexamination of the terms of the trade agreement and constitute an obstacle to the consummation of the trade agreement which we both so eagerly desire.

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This is the paragraph which was detached from the memorandum which HM, Jr handed Feis and which Feis took with him to deliver to Mr. Hull.

September 8, 1938

2:30 pm

Present:

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

HM, Jr: (To Mr. Oliphant) While the others are coming in, can we clean up the Stimson thing?

(The Secretary signed the attached memorandum to the President.)

(The rest of the group arrived.)

HM, Jr: I am having this dinner with the Spanish Ambassador and promoting myself on what we can and cannot do.

Mr. Oliphant: I tackled the problem from this standpoint: how could this thing be handled so that it could be put into some sort of a setting in terms of our Stabilization operations -- maintenance of stability in exchanges -- so that you would have good answers both from the standpoint of the present situation and also from the standpoint of any later situations, and it struck me we can solve the local problem if we can make the United States Lines our agents, just as the Federal Reserve is our agent. It struck me as desirable, you can say it is desirable in this critical situation, in carrying out all these policies, to have your own agents at the various ports to transact business for you, just as you have the Federal Reserve.

A solution of the legal problem is to have your own agent, the United States Line to be your agent, at the ports of Southampton and so forth.

Now, another thing that you can fit that into

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was one of the important reforms that your administration of the Treasury is responsible for and that is the Losses in Shipment Act, whereby we self-insure our shipment of stuff around the country and which heretofore we have not applied in the movement of metals, and it turns out then that if your stated objective is to keep open the channels of the movement of monetary metals in monetary exchange at this critical juncture, Archie finds that the bottleneck he has to worry with is availability of insurance, so this plan contemplates designating the United States Lines as your agent to take the shipment of your monetary metal of any kind as you may designate and bring it to you uninsured. Of course, the uninsured thing is not the essence of it, but it makes the action a good deal more plausible.

Dr. White: Why take that risk for 1/16% unless you have to?

HM, Jr.: What's the trick in this?

Mr. Oliphant: No trick in it.

HM, Jr.: Why do away with insurance. What's insurance got to do with it?

Mr. Oliphant: I should assume, from Archie's standpoint, that is his bottleneck now.

HM, Jr.: Could you do it and still insure the thing? Insurance has nothing to do with it. Can I appoint them my fiscal agent and still take out insurance?

Mr. Oliphant: You can.

Mr. Lochhead: He is trying to set this up as a general program.

HM, Jr.: It's too important and I am not going to waive the insurance. I won't do it. I've got a battleship sitting within 30 miles of London. I have got the Cruiser Tennessee at my disposal.....

Mr. Lochhead: But we can't get insurance on the Tennessee.

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HM, Jr: Oh, I know, but that's in case of emergency. I am not going -- oh, no! I can think of a thousand reasons. As much as I would like to do this .....

Mr. Taylor: For this particular one, I would say yes, but I think it certainly is worth exploring.

HM, Jr: What? No insurance?

Mr. Taylor: Yes.

Mr. Oliphant: I would like to talk about it. (Gave the Secretary draft of letter to Mr. Franklin, which is attached.)

HM, Jr: (After reading) I have never heard of it until now, but I think it is very well worded.

Wait a second. We have two problems. You say Archie has a problem. He's worrying about his bottleneck. O.K. That's a problem. Let's talk insurance. And the other is, how can we get this Spanish silver over here? Now, let me raise a point. Doesn't the Maritime Commission own the United States Lines?

Mr. Oliphant: Well, they have a mortgage on it and the business they get goes to pay interest on the mortgage.

HM, Jr: Can I appoint the Maritime Commission as my fiscal agent?

Mr. Oliphant: I think you could. I think it would be very unwise. You are going in the direction of sending the Navy over for this silver.

HM, Jr: I am just raising the point. But how can I appoint -- insurance just muddies my thinking.

Mr. Lochhead: Just cross out insurance.

Mr. Oliphant: This makes them your agents at the port to take the silver. Now, if they are your agents, then you, as principal, are under duty to reimburse them

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and save them harmless from any liability, and if you give them this promise of reimbursement and safety from liability they will, of course, deliver it, but I want to give substantial reasons, find some substantial reasons for you at this junction making the United States Lines the agents of the Secretary of the Treasury to administer for you at this critical stage.

HM, Jr.: What does insurance cost?

Mr. Lochhead: 7% per \$100.; on \$400,000,000 we paid over \$300,000.00

Dr. White: All you need is one iceberg and you will have one hell of a time.

HM, Jr.: I could not do that. I am thinking always of the public. I am thinking of Congress. I can visualize another World War, \$150,000,000 gold in London and rushing the Tennessee there and putting this on and even if something should happen to the Tennessee -- well, Morgenthau did the best he could; it was a question of leaving it there and losing it or putting it on the Tennessee, and he did the best he could. But in times of peace, to do this thing ....

Mr. Olichant: Is this the time to discuss it?

HM, Jr.: No. You could not sell it to me. Everything inside of me says no. I will let it soak, but I don't think it will soak through. For this, I am more than willing to let you come back at me again. But for my meeting tonight with the Spanish Ambassador it is not necessary.

Mr. Olichant: To be fully armed, suppose we drop out insurance. Then I think if you decide you want to do it, the thing is to have a talk with Franklin.

Dr. White: Why did you put aside the Maritime Commission?

Mr. Olichant: That's something like using the Navy.

Dr. White: Let's assume that that's so.

Mr. Oliphant: I would use ordinary channels.

HM, Jr: You would be using the same boat.

Mr. Oliphant: Well, the Maritime Commission is not operating the ships.

HM, Jr: Are you sure? I thought they leased them.

Mr. Oliphant: No. They are operated by the United States Lines.

HM, Jr: When they took that ship and stopped them from taking aeroplanes to China, that was on a leased boat and they felt that on that leased boat on its way to China -- they made them take off those planes at Los Angeles. Remember the case?

Mr. Oliphant: Whether their interest is that of a lessor or mortgagee -- a lessor cannot tell me when I lease a house what to do with the house.

HM, Jr: They told them they could not carry aeroplanes to China.

Mr. Oliphant: They can make informal suggestions to them.

HM, Jr: No, they said that applied. They made them take the planes off. Don't throw that one down, Herman.

Mr. Oliphant: I will look into it, but the legal picture is not clean. This legal picture is clean.

HM, Jr: What Franklin is worrying about is whether the Spanish Government could sue him and hold him responsible.

Mr. Oliphant: That's right.

HM, Jr: And this thing releases him of that responsibility?

Mr. Oliphant: That's right. We take over and justify any suit.

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HM, Jr: Let me ask you a question. Have you any doubt in your mind that the Spanish Ambassador when he sells us this silver, have you any doubt that that is his silver he is selling us?

Mr. Oliphant: I think we will win those cases.

HM, Jr: You did not answer the question. Is there any doubt as to the ownership of that silver?

Mr. Oliphant: I will have to answer it this way: under the law, the question will not be the ownership of the silver. Our courts will take the Spanish Government's say so as to the ownership of the silver.

HM, Jr: Supposing I do this thing. Can anybody say that Morgenthau and his General Counsel should have known -- put on notice, put on the basis of a suit, that Franco would win and he would have to pay twice for that silver?

Mr. Oliphant: Relatively slight. I am proceeding with the same caution as we did in the gold cases.

HM, Jr: Would you submit a program like that to Stimson before we did it and get his advice?

Mr. Oliphant: Except he is in Europe. I think he is still away.

HM, Jr: I went all through this this morning with this question of Surplus Commodities Corporation which goes out and buys wheat with the United States taxpayers money and gives it to the Red Cross. The Red Cross pays for the milling. The Red Cross finds space on Maritime Commission boats for nothing, Herman. Got these Maritime Commission boats. They take it over for nothing. And then the Society of Friends will supervise distribution in Spanish trucks to the Republic of Spain. Who are you going to fool on that basis? But the State Department thinks it's wonderful. The moral of that story is if I am going to do this, I can sink in 8 feet of water and die as I can in 100 feet. In other words, I don't need the insurance policy. I can drown in 8 feet of water just as well as I can in

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100 feet. But I appreciate the +.....

Mr. Oliphant: We will have a chance to talk about it.

HM, Jr.: That is an out. But if I am going to do it, I want to say to the President of the United States that my General Counsel advises me that what I am doing is legal and this is a method whereby the United States Government can buy from the Republic of Spain silver; I am willing to recommend it. Mr. President, can I have your approval? So you want to think it over, Herman.

Mr. Oliphant: I think on problems of this sort somewhat more than in terms of advising what is legal and what is not legal. I am also advising you on terms of what I think is proper and appropriate for the administration of the office.

HM, Jr.: That's all right.

Mr. Oliphant: I think it's important that what we do fit into some rational pattern of what you are authorized to do, so a reasonable man when he comes to review your actions will say 'He acted as any reasonable person would do under the circumstances'.

HM, Jr.: Now, the thing that amazes me is to drop insurance at this time and start a whole flood of rumors that we are going to change the price of gold. Ah! Ah! Archie, I am amazed!!

Mr. Lochhead: Now, wait a minute. Not at all. I have a problem here. You are saying I have a lot of gold; why don't you move it? I brought up a way and you turned it down.

HM, Jr.: I am amazed, Archie!

Mr. Lochhead: If I were to sit down with you, my argument would not be whether we put it on without insurance, but what would be a rational amount to put on without insurance. It's one thing to put it on the United States Lines; the question is whether we have the right to take more risk than an insurance company.

Dr. White: Why not let it pile up what can't come on American ships? You have this cruiser.

Mr. Oliphant: Talk about devaluation! Let a cruiser show up and then see what people say!

HM, Jr: What we are doing is taking the maximum we can get insurance on.

Mr. Oliphant: You can't get insurance. I am not suggesting the whole thing move without insurance. What I am suggesting is you have initiated an enormous important reform. You use the principle of self-insurance. And I am suggesting that you feel your way into the field of self-insurance in this field. And it's in the declared policy of the statutes which Congress has approved. You have statutory approval of the principle of self-insurance and you are not using that statute now and you have taken gold out under Congressional authority; Congress has O. K'd the policy of self-insurance.

Dr. White: I think you have a good case on everything except gold and silver and I think your case is weak on gold and silver.

Mr. Taylor: I am not so sure. I think as you get into the development of the Maritime Commission and the operation of these lines, I would like to lay a thin dime that Mr. Oliphant is right; that we will be doing it over a period of time.

Dr. White: I will lay a thick nickel that any Secretary of the Treasury who attempts to save 1/16% and runs no small risk of a ship going down by virtue of an iceberg or a storm ....

Mr. Lochhead: You know the answer....

Mr. Oliphant: A minute ago he expressed what he thought. My guess is Harry has not thought, because Harry's argument now destroys the whole principle of self-insurance.

Mr. Lochhead: Didn't we have a special insurance company set up during war times just to take care of

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these things?

Mr. Taylor: Harry, you know these insurance companies don't do it for love.

Dr. White: Yes, but then it is a business risk.

HM, Jr: Why not use Surplus Commodities Corporation to buy up Lloyd's!

Mr. Taylor: I think they could do it. (Laughter)

H<sup>M</sup>, Jr: And then we would be all right.

I can tell, when Mr. Del Rios says 'I want to do business', I can say -- this is what I want to say: 'I think, Mr. Ambassador, if you will give me over the week-end, I think we can find a way to handle your silver'.

Mr. Cliphant: The probabilities are you can.

Mr. Lochhead: The way it stands now, we asked them to find out if they could ship Parcels Post. They have not given us an answer yet. So the move is on their part.

HM, Jr: Could we handle this ourselves via Parcel Post?

Mr. Lochhead: No. Parcel Post applies to the place of shipment.

HM, Jr: Would it go United States Parcels Post?

Mr. Lochhead: No. If shipped out of London, it would be English Parcels Post; if out of France, it would be French.

HM, Jr: All right, gentlemen; very interesting!

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## MEMORANDUM FOR THE PRESIDENT:

You will doubtless recall our discussion, and agreement, on the desirability of having Henry L. Stimson in the suit against the Federal Reserve Bank of New York in connection with the first shipment of silver from Spain. His participation has been most helpful, although he cannot personally give the matter all of the time which it requires and is using on it the regular personnel of his firm, Winthrop, Stimson, Putnam and Roberts, principally Allen T. Klotz, a partner of that firm.

Since our talk, two additional shipments have been made and suits on these have been brought, not against the Federal Reserve Bank, but against the United States. A suit on the first shipment has now been brought against the United States also.

The General Counsel's office took up with the Department of Justice the employment of Mr. Stimson in all the suits and this was approved by Acting Attorney General Jackson. Mr. Stimson is now in these cases, although final arrangement for adequate compensation to him for work in the suits against the United States has not yet been worked out with the Department of Justice.

I shall appreciate your indicating hereon whether you agree on the desirability of having Mr. Stimson thus participate in all the suits, including any future ones that may develop.

(sgd) H. Morgenthau  
Sept. 8<sup>th</sup> 1938

Approved:

The White House

HO:s Retyped 9/8/38



THE SECRETARY OF THE TREASURY  
WASHINGTON

My dear Mr. Franklin:

The United States has occasion from time to time in international transactions in monetary metals to acquire abroad and transport gold and silver. In view of the necessity at this juncture of maintaining channels for the prompt shipment of such metals in order to assist in stabilizing foreign exchange and in view ~~of the present relative shortage of insurance~~ of the policy of the United States embodied in the Losses in Shipment Act, the Treasury Department designates the United States Lines as agent of the United States, from time to time as occasion requires, to receive abroad monetary metals owned by the United States and promptly transport the same ~~without insurance~~ to specified destinations in the United States.

For such services as agent of the United States, the United States Lines will be paid compensation to be agreed upon from time to time and it is understood that the Treasury Department will reimburse your company for any expenses, and save it harmless from any liability, incurred in connection with its performance of any acts without negligence as such agent of the United States if done in accordance with the instructions of the Treasury Department.

Very truly yours,

Secretary

Mr. John Franklin, President  
United States Lines  
1 Broadway  
New York, N. Y.



*Loch head  
White*

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TREASURY DEPARTMENT

WASHINGTON

Hong Kong,

September 8th, 1938.

The Honorable

Secretary Henry Morgenthau, Jr.,

Department of Treasury,

Washington, D.C.

Dear Mr. Morgenthau,

I have just returned from luncheon with Pei Tze-yu, Manager of the Bank of China, and in charge of foreign exchange operations. Mr. Pei stated that he had called on me during his brief visit in Chungking, but that I had already left for Hankow, sooner than he had anticipated. The gist of Mr. Pei's frank talk with was as follows:-

"You may have heard of some of the criticisms of me personally, and of the way foreign exchange control has been handled. These criticisms apparently come from smaller bankers and are passed on to others, even the large bankers. The method of handling foreign exchange control has been the "Confucian" one. (Referring to Kung's desire to be as fair as possible to everyone). In any other country such consideration would not have been given. I believe the exchange situation has been handled as well as could have been done by anyone. However, we do appreciate constructive suggestions.

"Some people criticize me as pro-British because our operations have been largely through the chief British bank. Others criticize me as pro-American because I studied in America. I am really pro-Chinese. The reason of operation through the British bank (meaning the Hongkong & Shanghai Banking Corporation) is that the head office of the bank is here in Hong Kong, and all operations can be handled expeditiously without referring questions to home head offices, as we would have to do if we dealt with any other of the banks. This is important from two points of view: one that of handling business quickly, and the other that of secrecy.

"The foreign exchange balance situation is very critical. The Central Bank has only about six million pounds sterling and the other two government banks another five or six million pounds sterling. For this reason we are considering a moratorium on all payments involving a transfer of foreign exchange balances.

"We plan to set up a stabilization fund from the savings which a moratorium would net. This would be about six or seven million Yuan to begin with, plus amounts we hope to obtain through the cooperation of the banks." (And, I gather from some amount they hope to obtain from England, although that was not definitely stated. J.L.B.)

"Mr. Rogers still thinks there is good hope of financial help from England in some form, when the opportunity presents itself.

"The actual subscription to the 500 million Yuan Salvation Bond issue is 200 million Yuan, 38 million of which was subscribed by overseas Chinese. The subscriptions are entirely private. The Defence Bond Issue was not yet been launched for subscriptions.

"My estimate of total bank deposits in China is 3 billion Yuan. There are no exact figures.

"Much can be done through the banking system to make use of more credit instruments, and that movement has started.

"The Tientsin situation, where Japanese have tried to evacuate their nationals from the concessions, is not good. It probably means one of two things: either that Japan is attempting to have all economic life in Tientsin independent of the concessions, or her readiness to take over the concessions in case of European trouble, as a test case to see what the Powers would do.

"On my return from Chungking I stopped at Yunnanfu. General Lung of that province is on good terms with the

Generalissimo, but the civic authorities are not on good terms with the Central Government. I believe closer relations must be brought about in some way. As you know, Yunnan has the tradition of "Yunnan for the Yunnanese". I believe Yunnan will support the Central Government, although the extent of the support may be a question. The people of Yunnan are very slow and backward. Yunnanfu does not have a real telephone system, the telegraph system is almost worthless. The organization of transportation of military supplies from the Yunnanfu railway to trucks on the roads to the north is badly managed, and stuff is piling up. The road is not very good either." (The bad road bed between Yunnanfu and Kweiyang (Kweichow province) is confirmed by E. L. Pan of the China Travel Service who has recently travelled over it.) "The Yunnan railway has limited capacity, but the French are allowing war materials over it.

Respectfully yours,

*J. Lossing Buck*

J. Lossing Buck  
Treasury Representative in China



THE SECRETARY OF THE TREASURY  
WASHINGTON

MEMORANDUM FOR THE PRESIDENT:

You will doubtless recall our discussion, and agreement, on the desirability of having Henry L. Stimson in the suit against the Federal Reserve Bank of New York in connection with the first shipment of silver from Spain. His participation has been most helpful, although he cannot personally give the matter all of the time which it requires and is using on it the regular personnel of his firm, Winthrop, Stimson, Putnam and Roberts, principally Allen T. Klots, a partner of that firm.

Since our talk, two additional shipments have been made and suits on these have been brought, not against the Federal Reserve Bank, but against the United States. A suit on the first shipment has now been brought against the United States also.

The General Counsel's office took up with the Department of Justice the employment of Mr. Stimson in all the suits and this was approved by Acting Attorney General Jackson. Mr. Stimson is now in these cases, although final arrangement for adequate compensation to him for work in the suits against the United States has not yet been worked out with the Department of Justice.

I shall appreciate your indicating hereon whether you agree on the desirability of having Mr. Stimson thus participate in all the suits, including any future ones that may develop.

*Wm J. UK*  
*WHP*  
*W. H. Taft*  
*Sept. 8<sup>th</sup> 1938*

Approved:

The White House

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WAR DEPARTMENT  
WAR DEPARTMENT GENERAL STAFF  
MILITARY INTELLIGENCE DIVISION, G-4  
WASHINGTON, D. C.

September 8, 1938.

MEMORANDUM NO. 6 FOR THE CHIEF OF STAFF:

Subject: The present European situation to  
midnight, September 7-8, 1938.

While there has been no change in the fundamental factors bearing upon the Sudeten Affair previously discussed, the events of yesterday were indicative of the turn in future developments.

The Fourth set of Czech proposals were yesterday formally presented to the Sudeten delegates, Dra. Kundt and Rosche, charged with the negotiations in Henlein's absence at Nuremberg. The terms of these proposals are now known. They were accepted as a basis of negotiations "with a view to the realization of the Carlsbad Eight Points." At this juncture word was received of an incident of alleged beating of Sudeten deputies by the Czech state police. Henlein was notified and he immediately hastened back to Czechoslovakia. The Sudeten delegation informed both Benes and Lord Runciman that in view of the fact that the Czech Government did not maintain order sufficiently to create confidence among the Sudeten population the detailed discussions could not continue until the incident was cleared up.

Meanwhile in England there is considerable perturbation over the general situation. The responsible London Times, which does not create accidental embarrassments for the British Government, in an editorial mentioned the possibilities of transfer to Germany of certain Sudeten areas as a possible peaceful solution of the affair. This obvious trial balloon was later declared by Whitehall to be no part of the British Government's plan for a peaceful solution. There is nevertheless a widespread feeling in England and elsewhere that at least some members of the British Government would acquiesce in this concession rather than join France and Russia in a categorical threat to resist a forceful solution by Germany. There is also a growing conviction that Britain's hesitancy in declaring her position gives Hitler and his Party extremists confidence in exacting concessions from Czechoslovakia incompatible with continued sovereignty in the Sudeten areas. A later Times editorial, perhaps officially in-

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# CONFIDENTIAL

spired, appears to be an effort to combat the German belief that Britain will remain supine, and suggests that Germany must expect to have the world against them if they enter Czechoslovakian territory.

In an emergency meeting of representatives of the entire British Labor movement, a manifesto was issued demanding the immediate summoning of Parliament in order to authorize the Government to leave no doubt in German minds that Britain would stand by France and Soviet Russia in resisting any attack upon Czechoslovakia.

Despite the sensational press accounts of yesterday's developments, the situation is essentially unchanged. Incidents in the Sudeten area can be created at will. In this the methods of embarrassing established authority are identical among Nazis and Communists. If Hitler is willing to accept a preliminary negotiated solution it can be effected. In any event it will not be a final solution. Until the Sudeten Germans are incorporated in the Reich, the issue will not be closed. Whether this result will be reached by the steady alienation of the Sudeten population and a progressive series of "self-determination" steps so difficult to prevent, or abruptly by force at a moment chosen by the Fuhrer himself, depends as previously stated upon whether or not the British Government convinces itself, and is prepared to convince Hitler, that it would join France and Soviet Russia in a preventative war to defend the territorial integrity of Czechoslovakia.



There are no known military developments other than those precautionary and partial mobilizations mentioned yesterday.

# CONFIDENTIAL

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

September 9, 1938.

My dear Mr. Secretary:

Memorandum No. 7 herewith is quite up to date. I invite your attention particularly to the last paragraph which I believe is absolutely correct. The sketch herewith merely gives you a picture of the military situation.

Reference your confidential communication by Captain Lee, directions were sent promptly to observe and look out for the safety of the individual and his party from the time of landing until the departure. Acknowledgment has already been received from Manila and I imagine the departure from that point has already been made.

*M. G.*

encl

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WAR DEPARTMENT  
WAR DEPARTMENT GENERAL STAFF  
MILITARY INTELLIGENCE DIVISION, S-4  
WASHINGTON, D. C.

September 9, 1938.

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MEMORANDUM NO. 7 FOR THE CHIEF OF STAFF:

Subject: The present European situation to  
midnight, September 8-9, 1938.

Political Situation. Unchanged from that previously discussed, except that the probability of an early attempt at a solution of the Sudeten Affair by force seems lessened due to the seriousness with which the British and French Governments view such solution.

Military Situation. The known military situation created by the Sudeten issue consists of certain preliminary and precautionary measures briefly as follows:

Germany initiated the precautionary race by the abnormal nature of her scheduled autumn training period, and the unusual concentration of work on the Siegfried Line. The training program, beginning August 15, contemplated exercises from lower units to corps in each of the 18 Corps Areas. Regular units are always at war strength, but for the first time since the war certain reserve units are now being organized completely and trained. As equipment becomes available other reserve units will be created and trained. The most important maneuvers are scheduled for September 15 in East Prussia. No known abnormal concentration exists along the Czechoslovakian frontier. The disposition of three Corps and Reserve Corps along the western frontier are shown on the accompanying sketch. Units of the V, XII, and VI Corps have been advanced to garrison the Siegfried Line. The strength of these four corps is estimated at 270,000; total land and air forces under arms in Germany is estimated at 1,300,000 men.

In France the total number of troops now present on or near the northeastern Franco-German frontier, including fortress units and supporting divisions, is estimated at 225,000. This includes all reservists recently called. Nothing approaching a general or partial mobilization has occurred, since France calls annually for active duty training from two to three hundred thousand reservists.

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The unusual activities recently noted are: cancellation of leaves of absence in the Army, Navy and Air Army; increased activity at mobilization centers; increased vigilance to prevent espionage and air observation along the frontier; militarization of the base at Marseille; fitting for prolonged sea duty of the Atlantic fleet; three changes in the high command.

Great Britain has assembled the Home Fleet of the Royal Navy in Scottish waters for maneuvers and gunnery practice in the North Sea. These exercises are scheduled annual affairs but in this situation the concentration is somewhat earlier than usual. It is probable that more ships than usual are participating. There has also been a slight reinforcement of ships in the Mediterranean to Gibraltar. There has been no known calling of reserves or concentration of elements of the Army or the Royal Air Force.

→ The situation in the west is shown on the accompanying sketch. Here, in the event of war, an obvious stalemate would result. With a narrow opening between the neutral countries of Switzerland and Belgium are fortified lines of such strength that neither France nor Germany could penetrate them with their existing resources. Great Britain's contingent in reinforcement of French strength would not exceed 40,000 men by 10 M. Soviet Russia on the east is effectively prevented from intervention in Czechoslovakia with land forces by neutral territory, and even more effectively by geographic barriers and paucity of communications.

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Accompanying sketch.

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## TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,  
Thursday, September 8, 1938.  
9-7-38

Press Service  
No. 14-49

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 percent Treasury bonds of 1950-52, at par and accrued interest, and an additional \$300,000,000, or thereabouts, of 1-1/8 percent 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 percent 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 is availed of, the offering of bonds or of notes may be increased.

The 2-1/2 percent Treasury bonds of 1950-52 now offered for cash, and in exchange for Treasury notes maturing December 15, 1938, will be dated September 15, 1938, and will bear interest from that date at the rate of 2-1/2 percent per annum payable semiannually. They will mature September 15, 1952, but may be redeemed at the option of the United States on and after September 15, 1950. The bonds will be issued in two forms: bearer bonds, with interest coupons attached, and bonds registered both as to principal and interest; both forms will be issued in denominations of \$50, \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000.

The Treasury notes, also offered for cash and in exchange for Treasury notes maturing December 15, 1938, will be an addition to and will form a part of the series of 1-1/8 percent Treasury notes of Series A-1943, issued pursuant to Department Circular No. 585, dated June 6, 1938. They are identical in all

respects with such notes, with which they will be freely interchangeable. The notes are dated June 15, 1938, and bear interest from that date at the rate of 1-1/8 percent per annum payable semiannually. They will mature June 15, 1943, and will not be subject to call for redemption before maturity. They are issued in bearer form only, with interest coupons attached, in the denominations of \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000.

The Treasury bonds and the Treasury notes will be accorded the same exemptions from taxation as are accorded other issues of Treasury bonds and Treasury notes, respectively, now outstanding. These provisions are specifically set forth in the official circulars issued today.

Subscriptions will be received at the Federal Reserve banks and branches, and at the Treasury Department, Washington. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve banks and the Treasury Department are authorized to act as official agencies. Cash subscriptions from banks and trust companies for either issue for their own account will be received without deposit but will be restricted in each case and for each offering to an amount not exceeding one-half of the combined capital and surplus of the subscribing bank or trust company. Cash subscriptions from all others must be accompanied by 10 percent of the amount of bonds or notes applied for. Exchange subscriptions for either bonds or notes should be accompanied by a like face amount of 1-1/4 percent Treasury notes of Series E-1938 tendered in payment, to which final coupon dated December 15, 1938 should be attached.

The right is reserved to close the books as to any or all subscriptions or classes of subscriptions at any time without notice, either for the Treasury bonds or the Treasury notes and with respect to the cash offering or with respect to the exchange offering of either. Subject to the reservations set forth in the official circulars, all cash subscriptions will be received subject to

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allotment and exchange subscriptions will be allotted in full.

Payment for any bonds or notes allotted on cash subscriptions must be made or completed on or before September 15, 1938, or on later allotment. Treasury notes of Series E-1938, maturing December 15, 1938, with final coupon due December 15, 1938, attached, will be accepted at par in payment for any bonds or notes subscribed for and allotted. If such maturing notes are tendered for Treasury bonds, accrued interest on the surrendered notes from June 15 to September 15, 1938, (about \$3.14 per \$1,000) will be paid following their acceptance. If such maturing notes are tendered for Treasury notes, interest on the surrendered notes will be credited from June 15 to September 15, 1938, interest will be charged for the same period on the notes issued, and the difference (about 31 cents per \$1,000) will be paid following acceptance of the notes.

Treasury notes of Series E-1938, maturing December 15, 1938, are now outstanding in the amount of \$433,460,900. The offering now made will be the only opportunity afforded the holders of these maturing notes to exchange them for other interest-bearing obligations of the United States.

The texts of the official circulars follow:

## UNITED STATES OF AMERICA

## 2-1/2 PERCENT TREASURY BONDS OF 1950-52

Dated and bearing interest from September 15, 1938      Due September 15, 1952

REDEEMABLE AT THE OPTION OF THE UNITED STATES AT PAR AND ACCRUED INTEREST ON AND  
AFTER SEPTEMBER 15, 1950

Interest payable March 15 and September 15

1938  
Department Circular No. 593

TREASURY DEPARTMENT,  
Office of the Secretary,  
Washington, September 8, 1938

Public Debt Service

## I. OFFERING OF BONDS

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, approved September 24, 1917, as amended, invites subscriptions, at par and accrued interest, from the people of the United States for 2-1/2 per cent bonds of the United States, designated Treasury Bonds of 1950-52. The amount of the offering is \$400,000,000, or thereabouts, with the right reserved to the Secretary of the Treasury to increase the offering by an amount sufficient to accept all subscriptions for which Treasury notes of Series E-1938, maturing December 15, 1938, are tendered in payment and accepted.

