

DIARY

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September 15, 1938.
11:35 a.m.

H.M.Jr: Hello.

Operator: Secretary Hull.

H.M.Jr: Hello.

Secy.Hull
Operator: Yes, the Secretary is coming right on,
Mr. Morgenthau.

H.M.Jr: Thank you. Hello. Hello.

O: He'll be right on.

H.M.Jr: Hello.

Cordell
Hull: Hello, Henry.

H.M.Jr: Cordell?

H: What's going on today?

H.M.Jr: Well, I owe you an apology.

H: I don't know why.

H.M.Jr: Well I'll explain it. It has just come to my
attention this minute, that last Saturday the
Canadian Minister called up Wayne Taylor.

H: Yes.

H.M.Jr: He wanted to see the Customs people in the
Treasury in regard to the marking of lumber.

H: Yes.

H.M.Jr: Without the State Department knowing anything
about it. Well, they did see him Monday and
Tuesday, and it's just been brought to my
attention now, by Mr. Oliphant, and I'm going
to call up the Canadian Minister and tell him
I'm very sorry but we do not see foreign
representatives without the knowledge and the
approval of the Secretary of State.

H: Hadn't you better - hadn't you better call
Sayre and - you see we are - we are working on
the Canadians on that lumber proposition, and

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they are indicating that they will help us.

H.M.Jr: Yes.

H: Against Great Britain.

H.M.Jr: Yes.

H: And in order not to cross wires, don't you think it would be a good idea if you'd talk to Sayre?

H.M.Jr: I'll do anything you suggest.

H: Well then if you'll do that now -

H.M.Jr: I'll do anything you suggest.

H: Because that might - it might get up a little friction, you understand.

H.M.Jr: Well the whole point. I want to let you know. I've got an absolute policy here, that anything that has to do with foreign affairs, we'll let you know first.

H: Well, those things happen, you know. We just can't help it sometimes.

H.M.Jr: And - I - I'm sorry, and -

H: There's no trouble - the only thing is just so we don't get wires crossed and get them peeved right at a time when they are -

H.M.Jr: Maybe Sayre knows about this.

H: How's that?

H.M.Jr: Maybe Sayre knows he's over here.

H: Yes. Well -

H.M.Jr: I'll call him.

H: All right. Thank you.

H.M.Jr: But I wanted you to know personally.

H: Yes. Thank you Henry.

(Asst. Sec'y of State)

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September 15, 1938.
11:38 a.m.

H.M.Jr: Hello.

Operator: Mr. Sayre.

H.M.Jr: Hello.

Francis B. Sayre: Hello. Good morning Mr. Morgenthau.

H.M.Jr: How are you? Sayre, I'm calling you, after talking to Mr. Hull, and at Mr. Hull's suggestion.

S: Yes.

H.M.Jr: I wondered if you're familiar with the fact that the Canadian Minister has been coming over here in the last couple of days on the question of marking of lumber?

S: I - no I didn't know he was over there on that.

H.M.Jr: You did not.

S: No.

H.M.Jr: Well now, here's what happened. He called up Wayne Taylor, Saturday, and said he wanted to come over here but he didn't want the State Department to know about it, and nobody in his own Legation knew about it, and I only heard about it five minutes ago.

S: First I heard about it.

H.M.Jr: And I was very much distressed to learn that we were seeing any foreign representative on any subject without the approval of the State Department. Now I told Mr. Hull I wanted to call up the Canadian Minister and say - tell him that he'll have to work through you, and then Mr. Hull said to call you because he didn't want to do anything -

S: Yes.

H.M.Jr: To offend the Canadian Minister.

S: Yes.

H.M.Jr: I'm - I'm very much annoyed to think that he'd try to come in here through the back door.

- 2 -

S: Well now - here's the first thing to find out, is whether he is attempting back door methods. Hadn't I better get in touch with Wayne Taylor?

H.M.Jr: Wayne Taylor is in Chicago.

S: Oh, he's in Chicago.

H.M.Jr: I've got the memorandum here.

S: Oh you have?

H.M.Jr: Yes. And since then our people here have seen him.

S: Oh!

H.M.Jr: A couple of times.

S: Uh-huh.

H.M.Jr: See?

S: Well, who's been seeing him? White?

H.M.Jr: No, Kearns and Johnson.

S: Uh-huh. That's Johnson of the Customs.

H.M.Jr: Customs, yes. But Kearns is entirely familiar with it.

S: Uh-huh. Well, now -

H.M.Jr: Would you care to see -

S: You ran it down enough to know whether it is back door stuff.

H.M.Jr: Yes, definitely.

S: Uh-huh.

H.M.Jr: Kearns is sitting here and I've got two written memorandums, absolutely back door stuff.

S: Well, I wonder if I hadn't better get in touch with Mr. Kearns.

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H.M.Jr: Well, if you tell me when, I'll send him over.

S: Let me see, it's now - what about twelve fifteen?

H.M.Jr: He'll be there.

S: Righto.

H.M.Jr: And then whenever you decide, after you've seen him, would you mind giving me a ring?

S: I will.

H.M.Jr: Because I'm really very much distressed about it. I - we've never had anything like this before.

S: Well I think you're absolutely right. It ought to be curbed or it will get us into trouble.

H.M.Jr: I know. I mean, of all the people around the town I - I'm most meticulous about seeing foreign representatives.

S: Yes, I know. I know you are Mr. Morgenthau.

H.M.Jr: So if you'll see Kearns and then let me know what you want me to do, because he's calling - the Canadian Minister has called twice this morning to see Kearns and Kearns doesn't answer the phone.

S: Yes. All right. Well, I'll talk to him and then after I've had a talk with him I'll call you up, Mr. Morgenthau.

H.M.Jr: Thank you so much.

S: It's awfully nice of you. Thanks a whole lot for your cooperation.

H.M.Jr: Well I imagine this is a sort of the nub of the troubles over there, isn't it?

S: Not the marking, no. Our real troubles are with U.K. on lumber, we've been demanding free entry of lumber. Now U.K. is the one that's been making the trouble and the Canadians, -

H.M.Jr: Well -

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S: Have been siding with us against U.K.

H.M.Jr: I see.

S: So that the Canadians have been playing the game very fairly with this - in our pending Canadian trade agreement, the Canadians have given us all kinds of things. The Canadian trade agreement is bully. The trouble we're having is with U.K.

H.M.Jr: Well, there's something funny in this.

S: We're getting the Canadians to gang up with us against U.K. on this lumber situation.

H.M.Jr: I hope you're right.

S: Well, now - I'll look into it anyway. I appreciate it an awful lot, your thought.

H.M.Jr: All right.

S: Righto.

H.M.Jr: Goodbye.

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September 15, 1938.
11:45 a.m.

H.M.Jr: Hello.

Operator: Mr. Rentschler.

H.M.Jr: Hello.

Gordon
Rentschler: Hello Henry. Good morning.

H.M.Jr: How are you?

R: How are you?

H.M.Jr: I'm fine.

R: Keeping busy?

H.M.Jr: What?

R: Keeping busy?

H.M.Jr: Most busy.

R: Henry, the reason I called you is because we got a story up here that Oliphant was going to take over the legal work in the Comptroller's department, and I wondered whether that meant any essential change as far as our contacts were concerned.

H.M.Jr: Your contacts with who?

R: With the Comptrollers. Is that the present plan?

H.M.Jr: Well, why should it make any difference?

R: Well, I just wondered. We've had a very comfortable contract there and I just wondered what the set up was, whether -

H.M.Jr: Well, I can't go into it on the phone, Gordon.

R: I see.

H.M.Jr: But - I just can't go into it.

R: I see.

H.M.Jr: Yes.

R: Well, I'll chat with you/sometime when I see you. about it

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H.M.Jr: That's right. I mean it's - it's nothing to worry about. I can assure you it's a move in the right direction.

R: I see. Well, that's - that's simply all that I want.

H.M.Jr: I - I assure you it's a move in the right direction.

R: That ties it right back to you.

H.M.Jr: Exactly.

R: All right then, that's all - that's everything I want to know, and I'll chat it out with you, but that's all I want to know.

H.M.Jr: No, I mean, I can't

R: No don't do it, because as long - as long as I get that -

H.M.Jr: No, I - it's just -

R: As long as it's backed by you fellows a hundred per cent, O.K.

H.M.Jr: Well, he's simply - Oliphant is -

R: I had a lot of fun with bonds the last couple of days.

H.M.Jr: Right. But I can assure you it's - it's a constructive move and it's all right, take my word for it.

R: I'll take a hundred per cent. That takes out any concern that we have at all.

H.M.Jr: Right.

R: Fine. And I appreciate it Henry.

H.M.Jr: Thank you so much.

R: The bond market has given us quite a party, the last couple of days, but if you'll stop that war it ought to give a very good account of itself.

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H.M.Jr: Well - I'm - I'm still hoping for the best.

R: Yes. I think this fellow Chamberlain did a masterful thing Henry.

H.M.Jr: Well, let's hope so.

R: Yes, I think that's pretty good.

H.M.Jr: Righto.

R: Thanks very much Henry.

H.M.Jr: Goodbye.

R: Bye. Bye.

(Asst. Secy. of State)

September 15, 1939.
12:57 p.m.

H.M.Jr: Hello.

Operator: Mr. Sayre. Go ahead.

Francis B. Sayre: Hello.

H.M.Jr: Hello.

S: How are you Mr. Morgenthau? I just have been talking with Kearns, over here, about that situation, and all of us feel that although it was very irregular for the Canadian Minister to say that he was doing an improper thing, in the substance of the thing it wasn't improper, it was a very technical matter which he conversed in the light of an emergency with the technical officials in the Treasury Department. If he had come here in the first place, we would have sent him right over to talk with the Treasury, so that I wonder if the wisest way to handle the thing now is to let Mr. Kearns mention that he has talked with us in the State Department about it, so that the Minister will be disabused of any idea that he's doing anything covert, and let the thing go ahead.

H.M.Jr: Well, of course, you're putting a very favorable light on it, but -

S: Well, I - I don't know. First he talked with Weyne Taylor and Wayne Taylor told Johnson and Johnson told Kearns. Now there may be something in it that none of us know about, but on the other hand what would the alternative be if - if things were directed into the channels which they should have taken at the beginning, all you could do would be to tell the Minister to come and see us, then we, in turn, would have to refer him back again to Kearns, and it would be kind of a -running around the barn.

H.M.Jr: Well, that's all right, but I don't like the idea of the Canadian Minister thinks he can talk to the Treasury without the State Department knowing it.

S: Well, I - I think you're absolutely right, and I appreciate tremendously your whole reaction in that. The thing was improper.

- 2 -

H.M.Jr: Well, I'm going to call him up and tell him that I've informed Mr. Hull that he's coming here.

S: Yes.

H.M.Jr: And that if he wishes to continue to come that the State Department has no objections.

S: Yes. All right. All right. I think that's perfectly in order.

H.M.Jr: Because I don't - I don't want them or the English Government to think that we have any back door.

S: Yes. Well, I think that's absolutely right and proper.

H.M.Jr: O.K.

S: On the other hand, we'll have to let him continue to have these conversations.

H.M.Jr: That's all right.

S: Yes. I think ~~you're dead~~ right. Well, thanks an awful lot for calling up Mr. Morgenthau.

H.M.Jr: Goodbye.

September 15, 1938.
1:04 p.m.

H.M.Jr: Hello.

Operator: Sir Herbert Marler.

H.M.Jr: Thank you.

O: Go ahead.

H.M.Jr: Hello.
Sir Herbert Marler: Yes.

H.M.Jr: Henry Morgenthau, Jr.

M: Yes. How do you do, Mr. Morgenthau?

H.M.Jr: How are you?

M: I'm very well, sir. I read about you. I hope your trip was pleasant.

H.M.Jr: Very.

M: That's good.

H.M.Jr: Mr. Minister.

M: Yes.

H.M.Jr: The reason that I'm calling up is to explain that I asked people in the Treasury, today, after they had told me about your visits down here, to give me a chance to think about it.

M: Yes.

H.M.Jr: And I was quite disturbed because, quite frankly, we work very closely with the State Department.

M: Yes, I know you do.

H.M.Jr: And the four years I've been Secretary of the Treasury I have never conducted any affairs with a foreign representative without first explaining to Mr. Hull.

M: Quite so. I quite - my visit, Mr. Morgenthau was entirely irregular.

H.M.Jr: Well, I wanted to explain that I have talked to Mr. Hull.

M: Yes.

H.M.Jr: And Mr. Hull is entirely satisfied and would like us to continue talking with you at your pleasure.

M: Oh that's - that's first rate.

H.M.Jr: And Mr. Kearns is at your disposal at any time to see you here or at your Legation.

M: Oh that's extremely kind of you Mr. Morgenthau.

H.M.Jr: But I just wanted to explain it - it was my fault that no one talked this morning.

M: There wasn't any necessity of explaining that Mr. Morgenthau.

H.M.Jr: We would be very glad to have Mr. Kearns call on you or - he's at your disposal any time today.

M: Well thank you. I'll call him up for a few minutes then, as soon as I can get him.

H.M.Jr: Right.

M: I wasn't taking any exception to that. I understand quite understood that my visits were quite irregular in that way. The matter was one though, such urgent importance that I thought that instead of leaving it to one of the secretaries to go and see the Department about it I'd better go myself.

H.M.Jr: Well, we're always glad to see you but, if you don't mind, I do have to let Mr. Hull know.

M: Oh, decidedly so.

H.M.Jr: Fine.

M: The reason I didn't go through Mr. Hull, as a matter of fact, Mr. Morgenthau, was so as to make it as informal as possible.

H.M.Jr: Well -

- 3 -

M: And I'll have to apologize and I intended to apologize to Mr. Hull for not having - going through him first.

H.M.Jr: Well, he's perfectly happy about it.

M: Oh, he is.

H.M.Jr: And I've already apologized.

M: Thank you very much indeed.

H.M.Jr: So, I think you'll find that you'll be received in a most friendly spirit there, in the State Department, and here as is always.

M: Thank you very much, Mr. Morgenthau.

H.M.Jr: Thank you.

M: Ever so much obliged to you.

H.M.Jr: Thank you.

M: Goodbye, sir.

September 15, 1938.

2:33 p.m.

Hello.

H.M.Jr:
Herman
Oliphant:

Hello. ^{Smith?}

Tom ^{Smith?} and I have talked that ^{out} and agreed that you can't think of the Bank of America detached from the Trans-America.

H.M.Jr:

Yes.

O:

And so on, and there ought to be somebody here, but it ought to be a man as high up as you can get, one of the men who have a sense of responsibility

H.M.Jr:

Well Hanes is coming in here, in a minute or two and I'll ask him. Hello.

O:

Yes.

H.M.Jr:

I'll ask him.

O:

Who to get.

H.M.Jr:

I'll call up -

O:

But we're clear that it - they ought to be here.

H.M.Jr:

You're clear that they should be here.

O:

Yes. That you can't think of the bank - you can't work on the Bank of America -

H.M.Jr:

Oh, I think so, and I think that -

O:

It's all one picture and we might mess up some of theirs and they might mess up some of ours. We don't move hand in hand.

H.M.Jr:

We'll have them here. Thank you.

O:

All right.

September 15, 1938.
2:35 p.m.

H.M.Jr: Hello.

Operator: Judge Haley is attending a committee meeting,
but I can get him if you'd like me to.

H.M.Jr: Yes, get him.

O: Right.

September 15, 1938.
2:52 p.m.

H.M.Jr: Hello.

Operator: Mr. Upham calling.

H.M.Jr: Hello.

O: Go ahead.

H.M.Jr: Hello.

C.B.
Upham: Hello, Mr. Secretary.

H.M.Jr: Hello, Cyril?

U: Yes.

H.M.Jr: How are you, you - what are you doing out there, digging in them - there hills for gold?

U: Oh, I'm reading the papers, that's all.

H.M.Jr: Well, come on back.

U: All right. This afternoon.

H.M. Jr: Yes.

U: Fine.

H.M.Jr: They're getting along all right down here.

U: Good.

H.M.Jr: And Tom Smith's here, you know.

U: Yes, that's fine.

H.M.Jr: And he said that he could use you very nicely.

U: Be fine.

H.M.Jr: Said he wants to work with you.

U: Fine.

H.M.Jr: So I'd come on in and - did you hear anything out there?

U: No, not a thing.

- 2 -

H.M.Jr: All right.

U: Everything's quiet.

H.M.Jr: All right -

U: I was down at the Reserve Bank yesterday, they don't seem to know anything.

H.M.Jr: Well -

U: And I didn't say anything.

H.M.Jr: Well -

U: They have Board meeting today.

H.M.Jr: Uh-huh. I don't know why Justice is supposed to be blind, but that's what she's always shown.

U: Yes.

H.M.Jr: Well we're taking the hood off her eyes.

U: You knew that other outfit declared a dividend?

H.M.Jr: No, when?

U: Same day.

H.M.Jr: Oh - well - I - and I've been asking around - when? It's -

U: Oh, for several days.

H.M.Jr: What?

U: For several days.

H.M.Jr: They did it the same day.

U: Yes. The same day.

H.M.Jr: Well -

U: Too bad.

- 3 -

H.M.Jr: What's the matter with these fellows anyway.

U: Plenty I'm afraid.

H.M.Jr: They declared it on the same day?

U: Yes.

H.M.Jr: That was the 13th?

U: That's right.

H.M.Jr: Well, if I wasn't on the phone - well, I - I don't want to burn the wire.

U: (laughs) Well, we'll try to change things.

H.M.Jr: Well it doesn't - it - none of it's - of course we could have given them the same telegram and proceeded the same way.

U: That's right.

H.M.Jr: That's a damned shame. Well, I don't know - well, it's all right. You brought it to me in time, as far as I know.

U: Yes.

H.M.Jr: All right, Cy.

U: Goodbye.

H.M.Jr: Goodbye.

(Robert E. Healy -
SEC)

20

September 15, 1938.
2:53 p.m.

H.M.Jr: Hello.
Judge
Healy: Hello.
H.M.Jr: Judge Haley?
H: Yes.
H.M.Jr: Morgenthau?
H: Hello Mr. Morgenthau.
H.M.Jr: How are you?
H: Very well thank you. You?
H.M.Jr: Fine. Mr. Hanes and I have been talking over the
matter that he came over to see you on two days
ago.
H: Yes.
H.M.Jr: And we're having a meeting at my office at four
o'clock.
H: Uh-huh.
H.M.Jr: At which the Federal Reserve, FDIC and RFC will
be present, and I'd like very much to have SEC
represented.
H: At four o'clock?
H.M.Jr: Yes.
H: At your office?
H.M.Jr: Yes.
H: All right. I'll have somebody there.
H.M.Jr: Now wait a minute Judge. Not somebody.
H: All right.
H.M.Jr: I want a body.

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H: All right.

H.M.Jr: What's the matter with yourself?

H: Oh!

H.M.Jr: This is highly confidential.

H: I know it.

H.M.Jr: And dynamite.

H: But there's one man in the Commission here, who knows more about it than the Commissioners do.

H.M.Jr: Who's that?

H: David Schenker.

H.M.Jr: Who?

H: David Schenker.

H.M.Jr: Now, just a minute. Let me ask Hanes. No. No staff members today, Judge. It's only the Commissioners.

H: Oh!

H.M.Jr: No, not at this meeting. Any - any one of your - as many of your Commissioners are welcome, but I - I'm keeping this to the presidential appointees.

H: I see. Well, all right, one of us will get over there.

H.M.Jr: Uh - it's important Judge.

H: Well, the only reason that I hesitate is that there's only three of us here.

H.M.Jr: Yes.

H: And there's a case being argued before the Commission this minute.

H.M.Jr: Yes.

H: The information that we got on this subject, we got through our investment trust study.

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H.M.Jr: Yes.

H: And it came to us by way of Mr. Schenker.

H.M.Jr: Yes.

H: That was our whole introduction to it, and when Johnny Hanes came over here the other day to discuss it, we called Schenker in.

H.M.Jr: Yes.

H: So that he heard the whole thing. However, if it's your wish that the Commissioner be there rather than somebody else, why we'll be very happy to conform to that.

H.M.Jr: Well, it is my wish.

H: We just simply have somebody - just have to walk out of this hearing if it isn't over.

H.M.Jr: Well, I consider it important enough that a Commissioner of the SEC be present.

H: All right. All right, Mr. Secretary, we'll have - one of us will be there.

H.M.Jr: Thank you very much.

H: All right.

September 15, 1938.
3:27 p.m.

H.M.Jr: Hello.

Operator: Mr. Knoke.

H.M.Jr: Hello.

Knoke: Yes, Mr. Secretary.

H.M.Jr: Knoke?

K: Yes, sir.

H.M.Jr: One Archie Lochhead has been telling me about the Bank of England, and war risk insurance and all the rest of that stuff, see?

K: Yes.

H.M.Jr: Now I want you to kind of sleep on this.

K: You want me to do what?

H.M.Jr: I want you to think this over.

K: Oh!

H.M.Jr: Supposing you, in your conversation, would say tomorrow, to the Bank of England, "You know it just so happens, by accident, that U.S. has got the battleship Nashville at Gravesend, and she's going to sail in a couple of days to come home to be replaced by another."

K: Yes.

H.M.Jr: "And it would be perfectly possible to put a hundred million dollars worth of gold on her and bring it back. It just so happens that she's there and it just so happens she's coming back."

K: Yes.

H.M.Jr: What would they think of it?

K: Yes.

H.M.Jr: See?

K: Yes.

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H.M.Jr: Now you sleep on that.

K: All right, sir.

H.M.Jr: But you won't be talking to them again today?

K: No, not today.

H.M.Jr: And you might mention it to George Harrison, see?

K: Yes.

H.M.Jr: And then talk to me about it in the morning, or he can talk to me.

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

H.M.Jr: Just by accident the Nashville is at Gravesend.

K: Yes.

H.M.Jr: Just by accident she's coming home.

K: I understand.

H.M.Jr: And if just by accident we put on a hundred million dollars, would there be any accident?

K: (laughs) All right, sir.

H.M.Jr: 'Nuff said?

K: Yes.

H.M.Jr: Do you like it?

K: Yes, I - Archie and I discussed it before and I think that is the approach.

H.M.Jr: Well -

K: I - I'm hopeful that it won't be necessary because I rather think that they - that tomorrow morning they'll have some suggestion.

H.M.Jr: Well you know - well we'd make four hundred thousand dollars on that.

K: Yes, that's all right. You wouldn't make four hundred thousand dollars on it if anything happened to the warship.

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H.M.Jr: Well - who's going to touch the warship?

K: Oh, - I'm not - that is right. Suppose she does - something does happen - she runs on an iceberg or so.

H.M.Jr: Well, we'll take the Southern route. Well anyway-

K: Yes, I think it's safe enough, I only wanted to -

H.M.Jr: Well, I'd only be doing it to help out the British, you see?

K: Well, that's - I'm confident that is - that would be the - the proper approach.

H.M.Jr: Yes.

K: But I'm still also confident that they have - that they may have something to - to suggest that will make it unnecessary.

H.M.Jr: Well you think on it.

K: All right, sir.

H.M.Jr: Did you see my little statement on the Dow/^{Jones}ticker?

K: Yes, I saw it. I saw it on two tickers.

H.M.Jr: Two tickers. Well I only know the Dow Jones. What's the other ticker?

K: The New York News.

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

K: That's good. The Times have covered things that the Dow Jones has not.

H.M.Jr: How did you like the Dow Jones one?

K: Very good.

H.M.Jr: O.K.

K: Very good. I hope it won't boost the dollar too high.

H.M.Jr: All right. Goodbye.

Treasury Department
Division of Monetary Research

Date..... 10/61938

To: Secretary Morgenthau

This is the report by Mr. Schmidt
(the young man who went to Brazil).
I haven't attempted to edit it, as I
thought you might be interested in
seeing what he could do on his own.

MR. WHITE
Branch 2058 - Room 200

AA

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

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DATE September 15, 1938

TO Mr. White

FROM Mr. Schmidt

Subject: General Impressions of Current Situation in Brazil

I. Introduction:

In this paper are set forth the impressions of the writer concerning the various aspects of the economic and political life of Brazil. Since various reports concerning recent developments are already on file, no attempt will be made to give a detailed analysis. The writer will instead endeavor to give a general picture of the current situation setting forth the information in such a manner as to answer the questions that the reader might be expected to ask.

II. November 11 coup motivated by Vargas' desire to remain in power.

Getulio Vargas, present head of the Brazilian Government, first came to power when he and his followers -- most important of whom were Oswaldo Aranha and General Goes Monteiro -- ousted President Washington Luiz in 1930. Vargas then declared himself to be the head of a Provisional Government. In 1932 he succeeded in quelling a major rebellion of the state of Sao Paulo and in 1934 he promulgated a new Brazilian constitution envisaging a "democratic" form of Government. He became the first president under the new constitution, Oswaldo Aranha, who had served as Minister of Finance since 1930, was appointed Ambassador to the United States, and General Goes Monteiro was retained in high military capacity. Due to pressure of various groups, the 1934 constitution contained a provision preventing the President from succeeding himself and his term was to expire in early 1938. The year 1937 was thus characterized by political activities in view of the presidential elections coming due January 1938.

In the Autumn of 1937 there were three major contestants campaigning for the office of President. Armando Salles, Governor of Sao Paulo, was at first expected to receive the support of Vargas, but no sooner had Salles announced his candidacy than Vargas decided to support a nationalistically inclined

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radical, Jose Americo, who was not generally trusted. The third candidate, Plineo Salgado, was the head of a rapidly growing Integralista Party which openly favored a fascist form of government. In October 1937 the Integralista party supposedly discovered a Communist plot to take over Brazil and Vargas immediately declared the existence of a state of war. Under cover of the state of war General Goes Monteiro arranged to have the various state militias absorbed by the Federal Army and hostile state Governors, deprived of their power, were replaced by Federal Interventors. Having thus set the stage, Vargas, on November 10, dissolved both houses of Congress and announced that he would give a new constitution to Brazil.

It is generally believed that the significant developments leading up to the coup d'etat were arranged by Vargas, who was motivated primarily by his desire to remain in power. Had Vargas not sponsored an undesirable candidate for President and had he, before November, hindered the growth of the Integralista Party the political horizon would not have been as stormy as it was just prior to election time and there would have been less of an apparent need for action of the type taken by him.

III. Vargas' position fairly strong as long as he receives the support of armed forces.

Perhaps the chief factor in Vargas' favor is the general belief that he, more than any other possible alternative, will be able to maintain comparatively peaceful and stable conditions within Brazil. He has already been at the head of the Brazilian Government longer than any other president and he is considered to be a cool, shrewd man, and a clever politician. On the other hand, there is a general feeling of resentment against the new constitution and the complete removal of important democratic processes. The leaders of the Integralista Party, which Vargas disbanded immediately after his coup was successfully accomplished, also oppose him as do various members of the Army and Navy who have been demoted by him. The general feeling, however, is such that he is considered to be in an invulnerable position as long as he can maintain the support of the armed forces, which he has thus far successfully done.

IV. Coup d'etat had significant economic repercussions.

Although it is felt that the coup d'etat was motivated primarily by Vargas' desire to remain in power, its economic repercussions were important. Since the president, by his action, placed himself on the defensive, he was compelled to embark upon a program designed

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to win wide popular support as well as the support of the armed forces.

Moving quickly, to support his contention that he had been hampered by political intrigues within the legislative bodies, he immediately suspended all payments on the Brazilian foreign debt, removed important restrictions on coffee exportation, called a state conference to remove state export taxes, created a department of industrial and agricultural credit to stimulate Brazilian economic development, and instituted a study of various plans of developing Brazilian iron and mineral resources. In order to strengthen and maintain the support of armed forces he embarked upon a program of armament purchase which, as is later indicated, was an important factor in the reinstatement of rigid exchange control:

V. Reinstatement of exchange control necessitated by mismanagement and political considerations.

From 1934 through 1936 Brazil had been making substantial progress in the removal of exchange control and by the Spring of 1937 the Bank of Brazil was holding an active balance of about £9,000,000 sterling. At this time, however, the Director of Exchange embarked upon a policy of selling foreign currencies and not only depleted the holdings of the Bank of Brazil but also engaged in future contracts for the delivery of somewhere around £6,000,000 sterling which the Bank did not possess. As a result of this action, the milreis strengthened during the summer, coffee sales were unfavorably affected, and the exchange position of the Bank of Brazil was severely weakened.

The coup d'etat of November 10 placed Vargas in a position of dependence upon the support of the Brazilian armed forces and he immediately embarked upon armament purchase program in order to strengthen their good will as well as their fighting power. The need for spot exchange was consequently markedly increased. This factor alone might not have disturbed the exchange market unduly, but, taken together with the weakened position of the Bank of Brazil, it made necessary the reinstatement of severe exchange control.

VI. Rigid control makes purchase of exchange difficult but United States drafts given slight preference.

The reinstatement of rigid exchange control was decreed December 23, 1937. Thereafter it was impossible for anyone legally to purchase spot exchange, importers being obliged to wait approximately one month after presenting drafts in order to secure 60 to 90 day future contracts. In view of the fact that the Brazilian

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Government, in an exchange of notes supplementary to the Brazilian Trade Agreement, committed itself to furnish spot dollars to importers of American merchandise, the Director of Exchange was prevailed upon to accord slightly better treatment to American drafts than to drafts in other currencies. Utilizing the opportunity to increase its own collection business, the Bank of Brazil, upon closing exchange, at present gives spot dollars for drafts covering American merchandise exported to Brazil when such drafts are sent to it for collection. Upon closing exchange in favor of other drafts, the Bank gives a 60 day future contract. This 60 day advantage is granted only to importers of American merchandise who operate on a draft basis and is denied to firms operating on open account or on a quota basis. Even with this advantage, importers of American merchandise must wait about one month from the time their drafts are presented for collection until spot dollars are obtained.

VII. Brazilian gold exported because of exchange shortage.

The Brazilian Government has since 1933 been purchasing all gold mined domestically and by January 1938 had accumulated a stock worth about 32 million dollars. The Director of Exchange favored a plan of utilizing this gold as security against which to obtain a short term loan but no definite decision was reached with respect to any plan of action. Since a payment of £500,000 sterling was due in February on destroyers being constructed in England for Brazil, the Brazilian Government decided to send gold to London to be deposited as security for this payment and the gold was immediately exported. In May another shipment of the same size was made, again as a deposit against the destroyers. In neither case was any official announcement made of this action, the Government treating the matter as a military secret. In July the Government decided again to export gold worth £300,000 and contemplated exporting all gold mined thereafter within Brazil. The latter policy would tend not only to relieve the exchange shortage but also to free the Brazilian Government from the expense of holding idle gold.

VIII. Payments on foreign debt suspended as a result of exchange shortage and the failure to arrive at a final settlement.

Payment of services on the Brazilian foreign debt was suspended in 1898 and 1914 and in each case the unpaid amounts were funded and the Government subsequently contracted new loans and resumed payment of the services. When Brazil suspended payment in 1932 and the Franha plan was subsequently negotiated it was felt by the Brazilian authorities that a final settlement should be attained by the time of its expiration in early 1938.

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The Brazilian Mission to the United States in 1937 had hoped to be able to reach some understanding with the American bondholders protective committee in accordance with which they could liquidate their dollar indebtedness by paying considerably less than their contractual obligations. The American committee, however, was unwilling to accept the Brazilian proposal and the Brazilians attributed this unwillingness to influence of the British over the committee.

The government was becoming aware of the exchange shortage in Autumn and when Vargas addressed the people on the evening of the coup d'etat he stated: "The situation requires, for the time being, the suspension of payment of interest and amortization until it is possible to readjust our obligations without impoverishing or seeping the strength of our economic organization. We can no longer continue to pay off ancient debts through the ruinous process of contracting new and larger ones ..." Payments of debt service were immediately suspended despite that fact that the Cranha plan would have expired within several months and no steps have yet been taken toward their resumption.

IX. Compensation mark trade with Germany placed on more restricted basis.

Under the stimulus provided by Germany's plan of compensation trade, Brazilian imports from Germany have increased until at present Germany vies with the United States as the source of the largest percentage (value) of Brazilian imports.

Germany's policy with respect to Brazil during the last year seems to have been that of making large purchases of Brazilian products in order to increase the quantity of compensation marks held by the Bank of Brazil. The Germans then attempted to utilize this position to acquire more favorable exchange terms for their products in Brazil. At the time of reinstitution of rigid exchange control in Brazil, the German's were able to make use of their position, in that German banks were able to extend spot credits on the basis of future exchange contracts because of the large stocks of compensation marks possessed by the Bank of Brazil. Importers from other countries were not able to obtain spot credits on the basis of their contracts as easily since there was no such guarantee of the Bank's ability to fulfill its contracts in other currencies.

By the Spring of 1937 the Bank of Brazil was holding more compensation marks than was considered to be safe. The Bank of Brazil, determined to liquidate its compensation mark holdings, first

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lowered the milreis purchase price of marks and then forbade sales of cotton and coffee on a compensation mark basis. The German interests responded by purchasing a huge quantity of Brazilian cocoa and the Bank of Brazil in June suspended purchases of compensation marks. Proceeding then to allocate compensation marks for the purchases of armaments and coal, the Bank reduced its loan position. It has since allowed Germans to resume purchase of commodities other than coffee and cotton on a compensation mark basis.

Important factors in the Brazilian actions with respect to compensation mark trade are: The general opposition to undue Nazi influence; the feeling that Germany may be reselling Brazilian products in the international market; American opposition to such trade. There is, however, strong feeling in favor of compensation mark trade on the part of producers of Brazilian raw materials who fear that restriction of such trade will result in the loss of the German market.

V. Plans for establishment of a Brazilian Central Bank dropped at the time of the coup d'etat.

During September and October of 1937 the Brazilian congress was concerned primarily with the drafting of a law to establish a Central Reserve Bank of Brazil. Although there was some opposition to the establishment of such an institution, most of the discussion concerned the form of the law and not the desirability of creating a central bank. When Congress was dissolved by President Vargas, the establishment of such an institution was dependent solely upon the feelings of him and his advisers. Although the Minister of Finance definitely favored the creation of a new central bank, other of the President's advisers felt that the Bank of Brazil was better suited to the needs of Brazil and opposed the establishment of another institution. The opposition of the latter, combined with exchange difficulties and the feeling that there really were very few assets which could be turned over to such a bank at that time, seem to have sidetracked the project.

