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Tuesday
September 27, 1938
8:57 a.m.

H.M.Jr: Hello.

Operator: Admiral Leahy. Go ahead.

H.M.Jr: Hello.

Admiral Leahy: Good morning, Mr. Secretary. This is Admiral Leahy speaking.

H.M.Jr: Good morning, Admiral. Now, could you bring me up to date on what you're doing in the way of movements of your vessels -

L: I didn't understand you.

H.M.Jr: Could you bring me up to date on what you're doing in regard to movement of vessels to England?

L: Yes, sir. The Nashville is on its way home as you know.

H.M.Jr: Yes.

L: The Honolulu is there waiting for a consignment.

H.M.Jr: Yes.

L: A destroyer - a big destroyer, the Summers --

H.M.Jr: Yes.

L: - will arrive in Portsmouth on the second.

H.M.Jr: Wait a minute.

L: And the Savannah, another big cruiser, will arrive on the third.

H.M.Jr: Uh huh.

L: That's as much as we've done yet.

H.M.Jr: Uh huh. Ah - you couldn't get one of those vessels there by October one? - So we could -

L: So - I think so.

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H.M.Jr: So that we could release the Honolulu?

L: Well, do you want to get the Honolulu started quickly instead of waiting until the Summers arrives?

H.M.Jr: Ah - I don't - I thought that we wouldn't have her leave until the Summers did arrive. Then I - what I'd like to do is start loading the Summers on the first of October - get her loaded.

L: do you want to start another shipment on the first?

H.M.Jr: Well, I mean - I - then I wouldn't - I'd get them loaded and I wouldn't move the Summers out until - what's the next vessel that comes?

L: The Savannah.

H.M.Jr: The Savannah?

L: Yes, sir.

H.M.Jr: See?

L: Well, yes, we can do it, Mr. Secretary. Of course it costs a little more fuel, that's all.

H.M.Jr: Well, ah - it's a good investment, Admiral.

L: All right. Now -

H.M.Jr: And to tell you what I'm doing - I'm loading forty million dollars, uninsured, on three of the United States liners on the thirtieth.

L: Oh.

H.M.Jr: Ten on - ah - on these American Traders, you know, there's two of their ships sail on the thirtieth.

L: Yes.

H.M.Jr: The Pres- And I'm putting ten million on each of them. And the President Harding is sailing and I'm putting twenty on her. That's forty million I'm loading on the thirtieth and I can't get insurance on any of it.

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L: I see.

H.M.Jr: So I mean I'm just - so I'm - I'm placing forty million on three vessels uninsured.

L: Uh huh.

H.M.Jr: But I've got so much gold over there.

L: I know. Well now, Mr. Secretary, why can't you put some more on the - on the Honolulu?

H.M.Jr: Because the President didn't want me to.

L: I see.

H.M.Jr: He said not more than twenty-five.

L: Uh huh.

H.M.Jr: And ah - that's why.

L: Well, that answers the question of course. Now, - you - you'd like to have the Summers there on the first?

H.M.Jr: I'd like to have the Summers on the first and then release the Honolulu, you see?

L: Yeah.

H.M.Jr: And I'd give orders to start loading the Summers on the first and then we'd get that - I want to get that gold out of London.

L: Yes, sir. Well, I'll send a despatch to the Summers now and see - this is the twenty-seventh - there's four days left - she's making twenty knots;- she can make twenty-five; that'll do it. She's due to arrive there in the morning - early in the morning of the second.

H.M.Jr: Well, couldn't you get her there early the morning of the first?

L: I'll do - yes, sir. Yes, we can.

H.M.Jr: That - that oughtn't to be difficult.

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L: Oh yes, we'll do it.

H.M.Jr: And then I'll tell them to load her with twenty-five million of gold on the first - hello?

L: Yes.

H.M.Jr: And the minute that she gets in why the Honolulu can get out.

L: Oh yes, that's all right.

H.M.Jr: Is that all right?

L: Is - the Honolulu will be loaded by that time?

H.M.Jr: Oh yes!

L: Yeah. All right, sir.

H.M.Jr: And then you might be thinking of getting something else over.

L: Oh, you mean another ship after the Savannah?

H.M.Jr: Yes.

L: Uh huh. That'll take some little time I'm afraid, Mr. Secretary. I can turn the Honolulu right back -

H.M.Jr: Well now, if there's any question, I could send a Coast Guard Cutter over.

L: Yes.

H.M.Jr: Think it over.

L: Yes, sir.

H.M.Jr: Until the Honolulu gets back - I mean if that takes too long.

L: Well you see/^{if}the Honolulu leaves on the first she'll get over here about the 8th -

H.M.Jr: Yeah.

L: And she could/^{get}back on about the 18th or 20th or something like that is the best you could do.

H.M.Jr: Well the war may be over by then.

L: Well, (Laughs) I don't think it'll be over; it may be well under way of course.

H.M.Jr: Well what would you think of my sending a cutter over?

L: Well, I think it's all right only it would attract some attention.

H.M.Jr: Well -

L: I can - of course, if it's important I think we can dig up another ship here.

H.M.Jr: Well, it's twenty-five million dollars important.

L: Yeah. Well, let me look into it. There's time to look into it. And I'll try to get another ship over there to - how many do - how many are you going to want?

H.M.Jr: Well, ah - I don't know. I just - I don't know how long it's going to last. Now the pound's down to 473 and I want you to get this - that the only thing that keeps it from dropping the bottom out of it is the fact that we'll buy gold and give them dollars.

L: I see.

H.M.Jr: And if we - if we stop taking gold why the bottom would drop out of the pound.

L: Uh huh.

H.M.Jr: Now you know what that means.

L: Yeah.

H.M.Jr: And that's what I'm doing - ah - that's what I'm after; to try to keep this thing from just going completely to pieces.

L: Well, let - let me look into it. I think I could get another cruiser over there.

H.M.Jr: Now -

L: Then that'll be to follow the Savannah -

H.M.Jr: Right.

L: And then by that time we could turn the Honolulu around.

H.M.Jr: That's right.

L: All right, sir. I'll look into it and see. In the meantime we'll get the Summers there the morning of the first.

H.M.Jr: Now, just a moment, please - so that we might not be doing the same thing. The night before last the President called me at my home quite late and asked me whether I couldn't please keep tabs on the movements of the commercial steamers of the Italians and the Germans.

L: Yes.

H.M.Jr: Now we're doing that and - it's very difficult but we're doing it, you see?

L: Yes.

H.M.Jr: And we're intercepting all their messages.

L: Yes.

H.M.Jr: And, for your own information only, we've and we're getting all their cables and decoding them.

L: Yes.

H.M.Jr: Now, I don't - I just thought I'd tell you, so that - it's very difficult and we don't want to be duplicating what Naval Intelligence is doing.

L: That's all right. We haven't - we haven't done any of that. Of course we're keeping tally on the ones over on the other side of the world.

H.M.Jr: Yeah, we're only keeping tabs on the ones that are on the high seas.

L: Yes. In - of the Italians and the Germans?

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H.M.Jr: That's all.

L: Well I've tried to check up on the - on the Japanese; I think I've got a pretty good line on them.

H.M.Jr: Well. Then we're not - then the thought was that the President had in mind - what happened to you remember?

L: Yes.

H.M.Jr: The way they turned her around?

L: Yes.

H.M.Jr: So if they got any special orders why we'd know it.

L: Yes. Do you know anything about their warships that are on the ocean?

H.M.Jr: No, we're not doing anything on that.

L: I can't find out anything about them; I've been trying to but I can't get anything.

H.M.Jr: No. We're - we're sticking strictly to commercial.

L: Yes.

H.M.Jr: Strictly to commercial.

L: Yes, sir.

H.M.Jr: And if I hear anything - the minute I get anything I'll let you know.

L: Thank you very much!

H.M.Jr: But I didn't want to be duplicating.

L: No, I think that's fine; there's no use of both of our doing the same thing.

H.M.Jr: No, only the commercial.

L: Yes, sir.

H.M.Jr: Thank you.

L: Thank you, Mr. Secretary. Goodbye.

GROUP MEETING

September 27, 1938.
9:30 A. M.

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

H.M.Jr: I have this letter here from Mr. Hull, asking me to appoint somebody to work on Section Three of the Neutrality Act, with Herbert Feis, and I had Herbert Feis last night at the house. The man I designated was so busy, I am going to have Archie Lochhead do it. Where is Archie? And I am going to tell Archie to consult with White and Taylor and Oliphant.

Then I am going to have Archie - so will you (Mrs. Klotz) write a letter to Mr. Hull and say, whenever possible not to call on Mr. Lochhead until after four o'clock in the day, because he is busy between seven in the morning and four in the afternoon on the Stabilization Fund, but he will be available after four o'clock.

I don't know how much - have you (White) done any work on this?

White: (Nods "No.")

H.M.Jr: Have you done any work....? Lochhead will be - then you (Mrs. Klotz) might put Taylor on that.

(Mr. Gibbons comes in.)

H.M.Jr: Good morning.

Oliphant: Did he indicate what phase he is interested in?

H.M.Jr: Well, they want to set up a - he wants to work every day on it to sort of have the thing ready in case anything happens. Under the law, the

President assigned all responsibility to the State Department, so, in case we have to work on it, it may or may not stay there; but they are going to pass on credits. I should think the logical place would be the Treasury and not the State Department. Under the law it's all over there. I mean, not under the law, but the ruling by the President. But we'll let Archie go into it and see what he's got.

(Aside conversation with Mrs. Klotz.)

(Nods to Mr. Thompson.)

- Thompson: I have Mr. Delano's commission back from the White House.
- H.M.Jr: (Nods "Yes.") Well, put it in the cooler, and we'll ask Mr. Delano when he wants to be sworn. You (Mr. Oliphant) said as far as Delano goes, the point Bell raises, it's all right for the President to appoint him.
- Oliphant: Yes. I sent you a memorandum, and said something to Bell.
- Bell: He can't draw his salary until Congress affirms it.
- H.M.Jr: But it's a common practice isn't it?
- Thompson: That's the law. And when Congress affirms his appointment he gets his back pay.
- H.M.Jr: But if he doesn't get confirmed, they always pass an act anyway, don't they?
- Thompson: Yes. And he has to give a bond for a hundred thousand dollars.
- H.M.Jr: Who pays for that?
- Thompson: He has to pay for that.
- H.M.Jr: That's his privilege.
- Thompson: He gets no pay and pays for the bond.
- H.M.Jr: What does that cost?

Thompson: About a hundred dollars - about a hundred dollars.

Bell: About a dollar a thousand.

H.M.Jr: Incidentally, Herman, I signed that change of title for the Comptroller's Office. I told Miss Chauncey to hold it. It might be a good time, if you want to change his salary, to do it at the same time we change his title. I mean, why not give him one shock, and make it all inclusive.

Oliphant: Then I think I'll hold it; I'd like to talk that over with Mac.

H.M.Jr: She's holding the letter; she won't do anything with it until she talks to you.

Oliphant: I'll wait and talk it over with Mac.

H.M.Jr: Danny?

Bell: I have nothing.

H.M.Jr: I rode down with Bell this morning, Hanes, and we were talking about the Budget, and just as soon as the war clouds either clear or get worse, I am going to ask the President to see you and Bell and myself, so you might be getting ready - Bell's going to talk to you and show you what he's got. Your part of the story is going to be, when we say to the President, "Now, Mr. President, how big is the pie?" and whatever he says, you will say, "Well, on that basis..." if it's six billion, "...here is a plan..." seven, eight, nine, ten, or whatever it is, "...but we want you to see, Mr. President; here is what it is."

And I think you ought to be getting ready, because I am going to count on you. We'll go over and see the President, and find out what he wants us to work on. "How big a pie do you want?" And, so will you be - and Bell's going to talk to you about it.

Hanes: All right; fine.

H.M.Jr: It's going to be up to you to carry the ball on that. I mean, in the various things we can show the President what we'd have to do, depending on

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how much money he wants. I'd like to put it on that basis.

Hanes: I'll be ready.

H.M.Jr: Anything else, Dan?

Bell: No.

H.M.Jr: But my guess is it will be sometime next week.

(Nods to Mr. Upham.)

Upham: Nothing.

H.M.Jr: Nothing?

Upham: Nothing. (Mr. Kieley comes in.)

H.M.Jr: Now, at a quarter of eleven... .

Just a minute, Kieley, please. Will you ask - Kieley, ask Mr. Chen to be here at eleven thirty, please.

Kieley: Eleven thirty. (Leaves.)

H.M.Jr: At a quarter of eleven the Comptroller is coming here, and I want Upham, Hanes, Gaston, and Oliphant. If you don't know what it's about ask Upham, right after this meeting, will you please.

Is Delano coming?

Upham: Yes sir.

H.M.Jr: Ought I know about - will you stay behind a few minutes?

Upham: Yes. I don't have the documents yet myself.

H.M.Jr: But you know.

Upham: In a general way, yes.

Oliphant: I've got a two-page summary of it.

H.M.Jr: Then let's stay behind this meeting. From Barse, is it?

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Oliphant: No, I got it - it came up from Foley, didn't it?

Upham: Is that the more apparent.....?

Oliphant: It is that. (Hands summary to Mr. Upham.)

Upham: Oh yes. I have this, but this is not it.

H.M.Jr: This is not that.

Upham: I'm sorry.

H.M.Jr: What's that song - "A-Tisket A-Tasket."

Upham: "A-Tisket A-Tasket."

H.M.Jr: Anyway, we'll have a meeting right after this - everybody be brought up to date.

Harry?

White: George and I have worked on that problem that you indicated yesterday. He has some material with respect to prices, etc., and this (hands H.M.Jr. a paper) is just a brief conclusion with respect to the amount that they could raise here in comparison.

(H.M.Jr. reads it.)

White: Supporting data - getting ready.

Haas: I've

H.M.Jr: Look, I'll tell you what; I'd like you fellows - this bank thing won't take but five minutes, and if you two gentlemen will wait outside until we do this thing, I'd like to see you. Would you wait? I'll see you and George right after the bank.

Archie?

White: There is one other thing.

H.M.Jr: Please.

White: The communication from the Secretary of State requesting that we give him our comments on the Cuban situation. They have - Cuba has passed a

regulation requiring the banks to keep a certain amount of silver - Cuban money - as reserve. Would you like to wait till Wayne Taylor comes back before presenting that memorandum?

- H.M.Jr: Yes. In the meanwhile I see that Batista has recognized the Communist party in Cuba. Having waited on Cuba about two years, I think we can wait a little longer, unless you say it's urgent.
- White: No, no; no, there's nothing urgent about it.
- H.M.Jr: I didn't see the cable that Feis was supposed to send down on Brazil, showing that this fellow - this lawyer down there was
- Lochhead: There should have been a copy; I - I'll check on it.
- H.M.Jr: Three different cables...
- Oliphant: Not from Green - he must be an awful boob, that pest.
- White: There was a discussion of those loans - Import-Export - in the Interdepartmental Committee.
- H.M.Jr: Do you know about the cable sent at my request?
- Lochhead: It should have been sent down; I'll call up; we should have had a copy of that by now. I'll call them up.
- H.M.Jr: Archie got ignored for once in his life. Pierson keeps sending up three different propositions; he doesn't seem to know we've got the agreement with Brazil.
- White: I asked the Interdepartmental Committee to postpone all discussion on Brazil, so they confined themselves to the Uruguayan episode. They are going to refer it to a sub-committee to consider the whole question of extension of credits to Latin America as a means of promoting trade.
- H.M.Jr: I am very much interested; if anybody would ever get down and talk business, I'd like to sit down with them.

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- White: I suggested that that committee be formed, and we'll be on the committee.
- H.M.Jr: I personally would like very much to meet anybody that will sit down and talk turkey.
- White: They will not talk turkey there.
- H.M.Jr: If you just want to pigeon-hole the thing, that's a nice way to do it.
- White: On the contrary, they oppose the State Department's theory of extending credit as a means of promoting trade. They took it for granted that most people would not be sympathetic to it. I feel to the contrary; I didn't say so, but thought the thing should be explored before a conclusion should be arrived at.
- H.M.Jr: They are opposed to what, Harry?
- White: Their attempt to promote trade through a series of loans.
- H.M.Jr: I think Oliphant's memorandum was a corker; that we should get an act through Congress saying that whenever the Monroe Doctrine is challenged through financial means in South America the United States Government should have the right to go in there and make a loan.
- White: Then that Committee Report might be a very appropriate place to include something like that.
- H.M.Jr: If he's got a paper on it, I am certainly going to push it. I mean, I am not - I mean, just like on this Chinese thing; I am going to put this thing down in black and white and lay the responsibility where it belongs, and then continue to shout about it, but if they just want to let South America play by the boards, the way they are
- White: Well, they don't like, apparently, to let anything interfere with the promotion of trade through trade agreements, which are breaking down.
- H.M.Jr: All right, but get hold of Mr. Oliphant's memorandum.
- White: When the Committee begins to function?

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H.M.Jr: You'd better dig it up anyway.

(Aside conversation with Mrs. Klotz.)

Thompson, let somebody know the good news that we put Dr. Parran as the Treasury representative on the Interdepartmental Committee Health Welfare Activity of the Federal Government, for the following reason:

Klotz: And that's to take Miss Roche's place.

H.M.Jr: Anybody want to do that instead of Dr. Parran?

White: There was a telephone communication received from Mr. Delano. If it is the Mr. Delano coming here as the Comptroller, there is nothing more to be said, but if it is the other one, he was referred to your office. He said he was going to be here the twenty-eighth.

H.M.Jr: That's Frederic Delano. I had to contact him on this Fiscal Committee.

White: I have something else to tell you about that, but not now.

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

Lochhead: Sterling is being pegged at 4.73. That may sound a little low, but of course, the market opened up about 4.75 $\frac{1}{4}$ last night, and it was a very erratic opening over there this morning, and it went back and forth and finally settled at 4.73, and the fact it is not moving from there shows it's being pegged; and there's no pressure on the franc this morning.

H.M.Jr: Just so everybody knows about it, I have - and I have to shout very loud between seven thirty and a quarter of nine - I made up my mind that we'd put ten million dollars worth of gold on each of the American traders - ships - leaving on the thirtieth from Liverpool, uninsured, and twenty million, uninsured, on the President Harding, or a total of forty million on three vessels, all uninsured, sailing on the thirtieth. Now I haven't asked anybody's advice. If anybody thinks I am making a major mistake, I'll listen.

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- Lochhead: This one thing, Mr. Morgenthau; that we are putting marine insurance on, in the amount available, at the ordinary rate.
- Oliphant: And it will be moving under the Losses and Shipping Act.
- White: That's already been done? You've done that?
- H.M.Jr: Well, we gave it out fifteen minutes ago; it isn't back yet, and it hasn't moved, and they don't know whether it will.
- White: I am opposed, but it isn't very momental, or strenuous.
- H.M.Jr: Why?
- White: It seems to me there is a risk, and the loss would be difficult to explain, and would be rather most unpleasant to defend should it occur; even though there is only one chance in five hundred of it occurring, I don't know why you should run that risk.
- H.M.Jr: Well, to answer your question, would I rather have forty million dollars worth of gold, on Saturday, in London, having a fifty-fifty chance of having an air raid and all transportation break down, or would I rather have it on an American flag-ship? And I decided I'd rather have it on the American flag-ships on the high seas. It's just a question of where you want it, and I take the chance of criticism; I take the chance of using our fund to buy gold in view of a fifty-fifty chance of a war. Why did I continue to buy gold? Why didn't I stop?
- White: Because there is a very definite, legitimate defense for that. Not only was it within your power, but a strong case could be made up.
- H.M.Jr: And leave it in London?
- White: Get it out as fast as you could.
- Lochhead: You can't get insurance; you simply take it or leave it; you haven't got any alternative. The Navy still isn't insured; you don't have any insurance on a Navy boat.

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- White: Well, I don't want to block - if the Navy boat sinks, that's not the Secretary of the Treasury's responsibility. (Laughter)
- H.M.Jr: Well, I asked for it; that's all right, Harry; don't let them laugh you down.
- White: That's the way I feel. There is only one chance in a thousand something would happen.
- H.M.Jr: How about the chance in London?
- White: They couldn't lose that gold.- although I think that you want to get it out as rapidly as you can, without a risk. I think that's a reasonable responsibility.
- H.M.Jr: And we're loading it on the Navy as fast as we can get the ships over there.
- Lochhead: The Act of Congress relieves the Secretary of responsibility. There's an Act of Congress directing him to ship, without insurance. Isn't that so, Mr. Oliphant? I mean, he's relieved of his responsibility by Act of Congress?
- White: Legal responsibility.
- Oliphant: I don't know what you mean by "legal responsibility." Congress adopts a policy with reference to movements of value, and that's something more than legal.
- White: Well, my point, beyond one thing - if a ship went down the Secretary would be in a very embarrassed position, having to defend that use. You'd have to go to a lot of explanation. My feeling is, "What for?" I grant the chances are so slight it probably isn't worth discussion, but
- H.M.Jr: You don't feel violently about it?
- White: No, no. The chances are too slight of anything happening.
- H.M.Jr: Well, I thought it through, while shaving ...
(Laughter)
..... and I didn't cut myself.

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- Oliphant: Well, the policy fixed by
- Bell: And you're all right.
- H.M.Jr: And I just made up my mind, where would I rather have it? I'd rather have it on the high seas, and on a ship. I can see that we can get this thing. The minute this thing happens, they are not going to worry about American gold, or anything else; they are worrying about transporting guns and troops. As long as Mr. Oliphant says I'm doing it within the law, I assume full moral responsibility for my act. Am I within the law?
- Oliphant: Yes sir, you're within the law, and I'd like to say the Congress of the United States, and the President, have assumed full moral responsibility because that is the policy of the Losses and Shipping Act, and if you haven't, on your own motion, accepted gold, gold would have always been moving under the Losses and Shipping Act.
- H.M.Jr: I am not asking anybody to share the responsibility, but the purpose of the nine thirty meeting is to acquaint you people with what I am doing, give you a chance to come back at me, and advise me, and also give you a chance to tell me what you're doing. That's the whole purpose of the meeting.
- Lochhead: There is a cable here from Butterworth in regard to that Phillips. (Hands cable to H.M.Jr.) There is just one line here.
- H.M.Jr: (Reads cable.) Incidentally, Archie, you might step out there and take a look.
- Lochhead: Yes. You were speaking to me about this other appointment; you said to say something about it in this meeting.
- Klotz: It was said while you were out - on that Neutrality.
- H.M.Jr: You're it, and I'm saying not to call on you until after four o'clock, and you'll consult with White, Taylor, and Oliphant. It's your bid until further notice.

(Mr. Lochhead leaves.)

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Oliphant: Apropos of Archie, is there any way to get the country to appreciate what an orderly market you have had, and what a disorderly one you would have had if it hadn't been for the New Deal legislation.

H.M.Jr: Maybe you can get Hopkins to make a speech on that.

Oliphant: Or Henry.

H.M.Jr: Henry who?

Oliphant: Wallace.

H.M.Jr: It's a good idea.

Oliphant: Well, it is.

H.M.Jr: Well, I don't think you could do much more with what you've done, and that is the stuff we give out here, like what we say the Treasury is doing, and everything. I think the people appreciate it.

Oliphant: Wouldn't a comparison with the market now and in '14

H.M.Jr: I think I'd wait a little bit, yet.

Haas: They haven't declared war yet.

H.M.Jr: I am rubbing the old elbow; I am holding - I am whistling. I'd wait a little bit.

Oliphant: Maybe you're right. Archie has done a fine job.

H.M.Jr. (Nods to Mr. Gibbons.)

Gibbons: I was talking to Senator Thomas; I'd like to tell you about it.

H.M.Jr: You have?

Gibbons: On long distance. He never heard of it. Jim told me he talked to him about it, see, discussed it with him. The Senator had never heard of it. The fact is, he's going to talk to the President of the Church today and he will call me back before sunset.

H.M.Jr: Jim never did it?

Gibbons: No. I don't like to be kidded.

H.M.Jr: What?

Gibbons: I don't like to be kidded.

H.M.Jr: Well, you got a good send-off today from Pearson and Allen. "Hard-working Steve Gibbons." You don't like to be kidded on this?

Gibbons: No, but I believe when a person tells you he's done a thing

H.M.Jr: Oh, oh; oh, you don't like to be kidded by Jim; I thought you meant you didn't like to be kidded by me. I was going to say, after five years you ought to be used to it.

Gibbons: I put in a long distance call for him; he was campaigning, and I was lucky in reaching him.

H.M.Jr: Will you let me know? I may have an angle on that that may help us both. I won't know until noon.

Gibbons: The radio station is no longer. Mr. Oliphant, I believe, told Mr. Waesche that P. W. A. can't pay for that land.

H.M.Jr: You so-and-so you.

Oliphant: Well, you know when Waesche gives me problems he gives me hard ones. I had all the boys working on that trying to find a way that can be done, and it just isn't there.

H.M.Jr: Why didn't they know it long ago?

Oliphant: I took precautions to - very informally, with the man that went to the Comptroller's Office,* to go down there and talk it over, and it hasn't a chance.

H.M.Jr: Herman, let's start all over again, and fix me up with a new radio station within twenty miles of Washington.

Gibbons: Got the site, but the law won't permit it.

H.M.Jr: We'll start all over again and Herman will find a way we can do it.

* Comptroller General's Office

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Oliphant: That means a little cooperation from some of the other departments, which I think we should have.

H.M.Jr: You find out how it can be done, and if I can swallow it, I'll try to.

Oliphant: All right.

H.M.Jr: How's that, O. K.?

Oliphant: But it means overcoming some of these - getting some of the departments to cooperate.

H.M.Jr: Herman, start all over again and put it up to Steve and me.

Oliphant: All right.

H.M.Jr: Let's start all over again; we've got to have a radio station.

Hanes, have you heard anything from Mr. Magill?

Hanes: Did you make an engagement?

H.M.Jr: I postponed it a week from tomorrow.

Klotz: Thursday.

Hanes: I had it on my calendar for the twenty-eighth.

H.M.Jr: Mrs. Klotz postponed it for a week.

Hanes: Thursday.

H.M.Jr: What else?

Hanes: Nothing else.

H.M.Jr: We can ask later what the S. E. C. is doing. George?

Haas: I have nothing but this shotgun report.

H.M.Jr: Did you make a marriage?

Haas: No, I used the gun. (Laughter)

H.M.Jr: Oh, you're good. O. K. That's very startling.^(?)
Herbert?

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Gaston: No, I haven't got anything.

H.M.Jr: All right.

Now, if my bank advisors will stay, and if Haas and White will smoke a cigarette, we'll see you in a couple minutes.

Tuesday
September 27, 1938
10:26 a.m.

HMJr: Hello.

Operator: Admiral Peoples. Go ahead.

HMJr: Hello.

Admiral
Peoples: Good morning, Mr. Secretary.

HMJr: Hello, Admiral.

P: Good morning, sir.

HMJr: I just got word through a round about way that there's a meeting at eleven-thirty at Mr. Jesse Jones' office to take up the question of a wheat loan to China that you were - you're going to attend?

P: Yesterday afternoon Mr. - this is part of that old proposition to exchange wheat, see, for manganese and tungsten or other items that may be important.

HMJr: Uh huh.

P: Ah - the - late yesterday afternoon, Wilcox of the Surplus Commodity Corporation came over - we discussed the details with him and they've agreed to take the loss. Well now that makes it open then for the Army and the Navy to come in on it. So he's arranged for a meeting in Mr. Wallace's office this morning at eleven o'clock with Jesse Jones - some sort of a credit arrangement Wilcox wants to arrange with Jones. That's what it's about, Mr. Secretary.

HMJr: Well, ah - I can only control people in the Treasury. But there's Mr. K. P. Chen here.-

P: Who?

HMJr: K. P. Chen, representing the Chinese government. And he's here consulting with me on this whole question of Chinese finance and Chinese loans.

P: Well it hasn't gotten to that point by any means yet, Mr. Secretary.

HMJr: Well, it shouldn't get to any point.

P: No.

HMJr: It's perfectly ridiculous! Here I'm carrying on this negotiation for the President with Mr. Chen with the knowledge of the President and Mr. Hull and why should there be other groups considering doing something now that we have the information - which is perfectly impossible?

P: Why - well, as far as I know, Mr. Secretary, ah - there's no --- nothing of a definite proposition of making any - any loans in China or is anyone else. The thing that's been considered has been to take their surplus wheat - say - to sell it - exchange it for coffee from Brazil or manganese from Brazil.

HMJr: Who - whose surplus wheat?

P: Their - the surplus wheat of the - that belongs to the Department of Agriculture. They've got something like 300 million bushels of surplus wheat, as I understand it.

HMJr: Well, where does China come in if they're going to exchange stuff with Brazil?

P: The only - ah - the only way that the same principle would apply to any other country, I should say - ah - the only way which China would possibly come into it would be - ah - could they sell wheat to China for something that may be used - say - in exchange for something that may be used by the Federal Government.

HMJr: Well, Mr. - China doesn't want any wheat. You see the whole thing -

P: Then it doesn't work.

HMJr: Well I've got the whole business over here and we're working every single day with Mr. Chen.

P: Well then it wouldn't apply to China at all, Mr. Secretary.

HMJr: Well, now -

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P: - as I understand your proposition.

HMJr: Well, Admiral, you'd better - ah - you'd better see me sometime and - and - and - I'd like to know - to go over where you get this authority from on these meetings and just who you are representing, see?

P: Ah - why I got the word from McReynolds about three months ago, -

HMJr: Yes.

P: Mr. Secretary.

HMJr: Yeah. Well -

P: As coming from you.

HMJr: Yes.

P: To take up with Agriculture the proposition of exchanging surplus wheat for the things that are required by the Federal Government.

HMJr: Yes, but here I'm back and I - and three months is three years in Washington.

P: Well, Mr. Secretary, nothing - they've been able to - unable to do anything.