## II. DESCRIPTION OF BONDS

1. The bonds will be dated September 15, 1938, and will bear interest from that date at the rate of 2-1/2 percent per annum, payable semiannually on March 15 and September 15 in each year until the principal amount becomes payable. They will mature September 15, 1952, but may be redeemed at the option of the United States on and after September 15, 1950, in whole or in part, at par and accrued interest, on any interest day or days, on 4 months' notice of redemption given in such manner as the Secretary of the Treasury shall prescribe. In case of partial redemption the bonds to be redeemed will be determined by such method as may be prescribed by the Secretary of the Treasury. From the date of redemption designated in any such notice, interest on the bonds called for redemption shall cease.

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

3. The bonds will be acceptable to secure deposits of public moneys, but will not bear the circulation privilege and will not be entitled to any privilege of conversion.

4. Bearer bonds with interest coupons attached, and bonds registered as to principal and interest, will be issued in denominations of \$50, \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000. Provision will be made for the interchange of bonds of different denominations and of coupon and registered bonds, and for the transfer of registered bonds, under rules and regulations prescribed by the Secretary of the Treasury.

5. The bonds will be subject to the general regulations of the Treasury Department, now or hereafter prescribed, governing United States bonds.

### III. SUBSCRIPTION AND ALLOTMENT.

1. Subscriptions will be received at the Federal Reserve banks and branches and at the Treasury Department, Washington. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve banks and the Treasury Department are authorized to act as official agencies. Others

than banking institutions will not be permitted to enter subscriptions except for their own account. Cash subscriptions from banks and trust companies for their own account will be received without deposit but will be restricted in each case to an amount not exceeding one-half of the combined capital and surplus of the subscribing bank or trust company. Cash subscriptions from all others must be accompanied by payment of 10 percent of the amount of bonds applied for. The Secretary of the Treasury reserves the right to close the books as to any or all subscriptions or classes of subscriptions at any time without notice.

2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of bonds applied for, to make allotments in full upon applications for smaller amounts and to make reduced allotments upon, or to reject, applications for larger amounts, or to adopt any or all of said methods or such other methods of allotment and classification of allotments as shall be deemed by him to be in the public interest; and his action in any or all of these respects shall be final. Subject to these reservations, subscriptions in payment of which Treasury Notes of Series E-1938 are tendered will be allotted in full. Allotment notices will be sent out promptly upon allotment, and the basis of the allotment will be publicly announced.

#### IV. PAYMENT

1. Payment at par and accrued interest, if any, for bonds allotted on cash subscriptions must be made or completed on or before September 15, 1938, or on later allotment. In every case where payment is not so completed, the payment with application up to 10 percent of the amount of bonds applied for shall, upon declaration made by the Secretary of the Treasury in his discretion, be forfeited to the United States. Any qualified depository will be permitted to make payment by credit for bonds allotted to it for itself and its customers up to any amount for which it shall be qualified in excess of existing deposits, when so notified

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by the Federal Reserve bank of its district. Treasury Notes of Series E-1938, maturing December 15, 1938, with coupon dated December 15, 1938, attached, will be accepted at par in payment for any bonds subscribed for and allotted, and should accompany the subscription. Accrued interest from June 15, 1938, to September 15, 1938, on the maturing notes (\$3.142076 per \$1,000) will be paid following acceptance of the notes.

#### V. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve banks are authorized and requested to receive subscriptions, to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve banks of the respective districts, to issue allotment notices, to receive payment for bonds allotted, to make delivery of bonds on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive bonds.

2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve banks.

HENRY MORGENTHAU, JR.,  
Secretary of the Treasury.

## UNITED STATES OF AMERICA

## 1-1/8 PERCENT TREASURY NOTES OF SERIES A-1943

Dated and bearing interest from June 15, 1938

Due June 15, 1943

Interest payable June 15 and December 15

## ADDITIONAL ISSUE

1938  
Department Circular No. 594

Public Debt Service

TREASURY DEPARTMENT,  
Office of the Secretary,  
Washington, September 8, 1938,

## I. OFFERING OF NOTES

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, approved September 24, 1917, as amended, invites subscriptions, at par and accrued interest, from the people of the United States for 1-1/8 percent notes of the United States, designated Treasury Notes of Series A-1943. The amount of the offering is \$300,000,000, or thereabouts, with the right reserved to the Secretary of the Treasury to increase the offering by an amount sufficient to accept all subscriptions for which Treasury Notes of Series E-1938, maturing December 15, 1938, are tendered in payment and accepted.

## II. DESCRIPTION OF NOTES

1. The notes now offered will be an addition to and will form a part of the series of 1-1/8 percent Treasury Notes of Series A-1943 issued pursuant to Department Circular No. 585, dated June 6, 1938, will be freely interchangeable therewith, are identical in all respects therewith, and are described in the following quotation from Department Circular No. 585:

"1. The notes will be dated June 15, 1938, and will bear interest from that date at the rate of 1-1/8 percent per annum, payable semi-annually on December 15, 1938, and thereafter on June 15 and December 15 in each year until the principal amount becomes payable. They will mature June 15, 1943, and will not be subject to call for redemption prior to maturity.

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"2. The notes shall be exempt, both as to principal and interest, from all taxation (except estate or inheritance taxes, or gift taxes) now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority.

"3. The notes will be accepted at par during such time and under such rules and regulations as shall be prescribed or approved by the Secretary of the Treasury in payment of income and profits taxes payable at the maturity of the notes.

"4. The notes will be acceptable to secure deposits of public moneys, but will not bear the circulation privilege.

"5. Bearer notes with interest coupons attached will be issued in denominations of \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000. The notes will not be issued in registered form."

### III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve banks and branches and at the Treasury Department, Washington. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve banks and the Treasury Department are authorized to act as official agencies. Others than banking institutions will not be permitted to enter subscriptions except for their own account. Cash subscriptions from banks and trust companies for their own account will be received without deposit but will be restricted in each case to an amount not exceeding one-half of the combined capital and surplus of the subscribing bank or trust company. Cash subscriptions from all others must be accompanied by payment of 10 percent of the amount of notes applied for. The Secretary of the Treasury reserves the right to close the books as to any or all subscriptions or classes of subscriptions at any time without notice.

2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of notes applied for, to make allotments in full upon applications for smaller amounts and to make reduced allotments upon, or to reject, applications for larger amounts, or to adopt any or all of said methods or such other methods of allotment and classification of allotments as shall be deemed by him to be in the public interest;

and his action in any or all of these respects shall be final. Subject to these reservations, subscriptions in payment of which Treasury Notes of Series E-1938 are tendered will be allotted in full. Allotment notices will be sent out promptly upon allotment, and the basis of the allotment will be publicly announced.

#### IV. PAYMENT

1. Payment at par and accrued interest from June 15, 1938, for notes allotted on cash subscriptions must be made or completed on or before September 15, 1938, or on later allotment. In every case where payment is not so completed, the payment with application up to 10 percent of the amount of notes applied for shall, upon declaration made by the Secretary of the Treasury in his discretion, be forfeited to the United States. Any qualified depository will be permitted to make payment by credit for notes allotted to it for itself and its customers up to any amount for which it shall be qualified in excess of existing deposits, when so notified by the Federal Reserve bank of its district. Treasury Notes of Series E-1938, maturing December 15, 1938, with coupon dated December 15, 1938, attached, will be accepted at par in payment for any notes subscribed for and allotted, and should accompany the subscription. Accrued interest from June 15, 1938, to September 15, 1938, on the maturing notes will be credited to subscribers, and interest for the same period on the new notes, which will be delivered with coupon dated December 15, 1938, attached, will be charged to subscribers. The difference (\$0.314208 per \$1,000) will be paid following acceptance of the notes.

#### V. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve banks are authorized and requested to receive subscriptions, to make allotments on the

- 4 -

basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve banks of the respective districts, to issue allotment notices, to receive payment for notes allotted, to make delivery of notes on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive notes.

2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve banks.

HENRY MORGENTHAU, JR.,  
Secretary of the Treasury.

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## TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,  
Friday, September 9, 1938.  
9-8-38

Press Service  
No. 14-51

Secretary of the Treasury Morgenthau announced last night that the subscription books for the current offering of 3-1/2 percent Treasury Bonds of 1950-52 and of 1-1/8 percent Treasury Notes of Series A-1943 closed at the close of business Thursday, September 8, for the receipt of cash subscriptions.

Cash subscriptions for either issue addressed to a Federal Reserve bank or branch, or to the Treasury Department, and placed in the mail before 12 o'clock midnight, Thursday, September 8, will be considered as having been entered before the close of the subscription books.

The subscription books for both issues will close at the close of business tonight, September 9, for the receipt of subscriptions in payment of which Treasury Notes of Series E-1938, maturing December 15, 1938, are tendered.

Exchange subscriptions for either issue addressed to a Federal Reserve bank or branch, or to the Treasury Department, and placed in the mail before 12 o'clock midnight, tonight, September 9, will be considered as having been entered before the close of the subscription books.

Announcement of the amount of cash subscriptions and the bases of allotment will probably be made late on Saturday, September 10.

--oOo--

SEP 9 1938

My dear Senator:

Noticing on my return last week from vacation that during my absence questions had been raised before your committee as to political activities by Treasury employees, I wrote to you sending you copies of the regulations on this subject that I have issued for the guidance of all employees of this Department.

The subject is, as you know, one in which I have taken a great deal of interest ever since I assumed my present duties. I have been anxious not only that all employees of this Department should abide both by the letter and the spirit of the law on this subject, but that they should refrain from taking any position or committing any acts whose propriety could be questioned in view of their responsibilities as revenue-collecting agents of the Government.

Investigations which I caused to be made in 1934 revealed outright violations of the law with respect to solicitation of political contributions, and as a result several officers were required to resign and disciplinary action was taken in other cases. The regulations which were issued following the first of these developments demanded strict obedience to the law as it was understood in the Treasury Department and also established regulations for Treasury employees more exacting in a number of particulars than the statutes, as you will no doubt have observed on reading them.

sent by special messenger 5/9/38(Friday) by Mrs. Herbert -

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Reports in the newspapers, however, lead me to believe that the position that you have taken on one matter—that of political contributions—differs from that taken by the Treasury Department. The supplement of September 10, 1934, to Department Circular No. 318 of August 2, 1934, contains the following:

"The instructions contained in said circular should not be construed:

\* \* \*

"2. To prevent any such employee from voluntarily contributing to the campaign fund of the party of his choice, if such contribution is made freely and without coercion or improper solicitation, and is not made to a person in the service of the United States."

I am led by reports in the newspapers to believe that your position is that the law forbids any political contributions whatever by Federal employees, whether made under these voluntary conditions or not, and that in arriving at that position you have been guided by the provisions of Sections 208 and 211 of Title 18 of the U. S. Code, which forbid, respectively, the receiving by a Federal officer or candidate for Federal office of political contributions from Federal employees, and the giving by Federal employees of political contributions to a Federal officer or candidate for office.

In taking the position that neither of these sections is intended to prevent the making of voluntary contributions to party campaign funds by Treasury employees, we have been guided by decisions of Attorneys General in prior Administrations. Both sections are derived from provisions of the same import in the Act of January 18, 1893

(22 Stat. 403, 406) which was construed by the Attorney General in 1896 (21 Op. Atty. Gen. 290). The Attorney General stated (at page 290):

"It is well settled that the intention of this act was not to forbid voluntary contributions for political purposes by persons in the employ of the Government, but to protect such persons from solicitation or coercion with respect to such contributions. Knowing the difficulty of detecting the actual operation of means and influences whose employment had become a public evil, Congress absolutely prohibited the solicitation or receipt of political contributions by all persons in the Government service in any place or in any way, and forbade such solicitation or receipt by any person in any room or building occupied in the discharge of official duties. All who are in the Government service are thus protected against the possibility of actual coercion and from that of the coercion implied in the relation of the person soliciting or receiving to the Government or implied in solicitation or receipt in a public office; but Congress did not attempt to prohibit solicitation by or payment to persons not in the Government service otherwise than in Government offices."

The position of the Attorney General in that opinion was reiterated with approval in (1902) 24 Op. Atty. Gen. 173, 176.

We have been unable to find in the regulations of the Civil Service Commission with respect to employees in the classified service any further guidance on this question of voluntary contributions.

I remain, as I have always been, determined that the conduct of Treasury employees shall be above reproach in any respect as to which I have the right to act under the law. I am anxious, therefore, to have all authoritative guidance possible, and I would be glad to have

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you indicate any respects in which you think the limits of political activity permissible to Treasury employees have been transcended.

In addition, I would ask:

- (1) Is it your view that the Treasury regulations, copies of which have been sent to you, permit acts which are repugnant to the letter or spirit of the law?
- (2) Do you contend that it is a violation of the law for a Federal employee to make a voluntary contribution to the campaign fund or to the general funds of a political party?
- (3) Is it your position that it is a violation of the law for such an employee to make a voluntary contribution to a fund which is to be used for the purpose of advocating a particular candidate for Federal office in a primary campaign?

I shall greatly appreciate hearing further from you on this subject.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Honorable Morris Sheppard  
Chairman  
Special Committee to Investigate  
Campaign Expenditures  
United States Senate

HEG:HD:lld  
Typed 9/9/38

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE SEP 9 1938

TO Secretary Morgenthau  
FROM Herman Oliphant

For your information

The total face value of all valuables shipped without insurance under the Government Losses in Shipment Act from its effective date (August 1, 1937) to September 6, 1938 is \$32,385,176,618, representing a savings in premiums for the same period (based upon an average of rates paid by the Treasury from 1933 to 1937, inclusive) of \$235,823.

In computing this figure, valuables have been divided into four classes. These classes, and the values in each case, are in general as follows:

- (a) Currency, coin, specie, etc. .... \$ 2,898,090,973
- (b) Negotiable securities ..... \$ 5,316,811,906
- (c) Cancelled coupons ..... \$ 767,790,363
- (d) Miscellaneous valuables not previously insured, including cancelled bonds, abstracts of title, mortgages, deeds, etc. The valuation given articles in this class has been arbitrarily fixed at the face or principal value, if any. This class has not been included in the computation of premium savings... \$23,402,483,376

September 9, 1938

2 p. m.

Present:

Mr. Oliphant  
Mr. Taylor  
Mr. Lochhead  
Mrs. Klotz  
HM, III

HM, Jr: This gentleman, the Spanish Ambassador, said of course he wants to sell his silver and he cannot do it Parcels Post. Now he said they did once or twice -- there is a French metallurgical firm in France which has bought this silver heretofore and paid them cash, a privately-owned concern, and he raises that point. Has he ever said that to you?

Mr. Oliphant: No.

HM, Jr: Well, there is a concern in Paris, bought the metal, paid them in check, title passes to that firm, and they have resold. I said, You supervise it? He said, Oh, no; take no interest in it. So I am raising that.

And then the other thing was, when he gets back he will call up either you or Mrs. Klotz and I wish you would see him between now and Monday night and see if you can't work something out with him.

Mr. Oliphant: When do you anticipate he will be back?

HM, Jr: I understood he would be back today, but if you could see him Monday it would be time enough.

Mr. Oliphant: You won't be here Monday?

HM, Jr: No, so, if you could, see him Monday.

Mr. Oliphant: I would rather do it Monday.

HM, Jr: All right. And then, among other things,

-2-

he said about eight months ago he went over to the State Department and told them he would be glad to see that the monopoly on quicksilver was transferred from London to here, to New York, and they sent him over to the Department of Commerce and they gave him the names of four small business men and he said that nothing materialized, but, he said, after all, the quicksilver market, they still have the mines and the quicksilver is controlled in London and they would be very glad to see that business transferred to New York.

Mr. Lochhead: That applies to Mr. Oliphant. That's monopoly.

Mr. Oliphant: That's not the phase of it that is interesting now.

HM, Jr: But quicksilver is a pretty useful thing.

And he pointed out to me again that the commercial business in Franco territory is completely controlled by the Germans. All exchange, any Sterling that they get, the Germans take it and pay the orange growers and the fruit growers, anything that they sell them, they get paid in German marks, but the German business man collars all the Sterling and commercially everything is taken over by the Germans. So I would say that that's that!

Mr. Oliphant: Now, to get this cleared: before you got back the way the discussions ended, it ended on their not being certain whether or not they wanted to sell any more or not. Was that it?

Mr. Lochhead: No. It ended with telling them that the way the last two shipments had been coming over they had encountered difficulties and, therefore, would they look into whether they could ship it Parcel Post. If they shipped it Parcel Post, we could probably handle it without trouble. That was what was holding up the bid. But if they would let us know, we would see what we could do.

Mr. Taylor: We also said that we would make the bid, but they would have to understand that there was

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great doubt as to whether the United States Lines would deliver it.

Mr. Oliphant: So the move was distinctly on their side, and this is the answer.

Mr. Loonhead: The point is, we only paid them for the silver when they delivered it into the Assay Office, so, therefore, if there was any tie-up they would not get the money. Of course, on the other hand, if you paid for it on the other side, they accomplish their purpose; they would get the money; we would have the silver and still have the question of fighting out the ownership of the silver, but they would get the money and accomplish that purpose if we wanted to give them the money before it came into the Assay Office.

Mr. Oliphant: I want to say this to you: we have two separate legal problems. The first, the one you talked to me about yesterday: what is the likelihood of your having to pay for the silver twice on the ground you have been notified it belongs to Franco. I would say, as to the last two shipments, the documents on which passes through my office, I would say not one chance in a hundred of your having to pay twice. As I go over the ground carefully, as I did last night, those cases are in very much stronger position than the gold cases. I am willing to leave it that way: 100 to 1; as certain as anything is in law. The chance is 1 to 10 that we might lose the first case, because the documents were not in proper shape.

Now the other legal question involved is how can we get possession of the silver if we take it. I am assuming that such things as taking it by Coast Guard or the Navy .....

HM, Jr: ... is out!

Mr. Oliphant: Or any of those air-tight ways are out.

HM, Jr: That's right.

Mr. Oliphant: So it boils down to the question of working out a legal arrangement under which the

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American lines would take it and deliver it.

HM, Jr: Or some other lines -- French line, Dutch line, the Greeks have been known to ...

Mr. Oliphant: Do you know Franklin well? He's in town.

HM, Jr: No.

Mr. Oliphant: Wondered how good a patriot he was.

Mr. Taylor: I know two people who know him very well. One is Johnnie Hanes and the other is Steve Gibbons.

HM, Jr: But I think Johnnie Hanes knows him better.

Mr. Oliphant: To me it would be very helpful if I could find out if it was safe to have a perfectly frank talk with Franklin.

HM, Jr: Shall I ask Hanes to do it or will you do it?

Mr. Oliphant: I was lunching with Hanes and Franklin passed by our table. If Hanes says it's all right to talk to him frankly, then I have your approval to just have a frank talk as one American to another?

HM, Jr: All right with me.

Mr. Oliphant: That might very easily solve the problem.

HM, Jr: What else?

Mr. Oliphant: That's all that's on my mind.

HM, Jr: I would like you to clean it up by Monday if it can be.

Mr. Oliphant: I will. On the second thing, I am not ready to give a definitive answer, particularly when we take out insurance.

HM, Jr: All right.

oOo-oOo

attention  
Mrs. Klotz

~~MA~~

September 9, 1938

For the Secretary:

I want you to know how encouraging and cheering is the confidence you have shown in me by your action today. My appreciation is deep, and I can only hope that I shall measure up in performance.

May I ask that until and unless you find the man who suits you completely for the No. 1 post, that you take no second-rater, but depend on me to develop into a "young Senator Roosevelt"? I believe that with the help of your staff, I can do a good job.

At the same time, I am distressed if the direct connection with you as my boss is to be disturbed. I had held hopes that an arrangement similar to Dan <sup>D</sup>ell's might be worked out, under which I would continue as an Assistant to the Secretary and hold another "Acting" position. The privilege of working for you and of having the association with your staff in the 9:30 meetings means a good deal more than title or salary or other trappings of kudos.

In any event, I shall feel that I am working for you, indirectly if not directly, after the No. 1 post is filled, and if the new incumbent wants me to continue. If he does not, or if I am too unhappy about him, may I crawl back on your doorstep?

Upm

Paris, September 9, 1938.

Personal and  
Strictly Confidential.

Dear Henry:

Here are the observations on the forthcoming visit of K. P. Chen which I promised I would write you when last we talked over the phone.

I gathered, from your properly discreet remarks, that there was still opposition based primarily on the ground that a credit to China would incur the enmity of Japan and would be of no practical use.

It is obvious that the Japanese would be angered by such a credit but I feel certain that at the present moment they would not dare to take any action against either the United States, England, or France. They are too afraid of possible attack by the Soviet Union.

There is, however, this to be said with regard to the practical utility of a credit. We all know that China's normal imports of cotton or gray goods, wheat or flour, are extremely small. If we should give

China

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury,

Washington, D. C.

- 2 -

China a credit of one hundred million dollars for the purchase of flour and gray goods, it is entirely possible that while the Chinese would welcome such a credit with cheers they would not be able to use more than about ten million dollars of such a credit. A certain amount of flour could doubtless be used in North China and gray goods, without further processing, might be used for the clothing of Chiang Kai-shek's army; but I doubt very much if one hundred million dollars' worth of these commodities could be used by the Chinese Government. There are three additional products which might be of great use to the Chinese Government: gasoline, trucks, and telephone equipment. It is obvious that a credit for the purchase of these three items would encounter much more opposition than a credit for the purchase of gray goods and flour.

Mr. K. P. Chen is, as you know, H. H. Kung's man. He has the reputation of being a first-rate fellow and absolutely reliable and honest. On the other hand, he is one who takes orders rather than one who gives them. My guess is that when he arrives, you will find that he is fully empowered to make arrangements for a credit of one hundred or two hundred million dollars; but that he may not have in hand  
any

- 3 -

any specific project or plan of the Chinese Government for the expenditure of this sum, and that he will not be empowered to work out such a plan in Washington.

The information I have from China indicates that while the members of the Soong dynasty - which, of course, includes both Chiang Kai-shek and H. H. Kung, as well as T. V. Soong and the other brothers and Madame Sun Yat Sen - are working together against the Japanese, there remains a good deal of rivalry within the clan. It would be a great feather in Kung's cap if he could get a credit for one hundred million dollars, even though it should turn out that only one-tenth could be used practically. And it is probable that Kung would try to get such a credit even though he had no concrete plans for its expenditure.

My belief is that when your friend Chen turns up in Washington, you should ask him for the definite project of the Chinese Government for expenditure and utilization of any credit that he may request. I hope that he will have such a plan in his pocket. I am inclined to think, however, that he will have to be somewhat evasive and that he may even have to be followed to America by one of the men in China who gives orders - probably H. H. Kung or T. V. Soong. It may be that the demand for gray goods in China is now so great that an  
immense

- 4 -

immense amount actually could be consumed. I seem to remember that three-fourths of the factories in China for the transformation of cotton and gray goods were Japanese-owned and were established in the Shanghai area. If this is so, the demand for clothing may be immense. In any case, I think you ought to make the Chinese Government give you a concrete statement as to the utilization of the credit before issuing it.

I write you the above with a full realization of my own remoteness from the Far East. It may be that my anticipations are groundless and I hope they are.

Before you reach the point of concluding the contract, please let me know so that I can try to tie up the French Government for a similar amount. It should be possible to get both the French and the British to give credits for purchases which would include arms and ammunition.

It was nice to hear your voice over the phone. Good luck and every good wish.

Yours very sincerely,



William C. Bullitt.

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: September 9, 1938, noon

NO.: 1416

FROM COCHRAN.

FOR THE SECRETARY OF THE TREASURY.

Re telegram No. 604 of August 31, 4 p.m., from the Department.

Today I was called upon by Golay, the General manager of the Swiss Bank Corporation, Basel. The Swiss Bank Corporation and the Credit Suisse, he said, had some time ago within the past two years given to the Italian Government proportioning credit of between 50 and 60 million Swiss francs. The Italian Government has repaid half of this before maturity. The question of renewal for the remainder has not arisen because the due date had not yet been approached. Golay told me that neither his Bank nor the Credit Suisse has been approached on any new credit to the Italian Government, and these are the only two banks in Switzerland equipped to do international lending of any importance.

END SECTION ONE.

BULLITT.

PARAPHRASE, SECTION TWO OF TELEGRAM NO. 1416 OF  
SEPTEMBER 9, 1938, FROM PARIS.

According to Golay's estimate, the total of Swiss banking credits to Italian firms is not more than sixty million Swiss francs, of which amount possibly 75 percent has actually been availed of. These banking credits are straight commercial credits against documents to finance imports by Italy of foreign cotton, coal, wool, and other commodities. Recently no move has been made to bolster up this business, which is moving in an orderly and satisfactory manner, neither has an attempt been made to arrange new credits. It would be fantastic to think of Swiss banks granting a 500,000,000 Swiss franc credit to Italy or to any other one country.

I have known Golay as a friend for a long time, and he is the official who actually negotiates the foreign lending for his Bank, therefore I believe what he has told me. He let me know, incidentally, that another Swiss banking credit - no matter how small - would be welcomed by the French Treasury.

END OF MESSAGE.

BULLITT.

EA:LWW

FS

PLAIN

London

Dated September 9, 1938

Rec'd 2:42 p.m.

Secretary of State,  
Washington.

890, September 9, 7 p.m.

FOR TREASURY FROM BUTTERWORTH.

In the absence of a resumption of the Czech-Sudeten negotiations, the political atmosphere continues surcharged. British Government securities have again been weak and although the prices of British equities have not decidedly declined in recent days the turnover has been extraordinarily small. Large blocks of stock would be practically unsalable, but the long drawn out suspense is telling and "the feeling" is bad.

Also symptomatic of the atmosphere which political events are inducing is the fact that there are some signs that money may for the time being harden somewhat. No doubt the joint stock banks will not cut down their intake of treasury bills, but what are called the outside people may well go for greater liquidity.

I am told in confidence by an unusually well-informed City source that the French Treasury is again running

into

PS 2-No. 890, September 9, 7 p.m. from London

into fiscal difficulties and is beginning to borrow from the Bank of France but that an attempt will be made through ingenious bookkeeping to prevent the borrowings from appearing in the Bank of France's statements for a week or two.

In view of part 2 of my 875, September 7, noon, the following statement in today's TIMES entitled "The Sterling Peg" is worthy of note. Incidentally, the TIMES has acquired a new and able financial editor, J. M. Green, formerly editor of the FINANCIAL NEWS: "with the mounting up of gold shipments and the accumulation of a large bull position in dollars, it is possible that the movement has temporarily spent a considerable part of its momentum. It must be recognized, however, that the cost to the exchange account has been by no means light. The past two days may have been less spectacular than the first two days of the week, but they certainly have not been less expensive to the Control which has had to sell large amounts of dollars in order to hold the rate steady. Few estimates put the amount of gold and exchange lost this week at less than around £15,000,000. In the absence of any increase in the international tension a point should now have been reached where for a short period at least sterling's defence might prove less burdensome. But unless some  
provisional

FS 3-No. 890, September 9, 7 p.m. from London

provisional solution of the Czech crisis is found it cannot be expected that the flight into dollars will not again be resumed on a heavy scale. So far, the Control has succeeded fairly well in finding a rallying point for the sterling-dollar rate. It naturally cannot be expected to maintain any set pegging policy if the present political malaise is continued indefinitely. But for the time being a degree of stability has been restored and perhaps at a smaller cost over the whole period than once the old dollar parity was crossed might have been anticipated.

The position of the leading continental exchanges must inevitably be giving the British monetary authorities food for thought from a longer-term point of view. The economic evidence of a recent overvaluation of sterling points to an overvaluation as against the currencies of sterling-bloc members with more certainty than it does to an overvaluation as against the dollar. In the circumstances, the present signs of a wider adhesion to the sterling pivot cannot be an entirely welcome compliment. The belga remains the only currency with a fixed link with gold and the dollar and there appears to be no early likelihood of a change being made here. Pressure on the belga was continued yesterday and once again the forward discount widened - this is caused in part by the renewal of  
speculative

FS 4-No. 890, September 9, 7 p.m. from London

speculative positions taken up in early June immediately after the depreciation of the franc, and also in part by the diminished amount of Belgian funds in London available for swap operations. But there is every reason to expect Belgium to adhere to the gold peg in the absence of a depreciation of sterling and the franc on an altogether more serious scale. The guilder and the Swiss franc, however, have for the time being definitely abandoned their direct link with the dollar and shown a very close practical affinity for sterling. This does not naturally imply that the sterling link has been in any way regularized as a matter of official policy. Should this new trend prove permanent, however, fresh considerations are bound to arise. There is nothing in the world, of course, which can prevent any country linking its currency with sterling at roughly what rate it pleases, provided, that it is ready and willing to hold sterling and at the same time the British authorities are not willing to hold that country's currency. It is unlikely, however, that many of the large continental countries could pursue a policy of alignment with sterling without questions of more considered cooperation and exchange of facilities becoming mutually important."