VI. Change of coffee policy brings favorable results.

Ever since the collapse of the coffee valorization scheme in 1929 the Brazilian Government has burdened coffee exports with restrictions and taxes for the purpose of maintaining its price on the world market. By Autumn of 1937, however, it was felt that Brazil was bearing the burden of a plan which was benefiting only

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her competitors and general opinion was coming strongly to favor relaxation of the restrictions. One of Vargas' first acts, after his successful coup d'etat, was that of removing a substantial part of the burdens placed upon coffee. Government purchases for the purpose of supporting coffee prices internally were stopped and the general emphasis was placed upon the stimulation of exportation. Although the price of coffee dropped substantially when the restrictions were relaxed, Brazil has experienced a large increase in the quantity of her sales. The apparent results of the new policy have been particularly pleasing to Brazilians because the coffee sales of her competitors have declined during the same period and they feel that they are retaining ground lost by the policy of undue restriction.

XII. Popular feeling favorable toward the United States.

During his stay in Brazil the writer received the impression that the Brazilians as a people feel very friendly toward the United States and things American. The man on the street thinks of us as being very wealthy and buying a major portion of Brazil's coffee; he is fond of American movies which exert a powerful favorable influence there. English is coming to replace French as the language to be mastered by the educated classes and students are hoping to come here to study where before, I am told, they thought only of going to Europe.

Among the important governmental advisers there is a small pro-American group which is inclined to treat American interests with special consideration but, as may be imagined, there are also groups with opposite points of view. It is felt, however, that should the United States Government exert pressure in order to obtain more favorable exchange treatment or greater concessions for American exports, it would probably be successful.

XIII. Low standards of achievement an important factor in explaining general Brazilian failure to progress.

After living in Brazil for one year, the writer has come to feel that he understands more clearly than before the reason for the general failure of that country to progress economically, and in other directions, as rapidly as might be expected on the basis of generally understood factors in the Brazilian situation. Although it obviously is not the complete explanation of the situation, the writer was impressed by the general lack of high standards in most undertakings of a serious nature. Important decisions seem

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to be made on the basis of superficial study or investigation and little effort is involved in becoming an expert or writing a book or report in any field. Men of little competence are often placed in important positions and tend immediately to formulate plans to revise completely the manner of conducting the affairs of that office. The educational standards are low and the percentage of illiteracy high. Combined with these factors is a happy-go-lucky attitude on the part of Brazilians about the course of events and a feeling that nothing is to be taken too seriously. While the latter is in many respects an admirable trait, it does not make for rapid progress. Realizing that the answer to the problem is not simple, the writer wishes nevertheless to call attention to these factors as important elements in the explanation.

September 15, 1938

MEMORANDUM FOR THE SECRETARY'S FILES:

Discussions with Canadian Minister With
Respect to Marking of Canadian Lumber

Saturday morning, September 10, Assistant Secretary Taylor called Mr. Johnson into his office and stated that he had been in communication (by telephone, I believe) with the Minister of Canada, that the Minister of Canada had made a particular point of the fact that he was communicating with Mr. Taylor without the knowledge of the Department of State or the personnel in his own Legation. The Minister stated that he realized the irregularity of his action and therefore desired that it be regarded as confidential. He regarded the irregularity necessary because of the urgency of the request he wished to make to the Treasury. That request was that the Treasury Department explore with the most sympathetic consideration the possibility of special measures to relieve from the marking requirements of Sec. 304 of the Tariff Act of 1930, as amended by Sec. 3 of the Customs Administrative Act of 1938 (Public, No. 721, 75th Congress) shipments of lumber from Canada now held at ports of entry in the United States or in transit thereto.

Mr. Taylor stated that he had advised the Minister that he was about to leave Washington and had referred him to Mr. Johnson or Mr. Gibbons with a promise to acquaint one or both of them with the Minister's problem. Mr. Taylor promised the Minister that Mr. Gibbons or Mr. Johnson would get in touch with the Minister Monday morning.

Mr. Johnson expressed the view, with which Mr. Taylor agreed, that Mr. Gibbons should be the one to talk to the Minister.

Early Monday morning Mr. Taylor's secretary called Mr. Johnson to say that the Canadian Minister was very anxious to get in touch with him in order to make an appointment to discuss the subject of his conversation with Mr. Taylor. Mr. Johnson called Mr. Gibbons on the telephone as soon as possible and acquainted him with the substance of his talk with Mr. Taylor on Saturday morning. He asked that the Canadian Minister be advised that he would see him at 3:00 or 3:30 that afternoon. Mr. Johnson communicated this information to Mr. Taylor's secretary, who transmitted it to the Canadian Minister, and the appointment with Mr. Gibbons was arranged for 3:00 o'clock Monday afternoon.

At Mr. Gibbons' request, Mr. Johnson went to his office immediately before that hour to bring him up to date as to the provisions of the law and the regulations. Mr. Johnson then waited outside his office while he talked with the Minister, and after the

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Minister's departure Mr. Johnson talked again with Mr. Gibbons and learned the substance of the Minister's proposals. At Mr. Gibbons' request, Mr. Johnson prepared a memorandum of advice for the Minister concerning his proposals, which he cleared through me on Tuesday morning.

At 5:18 p.m. Wednesday I outlined to Mr. Oliphant the discussions which the Treasury Department has had with the Canadian Minister with respect to the marking of lumber. I advised him it was my understanding that the State Department had no knowledge of these discussions, and that they were to be kept absolutely secret.

I told him that the Canadian Minister first approached Mr. Taylor, who promised him that either Mr. Johnson or Mr. Gibbons would communicate with him. Mr. Gibbons requested a memorandum of advice on the marking of lumber from Mr. Johnson. Mr. Johnson prepared the memorandum after discussing the matter with me, and I approved it and transmitted it to Mr. Gibbons. Mr. Gibbons telephoned Mr. Oliphant Wednesday at approximately 10:40 and requested him to permit me to leave the staff meeting and communicate with him by telephone. I called Mr. Gibbons at 10:58. Mr. Gibbons asked me to see the Canadian Minister about the marking of lumber. I telephoned the Canadian Minister and had a conference with him at 12 o'clock. Mr. Johnson and Mr. Merchant Mahoney, Commercial Counselor of the Canadian Legation, were also present at the conference, which was devoted to a discussion of the legal requirements of the marking of Canadian lumber.

As soon as the above facts were brought to Mr. Oliphant's attention Wednesday afternoon, he directed that all men in his department cease to have any connection with the matter until it had been brought to the attention of the Secretary. He also telephoned to Mr. Gibbons and stated that he wanted it clearly understood that he had no responsibility for the conduct of the discussions, and suggested that, if he were in Mr. Gibbons' position, he would not proceed any further without the approval of the Secretary. He stated that the personal relationship of the Secretary and Mr. Hull might be involved.

At 11:35 a.m. today I handed to the Secretary the two memoranda, dated September 14, 1938, covering the discussions with the Canadian Minister with respect to the marking of lumber. After reading them, he at once called Mr. Hull, repeated the substance of the memoranda to him, explained that the matter had just that minute come to his attention, and apologized for the fact that the Treasury Department had seen the Canadian Minister without the knowledge of the State Department. He stated that it was the policy of the Treasury Department not to see foreign representatives without the knowledge and consent of the State Department, and that he was

meticulous in seeing that this policy was observed. He said that it was his intention to telephone the Canadian Minister and outline this policy to him. Mr. Hull expressed great appreciation of the Secretary's action, and suggested that he communicated with Mr. Sayre because of the trade negotiations which were being carried on by Mr. Sayre with the United Kingdom and Canada. Mr. Hull said the Canadians were backing us up against the United Kingdom on lumber concessions, and that we did not want to cross any wires or to offend the Canadians. The Secretary stated that he would do this.

The Secretary telephoned Mr. Sayre and repeated the substance of the above paragraph to him. Mr. Sayre requested that I see him in his office at 12:15 p.m. today to discuss the matter.

At 12:15 p.m. today I saw Mr. Sayre at the State Department. Mr. Alger Hiss and Mr. Hawkins were also present. The State Department took the view that the action of the Minister was highly irregular, but that inasmuch as the subject matter of the Minister's discussions did not involve any question of international negotiations, the Treasury should continue its discussions. Mr. Sayre stated that if the Minister had approached him in the first instance he would have sent the Minister to the Treasury immediately, as the questions that were raised were purely of technical significance. Mr. Sayre suggested that the Treasury Department might wish to inform the Canadian Minister that the State Department had been advised of the transactions.

I returned to the Secretary's office and informed him of the above discussion. He telephoned Mr. Sayre while I was present and Mr. Sayre stated the above views to him. The Secretary reiterated his views of the policy of the Department, and added that he intended to advise the Canadian Minister of what had transpired. I told the Secretary there were two views on the latter point. There is a view that the Canadian Minister should know that the Treasury Department does not conduct its discussions with foreign representatives without the knowledge of the State Department. There is also the view that we should, before communicating with the Canadian Minister, ascertain the basis of Mr. Taylor's action; that I had only hearsay knowledge of Mr. Taylor's relations with the Canadian Minister, and added that I thought we should follow the first course.

I also told the Secretary that I had been informed that the Canadian Minister had telephoned me several times this morning, and that he also telephoned Mr. Gibbons and Mr. Johnson and was unable to reach any of us; that he had thereupon left word with my secretary that I need not bother to communicate with him and that he could not be reached this afternoon.

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The Secretary telephoned the Canadian Minister and told him that the matter had first been brought to his attention early this morning and that upon his instructions all action by Treasury employees with respect to the matter had been suspended. He stated that he had discussed the matter with Mr. Hull, and that Mr. Hull and he were satisfied to have the discussions continue. The Canadian Minister stated that he knew his action was highly irregular and that after the discussions had been concluded he intended to apologize to Mr. Hull for not consulting the State Department in the first instance. The Secretary said that he felt that he should inform the Canadian Minister that the Treasury Department could not discuss matters with foreign representatives without the knowledge of the State Department, but that the State Department had now been apprised of the conversation and it was entirely agreeable to both Departments for the discussions to continue. He stated that Mr. Cairns would be available at any time this afternoon to continue the discussions with the Canadian Minister either at the Treasury Department or at the Legation at the pleasure of the Canadian Minister. The Canadian Minister expressed great appreciation of the Secretary's attitude.

The Secretary requested me to return promptly to my office in order to be able to receive the Canadian Minister's call. At 1:15 p.m. the Canadian Minister telephoned me and repeated the apologies he offered the Secretary. He added that he intended to call Mr. Hull tomorrow and apologize personally.

Huntington Cairns

OFFICIAL

COLONEL MARVIN H. McINTIRE
PRESIDENTS SPECIAL TRAIN @.x.o.
CONNELLSVILLE PENNA

Sept. 15, 1938

VIA WESTERN UNION

WOULD APPRECIATE YOUR ARRANGING AN APPOINTMENT FOR ME
TO SEE THE PRESIDENT AT HIS EARLIEST CONVENIENCE FRIDAY
MORNING

HENRY MORGENTHAU JR

SEP 15 1938

1100
MORGENTHAU SAYS FLIGHT OF FOREIGN CAPITAL
TO THE DOLLAR LARGEST IN HISTORY - U S DEMONSTR-
ATING ABILITY TO COPE WITH SITUATION

WASHN -

ADD MORGENTHAU

REPEATED-

WASHN - SECY OF TREASURY MORGENTHAU SAID
TODAY THAT THE FLIGHT OF CAPITAL TO THE
DOLLAR IS THE GREATEST IT EVER HAS BEEN BUT THAT
THE UNITED STATES AS THE CENTER OF THE WORLD
HAS DEMONSTRATED ITS ABILITY TO COPE WITH THE
SITUATION AND TO PREVENT ANY DISADVANTAGE TO
THE AMERICAN PEOPLE

-0-

ADD MORGENTHAU

1115
WASHN - THE TREASURY SECRETARY SAID THAT
WHEN YOU CONSIDER THE NERVOUSNESS ALL OVER
THE WORLD DUE TO THE EUROPEAN
SITUATION -IT IS EXTREMELY REMARKABLE
THAT THERE HAS BEEN SO LITTLE FLUCTUATION
IN THE FOREIGN EXCHANGE- - THE REASON IS THAT
CONGRESS HAS GIVEN THE U S TREASURY
POWER TO SEE THAT NO GROUPS MANIPULATE THE
DOLLAR TO THE DISADVANTAGE OF AMERICAN PEOPLE
HE SAID

SEP 15 1938

HE STATED THAT HE WAS REFERRING TO THE STABILIZATION FUND AND THE TRIPARTITE AGREEMENT

THE TREASURY SECRETARY STATED THAT HE WAS NOT AT ALL WORRIED ABOUT THE SITUATION AND THAT IF THE CONDITIONS OF TODAY WERE COMPARED WITH SIMILAR SITUATIONS IN THE PAST IT CAN BE SEEN THAT THE U S IS PROVING THAT IT CAN RESIST REPERCUSSIONS FROM THIS TYPE OF NERVOUSNESS OR JITTERS

-THERE IS NO REASON TO BE ALARMED- SECTY MORGENTHAU SAID

PEOPLE IN FOREIGN COUNTRIES ALONG WITH GOVERNMENTS AND CENTRAL BANKS WANT TO SEND THEIR MONEY OVER HERE HE SAID ADDING -WE-LL TAKE CARE OF IT-

SECTY MORGENTHAU STATED THAT THIS GOVERNMENT IS HELPING OTHERS TO DEFEND THEIR CURRENCY BUT IT IS BEING DONE WITH THE FUNDS OF THE OTHER GOVERNMENTS AND THAT THERE IS A SETTLEMENT EVERY NIGHT - ASSISTANCE OF THIS TYPE IS BEING ACCORDED THE COUNTRIES IN THE TRIPARTITE AGREEMENT - DOLLARS ARE BEING MADE AVAILABLE TO ANYONE WISHING TO BUY THEM HE STATED

ANOTHER DEMONSTRATION SECTY MORGENTHAU SAID OF ABILITY OF THE U S TO HANDLE THE FOREIGN EXCHANGE SITUATION DURING TRYING TIMES IS IN THE FACT THAT DURING THE RECENT ECONOMIC RECESSION EXPORT OF AMERICAN MANUFACTURED PRODUCTS WAS THE BRIGHTEST SPOT IN THE AMERICAN TRADE PICTURE - THAT WAS BECAUSE OF A STABLE DOLLAR - -THAT IS TERRIBLY

IMPORTANT- MR MORGENTHAU SAID - HE ADDED
THAT THE RELATIONSHIP OF THE DOLLAR
TO OTHER CURRENCIES HAD NOT YET CHANGED
TO A POINT WHERE IT IS JEOPARDIZING
AMERICAN EXPORT TRADE

-U-

ADD MORGENTHAU

1.43 SEP 15 1938

WASHN - SECY MORGENTHAU REVEALED THAT HE IS
IN CONSTANT TOUCH WITH REPRESENTATIVES
OF TRI-PARTITE COUNTRIES

AS TO THE RECORD FLIGHT OF CAPITAL TO
THE DOLLAR THE SECRETARY STATED THAT HE CONSID-
ERED IT A SORT OF -PLEASANT WORRY- - HE FELT
THAT IT IS MUCH BETTER THAN HAVING THE FLIGHT
AWAY FROM THE DOLLAR

THE TREASURY -FOR THE MOMENT- IS GOING TO
CONTINUE TO HANDLE THE GOLD INFLUX AS IT HAS
BEEN DOING IN THE RECENT PAST ALTHOUGH CONFER-
ENCES HAD BEEN HAD WITH
-THE BEST FINANCIAL BRAINS IN THE U S- ON
SUGGESTIONS FOR HANDLING THE PRESENT GOLD SITUA-
TION

SECY MORGENTHAU CONTENDED THAT HE
PRICE OF 35 DLS AN OUNCE ON GOLD CONSTITUTES
THE ONLY STABLE PRICE OF MONEY IN THE WORLD AND
THAT THE U S TREASURY DOES NOT HAVE TO DO ANY-
THING TO DEFEND THE DOLLAR IN FOREIGN EXCHANGE -
AS TO THE OTHER CURRENCIES THE U S TREASURY IS
ASSISTING THEM IN MAINTAINING THEIR CURRENCY
THROUGH THE MACHINERY WHICH HAS BEEN SET UP UND-
ER THE LAWS OF CONGRESS AND WHICH PERMITS THE
TREASURY TO MAKE DOLLARS AND GOLD AVAILABLE

STILL ANOTHER INDICATION OF THE TREASURY'S ABILITY TO MEET WITH THE PRESENT SITUATION AND DEMONSTRATE THAT THE U S IS THE CENTER OF THE FINANCIAL WORLD WAS IN CONNECTION WITH THE SALE OF GOVERNMENT BONDS AND NOTES FOR CASH LAST WEEK HE SAID

SECY MORGENTHAU TOLD HIS PRESS CONFERENCE TODAY THAT THE FEDERAL TREASURY IS TRYING TO ASCERTAIN DETAILS OF THE FOREIGN INVESTMENTS IN THIS COUNTRY BUT THAT NO STATISTICS ARE NOW AVAILABLE SHOWING THE AMOUNT OF CAPITAL THAT HAS FLED TO THE U S DOLLAR OR THE CLASSES OF INVESTMENTS THAT HAVE BEEN MADE

-0-

AM

PARAPHRASE

No. 1465, September 15, 11 a.m., from Paris

Section One. Confidential. All circles in France with the exception of the Communists, other agents of the Russian Government, and certain Jews have received with intense satisfaction and a relief which verges on gaily the news of the British Prime Minister's visit to Hitler.

Peri comments in an extremely sour manner in the Communist newspaper The Humanity, but The Populaire, the Socialist paper, has an editorial by Blum voicing approval whole-heartedly. The remainder of the French press gives applause.

Naturally the Foreign Office is delighted. To secure intervention by England in the Czechoslovak business has been the principal objective of Bonnet's foreign policy. The British had consistently declined seriously to become involved before Bonnet and Daladier came into office. Accordingly, the personal visit of Czechoslovakia to Hitler is a personal triumph for Bonnet, who is gleeful. As reported in my brief telegram last night to the Department, upon finding conversation with Mr. Messersmith unsatisfactory due to static, it is felt by Bonnet that there has disappeared the peril of general war in Europe.

It is not true, as circulated by the press in France, that Chamberlain's visit to Hitler was suggested by Daladier.

BULLITT

SECTION 2

As reported to the Department by me Chamberlain was called up on the telephone by Daladier and Daladier suggested to him that there be a conference of French, British and German representatives. His talk with Chamberlain was highly unsatisfactory because of Daladier's not knowing any English and because of the imperfect knowledge of the French language which Chamberlain has. All that was known by Bonnet yesterday afternoon was that the British held the view that there should be held some sort of conversation with the Germans. About 9 o'clock last night the British Ambassador told me that he had only told Daladier at about 8 o'clock of Chamberlain's intention to go to Berchtesgaden to visit Hitler.

It is sure that any arrangement which may be possible for Chamberlain to make with Hitler will have the support of the French Government. As pointed out by me to the Department repeatedly in my telegrams since early last May the sole reason for the French readiness to make war for Czechoslovakia is because honor is involved. It is felt here today that that point of honor will be taken care of completely by Chamberlain and that in the eyes of the French people their Government will be justified in following his lead and so will the world no matter what

that lead may be and however hard for the Czech authorities to swallow. (End Section 2)

BULLITT

SECTION 3

Any analysis of French opinion must take into account the fact that the number of people believing that France should fight to maintain her traditional prestige and power in Eastern and Central Europe has grown steadily less during the past year. Aside from Paul Reyneau and a few prominent officials in the French Foreign Office, there are almost no individuals in influential positions who still believe that France should go to war to maintain this traditional policy. Moreover, the conviction is now general that the Treaty of Versailles is one of the most stupid documents ever written by man. This is not, of course, admitted by men like Mandel, who share responsibility for its provisions. Daladier and Bonnet both temporarily wrecked their careers by fighting the Treaty of Versailles and telling the truth when it was unpopular to do so. Both are convinced that the Treaty must be revised and at bottom regard a change in the Czechoslovak State as a necessary revision, - a necessity which they pointed out nearly twenty years back.

~~Section 4 (X) (X) (X) (X) (X)~~

SECTION 4

For example I was told by Daladier several days ago that Mandel and he had had quite an argument. Mandel had wanted him to mobilize the army but he had terminated the argument by telling Mandel that he had no intention of sacrificing France's entire youth just to whitewash the criminal mistakes that Mandel and Clemenceau, his friend, and the other members of the big four had committed during the peace conference which wrote the Versailles treaty.

Recently both Bonnet and Daladier have told me that immediately the Czech business is solved it is their hope to commence negotiations designed to unite in real friendship France and Germany. It is hoped by them that through these negotiations there would result cooperation between France, England, Italy and Germany and that there may be established peace in Europe. They now hope that the Hitler Chamberlain conversation may be the commencement of this negotiation. (End of telegram)

BULLITT

459

Mr. [unclear] 49
Ev. Files

EG

GRAY

London

Dated September 15, 1938

Rec'd 11:10 a.m.

Secretary of State,
Washington.

934, September 15, 2 p.m.

My 929, September 14, 7 p.m.

Lloyds today decided to exclude war-risk from maritime insurance and voted to give usual 48 hour notice to this effect.

This means that the insurance companies, under the terms of a general policy, will not be responsible for losses due to war. War-risk insurance now becomes a matter to be handled in a separate policy, at terms to be negotiated in each case. Other coverage is not affected and the old coverage applies to goods now at sea.

Simultaneously with its decision to treat war-risk insurance separately from general coverage Lloyds also decided to abolish "open covers". Under this plan the shipper has been able to secure automatic protection up to a certain amount as part of the terms of his policy. Henceforth the amount to be covered, like war-risk,

-2- #934, September 15, 2 p.m. from London

war-risk, becomes a matter of individual negotiation.

Lloyds action brings to a close temporarily at least the efforts made to stabilize war-risk insurance since the outbreak of the Ethiopian war in 1935. The market is now very chaotic, with rates showing extreme variations for the same trade.

The Chairman of Lloyds, who yesterday felt that the likelihood of war was a "toss up", today feels that the situation is "slightly better". Lloyds' action in withdrawing war-risk insurance, however, indicates more eloquently than words the grave view of the situation taken by those who have been described as "the smartest guessers in the world".

Please advise United States Maritime Commission.

KENNEDY

KLP:DDM

NC

GRAY

London

Dated September 15, 1938

Rec'd 2:32 p.m.

Secretary of State

Washington

937, September 15, 6 p.m.

FOR BREASTBY FROM BUTTERWORTH.

The City has reacted favorably to Chamberlain's initiative in arranging a meeting with Hitler. While it regards the atmosphere as less menacing the feeling of grave caution remains. All British securities have improved; war loan, for example, closing at par.

The dollar has been erratic; opening dealings were at about 4.82½, the low point of the day. The British authorities gave support at varying levels and the dollar closed at 4.80 5/8 bid. Dealings have not been as large as yesterday.

Notice of termination has now been served on all Lloyds war-risk open coverage contracts and maritime war-risk insurance can only be obtained by direct negotiation in each individual instance. There is, of course, no uniformity of rates. Coverage of gold shipments to New York which formerly were at the rate of 6 pence per hundred pounds is now being quoted at from 2 shillings 6 pence to 5 shillings or not at all and a parcel post package of securities which formerly

went

NC -2- #937 from London, September 15, 1938

went at 1 shilling now costs from 5 shillings to 10 shillings. Should this state of affairs continue, if it does stop private gold arbitrage altogether, it will at least limit the amount decidedly because each arbitrageur must obtain insurance facilities before the 11 o'clock fixing. In the circumstances there has been a tendency to create a new gold point of £34.74.

KENNEDY

KLP

RGC

RECEIVED
SEP 15 1938
U.S. DEPARTMENT OF THE TREASURY
WASHINGTON, D. C.

Close SEPT. 15, 1938

<u>GOLD HELD IN LONDON</u>	<u>GOLD HELD IN AMSTERDAM</u>
\$179,400,000	\$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

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: September 15, 1938, 6 p.m.

NO.: 1475

FROM COCHRAN.

At noon today the Bank of Italy representative came to see me. This representative said he is unhappy over the statement that the Japanese will side with Germany and Italy, especially since he feels his own country has been quite circumspect in the present situation. In his opinion the British will find a way out, which may lead to a real turning point in the whole of international affairs.

I have had talks with a number of my central banking friend. Some of them have emphasized to me what an influence they think the financial aspect of a war has had on the policy of the British. In their opinion, the British have been shocked by the recent flight from the pound, the alacrity with which funds have been taken out of London by sterling bloc members, particularly the Scandinavians, and the large amount of gold which, as a result of these developments, has been officially lost to Great Britain. These friends point out that since sterling was thus so weak before a war had started, since immense expenditures are in view if the present rate of rearmament is to be continued, since foreign trade

is

- 2 -

is increasingly bad, and since there is no present possibility that funds could be borrowed from the United States and France ~~at least~~ would be at least temporarily a weak ally from a financial point of view, British statesmen who understand finances as well as Chamberlain does will go far to avoid a conflict which, not counting humanitarian considerations, would mean such a great financial undertaking and risk.

This evening at a quarter of six the French stabilization fund has lost between 150 and 200,000 pounds on balance for the day; this morning it had gained 90,000 pounds. The British stabilization fund had lost on balance the equivalent of \$10,000,000 by four o'clock this afternoon. In my friend's opinion, Friday would have witnessed real panic on world markets if Chamberlain had not decided to visit Hitler today. Under the present circumstances, there is better sentiment in Paris now. The September 8 statement of the Bank of France showed discounts up 1,400,000 francs, coverage 45.89 versus 46.44, and an increase in circulation of 1,200,000.

END OF MESSAGE.

BULLITT.

EA:LWW

RECEIVED
SEP 11 1941
U.S. DEPARTMENT OF STATE
OFFICE OF THE ASSISTANT SECRETARY
FOR PUBLIC AFFAIRS

FEDERAL BUREAU OF INVESTIGATION
UNITED STATES DEPARTMENT OF JUSTICE

CORRESPONDENCE

DATE: September 15, 1938.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

L. W. Knoke

Mr. Bolton called at 2:30 p.m. They had had rather a difficult time today and had sold a total of \$15,500,000. The fact which had probably more to do with the firmness of the dollar was the decision of Lloyds to cancel all war risk clauses in general policies covering gold shipments and, until further notice, to write war risk insurance separately at higher rates. As a result, war risk insurance on shipments tomorrow had today been written at the rate of 2s 6d compared with the old rate of 6d. The market's capacity for further insurance, he thought, would be very small and further developments would depend on news on the political situation. They were watching the situation at the bank with a great deal of interest and had taken the matter up with the Treasury. They intended to arrive at some arrangement which would "smooth things over." The outcome would depend on what the Government was willing to do; he was trying to force a very early decision which would enable gold to be moved about with freedom. I asked did he mean that the British Government would insure gold shipments but Bolton answered he didn't know what they were willing to undertake. He inquired whether we had always insured gold shipments against all risks and I confirmed.

The position was a difficult one, Bolton continued, and he couldn't ask us to do anything more than we had done. They would, however, be grateful if we would carry on if necessary this

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE September 15, 1950.

CONFIDENTIAL FILES

SUBJECT TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

L. W. Kroke

2

evening, as usual. I assured him that I was confident that the Treasury would want to take care of the market here surely this afternoon if anything happened. If we had to take any large amount of sterling and there was some feeling here about our taking more gold in London, he would take the position over from us; they would try, as far as possible, to relieve our anxiety. I replied that we appreciated that but that I could tell him that it was the present intention to carry on exactly as heretofore except that we would probably want to adjust the price of our gold order to the higher war risk premium. We felt that at today's increased premium we should pay \$4.73 instead of \$4.77. Would that interfere with his plans? Bolton replied, "No." I continued that we would send him a cable tonight adjusting our price which I said was exactly what the market had done in London this morning when, at fixing, it bid for the equivalent of \$54,7282. That, Bolton said, suited them and repeated that the matter was under discussion now and they were trying to get this thing smoothed out.

LWK:KW

CONFIDENTIAL

G-2
J M

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

G-2/2657-204

ml

September 15, 1938.

MEMORANDUM NO. 12 FOR THE CHIEF OF STAFF:

Subject: The present European situation to
midnight, September 14-15, 1938.

In a cable from the Military Attache in Prague, dated 5:00 P.M., September 14, 1938, certain unimportant troop movements were reported. The remainder of the despatch paraphrased is as follows:

" * * * The frontiers are guarded by police, customs and finance guards, and probably by frontier battalions.

"I interviewed G-2, who claims that the Sudetens had been armed by the Germans by means of shipment of arms which had been camouflaged as foodstuffs. G-2 further claimed that center for organization of disturbances is in Selb. Throughout southeast Silesia and northeast Austria German forces have been slightly augmented chiefly in air units. In the Chemnitz-Dresden area there has been a small mechanized concentration. The resolution of the Czechs to defend the nation has undergone no change.

"While G-2 is afraid of an ultimatum from Germany, the American Minister says that Krofta told him only a short while before that the military do not believe that Hitler contemplates intervention at this moment."

The important information as to the extent of calling of reserves, or partial mobilization by the Czechs is unfortunately omitted by the Military Attache.

There is no change in the general military situation in the various countries from that already reported.

The events connected with the incidents in the Sudeten area indicate that they are not wholly spontaneous but rather are

CONFIDENTIAL

Regraded Unclassified

CONFIDENTIAL

planned affairs, supported by German arms and perhaps controllable by official German or Sudeten organs. When the Czech police and military act with decision and force, the incidents are effectively suppressed. This leads to the belief that if an agreement as to the disposition of the Sudetens could be reached among Germany, Czechoslovakia, Britain and France that the acquiescence of the Sudetens themselves would follow.

The wholly unexpected visit of Chamberlain to the Fuhrer in Berchtesgaden will probably lead to important and decisive developments in the immediate crisis.

CONFIDENTIAL

5
ALABAMA, CALIF. -- A CHINESE DELEGATION TRAVELING WITH GREAT SECRECY
ARRIVED HERE TODAY ABOARD THE PHILIPPINE CLIPPER. CHINATOWN REPORTS
SAID THAT THE DELEGATION WAS HEADED BY T. V. SOONG, FORMER FINANCE
MINISTER AND BROTHER-IN-LAW OF GENERALISSIMO CHIANG KAI-SHEK, AND THAT
THE OBJECT WAS TO RAISE COMMODITY AND CASH LOANS TO BOLSTER CHINA'S
FINANCE IN PREPARATION FOR WAR-NEED PURCHASES ABROAD.
THE PAN-AMERICAN CLIPPER PASSENGER LIST DESCRIBED THE MYSTERIOUS
PASSENGERS AS "FOUR CHINESE PASSENGERS TRAVELING CONFIDENTIAL--NAMES
NOT GIVEN."

REPORTS FROM CHINESE SOURCES HERE IDENTIFIED THE OTHER THREE
MEMBERS OF THE DELEGATION AS K. P. CHEN, FINANCE EXPERT; M. T. TSE, AN
OFFICIAL OF THE CHINESE CENTRAL BANK, AND O. YOUNG.

9/14--JE524P

September 15, 1938

McC.
MEMORANDUM for Secretary Morgenthau:

The morning ^{*Licker.*} ~~paper~~ reports the arrival in San Francisco of the individuals who have just made the trip by clipper.

I have called for information as to the source of the telegram in the New York TRIBUNE calling attention to the arrival of this party in Manila and the action of Marines as guard and as crew of the launch in which they departed from the clipper.

CONFIDENTIAL

G-2
J M

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6-2/2657-204

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

AK

Lockhead
White

September 16, 1938.

ML

MEMORANDUM NO. 13 FOR THE CHIEF OF STAFF:

Subject: The present European situation to
midnight, September 15-16, 1938.

Political Situation. In suspense, pending the outcome of the preliminary Chamberlain-Hitler meeting of which all details have been kept strictly secret. The general impression from the best informed press accounts is that some optimism has been created by frank discussions of the problem, for the first time, between the highest German and British authorities. These discussions seem to have created the possibility of lifting negotiations from the plane of the isolated Sudeten question to that of a general European settlement. The situation, while still critical, seems to offer a chance, which has long been lacking, for the four great powers to discuss fundamental European problems, without which there can be no peace in Europe.

Military Situation. Except for a progressive strengthening of the Czechoslovakian martial law over the disturbed Sudeten areas and general defensive preparations, there have been few known important developments. Prague announced yesterday that two additional classes of reserves had been called. Since a Czech class has a strength of about 70,000, this means a total of 140,000 additional men. Very rough estimates place the number of men under arms in Czechoslovakia at about 475,000.

It is reported in press accounts that Hungary is taking active precautionary measures in moving troops to her frontiers, but no mobilization is reported.

No new developments are reported from France. This country has just placed orders in this country for one and one-half million gas masks, delivery to start in thirty days.

From Great Britain highly confidential information has been received of plans for the initial employment of the air forces. While this information is largely of plans, it is the

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CONFIDENTIAL

first report of specific precautionary measures, indicating a higher degree of preparedness in the air arm than had previously been known.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE September 16, 1938.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

L. W. Kooke

BANK OF ENGLAND.

Mr. Bolton called me at 12:45 today. Their total sales were just over \$20,000,000 up to that moment. The market was very quiet and steady. A good deal of the bidding for dollars originated with dealers who had previously gone short of dollars and long of gold in London and who were now reversing their transactions. In addition there were, of course, others, among them central banks, who were anxious to build up a small dollar reserve. There was no big market movement just now. Chamberlain had just arrived from his visit with Hitler and made an announcement which was quite pleasant. He had had a very friendly talk with Hitler, Chamberlain said, and intended to talk with him in Germany next week. Both he and Hitler were now quite aware of what was in each other's mind. That, Bolton was hopeful, would help to quiet the market down.