HMJr: Well, go to this meeting and then write me a memorandum and ask for an appointment; make no commitments of any kind and let me get together with you the first thing tomorrow morning, will you?

P: Yes, indeed, Mr. Secretary.

HMJr: Or I can give you an appointment now.

P: Yes, indeed, sir.

HMJr: But you'd better go over all the various things that you're doing - outside of - ah - your regular Procurement activities, see? Hello?

P: Yes, indeed, Mr. Secretary.

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HMJr: Supposing you have a memorandum and you be in at ten-thirty tomorrow morning and prepare a memorandum of the things that you are doing which are outside of your regular Procurement work, you see? Committees that you are on and all that sort of thing. - And let's take a look at it.

P: Yes, Mr. Secretary. Well, you know all about every one of them.

HMJr: Well, I - well, I didn't know about this one or at least I had forgotten it anyway.

P: Yes, sir.

HMJr: Well let's take a look at all of them.

P: Yes, indeed. And then, can I see you tomorrow morning about ten-thirty?

HMJr: Ten-thirty.

P: Thank you very much, sir.

HMJr: Thank you.

P: Yes, indeed, Mr. Secretary.

Tuesday
September 27, 1938
10:36 a.m.

HMJr: Hello.

Operator: Mr. Jones.

HMJr: Hello.

Jesse Jones: Hello, Henry.

HMJr: Hello, Jesse.

J: Yeah.

HMJr: Jesse, your attorney Goodloe was kind enough to call up Ed Foley.

J: Yes.

HMJr: And ask him about this meeting that's going to take place at eleven o'clock.

J: Yeah.

HMJr: And when a fellow wants to play ball with me I like to be on his team.

J: Sure.

HMJr: Now, I told you that when I could see daylight on this thing with K. P. Chen I'd get in touch with you.

J: Yeah.

HMJr: Well, I've been unable to get to the bottom of it yet.

J: I see.

HMJr: So whatever Wallace is doing is something that I don't know anything about -

J: Uh huh.

HMJr: - and has nothing to do with what I'm trying to work out for the President and for the Administration as a whole.

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J: Yeah.

HMJr: See?

J: Yeah.

HMJr: And I wanted to tell you that.

J: Well, are you - can I tell you just a little bit about it?

HMJr: You can tell me all that you want to; I'd like to hear about it.

J: All right. Well, what they - they've been talking to us about was the Surplus Commodity Corporation under Wallace's management -

HMJr: Yes.

J: - wants to buy from China some tungsten, I believe, or something that's - or something we get from China that's used by the War Department.

HMJr: Yeah.

J: And - ah - they want a contract for a substantial amount and buy - and we lend them the money - we lend Surplus Commodity the money with which to buy.

HMJr: Yes.

J: Export-Import Bank -

HMJr: Yeah.

J: - would do that. Ah - and they would hold it expecting Congress to give the War Department the money to pay them for it - which I have no doubt that the Congress will do.

HMJr: Yeah.

J: But that's the -

HMJr: Well that's the thing which was suggested in the Treasury and was originally Wayne Taylor's idea.

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J: Well, and that - and Foley brought it to us you see. So we've -

HMJr: Yes.

J: We told them - here's what I told them, Henry. That we, subject to your approval -

HMJr: Yes.

J: -- That is to say that ^{we,} the Export-Import Bank, would lend - I first looked to see whether we had the authority -

HMJr: Yes.

J: - whether the Surplus Commodity had the authority to borrow -

HMJr: Yeah.

J: - from the Bank. And I cleared those two things and then I said, all right, then subject to the approval of Treasury and State we will cooperate and lend them the money.

HMJr: Well, I called up Peoples - the plan that you're talking about is the plan that we're working on today.

J: Yeah.

HMJr: Admiral Peoples was invited over and the plan that Wallace has is just a hundred percent different from this.

J: Oh, it is?

HMJr: Oh it's entirely different. You're talking about the plan that we're working on right now.

J: Yeah.

HMJr: Wallace has got something entirely different and hasn't done me the courtesy to even tell me about it.

J: Oh I see.

HMJr: See?

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J: Well then I'll tell you I'm not going because I've got this - this cold.

HMJr: I see.

J: - bad cold. And - but I'm - I'm going to have the boys go.

HMJr: Uh huh.

J: And I'll tell them -

HMJr: Yeah.

J: - Schram and Mulligan and Goodloe and ah - and our lawyer who is on the Export Bank Board.

HMJr: Yeah.

J: And they will go - and they're going to go down to Wallace's office.

HMJr: Right.

J: He was coming to mine but I'm not going to be there and I suggested that the boys go down to his place.

HMJr: I see.

J: And I'll tell them just to mark time on it and ah - get at the facts of this thing and then we'll decide it later.

HMJr: And after they've heard if - if one of them would get in touch with Foley and bring him up to date I'd appreciate it.

J: I wonder^{why}/we wouldn't have Foley go.

HMJr: Well, he hasn't been asked.

J: Huh?

HMJr: Peoples is going. I can get it from Peoples.

J: Well, I can ask him. You see they were coming to meet with me.

HMJr: Oh.

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J: So I'll be glad to have - I'll be glad to have Foley go.

HMJr: All right, I'll tell Foley to go. Where is the meeting?

J: Tell him to go to Wallace's office at eleven o'clock.

HMJr: O.K. He'll be -

J: Fine.

HMJr: He'll be there.

J: How are you getting a - what's the news?

HMJr: Well, ah - as far as Europe is concerned it looks pretty black.

J: It looks pretty black?

HMJr: And ah - we're doing the best we can and - ah - well I'm - I - I think we've just got to watch it from hour to hour, Jesse.

J: Yeah. I want to talk with you because I think it's most important, Henry, that we present a - ah - an undisturbed front at home if this thing happens.

HMJr: Oh my yes!

J: And so - I was talking to some of the bankers in New York yesterday - big ones - and I would like to kind of go over that with you when it's convenient.

HMJr: Well, the minute you're over your cold I'm ready.

J: All right. Fine.

HMJr: But I don't want to catch your cold.

J: That's right.

HMJr: How's that?

J: That's perfect.

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HMJr: And ah - the only - only other thing - ah - the Acting Comptroller is coming in here in five minutes.

J: Acting Comptroller - good.

HMJr: To tell me about an idea that he has that he's going to send a telegram out to San Francisco firing a certain president of a bank. Do you know about that?

J: No.

HMJr: Well -

J: Which one?

HMJr: - ah - Herbert.

J: Herbert?

HMJr: Yeah.

J: I don't think he ought to do it.

HMJr: Well, what I've done is - asked him to come in and tell us the story - Cy stopped him; the telegram was ready to go.

J: Yes.

HMJr: And ah - before I want to do anything like that I want to talk to you.

J: Oh yes, Henry. With that - we've been nursing that baby since '33.

HMJr: Well, I'll tell you what I'll do.

J: Yeah.

HMJr: After we get the story I'll have Cy give you a ring and - and he'll tell you or come up and see you. How's that?

J: All right. That'll be fine.

HMJr: Because ah - we've got a lot of things here -

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J: Yeah.

HMJr: And I'm not going to go off half-cocked.

J: That's right. Well -

HMJr: And why should we, at the request of Mortimer - ?

J: Yes.

HMJr: - send a telegram firing a fellow?

J: No.

HMJr: What?

J: Don't do that.

HMJr: Well, it's just - I haven't - I'm not going to commit myself until I hear the story and I'll have Cy get in touch with you.

J: All right. And I'll - our boys - Hoffman has been studying this thing and I've got the report and I'll go over that with you maybe tomorrow if you've got some time.

HMJr: I've always got time.

J: All right. Fine.

HMJr: Thank you.

J: Goodbye.

September 27, 1938.
11:45 a.m.

H.M.Jr: Hello
Operator: Mr. Jones is on his way from the hotel to the office - it will be about ten minutes.
H.M.Jr: All right. All right, when you get him let me know.
Operator: All right.

12:11 P.M.

H.M.Jr: Jesse.
Jesse
Jones: Yes Henry.
H.M.Jr: After that meeting Henry Wallace called me up, see?
J: Yes.
H.M.Jr: And gave me a lot of talk. I couldn't make out what he was talking about but he insisted that I should see him and Peoples and Schram right after Cabinet, see?
J: Yes.
H.M.Jr: I said, "What's all the hurry"? Well he was leaving town at 6:30 and will be gone the rest of the week.
J: Yes.
H.M.Jr: So I said, "All right". So they're coming over here about 4 o'clock.
J: Yes.
H.M.Jr: I didn't know whether you'd care to come or not.
J: Well if I - I'll suggest McCool - McCool better.

- 2 -

H.M.Jr: Well I just want to let you know the - ah - you're invited.

J: All right, fine.

H.M.Jr: But - ah - ah.....

J: I talked with Schram about the meeting.....

H.M.Jr: Yes.

J: And he's got some - ah - well it's not involved - there's no reason for me to discuss it now with you.

H.M.Jr: No.

J: But I'll try to come over 4 O'clock. Anyway Sam will be there and some of the boys.

H.M.Jr: Right. Well I don't think - ah - let Wallace unburden himself.....

J: That's right.

H.M.Jr:but it sounds pretty silly to me.

J: Well we want - you wouldn't reach conclusions this afternoon anyway.

H.M.Jr: No sir.

J: All right.

H.M.Jr: I never to on Tuesdays.

J: That's right - Tuesdays.

H.M.Jr: Yes.

J: Good.

H.M.Jr. All right.

J: Goodbye.

H.M.Jr: Goodbye.

September 27, 1938

I gave the President, over the phone today, the contents of the attached United Press ticker. He said that Kennedy and Bullitt report that things look very black this morning. I told the President that sterling reflects that. Sterling is still lower and they are having a very bad day.

SHANGHAI.--THE ITALIAN CRUISER RAIMONDO MONTECUCCOLI SAILED SO QUICKLY AND UNEXPECTEDLY TODAY THAT SHE LEFT HALF HER CREW STRANDED ASHORE.

THE ITALIAN GUNBOAT LEPANTO SAILED UNDER SIMILAR CIRCUMSTANCES AT ABOUT THE SAME TIME.

PRESUMABLY, THE CRUISER AND THE GUNBOAT ACTED ON ORDERS FROM ROME. THEIR DESTINATIONS WERE UNKNOWN. THE CRUISER LEFT THE HARBOR 30 MINUTES AFTER ANNOUNCING THAT SHE WAS LEAVING. THE SHIPS LEAVE WATERS DOMINATED, SO FAR AS EUROPEAN SHIPPING GOES, BY THE BRITISH CHINE FLEET, AND, IN EVENT OF WAR, THAT FLEET WOULD ATTACK ANY WAR VESSEL FLYING THE FLAG OF A COUNTRY AT WAR WITH BRITAIN.

THE SAILINGS LEFT ONE ITALIAN WAR VESSEL IN PORT--THE GUNBOAT, CARLOTTO. ITALIAN NAVAL AUTHORITIES HERE REFUSED TO COMMENT.

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WAR DEPARTMENT
WAR DEPARTMENT GENERAL STAFF
MILITARY INTELLIGENCE DIVISION, 9-2
WASHINGTON, D. C.

M. G.

September 27, 1938.

MEMORANDUM NO. 22 FOR THE CHIEF OF STAFF:

Subject: The present European situation to
10:00 A.M., September 27, 1938.

General Situation. On the afternoon of September 25, the Czechoslovakian Government handed to the British Government a categorical refusal to accept the German ultimatum. Following the series of meetings between the heads of the French and British Governments in London on Sunday and Monday mornings, a momentous decision of the British Cabinet was published to the effect that in case of German aggression against Czechoslovakia "the immediate result must be that France will be bound to come to her assistance and Great Britain and Russia will certainly stand by France."

This decision was not officially transmitted to Berlin, but Chamberlain sent a personal letter to Hitler stating that the Godesberg memorandum was unacceptable, and appealing to Hitler to modify his position. This appeal was timed so as to reach the Fuehrer prior to his speech.

Hitler's speech of yesterday was violently abusive to bones, was "rabble rousing" to his own fanatical followers and generally provocative. While reasserting the firmness of his decision to carry out the annexation of the Sudeten areas, he, nevertheless, was obviously deferential to British public opinion, and did not definitely close the door to compromises which might be suggested by Chamberlain. The latter at once seized the remaining chance of settling the affair by negotiation in a statement offering British guarantees in carrying out the details of the original British proposals.

There the matter rests. The situation is extremely critical. Britain and France, and probably Germany as well, are still searching for some means of avoiding the cataclysm. It is not believed that Czechoslovakia will yield to Hitler's plan or

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to any extensive compromises which may be arranged between Hitler and Chamberlain. Due to the very nature of the Nazi regime, it is doubtful if Hitler can recede appreciably from the dynamic position he has assumed.

Mussolini's attitude, while superficially allied to Hitler, still permits maneuverability. He insists upon the justice of Germany's cause and places the responsibility for peace upon the British and French Governments, which should force Czechoslovakia into acceptance of Hitler's ultimatum. To judge from his recent speeches, his viewpoint is that the affair should be localized at Czechoslovakia's expense; otherwise it will assume such character as to involve Italy directly, and on the side of Germany.

In the concentration of attention upon the European situation, the fact that Japan is a probable ally of Germany and Italy should not be disregarded. There is a definite trend toward converting the Anti-Comintern Pact into an offensive-defensive alliance. Conversations between Berlin, Rome and Tokyo with this end in view, started before the crisis in Europe reached such an acute stage, are continuing.

Various reports from sources believed to be reliable indicate that if war breaks out in Europe in the near future, involving England and France against Germany, Japan will take immediate aggressive steps against France and Great Britain in Asia. This action will probably include seizure of the French and British concessions in Tientsin and Shanghai and possibly an attack on Hongkong.

Military Situation. Meanwhile everywhere in Europe military preparations continue with an accelerated tempo.

The following information is from paraphrased Military Attache or State Department cables or the press as indicated. The times noted on military attache cables are the hour received; those of the State Department are the hour sent.

Great Britain -

From M.A., London, 9:06 P.M., Sept. 26.

Strictly confidential; War Office information indicates that 30 German divisions were disposed in line along western Czechoslovakia frontier ready for invasion. To-day (26th) majority divisions side slipped to the southeast toward the Austrian frontier and others north-east toward Dresden. Along the French frontier eight (8) divisions are in line backed up by eight (8) or nine (9) divisions in reserve. No information of French plan of operations. In interview with Chief of Staff found him

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cheerful but plainly apprehensive and uncommunicative.

SECRET; Royal Air Force mission embarked for France to-day to locate base for operations.

The Government at 5:00 P.M. to-day called to active duty all Territorial Army coast defense and antiaircraft units and ordered all members Royal Air Force Observers Corps (civilians - G-2) to battle stations tonight. One squadron Auxiliary Air Force ordered to active duty. General Reconnaissance squadrons have taken station on North Coast.

Concentrations of Royal Navy continue with one fleet in North Sea and other in Mediterranean which last will not be evacuated.

As further defensive measures general issue of gas masks began to-day; price control of edible fats and pork effective for 14 days was announced; and orders were issued to local authorities of heavily populated districts to use all labor available to dig trenches for use in air raids.

From Press -

At Shanghai one of the two infantry ^{battalions} divisions embarked for Hongkong on the 26th; and the only infantry battalion at Tientsin was ordered to proceed to the same port without delay.

At Gibraltar an anti-submarine boom was installed and other preparations continue at this base and at Malta.

At London consultations with the French General Staff continue.

France -

From M.A., Paris, 4:35 P.M., Sept. 26.

Opposite the Moravian corridor in Austria, 7 infantry, 1 mechanized and 1 motorized divisions.

In Bavaria, opposite Eger, there are 8 infantry and 1 mechanized divisions.

In Saxony, near Dresden, there are 5 infantry and 1 motorized divisions.

In Silesia, Breslau area, are 5 infantry and 1 mechanized divisions.

From M.A., Paris, 1:40 P.M., Sept. 27.

Hitler has lost advantage of surprise by naming October 1st therefore there are hopes for further negotiations and even peace. By September 29 Czechs

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will have 35 divisions. Two hundred thousand men under arms, including two classes, are mobilized in Yugoslavia. Hungary also has total of 200,000 mobilized and 3 mixed brigades plus one motorized detachment are facing toward the Czech frontier. Mobilization of German reserve divisions continues but there is no change in German dispositions along the Czech frontier.

Czechoslovakia -

From M.A. through State Dept.,
4:00 P.M., September 26.

It is estimated that the Czechs have 1,225,000 men under arms. All men up to the age of 45 have been called. The equipping and assembling of units are making excellent progress. It is believed 24 to 48 hours necessary for the German development for a major attack after a decision has been reached.

From Press - Yesterday Czechoslovakia called all men and women between 17 and 60 for auxiliary war service.

Germany -

From M.A. through State Dept., 3:25 P.M.,
September 26.

An Assistant American Military Attache informed his chief in Berlin by telephone that in Gorlitz where he then was on September 26, he had seen two divisions of the Eighth Corps in movement toward the Czech frontier between the Polish border and Neisse, accompanied by the Fifteenth and Sixteenth tank regiments indicating that an offensive task had been assigned to the Corps. On the same afternoon he noticed in the same area certain motorized columns moving in the direction of Breslau belonging to the Third Corps.

Italy -

From M.A. through State Dept., 7:00 P.M.,
September 26.

* * * However believed no military steps except recall of several classes of carabinieri charged with facilitating mobilization. Full preparations made for quick mobilization if necessary. At Verona, Mussolini expressed appreciation of Chamberlain's efforts to keep peace. Spoke of necessity of Magyar and Polish claims as well as German.

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Poland -

From M.A., Warsaw, 9:25 A.M., Sept. 27.

Yugoslavian Charge d'Affaires states that his government has warned Hungary that both Yugoslavia and Rumania will aid Czechoslovakia in case of any Hungarian aggression. In Teschen district partisan disturbances are still continuing; otherwise military situation in Poland is quiet pending the reception of further replies from Czechoslovakia.

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Russia -

From M.A., Moscow, through State Department
3:00 P.M., September 26.

Soviet aid to Czechoslovakia in a war against Germany would be rendered probably by

- (1) Sending Red air units to Central Europe;
- (2) Dispatching an expeditionary force of ground army units;
- (3) Naval action in Baltic Sea.

Probably not to exceed 200 bombing planes (8B) medium type would be available at once for offensive mission in Central Europe.

Further assistance is dependent on course of combat but it is believed contemplated not to send more than 200 additional planes on such a mission in Central Europe since the Soviet Union will not critically weaken its own defense in order to assist in Central Europe. The training, equipment, organization and strategic location of the Red Army indicate its maximum usefulness would be achieved if it holds a defensive line generally along the borders of the Soviet Union.

If political requirements necessitate an expeditionary force it would be organized from troops in the Leningrad, White Russian, Kiev and Kharkov military districts. Numbering 100,000 men, such a force could be ready in home garrisons in a few hours after mobilization. Within seven days it could be concentrated and ready for an offensive. By 14 days after mobilization it could be raised to 400,000 men. By 30 days after mobilization an additional 200,000 could be added. The danger of attempting an offensive with an inadequate force indicates no expeditionary force outside of Soviet Union would be sent until after concentration of at least 400,000 troops.

Naval action in Baltic Sea to interrupt flow of Swedish iron to Germany would be attempted by Soviet submarines. Only 15 to 20 are available. No other form of Soviet naval action seems possible. In view of German naval strength in Baltic believed Soviet naval action would not seriously menace German control of that sea.

CONFIDENTIAL

September 27, 1938

11:30 a. m.

Present:

Mr. Chen
Mr. Hsi Peh-mou
Mr. Hanes
Mr. Oliphant
Mr. Lochhead
Dr. White
Mrs. Klotz

HM, Jr.: Gentlemen, the reason I asked you to come in this morning, I did not want to lose any time.

I had a chance yesterday to talk to the President about China and I told him what the situation was and he is very glad for me to tell you today that we are ready to take another 19,300,000 ounces of silver at once.

Mr. Chen: Thank you very much.

Mr. Peh-mou: Thank you.

Mr. Chen: Appreciate that.

HM, Jr.: So if you will start the material. That is all your free silver?

Mr. Chen: Yes, sir.

HM, Jr.: Well, we will take that as of today if you want us to.

Mr. Chen: (Smiling) Yes. Thank you so much.

Mr. Peh-mou: (also pleased) Thank you.

HM, Jr.: If you will work it out with Mr. Lochhead. When you have the details on that German barter

Mr. Chen: Yes.

HM, Jr.: I would like to have that.

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Mr. Chen: Yes. I expect a reply very soon.

HM, Jr: Is there anything I should take up with these gentlemen besides that?

Mr. Lochhead: Just one thing. Sometime ago Mr. Chen mentioned if we bought any silver, he was wondering on account of the press asking whether these silver purchases were suspended, would you be willing to say you would continue.

HM, Jr: You tell Herbert Gaston we have today extended the silver purchase agreement. We will announce that we have extended it. That's what you want?

Mr. Chen: Yes, sir.

HM, Jr: We don't say how long. This will be extended. That's what you want?

Mr. Chen: Yes. This will be kind of encouragement in China.

HM, Jr: You (Lochhead) tell Herbert Gaston.

Mr. Lochhead: I understand you (Chen) want to hold it for a day so as to get some interpretation from abroad.

HM, Jr: Get hold of Gaston and fix it up. Have you (Mr. Chen) anything?

Mr. Chen: Nothing this morning.

HM, Jr: Anybody want to say anything?

Mr. Oliphant: Nothing on my mind.

Mr. Hanes: Not until tomorrow.

HM, Jr: Harry?

Dr. White: No. They expect the material you asked for today, so we will probably have it for you tomorrow.

HM, Jr: On the other matter, we have to do a little

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studying.

Mr. Chen: Yes.

HM, Jr: See?

Mr. Chen: Yes.

(At this point Mr. Chen and Mr. Peh-mou left to go to room 296 to wait for the Secretary's group who remained behind for a few minutes.)

HM, Jr: Just before they came in Henry Wallace called me and I stalled.

Wallace called a meeting over there to go ahead on exchange of wheat and flour, for instance, and everything else. Never told us anything about it. Jesse called up and told him 'I have such a cold, I can't go.' He called up Henry. That's Jesse's attitude. He said "I thought this was the thing you were working on."

Does Wallace know that Chen is in town?

Dr. White: Does he read the newspapers?

At this point, the Secretary telephoned to Secretary Wallace and record of their conversation follows this page.

Tuesday
September 27, 1938
11:37 a.m.

HMJr: Hello.

Operator: Secretary Wallace.

HMJr: Thank you.

O: Go ahead.

HMJr: Hello.

Henry
Wallace: Hello, Henry.

HMJr: How much is wheat today?

W: Ah - that's just what I want to talk to you about.

HMJr: Uh huh.

W: About - when I - about a month ago when I was up at Hyde Park the President was - ah - indicating - why couldn't we have enough imagination to work out some barter between wheat and various things that the Army and Navy needed and also perhaps, bring in some of the industrial concerns sooner or later. Ah - this thing he's talked about off and on you know in our various conversations we've had on these strategic supplies of war materials.

HMJr: Yeah.

W: And when we got this wheat thing set up it began to appear we had a mechanism to deal with it and at the last Cabinet meeting I told the President it seemed as though we had the mechanism now to - perhaps to go places on barter and he asked me to get in touch with Peoples.

HMJr: Yeah.

W: Which I did yesterday afternoon. And now I've found it necessary to bring RFC into the picture to swing the - swing the whole thing and wondered if you could talk with - after Cabinet meeting with Admiral Peoples and Schram of RFC and Jesse Jones later on today -

HMJr: Well what -

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W: - if he doesn't meet with Schram.

HMJr: Well, what are you trying to do, Henry, and what countries are involved?

W: Well, it would - the commodities involved would be such commodities as manganese and tin and tungsten and these other strategic war materials. The Army and Navy have got the - a - picture there and Admiral Peoples has got it in fairly good shape I guess. Ah - and for those - wherever they might be - if those countries wanted wheat where we could work wheat into the deal we'd just simply trade wheat to them - ah - the Surplus Commodity would sweeten the deal a little bit if necessary in order to facilitate the trade if we didn't have to go too far in facilitating it; and we'd just simply be sending wheat out of this country and building up storage supplies of these strategic war materials in this country.

HMJr: Well, there seems to be some duplication because, you see, K. P. Chen is here; I don't know whether you know that or not.

W: Yeah.

HMJr: And with two very able people.

W: Yeah.

HMJr: And we're getting very accurate information as to what China needs and what they can do and everything else.

W: Yeah. Well now that seems to to me to be just simply a part of that old picture.

HMJr: Well, ah -

W: Except that this would apply to other countries in addition to China.

HMJr: Well, as far as China is concerned I mean -

W: Or maybe we could split China off and handle it separately. - Let you - let you go ahead and handle China in whatever way you think is best.

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HMJr: Well, I'm going to ah - I've already told the President but I'm going to tell the Cabinet just what the Chinese situation is.

W: Yeah.

HMJr: And then - ah - the President and Mr. Hull have just got to make up their mind what they want to do.

W: Yeah.

HMJr: And the whole - the whole Pacific's at stake. I mean the Pacific Ocean, - and the - our policy.

W: Yeah.

HMJr: And ah - ah - when we get into this thing with Chen and you talk about tungsten and all the rest of the things - they just can't deliver.

W: Yeah.

HMJr: And this fellow is an honest truthful fellow.

W: Yeah.

HMJr: So -

W: Well now, Henry, are you in position to talk this over with Schram and -

HMJr: Who is Schram?

W: Schram is one of the members - directors of the RFC.

HMJr: Well - I -

W: With Schram and Peoples after the Cabinet meeting? I'm leaving - I'm leaving - the reason I'm rushing you on it is I'm leaving town at six-thirty this evening and -

HMJr: No, this - I've got a whole group of people working on this thing - on this very thing.

W: Yeah.

HMJr: And frankly, I don't want to be rushed.

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W: No. But I say, are you - do you - will you talk it over with us?

HMJr: Ah - ah - sure.

W: All right.

HMJr: But I - I want to bring up - ah - why not - I'll bring up this question about China in Cabinet -

W: Yeah.

HMJr: And -

W: Well this is - China is just one element in this thing.

HMJr: Well, let's - let's bring the matter up -

W: We'll forget all about China as far as - if you've got another way of swinging China well that's perfectly O.K. with me.

HMJr: Well, let's bring it up before the President and let's - let's clear this thing as to policy. See?

W: Well, it just - it seemed to me that it would be a good thing for you to get a little more of the picture before you did that.

HMJr: Well I think I've got the picture, unless there's something I don't know about, because this suggestion of - of buying - ah - these commodities through a commitment of two or three years - ah - we've explored the whole thing here.

W: Well that - that isn't what we're doing.

HMJr: Yeah.

W: This is trading wheat for commodities.

HMJr: Uh huh. Well, if - if - ah - if -

W: And I - and I think you would be in much better position to talk with the President about it if you had this talk with - with Peoples yourself.

HMJr: Oh - well, you're leaving - how long are you going to be gone for?

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W: Oh, I get back next Monday.

HMJr: Uh huh. Well, I'll tell you what we'll do - when we're through Cabinet we can walk across the street to my office;- will you tell those men to be here?

W: All right.

HMJr: I'll - I'll have Peoples here.

W: All right. You have Peoples there and -

HMJr: We'll tell - we'll tell them what - be here at four o'clock?

W: All right, we'll say four o'clock.

HMJr: All right. And there's my own people who have been working - I'll have them here too so that everybody will know what everybody else is doing.

W: All right. I'll bring along Tapp and Wilcox then and we'll get the whole thing straightened out.

HMJr: And I'll ask Jones to send a representative.

W: Well, that's Schram - would be his -

HMJr: Oh. All right. Well, you - you'll take care of Schram.

W: I'll take care of Schram, and -

HMJr: I'll take care of Peoples.

W: All right. Fine.

HMJr: Thank you.

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Mr. Oliphant: Jesse's cold will be well by four o'clock!

Dr. White: Would you like us, in the meantime, to survey very quickly the other countries?

HM, Jr: You people be here and I will let you know when we get back from Cabinet and at least in the Treasury we will know what we are doing.

Dr. White: We will see what other countries can offer us that the Army and Navy might want.

oOo-oOo

September 27, 1938

To: The Secretary

From: Mr. Hanes

The attached memorandum was handed to you by Mr. Magill at the conference attended by Messrs. Helvering, Graves, Magill and myself. It was recommended by Mr. Magill that you approve the memorandum. However, when you learned that I had not read it you asked Mr. Graves to go into the matter in some detail with me, and asked me to approve the memorandum, if I agreed with it, before you would be willing to sign it.

Subsequently, I discussed the matter thoroughly with Mr. Magill and Mr. Graves. I have been over the memorandum very carefully, and approve the recommendation made by Messrs. Magill, Helvering and Graves.

In a few words, it is designed to govern post review of cases closed by field divisions. I think every attempt should be made to avoid setting up machinery in Washington which will result in duplication of work done by the field staff. At the same time, I think it is desirable that the field divisions should be aware of the fact that closings made in the field will be subject to examination here. Not, however, for re-opening cases, except as specified where fraud is suspected, but for guiding the work of the field divisions in order that uniform practice may be obtained throughout all the divisions.

It is my recommendation to you, therefore, that the attached memorandum be approved. X

September 10, 1938.

MEMORANDUM FOR MR. HELVERING:

I hand you herewith, for your consideration and approval if satisfactory, a draft of a mimeograph providing for a post-review in the Bureau of cases closed as the result of action by field divisions of the Technical Staff.

The object of such a review is of course to guard against the possibility of improper field settlements and, as far as possible, to insure consistent and uniform action in the different field divisions of the Staff.