The dollar opened at 4.82 $\frac{3}{4}$  bid and has remained bid

all

PS 5-No. 890, September 9, 7 p.m. from London

all day. The British authorities have given support to the pound, first at the opening price and then all the way down to 4.82, at which point New York came in. Gold fixing was not large in the circumstances and of the 330 bars dealt in at 144s 1d, 250 were married. The British fund gave gold after fixing at a 1d and later 1½d over the fixing price.

The franc was idle and steady.

ALC

KENNEDY

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: AMERICAN EMBASSY, PARIS, FRANCE

DATE: September 9, 1938, 5 p.m.

NO.: 1418

FROM COCHRAN.

This evening by five o'clock the French stabilization fund had yielded only 83,000 pounds to keep the rate steady at 178.31; in addition to gold the British had given 12,000,000 dollars. Operators are cautious as to commitments over the week-end, therefore trading in Paris has been limited principally to leveling out exchange positions. Apparently today the market in London is more nervous than that in Paris, particularly on news that the British fleet has been concentrated in Scapa Flow.

The Swiss Bank Corporation's General Manager, Golay, told me today that in Swiss financial circles it was believed that it would be better for the Swiss franc to follow sterling rather than the dollar; on this point official attitude was indicated by the Swiss National Bank pegging the Swiss rate against sterling, whereas the rise in the dollar against the Swiss franc was not checked. Golay said that they would need new Swiss legislation to permit the Swiss franc to follow sterling should sterling drop to such an extent that the gold value of the Swiss franc dropped outside of the wide limits fixed by the Swiss monetary law of September 27, 1936. These limits were between 190 and 215 milligrams of fine gold to the Swiss franc. My friend said he wondered whether the

gold

- 2 -

gold buying price of the United States might not be altered eventually if the French, the Dutch, the Swiss and possibly the Belgians should follow a declining pound for some time and for some distance.

The Swedish Central Bank Governor, Rooth, is curious as to whether importation of gold might be prohibited by the United States in case there is conflict in Europe.

END OF MESSAGE.

BULLITT.

EA:LWW

RECEIVED

SEP 10 1939

TREASURY DEPARTMENT  
Office of the Secretary  
General Building in the Treasury

## PARAPHRASE OF TELEGRAM

FROM LONDON

891, September 9, 10 p.m.

STRICTLY CONFIDENTIAL AND NOT FOR DISTRIBUTION

At about 6:30 the meeting of the Foreign Office officials, principal Ministers and the Prime Minister broke up. A member of the Embassy staff was told tonight by Cadogan that all day there had been under consideration the advisability of delivering to Hitler privately and orally a warning in strong words. Also under consideration were the possible terms of a warning of that kind. It was said by Cadogan that the British know that all knowledge of Henderson's representations, as well as the representations of other foreign representatives, has deliberately been withheld from Hitler by Ribbentrop and it is considered vitally important by them for the British views to reach Hitler's ear in an accurate presentment. Cadogan said that both here and abroad (France) various quarters are strongly urging the Prime Minister to make a warning of that kind, a warning whose terms could not be mistaken, in order that no misapprehension will be held by Hitler as to the serious results which, according to the British view, would proceed from an effort to solve by violence the Czechoslovak crisis. Cadogan's remarks made it apparent that what the

British have in mind by way of warning is to be worded more sharply than any statement hitherto publicly made by the Government. <sup>It</sup> [Before the final decision had been reached concerning this warning to Germany Cadogan said that the news arrived that Henderson had been taken by Ribbentrop at 4:30 to see Hitler and that they were still conferring at 6:30 without report of any results to London. Accordingly, at 6:30 the meeting of Ministers here was adjourned as Cadogan remarked the impossibility was obvious of reaching a final decision on the problem of Henderson's instructions pending knowledge of the result of his conference with Hitler. It was said by Cadogan that the Nuremberg meeting from their point of view is a calamity. Henderson has no cipher in Nuremberg, direct reports cannot be received from him, nor can they send him instructions except by way of Berlin and by means of a courier to Nuremberg from Berlin. Urgent instructions have been sent to Berlin to obtain as soon as possible a report of the Hitler meeting. He declared that it is appalling to deal with Ribbentrop and he termed "criminal" Ribbentrop's withholding information from Hitler from foreign representatives.

With reference to the "warning" which may still have to be delivered depending on what is said to Henderson by Hitler and may have to be delivered urgently,

-3-

the necessity for secrecy was most earnestly emphasized by Cadogan. Hitler will be given the warning orally and without any publicity whatsoever. With the background of what occurred on May 21, it is felt here that to give Hitler any warning in the nature of a threat of which the world and the German people have any knowledge would be fatal. The confidential nature of this information was emphasized twice by Cadogan.

The press report tonight that any instructions to warn the German Government in terms exceeding the Government's previous public statements have yet been received by Henderson is not true.

Eu:JGP:RI

FS

GRAY

Bombay

Dated September 10, 1938

Rec'd 3:31 a.m.

Secretary of State,  
Washington.

September 10, 11 a.m.

Ready silver opened around 50-12 per hundred tolas declined sharply to 49-14 owing to the Mexican reply to the American note but due to the buying resistance closed at 50-11. Stocks estimated at 2100 bars average daily offtake between 35 and 40 bars. Imports during the week 43 bars silver en route to Bombay valued at 126,000 pounds.

Opening steady ready gold advanced from 36-3-3 per tola to 36-6 closing at 36-7-3.

DDMCSB

WATERMAN

RECEIVED

SEP 11 1938

U.S. DEPARTMENT OF STATE  
WASHINGTON, D. C.  
OFFICE OF THE SECRETARY

FS

GRAY

London

Dated September 10, 1938

Rec'd 8:20 a.m.

Secretary of State,  
Washington.

892, September 10, 1 p.m.

FOR TREASURY FROM BUTTERNORTH.

The dollar opened at 4.81 $\frac{3}{4}$  bid with the British authorities giving support to the pound at that figure. The pressure became sufficiently heavy so that the rate was allowed to go to 4.81  $\frac{1}{8}$  at which point further support was forthcoming. After gold fixing the pound strengthened slightly but by the close the 4.81  $\frac{1}{8}$  level had again been reached. Gold fixing was fairly heavy for a Saturday, 256 bars at 144 shillings 4 $\frac{1}{2}$  pence. It was called parity but was in reality a good buy.

DDM

KENNEDY

Rio de Janeiro

Dated September 10, 1938.

Rec'd 12:42 p.m.

Secretary of State,

Washington.

212, September 10, 1 p.m.

My 208, weekly exchange telegram.

Substitute August 17th in the first paragraph and August 15th and 17th in the second paragraph. Strictly confidential. The director of exchange informs me the reason why the bank is only able to grant two days exchange at this time is because of the necessity of sending to Czechoslovakia large sums to liquidate contracts for the purchase of armaments already ordered there. Although the payments for the war material were staggered over a long period, the Brazilian Government decided to remit the balance at this time in order to obtain immediate delivery of the materials.

In order to obtain more exchange to pay import bills, the bank is interested in selling one ton of gold in bars to the Federal Reserve Bank for a corresponding amount of dollar credits. The bank informs me that it is attempting to arrange this transaction directly with the Federal Reserve Bank through its New York correspondent the

Guaranty

- 2 -

Guaranty Trust Company of New York City. The Bank of Brazil would appreciate the Department advising the Federal Reserve Bank of this matter.

The transaction referred to above is entirely separate from that mentioned in my 203 August 25, 3 p.m. which matter is now being considered by the President of the Republic.

Please inform Department of Commerce.

CAFFERY.

RECEIVED

SEP 1 1938

U.S. DEPARTMENT OF COMMERCE

WASHINGTON, D.C.

PARAPHRASE

London's no. 893, September 10, 1 p.m.

Strictly confidential for the Secretary of State

Cadogan and Halifax received me separately. According to Halifax, last night the message was prepared for delivery to Ribbentrop, not to Hitler. The message said that if the French went the British had practically decided to go. After despatch of the message containing this statement word was received that Hitler and Henderson were in conference and so they made an attempt to tell Henderson to withhold any action for the time being on their message pending the result of his talk with Hitler. Finally, last night they got Henderson on the telephone and learned that Hitler had not seen him, but they were urged most strongly by Henderson not to insist on the delivery of the message by him. They are ignorant of his viewpoint on this, but a messenger has been despatched to Cologne by Henderson. A plane has been sent by the English to Cologne where it will meet the messenger and according to expectations will arrive back around 4 p.m. today in London. Right after Halifax and Chamberlin have this report the former will get in touch with me.

According to their secret information, Hitler is ready to march, and having that in mind preliminary steps with the Admiralty were taken by them yesterday. Their opinion still is that Hitler has three alternatives

(1)

(1) after stirring up trouble in the Sudeten districts to march in with the purpose of putting down bloodshed; (2) to make a call for a plebiscite and to win public opinion to his side in that way; and (3) to march and send his bombers to Prague. It is reiterated by all of them that if they were dealing with a normal person some idea of what might occur would be held by them, but they are dealing with an insane person.

Their confidential sources advise them that not for long can Hitler stand out; that the generals are somewhat disturbed at the regime. They have secret information to the effect that Hitler's decision has been reached and that his mind is now made up that the present is as good as any time to attack.

It is thought by Cadogan and Halifax that it is more than likely that their information is correct. Once more Halifax inquired what the reaction of the United States would be. My reply was that I did not have the faintest idea except that it is our desire to keep out of war. Then he inquired why I considered that it should be the part of Great Britain to defend the morals and ideals of the democratic countries rather than America--not in a disagreeable way, but just for the sake of discussion--and I replied that the Czechoslovak incident had been made by them part of their business. The nations allied with them were involved in this whole matter and the people in our country

-3-

country just failed to discern where we should be drawn in. Later Cadogan remarked that this opinion had his complete sympathy and he wished in Heaven's name that it was possible for them to maintain it.

According to Halifax there had been advice from the French that they considered that they could make trouble on the Siegfried Line for the Germans but felt that the French had the conviction that the Germans were not as unbeatable as they sounded.

This morning my own view is that much against their own will the British are veering off from the position of staying out; that unless Henderson holds a very strong opinion and his arguments are excellent the British are inclined to deliver a stiff note to Germany. It was said by Halifax that of course there can be no good in a war with the exception that a brief one might mean the finish of the impossible Nazism which in the event that it is not destroyed will very likely for the democracies make it impossible to live. I inquired how Chamberlain felt and his answer was that Chamberlain last night, as he went out, remarked, "This isn't really so much fun as grouse shooting." Accordingly, the British are quite calm, but my feeling is that great danger in the air is sensed by them. Later I was told by Cadogan that it is quite possible that Hitler may not say anything terribly important at Nuremberg and the meeting may go off quietly, but

but their belief is that this is by no means the end.

It is difficult in these daily bulletins to remain entirely consistent because with the shifting events and protests the people at the head of the Government are changing their minds every few hours. All day we are staying here and directly I hear from Halifax once more another message will be sent to you.

Kennedy

## TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE,  
Saturday, September 10, 1938.

Press Service  
No. 14-52

Secretary of the Treasury Morgenthau today announced the subscription figures and the basis of allotment for the cash offering of 2-1/2 percent Treasury Bonds of 1950-52 and of 1-1/8 percent Treasury Notes of Series A-1943.

Reports received from the Federal Reserve banks show that cash subscriptions for the offering of Treasury bonds aggregate \$4,488,000,000. Subscriptions in amounts up to and including \$1,000 were allotted in full and those in amounts over \$1,000 were allotted 10 percent, but not less than \$1,000 on any one subscription.

For the offering of Treasury notes cash subscriptions aggregate \$3,051,000,000. Subscriptions in amounts up to and including \$1,000 were allotted in full and those in amounts over \$1,000 were allotted 11 percent, but not less than \$1,000 on any one subscription.

Preliminary reports of exchange subscriptions, in payment of which Treasury Notes of Series E-1938, maturing December 15, 1938, were tendered, indicate that a substantial part of the maturing notes have been exchanged for the new issues, and that over 90 percent of the exchanges are for the bonds.

Further details as to subscriptions and allotments will be announced when final reports are received from the Federal Reserve banks.

—oOo—

**CONFIDENTIAL**

G-2  
J M

102A

G-2/2657-204

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

September 10, 1938.

*MMB*

MEMORANDUM NO. 8 FOR THE CHIEF OF STAFF:

Subject: The present European situation to  
midnight, September 9-10, 1938.

Political Situation. There is little known basis for the press scare headlines which have appeared in the past twenty-four hours. Official reports from Germany, appraising the atmosphere at Nuremberg, indicate that the rank and file of party members are "jittery"; that responsible Foreign Office officials view the situation with more than usual seriousness; and that Hitler's intentions are as enigmatical as ever. His recent speech was moderate in tone, despite the emotional setting. These indications, together with an apparent stiffening in the official British attitude, tend to place the situation on a more calmly judicious plane. The greatest immediate danger is the possibility of more frequent and more serious incidents in the super-excited Sudeten area itself.

Military Situation. No known additional military precautions of great importance have been taken among the large powers involved. The British Admiralty has transferred four mine-laying destroyers and seven mine layers from reserve to commissioned status.

**CONFIDENTIAL**

# TREASURY DEPARTMENT

103

## INTER OFFICE COMMUNICATION

DATE September 10, 1938

TO Secretary Morgenthau  
FROM Mr. Taylor

Reviewing our conversation of yesterday on the question of a possible method of financing purchases of strategic materials or other commodities from the Chinese, the method which could be employed is briefly as follows:

The Federal Surplus Commodities Corporation would purchase the designated commodities; the commodities when received would be stored by either the Army or the Navy on their property. The Army or the Navy would give the Federal Surplus Commodities Corporation an undertaking to purchase the supplies in question from the Federal Surplus Commodities Corporation under certain conditions, and the Federal Surplus Commodities Corporation would in turn undertake to offer the commodities to the Army or the Navy before disposing of them to any other purchaser. This general procedure is described in Mr. Oliphant's memorandum.

The Federal Surplus Commodities Corporation would obtain the funds to enable it to make the necessary purchases from the Export-Import Bank; the advances would be secured by pledging the commodities in question. The Export-Import Bank in turn would obtain the necessary funds for financing this transaction from the Reconstruction Finance Corporation. The RFC if it needed to do additional financing for this purpose would obtain the funds from the market on its own credit or from the Treasury. The reasons for this rather complicated procedure are described in some detail in Mr. Oliphant's memorandum.

- 2 -

With particular reference to the Chinese situation, a contract for purchase and delivery of say tungsten could be entered into with the Chinese Government. This contract could provide for regular deliveries of specific amounts of tungsten over an agreed period, payment to be made on receipt of the tungsten, or if it appeared desirable to do so, advance payments against future delivery of the shipments required by the contract could be arranged. In case this latter procedure were employed, if for any reason deliveries were interrupted, the Federal Surplus Commodities Corporation would have a contract calling for specific amounts of tungsten which would be required to be delivered under the contract whenever deliveries again became possible, and the arrangement would have a separate status, namely, one which would be quite different from the ordinary debtor-creditor relationship.

Yesterday evening I discussed this situation at some length with Herbert Feis and he in turn will bring the matter to Secretary Hull's attention.

W.F.

PARAPHRASE

105

London's strictly confidential telegram  
no. 897 of September 11, 5 p.m.

I have just had an interview with Lord Halifax. The despatch from Henderson received this morning was read to me. In the despatch Henderson most emphatically urged that he not be forced to hand over the ultimatum sent to him for presentation to the Government of Germany. (This is the ultimatum which I referred to in my yesterday's despatch.) Henderson reported that he had conversations with Goering who despite his table-thumping address he still considered to be the leader of the Moderates; Goebbels, who also was most reasonable; Ribbentrop, whom, I gather, continues rather bad; also the permanent head of the Foreign Office (the position corresponding to Cadogan's) and it was made clear by all of them that the British viewpoint had definitely been presented to the Chancellor and that they had all sounded the warning that a demarche like that of May 21 would be the worst possible action to take; that if Hitler could be persuaded by them to remain moderate, action of this kind would render it impossible. Acceptance of Henderson's point of view has therefore been decided upon by the British Government and it has been decided to delay until a later time, and then only in the event of necessity, delivery of the ultimatum.

-2-

The impossibility of keeping anything confidential was remarked by Henderson; the Germans know that a messenger was despatched to Nuremberg and Henderson was asked last night for what reason he was sent. Henderson told them that an ultimatum from his Government had been received by him but that he had urged his Government not to require its presentation until a later time. It was indicated by Goering that that was far and away the wiser thing to do. Of course, Henderson still holds the opinion that Hitler is in a warm mood to attack and according to his latest information, declares that the airforce can move in less than an hour; the army is all ready to move immediately. It was pointed out to Henderson by Goebbels that their influence was in the direction of moderation, subject to the provision that the Czechoslovaks demonstrated far more restraint than is now being demonstrated in their handling of their Sudeten people.

There is another incident that appears most significant in that the German Embassy here yesterday afternoon inquired if a call on the Admiralty might be made by their naval attaché. Permission was granted and he asked the Admiralty what the meaning was of their moving up their minesweepers. Acting under lead from the Foreign Office the Admiral told him that with things so uncertain and with his belief that England positively would

-3-

would move should France be involved in this fight, a matter which seemed inevitable to him, they were making these moves as preliminary precautions. Halifax went on to say that the Admiral in this statement exceeded his authority, but in his opinion rather wisely, because of the astounding reaction on the part of the naval attaché, which the Admiral reported. The naval attaché declared his belief that nobody in Germany had the faintest idea that Great Britain intended to fight. This reaction so interested the Prime Minister and Halifax that they are thinking over, within the next two hours, the idea of commencing a slight movement in the destroyer fleet. I will be informed about this by them a bit later in the evening. For the time being they have reached the decision to keep on bluffing with incidents like minesweepers and destroyers and so on and not with words for the reason that they feel that they would not be believed by Hitler even in the event that they said they were definitely going in.

The Prime Minister will receive me at 7:30.

Kennedy

## PARAPHRASE

London's strictly confidential telegram no. 899  
September 11, 9 p.m.

The Prime Minister has just received me. We are sending to you a statement which has just been made by him. Although being given out by him, the Prime Minister's name is not being used. A decision has been reached not to bring up the destroyers, since they wish to keep them for further ammunition. He reiterated once more that it is indicated by the best information which he has that Hitler's mind is made up to go, that the date has been fixed by Hitler, and that even in the event that he is reasonably temperate in tomorrow's speech, he has given instructions to everyone to be on the watch.

Kennedy



*See diary entry of  
9-6-38 meeting  
on Chinese credits*

DEPARTMENT OF STATE  
WASHINGTON

*M* 109

*diary -  
Dump*

STRICTLY CONFIDENTIAL.

September 12, 1938.

My dear Mr. Secretary:

As you requested, I append a brief memorandum regarding action taken in connection with the recent decline in the pound.

Sincerely yours,

*Herbert Feis*

Herbert Feis,  
Adviser on International  
Economic Affairs.

Enclosure:

Memorandum.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

September 12, 1938.

110

MEMORANDUM FOR THE SECRETARY OF THE TREASURY

From: Herbert Feis, Department of State.

The memorandum I received from you calling attention to the decline in the value of the pound since the beginning of our discussions with the British about a trade agreement, and its bearing upon the terms of that agreement, was discussed with Secretary Hull, Assistant Secretary Sayre, and Mr. Hawkins, Chief of the Trade Agreements Division. There was common agreement that this movement of the pound - especially if it went substantially further - might give rise to new difficulties both in regard to the trade agreement and in the monetary field. It was judged that it might serve a useful purpose if the British Government could be made cognizant of the fact that this movement of the pound was under close observation. Accordingly, when last Friday the British Ambassador came into the Department to discuss with Assistant Secretary Sayre various questions having to do with the trade agreement, Mr. Sayre called attention to the subject and expressed the hope that stability could again be restored and that no movement of the pound take place such as might create new difficulty in the trade agreement negotiations which were already so far advanced. He even stated that should this movement grow too serious,

it

- 2 -

it might give rise to a request for reexamination of the terms of the prospective agreement. Mr. Sayre reports that the Ambassador realized that it was a matter of some moment, but at mention of the possibility of reexamining the extremely complicated terms of the agreement, showed by his expression and gesture his sense that that would give rise to the very greatest of difficulty.

CORRESPONDENCE

DATE: September 12, 1938.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

L. W. Knoke

BANK OF ENGLAND.

Mr. Bolton called at 10:40 today. Up to 1:30 p.m. their time he had sold about \$17,000,000 with the Dutch and Swiss also selling dollars to support their currencies. For the next hour things had been relatively quiet but at 2:30 p.m. rumors had been spread in the London market to the effect that General Goering was seriously ill. At the same time Paris had had an attack of optimism claiming that no trouble was likely to develop over Czechoslovakia now that Great Britain had made her position clear. As a result the dollar had weakened to 4.82 and offers of gold had become substantial in the London market, the latter <sup>partly</sup> because transatlantic boats were filled up and insurance was becoming restricted. In addition almost all traders had received instructions from their superiors severely to limit their commitments for the time being. There had also been some loose talk in the market about the possibility of the Government laying an embargo upon the export of gold or even confiscating it in case of trouble. As a result of all this, London gold price had dropped and the fund had been able to take in £1,000,000, the first acquisition in two months. With the dollar down to 4.82 from 4.81 he had tried to buy in some of his previous sales but the purchase of less than \$500,000 had pushed the rate back to 4.81. At the moment it looked to him as though the rest of the day would be very quiet and it seemed possible that Hitler's speech would provide an anti-climax.

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE September 12, 1935.

CONFIDENTIAL FILES

SUBJECT TELEPHONE CONVERSATION WITH

L. W. Knoke

BANK OF ENGLAND.

E

The London stock exchange had weakened a little but considering the general tension they had gotten through reasonably well.

I asked whether he would welcome our selling some sterling this afternoon after he was closed if the rates should strengthen materially; he would be very glad if we could possibly do something for him, he replied, but added that he had been reluctant in the afternoon to buy dollars on a large scale when the rate weakened lest the market turn again.

Bolton asked whether we had done anything further with the Dutch and I explained that they had in the last few days released between \$7 and \$8,000,000 of their gold here; also that they were planning to ship some gold from Amsterdam to replenish their holdings with us. Bolton stated that he was arranging to ship about \$75,000,000 of gold to New York over the next three weeks. This, I said, would certainly help to ease our burden.

Bolton seemed considerably interested in the attitude of our public towards the European situation and I explained that in my humble opinion certainly in this part of the country the public feeling was definitely antagonistic to the authoritarian states but added that one shouldn't lose sight of the strong Italian and German elements in this country from which the same kind of propoganda might be expected with which we became acquainted in 1914 to 1918.

LWK:KW

FS

GRAY

London

Dated September 12, 1938

Rec'd 9 a.m.

Secretary of State,  
Washington.

RUSH

901, September 12, 1 p.m.

FOR TREASURY FROM BUTTERWORTH.

The exchange market is very nervous this morning. The dollar opened at 4.81 and rapidly went to  $4.80\frac{1}{2}$  where it was supported by the control for a short time. Gold was fixed at a half penny discount today, the price being 144 shillings  $7\frac{1}{2}$  pence when 449 bars were sold. Arbitrage transactions being limited by the difficulty of getting insurance cover, holders are getting rid of their commitments because of the lack of war risk insurance cover so that after the fixing more was offered than the market could digest with the British fund probably taking certain amounts.

The dollar is still wanted and the control is probably in the background with a few small arbitrage transactions helping to hold the rate at  $4.80\frac{1}{2}$ .

KLP:CSB

KENNEDY

## PARAPHRASE OF TELEGRAM

FROM PARIS

STRICTLY CONFIDENTIAL

FOR THE SECRETARY

No. 1425, September 12, noon (Section 1)

This morning Bonnet came back from Geneva in a dispirited mood. He had had conversations with Comène, the Rumanian Foreign Minister, and with Litvinov. As a result of these talks the following conclusions had been drawn by him.

If Czechoslovakia should be entered by the Germans, Germany would be attacked by France and Soviet planes would immediately fly across Rumanian territory to Czechoslovakia. There would be no attempt to attack these planes by the Rumanians. Yet it had been made absolutely clear by the Rumanians that they would not allow the Soviet Army to cross the Rumanian boundary with the object of bringing aid to the Czechs. Accordingly, should war break out there would be submitted by the Russians to the League of Nations the problem of whether or not they had the right, in order to help Czechoslovakia, to cross Rumanian soil.

It was further stated by Bonnet that this problem would in any event not be important from the viewpoint of utilizing force immediately for the reason that it would be physically out of the question because means

-2-

of transport were lacking for the Soviet Army to cross Rumanian territory to aid the Czechs.

Indication was lacking that anything would be done by Poland. The outcome would be that if Czechoslovakia should be entered by German troops, Germany would be attacked by France and for all practical purposes the French would be in a situation of complete isolation.

(Section 2)

To be sure, Great Britain would declare war on the French side but the total unpreparedness of the British Army was such that the entire brunt of the fight would have to be borne by the French Army.

According to his view, a measure of the quite remarkable calm and resolution with which the French people are today looking at the future, was due to the circumstance that only a few people had adequate imagination to comprehend the reality of modern war. The consequences of air raids by German bombers on Paris were beyond the limits of ordinary imagination.

(It may interest the Department in this regard to know that Colonel Lindburgh, who has just returned after visiting Czechoslovakia and Russia and is thoroughly acquainted as a result of previous visits with the situation in England and in Germany, has just told me his

-3-

belief that although numerous the Soviet planes are much inferior in quality to the German, and although the Soviet pilots are brave, they are exceedingly poor in quality.

The Czechoslovak air force, Colonel Lindburgh believes, would be virtually worthless in combat against the Germans. His estimate is that the British and French air forces are so much poorer than the German that even should all the facilities of the United States for manufacturing aircraft be made available to the French and the English in war time, nevertheless complete control of the air would be maintained by the Germans for from eighteen months to two years and the Germans would be able to bring about the destruction in France of every structure that they might wish to destroy. Incidentally, at one air port in Czechoslovakia, Lindburgh remarked that he had observed twenty-five Russian bombing planes.)

Eu:JGP:RI

SECTION 3.

It was said by Bonnet that in his opinion there had been some improvement in the situation yesterday afternoon as a result of the British Government's declaration. It must be known to Hitler now that should he march into Czechoslovakia there would be on his hands immediate war with both the British and the French. There remained the question whether or not Hitler's confidence of the immeasurable superiority of his air force was such that he would now risk war.

There were progressing fairly satisfactorily the negotiations between the Sudeten leaders and the Czechoslovak Government inasmuch as the Sudetens had had to recognize that the Czechoslovak Government's concessions constituted at least seventy percent compliance with their demands.

It was added by Bonnet that he felt intense apprehension on the subject of what might be said tonight by Hitler. He inquired whether it was my belief that the United States Government might find it possible to instruct Ambassador Wilson in Germany to tell the Foreign Office in Berlin that according to our view the negotiations now going forward between the Sudetens and the Czechoslovak Government offered great possibilities of a settlement of the dispute without hostilities, and that the use of force at this  
moment

- 2 -

moment would be regarded as contrary to the interests of humanity by us.

My answer was that it seemed extremely doubtful to me that the American Government would care to make any démarche of that kind and even more doubtful that Ambassador Wilson in Berlin could have an appointment before this evening with anyone of sufficient importance to exert on Hitler's speech any influence.

Bonnet remarked in conclusion that despite the dark features of the current situation which made prediction as to the outcome impossible, he found it hard to entertain the belief that the deliberate decision to plunge Europe into a conflict which could only end with the destruction of the Continent would be made by Hitler.

EG

PLAIN

London

Dated September 12, 1938

Rec'd 3:52 p.m.

Secretary of State,  
Washington.

906, September 12, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

The general atmosphere in the city continues very nervous and apprehensive. The gold price fell to as low as 144S.2D. but moved up later to 144S.6D, *a* few buyers having come in and some supporting orders for gold having been received from New York. The dollar rate jumped to 4.82 when gold cheapened but was later quieter and fairly steady at 4.80 7/8. The weakening of the dollar appears to have been due to a technical squeeze, arbitageurs wishing to sell their dollars immediately to complete their transactions.

KENNEDY

KLP

SEP 12 1938

SEP 12

RECEIVED

SEP 12 1938

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: September 12, 1938, 6 p.m.

NO.: 1431

FROM COCHRAN.

The franc was held at 178.31 by the French stabilization fund which had a light day. There has been hectic trading in sterling; fifteen million dollars had been yielded by noon by the British stabilization fund. This afternoon both London and Paris are quieter as Hitler's speech is awaited. Important sales of dollars, it is observed, are being made by the Banque Transatlantique Paris.

The representative of the Bank of Italy visited me upon his return to Paris after six weeks in Italy. This representative saw no unusual military activity in his country while crossing by motorcar into Italy through Brenner Pass, while he was traveling extensively there, and returning by motorcar by way of Switzerland. He himself is a reserve officer in the Italian Army and as such is not aware that any new military precautions were being taken by his country. He is convinced from conversations with high Italian officials that these individuals do not expect war over Czechoslovakia on the part of Germany.