The question which was worrying him now was the effect of the cancellation by the insurance market of all war risk policies. The position in the insurance market at the moment was that there were certain underwriters who would quote 2s 6d percent for war risk on gold for immediate shipment to New York but the market was very small, probably not more than £500,000. They had taken up the question both with Lloyds and with the Government but it would take some time to arrive at a decision. They were, however, determined not to leave the situation in its present state. Meanwhile they

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE September 16, 1938.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

L. W. Kneke

BANK OF ENGLAND.

2

were concerned about their private arrangement with us and had decided on the following program which he hoped would meet with our approval:

They will continue as usual to hold the dollar market as steady as they can and supply the market with dollars from the following sources:

- (a) their own present dollar balances.
- (b) their war reserve in Canada (I tried to find out how much that was but Bolton simply replied it didn't amount to much).
- (c) they will borrow dollars for short periods by means of swaps in the market.
- (d) they will use the gold now in transit \$45,000,000.
- (e) they are going to make the following additional shipments beginning next week:

\$15,000,000	on the	Normandie
10,000,000	" "	Sumaria
15,000,000	" "	Manhattan
10,000,000	" "	Caledonia
10,000,000	" "	Paris
15,000,000	" "	Queen Mary
<u>10,000,000</u>	" "	Georgic

\$85,000,000 Total

It will be up to the British Government to decide what they will do about insurance.

\$45,000,000 on the water and \$85,000,000 to be shipped in the near future they hope would cover

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE September 16, 1938.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

L. W. Knoke

BANK OF ENGLAND.

3

things during the next week or so. Meanwhile they would like us to continue our order for gold to be earmarked in London. They would, however, not make use of that unless there was a serious emergency. In addition to the two gold prices which he would continue to quote us as heretofore, he would give us two sterling rates, buying and selling, against which we could operate for his account if we felt so disposed and if we didn't want to take any more gold in London.

I replied that I thought that was a splendid program and that I was sure that our Treasury would appreciate this proof of their desire to even the burden between the two of us. I added that I was confident that the Treasury would want to continue the old gold orders (except at lower prices, of course, to meet rising insurance premia, etc.) and that it was everybody's wish here that he should make use of these orders if it was necessary. Also that I hoped that we would not make use of his sterling orders for his own account unless we should simply be swamped. I explained that this hope and belief on my part was based on the fact that to the best of my knowledge at least there was no intention whatever on the part of our Treasury not to continue as heretofore but on the contrary to do whatever we possibly could do. Bolton replied

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE September 18, 1938.

CONFIDENTIAL FILE

SUBJECT: TELEPHONE CONVERSATION WITH

L. W. Knoks

BANK OF ENGLAND.

4

that quite obviously the situation was a difficult one and that "we don't want you to participate in the risk."

Bolton then referred to our cable of last night #279/38, the third paragraph, in which we reduced the gold price to \$34.75, and asked me to tell him ~~where~~ ^{whether} that applied, to past or to future sales. I replied that it would apply to dollars sold by him beginning today. Was that satisfactory? He said it was.

I inquired whether, in his opinion, it would be possible for them to pack some of the gold which we now held in London so that we could have it ready for shipment if, as and when an opportunity presented itself. I explained that I was aware of his recent request to give him several days notice when asking them to make shipment but that the purpose of my discussing this matter with him again was to try to have some gold ready for immediate shipment if, for instance, one of our banks which had arranged for shipment say on a Wednesday boat would come to us on Tuesday and offer us that space because they had decided to cancel their shipment. I suggested that he let this thing go through his head and talk to me the next time he was on the telephone. Bolton replied that everything depended upon the capacity of their bullion department which, as I knew, had been taken off its feet by the recent rush of gold to New York.

LWK:KW

EG

PLAIN

London

Dated September 16, 1938

Rec'd 2:28 p.m.

Secretary of State,
Washington.

946, September 16, 5 p.m.

FOR TREASURY FROM BUTTERWORTH.

The mere fact that Chamberlain's stay at Berchtesgaden was for a shorter time than scheduled caused an initial decline in the prices of British securities and stimulated the demand for dollars. In this connection the immediate reaction of Paris, which was very pessimistic, had an effect but as the day wore on a wait and see attitude of necessity came to the fore. The volume of trading was small.

The dollar opened at 4.80 1/2 bid. The demand was very large and the British fund intervened actively. The rate went to 4.80 1/8 with the British fund still there and gradually the demand decreased. On balance the volume had not been large until the late afternoon when Continental and New York demand for dollars increased the pressure and the British fund was again active, holding the rate at 4.79 7/8. Only 270 bars

WERE

-2- #946, September 16, 5 p.m. from London

were bought at gold fixing at 144S.8 1/2D. The only arbitrageurs participating being those whose blanket cover contracts have not yet expired (last paragraph 939, September 15, 6 p.m.) and who incidentally reaped a substantial profit inasmuch as the fixing price was geared to A 2S. 6D. war risk insurance rate. Incidentally, Reuter reports that New York banks have decided to discontinue gold arbitrage pending clarification in the insurance rate position and also that the USS NASHVILLE and HONOLULU are standing by at Gravesend to embark gold on behalf of the American Stabilization Fund.

With reference to the third paragraph of 890, September 9, 7 p.m., today's treasury bill average rate jumped to 18S. 10 3/4D. as compared with 11S. 11D. a week ago. Bills on offer were 40 million ^{pounds} /which was eight million pounds less than maturities. The total allotment was thirty seven million pounds which represented 66 percent of applications tendered. The exchange equalization accounts further gold sales made it convenient for the authorities to short-allot the issue. The hardening of the rate is attributable to a number of causes, including the dearth of outside funds depleted by dollar and gold

-3- #946, September 16, 5 p.m. from London

gold purchases and the general desire for liquidity, the technical effects of the exchange equalization accounts gold losses on the money market similar to the situation when French funds were repatriated in May (see No. 431, May 21, 4 p.m.) and also to the probable policy of the joint stock banks to increase their reserves those institutions having been very small buyers of bills in the discount market during the week.

Yesterday's Bank of England return showed a drop in public deposits to the still abnormally high level of twenty two million pounds as compared with thirty two million pounds a week ago, and a rise in bankers' deposits from ninety one million pounds to ninety nine million pounds. The City Editor of the TIMES interprets the return to mean that the authorities are not anxious to see money rates harden unduly.

KENNEDY

ALC

0-711014

1952

TRUSTAMERICA

TRUSTAMERICA

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: September 16, 1938, 5 p.m.

NO.: 1483

FROM COCHRAN.

There was some recurrence of nervousness today on the market in Paris as a result of reports from Czechoslovakia and Germany. There has been a resultant decline in stocks, and the franc has dropped as compared with the dollar. On the exchange market there has been a tendency, however, to balance positions for the weekend and to see how things turn out.

The French stabilization fund was even on balance this forenoon, but had sold 170,000 pounds by five o'clock this afternoon. The equivalent of \$15,000,000 had been lost by the British equalization fund by half-past three this afternoon.

In last night's L'INFORMATION, Paris, there was what appeared to be an officially inspired article stating that it is likely, in view of exceptional expenditures for armaments, that the next statement of the Bank of France will show a drawing on its credit by the French Treasury with the Bank of France. So far the market has been too much concerned with the major problem of the likelihood of war to pay much attention to the question of French finances, the

unsatisfactory

-3-

unsatisfactory state of which will be suggested by
such a drawing. (END MESSAGE)

BULLITT

RECEIVED

SEP 18 1953

EA:LW:EB

TREASURY DEPARTMENT
Office of the Director
Internal Security - Economic Warfare

FEDERAL RESERVE BANK
OF NEW YORK

September 16, 1958.

Dear Mr. Secretary:

Offerings in the market for new corporate securities have declined to about one good-sized issue a week, and the total for the month of September will show a sharp contraction from August. As yet, however, there have been no instances of large high grade issues being postponed because of unsettlement in the market or because of demands for higher interest rates. Bidding for some municipal issues has become a little more cautious, and several cities have rejected all the bids received for comparatively small scheduled issues. In the corporate field, however, the decline seems to be due almost entirely to the absence of potential issuers of high grade securities who feel a need for more funds. The non-appearance of medium and lower grade issues is, of course, a different matter.

This week, the only corporate flotation was \$25,000,000 of Atlantic Refining Company debenture 5s of 1955. Comparison of the yield of about 5.09 per cent on this issue of debentures, rated A by Moody's, with the yield on the new issue of Treasury 2 1/2s of somewhat shorter maturity shows how slight is the additional compensation of investors for the lower degree of security, absence of tax-exemption, etc. Nevertheless, this issue, after being delayed two hours to permit receipt of overnight news from Europe, was successfully marketed on Thursday and is quoted at a fractional premium. The funds raised are for new capital, though mainly to repay bank loans which were used for capital expenditures.

9/16/58

During the week there were also two private sales of corporate issues, the larger of which was \$2,000,000 of preferred stock in the New York Post, subscribed by stockholders to repay indebtedness in conjunction with a plan for employees to lend the company 10 per cent of their salaries, without definite maturity, at 2 per cent interest.

Michigan Consolidated Gas Company bonds and notes totaling \$42,000,000, for re-funding, are scheduled for marketing September 21, and \$37,500,000 of Virginia Electric and Power Company mortgage bonds have just been registered. Thus the immediate prospect is for a continuation of the current modest activity.

The rejection of bids for three or four municipal issues has already been mentioned. Awards this week of \$7,500,000 is about in line with recent weeks, which is well below the average rate of municipal bond maturities and retirements. Most of the recent awards have been to dealers outside of New York City. Of issues on which information is available here, some have moved unusually slowly while a few have been entirely sold the day of offering. Dealers' inventories show a tendency to increase, but their portfolios are still small by normal standards. Existing circumstances of expectancy and precaution have occasioned a little hesitation in bidding for some municipal issues at the record low yields which have been prevailing.

Yours faithfully,



Milan Sproul,
First Vice President.

Hon. Henry Morgenthau, Jr.,
Secretary of the Treasury,
Treasury Department,
Washington, D.C.

September 16, 1938.

H. M. Jr., said that the President and Mr. Hull are letting the light cruiser Nashville bring over 25 million gold and, therefore, told Lochhead to ask Knoke to put it up to the British as to whether they have any objections. He told Lochhead that they ought to get started a week from now.

September 16, 1938.

Jesse Jones came in this morning to see H.M.Jr., and handed him the following slip bearing the names of four people whom he suggested for Comptroller of the Currency. Tom Smith also gave Mr. Morgenthau the following recommendation.

TO: _____

Henry -

Bill Myers

is a Natural

for Comptroller

Tom Smith

9/16-38

~~FROM: MR. TAYLOR~~

September 16, 1938.
11:37 a.m.

Operator: Mr. Oliphant.
Herman
Oliphant: Yes.
W.M.Jr: Herman?
O: Yes.
H.M.Jr: I was just talking to the President. I had a chance to talk about the bank.
O: Yes.
H.M.Jr: And he raises the suggestion - just a minute. (aside -Thank you.) He raises the suggestion of bringing an injunction suit in the District of Columbia.
O: Yes.
H.M.Jr: To enjoin them from paying their dividends.
O: Yes. I've thought of that. Shall I give you the other plan now?
H.M.Jr: No. I will see^{you} a little later though.
O: But I've got the answer.
H.M.Jr: Well, I'll see you a little later.
O: I mean I've got the answers.
H.M.Jr: I'll see you in a little while.
O: O.K.

September 16, 1938.
11:40 a.m.

H.M.Jr: Hello.

Operator: Dr. Myers is out keeping two appointments, and he'll be back in about an hour. He is going to RFC and the White House.

H.M.Jr: Well get them - find out whether he's at - he's at the RFC?

O: They say he's going to the RFC and to the White House.

H.M.Jr: Where is he now?

O: I think he's going to the RFC first, but he hasn't had time to get there.

H.M.Jr: Well when he gets there I want to talk to him.

O: All right.

H.M.Jr: He goes to the RFC first.

O: I think so. Yes, sir.

H.M.Jr: O.K.

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TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON September 16, 1938

OFFICE OF THE DIRECTOR

CONFIDENTIAL

MEMO. TO THE SECRETARY:

Re: Attorney General's Special Committee as to what could, or should be done to control prices under absolute neutrality of our own country in event of disturbance in Europe.

The above committee was called to meet in the Department of Justice at 3:30 P.M. Wednesday afternoon.

Present:	Golden Bell	Justice	Mr. Meeken	Commerce
	James W. Morris	"	Mr. Everett	"
	Alexander Holtzhoff	"	Mr. Brown	"
	J. P. Fowler	"	C. J. Peoples	Procurement Division
	Dr. Ezekiel	Agriculture		
	Mr. Appleby	"		

It appears that Mr. Morris was present at a recent cabinet meeting on this particular mission; was detailed to the Department of Justice with injunctions for an early report.

Two differences of opinion immediately arose. Agriculture and Commerce advocated that the principle of indirect price control, such as Agriculture has been endeavoring to make effective in certain agricultural commodities, be extended to essential war materials such as steel, copper, chemicals, woolen textiles, etc., even to the extent of the government buying surplus capacity and later selling it in the market to retard inflation of prices.

Procurement contended that the principles of agriculture control are entirely different from that of industrial control. Procurement could not agree that the federal stocks of cotton and wheat, which had been accumulated for the relief of agriculture, was a good reason why the federal government should set itself up in business with enormous stocks of steel or chemicals, merely to sell on the market at lower prices in order to keep prices down.

Furthermore, the military forces were vitally concerned in this matter of price control in a neutral status, inasmuch as their war plans, prepared under the Mobilization Act, contemplated a Price Control Committee as a part of the War Resources Administration, and that it would be well to hook the two plans up together.

The Chairman, Mr. Morris, appointed two committees; one consisting of Agriculture and Commerce to explore the idea of "Indirect Price Control" and the other - the Director of Procurement - with respect to the principle of "Direct Price Control" either through voluntary agreements with industry, and/or the powers of the government with respect to transportation, export, licenses, shipping, etc.

Sept. 16, 1938

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After consultation with the Chief of Staff of the Army, and the Chief of Naval Operations yesterday, a meeting was called in the Office of the Director of Procurement this morning at 10:00 A.M.

Present:

General C. T. Harris	War	Alexander Holtzhoff	Justice
Col. R. M. Jones	"	Walton Hamilton	"
Major W. H. Sadler	"	Leon Henderson	Temporary National Economic Committee
Major C. C. Fenn	"		
Comdr. E. D. Foster	Navy	Jos. J. O'Connell, Jr.	Mr. Oliphant's office
Captain F. A. Daubin	"	C. J. Peoples	Procurement Division

The trend of thought of all present confirmed, in general, the original opinion of Procurement, and a number of valuable suggestions were offered, the substance of which is so lengthy that it will be consolidated into shape by Monday, and made the subject of a separate report.

C. J. Peoples
Director of Procurement

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE SEP 16 1938

TO Secretary Morgenthau
FROM Herman Oliphant

For your information -

Admiral Peoples called me this morning, asking me to send a man to a conference which he was having pursuant to instructions given at the Cabinet Meeting to James Morris, who was Acting Attorney General. Admiral Peoples asked me to mention it to you, for which there was no opportunity during the day.

The President asked Morris what authority there was in law to prevent a run-up of prices in America during a European war, with America strictly neutral, and asked him to confer with Agriculture, Commerce and Procurement. Morris had a meeting with representatives of these departments and there was a difference of opinion. Agriculture contended that all prices in such a situation should be regulated as they are now regulating the price of such things as wheat (Ha! Ha!). Peoples contended it should be done in cooperation with Army and Navy under the pending legislation for a War Resources Administration. As a result, Morris appointed two committees, one headed by Ezekiel to develop Agriculture's plan, the other headed by Admiral Peoples to consider the plan he had outlined.

I sent O'Connell to Admiral Peoples' meeting today with representatives from War, Navy and Justice. Leon Henderson was also there. At this meeting there was much talk about what could be done immediately, and without legislation, most of it in terms of various indirect pressures which might be applied.



FEDERAL RESERVE BANK OF NEW YORK

To: Confidential Files

Date: September 16, 1938

From: L. W. Knobe

Subject: Telephone Conversation
with Bank of England

Mr. Bolton called me at 12:45 today. Their total sales were just over \$20,000,000 up to that moment. The market was very quiet and steady. A good deal of the bidding for dollars originated with dealers who had previously gone short of dollars and long of gold in London and who were now reversing their transactions. In addition there were, of course, others, among them central banks, who were anxious to build up a small dollar reserve. There was no big market movement just now. Chamberlain had just arrived from his visit with Hitler and made an announcement which was quite pleasant. He had had a very friendly talk with Hitler, Chamberlain said, and intended to talk with him in Germany next week. Both he and Hitler were now quite aware of what was in each other's mind. That, Bolton was hopeful, would help to quiet the market down.

The question which was worrying him now was the effect of the cancellation by the insurance market of all war risk policies. The position in the insurance market at the moment was that there were certain underwriters who would quote 2s 6d percent for war risk on gold for immediate shipment to New York but the market was very small, probably not more than £500,000. They had taken up the question both with Lloyds and with the Government but it would take some time to arrive at a decision. They were, however, determined not to leave the situation in its present state. Meanwhile they were concerned about their private arrangement with us and had decided on the following program which he hoped would meet with our approval:

-2-

They will continue as usual to hold the dollar market as steady as they can and supply the market with dollars from the following sources:

- (a) their own present dollar balances.
- (b) their war reserve in Canada (I tried to find out how much that was but Bolton simply replied it didn't amount to much).
- (c) they will borrow dollars for short periods by means of swaps in the market.
- (d) they will use the gold now in transit \$45,000,000.
- (e) they are going to make the following additional shipments beginning next week:

\$15,000,000	on the	Normandie
10,000,000	" "	Samaria
15,000,000	" "	Manhattan
10,000,000	" "	Calendonia
10,000,000	" "	Paris
15,000,000	" "	Queen Mary
10,000,000	" "	Georgic
<u>\$85,000,000</u>	Total	

It will be up to the British Government to decide what they will do about insurance.

\$45,000,000 on the water and \$85,000,000 to be shipped in the near future they hope would cover

-3-

things during the next week or so. Meanwhile they would like us to continue our order for gold to be earmarked in London. They would, however, not make use of that unless there was a serious emergency. In addition to the two gold prices which he would continue to quote us as heretofore, he would give us two sterling rates, buying and selling, against which we could operate for his account if we felt so disposed and if we didn't want to take any more gold in London.

I replied that I thought that was a splendid program and that I was sure that our Treasury would appreciate this proof of their desire to even the burden between the two of us. I added that I was confident that the Treasury would want to continue the old gold orders (except at lower prices, of course, to meet rising insurance premia, etc.) and that it was everybody's wish here that he should make use of these orders if it was necessary. Also that I hoped that we would not make use of his sterling orders for his own account unless we should simply be swamped. I explained that this hope and belief on my part was based on the fact that to the best of my knowledge at least there was no intention whatever on the part of our Treasury not to continue as heretofore but on the contrary to do whatever we possibly could do. Bolton replied

-4-

that quite obviously the situation was a difficult one and that "we don't want you to participate in the risk."

Bolton then referred to our cable of last night #379/38, the third paragraph, in which we reduced the gold price to \$34.73, and asked me to tell him whether that applied, to past or to future sales. I replied that it would apply to dollars sold by him beginning today. Was that satisfactory? He said it was.

I inquired whether, in his opinion, it would be possible for them to pack some of the gold which we now held in London so that we could have it ready for shipment if, as and when an opportunity presented itself. I explained that I was aware of his recent request to give him several days notice when asking them to make shipment but that the purpose of my discussing this matter with him again was to try to have some gold ready for immediate shipment if, for instance, one of our banks which had arranged for shipment say on a Wednesday boat would come to us on Tuesday and offer us that space because they had decided to cancel their shipment. I suggested that he let this thing go through his head and talk to me the next time he was on the telephone. Bolton replied that everything depended upon the capacity of their bullion department which, as I knew, had been taken off its feet by the recent rush of gold to New York.

LWK:KW

Date: September 17, 1938

80

FEDERAL RESERVE BANK OF NEW YORK

To: Confidential Files

Subject: Telephone Conversation with
Bank of England

From: L. W. Knoks

I called Bolton at 9:15 this morning. He had probably read in the papers, I said, that one of our cruisers happened to be in European waters at present. If so happened, I continued, that this cruiser was scheduled to home waters in the near future. It might be possible for us to put some of our London gold on her (say \$25,000,000) which would give us more elbow room for future gold operations in London. What I would like him to do was to let this thing go through his head over the weekend and let me know early next week what he and his associates in the bank thought of such a scheme and how, in his and their opinion, news of such a use of an American cruiser would be received in Europe.

I had not half finished my speech before Bolton cut in to say that he could anticipate what I had on my mind. He knew that the Nashville was already in the Thames and that the Honolulu was arriving shortly. They had already discussed it but thought it probably best not to make any suggestion of this sort to us because they didn't know the relationship between our Treasury and our Navy Department. It would probably be a relatively simple matter for them to put some gold (Bolton said they had thought of £500,000) aboard the Nashville probably without any comment at all. "We people here think that we could probably get a fair amount of gold on either of these cruisers without causing a great deal of comment." The question would be whether the loading should be done in the lower regions of the Thames or whether the cruiser should put into Portland. Did I know the route which the cruiser was expected to take? I replied that I had no

-2-

idea; that, as a matter of fact, he seemed to have many more details about the names of the cruisers, their locations, etc., than I had here. Assuming that they could get the gold aboard quietly, Bolton continued, would this scheme cause a great deal of comment at our end. If the chances were that it would, wouldn't it then be better to be quite open about it and issue a frank statement explaining that the shipment was made because the insurance market had practically clamped down on war risk insurance. If there were any publicity it seemed to him it would be better to make a public statement. I replied that to the best of my knowledge there had been no discussion of this matter in the press but that I understood that early yesterday morning a news commentator had stated over the radio that according to information furnished by a high official something of this nature was under contemplation. I checked into the matter and had been informed that no official had discussed this matter with any outsider.

Bolton is going to think the matter over during the weekend and make some tentative inquiries among his associates and will call me on the telephone by noontime on Monday.

As regards today's market, Bolton said they had had a relatively nice morning; his sales had been \$3,000,000 in the market plus another \$3,500,000 to central banks, principally the Swedish Riksbank. The Swedes had shown more alarm during the present crisis than any other country in Europe.

Cyril B. Upham

- 1915 -- A. B. Morningside College, Sioux City, Iowa.
- 1915 -- Summer months in the law office of Carter, Brackney and Carter, Sioux City, in charge of commercial department.
- 1915-18 -- Graduate student in Government at the State University of Iowa; and during summers, research assistant for the State Historical Society of Iowa. Several monographs published.
- 1917 -- M.A. State University of Iowa.
- 1918 -- Ph.D. State University of Iowa.
- 1918 -- April-November -- In the United States Army, being discharged with rank of 2nd Lieutenant, Reserve Corps.
- 1918-19 -- Research Assistant, State Historical Society of Iowa.
- 1919-20 -- Instructor in Political Science, State University of Iowa.
- 1920-24 -- National City Bank of New York, New York City, in various departments in training for service with their foreign branches; later in the Commercial Credit Department of the Foreign

- 2 -

Banking Division, becoming a section chief; later assistant to an Assistant Vice President in the development of the bankers acceptance business of the bank, both foreign and domestic, including syndicate credits to cotton cooperative associations, and other cooperatives. During this period I took special courses in banking at Columbia University and the American Institute of Banking, New York Chapter, and did some writing in the banking field.

1924-29 -- On the staff of the Finance Department of the Chamber of Commerce of the United States, engaged in banking and financial research and writing; the analysis of financial legislation; and working with the Chamber Committees on banking, on Federal expenditures and revenues, and fiscal matters generally. During this period I served as Secretary for the National Conference on the Prevention of Fraudulent Transactions

- 3 -

in Securities, in cooperation with the Investment Bankers Association of America, the Better Business Bureaus, and the Securities Commissioners of the States. Also assisted in organization and financing of Flood Credits Corporation for relief and rehabilitation of flooded areas of the South.

- 1927 -- Ll.B. George Washington University Law School.
- 1928 -- Member of the District of Columbia Bar.
- 1929-33 -- Chief of the Banking Division, United States Daily. Supervision of the financial news of the Federal and State Governments for the paper.
- 1929-30 -- November-April -- Member of the Advisory Board of Shields and Company, New York Stock Exchange firm. . . .
- 1929-31 -- Lecturer on Commercial Law, George Washington University.
- 1930-32 -- Staff of Committee of Federal Reserve Board on Branch, Group and Chain Banking, specializing on group or holding company banking.

- 4 -

- 1931-33 -- Special writer on finance for the Consolidated Press Association.
- 1932-33 -- Editor of The Banking Week.
- 1932 -- Columbia University School of Law -- Adolf Berle's course in Law of Corporations.
- 1933 -- March-September; Research Department of United States Chamber of Commerce.
- 1933 -- September-December -- Staff of Brookings Institution, writing book on Closed and Distressed Banks, and special financial articles for their news service under the direction of Felix Morley.
- 1934 -- January-November -- Assistant to Herbert Gaston, Treasury Department.
- 1934 -- Gave course on "Banking and the New Deal" at American University School of Public Affairs Summer School.
- 1935-37 -- Lecturer on Banking, American University Graduate School.

- 5 -

- 1937-38 -- Adjunct Professor of Banking, American
University Graduate School.
- 1937-38 -- Lecturer on Money and Banking, American
Institute of Banking, Washington Chapter.
- 1938 -- Ll.D. Morningside College.
- 1934-38 -- Special Assistant to the Secretary of
the Treasury.

September 15, 1938



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

MEMORANDUM TO THE SECRETARY

September 17, 1938.

Reference: Procurement Division activities with respect to the work of the Temporary National Economic Committee.

The Procurement Division Group of the Treasury Department Sub-Committee of the Temporary National Economic Committee was established, in nucleus form, on July 25, 1938. Since that date the assigned staff, now consisting of three persons, together with personnel temporarily loaned, from time to time, by some of the permanent groups of the Division, has been continuously engaged in research, studies, and conferences necessary to define the scope of the work, to appraise the magnitude and the practicability in operation of the several possible methods of approach, and to determine upon a procedure that is both practically workable and reasonably sure to reveal the information sought.

A definite course of procedure was determined upon on September 10, 1938. The necessary inquiries supported by the requisite forms and explanatory circulars were placed in the hands of fifty-six executive departments and independent offices of the Federal Government on September 14, 1938.

The principal data sought are expected to reveal a comprehensive picture of the total dollar volume of all Federal Government purchases, the proportional part thereof that involves contracts arranged pursuant to receipt of identical bids, the numerical frequency with which identical bidding appears in the negotiation of government purchases, the various kinds of industries which follow the practice of identical bidding, the range of sizes of purchases in which the practice is encountered, and the geographical limitations, if any, of territories in which the practice is most prevalent in various commodities. The nature of the data expected to be received should permit numerous analyses corollary to the principal information sought.

The Procurement Division Group is now engaged in the arrangement of details of methods to be employed in the tabulation, coordination, and consolidation of data as they are received from the respective contributing agencies and in locating suitable personnel qualified to handle the specialized types of work required. The nucleus staff will be enlarged from time to time as the volume of work requires, with the first additions probable during the coming week.

J. H. Pepler
Director of Procurement

CORRECTED COPY

JR

PLAIN

London

Dated September 17, 1938

Rec'd 8:50 a.m.

Secretary of State,
Washington.

951, September 17, 1 p.m.

FOR TREASURY FROM BUTTERWORTH.

The attitude of grave caution continues in the absence of authentic news of the outcome of the Chamberlain-Hitler conversations. The dollar opened at the pro-former rate of 4.80 but the first dealings were done at 4.79-3/4 with the British fund giving dollars. The market was unusually idle with the rate changing little during the morning and closing at 4.79-3/4. 178 bars of gold were sold at the fixing at 144s, 9-1/2d giving a discount of about 1d to 1-1/2d, the price being fixed on the basis of private supply and demand. With reference to the last paragraph of 939, September 15, 6 p.m., notice was given last evening by the chairman of Lloyds the effect of which is to postpone from midnight tonight until midnight Monday the expiration of the original 48 hours notice of termination of war risk inclusion in policies.

The

-2- #951, September 17, 1 p.m., from London.

The postponement is publicly stated to have been made in order to give brokers a little more time in which to negotiate and issue separate policies covering war risks. Incidentally advices are reaching the London bullion market indicating that South African gold shipments may be temporarily held up pending clarification of the war risk insurance situation but the London bullion market believes that South Africa has substantial gold deposits in London so that presumably the amounts coming forward for sale will be maintained at a fairly normal level.

KENNEDY

CSB

RECEIVED

SEP 17 1950

INTERNATIONAL DEPARTMENT

U.S. DEPARTMENT OF STATE

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE September 17, 1936.CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

L. W. Knoke

I called Bolton at 9:15 this morning. He had probably read in the papers, I said, that one of our cruisers happened to be in European waters at present. It so happened, I continued, that this cruiser was scheduled to return to home waters in the near future. It might be possible for us to put some of our London gold on her (say \$25,000,000) which would give us more elbow room for future gold operations in London. What I would like him to do was to let this thing go through his head over the weekend and let me know early next week what he and his associates in the bank thought of such a scheme and how, in his and their opinion, news of such a use of an American cruiser would be received in Europe.

I had not half finished my speech before Bolton cut in to say that he could anticipate what I had on my mind. He knew that the Nashville was already in the Thames and that the Honolulu was arriving shortly. They had already discussed it but thought it probably best not to make any suggestion of this sort to us because they didn't know the relationship between our Treasury and our Navy Department. It would probably be a relatively simple matter for them to put some gold (Bolton said they had thought of £500,000) aboard the Nashville probably without any comment at all. "We people here think that we could probably get a fair amount of gold on either of these cruisers without causing a great deal of comment." The question would be whether the loading should be done in the lower

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE September 17, 1938.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

L. W. Knoke

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regions of the Thames or whether the cruiser should put into Portland. Did I know the route which the cruiser was expected to take? I replied that I had no idea; that, as a matter of fact, he seemed to have many more details about the names of the cruisers, their locations, etc., than I had here. Assuming that they could get the gold aboard quietly, Bolton continued, would this scheme cause a great deal of comment at our end. If the chances were that it would, wouldn't it then be better to be quite open about it and issue a frank statement explaining that the shipment was made because the insurance market had practically clamped down on war risk insurance. If there were any publicity it seemed to him it would be better to make a public statement. I replied that to the best of my knowledge there had been no discussion of this matter in the press but that I understood that early yesterday morning a news commentator had stated over the radio that according to information furnished by a high official something of this nature was under contemplation. I checked into the matter and had been informed that no official had discussed this matter with any outsider.

Bolton is going to think the matter over during the weekend and make some tentative inquiries among his associates and will call me on the telephone by noontime on Monday.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE September 17, 1938.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

FROM L. W. Knoke

BANK OF ENGLAND.

3

As regards today's market, Bolton said they had had a relatively nice morning; his sales had been \$3,000,000 in the market plus another \$3,500,000 to central banks, principally the Swedish Riksbank. The Swedes had shown more alarm during the present crisis than any other country in Europe.

LWK:KW

RECEIVED
SEP 19 1938
FEDERAL RESERVE BANK
OF NEW YORK
COMMUNICATIONS SECTION

EG

GRAY

Berlin

Dated September 17, 1938

Rec'd 10:10 a.m.

Secretary of State,
Washington.

452, September 17, 1 p.m.

The German press continues to attack the Czech Government with ever increasing violence. News items featured are the dissolution of the Sudeten German party, issuance of warrant for Henlein's arrest, the entrance into the Reich of a total of 23,000 Sudeten refugees, growing discontent among the Slovaks, Hungary's protest against Czech mobilization on its border and Praha's order demanding surrender of all arms and other instruments possible for use as such. The last clause of this order permitting the authorities to grant exceptions is interpreted to mean that the Government is arming the Communists and "underworld" elements against whom the Sudeten Germans will be rendered even more helpless to protect themselves than they already are.

Editorials represent largely a reiteration of the comment which has appeared during the last three days.

The

-2- #452, September 17, 1 p.m. from Berlin

The points emphasized are that European statesmen have now realized the necessity of Russo determination in Czechoslovakia and that Henlein's demand for a return to the Reich has found a "world echo", that in its obvious refusal to recognize this Praha is leading Europe toward a general conflagration, that Moscow is encouraging Praha in its present course and is endeavoring to create a second Spain in the heart of Europe and that Germany will not stand by and see this happen.

The BERLINER BORSEN ZEITUNG publishes on its front page a New York news despatch to the effect that on his return from Europe former Ambassador Schurman made a statement criticising the policy of the Czech Government for the last twenty years and supporting the right of the Sudeten Germans for self determination.

The noon press features alleged maltreatment of two members of the German Legation in Praha whose car was stopped by Czech soldiers.

WILSON

CSB

NC
This telegram must
be closely paraphrased
before being communicated
to anyone. (r)

Praha

Dated September 17, 1938

Rec'd 11:50 a.m.

Secretary of State

Washington

197, September 17, 1 p.m.

The nature of the Chamberlain conversations at Berchtesgaden continues to cause much speculation. Masaryk telephoned from London last night and stated that he had been unable to secure any information. A Foreign Office official told me that the Government was not consulted and had no advance notice of visit. He also said that the Government will not accept a plebiscite and the majority of the press correspondents agree, some holding that if the Government should agree to a plebiscite it would be overthrown by the people and a military dictatorship established. The feeling among the people is intense despite their outward calmness and those with whom the members of the Legation have talked have invariably said their people would fight rather than accept a plebiscite which in the peculiar circumstances would result in the transfer of the Sudeten territory to Germany. This present attitude

may

HC -2- #197 from Praha, September 17, 1938

may be altered however, if Great Britain and France relinquish a firm attitude toward support of this country. Reason for present attitude toward plebiscite is that the new boundary would bring Germany within 12 miles of Praha and a few miles of Pilsen and would make it inevitable that the whole of Bohemia and Moravia including their capital would soon be taken over and they claim they would rather go to war with certainty of defeat and die fighting than come under the domination of Germany with certainty of treatment similar to that of Austria.