The attached mimeograph provides--

1. That all cases closed by Staff action will be subjected to review in the Income Tax Unit and the Miscellaneous Tax Unit, respectively, but only for the purpose of verifying the determination of tax liability made by the internal revenue agent in charge;
2. That all such cases, excepting those closed by final order of the Board of Tax Appeals after trial on the merits, will be subjected to review by the Head of the Technical Staff for the purpose of determining whether the closing action was consistent and proper in all respects; and
3. That all cases defended before the Board of Tax Appeals will be subjected to review by the Chief Counsel for the purpose of determining whether the defense was properly conducted.

The arrangements outlined in the mimeograph are suggested as the result of prolonged discussion of this subject with the Bureau officers concerned, including Mr. Carter, Mr. Kirk, Captain Bliss, and

Mr. Harre, as well as Mr. Wenebel and his assistants, and Mr. Bernard, representing Mr. Olyphant. Although we have given careful consideration to other possible plans to accomplish a proper post review of field settlements under the decentralized system, I believe that all those mentioned agree that the procedure outlined in the proposed mimeograph is the most satisfactory that can be evolved. This is also the opinion of Mr. Magill, with whom I have discussed the matter a number of times.

You will note that the proposed draft has been initialed by Mr. Harre, Mr. Kirk, Mr. Christy (for Captain Bliss), and Mr. Wenebel.

The mimeograph has been drawn for your signature, but for the reason that it purports to require action by the Chief Counsel, and for the further reason that it undertakes to state (in the first paragraph) a departmental policy, it would in the present form also require approval by the Secretary. Should the draft be satisfactory to you, I would be glad to secure Mr. Olyphant's concurrence and the Secretary's approval, if you would like to have me do so.

(Signed) Harold N. Graves

Harold N. Graves
Assistant to the Secretary.

HMG/mrf

TREASURY DEPARTMENT
Office of Commissioner of Internal Revenue
Washington, D. C.

Com.-Mimeograph
R. A. No.
T. S. No.

Oct. 8, 1938

Post Review of Cases Closed Following
Action by Field Divisions of Technical Staff

TO OFFICERS AND EMPLOYEES OF THE
BUREAU OF INTERNAL REVENUE CONCERNED:

1. It will be the policy of the Department not to reopen cases closed as the result of action by a field division of the Technical Staff, unless the disposition involves fraud, malfeasance, concealment or misrepresentation of material fact, or an important mistake in mathematical calculations, and then only by appropriate action through the Head of the Technical Staff. All such cases will, however, be carefully reviewed by the Bureau, with a view to furnishing instructions to the field officers concerned, for their guidance in future work.

Review of Action by Internal Revenue Agents in Charge

2. Cases closed as the result of action by field divisions of the Technical Staff, including cases closed by final order of the Board of Tax Appeals, will be reviewed in the Income Tax Unit and the Miscellaneous Tax Unit, respectively, under the same routine as is followed in the review of cases closed in the offices of the internal revenue agents in charge. The review of each case will be limited to an examination and verification of the determination of tax liability made by the internal revenue agent in charge prior to Staff action. Upon completion of the review in any such case, a letter will be transmitted to the internal revenue agent in charge over the personal signature of the proper Deputy Commissioner, containing any comment with reference to his action in the case which it is considered would be helpful to him in the disposition of future cases.

Com.-Miscograph
R. A. No.
T. S. No.

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Review of Action by Field Divisions
of the Technical Staff

3. The Head of the Technical Staff will make such a review of cases closed as the result of action of field divisions of the Technical Staff, including cases closed by stipulation before the Board of Tax Appeals, as he may consider necessary to determine whether in any such action--

- (a) Proper effect was given to applicable Federal, State, and foreign laws;
- (b) Pertinent legal instruments were properly interpreted;
- (c) The engineering determinations were satisfactorily made and supported;
- (d) The issues involved were disposed of in accordance with consistent practice; and
- (e) The Government's rights were adequately protected.

4. The review made by the Head of the Technical Staff in any such case will consist of an examination of a copy of the Staff memorandum serving as the basis for the closing action, except that in cases of the following categories the files will be secured and subjected to review in conjunction with the Staff memorandum:

- (a) Cases closed without appeal to the Board of Tax Appeals in which the amount of the deficiency or overassessment as represented by the preliminary determination of the internal revenue agent in charge, or as set forth in the Staff memorandum, is \$5,000 or more;
- (b) Cases closed by stipulation before the Board of Tax Appeals in which the amount of the deficiency or overassessment as represented by the preliminary determination of the internal revenue agent in charge, or as set forth in the Staff memorandum, is \$10,000 or more; and
- (c) Any other case in which the information disclosed in the Staff memorandum is not sufficient to permit a satisfactory review of the closing action.

Com.-Miscograph

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R. A. No.

T. S. No.

5. Upon completion of his review of any case as herein required, the Head of the Technical Staff will advise the head of the Staff division responsible for the closing action, by letter, for his guidance in future cases, of any exceptions finally taken to the closing action and the reasons therefor. No such letter of exceptions will be transmitted, however, in relation to action in a docketed case unless occurred in by the Chief Counsel, who will be furnished copies for his files and for distribution to his field representatives.

Review of Cases Defended Before the Board of Tax Appeals

6. The Chief Counsel will make such a review of cases closed by final order of the Board of Tax Appeals, after trial on the merits, as he may consider necessary to determine whether the interests of the Government were adequately defended before the Board. The review of any such case will consist of an examination of the files in the case transmitted to the office of the Chief Counsel under the provisions of paragraph 20 of Com.-Miscograph, R. A. No. 911, as amended, in conjunction with such other records as may be available. Upon completion of his review of any case as herein required, the Chief Counsel will advise his field representative who was responsible for the defense of the case before the Board of Tax Appeals of any exceptions taken to the conduct of the defense and the reasons therefor.

(Signed) GUY T. ELVERING

Commissioner.

Approved:

Secretary of the Treasury.

HNG/mff

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Lacey
For your information
HCO

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 27, 1938

TO Mr. Oliphant
FROM Mr. Foley

Pursuant to your instructions, I attended a meeting in Secretary Wallace's office in connection with credits to foreign nations for the export of our agricultural surpluses. In addition to Secretary Wallace and myself, there were present: Mr. Tapp, President, and Mr. Wilcox, Vice President of the Federal Surplus Commodities Corporation; Mr. Schram, Director, Mr. Mulligan, Treasurer and Mr. Snodgrass, Assistant General Counsel, Reconstruction Finance Corporation; Mr. Goodloe, President, Commodity Credit Corporation; Admiral Peoples, Director, and Capt. Collins, Assistant Director, Procurement Division.

The plan initially discussed was the one suggested by the Treasury for the purchase of critical and strategic war materials from China and which we had discussed with the various agencies concerned. Secretary Wallace expressed himself in general agreement with the purposes of the plan provided it could be utilized in connection with the export of wheat. The amount mentioned was 40 or 50 million dollars. Secretary Wallace expressed himself as being very anxious to talk the matter over with Secretary Morgenthau before negotiations proceeded further. He said he was leaving town late this afternoon and wanted to get together with Secretary Morgenthau immediately after the Cabinet meeting this afternoon if this is possible.

E. W. Foley

September 27, 1938.

Conference, 4:00 P.M., Treasury Department

Present: Secretary Morgenthau, Secretary Wallace, Tapp, Schram, Wilcox, Oliphant, Haas, Admiral Peoples, White.

Secretary Wallace said that he had called together a group - consisting of some men from his organization, Mr. Jesse Jones (who was unable to come and sent someone else) and Admiral Peoples (who he understood had been working on the subject for the Treasury) - to explore the possibility of exchanging some of their surplus crops, particularly wheat, for strategic commodities needed by the Army and Navy Departments. Secretary Wallace said that they had not gone very far into the subject when it developed that something of the same sort was being undertaken in the negotiations going on between Secretary Morgenthau and the Chinese Commission that was here, and that he thought duplication would be avoided if both groups could work together on the problem.

Secretary Morgenthau replied that at the moment he was concerned with the Chinese situation which was acute. He stated that he was very eager to place some money in the hands of the Chinese who had very little left with which to purchase needed imports. He and Mr. Chen had been going over the situation carefully with the view to ascertaining among other things whether the Government of China could exchange strategic commodities for wheat and cotton. It was clear from their investigations that China did not need any wheat, and very little cotton. It was foreign exchange that they needed with which to buy imports. Secretary Morgenthau referred to the President's suggestion that the Chinese be sold \$100 million worth of wheat and cotton - with funds supplied by Jesse Jones - and that not too much attention should be given to the disposal the Chinese made of that wheat and cotton.

Secretary Wallace replied that he was perfectly willing to go along with Secretary Morgenthau in helping the Chinese but would Secretary Morgenthau cooperate with him in exploring the possibilities for exchanging wheat for strategic raw materials in other areas of the world.

Secretary Morgenthau replied that he wasn't much impressed with the urgency of accumulating strategic war materials after discussing the matter with General Craig but that if Secretary Wallace wanted to use that as a device for getting rid of surplus commodities he was willing to explore the possibilities with Secretary Wallace.

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Secretary Morgenthau asked how much wheat Secretary Wallace would be willing to turn over to the Chinese. Secretary Wallace responded 20 million bushels. Secretary Morgenthau replied that that was much too small an amount to provide the funds the Chinese needed and too small an amount to be worth bothering about. Mr. Tapp volunteered the information that there were from 30 to 40 million bushels of wheat on the Pacific coast that might be used, but he felt that the Chinese would not be able to get very much out of it if they attempted to dump that wheat on the market; moreover, they would interfere with the world wheat market. Secretary Wallace likewise expressed concern over the effects on our wheat exports of an attempted sale of such large quantities of wheat by the Chinese.

Secretary Morgenthau said he was not very hopeful that anything fruitful would result from attempts to arrange an exchange of wheat and cotton for strategic materials with China. Nor did he feel that much could be expected of any plan to turn wheat over to China if Secretary Wallace was afraid of the effects of that wheat on the world wheat market. Nevertheless, Secretary Morgenthau said he would be glad to work along with them to see what could be done and suggested that he would work with Mr. Tapp directly on the matter and would keep the R.F.C. and the Export-Import Bank informed of any significant progress.

Secretary Wallace replied that would be all right with him and asked whom he would designate to work with their group on exploring the problem of bartering wheat and cotton for strategic war materials in other areas of the world. The Secretary named Admiral Peoples and Secretary Wallace said "all right".

The meeting adjourned at 4:30 P.M.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 27, 1938

TO Secretary Morgenthau

FROM Mr. White

Subject: Possibilities of exchange of our wheat and cotton for strategic war materials.

I. The War Department considers the following to be the strategic raw materials of first priority. The amount of the "apparent deficit with 24 months of emergency" in which all imports are cut off is indicated in millions of dollars, based on the prices in the early part of this year.

Chromium	\$ 3
Manganese	12
Tin	46
Tungsten	4
Total	\$65

1. Manganese

Produced in large quantities by:

U. S. S. R.
British India
Gold Coast of the Union of South Africa
Brazil

These countries import the following amounts of wheat and cotton.

(Millions of dollars)

	<u>Wheat flour</u>	<u>Cotton</u>
U. S. S. R.	On export basis	3
British India	1	45
Gold Coast Union of South Africa	.5	nene
Brazil	61	3

(These figures were hurriedly compiled and have not been rechecked)

Secretary Morgenthau - 2

2. Chromium

Produced in large quantities by:

Union of South Africa
Rhodesia
Turkey
U.S.S.R.
Cuba

These countries import the following amounts of wheat, wheat flour and cotton:

	<u>Wheat flour</u>	<u>Cotton</u>
	(Millions of dollars)	
Rhodesia	?	?
Turkey	?	?
Cuba	6.	.5

3. Tin is produced in large quantities in the following countries:

China
British Malaya
Netherlands India
Bolivia
Siam

(The province of Yunnan produces over 80 percent of the tin in China and is largely autonomous).

The above countries import wheat and cotton in the following amounts:

	<u>Wheat</u>	<u>Cotton</u>
	(Millions of dollars)	
Yunnan (China)	?	?
British Malaya	4.	none
Netherlands India	4.	?
Bolivia		
Siam		

Secretary Morgenthau - 3

4. Tungsten

China is only foreign country that produces large amounts.

British India and British Malaya produce small amounts.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE September 27, 1938

TO Secretary Morgenthau
FROM Mr. Haas *MA*
Subject: Wheat price outlook in event of an European war,
a tentative survey.

Conclusions

(1) A considerable rise in wheat prices can be expected if a war of any duration occurs, despite present large world supplies.

(2) Great Britain and France have ample funds available in this country to bring about such a rise if they should desire to buy wheat and other products on a large scale.

(3) To avoid excessive price increases, some consideration might be given to control measures, such as restricting future trading, or building up Government holdings as a discouragement to speculators.

(4) In view of the changed circumstances in the event of war, it might be advisable to review the entire wheat program, including acreage restriction and the handling of the ever-normal-granary.

Review of wheat prices after outbreak of World War

A chart of cash and future wheat prices at Chicago (Chart 1, attached) shows that after the outbreak of war in 1914 wheat doubled in price within 7 months, rising from 80 cents to \$1.60 a bushel, despite the production of the largest domestic crop on record. In that year prices were helped by the fact that crops outside the United States were relatively poor, the total foreign production (outside of Russia and China) being reduced to 1,987,000,000 bushels, as compared with 2,378,000,000 bushels the previous year. Our exports more than doubled, increasing to 332,000,000 bushels, which was not again exceeded until the 1920 crop year.

Prices were apparently carried too high by the momentum of this speculative boom, and dropped back the following year nearly to the level from which the rise started. They were

Secretary Morgenthau - 2

thereafter maintained within reasonable bounds until the summer of 1916. The decline in 1915 resulted in large part from the production of a new record crop in the United States of 1,009,000,000 bushels, and an increase in the foreign crop to 2,511,000,000 bushels.

A steep price rise began in the summer of 1916, which carried wheat prices from \$1.00 a bushel in June of that year to above \$3.20 a bushel the following May. Several factors were responsible for the sharpness of this rise: (1) general price inflation was developing in this country, the BLS all-commodities index during this period rising from 83 to 120; (2) the Allied Powers were buying wheat heavily; (3) the domestic crop had declined to 635,000,000 bushels, and the foreign crop to 2,082,000,000 bushels; (4) part of the rise was due to excessive speculative buying.

The prospect of Federal price control, and a collapse of the speculative boom with the marketing of the new wheat crop, brought prices down sharply during the summer of 1917, and fixed prices based on \$2.20 for No. 1 Northern were put into effect in September of that year.

Comparison of wheat supplies in 1914 and now

The total supply of wheat (crop plus carryover) in the United States in the crop year beginning July 1, 1914, was about 968,000,000 bushels, of which 332,000,000 bushels were exported in that year. The present total United States supply amounts to about 1,094,000,000 bushels, of which 154,000,000 bushels was wheat carried over from the previous year. Assuming 700,000,000 bushels for domestic utilization, this would leave 394,000,000 bushels for export and carryover.

Whereas the wheat crop in foreign countries in 1914 was of only moderate size, the total foreign production (outside of Russia and China) having dropped to 1,987,000,000 bushels in that crop year, as compared with 2,378,000,000 bushels in 1913, this is not true at present. The prospective foreign wheat crop this season (outside of Russia and China) is about 3,380,000,000 bushels, which, added to the United States crop and to the world carryover of old wheat, gives the largest world supply of wheat on record.

Present prices, however, have already discounted the effect of the large supply, hence the appearance of a new demand factor in the form of buying for war purposes should cause a substantial upturn in wheat prices from present low levels.

Secretary Morgenthau - 3

Great Britain and France have ample funds available in this country (See Table 1, attached) to carry out a buying program for wheat and other products on a sufficiently broad scale to bring about such a rise. During the World War period much of the buying of war materials by the Allied Powers was done under loans by the United States Government. The distribution of these loans by quarterly periods is shown in Table 2, attached. Undoubtedly there were also private loans, which have not been compiled. In any event, the rise in wheat prices in 1914 preceded any Government loans.

Consideration of price control methods

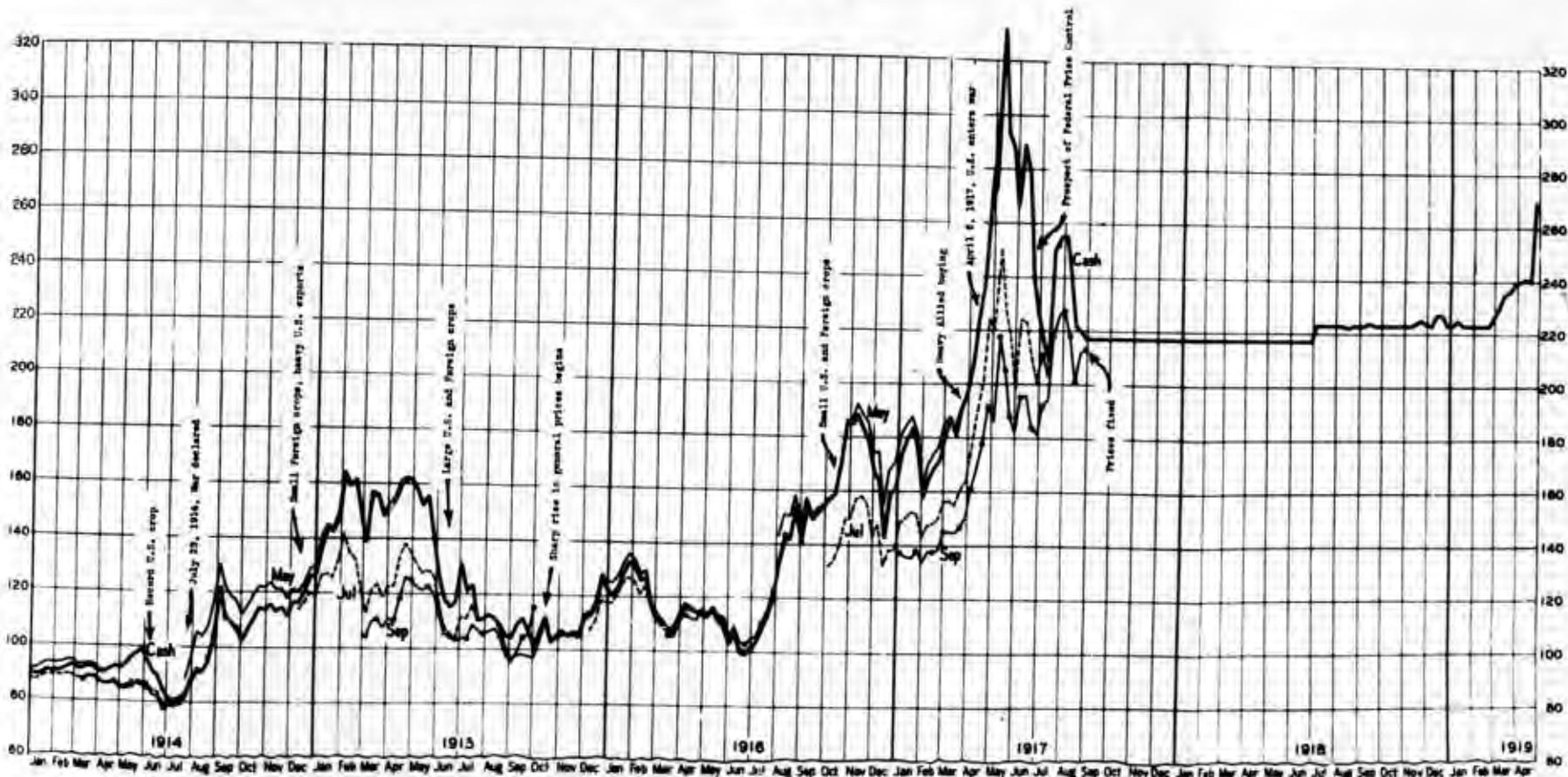
No immediate need appears for considering the fixing of maximum or minimum prices on wheat, since present supply conditions are less favorable for an excessive price rise than in 1914. During the World War the need for price control did not arise until more than two years after the outbreak of war, and then only after a general rise in commodity prices had been under way for more than a year.

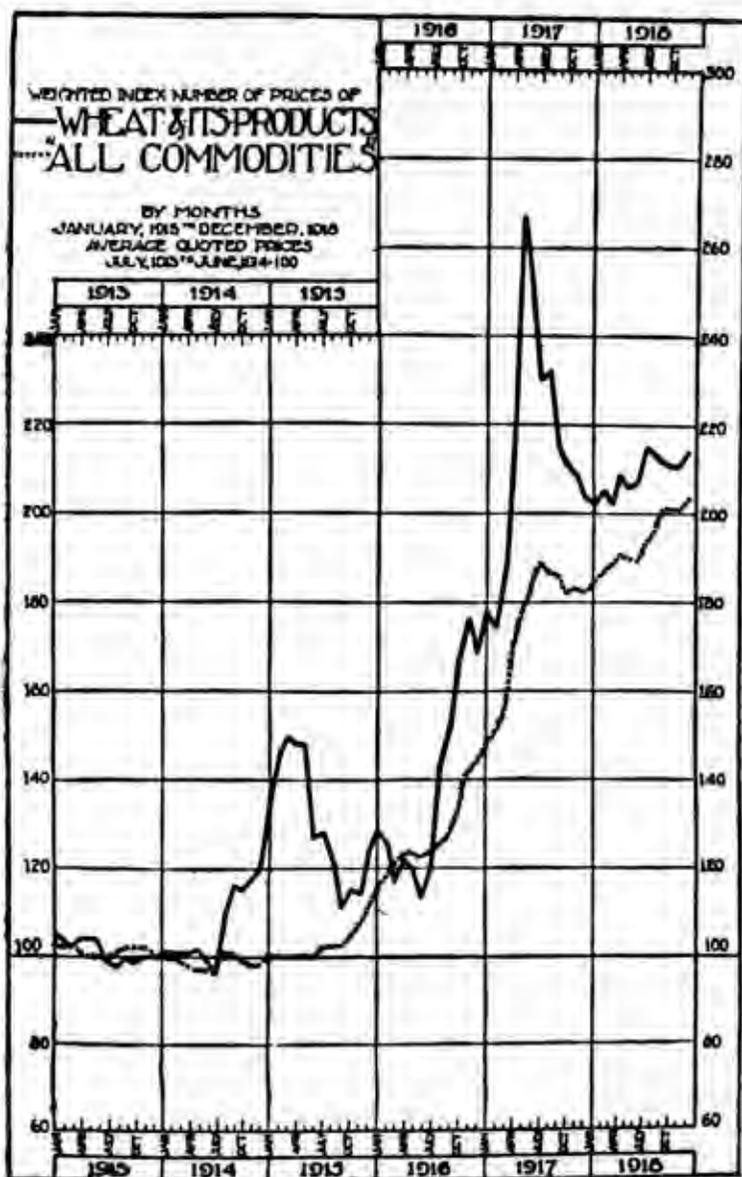
Consideration might be given, however, to restricting speculative price booms, which might be liable to collapse as in 1915 and 1917. This could perhaps be done by restricting future trading, or by holding wheat now being accumulated under the market-support program, instead of dumping it abroad, thus building up a Government stock of wheat, which would tend to discourage speculative buying.

While no study has been made of the subject, it might be advisable in the light of the changed circumstances to review all features of the Government wheat program for possible advantageous changes in the event of war. This would include the acreage restriction program and the handling of the ever-normal-granary.

PRICES OF BASIC CASH WHEAT AND OF FUTURES AT CHICAGO, WEEKLY

(Cents per bushel)





WEIGHTED INDEX NUMBERS OF PRICES.—Wheat and Its Products, and "All Commodities." By months, January, 1913, to December, 1918. (Average quoted prices, July, 1913, to June, 1914=100.)

TREASURY DEPARTMENT

34

INTER OFFICE COMMUNICATION

DATE September 27, 1938

TO Secretary Morgenthau

FROM Mr. White *WJW*

Subject: Dollar purchasing power of "Allies"

Preliminary Conclusion

1. England, France, Czechoslovakia and U.S.S.R. -- if necessary to obtain essential imports for the conduct of the war -- could mobilize from \$7 to \$8 billion in a very short time, and an additional \$5 to \$10 billion within a year.

2. If only half that \$12 to \$18 billion were spent on American exports during the first year of war, the result -- through direct and indirect effects -- would be a much higher level of business activity here (probably above 125 Federal Reserve Board by the end of the year) and a substantially higher index of wholesale prices.

3. During the first 18 months of the 1914-1918 war

(a) Our exports to all belligerent countries increased by \$12 billion compared with the previous 18 months.

(b) The belligerent countries borrowed here less than \$1 billion.

(c) Our net gold imports amounted to less than \$1 billion.

(d) The index of wholesale prices rose about 13 percent.

September 27, 1938

To: The Secretary

From: Mr. Hanes

Re: "Buna"

The Secretary of War brought before the Cabinet the question of having a synthetic substitute for rubber, known as Buna and manufactured in Germany, placed on the free entry list just as crude rubber is. The President asked the Secretary of War to take the matter up with the Secretary of the Treasury.

The following day, Saturday, September 24th, I had a conference with Congressman Harter, and Mr. F. C. Leslie of the Goodrich Rubber Company. This company is using some of this material for experimental purposes in connection with Army work.

Buna being a new product, when it was first imported the Customs Department set a duty of 40¢ per pound on it. This brings the total cost per pound laid down in New York to \$1.29 compared to the present price of crude rubber of 16½¢ per pound.

I have recited these facts to Mr. Oliphant, and his staff is now engaged in making a report which I hope to have for you before the Cabinet meeting this afternoon.

The Commissioner of Customs has signed a decision holding certain material known as Buna, used as a substitute for rubber, dutiable at 20% ad valorem under paragraph 1558 of the Tariff Act of 1930 as a non-enumerated manufactured article. The decision overrules the view of customs officers at New York that the merchandise should be classified as a synthetic resin dutiable at 30% ad valorem and 4 cents per pound under paragraph 11 of the Tariff Act, and denies the claim of the importer that it is free of duty under the provision for crude india rubber under paragraph 1697 of the Tariff Act.



TREASURY DEPARTMENT

PROCUREMENT DIVISION

OFFICE OF THE DIRECTOR

WASHINGTON September 27, 1938

MEMORANDUM TO THE SECRETARY:

In response to your oral request as to the duties of the Director of Procurement, under the direction of the Secretary of the Treasury, Executive Order #6166, approved by Congress, provides that:

"The function of determination of policies and methods of procurement, warehousing, and distribution of property, facilities, structures, improvements, machinery, equipment, stores, and supplies exercised by any agency is transferred to a procurement division in the Treasury Department, at the head of which shall be a Director of Procurement. - - -"

"In respect of any kind of procurement, warehousing, or distribution for any agency, the Procurement Division may, with the approval of the President,

- "(a) undertake the performance of such procurement, warehousing, or distribution itself, or
- "(b) permit such agency to perform such procurement, warehousing, or distribution, or
- "(c) entrust such performance to some other agency, or
- "(d) avail itself in part of any of these recourses, according as it may deem desirable in the interest of economy and efficiency.

"When the Procurement Division has prescribed the manner of procurement, warehousing, or distribution of anything, no agency shall thereafter procure, warehouse, or distribute such thing in any manner other than so prescribed."

In addition to the foregoing the Director of Procurement is connected with the following committees:

- (a) As Chairman of the Central Housing Committee, by order of the President dated July 5, 1938, through the Secretary of the Treasury.
- (b) As alternate Treasury member of the Temporary National Economic Committee by oral order of the Secretary of the Treasury.
- (c) As member of Special Department of Justice Committee on the subject of price control, our own country being in a neutral status. Mr. James W. Morris, Special Assistant to the Attorney General requested this upon suggestion by the President. Please see confidential reports advising the Secretary of these two meetings, dated September 16, and September 26, 1938.
- (d) Member of the Federal Interdepartmental Safety Council; this upon the request of the Secretary of Labor.
- (e) Member of the Federal Fire Council, Governing Board, by Executive Order #7397, dated June 20, 1936.

E. C. Topham
Director of Procurement

SPANISH EMBASSY
WASHINGTON

68

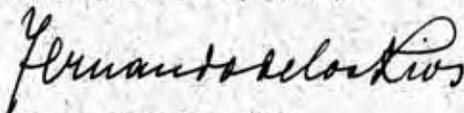
September 27, 1938

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

Dear Mr. Secretary:

Would you be so kind as to
indicate to me the name you have in mind to be
our attorney who could be trusted completely?

I am most cordially yours,



Fernando de los Rios,

Paul Huidels former Corporation
Council under La Guardia
where he did a fine job. Is
a man who can solve hard
problems. He is in practice
with Kenneth Spence. His
firm is Spence, Huidels, Halsey,
& Holscher 40 Wall St.

Sept. 29, 1938
HSK phoned
this information
to the Ambassador

September 27, 1933.

My dear Mr. Secretary:

This will acknowledge your letter of September 26th, asking that the Treasury appoint a representative to serve on an informal committee to study all possible questions arising in connection with Section 3 of the Neutrality Act.

I have asked Mr. Archibald Lochhead to serve as this representative of the Treasury Department. Mr. Lochhead's duties in connection with the stabilization fund keep him extremely busy between the hours of 7 a.m. and 4 p.m.. It would be of great assistance to the Treasury, therefore, if any calls you might make upon him would come after 4 o'clock. I understand that there might be special emergencies which would make this impossible, but I am passing along this information for Mr. Feis' guidance.

Sincerely,

Honorable Cordell Hall,
Secretary of State,
Washington, D. C.

GWH/Edw

September 27, 1938.

My dear Mr. Secretary:

This will acknowledge your letter of September 26th, asking that the Treasury appoint a representative to serve on an informal committee to study all possible questions arising in connection with Section 3 of the Neutrality Act.

I have asked Mr. Archie Lochhead to serve as this representative of the Treasury Department. Mr. Lochhead's duties in connection with the stabilization fund keep him extremely busy between the hours of 7 a.m. and 4 p.m.. It would be of great assistance to the Treasury, therefore, if any calls you might make upon him would come after 4 o'clock. I understand that there might be special emergencies which would make this impossible, but I am passing along this information for Mr. Feis' guidance.