My friend insisted that Minister Guarneri is still a liberal economist. He said that the Minister will go as

far

- 2 -

far as he possibly can in removing restrictions on trade, and in endeavoring to return to those economic policies to which he really adheres; that is, he is not working for economic self-sufficiency in Italy but must conserve what gold Italy has and to that end it is necessary to restrict imports. With respect to free trade, he said that Guarnieri would quickly follow any initiative that other countries might take, which could possibly be taken up by him.

In the opinion of my friend, the speech to be delivered by Mussolini at Trieste on the 18th of September will clear up the Italian Government's position on the question of the Jews in Italy. He told me that many people were of the opinion that Jews controlled an important part of the Nation's vital armament concerns, such as Fiat, and were anxious lest in any great emergency, they be influenced more by racial than by national sympathies.

BULLITT.

EA:LWW

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: September 13, 1938, 6 p.m.

NO.: 1448

FROM COCHRAN.

The morning was quiet for the British stabilization fund. However, its losses were \$25,000,000 from noon until 3:30 this afternoon. The sterling-franc rate was maintained at 178.31, but by 5:00 o'clock the French stabilization fund had lost 130,000 pounds in holding it. The news of disturbances in Czechoslovakia has been a disturbing factor in London and continental centers. The settlement of the dock strike at Marseille has eased the French labor situation. The Bourse in Paris is weak at the present time.

BULLITT.

EA:LWW

TELEGRAM RECEIVED

124

FROM LONDON

907, September 12, 11 p.m.

STRICTLY CONFIDENTIAL

Tonight following a meeting of the Prime Minister and principal ministers to consider Hitler's speech Cadogan who was present at the meeting gave to a member of the staff the following resume of what in his opinion the impression of the ministers had been:

The speech contained highly offensive expressions which twenty years ago no one would have believed a man holding a position of such responsibility could have made. It does not seem, however, that Hitler has closed the door entirely nor yet put his hand to the trigger. The speech is not obviously as extremely bad as it might have been in spite of its offensive nature and the ministers were unwilling to reach any final conclusions or decisions tonight. The cabinet will meet tomorrow afternoon at 3 when more definite views can be formulated.

[PARAPHRASE] The impression was not given by the Undersecretary of State that he considered that the address had in any way been a contribution to the relief of the present tension.

KENNEDY

Eu:JGP:RI

Close SEPT. 12, 1938

		<u>GOLD HELD IN LONDON</u>	<u>GOLD HELD IN AMSTERDAM</u>
Insurance arranged for following ships:		\$116,800,000	\$11,000,000
<u>Sailing</u>	<u>Steamship</u>	<u>Amount</u>	<u>Amount</u>
Sept. 14	Queen Mary	10,000,000	-
Sept. 16	Pres. Harding	10,700,000	-
Sept. 17	Brittanic	11,000,000	-
Sept. 17	Champlain	10,000,000	-
Sept. 17	Nieu Amsterdam	-	11,000,000
Sept. 21	Normandie	11,300,000	-
Sept. 23	Manhattan	11,300,000	-
Sept. 24	Paris	11,000,000	-
Sept. 28	President Roosevelt	10,300,000	-
Sept. 28	Queen Mary	6,000,000	-
Sept. 30	Georgic	<u>6,000,000</u>	<u>-</u>
		\$97,600,000	\$11,000,000

Copy

1938 SEP 12 AM 10 49

25WCR 40 GR

SN WASHINGTON, D.C. 1038A SEPT 12 38

HON HENRY MORGENTHAU JR.

THANKS FOR YOUR LETTER SEPTEMBER NINE, WHICH WAS DULY RECEIVED.  
I HAVE BEEN PREVENTED FROM ANSWERING BY FACT THAT COMMITTEE HAS  
BEEN CONTINUOUSLY IN SESSION SINCE SEPTEMBER EIGHTH AND IS IN  
SESSION TODAY. I WILL REPLY IN DAY OR TWO.

MORRIS SHEPPARD CHAIRMAN

1049A

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE September 12, 1938

TO: Secretary Morgenthau

FROM: Mr. Haas *HA*

Subject: The Business Situation,  
Week Ending September 10, 1938.

Conclusions

A generally optimistic business sentiment as the fall season opens, and well-maintained levels of activity in steel and other industries, are tending to obscure the unfavorable turn taken by certain important factors in the business outlook as a result of adverse foreign developments, which appear to represent more than war uncertainties. Business activity is being carried forward at present by factors that are unquestionably favorable, aided by the usual momentum and optimistic sentiment acquired in a rising business trend. Giving proper weight to the unfavorable side of the business picture, however, the outlook must be characterized as one of uncertainty, with no definite assurance that the recovery forces developing in this country will be able to counteract the powerful deflationary influences originating abroad.

In the longer outlook, the war uncertainties and their attendant deflationary influences have introduced an unpredictable factor. If recent tendencies abroad should continue, the possibility that they may kill our recovery and bring about a renewed business recession is not one that can be completely ignored.

Important conflicting influences

Before taking stock of the important influences working for and against business recovery, we may first review briefly the business developments of the past several months. Stock and commodity prices rose sharply from the beginning of June until the middle of July, stimulating new ordering and creating a widespread optimistic business sentiment. Aided by the increased orders, and by reduced corporation inventories, business activity improved markedly during July and August.

As early as mid-June, however, it began to appear that recovery in this country might have to contend with an unfavorable foreign situation, since stock prices in England and France

Secretary Morgenthau - 2

showed little or no response to the upturn in this country. This became more evident later in June, when foreign currencies began to weaken against the dollar. (See Chart 1.) Commodity prices, with their usual delay in responding to deflationary foreign influences, began to decline about the middle of July, and stock prices after this were unable to make further gains. New orders thereafter began to fall off, and by the end of August had dropped back to a level not far from that which preceded the June upturn. Industrial production, however, has expanded somewhat further, despite the falling off in orders, partly to build up factory inventories in anticipation of a better demand during the fall.

#### Influences working for business recovery

Analyzing the constructive factors in the present situation, it appears that business improvement this fall must depend primarily upon (1) the automobile industry; (2) the construction industry; and (3) such a recovery in production as would result from a cessation of inventory liquidation. These would be sufficient for a further business rise, if they were certain to materialize.

Some analysts base their hopes for fall business almost entirely upon an expected strong upturn in automobile production, with the help this would give to steel, rubber, glass, and other lines. The automobile industry appears to be in a more favorable position than any other major industry, judging from our data on basic demand, and has gone far in liquidating its stocks of new and used cars. This liquidation of stocks is not a stimulus to sales, but it places automobile production in position to respond immediately to an increase in sales, which was not the case last year.

Confidential data received from the General Motors Corporation show the drastic reduction which has been made since last year in stocks of new and used cars. Some qualification is necessary in interpreting these figures, however, as the following table shows, since sales have declined even more than stocks. Data given are for the 10-day period ending August 20.

	<u>New cars</u>		
	Sales	Dealer stocks	Number of days sales
1936	46,000	166,500	36.2
1937	46,700	160,500	34.4
1938	20,700	82,500	39.9
	<u>Used cars</u>		
1936	80,100	190,000	23.7
1937	85,200	210,000	24.6
1938	58,000	165,300	28.5

Secretary Morgenthau - 3

It now appears that the automobile companies will rush the production of sample cars of the 1939 models for dealer display purposes, but that further production will be contingent upon the rate of incoming orders. The failure of most companies so far to place orders for steel products seems to indicate that heavy production is not in immediate prospect.

The outlook for the construction industry points to further gradual improvement in contract awards during the next month or two, which will have some supporting influence on various industries. The volume of construction so far, however, is not large enough to be a major business factor. New orders of three important building material companies, which should be among the first to reflect an upturn in actual construction demand, have shown little or no improvement beyond the usual seasonal trend. While lumber production has shown some improvement, trade reports suggest that this has been due in part to a building up of inventories in anticipation of increased construction activity. In view of these facts, the construction industry seems unlikely to offer any material stimulation to business activity over the next several months, unless the P.W.A. building program should expand more rapidly than now seems possible.

A major supporting factor for business this fall, in our opinion, will be the normal tendency of industrial production to recover to the level of consumer demand. Over a considerable period production has been held down by the liquidation of inventories of finished goods, while actual consumption has been maintained at a higher level than production. Since inventories in most lines have apparently been worked down to about normal, a rebound in production should occur to fill the demand formerly supplied from inventories. This might not happen, however, if consumer demand should decline, or if declining commodity prices should bring about further inventory liquidation.

#### Factors opposing a further business upturn

Opposing a further business improvement this fall are: (1) the unfavorable international situation, which appears to reflect more than a war-scare situation; (2) the failure of new orders to improve; and (3) relatively low agricultural incomes.

Secretary Morgenthau - 4

While a settlement of the Czechoslovakian dispute on at least a tentative basis would do much to improve international business sentiment temporarily, there is basis for believing that the deflationary pressure from abroad and the weakness in foreign currencies over the past several months is grounded in fundamental economic weakness relating largely to the armament race. The recent crisis may have come on top of an already clouded industrial outlook.

Whatever the cause, there seems no doubt that pressure from abroad has been the most important factor upsetting our recovery trend. The more recent effect of foreign deflationary influences, which carried sterling below its former par, has not yet been fully reflected in commodity and stock prices. In recent months, a week or two usually has elapsed after a decline in sterling before commodity prices have been affected.

A large part of the world now has currencies joined to sterling, and a chart of sterling-franc exchange over the past three weeks makes it appear that even France has joined the sterling bloc. Regarded in its broader aspects, the question may be raised whether the present decline in sterling, if continued, might not have the same effect upon our economy as England's abandonment of gold had in 1931. The money spent under our recovery program, in such a situation, might be completely absorbed in trying to hold up business against a tide of price deflation originating outside the United States.

#### New orders index declines

The weakness in the foreign situation might be regarded more complacently were it not that the trend of new orders so far shows no evidence of a fall business improvement. As indicated in Chart 2, a declining tendency, instead of a rise, was evident in the figures for August. The weekly new orders data (see Chart 3) show that the downward trend continued into the first week of September for products other than steel, while steel orders last week showed but a slight increase. Of the individual companies from which the Treasury receives confidential reports, there are very few for which the trend of orders recently can be called encouraging. Although business sentiment generally has been optimistic, it seems so far not to have been the kind of optimism which shows up in actual orders.

Business activity might conceivably improve this fall with no previous upturn in orders, if orders increased simultaneously with business. But such an improvement would probably require a change in buying psychology like that which occurred in June, such as could only be brought about by a renewed rise in stock and commodity prices.

Weakness in agricultural prices has also been a factor operating against a fall business improvement. The total cash farm income for this year, including Government payments, was estimated by the Department of Agriculture a month ago at about \$7,500 millions, which compares with \$8,600 millions last year. Taking account of income already received, the income for the second half-year would be estimated at \$4,160 millions as against \$4,770 millions last year, which had already reflected the low prices of the latter part of 1937. Since the estimates were made, however, a number of farm products have declined further to new lows, the BLS farm products index at the end of August reaching the lowest level since July 1934.

#### Current business news

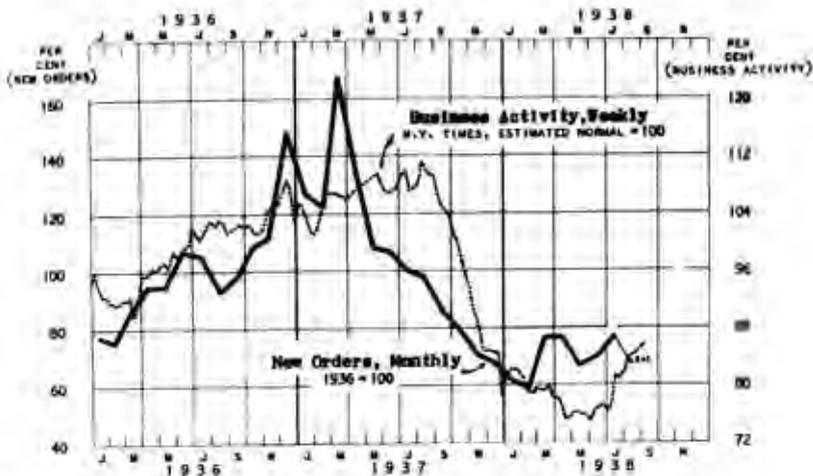
Aided by marked increases in the seasonally adjusted figures for steel production and automobile production, and by smaller increases in the carloadings, power, and lumber series, the New York Times index of business activity increased to 85.4 during the week ended September 3, as compared with 84.8 during the previous week. A substantial decline in cotton mill activity partly offset the improvement in other lines.

Steel activity is scheduled at 45.3 percent of capacity for the week beginning September 12, a new high since last November. The increase over the figure for the previous full week, 44.0 percent during the week ended September 3, is slightly less than seasonal, according to the New York Times index.

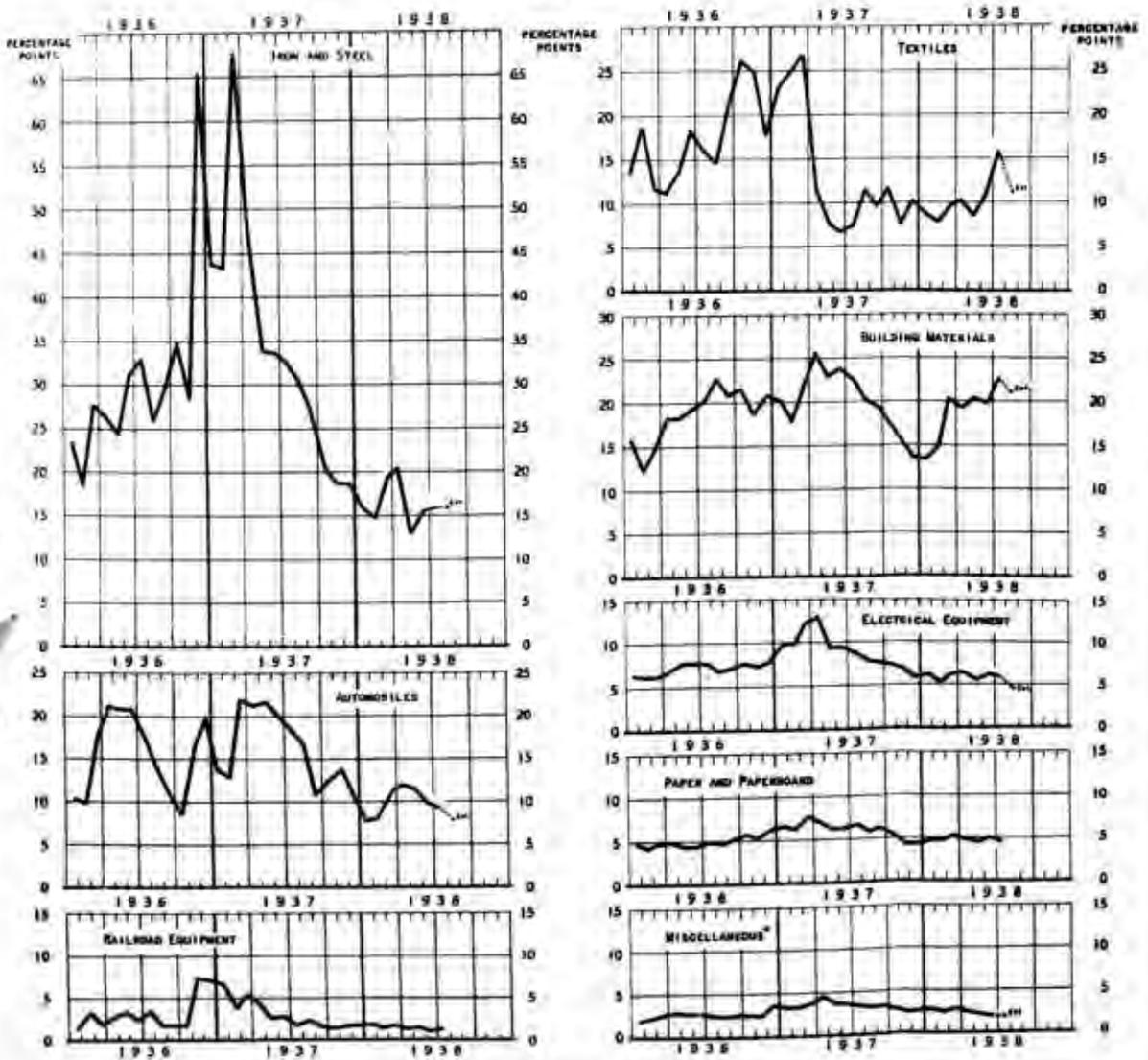
The first cool week of the fall, following an extended hot period, brought a sharp improvement in department store sales during the week ended September 3. (See Chart 4.) Sales for that week showed a decline of only 2.7 percent from the comparable week of last year, as compared with a decline of 13.5 percent the week previous. This represents a rebound from the relatively low sales in August, when the FRB index of department store sales (adjusted) declined to 83 as compared with 85 in July.

NEW ORDERS AND BUSINESS ACTIVITY

Chart 2  
CONFIDENTIAL



**New Orders Grouped by Industries**  
WEIGHTED ACCORDING TO RELATIVE IMPORTANCE



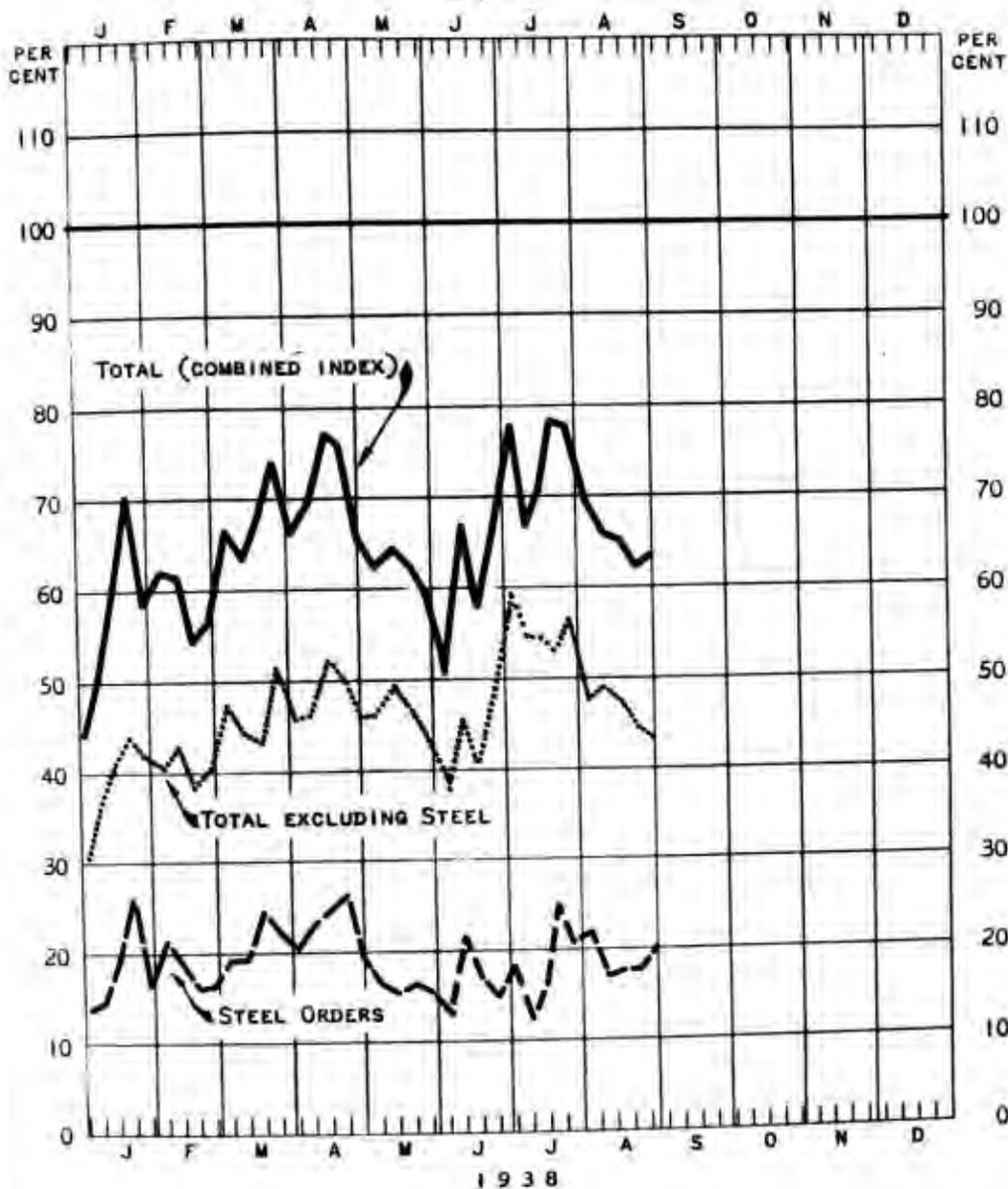
\* INCLUDES MACHINE TOOLS, AGRICULTURAL EQUIPMENT AND OTHERS

CONFIDENTIAL

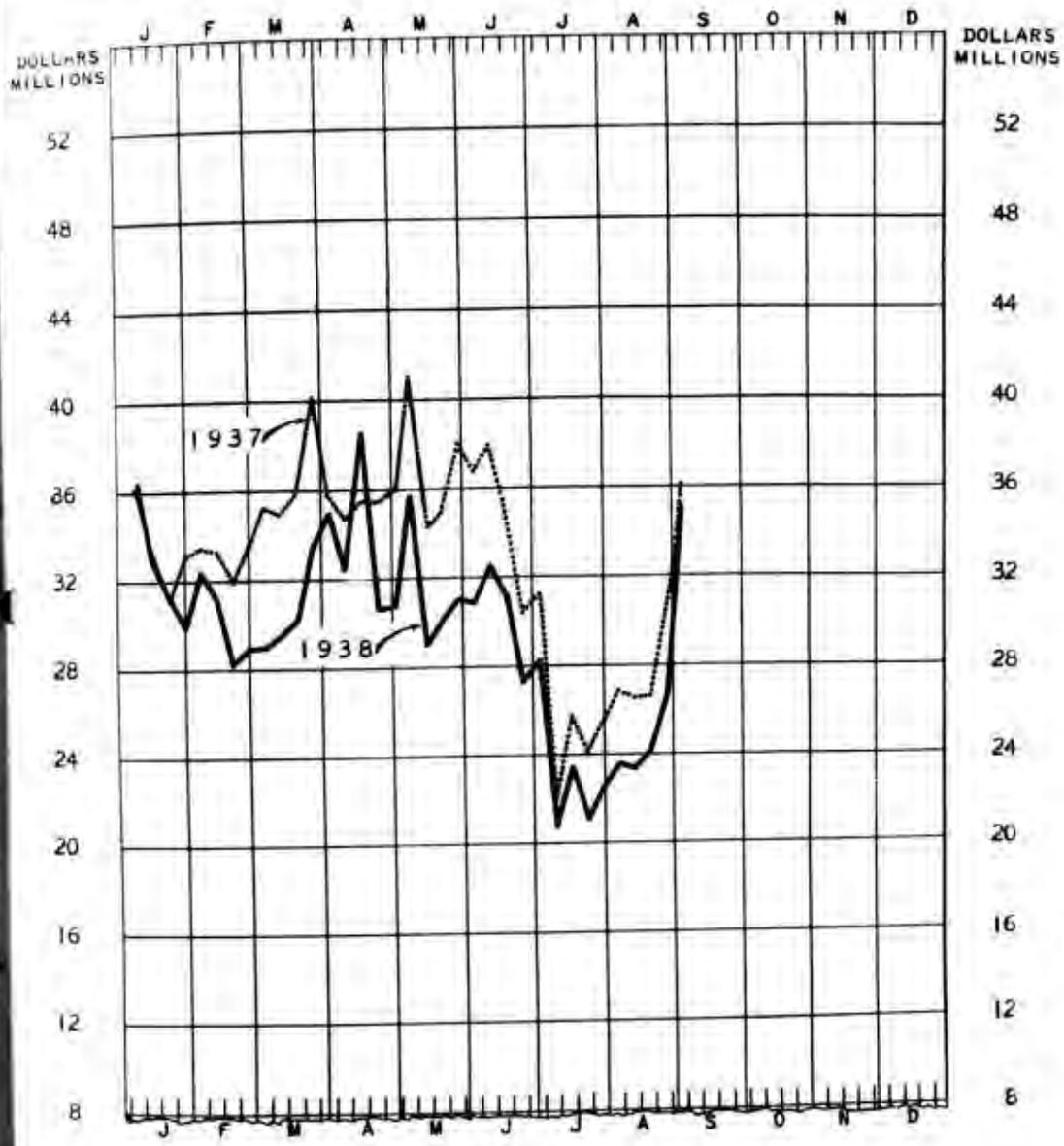
# INDICES OF NEW ORDERS

1936 = 100

1938

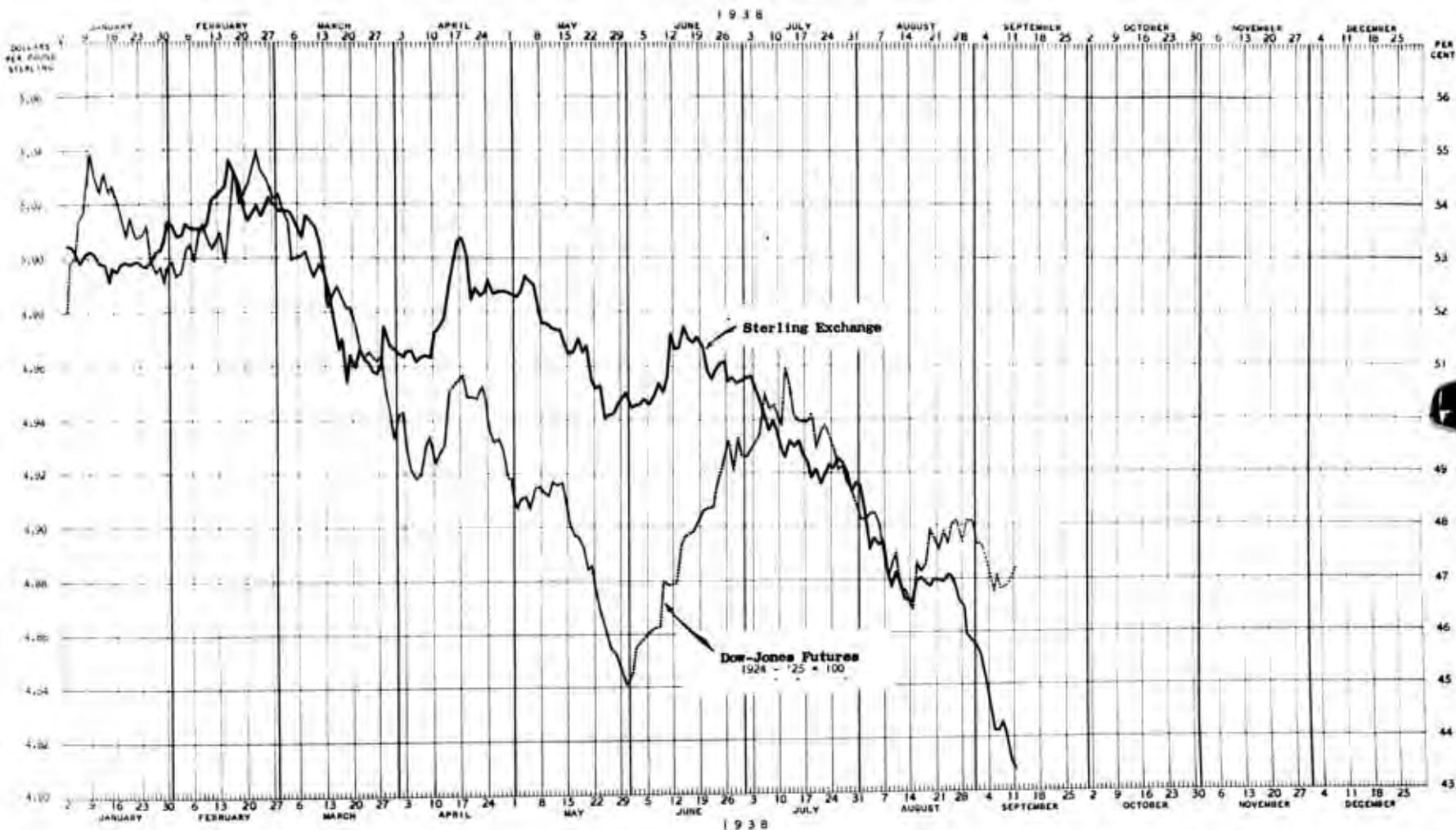


# WEEKLY DEPARTMENT STORE SALES\*



\* EQUIVALENT TOTAL FOR 267 REPORTING STORES

STERLING EXCHANGE AND PRICES OF COMMODITY FUTURES



CONFIDENTIAL

G-2  
J M

135A

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

G-2/2657-204

*Just*  
September 12, 1938.

MEMORANDUM NO. 9 FOR THE CHIEF OF STAFF:

Subject: The present European situation to  
midnight, September 10-12, 1938.