(Gray) Yesterday the Minister of Railways stated publicly that no Government here could survive acceptance of a plebiscite and added that it could not prove a solution because of the large number of Germans outside the Sudeten area. Notwithstanding the violent German propaganda to the contrary the country is fairly quiet and no serious incidents have been reported during the past 36 hours. The Government is in complete control. There are many rumors afloat and people are apprehensive. The attempts of Sudeten agitators to call a general strike in the Sudeten area seems not to have succeeded after being condemned by the two largest German labor unions as harmful to the people of the Sudeten area. Henlein's proclamation expressing

NC -3- #197 from Praha, September 17, 1938

expressing the desire of the Sudetens to be incorporated in the Reich and the order advising Sudetens to defend themselves and resist state authority has given Government legal grounds for dissolution of Sudeten party which was done last night. Government pleased at favorable reaction from abroad to this measure and people here are enthusiastic in show of strength at a time when complaint was heard that the Government was too supine. (End Gray)

Confidentially informed that Benes is negotiating with the Slovaks looking to their participation in Government perhaps being offered two portfolios in Cabinet. German Social Democrats and a group of former Sudeten party moderates have also privately expressed their satisfaction at Government's strong stand in dissolution of Sudeten party as move for authority and peace. I am also told that officials are thinking of calling elections in December to establish new coalition.

CARR

G.V.

EG

GRAY

Bombay

Dated September 17, 1938

Rec'd 2:40 a.m.

Secretary of State,
Washington.

September 17, 11 a.m.

FOR THE SECRETARY OF THE TREASURY.

Political situation, dollar appreciation and an announcement that Lloyds was considering canceling war risk insurance schedule caused sharp fluctuations in the silver market. Ready opened at rupees 50-11 per 100 tolas shot up to 52-12 closed at 51-12. Stocks estimated at 3600 bars average daily offtake 30 bars. Imports during the week 1540 bars.

Opening steady around rupees 36-7 per tolas ready gold advanced to 36-9-6 closed at 36-6-3.

WATERMAN

CSB

EG
This message must be
closely paraphrased be-
fore being communicated
to anyone. (Br)

Paris

Dated September 17, 1938

Rec'd 12:16 p.m.



Secretary of State,
Washington.

1500, September 17, 5 p.m.

Bonnet has just informed me he and Daladier will
leave for London tomorrow morning. He has no informa-
tion with regard to the conversation at Berchtesgaden
or the conclusion of the British and expects none
before his arrival in London.

BULLITT

RR

JR
This telegram must be
closely paraphrased be-
fore being communicated
to anyone. (br)

Paris

Dated September 17, 1938

Rec'd 12:35 p.m.



Secretary of State,
Washington.

1499, September 17, 3 p.m.

The British Ambassador has informed me that on behalf of the British Government he has invited Daladier and Bonnet to go to London for a consultation with Chamberlain and Halifax. He added that his Government had not transmitted to him or to the French Government any account of the conversation between Chamberlain and Hitler at Berchtesgaden or any indication as to the proposals which the British Government had drawn up. This statement has been confirmed to me by the French Government.

The British Ambassador said that both the account of the conversation and the British proposals would be submitted to the French Ministers on their arrival in London.

Since both Daladier and Bonnet have been at Rambouillet today lunching with the King of Bulgaria, it has been impossible to ascertain the exact hour of their departure for London.

BULLITT

RR

NC

GRAY

Berlin

Dated September 17, 1938

Rec'd 4:25 p.m.

Secretary of State

Washington

455, September 17, 7 p.m.

The evening papers continue to indulge in bitter invective against Praha. Various additional acts of Czech oppression are featured; notably the shooting of deserters from the army of four Sudetens. The report is emphatically denied that Henlein has fled to Germany. It being stated that although his present whereabouts must obviously be kept secret he yesterday visited Eger where he conferred with several of his followers. Other Sudeten party leaders are said to have refused to quit their posts and a message from Kundt is quoted which urges the Sudeten Germans to maintain iron nerves and "to wait until the fateful convention between Hitler and Chamberlain has ended".

Editorial comment concentrates on attacking Benes and on revealing the influence of Moscow on Czech policy analogous to that exerted in Spain.

WILSON

ROW
EMB

NC

GRAY

Brussels

Dated September 17, 1938

Rec'd 7:55 p.m.

Secretary of State

Washington

88, September 17, 9 p.m.

FOR THE PRESIDENT AND THE SECRETARY OF STATE.

See my telegram 83 September 2, 10 a.m. and 87,
September 13, 3 p.m.

Concerning the situation from this angle, I have to
advise further as follows:

The situation here in Belgium and Luxembourg is character-
ized by a calm attitude. Nevertheless there is acute appre-
hension over this Czechoslovakian crisis.

Following Hitler's speech and before Henlein's demand
for secession, meetings of the Belgian Cabinet were called.
My information warrants the statement that for the past
several weeks troop movements have been quietly made in
Belgium in anticipation of any eventuality.

In Luxembourg it is indicative of the Government's
attitude that the Foreign Minister was suddenly recalled
from attendance at the League of Nations meeting at Geneva
and that the Grand Duchess has cut short her holiday and
returned to the capital. Some days ago there were

indications

NC -2- #88, September 17, 9 p.m. from Brussels

indications of panicky fear lest Luxembourg might be made the first battle ground through attempts at occupation by either the French or the Germans. This fear has subsided somewhat, influenced by the opinion expressed in some official quarters that there is little probability of such an eventuality under present conditions because the impregnability of the Belgian, French and the German frontier defenses makes Luxembourg strategically less important. I personally travelled along the frontier on the Luxembourg side this week and saw miles of newly erected barbed wire entanglements and great activity in concrete construction on the German side.

Chamberlain's dramatic visit to Hitler generally is regarded as a noble and daring effort but the dominant conjectures seem to be that if a solution is to be immediately projected from the proposals made it must come through speedy acceptance by Great Britain and France and Czechoslovakia of what is suspected to be Hitler's final demand for complete separation of the Sudeten areas from Czechoslovakia either through political or through territorial revision and absorption by the Reich and the neutralization of the remaining Czechoslovak state. Apprehension and fear arise out of
what

MC -3- #88, September 17, 9 p.m. from Brussels

what decision the democracies may make.

In spite of the strong attitude taken by Britain and France last week in backing Czechoslovak's fourth plan with even the threat of war, the opinion seems to be growing here that the resistance of both London and Paris is weakening even to the extent that they may possibly accede to Hitler's terms in a final desperate concession to avoid the horrors of war and to effect what might be regarded as a permanent composition of European peace. There is more certainty in the conjecture as to what Hitler's demands are than there is in what may be the French attitude and the British attitude after Parliament is convoked.

Outstanding in the public reaction among Belgians is the conviction, held with extreme satisfaction, that events have served to emphasize the wisdom of Belgium's policy of isolation and independence.

DAVIES

ROW
EDA

RESTRICTED

MM

104A

Paraphrase of Code Radiogram Received at the
War Department September 17, 1938

From Berlin

Sept. 17, 1938

9:55 a.m.

#768, Sept. 17.

The question of Sudeten autonomy now a dead issue. A plebiscite or German-Polish-Hungarian intervention is now the only solution. In North Germany no mobilization or concentration of troops has taken place. It is also probable that no abnormal military measures have been taken in South Germany. From Austria and Silesia no reports have been received.

SMITH

RESTRICTED

CONFIDENTIAL

G-2
J M

104 B

G-2/2657-II-90

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

W.M.

September 17, 1938.

MEMORANDUM NO. 14 FOR THE CHIEF OF STAFF:

Subject: The present European situation to
midnight, September 16-17, 1938.

General Situation. No change.

Military Situation. The following information,
dated 9:55 A.M., September 17, 1938, was received from the
Military Attache in Berlin:

"The question of Sudeten autonomy now a
dead issue. A plebiscite or German-Polish-
Hungarian intervention is now the only solu-
tion. In North Germany no mobilization or
concentration of troops has taken place. It
is also probable that no abnormal military
measures have been taken in South Germany.
From Austria and Silesia no reports have
been received."

Otherwise no known changes in the military situa-
tion.

CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE: September 17, 1938

TO Secretary Morgenthau

FROM A. Lochhead

Close SEPT. 17, 1938

GOLD HELD IN LONDON

\$188,000,000

Insurance arranged for following ships:

<u>Sailing</u>	<u>Steamship</u>	<u>Amount</u>
Sept. 21	Normandie	\$11,300,000
Sept. 23	Manhattan	11,300,000
Sept. 24	Paris	<u>11,000,000</u>
		\$33,600,000

J.P.M.

Sunday¹⁰⁶

P.M.

Dear Mr Secretary:

9-18-38

Here are some telegrams.

The two key telegrams,

however, the Secretary prefers to

not left on your house even in

paraphrase, but if you will

telephone me when you get in,

I shall run over to your house,

so that you can read them &

then lock them up again. There

are 2 files of 2 copies, the

Pr's & the Sec's, & it is the latter

I shall bring over.

My number is North 42-81

Yrs
Perceps M. M. M.

PARAPHRASE OF TELEGRAM

FROM BERLIN

No. 456, September 18, 2 p.m.

Strictly Confidential

Henderson and I just had a long conversation.

Henderson is under greater stress of emotion than I have ever noticed in him and he awaits with quite evident lack of patience the London Cabinet's decision and the results of the Daladier conversations. There was not given to Henderson by Chamberlain a real idea of what was in the mind of the latter. Chamberlain contented himself with a resumé of his talk with Hitler. Henderson feels extremely apprehensive of any delay. In fact he was, he said, in despair over the circumstance that he had preached for four months that it was urgent, that back home he had been listened to by nobody, and that he was, he felt, a voice in the wilderness.

No more than did Weizsacker did he try to give an account in detail of the Berchtesgaden conversation. All the same I got the same impression of the situation as I got from what I was told by Weizsacker, and there was even use of the same words "cession of territory". It was explained by Henderson that Chamberlain had employed this phrase and that in his mind it was probably the synonym of self-determination.

The telegrams which Henderson had sent to London in the past two days were brought out. He made the following points. Chamberlain's coming forestalled

-2-

military action. Chamberlain has been promised by Hitler, and Hitler will not break his promise unless calamitous events occur in Czechoslovakia, that no military move will take place until Chamberlain and he can hold the next meeting. It has been vigorously reported by Henderson that should the Western Powers refuse the adoption of the right of self-determination or even adopt it hedged about with numerous conditions, to talk to Hitler again will be quite useless. In fact, Hitler will march and the result will be general war in Europe. On the contrary, if the British and the French are willing unconditionally to adopt the principle of self-determination in their talks with Hitler it should be possible for them to gain certain concessions with regard to the manner of effecting this principle. Henderson has urged a further necessary point in that pressure to accept self-determination be put upon Benes at once. Naturally the very serious risk exists that there will be refusal on the part of Benes or that in the event that he accepts self-determination the Czechoslovak people will revolt. Should this occur Germany will intervene and a local war will occur.

SECTION II No. 457, September 18, 2 p.m.

It is argued by Henderson and it has been so reported by him that there remains the choice, if war must come out of this, between a widespread war on a poor cause

-3-

which involves the reputation of the democratic idea of self-determination or a small limited war. To his mind the ^{best} choice is clear. As he puts it, England and France must make the choice between war with Germany and the adoption without conditions of the principle of self-determination. If the second is chosen they will necessarily, however repugnant they may find the task, have to force Benes to accept. If the idea of self-determination finds acceptance, the coercion of Benes in some way can not be avoided, either through friendly pressure by the British and French or German armed pressure.

A gathering of troops north of Vienna in Austria is also being reported by Henderson. He is not certain but he believes that there are going forward certain military preparations near Breslau (see my 451, September 15, noon, reporting summary by military attaché) I have just been told by our military attaché that the Commander-in-Chief and the Chief of Staff last night entertained the military attachés at dinner in East Prussia. Accordingly it is obvious that there was no incident contemplated.

I was told by Henderson that just before he left Nuremberg his Government had telegraphed him to stay and to send word to Ribbentrop that there was forthcoming an urgent message.

For the reason that Henderson recognized the peril of an additional warning, he did not either notify the

-4-

German Foreign Minister nor remain at Nuremberg, and he told his Government so. This incident must have happened at just about the same moment as Henderson gave to the press his statement.

Yesterday afternoon the British Ambassador saw Goering at the (?) Karinhall and urged upon him to do everything in his power for the maintenance of peace, no matter what the provocation, until Hitler could again talk with the British Prime Minister. Henderson was reassured by Goering in this respect and declared that Hitler had given his word and that unless there was some calamitous upheaval in Czechoslovakia, nothing would be done until there had been started further negotiations. It was said with emphasis by Goering that to attach any conditions in accepting self-determination would be provocative and of no use, and he urged that the British Government be told so by Henderson. In regard to German preparedness Goering spoke in confident terms and as for the air, it was declared by him that Great Britain, Czechoslovakia and France combined were weaker than Germany. Goering did not bluster, according to Henderson, but his very restraint was ominous. According to Goering he was expecting visits from the Hungarian Minister and the Polish Ambassador and he expected that they would both talk about their minorities in Czechoslovakia and make

-5-

the request that in any settlement these minorities should be taken care of. It was said by Goering that he intended to say that the German interest was in the Sudetens only and not in what might happen to any other part of Czechoslovakia.

This message is not being repeated to London or Paris because of the reasons mentioned in my 453. It may be desired by you to inform them.

WILSON

PARAPHRASE OF TELEGRAM

FROM PRAGUE

No. 204, September 18, midnight.

I was informed today by the Minister of Foreign Affairs that it was his emphatic belief that the unity of Czechoslovakia is complete with regard to defending the country, this unity including even the Communists among whom are splendid soldiers and who are considered to be a strong factor in the defense of the country because of the communists' horror of Nazidom and because of their anti-Fascist opinions.

The fact that Slovak participation in the Government coalition would be invited (my no. 197) was confirmed by him and he remarked that in the defense of Czechoslovakia all Slovaks including the followers of Hlinka would join.

There has been made a protest by the German Under Secretary for Foreign Affairs to the Czechoslovak Chargé d'Affaires against the reported Czechoslovakian troop mobilization. According to the Czech Minister for Foreign Affairs there has not been mobilization but some thousands of reservists have been called to man the border fortifications which had been virtually emptied of troops because of withdrawals to preserve order. Furthermore to maintain state authority and to defend the nation the present move was absolutely indispensable.

-2-

With regard to the address by Mussolini today his opinion was expressed that although the Duce would like a conflict to be localized, nevertheless if there should occur a war with the Powers lining up, on the German side there would be found Italy and this in spite of the fact that everyone except Mussolini in Italy is aware that in the long run it would be disadvantageous to their country.

Answering my inquiry it was said by the Foreign Minister that there had been made arrangements to evacuate the Government on the Slovakian-Moravia line but that this evacuation would only be emergency action to be preceded by the setting up at the selected location of a skeleton organization of government departments. It was emphasized by me that all my inquiries were indicative of no special worry but corresponded merely to measures in anticipation. The Foreign Minister declared that this was understood by him and that his own government had been thinking in exactly the same terms as this.

Although this Government's maintenance of an unyielding attitude with regard to a plebiscite has been fully known to me nonetheless I discussed the matter once more. I was left by him altogether unconvinced of the adequacy of his argument against a plebiscite. His references were merely to geographic, economic and historical considerations and this did not seem to envisage conceding the

-3-

plebiscite for the sake of avoidance of the frightful consequences of general war in Europe.

CARR

September 19, 1938

The President says that it is his opinion that the Czechs will fight and I told him that I thought the Czechs would fight. He says that he has thought out this idea to get word to France that if she gets into this fight that she is not to attack but stay behind the Maginot line and that the countries surrounding Germany if they decide to go to war should make it a defensive one and then both on land and sea to shut off Germany's supplies. He asked me what I thought about it. I said, "I think it's an excellent idea; that if properly carried out there is a 60-40 chance of bringing Germany to her senses". And the President added, "If the various countries should attack Germany they only have a 40-60 chance of being successful".

The President gave me the feeling that he is ready to go pretty far in demonstrating United States sympathy in such a move. He said, "The time is past for speeches on my part". I said, "How are you going to get this across to the English and French". He said, "That is my worry". He said, "What about Kennedy?" I said, "You know, Mr. President, you can't trust Kennedy" and he said, "That is right". He said, "What about Bullitt?" I said, "You can trust Bullitt absolutely, unless his emotions get the best of him". The President said, "I guess my best bet is the old boy up at the British Embassy". (meaning Sir Ronald Lindsay) And I said, "I think that is right". I said, "When are you going to do it" and he said, "If I am going to do it, I am going to make a move this afternoon". He said, "Bullitt is coming in at 2 o'clock and I am going to put it up to him".

I then did something which I had never done before - I criticized Hull to the President. I said, "You know Mr. Hull, as represented to the public, is about 100% different than the real Mr. Hull". The President agreed readily. I was encouraged. I said, "You know last June or July you put up to him this question of assisting the Chinese and he followed his usual policy by trying to wear all of us out and then do nothing". The President said, "That is right"

I said, "You know, Mr. President, if we don't stop Hitler now he is going right on down through the Black Sea - then what?" I said, "The fate of Europe for the next hundred years is settled". "There is no question in my mind that if the countries around Europe would establish a blockade we could choke Germany to her knees and that is our last chance."

The President said he saw no reason why we should not give this gold shipment publicity.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Sept. 19, 1938

TO Secretary Morgenthau
FROM Herman Oliphant

Re: Spanish Silver Litigation

Gonzala Zabala, a Vice President of the Bank of Spain, recently came to this country on business for the Loyalist Government. When Sullivan and Cromwell learned of this they sought to examine him as a witness. After discussing the matter with us the Spanish Embassy asked the State Department to recognize Zabala's diplomatic status so that he would not have to testify. The Spanish Embassy has just told us that State Department has refused to issue the certificate recognizing Zabala's diplomatic status. I suggest that you telephone Hull, tell him of our interest in the matter, and ask that the proper certificate be issued immediately.



TREASURY DEPARTMENT

117

INTER OFFICE COMMUNICATION

DATE: September 19, 1938

TO: Secretary Morgenthau

FROM: M. A. Harris

A Short Review of the U. S. GovernmentSecurity Market during the Past Week

Wide fluctuations were shown in the government security market on most days of the past week and substantial net losses were recorded by both Treasury bonds and notes. Losses by Treasury bonds ranged from about $3/4$ s of a point to $1\ 1/4$ points and losses by Treasury notes ranged from $1/4$ of a point to $3/4$ s of a point. These losses, plus an average loss of about $1/2$ of a point by bonds in the last three days of the previous week, places the average of those issues due or callable after eight years about $1\ 3/8$ points below that of September 7th, the day before the terms of the September financing were made known.

During the entire week the market was continuously under the influence of developments in the Czechoslovakian crisis. The new financing, which substantially increased the supply of securities in the market, and the acceptance of subscriptions for \$100 millions more of the securities than had been previously indicated, thus giving the market a larger supply than had been anticipated, also were factors in the course of the market. Although the response to the financing program was most satisfactory, the new issues were particularly vulnerable when the market weakened due to news from abroad. On Monday, when news was particularly upsetting, prices started downward and as a result the premiums on the new issues were substantially reduced. This brought about heavy selling

-3-

of the new issues by the so-called "free riders". Buyers, such as insurance companies, who usually enter the market following a financing were reluctant to do so and as a result the weakness became more pronounced. Although selling was centered in the new issues, the lower price of these issues brought on a correspondingly lower level of prices on outstanding issues. Nevertheless some buying support from time to time was given the market by large banks and insurance companies.

The new 2 1/2s of 1950/52, which were quoted on September 8 as high as 101 1/2 on a when issued basis, opened the week at 101.4/32nds bid, reached a low of 100.12/32nds bid and closed the week at 100.15/32nds bid. The 1 1/8% Treasury notes due 6/15/43 reached a low of 100.5/32nds bid, after having been quoted as high as 101.8/32nds bid on September 8, and closed on Saturday at their low of 100.5/32nds bid.

Dealers' Portfolios

Below is given the holding of U. S. Government securities and guaranteed obligations by reporting dealers on September 10 and 17th and the change for this period. Also given is the total holding, as well as the holding of Treasury bonds on each day last week:

(in millions of dollars)

	<u>Holdings</u> <u>Sept. 10</u>	<u>Holdings</u> <u>Sept. 17</u>	<u>Change</u>
Treasury bonds	4 31.4	4 21.1	- 10.3
" notes (1 year)	4 46.9	4 46.8	- 0.1
" " (1-5 yrs.)	4 13.6	- 1.7	4 15.3
" bills	4 8.1	4 7.6	- 0.5
H.O.L.C. bonds	4 17.2	4 5.5	- 11.7
F.F.M.C. bonds	4 2.4	- 3.8	- 6.2
	4 92.4	4 78.9	- 13.5

-3-

	<u>Total holding by dealers</u>	<u>Holding of Treasury bonds by dealers</u>
Sept. 12	\$ 126.2	\$ 42.4
13	\$ 104.5	\$ 29.5
14	\$ 88.6	\$ 25.6
15	\$ 90.4	\$ 26.3
16	\$ 84.4	\$ 24.1
17	\$ 78.9	\$ 21.1

From the above figures it can be seen that dealers reduced their total holdings during the week \$47,300,000, of which \$21,300,000 was from their holdings of Treasury bonds.

New Security Issues

Corporate security financing this week amounted to \$27,000,000 which was largely made up of the \$25,000,000 offering of Atlantic Refining Company debenture 3s of 1953, rated A by Moody's. This issue was offered at 99 and was very well received. Municipal bond awards amount to about \$7,300,000.

Corporate Bond Market

Although all sections of the market lost ground during the past week, the movement of prices was usually confined to fractions, with the exception of Wednesday when news from abroad was particularly unsettling. Daily volume was increased but turnover did not exceed moderate proportions.

High grade bonds held steady on early days of the past week, dropped about 1 point on Wednesday and recovered somewhat the last part of the week. Moody's AAA bond price average at the end of the week was about 1 1/8 points below the highest levels reached in August and about 1/4 point above Wednesday's low. Medium grades slumped about 1 3/8 points Wednesday and, unlike the AAA issues, did not recover during the balance

-4-

of the week. Moody's BAA bond price average finished $3 \frac{1}{4}$ points below the highest levels reached in August.

Foreign bonds were weak throughout the week and on Wednesday the break was the broadest since the beginning of the present European situation. On that day 90 percent of the issues selling registered declines, with the weakness most pronounced in the Prague 7 $\frac{1}{3}$ s of 1952, which lost 7 points for the day and the Czechoslovakian 8s of 1951 which lost $3 \frac{1}{2}$ points.

Federal Reserve System Account

For the purpose of maintaining an orderly market during periods of decline \$75,032,000 U. S. Government securities were purchased, consisting of \$20,002,000 1 $\frac{1}{8}$ % Treasury notes due 6/15/43 and \$55,030,000 various Treasury bonds. Under the arrangement between the Treasury and the System that purchases be divided on a 50-50 basis, the System's share was \$37,767,000, which consisted of all the notes and \$17,765,000 Treasury bonds. It is my understanding that these purchases will be used in replacement of Treasury bills maturing on Wednesday.

The only other transactions were the replacement of last week's bill maturity amounting to \$66,600,000 by purchases of a like amount of other Treasury bills and exchanges in the market of \$4,000,000 of 1 $\frac{5}{8}$ % Treasury notes due 3/15/40 for \$3,000,000 of the 1 $\frac{1}{2}$ % Treasury notes due 6/15/40 and \$1,000,000 of the 3 $\frac{3}{8}$ % Treasury bonds of 1940/43

- 5-

Treasury Accounts

The Treasury's share of the purchases mentioned above was \$37,255,000, all of which were bonds. \$25,000,000 of these bonds were taken by the Government Life Insurance Fund and the balance, \$12,255,000 by the Postal Savings System.

The only other transactions were the following purchases:

\$43,000	2 3/4s	of 1958/63	a/c	D. C. Teacher's Retirement Fund.
100,000	"	"	a/c	Alien Property Custodian.
250,000	"	"	a/c	U. S. Housing Authority.

Note: This memo does not take into consideration the improvement in the tone of the various markets today which, in the case of Treasury bonds, amounted to gains of 4 to 8/32nds and, in the case of Treasury notes, 1 to 5/32nds.

TREASURY DEPARTMENT

122

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE September 19, 1938

TO Secretary Morgenthau
FROM Mr. Haas *MA*
Subject: The Business Situation,
Week Ending September 17, 1938.

Conclusions

(1)

Current indices of business activity, reflecting commitments made some time back, continue to be well maintained though some slight evidence of a slackening tendency has appeared recently. The FRB index for August (preliminary) stands at 86, showing a gain of 3 points over July. The New York Times index dropped back somewhat during Labor Day week, after advancing for six weeks. Barron's weekly index has for three weeks shown signs of levelling off.

(2)

The sharp break in stock prices this week, which has carried the industrial stock average to the lowest level since the end of June, has forcibly brought home to American businessmen the seriousness of the war situation. It appears to confirm other indications pointing to some interruption in the recovery trend this fall; first, because the decline in stock prices will adversely affect new buying; and second, because the drop in industrial stocks below the lowest prices of July and August, following earlier declines of the railroad and utility groups, will be accepted in many quarters as indicating fundamental weakness in the business outlook.

(3)

Business in some lines has already begun to be affected by the crisis abroad. A resort to hand-to-mouth buying in the last few days is reported from the textile, shoe and leather trades. Previous to the market break, a declining trend of orders for lumber, and a less satisfactory demand for steel in some important districts, had been reported. In certain war commodities, on the other hand, a speculative run-up in prices has occurred.

Secretary Morgenthau - 2

(4)

The experience of 1914 provides no adequate guide to what may happen to our economy in case of war, since conditions now are radically different. An analysis of the possible reactions suggests that (1) the first impact, as in 1914, would be a rush for liquidity on the part of domestic security holders but with foreign liquidation probably a much less important immediate factor; (2) Government bonds would be more vulnerable than in 1914, owing to the much larger volume outstanding and to their concentration in banks as speculative investments, although increases in both short- and long-term interest rates would be held in considerable check by the far stronger position of the American banking system: \$3 billions of excess reserves, huge gold reserves, and little possibility of great foreign demand for repatriation of funds.

Outlook affected by market decline

The sharp break in the stock market this week is significant in the business picture from two points of view: it brings strikingly to the attention of American businessmen the seriousness of the European situation, and it provides the first clear warning that everything may not be satisfactory in the domestic business outlook.

During the past month or more an almost unanimous belief developed in this country that a fall business boom was in the making, and that it would become evident after Labor Day. Yet the trend of industrial orders showed no indication of such a boom, and some evidence appeared that the rate of activity during August reflected in part a speculative anticipation of orders. Actual orders have not materialized as expected, apparently because of the weakness in the foreign situation and its resulting pressure on commodity prices. With the psychological background somewhat unfavorable to begin with, business confidence has been severely shaken by the stock market break. The fact that industrial stock prices have dropped below the lowest levels of July and August, following previous similar action by the railroad and utility groups, will raise the question in many quarters as to the soundness of the domestic business outlook.

Secretary Morgenthau - 2

(4)

The experience of 1914 provides no adequate guide to what may happen to our economy in case of war, since conditions now are radically different. An analysis of the possible reactions suggests that (1) the first impact, as in 1914, would be a rush for liquidity on the part of security holders but with foreign liquidation probably a less important immediate factor; (2) Government bonds would be more vulnerable than in 1914, owing to the much larger volume outstanding and to their concentration in banks as speculative investments, although increases in both short- and long-term interest rates would be held in considerable check by the far stronger position of the American banking system: \$3 billions of excess reserves, huge gold reserves, and little possibility of great foreign demand for repatriation of funds.

Outlook affected by market decline

The sharp break in the stock market this week is significant in the business picture from two points of view: it brings strikingly to the attention of American businessmen the seriousness of the European situation, and it provides the first clear warning that everything may not be satisfactory in the domestic business outlook.

During the past month or more an almost unanimous belief developed in this country that a fall business boom was in the making, and that it would become evident after Labor Day. Yet the trend of industrial orders showed no indication of such a boom, and some evidence appeared that the rate of activity during August reflected in part a speculative anticipation of orders. Actual orders have not materialized as expected, apparently because of the weakness in the foreign situation and its resulting pressure on commodity prices. With the psychological background somewhat unfavorable to begin with, business confidence has been severely shaken by the stock market break. The fact that industrial stock prices have dropped below the lowest levels of July and August, following previous similar action by the railroad and utility groups, will raise the question in many quarters as to the soundness of the domestic business outlook.

Secretary Morgenthau - 3

Though the market decline has been generally attributed to the war crisis, some economic writers have already begun to raise the question of its significance in the outlook for business. The *Annalist*, for example, says that the "collapse in stock prices has introduced a new element of uncertainty into a situation in which the prospects for uninterrupted recovery were already becoming somewhat less clear. Aside from the increasingly critical nature of the European position, there has been observable a tendency toward a slackening in the rate of recovery, despite brisker retail trade and despite the unquestionably satisfactory nature of August trade statistics."

The New York Times index for the week ended September 10 declined to 84.5, as compared with the previous week's figure of 85.3, after having advanced for six successive weeks, though the decline may have been due to imperfect adjustment for the Labor Day holiday. Barron's weekly business index has tended to flatten out for three successive weeks.

The FRB index for August, estimated at 86, showed a 3-point gain over July largely because of a sharp improvement in steel and textiles. Steel activity at present is apparently running at a rate in excess of current orders. Cotton mill activity has been declining since the middle of August, following its very sharp summer rise. (See Chart 1.)

Some curtailment of orders reported

The less optimistic views of business analysts, together with the impact of the market break itself, seems very likely to cause a further curtailment of new buying. Since factories now, in most industries, have no large backlogs of orders to sustain production, this would be reflected very soon in a curtailment of operations.

Some evidence of curtailed buying following the European crisis has already appeared, according to trade reports. In the Worth Street textile market, sales fell off markedly as buyers held aloof and watched European developments. Until the uncertainty dies down it is felt in the trade that buying of textiles will be confined to nearby needs.

In the shoe and leather trade, despite a bullish domestic situation, buyers are reported to be unwilling to make advance commitments under present uncertainties and for the time being have adopted a hand-to-mouth buying policy.

Secretary Morgenthau - 4

Representatives of the lumber trade, confirming our previous opinions, explain the decline in lumber orders since the middle of July as having been due to previous excessive buying, which went into inventories. Our figures show a steady decline in average orders per mill from 505,800 board feet during the week ending July 16 to 364,500 board feet during the week ending August 27.

Steel orders so far in September, according to the Iron Age, have failed to expand as much as had been expected. In the Pittsburgh district, while incoming business is reported as slowly improving, it does not show the same activity as a month and a half ago. For the Chicago district, second in importance, it is stated that "A note of disappointment is apparent in this district, due probably to the failure of specifications from all sources to expand as rapidly after Labor Day as opinion indicated they might." Our confidential reports from the U. S. Steel Corporation show orders last week at the same level as the previous week, equivalent to about 77 per cent of capacity.

Buying in the markets for certain traditional war materials, such as wheat, sugar, copper, and other non-ferrous metals, has become more active. A considerable part of the buying, however, is apparently speculative, part of it representing short covering.

The situation in 1914

In referring to the trends of economic indices in 1914 (See Chart 2) for guidance in estimating the effect of war on our economy, it must be kept in mind that the 1914 situation in certain important respects offers no parallel to the present situation:

1. The large volume of foreign holdings of our securities are of a different character from those in 1914. Being here primarily for safety rather than for investment, foreign holdings are not likely to be liquidated and repatriated on the outbreak of war. Moreover, there is high probability that much of such holdings would be nationalized by foreign governments and arrangements subsequently made for their orderly liquidation.

Secretary Morgenthau - 5

2. The character of the Government bond market is now entirely different, hence, the stable tendency of high grade bonds in 1914 cannot be considered as a precedent. With the present huge volume of Government securities outstanding, largely held as a semi-speculation by banks, the bond market would be much more vulnerable to any rush for liquidity, although increases in both short- and long-term interest rates would be held in considerable check by the far stronger position of the American banking system: \$3 billions of excess reserves, huge gold reserves, and little possibility of great foreign demand for repatriation of funds.

As we view the situation, a break in the securities markets at the outbreak of war, largely as a result of liquidation by domestic holders, would be unavoidable. The crisis during the past week, we believe, was sufficiently acute to provide some guide to the probable reaction to an actual declaration of war. Business would almost certainly be affected rather quickly, since the lack of any large backlog of orders and the recent tendency to accumulate stocks have made business vulnerable to adverse developments.