Sincerely,

Honorable Cordell Hull,
Secretary of State,
Washington, D. C.

GW/CS

Frank Kelley

71



DEPARTMENT OF STATE
WASHINGTON

September 26, 1938

My dear Mr. Secretary:

The Department of State has grown aware that in the possible event of application of Section 3 of the Neutrality Act, many questions of a technical and semi-technical nature would arise. There seems to be a clear need for attempting some further preliminary consideration of what types of transactions would fall within the scope of the Act and which would be excluded. Because of the interest of the Treasury in these questions and your technical competence, I should appreciate it if you would designate someone to participate in an informal committee study. I have asked Mr. Herbert Feis of this Department to charge himself with this work, and suggest that the person whom you may designate should get in touch with him for the purpose of arranging a meeting.

You will understand that the undertaking of the
study

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

- 2 -

study in no way implies any decisions as to policy.
In view of the way in which all sorts of rumors quickly
start concerning this field of action, I would ask you
to regard it as confidential.

Sincerely yours,

A handwritten signature in cursive script, reading "Cordell Hull". The signature is written in dark ink and is positioned below the typed name "Cordell Hull".



DEPARTMENT OF STATE
WASHINGTON

In reply refer to
FA 811.515 Gold Purchase/1831

September 27, 1938

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses for the attention of Mr. Archie Lochhead, Room 281, Treasury Building, a paraphrase of a telegram dated September 24, 1938 received from the American Consulate General at Amsterdam, Netherlands, reporting in regard to two shipments of gold bullion which were invoiced on September 24, 1938 for forwarding on the steamship Volendam.

Enclosure:

From Consulate General,
Amsterdam, September 24,
1938 (telegram).

RECEIVED
11 am
SEP 27 1938
TREASURY DEPARTMENT
Office of the Secretary
Internal circulation to the President
By Messenger

MB

DEPARTMENT OF STATE

DIVISION (_____)
BUREAU (FA)

ENCLOSURE

TO

LETTER DRAFTED _____

ADDRESSED TO
Sec. of Treasury.

DEPARTMENT OF STATE

PARAPHRASE OF TELEGRAM

Dated: September 24, 1938.

Received: September 26, 1938, 6:25 a.m.

From: American Consulate General,
Amsterdam, Netherlands.

To: The Secretary of State.

FOR THE SECRETARY OF THE TREASURY

Two shipments consisting of gold bullion were invoiced on September 24, 1938 for forwarding on the steamship Volendam. The first shipment which contains 124,632.109 pure net troy ounces is to the Federal Reserve Bank of New York from the Netherlands Bank and valued at 2072 florin per kilogram. The second shipment which contains 14432.059 pure net troy ounces is at \$34.9125 for each pure net troy ounce and is to the New York Trust Company from Albert de Bary.



DEPARTMENT OF STATE
WASHINGTON

September 27, 1938.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses for his information one copy of telegram No. 239 received September 27 from Praha, Czechoslovakia.

RECEIVED
12
SEP 27 1938
TREASURY DEPARTMENT
Office of the Secretary
Special Assistant to the Secretary

EG

PLAIN

Praha

Undated

Rec'd 6:40 a.m.

September 27, 1938

Secretary of State,
Washington.

239.

Czechoslovakia banknotes one hundred crown denomination excluded from gold cover provisions. Dollar crown rates only slightly changed. Foreign exchange permits delayed by commercial banks selling exchange against permits and continuing buying. No American bank notes available. Praha security markets remain inoperative. September twenty three London quotation Czecho loan forty seven, City of Praha bonds forty two and Skoda forty six. All exports to be subject strict control Commerce Ministry to Czech capital flight. National bank statement dated September twenty three awaited all quarters with anxiety international train service, internal and foreign private telephones, telegraph, services suspended. Wholesale stocks many imported foodstuffs nearing depletion, existing temporarily reduced lard duties extended indefinitely

-2- #239, Undated from Praha

indefinitely effective October one. Effective September twenty five export control measure and a decree introducing stricter foreign exchange regulations providing surrender all foreign currency, securities and other claims abroad on or before September thirty adopted. International air service suspended. Government requisition trucks and horses restricting normal service to commerce and industry.

Inform Commerce.

CARR

DEPARTMENT OF STATE
WASHINGTON

September 27, 1938.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses for his information one copy of each of the following telegrams with regard to financial arrangements with the Bank of Brazil:

Paraphrase of No. 112 of September 24, 1938,
to the American Embassy, Brazil

Paraphrase of No. 223 of September 26, 1938,
from the American Embassy, Brazil

RECEIVED

12:30 P.
SEP 27 1938TREASURY DEPARTMENT
Office of the Secretary
Technical Assistant to the Secretary.

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Rio de Janeiro, Brazil

DATE: September 24, 1938, 1 p.m.

NO.: 112

Reference is made to telegrams of September 6 and September 21 from the Embassy, Nos. 211 and 219, respectively.

As Mr. Pierson requested, the Department submitted his reports regarding his discussions of possible credits to the Bank of Brazil from the Export-Import Bank to the interested Government officials. Careful consideration will have to be given to the implications of these proposals from the standpoint of broader commercial policy. It is difficult to see how decision could be made by the Export-Import Bank, in any case, until Mr. Pierson has submitted concretely defined proposals.

The Treasury Department has expressed concern, in the meanwhile, lest confusion arise as between the plan of Mr. Pierson and the proposals which have been under consideration as between the Bank of Brazil and the Federal Reserve Bank as agent of the United States Treasury. The latest phases of the latter case are contained in telegram No. 203 of August 25 from the Embassy, and in telegram No. 102 of September 3 from the Department.

This

- 2 -

This sense of possible confusion is shared by the State Department. The authorities in Brazil know, no doubt, that the matter being discussed between the United States Treasury and the Bank of Brazil could be executed more simply and more expeditiously than any other matter.

Did you get any reply from the Brazilian authorities to the letter contained in the Department's telegram No. 102 from the Federal Reserve Bank?

You are requested to inform the Bank of Brazil that if they wished to send a representative to the United States to conclude this arrangement, both the Federal Reserve and the Treasury would give it immediate attention.

HULL.

EA:LWW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro, Brazil

DATE: September 26, 1938, noon

NO.: 223

Reference is made to telegram No. 112 of September 24, 1 p.m., from the Department.

With regard to the "possible confusion" mentioned in the telegram under reference, in my opinion this does not exist because of the fact that the plan submitted by Mr. Pierson is entirely independent of the proposed agreement between the Bank of Brazil and the Federal Reserve Bank, and the latter should very (soon?) be settled. It is obvious, on the other hand, that Mr. Pierson's plan cannot be acted upon until he returns to Washington and the interested departments of the United States Government have had an opportunity for thorough discussion.

The Bank of Brazil gave me an answer dated September 21 to the letter from the Federal Reserve Bank which was contained in telegram No. 103 from the Department. This reply was transmitted to the Department under date of September 23 in my airmail despatch No. 920. However, the Bank of Brazil's reply merely acknowledges the receipt of the Federal Reserve Bank's letter, and states that the Brazilian authorities are giving the matter further study.

I am

- 2 -

I am told by the Director of Exchange that he has already made a draft of a tentative plan along the lines of the Federal Reserve's suggestions. He said that the Minister of Finance would probably pass upon this plan this week.

Jefferson Caffery,
American Ambassador, Rio
de Janeiro.

RECEIVED
SEP 23 1939
TREASURY DEPARTMENT
U.S. DEPARTMENT OF THE TREASURY

OFFICE CORRESPONDENCE

DATE September 27, 1938.

CONFIDENTIAL FILES

SUBJECT TELEPHONE CONVERSATION WITH
DE NEDERLANDSCHE BANK.

FROM L. W. Knoké

I called de Jongh at 10:50. I asked whether our cable of last night, advising him that it would be in order to earmark \$25,000,000 in Amsterdam under the arrangement of November 1936, was satisfactory. I again emphasized that it must be understood that the Treasury intended to move any gold earmarked in Amsterdam to New York at the Netherlands Bank's expense. de Jongh replied that everything was satisfactory. I hoped, I said, that he was convinced that there was every intention here to cooperate to the greatest extent possible.

The market was quiet in Amsterdam today. They had changed their technique and let the sterling rate go (from 8.92 to 8.85) with the result that the guilder had been a good deal firmer and he had had to sell only \$500,000 in support. I asked whether he had bought any gold in London and he said he had taken in a little the first thing this morning before he had stopped buying sterling.

I inquired about his gold shipment per SS Noordam and de Jongh stated that he had managed to get some more insurance from Amsterdam and was shipping a total of guilders 10,000,000. I suggested that after the shipment was completed he cable us the details so we could advise the insurance companies here. This he promised to do.

As regards the general situation he thought it was difficult to prophesy. In the smaller countries the reaction to Hitler's speech

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE September 27, 1938.TO: CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITHFROM: L. W. KnackDE NEDERLANDSCHE BANK

2

had not been unfavorable. In Amsterdam they had thought and were still thinking that now that the Czechs and Hitler had agreed on the main point it should be possible to get an agreement as to the details of carrying through. London, on the other hand, seemed to take a different view. They were rather pessimistic there probably because they felt that too much prestige was involved.

LWK:KW

RECEIVED

SEP 27 1938

FEDERAL RESERVE BANK

OF NEW YORK

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE **September 27, 1939.**TO **CONFIDENTIAL FILES**SUBJECT: **TELEPHONE CONVERSATION WITH**FROM **L. W. Knoke****BANK OF ENGLAND.**

I called Bolton at 11:05 but spoke to Hawker. President Roosevelt's message to Hitler had made a very good impression in London. There were rumors circulating now that Mr. Roosevelt might be willing to mediate later in the dispute. Another rumor had it that Hitler was ready to extend the time limit of his ultimatum, but none of these rumors were confirmed. They had operated this morning in rather an irregular way in a market that was up and down. At fixing they had bought 600 bars, the proceeds of which had been converted into dollars. Their total dollar losses today were \$30,000,000 (including \$15,000,000 for central banks - \$7,000,000 Swedish Riksbank). They were now trying to hold the rate at 4.75. For the last half hour things had been quieter. The public had behaved very well today but there were now indications of British sterling balances being transferred to New York though not in large amounts.

Hawker referred to the fact that today the Dutch had gone out of sterling, following the Swiss who had done so some time ago. The latter hadn't intervene in London for quite a while now with the result that there was practically no Swiss franc market there. Hawker had needed some for the Czechs and had to go to Zurich to get them.

The Honolulu shipment would be delivered tomorrow.

I stated that I had been instructed by the Treasury to make further requests for shipments as follows:

FEDERAL RESERVE BANK
OF NEW YORK

86

OFFICE CORRESPONDENCE

DATE September 27, 1938.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

L. W. Knobe

BANK OF ENGLAND.

2

President Roosevelt	additional	\$10,000,000
American Shipper	"	5,000,000
American Merchant	"	5,000,000

making a total of \$40,000,000 for these three boats instead of \$20,000,000. Furthermore \$25,000,000 per U. S. destroyer Summers (T) scheduled to arrive at Portsmouth on October 1. Would it be possible for them to handle that? Hawker replied that if it was within human possibility he felt sure it would be done. I replied that if they found it necessary to substitute packed gold for our earmarked gold that, of course, would be quite satisfactory to us, but he should always bear in mind the fineness requirements.

I told him that we were all fully aware of the physical work these requests entailed for them at the Bank of England but I felt sure that in the final analysis it would be helpful for all concerned. Hawker stated that he would begin his inquiries at once and telephone me the result later.

He then volunteered the information that since yesterday they had packed up between \$40,000,000 and \$50,000,000 of their gold which they planned to ship to New York as follows:

\$11,000,000	on the President Roosevelt
10,000,000	on the Pennsylvania
10,000,000	on the Pennland
15,000,000	on the Normandie (on October 5)

All these shipments would be made for their own account.

With reference to their dollar operations here Hawker wanted me to know ^{that} to save work they had, during the last few days,

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE September 27, 1928.TO: CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITHFROM: L. W. KnobeBANK OF ENGLAND.

3

arranged for certain dollar payments resulting from swap operations to be paid in New York without going over their account with us. This had enabled them at times to save some of their federal funds. I replied that I had guessed this much from the fact that I had been told in the market yesterday that certain payments had been made by order of the Bank of England through one of our local banks.

LWK:KW

Hawker called me back at 1:30 to say that he had made the necessary inquiries and found that the additional shipments requested by us were just about within their capacity and that provided nothing untoward happened and there was no hitch in the meantime they would make the following shipments for our account:

President Roosevelt	\$20,000,000	on September 30
American Merchant	\$10,000,000	on September 30
American Shipper	\$10,000,000	on September 30

\$25,000,000 per destroyer Summers from Portsmouth on October 1.

Would I cable him the necessary instructions tonight?

This I promised to do.

Hawker also spoke of a change which they had made as

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE September 27, 1938.

TO CONFIDENTIAL FILES
FROM L. W. Knoke

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

4

follows: instead of shipping for their own account on the Aquitania \$15,000,000 as originally planned they were making the following shipments:

\$5,000,000	additional	on the	Roosevelt
5,000,000	"	"	Pennsylvania
5,000,000	"	"	Scythia

(Is it possible that the Aquitania has been withdrawn from service between South Hampton and New York and requisitioned for military purposes?)

LWK:KW

RECEIVED
SEP 28 1938
THROUGH DEPARTMENT
OF THE TREASURY
FEDERAL RESERVE BANK OF NEW YORK

MJD

PLAIN

London

Dated September 27, 1938.

Rec'd. 11:30 a. m.

Secretary of State,
Washington.

1050, September 27, 3 p. m.

FOR TREASURY FROM BUTTERWORTH.

The atmosphere remains much as it was yesterday and gold dishoarding is gaining in momentum. 801 bars were sold at fixing at 145s 6d the British fund taking most of the gold sold. After fixing gold was offered and absorbed by the fund at slightly higher prices.

The dollar opened at 4.74-1/2 supported by the British authorities. Before fixing it stood at 4.75-1/2 but there was a reaction after the fixing and it went to 4.72-1/2 where it was held against considerable pressure. It has since reacted to 4.73. Big amounts of capital are being transferred to the United States.

The franc remained steady at 178-1/2. French bank rate was raised from 2-1/2 to 3 per cent.

The war risk insurance rate for gold to the United States and Canada was raised from 2s 6d per cent to 5s per cent yesterday. The rate for the return direction was raised from 5s per cent to 15s per cent.

KENNEDY

HPD

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: September 27, 1938, noon

NO.: 1605

RUSH

FROM COCHRAN.

This morning at half-past eleven I visited at the Bank of France. The French stabilization fund by that time had gained 75,000 pounds at a rate of 178.50. Up to that time there had been no activity on the part of the British stabilization fund. Important purchases of copper are now being paid for by the French War and Navy Ministries. Therefore, sterling for this purpose will be bought outside of the market today by the French stabilization fund.

Messengers crowded the Bank of France, taking currency to Paris banks. These banks today are again witnessing tremendous withdrawals, but everything is orderly. I was told by my friend that there is absolutely no plan for any sort of a moratorium. The note circulation of the Bank of France he said had reached at least 112 billion francs today. Their only worry is to see that they have enough notes printed to supply all need for them.

END SECTION ONE.

BULLITT.

EA:LWW

EDA

GRAY

LONDON

Dated September 27, 1938

Received 12:05 p.m.

Secretary of State

Washington

RUSH.

1051, September 27, 4 p.m.

FOR TREASURY FROM BUTTERWORTH.

The Milan Bourse is three to 15 points up on a rumor that Hitler's memorandum will not constitute Germany's final word and that even the October one date may be subject to modification. Since Mussolini was the first person to make public the October one dead line. The City is inclined to attach importance to the Milan movement.

KENNEDY

HPD

EG

PLAIN

London

Dated September 27, 1938

Rec'd 1:35 p.m.

Secretary of State,
Washington.

1053, September 27, 6 p.m.

TREASURY FROM BUTTERWORTH.

This afternoon the dollar rates stayed steady at 4.73 until the rumor appeared reported in my 1051 of September 27, 4 p.m. it reacted to 4.73 7/8 at which level it now remains, although Reuter has denied this rumor and is furthermore carrying Hitler's reply to the President.

On its own initiative the London Stock Exchange set minimum prices today, for example 3 1/2 percent war loan bonds not to be dealt in below 93 and a certain amount of business was done at the minimum figures.

KENNEDY

ATC



DEPARTMENT OF STATE
WASHINGTON

September 27, 1938.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses a copy of telegram no. 247 received from the American Legation at Praha September 27, 1938 at 2:36 p.m.

Enclosure:

As above.

RECEIVED
6 R
SEP 27 1938
TREASURY DEPARTMENT
Office of the Secretary
Technical Assistant to the Secretary

REB

PLAIN

Praha

Undated

Rec'd September 27, 1938
2:36 p. m.

Secretary of State,
Washington.

247.

Substantial amounts gasoline and oil destined Czechoslovakia reported deliberately delayed in Hungary. Planes to Paris, Brussels and Bucharest resumed operations. National Bank statement September 23 shows banknotes one hundred crown denomination in value two billion crowns excluded from gold cover provisions raising gold cover from twenty-six point five per cent to thirty-three point three. Praha prices virtually all foreign currencies considerably lower due strict provisions on compulsory surrender average rate New York drafts up from twenty-nine crowns to twenty-nine point twenty-five. No London quotation September twenty-six on Czechoslovak external bonds except Skoda debentures recording forty-eight.

Inform Commerce.

CARR

EPD

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE September 27, 1938.TO CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITHFROM L. W. KnokeBANK OF ENGLAND.

Bolton called at 3:40. I told him that up to then we had bought between £700,000 and £800,000 at rates ranging from 4.75 5/16 down to 4.73. It was our intention if the pressure continued slowly to retreat but make a stand at his limit of 4.72 1/2. So far the bulk had come from the Manhattan which, I assumed, worked joint account with Lazard.

Bolton thought that judging by the market's present behavior they would have a pretty bad day tomorrow.

LWK:KW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate General, Amsterdam, Netherlands

DATE: September 27, 1938, 5 p.m.

Today the Netherlands Bank temporarily stopped buying pounds sterling; this Bank had been supporting the pound. According to the report, in Amsterdam the pound will be supported by London.

MOFFITT

EA:LWW

RECEIVED
SEP 28 1938
TREASURY DEPARTMENT
U.S. DEPARTMENT OF THE TREASURY
WASHINGTON, D. C.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris
NO.: 1615 (SECTION ONE)
DATE: September 27, 1938, 6 p.m.
FROM COCHRAN

At 6 p.m. I had a conversation with the Bank of France. With the rate throughout the day around 178.50, the French stabilization fund had by that time gained 400,000 pounds. Between 30 and 35 million dollars had been lost by the British by that time. The selling of foreign exchange by French holders to secure francs to take care of needs in the event of war is responsible for part of the gain in foreign exchange by the French control.

(END SECTION ONE)

BULLITT

EA:EB

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris.

NO.: 1615 (SECTION TWO)

DATE: September 27, 6 p.m.

The Bank of France has started issuing five-thousand-franc notes in order to meet the demand for large denominations. Due to hoarding, there has developed a scarcity of one-thousand-franc notes. A communique has been issued by the Bank of France encouraging, for purposes of transfer, the use of letters of credit, checks, and so forth instead of metallic coins and paper currency.

(?) was calmer, and there were fewer withdrawals from Paris-American banks than there were yesterday.

(END MESSAGE)

BULLITT

EA:EB

NB

FLAHERTY & GRAY

London

Dated September 27, 1938

Rec'd 6:10 p.m.

Secretary of State,
Washington.

1054, September 27, 6 p.m.

RUSH.FOR THE SECRETARY OF THE TREASURY FROM BUTTERWORTH.STRICTLY CONFIDENTIAL.

The following is to supplement the information given in No. 922, September 14, 5 p.m. and in paragraph three of No. 1032, September 26, 5 p.m., regarding the financial measures which Great Britain contemplates putting into effect in the event of war.

The British Treasury stated that the stock exchange would probably have to be shut but that they plan to open it at the earliest date possible. It was impossible to set any definite period at this time but inasmuch as the object of shutting the stock exchange was to prevent panic selling from developing, it could be opened as soon as over-the-counter prices reached a reasonable and fairly stable level or showed any tendency to go higher. I pointed out that inasmuch as there were such large holdings of American securities by British residents that it might
be well

13 -2- #1054, September 27, 3 p.m. from London

be well for the appropriate American monetary authorities to know whether British residents would be permitted to sell their American securities upon the outbreak of war, that such a contingency might have a bearing on any decision to close or keep open the American security markets. I was assured that such sales would be prevented insofar as possible during this period when British residents would have to declare to the British Government their foreign assets. At the same time it was explained that if the knowledge of this decision should by any means flow back to London during this week, there no doubt would ensue a tremendous amount of anticipatory selling and I was practically requested that this information be treated in the most confidential and careful way. I also asked whether the British Government would take steps to sell any American securities which it might take over from British residents without prior consultation with the American Government and I received assurances that no such sales would be made until the matter had been discussed with the American authorities concerned.

As previously reported the British Treasury intends to close the banks for as short a time as possible if at all, possibly for only one day, and steps are being taken to

ensure

MB -3- #1054, September 27, 8 p.m. from London.

ensure that the banks will have adequate cash available to meet any demands. As regards foreign exchange the form will be that the British Treasury will issue a treasury order along the lines of the 1931 model and an appeal will be made to British residents not to ask for foreign exchange except for bona fide reasons; through the cooperation of the Bank of England and the British and Foreign banks effect will be given to this appeal-order. I asked about the question of Americans receiving necessary foreign exchange and was told that no scheme had yet been worked out; that no doubt the banks would deal reasonably with bona fide requests and that if difficulties arose in particular cases American officials might have to vouch for the validity of a request. I also asked about the rate of exchange that might be used in converting sums from say American visitors' dollar letters of credit into pounds in the event of war and the answer was put forth that the rate would have to be determined by the situation at the moment. Is there anything else that you wish me to get for you?

The Ambassador suggests that Mr. Douglas be informed of the stock market information but in the strictest confidence.

KENNEDY

EM ROY

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Tokyo, Japan

DATE: September 27, 1938, 8 p.m.

NO.: 625

The following is confidential for the Treasury Department:

It is our understanding that the Japanese Government is considering divorcing the yen from sterling and pegging it to the United States dollar. However, such action would depend on future developments in Europe; no action will be taken unless circumstances make it necessary.

GREW.

EA:LWW

PARAPHRASE OF SECTION TWO, TELEGRAM NO. 1805
OF SEPTEMBER 27, 1938, FROM PARIS.

The official rediscount rate of the Bank of France is being raised today from 2 1/2 to 3 percent. A 1/2 percent raise in other rates is also being put into effect. Such procedure is being carried out without any at some future time stopping rediscounting (sic.). The Ministry of Finance requested that this be done. A new type of ordinary treasury bill collection three months has been announced today by the Ministry of Finance. It was thought best to raise the rediscount rate to 3 percent, since the interest on the new bills is 3 percent. The following increases in rates have also been made today: by the Treasury:

Treasury bonds at six months, from 2 3/4 to 3 1/2 %

2-yr. natl. defense bonds, from 3 1/2 to 4 1/2%

Treasury bonds at one yr., from 3 to 4%

75 to 100 day Treasury bills, from 2 7/16 to 3%

18 mo. bonds of the Caisse Autonome dela Defense Nationale, from 3 1/2 to 4 1/2%

Heavy demands for francs are reported by Paris-American banks, because of a fear of banking restrictions, and for dollar and sterling currency to cover expenses of ~~banking~~ travel out of the country.

END MESSAGE.

BULLITT.

EA:LWW

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE: September 28, 1938

TO Secretary Morgenthau

FROM A. Lochhead

Close SEPT. 27, 1938

GOLD HELD IN LONDON\$140,300,000

Shipments arranged:

<u>Sailing</u>	<u>Steamship</u>	<u>Amount</u>
Sept. 30	Pres. Roosevelt	\$20,000,000
Sept. 30	American Merchant	10,000,000
Sept. 30	American Shipper	10,000,000
?	Honolulu	<u>25,000,000</u>
		\$65,000,000

EG

GRAY

London

Dated September 28, 1938

Rec'd 7:16 a.m.

Secretary of State,
Washington.

RUSH

1062.

FOR TREASURY FROM BUTTERWORTH.

The dollar opened bid at 4.72 and rapidly went to 4.70 at which point the British authorities gave support. It then moved to 4.67 with further support forthcoming and now to 4.66. The British authorities are the only sellers of dollars.

There is a panic movement out of gold into dollars under way and in commenting on this situation on the telephone Bolton said that he "was not going to help any of these fellows and therefore proposed to put on a penal rate both for gold and for dollars".

Bolton also stated that the gold for the HONOLULU should arrive this afternoon and be taken aboard today. Captain of HONOLULU so informed by Naval Attache of the Embassy.

KENNEDY

HPD

EG

GRAY

London

Dated September 28, 1938

Rec'd 7:19 a.m.

Secretary of State,

Washington.

1063, September 28, noon.
FOR TREASURY FROM BUTTERWORTH.

It may be of interest that the Bank of England has for some days now been decentralizing its gold stocks and locating them in a good many places of safety, most of which are near possible ports of shipment. The above is authoritative but I also understand from a reliable unofficial source that arrangements have been made to move part at least of the Bank's staff to a place of safety near Exeter.

KENNEDY

RR

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: September 28, 1938, noon

NO.: 1625

FROM COCHRAN.

At twelve noon today I talked with my friend in the Bank of France. Despite the large drop in the sterling-dollar rate this morning, no sterling (rate at 178.45) has been acquired by the French stabilization fund. The French fund has even sold a small amount in order to cover Government purchases of iron and copper.

The franc today is therefore more sensitive to the critical international situation. I was told by my friend that he might have to let the rate slip shortly. Aside from gold, the British equalisation fund had by twelve noon lost \$28,000,000. The British fund on total balance yesterday lost 8,000,000 pounds, including gold.

END MESSAGE.

BULLITT.

EA:LWW

RECEIVED

SEP 28 1938

TREASURY DEPARTMENT

U.S. DEPARTMENT OF THE TREASURY

FEDERAL RESERVE BANK
OF NEW YORKOFFICE CORRESPONDENCE
CONFIDENTIAL FILES

DATE: September 28, 1938.

L. W. Knoke

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

I called Hawker at 12:30. The market this morning had opened very black and they had been simply inundated with demands for dollars. Gold sales had been very heavy and the proceeds had also been used for the purchase of dollars. They had let the rate go down, in view of the extreme emergency, to 4.61 where they had held it. Up to the early afternoon they had sold a total of \$45,000,000. Then news had come of the four men meeting in Munich tomorrow which had had a wonderful effect on the market. As a result they had managed on the way up to 4.75 to buy back \$27,000,000, leaving them a net loss for the day of only \$18,000,000. It had been most satisfactory to them because their position in gold was getting very difficult. Their gold operations in the London market for the day had been £3,500,000 bought locally and a like amount sold to foreign central banks. On the whole it had not been a bad day but they didn't, of course, know yet whether the emergency was over. Things might still go wrong and they therefore felt that there was no point in letting the dollar rate drop back too quickly. Hawker then gave me new gold prices of 147s (his buying price) and 148s (his selling price). He also gave me a range for sterling against which we could operate in our market in the afternoon for his account of 4.69 and 4.76.

I then told Hawker that I had been instructed by our Treasury Department to inquire of the Bank of England whether it

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE September 25, 1936.TO: CONFIDENTIAL FILES
FROM: L. W. KnokeSUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

2

would be possible for them to make the following two additional shipments: \$25,000,000 on the steamer Washington scheduled to sail from Southampton on October 1, and \$10,000,000 on the Black Falcon scheduled to sail from Southampton on October 1. If it was of any help to them to substitute packed gold for our earmarked gold that, of course, would be all right with us. I emphasized that our request was made if it was physically possible for them to handle these matters. Hawker replied that he would have to consult the Bullion Office and find out what the position was. I promised I would call him later in the day and let him know what, if anything, we had done in sterling here.

LWK:KW

September 27, 1938.
4:50 p.m.

H.M.Jr: Hello

Operator: Governor Ransom. Go ahead.

H.M.Jr: Hello

Ransom: Ronald Ransom.

H.M.Jr: Good evening.

R: I told you yesterday, at your request, that after I had talked to Marriner to-day I would call you back.

H.M.Jr: Yes.

R: Now I'm going to ask a favor of you.

H.M.Jr: Yes.

R: Ah - I don't want you to say to him that I said that he would probably call you - if he does - but I expect him to call you in the afternoon.

H.M.Jr: Well I have a call in - that he's going to call me between 4:30 and 5.

R: All right, now will you let him tell you the story.

H.M.Jr: Yes.

R: All right, that'll be fine.

H.M.Jr: Now will you tell it to me first.

R: (Hearty laughter) That, I think, would be very unfair because he's done the job and I'd much prefer to let him tell you. I think it would be much wiser.

H.M.Jr: Has he done it?

R: If you're not satisfied and give me a ring I'll be surprised.

H.M.Jr: I see.

R: Will you let it go at that?

H.M.Jr: Sure.

R: All right.

H.M.Jr: Sure.

R: That's entirely for your own personal and confidential use but it's his story and he's done the job.....

H.M.Jr: All right.

R: and I - I want him to tell you at first hand.

H.M.Jr: How - how is the government bond market?

R: Well that's what I want to talk to you about too. It slipped off after Chamberlain's speech.

H.M.Jr: Yes.

R: I don't know why it should because it seemed to me to be a bullish speech, not a bearish one but it slipped off. Now George Harrison has just talked to me and the notes are down to par ~~two~~ bid four asked - the bonds par six bid eight asked.

H.M.Jr: Yes.