The following cable dated 3.55 P.M., September 11, 1938, from the Military Attache in London, is confirmed by all known information here:

"Following information based on highly reliable source. In the event Germans use violence towards Czecho-Slovak Republic and French resort to arms as they positively stated that they will I believe it is almost certain British will go to support of the French with all means at hand. Difficulty has been to make Germans believe this. How prompt British intervention will be it is impossible to state. No preparatory military measures whatever have been taken to date beyond placing seven mine sweepers and four mine laying destroyers in service. Additional naval dispositions are contemplated. In army and air service no leaves cancelled no reservists called into service no change in present arrangements as yet. It is stated by authority here British are anxious to avoid all appearances of mobilizing these forces partly due to tension situation and partly to make issue clearly defined before world opinion particularly dominions and United States."

State Department information is to the effect that British official circles entertain very serious views of the momentary situation. Henderson, it is believed, has made known clearly to Hitler through his subordinates that Great Britain will come to the aid of France if the latter becomes involved as a result of a German forceful seizure of the Sudeten area. The impression is that Hitler's speech will be deceptively non-inflammatory, but it is feared that his operation in alienating the contested region will proceed to its ultimate and dangerous conclusion.

CONFIDENTIAL

Regraded Uclassified

CONFIDENTIAL

Official despatches from Russia state that no military activities are known to be in progress which cannot be accounted for by the usual autumn training program.

In France there are numerous press reports of precautionary measures which are natural in such a strained situation. No official information is available, however, of any sensational developments other than previously reported.

In Germany no military activity other than that previously reported is officially known. Reuter's 3:30 A.M., September 12 (10:30 P.M., E.S.T. last night) news announcement stated that Reuter's correspondents in Cologne reported troop movements "on both sides of the Rhein" sufficient to disrupt the normal railway schedules. This is as yet unconfirmed.

Conclusion: The situation is unquestionably critical, and its seriousness is not expected to be greatly alleviated by the disclosure which Hitler will make at Nuremberg to-day.

**CONFIDENTIAL**

G-2  
J M

1350

G-2/2657-204

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

September 13, 1938.

*MMS*

MEMORANDUM NO. 10 FOR THE CHIEF OF STAFF:

Subject: The present European situation to  
midnight, September 12-13, 1938.

The following requested information was received from  
the Military Attache in Paris in cable dated 1:40 P.M., Septem-  
ber 12, 1938:

"France will mobilize and attack if force is  
used against Czechoslovakia regardless of course  
taken by England or other nations. Antiaircraft  
artillery in position from frontier to Paris in-  
clusive. No other changes."

No other important changes are known in the military  
measures previously reported.

No alleviation in the general political situation was  
afforded by Hitler's defiant speech in closing the Nuremberg  
rally.

**CONFIDENTIAL**

September 13, 1938

To: The Secretary  
From: Mr. Magill

I had a lengthy conference with Mark Graves, President of the New York State Tax Commission, on Friday relative to the possibility of our joining in some specific action looking toward the better coordination of Federal and state taxing systems. Mr. Graves displayed rather more interest in the subject than I had anticipated. I believe that if we are interested in specific action ourselves, he will meet us halfway.

1. The Federal Government and New York both impose stock transfer taxes but the taxing provisions, although similar, are by no means identical. Since by all odds the bulk of both taxes is collected from New York City, a good deal of confusion arises from the varying definitions of taxable transactions. I asked Mr. Graves whether he would be interested in designating men to cooperate with Treasury representatives in an endeavor to formulate uniform statutory provisions. He said he would be very glad to do so and would let us know the names of his representatives at once.

2. In Australia, the Federal Government and some or all of the states utilize the same forms for reporting taxable income. The particular form is printed with two columns; one in which the individual enters the income for Federal purposes and another for state purposes. The items of taxable income and of deductions vary somewhat and provision is made for this variation on the form. I asked Mr. Graves whether he would be interested in exploring the possibility of a single form to be used by the United States and New York. He said he would be glad to designate a man to work with a Treasury representative in drafting a proposed form. The responsible state and Treasury officials would then go over to see whether or not it is feasible.

3. As to the broad problem of coordination, Mr. Graves suggested that he thought it would be very desirable for the President to call a large conference of interested persons after suitable preliminary arrangements had been made. The idea of the conference would be not merely to discuss state and Federal conflicts in tax

- 2 -

matters, but to formulate a program for ending them. The intention would be that the conference should end with a recommendation that the President designate a small committee of distinguished men to formulate a program for the better coordination of state and Federal taxing systems. It would be contemplated that this committee would be supplied with adequate funds to employ a first-rate research staff, which might spend as much as a year in assembling and analyzing the necessary data and in preparing a complete program.

Mr. Graves believes that an undertaking of this character would have a strong popular appeal and that the time is ripe for the President to make such a proposal. He would like to see the preliminary work done at once and the proposed conference held sometime in November.

RM

cc - Mr. Hanes

September 13, 1938.  
8:58 a.m.

W.M.Jr: Hello.

Operator: Admiral Leahy.

W.M.Jr: Thank you. Hello.

Admiral Leahy: Admiral Leahy.

W.M.Jr: This is Morgenthau speaking.

L: Good morning Mr. Secretary.

W.M.Jr: How are you?

L: Fine, thank you.

W.M.Jr: Admiral - over Labor Day weekend I talked to your aide about what cruisers or battleships you had in English waters.

L: Yes, he told me about it.

W.M.Jr: Yes. I understand you've got the Tennessee over there.

L: Nashville.

W.M.Jr: Nashville.

L: She's leaving on the 17th.

W.M.Jr: Well now, look. I talked to the President about this. I told him what I had said and he said that's all right. Now, I - I want - I want something over there, all the time.

L: Yes.

W.M.Jr: I've got - very confidentially - I've got in London, right now, a hundred and sixteen million dollars worth of gold put out in United States Governments.

L: That's quite a lot of money isn't it?

W.M.Jr: Yes, and in case of trouble I want to put it on one of your ships.

L: Well now, look. The Nashville is - you want a ship there all the time?

- 2 -

- H.M.Jr: I want a ship there all the time, as long as we've got as much gold as that, and as long as there's as much war talk.
- L: You wouldn't want to - you wouldn't want to have a blank of half a dozen days or so. You want it there all the time.
- H.M.Jr: I - I don't want a blank of an hour.
- L: You want - you want a ship in English port.
- H.M.Jr: Yes.
- L: All right, sir.
- H.M.Jr: And I talked to the President about it and he concurs.
- L: Uh-huh.
- H.M.Jr: And I'm sure you'll take my word for it.
- L: Oh certainly, that's all right, but I was just thinking, quickly, to see how I could do it. That's all right, we'll have a ship in English waters for you.
- H.M.Jr: Yes.
- L: Until you tell us you don't want it anymore.
- H.M.Jr: That's right.
- L: That's apt to last a long time, isn't it?
- H.M.Jr: No. Well you tell me what - your guess on Mr. Hitler, I guess, is better than mine.
- L: That isn't much good.
- H.M.Jr: Well, the point is, I - I can't take the risk of keeping that much there unless I've got a United States battleship or cruiser there to take it off in case of emergency.
- L: Yes, sir. Well, we'll have a ship there for you, Mr. Secretary until you tell us you don't want it, we'll keep the ship there. I don't know how we'll do it, but we'll do it.

- 3 -

- W.M.Jr: But - now as I understand it - Graves End is what - thirty miles from London, I think they told me.
- L: No, Graves End is just down the river. I should say twenty or thirty miles, I don't remember the distance, but it's right - it's really right in London.
- W.M.Jr: Well, the point is, if we had to, we'd want to truck that gold down you see.
- L: Well, I suppose we could send the ship up to London.
- W.M.Jr: Well, that might attract attention, wouldn't it?
- L: Yes, it would.
- W.M.Jr: Well couldn't it be, I don't - at the mouth of the Thames?
- L: Couldn't the ship be at the mouth of the Thames?
- W.M.Jr: Yes. And then just go right up if necessary?
- L: Well, I'd rather - if we have a ship there at all, I would rather have it at Graves End because that's a much better place for it to be.
- W.M.Jr: Oh! Well, then why not just leave it at Graves End?
- L: That's what I'm going to do for the present, until we get another ship over there and then I'll let her come back.
- W.M.Jr: You put the Nashville at Graves End.
- L: Yes, she - she was going to get - she was going down to - some place, to get some fuel.
- W.M.Jr: Yes.
- L: - tomorrow.
- W.M.Jr: Yes.
- L: And I'll just stop her and let her stay at Graves End until she gets further orders.

- 4 -

H.M.Jr: That's right, and then you, most likely, - you send another one over from here.

L: Yes, there's another one leaving here on the 12th of September, and it's going to Graves End. It's going to a lot of other places according to schedule. I don't know whether we can stop that or not, but if we can't, we'll send another ship over.

H.M.Jr: Well, this is a hundred million dollars important. That's -

L: Yes.

H.M.Jr: And now, what I'm going to do, I'm going to forget about it Admiral, and I'm going to take it that until you and I talk again, there will be a United States battleship or cruiser at Graves End.

L: That's right, sir. I'll see that it's there all the time.

H.M.Jr: Fine.

L: All right, sir.

H.M.Jr: Thank you so much.

L: You're welcome, Mr. Secretary. Good morning.

H.M.Jr: Good morning.

September 13, 1938.  
9:15 a.m.

H.M.Jr: Hello.

Operator: Mr. Crowley.

H.M.Jr: Hello.

Leo  
Crowley: Hello, Mr. Secretary.

H.M.Jr: How are you Leo?

C: Fine. How are you?

H.M.Jr: I'm fine.

C: That's good.

H.M.Jr: Leo. I'd very much like to have you come to my office on a highly confidential matter at ten-thirty.

C: Ten-thirty? Sure.

H.M.Jr: Will you use my private elevator?

C: I'll do that, yes, sir.

H.M.Jr: And then I'll have you shown right in here.

C: Thank you.

H.M.Jr: Thank you.

## GROUP MEETING

September 13, 1938.  
9:30 A.M.

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

H.M.Jr: This meeting is only going to last fifteen minutes, and I'll call on the people who are not to stay afterwards to see if you've got anything.

Thompson: I have a telegram from the Collector's office in Frisco.

H.M.Jr: Little louder.

Thompson: I have a telegram from the Collector's office in San Francisco on this political activity.

H.M.Jr: Oh yes.

Thompson: The two Collectors have resigned from their political clubs and are sending copies of their resignations by air mail.

H.M.Jr: All right, fine.

Gaston: On the Arkansas thing, Elmer Irely concurs in the other man's recommendation that it's finished, that we do no more.

H.M.Jr: Well that cleans that up.

And did the letter from Senator Sheppard which was in yesterday's morning papers come in?

Gaston: It did not.

H.M.Jr: It did not.

- Gaston: I told several of the boys about it, but I didn't seem to get any results.
- H.M.Jr: Was it come in yet?
- Gaston: I haven't heard this morning. Mrs. Forbush was to let me know.
- H.M.Jr: This is about Magruder and his political activities, which was in yesterday morning's papers. Up to last night it had not come in.
- Gibbons: Was it in yesterday morning's papers?
- H.M.Jr: Yesterday morning's papers, but up to last night we had not received it.
- Ellenant: There's an editorial in the Times this morning about Magruder.
- H.M.Jr: In the New York Times?
- Oliphant: (Nods yes)
- H.M.Jr: Well, Herbert, please rub somebody's nose in this thing, that the letter doesn't come in until after the Maryland primaries. "Ow, please rub somebody's nose in it, will you?"
- Gaston: Un-huh.
- H.M.Jr: Including Arthur Krock's. Wipe his nose in it.
- Klots: (Laughs)
- Gaston: He sent you a telegram, you know, saying that he would reply to your letter as soon as he got time, and he apparently thinks that covers the whole thing.
- H.M.Jr: But excuse me, that has nothing to do with the Magruder letter; it was in yesterday morning's papers and he releases it and I haven't seen it yet.
- Bell: I have nothing.
- H.M.Jr: In other words, everything political now - the California situation is cleaned, the Arkansas situation is cleaned, now the only one pending is

the Magruder and I haven't got that letter yet.  
O.K.?

Gaston: Yes.

Bell: I have nothing. I'd like to have about ten or fifteen minutes today, if you can give it to me.

H.M.Jr: On what, Dan?

Bell: Particularly on that Social Security thing.

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

Bell: Want to get that started.

H.M.Jr: Give it to you tomorrow.

Bell: All right.

H.M.Jr: 10:30 tomorrow. That all right with you?

Bell: Fine.

H.M.Jr: What else, Dan?

Bell: That's all.

H.M.Jr: How many did not turn in on bonds?

Bell: Ten million.

H.M.Jr: Did not.

Bell: We got - after I talked with you, we got 33 million from Chicago. That apparently winds it up.

H.M.Jr: The percentage is what?

Bell: Of turn-in?

H.M.Jr: Yes.

Bell: Well, it's 433 and 423 - about ....

Gaston: About 98 percent.

H.M.Jr: Have you got a release on that?

-4-

Gaston: No, we haven't. I told the boys what it was, but I didn't see any of them use it. We can put out a release on it.

H.M.Jr: I'd put out a release.

Bell: We'll have final figures today on all of them.

H.M.Jr: Anything else?

Bell: That's all.

H.M.Jr: How would you like to finance today?

Bell: Well, I'd rather have done it last Thursday.

H.M.Jr: Me too.

I'll see you (Upham) later.

Upham: Were you - you were not expecting me to call Ransom and Crowley.

H.M.Jr: (Nods no)

Steve?

Gibbons: That's the Coast Guard station at Atlantic City. Congressman up there.....

H.M.Jr: I can't do it. You handle it.

Gibbons: And I talked to you about that three million that you asked Mr. Ickes.....

H.M.Jr: I just can't do it.

Gibbons: I know, but .....

H.M.Jr: Yes.

Gibbons: Senator Smathers called up McIntyre and McIntyre sent this telegram.

H.M.Jr: Handle it any way you want. Just handle it, will you?

Gibbons: Yes. Didn't want to do anything without showing it to you.

-5-

- H.M.Jr: Thank you. Anything else?
- Gibbons: The radio station site is also up to Mr. Ickes now. If we can get them to give us \$20,000, we've got the site. Waesche's going over to talk to Burlew about it. I'm handling that.
- H.M.Jr: All right.
- White: Harry?
- White: The general conclusion appears to be that Hitler's speech is worsening the situation.
- H.M.Jr: Excuse me?
- White: I said the general impression appears to be in the various press that Hitler's speech has worsened the situation. Don't know whether you heard it, but this morning they're supposed to impose martial law in ....
- H.M.Jr: I'm up to date on that. You and Archie don't let this out of your hands and don't let anybody else read this but you and Archie; and give it back personally to Mrs. Klotz. Just you and Archie and nobody else; and nobody in your office, please. Just let - then return it to Mrs. Klotz; that gives you .....
- White: You don't want to take any action yet on that such as suggested in that little memo on sterling?
- Lochhead: Harry hasn't seen the memorandum yet that you turned over to me this morning.
- H.M.Jr: Well, that's been taken care of.
- Lochhead: Yes.
- H.M.Jr: That one that you wrote was delivered to the British Ambassador. Good enough?
- White: Fine. Got an answer to it?
- H.M.Jr: No, but they gave it - Herbert Feis wrote me a letter and I said that just you and Archie should see it.
- Gibbons: Incidentally, Mr. Fuller has been ill. That's the reason I haven't reported on that - you know, that Danish narcotic thing.

-6-

H.M.Jr: Oh, that's all right.

You (Graves) are invited for another reason. You'll find out in five minutes.

George?

Haas: This is the twice-a-week. This is one of the "twices."

H.M.Jr: One of the "twices." Very good.

Haas: We talked Friday about a meeting at 10 o'clock today. Is that still on? On those expenditures.

H.M.Jr: On what?

Haas: On those expenditures.

H.M.Jr: No, I'm sliding, I'm slipping.

Haas: O.K.

H.M.Jr: Archie?

Lochhead: The market continues just about the same as it was. It slid off after the early improvement.

H.M.Jr: Well, Harry ought to try to live in there. I've told Archie I can't watch this thing, and I haven't - I've got an entirely different matter I'm handling other than this - domestic matter. And so Archie understands, Burgess understands. So you better live in there. And Archie is watching if either sterling or the Government bond market gets out of hand. So you better live in there. But I can't - I'll work through Archie, and will you work that thing, Harry?

White: Sure. By the way, is that appointment which is supposed to be for me on Tuesday off temporarily - that Davenport?

H.M.Jr: No, I'll talk to Herbert Gaston. He's here today.

White: You'll take care of it. He was supposed to come in and see me.

Gaston: Is that John Davenport of Fortune?

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H.M.Jr: Yes.

Gaston: He's coming in to see me at 10:30. I didn't know what about.

White: He'll take care of it. I can just drop out of the picture.

H.M.Jr: No I'll explain to you both if you stay a minute. No, you cannot drop out.

Hanes: (Nods nothing)

H.A.Jr: Herbert?

Gaston: I have a letter from Gardiner Jackson on this Coast Guard thing .....

H.M.Jr: Not today.

Gaston: ... which he would like you to read any time that ....

H.M.Jr: Just let it ride.

Gaston: And I can tell you about the situation.

H.M.Jr: Right. Anything else?

Gaston: That's all.

H.A.Jr: Herman?

Oliphant: I have tungsten with a ribbon around it.

H.M.Jr: No, not today. I mean I want to handle this other thing first. Anything else?

Oliphant: But you remember you said you wanted me to be ready.

H.M.Jr: I know.

Magill: (Nods nothing)

H.M.Jr: Well, you and I start on the tax thing at 2:30, don't we?

Magill: We got Guy Helvering coming in.

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H.M.°r:

Well, that's still on. And I tell you who I'd like to have stay: Oliphant, Gaston, Hanes, Graves, you - you, Upham. And if Gaston and Mr. White will come in to Mrs. Klotz's room with Mrs. Klotz a minute, I'll explain about it.

September 13, 1938.

Spoke to the President of the United States at 1:40; read him the following dispatch:

SUDETENS DEMAND WITHDRAWAL OF EXCEPTIONAL MEASURES

PRAGUE - REUTERS - THE SUDETEN LEADERS HAVE GIVEN THE CZECHOSLOVAKIAN GOVERNMENT AN ULTIMATUM OF SIX HOURS TO WITHDRAW ALL EXCEPTIONAL MEASURES THAT HAVE BEEN INTRODUCED IN THE SUDETEN DISTRICTS - OTHERWISE THEY DECLINE RESPONSIBILITY FOR CONSEQUENCES

I said if it were true it would look as though it were the beginning of the end. He agreed.

Told him that the Federal Reserve, FDIC and the Acting Comptroller met with me this morning, as a result of which we decided to send a telegram to the Bank of America instructing them at their meeting to-day not to declare any dividend. He said, "That's fine".

I said, "If we have to do it, I suppose to-day is as good as any on account of the war news overshadowing it". He said, "That's right".

He said that his son, Jimmy, was better and he expected to be in Hyde Park Thursday.

When I talked to the President I told him that we furnished Ronald Ransom with photostatic copies of the most recent Financial Report out of the Report of the Comptroller of the Currency on Stewart, Chairman of the Board of the Federal Reserve Bank of San Francisco. This showed that he personally owes the Bank of America five million dollars plus and that his companies owe the Bank of America another three million plus and that part of the collateral is stock of the Trans-America Company and that the Federal Reserve had the power to remove him.

September 13, 1938

(Dictated by Dr. White.)

Mr. Raymond Buell came to see the Secretary and had a fifteen minute discussion in which Buell reported his version of what was happening in Europe and his hope that American would take decisive leadership, as she was in position to do so, and might thereby help out a bad situation.

After the discussion, I chatted with Buell to the effect that if the world knew really what the Secretary had done and was doing they would realize how much he had already done to promote world stability, world peace and how much he was doing, but that unfortunately the things he was doing and had been doing were of such a confidential nature that nobody could know until some day possibly history would write it.

We talked at some length and Buell grew quite excited and enthusiastic about the possibilities of doing an article in Time Magazine on the international activities of the Secretary. I said I did not think that that was the proper medium, in the first place, and, in the second place, I could not discuss it with him because the material was of such a confidential nature that I could give him nothing other than what was already in published form, but that if some other more appropriate medium was selected the Secretary might be interested in telling him some things that had not been told or that had not appeared elsewhere, but that the Secretary's contributions were in no sense confined to the international field; that his program of activities included many other matters besides international monetary affairs and that his participation in the formulation and execution of domestic matters was very substantial and was very much underestimated by the press and public. I said that it was greatly underestimated because the Secretary has said very little about his activities. I added that I thought moreover it would not be appropriate for an article on the Secretary to dwell solely on his participation in international matters and, therefore, such discussion would have to be part of a discussion of the Secretary's activities in other fields as well.

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Mr. Buell then said that he was supposed to write an article for the Fortune Magazine and that he would make that his article and did I think that that would be a more appropriate place? I said I thought it would be and Buell said that he was certain he could do it and wished to see me again. I said that I would have to speak to the Secretary before he did anything. He said then that he would come down to Washington very shortly to see me, but if unable would send his co-worker down to talk with me.

I spoke to the Secretary briefly about Buell's proposal and the Secretary indicated that he might be willing to give him some material that could not be obtained elsewhere if the article were going to be an appropriate one. I said I would keep the Secretary informed of any further developments.

Mr. Buell sent me some material to read, about a few weeks later, and in answering his note I asked him when he planned to come to Washington again. He replied once with a note saying that Mr. Davenport, the editor of Fortune, with whom he had taken the matter up, was going to come to Washington about September 1 to see me.

I mentioned this to the Secretary upon the Secretary's return and the Secretary replied to be sure that he saw Gaston when he came.

About September 6th, I received a telephone call from Davenport saying that he was sending to Washington the following Tuesday his brother and a research worker to talk with me to secure material for the article and that they would call to see me. He outlined very briefly the nature of the article, stating that it would be in the December issue, which was their big issue of the year, and would be at least equal in importance with an article on General Motors which they had been preparing now for six months. He appeared very eager to secure Treasury cooperation for the article and felt it should make a most excellent addition to that issue. He said he would give it all the space it needed, even ten pages or more.

In answer to my question, he said that they would submit a draft of the article to the Secretary

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for any corrections or additions of a factual nature, but with respect to interpretation it would have to be theirs in the last analysis, though he felt certain there would be no difficulty in that direction because they were very eager to turn out a positive article and not one that would be critical of the subject matter. I told him that I would speak to the Secretary about it in the interim and unless he heard from me to the contrary before that, it would be all right to have his man come down.

I reported the conversation to the Secretary and the Secretary said that before doing anything about it he wanted to have a clear understanding with the top man of the magazine and suggested that he might have the top man (whom I indicated was, so far as I knew, Russell Davenport, the editor) call on him at the Farm to make perfectly clear just what was intended to be included in the article and the conditions of publication. He asked to have Davenport get in touch with him at the Farm.

I transmitted his message and Mr. Davenport, accompanied by the publisher of Time, Mr. Ralph Ingersoll, called at the Farm and discussed the subject with the Secretary.

September 13, 1938.  
12:17 p.m.

H.M.Jr: Hello.  
Tom G. Smith Hello, Henry.  
H.M.Jr: How are you?  
G: I'm glad to hear your voice.  
H.M.Jr: You old loafer you. What are you doing up at Bedford, Massachusetts?  
G: Well, I've got a family up here.  
H.M.Jr: You have.  
G: Yes, a big family.  
H.M.Jr: Listen.  
G: Yes.  
H.M.Jr: Do you want to help a fellow when he needs it?  
G: Yes, sir.  
H.M.Jr: Well, - where are you talking from Tom?  
G: I'm from home, I'm on a party line.  
H.M.Jr: Are you?  
G: I don't think there's anybody on it though.  
H.M.Jr: Well, we've got a very very serious banking situation on a particular bank.  
G: Yes.  
H.M.Jr: And we moved in today, and we're afraid it may blow up tomorrow.  
G: Yes. Well, where do you want me and when?  
H.M.Jr: I'd like to have you here in Washington tomorrow, to sit here and help me.  
G: Well, I'll be there in the morning.

- 2 -

H.M.Jr: Right.

S: I have an engagement in New York tomorrow, but I'll just cancel it, that's all.

H.M.Jr: Well - well, you'd better because I - hello.

S: Yes.

H.M.Jr: Well you come on down and take my word for it. It's as serious a thing as I've handled as far as banks go since I've been in the Treasury.

S: What part is it - on the coast?

H.M.Jr: Yes.

S: On the West?

H.M.Jr: Yes.

S: Well I'll be there in the morning Henry.

H.M.Jr: All right.

S: I'll be at your office at nine o'clock.

H.M.Jr: All right.

S: O.K.

H.M.Jr: Thank you.

S: Goodbye.

September 13, 1938.  
2:24 p.m.

H.M.Jr: Hello.

Operator: Mr. Diggs. Go ahead.

H.M.Jr: Hello.

Diggs: Yes, Mr. Secretary.

H.M.Jr: Diggs?

D: Yes, sir.

H.M.Jr: Mr. Gaston has been reading a story entitled "True Stories" in a detective magazine, and he's worried that your representative won't get in to the meeting. Hello.

D: Yes, sir.

H.M.Jr: So he was suggesting that you might call up your fellow outthere, and have him call the President of the bank, see?

D: Yes.

H.M.Jr: And say that he has an important document to present at the Board and he wants to be sure that he gets in before the meeting is over.

D: I'll do that, sir.

H.M.Jr: See?

D: Yes, sir.

H.M.Jr: See?

D: I'll do that, and I'm also going to read to him the message from here so that he'll be sure he's got it right out there. I thought I'd read the -

H.M.Jr: Well, I think you should simply say that when - that he wants to come in --

D: Before they declare the dividends?

H.M.Jr: No. No, no.

D: No.

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H.M.Jr: No, no..... That he should - that he wants to be there while the Board is meeting.

D: I see. I'll do that, sir.

H.M.Jr: Just a minute. Just wait - I - Look, I think - I'm sorry, for once I disagree with them. They told it - that the meeting is going to be at four o'clock, and I think he ought to be there at three thirty.

D: All right, sir.

H.M.Jr: And you - he still has an hour to go.

D: Oh yes. Well that's - that'll be seven o'clock, our time, Mr. Secretary.

H.M.Jr: Well then he ought to be there at three o'clock, an hour in advance.

D: All right, sir.

H.M.Jr: And say that the minute they meet he wants to come in.

D: Fine.

H.M.Jr: Supposing - not - keep his mouth shut and he should be there an hour in advance, and when he comes there he simply should sit there and say, when the meeting comes, he'd like to go in.

D: I'll do that, I'll call him right away.

H.M.Jr: Say nothing, call nobody, but just go and sit on the doorstep there, one hour in advance of the meeting.

D: All right, sir. I'll do that.

H.M.Jr: Please.

D: I'll call there.

H.M.Jr: Thank you.

D: Thanks.

INCOME TAX SETTLEMENT FIELD DIVISIONS September 13, 1938.  
3:45 p.m.

Present: Mr. Magill  
Mr. Hanes  
Mr. Helvering  
Mr. Graves  
Mr. Thompson

H.M.Jr: Well right, Dr. Helvering. (In mock seriousness) I'm opposed to the Magill-Helvering program. I think it's going entirely too fast. Why should we do it? I think it's unnecessary, unwise, and unjust, and expensive.

Magill: How large is this ....

H.M.Jr: Well, come on, Guy, talk up. I'm opposed to it. Why should we do it?

Helvering: Well, I'm doing it expressly on the order of the Secretary of the Treasury.

H.M.Jr: You're what? What did you say?

Helvering: I'm doing it principally on the order of the Secretary of the Treasury.

H.M.Jr: Who told you that? That's just a gossip, that's backstairs talk. I'm against it. I think it's silly.

Helvering: While I was away the boys have been working on this proposition. They worked out this scheme. Of course, this is going to take a little pressure to get it done this time. I think that - but I think it can be done. I don't see any reason why, if this program is going to be carried out - to have a dual proposition run any longer than it can help.

I notice in this memorandum I got from Graves - this is all O.K. with me; I don't know about his blood pressure, but I - that's comparatively what the percentage of cases in those districts represent as to the total cases in the country. I would say that, however, in this Maryland-Delaware district - that is, Maryland, Delaware, District of Columbia, North Carolina - set up a special office in Baltimore, and we'll have a great amount of room right over here in the Bureau; just as centrally located, too.

H.M.Jr: Not in Baltimore.

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- Belvering: Have it right over here in the Bureau. Have just the same set-up. Have it locate here.
- H.S.Jr: Do it here instead of in Baltimore.
- Belvering: Same thing.
- H.S.Jr: Same thing. Have it as a laboratory right there.
- Belvering: Then, we won't have such a big problem in the Texas district, which includes the states of Louisiana and Mississippi, and Cleveland, which includes Michigan, Ohio and Kentucky, as we will in the others, because they're partially manned up there now - in those first decentralization programs we tried to work out before.
- Magill: Been doing so in Cleveland for quite a long time.
- Belvering: And we put Cleveland down here to be opened January first, and I think that can be done all right.
- H.S.Jr: Well, who signs, you or me?
- Belvering: Well, I don't know as we made up any order. This was just what we wanted to talk over, and if you said O.K. we'll work it out on this program, and that gets the last office established by June first.
- H.S.Jr: Next. Now, that's to go the whole hog, the way the so-called Los Angeles one does.
- Belvering: Yes.
- H.S.Jr: What?
- Belvering: Yes.
- H.S.Jr: The whole way.
- Belvering: well, there's no problem like we've got in New York, as I told you, in these districts. That is, there is no great accumulation of cases out there that ought to be worked out before we give them a whole lot of other stuff. Of course, we're going to crowd those boys in New York with the accumulation when we do shoot it up in there.