The present outlook

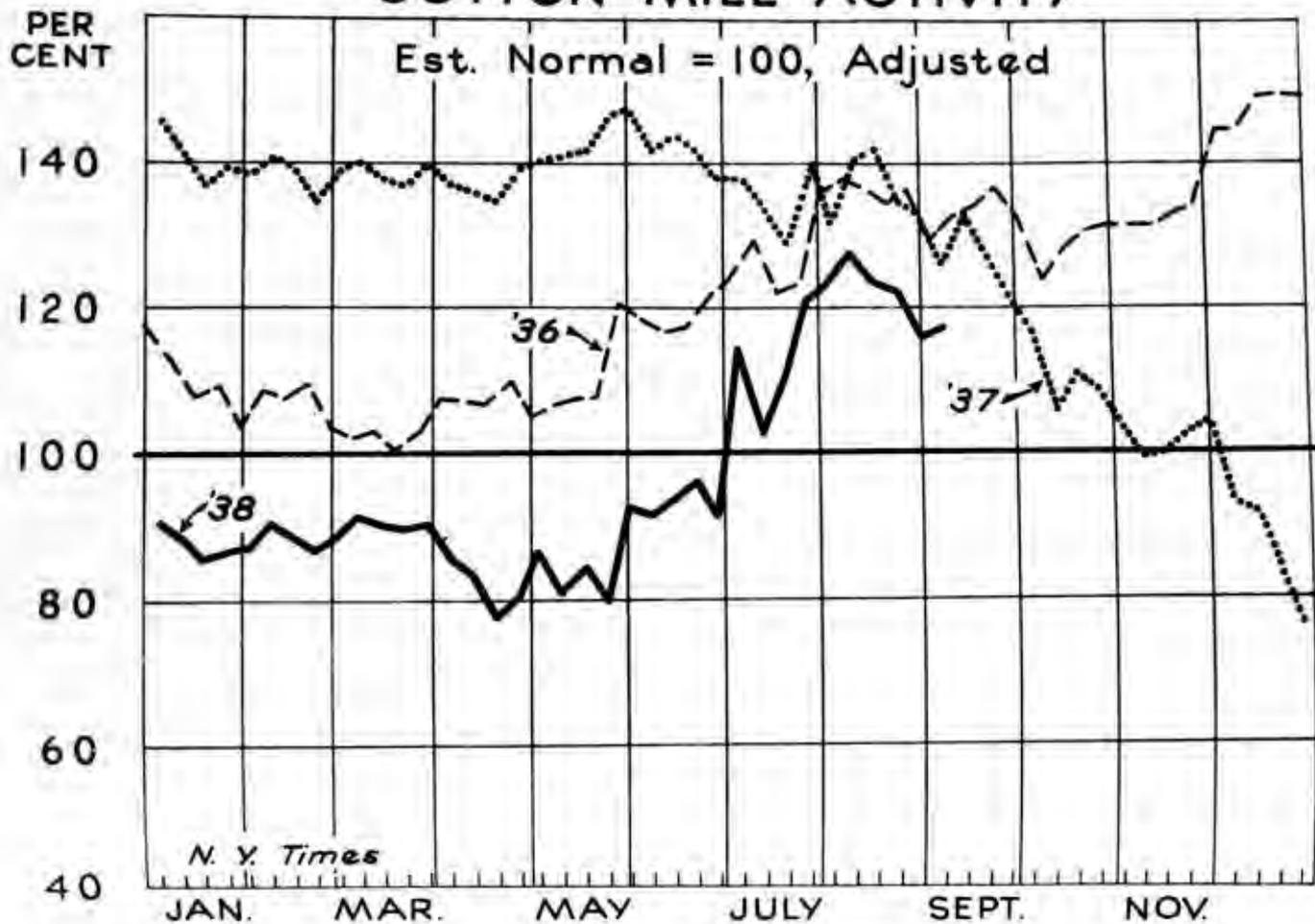
Excluding the war factor, an analysis of the immediate outlook suggests that business recently has become over-optimistic, has gone ahead somewhat too rapidly to be maintained, and that temporarily at least a period of irregular or declining business activity is probable. Having apparently turned the corner into an upward trend, however, business has gained a momentum which will tend to support it on any setback and will make a further recovery easier when the next favorable development occurs.

It seems doubtful that a peaceful settlement of the Czechoslovakian problem would prevent a period of irregularity this fall. While it would tend to strengthen foreign currencies, and bring a strong improvement in international business sentiment, it would probably not be sufficient to offset the evidence of underlying weakness in the business situation which had begun to appear before the European crisis gave business its recent shock. This has been reflected in our new orders index, shown in Chart 3. Contrary to widespread expectations of an

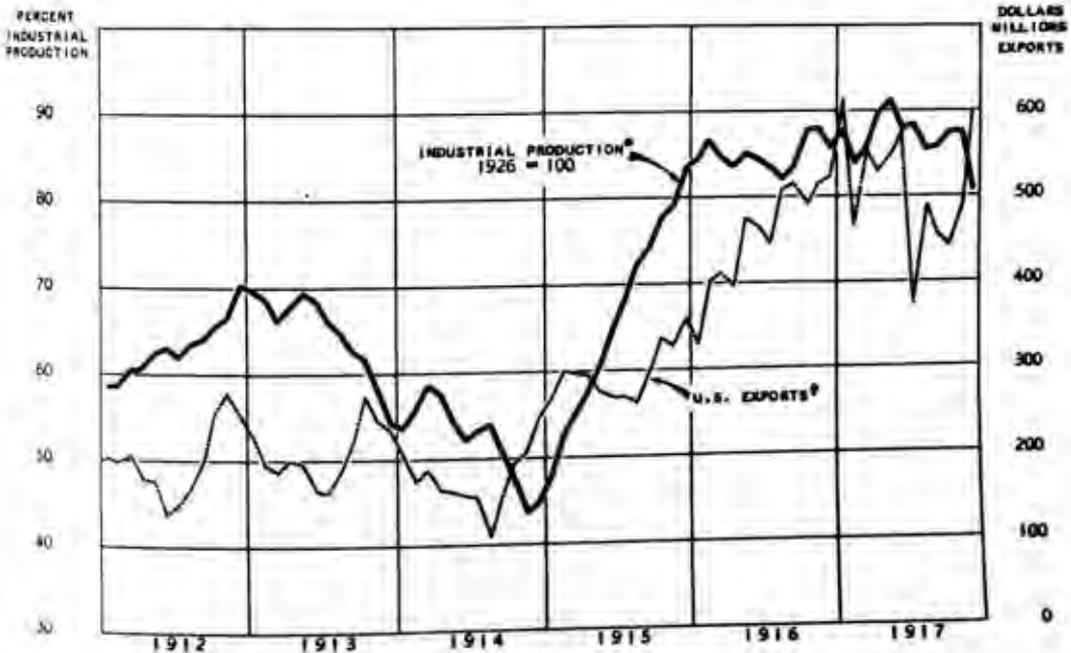
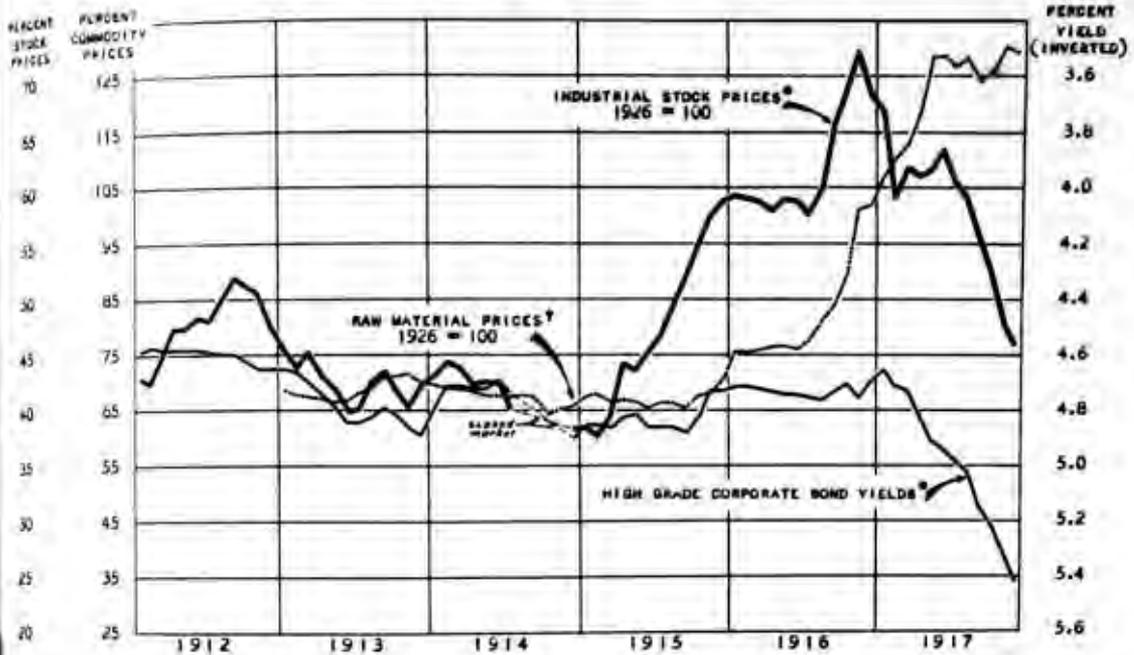
Secretary Morgenthau - 6

improvement in orders during September, our total index for the second week of September (preliminary) declined to a low that has been reached only once since the third week of June. While steel orders have improved moderately, other orders have shown further declines.

COTTON MILL ACTIVITY



**SELECTED ECONOMIC INDICES
1912 - 1917**



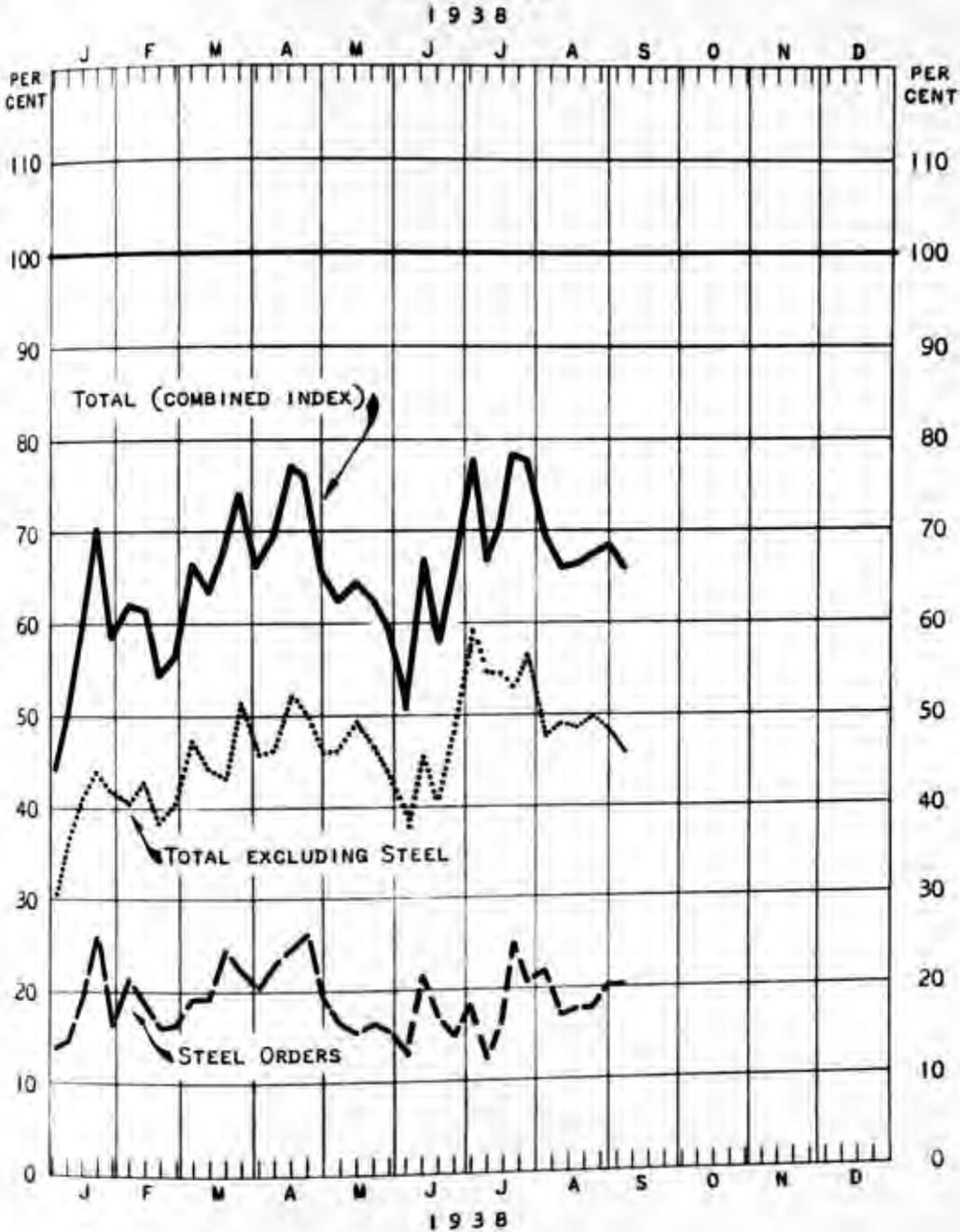
*STAND. STAT.

†B.L.S.

*BUS. FOR. AND DOM. COM.

INDICES OF NEW ORDERS

1936 = 100



September 19, 1938

The President said he saw no reason why we should not give this gold shipment publicity.

Monday
September 19, 1938
9:04 a.m.

H.M.Jr: Hello.

Operator: Go ahead.

H.M.Jr: Hello.
Admiral
Leahy: Good morning, Mr. Secretary, this is Admiral
Leahy speaking.

H.M.Jr: Good morning to you.

L: I had a talk with the President Saturday afternoon.

H.M.Jr: Yes.

L: And I'd like to come over and see you for a minute
and explain the situation in regard to that shipment
business.

H.M.Jr: Uh huh.

L: Before you see the President. You're going to see
him today, are you not?

H.M.Jr: Yes, I am.

L: Well, could you give me five minutes?

H.M.Jr: Can you come right away?

L: Yes sir.

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

L: Well, I'll be right over, sir.

GROUP MEETING

September 19, 1938.
9:30 A. M.

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

H.M. Jr: Herman?

Oliphant: One item of news. Mr. Johnson's informed that the Standard Oil Company of New Jersey

H.M. Jr: Louder.

Oliphant: Mr. Johnson informs me that the Standard Oil Company of New Jersey are initiating a plan against dumping of oil from Mexico. As far as I see, there is nothing to do but advise the State Department.

H.M. Jr: Well, advise the State Department, and when you and I get a minute to think, I want to understand it myself. See? Advise them, but please

Oliphant: I'll hold it, and talk to you.

H.M. Jr: Yes. I want to know about it.

What else, Herman?

Oliphant: In going over those various things which the Department would have to do in the event of an outbreak of European war, everything seems to be in ship-shape, and it can be done quickly except one large area, and that is the general arrangement for liquidating foreign securities; that is, to prevent.....

H.M. Jr: Well, Mr.

*Memorandum
P-134 A*

134A

File copy

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

September 16, 1938.

TO Secretary Morgenthau
FROM Herman Oliphant

The following are things which might be necessary for the Treasury to do immediately if a general European war breaks out:

- (1) Revoke the general license under which foreign exchange transactions are now taking place, thus reinstating the foreign exchange control which we had prior to November 12, 1934. Such control should probably be extended to ordinary commercial transactions, which were not previously covered. This can be done without legislation. Within this frame, any degree of control desired could be carried out.
- (2) Plans should be developed with SEC and the Federal Reserve Board for dealing with the sudden liquidation of foreign-owned securities and for supporting the Government bond market. This might entail the closing of the stock markets and would certainly involve the setting up of machinery for the orderly liquidation of foreign-owned securities.
- (3) Telegraphic notices have been prepared for collectors of Customs and Coast Guard officers to prevent the departure of vessels intended for hostilities, or to supply war ships of belligerents and generally to enforce neutrality.
- (4) All the papers have been prepared interning vessels of belligerents in American waters, if that is desired.

For your later use, I will send you a memorandum covering other steps which would not need to be taken at once, but which might come along in the course of a few weeks.

Herman Oliphant

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Oliphant: And that is broader than S. E. C.

H.A.Jr: Well, Judge Haley said on the return of Mr. Douglas, he and Judge Haley will come over to see me on the other matter, and I want you and Hanes here, and when they come we can take that up, in case of world war. He said as soon as Douglas gets back he will call me.

Oliphant: I think it will take several days to develop a plan.

H.A.Jr: Well, let's wait until they come over, and then we can start it - set up a little committee, between the two of us, and work it out. I am not very nervous about selling of European stocks. I don't see why we should sell. Do you (Hanes)?

Hanes: No, I can't. They had a meeting about that over at the S. E. C. last week; I can't see why the individual investors would be dumping stocks on this market.

H.A.Jr: Certainly, any Government would take over any securities - their nationals - they would want to keep the market up. I covered that with the President, and Mr. Hull, and I can't see any reason there should be, and the longer this thing is over our heads, the longer opportunity individuals have time to adjust themselves. Is that right?

Hanes: That's right.

H.A.Jr: Huh? But I still say that when Douglas comes over - I don't want to call him; I've gone as far as I can, bringing this other matter to their attention; if I go any further, it's a question of usurping my authority. Judge Haley said as soon as he got back, he'd call. There is such a thing - well, I don't want to have S. E. C. say, "We're responsible to the President, not you." I don't want to do that.

(Nods to Mr. Oliphant.)

White: Before you go on to that, Mr. Oliphant, you might want to point out to the Secretary that dumping would have to be the Secretary's decision because it involves injury, and because the injury is

- 3 -

determined here, so that the finding doesn't relate to the State Department yet.

H.M.Jr: Well, the knowledge that the Standard Oil of New Jersey has this in mind- certainly should be acquainted with that.

White: But I wanted to make sure you knew the decision was yours.

H.M.Jr: What else, Herman?

Oliphant: Doris - well, that's ...

H.M.Jr: What?

Oliphant: That's all.

H.M.Jr: I'll see you during the day.

Oliphant: I'd like to see you during the day.

H.M.Jr: You will.

Herbert?

Gaston: I have a reply from Senator Sheppard to your letter of the twelfth, which was the letter in which you called his attention to your regulations, and he says that since you seek authoritative guidance, the most authoritative will be the Committee itself, and they are going to hold a meeting in about twelve or fifteen days, and he will submit your letter to them for reply.

H.M.Jr: (Laughs) Oh boy! That's very funny.

Gaston: I don't think this requires any reply. It can just go in the file.

H.M.Jr: Oh, aren't you going to tell the press about this? I'll leave it here. Bring it to me just before the press conference.

Gaston: Here is a letter from.....

(Reporter, to Mr. Gaston: A letter from whom?
Mr. Gaston: It's a personal matter.)

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W.C.Jr: On that, I wish you'd get Harry to give you another four hundred names. There is no use keeping that thing in hand. Will you talk to Harry?

Gaston: I'll talk to Harry.

W.C.Jr: (Aside to Mrs. Klotz: next time Mr. Jones comes over.)

Anything else?

Gaston: Nothing else. It seems to me they have a perfectly sound proposition there.

W.C.Jr: Will you start a new system in your office, so that when somebody says something moderately pleasant about me, it will be brought to my attention, as well as are the unpleasant ones? This last week Kiplinger devoted a full page to me; I never saw it.

Gaston: I thought you were reading the Kip letter.

W.C.Jr: No. I thought somebody might have said something nice about me. Was it so nice?

Klotz: Yes.

W.C.Jr: O. K.

George?

W.C.Jr: I have nothing but some more new figures.

W.C.Jr: Right.

W.C.Jr: That big sheet - I don't know whether you're interested in that.

W.C.Jr: When are you going to give me your business one?

W.C.Jr: At noon.

W.C.Jr: All right.

W.C.Jr: A little before that if you need it. Italy is on that stock chart now. Harry's working on Japan, via the Department of Commerce, to get some figures.

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- H.M.Jr: I wish you'd give me something on - just a little - British stock. I'd like to have something about British Consul and War Loan bonds. British Consuls and British War Loan bonds.
- Hans: O. K.
- H.M.Jr: (Side conversation with Mrs. Klotz.)
I'd like to have that by noon.
- Hans: Right.
- H.M.Jr: Anything else?
- Hans: That's all.
- H.M.Jr: (Nods to Mr. Hanes.)
- Hanes: Mr. Secretary, the S. E. C. wants to have a meeting with somebody in the Treasury Department who - who knows about this depreciation, and uniform accounting. I don't know - I guess that comes in the Department of Internal Revenue, but they are anxious to find if there isn't some way at arriving at a conclusion of a uniform system of accounting for the depreciation. The Treasury and the S. E. C., and the stockholders are all getting different kinds of depreciation items and they are anxious to get some uniform system worked out between the two places.
- H.M.Jr: You know anything about it, George?
- Hans: Yes, there is a unit over in the Bureau, but they will have considerable difficulty because the statute sets up depreciation for oil companies, for example, that are different from special arrangements for different types of
- Hanes: I think it is utilities more than anything else they are interested in.
- H.M.Jr: Where would that be, George?
- Hans: It's a part of the income tax unit - Sherwoods, I think.
- H.M.Jr: Will you look it up for Hanes, and let him know?

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H. as: I will.

Ward: That's all I have.

H. M. Jr: I see you're a good bowler.

Ward: I missed the whole thing - rolled completely down the gutter, all the way.

H. M. Jr: Well, it's good sportsmanship anyway - nice thing to do.

Lockwood: The exchange is up a little bit, though not carrying through hard now. You asked me whether the strike would affect the movements today. So far the strike hasn't affected the shipping in New York, but it has held it up down the Bay. The Queen Mary is down the Bay and it is doubtful whether she will get up in time to unload today.

H. M. Jr: You've started that thing, in writing, haven't you?

Lockwood: Yes. You'll have a complete story, up to date. They haven't heard further.

H. M. Jr: O. K. Anything else?

Lockwood: (Nods "No.")

White: We made a brief study of the Japanese situation again. You might be interested to know they have cut their gold losses, their monthly gold losses, in half now, so they are losing only about seven million dollars per month, and they've done that by very stringent restrictions on imports. They have cut down their imports drastically, and they've found it necessary to do that in order to protect what they've got left. They've got approximately two hundred million dollars in gold left. Indications are they feel something like that is an irreducible minimum.

H. M. Jr: How much have they got left?

White: About two hundred million dollars, that they could realize on their various foreign holdings, securities, etc. Their trade figures are very misleading, in case anyone should quote them to you, because an increasing share of their exports are

- 7 -

going to North China and Manchuria, from which they get no foreign exchange. In addition to that, their exports are decreasing pretty sharply, so on the whole, their economic situations is becoming worse all the time, notwithstanding the fact they are losing less gold.

Mexican situation is weaker - down to six one on the exchange. The Mason Digest, which Nicholson and McHugh send over, which you might want to glance at before Nicholson comes.

H.H.Jr:

Harry, are you familiar with what the Export-Import Bank is doing in South America? Do you get that - I mean, I wish you'd make arrangements that you could find out just what they are doing so that I could know.

W.H.T:

With the Export-Import Bank?

H.H.Jr:

Well now, I'll tell you exactly - I've asked for a written memorandum. Jones has lunch with me, puts up the following, that some concern - he didn't mention the name - wants to make a five million dollar loan to Portugal on railway equipment, and somebody else, a seventeen or eighteen million dollar bridge to Portugal. I said as far as I know Portugese finances are all right, to a limited extent, but please to send me over a memorandum, over his name, and ask me to sign it. It's all too loose; something will come up a year from now - "Morgenthau approved credit for Portugal," and nobody in the office will know about it, and I will have forgotten about it.

In the first place, look up Portugal. I don't know how Taylor handles it, but it's all done so loosely. With Pierson down there, according to newspapers, very active Well, in the first place, if you'd write a letter - tell them I'd like a weekly report of their activities.

W.H.T:

For your signature?

H.H.Jr:

Yes. I'd like to have a report of their activities since the first of January, '38, to bring us up to date, and if they give us a weekly report from now on. After Mr. Taylor's return it will go over his desk, but until he returns I want it to go over your desk.

- 8 -

- Lockhead: I'd like just to say on that, that Taylor spoke to me last week, and said that the question had come up over there in the R. F. C., and he'd given them my name as a channel to clear through, in the meantime, but I haven't heard anything from them.
- W.H.Jr: Between you and Harry, do it, but it leaves me high and dry. I couldn't, over a lunch table, say yes to a two or three hundred million dollar - I don't know whether Mr. Selisar (phonetic) is on his way up or on his way down. I don't know what the English position is; I mean, I just don't know. I don't know whether anybody in the Treasury knows, but In other words, I want it sewed up; I want to know who handles it in the State Department. Maybe it's just talk, but if they are going to lend real money, I'd like to know about it. Jones doesn't know anything about Portugal; he says he doesn't.
- Writer: There is a letter from Pittman which was answered; another letter was received before the answer left.
- H.H.Jr: Oh dear, I gave it to Miss Chauncey this morning.
- Writer: The first answer might do for the second, but the second raises certain problems which I think should be treated separately.
- H.H.Jr: Let the first go. And I sent, registered mail to Sheppard, giving him Magruder's name.....
- (To Mr. Gibbons:) Did you talk to the man - did he call you?
- Gibbons: Yes. I told him I couldn't get the one fellow, and I talked to the other and everything was all right. He said he's doing all he can.
- H.H.Jr: No more obstruction?
- Gibbons: I talked to Jim this morning and he said he's not doing anything, and he wouldn't. He said, "You've got nothing to worry about; I've instructed my people to watch their step."
- H.H.Jr: I appreciate your calling him up very much. I appreciate it very much.

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- Gibbons: The strike in New York, as Cogill reported, is not interfering with the moving of this silver.
- H.A.Jr: I've kept in touch.
- Gibbons: They're still picketing our South Ferry Importers. Of course, every other building and store in New York is being picketed today; people marching up and down, and they'd lose their distinction if they weren't doing it with us.
- H.A.Jr: (Side conversation with Mrs. Klotz.)
- H.A.Jr: Cy.
- Upham: There are two or three things I ought to see you about some time.
- H.A.Jr: You'll get a chance.
(Nods to Mr. Thompson.)
- Thompson: I have nothing.
- White: There is one other thing. It came to my attention - a contemplated article in the Time Magazine about the Treasury. Next week, I understand, while not certain, Time Magazine.....
- Gaston: No, Time - the young lady from Time got some biographical material about Mr. Lochhead and Mr. White - nothing about policies, but just who they were.
- White: They were going - that was part, the young lady said, of a contemplated, rather ambitious article which she said was to be in Time. I don't know anything more about it than that.
- H.A.Jr: Well, the young lady in question - I haven't met her, but she is an assistant to Davenport, isn't she?
- Gaston: No, this is a Miss Mary Johnson. Miss McKeeno is working for Davenport, in Fortune; this young lady is on the Time Magazine. I'll ask Miss Johnson what this story is going to be.
- H.A.Jr: What's his name - the publisher of Time? The publisher of Time?

Hanes: Henry Luce?

H.M.Jr: Every time I say that, I get five different names, and I can't think of his name. Henry Luce has got his name down as Editor. He was formerly - this man I am talking about was formerly Editor of Fortune.

Gaston: Hodgins?

Hanes: Dewey Larson?

H.M.Jr: Let's, for heaven's sake, settle this for once and for all. Well, any way

(Mr. Kieley comes in.)

H.M.Jr: Will you get me a copy of Time Magazine. It doesn't have to be a recent one.

The point I am getting at, if you are all bothered, he was at the house two Saturdays ago and his attitude was very friendly, and he is willing to submit what they are going to write.

Gaston: I'll ask Miss Johnson.

H.M.Jr: If you are bothered at all, they are always willing to submit in advance, to have a discussion - is it or isn't it factual.

Hanes: Al Grovel?

Gaston: I'll offer another - John Martin.

H.M.Jr: No. Herbert, I'm not going to - that's

I didn't know about that. Is it in your hands, Herbert?

Gaston: Yes, I'll do it.

H.M.Jr: I'll be tickled to death to read an account about Lochhead and White; I've always wanted to know what their life was. Wouldn't you (Mrs. Klotz) like to know?

Klotz: Yes. (Laughs.)

H.M.Jr: All right. Well, if Mr. Upham, and Hanes, Gaston, and Oliphant will stay please, a few minutes.

PARAPHRASE OF CABLE

From: Treasury Attache's Office
Professor Bunk

Date: September 19, 1938

At the request of Mr. K. P. Chen, Mr. J. E. Baker is in Hongkong to discuss use of wheat and cotton from America. He is a member of the International Famine Relief Committee and Shanghai International Red Cross Committee. He assisted China Flood Relief Committee for 1931 in distribution of wheat from America. It is his opinion, he states, that on account of the closure of the Yangtze River and the limited transportation facilities from other ports to interior China, such products can be taken in only limited quantities. There is urgent need of cash to swell foreign exchange balances. Pei, of Bank of China, informs me that three banks have only about twelve million pounds foreign exchange balances. It is stated by General Cohen, adviser to General Wu Teh Chen and Governor of Kwangtung Province that a Japanese representative is now in Hongkong for purpose of persuading Hongkong authorities to connive with Kwangtung authorities to declare independence from Central Government when Hankow is taken by Japanese. The Japanese, in return, would promise not to attack South China. According to Cohen he is certain suggestion will have cold reception by Hongkong authorities and even if presented to Kwangtung authorities, it would not be considered. As related in my report mailed September 7 this checks with Leung's interview.

CONFIDENTIAL

PARAPHRASE OF CABLE

From: Treasury Attache's Office
Professor Buck

Date: September 19, 1938

As reported by L. Soong, head of the Southwest Transportation Company, which is a government organization transporting military supplies, shipment of supplies is nearly completed. On the Canton-Hankow Railway recent disruption of traffic is unimportant compared to what it would have been last January. We have one-sixtieth of the former amount of supplies to ship. For several months 2,000 tons were shipped per day whereas before improvement of transportation organization it was 500 tons per day. My Company had 2,500 trucks, mostly Dodge and White, but 2,000 were handed over for military use. Almost any quantity of goods can be handled by my Company if shipments are financed. There have been only a few thousand tons of military supplies shipped over Yunnan railway to Kun Ming. Shipping goods that way is too expensive for it is too slow and the distance from Kun Ming to the front is too great. There are shorter routes and we have many ways of shipping other than railways, such as waterways and overland methods. Re Leung's interview, my report mailed Sep. 7 concerning return of Japanese to Hongkong am reliably informed from careful checkup that only 70 Japanese have returned out of 1700 who left. September 16 am leaving for Hanoi.

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WAR DEPARTMENT
WAR DEPARTMENT GENERAL STAFF
MILITARY INTELLIGENCE DIVISION, S-1
WASHINGTON, D. C.

2/2657-II-90

September 19, 1938.

MEMORANDUM NO. 15 FOR THE CHIEF OF STAFF;

Subject: The present European situation to
midnight, September 18-19, 1938.

Political Situation. The popular conception of the Sudeten problem that Britain and France are selling Czechoslovakia "Down the River" is grossly over-simplified. In the proposed separation of the Sudeten Germans from the Slav state, two important and complicated international errors of the past are bearing their inevitable fruits.

First, the unstable social and political crystallization created in Czechoslovakia by the Versailles Treaty is being subjected to irresistible forces arising from the dynamism of new Germany. Second, the years of voluntary disarmament, moral and physical, in Great Britain have subjected the Empire once more to a situation which can be met only with compromise. The embarrassments to Great Britain created by Mussolini in the Abyssinian Affair are being repeated by Hitler in the Sudeten Question, and principally because those center-to-left Englishmen who now call for German blood would not furnish the means to maintain the British defensive forces in condition in keeping with British responsibility.

There are many logical military arguments why Italy should consider remaining neutral in the present situation. Many observers believe Mussolini will remain so. His Trieste speech, however, places him definitely on the side of Germany. This alignment was doubtless known, or was expected, by Chamberlain when he went to Berchtesgaden. Much trouble has been caused to Britain and France by not taking the Duce's statements literally. Italian military forces should be combined with German ones in future estimates of military strength facing the democracies in the Czechoslovakian Problem.

Military Situation.

Great Britain - No change.
France - Evidences that the French are unobtrusively calling to active duty numbers of officers and men in addition to the regular classes and those in the fortifications garrison,

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this gradually reinforcing interior divisions and antiaircraft units.

Germany - No reported change.

Czechoslovakia - Following is the substance of a State Department report from Prague, dated 12:40 P.M., September 17.

Sudeten area completely in control of troops, police and gendarmerie. The frontier is occupied but not as extensively as in May. Some troops in readiness at strategic points and near large cities; the rest held in barracks.

The Czechs have proceeded with caution so as to avoid the appearance of mobilization - which so incensed the Germans in May.

Reservists have been called from several classes to the estimated number of 200,000, but no complete single class has been called. Total number of troops estimated at 350,000.

Czech G-2 states large concentrations of German units around the Czech frontiers continue, including air and mechanized units, mainly in Saxony and Austria.

Conclusions. Barring unexpected incidents, Hitler probably will suppress any forceful solution pending the outcome of British-French acceptance of his demands.

If these demands are not met practically in toto, and without undue delay, Hitler may attempt a solution by force, and abruptly, under the assumption that he can localize the conflict.

The most dangerous elements in the situation are: reaction in Britain and France to the Chamberlain concessions sufficient to tie the hands of the two Governments; attempts of Britain and France to bargain on details to the extent of infuriating Hitler with "League of Nations methods"; a refusal of the Czechs to accept the concessions demanded in the belief that Hitler will again be maneuvered into the position of the aggressor, and in the hope that France and Britain will be involved even against their will.

CONFIDENTIAL

September 19, 1938.

Secretary Morgenthau spoke to Knoke at the Federal Reserve and learned that the Bank of England had no objections to the shipment of gold on the American cruiser, Nashville.

At the Secretary's request, Lochhead called Admiral Leahy in the Navy Department and advised him that the shipment, which had already been discussed with him, was to be made and the Federal Reserve Bank of New York was instructing the Bank of England to deliver twenty-five million dollars in gold to the Nashville at Gravesend. Admiral Leahy stated the cruiser Honolulu was due to arrive in Southampton September 22d or 23d and, therefore, the Nashville would not leave Gravesend until at least that date and, if necessary, could be held at Gravesend a few days longer. Lochhead told Admiral Leahy that the loading could probably be accomplished on or before September 22d. Admiral Leahy stated that he would cable immediately to the commanding officer of the Nashville to receive the shipment of gold in question and the Nashville would proceed to the Brooklyn Navy Yard in New York.

Lochhead mentioned to Admiral Leahy that the Bank of England thought that they could keep the loading secret and asked him to see that the Navy Department gave no publicity to the shipment unless they received instructions from the Secretary of the Treasury.

Lochhead then called Knoke, at the Federal Reserve Bank, and requested him to notify the Bank of England to deliver a shipment of twenty-five million dollars of gold, held by the Stabilization Fund, in London, to the commanding officer of the cruiser Nashville. Knoke stated he would endeavor to contact Bolton by telephone to-day.

Monday
September 19, 1938
11:24 a.m.

H.M.Jr: Hello.

Operator: Mr. Knoke stepped out of his office. They're trying to find him.

H.M.Jr: Thank you.

11:26 a.m.

H.M.Jr: Hello.

Operator: Mr. Knoke. Go ahead.

H.M.Jr: Hello, Knoke.

L. W.
Knoke: Yes, Mr. Secretary.

H.M.Jr: Have you heard from the English about loading this gold?

K: Nothing yet. No.