R: George said he wanted to get his margin orders straight, because he didn't want any confusion at the opening of the market tomorrow and he felt definitely that if he understood what they were the execution would be better and that he was afraid that they might open at under par; that the overnight reaction might be bad and there might not be even a par bid.

H.M.Jr: Yes.

R: Now I've discussed it, in the brief interval since talking to George, with the three members of the board who are here and they all think that it would be wise to have him put in orders at to-day's close, that is, in the case of the notes at 100.4 and in the case of the bonds 100.8 - or six - I mean 2 and 6, you see. That is he puts

- 3 -

in buying orders - just firm orders which are above par and he can hold them at that point until he gets batted around awhile, if he does, and then call us.

H.M.Jr: Yes.

R: Now I'd like to know that that meets with your approval because we're operating on a joint account.

H.M.Jr: That's O.K.

R: All right, now that seems to me to be the way to hold the thing in line. Now, of course, on the other hand, it does mean that if he does that he's got to keep these two particular issues from getting wholly out of line with the rest of the market.

H.M.Jr: Yes.

R: But they look to me like a pretty easy thing to hold on to now while we are operating in a crisis period and if we keep them at that point we'll keep the rest of it pretty well in line too.

H.M.Jr: I think it sounds very good and I'm delighted.

R: That suits you, does it?

H.M.Jr: Yes it does.

R: All right, I've called Sinclair so I'll get the other member of the committee.

H.M.Jr: All right.

R: And I'll ask George to give it that direction in the morning.

H.M.Jr: All right, thank you so much.

R: Thank you, Secretary.

September 27, 1938.
5:11 p.m.

H.M.Jr: Hello

Operator: Mr. Eccles.

H.M.Jr: Thank you. Hello

Eccles: Hello

H.M.Jr: Hello, Marriner.

E: Hello there, Henry.

H.M.Jr: About time - I wondered where you were.

E: (Laughs) Well I.....

H.M.Jr: Have you caught any trout? Have you caught any trout?

E: Well not for some time, I've been in California for a week.

H.M.Jr: Oh I see.

E: I'm back in Utah now and expect to leave in a day or two.

H.M.Jr: I see.

E: I think this is a pretty good place to be right now.

H.M.Jr: Well it's - ah - I don't know - is it?

E: (Laughs) Yes, I think so. It's away out in the mountains.

H.M.Jr: Good for you.

E: Why, Clayton called me.

H.M.Jr: Yes.

E: And told me of the conversation that he had had with you this morning.

H.M.Jr: That's right.

- E: And - ah - I wanted to call you up and say to you that - ah - whoever your informant was, with reference to - ah - my connections, either directly or indirectly, was entirely wrong and improperly advised. In the first place, - ah - I have never had any interest whatever and no connection that I'm connected with, so far as I know, that's ever had any interest, either directly or indirectly, in either Trans-America or Bank of America.
- H.M.Jr: Good.
- E: Ah - that I have no obligation whatever to them and have never had so long as I have been in the public position.
- H.M.Jr: Good.
- E: The - ah - as far as Mr. Stewart is concerned, I had never met Mr. Stewart except about 15 years ago and I had entirely forgotten him until after I was in a public position.
- H.M.Jr: Yes.
- E: I have no personal relationships whatever except just as an acquaintanship and one that I have known and Mr. Stewart, in connection with his appointment there - ah - we were up against trying to find somebody that wasn't pretty closely allied with Caulkins in an opposition group.
- H.M.Jr: I see.
- E: And - ah - I don't know whether you're familiar with the situation that existed in Frisco.....
- H.M.Jr: No, I'm not.
- E:with that - when Caulkins was the Governor out there.
- H.M.Jr: No.
- E: Well from a - from a - they were a very reactionary group and they were antagonistic to everything that the Administration were doing.
- H.M.Jr: I see.

- 3 -

- E: And Stewart - ah - Stewart is the opposite - Stewart - ah - happens to be from a - from an economic and a political point of view a - a liberal and has always been. Now he was approached largely from that point of view rather than from any other.
- H.M.Jr: Ah-ha.
- E: Now - ah - however I'm familiar with - ah - Ransom has - I've talked with him nearly every day and he sent - I had him send on to me a lot of information which I asked for.....
- H.M.Jr: Yes.
- E:and which I got in California and I spent - ah - a couple of - in fact three days there.
- H.M.Jr: Yes.
- E: The net result of it is - ah - ah - Stewart offered to resign.
- H.M.Jr: Good.
- E: And I told him that I thought that was the advisable thing to do. In other words, the Board - ah - ah - they didn't want it to get to a position where it may be necessary to ask for it.
- H.M.Jr: Good.
- E: And so I handled it in such a way that - ah - that it couldn't be said, see,.....
- H.M.Jr: I see.
- E:that he was asked to.
- H.M.Jr: I see.
- E: And - and before the Board knew anything about the matter why - ah - ah - I was advised by him that, under the circumstances, - ah - he felt that that was the thing to do and I told him that I agreed 100% - that it would be a very embarrassing thing to him and possibly to us if this thing should develop and the sooner action was taken the better.
- H.M.Jr: Right.

- 4 -

E: Because the - ah - ah - the - ah - the farther his resignation by - was removed from the time of action.....

H.M.Jr: Right.

E:the least - well he would be connected with it just that much less.

H.M.Jr: Right.

E: Now - ah - I talked to him to-day and asked him to send it to me tomorrow.

H.M.Jr: Good.

E: When I had seen him in - ah - in ah - California when I saw him - I saw him on Friday - last Friday. I said I would be in Washington a week from Monday and I thought that would be soon enough for it to get over there - to send it to me there.

H.M.Jr: Yes.

E: And, after talking to Clayton this morning and to Ransom.....

H.M.Jr: Yes.

E:in view of the apparent urgency of the situation.....

H.M.Jr: Yes.

E:ah - I called him up and suggested that inasmuch as it was going to be forthcoming at that time that I thought the sooner the action was taken the better his position would be.

H.M.Jr: Fine.

E: And so I expect to have it here with me in the morning mail.

H.M.Jr: Well that's swell. Now what do you do with it then, Marriner.

E: Well we - ah - I'll transmit it to the Board and the Board can take action.

H.M.Jr: Fine.

E: I mean at least we have it.

H.M.Jr: Can they do it before the first of October?

E: Oh sure. The first of October is on Saturday.

H.M.Jr: Yes. It would be very helpful if they could.

E: Yes they can - they can do it - they can do it at once. Tomorrow is.....

H.M.Jr: Well I can't tell you how pleased I am, for everybody's sake, and - and I - I haven't been disturbed about anything as much as I have been about this thing, since I've become personally acquainted with the whole thing since Labor Day, see? And - ah - I was particularly distressed, as I told Clayton - I needn't go all over it again over the phone, you see, on account of this dirty gossip which I have denied very hard when it was brought to my attention, see?

E: Yes.

H.M.Jr: I said, "I know Marriner Eccles and I'm going to trust him just as far as I can see him and he's got my confidence and I'm sure that this thing is perfectly ridiculous" and I denied it very hard.

E: Yes.

H.M.Jr: Ah - and then - ah - ah - when this thing sort of dragged on and I just - well I didn't want to tell Clayton I heard it two or three times, see?

E: You what?

H.M.Jr: I heard it two or three times.....

E: Yes.

H.M.Jr:within the last week or so. Only - and.....

E: Well.....

- 6 -

- H.M.Jr:so I asked who was your closest friend and associate here and they said Clayton.....
- E: Yes.
- H.M.Jr:so I sent for him on that basis and nobody knows I talked to him. I haven't told anybody.
- E: Yes.
- H.M.Jr: So I mean it is strictly between the three of us.
- E: Yes.
- H.M.Jr: But when this was brought to me by one particular man I just said, "That's perfectly ridiculous. I know Eccles and he's thinking of his job and anything like that just can't happen, that's all". So.....
- E: Well, of course, damn it you can't stop people talking. You get in public office and you've always got somebody that's ready to throw a harpoon.
- H.M.Jr: Oh yes, and they'll do it all the time.
- E: I - I haven't seen Giannini a half a dozen times in my life.
- H.M.Jr: Well I'll be glad when you're back here because this is a tough one and he's a tough nut to crack and he's had it all his own way for five years and, as you fellows say out west, he's been riding high, wide and handsome and.....
- E: Well I know the - I know the general situation - I know the general situation, of course, fairly well out here, having lived out here and having been in the banking business.
- H.M.Jr: And the Fleischacher situation is just as bad.
- E: Yes I think, if anything, it's worse.
- H.M.Jr: I - I think so too.

- 7 -

- E: Because it's - ah - you've got in that case some very definite crookedness.
- H.M.Jr: Well it - it looks that way.
- E: Yes, I don't think there's any question about it that there's been a lot of - there's been a lot of crookedness in that situation.
- H.M.Jr: Well now, Marriner, I'm simply.....
- E: The banks have promoted personal interest to a very large extent and it's been generally known. I know I've known that for ten years. I knew of deals that those people have been putting over for - for an indefinite period almost.
- H.M.Jr: Well we're going to - when you come back - ah - you can be most helpful on this whole picture.
- E: Well I'm sorry I've - I've been away so long and I told Ransom. I said, "Now if a situation develops back there where you feel that - or the Secretary feels or if the President - if there's any indication that they feel I ought to come, I'll take a plane and come back anytime.
- H.M.Jr: Well when are you planning to be here?
- E: I'll be there Monday.
- H.M.Jr: Well I think if this war news - if your asking me for my advice, see - hello
- E: Yes.
- H.M.Jr: And if this thing continues as it is I think maybe you ought to be here the morning of October 1st, which is Saturday.
- E: Which, of course, is the Hitler day.
- H.M.Jr: That's right. Ah - nothing may.....
- E: Of course, I could - I could take a plane and get in there.

H.M.Jr: Nothing is going to - I mean maybe Friday it will look quieter but I think if you had a reservation for Friday afternoon, see?

E: Yes.

H.M.Jr: So that if the thing looked bad you could come on and be here Saturday morning.

E: Well, of course, if something happens it might require some week-end conferences.

H.M.Jr: Exactly.

E: That's quite.....

H.M.Jr: So that you could have - your plane.....

E: When Monday morning opens up on the matter of the question of the markets and the exchange and.....

H.M.Jr: Everything.

E:the banking picture, we ought to be prepared for it.

H.M.Jr: That's right, so could you have a Friday reservation?

E: Well I can get one. I'll get one and, unless things look quieter between now and then, I can plan to be in there on Saturday.

H.M.Jr: If you want to call me up Friday morning, I'll give you the latest situation.

E: Yes. Well let's see. What I was planning to do was to leave here on the train, in any case, Friday morning.

H.M.Jr: Oh.

E: I wasn't going to take the plane.

H.M.Jr: Oh.

E: I was taking the train.

H.M.Jr: Well if it continues as bad as it looks to-day I think it would be very helpful if you were here Saturday morning.

- 9 -

E: Well the situation at the moment isn't any worse than it's been has it the last twenty-four hours?

H.M.Jr: No.

E: It's just marking time.

H.M.Jr: Well the English have declared an

E: An emergency.

H.M.Jr: Yes.

E: Yes, I saw that.

H.M.Jr: And it's no worse but it doesn't have to get very much worse.

E: No - no if it gets any worse now, of course, you've got war.

H.M.Jr: That's right.

E: That's right.

H.M.Jr: That's right.

E: Well I just wanted to.....

H.M.Jr: Well I'm delighted and I'm not even going to say that I'm reassured because I never had any doubts.

E: Well I'm - I'm glad that - ah - you might inadvertently make - make mistakes - you sometimes do but, fortunately in this case, I'm just not involved any place.

H.M.Jr: Well if I may make one more suggestion.

E: Yes, it may be.....

H.M.Jr: Hello

E: Yes.

H.M.Jr: If I may make one more suggestion, I would, in some way announce - have Marriner Eccles as - personally announce that Stewart resignation.

E: Well isn't it....

H.M.Jr: I mean - I mean you're in Washington yourself when you do it.

E: I - I - I think that the - of course, the least attention we can give to it.

H.M.Jr: Well think that over anyway.

E: Yes - yes.

H.M.Jr: I - I'm - that's just for your own sake.

E: I - I'd like you to get this thought. That it wasn't a question of me bringing any pressure whatever that I - that I - that in handling it it was in the most amicable manner and some of these - some of the charges against Stewart - ah - were - were erroneous.

H.M.Jr: Ah-ha.

E: I mean the - ah - and I can explain them to you.

H.M.Jr: But he does owe 14 million dollars.

E: No he owes - ah - he owes 6 or 7 million.

H.M.Jr: Well the latest report shows that he's on notes for his own and his company's for 14 million.

E: You mean at that bank?

H.M.Jr: Yes.

E: No that - ah - he's got 14 million of collateral.

H.M.Jr: No 14 million of debts.

E: And his loan was 82 hundred. 8 million 200 and his personal loan was 5 million something with - with 2 million secured by governments.

H.M.Jr: Yes, but the total debt is 14 million.

E: Well there's something wrong.

H.M.Jr: Well anyway he owes a lot of money.

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E: Well he owes that money, that's correct.

H.M.Jr: Yes.

E: He owes - he owes - he owes the bank 8 million dollars.

H.M.Jr: Personally.

E: That's right.

H.M.Jr: Well that's a lot of money - even in Washington.

E: It's a lot of money anywhere but - ah - he and his company's - he personally owes five and then he's an endorser on something like about three that are secured by governments.

H.M.Jr: Yes.

E: So that he has around a little over 5 million which he's endorsed upon and it's almost entirely - it's in connection with two operations - his land bank, which is in liquidation, and - ah - and a bond account that he has been buying, over several years period, a lot of defunct bonds.

H.M.Jr: Well anyway you've got his resignation. Marriner Eccles got it; I'm tickled to death and I congratulate you.

E: Well I know but I don't want - I don't want to take a position that I got it.

H.M.Jr: All right.

E: I don't want to do that.

H.M.Jr: O.K. Marriner.

E: What I want to do is to - ah - I put it up to him in a manner that he saw the picture and volunteered it.

H.M.Jr: O.K. Marriner.

E: And so the - the - the Board is going to accept it.

H.M.Jr: All right.

E: All right then.

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H.M.Jr: Thank you so much and I'll look forward to seeing you.

E: All right, goodbye.

September 27, 1938.
5:28 p.m.

H.M.Jr: Hello.

Operator: Governor Ransom.

H.M.Jr: Hello.

R: All right sir.

H.M.Jr: Ronald.

R: Yes.

H.M.Jr: I had a fine talk with Marriner.

R: Yes.

H.M.Jr: And he's got or will have in the morning Stewart's resignation.

R: Yes.

H.M.Jr: Now - hello

R: All right.

H.M.Jr: I don't know whether he told you - he's asked him - he phoned him to send it airmail to him so he would get it in the morning.

R: Yes.

H.M.Jr: Marriner wasn't going to accept it until next Monday.

R: Yes.

H.M.Jr: I said I thought as long as he had it it would be most helpful if they could do it before the first of October.

R: Yes.

H.M.Jr: And he said that he would take my suggestion on that and would communicate with you.

R: Yes.

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H.M.Jr: I said that if it could be announced that he resigned before the first of October I think it would be very helpful.

R: I see.

H.M.Jr: See?

R: I see.

H.M.Jr: And I'm just delighted.

R: All right (laughs) that's fine.

H.M.Jr: I gather you've got company.

R: I have.

H.M.Jr: All right.

R: That all right?

H.M.Jr: Yes, but after - you don't - I mean if Marriner says he has it in his hand he doesn't have to send it by airmail to you, does he?

R: No indeed.

H.M.Jr: And the other suggestion - Marriner asked me about coming back.....

R: Yes.

H.M.Jr:and I said I thought he ought to be here Saturday morning.

R: I should think so.

H.M.Jr: And I said if anything broke I should think he'd want to be here.

R: By all means.

H.M.Jr: And he said he's going to do that.

R: That's fine, thank you so much for calling.

GROUP MEETING

September 28, 1939.⁸
9:15 a.m.

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

Upham: You're bidding against Mrs. Roosevelt, you know. She's speaking today at the Press Club.

H.M.Jr: Oh. Would they go there?

Gaston: I don't think it's - I don't know, they might. I can find out.

H.M.Jr: Well, look, wait - if you haven't asked them, I'd just as lief have nobody for lunch. Let it go. Let it go.

Gaston: Right. I'm sorry. Got that call at home, so I

H.M.Jr: It's all right. It's all right. I'll have one guest for lunch.

Thompson: The Attorney General has asked for an extension to December 31 of the transfer of the ... (words not understood).

Mr. Burlew was in about the Treasury garage matter. It's in.

H.M.Jr: Good. Good.

Thompson: That's all.

H.M.Jr: I can't understand you fellows. Mac parks his car out there, so he isn't so much interested, but I think the rest of you fellows would be.

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- Thompson: I think we'll get that.
- H.M.Jr: It's perfectly silly why they don't. I've talked to Mac about it over a year.
- Bell: How can they get it?
- Thompson: P.W.A.
- Bell: Can't spend P.W.A. funds in the District unless they go back and get the old appropriation.
- Thompson: I think it's the old appropriation. Perhaps you ought to hear
- H.M.Jr: How much money they spending for Sandy Point?
- Bell: That's outside of the District.
- H.M.Jr: How much they spending in Rock Creek, sewage disposal, all the rest of that?
- Bell: Wait a minute. You're getting into borrowed money. The District of Columbia - it was specifically authorized in the Act that the District of Columbia could borrow from P.W.A. just as any other municipality. But the money made available to Ickes is not available for expenditure in the District of Columbia except as a District of Columbia matter.
- H.M.Jr: How about some of those old cancellations?
- Bell: May get it from N.R.A. money, I don't know.
- H.M.Jr: Where do you park your car?
- Bell: I walk.
- H.M.Jr: I'm just thinking of ...
- Bell: It's healthier.
- Klotz: That's right.
- H.M.Jr: All right. What else? Now, keep up the good work and don't let Mr. Bell - wait a minute - don't let

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the Director of the Budget discourage you. If you need any help, see Bell, my administrative assistant - I mean Mr. Bell, my assistant; he'll help you. He can get more out of the Director of the Budget than anybody.

Klotz: Thompson's all right.

Bell: He compromises with himself.

H.M.Jr: Talk to him; he's awfully good.

Klotz: I think so.

Bell: I'll shut my eyes; I'm for it.

H.M.Jr: And if there's any question, I don't see any reason why it shouldn't be one of these liquidating projects - charge 25 cents a day.

Thompson: Yes.

H.M.Jr: 25 cents a day, and let it pay for itself.

White: There's a big demand for it here.

H.M.Jr: 25 cents a day. Anybody that's got a car can pay 25 cents a day for storage.

Bell: I haven't anything.

Upham: I haven't anything.

H.M.Jr: Harry, if you stay behind - would you?

White: Yes. There's - I wonder if the two memoranda - there are two memoranda that I'd like to get today to you. One is one that you read a couple weeks ago, or at least I gave it to you a couple weeks ago, with regard to sterling. And the other is an exposition and defense ...

H.M.Jr: (On phone) Hello. - Yes. - Yes. - Yes. - Yes. Well, that ... No, but that ... - Yes. Look, Pollio, don't bother me unless you've got facts, will you? I want facts. - Yes, I want facts, see? - Please. - Thank you.

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White: Well, I'm troubled by the sterling situation.

H.M.Jr: I tried to get you earlier. We did sterling at a quarter of nine. So you stay behind, will you? Will you stay behind with Archie, because I've checked with him and Knoke and myself. And I tried to get you.

White: I was here at nine. The telephone was busy.

H.M.Jr: Whose?

White: Yours.

H.M.Jr: well, I was talking to my wife.

Klotz: No argument, Harry.

White: Fair enough.

H.M.Jr: I was here at 8:30. You stay behind.

Gibbons: Talked to the Senator again yesterday; I think I'll have that straightened out today - out in Utah.

H.M.Jr: Will you?

Gibbons: All right.

H.M.Jr: Because that's - I'm going to have to move on that.

Gibbons: He's going to call me this afternoon.

H.M.Jr: That'll be fine.

Gibbons: That's all.

Hanes: Nothing.

Haas: I have nothing, sir.

H.M.Jr: Now look, George, so that we don't get bogged down on this thing - you were at this meeting yesterday when Tapp and Wallace were here.

Haas: That four o'clock meeting yesterday.

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H.M.Jr: what I thought I'd do is, I'd try to get Tapp over here, say, at eleven - and Jones - and just go through this thing. And you could have the Chinese somewhere in the Treasury in case you want to call them. But put it up to Tapp: what's he going to do, what's he willing to do? I mean if he wants to get rid of 30, 40 millions of bushels of wheat in the Northwest, all right. And I thought inasmuch as you knew this wheat thing, this particular deal, that you could work with me on it, you see, George?

Noas: Fine.

H.M.Jr: But I just thought we might as well have a showdown with Tapp; and let's go to town on it or not.

Now, who else has been working on this thing? You have, Herman, haven't you?

Elphinst: (Nods yes)

H.M.Jr: Who else? Archie?

Lochhead: (Nods yes)

H.M.Jr: Who else? Harry?

White: (Nods yes)

H.M.Jr: Mrs. Klotz, if you'll ask Mr. Jesse Jones whether he can be here at eleven, see, and if he can't be here at eleven - tell him I want to take up the question of wheat - selling wheat to China, see? And at the same time when he's here I want to talk to him about the possibility of selling cotton, and could he come at eleven, see?

John, you're in on this, aren't you?

White: (Nods yes)

Lochhead: Shall we put in a call for the Chinese to be here, so ...

H.M.Jr: Let them be here somewhere. But I mean let's find out what Tapp has got in mind. Either we can go to town on this thing or we won't, that's all.

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Klots: (Words inaudible)

H.S.Jr: Either eleven this morning, or let's say - or we give him a choice of eleven this morning or let's say three o'clock; either eleven or three.

Klots: Give Jones first choice.

H.S.Jr: The others should be here.

White: I don't know that Chen mentioned it to you

H.S.Jr: What's-his-name.

White: I was thinking of the Chinese.

H.S.Jr: Oh well, give Jones - I mean Jones is busy, and ask Jones which is more convenient, eleven or three; and then on that you fix everybody else up. The people that are interested are White, Hanes, Haas, Lochhead and Oughton.

White: I don't know whether Chen mentioned it to you, but he did to us, that they would like to buy, or expect to buy, about four million dollars worth of cotton. No wheat - the cotton, four million dollars worth.

And incidentally, the Interdepartmental Committee had considered that problem of the exchange of surplus food commodities for needed strategic materials, and concluded that we couldn't get anywhere with it.

H.S.Jr: Well, I just don't know what's going through Wallace's mind and I haven't known for five years, and I don't suppose I ever will know; but here the President of the United States says, "Give him a hundred - sell him a hundred million dollars worth of wheat; let him sell it, and don't ask any questions," and then he comes right over here and starts talking about ten million bushels of wheat, which is five million dollars.

But we'll put Tapp on the spot; we'll find out what he wants, that's all. With Jones here, we'll just put him on the spot and say, "Now, if you fellows

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aren't willing to do business, we'll just skip it. We'll go in without you." I can't fool around with people that don't know their minds.

But the Interdepartmental Committee on this

White: ... had considered it. They didn't give it a great deal of attention, but they didn't feel there was any ...

H.M.Jr: You mean Interdepartmental Committee on ...

White: Commercial Policy Committee.

H.M.Jr: Over at the State Department.

White: State Department.

H.M.Jr: I'll just take your word for it.

White: I'll get some more of the details for you.

H.M.Jr: Where were we? All right?

Lochhead: The exchange market is still very nervous. It's running between 4.62 and 4.64. The franc market is absolutely nominal. We can't get any idea that they are doing anything over there in it; but it's still holding at about 179 to the pound.

One other point on that. We did the silver fixing, and that's gone the way of gold in London. It works out about 39 cents. Now, the reason for that ...

H.M.Jr: Did you buy that Chinese stuff yesterday?

Lochhead: Yes. Well, the point is they've got to deliver it; that's the point over there. You can buy silver over there at 39 cents, but how much it's going to cost you to get it over here is the reason why it's down so far. They can't get insurance. There's no war risk insurance being quoted there at all. They can't ship anything.

H.M.Jr: Well, come in and see papa about a quarter of twelve.

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Lochhead: Quarter of twelve, right.

H.M.Jr: Herbert?

Gaston: One of the Canadian boys told me yesterday afternoon they had a report from London that the United States had undertaken new commitments toward the pound, and I told him it was just one of those empty rumors.

H.M.Jr: That was a good story, in case you gave it to the Wall Street Journal, on the tripartite yesterday. Got it on the ticker.

Gaston: May be something I said. I don't know. May be something I said to Mike Flynn.

H.M.Jr: Anything else?

Gaston: No, except the Wall Street Journal - Duffield got instructions to watch the Treasury every minute of the day today.

Haas: That seems like a blanket instruction.

H.M.Jr: Why not invite him in? Make it easier for him. Herman?

Oliphant: I'm hopeful that the Coast Guard

H.M.Jr: What?

Oliphant: ... radio station will come through today.

H.M.Jr: It will? Attaboy, Herman - attaboy!

Oliphant: The solution is not legal, but practical.

H.M.Jr: I want to shake your hand. Glad to meet you.

White: He's a new man.

Oliphant: You know, we're getting some cooperation from one of the other departments ...

Wibbons: On the radio?

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Oliphant: ... which you ought to have had all the way along.

H.M.Jr: All right. Now ...

Oliphant: I'd like to see you for a minute.

H.M.Jr: All right.

September 28, 1938

HM, Jr called the President at 9:50 today, and the following is a record of their conversation:

The President: Good morning, Henry. Feel better today? I do.

HM, Jr: I think you have every reason to feel better today after last night's message.

I am sorry that I have to throw some cold water at this time. Two Hamburg-American liners, the St. Louis and the Hansa -- the St. Louis was supposed to sail October 1 and she is leaving this afternoon, and the Hansa, which was supposed to sail at midnight, pulled out at 9 a. m. with no passengers. You asked us to watch, and there it is!

The President: That is not so good.

I have got an idea that France and Great Britain, some time today -- I have heard nothing, but it is the obvious thing for them to do -- will ask for a definite postponement of the date for a week or two. Now, that is just my hunch. After the final plea is made, it might be accompanied with something like this: England would say, at the same time, that during the process of the transfer of populations that she would undertake to guarantee the safety of the Sudeten Germans while the Czechs were getting out, at the same time safeguard the safety of the Czechs while the Sudetens were getting out. I think that is damn hard to turn down. I think our crowd are bound to make one more plea.

HM, Jr: At midnight, from the principal German radio station, they sent a message to seven German small boats at sea, and we are trying to break the message down. It is difficult because it is very short. (The President asked for the names of the seven boats and HM, Jr said that he would send over a memorandum of just what he told him.)

Waesche gives everything to Admiral Leahy that we get and I am keeping Hull informed.

Again, may I please tell you how I feel about

-2-

your message, from the bottom of my heart. It was excellent.

(In connection with the President's conversation, see record of conversation between Secretary Hull and Secretary Morgenthau, attached hereto.)

Wednesday
September 28, 1938
10:13 a.m.

MMJr: Hello.

Operator: Secretary Hull. Go ahead.

MMJr: Hello.

Cordell
Hull: Hello. What's going on, Henry?

MMJr: Well this is going on, Cordell, which - I just finished talking to the President. You know we're watching these German and Italian boats for him - and the St. Louis which was supposed to sail on October 1st - she's a Hamburg American liner -

H: Yeah.

MMJr: - is sailing this afternoon at four.

H: I see.

MMJr: The Hasna, another Hamburg American liner, was supposed to sail at midnight - she left at nine this morning with no passengers.

H: I see.

MMJr: And then in Puerto Rico we just got word that a German liner came in there and started to unload - she was only half way unloaded - ah - pulled up her gangplank and put down her hatches and sailed.

H: I see.

MMJr: So - and then -

H: That looks pretty significant.

MMJr: Yeah. And then at midnight Coast Guard intercepted a message from the biggest radio station to seven German boats all west bound - all small boats -

H: Yeah.

MMJr: We haven't been able to break the code but they all got the same message and they all got it at midnight.

H: And I guess they've all turned back.

HMJr: Well we don't know but we're working on it.

H: Yeah.

HMJr: And I - I'll have a written memorandum on this and I'll mark it "confidential" and send it over to you.

H: Yes. Now, General Craig might help you on that thing; I don't know.

HMJr: Well - on the coding?

H: Yes.

HMJr: Well, you see, the person who does our coding is Mrs. Friedman, -

H: Oh yes.

HMJr: - who is the wife of Major Friedman; -

H: Yes.

HMJr: - who is the head code fellow for the Army.

H: Yes. Well, the Navy - what I was getting at finally, -

HMJr: Well, I - I'll - I get your idea and -

H: Yeah.

HMJr: And I -

H: There's a man down in the Navy who might help you rather than General Craig.

HMJr: Well, I get the idea.

H: Yeah.

HMJr: And I'll tell them to ask the Navy to help.

H: Yes.

HMJr: But I'm sorry to have to give you this, but that's it. And if I get any more during the day I'll call you.

- 3 -

H: Yes. Ah - thank you, Henry.

HMJr: Have you anything to tell me?

H: Nothing, except I - I had - I told the President - nothing except what I told him about a quarter after nine.

HMJr: Uh huh. But he didn't tell me what that was.

H: Well, Wilson called me from Berlin early this morning - six o'clock -

HMJr: Yes.

H: And said that somebody in the War office was with some seriousness discussing a proposition for the British Legion -

HMJr: Yes.

H: - to ah - take charge of that and carry it out in accordance with the agreement and let this thing be delayed a week or two, which might be done.

HMJr: Oh, I see.

H: He said there's a - he said there's a bare bare hope that something might start that. But of course I've thought all the time, Henry, that this is the least part about the whole thing, this Czech matter; it's a matter of European dominion.