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By the way, I've got a memorandum, Harold, here I want to shoot up to you on this situation in New York. That is, we're going to have to have some additional personnel and a few things like that.

Graves: Yes.

H.M.Jr: well, you've (Hanes) read this, haven't you?

Hanes: I don't know.

Helvering: Well, here it sets out the dates and the places - the districts and the date we'll establish them, and the location of the office.

H.M.Jr: Yes. Well, don't I sign something? Doesn't seem as though the day or the meeting was complete if I didn't sign something.

Graves: I think it would be nice for you to O.K. that memorandum that Mr. Magill gave you, if it's here and available.

H.M.Jr: Give me that little suitcase there, will you (Thompson)?

Magill: Well, while he's in such a good frame of mind, do you think we ought to speak to him about this one? Here's something else you can sign.

H.M.Jr: (Taking document from suitcase) This is for Mr. Hanes. Give that one to Mr. Hanes.

Here we are, here we are, I think.

Helvering: There is just ....

(H.M.Jr takes a pen; Graves hands him another)

H.M.Jr: Don't need two pens. That shows how anxious he is. Now, don't overplay your hand, Harold.

That's a good one on Harold. Oh boy! We'll get on to him after a while, won't we, Guy?

Helvering: Want to state in here a notation as to place? Just got the date and "Middle Atlantic."

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- Magill: Well, Washington looks better to me, as a matter of fact, than Baltimore.
- Graves: Of course, what we would have in mind doing would be to have an office - Mr. Helvering and I discussed this a good many months ago, and I think we agreed at the time that Baltimore taxpayers would suffer no inconvenience by having to come over to Washington. Of course, the intention is to have another office in Richmond and one in Raleigh and one in West Virginia.
- Helvering: Yes, have those branches just as in the others. You want me to initial this?
- H.S.Jr: Or your full name, huh? Any way. No, full name. And then I'll sign it.
- Helvering: Put my initials on there before I got my full .... (To Hanes) Want to get in on this?
- Hanes: Don't know what this is all about.
- H.S.Jr: Well, hell, I won't sign it until you do. Needn't do it now.
- Helvering: You've (Hanes) got to carry it out.
- H.S.Jr: No, I'm not - if you haven't had a chance, you take 24 hours. They should have showed it to you. I'm very serious.
- Hanes: Now, this contemplates finishing by June first next year. That's all right with me, Mr. Secretary. I was familiar with everything except those figures there, which I know nothing about, of course, because I haven't studied them.
- H.S.Jr: But as to the plan?
- Hanes: I'm in thorough agreement.
- H.S.Jr: You agree.
- Hanes: Sure I do.
- H.S.Jr: Enough to put your signature on it?

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Hanes: Giving me two of them? (signs)

H.S.Jr: (Laughs)

Magill: We haven't got Graves on here.

H.S.Jr: we'll do that just before I sign. Graves will do it in red ink. Come on, Harold, put your old "John Hancock" on.

Magill: Gets out his glasses. He's going to read it.

H.S.Jr: Before you put - bring me any more memos, from now on let Mr. Hanes have a look at it.

Graves: Yes, sir.

H.S.Jr: All right. (Signs) What's today? Today's the famous September 13, the day it did or didn't.

Now, Thompson, you have that photographed-autographed, etcetera, etcetera.

Thompson: Yes, sir.

H.S.Jr: and make it legal.

What else? What else you fellows got?

Magill: Here's one that you can do or not, as you see fit. And it would be an unusual privilege; I didn't think of that. In the - (laughs) - in the case of these branch units in the field, one thing that bothered Graves and bothered me - and I haven't talked to the Commissioner about it but I'm sure it's bothered him too - has been the matter of having some kind of a Washington check-up on what these fellows were doing out in these various agencies. Now, on the one hand, you don't want to have so much of a check-up that you restore the old practice of having everything they do reviewed here, so you get a set of hearings here; on the other hand, you want enough of a check so that if anybody out there is giving away anything you find out about it promptly; or, more particularly, if the Dallas office is seeking to enforce a series of interpretations of the law which vary materially from what is being enforced in San Francisco, that you find out

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about it and you take steps to correct it. So Graves and I had a number of conversations while the Commissioner was away as to what he terms a possible settlement procedure. That is, after the case is concluded, what you going to do down here to see that it's been handled properly?

He prepared one memorandum on the subject which I went over, and we discussed it at great length, and as a result of our conference he prepared a different plan here which it is my understanding he had gone over with the Commissioner and the Commissioner thinks it's satisfactory. It seems satisfactory to me. Now, I'm perfectly willing to sign it or ....

H.W.Jr: Has Hanes had time to study it?

Magill: No, I don't think Hanes has had it.

H.W.Jr: well, don't crowd him. Give him 24 hours. Give him time.

Magill: It's your (Hanes) baby.

H.W.Jr: But I don't want to decentralize and immediately ....

Belvering: The boys here will have nothing to do with the settlement. The only thing is, if they're proceeding along with an interpretation of the statute that isn't in accord with our interpretation here, we're going to advise them, and in any case after that let them follow our interpretation.

Magill: Yes. It's the same fear that you have expressed that led me to make various suggestions to Graves as to the first suggested memorandum. I thought that went rather too far, and I think this one is all right.

H.W.Jr: well, let Hanes take a look and let him take all the time he wants. No hurry about this.

Magill: No hurry.

H.W.Jr: What else you got?

Magill: I think that's all as far as this program is concerned.

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- H.M.Jr: Well, if you two gentlemen, unless you got something - have you, Harold?
- Graves: Well, I was going to ask you this. I had planned before our conference this morning to go out to the field with Mr. Marrs and Mr. Kirk of Mr. Helvering's office, to be gone the remainder of this month.
- H.M.Jr: Well, you better wait to see what happens in California.
- Graves: I was going there.
- H.M.Jr: You were going there?
- Graves: I was going there, to be there next Monday - on the Coast.
- H.M.Jr: Where will you be Monday?
- Graves: Be either in Seattle or Portland Monday, within 24 hours of San Francisco.
- H.M.Jr: That's all right. Keep in touch. Before you go, will you talk to Hanes?
- Graves: I hadn't.
- H.M.Jr: I don't think you better leave this week. I want you to stick around. I want him (Hanes) familiar thoroughly with this thing. And when Mr. Hanes is ready - I thought he'd picked up this stuff; he evidently hasn't had the opportunity.
- Magill: That's probably my fault for not showing him that.
- H.M.Jr: So you (Graves) don't go out yet, because Hanes may think it's fine, may think it's terrible. I want him to have a chance to know, because I can't follow it.
- Graves: I'll certainly clear it with Mr. Hanes.
- H.M.Jr: So you better stick around and when he's got time you better tell him what you're doing, what it's all about.
- Magill: As a matter of fact, we were going to have a conference, Mr. Hanes and Mr. Graves and I, on it tomorrow.
- H.M.Jr: Well, you better take the time.



## TREASURY DEPARTMENT

WASHINGTON

August 31, 1938.

MEMORANDUM FOR THE SECRETARY:

In accordance with your request yesterday, I have gone over with Mr. Graves the matter of completing the decentralization of the tax-settlement work of the Bureau of Internal Revenue along the lines of the experimental installation made under your instructions at Los Angeles effective March 1.

Three field divisions have now been established, as follows:

Division:	Area	Personnel assigned	Proportion of total business	Date established
Pacific	California, Oregon, Washington, Idaho, Montana, Utah, Nevada, Arizona, Alaska, Hawaii	73	14%	July 1, 1938
New York	New York State	106	21%	Aug. 1, 1938
Chicago	Illinois, Indiana, Wisconsin	68	11%	Sept. 1, 1938
	Total	247	46%	

The Pacific Division has complete jurisdiction of all contested cases after protest against the decision of the internal revenue agent in charge. The New York and Chicago Divisions have jurisdiction only of cases appealed to the Board of Tax Appeals. They will assume complete jurisdiction on January 1, 1939.

Mem. for the Secretary--2.

Nothing has developed in the operations under the new system to alter my original opinion that the plan is a sound one, and greatly superior to the old arrangement. Those who are responsible for the work on the Pacific Coast and in New York are confident that it will (1) expedite the closing of cases; (2) be more convenient and less expensive to taxpayers; (3) lose no revenue justly due the Government; and (4) add nothing to administrative costs. I concur in these conclusions.

The plan has been well received by the public and has been widely and favorably commented upon as a forward step in tax administration. I believe that we are warranted in proceeding with the installation of the system in the remaining sections of the country as rapidly as the necessary arrangements can be made. As I have said, the New York and Chicago Divisions will assume complete jurisdiction over cases in their respective territories on January 1, next, and Mr. Graves advises me that, if a decision is reached promptly, it would be entirely practicable, from an administrative point of view, to begin the establishment of the necessary additional divisions at that time, and complete the program by June 30. I hope that this can be done.

Mr. Graves has supplied me with a schedule showing the additional divisions which would be necessary, the relative amount of business falling in each one, the approximate personnel which would be required, and the date when it would be practicable to set up each division, as follows:

Division	Area	Estimated personnel	Proportion of total business	Date to be established
Cleveland	Michigan, Ohio, Kentucky	56	10%	Jan. 1, 1939
New England	New England States	34	6%	Feb. 1, 1939
Philadelphia	Pennsylvania, New Jersey	66	12%	Mar. 1, 1939
Texas	Texas, Louisiana, Mississippi	35	6%	Apr. 1, 1939
Atlanta	South Carolina, Florida, Georgia, Alabama, Tennessee	25	4%	May 1, 1939

Memo. for the Secretary-3

Division	Area	Estimated personnel	Proportion of total business	Date to be established
Middle Atlantic	Delaware, Maryland, District of Columbia, North Carolina, Virginia, West Virginia	40	7%	May 1, 1939
St. Paul	Iowa, Nebraska, North Dakota, South Dakota, Minnesota	25	4%	June 1, 1939
Kansas City	Arkansas, Oklahoma, Missouri, Kansas, New Mexico, Wyoming, Colorado	30	5%	June 1, 1939
Total		95	16%	

I feel strongly that when these additional field divisions are established they should be given jurisdiction immediately over all contested cases, whether before or after petition to the Board of Tax Appeals, as was done in the case of the Pacific Division.

In view of the importance of an early decision, I would suggest that promptly upon Commissioner Helvering's return we arrange a conference with him for the purpose of discussing the completion of the decentralized plan along the lines proposed.

*Russell Maguire*  
Under Secretary.

*H. W. [unclear]* Sept 13, 1938

*F. P. Helvering* John W. [unclear] [unclear]

PARAPHRASE OF TELEGRAM

From: American Embassy,  
Paris, France.  
To: Secretary of State,  
Washington, D. C.  
Dated: September 13, 1938, 9 a.m.  
Rec'd: September 13, 1938, 7:45 a.m.  
No. 1432.  
Strictly Confidential.

As I attempted to let you know in a discreet manner last evening on the telephone, Bonnet and I had a talk approximately an hour after the termination of Hitler's speech.

Daladier had already had a conversation with Bonnet, and I was assured by the latter that not only he, but Daladier as well, felt that the address was less dangerous than had been expected by them. It was added by Bonnet that his belief was that the door had been left open by Hitler to further negotiations.

Bonnet remarked that the British Ambassador was expected to call on him this morning, and during the call in all probability the Ambassador would tell him the British Government's opinion that it would be impossible for the British to support a refusal to grant a plebiscite on the part of Czechoslovakia. As to the French Government, his intimation was that it would follow the lead of the British in this connection.

END OF SECTION ONE.

## SECTION 2.

Prague has now become the center of attention. It appears to be certain that Benes will be urged by the French and British Governments to make additional concession: in order that the Sudeten's autonomy will be absolute. Should Benes refuse it is not without the bounds of possibility that the sort of statement to which I referred in my 1401, September 6, 6 p.m., might be conducted by Runciman recommending either the most complete autonomy possible for the Sudetens and other national minorities of Czechoslovakia or even a plebiscite.

From all discussions of this problem at the moment emerges the fact that neither the French nor the British Governments believe that in the end it would be possible to keep under Czechoslovakia's sovereignty the Sudeten Germans. Consequently, there will be made every effort to persuade the Czechoslovaks to allow the Sudetens to go their own way, preferably by way of the preliminary condition of complete autonomy.

FS

GRAY

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London

Dated September 13, 1938

Rec'd 9:30 a.m.

Secretary of State,  
Washington.

RUSH

908, September 13, 1 p.m.

FOR TREASURY FROM BUTTERWORTH.

The City's reaction to Hitler's speech is succinctly epitomized by the captions of the editorials in the two London financial dailies: "Nothing changed" and "a breathing space". In particular as regards the dollar and also as regards gold the reaction finds expression in a continuation of the demand but there is for the moment a lessening of the tendency to rush in.

In fact the dollar opened at  $4.81\frac{1}{2}$  offered and the offerings were sufficiently heavy, mainly from Switzerland, to move the rate to  $4.81\frac{3}{4}$ . At that point the future buying came in and the rate returned to its former level with the British control apparently giving some checking support with an increased demand it further moved to  $4.80\frac{1}{2}$ .

A continuation of yesterday's tendency on the part of dealers in gold to close out contracts was responsible  
for

FS 2-No. 908, September 13, 1 p.m. from London

for the comparative smallness of fixing, (205?) bars at 144 shillings 7 pence, a premium of  $\frac{1}{2}$  pence. There was also some holding off in expectation of a lower price. Except for a temporary weakening due to the coming into the market of 100 bars the gold price has been maintained after fixing at 1 penny over the fixing.

KLP

KENNEDY

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: September 13, 1938, noon

NO.: 1434

RUSH

FROM COCHRAN.

At 11 o'clock this morning I went to the Bank of France; the stabilization fund had been holding the rate at 178.31, and up to that hour had yielded only 25,000 pounds. At the Bank my friends do not expect a war, but they do expect that the tense international political situation will continue indefinitely. They are of the opinion that Hitler's speech did not make much of a change in the situation.

I was told in strict confidence that in recent days the Bank of France's note circulation had increased by almost four billion francs, and that there had been an increase in discounts of almost three billion francs. Frenchmen individually have been taking precautions in case of war, although collectively they may not expect war. Reports from banks indicate heavy withdrawals of deposits. Some individuals have exported their francs, while others are hoarding their franc notes because they fear there may be a moratorium. In certain circles advocacy of a moratorium became a hope, and caused the  
Bank

- 2 -

Bank of France to recommend to the Government vigorously against such a step; it is believed that the idea was dropped, and the Government may issue shortly a communique on this point.

END SECTION ONE.

BULLITT.

EA:LWW

PARAPHRASE OF SECTION TWO OF TELEGRAM NO. 1434  
OF SEPTEMBER 13, 1938, noon, FROM THE AMERICAN EMBASSY, PARIS.

The impression that I got from Rueff last week was confirmed by my friend; i.e., that no decision has yet been made by the Government as to how to meet the problem of financing the needs of the Treasury, which will come up in the next few weeks. It is believed by my friend that the Government will resort to drawing on the Bank of France against its credit of 12,000,000,000 francs, which will in turn make more difficult defense of the franc.

Despite French objection to devaluing the franc beyond 179, my contact thinks that even if sterling should improve toward 4.88 the franc would not move back with it. However, under present circumstances and in view of the nervousness at London this morning and the high price of gold at fixing, it would not seem that there is much chance of any significant recovery in sterling. Yesterday in gold and foreign exchange the British stabilization fund lost the equivalent of 17,000,000 dollars. The losses of the British fund last week were around 35,000,000 pounds, and it is believed that the total losses for the period of current pressure will approach 150,000,000 pounds.

END MESSAGE.

BULLITT.

EA:LWW

OFFICE CORRESPONDENCE

DATE September 13, 1938.

CONFIDENTIAL FILES

SUBJECT TELEPHONE CONVERSATION WITH  
BANK OF ENGLAND.

L. W. Knobe

Bolton called me at 10:25 today. He had sold \$22,000,000 so far, \$17,000,000 of which were done in three-quarters of an hour. There had been a veritable stampede for dollars; he had kept going as much as he could but the market at times had been running away from him.

The general interpretation of Hitler's speech was that it was the Germans' policy to disband Czecho-slovakia from within and that judging by the latest reports of uprisings, the killing of a half dozen men and the declaration of martial law, this process had already started.

Paris was perfectly calm and absolutely prepared for war at any moment; she was mobilized in the air, at sea and on land; they seemed definitely to have made up their minds that war was inevitable and that accounted for their calmness.

As regards the exchange and gold market in London, things were becoming more complicated because underwriters were now considering whether they should raise the war risk premium or refuse to underwrite war risk altogether. War risks on land already had been cancelled. All this was, of course, having a very restrictive effect on gold operations with the result that he had to supply the whole of the demand for dollars without being able to ease it some through gold transactions. The offering of gold in the London market which had started yesterday had subsided this morning and little was now being offered.

FEDERAL RESERVE BANK  
OF NEW YORK

177

OFFICE CORRESPONDENCE

DATE September 13, 1938.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

L. W. Kneke

BANK OF ENGLAND.

2

He didn't think there was any particular policy one could follow at the moment; efforts at control were extremely difficult. While speaking to me he had sold another \$3,000,000, thus exceeding the order he had from us.

Bolton asked me to be sure and get in touch with him if anything at all turned up after their closing. This I promised him I would do.

LWK:KW

PARAPHRASE OF TELEGRAM

~~Handwritten mark~~

FROM LONDON

910, September 13, 3 p.m.

STRICTLY CONFIDENTIAL - FOR THE SECRETARY OF STATE

I have just seen Sir Samuel Hoare and inquired as to what his reaction was to the Hitler speech. His answer was that in the opinion of the Foreign Office there had been no improvement at all in conditions and that the meaning of the speech was absolutely nothing with the exception that the trouble continued to be present. According to him, the Prime Minister, Lord Halifax, Sir John Simon and he believed that the situation was more hopeful subject to the provision that real trouble was not generated by the local disturbances, more hopeful particularly on account of the reference made by Hitler to France and to the Anglo-German Naval Treaty and for the reason that there was not the building up for a war that would appear necessary for him to effect. It seems to me, however, that they are revolving in their minds and asking themselves on the supposition that no war occurs now, how much improvement is there in the whole situation and what is the next step from here.

It was said by Hoare that of course if the storm is weathered by them he thinks that the Prime Minister will quickly move with Hitler to determine what it is possible to do on a permanent basis.

-2-

He remarked there are now apparent (?) increased espionage activities, especially along the waterfront and likewise on the part of German ships the movement to concentrate for their needs should war break out.

Everyone in this group always calls Hitler the madman when they refer to him.

KENNEDY

Eu:JGP:RI

PS

GRAY

Praha

Dated September 13, 1938

Rec'd 1:15 p.m.

Secretary of State,  
Washington.

186, September 13, 4 p.m.

The immediate reaction to Hitler's speech was one of relief in that he did not make any specific declaration for a plebiscite for direct action nor did he refer to the Government proposals. On second reflection, however, his statement was credited with cleverness in putting Czechs in the difficult position of choosing consequences from taking strong measures against unquestionable outbreak of incidents with resulting accusations that Government is using "terroristic" and "brutal" methods or of facing condemnation for not keeping order if incidents are not firmly suppressed. People in the city last night assumed a resigned attitude and while a feeling of gloom was evident each individual seemed prepared to make any sacrifice required for the defense of the country. Some satisfaction was gained from the fact that Hitler indicated that his fortifications were not yet complete and from his admission that Germany was confronted by the hostility of the democratic bloc

of

FS 2-No. 186, September 13, 4 p.m. from Praha

of countries and therefore that war could not come at the moment from the outside in. Hope is expressed here that England may now step forward and as the leader of the European democracies show some form of indignation against the portentous sections of the speech. Indignation was naturally aroused here over abusive treatment of President Benes but it was felt sure the accusations were so outrageous that the lie would be automatically sent back in the face of the maker. Anyone listening to Hitler's speech in the light of the temper of the Sudeten people could not avoid the feeling that he was assuming the awful responsibility of inciting that people to violence with all its possible consequences. The outbreaks that occurred during the night and this morning are therefore not surprising. Serious incidents occurred at Eger and Aussig where several Sudetens and at least one Czech were killed, and serious injuries to Czechs are reported from other areas. Government has not definitely decided on measures to be taken other than those reported in my telegram 185, September 13, 1 p.m., but apprehension of war commencing from inside out are apparently planning maximum civil measures as a start hoping to avert as long as possible resort to military steps.

CARR

GW:KLP

JR

PLAIN

London

Dated September 13, 1938

Rec'd 2:32 p.m.

Secretary of State,  
Washington.

RUSH.

914, September 13, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

With the receipt of fuller reports about the Czech-Sudeten incidents the city grew increasingly apprehensive this afternoon and for example war loan went below par.

The demand for dollars was extraordinarily large and the rate was only held at around 4.80 1/4 by means of official intervention. Gold rose to 1448.9 1/2D., dealings were large with some continental hoarders, who have been scared by rumors that the British authorities might commandeer hoarded foreign gold, supplying about half the demand.

At a meeting of Lloyds this afternoon underwriters decided: (1) that they would issue no more blanket war risk cover; (2) that they would until further notice issue specific war risk cover provided the name of the steamer sailing within seven days was given; (3) that they would hold another meeting on Thursday. It is generally

-2- #914, September 13, 6 p.m., from London.

generally considered that if the political situation is any more ominous at that time they will then give notice of the termination of existing blanket coverage which on the present contracts requires 48 hours prior notification. In such a contingency private arbitraging would cease.

KENNEDY

KLP

September 13, 1938.  
4:22 p.m.

Admiral Leahy: Speaking.

H.M.Jr: Yes, Admiral.

L: I issued orders to the Nashville to go up to Gravesend, and I asked the State Department to get the diplomatic permission, and I've just had a telephone message that they're having some difficulty getting it. Well now, the ship is at Portland.

H.M.Jr: Yes.

L: Which is some hours distance from London, and I propose, if you agree, to tell the Portland to remain - to tell the Nashville to remain at Portland until she receives further orders. I imagine the State Department will eventually succeed in getting the permission.

H.M.Jr: Yes. That's rather peculiar, isn't it?

L: Well, it's funny. I don't know what's the matter with them. I couldn't find out. I called over there, but couldn't get anybody - after I got the news, but they've evidently run into some kind of a jam. Evidently the British, who said that they weren't - didn't want the ship there, or something, I don't know.

H.M.Jr: Well, how far is Portland from London?

L: I don't know in miles, but it's some hours. Probably ten or twelve hours.

H.M.Jr: Uh-huh. How far -

L: The ship is there now getting fuel.

H.M.Jr: Is Southampton any better?

L: Well, I don't think so. You would have to get permission to go to Southampton, you see?

H.M.Jr: Where - where is Portland? I don't know where it is.

L: Well, I think it's just north of the entrance to the Thames, up there somewhere on the coast. I

don't know definitely myself.

H.M.Jr: Uh-huh. But -

L: I think it's about the best we can do at the moment.

H.M.Jr: But you're not going to move her from there?

L: No, what I thought I'd do would be to tell her to remain where she is until she receives further orders and then when the State Department does succeed in getting this permission, if they do, we'll send her to Gravesend.

H.M.Jr: That's all right.

L: And it'll only take a few hours to do it.

H.M.Jr: Is she refueling now?

L: Yes.

H.M.Jr: Oh, they've got fuel oil at Portland?

L: Yes, and they've got plenty of it at Gravesend too, if they'll sell it to us.

H.M.Jr: Uh-huh.

L: So we're in no trouble about fuel.

H.M.Jr: Well thank you so much. You see, I'm counting on her, especially for the next forty eight hours.

L: Well, we're going to have her right near Mr. Secretary, and I think they'll get permission to send it to Gravesend. Of course, I didn't tell them anything about why. I just told them I wanted to send it there.

H.M.Jr: That's right.

L: And they've evidently run into some kind of a jam, which we've never encountered before. It may have something to do with this war scare.

H.M.Jr: Right. Thank you Admiral.

L: You're welcome, sir. Goodbye.

Close SEPT. 13, 1938

		<u>GOLD HELD IN LONDON</u>	<u>GOLD HELD IN AMSTERDAM</u>
Insurance arranged for following ships:		\$116,800,000	\$11,000,000
<u>Sailing</u>	<u>Steamship</u>	<u>Amount</u>	<u>Amount</u>
Sept. 14	Queen Mary	10,000,000	-
Sept. 16	Pres. Harding	10,700,000	-
Sept. 17	Brittanic	11,000,000	-
Sept. 17	Champlain	10,000,000	-
Sept. 17	New Amsterdam	-	11,000,000
Sept. 21	Normandie	11,300,000	-
Sept. 23	Manhattan	11,300,000	-
Sept. 24	Paris	11,000,000	-
Sept. 28	President Roosevelt	10,300,000	-
Sept. 28	Queen Mary	6,000,000	-
Sept. 30	Georgic	6,000,000	-
		<hr/>	<hr/>
		\$97,600,000	\$11,000,000

**CONFIDENTIAL**

B-2  
J M

186A

**WAR DEPARTMENT  
WAR DEPARTMENT GENERAL STAFF  
MILITARY INTELLIGENCE DIVISION 6-8  
WASHINGTON, D. C.**

62/2657-204

*J.M.*

September 14, 1938.

MEMORANDUM NO. 11 FOR THE CHIEF OF STAFF:

Subject: The present European situation to  
midnight, September 13-14, 1938.

The following requested information was received from the  
Military Attache in Berlin, dated 2:49 P.M., September 13:

"Hitler's intentions remain uncertain. The situation is still diplomatic and fluid. It is believed that as yet no decision for military intervention in Czechoslovakia has been reached. Such intervention under one pretext or another is inevitable sooner or later, unless large degree of autonomy or plebiscite is granted by Czechs to the Minority. The German military effort is at present being concentrated on fortifying the French-Belgian frontier and upon the training of reservists. About 600,000 men including 11 active divisions and much civilian labor are working upon the fortifications. From 3 to 5 complete reserve divisions have been called and many additional subordinate units. All troops in eastern Germany seen engaged in normal training with no troop concentrations on Czechoslovak frontier. Eleven divisions are engaged in constructing and manning the fortifications on the western frontier."

Both the political and military contents of this estimate are in accord with the information in this Division as previously reported.

The Military Attache in London, in cable dated 1:55 P.M., September 13, reported as follows:

"British General Staff advises that German Army has at least 12 regular and seven reserve divisions, all at war strength of which there are no indications of early employment. (Note: Cablegram does not state where these are.) News reports of mobilization of large number Austrian troops on their northern frontier

**CONFIDENTIAL**

## CONFIDENTIAL

definitely incorrect. It is British opinion that Hitler speech yesterday made no change in existing situation."

The British estimate of the number of German divisions in being at war strength includes only those along the western frontier. The total of German divisions in being and approximately at war strength (including those on the western frontier) is estimated at 44 regular and 6 reserve. An additional 30 divisions are available for immediate mobilization. It is doubted if these latter divisions are completely supplied with heavy armament, and if complete artillery and transportation exists for the corps and army auxiliaries.

In France, the press reports some additional precautionary measures, such as the stoppage of export of certain raw materials of military value, and the distribution of sand to the populace for extinguishing fire in the event of air bombardment. Decrees are appearing daily providing for the execution of various measures related to mobilization, particularly industrial mobilization. The issue of these decrees is in accordance with the new law for the "Organization of the Nation in Time of War," of July 11, 1938, which required such action within three months of its passage. They are therefore of a routine nature and, although probably expedited by the present situation, should not be considered as having originated as a result of the immediate crisis.

From the latest State Department reports it becomes clearer that the situation is considered critical in all the European capitals and that responsible statesmen are gradually coming to the conclusion that only the concession by Czechoslovakia of a plebiscite will eliminate the possibility of some abrupt action by Hitler. The situation in the Sudeten area, however, is extremely tense and violent disorders more frequent. Unless an early agreement for a plebiscite can be arranged it may be too late, even for this peaceful solution. The Czech Government has recalled the "same reservists" which were mobilized in May of this year.

Conclusions: Despite the precautionary measures and the "active vigilance" everywhere, mobilization, strictly speaking, has not yet been resorted to in any country.

Regardless of the ultimate status of the Sudeten area, all responsible heads in Europe are clearly trying to exhaust every means to prevent the issue from precipitating a general war. No nation seems to be ready for war at this time.

While the British and French statesmen are belatedly pressing for radical concessions by Czechoslovakia, the danger of widespread disorders in the Sudeten area threatens to build up Czech resistance and in turn precipitate sudden and forceful intervention by Germany.

## CONFIDENTIAL

458

*Mr. [unclear]  
En files*

187

EG

GRAY

Praha

Dated September 14, 1938

Rec'd 9:40 a.m.

Secretary of State,  
Washington.

187, September 14, noon.