H.M.Jr: Well now, look, if I don't hear by one o'clock - I've got to see - I'm seeing the President at lunch and I'm going to recommend it and go ahead. Now you'd better call them. I mean, they've had this since Saturday - Hello.

K: Yes, yes.

H.M.Jr: And this - ah - battle cruiser has to come back.

K: Yes.

H.M.Jr: Now, please put in a call and I'm going to see the President at one.

K: All right, sir. I - ah - all right, I'll put in a call -

H.M.Jr: Well, we've done them the curtesy of asking them Saturday and I don't think - it's now half-past five -

- 2 -

K: Well -
H.M.Jr: - in Lon - what?
K: Mr. Secretary, I asked him would he let me know
by noon time on Monday.
H.M.Jr: All right.
K: So - ah -
H.M.Jr: Well, if you - well -
K: See I'll put in a call...
H.M.Jr: Yeah.
K: And - ah - he will...
H.M.Jr: Then let me know.
K: Yes. All right, sir.
H.M.Jr: Thank you.

11:51 a.m.

H.M.Jr: Hello.
Knoke: Mr. Secretary.
H.M.Jr: Talking.
K: Knoke.
H.M.Jr: Yes.
K: I got them. The first statement was that they
had decided until - until conditions change -
H.M.Jr: May I interrupt you, please?
K: Yes.
H.M.Jr: Did they open the conversation or did you have to
press them for it?
K: Oh, they opened it.

H.M.Jr: They opened it.

K: They opened it. He talked to me about the market first and said in that connection confidentially for your information, "We will not insure war risk until conditions clear up in the insurance market."

H.M.Jr: You mean they won't take out war - they won't -

K: They will make their shipments uncovered against war risk.

H.M.Jr: I see.

K: That's one thing. I thought that would -

H.M.Jr: Yeah.

K: - help you in your decision.

H.M.Jr: Yeah.

K: As to - ah - the Saturday's discussion - the use of a war sh - of a cruiser.

H.M.Jr: Yeah.

K: They stated that with any luck they figured they could probably do the loading without causing any comment.

H.M.Jr: Uh huh.

K: They felt that they had man - that they had worked out plans which, in his words, were "seventy-five percent fool-proof" -

H.M.Jr: Fine.

K: And - fool-proof as to avoiding publicity at their end, that is.

H.M.Jr: Right.

K: They are ready to go ahead unless we tell them -- That entirely of course, they point out, takes - does not take into consideration what the - what publicity there might be at our end.

H.M.Jr: I understand.

- 4 -

- K: They figure that they can reasonably well avoid publicity there. If anything comes out - they say of course that depends upon conditions. If conditions are bad no matter what may be said it won't be believed anyhow.
- H.M.Jr: I -
- K: I mean the quotation will be the worst possible.
- H.M.Jr: Uh huh.
- K: They see no objections.
- H.M.Jr: Well, then I can work it out here because that cruiser will go to the Brooklyn Navy Yard.
- K: Yes.
- H.M.Jr: And we'll unload there.
- K: Yes.
- H.M.Jr: There'd be nobody to observe it and I - we haven't had a chance but we'll work it out in a way to get the gold from the Brooklyn Navy Yard over to your vaults, see?
- K: Yes. Well - yeah, that's easy. But how about the Customs figures - Custom House figures?
- H.M.Jr: Oh, well - we'll think something out. We - give us time on that.
- K: Uh huh.
- H.M.Jr: Give us time on that.
- K: Well, that is the - ah - ^{it} that I think/will leak out as time -
- H.M.Jr: Well I don't know whether there's anything under the law which says that we have to give it to the Customs this week or a month from now.
- K: Well, I can't - I don't -
- H.M.Jr: Well, we don't know, we'll have to - the main thing is/get it on the boat and while she's coming over we to

- 5 -

can work that out.

K: Yes. And they said they are ready to ah - to go ahead as soon as the signal is given.

H.M.Jr: Well, I'm going to give you the signal now. Archie is sitting here and he'll work it out with you.

K: All right.

H.M.Jr: Because the only person that knows about it - that there's a possibility of its coming is one person and that's the Captain of the Nashville. And nobody knows it except the Captain of the Nashville.

K: Uh huh.

H.M.Jr: Now the thing is for you and Archie to work it out - how the instructions should go and how they're going to do it. But they want to pull the Nashville out of there in two days and I think that she should be loaded tomorrow, Tuesday.

K: Yes, I see.

H.M.Jr: See?

K: Then I'll suggest to the bank that they begin packing tonight anyhow.

H.M.Jr: Fine.

K: And I think they are doing that.

H.M.Jr: Fine. We'll take twenty-five million.

K: Twenty-five?

H.M.Jr: Yeah.

K: That's a big amount, Mr. Secretary.

H.M.Jr: Well, you might just as well lose twenty-five million as - ah -

K: Well, ah - may I just say this thing - I think you want to give a thought to ah - to ah - the effect that might have on the market. I mean people might talk about - about unnecessarily risking the taxpayers' money or something like -

- 6 -

- H.M.Jr: Well - I'll - I'll have to - I'll take that personally.
- K: All right.
- H.M.Jr: I'm also risking -
- K: I thought I should mention it.
- H.M.Jr: Well, I'm also risking a hundred and eighty-eight million right now in London; that's taxpayers' too.
- K: Yes. But I think that is fairly safe. (Laughs)
- H.M.Jr: Well, I'd just as leave have it on a cruiser as I would have it in London.
- K: Yeah.
- H.M.Jr: Listen, if the English will handle it all right we'll take care of our end.
- K: Yes. Well I'm - I'm -
- H.M.Jr: And if the Federal Reserve will handle it it will be very secretive.
- K: Well, I - ah - I'm - speaking for myself I'm sure. (Laughs)
- H.M.Jr: All right. Well, make sure for everybody down the line.
- K: Yes.
- H.M.Jr: All right. Now, Archie'll talk to you from his room and we'll proceed now.
- K: Yes. All right, sir.
- H.M.Jr: Now, as to the risk involved, why it's between - the President and I'll just have to take that.
- K: Yes.
- H.M.Jr: All right.
- K: Very good.
- H.M.Jr: Thank you.

September 19, 1938

Lunch with the President.

I said, "Mr. President, I want to talk to you about the position of the Comptroller of the Currency." I said, "What we need for this position is a man as good as a former New York State Senator by the name of Franklin D. Roosevelt who led the fight against Tammany Hall." I said, "He has to have courage to take on one of the biggest fights that we have ever had and," I said, "I would like to have you recommend somebody to me."

So he thought a while and he said, "I am going to suggest somebody who has the courage and character, but I don't know whether he has the knowledge." He said, "You will be surprised." He suggested Ex-Senator Pope of Idaho.

I said, "Well, Mr. President, I have had only one experience with Senator Pope and Mrs. Pope. We had dinner with them last spring at the Sayre's. Mrs. Pope got sick at supper and left the table and Senator Pope went tight asleep over his coffee." The President howled! So I said, "That's my only experience." So I said, "Can I sleep it over?" and he said, "Yes." He said, "I don't know how much push he's got, but" he said "he is a man of character and he's a gentleman."

I said, "What reservations have you got on Bill Myers?" And I said, "I want you to know that his name was given to me amongst others by Jesse Jones." I said, "With 1940 in the offing, whenever Jesse Jones makes a recommendation, I look under the table." The President gave a knowing smile. He said, "My reservations on Bill Myers are that he continued to play in with the chain bankers in the Minnesota district and," he said, "I had the greatest trouble getting him to change the situation in the Omaha district." He said, "I just can't get those two things out of my head." I said, "You have no doubts about his integrity?" and he said, "No, but whether he is guile enough to see through a situation, I don't know."

-2-

I then gave him Upham's record, which I had not read myself, and when the President got through he shook his head from side to side and said, "How would you feel if I recommended to you a man who first was with the National City Bank, then five years with the Chamber of Commerce, then a number of years with David Lawrence, then with the Brookings Institute and finally with the Secretary of the Treasury?" He said, "You would not take it." So I said, "All right, Mr. President. I am recommending to you Cy Upham as First Deputy. He has been with me four years and he knows the work. He has proven his loyalty to you and to me, and I recommend it." He said, "All right. I accept the recommendation."

So I said, "Mr. President, I would like to talk it over with my group in the Treasury about Senator Pope and then come back to see you again." He said, "That's all right."

I then gave him the conversations of September 16th and 17th that Knoke had with the Bank of England as I said I felt he ought to have this as a background in his dealings with the English, as these particular conversations showed the great pressure financially that the English were under.

I then asked him if he knew about Kennedy's telephone conversation with Admiral Leahy asking Leahy to keep a cruiser at Gravesend. The President said that Leahy had told him so.

I then told the President that we had word from the English that they had no objection to our going ahead and bringing gold over on a United States warship.

The President said, "Now, you are not going to put on more than \$25,000,000?" I said, No. He said, "Why are you so nervous about gold in London?" I said, "On account of the air raids." He said, "Well, why not send it to Liverpool or to Dublin?" "Well," I said, "that would not help much. No particular place to deposit it. I want to get it back to the United States." I said, "We have got \$188,000,000 over there now." He said, "Well, taking a chance --

-3-

hurricane, iceberg --" and I said, "I know all that, but," I said, "I am willing to say to you that I recommend that we do it." The President gave a salute with his hand and said, "All right."

I said we were thinking of putting another \$10,000,000 on the Manhattan. She's already bring a little over \$11,000,000 which is insured, but we find that the English have got \$15,000,000 on the Manhattan in addition to our \$11,000,000, so I don't want to put any more on the Manhattan. He said, "That's right."

oOo-oOo

Monday
September 19, 1938
2:15 p.m.

H.W.Jr: Hello.

Operator: Admiral Leahy. Go ahead.

H.W.Jr: Hello.

Admiral Leahy: Hello, Mr. Secretary. This is Admiral Leahy speaking.

H.W.Jr: Yeah. Now, the Bank of England has phoned back and they say they have no facilities for loading the Nashville at Gravesend. And also they couldn't keep it a secret. So they'd like her to go around to Portsmouth, the naval base.

L: Go down to where?

H.W.Jr: Portsmouth.

L: Portsmouth.

H.W.Jr: The naval base.

L: Uh huh.

H.W.Jr: At Portsmouth. And they say they could handle it from there.

L: All right. We'll - ah - we'll get permission from the State Department to send the - the Nashville to Portsmouth and to - I've already told them to receive that shipment and I'll just send them a despatch and tell them to proceed to Portsmouth and receive the shipment there.

H.W.Jr: Right. Now - then, the Honolulu had better go to Portsmouth also.

L: Oh, Lordy!- I've already got everything under way to send her to - ah -

H.W.Jr: Well, it's only two miles apart you know.

L: Uh huh.

H.W.Jr: It's only -

L: I think we'd better let her go to Southampton now -

- 2 -

H.M.Jr: Yes.

L: And then send her over to Portsmouth later. They don't want to deliver it at Southampton I suppose, either?

H.M.Jr: No, they want it in the naval base.

L: Oh, I see.

H.M.Jr: They're only - you know, Southampton and Portsmouth are very - practically next to each other.

L: Yes, I know they are. The only point is to - we have to get diplomatic permission, you see, to send the damn thing to Portsmouth and we've already asked for it for - asked to have it go to Southampton. However, I'll work it out.

H.M.Jr: Well, that - I mean, if she goes to Southampton and ties up and then you move her and then move her to Portsmouth, doesn't that attract more attention?

L: I suppose so.

H.M.Jr: And - ah - Well, I'll leave that to you. Now, the Bank of England said that they will work through your naval attache in London.

L: Uh huh.

H.M.Jr: Is that all right?

L: That's all right.

H.M.Jr: That they'll - that they'll work out the details with him and then a little on if it's agreeable to you I'll have Mr. Lochhead call you - there's some other things.

L: Yeah, that's fine. That's all right. We'll - I told the captain of the Nashville of course that this was secret and that he wasn't to say anything about it to anybody. But if they tell the naval attache to see him it'll be all right.

H.M.Jr: Thank you.

L: Fine.

H.M.Jr: Thank you.

L: Thank you, sir.

Monday
September 19, 1938
3:37 p.m.

H.M.Jr: Hello.

Operator: Mr. Moffat. Go ahead.

H.M.Jr: Hello.

Jay Pierrepont

Moffat: Yes, Mr. Secretary.

H.M.Jr: How are you?

M: All right.

H.M.Jr: Mr. Moffat, we need a little help.

M: Fine.

H.M.Jr: There's a Mr. Gonzala Zabala.

M: Yes.

H.M.Jr: Who is Vice President of the Bank of Spain.

M: Yeah.

H.M.Jr: And the Spanish Ambassador wants him recognized as a financial attache.

M: Oh, yes,-yes.

H.M.Jr: See?

M: Yes. I know a little about him.

H.M.Jr: Do
/You want to know more or do you just want to know that the Treasury would like to see him recognized?

M: Oh, you would?

H.M.Jr: Very much.

M: Oh, well that's - that's interesting because the difficulty arose that there was this law suit and our protocol people felt that they were trying to cloak him with diplomatic immunity to get him out of the suit.

- 2 -

H.M.Jr: Well that's just what we want.

M: You want it done? Well, I'll tell that to our protocol people right away.

H.M.Jr: That's just exactly what we want. We don't want him in the suit.

M: Right. I'll go down and see them at once.

H.M.Jr: Thank you so much.

M: And say, I hope that the thing hasn't been done but I know that the case was called for last Saturday - I think. So I'll get to work at it immediately.

H.M.Jr: You mean that he's been thrown out, or what?

M: Yes, but we do - that he was not going to be given immunity.

H.M.Jr: Well -

M: And I'll - I'll get at that right away.

H.M.Jr: Mr. Oliphant who brought it in to me thinks there's still time.

M: All right, - Good. I won't lose a minute.

H.M.Jr: If I don't hear from you again he's - I'll -

M: We'll - we'll - we'll take care of it.

H.M.Jr: I thank you.

M: Right.

Paris, September 19, 1938.

Dear Mr. Secretary:

You will recall that in our conversation with Governor Fournier of the Bank of France the "Crédit National" was mentioned as an institution providing medium term credits to French business. At our Normandie luncheon Rueff mentioned this organization as well as the "Banque Populaire" in connection with medium term loans. You asked me to send you a report on each of these bodies.

Since our old friend Baumgartner is at the head of the Crédit National, I approached him for data on his concern. He has been good enough to draw up a summary of its organization, functions and operations which I have translated into English and appended hereto. There are also attached the various documents relating to the Crédit National listed below.

I am sending this material in this personal

manner . . .

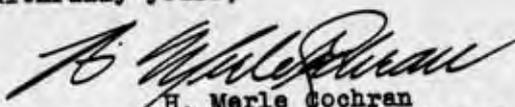
The Honorable Henry Morgenthau, Junior,
Secretary of the Treasury,
Washington, D. C.

- 2 -

manner lest you might consider using some of it in your planning and would prefer to have the complete documentation in your own hands only. Within the near future I hope to be able to report on the Banque Populaire.

With kindest personal regards, I am,

Faithfully yours,



H. Merle Cochran
First Secretary of Embassy

Enclosures:

Translation of memorandum on
Crédit National.

- (1) Textes Relatifs à la
Constitution du Crédit
National.
- (2) Crédit National - Règlement
Intérieur.
- (3) Crédit National. Rapport du
5 octobre 1937.
- (4) Crédit National. Rapport du
14 juin 1938 de l'Assemblée
Générale Extraordinaire.
- (5) Crédit National. Assemblée
Générale Ordinaire des
Actionnaires, 14 juin 1938.

In triplicate.

HMC/ams

Brief Study of the Crédit National

A - Structure :

The Crédit National, which was organized in 1919, is a limited company, with a capital of 100 million francs. Its capital, now completely paid up, was subscribed at the origin by the principal banks and credit institutions and by the principal industrial enterprises of Paris and the provinces. As the Bank of France and the Crédit Foncier, to which it is closely allied, the Crédit National, in its foundation, is therefore a private institution. But the mission with which it was charged by Parliament has given it a public character similar to that of the Bank of France and the Crédit Foncier and, as in the case of these two organizations, the State reserves for itself powers of direction and supervision in the Crédit National. The General Manager of the Crédit National, who is Chairman of the board of directors, and the two assistant managers, are appointed by decree and the operation of the institution is subject to examination by the "Inspection Générale des Finances".

B - Attributions :

(1) Operations carried out for the account of the State :

The dominating idea at the time of the creation of the Crédit National was to create an organization

which, backed by the State and by the principal industrial enterprises, would be capable of attracting investors and thus to float loans susceptible of covering, at least partially, the enormous expenditures which France was obliged to undertake immediately after the war for the reconstruction of the devastated regions.

To this end, the Crédit National has, with success, made loan issues, enjoying the guaranty of the State for an amount exceeding 25 billion francs. The payments made by it to those in the North and East of France who had suffered damage from the war have substantially exceeded this figure, for the reason that the Crédit National, in fact, had been entrusted with the settlement of all damages, including those which had been covered by direct payments from the public Treasury. At December 31, 1937, these payments amounted to more than 63 billion francs.

Of course, as time went on, and little by little as the war period receded, this activity of the Crédit National gradually diminished. However, this activity reappeared, at intervals, under other forms. Several French Governments, in fact, have asked the Crédit National to take part in the financing of certain categories of public expenses, of an economic order and of an exceptional character. Thus, by virtue of agreements concluded in 1934, the Crédit National was entrusted with the settlement of unpaid communal works programs (under the heading of "subventions for the collectivities") and in 1937 it agreed to participate in the financing of outlays for public works, under

the budgets of 1937 and 1938, intended to serve to reduce unemployment. In order to procure necessary resources, in these different cases, the Crédit National, in its own name, made successful loan issues guaranteed by the State (for a total, to date, of more than 3-1/2 billion francs).

To sum up, under this first part of its attributions, the Crédit National plays the rôle of a provider of capital for the satisfaction of certain public requirements. The service of the loan issues which it makes is assured by annuities entered in the budget of the State and increased by an allowance intended to permit the institution to cover the corresponding part of its overhead expenses. In this respect it has been estimated at various times that the ensemble of this mechanism was advantageous for the Treasury. It does seem, in effect, in taking into account the various elements of the problem (expenses of personnel, the good credit standing of Crédit National securities to which lottery features may be attached in virtue of special legislative authority, et cetera) that the financing operations in question would have been more costly to the State if the latter had undertaken them itself, and at the same time they would have weighed more heavily on the rentes market.

C - Attributions :

(2) Operations carried out by the Crédit National for its own account.

If the rôle of the Crédit National had been limited to the attributions analysed in the preceding paragraph, this institution would not, so to speak, have the character of a banking organization. But, following its foundation, consideration was given to the question of using it to make up for the absence of organization of credit in France, by entrusting it with the making of medium-term advances to commercial or industrial enterprises.

Provisions to this end were introduced into the initial convention concluded between the State and the Crédit National on July 7, 1919. Since that time they have been modified or completed and actually they constitute an ensemble the essential points of which may be summarised as follows :

The Crédit National is enabled to grant medium term advances reimbursable during a minimum period of three years and a maximum of ten years to French owned industrial and commercial enterprises established in France. A total advance of not more than 15 million francs may be made to each borrower. On these lines, such operations are susceptible of permitting either the consolidation, at least temporary, of a banking debt, of replacing a bond issue rendered difficult by the situation of the financial market, or of directly permitting either the financing of equipment programs or the extension of working funds. Special measures have been taken with the view of facilitating the financing of exportations payable by annuities

guaranteed by the State Credit Assurance (law of August 10, 1928, and subsequent laws). In this case, no maximum has been fixed to advances that may be made to each applicant and the minimum and maximum periods of reimbursement are respectively reduced to two years and increased to twelve years.

The rate at which advances are granted is fixed after taking the different elements into consideration, under the reserve in certain hypothesis, of the agreement of the Minister of Finance. Actually, as a general rule, it is 7.15 per cent, all taxes being paid by the Crédit National.

The medium-term advances of the Crédit National are financed through two categories of resources, those belonging to the institution, and those placed at its disposition by the State.

This last formula was utilized at the beginning in order to facilitate the start of operations. The State authorized the Crédit National to take a sum of 500 million francs from the proceeds of loans carrying guarantee of the State, which was set aside for financing medium-term credits. It should be noted that a recent convention, dated December 10, 1937, increased this initial endowment of 500 million francs to 1 billion francs. Naturally, the ensemble of these funds, in last analysis, being advanced by the State, the Crédit National turns back to the Treasury the service of interest and amortization of corresponding advances, after deduction of a certain sum to cover its costs

and appropriation for its reserves.

With respect to capital belonging to the Crédit National itself, which also serves to finance loan operations, it comprises on the one hand the ensemble of the capital of the institution (capital and various reserve accounts) and, on the other hand, the proceeds of certain series of bonds which have been issued to the public without the guaranty of the State, over the sole signature of the institution, for an amount of about 400 million francs. (1)

During the past two years, the medium-term advances of the Crédit National have very rapidly and substantially developed, both on account of the requirements of enterprises and of the scarcity of funds on the financial market. They reached about 1 billion francs at December 31, 1936; they will very probably exceed 1,500 millions at the end of 1938. Of this total of 1,500 millions the capital utilized is drawn, in approximately equal proportions, therefore about one half, from the institution's own resources and from funds placed at its disposal by the State.

It should be noted that further extension of the activity of the Crédit National in this field, which appears probable and necessary, as the figures recorded are still modest in absolute value, will, unless the financial situation changes substantially, necessitate support either from the State, or from an organization such as the Caisse des Dépôts et Consignations. It

(1) It should be noted that the Crédit National is not authorized to receive banking deposits, even for fixed periods.

is clear, in effect, that the high cost of money does not permit the Crédit National (in spite of the favor which its securities, whether or not guaranteed by the State, enjoy on the market) to obtain capital at sufficiently reasonable rates. In other words, in the present state of French economy and finance, it is not sufficient, in order to assure the development of medium-term credit, to possess an organization by means of which a large clientele of borrowers is able to benefit by its first rate credit on the financial market. (1) It will be necessary, at least provisionally, under a form to be determined (interest rebates, fiscal exemption, et cetera), for the State to make a contribution.

(1) which, in another domain, during the years preceding the war, was done by the Crédit Foncier de France.

Paris, September 19, 1936.

Dear Mr. Secretary:

You will recall that in our conversation with Governor Fournier of the Bank of France the "Crédit National" was mentioned as an institution providing medium term credits to French business. At our Normandie luncheon Rueff mentioned this organization as well as the "Banque Populaire" in connection with medium term loans. You asked me to send you a report on each of these bodies.

Since our old friend Baumgartner is at the head of the Crédit National, I approached him for data on his concern. He has been good enough to draw up a summary of its organization, functions and operations which I have translated into English and appended hereto. There are also attached the various documents relating to the Crédit National listed below.

I am sending this material in this personal
manner . . .

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

- 2 -

manner lest you might consider using some of it in your planning and would prefer to have the complete documentation in your own hands only. Within the near future I hope to be able to report on the Banque Populaire.

With kindest personal regards, I am,

Faithfully yours,

H. Merle Cochran
First Secretary of Embassy

Enclosures:

Translation of memorandum on
Crédit National.

- (1) Textes Relatifs à la
Constitution du Crédit
National.
- (2) Crédit National - Règlement
Intérieur.
- (3) Crédit National. Rapport du
5 octobre 1937.
- (4) Crédit National. Rapport du
14 juin 1938 de l'Assemblée
Générale Extraordinaire.
- (5) Crédit National. Assemblée
Générale Ordinaire des
Actionnaires, 14 juin 1938.

In triplicate.

HMC/ams

Brief Study of the Credit National

A - Structure :

The Credit National, which was organized in 1919, is a limited company, with a capital of 100 million francs. Its capital, now completely paid up, was subscribed at the origin by the principal banks and credit institutions and by the principal industrial enterprises of Paris and the provinces. As the Bank of France and the Credit Foncier, to which it is closely allied, the Credit National, in its foundation, is therefore a private institution. But the mission with which it was charged by Parliament has given it a public character similar to that of the Bank of France and the Credit Foncier and, as in the case of these two organizations, the State reserves for itself powers of direction and supervision in the Credit National. The General Manager of the Credit National, who is Chairman of the board of directors, and the two assistant managers, are appointed by decree and the operation of the institution is subject to examination by the "Inspection Générale des Finances".

B - Attributions :

(1) Operations carried out for the account of the State :

The dominating idea at the time of the creation of the Credit National was to create an organisation

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which, backed by the State and by the principal industrial enterprises, would be capable of attracting investors and thus to float loans susceptible of covering at least partially, the enormous expenditures which France was obliged to undertake immediately after the war for the reconstruction of the devastated regions.

To this end, the Crédit National has, with success, made loan issues, enjoying the guaranty of the State for an amount exceeding 25 billion francs. The payments made by it to those in the North and East of France who had suffered damage from the war have substantially exceeded this figure, for the reason that the Crédit National, in fact, had been entrusted with the settlement of all damages, including those which had been covered by direct payments from the public Treasury. At December 31, 1937, these payments amounted to more than 65 billion francs.

Of course, as time went on, and little by little as the war period receded, this activity of the Crédit National gradually diminished. However, this activity reappeared, at intervals, under other forms. Several French Governments, in fact, have asked the Crédit National to take part in the financing of certain categories of public expenses, of an economic order and of an exceptional character. Thus, by virtue of agreements concluded in 1934, the Crédit National was entrusted with the settlement of unpaid communal works programs (under the heading of "subventions for the collectivities") and in 1937 it agreed to participate in the financing of outlays for public works, under

the budgets of 1937 and 1938, intended to serve to reduce unemployment. In order to procure necessary resources, in these different cases, the Crédit National, in its own name, made successful loan issues guaranteed by the State (for a total, to date, of more than 3-1/2 billion francs).

To sum up, under this first part of its attributions, the Crédit National plays the role of a provider of capital for the satisfaction of certain public requirements. The service of the loan issues which it makes is assured by annuities entered in the budget of the State and increased by an allowance intended to permit the institution to cover the corresponding part of its overhead expenses. In this respect it has been estimated at various times that the ensemble of this mechanism was advantageous for the Treasury. It does seem, in effect, in taking into account the various elements of the problem (expenses of personnel, the good credit standing of Crédit National securities to which lottery features may be attached in virtue of special legislative authority, et cetera) that the financing operations in question would have been more costly to the State if the latter had undertaken them itself, and at the same time they would have weighed more heavily on the rentes market.

C - Attributions :

(2) Operations carried out by the Crédit National for its own account.

If . . .

If the role of the Crédit National had been limited to the attributions analysed in the preceding paragraph, this institution would not, so to speak, have the character of a banking organisation. But, following its foundation, consideration was given to the question of using it to make up for the absence of organisation of credit in France, by entrusting it with the making of medium-term advances to commercial or industrial enterprises.

Provisions to this end were introduced into the initial convention concluded between the State and the Crédit National on July 7, 1919. Since that time they have been modified or completed and actually they constitute an ensemble the essential points of which may be summarized as follows :

The Crédit National is enabled to grant medium term advances reimbursable during a minimum period of three years and a maximum of ten years to French owned industrial and commercial enterprises established in France. A total advance of not more than 15 million francs may be made to each borrower. On these lines, such operations are susceptible of permitting either the consolidation, at least temporary, of a banking debt, of replacing a bond issue rendered difficult by the situation of the financial market, or of directly permitting either the financing of equipment programs or the extension of working funds. Special measures have been taken with the view of facilitating the financing of exportations payable by annuities

guaranteed by the State Credit Assurance (law of August 10, 1938, and subsequent laws). In this case, no maximum has been fixed to advances that may be made to each applicant and the minimum and maximum periods of reimbursement are respectively reduced to two years and increased to twelve years.

The rate at which advances are granted is fixed after taking the different elements into consideration, under the reserve in certain hypothesis, of the agreement of the Minister of Finance. Actually, as a general rule, it is 7.15 per cent, all taxes being paid by the Credit National.

The medium-term advances of the Credit National are financed through two categories of resources, those belonging to the institution, and those placed at its disposition by the State.

This last formula was utilized at the beginning in order to facilitate the start of operations. The State authorized the Credit National to take a sum of 500 million francs from the proceeds of loans carrying guarantee of the State, which was set aside for financing medium-term credits. It should be noted that a recent convention, dated December 10, 1957, increased this initial endowment of 500 million francs to 1 billion francs. Naturally, the ensemble of these funds, in last analysis, being advanced by the State, the Credit National turns back to the Treasury the service of interest and amortization of corresponding advances, after deduction of a certain sum to cover its costs

and appropriation for its reserves.

With respect to capital belonging to the Crédit National itself, which also serves to finance loan operations, it comprises on the one hand the ensemble of the capital of the institution (capital and various reserve accounts) and, on the other hand, the proceeds of certain series of bonds which have been issued to the public without the guaranty of the State, over the sole signature of the institution, for an amount of about 400 million francs. (1)

During the past two years, the medium-term advances of the Crédit National have very rapidly and substantially developed, both on account of the requirements of enterprises and of the scarcity of funds on the financial market. They reached about 1 billion francs at December 31, 1936; they will very probably exceed 1,500 millions at the end of 1938. Of this total of 1,500 millions the capital utilized is drawn, in approximately equal proportions, therefore about one half, from the institution's own resources and from funds placed at its disposal by the State.

It should be noted that further extension of the activity of the Crédit National in this field, which appears probable and necessary, as the figures recorded are still modest in absolute value, will, unless the financial situation changes substantially, necessitate support either from the State, or from an organization such as the Caisse des Dépôts et Consignations. It

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Paris, September 19, 1938.

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493

JR

GRAY

Praha

Dated September 19, 1938

Rec'd 10:29 a.m.

Mrs. Moffat
En file

187

Secretary of State,
Washington.

206, September 19, 1 p.m.

National Bank statement of September 15 just released shows very serious changes in comparison to September 7. Visible foreign exchange holdings fell 15% and their credit portfolio items rose 37%. Ratio gold cover to all sight liabilities reached unprecedented low of 26 $\frac{1}{2}$ %. Legal minimum 25%. End last week figure stood at 31.7%. Bank note circulation increased to all high of 9,600,000,000. Estimate that deposit withdrawals from all banks was 2,500,000,000; cause for withdrawal: (1) purchase of foodstuffs; (2) hoarding.

Czech bonds still reported weak on London exchange.

While there has always been a qualifying provision regulating transportation on the Elbe this provision primarily drawn for adjustment of transportation schedules. German restrictions for crossing the frontier became effective on 17th. There is no apparent ground for the belief that this is an attempt of an

economic

-2- #206, September 19, 1 p.m., from Praha.

economic squeeze but represents war risk measures in the same terms as London Lloyds rates. It is also possible that above development was influenced by tightening up of devisen allocated to transport by Czechoslovak National Bank although National Bank denies allegation that devisen for that purpose is being refused. Back of all this devisen question is the old background conflict over the use of devisen for transporting in which there appears to be nothing new but the usual arrangement at the moment for refusal is a liberty used.

Please inform Commerce.

CARR

KLP:DDM

OFFICE CORRESPONDENCE

DATE September 19, 1938.

CONFIDENTIAL FILES

SUBJECT TELEPHONE CONVERSATION WITH

L. W. Knoke

BANK OF ENGLAND.

I called Bolton at 12:45 and asked whether there was anything new. He replied that they had had a very quiet market and had done nothing at all, which was a very great relief. Rates had been steady in London between 4.80 and 4.80 3/4 and closed at 4.80 3/8.

He then referred to the report that the Queen Mary had not gotten into New York harbor because she was held by the fog off Ambrose; this I confirmed.

On the question of war risk premium, Bolton stated that on any gold which they would send over for their own account they would not attempt to cover the war risk but would carry it themselves. The reasons were twofold: (1) war risk insurance couldn't be placed in the market at the present time, and (2) they thought their stepping out of the market would help to quiet it down a little. They would follow this procedure until there was some definite improvement in the insurance market.

Mr. Bolton then referred to our conversation of Saturday afternoon (that is, the use of a cruiser for the transportation of gold) and stated that they had thought it over in the meantime and believed that with luck they might be able to make the shipment without raising very much comment. They weren't, of course, certain but they thought they might be able to do that. But what would be the effect on our side? I answered that that was beyond the scope of my responsibilities and that Washington would have to decide

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE September 19, 1938.

CONFIDENTIAL FILE

SUBJECT: TELEPHONE CONVERSATION WITH

L. W. Knake

BANK OF ENGLAND.

2

that question. Bolton repeated that they weren't, of course, certain that they could insure secrecy but that they might have a fair chance. If the general news were bad, any public statement on this shipment would not be believed by the public but would be interpreted by the latter in its own way. However, they had completed their tentative plans and felt that these were about 75 per cent fool-proof. At any rate they were ready to go ahead when they heard our decision. Until then they would do nothing further.

I specifically inquired whether he saw any objections to this scheme and Bolton answered in the negative and added that they want to do everything they could to assist us over there. Details, of course, would have to be arranged later on.

I asked whether he was ready to tell me what he thought would be a reasonable amount to ship in the way contemplated and Bolton thought \$20,000,000 to \$25,000,000; they were ready to load up to \$50,000,000.

I suggested that it might help if they started packing immediately.

LWK:KW

REB

497

GRAY

Berlin

Dated September 19, 1938

Rec'd 1:10 p. m.

Secretary of State,
Washington.

458, September 19, 1 p. m.

The Berlin papers issued special editorials Saturday night reporting Henlein's announcement of the foundation of a Sudeten "Free Corps" on German territory. The Monday papers carry a second appeal by Henlein which after referring to the sufferings of the Sudetens reads: "The hour of delivery approaches. Offer resistance again and again. Hundreds of thousands of Sudeten German comrades are streaming into the ranks of the Free Corps".

This morning's press further reports that the number of persons entering the "Free Corps" is so great that it has been necessary to limit until further notice its composition to four groups each consisting of 10,000 men. All men between the ages of 18 and 50 who flee to the Reich and wish to join the corps are ordered to report to stations especially established for this purpose all along the frontier. A mass meeting of fugitives at which Beberovsky, Sudeten German press chief will speak is announced

REB

2-#458, From Berlin, Sept. 19, 1p.m.

announced to take place in Dresden tonight. The total number of fugitives as of yesterday is placed at 84,000.