HMJr: That's right.

H: And I'm sure that's what it is. The only question is whether he might get frustrated by public opinion and everything to such an extent that he would slow down for the present.

HMJr: Yeah.

H: That's the whole proposition.

HMJr: Yeah.

H: Well, thank you very much.

HMJr: You're welcome.

Miss Choumay

NEW YORK.--THE NORTH GERMAN LLOYD LINER RAMSA, SCHEDULED TO SAIL
WITH 350 PASSENGERS, SAILED SHORTLY AFTER 9 A.M. WITH NO
INCIDENTS.

9/28--R945A

LINER RAMSA SAILS, NEW YORK

IT WAS REPORTED THAT THE GERMAN LINER ST. LOUIS, PREPARING TO DOCK
AT 11 P.M., WOULD LEAVE AS SOON AS POSSIBLE WITHOUT TAKING ON
PASSENGERS.

OFFICIALS OF THE NORTH GERMAN LLOYD LINE EARLIER HAD DISCLAIMED ANY
KIND OF ADVICES FROM BERLIN THAT GERMANY WAS RECALLING THE MAJOR
PORTIONS OF HER MERCHANT MARINE. THE LINER DEUTSCHLAND IS SCHEDULED
TO SAIL ON SATURDAY, AND THE COLUMBUS ON OCT. 6 FROM THE WEST

THE LINER BREMEN SAILED AT 12:20 A.M., CARRYING ONLY 245 PASSENGERS,
ABOUT HALF THE NORMAL BOOKINGS FOR THIS TIME OF THE YEAR.

9/28--W951A

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WAR DEPARTMENT
WAR DEPARTMENT GENERAL STAFF
MILITARY INTELLIGENCE DIVISION, 9-1
WASHINGTON, D. C.

September 28, 1938.

MEMORANDUM NO. 23 FOR THE CHIEF OF STAFF:

Subject: The present European situation to
10:00 A.M., September 28, 1938.

General Situation. Sir Horace Wilson, Chamberlain's special envoy to Hitler, returned to London without having effected any visible modification in Hitler's declared intentions. There followed yesterday the calm, dignified broadcast of Chamberlain in which it was announced to the world that the British Premier had exhausted every known means of reaching a peaceful settlement. While still willing to seek a solution, he appealed to his people to prepare for the worst. He pertinently pointed out that if war comes it would not be over the mere protection of the weak Czechoslovakian State, but over the general principle of whether or not a strong armed state could dominate Europe by unrestrained exercise of force.

Mr. Roosevelt's general appeal for peace sent in the early hours of September 27, elicited a reply from Hitler which, shorn of all verbiage, conditioned a peaceful solution upon the acceptance by Czechoslovakia of the German ultimatum. Mr. Roosevelt refused to let the matter rest on that basis. In another appeal, addressed last night to Hitler alone, he placed the possible war guilt squarely on the Fuehrer himself. For all the delicacy of language, responsibility for war would, in the President's mind, be Hitler's alone - with all the implications that world opinion in general, and American opinion in particular, might materialize to obstruct the realization of German aims.

A last minute (10:29 A.M., EST) news flash from London states that in Parliament, now in session, Mr. Chamberlain announced that Hitler has agreed to a Four Power Conference to be held in Munich tomorrow morning. This apparently was in response to an approach which it is reported Mr. Chamberlain made to Mussolini, and which was also suggested in Mr. Roosevelt's appeal of last night.

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Military Situation. Everywhere in Europe, military preparedness has been intensified.

The following information is from paraphrased Military Attache or State Department cables or the press as indicated:

Great Britain -

From M.A., London, 5:44 P.M., Sept. 27.

There are no additional military preparations to report to-day.

From Press.

King George declared a state of emergency which enables the Government to adopt many war powers.

Full mobilization of the Navy will be ordered on the 28th. (This will permit the calling to active duty of about 40,000 reservists. G-2.)

Preparations for rationing food were pushed.
Recruiting increased.

France - No known change.

Germany -

From M.A., Berlin, 11:55 A.M., Sept. 27.

Five or six divisions are being massed along the Czech border in Silesia, it is believed as the result of a recent survey. These units are the 8th, 18th and 28th Divisions of the VIII Corps and probably the 3rd and 23rd Divisions of the III Corps reinforced by medium artillery, 2 tank regiments and one chemical battalion. The VIII Corps, less 18th Division, is in the area Gleiwitz-Neisse-Ratibor. On the way to the frontier part of the 18th Division passed through Waldenburg. During the night of the 26th-27th, moving in trucks from Berlin in the direction of Silesia, observers saw at least one horse drawn infantry division. All units are at full war strength with trains complete. In order to complete the concentration it is believed two more days will be needed.

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Italy -

From M.A., Rome, thru State Department,
6:00 P.M., September 24.

Although the War Ministry denies any special military preparations, it is probable that the Lybian and North African forces have been brought to war strength in answer to the French reinforcements in Tunis.

From M.A., Rome, thru State Department,
6:00 P.M., September 27.

Reported reliably Mussolini told Under-Secretary of War Italy would not go to war unless France were joined by England against Germany. In that case Italy might be forced to enter. Apparently instructions have been given to make in secret all preparations necessary for speedy mobilization but take no outward steps. Believed steps have been taken to mobilize promptly about 2,000,000 men (10 classes) but as to actual mobilization there is no sign yet, except calling to colors of some complementary artillery and engineer officers and certain enlisted specialists and artillery men, to a number not exactly known.

Italian border defenses probably manned fully but no evidence of movement frontierwards of any major units. In Lybia the 2 Corps believed approximately at war strength.

Munitions plants apparently on 24-hour basis - no evidence of any great increase of activity in aircraft plants. No apparent steps to safeguard works of art in Rome, provide civilians with masks or build A.A. refuges. In fact, it is not believed masks available are sufficient for key factories and activities of the Government. No definite preparations to evacuate population from Rome or other cities.

The thought of going to war in present situation as an ally of Germany is not popular with many army officers but believe the army would unquestionably obey orders. Many older reservist classes are decidedly against such a war and possibly call of the older classes might bring internal trouble. It does not seem reasonable that if war considered imminent Italy would neglect the above noted military precautions. Situation indicates Mussolini either believes war not imminent or that in case of it he has decided not to become actively involved, at least in the beginning.

No reports from any United States Consular Agents as to unusual military activity.

From M.A., Rome, thru State Department,
8:00 P.M., September 27.

Ciano reported to have told Belgian Ambassador certain purely precautionary military measures had been taken. French

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Embassy warned French citizens of military age if they did not get out of Italy they risked internment. French Embassy believes Italy would be involved in a war from the start and has so informed its government. The French and particularly the British preparations have given much concern to Italy which had hoped that Britain at least would not come into a war against Germany.

From Consul, Shanghai, 5:00 P.M., Sept. 27.

Italian cruiser Monte Cuccoli and gunboat Lepanto left here this A.M. - unknown destination. Gunboat Carlotta now only Italian vessel in port.

Czechoslovakia -

From M.A., Prague, thru State Department,
4:00 P.M., September 27.

The ultimatum of Hitler would render Czechoslovakia practically defenseless. Communications from east to west would be discontinued, and industrial areas lost or threatened. A 20-30 mile bottle neck would be created between Moravia and Bohemia. Demands are those of victor to vanquished.

From M.A., Prague, thru State Department,
7:00 P.M., September 27.

Local reaction to Hitler's speech very bad. Encouragement over attitude shown by France and England. Czech G-2 confirms my previous estimate of men under arms. He also reports some eight German divisions in general area Linas-Vienna, which together with smaller concentrations north and west may mean main effort to northeast through south Moravian gate and secondary efforts south and east against Prague.

CONFIDENTIAL

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CONFIDENTIAL

Hungary -

From State Dept., 2:00 P.M., Sept. 27.

Hungarian officials state no intention to take unilateral action against Czechoslovakia and denies that Yugoslavia and Rumania have notified Hungary that they will assist Czechoslovakia in case Hungary attacks. Relations with Rumania and Yugoslavia, they say, have never been better. Military preparations continue, including requisitioning private motor vehicles. Military Attaches in Budapest estimate 160,000 under arms but it is still denied mobilization contemplated.

Yugoslavia -

From State Dept., 3:00 P.M., Sept. 27.

All leave in Yugoslav Army stopped. About 60,000 reservists called. Premier reported calmed by Hungarian assurance that their efforts to support minorities will be by diplomatic rather than military means.

Poland -

From Press - Unconfirmed -

The Polish Government announced that, after sporadic fighting on the border, Czechoslovakia had agreed to "territorial revision" under Poland's demands for annexation of the Teschen (Cieszyn) district. Benes has written Moscicki that he is in agreement with plan for revision. . . . Poland will immediately submit to Prague a plan for the settlement of its territorial and minority demands involving 82,000 Poles under Czech rule. . . . Reliably reported that Poland will demand evacuation of Teschen by Czech troops and authorities and occupation by Polish troops. The new boundaries will be fixed by a mixed commission without plebiscite. 1,600,000 Poles under arms. Foreign Office spokesman announced that Polish Army was ready to move into Teschen on Friday or Saturday, but that Government still hoped for a peaceful settlement.

Rumania -

From Press - Unconfirmed -

King Carol studies Rumania's position with Foreign Minister Petrescu-Comnen. Bucharest in touch with Belgrade. Budapest has been warned that Bucharest and Belgrade have confirmed the fact that the military alliance with Czechoslovakia still stands, but Rumania's attitude on Soviet troop transits has not been settled. Undoubtedly Rumania will follow British-French lead. Only technical units have been mobilized.

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CONFIDENTIAL

U.S.S.R. -

From Press - Unconfirmed -

Moscow remained calmest capital in Europe. Hitler's speech suppressed by press. Voroshilov, Defense Commissar, and Mekhlis, Assistant Commissar and political head of army, are both near Vladivostok taking part in a Communist Party conference.

Portugal -

From Lisbon, thru State Department,
Noon, September 27.

The French Minister said Premier Salazar has recently had long interviews with the Italian and German Ministers but not with either the French or British Ministers. He also stated that there are 50,000 Italian troops in Seville (Insurgent Spain), probably being held to enter Portugal, in case of a general war, to prevent British control of Portuguese ports. In his opinion a revolution may break out in Portugal.

CONFIDENTIAL

September 28, 1938

At 10:30, HM, Jr called the President and said, "I want to be the first to congratulate you. This is the 10:28 flash: 'Hitler agrees to four power conference.'" The President said, "He does?" HM, Jr then said, "Here is another -- 10:29 flash. 'Adolf Hitler has invited Britain, France and Italy to meet him in a four power conference on the Czech crisis at Munich tomorrow morning, Prime Minister Neville Chamberlain informs Commons'."

The President said, "Uh-huh!" HM, Jr remarked, "I think it is great stuff. I wanted to be the first to congratulate you." The President replied, "That is something! Thanks very much."

FLASH

LONDON--HITLER AGREES TO FOUR POWER CONFERENCE

him

9/28--R1028A

LONDON.--ADOLF HITLER HAS INVITED BRITAIN, FRANCE AND ITALY TO
MEET THEM IN A FOUR POWER CONFERENCE ON THE CZECH CRISIS
AT MUNICH TOMORROW MORNING, PRIME MINISTER ENEVILLE CHAMBERLAIN INFORMED
COMMONS.

9/28--R1029A

Wednesday
September 28, 1938
12:06 p.m.

Admiral
Leahy:

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

HMJr:

Good morning.

L:

Good morning, sir.

HMJr:

Admiral, you have in China a naval aide by the name of Lieutenant McHugh.

L:

Yes.

HMJr:

And I just wish - if you get word to him - that - to compliment him - that I wish to compliment him on the excellent reports he's been sending us the last few days. -

L:

Do you get special reports from him?

HMJr:

Yeah.

L:

Yes, I will.- I'll be very glad to.

HMJr:

He sends word to our Customs Agent Nicholson, you see. Hello?

L:

Hello.

HMJr:

And we've been getting special reports in that way.

L:

Yes, sir. Well, I'll -

HMJr:

I don't want to do any- -

L:

I'll be very glad to do that.

HMJr:

I don't want to do anything - maybe he's doing this on the side, but ah - what he's been sending us is extremely valuable.

L:

Yes, I know that; he's sending us very valuable stuff too. Of course, you know that he's living right with the Chiang Kai-shek family.

HMJr:

Well, I understand that he's - ah - I didn't know an awful lot about him but I was told he was very close to Madam Chiang Kai-Shek.

- L: Well, yes. He lives right with them. He lives in a house with them. I don't know how close he is but pretty close all right because he gets first hand information directly there, either from Madam or from Chiang Kai-Shek himself. And wherever they go he goes with them.
- HMJr: Well I didn't know that. But this stuff he's been feeding us - you see we've got K. P. Chen here.
- L: Yes, sir.
- HMJr: Chen's trying to get information from Kung. And then McHugh sends word to Nicholson why Chen isn't getting the information that I'm asking for.
- L: Yes.
- HMJr: See?
- L: I see.
- HMJr: And then he also gives us the dope on this fellow Rogers who is the British Advisor.
- L: Uh huh.
- HMJr: So, it's been very useful and I wish to - I wanted to -
- L: I'll send him a nice message expressing your appreciation of the excellent reports that he's sending to the Treasury Department.
- HMJr: Yes. And tell him to keep it up while Chen is here.
- L: To keep it up how long?
- HMJr: Well, just as long - ah - to continue to send these special reports as long as K. P. Chen is here.
- L: Yes, sir.
- HMJr: You see?

L: Yes, sir. I'll do that.

HMJr: Because everything he gives me shows that Chen is playing on the level with us. But I -

L: Yes.

HMJr: I've got some doubts about Dr. Kung.

L: Uh huh.

HMJr: How does he - he's wormed his way right into the Chiang Kai-Shek household, huh?

L: Yes, sir. He lives with them; wherever they go he goes right along with them.

HMJr: Well, it must be very useful to you isn't it?

L: Oh, very! We get the best information of all from him.

HMJr: Fine.

L: And, Mr. Secretary, another thing: This morning I thought I was going to call you up and see if you wouldn't think of sending more money on each one of those things we sent over there. But it looks just now as though the thing is quiet for the moment -

HMJr: Uh huh.

L: Now I'm sending another ship sailing today -

HMJr: Yes.

L: And that will - that'll get over there in the course of ten days -

HMJr: Right.

L: But I'm going to send it. I thought that if things were as hot as they looked this morning - with all the German ships leaving this place that maybe it'd be better to put a lot of it on one and get it over. But of course you have that in mind too.

HMJr: Yeah. Well, I just want to put this into your head. You may have thought of this. That maybe Hitler is

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stalling -

L: Yes.

HMJr: - long enough to get his ships back.

L: Well, that - I thought of that of course.

HMJr: See?

L: That may be it, but it looks as though if they get together that they may put it off for a little while at any rate.

HMJr: Yeah.

L: It doesn't seem quite as hot as it did this morning -

HMJr: Oh, no!

L: No.

HMJr: Oh - and sterling, which went down to 460 -

L: Yes.

HMJr: - is up to 472 - 473.

L: Yes. It bounced right back.

HMJr: And the English - ah - who did ov- - had - over forty million dollars in gold today -

L: Uh huh.

HMJr: Ah - they've been able to sell some of that themselves.

L: I see.

HMJr: See?

L: Yes.

HMJr: So, the whole thing for the moment - we have a breathing spell.

L: Well, we'll go right along with our plans as they are now. We'll send a ship sailing today - to be there in about ten days -

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HMJr: Fine.

L: And then we'll keep up the procession as long as - as you want us to do it.

HMJr: Yeah. Well, what I think we'll do is - we'll continue to load these ships and get this gold out - to keep it down to the present proportion which is about a hundred and forty million we've got on hand there today.

L: Yes.

HMJr: And of course the twenty-five we'd put on - ah - what is it, the Summers - or the Honolulu, isn't it?

L: Yes, the Honolulu.

HMJr: And then we load forty million on three boats of the American Lines -

L: Yeah.

HMJr: And that's sixty-five millions - ah - Friday and Saturday will go out, which will help a lot.

L: Yes.

HMJr: Now, if they should get people convinced that there's not going to be a war, why we might even be able to sell a little gold.

L: I see. Well, any time that you find out that you're not going to need another ship over there if you can let us know I can turn it right around before it gets there.

HMJr: I'll let you know in five seconds.

L: Yes, sir.

HMJr: And in the meantime I've got - I had Waesche contact you and he's - he's giving you whatever I get.

L: Yes, sir. He's given me all the news about the German ships.

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HMJr: All right.

L: Thank you, Mr. Secretary. Goodbye, sir.

September 28, 1938.
12:57 p.m.

H.M.Jr: Hello

Operator: Dr. Feis. Go ahead.

H.M.Jr: Hello.

Feis: Henry.

H.M.Jr: Yes, Herbert.

Feis: If you've got a minute before Cabinet I think you might be interested.

H.M.Jr: Go ahead.

F: I don't - I don't want to talk to you over the telephone.

H.M.Jr: Well gosh, Herbert, I'm tied every second - I mean....

F: All right.

H.M.Jr: Can't you do it over the phone?

F: - Ah - no.

H.M.Jr: Well why not - my phone's all right.

F: Ah - better not, Henry.

H.M.Jr: Well what's it about?

F: Ah - well I don't know what you'll be discussing at Cabinet - ah - there'll be one proposal. You know Hitler's replied - you know that?

H.M.Jr: You mean.....

F: To the President.

H.M.Jr: To the President.

F: That's right.

H.M.Jr: Yes.

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F: And there's a question of what reply to make to him.

H.M.Jr: Yes.

F: And there's several drafts.

H.M.Jr: Oh.

F: One is being talked over at the White House now.

H.M.Jr: Oh.

F: Ah - by W. And that I think would be extremely troublesome.

H.M.Jr: I see.

F: Ah - and if it comes up - ah - there's another one that's all right.

H.M.Jr: Yes, well I'd love to.....

F: Well I - I'm giving....

H.M.Jr: I've got a man - what?

F: Just - you'll want to be observant.

H.M.Jr: O.K.

F: Right.

H.M.Jr: Thank you so much.

RE PROPOSED CHINESE AGREEMENT

September 28, 1938.
2:00 p.m.

Present: Mr. Hanes
Mr. Oliphant
Mr. Foley
Mr. White
Mr. Hess
Mr. Jesse Jones
Mr. Jesse Tapp
Mr. Chen (for brief period)
Mr. Mau "
Mr. Sen "

H.A.Jr: What I wanted to bring ^{up} is what happened yesterday, in my own simple manner. At Cabinet I gave the President a story that went all through the thing: The Chinese were busted. Bought the last silver they had which was free, which was 19 million ounces, yesterday morning. All they've got left is 65 million ounces, but they've all borrowed against it; if we bought 65 million ounces, they would get eight million dollars. Everything else is gone.

I said I didn't know whether we wanted to do it now, but - and I said it was just up to the Administration to make up their mind whether they want to have peace in the Pacific or they don't. And I said I thought that they ought to just come right out and lend them a hundred million dollars and let them decide where they want to spend the money, because what they want to use it for is munitions, stuff to fight with. So they talked some and the President said, well, as far as he was concerned, he was willing that we lend them the money to buy, he said, wheat, and let them sell it where they want to and ask no questions.

And I said, "Well now, will Mr. Hull do the same thing?" Mr. Hull said, "Give me a couple days to think it over."

Janes: Couple days.

H.A.Jr: Yes, to think it over. And I said, "That's fair."

"Well," Wallace said, "supposing we do this - the Surplus Commodity. Who's going to take the loss?"

President said, "Don't worry about that. Jesse Jones is willing to go into this thing."

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Jones: "And he'd take the loss."

H. Jr.: "And he'd take the loss."

Whereupon Wallace comes over here with his own crowd and after having heard the President make that statement he talks - he says, "Let's try this out with 10 million bushels of wheat." And then, having been through rather a difficult time, I got a little impatient, which I shouldn't, and I said, "I just haven't got time to fool around with anything like that, when the Chinese have got their back up against the wall, and it's a question, as the President put it: do we want to risk the cost of one and a half battleships on this thing?" See? But, coming out and having heard the President say, "Let them have a hundred million dollars worth of wheat and we'll ask no questions," then to come back and start arguing about 10 million bushels - I couldn't think of any good dirty stories, so it might have saved the situation if you (Jones) had been here.

So then Wallace said that they had 30 or 40 million bushels of this soft wheat up in the Northwest that they'd like to get rid of, and he wanted a committee. So I said, "No committee. I'll handle that with whoever you say. Either we will or we won't. I'm pretty busy right now." I mean I was a little short yesterday and - I mean all this talk, then when the President gives you the green light, why, then talk about 10 million bushels. So we agreed we'd handle that with Tapp. And I thought we'd put Tapp on the spot today. You're (Jones) busy, you've got a lot of irons in the fire and you've got a lot to do, and you don't want to be wasting your time around talking about 10 million bushels of wheat.

Now, Tapp says 30 or 40; let's find out and if he means business, all right; and if not, the sooner the Chinese know it, the better, because these poor devils - they're right up against it now.

And then on this other thing, this tungsten - other business, that's another committee and we know from the Chinese they can't deliver any tungsten. They haven't got any tin; they don't control the province where the tin is, they have no control over it.

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The only thing they've got is wood oil. "Then," they said, "if you sell your wood oil you've got to organize a transportation system to get it out."

So when you get it all through and done - and I wanted to talk to you (Jones) about cotton, which I think you control, don't you?

Jones: (Nods yes)

H.M.Jr: And the Chinese have told us now for months they don't want any wheat; they've got wheat for sale.

Jones: They don't want any wheat.

H.M.Jr: They don't want any wheat. The section where there is no fighting grows wheat, and they've had a wonderful crop; they've got all the wheat they need. But they do need cotton and they want cotton, and therefore I thought we'd go after Jesse Tapp and ask him point blank, "Now what are you ready to do? Now don't let's waste any time."

But the Chinese have told us - Professor Buck, who is over there for the Treasury, has told us they don't want any wheat, they don't need any wheat. Am I right, boys, on that?

White: (Nods yes)

H.M.Jr: What?

Hanes: That's right.

Jones: If we sell them wheat and they don't want any wheat, do we still want to sell them the wheat?

H.M.Jr: If the Chinese say, "All right, we'll take the 40 million bushels of wheat, we'll sell it, get the money" - then they turn around and sell it.

Oliphant: Wallace backed up on that because it would break the world market.

H.M.Jr: Then he said, "We'd want to know how they're going to sell that wheat, because they'll break the world market."

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- O. L. Knight: Said he didn't want to trust them with more than 10 million.
- H. A. Jr: He's been talking about this for three months - said Wayne Taylor's been blocking it - then when the President said, "Go to it" - I just want to know, for the President's information, yours (Jones) and mine, which - what they want, and I want your help. You get the idea.
- Jones: All right, sure.
- H. A. Jr: You're just as busy as I am.
- Jones: Do we want to sell them some cotton too?
- H. A. Jr: Well, what I thought is, on this wheat business, if they don't come through, can't you and my Treasury crowd handle this cotton thing, do we need Agriculture? Can't we do this cotton thing, do we need these boys, see? Don't you control the cotton?
- Jones: Well, I'd have to see how we can - we've got to call that cotton, we've got to call the loans, and Congress has stopped us I think we might get it out of that million 600 thousand bales.
- H. A. Jr: Four men mentioned that yesterday.
- O. L. Knight: How much did they say they need?
- Walter: Four million dollars worth is what they need for themselves in cotton yarn, not cotton goods. Cotton yarn they'll take. But if they took any more they'd have to sell it, and the same market problem would exist.
- H. A. Jr: Well
- Jones: (On phone) Goodloe.
Is Tapp coming over?
- H. A. Jr: Yes, he'll be here.
- Jones: Hello (On phone) - hello. - Hello, John. Have we ever decided - have we ever decided that we could sell

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that million 600 thousand bales of cotton? -
 Think you would have to do that? - Well, I
 wish you'd do that. How would we have to do
 it? Would we have to call it? Would we have
 to mature the loans? - Well, I mean would we
 have to - what would be the procedure? - Uh-huh.
 Just take it all over and then sell whatever we
 want to sell. - Yes. Well, will you proceed in
 that matter? - All right, thank you. (End of conver.)

We've all decided that we could do it, but he thinks
 it might be better to get a ruling from the Attorney
 General, and I told him to

H.M.Jr: That's the '34 crop?

Jones: That's that old crop, a million 600 thousand bales.

H.M.Jr: Now, does Agriculture come into that picture?

Jones: Agriculture is represented on the Commodity Credit
 Corporation board, like they always have been. They're
 not interested any other way.

H.M.Jr: It doesn't have to go through Tapp?

Jones: No, except he's on that board. I think we could do
 that.

H.M.Jr: Well, I just want to let you know - and I just - we've
 got the Chinese somewhere in the Treasury now, haven't
 we?

White: Yes, they're here.

H.M.Jr: What?

White: They're supposed to be here.

H.M.Jr: (To Kieley) Mr. Tapp here?

Kieley: Mr. Tapp, from Agriculture, here.

H.M.Jr: I just wanted them in a room there in case we wanted
 to talk to them.

(Tapp comes in)

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Hello, Mr. Tapp. How are you? Do you know everybody?

Tapp: I think so.

Foley: Mr. Hanes, Mr. Tapp.

H.M.Jr: Mr. Tapp, following up yesterday's conversation, see, you mentioned 30 or 40 million bushels of wheat out of the Northwest.

Tapp: Pacific Coast, yes, sir.

Jones: Is that the wheat beyond the Rocky Mountains?

Tapp: Yes, sir, out in the spruce (?) country - Washington, Oregon, Idaho.

Jones: Now, under what conditions would you transfer that wheat to China?

Tapp: For resale?

Jones: For any purpose.

H.M.Jr: For any purpose.

Tapp: well, our loan value there is 67 cents Portland; that's delivered at the port. We'd be very happy to get that for it. What we're selling for export now, we're selling below that price.

H.M.Jr: Well, what's your rock bottom price?

Jones: What are you getting for the export wheat?

Tapp: Oh, about - on that type of wheat out there, about ten cents below that.

Jones: Ten cents.

Tapp: Yes.

H.M.Jr: Does that include

Tapp: Here's the point, Mr. Secretary. We have that wheat and we have another, say, 40 million bushels that we need to export from the Gulf. Now, if we sold them

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30 million from, say, the Pacific Northwest with no strings attached and they dumped that into the foreign markets, then we couldn't sell the other 40, you see; so if we were selling it to them for resale we'd want them to take the whole 70 million bushels; then we'd be out of the foreign market and we wouldn't care what they'd do. But if they did that, they wouldn't be able to get much for that wheat.

H. A. Jr.: Now let's understand each other. You've got 70 million bushels for sale.

Tapp: That's what we're trying to sell in addition to what's already been sold.

H. A. Jr.: 57 cents in the Northwest, and how much in the Gulf?

Tapp: Well, we're getting about ten cents over that down there: 77 cents - 67 cents, I mean.

H. A. Jr.: On an average, say, roughly around 60 cents.

Tapp: Be closer to 65, but for purposes of an average, an average of 60 to 65 cents.

H. A. Jr.: Average of 60 to 65 cents. And if you sold that you're no longer interested in the world market for this year.

Tapp: That's right. But frankly, our experience with selling wheat is such that if they wanted to convert that into cash rapidly, that price would go a lot lower than 60 cents, unless war develops; of course, if war develops, we can take care of it ourselves.

H. A. Jr.: Well, we're going on the basis that they're business men and they'd be glad to take the advice of American experts on how to market. I mean I'm assuming that. What?

Tapp: Yes.

H. A. Jr.: I mean that they'd take the best advice on how to merchandise it.

White: Further assuming, Mr. Secretary, that they may want to space it over several months.

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- H.M.Jr: Oh yes. But I mean we'd ask them and suggest a plan - be glad to have the Department of Agriculture suggest a plan as to how to merchandise it; say, do it over six months, or something like that. Huh?
- Tapp: That would be - well, I would say eight months - even eight months would be all right.
- H.M.Jr: Yes, whatever - ten million bushels a month.
- Jones: If we should sell China 70 million bushels of wheat, then we'd have no more wheat to sell.
- Tapp: In the export market. That would make up our hundred million bushels for this year, our goal for this year. We're trying to sell a hundred million bushels for the export market. We've sold, up to and including this morning, a little over 30. So if we sold them the 70 in one block, why, we could quit worrying about the export market for this crop year.
- H.M.Jr: When the question would be that they'd go to the export-import Bank and borrow the money to take it.
- Jones: What do you think
- Tapp: If the war thing drops out of the picture and they try to sell that very rapidly, they won't realize too much money out of it. That's the thing you have to keep in mind.
- Jones: suppose we just considered selling them the wheat and not worry about the balance; would you think it advisable for us to sell the wheat, 70 million bushels, to China?
- Tapp: Well, the most serious criticism of that would come from three places: Canada, Argentina, and Australia, because of what they might do to the export market. We wouldn't be so much concerned about that. You see, our domestic loan here would protect our domestic situation.
- Jones: Well, others would decide that.
- H.M.Jr: What?

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- Jones: I'm telling him others would decide whether or not - the Administration, Secretary of State, ...
- H.M.Jr: And I'd be willing personally to explain it to Canada and to Australia.
- Tapp: And the Argentine.
- H.M.Jr: No, I didn't say the Argentine. Canada and Australia - I'd be perfectly willing to undertake personally to explain it.
- Jones: Well, if we sold them 70 million bushels we wouldn't be interested in what they got for it.
- Tapp: But if we sold them just the 30, we'd be concerned about it.
- H.M.Jr: Why don't you (Tapp) sit up next to Mr. Jones?
(Tapp moves next to Jones)
- Jones: I'm talking about the 70. We'd be out.
- Tapp: That's right.
- Jones: And if Japan wanted to buy some wheat, we wouldn't have any to sell - or Great Britain.
- Tapp: Well, we still have plenty to sell, but
- Jones: But not for export.
- Tapp: ... we wouldn't sell it on a subsidy basis. If they'd come in and pay the domestic price for it, why, the domestic price would still be open.
- Haas: Still have about 295 million bushels.
- Tapp: But we wouldn't be subsidizing. We'd feel our responsibility for subsidizing it had been met.
- Jones: How much subsidy, about ten cents now?
- Tapp: Ten to fourteen. Ten cents on the Coast and fourteen in the Gulf.
- H.M.Jr: Fourteen in the Gulf and ten cents in the Northwest.