The situation is critical. The first reaction of the Sudetens to the proclamation of a state of emergency and martial law in eight districts was a declaration that the eight Carlsbad points would no longer be sufficient and only a plebiscite would satisfy them. The leaders left yesterday presumably for Eger and last evening sent Hodza an ultimatum to be answered in six hours demanding cancellation of martial law, withdrawal of state police from German districts, reduction of functions of gendarmes, and putting into barracks of all troops in Sudeten area. The cabinet sat with Benes until 11:30 but no answer was made to Sudetens beyond Hodza's statement to Frank that they should come to Praha and confer. He received no reply. Two. Members of Runciman mission reported to have gone to Eger last night to confer with Henlein. This morning reserves were called out as on May 21. Report of Military Attache follows.

Czech

-2- #187, September 14, noon, from Praha

Czech residents reported to be leaving disturbed parts of Sudeten area although it is claimed no further incidents have occurred in districts under martial law.

Statistical Congress adjourned and American delegation except Lawson leaving Praha today.

CARR

RR

FS

GRAY

London

Dated September 14, 1938

Rec'd 12:16 p.m.

Secretary of State,  
Washington.

924, September 14, 5 p.m.

In the course of a conversation at the British Treasury today reference was made to the information supplied by the Export Credit Guarantees Department reported in No. 840, August 30, 7 p.m. The British Treasury stated that the situation had not been materially advanced and seemed pessimistic about the possibility of effecting any substantial arrangement for the reason that "the Chinese did not really want British goods but munitions and even if they had any security to offer, the Export Credit Guarantees Department was not by statute able to deal in armaments."

KLP

KENNEDY

0-4412-10

SEP 14

RECEIVED

U.S. DEPARTMENT OF STATE

*Lockhead  
White*

190

*House*



DEPARTMENT OF STATE  
WASHINGTON

*[Handwritten signature]*

September 14, 1938.

My dear Mr. Secretary:

I enclose for your confidential information a copy of paraphrase of telegram of September 14, 1938, from the American Consulate General, Buenos Aires, transmitting a report from Mr. Pierson of the Export-Import Bank, who is in Argentina at the present time.

Sincerely yours,

*Herbert Feis*

Herbert Feis,  
Adviser on International  
Economic Affairs.

Enclosure:

Paraphrase, telegram of  
September 14 from Con-  
sulate General, Buenos  
Aires.

The Honorable

Henry Morgenthau, Jr.,  
Secretary of the Treasury.

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate General, Buenos Aires, Argentina

DATE: September 14, 1938, 10 a.m.

The following is reported for the confidential information of the Department:

The Financial Attaché of the Argentine Government - Irigoyen - called on Mr. Pierson this morning. After he had made inquiries about the facilities of the Export-Import Bank, he said that his people were much concerned about the exchange problem. However, it was his own opinion that the situation could be eased if arrangements could be made for foreign medium-term credit accommodations giving the Argentine Government four or five years with which to meet demands for foreign exchange, thus making it possible to spread the benefits of good crop years over bad seasons. We have not yet found out whether he means something very general, or merely a long-term bilateral balancing plan. Irigoyen said that they had not yet worked out the details, but it is his intention to talk the matter over with his friends in the office handling exchange control. Irigoyen was informed by Mr. Pierson that he did not have authority to make such arrangements ,

- 2 -

arrangements, as the Export-Import Bank wants to avoid making loans in anticipation of actual<sup>business</sup>/. However, Mr. Pierson said that he thought the present was an especially good time for initiating purchases in the United States, and that he would give due consideration to the suggestion.

Mr. Pierson has been contacted by the local representatives of the American Locomotive Company, the Pullman Standard Car Export Corporation, and the American Car and Foundry Company. They have informed Mr. Pierson that the Argentine State Railways are in the market for immediate delivery of 900 all-steel freight cars, which is about \$2,000,000 worth of business. These representatives believe that if credit for a period of up to 36 months can be given, this business can be obtained for American manufacturers. The Export-Import Bank would not be called on to advance more than half, Mr. Pierson understands; also, the security would be in the form of a contract rather than in notes.

The local representative of Combustion Engineering  
Company

- 3 -

Company also called on Mr. Pierson. This representative stated that if two-year credit terms can be arranged, his Company expects to obtain several moderate-size orders.

Monnett B. Davis,  
American Consul General.

## PARAPHRASE OF TELEGRAM

FROM PARIS

1454, September 14, 1 p.m.

STRICTLY CONFIDENTIAL - FOR THE SECRETARY  
SECTION 1, PART 1.

Deladier telephoned to Chamberlain yesterday as I reported to you last night by telephone, and suggested that the French and British Governments should despatch an invitation to the Government of Germany to meet together at once in a conference with a view to working out a solution of the Sudetan trouble. Chamberlain's French is not good and he had difficulty in comprehending so that finally the message was sent by means of the British Ambassador in Paris.

I had a conversation with the British Ambassador this morning and he remarked that in his opinion it was not a happy suggestion. There was an inclination on the part of his Government in London to doubt that such an invitation would be accepted by the Germans. If Italy should also be invited, German acceptance might possibly be obtained.

The telegrams which had been received from Prague this morning by the British Ambassador were then read to me. One vitally important telegram which must be held strictly confidential came from Lord Runciman. As you have been informed by me, for some time the French have

-2-

been doing everything in their power in an effort to persuade Lord Runciman to issue an important statement. Yesterday this was urged with intensity by Benes. This morning's reply from Runciman declares that in his opinion it will not be possible for any pronouncement to be made by him as long as there continues to be disorder in the Sudeten parts of Czechoslovakia. It is felt by him that the statement prepared by him would not serve the purpose of calming the Sudetens although it might constitute a basis of agreement in the event that previously there should have been established in the Sudeten regions calm. The suggestion was ventured by me to the British Ambassador that it seemed as though Runciman were putting the cart before the horse as there seemed to me to be no possibility of a restoration of calm in the Sudeten area except as the result of a pronouncement by Runciman in definite terms. It was said by the British Ambassador that it was also feared by him that there would continue to be incidents in the Sudeten area until Hitler would be obliged to cross the boundary but that Runciman was present on the spot and that his judgment would have to be accepted by the British Government.

BULLITT

Eu:JGP:RI

## SECTION 2 PART 2

There was great apprehension on the part of Bonnet that today further incidents would occur in the Sudeten districts. The opinion was again expressed by him that for Runciman to put off his pronouncement longer was absolute folly. In his opinion a pronouncement by Runciman was the sole thing which could calm the Sudetens and that if there should be delay by Runciman longer than today or tomorrow the Sudetens were likely to become quite beyond control and there would be a large number of them shot by the Czechs with the result that Hitler would march in. He declared that today he would go on urging the British to have Runciman speak immediately.

In connection with Deladier's proposal originally telephoned by him to Chamberlain it was said by Bonnet that although it had not yet been accepted by the British the idea had been received by them with favor and the British had told him that their thoughts were along similar lines. Naturally I did not make any reference to my talk with the British Ambassador but in my opinion it appeared possible in the light of this statement by Bonnet that there might be a proposal by the British for a four-Power conference of Italy, France, Germany and England.

## PART 3.

My comment was that it had seemed to me for some time that this opinion was shared by Benes.

The answer of the British Ambassador was that the matter was a question of degree. Since yesterday he felt that the French had greatly weakened in their support of the Czechoslovaks and at the present time they were prepared for peace at almost any price.

During the past several days it is true that the French press has published numerous maps indicating divisions on a racial basis in Czechoslovakia and that there has been developed in public opinion the point of view "why should all French youth be annihilated and the continent of Europe destroyed for the purpose of maintaining the domination of seven million Czechoslovaks over three million two hundred thousand Germans." However, I am sure that there must be added to the phrase used by the British Ambassador the words "except at the cost of honour."

If the Czech boundary is crossed by German soldiers except as the consequence of most outrageous provocation on the part of <sup>the</sup> Czechoslovaks war will unquestionably be declared on Germany by France. (End of Section 1.)

## PARAPHRASE OF TELEGRAM

From: Paris

Date: September 14, 1 p.m.

Ambassador Bullitt discussed the German situation with Bonnet this morning. While they were talking Daladier telephoned Bonnet to let him know that the Czechs, without informing the French Government in any way, had ordered the mobilization of a number of motorized divisions on the German border. Daladier remarked that this was very serious and Bonnet answered that it was outrageous for the Czechs at a time when everything depended on keeping the Sudetens calm and not provoking the Germans, and at a time when the Sudetens were calling for the withdrawal of additional Czech troops, should send new divisions into the Sudeten area without previously consulting the French Government. Bonnet continued by saying that he thought the Czechs were not playing the game and he felt that they had failed so frequently to play the game with France that the French would be justified in washing their hands of their obligations. The one issue which at the present moment would force France to attack Germany would be in the event that Hitler should send his troops across the border. A European war would not be produced by anything else.

End of Section 1. Later sections not yet received.

EG  
 This message must be  
 closely paraphrased be-  
 fore being communicated  
 to anyone. (Br)

Paris  
 Dated September 14, 1938  
 Rec'd 2:15 p.m.

Secretary of State,  
 Washington.

1456, September 14, 4 p.m.

The remarkable feature of this morning's press  
 comment is that more newspapers seem to be coming  
 around to the idea that further concessions on the  
 part of Praha and even a plebiscite should be offered.  
 The important MATIN frankly espouses a plebiscite and  
 says that France cannot "reject one of the principles  
 of her history: the right of peoples to self-determina-  
 tion".

FIGARO does not go this far but it does recall  
 that a similar problem between Turkey and Greece was  
 settled by an exchange of populations.

PETIT JOURNAL says that the time has come for  
 France by diplomatic action to clarify the issues and  
 to substitute equilibrium and reason for chaos.  
 JOUR-ECHO is of the opinion that "the days to  
 come will impose greater sacrifices on Praha" and  
 continues to urge a "Czechoslovak Switzerland" as  
 originally planned in 1919.

OEUVRE

-2- #1456, September 14, 4 p.m. from Paris

OEUVRE also supports this idea.

Other newspapers suggest that Lord Runciman has now been long enough in Czechoslovakia to come forth with a proposal.

BULLITT

CSB

JR

PLAIN

London

Dated September 14, 1938

Rec'd 2:30 p.m.

Secretary of State,  
Washington.

9:30, September 14, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

The City's state of mind and nerves can be judged by the fact that British Government  $3\frac{1}{2}$  per cent war loan bonds went from par to as low as 96. The turnover was large. They closed at  $97\frac{1}{2}$ , the rally occurring in the afternoon on rumors that the Sudetens were prepared to resume negotiations. British equities were also weak and the turnover was larger than in recent days.

The demand for dollars has again been extraordinarily large. The dollar opened at  $4.79\frac{3}{4}$  bid with the British authorities giving support. As the pressure increased the rate was moved to  $4.78\frac{1}{8}$  at which point further official support was forthcoming. Rumors from Paris and Praha caused a temporary reaction to  $4.80\frac{3}{8}$  but pressure reasserted itself and the rate moved back to  $4.79\frac{3}{16}$ . 479 bars were sold at fixing at 144S. 11D. A  $\frac{1}{2}$ D. discount and a substantial part had to be

absorbed

-2- #930, September 14, 6 p.m., from London.

absorbed by the British fund.

At a meeting of the underwriters at Lloyds today it was decided to discontinue quoting war-risk coverage to brokers. As reported in the last paragraph of my 914, September 13, 6 p.m., a further meeting will be held tomorrow to consider the question of existing blanket war-risk contracts.

KENNEDY

KLP

LMS

GRAY

Praha

Dated September 14, 1938

Rec'd 3:06 p. m.

Secretary of State,  
Washington.

190, September 14, 6 p. m.

Day marked by great activity in government, military and civil circles. Feeling tense but not hopeless. Specialists being called to army service in some numbers especially into aircraft and artillery. One class believed called colors but authorities declare only to preserve order. Mobilization denied. Trucks and chauffeurs being commandeered; citizens buying great quantities of food, fats, butter and salt reported practically sold out.

No truth in rumor reported from Vienna that American major shot.

CARR

CSB

CORRESPONDENCE

September 14, 1938.

CONFIDENTIAL FILES

TELEPHONE CONVERSATION WITH

L. W. Knake

BANK OF ENGLAND.

I called Bolton at 9:30 this morning. I told him that I tried to reach him on the telephone shortly after 5 o'clock last night but I couldn't get through on account of static. I had wanted to tell him of our operations here in the market which had exceeded £3,000,000 for the whole day and that we had felt it inadvisable to let the rate go below 4.80. "I think you did very good work," Bolton replied. This morning they had had much of a repetition of what had happened yesterday; they had sold over \$20,000,000 in about an hour and a half in a market in which the news had been very ominous. The Government had warned the public over the radio late yesterday that it might expect very serious developments. As a result everybody this morning realized that the situation was extremely grave and the result had been the usual scramble for dollars; also a tendency to sell gold. Of the latter he had bought £750,000 worth at fixing but he had done nothing since. The morning had dragged along in a very panicky atmosphere with extreme pessimism prevailing in most European centers. However, he had telephoned Prague at noontime and had been told by people at the National Bank that they understood that the situation had completely changed: Henlein, it was reported, had been given instructions to negotiate with Benes and to obtain the best proposals possible. The belief also prevailed that the Germans had decided not to intervene. Simultaneously,

CORRESPONDENCE

DATE September 14, 1936.

CONFIDENTIAL FILES

REFERENCE TELEPHONE CONVERSATION WITH

L. W. Knoke

BANK OF ENGLAND.

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Bolton said, he had heard in Paris from what he called "very authentic sources" that the French Cabinet had split over the question of intervention in case Germany intervenes and that the majority was against such intervention. All this was, of course, talk without any official confirmation. But the market had reacted to it and the dollar had gone to 4.80 1/4 after touching 4.79 1/4. He had done nothing to stop this movement because they would like to see sterling with a firmer tendency.

As to the rest of today, Bolton seemed to think that they could get through without further difficulties. Only a small amount of gold was on offer and operations in dollars were small because nobody seemed willing to sell. At the moment sterling seemed to look a little firmer and he didn't propose to interfere with that tendency yet.

There was no more news of the intention of Lloyds underwriters; but a meeting had been called for tomorrow afternoon and there would be an open discussion among the underwriters. There were now three possibilities: (1) the war risk premium would be raised, (2) Lloyds would refuse to write any war risk insurance and (3) the market would be thrown open and interested parties would be asked to make the best bid for such war risk insurance as they wanted. The latter would, of course, in all probability, make for very small commercial transactions. I suggested that

FEDERAL RESERVE BANK  
OF NEW YORK

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RE CORRESPONDENCE

DATE September 14, 1928.

CONFIDENTIAL FILES

SUBJECT TELEPHONE CONVERSATION WITH  
BANK OF ENGLAND.

L. W. Knoke

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if the insurance premium should be raised it would probably be logical for us, accordingly, to lower our gold price of 34.77. He had discussed this matter with the Deputy Governor, Bolton replied, and if they got any news one way or the other they would let me know as, naturally, he wanted us to be completely up-to-date in matters of this sort.

Speaking about the general political situation, Bolton made this interesting comment: that many people seem to feel that the British would have to resist the National Socialists one of these days but that the present might not be the best time and the present grounds not good enough.

LWK:EW

EG

GRAY

London

Dated September 14, 1938

Rec'd 2:40 p.m.

Secretary of State,  
Washington.

927, September 14, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

One. Le Norcy acting French financial attache called apparently to ascertain if I had any information regarding what financial actions Great Britain might take if involved in war. I professed no official knowledge and replied to the effect that although the experts all prophesied that modern war would be on a so-called totalitarian basis, involving the most rigorous control of all phases of life behind the lines, nevertheless the British instinct might well take the form of making a show at least at the beginning of imposing as few drastic financial controls as possible. Le Norcy said that if France should go to war they would re-establish the same complete regulatory war measures which were in force during the last war and in which case France's current fiscal difficulties would for the time being disappear. He went on to say that the atmosphere

-2- #927, September 14, 6 p.m. from London

atmosphere of crisis which now prevailed had already served to cast into the background the financial difficulties under which France had been laboring and he cited the decrease in the pressure on the franc in recent days.

Asked about the current fiscal situation Le Norcy tacitly admitted that the Treasury was in need of funds (paragraph 3, No. 890, September 9, 7 p.m.) and implied that recourse might be had to the Bank of France. He added that if the international situation improved he hoped for a similar improvement in France; that there was no reason why France had to have a balanced budget in the sense of an equilibrium between revenue and expenditure but it was necessary and possible to have a budget in which the ordinary requirements were met out of revenue and the extraordinary requirements were met by borrowing but at a rate not in excess of the national savings after making reasonable allowance for the new capital requirements of trade and industry.

Two. Le Norcy referred to the forward franc suggestion and expressed great appreciation that it had been made and regret that it could not be made use of. He said that

in

-3- #927, September 14, 6 p.m. from London

in point of fact it has been "more than helpful" and had borne fruit in that it had served to make the British consider more sympathetically the difficulties facing France and perhaps to think about the possibility of strengthening the Tripartite Agreement.

KENNEDY

CSB

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE September 14, 1928.

CONFIDENTIAL FILES

SUBJECT TELEPHONE CONVERSATION WITHL. W. KnokeBANK OF FRANCE.

Mr. Cariguel called at noontime today. It was rather quiet in Paris, he said. He had recently had to support francs to the tune of only about £800,000 daily and seemed to be fairly well satisfied with the situation as far as that currency is concerned.

He then referred to our letter of terms and conditions to which he had promised me a reply the day before I left Paris and explained that before his holiday was over he had been called back to the office and simply hadn't had time to make good on his promise. He was, however, happy to say that the bank's reply had now been signed by the Governor and was mailed today. He asked that I convey his apologies to Mr. Harrison for the heavy delay.

I asked him what his thoughts were on the political situation on the continent; did he think we were on the brink of war? He replied that practically none of them had thought so even last night and weren't thinking so today. He was particularly encouraged, he said, by the fact that although the Sudeten Germans' ultimatum had expired last night nothing had happened since.

I explained that I hadn't called him for quite a few days now simply because the franc seemed to be behaving well in the midst of all this tumult.

LWK:KW

JR

GRAY

London

Dated September 14, 1938

Rec'd 3:55 p.m.

Secretary of State,  
Washington.

929, September 14, 7 p.m.

STRICTLY CONFIDENTIAL.

Lloyds today decided to withdraw all rates for war risk insurance. These rates heretofore have been set by a War Risk Committee. All rates have now been withdrawn which means that brokers will have to use their own judgment if they care to write this form of insurance. The whole situation will be gone into at a special meeting of the Governing Committee to be held tomorrow at eleven a.m.

Stanley James Aubrey, Chairman of Lloyds, says confidentially:

"The international situation has been steadily deteriorating, in my opinion. The present situation is believed to be very, very grave but not without hope. I should regard the chances of war as about a toss-up."

Mr. Aubrey, it will be seen, is inclined to lean to the pessimistic side of this ratio if anything,

believing

-2- #929, September 14, 7 p.m., from London.

believing that the chance of war is slightly greater than the chance of peace.

Several courses of action could be taken at tomorrow's meeting: One, Lloyds could refuse to set rates for war risk insurance, leaving the matter to the discretion of the individual brokers; two, rates could be increased; three, they could refuse to handle war risk. It is believed that either course one or course two will be adopted. A drastic increase in rates would indicate that Lloyds is pessimistic about the prospects peace.

KENNEDY

RGC:NPL

JR

GRAY

London

Dated September 14, 1938

Rec'd 4:14 p.m.

Secretary of State,  
Washington.

922, September 14, 5 p.m.

FOR THE SECRETARY OF THE TREASURY FROM BUTTERWORTH.  
STRICTLY CONFIDENTIAL.

In a conversation at the British Treasury Waley characterized the outlook as gloomy: there might be an immediate crisis or if not, some difficult weeks during which there would be interspersed days of critical tension. In his opinion Hitler had not wished to commit himself irrevocably in his speech but the movement of events had made evident the danger point, namely, that if civil strife broke out in the Sudeten land Germany was now committed to intervention. He went on to say that Great Britain was already moving gradually towards a war economy in the sense that British business and financial interests were closing out commitments and in general proceeding on the basis that war was a definite possibility.

I

-2- #922, September 14, 5 p.m., from London.

I then referred to a casual remark which he had made months ago to the effect that "business as usual" would be the proper aim in formulating British financial measures to be taken immediately prior to time of the outset of a war and in this connection I also referred to the situation which occurred in 1914 when due to the closing of the banks in the United Kingdom Americans with insufficient English currency were unable to cash their dollar or pound (sterling) letters of credit, et cetera, and were temporarily left destitute and that eventually gold had had to be shipped on an American warship to this country. Waley said that the British monetary authorities were now actively considering procedural measures and that complete plans had not yet been formulated but that they did not expect to close financial institutions or to proclaim a general moratorium upon the outbreak of a war involving Great Britain. Therefore there was no likelihood of a repetition of the situation mentioned above. He went on to say that they had not yet decided whether a complete control system along the lines of the German system would be necessary, that in reality there were two schools of thought about the matter

-5- #922, September 14, 5 p.m., from London.

matter within the Treasury, and the fact that the British business and financial communities were moving in the direction of a war economy would make the situation more manageable. He ironically remarked that "this time there would surely be no question of gold flowing eastward across the Atlantic" and he went on to say that the pound dollar rate was in every sense America's "baby" inasmuch as it depended in essence upon America's willingness to absorb gold. He added that if a war should come it might well be possible to limit the amount of control imposed here provided the dollar sterling rate was at a level which seemed not unreasonable in the circumstances; if the pound (sterling) were held at an arbitrarily high rate it could only be maintained by a schachtian system (in this connection please see the last paragraph of my 825, August 26, 6 p.m.). To obtain his reaction I recalled the fact that upon the outbreak of war in 1914 the pound had at first appreciated decidedly in terms of the dollar for technical reasons and Waley rightly pointed out that due to the decline in the number of sterling bills in circulation little or no reaction such as occurred in 1914 was to be expected. Waley also said that he did not expect upon the

outbreak

-4- #922, September 14, 5 p.m., from London.

outbreak of a war that British nationals would want to fly from the pound and of course, as in the last war, their holdings of foreign securities would have to be acquired. In this connection he touched on the difficulty of disposing of any stubborn securities abroad under at best thin market conditions.

In conclusion Waley volunteered that among other things which were being considered by the British monetary authorities was whether and to what point the Dominions and France would be apprised of the financial arrangements to be put into effect in the contingency of war.

Despite the fact that the above conversation had to do with the contingency of war and that Waley was gloomy, he did not however convey the impression that he considered that as far as England was concerned the diplomatic game had yet been played out.

KENNEDY

CSB

FEDERAL RESERVE BANK  
OF NEW YORKOFFICE CORRESPONDENCE  
CONFIDENTIAL FILES

DATE September 14, 1938

SUBJECT:

J. W. McKeon

Mr. Knoke called Mr. Bolton at his home at five-thirty this afternoon and gave him the following resume of foreign exchanges for the day:

After mid-day, substantial blocks of sterling were offered in our market, selling down to 4.79 1/8 and continued offered until about three o'clock. Up to that time, we had purchased 1,280,000 pounds. Buying orders from the Continent appeared in the market on rumors of Chamberlain's proposed trip to visit Hitler at Berchtesgaden. Sterling immediately firmed up. We then stepped into the market and slowly sold about 190,000 pounds around 4.80 5/8, closing the market firm at 4.81 bid with buying orders for large blocks of sterling unexecuted.

"That is the best news I have had today," Bolton said. "Perhaps people may think Chamberlain's trip undignified," but Mr. Knoke flashed back, "Quite to the contrary, courageous, I should say."

TREASURY DEPARTMENT  
Washington

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FOR IMMEDIATE RELEASE.  
Wednesday, September 14, 1938.

Press Service  
No. 14-58

Secretary of the Treasury Morgenthau today announced the final subscription and allotment figures with respect to the current offering of 3-1/2 percent Treasury Bonds of 1950-52 and 1-1/8 percent Treasury Notes of Series A-1943.

Subscriptions and allotments were divided among the several Federal Reserve Districts and the Treasury as follows:

3-1/2 PERCENT TREASURY BONDS OF 1950-52

Federal Reserve District	Total Cash Subscriptions Received	Total Cash Subscriptions Allotted	Total Exchange Subscriptions Received (Allotted in full)	Total Subscriptions Allotted
Boston	\$ 459,227,600	\$ 46,801,800	\$ 9,150,800	\$ 55,952,600
New York	2,036,058,700	204,609,100	283,941,200	488,550,300
Philadelphia	287,613,250	30,006,100	6,388,200	36,393,300
Cleveland	269,438,950	28,238,950	3,656,000	31,884,950
Richmond	141,925,250	15,064,250	4,933,800	19,998,050
Atlanta	127,211,100	14,861,450	1,601,000	16,462,450
Chicago	458,847,650	47,635,350	57,788,700	105,424,050
St. Louis	104,021,150	11,876,750	4,662,400	16,539,150
Minneapolis	55,237,700	6,201,500	1,923,500	8,125,000
Kansas City	89,527,750	9,685,850	13,347,600	24,033,450
Dallas	82,253,600	8,904,950	3,372,300	12,277,250
San Francisco	290,254,950	29,469,000	5,115,100	34,584,100
Treasury	82,936,000	8,337,050	358,500	8,695,550
TOTAL	\$4,487,353,650	\$461,661,100	\$397,239,100	\$858,920,200

1-1/8 PERCENT TREASURY NOTES OF SERIES A-1943

Federal Reserve District	Total Cash Subscriptions Received	Total Cash Subscriptions Allotted	Total Exchange Subscriptions Received (Allotted in full)	Total Subscriptions Allotted
Boston	\$ 221,601,200	\$ 24,668,500	\$ 2,055,500	\$ 26,744,000
New York	1,410,911,000	155,866,000	16,312,500	171,868,500
Philadelphia	174,600,600	19,342,500	353,500	19,696,000
Cleveland	196,955,600	21,941,800	1,604,000	23,545,800
Richmond	100,387,800	11,373,100	737,000	12,110,100
Atlanta	90,547,800	12,303,000	195,000	12,498,000
Chicago	351,016,500	39,472,300	3,512,400	42,984,700
St. Louis	86,307,300	9,990,900	520,500	10,519,400
Minneapolis	46,043,000	5,315,700	190,500	5,506,200
Kansas City	70,663,200	8,094,300	660,600	8,754,900
Dallas	59,914,300	6,950,500	60,000	7,010,500
San Francisco	343,629,900	26,922,500	433,500	27,356,000
Treasury	1,267,000	139,200	207,000	346,200
TOTAL	\$3,061,925,200	\$342,090,300	\$ 26,850,000	\$368,940,300

September 14, 1938.  
11:09 a.m.

H.M.Jr: Hello. Hello.

Marshall Diggs: Hello, Mr. Secretary, I understand it's on the ticker they declared their usual dividends.

H.M.Jr: No, I didn't know that.

D: It was just on the ticker, so Mr. Crawley called me.

H.M.Jr: Uh-huh. Well that's interesting

D: It is. So we'll have to make another move now.

H.M.Jr: Uh-huh. Well, I'll tell you what we'll do. We'll have you and - what's your man's name -

D: Mr. Folger. Mr. Kelly Folger.

H.M.Jr: Mr. Folger and I'll get my people. Supposing we come in at eleven thirty.

D: All right, sir.

H.M.Jr: See?

D: Yes, sir.

H.M.Jr: Supposing we have them in here at eleven thirty.

DE Fine, I'll be there.

H.M.Jr: Huh?

D: I'll be there.

H.M.Jr: Righto.

D: Thank you, sir.

September 14, 1938

Admiral Leahy called the Secretary today and was very much disturbed and said he wanted to see the Secretary.

He came over and said that when Secretary Hull discovered that a battleship was to be stationed at Gravesend and held there until further notice, he objected and Admiral Leahy, believing that the information which the Secretary gave him was confidential, did not disclose it to Secretary Hull, which made matters worse. However, HM, Jr telephoned Mr. Hull and attached is a record of their conversation.

(See also conversation of 9/13/38 between HM, Jr and Admiral Leahy)

September 14, 1938.  
12:24 p.m.

H.M.Jr: Hello.

Operator: Secretary Hull coming on.

H.M.Jr: Thank you. Hello.

Cordell  
Hull: Secy: Now, Mr. Secretary, just one moment please, sir.

H.M.Jr: Hello.

S: Just one moment please, Mr. Secretary.

H.M.Jr: Is he there?

S: Yes, sir. We're just getting him.

Cordell  
Hull: Hello.

H.M.Jr: Hello, Cordell?

H: What's going on Henry, today?

H.M.Jr: Oh, everything's lovely, quiet, the birds are singing somewhere, I don't know where.

H: Well, it's a good time to take a nap. Yes.

H.M.Jr: Cordell, I wanted - I'm calling you at the request of Admiral Leahy.

H: Yes.

H.M.Jr: And I wanted you to know that that battleship is being held at my request.

H: Yes.

H.M.Jr: In case of trouble, we have about a hundred and fifty million dollars worth of gold in London.

H: I see.

H.M.Jr: And we've got every ship loaded up that the insurance company would give us insurance on.

H: I see.