The German press as yet entirely ignores Hodza's speech of yesterday but concerns itself with an editorial in the Praha paper PRAVDA LIVDU which in asserting Praha's refusal to compromise states that "perhaps we are not strong enough to defeat Germany but we are strong enough to draw all Europe in a war". This is described as a firebrand and DER MONTAG states that Praha is bent upon sabotage "because an agreement between France and England which might redound to Germany's favor would prevent execution of Moscow's order to draw all Europe into a war."

Heartly approval is naturally given to Mussolini's speech yesterday and Praha is represented as being entirely isolated from any support in Europe except from Russia whose assistance is ostensibly established by publication of photostat copies of compromising documents. The VOELKISCHER BEOACHTER amid a welter of descriptions of further alleged outrages against the Sudeten Germans reports desertions from Czechoslovakia of other minority peoples as proving that no one wishes to live any more under the Czech state.

In

REB

3-7458, From Berlin, Sept. 19, 1p.m.

In a fairly temperate editorial in yesterday's FRANKFURTER ZEITUNG Kircher places primary responsibility for "an immediate radical settlement" upon France and Great Britain which aided in creating the artificial Czech state. Praha he says shows little inclination to accept such a solution although it is obvious to everybody that a Czech state which would be freed of the German question and of minorities who wish to leave it would be assured a safe existence and moreover would have nothing in the least to fear from Germany. He says that Benes might be disposed to renounce that which he is unwilling to give up voluntarily if third parties would assume responsibility. Kircher writes that a courageous decision by the leading powers would put a quick end to Sudeten German suffering. Should England and France fail in this respect then the consequences would be terribly grave.

WILSON

RCC

JR

PLAIN

London

Dated September 19, 1938

Rec'd 1:30 p.m.

Secretary of State,
Washington.

969, September 19, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

British security markets have only shown a fractional improvement over Friday's close. The attitude of the City is in general one of perplexity. There is no authoritative information available to the City on the Chamberlain-Hitler or Chamberlain-Daladier deliberations and the rumors reaching it from Paris of a virtual acceptance of the German demands are evoking mixed sentiments. There is, on the one hand, a sense of profound relief that a world war may be avoided; many, however, use the word postponed. There is, on the other hand, a feeling that the price of avoidance at this time will be high, entailing a loss to Great Britain of prestige, a commodity on which the City cashes in, and perhaps also prestige to the National Government
which

-2- #969, September 19, 6 p.m., from London.

which may foster domestic difficulties. In general, the City has made a beginning to the process of rationalizing submission the future course of that process will depend on events and methods which have not yet made their appearance.

The dollar opened, offered and quickly went to 4.80 $\frac{1}{2}$ and during the rest of the day its fluctuations have been near that level. Indecision has kept the volume small. Likewise, the gold fixing was only 155 bars at 1448.70. Gold arbitrageurs report considerable difficulty in arranging with brokers war risk insurance facilities for individual shipments.

KENNEDY

ALC

JR

GRAY

Paris

Dated September 19, 1938

Rec'd 1:36 p.m.

Secretary of State,
Washington.

1504, September 19, noon.
FROM COCHRAN.

I have today received a letter dated September 16 signed by President Bachmann and Director Weber of the Swiss National Bank which reads in translation:

"Developments in the international monetary situation lead us to inform you briefly to date upon the attitude adopted by the Swiss National Bank. The persistent weakness of the pound sterling since last July has been evidenced by an increased demand for Swiss francs. As we have immediately converted into gold the pounds which we have acquired, and as on the other hand the price of gold at London has had a tendency to rise, the Swiss franc has slightly weakened in comparison with the dollar.

Following the political uneasiness, there has recently developed a recrudescence of international capital movements. We now record a diminution in

our

-2- #1504, September 19, noon, from Paris.

our foreign exchange holdings. The National Bank has sold dollars at high prices; to date these operations amount to eleven million dollars in round numbers.

In spite of the considerable fluctuations which have been produced between the pound and the dollar, we have been able to maintain the Swiss franc within the limits prescribed by the Federal Council, that is at a rate of devaluation of approximately thirty per cent of its former parity. Thus the official Swiss monetary policy has not undergone any modifications."

BULLITT

HTM

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE: September 19, 1938.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

L. W. Knobe

BANK OF ENGLAND.

I called Bolton at 2:00 o'clock to advise him that the Navy Department in Washington was instructing the commanding officer of the Nashville at Gravesend to receive from the Bank of England a shipment of gold. I added that as I understood it the Nashville was scheduled to leave Gravesend September 22 or September 23. The amount which the Treasury intended to move on the Nashville was \$25,000,000.

Bolton asked me whether he was right in assuming that this decision had been prompted by conditions in the insurance market and I replied that that was surely what had brought the matter to a head. Would we discontinue this method of transportation after the insurance market had returned to normal? I replied that I would take that for granted although, of course, I couldn't be expected to know what the powers that be contemplated doing. Bolton realized that and emphasized that this was just a personal talk between him and me.

The tentative plans which they had prepared, Bolton continued, had in mind loading at Portsmouth and delivery to Portsmouth by road in naval lerrics.

If they were pressed for time he proposed swapping some of their gold which is already packed against some of our unpacked holdings. I assured him that anything that would facilitate prompt shipment would be welcomed by us.

LW:KV

Regraded Unclassified

FEDERAL RESERVE BANK
OF NEW YORK

113

OFFICE CORRESPONDENCE

DATE September 19, 1926.

CONFIDENTIAL FILES

SUBJECT TELEPHONE CONVERSATION WITH

L. V. Knoke

BANK OF ENGLAND.

Mr. Bolton called at 2:50 p.m. What he needed from us, if possible by tomorrow morning, were instructions by secret and confidential cable as follows:

(1) Our authority ^{for him} to release from our account about 700,000 ounces of fine gold to be delivered to _____ (the name of the commander of the Nashville), commanding officer of the Nashville - at a port to be specified.

(2) Our authority ^{for him} to accept a discharge from the commanding officer of the Nashville - he pointed out that as soon as the gold leaves the bank they have practically lost control and after it is placed on the Nashville it is on United States territory.

(3) Our authority ^{for him} not to insure any risk between the Bank of England and the Nashville.

(4) Our authority to charge any expenses to us.

That such for instructions which they needed.

They expected to make shipment on September 22 and to make all final arrangements through the United States Naval Attache in London. They furthermore expected Portsmouth to be the port of embarkation. As far as Gravesend was concerned leading there meant too much publicity because of the number of people hanging around,

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE: September 19, 1938.

CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITHL. W. KnokeBANK OF ENGLAND.

2

furthermore there were not the necessary naval facilities to place the gold aboard the steamer and that to assure a maximum of secrecy the loading would have to be done at one of the naval bases. Any undue publicity of this affair at the present moment might have a bad effect on the market.

Finally, they expected, if necessary, to swap 700,000 ounces of their gold already packed against a like amount of our unpacked gold.

As far as they were concerned, Bolton continued, the whole thing was practically all sewn up and that what they now had to arrange was the movement of the gold between the bank and Portsmouth.

LWK:KW

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

September 19, 1936.

TO Secretary Morgenthau
FROM Herman Oliphant

Responding to your request for advice on authority to move ten million dollars of gold, without insurance, on the SS MANHATTAN sailing from England September 23, in addition to \$11,300,000 which will come on that ship covered by insurance, you are advised that you have authority to do this.

The Treasury sponsored, and the Congress enacted, the Government Losses in Shipment Act which was approved on July 3, 1937. This act sets up a system of self insurance covering the movement of valuables by the Government and its branches and agencies.

On August 12, 1937, the Acting Secretary of the Treasury issued an order exempting from the mandatory provisions of the Government Losses in Shipment Act the shipment of gold and silver to or from foreign countries. Except for this order, government shipments of gold and silver to and from foreign countries would now be moving without private insurance under the self-insurance of the Government Losses in Shipment Act. You may, of course, revoke or modify this order, in which event the gold in question would not need to be privately insured and would come within the act. An appropriate order is being prepared for your signature.

For your information, I attach a sheet indicating the scope of operations and the savings to the Government under the Government Losses in Shipment Act.

Attachment



(COPY)

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE September 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 \$32,385,175,618, 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. \$ 2,893,090,973
- (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

(Initialed) HO

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE: September 19, 1938

TO Secretary Morgenthau

FROM A. Lochhead

Close SEPT. 19, 1938

GOLD HELD IN LONDON

\$188,000,000

Insurance arranged for following ships:

<u>Sailing</u>	<u>Steamship</u>	<u>Amount</u>
Sept. 21	Normandie	\$11,300,000
Sept. 23	Manhattan	11,300,000
Sept. 24	Paris	<u>11,000,000</u>
		\$33,600,000

JR

~~XXXX~~

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GRAY

Berlin

Dated September 19, 1938

Rec'd 2 p.m.

*Mr. Moffat
his files*

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Secretary of State,
Washington.

RUSH.

461, September 19, 6 p.m.

The London communique as well as Osusky's reported remark upon leaving the French Foreign Office that "Here you see one who has been condemning without being heard" are taken as implying that the French and British Premiers have associated themselves with the German standpoint in the Czech affair.

The tone of the evening press, therefore, is one of distinct and unmistakable warning to Praha. The BERLINER TAGEBLATT says that Benes has a last chance to avoid a catastrophe and that he must have the courage to form and carry through the all decisive resolution. This paper remarks, however, that he seems to be far from this step and that as for the Czech Generals their intentions as the "willing tools of Moscow" are sufficiently known. It states that no other result than war can ensue if at the last minute the right of self-determination is not accorded the various peoples in
Czechoslovakia

-2- #461, September 19, 6 p.m., from Berlin.

Czechoslovakia. States that in the Csongradaz that the state of Czechoslovakia of 1919 must disappear in one way or another, Silex states that in the race between diplomatic action and local events in Czechoslovakia the former must hasten to catch up with the latter. He says that "the statesmen may come too late with their pens if the great world surgeon has already applied the cleansing cut of the knife."

The rest of the press is unanimous in placing the fateful decision squarely before Praha.

WILSON

KLP

September 19, 1938

2:45 p. m.

Present:

Mr. Mallet
Mr. Lochhead
Mrs. Klotz

HM, Jr: I thought it would be best, for your Ambassador, yourself and your Government to know what we are doing and you might take notes.

I never know how to distinguish as between the Treasury and the Bank of England, but anyway, one or the other is sending gold over here now, far in excess of what anybody knows. Just putting it on. For example, the maximum the Manhattan will carry for two days is \$11,000,000 and the British Government is slapping on another \$15,000,000. Whether that's insured, I don't know.

Mr. Lochhead: We don't know.

HM, Jr: In addition to what is coming from private sources. The maximum the Manhattan could carry is \$11,000,000. I am using that as an example. And they go ahead and put on another \$15,000,000 and they are doing everything they can to continue uninterruptedly this flow of gold which is coming this way and we want to do everything that we can to assist. You see?

Mr. Mallet: Yes.

HM, Jr: Giving you an example: today if the Queen Mary gets in, carrying \$42,000,000, there will be a total of \$100,000,000 gold arrive in New York today.

Mr. Mallet: I saw it was an enormous shipment.

HM, Jr: Biggest ever. And also it exceeds the total gold holdings of the German Empire. One day!

Now, what we are doing and what we did Saturday,

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we have conversations -- the Federal Reserve, our fiscal agent, have conversations with Bolton, and we told Bolton this light cruiser, the Nashville, which is now at Gravesend, will be coming back in a day or two and will be replaced by the Honolulu and we thought as she is coming back, there is so much gold over there and there is no space and we can get no insurance, we might put \$25,000,000 on and bring it back and we put that up to him Saturday and today at noon Bolton phoned back that they had no objections.

Now, the idea is simply to keep this moving and I don't mind telling you, because the British Treasury knows it anyway, that as of last night we had \$188,000,000 that we owned in London and the rate at which it is coming over it will take at least a month to get it over.

Mr. Lochhead: Practically frozen over there because of no insurance.

HM, Jr: Practically frozen. So now it is between the two Governments. And I want to make it plain your people understand and I am sure you will too. They are using every effort to keep the pound-sterling steady and the only way you can keep it steady is if we supply the dollars in exchange for gold, which we have been doing and will continue to do. I think you saw my statement?

Mr. Mallet: Yes, I did.

HM, Jr: In order to keep that thing rolling, we have to get it over here. If we get too much over there I may be subject to criticism -- why did you permit \$200,000,000 or \$300,000,000 gold to pile up in London? So I was willing to recommend to the President that we take whatever slight chance there is and put this gold on the Nashville, but the whole thought back of it is to just keep this stuff coming as uninterruptedly as possible.

Mr. Mallet: Keeping up an uninterrupted flow so there will not have to be too big a shipment at one time.

Mr. Lochhead: We are not so much interested

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in promoting the flow of gold as we are to provide the facilities to help the foreign exchange market; that you and we are trying to do everything therefore to facilitate the physical operation to see that gold is moved. The gold is just an instrument.

Mr. Mallet: Yes.

HM, Jr: Let me give you the conversation with Knoke; give you the background. If you will read these two that will give you the background on this thing.

Mr. Mallet: Yes.

HM, Jr: No reason why you shouldn't read these.

(Mr. Mallet read the two phone conversations between Knoke and Bolton, copies attached.)

HM, Jr: That gives you the background. And this is too important. So we just think it will be helpful to keep this thing moving. You can see how your people feel about it and we are doing it really in a spirit of being helpful.

Mr. Mallet: Oh, certainly!

HM, Jr: And we gave them from Saturday to today and I am sure they have had a chance to consult the Treasury.

Now, the only place I differ -- I want to sleep on this -- I don't know whether it might be better to say openly that we are doing it rather than have it leak out and let some newspaper man give his interpretation -- that we might not openly say that we are doing it and if you could I would like to have Sir John Simon's reaction on that if you could get it for me.

Mr. Mallet: Yes, sir.

HM, Jr: In twenty-four hours. See?

Mr. Mallet: As regards publicity for the shipment of \$25,000,000 in the Nashville.

HM, Jr: Yes.

Mr. Mallet: Yes.

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HM, Jr: My own feeling is, I don't think you can keep it secret. Then somebody knows it and he gives it his interpretation. See?

Mr. Mallet: Yes.

HM, Jr: And I just wonder if it isn't better for us to announce it.

Mr. Mallet: Uh-huh. I see.

HM, Jr: But I don't want to do anything to embarrass your Government and if they feel it is going to be embarrassing we will let it come over and take our chances. They have changed and they don't want it loaded at Gravesend. They say they can't handle it there. They haven't got the facilities and they can't keep it secret. So we are moving, tonight, the Nashville down to Portsmouth Navy Yard.

Mr. Mallet: Oh, yes.

HM, Jr: And they say they can handle it from there and we will unload it at our Brooklyn Navy Yard.

Mr. Mallet: Oh, yes.

HM, Jr: But there are some 3,000 cases involved. Now, whether you people can move 3,000 cases and keep it secret

Mr. Lochhead: We checked back; may be only five or six hundred cases. It's a bulky proposition.

Mr. Mallet: I saw one reference in the conversations about nearly 500,000.

Mr. Lochhead: In the conversation with the Bank of England, they were taking of a shipment beforehand and they mentioned 500,000 L. I can't see why they would think very seriously about \$2,500,000 when you consider they are moving this \$85,000,000 for their own account.

Mr. Mallet: This is a question of the \$25,000,000.

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HM, Jr: Yes. And the machinery is moving. They have had from Saturday to noon today and they have said yes.

Mr. Mallet: And they are now, presumably, getting that gold on the Nashville.

HM, Jr: Yes. And they did not want to move it from Gravesend, so we have moved the Nashville from Gravesend to Portsmouth and the Honolulu will arrive in two days. She will go to Portsmouth or Southampton, one or the other. I think it will be Portsmouth.

Mr. Mallet: So there is a possibility of the operation being continued when the Honolulu arrives?

HM, Jr: Yes, it might be continued. We have not crossed that, but it is possible that it may be, if it keeps increasing that way and no space available.

Mr. Mallet: Yes. Yes.

HM, Jr: We have got to keep that gold moving and I don't know any other way to get it over here.

Mr. Mallet: The thing you want to put to Sir John Simon: you have not made up your mind whether official publicity is better than have it leak out and you would want to know beforehand if it would embarrass our Government.

HM, Jr: My inclination is to give it publicity, but I think it will leak out anyway, and therefore I think it is better that we give it the kind of interpretation that we want. My inclination definitely is to give it publicity, but I don't want to do so -- I have no strong feelings about it, so if Sir John Simon says no; he would rather not -- it's all right with me.

Mr. Mallet: Quite. And he would not feel it is necessary to add any statement to whatever you said.

HM, Jr: The announcement would come from here. But I would like if possible a fairly prompt answer. I would like to have it, if I could, not later than Wednesday morning.

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Mr. Mallet: Yes, I should think so.

HM, Jr: You understand they are boxing this gold up and it's rolling and I imagine they will ship it tomorrow.

Mr. Mallet: He would know that?

HM, Jr: Oh, he must! And you can see they seem to know all about it. The Bank of England has a good intelligence service.

Mr. Mallet: Yes.

HM, Jr: What was the sum of figures of gold on the way? \$85,000,000?

Mr. Lochnead: \$85,000,000 -- they are going to put on -- and \$45,000,000 on the water.

HM, Jr: And we have over there now, which belongs to us, \$188,000,000 so there you are. It does not bother me, but I would like to keep it moving. We will take it just as fast as they want to sell it to us. You must keep this stability. If they begin to worry about the pound and the dollar -- financial communities are sufficiently upset now, you don't want to give them anything more.

Mr. Mallet: Quite. Quite.

HM, Jr: Well, that's that!

Mr. Mallet: Thanks very much. And I will see you have an answer not later than Wednesday morning.

HM, Jr: Is Bewley going to stay over indefinitely?

Mr. Mallet: He's coming back. I think he is sailing next week. I think he gets back on the 6th of October.

oOo-oOo

September 17, 1938

FEDERAL RESERVE BANK OF NEW YORK

To: Confidential Files

Subject: Telephone Conversation with
Bank of England

From: L. V. Egan

I called Bolton at 9:15 this morning. He had probably read in the papers, I said, that one of our cruisers happened to be in European waters at present. If so happened, I continued, that this cruiser was scheduled to home waters in the near future. It might be possible for us to put some of our London gold on her (say \$25,000,000) which would give us more elbow room for future gold operations in London. What I would like him to do was to let this thing go through his head over the weekend and let us know early next week what he and his associates in the bank thought of such a scheme and how, in his and their opinion, news of such a use of an American cruiser would be received in Europe.

I had not half finished my speech before Bolton cut in to say that he could anticipate what I had on my mind. He knew that the Nashville was already in the Thames and that the Honolulu was arriving shortly. They had already discussed it but thought it probably best not to make any suggestion of this sort to us because they didn't know the relationship between our Treasury and our Navy Department. It would probably be a relatively simple matter for them to put some gold (Bolton said they had thought of £500,000) aboard the Nashville probably without any comment at all. "We people here think that we could probably get a fair amount of gold on either of these cruisers without causing a great deal of comment." The question would be whether the landing should be done in the lower regions of the Thames or whether the cruiser should put into Portland. Did I know the route which the cruiser was expected to take? I replied that I had no

idea that, as a matter of fact, he seemed to have more details about the names of the cruisers, their locations, etc., than I had here. Assuming that they could get the gold aboard quietly, Bolton continued, would this scheme cause a great deal of comment at our end. If the chances were that it would, wouldn't it then be better to be quite open about it and issue a frank statement explaining that the shipment was made because the insurance market had practically collapsed on war risk insurance. If there were any publicity it seemed to him it would be better to make a public statement. I replied that to the best of my knowledge there had been no discussion of this matter in the press but that I understood that early yesterday morning a news commentator had stated over the radio that according to information furnished by a high official something of this nature was under contemplation. I checked into the matter and had been informed that no official had discussed this matter with any outsider.

Bolton is going to think the matter over during the weekend and make some tentative inquiries among his associates and will call me on the telephone by sometime on Monday.

As regards today's market, Bolton said they had had a relatively slow morning; his sales had been \$3,000,000 in the market plus another \$3,500,000 to central banks, principally the Swedish Riksbank. The Swedes had shown more alarm during the present crisis than any other country in Europe.

C O P Y

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FEDERAL RESERVE BANK
OF NEW YORK

To: Confidential Files

Date: September 16, 1938

From: L. W. Knobe

Subject: Telephone Conversation
with Bank of England

Mr. Bolton called me at 12:45 today. Their total sales were just over \$20,000,000 up to that moment. The market was very quiet and steady. A good deal of the bidding for dollars originated with dealers who had previously gone short of dollars and long of gold in London and who were now reversing their transactions. In addition there were, of course, others, among them central banks, who were anxious to build up a small dollar reserve. There was no big market movement just now. Chamberlain had just arrived from his visit with Hitler and made an announcement which was quite pleasant. He had had a very friendly talk with Hitler, Chamberlain said, and intended to talk with him in Germany next week. Both he and Hitler were now quite aware of what was in each other's mind. That, Bolton was hopeful, would help to quiet the market down.

The question which was worrying him now was the effect of the cancellation by the insurance market of all war risk policies. The position in the insurance market at the moment was that there were certain underwriters who would quote 2s 6d percent for war risk on gold for immediate shipment to New York but the market was very small, probably not more than £500,000. They had taken up the question both with Lloyds and with the Government but it would take some time to arrive at a decision. They were, however, determined not to leave the situation in its present state. Meanwhile they were concerned about their private arrangement with us and had decided on the following program which he hoped would meet with our approval:

- 2 -

They will continue as usual to hold the dollar market as steady as they can and supply the market with dollars from the following sources:

- (a) their own present dollar balances.
- (b) their war reserve in Canada (I tried to find out how much that was but Bolton simply replied it didn't amount to much).
- (c) they will borrow dollars for short periods by means of swaps in the market.
- (d) they will use the gold now in transit \$45,000,000.
- (e) they are going to make the following additional shipments beginning next week:

\$15,000,000	on the	Normandie
10,000,000	" "	Samaris
15,000,000	" "	Manhattan
10,000,000	" "	Calendonia
10,000,000	" "	Paris
15,000,000	" "	Queen Mary
10,000,000	" "	Georgic
<u>\$85,000,000</u>	Total	

It will be up to the British Government to decide what they will do about insurance.

\$45,000,000 on the water and \$85,000,000 to be shipped in the near future they hope would cover things during the next week or so. Meanwhile they would like us to continue our order for gold to be earmarked in London. They would, however, not make use of that unless there was a serious emergency. In addition to the two gold prices which he would continue to quote us as heretofore, he would give us two sterling rates, buying and selling, against which we could operate for his account if we felt so disposed and if we didn't want to take any more gold in London.

I replied that I thought that was a splendid program and that I was sure that our Treasury would appreciate this proof of their desire to even the burden between the two of us. I added that I was confident that the Treasury would want to continue the old gold orders (except at lower prices, of course, to meet rising insurance premia, etc.) and that it was everybody's wish here that he should make use of these orders if it was necessary. Also that I hoped that we would not make use of his sterling orders for his own account unless we should simply be swamped. I explained that this hope and belief on my part was based on the fact that to the best of my knowledge at least there was no intention whatever on the part of our Treasury not to continue as heretofore but on the contrary to do whatever we possibly could do. Bolton replied that quite obviously the situation was a difficult one and that "we don't want you to participate in the risk."

Bolton then referred to our cable of last night #379/38, the third paragraph, in which we reduced the gold price to \$34.73, and asked me to tell him whether that applied, to past or to future sales. I replied that it would apply to dollars sold by him beginning today. Was that satisfactory? He said it was.

I inquired whether, in his opinion, it would be possible for them to pack some of the gold which we now held in London so that we could have it ready for shipment if, as and when an opportunity presented itself. I explained that I was aware of his recent request to give him several days notice when asking them to make shipment but that the purpose of my discussing this matter with him again was to try to have some gold ready for immediate shipment if, for instance, one of our banks which had arranged for shipment say on a Wednesday boat would come to us on Tuesday and offer us that space because they had decided to cancel their shipment. I suggested that he let this thing go through his head and talk to me the next time he was on the telephone. Bolton replied that everything depended upon the capacity of their bullion department which, as I knew, had been taken off its feet by the recent rush of gold to New York.

PARAPHRASE OF TELEGRAM

FROM BERLIN

No. 419, September 19, 4 p.m.

STRICTLY CONFIDENTIAL

I received a visit today from the Czech Chargé d'Affaires who declared that in the Czech newspapers he had just read reports from Washington with regard to the possible assumption of Czech interests by the United States in the event of war. He had come in, he said, without being instructed and in an entirely personal capacity to inform me that it had been the intention of his Government to request the United States, should war occur, to perform this service but that there had been no steps taken with regard to this for the reason that at all costs it was their wish to avoid anything that might have the appearance in German eyes of provocation. If there should suddenly be an outbreak of war it was said by him that he would give instructions to turn over as a temporary measure the Czechoslovakian Consulates to the American consular officials. This would be pending a request to Washington on the part of the Czech Government and the Secretary of State's decision in regard thereto. The part of Radio Bulletin no. 218 dealing with Mr. Hull's talk on this subject with

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the newspaper reporters was read to the Chargé d'Affaires by me.

I was told by him that the leading Czech residents in German cities had been arrested as hostages and that the Czechslovak Government had been given notice by the German Chargé at Prague of this and it had been said by the Chargé that the shooting of any Sudeten would be met with retaliation on these hostages. There has been a protest by the Czech Chargé here on the grounds of international law but small satisfaction has been received by him. It was added by the Chargé that his chief, Mr. Mastny, who had gone from Nuremberg to Prague, would not come back to his post immediately. At Prague the German Minister is absent as well, and the Czechs will have their Minister remain in Prague pending what occurs.

Another statement was made by the Czechslovak Chargé. Von Weizsalcker had called him in on Saturday evening and he had been told that, according to information received by the German Government, in Czechoslovakia, seven or eight classes had been summoned to arms and that it was the wish of Weizsalcker to declare that this could result differently than in the month of May. Von Weizsalcker was told by the Czech Chargé that the German news report was not correct because there had

-3-

been called only one class.

WILSON

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris.

NO.: 1508.

DATE: September 19, 1938, 5 p.m.

FROM COCHRAN.

Very little sterling was yielded by the stabilization fund up to 5 p.m. today in order to keep the rate at 178.31. There was a much quieter market for London than last week and it was practically square for the day. Awaiting the outcome of international conversations and negotiations in the political field, Paris exchange operators are continuing to keep their position balanced.

It is reported in the press that rail shipment of 160,000,000 francs of gold and silver bars has been made from Loyalist Spain to France for transshipment to the United States for use in payment of goods.

BULLITT

EA:EB

PARAPHRASE OF TELEGRAM

From BUCHAREST

No. 102, September 19, 6 p.m.

In every quarter, opinion over the Central European situation indicates continued alarm as it becomes more (evident?) that any solution averting war gives promise of a precedent which is unhappy for Rumania, which has large minorities. There is being paid to the Hungarian border especial attention, because there is a rumor that if Czechoslovakia should be entered by the Germans a similar move will here be made by Hungary. However no troop movement has been made because the Government does not wish to take any action which could be understood as taking sides with either party. I am not able in this connection to confirm that any understanding whatsoever with Russia has been reached, although there are persistent reports from abroad in that sense. Here there is general admission that despite large expenditure of funds, Rumania is pitifully not prepared for either attack or defense, and that therefore, for the moment, the only policy she can adopt is to remain quiet and hope ardently that there can be maintained peace.

HIBBARD

PARAPHRASE OF TELEGRAM

FROM PARIS

No. 1510, September 19, 6 p.m.

Section 1.

RUSH AND STRICTLY CONFIDENTIAL - FOR THE SECRETARY

The Vice President of the Radical Socialist Party, Jacques Kayser, who is confidential diplomatic adviser to the French Prime Minister and was his assistant in London, and I have just had a conversation. His opinion of the meaning of the agreement which was reached in London is that peace is preserved for at least a day but in addition that nothing has been settled by the agreement.

Kayser understands very clearly that demands would be brought forward at once by the Hungarian and Polish Governments and it was indicated by him that he did not like at all to have France and Great Britain make a guarantee of the integrity of that part of Czechoslovakia which would be left after the Sudeten area had been amputated because the guarantee would be issued with the prospect of having it rendered illusory in the near future because of plebiscites in the Hungarian and Polish areas.

Authoritative word from Prague had just come to him to the effect that highly disappointing information had been received by the Czech Army from military leaders in the U.S.S.R. and indicated that the Czechs could not count on Russia. For the moment the possibility that the

-2-

British-French proposal might be refused by Benes had been diminished greatly by this but the possibility had again been revived by a later communication from Moscow.

Section 2

Kayser was asked by me to forecast what would eventuate in France if the proposal should be rejected by the Czechoslovaks and Czechoslovakia should be invaded by the German armed forces. The opinion he expressed was precisely contrary to Bonnet's opinion which I reported on September 19, 5 p.m., in my no. 1509. It was said by Kayser that without doubt the French would come near to civil war. Members of all parties from the extreme Left to the extreme Right, as well as the Communists, would be in favor of war on the theory that France would be dishonored if she should not go to war. It was his certain opinion that widespread riots and strikes would result and he felt that finally France would make war. He continued by predicting that even if there should be submission on the part of the Czechs the action taken by the French Government and by the British Government would cause public opinion to swing away from parliamentary democracy. It was not his belief that France would turn communistic nor could he foretell to what individual leader France would look but it was his feeling that the French democratic parliamentary system had been dealt a blow from which that system might never make a recovery.

BULLITT

PARAPHRASE OF TELEGRAM SENT.

TO: American Embassy, London.

DATE: September 19, 1938, 6 p.m.

NO.: 543.

STRICTLY CONFIDENTIAL

FOR BUTTERWORTH FROM SECRETARY OF THE TREASURY.

It has been arranged to ship twenty-five million dollars in gold from the holdings of the United States Stabilization Fund with the Bank of England on the boat Nashville which sails this week from Portsmouth. For your information, this manner of making the shipment is being used because of the large amount of the United States gold holdings in London, and in order that our cooperation with the British fund may continue in accordance with the terms of the Tri-partite Agreement. Also, it is difficult to obtain insurance in New York on this gold. The Federal Reserve Bank in New York has discussed this shipment with the Bank of England and the latter has shown their approval. It is evident that the Bank of England has been in consultation with the British Treasury on the subject.

It has not yet been decided whether or not this matter should be given publicity.

HULL

EA:DP

CONFIDENTIAL

92
JM

224A

2/2657-II-90

WAR DEPARTMENT
WAR DEPARTMENT GENERAL STAFF
MILITARY INTELLIGENCE DIVISION, 9-2
WASHINGTON, D. C.

September 20, 1938.

MEMORANDUM NO. 16 FOR THE CHIEF OF STAFF:

Subject: The present European situation to
midnight, September 19-20, 1938.

Political Situation. The French and British Cabinets have both accepted the Chamberlain plan in seeking the solution of the Sudeten problem by the annexation by Germany of the preponderantly German areas. The British and French people both are deeply chagrined by this additional surrender to the diplomacy of intimidation. However, they are relieved to escape the immediate consequences of war to which their own military weakness has rendered them vulnerable.

The reaction of the Czechoslovakians to their loss of support from the democracies is one of extreme bitterness. It will require all the sagacity of Benes to lead his countrymen to accept the inevitable without internal disturbances or provocative incidents during the coming negotiations.

Military Situation. No known important developments have occurred in countries other than as stated below. The following paraphrased cable from the Military Attache in Berlin dated 2:17 P.M., September 19, is interpreted as meaning that Hitler will permit no relaxation of pressure in assuring and expediting the solution he demands:

"In Austria to the north of Danube and also in Saxony German troop movement is definite, also probably in Silesia and Bavaria. There is being formed a Sudeten German Free Corps of some 40,000 men, composed of deserters from the Czechoslovakian Army and of S.S. Troops.

"Chamberlain has been assured by Hitler that no military action will be undertaken in Czechoslovakia until after the meeting in Godesberg, unless active operations are undertaken by the Czechs in the Sudeten area in the meantime.

CONFIDENTIAL

CONFIDENTIAL

"The Fuehrer has demanded that France and England agree to the principle of self-determination of people in settlement of the dispute, adding that if the principle is accepted, Germany will be willing to compromise with regard to the execution of the principle. Chamberlain, it is known, assured Hitler that he personally favored a readjustment of frontiers."

Whereas the Italian press denies any ambiguity in Mussolini's Trieste speech, declaring it meant definitely that Italy would be with Germany, the Military Attache in Rome is of the following opinions:

"That officers of the Italian Army and Navy, generally speaking, are not pro-German in sympathy. He does not believe Italian Army would or could strike effectively against continental France, but that Italian efforts might be directed against Tunis and in Spain with greatly increased efforts against Spanish Loyalists.

"No outward evidence of mobilization but it is understood full plans for mobilization in case of necessity are ready."

JR

GRAY

Paris

Dated September 20, 1938

Rec'd 7:35 a.m.

Secretary of State,
Washington.

1514, September 20, 11 a.m.

The reaction of the people of France to the events of yesterday was expressed completely by Leon Blum in the following words:

"War is probably avoided; but under such conditions that I, who have never ceased to fight for peace and for many years have dedicated my life to peace, cannot feel joy and that my emotions are divided between a cowardly relief and shame."

Five minutes ago the French Foreign Office received a telephone call from the French Minister in Praha reporting that he had received neither the reply of the Czech Government nor any intimation as to the nature of the reply.

BULLITT

RR

PARAPHRASE OF TELEGRAM

FROM Paris

No. 1515. September 20, noon.

Section 1.

STRICTLY CONFIDENTIAL

We were told by the Hungarian Chargé last evening that orders from Budapest had not yet been received by him to tell the French Foreign Office in an official manner of the stand of Hungary with respect to the problem of their minority in Czechoslovakia. He is expecting to receive at any moment his instructions.