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Texas always gets a better price.

Jones: That's right.

Wynn: We sold three million bushels this morning on that bulge before the good news came out.

Jones: You did sell that - 12 cents?

Wynn: Both the Gulf and the Coast, I say, on that bulge in the farm market.

W.C.Jr: Well, that makes it look much clearer than it did yesterday. You've been doing a little thinking since yesterday, haven't you?

Wynn: Well, our problem, see, is that if you're going to give them this wheat to merchandise, then we want to get our whole thing out so that they won't be competing with us. Frankly, we're having a very difficult time selling wheat in the export market under a ten to fourteen cent subsidy, and if we gave them a block of wheat to work on against us

W.C.Jr: I understand.

Wynn: Yes, we'd just cut our own throats. If they'll take the whole business

Jones: I don't see why we'd talk about what they did with the wheat.

Wynn: If they take the whole business, that's right, Mr. Jones.

W.C.Jr: Officially, I wouldn't worry about it. Unofficially, if they wanted our advice, I'd give it to them. Is that right?

Jones: Yes. But I'd leave it to them.

W.C.Jr: As the President said - the President said, "Sell it to them, lend them the money to buy it, and ask no questions." Now, that's what the President said, word for word.

Jones: In other words, we want to sell the wheat. We want to sell the wheat, and if China will buy it, give us the

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market price for it, why, we'll sell it to them.

H.W.Jr: If she wants to borrow the money from the Export-Import Bank

Jones: We'll talk to them about it.

White: They may possibly want to store it, for all we want to know, against a bad harvest. You can't tell now.

H.W.Jr: Well now, that would give us enough, Jesse, for you and me to talk to the Chinese on, wouldn't it?

Jones: I think so.

Tapp: I think the big point we want to keep in mind, Mr. Secretary, is that we don't want to give them just - we'd like to do either one of two things: either sell them some wheat for domestic consumption in China

H.A.Jr: That's out.

Tapp: on a credit basis, or if we're going to give them a block of wheat to sell, then we want to give them all we've got to sell, not give them something to come back at us with.

H.A.Jr: Mr. Tapp, they don't want any wheat for domestic consumption.

Tapp: They're buying Australian flour now under a bigger subsidy than

White: They can use some in Shanghai - a little.

H.W.Jr: It gets down - do you (Tapp) want to sit in when we talk to the Chinese, or want to leave it to Mr. Jones and myself?

Tapp: You go ahead.

H.A.Jr: You'd like to sit in.

Tapp: Of course I could listen. I'm a very good listener.

H.W.Jr: Well now, do we want to just put this to one side for a minute and then talk about cotton? Now, it's your (Jones) baby. You can talk.

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- Jones: Well, can we sell them some cotton?
- Tapp: On the same basis?
- Jones: Got to sell it on credit.
- Tapp: For possible ressele?
- Jones: (nods yes)
- Tapp: We've got this problem in cotton. We have a million 650 thousand bales of the 1934 crop covered by a 12-cent loan, with a prohibition against its resale unless - before June 30, 1939, unless it brings the amount of the loan plus carrying charges, which we could get around by releasing the cotton back to the producers for sale at some price; but then each individual producer, you see, would have to sell that through some agency we might establish or designate to handle it.
- Jones: Think we'd have to go through that? Why can't we just take the cotton over?
- Tapp: If you take title to it, there's a provision in that Act, which Senator Bankhead put in there, ... (mumbles words - not understood)
- Jones: I thought that was decided - it didn't apply to the one million 600 thousand bales.
- Tapp: It applies - any cotton any Government agency takes title to can't be sold unless it brings back the original loan plus carrying charges.
- Jones: The Commodity Credit Corporation doesn't agree with you.
- Tapp: I say we can get around it by releasing it to the producer for sale, as long as we don't take title to it.
- Whipnant: That was the Smith amendment, wasn't it?
- Tapp: Yes. Makes it a rather complicated transaction.
- H.H.Jr: But from the standpoint of the poor Chinese, what's he do? I mean he needn't know about

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Jones: He'd just have to be willing to buy the cotton. He'd have to offer, I surmise, to buy that much cotton.

Trotter: I would have, I think the Secretary (Wallace) would have much more hesitancy about going into this thing on cotton than on wheat. In the first place, foreign countries are not subsidizing the export of cotton as in the case of wheat. We're not subsidizing the export of cotton. In the second place, the export market for cotton accounts for more than 50 percent of our cotton. If we sold them cotton on this basis, they unquestionably would be reselling a part of that cotton directly in competition with the United States and the other cotton exporters that are trying to sell American cotton; and it wouldn't represent in any sense a net increase in exports, and it might arouse so much antagonism on the part of the regular exporters of cotton as to actually cause us to lose some exports, which is not

Wilmington: Talking about a subsidized sale or if you sold to them at market price?

Trotter: Sold to them on a credit basis, so they'd be converting that into dollars.

Wilmington: Even though you sold it at full market price.

Trotter: Yes.

Jones: I think we'd need to study that a little bit, what you can do. If you don't mind, we'll need further study on it. I'll get the boys together and I'll get the lawyers together, see what the procedure will be.

Wilmington: Now, do you think we're ready to explain this to the Chinese, to say that this is what we're thinking about and that they should consult their Government? I mean we're not making any commitments, but we're thinking about 70 million bushels of wheat. And I want to just say that we're thinking of selling them this and we're also thinking of possibly lending them the money with which to buy it, and that they

Jones: Sell it to them at the market price.

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- H.M.Jr: Not with the?
- Jones: Not with the subsidy.
- H.M.Jr: No?
- Jones: Our position will be a lot better if we sell them that wheat at the market. Somebody might accuse us of being money grabbers and hard-hearted, but at the same time
- White: Be a 15 percent down payment, interest on a loan that they're making right away, if they have to absorb that subsidy. Be some 15 cents on every 70 cents borrowed.
- Heas: Well, maybe Mr. Jones means the world market price.
- Olyphant: At a very time when we're trying to sell it elsewhere.
- Jones: Well, I think we can talk about that.
- H.M.Jr: Well, I think if we're going to do it, let's do it gracefully.
- Jones: I'm willing to be graceful about it. I'm willing to lend them the money if the law will let us. But we're selling them wheat and letting them do what they want to do with it.
- H.M.Jr: Well, supposing I put it this way. We don't have to say anything about the subsidy today, but if - I think if we're going to do it, I'd like to help Agriculture carry out their subsidy policy.
- Heas: Well, that's the market price, the world market price.
- White: But they'd have to turn around and take a loss.
- H.M.Jr: If they're willing to sell it to them plus the subsidy, let's just amongst ourselves
- White: Mr. Secretary, I think George has a point here that's not clearly understood.
- Tapp: Yes, sell it to them on a world price basis.
- Heas: That's right, that's what you had in mind.

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- Jones: You take the subsidy out of what?
- Tapp: Section 32. We're buying wheat every day. We can continue to buy from one loan fund and sell it to them through another.
- Jones: That's all right.
- H.M.Jr: World price basis.
- Tapp: That's the basis to talk on.
- H.B.Jr: World price basis. All right, gentlemen?
- Jones: Of course, take a little less money from the Export Bank. All right.
- H.B.Jr: Well now, I'm going to say that this is the way we're thinking: that they should - you see, it takes them four or five days until they get a message off, get it back - it's no commitment, and that if in the meantime they want to get down to details on this particular wheat deal, Haas is carrying this for me - George Haas, and former member of the World - London Wheat Conference.
- Haas: All points east.
- H.B.Jr: Yes - paid his initiation fee. So I'll - then I'll tell them if they want to get the details as to how this thing works, why, George, you'll escort them over to Mr. Tapp's office or Mr. Jones' office. How's that?
- Jones: Be all right. We'll meet any time that suits them.
- H.M.Jr: I'll sketch it this way, huh? Is that all right? Going fast enough? No, I want you (Tapp) to sit here please. And we'll put it on that basis.
- What's the other fellow's name?
- White: Mau.
- H.M.Jr: Is Mau with them or Ren?
- Woodhead: I think Mau is with them - yes.

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H.M.Jr: Mau? How do you spell Mau?
White: M-a-u I think he spells it.
H.M.Jr: That's the fellow ...
Lochhead: Very thin.
Oliphant: Is Ren here?
White: Yes, but he hasn't attended many conferences.
Lochhead: He was here this morning - the heavy-set fellow.
H.M.Jr: That's M- ...
White: M-a-u.
H.M.Jr: Archie, bring them in. If there's three of them, what's the other fellow's name.
Lochhead: A-e-n - Ren.
H.M.Jr: Ren?
Lochhead: R-e-n.

(The Chinese come in)

H.M.Jr: Mr. Chen, Mr. Tapp represents Secretary Wallace in - we've got what we call a Surplus Commodities Corporation. And this is Mr. Jones.

We've been talking over what we might be able to do to be helpful to China, and we have this suggestion to make. But I want to make it very plain it is not a commitment on our part; it is a suggestion.

Chen: Yes, yes.

H.M.Jr: It will give you a chance to cable home what we're thinking about. We'll have an answer, oh, by maybe Monday, you see, and then by that time we possibly could say, "Well, definitely, yes," or "No." But I want to make it very clear that today what Mr. Jones and Mr. Tapp and the rest of us are talking about is simply a suggestion.

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Chen: Yes, I understand.

H.W.Jr: but not a commitment. You understand.

Chen: Yes.

H.W.Jr: Now, the - I always call it the Department of Agriculture; it isn't.

Thayer: That's right.

H.W.Jr: What?

Thayer: That's right.

H.W.Jr: Is that right? The Department of Agriculture has a policy that they wanted to sell on the world's market a hundred million bushels of wheat at the world market price. They have disposed of some 30 million bushels, which leaves them approximately 70 million bushels, of which about 40 million bushels is up around Seattle - what they call the Northwest wheat; and the other 30 million bushels is in the Gulf, around Houston, Texas.

What we were thinking about was the possibility of suggesting to China that they buy from the Surplus Commodities Corporation 70 million bushels of wheat, and then the Export- - at the world price, and the Export-Import Bank would be ready to loan the Government of China the money with which to buy this wheat. And then the wheat is yours.

Now, if this plan met with a favorable reception on the part of the Chinese Government, and after we had more time to think about it so we could say definitely yes or no, the only suggestion they have would be the possibility that the sale of this would be distributed, say, over a number of months, so you'd have a chance to - it wouldn't all - might distribute it over six or eight months, you see, something like that.

Chen: Yes.

H.W.Jr: So it wouldn't all be disposed of at one time. But the wheat would be yours.

Chen: Yes, yes.

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A.S.Jr: and isn't that about the idea, Mr. Jones?

Jones: That's about it.

A.S.Jr: Do you want to go into it?

Jones: I think that's all right. If these gentlemen will do their cabling, we're ready to talk to them whenever they're ready. In the meantime we'll meet and find out what we can do, what we want to do. Be ready when they're ready. I think that's about all there is to it.

A.S.Jr: Now Mr. Lapp, have I expressed it about right?

Lapp: Yes, that's all right.

Chen: We'll send this cable away tonight.

A.S.Jr: Yes. Now Mr. Chen, Mr. George Heas on this particular thing will work with you.....

Chen: Yes.

A.S.Jr: ...and will get all the details that you need. If you want to, for instance, get anything more from Surplus Commodities Corporation or from the R.F.C., he'll work with you just as long as it's necessary to get you the necessary information.

Chen: Uh-huh.

A.S.Jr: But you have the idea?

Chen: Yes, yes.

A.S.Jr: All right.

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Paris, France

DATE: September 28, 1938, 2 p.m.

NO.: 711

STRICTLY CONFIDENTIAL.

You are requested to report to us any information it may be possible for you to get without directly indicating that you have been instructed to do so as to what action would be taken by the French authorities, in the event a general European war breaks out, with regard to stock exchange transactions and liquidation of holdings of American securities.

HULL.

SAME: Mutatis mutandis to
AMLEGATION, BERN, SWITZERLAND
AMLEGATION, THE HAGUE, NETHERLANDS

EA:LWW

RECEIVED

SEP 29 1938

INTERNATIONAL DEPARTMENT

U.S. DEPARTMENT OF STATE

REB

PLAIN

London

Dated September 28, 1938

Rec'd 3:10 p. m.

Secretary of State,
Washington.

1075, September 28, 6 p. m.

FOR TREASURY FROM BUTTERWORTH:

The City, like House of Commons, has thrown its hat in the air and the atmosphere of oppressive tension has suddenly evaporated.

Incidentally, a banking house with excellent Italian connections has the definite impression that the British Government also had the word conveyed to Mussolini that if his good offices were forthcoming with Hitler the British Treasury's opposition to financial aid for Italy would undergo a change. The initial reaction of the more politically minded group in the City is not only to consider that the peak of the present Czech crisis is past (although haggling negotiations and difficult moments will no doubt ensue) but also to regard Mussolini's action as a justification of Chamberlain's Italian policy and that the way may, in due course, be open to a four power pact.

In

REB

2-#1075, From London, Sept. 28, 6p.m.

In fact, in the first rush of relief the chickens are being very much counted before they are hatched. All markets immediately reacted, the dollar going from 4.61 to 4.70 and then to 4.71. The British Fund took really very large amounts of dollars at both 4.70 and 4.71. The franc likewise appreciated from 179-3/4 to 178-1/2.

KENNEDY

ALC

OFFICE CORRESPONDENCE

DATE September 28, 1936.

CONFIDENTIAL FILES

SUBJECT TELEPHONE CONVERSATION WITH

L. W. Knobe

BANK OF ENGLAND.

I called Hawker at 4:05 and quoted him our market. I mentioned that we had, early in the day, sold 280,000 against his old gold price but had reversed the transaction here when the rates dipped.

Hawker referred to our telephone conversation this morning and reported that as requested they had packed and now ready for shipment \$25,000,000 per steamer Washington and \$10,000,000 per the Black Falcon. He added, however, that this was definitely the limit of their capacity this week. I thanked him and told him that we would cable the necessary instructions on the \$25,000,000 tonight; regarding the \$10,000,000 I requested him to await further advice from us. Hawker suggested that if this shipment could be avoided it would help them a great deal. Hawker stated that with these two shipments completed all of our A account gold would have been shipped and they would then start on B account.

He referred to the destroyer Somers and stated that they couldn't move the gold down to Portsmouth on a Saturday and would therefore do the loading on Monday. Would that be all right? I replied that if that was the situation it would have to be all right.

I inquired whether they had finished the loading on the Honolulu and Hawker stated that all the gold had been safely delivered aboard today and that he would advise us to that effect by cable the first thing tomorrow morning.

LWK:K

Regraded Unclassified

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: September 28, 1938, 6 p.m.

NO.: 1633

FROM COCHRAN.

The Bank of France since last Thursday, and particularly today, has been quietly and informally tightening up on giving foreign exchange in line with the suggestions in the memorandum which was handed to us on September 25 (omission). The rate of 179 was reached by the spot rate in Paris only today. In London the rate of 179 was reached this afternoon. At almost 4:30 today the news reached here of the meeting at Munich tomorrow; thereupon the pound jumped from 4.61 to 4.71, and there was also a turn in the franc trend.

At six p.m. I had a talk with my friend at the Bank of France. In late trading he said he had gained enough sterling at 178.50 to cover his exchange loss of last evening on the New York market, and a small balance was left over. My friend said that the message which President Roosevelt sent was "magnificent". He is now optimistic, as are my other banking friends here, including the representative of the Bank of Italy and the British Embassy's financial counselor, that eventually there will be achieved a peaceful solution.

The Bourse had closed when the news of Mussolini's
intervention

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intervention reached here, therefore there was no opportunity for recovery on the weak stock market of today.

The British control had during the day sold 45 million dollars, in addition to gold, but by six o'clock had bought back 12 million dollars.

END MESSAGE.

BULLITT.

EA:LWW

C A B L E

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From: Treasury Attache Jacobson,
Shanghai, China

Date: September 28, 1938

For the Secretary.

Figures for whole China imports and exports for August 1938, all in Chinese dollars, are as follows: Total imports 77,110,051 and total exports 80,203,608. Imports of gold none, imports of silver none, exports of gold 515,862 gold units and exports of silver 2,412,910 Chinese dollars. Average exchange rate gold unit in Shanghai for Chinese dollars for August was 2.297.

25 September, 1938

MEMORANDUM FOR THE SECRETARY OF THE TREASURY:

Information received at 10:00 a. m. today from Customs states that a telephone call received from their agent at San Juan at 8:25 a. m. today that the German steamer FRIDA HOEN called at San Juan at 6:00 a. m. today, Atlantic time; made preliminary entry at San Juan and started unloading her cargo. She called at 9:00 a. m. Atlantic time, without fully discharging the cargo. It is indicated that this vessel probably received a radio message from the Germany Embassy in Washington that all German vessels were to leave American ports at 8:00 a. m. today.

From New York this morning information is received that the German steamer HANSA, which was not due to sail until midnight today, September 25th, had already sailed at 9:00 a. m. this morning from New York for Germany without passengers. The German steamer ST. LOUIS is due to sail at 4:00 p. m. today and has already called for a pilot. She was normally due to sail October the 4th.

E. E. WARREN
Rear Admiral, U. S. Coast Guard
Commandant.

25 September, 1938

SECRET

MEMORANDUM FOR THE SECRETARY OF THE TREASURY:

At about midnight September 27th the Coast Guard Fort Hunt Monitoring Station intercepted messages emanating from the German shore station Norddeick (Call letters DAN) addressed to the German vessels ALTONA, BABAN, ISERLOHN, FULDA, KOLN, FALKENFELS and OSTMARK. The messages were in 5-letter code of 4 and 5 groups each. There was a marked similarity in the type of code used.

R. H. VANSCHEN
Rear Admiral, U. S. Coast Guard
Commandant

September 28, 1938

To: The Secretary
From: Mr. Hanes

I have just had a telephone call from Basil Harris, and he asked me to pass this message along to you:

(1) That in the event of hostilities he will lay down whatever he is doing, and come to Washington immediately to help you in any way he can.

(2) The S. S. Washington arrived at Havre noon today. She will discharge her cargo, leave Havre Friday night, September 30th, and sail for America from Southampton on October 1st. He is anxious to have you confirm the \$25,000,000. gold to be put aboard for sailing October 1st. ✓

(3) The S. S. Manhattan, arriving in New York on Thursday, September 29th, will sail for Havre on Saturday, October 1st. On the return voyage she will leave Southampton on October 10th, and he is anxious to get confirmation for another \$25,000,000. gold for that sailing.

(4) Mr. Harris advised me that the S. S. Europa which sailed yesterday from Germany, had cancelled her voyage and returned to port. He also said he had just heard a rumor which he could not verify that the S. S. Bremen which sailed last night from New York was returning to New York. This latter sounds unreasonable to me.

German and Italian Vessels in Ports of the United States and its Possessions

28 September, 1938.

German

Italian

New York

FRIESENLAND (SEADROME)
FALKENFELS
ST. LOUIS
WESTERNLAND

Galveston

MARINA O.

Port Arthur

TROTTERA

Philadelphia

AACHEN
WINNETOU

Tacoma

LEME

Mobile

NORDERNEY

New York

MONBALDO
BARBARIGO

New Orleans

NORD ATLANTIC

Galveston

ROCKENHEIM
CLARE HUGO STINNES I
HAVELLAND
KARPFANGER

Baytown (Texas)

PHOEBUS

Seattle

PORTLAND


R. R. WAESCHE,
Rear Admiral, U. S. Coast Guard,
Commandant.

German and Italian Vessels in Ports of the United States and its Possessions

28 September, 1938.

German

Italian

New York

Galveston

FRIESENLAND (SEADROME)
FALKENFELS
ST. LOUIS
WESTERNLAND

MARINA O.

Port Arthur

Philadelphia

TROTTERA

AACHEN
WINNETOU

Tacoma

LYNE

Mobile

New York

NORDEHNEY

MONBALDO
BARBARIGO

New Orleans

NORD ATLANTIC

Galveston

ROCKENHEIM
CLARE HUGO STINNES I
HAVELLAND
KARPFANGER

Baytown (Texas)

PHOENIX

Seattle

PORTLAND

R. R. WARSCHÉ,
Rear Admiral, U. S. Coast Guard,
Commandant.

MEMORANDUM FOR THE SECRETARY OF THE TREASURY.

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German and Italian Vessels in Ports of the United States and its Possessions

22 September, 1922.

German

Italian

New York

FRIESENLAND (SEADRONE)
FALKENFELS
ST. LOUIS
WESTERLAND

Galveston

MARINA O.

Philadelphia

AACHEN
WINNETOU

Port Arthur

TROTTERA

Mobile

WORDERNEY

Tacoma

LENN

New Orleans

NORD ATLANTIC

New York

MONBALDO
BARBARIGO

Galveston

ROCKENHEIM
CLARE HUGO STIMME I
HAVELLAND
KARPFANGER

Baytown (Texas)

PHOENIX

Seattle

PORTLAND

R. H. WARREN,
Rear Admiral, U. S. Coast Guard,
Commandant.

MEMORANDUM FOR THE SECRETARY OF THE TREASURY.

183

German and Italian Vessels in Ports of the United States and its Possessions

28 September, 1938.

German

Italian

New York

FRIESENLAND (SEADROME)
FALKENFELS
ST. LOUIS
WESTERNLAND

Galveston

MARINA G.

Philadelphia

AACHEN
WINGETOU

Fort Arthur

TROTTERA

Mobile

NORDERNEY

Tacoma

LEME

New Orleans

NOED ATLANTIC

New York

MONBALDO
BARBARIGO

Galveston

ROCKENHEIM
CLARE HUGO STINNES I
HAVELLAND
KARPFANGER

Baytown (Texas)

PHOENUS

Seattle

PORTLAND

R. R. WARSCHÉ,
Rear Admiral, U. S. Coast Guard,
Commandant.

German and Italian Vessels in Ports of the United States and its Possessions

28 September, 1938.

German

Italian

New York

FRIESENLAND (SEADROME)
FALKENFELS
ST. LOUIS
WESTERNLAND

Galveston

MARINA O.

Philadelphia

AACHEN
WINNETOU

Port Arthur

TROTTERA

Mobile

MORDEENY

New York

MORBALDO
BARBARIGO

New Orleans

MORD ATLANTIC

Galveston

ROCKENHRIM
CLARE HUGO STERNES I
HAVELLAND
KARPFANGER

Baytown (Texas)

PHOEBUS

Seattle

PORTLAND

R. R. WARSCHÉ,
Rear Admiral, U. S. Coast Guard,
Commandant.

TREASURY DEPARTMENT

185

INTER OFFICE COMMUNICATION

DATE

September 28, 1938

TO Secretary Morgenthau

FROM Herman Oliphant

Re: Progress Report on Marble Investigation

In connection with the request made by the Secretary of Under Secretary Magill to have a detailed report as to charges made by Edwin C. Eckel, Chief Geologist of the Tennessee Valley Authority, referred to in the New York Times of August 10, 1938, the following progress report is made:

The charges referred to were contained in memoranda dated November 30, 1934, and February 27, 1935, made by Mr. Eckel and introduced in evidence before the Congressional Committee investigating the Tennessee Valley Authority. The charges in substance, insofar as they affect the Treasury Department, are that through the exercise of some influence, whether improper or not, marble produced in quarries owned by Senator Berry, which quarries were on lands required for the purposes of the T.V.A., was specified by the Procurement Division in certain contracts; that the marble was bought at twice the price of Knoxville marble, and that as a result of the value so established by actual sales to Government agencies, a very high value can be given to the properties owned by Berry which would be very difficult to refute in any condemnation action brought for the acquisition of these properties by the T.V.A.

In the hearing there was no testimony by Eckel and no elaboration of what was meant by "exercise of some influence". It developed that the projects involved were the present Procurement Building and the Post Office at Mamaroneck, New York.

Due to the present status of the Committee's investigation, no further information could be obtained from the record. An inquiry at the Committee's office disclosed the fact that the Committee had adjourned without date and probably would not reconvene until sometime in October or November; that the minutes of the hearings, subsequent to July 23, had not been transcribed or were not available in the office of the Committee. The minutes which are available incorporated by reference the minutes and exhibits of the hearings before the President on the removal of the Chairman of the T.V.A., concerning certain charges of fraud in the acquisition of the Berry property and other matters relating to this general question.

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The President's report on this hearing shows that there were some 54 exhibits offered in evidence. Those material to this inquiry, however, were not attached to the report but were deposited by the President with the Secretary of State. An inquiry was made to the State Department as to the availability of these exhibits. The matter was referred to the Secretary of State who stated that the President had personally delivered these exhibits to him and that he considered them confidential and would not release them until after the close of the investigation by the Committee of the Congress.

The inquiry was then directed to whatever information was available in the Procurement Division. The inquiry in the Procurement Division was conducted along two lines: (1) The facts in connection with the placing of samples of the marble involved in the sample room of the Procurement Division, and (2) The naming of this marble in the specifications for the construction of the buildings in question and other buildings. There was supplied the original letter from Senator McKellar of Tennessee, dated March 29, 1932, enclosing a copy of a letter from Major Berry requesting information as to the procedure in connection with submission of samples of certain marble which he had discovered on property in Tennessee. The only other correspondence in reference to samples which was supplied by the Procurement Division, was the correspondence in connection with the submission of samples of marble on August 30, 1932.

The names of the marble submitted at that time are not the names of the marbles which are now on display in the sample room and which were specified in the specifications referred to. The only other records in connection with any of Major Berry's marbles are the current records and a memorandum of June 4, 1936, containing certain details of the marbles which are now on display; therefore, on the papers which were produced there was a gap as to any correspondence from August 1932 to June 4, 1936, which necessitated a thorough reading of all the documents in the files pertaining to this matter through this period. The materiality of this line of inquiry was the question whether the particular marbles specified in the specifications involved were in fact on display in the sample room of Procurement at the time the specifications were made. This has a strong bearing on the question as to how these materials came to be named in the specifications. In getting out these files I found that all of the correspondence, documents, and data of any nature on all materials of any kind were collected chronologically in one general file. The result of this was that an examination of tens of thousands of documents was necessary. In addition to this fact, all of the correspondence in connection with all phases of particular contracts, even of the most routine nature, were collected in one file and the examination of the file in relation to one contract involved the reading of thousands of additional documents. It would have been difficult to have

- 3 -

additional personnel do this work as the materiality of a particular document to the inquiry might not be recognized. The necessity of going through all of these documents has considerably slowed any progress in the inquiry.

The following facts, however, have been developed from the files of the Procurement Division:

1. That the display of the samples of Berry's marbles was initiated by United States Senator McKellar of Tennessee;
2. That the specifications for marble on the Mamaronck Post Office job were in violation of the order of the Secretary of the Treasury, requiring that there be included in the specifications a clause to the effect that "the naming of a particular marble was to indicate the type required and was not to exclude marbles which, in the opinion of the supervising architect, would give the same results;"
3. That the original specifications for the Mamaronck Post Office did not name marble for wainscoting but these specifications and drawings were later changed at the request of the Post Office Department to specify marble; (The only marble specified originally was for the base which was negligible in quantity.)
4. That in giving an estimate for the marble construction which was an extra, due to the change in the plans, there was a dispute as to the value of the work to be done, the Procurement Division claiming that the estimate made by the contractor was too high. The contractor stated that the high price was due to the exorbitant unit price of the marble specified which was one of the most expensive and hardest to work of any of the marbles;
5. That the plans and specifications on the Federal Warehouse Building specified Brocatelle and Imperial Black which are the products of the Berry quarries. They contain, however, the clause as required by the order of the Secretary above referred to. The contractor on this job submitted samples of four different types of marble for each of the specified marbles but in each case the same was rejected by the Procurement Division. The memorandum of rejection of one of these marbles stated: "Gray Mankato reject. Brocatelle desired. Spec. calls for high polish unobtainable in Mankato;"
6. The contractor complained bitterly about being required to supply these particular types of marble and no others. He stated that the price of this marble was exorbitant and that he was willing to supply any marble that the Procurement Division would accept except that specified and that he would even supply this marble if it could be obtained at a reasonable price;

- 4 -

7. In connection with this job also, and in determining the question whether one of the samples submitted was the equivalent of one of the Berry marbles, the President of the Tennessee Marble Co., the company which had the exclusive selling agency of Berry's marble, was the expert and the only expert, so far as record shows, called in to determine this question.

It is my opinion that the evidence so far produced from the records of the Procurement Division is not sufficient to make any finding of "the exercise of some influence", but that there are sufficient facts to warrant pursuing the investigation further. A thorough inquiry will take considerable time. It will mean the examination of the chief of the sample room (who was ordered out of town on official business after the inquiry was started), the architect and his subordinates who prepared the Procurement Division plans and specifications, the interviewing of the private architect who prepared the plans and specifications for the Mamaroneck Post Office, the supervising architect, and the two contractors who were required to supply these materials, and finally of Eckel, the Chief Geologist of the T.V.A., to gather such information he has as to the basis for his report. It will also be desirable to obtain through proper representation copies of the exhibits introduced on evidence before the President.

Herbert O. DeLoach,
per T. Manning.

Wednesday
September 28, 1938
4:27 p.m.

HMJr: Hello.

Operator: Mr. Crowley.

HMJr: Hello.

O: Go ahead.

HMJr: Hello, Leo.