- 2 -

H.M.Jr: And I took it up with the President, and I simply felt that in case of war I didn't want to be caught with a hundred to two hundred million dollars worth of gold over there.

H: Yes, exactly.

H.M.Jr: And so that if he has to move, why to move quickly - he's doing it for us.

H: Yes, now that's - that's very interesting.

H.M.Jr: And I -

H: We just didn't know, you know there's certain features that we need to keep in touch with as a part of - of our situation.

H.M.Jr: Right.

H: Since the Navy can sieze all of these wireless stations in case of war and we wouldn't know anything about what they were doing or how they were doing it. In other words we're just trying to coordinate.

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

H: Yes, I'm much obliged.

H.M.Jr: Because, frankly, if this thing gets much heavier -

H: Yes.

H.M.Jr: If we, for instance, run up to over two hundred million -

H: Yes, I see.

H.M.Jr: Then I want to take up the question with the English Government, would they object to our putting some on the battleship right away.

H: Exactly.

H.M.Jr: Because I think they're coming to a point where the responsibility I'm carrying is too great.

H: Yes.

- 3 -

H.M.Jr: On the other hand if we should stop buying gold,  
why sterling would just go to hell.

H: Yes, of course.

H.M.Jr: So that's the situation.

H: Well I thank you very much Henry.

H.M.Jr: Thank you.

H: Thank you.

September 14, 1938.  
4:30 p.m.

Operator: Go ahead.

H.M.Jr: Hello.  
Admiral  
Leahy: Hello Mr. Secretary. This is Admiral Leahy speaking.

H.M.Jr: Talking.

L: I've just been in communication with the State Department and they say it's all right for the ship to go now. They - the jam was because the Secretary of State didn't think it was a good idea.

H.M.Jr: I see.

L: So, I told him it was very important and now - the ship is probably on her way now.

H.M.Jr: Swell.

L: That's fine.

H.M.Jr: Did they tell Mr. Hull why, or ?

L: No, did not, sir.

H.M.Jr: All right. Thank you very much.

L: You're welcome, sir.

H.M.Jr: Goodbye.

L: Goodbye.

September 14, 1938. 225  
2:52 p.m.

C.B.  
Woham: Hello.

H.M.Jr: Hello, Cy?

U: Yes.

H.M.Jr: How is the great traveler?

U: Oh, pretty good. Pretty dirty.

H.M.Jr: Pretty dirty.

U: Yes.

H.M.Jr: Externally only, I hope. (laughs)

U: I hope.

H.M.Jr: What's on your mind?

U: Well, I wondered if you had any orders or instructions?

H.M.Jr: Well, you know they went ahead and declared the dividends?

U: Yes, I'm here with Ted Lockwith in the examiner's office.

H.M.Jr: Yes, and we've asked him to come on tonight.

U: Yes.

H.M.Jr: And what I thought was that - what is today, Wednesday?

U: Yes.

H.M.Jr: I thought I might ask you to stay there another day.

U: Oh, just as long as you want me.

H.M.Jr: And see -

U: I can see that Fair.

- 2 -

H.M.Jr: And - well, I want you to see that. And then see what happens, see? Hello.

U: Yes.

H.M.Jr: Because we haven't heard a thing from Los Angeles, other than what we saw on the ticker.

U: Yes.

H.M.Jr: See? And if something doesn't break, out there, in a day or two, then I'll have you come back, see?

U: Yes.

H.M.Jr: Hello.

U: Yes.

H.M.Jr: And the boys are working here now, and we're not worried particularly, see? So -

U: Francis Hotel.

H.M.Jr: Francis Hotel.

U: St. Francis.

H.M.Jr: St. Francis.

U: Yes.

H.M.Jr: All right. Well now, I tell you what you do - Have a reservation on the plane leaving San Francisco, Thursday night and one Friday night, see? Hello.

U: All right.

H.M.Jr: Make a reservation for Thursday night and Friday night, leaving there at night, see?

U: All right.

H.M.Jr: And then call me up about this time tomorrow, and I can tell you where we're at.

U: All right.

- 3 -

H.M.Jr: I'll know a lot more tomorrow, and keep your shirt on, and make it a clean one.

U: And if there's anything you want me to do, why just -

H.M.Jr: There's nothing now, because right now, in view of what they've done, I don't know if there'll be anything there, but I'm glad to have you and we - do - you call me about this time tomorrow.

U: All right. Thank you.

H.M.Jr: Thank you very much.

U: Goodbye.

H.M.Jr: Goodbye.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: September 14, 1938, 6 p.m.

NO.: 1480

FROM COCHRAN.

At six o'clock I visited the Bank of France, where my friends were satisfied with the comparative calmness of the French people in the present crisis. They also expressed satisfaction with the reaction of the French people to the communique issued yesterday by Minister of Finance Marchandeu. This communique, as anticipated in my telegram No. 1434 of September 13, denied that it was the intention of the French Government to declare a moratorium. 600,000 pounds were lost today by the stabilization fund. Part of this amount was flight capital, but a large part was to pay for Government purchases abroad - and as military preparations increase this latter necessity grows. My friends are more than ever convinced that a solution to prevent a European war will be worked out, despite recurring reports of trouble in the Sudeten region.

Yesterday and again today sterling was seriously upset by the above-mentioned difficulties. In strict confidence

- 2 -

confidence I understand that on the thirteenth 15 million pounds were lost by the British stabilization fund. This great loss is evidence that a strong fight was put up to prevent the pound from dropping below 4.80. The British had yielded the equivalent of 10 million dollars on balance by noon today after being able to acquire gold in the amount of 750,000 pounds.

BULLITT.

RECEIVED  
SEP 19 1938  
TREASURY DEPARTMENT  
U.S. DEPARTMENT OF THE TREASURY

EA:LWW

*Lokead  
White*

*Mr. Moffat 230  
See files .  
AM*

JR

GRAY

Paris

Dated September 14, 1938

REC'd 8 p.m.

Secretary of State,  
Washington.

467

RUSH.

1463, September 14, 8 p.m.

As I said to Messersmith by telephone this evening Chamberlain yesterday requested an interview with Hitler which Hitler accorded this evening at about 7:30. Chamberlain will fly to Berchtesgaden tomorrow morning, arriving probably by 3 o'clock.

I have talked with Bonnet about this development and he is, of course, delighted. He feels that all risk of immediate war is now at an end. Bonnet assured me this evening that rumors of changes in the French Cabinet are entirely without basis.

BULLITT

KLP

EC

GRAY

Berlin

Dated September 15, 1938

Rec'd 10 a.m.

Secretary of State,  
Washington.

442, September 15, noon.

The morning press headlines Chamberlain's visit to Hitler without as yet offering any editorial comment thereon. The papers also feature open fighting in Eger and the flight to the Reich of 3,000 Sudeten Germans as well as the arrest of Sudeten German deputies and the noncompliance of numerous Sudetens with the Czech order for military muster. Rumania's refusal to permit the transit of Soviet troops is particularly stressed. Prominent notice is also given to the foment among the other minorities in Czechoslovakia.

The latest Sudeten victims lend further fury to press editorials which depict a state of civil war in Czechoslovakia and declare that the only solution now is the freeing of the Sudetens from Czech authority. The TEMPS article purportedly criticising Benes for delay is appreciatively received as are other French press editorials mootng a plebiscite. At the same

time

-2- #442, September 15, noon from Berlin

time France is reminded of its responsibility for the development of the present dilemma. The press points out that it now rests with the western powers to show their will for peace stating that material sacrifice or concession of prestige are not demanded of them but merely their confirmation of justice and human rights. The BERLINER TAGEBLATT quotes in heavy type without comment the opening paragraphs of the American Declaration of Independence.

WILSON

RR:CSB

Close SEPT. 14, 1938

GOLD HELD IN LONDON

\$138,900,000

GOLD HELD IN AMSTERDAM

\$11,000,000

Insurance arranged for following ships:

<u>Sailing</u>	<u>Steamship</u>	<u>Amount</u>	<u>Amount</u>
Sept. 16	Pres. Harding	10,700,000	-
Sept. 17	Brittanic	11,000,000	-
Sept. 17	Champlain	10,000,000	-
Sept. 17	Nieu Amsterdam	-	11,000,000
Sept. 21	Normandie	11,300,000	-
Sept. 23	Manhattan	11,300,000	-
Sept. 24	Paris	11,000,000	-
Sept. 28	President Roosevelt	10,300,000	-
Sept. 28	Queen Mary	6,000,000	-
Sept. 30	Georgic	6,000,000	-
		<hr/>	<hr/>
		\$87,600,000	\$11,000,000

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 14, 1938

TO Secretary Morgenthau  
 FROM A. Lochhead

Foreign Exchange Operations  
 in London and New York on  
 the dates indicated below:

Dollars sold in London by  
 Bank of England against  
 gold order

Dollar equivalent of  
 sterling purchased in  
 New York for conversion  
 into gold in London:

September 12	\$18,000,000
September 13	35,000,000
September 14	<u>24,500,000</u>
	\$77,500,000

\$	-0-
	15,378,000
	<u>5,122,000</u>
	\$20,500,000

## GROUP MEETING

September 14, 1938.  
9:30 A. M.

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

H.M.Jr: Good morning, gentlemen.

Gibbons: Good morning.

H.M.Jr: If anybody asks, what is Tom Smith doing here, he's here advising me on my duties as Secretary of the Treasury - on general conditions.

Sproul talk to you?

Lochhead: Sproul called up and said that the market was quiet; he presumed they'd go ahead the same way today, and I said, yes, conditions as they were now, we expected them to do the same; that if anything came up, he could call us and let us know.

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

Thompson: All clear.

H.M.Jr: Dan?

Bell: The Greek Minister will try to get an appointment with you in the next day or so, to deliver a check like he did before, for the payment of that semi-annual interest, and I'll give you a receipt sometime today.

Here are the results of the financing. We got cash, eight hundred three million. It went about ten million over the figures I gave you for the adjustment. We got the exchanges, three hundred ninety-seven in bonds, and notes and bonds, four hundred twenty-four million.

H.M.Jr: How did they convert?

Bell: Three ninety-seven, bonds; and twenty-seven, notes.

H.M.Jr: That's amusing.

Bell: Only nine outstanding.

H.M.Jr: That makes - only nine outstanding?

Bell: Yes sir.

H.M.Jr: Well, that's a record, isn't it?

Bell: Well, pretty close to it.

Gaston: I think we had one ninety-nine exchange; this is ninety-eight.

Bell: Well, ninety-nine per cent of four hundred, and ninety-eight per cent of eight hundred.

H.M.Jr: (Over telephone.) Tell Bob McHugh to come in.  
Three hundred ninety-seven took bonds, and only twenty-six took notes.

Bell: Will you initial that, please?

(To Mr. Gaston:) You have this?

Gaston: Yes; there will be no changes, huh?

(Mr. McHugh comes in.)

H.M.Jr: Bob, personally take this down and get three photostats, and bring it back here, please.

McHugh: Yes sir. (Leaves)

H.M.Jr: Who's going to call Taylor to ask him about .....

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- Hanes: I was going to do that just as soon as I asked you just exactly when and what we wanted to ask him, etc., whether you wanted to do it this morning.
- H.M.Jr: I'd call him up and ask him who he'd like to designate to look after Export-Import while he's gone. Will you, and let me know?
- Hanes: Right away, yes sir.
- H.M.Jr: Is that all, Dan?
- Bell: Yes.
- H.M.Jr: (Nods to Mr. Lochhead.)
- Lochhead: The foreign exchanges are holding fairly quiet, around the four eighty; bonds seem to be taking an optimistic view; the stock market is opening up a little higher.
- H.M.Jr: Harry.
- White: There is one matter with reference to Italian dumping. There was a letter which was sent to you which we are investigating, on specific commodities, but it raises a question of the general practice of dumping, which Italy may be undertaking, and we took it up with the Bureau of Customs, and they say they don't want to initiate a general investigation without orders from yourself, because it may reveal a pretty wide-spread practice, which may call for substantial applications of duties, and that would run possibly to the State Department, so they would prefer to have instructions from you as to whether or not they should.
- H.M.Jr: Who wants it?
- White: The Bureau of Customs.
- H.M.Jr: What has the Commissioner of Customs got to say about this? Why should I have to instruct them? What have we got a Commissioner of Customs for?
- Gibbons: Well, it's a question of the economic .....

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- H.M.Jr: You're Assistant Secretary in Charge of Customs, and we've got a Commissioner of Customs.
- Gibbons: I didn't know a thing about this, and don't know a thing about the letter.
- H.M.Jr: Well, you better find out about it, and the Commissioner of Customs had better find out about it. What's the sense of having an Assistant Secretary in Charge of Customs and a Commissioner of Customs, if every time something like this comes along, I've got to do it.
- Gibbons: It's eventually going to be taken up with the State Department. Where did you first come on to it?
- White: Through Corkhill, who is under Johnson.
- Oliphant: It's the first time I've ever been asked by Johnson, not to enforce the law.
- White: All right, we'll straighten it out.
- H.M.Jr: Supposing Gibbons, Oliphant, and White get together on this thing and find out what it's about.
- Gaston: Isn't it the same question that the American Federation of Labor, Tariff Commission, is going to raise at their convention, attacking the Secretary for favoring Germany? Have you heard about that? Mr. Flynn, of the - who is head of the Tariff Committee of the A. F. of L., has been in, and Matthew Woll has written a couple of letters, charging that permitting barter transactions with Germany is, in effect, permitting a subsidy, and Flynn himself professes to want to head off resolutions at the convention, attacking the Treasury Department, but he doesn't think he will be able to do so. Woll has a letter that just came in a day or two ago on the subject, and it raises the same point.
- H.M.Jr: Convention of what?
- Gaston: A. F. of L. - American Federation of Labor.
- H.M.Jr: Supposing White takes it up with Gibbons and Oliphant and if you fellows can't handle it,

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then bring it to me.

Gibbons: I haven't bothered you at all about it, yet, till we get to a point where we have to.

H.M.Jr: All right. O. K.?

Gibbons: They claim all these countries - Germany, Russia, Italy, Japan, - there is no foreign value to it.

H.M.Jr: Anything else?

Gibbons: No.

H.M.Jr: George.

Maas: I have nothing.

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

Hanes: Nothing, no sir.

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

Gaston: I have nothing.

H.M.Jr: I'd like your idea of a letter on that thing.

Gaston: All right, I'll to work on it this morning.

Oliphant: I want to ask you a question about Callomon .....

H.M.Jr: Callomon - is that his name?

Oliphant: It will be - just take a minute.

Magill: Two thirty?

H.M.Jr: That's right.

Klotz: Two thirty.

H.M.Jr: I want to see White and Hanes a minute please.

Gibbons: Of course, the Commissioner has never seen this letter either.

September 14, 1938

To: The Secretary

From: Mr. Hanes

I have spent some time with Mr. Graves today, in which conference Mr. Magill sat in. Between them they have brought me up to date on the new field organizations, and I am most enthusiastic about this work of decentralization.

I hastened to get as much of this story as I could from Mr. Graves in order that he might proceed with his plans to leave tomorrow for the Pacific Coast. I understand that Mr. Graves will return to Washington about October 1st, at which time I have arranged to go with him to visit the new office in New York in order to become thoroughly familiar with the work and personnel there. This, of course, subject to your approval. I have told Mr. Graves that insofar as I am concerned I see no reason for delay in his journey to the Pacific Coast. Therefore, if this meets with your approval he will proceed tomorrow as planned.

J. W. H.

of. (HMH)

September 14, 1938

(Refer to telephone call between HM, Jr and the Secretary just before the Secretary dictated the following.)

Tom Corcoran came in to see me yesterday at 2 o'clock and said that Harry Hopkins had phoned him from Rochester, Minn., that the President wanted the following political moves made:

He wanted me to issue orders to Higgins and Hoey that they in turn should issue an order that all of their men in their respective offices should get busy to defeat Congressman O'Connor.

I told Corcoran that I was very sorry that I could not issue any such orders; that I felt it would be a grave mistake, and that it was contrary to my policy. Furthermore, that I felt that it would be an act of friendship towards the President if I refused to carry out these orders. I also told him that I could not, one minute, pull Dempsey of Internal Revenue off because he was supposed to be working for O'Connor and with O'Connor and, in the next minute, issue orders that all of our people should go out and work against him and that the thing did not make sense and I would not do it.

When I got through speaking, Corcoran said, "I think you are right." "But," he said, "I was simply a messenger boy."

About 9 o'clock this morning I spoke to him and he said he met, last night, in New York with the five leaders, (I don't know who he means) and that they decided to give up the idea of having Higgins and Hoey's men go to work against O'Connor and would be satisfied if we would instruct Higgins to give them three more temporary jobs. I said, "That's a good swap and I will let you handle my political deals in New York from now on." He was much amused. Of course, he realized that he could not get anywhere with me on his original proposition.

In view of Irey's memorandum of September 13th,

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(copy attached), I decided it was a mistake to work on these political matters through Gibbons, because while his heart is in the right place his judgment is poor and his hand is too heavy, and I, therefore, called up Mr. Helvering and gave him the instructions direct.



243  
Hilborn

TREASURY DEPARTMENT

WASHINGTON

September 13, 1938.

MEMORANDUM FOR THE SECRETARY:

On September 8, 1938, Mr. Guy T. Helvering, Commissioner of Internal Revenue, informed Mr. Woolf, my assistant, that information had been received to the effect that Edward V. Dempsey, General Deputy Collector at New York, was spending considerable time in the office of Congressman John J. O'Connor, and requested Mr. Woolf to contact Mr. McQuillan, at New York, with a view to having discreet inquiries made to determine whether this allegation was true.

In accordance with the instructions issued, Mr. McQuillan assigned the matter to Special Agent Miller who called at Mr. O'Connor's office a number of times, on which occasions he made inquiry with respect to Mr. Dempsey but was informed that Dempsey had not been there but might probably report there after five o'clock. On September 9, Mr. Miller was informed by an employee in Mr. O'Connor's office that Mr. Dempsey might be found in the John Eagan Club. Agent Miller proceeded to that club, where he was recognized by Mr. Dempsey. Congressman O'Connor later learned that Mr. Miller had been attempting to contact General Deputy Collector Dempsey and phoned Mr. McQuillan as to the reasons therefor.

This information was conveyed by Mr. Woolf to Commissioner Helvering who phoned Assistant Secretary Gibbons, advising him in the matter. Mr. Gibbons asked the Commissioner for the telephone number of Mr. McQuillan at New York so that he might communicate direct with him if he wished anything further done. Mr. Helvering told him to call Mr. Woolf for the telephone number, which he did. However, before concluding his conversation with Mr. Woolf, Mr. Gibbons stated that he would do nothing further about the matter.

I have explained to Mr. Woolf today your explicit instructions that we are to take orders from no one but the Commissioner and yourself, either directly or through Mr. McReynolds, with respect to our investigations.

J.H.

September 14, 1938,  
10:00 a.m.

H.M.Jr: Hello.

Operator: Mr. Helvering. Go ahead.

H.M.Jr: Hello.

GUY  
Helvering: Hello.

H.M.Jr: GUY?

H: Yes.

H.M.Jr: Tom Cochran called me this morning, and he said he'd met with five leaders, up in New York City.

H: Yes.

H.M.Jr: And they'd given up the idea that they're going to ask us to put our Revenue boys to work against O'Connor after I turned them down on it.

H: Yes.

H.M.Jr: But he says they're willing to forget it provided that, through Higgins, we give them three more temporary men. So, I said that was fair enough, and I'd swap and I'd go along on that basis, see?

H: Uh-huh.

H.M.Jr: Hello.

H: Are they going to certify those<sup>orders</sup> - give them to me, or -

H.M.Jr: No, you - he said that you would call up Higgins, and handle it this morning, and they could have three more temporary men.

H: Yes.

H.M.Jr: See?

H: Uh-huh.

H.M.Jr: Now the way I figure this. I turned them down on the - one matter, which I just couldn't do.

H: Yes.

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H.M.Jr: And they come back with this, and this is -  
won't hurt anybody.

H: We're in this position where we have a letter  
here to go out now for a general reduction.

H.M.Jr: Well, I know, but this is -

H: Yes, I know.

H.M.Jr: I'm keeping the heat off you on the other thing,  
see?

H: Yes.

H.M.Jr: Which would have been terrible, and I've turned  
them down.

H: Oh, yes, we couldn't have done that.

H.M.Jr: I know, so I think this is a -

H: Good out

H.M.Jr: Good out, and I'd appreciate it if you'd do it  
and I'd like you to do it this morning. They're  
terribly upset up there, and I don't want them to  
ask us to do anything more as stupid as what  
they asked yesterday.

H: Yes. Well, oh - they're not going to send the  
names in.

H.M.Jr: All that - Cochran said if I could have somebody  
call Higgins who is an authority and he wanted  
to do it through Steve Gibbons, and I decided  
I'd work.

H: Oh, I can attend to that all right.

H.M.Jr: I decided I'd work with you direct.

H: The only thing Higgins would like to know who it  
is, that's all.

H.M.Jr: Well, I don't know. Maybe he can find out. I'm  
sure that they will have already told Higgins.

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H: Yes.

H.M.Jr: They work pretty fast up there.

H: Yes. All right.

H.M.Jr: If there's any question call me back direct, will you?

H: Yes, I will.

H.M.Jr: I'm not - I'll work with you direct on this, but I don't want any - I - Now the other thing that they asked was - Would you mind sending for Dempsey? Hello.

H: Yes.

H.M.Jr: And just get him out of New York for a couple of days. You know who this fellow Dempsey is, don't you?

H: Yes.

H.M.Jr: If you could send for Dempsey and get him out of New York for a couple of days. Give him some assignment down here until this thing blows over, they'd appreciate that.

H: Uh-huh.

H.M.Jr: See?

H: Yes. Well, I'd have to check to see what I could certify him to do.

H.M.Jr: Well - if you brought him down here, then if you were so busy you couldn't see him for a couple of days, just let him sat - sit in the hotel.

H: Yes, I can do that all right.

H.M.Jr: What?

H: When is the big day up there?

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

H: I

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

H: All right.

H.M.Jr: And I have a report from Ireys on what they did on Dempsey, and they handled the thing very badly, so you'd better ask Ireys.

H: Yes.

H.M.Jr: They handled it very badly.

H: Yes. All right.

H.M.Jr: Can I forget about this?

H: Yes. I'll attend to it.

H.M.Jr: Thank you very much.

H: Yes.

Federal Surplus Commodities Corporation  
 Summary of Commodities Procured -  
 July 1, 1937 to September 24, 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	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	9/8/38	9/14/38	Total	
		to	to	to	to	to	to	to	to	fiscal	to	to	to	to	to	to	to	to	to	to	to	to	to	fiscal
Apples (Dried)	Pounds	14,774	-	-	-	-	-	-	-	14,557	-	-	-	-	-	-	-	-	-	-	-	-	-	14,557
Apples (Fresh)	Bushels	5,058	2	-	-	-	-	-	-	5,065	-	-	-	-	-	-	-	-	-	-	-	-	-	5,065
Apricots (Dried)	Pounds	2,990	-	-	-	-	-	-	-	2,990	-	-	-	-	-	-	-	-	-	-	-	-	-	2,990
Beans (Dried)	Pounds	53,840	100	2,090	60	-	970	120	1,200	56,400	-	-	-	-	-	-	-	-	-	-	-	-	-	56,400
Beans (Snap)	Bushels	-	-	9	6	-	-	10	4	33	5	8	8	9	5	4	1	1	-	-	-	-	-	33
Beets (Fresh)	Bushels	-	-	-	-	-	-	-	8	11	8	7	18	15	9	5	6	5	5	2	2	-	-	11
Blackberries (Canned)	Cases	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Butter	Pounds	9,992	514	667	1,451	1,734	687	192	-	15,035	-	-	-	-	-	-	-	-	-	-	-	-	-	15,035
Cabbage	Bushels	676	214	38	58	3	-	-	-	990	26	-	-	-	-	-	-	-	-	130	338	-	-	990
Cane Syrup	Gallons	-	-	-	-	-	-	54	133	237	107	40	31	45	82	36	30	66	81	56	134	-	-	237
Cappuccino	Bushels	-	-	-	-	-	-	-	-	-	1	2	11	7	7	8	7	10	12	8	15	-	-	1
Cauliflower	Crates	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	19	-	-	-	-
Celery	Crates	193	3	-	-	-	-	-	-	196	-	-	-	-	-	-	-	-	-	-	-	-	-	196
Coron (Whole wheat)	Sacks	-	-	-	-	-	-	-	-	408	-	-	-	-	-	11	7	3	2	1	1	-	-	408
Cheese	Pounds	-	-	-	-	-	-	-	3,446	3,446	-	-	-	-	-	-	-	-	-	-	-	-	-	3,446
Corn	Sacks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cotton	Bales	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cotton Fabric	Yards	-	-	-	-	232	-	12	129	1,133	-	-	-	-	-	-	-	-	-	-	-	-	-	1,133
Cottonseed oil	Pounds	9,780	-	-	-	-	-	-	-	9,780	-	-	-	-	-	-	10	49	1	29	44	-	-	9,780
Eggs (Small)	Cases	270	-	-	-	-	-	-	-	270	-	-	-	-	-	-	-	-	-	-	-	-	-	270
Fish	Pounds	-	-	-	-	-	-	-	3,677	3,677	-	-	-	-	-	-	-	-	-	-	-	-	-	3,677
Flour	Barrels	-	7	-	125	-	315	-	1,649	2,695	-	-	-	-	-	-	-	-	-	-	-	-	-	2,695
Grapefruit	Cases	672	46	384	40	15	10	-	-	461	-	-	-	-	219	-	-	-	-	-	-	-	-	461
Grapefruit Juice	Cases	-	5	-	-	-	-	444	52	552	-	-	-	-	-	-	-	-	-	464	-	-	-	552
Grapes	Tons	8	-	-	-	-	-	-	-	8	-	-	-	-	-	-	-	-	-	-	-	-	-	8
Labels	Labels	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	15,960	-	-	15,960
Milk (Dry skim)	Pounds	8,642	-	-	-	-	-	-	-	21,820	-	-	-	-	-	-	-	-	-	-	-	-	-	21,820
Milk (Fluid)	Quarts	9,013	482	1,095	7,740	497	510	5,000	514	12,497	497	515	523	528	525	538	530	531	522	509	515	-	-	12,497
Onions	Pounds	3,000	-	-	-	-	-	-	-	3,000	-	-	300	26	8	11	22	16	12	7	39	-	-	3,000
Oranges	Boxes	1,730	50	31	14	10	11	54	57	1,932	2	48	59	57	38	46	47	55	50	50	66	-	-	1,932
Paper Bags	Bags	8,175	-	-	6,400	-	-	5,250	-	21,225	-	-	-	-	-	-	-	-	-	9,075	-	-	-	21,225
Peas (Dried)	Pounds	2,534	-	-	-	-	-	-	-	2,534	-	-	-	-	-	-	-	-	-	-	-	-	-	2,534
Peas (Fresh)	Bushels	-	-	-	-	-	-	8	-	8	-	-	-	-	-	-	-	-	-	-	-	-	-	8
Pears (Fresh)	Boxes	315	-	-	-	-	-	-	-	318	-	-	-	-	-	-	-	-	31	96	73	-	-	318
Peas (Canned)	Cases	927	-	-	-	-	-	-	-	862	-	-	-	-	-	-	-	-	-	-	-	-	-	862
Pears (Dried)	Pounds	6,000	-	-	-	-	-	-	-	6,000	-	-	-	-	-	-	-	-	-	-	-	-	-	6,000
Pears (Fresh)	Bushels	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Potatoes (Sweet)	Bushels	440	-	-	-	-	-	-	-	440	-	-	-	-	-	-	-	-	-	-	-	-	-	440
Potatoes (White)	Bushels	4,331	7	-	-	-	2	-	-	4,335	466	481	120	48	167	266	142	219	106	12	-	-	-	4,335
Potato starch & fl.	Pounds	2,562	-	-	-	-	-	-	-	2,562	-	-	-	-	-	-	-	-	-	-	-	-	-	2,562
Prunes (Dried)	Tons	24	-	-	-	-	-	-	31	55	-	-	-	-	-	-	-	-	-	-	-	-	-	55
Prunes (Fresh)	Bushels	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Raisins	Tons	-	-	-	-	-	-	-	15	15	-	-	-	-	-	-	-	11	-	-	-	-	-	15
Rice (Milled)	Pounds	75,990	560	-	-	-	-	-	-	73,190	-	-	-	-	-	-	-	-	-	-	-	-	-	73,190
Tobacco	Pounds	-	-	1,000	-	1,600	-	900	-	3,500	-	-	-	-	-	-	-	-	-	-	-	-	-	3,500
Tomatoes (Canned)	Cases	50	-	-	-	-	-	-	-	50	-	-	-	-	-	130	15	-	-	-	-	-	-	50
Tomatoes (Fresh)	Bushels	-	-	-	-	-	67	170	64	262	3	-	-	1	-	7	12	22	22	16	20	-	-	262

Treasury Department, Division of Research and Statistics.

September 17, 1938

\* Weekly figures reported by Federal Surplus Commodities Corporation are based on telegraphic reports and are unreviewed. Fiscal year totals have been revised to include all contract cancellations and other adjustments.