Up to the present he said every effort had been made by his Government to remain quiet with respect to this problem, as it was not their wish to render more complex the solution of the Sudeten-German problem which was being sought or to be brought into the quarrel between Czechoslovakia and Germany. In the assumption of this attitude the Hungarians had taken for granted that no matter what rights in the end were given to the German minority in Czechoslovakia, these rights would in all fairness be granted to an equal extent to their own minority in Czechoslovakia. According to him it would not be possible for the Imredy Government to remain in office if it should not succeed in obtaining equal rights for the Hungarian minority.

-2-

minority. There would expand with overwhelming strength the Hungarian-Nazi movement which the Prime Minister is trying as hard as he can to keep under control, and the Government would be thrown out being charged with neglect of its duty to protect the Hungarians in Czechoslovakia.

Section 2.

The Hungarian Chargé declared that it had been with stupefaction that he read that the British and French Governments were thinking over the question of a guarantee of Czechoslovakia's borders after the Sudeten district had been amputated. He declined to believe that such a guarantee had really been agreed to by the British. Nothing, he said, could be more short-sighted for the French and British Governments to do than to attempt to withhold the right granted to the German minority in Czechoslovakia from the Hungarian and Polish minorities. The Polish Government would be provoked to military measures by such an effort, and in Budapest a Nazi Government would be set up.

BULLITT

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

DATE: September 20, noon

NO.: 1517

FROM COCHRAN.

At noon today, when I paid a visit to the Bank of France, the French stabilization fund had sold one hundred thousand pounds spot and one hundred and eight thousand pounds forward in order to hold the usual rates versus the sterling rate. Although sterling had improved against the dollar by ~~the~~ that hour, the British control had neither sold nor bought dollars. Since there is a tendency to dump national defense and short-term Treasury bonds, the Bank of France is buying these securities daily in its open market. Discounts at French Bank continue to grow and their statement to be issued on Thursday will show a further increase of almost five billion francs in the circulation of notes. This statement will also reveal new drawing by the Treasury on the bank for three billion francs. The Treasury wanted to make this ten billion but the bank still hopes it can keep the amount down to three.

EA:DJW

CORRESPONDENCE

CONFIDENTIAL FILES

L. W. Knoke

DATE: September 20, 1938.

TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

Bolton called at 12:55 and stated that they had made all the arrangements which they were able to make: the Nashville would be in Portsmouth tomorrow afternoon; they would send two convoys of two lorries each on Thursday, the first convoy to leave at 9:30 and the second at about 12:30, arriving in each case three hours later. He thought everything would go through "fairly smoothly" and "reasonably well."

As regards the market, they had had a much quieter time, operating on a very small scale both ways prior to 11 o'clock this morning. Since then no intervention had been necessary; they had managed to buy about £1,500,000 worth of gold (these are current pounds sterling, not gold pounds).

With reference to the political situation, Bolton stated, the Czech Government had not as yet accepted the proposals and further delay might lead to some disturbances in the market tomorrow. The Czechs were reported to be trying to have the Russians intervene in their behalf. Until they received their answer from Russia the situation was obviously open to further disturbances.

I referred to his sterling orders (that is to buy or sell sterling for his account) and explained that the 1/16 in the rate which we added to the price actually paid out by us represented the compensation which we allowed to the bank acting as our agent. I emphasized that as far as we were concerned we made no money on these orders. Bolton asked whether we had any objections to

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE September 20, 1958.TO CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITHFROM L. W. KnokeBANK OF ENGLAND.

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receiving sterling limits from him at the moment. I said "No," but added I hoped we would soon have an opportunity to operate against his gold limit if only to prove to him that we had in no way changed our policy.

LWK:KW

JR

PLAIN

London

Dated September 20, 1938

Rec'd 2:25 p.m.

Secretary of State,
Washington.

976.
September 20, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

The captain of the NASHVILLE called about the shipment mentioned in your 543, September 19, 6 p.m.; and, after talking with Bolton of the Bank of England, I gave him the following details, namely, that the gold would be sent by road to Portsmouth in two consignments the first of which would arrive about noon September 22 and the second later that afternoon. A Bank of England official will accompany each convoy and present the usual documents for the captain's signature.

British security markets have again shown a further improvement, war loan 3-1/2 per cent bonds, for example, closing at 100-3/4, up 7/8 on the day. But the volume of trading has been as small as during the latter part of last week; the price increases have in effect been merely a marking up by dealers of their own security holdings. The attitude of the city
remains

-2- September 20, 6 p.m., from London.

remains much as described in No. 969 of September 19, 6 p.m., and there is no (repeat no) ready assumption of confidence, in the absence of any authoritative indication of Czechoslovakia's ultimate attitude and with another Hitler-Chamberlain meeting in the offing. It is significant that both British and American banking firms state that almost no large positions are being unhooked.

The dollar opened at 4.81-1/4 offered and rapidly moved to 4.82-1/2, it fluctuated around that point until New York came in a buyer of dollars. The volume was very small and there were few if any individual big dealings. Likewise gold fixing totalled 283 bars at 144S. of which 153 were moved.

The joint rating committee of Lloyds has responded to the call for greater uniformity of war-risk rates by recommending (repeat recommending) a new scale of minimum rates. The principal rate for voyages from the United Kingdom western continental ports to New York is 2S. 6D. per £ 100. This action will doubtless facilitate the issuance of war-risk cover.

KENNEDY

KLP

PARAPHRASE OF TELEGRAM

From PARIS

No. 1518, September 20, 2 p.m.

Section 1.

STRICTLY CONFIDENTIAL FOR THE SECRETARY.

While the British Ambassador, Sir Eric Phipps, and I were having lunch there was a telephone call from Bonnet who said in great excitement that Benes had just told him that the Government of Czechoslovakia was still undecided as to what course to follow, but there were two alternatives under consideration: The first to make an appeal for general arbitration of the Czechoslovak minority problem, the second acceptance of the French-British proposal.

It was further said by Bonnet that it was his belief that should Benes make an appeal for arbitration, Czechoslovakia would be entered tonight by the German army. Therefore he was on the point of urging as strongly as possible that Czechoslovakia immediately accept the proposal which the British and French had made.

Section 2.

According to the British Ambassador, his reply to Bonnet was that he was so positive of his Government's position that he would immediately call up the British minister

-2-

Minister in Prague by telephone without first consulting London and tell the Minister to tell the Czechs that if an appeal for arbitration should be made by the Czech Government their country would definitely be entered by the German army tonight.

Sir Eric went on to say that the British and French Governments had both made it perfectly clear to Benes that if the French-British proposal should not be accepted by him and Czechoslovakia should be invaded by the German army, neither France nor Great Britain would give any support to the Czechs. Then Sir Eric telephoned to Prague to the British Minister and to the Foreign Office in London as well, and the Foreign Office gave an indication that his actions and opinions met with their entire agreement.

Bonnet expects a final answer from Czechoslovakia this afternoon at 3.

BULLITT

JR

GRAY

London

Dated September 20, 1938

Rec'd 2:15 p.m.

Secretary of State,
Washington.

978, September 20, 7 p.m.

Just been advised by Cadogan message to be given to Newton, British Minister, shortly after 6. No indication yet what the answer is. Small cabinet meeting when note arrives. Will advise later.

KENNEDY

RGC

PARAPHRASE OF TELEGRAM

FROM Paris

No. 1521, September 20, 3 p.m.

Strictly confidential for the Secretary

The British Ambassador and I talked over today the problem of the guaranty to Czechoslovakia by Great Britain and it was asked by me whether the meaning of the guaranty was that possession to Czechoslovakia of the parts of the country in which Hungarians, Ruthenians, and Poles lived would be guaranteed. On the contrary, said the British Ambassador, there would be held plebiscites in these districts and only that part of the Czechoslovak state which remained after detachments on account of these plebiscites would be guaranteed by Great Britain.

BULLITT

EDA

GRAY

BERLIN

Dated September 20, 1938

Received 3:10 p.m.

Secretary of State
Washington

466, September 20, 6 p.m.

The evening press in toto give marked prominence to demands from Warsaw and Budapest that the Polish and Hungarian nationalities in Czechoslovakia be accorded full rights of self-determination. Poland is reported to be desirous of the acquisition of Teschen without the formality of a plebiscite. The papers also forecast that in his speech this evening Mussolini will raise the question of the necessity of a "total" solution which may even envisage the return of the Slovak and Ruthenian minorities to Hungary.

Reliable newspaper sources state that the Hungarian Premier and Foreign Minister have just departed from a conference with Hitler at Berchtesgaden.

These developments perhaps indicate that the question is entering upon a new phase, namely, that which has been advocated repeatedly by the German press that a general partitioning of the present Czech state is necessary.

WILSON

KLP

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: September 20, 1938, 6 p.m.

NO.: 1526

FROM COCHRAN.

This evening by a quarter of six the British control had not intervened on the exchange market. For the day, the French stabilization fund had yielded 600,000 pounds spot sterling and about the same amount forward. The latter amount included about 50 percent speculative operations which are developing on prospect of the Bank of France's next statement showing that the Government has borrowed from it.

BULLITT.

EA: LWW

GROUP MEETING

September 20, 1938.
9:30 A. M.

Present: Mr. Oliphant
Mr. Gaston
Mr. Viner
Mr. Hanes
Mr. Lochhead
Mr. White
Mr. Gibbons
Mr. Upham
Mr. Bell
Mr. Thompson
Mrs. Klotz

H.M.Jr: Hello, Jake. Glad to see you. (Shakes hands with Mr. Jake Viner.)

(Mr. Viner shakes hands around the room.)

H.M.Jr: You know Mr. Hanes, don't you?

Viner: Yes, I just met him.

H.M.Jr: Thompson?

Thompson: (Nods "Nothing.")

H.M.Jr: Bell?

Bell: I have nothing except to ask you whether the Greek Minister has called you up to deliver a check?

H.M.Jr: Not that I know of.

Bell: He has not? He has a check, and he wants to deliver it personally, and I have the letter, and the receipts.

H.M.Jr: Well, Mrs. Klotz, if you will call up the Greek Minister

Bell: Oh, I think he will probably call you.

H.M.Jr: Oh, then I'd probably better wait.

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- Bell: He'll call you.
- H.M.Jr: As long as I don't have to drink any of that Greek wine, with rosin in it, with him. Has anybody here drank any Greek wine?
- Viner: Not here, but I've drunk Greek wine.
- H.M.Jr: With rosin in it?
- Viner: With rosin in it.
- H.M.Jr: (To Mrs. Klotz:) Well, if he calls
- Bell: I've a formal receipt already signed, when he delivers it.
- H.M.Jr: (Side conversation with Mrs. Klotz.)
Anything else, Bell?
- Bell: No, that's all.
- H.M.Jr: (Points to Mr. Gibbons.)
- Gibbons: (Nods "Nothing.")
- H.M.Jr: Well, I might as well give you this message right here. This is serious; I am not kidding. I asked the President - I told him that Customs were constantly getting more difficult; that I would like to get the resignation of Judge Moyle. He said, "Well,....." and he repeated what he said once before; "he's an old Swedey." He doesn't want to do anything; he's hard - his hearing is getting worse. He said, "All right," - and this is where you come in - "Call up Senator Thomas, of Utah, and tell him that we feel that the old boy should retire, and we'd like to ask the Mormon Church whether they could take care of him."
- Now, I'm giving it to you word for word. Whether they would take care of him, and how soon they can. Now listen, he asked Jim Farley to do the same thing. Now I want you to call up Thomas. We'd like him to do it, and we don't want to hurt his feelings. Could he take it up with the Mormon Church to find out if they could take care of it. He didn't say it with a smile either. He was serious about it.

Gibbons: Jim didn't do anything about it, I suppose.

H.M.Jr: The President told me to do this six months ago. He told me to call up the Morman Church, six months ago.

Gibbons: (Laughs.)

H.M.Jr: It's a good day to do it.

Gibbons: Yeah. Wait till Friday.

H.M.Jr: Seriously, will you do it?

Gibbons: Yeah, I'll do it.

H.M.Jr: You're as much interested as I am.

Cy?

Upham: (Nods "Nothing.") Nothing.

Gibbons: You know what Al Cohen said - "Nobody but a Mormon will pay ten per cent to his church."

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

Lochhead: Sentiment is still good; sterling's at 4.82 3/4; the stock market is opening up; the price of steel is up a couple points; Government bonds are picking up; the new two and a halves are quoted 101.

H.M.Jr: I don't want to sell.

Lochhead: I have reconfirmed that; they're very anxious, up in New York again. You saw what they did yesterday.

H.M.Jr: I told Ransom we put these Government bonds in Postal Savings and Government Life. He said, "Don't you think we should sell?" I said, "Get yourself in shape." I don't want to buy and sell any Government Life and Postal Savings on a - not on a point.

White, and Lochhead, if you will make available to Dr. Viner all the cables on the foreign situation, and you (Viner) want to make use of Magill's room?

Viner: Any room.

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H. S. Jr: All right, I think you will be less disturbed there, and give him plenty of good news, so he doesn't of necessity, N. R. A., or something like that. You never know what that fellow will do. See? But put him to work. You might explain to him, Harry, what we're trying to do with China - get his reaction, but the main thing is, I want his..... and then you want to talk with Bell on this question of the gold, you see. I mean, I'd like that thing, and George Harrison insists we are not sterilizing. I tell him I disagree, but I don't want to argue about it, but the fund is up there; I think we ought to make up our minds. I've got some friends of yours coming down tomorrow morning. I think we ought to (To Mrs. Klotz;) Make no appointments for tomorrow.

White: I have a brief statement of the Chinese situation, in case you want to read it. It's just very brief.

H. S. Jr: All right.

White: We've prepared a statement of the various powers which the Administration of the Government has now that it did not have in 1914, with respect to control of the economy in one significant direction or another. If you are interested, I thought we could turn it over to the legal staff, and have them correct it and probably expand it so that when it gets to you it will.....

H. S. Jr: When will it get to me, after it gets over to the legal staff?

Oliphant: Well, you know, do you, that Jim Morris is Chairman of the Committee that is studying the whole problem of price control of the economy?

H. S. Jr: What do you expect to get out of that?

Oliphant: Well, not a lot.

H. S. Jr: But this - he isn't talking about - he's talking just about Treasury.

White: All Treasury, plus. Not only Treasury - just to give some idea of what powers are possessed now that weren't possessed in 1914 to meet the situation, which would include price, and other situations.

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Olliphant: The other study - official - Procurement is.....

Bell: That study take it through to 1917?

White: It includes that, because we are comparing the present situation with 1914.

Bell: Well that didn't come in till 1916, '17.

White: That's right. If you're interested

H.M.Jr: Yes, I'm interested.

White: Well, I'll turn it over to them.

H.M.Jr: I was amused, talking about committees, Pearson and Allen had this secret committee of S. E. C. - did you see it? Everybody working on how to close the stock exchanges.

Daston: They came out yesterday with the announcement. the plan was to close the stock exchange.

H.M.Jr: I don't know whether you saw my off-the-record remarks yesterday - that everything was to be done to keep them open.

Are you through, Harry?

White: Yes. Those two are not inconsistent.

H.M.Jr: Tell Dr. Viner of your great scheme.

White: You mean my last one?

Viner: For closing the stock market?

H.M.Jr: I don't want to quote Dr. White for fear I might give a slight misinterpretation of his humor.

White: I'll see he gets a full account.

H.M.Jr: There's lots of humor around here, Jake.

Viner: I have no doubt.

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

Hanes: I have nothing.

H.M.Jr: You haven't had time.

Viner: Not yet.

H.M.Jr: Nobody carried your speech in Minnesota - or Minneapolis.

Viner: It's a good thing for me.

H.M.Jr: I said, "I am inviting in the great financial brains of America, and consulting him." I told that to the press.

Viner: Newspapers carried the story you were going to invite me, and friends said, "I hear you're going to Washington." I said, "No, I am not."

H.M.Jr: You admitted it.

Viner: I didn't admit anything.

Gaston: I suppose I'd better admit to the boys today that Dr. Viner is here, as one of us.

H.M.Jr: I am not ashamed of it.

Viner: A social visit.

Gaston: I'll tell them you said it's a social visit.

The boys continue to ask about the Chinese. Do you want to admit you have an appointment with them today?

H.M.Jr: I have no appointment.

Gaston: You've got no appointment. And will you let me know whether that date for this evening.....

H.M.Jr: Yes - seven-thirty for you and Mr.....

Gaston: Davenport.

H.M.Jr: Who?

Gaston: Davenport.

H.M.Jr: Mr. White and Mr. Lochhead. Seven-thirty. I told the cook to get either two ducks or one lamb,

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whichever was the cheaper; which one she got, I don't know. After Mrs. Morgenthau arrives this evening, she can do it, but I said I didn't know which was cheaper to buy.

Incidentally, you will appreciate this story. Sir Frederick Phillips came over, secretly, to spend the day with me at Rouen. They brought in this bill of fare, and we sat down - Butterworth, Cochran, Sir Frederick Phillips, and myself, and, as you know, Rouen is famous for one thing, and that's eating ducks. We all ordered duck; and on the bill of fare was Yorkshire ham. Sir Frederick Phillips ordered the Yorkshire ham, and when it came it was the toughest you could imagine, and here we were, this duck just melting in our mouths, and Sir Frederick Phillips' ham as tough as could be. We tried our best to get him to take it, but no, he was going to have Yorkshire ham - and they us to be versatile.

- Gaston: They weren't Long Island ducklings, were they?
- H.M.Jr: No, they were Rouen ducks. Want to admit anything else?
- Gaston: I have something else; I won't admit it in public. That's the only thing I want to ask about.
- H.M.Jr: Herman?
- Oliphant: There is the order accepting that stuff that can't be secured otherwise.
- H.M.Jr: Accepting what stuff? We are not going to do any of that. I can't sign that without reading it. Today's Tuesday; Mondays I sign without reading, but Tuesdays I don't. I read on Tuesday.
- What else?
- Oliphant: Nothing.

(Mr. Kieley comes in.)

- H.M.Jr: (Over telephone:) Tell Naster to come in, please. Kieley, will you see that Dr. Viner is made comfortable again in Magill's room. He will be here a couple days.
- Now, if Oliphant, Hanes, and Upham will stay, please. And, Jake, I'll see you during the day, to read that stuff.

September 20, 1938

For the Secretary:

On May 10, 1938 Mr. Szymczak, Chairman of the Committee on Credit for Industry, reported to the Interdepartmental Committee that his Committee recommends that for the balance of the current year some independent group or agency, designated for the purpose, observe and study the experience of the RFC in making loans and purchasing obligations under its new authority to find out if "the extension of credit under the existing facilities fails to meet the needs of industry and business for capital or credit."

It is the view of the Committee that the now-existing authority is adequate for present purposes and that there is no need for the immediate establishment of a permanent organization sponsored or financed, in whole or in part, by the Federal Government to supply credit or capital to business and industry.

The Committee submitted a plan for a set of regional banks with stock subscribed by the Government which would be supervised by an independent governmental authority

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which could be made use of in the event that it was found by the independent group or agency studying the matter that some permanent institution sponsored by the Federal Government should be set up.

Mr. Szymczak pointed out that the Board of Governors of the Federal Reserve System thought that such a plan is not necessary or desirable.

Upm

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

May 10, 1938

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



The Interdepartmental Committee,
Washington, D. C.

Dear Sirs:

There is transmitted herewith the report of the committee appointed by the Interdepartmental Committee to consider what additional steps, if any, it may be desirable for the Government to take in order to provide needed credit for business and industry which cannot be obtained from existing sources.

In the opinion of the committee there is no need for the immediate establishment of a permanent organization sponsored in whole or in part by the Federal Government to supply credit or capital to business and industry. It is the view of the committee, however, that the experience of the Reconstruction Finance Corporation in making loans and purchasing obligations under its new authority should be carefully observed and studied during the remainder of the current year by some independent group or agency designated for the purpose with a view to ascertaining the respects, if any, in which the extension of credit under the existing facilities fails to meet the needs of industry and business for capital or credit.

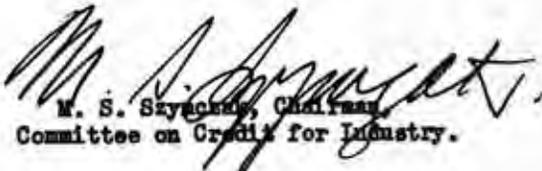
Should it appear, in the light of the studies to be made by the independent group or agency, that some permanent agency sponsored by the Federal Government should be set up to supply credit to business and industry, the committee suggests that a study be made of the feasibility of a plan which might follow in a general way the tentative outline contained in the appendix to the committee's report.

In submitting this report I feel that I should point out that it is the opinion of the Board of Governors that the plan outlined in the appendix to the committee's report is not necessary or desirable. I should also like to point out that the committee is not now recommending the adoption of such a plan but is merely submitting it as a basis for study. It is assumed that

The Interdepartmental Committee
Page 2.

any committee appointed for the purpose of giving further study to the need of creating a permanent agency to supply credit to business and industry would also consider other plans that may be suggested or appear desirable in the light of their studies.

Respectfully submitted,


M. S. Szyrocki, Chairman
Committee on Credit for Industry.

Inclosure

CONFIDENTIAL

REPORT OF COMMITTEE ON CREDIT FOR INDUSTRY
TO THE INTERDEPARTMENTAL COMMITTEE ON
LEGISLATIVE MATTERS

This Committee was appointed by the Interdepartmental Committee on Legislative Matters to consider what additional steps, if any, it may be desirable for the Government to take in order to provide needed credit for business and industry which can not be obtained from existing sources. The subject has been carefully studied by the members of the Committee individually as well as by the Committee as a group. The Committee has had several meetings to discuss the results of its studies and a number of different possible courses of action have been considered. The views and conclusions of the Committee are set forth below.

Since June 1934 the Reconstruction Finance Corporation and the Federal Reserve banks have had authority to make loans to business and industry subject to certain conditions and limitations and they have approved about \$350,000,000 in applications under this authority. While this authority of the Reconstruction Finance Corporation and the Federal Reserve banks continues in effect, there was some evidence prior to the enactment of the recent amendment to the Reconstruction Finance Corporation Act, approved April 13, 1938, that there was still a need on the part

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of business for credit which was not obtainable from existing sources, especially among smaller businesses. Under the amendment referred to, the Reconstruction Finance Corporation is authorized to make loans to or purchase the obligations of any business enterprise, when capital or credit is not otherwise available at prevailing rates. There is no limitation in the statute on the amount of the credit which may be extended to any one enterprise or on the nature of the business to which credit may be furnished. Although under the law as it now exists the Corporation may not make such loans after June 30, 1939, there is no limitation on the maturity of the loans it may make or of the obligations it may purchase prior to that date.

In view of the broad terms of this power granted to the Reconstruction Finance Corporation to provide funds for business, in addition to the credit which has been extended to business by the Reconstruction Finance Corporation and the Federal Reserve banks under authority which they still have, it is the view of the Committee, on the basis of such information as is available, that the now existing authority for the extension of credit by these Governmental agencies to industrial and commercial borrowers which are unable to obtain funds from the usual credit sources is adequate for present purposes. The Committee is of the opinion, therefore, that there is no need for the immediate establishment of a permanent organization sponsored and financed in whole or in part by the Federal

Government to supply credit or capital to business and industry.

It is the view of the Committee, however, that the experience of the Reconstruction Finance Corporation in making loans and purchasing obligations under the new authority should be carefully observed and studied during the remainder of the current year by some independent group or agency designated for the purpose, with a view to ascertaining the respects, if any, in which the extension of credit under the existing facilities fails to meet the needs of industry and business for capital or credit. The Committee wishes to suggest that the Reconstruction Finance Corporation be requested to maintain a record with respect to each loan application, including preliminary applications, not approved by the Corporation, in such form as to show in detail the reasons for not approving the loan. Such record should contain sufficient information to enable conclusions to be drawn therefrom as to whether additional facilities are needed in order adequately to supply the reasonable credit needs of any classes or types of business enterprises. It may develop from a study of the experience of the Reconstruction Finance Corporation that some further investigation by the independent group or agency, perhaps through field men, should be made to ascertain whether there are any credit needs that are not adequately being taken care of by existing agencies. With this experience as a basis, such remedies, if any, as may be needed can more readily be determined upon.

If, in the light of the above studies, it appears desirable that some permanent organization sponsored by the Federal Government

should be set up to supply credit or capital to business and industry, the Committee is of the opinion that a study should be made of the feasibility of a plan which might follow in a general way the tentative outline which is contained in the Appendix to this report. The tentative plan there outlined provides for a set-up or organization consisting of four principal parts: (a) Local lending associations, wherever needed, composed of businessmen; (b) from six to twelve regional corporations with stock subscribed by the Government, which would in turn subscribe to stock in the local associations and supervise their operations; (c) from six to twelve regional banks with stock subscribed by the Government, where the local associations could borrow or rediscount; and (d) an independent Governmental authority with supervisory powers, located in Washington.

The local associations would receive and pass upon applications for credit. Whether local business enterprises in need of additional credit or capital funds would be willing to make available to the management of such a local association, composed of local borrowers, sufficient information as to their operations to enable the association intelligently to pass upon loan applications, is a question with respect to which careful study and investigation would have to be undertaken before final conclusions were reached with respect to the advisability of establishing such associations.

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Your Committee is also of the opinion that there are certain other steps which should be taken at this time in order to facilitate the obtaining of capital and credit by business and industry from private sources. Consideration is now being given by the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation and the Comptroller of the Currency to the possibilities of changes in examination policy which will tend to encourage a more adequate extension by banks of credit to business. In addition, the Committee feels that a liberalization of the regulations of the Comptroller of the Currency relating to the purchase of investment securities by member banks of the Federal Reserve System would do much to provide a market for the obligations of business and industry, particularly small business and industry, and it is suggested that it would be helpful if this problem can be given prompt and sympathetic consideration. The Securities and Exchange Commission has already liberalized its regulations with regard to registration requirements for securities. The Committee suggests, however, that the Commission be requested to continue its study of this matter with a view to taking such further action in liberalizing its requirements as may be possible under the law and consistent with the purposes for which it was enacted.

Respectfully submitted,

W. A. Rorer
Chairman

W. H. Myers

John H. Fisher

APPENDIXTentative Outline of Plan for Furnishing Credit to
Industry in Case There Proves to Be a Need for Such
a Plan

There is set forth below a tentative outline of a plan for a permanent organization sponsored by the Federal Government to supply credit or capital to business and industry and to be composed of four parts: (a) a Governmental supervisory authority, (b) regional credit corporations, (c) regional credit banks, and (d) local credit associations. It is the suggestion of the Committee that, in the event the experience of the Reconstruction Finance Corporation over the next few months shows that there is a need for such a permanent organization, the various points contained in this outline be taken as a basis for a study of the type of organization most practicable for the purpose.

A. Supervisory Authority

An independent Governmental authority, appointed by the President with the advice and consent of the Senate, with offices in Washington, with general supervisory authority over the proposed industrial credit system.

B. Regional Credit Corporations

(1) Not less than six nor more than twelve regional industrial credit corporations, the number thereof and amount of their capital to be determined from time to time by the supervisory authority.

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and the capital to be provided by the Government. Such corporations would supply the capital for and supervise the operations of local credit associations.

(2) A regional corporation would have authority to wind up the affairs of and liquidate any local credit association whenever in its judgment there is no longer a sufficient need for the services of the association to warrant its continued existence.

C. Regional Credit Banks

(1) Not less than six nor more than twelve regional industrial credit banks, the banks to correspond in number and territories to the industrial credit corporations, with the amount of capital to be determined from time to time by the supervisory authority and supplied by the Government. These banks would discount or purchase obligations acquired by local credit associations and make loans to the associations secured by their assets.

(2) The regional banks would also have power to deal directly with business enterprises in cases where local credit associations are unwilling or unable to do so. In such cases the borrower would be required to subscribe to a special class of stock in the lending regional bank in an amount equal to five per cent of the amount borrowed.

(3) The regional banks would also be authorized to issue their consolidated obligations in such form, with such maturities,

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and secured in such manner as might be determined by the supervisory authority in Washington. Such obligations would not be guaranteed by the United States but would have the same tax exemption as debentures of Federal Intermediate Credit Banks. They would be eligible for purchase by Federal Reserve banks to the same extent and under the same conditions as are bonds of the Federal Land Banks and debentures of the Federal Intermediate Credit Banks and would also, in accordance with the terms of present law, be available for use as security for advances to member banks by Federal Reserve banks.

It may be found practicable to combine the functions of the regional credit corporations with those of the regional credit banks.

D. Local Credit Associations

(1) Local credit associations to be organized wherever needed by the regional credit corporations. Such associations would have two classes of stock. Voting stock would be held by borrowers only, who would be required to subscribe thereto in an amount equal to at least five per cent of their borrowings. Non-voting stock would be subscribed by regional credit corporations and also could be taken by investors.

(2) Such local credit associations to be empowered to
(a) make direct loans to business enterprises; (b) buy bonds, debentures or other similar obligations from business enterprises;

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and (c) to make commitments to such business enterprises covering such loans or purchases. The associations to be authorized to cooperate with banking institutions in extending credit.

(3) Local credit associations to be empowered to sell assets or borrow money when permitted under regulations prescribed by the supervisory authority in Washington.

(4) No limit to be prescribed by statute upon the amount of funds to be made available to any one business enterprise or upon the terms or maturity thereof, all such matters to be subject to general regulations of the supervisory authority in Washington.

(5) Local credit associations, as well as regional banks, to be authorized to extend credit to commercial and industrial enterprises only.

MEMORANDUM FOR MR. LOCHHEAD'S FILES

September 20, 1938

The following gentlemen arrived at the Treasury today from China on a financial mission:

Mr. E. P. Chen:
Mgr. Shanghai Commercial & Savings Bank, Shanghai

Mr. Kai Fah-mun:
Mgr. Central Bank of China, Shanghai

Mr. S. T. Ren:
Chinese Foreign Affairs Commission.
Acting as Secretary to Mr. Chen

Mr. H. E. Nicholson, Treasury Attache at Shanghai, also arrived at the Treasury with the above-mentioned gentlemen. Mr. Nicholson is on an independent mission in connection with his duties in Shanghai.

F. Dietrich

FD:ck

September 20, 1938

At 11:00 a.m. Mr. Walter W. Smith, President of the Federal Advisory Council, Mr. Edward E. Brown and Mr. R. E. Harding, members, called on the Secretary of the Treasury in his office.

Mr. Smith referred to the talk about the possibility of the establishment of twelve regional industrial credit banks and of the fear of the Federal Advisory Council that they might engage in making capital loans. He referred to the survey made by Dr. Viner in 1934 and said that the Council wondered whether the Treasury might not look into the necessity for regional banks of this character. The Council is of the opinion that there is no demand for financing facilities of this character.

Mr. Morgenthau asked him if he referred to intermediate credit loans of from five to ten years and he said, yes, but there must be a distinction between equity financing and credit.

Mr. Brown said that there is plenty of credit available but not enough equitable capital. If the bank makes the study, it is supposed it will be discounted, but if

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the Treasury makes one, it will be looked upon as impartial and reliance placed in it. He referred to the Viner and Hardy survey of the availability of credit in the Seventh Federal Reserve District in 1934 and gave as his personal opinion that a similar study at this time for all twelve Districts would be highly desirable and stated that the whole Council thinks it should be done. He added that whether it was done before or after election seemed to him to be immaterial.

Mr. Morgenthau said that he saw no reason why the election should be an influence one way or the other if it were determined that the study should be made. He pointed out that in 1934 we had emergency banking money which has now been taken away from us. He also referred to the report issued by the Investment Bankers Conference, the moving spirit behind which was Ben Griswold of Baltimore who undertook the study at the Secretary's request.

Mr. Smith referred to the section of the Berle memorandum having to do with the difficulty of concerns who desire to float small issues finding facilities and stated that Mr. Berle's information is incorrect. Many of the St. Louis issues are for such an amount as 1½ million.

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Mr. Brown stated that the WPA seemed to have a good deal of money for grants, traffic count, etc., and he suggested that probably there are a good many unemployed college graduates who could be used for such an effort.

Mr. Morgenthau said that Dr. Viner is here for a couple of days and that he will talk to him and others about it.

Mr. Smith concluded that the Federal Advisory Council is unanimous in its view that there is no need for any such system of banks.

Upm

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE September 20, 1938

TO Secretary Morgenthau

FROM Mr. White

Subject: What China has left in silver and foreign exchange resources.

1. We estimate the total foreign exchange assets of China to be from 75 to 85 million dollars, as follows:

(a) Nicholson reported that the four Government banks have \$30 million in actual foreign exchange, but reports from Buck, on information he obtained from Pei of the Central Bank of China gives the total amount of foreign exchange available at approximately \$50 million.

(b) The Chinese Government now has \$50 million in gold against which a loan of \$48 million has been made. The interest and handling charges must be deducted from the remaining \$2 million which would leave about \$1½ million.

(c) Nicholson reports that as of June 30 the Government of China had 54 million ounces of silver in London still unsold. However, there are two loans: One of about \$10 million from the Hong Kong and Shanghai Bank, and another of approximately \$15 million from the Swiss Bank, French Bank and Mendelsohn & Company against which silver has been earmarked. The silver on earmark is probably all held in London and is included in the 54 million ounces referred to above. From Nicholson's statement we can not be certain of this point however.

(d) China has 3 million yuan newly minted coins in San Francisco that we could buy. It would yield about \$1 million.

(e) There are about 45 million ounces of silver available (besides hoards) in areas not under Central Government control. So it cannot be included in her saleable assets.

(f) We estimate the Central Government has for sale 50 to 100 million ounces of silver out of which she can spend only about \$15 to \$25 million.

Secretary Morgenthau - 2

2. Total silver purchased from the Chinese Government from November 4, 1934 to September 15, 1938: 447 million ounces at \$200 million.

3. There remains to be purchased under present agreement 10 million ounces, on which no bid has as yet been made.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE: September 20, 1938

TO Secretary Morgenthau

FROM A. Lochhead

Close SEPT. 20, 1938GOLD HELD IN LONDON

\$188,000,000

Insurance arranged for following ships:

<u>Sailing</u>	<u>Steamship</u>	<u>Amount</u>
Sept. 21	Normandie	\$11,300,000
Sept. 23	Manhattan	11,300,000
Sept. 24	Paris	<u>11,000,000</u>
		<u>\$33,600,000</u>

FD:kma