Leo
Crowley: Yes, Mr. Secretary.

HMJr: Cy told me about his conversations with you and I wanted to tell you that I appreciate very much what you're doing.

C: Well, I'm very happy to do it.

HMJr: It helps us out on a very difficult situation; and I want to be fair to these two men and give them a chance to turn around.

C: Well, we had a board meeting and passed a resolution, so it's all set.

HMJr: Well, I'm very much obliged.

C: Thank you very much for calling me.

HMJr: Goodbye.

C: Goodbye.

STRICTLY CONFIDENTIAL

PARAPHRASE

29 September, 1938.
12:30 p.m.

The following information has been received from the Far East (Capt. Carlson) under date of 28 September, 1938:

The fall of the city of Hankow at early date, possibly three weeks predicted because of Japanese progress and increased aerial activity in the Wuhan cities plus removal advance echelons Chinese military headquarters to Hengyang Hunan. Believe great amount of defense works here indicate at least a pretense of fighting, probably along north and east sides of Hankow. Many laborers departing here to southwestward because of the unpopular conscription of labor due to evacuation of battle area villages. Many opportunities for counter attack are being lost due to the profoundly complex set up among the army units. The Chinese regard the column operating from Sinyang with its subsidiary column as the most dangerous threat. Believe Communists immediately after the fall of the city are prepared to organize the Hupeh area. Chiang still confident but appears worried and he says he agrees with Mao Tse Tung's plan for future China which I described in my written report, important features being: continuation present government with the intent of establishment a democratic state by eliminating corrupt elements, instituting state ownership of mines, railroads, and banks; the development of consumers cooperatives and encouragement of private enterprise and investment of foreign capital from those nations who treat China as an equal. Chiang also asserted absolutely that Ambassador Wang lied to him, having failed to give Morgenthau certain information concerning loans which he had been instructed to do. Thus causing the Secretary to believe Kung (Minister of Finance) had double crossed him. Madame Chiang translated during this interview. Fairly reliable source advises that mobile mechanized units of three divisions organized by Tang En Po for purpose of attacking Wuhan or Hankow regardless of outcome at Wuhan. Because they have no political axes to grind. Tang En Po commander south bank and Sun Lien Chung^{SOV} north bank are considered China's ace field commanders.

STRICTLY CONFIDENTIAL

RECEIVED

SEP 29 1938

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SEP 29 1938
U.S. DEPARTMENT OF STATE
WASHINGTON, D.C.

September 28, 1938

Saw the President at 5:25 on the afternoon of the 28th.

I told him of our plan to put Diggs and Oppergard over with Leo Crowley for three months beginning October 1 and putting Upham in as First Deputy and Acting Comptroller until we swore in Preston Delano. The President said that's all right.

I then told him what we had agreed to do about China and he said that's fine.

I said, It's most likely occurred to you, but, I said, it seems to me that Hitler needs more time before he can fight, for the following two reasons: (1) General Craig reports that he needs two more days to mobilize and (2) it looks as though he needs at least a week to get his merchant marine back into port. For that reason they can't help but suspect that his calling of the conference may possibly be in the nature of a stall for time. The President said that he had thought of that.

I found him very calm and very much pleased with the reception that his second message had received.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE SEP 28 1938

TO Secretary of the Treasury
FROM Messrs. Oliphant and Lochhead

On September 23, 1938 Senator King phoned and asked the following questions:

- (1) Is there anything in the Silver Purchase Act which would prohibit us from refusing to buy silver from Mexico even though we buy it from other countries?
- (2) Furthermore, if we were to do this, would it in any way undermine our acquisition of domestically-mined silver?

It is suggested that you may wish to have Senator King advised along the following lines:

"You are, of course, familiar with the provisions of section 3 of the Silver Purchase Act of 1934, pursuant to which the Treasury acquires silver.

"We are sending to you for your information a press release of March 28, 1938 relative to the monthly silver purchase arrangements with Mexico. The price which has been paid for newly-mined Mexican silver has not been in excess of the current price prevailing at the time of purchase.

"Settlement by the Treasury for newly-mined domestic silver is not, of course, determined under the Silver Purchase Act of 1934 but is made in accordance with the President's Proclamation of December 21, 1933, as modified, at the monetary value of silver less a deduction for seigniorage and services performed by the government."

H.O.L.

September 28, 1938.

I am attaching hereto a telegram received yesterday from Senator Thomas of Utah. I talked to the Senator last evening at 5:57, Washington Time, on the telephone, as I did not understand the gist of the attached telegram. He explained that he could not put anything in writing regarding the President of the Church and beseeched me under no circumstances to mention that institution in connection with my telephone conversation with him on the twenty-sixth. He stated, however, that he had talked to the Head of that Organization and that they could do nothing for the Judge, and as an alternative he desired to talk to the Judge's oldest son, Henry D. and would telephone me again today the result of his conversation. He remarked that he considered this boy quite superior to his younger brother living here in the District.

He telephoned me again today stating that he had talked to the young man and told him about the emergency and that the son stated that in case the emergency became an actuality, if Mr. McIntyre were to telephone the Judge, ask him to come to see him, and tell him that the President considered the burden would be too great for him to continue in his present assignment, that the Judge would immediately vacate. The Senator stated he knows from conversation that the President has a great affection for the Judge, and he is certain would not do anything to embarrass him.

He stated that the son advised him that the Judge has rented an apartment for the winter months and was planning to resign in the

- 2 -

early spring. The Senator pointed out that the Judge and his family are among the very few individuals in his State possessing any wealth who are openly supporting the President.

He stated that excepting in the event of a grave emergency if any action were taken before election, or that if it were even rumored that such action were contemplated, that it would not only militate against the Senator in his campaign for reelection, but would also be a grave injustice to the President, as his enemies throughout the State would claim that notwithstanding the Judge has spent fifty of the eighty years of his existence working for the Democratic Party; had been Democratic National Committeeman from his State; State Chairman of his Party; Assistant Secretary of the Treasury in the Wilson Administration; the candidate of his Party for U. S. Senator, and had been one of the President's sincere supporters in his pre-convention campaign in 1932, the President had disregarded all of this because he thought it politically expedient to supplant him.

While the Senator stated that he, of course, had not recommended him, nevertheless, due to the Judge's physical condition and the reputation which he enjoys in his State, he felt it would be practically impossible to eliminate him without irreparable harm to the Party. He stated that under no circumstances should such action be taken without first having Mr. Farley take the matter up with the President and acquaint him with the political harm that such action

- 3 -

would cause.

All of the above, of course, was predicated on the Senator's conviction that there would be no war. He is convinced in view of the contemplated meeting to be held tomorrow between the four powers mentioned that the difficulty will be settled without recourse to arms. He stated that, of course, if he were wrong in his assumption and an emergency did arise, he didn't have the slightest doubt that if the suggestion outlined above, namely, to have Mr. McIntyre contact the gentleman in question, were followed out, the gentleman would immediately comply with any request made.

It would appear that failure to convince the Church that they should take care of the Judge has caused a change of attitude on the part of the Senator, as he appeared quite willing not only to speak to the President of the Church, which he claims he did, but to also endeavor to convince the son that his father should retire. It would appear, however, the son instead has convinced him any such action, excepting in the event of a national emergency, would be detrimental to the Senator's re-election. He stated he believed both Senator King and the son residing here in the District would also agree with him regarding the harm to the Party which such action would precipitate at this time. Senator King, however, last March 17th, at a St. Patrick's Day dinner in the Mayflower Hotel, was very bitter in his reference to the Judge, which I understand was due to the support in a primary contest that the Judge's son residing in Utah had rendered Senator King's opponent in his last campaign.

- 4 -

Since writing the above, Colonel Monroe Johnson, Assistant Secretary of Commerce, telephoned me this morning (September 29th), stating that practically the entire Church is against Senator Thomas and unless something is done in his behalf he would lose. He stated he had conveyed the information to Chip Robert and suggested that I advise Mr. Farley.

Stephen B. Gibbons

FORM 2048
TREASURY DEPARTMENT
PROCUREMENT DIVISION
PUBLIC BUILDINGS BRANCH

PROCUREMENT DIVISION
Treasury Department
TELEGRAPH OFFICE

197

31 W E 45 GOV DL

SALT LAKE CITY UTAH 932A SEPT 27 1938

HON STEPHEN B GIBBONS

1938 SEP 27 PM 1 46

WASHNDC

HENRY D MOYLE SON OF JUDGE MOYLE IS OUT OF TOWN, HE WILL RETURN TODAY
OR TOMORROW PLEASE WITHHOLD ANY ACTION UNTIL I HAVE HAD A CHANCE TO
TALK WITH HIM, I SHALL ADVISE AS EARLY AS POSSIBLE, I HOPE I CAN BE
HELPFUL REGARDS

ELBERT D THOMAS USS

140P



TREASURY DEPARTMENT

WASHINGTON

September 29, 1938.

MEMORANDUM FOR THE SECRETARY:

Briefly the circumstances leading up to the request of the Social Security Board that the Treasury assume the function of maintaining compensating balances with banks to offset the need of direct payment of bank service charges from appropriated funds in connection with benefit payments under the unemployment compensation provisions of the Social Security Act are as follows:

(1) The Board, following the long-established practice of the Treasury, adopted the policy of compensating bank balances in lieu of the actual payment of bank service charges. The only way this could be accomplished was by authorizing or directing the State agencies to withdraw from the Unemployment Compensation Trust Fund sufficient amounts to enable the State agencies to maintain stipulated minimum balances in excess of the amount necessary to meet current benefit payments, with resultant loss of interest to the Fund.

(2) The Board, upon advice of its General Counsel, now feels that it will be necessary to reconsider this policy and in the future to authorize or require State agencies to withdraw from the Unemployment Compensation Trust Fund only such amounts as may be necessary to meet current payments.

(3) As the banks handling the accounts must be compensated in some manner, the alternative, as indicated, is the direct payment of bank service charges at an estimated annual cost to the United States (when the program is in full operation) in excess of \$1,000,000.

The experience of the Treasury in dealing with the analysis of Governmental accounts with banks tends to indicate that, for the present, compensating bank balances are more desirable than the payment of direct service charges. This is especially true under the conditions governing the benefit payment accounts as the Social Security Board has no direct contacts with banks but necessarily operates through the State agencies in all cases. Furthermore, the Board has had no previous experience in the matter, which factor also might tend to increase the costs to the United States.

Until such time as a definite and permanent policy dealing with this matter may be adopted in cooperation with the Board, it is believed desirable for the Treasury directly to supervise the depository arrangements for the benefit payment accounts in question through its regularly established depository facilities.

SWB



TREASURY DEPARTMENT
WASHINGTON

Hong Kong, September 29th, 1938

The Honorable

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

Dear Mr. Secretary,

I enclose data on Yunnan, just received from Dr. Buck.
Like last week's material, these reports were typed from his notes and are
consequently unsigned.

Respectfully,

Enid Saunders

Enid Saunders
Secretary to Dr. Buck

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RECHARD VE
..... CONFERENCE DIVISION

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Issued pursuant to the authority
of the Board of the
Department of the Interior

CGI SS 1633

RECEIVED

September 23rd, 1938

To Secretary Henry Morgenthau

From J. Lossing Buck

YUNNAN CURRENCY

Several kinds of currency are in circulation in Yunnanfu: Central Bank of China notes; old provincial notes of the Futien Bank, which are being replaced by the new Futien Bank notes, and which are more frequently circulated; piastres of Indo-China; and even Hongkong notes. Old Futien notes exchange at 10 to 1 with Central Bank notes. New Futien notes exchange at 2 to 1 with Central Bank notes. Central Bank notes are issued largely in one dollar notes. Large notes are not issued in order to avoid shipment of notes to Hongkong for foreign exchange. The total amount of note issue by Futien Bank is estimated at 30 million. There is no way of ascertaining the exact amount, as the Bank does not issue reliable financial statements. Bankers deal in the various notes at varying rates of exchange.

The value of the Futien notes is apparently maintained by foreign exchange, acquired through control of all tin exports - which represent ninety per cent of Yunnan's exports. The whereabouts of the former silver reserve is unknown. Silver is purchased by opium merchants for payment of purchases in the country districts. Considerable silver is hoarded by the people. Yunnan silver dollars are in circulation on the border in Kweichow province, and arrangements have been made with Kweichow to try and recover this silver for Yunnan.

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SEP 25 1938
U.S. DEPARTMENT OF THE TREASURY
WASHINGTON, D. C.

September 23rd, 1938

To Secretary Henry Morgenthau
From J. Lossing Buck

YUNNAN INDEPENDENCE

T. T. Zee, Manager of the the Sinhua Bank, formerly located at Nanking, has opened a bank in Yunnan, as have six other banks. Zee states that although Yunnan officials do not welcome the invasion of these banks, and of Central Government organizations, still it is something they have to swallow. He remarks that if the progress of the last eight months in Yunnan continues at the same pace, Yunnan's relation to the Central Government will be satisfactory.

The Yunnan government has sent 60,000 well-equipped troops to the front, which has left the province somewhat depleted. Myers, the American Consul, has a feeling that if Hankow falls, Yunnan, Kwangsi, and Szechuen may try to obtain control of the Central Government. It is something he does not like to talk about for fear of rumours spreading to the detriment of the Central Government. Personally I consider that the Generalissimo will be stronger than most people realize, even if Hankow should fall.

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SEP 23 1938

ADMISSION OFFICIALS

RECEIVED

SEP 23 1938

September 23rd, 1938

To Secretary Henry Morgenthau

From J. Lossing Buck

YUNNAN TIN

Tin is the economic backbone of the Yunnan Provincial Government, and is controlled by the Futien Provincial Bank. The total exports are over 9,000 tons, although the production is somewhat greater. Early reports on tin resources state that the amount of tin in Yunnan is limited. Mr. Portugal, an American engineer, contends there are large resources. Most of the tin is in rock crevices, and mined by child labour to the extent of the employment of 60,000 children. The crevices are so narrow that only children can work in them, with the present crude mining methods. There are 30 per cent casualties each year. The labour conditions, are, therefore, appalling. Only about two-thirds of the total annual production of tin can be refined by the antiquated refineries.

Paul Myers, American Consul at Yunnanfu, has made a special study of this tin situation, and has suggested American participation, but he states that the State Department has turned down his suggestions. Some private American capitalists are interested. The Yunnan Tin Corporation is desirous of obtaining American capital for the development of its mines.

The participation of American interests in Yunnan's tin mines would have the advantage of opening a market for American mining machinery, of employment for twenty to thirty mining engineers, and cheaper prices for tin

than now available through the British Tin Association or the International Tin Committee. By advancing China credit on future tin production it would also be a method of extending credit to China at a time when she needs it so urgently.

Myers considers that negotiations would first have to be with the Yunnan government, otherwise they would fall through. However, even if this were necessary, the agreement might be of such a nature as to assist in bringing the province into closer relationship with the Central Government. It appears to be a project worthy of careful consideration.

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OCT 25 1938

RECEIVED IN THE
OFFICE OF THE
MEMORANDUM DEPARTMENT

September 23rd, 1938

To Secretary Henry Morgenthau

From J. Lossing Buck

YUNNAN RAILWAY

My trip by train from Hanoi to Yunnanfu, a distance of 530 kilometers, was delayed over the usual time of 22 hours by an additional five hours, due to four landslides. One engine from the opposite direction had been derailed by a slide. At another place the buttment at the end of a bridge had been undermined by flood water, and taken the track with it at the end of the bridge. Then, it was necessary to change from a comfortable gasoline coach to an out-of-date train, which was waiting. Repairs of damages from slides are effected quite speedily. However, the American Consul states the railway has been out of commission for through traffic about one-third of the time since last May.

A visit this morning to the freight yards of Yunnanfu gave me the impression of a comparatively small freight business. There were about forty freight cars in the yards, and about thirty-five large pieces of Government shipments, those in boxes showing signs of much weathering. Their appearance was similar to the ones I saw in Haiphong. A few boxes were marked for Chengaha, and I can readily see how some of the equipment may not be wanted at its original destination. Mr. Kung, representative of the Southwest Transportation Company, states that very little Government war supplies have been shipped to Yunnanfu, only a few hundred tons in all. He stated that it was mostly going via the Kungai border; but as indicated in my previous report, little has gone that way either.

The Yunnan railway is quite well constructed, but with greater expenditure curves could be eliminated and more and better bridges built. It is a railway of very limited capacity, and the frequent slides and wash-outs are a great drawback to its efficiency.

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OCT 25 1938

DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT
QUARTERMASTER GENERAL
WASHINGTON, D. C.

GROUP MEETING

September 29, 1938.
9:30 A. M.

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

H.M.Jr: George, I have a job for you which might - certainly be interesting - that might show up something. I wish that you'd take that - what I call my - your trial balloon chart, on the spending of P. W. A. funds.....

Haas: Yes.

H.M.Jr: and go back as far as you can and take costs of building.....

Haas: Costs of building.

H.M.Jr: of building, plus what happened to building contracts let when P. W. A. reached its last peak. I mean, did P. W. A. shut - oh, I mean, were they responsible for shutting off, in April, '37, F. H. A.'s. program? See?

Haas: Yeah.

H.M.Jr: Huh?

Haas: I see it.

H.M.Jr: Now, Fisher, over at F. H. A. is awfully good.

Haas: I'll work with him.

H.M.Jr: If - for instance, Stewart McDonald ought to be worrying about it, see, and if he saw/your chart, on

- 2 -

Public Works is going to reach a peak next June, and if we could show, the last time Public Works reached its peak

Haas: It choked it.

H.M.Jr: it choked F. H. A., maybe we could go a little - may be a month or two ahead instead of eighteen months behind.

Haas: Uh huh.

H.M.Jr: Huh?

Haas: Yes, that's fine.

H.M.Jr: Fisher's awfully good, and I'd consult with Lubin too. Certainly Stewart McDonald began to get very blue in May, '37, and the thing that choked him off was the building thing. Just what was the status of Government spending at that time, see? And how much was it to blame for choking off F. H. A.?

Haas: Uh huh.

H.M.Jr: And then you take your figures - that Public Works reached its peak next June, maybe we could get something, and maybe we'd have something to show the President.

Haas: Have you any objection to Fisher or Lubin seeing those estimates?

H.M.Jr: I'd like them to, and inasmuch as the National Resources Board is interested in the economy (words misunderstood) Let them take a look at this too.

White: They also made a study of housing costs at that period. Lubin will know some of it, and they have a man in the Department of Commerce that made a special study with reference to the extent in which wage costs and material costs entered into the rising costs. Those studies are available; you may not have to see the man, but the studies are available.

H.M.Jr: You get my idea?

- 3 -

White: Oh yes.

H.M.Jr: I don't know that it will show anything, but certainly we ought to learn something by the mistakes we've made. I - personally, I am just doing this by hunch. I think we ought to do something. I mean, Stewart McDonald ought to get worried about it; right now he is

Oliphant: There is a letter with regard to which of those materials ran up at that time and whether or not they were controlled.

H.M.Jr: I am not particularly interested in that, at this moment. I don't want - just like when we had that other study, the boys tried to spread this thing out so that it just covered the world. I mean, I don't - if you don't mind, I'd just like to - let's see if there is anything to this idea, see?

Haas: Uh huh.

H.M.Jr: Then if it is immediate; say this is a monopoly - I am - frankly, I'd just like to - I'm looking at it as a fiscal policy; I mean, have I got something to go to the President and run up a danger signal, and say, "If you want F. H. A., the same cycle to go through, this is what's going to happen, based on past experience."

Haas: I have worked out a study which shows the relationship of F. H. A. figures to the total contracts awarded. They are constantly getting a wider part of the business, see?

H.M.Jr: But I want to again say, I am - I am - I want to look at this

Haas: Fiscally.

H.M.Jr: fiscally. If you get something that looks interesting, of course, we make it available to the Monopoly Committee, but I - I want to do it - I don't want to give you such a big job.

Haas: I see your point.

- 4 -

H.M.Jr: Riefler told me yesterday of a job Moody's did for ten thousand dollars - a study on bonds. Do you know about that?

Hanes: No.

H.M.Jr: I wonder if anybody else knows about it? This economist - Woodward - took ten thousand dollars and went back and studied - I haven't got the exact figures - seven or eight hundred Triple A bonds they have recommended since 1918, and seven or eight hundred Triple B's, just on their own recommendation, to see how good they were.

Upham: Probably Double A's.

H.M.Jr: Huh?

Upham: Probably Double A's.

H.M.Jr: It is so interesting, it's developed now.....

Upham: Woodward told me about it.

H.M.Jr: that they are going to spend six hundred thousand dollars now.

Haas: That is a part of that.

H.M.Jr: Six hundred thousand dollars - a flock of them.

Haas: Isn't that that National Bureau?

H.M.Jr: But this thing I am asking for, again I want something fast, and then to see whether there is anything to it.

Haas: We can get something fairly rapid, to see what bearing this fiscal operation has on this, and that's your point.

H.M.Jr: And if you say to me, "Well, Mr. Morgenthau, fiscally you can't draw any conclusions," I'll forget it, but if there is something to it, I want to develop it.

Haas: Fine; fine.

H.M.Jr: Huh?

Haas: I'll get right on it.

H.M.Jr: Has anybody got anything? If anybody has anything on that, will they give it to George, please.

Isn't Fisher very good?

Haas: He's very good; so is Lubin, too; I'll get in touch with some of the people who have worked on the National Resources Board.

H.M.Jr: It says here, "Building material prices continue to work upward steadily but slowly. Department of Labor's building material price index currently stands at 89.6% of 1926 average, gain of 1.1 points over low level of past several years established in July this year." So it hasn't gone up much.

Herman?

Oliphant: (Hands H.M.Jr. a memorandum.)

H.M.Jr: (Reads memorandum.)

"Radio Station. Admiral Waesche is negotiating with General Craig for permission to use a section of Fort Belvoir, Virginia, as location for the proposed radio station. The section of land lies along the northeast boundary of Fort Belvoir. Admiral Waesche states it would be a little optimistic to hope that the matter will be closed out this week, but he is confident that it will be the first part of next week, and that he will obtain what he wants. General Craig has advised him that he personally is doing everything he can to expedite the allotment.

"Fort Belvoir is located on the Washington - Richmond Highway, Route No. 1, approximately five or six miles south of Alexandria."

That sounds very good.

(Nods to Mr. Gibbons.)

Gibbons: (Nods "Yes.")

Oliphant: That's all.

H.M.Jr: Is this legal?

Oliphant: That's practical.

H.M.Jr: (To Mr. Gaston:) Get moved?

Gaston: Doing it, today, in the rain. Did some of the packing job yesterday.

We have the capital movements available for distribution in my office, and Harry has given Archie a draft of a possible release, for Archie to supply the figures, and I suppose we could get those very readily whenever you give the word you want to do it. Would you like to see the finished release today?

H.M.Jr: Yes; I could do it right after ten o'clock. Is it ready?

Lochhead: Well, the figures Harry gave me are not real figures, but just a form. The figures, you'd have to get from Daniel Bell. He releases those; I think we can get them fairly quickly. It's a question of how far you want to go in your release.

(Mr. White and Mr. Lochhead both talking together.)

H.M.Jr: Have you got the form?

White: If you agree with us, it's very simple; if you want to go into greater detail

H.M.Jr: Can you bring it in right after this meeting?

Lochhead: Yes.

H.M.Jr: What else?

Gaston: Oh, ah - rumor circulating yesterday - wild rumor - that the Treasury was preparing to make an announcement about pegging Government bonds.

H.M.Jr: Who's pegging?

Gaston: The Treasury was going to peg Government bonds.

- West: Like the British.
- Gaston: It may come up today at the press conference.
- H. I. Jr: While we're on the press conference, Harry, can you refresh my memory with what you wrote for the President to sign, on the Pittman plan, on silver for cotton?
- White: The proposal, you remember, was to exchange wheat and cotton for silver at a certain ratio which he gave,
- H. I. Jr: Ten to one.
- Gaston: Ten to one on cotton; he's figuring on the monetary value instead of the Treasury price.
- White: Not even that; he also had a different price for silver if it were exchanged for cotton and another price for silver if it were exchanged for wheat, because he established a given ratio in each case, and the result would be that a person having wheat - a person having silver, would be able, according to his proposal, to sell us silver at a much higher price than he could sell it in the world market if he were to buy wheat with it, or a person having silver could buy cotton and pay for it in silver which would be worth a much higher price than the world price for silver. It would make possible arbitrage operations so that everybody would grab as much silver as they could; buy the wheat and cotton and then sell the wheat and cotton on the market.
- H. I. Jr: Are you sufficiently familiar - let's say, take a pound; say cotton was ten cents and silver forty cents, how would it work out?
- White: The way he would have it, I think silver - let us say - would be around eighty or ninety cents, providing that eighty or ninety cents were spent on cotton. So that anybody having silver could get only forty cents in the world market, but he could get eighty or ninety cents if he took cotton for it, at ten cents a pound, so that he would bring his silver here, get cotton for it, and sell the cotton in the world market. Even if he had to sell the cotton at a loss in the world market, at eight or nine cents, it still would leave him a

- 8 -

profit because he was getting a price for cotton he could not otherwise obtain.

- Gaston: The plan in the paper this morning is quite different on cotton.
- H.M.Jr: I think he's very modest. What I don't like - I never before got a H. O.-A. L. joint memorandum; I don't like it.
- Oliphant: What's that?
- Lockhead: Senator King called last night... (words misunderstood.) I sent it right up to the Secretary.
- Oliphant: He wants to shut off Mexican silver.
- H.M.Jr: I thought at the press conference I'd simply say, "Gentlemen, I never compete with Senator King on silver," - something like that. I am not going to get in on it, but I don't get this H. O.-A. L. thing.
- White: Why is it coming up at the press conference?
- H.M.Jr: It's in this morning's paper, and then I got that H. O.-A. L. memorandum; it's a new one, and King spoke to (looking at Mr. Upham.)
- Upham: Upham is the name.
- H.M.Jr: Upham, and Upham called up, with tears in his voice, and said, "If I handle Diggs, will you handle King?"
- Upham: (Laughs.)
- H.M.Jr: So I said, "That's a fair bet; I'll take care of King."
- Lockhead: Well, King has twice tried to talk to our office on silver.
- H.M.Jr: Well, why don't we buy - do we buy the silver direct from Mexico; that's what he wants to know.
- Oliphant: He tried to talk to me, and got Bernstein. Bernstein prepared something, and I got it through Bernstein. Did it go to you (Mr. Lockhead)?

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- Lochhead: It came to me, with your initials on it, last night.
- H.H., Jr: Is there any reason why King can't be told how much silver we get from Mexico?
- Lochhead: No, I don't think so; I think what's in King's mind, if you can cut out buying silver from Mexico I don't know whether he wants to know anything, whether he wants an explanation, or whether he wants to sound off.
- H.H., Jr: How long will it take to get a memorandum for him? Can you get a memorandum by Monday, saying how much silver we've bought this year?
- Lochhead: We can give him the figures of how much silver we've bought from Mexico. That only comes within the first three months of this year.
- H.H., Jr: Why don't I tell him we're not buying silver?
- Lochhead: We're not buying silver from Mexico.
- Oliphant: What he is really asking you is, why don't you quit buying silver from Mexico; keep on buying newly mined silver, and keep buying silver from other parts of the world, because the Mexican Government has victimized his fellow Mormons and their lands down in Mexico.
- H.H., Jr: He told me fifty per cent of it. I have talked to him on this thing, and I told him we couldn't distinguish on it because of the treaty as between Mexican silver and Peruvian silver.
- Lochhead: If we stop buying Mexican silver
- H.H., Jr: I've got to make good to Upham.
- Lochhead: Mr. Morgenthau, if we stop buying Mexican silver that may not be a terrific punishment to Mexican silver, because Mexican silver now is selling at a tremendous discount.
- Oliphant: It will go to London and we'll get it anyway.
- Lochhead: It would not mean if we discriminated against Mexico - it would not mean
- (Mr. Oliphant and Mr. Lochhead talking together.)

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Lochhead: It wouldn't make much difference; may have to take a slight discount on it, that's all.

(A representative from Mr. Moffat's office, in the State Department, brought in an envelope and delivered it to H.M.Jr., and said, "I was asked to say we have been so rushed, there has been no time for paraphrasing at our office. I am sorry.")

H.M.Jr: I shall personally keep it, and I'll return it; I'll keep it right in my hand. Thank you very much; I am very much obliged."

H.M.Jr: Well, this is what I think I'll do. You people - I'll call up Senator King now, and say, "My dear Senator, since I've talked to you last, there seems to be a little confusion, and if you'd write me a letter - what you'd like to know - I'll try to give you the information on it. Would you mind putting it in a letter?"

Olyphant: Well, he's trying to get some material to sound off on. The proposition is, he wants you to stop buying Mexican silver for the sake of the Mormons whose farms have been victimized down there.

H.K.Jr: That's all right. Maybe he will take care of one Mormon for us.

Gibbons: Maybe. I was asked yesterday to talk to him.

H.M.Jr: I'd do a lot on silver for one Mormon. I'd go quite a way. (Laughter) How about you, Steve?

Gibbons: My God! I'd give them Mexico. (Laughter)

H.M.Jr: Well, let's just see - somebody's got to talk to this fellow; I'll talk to him. (Over telephone:) Senator King. If he's not there leave word I called, please.

Well, I'll try my best to stall.

Lochhead: I can give you the information, but I have never Just as a general rule, anybody like that who comes in, I can't say anything.

Olyphant: I think that Archie has the answer, practically. It is not possible to refuse to buy Mexican silver

because it will move to - silver ore will move to other markets and we will get it anyway.

H.M.Jr: When did we stop buying directly?

Lochhead: About three months of this year - somewhere in March.

Gaston: We completed the March commitments.

Lochhead: We completed the March commitments.

H.M.Jr: Well, how far did I get around. George?

Haas: I have nothing this morning.

H.M.Jr: Anything on the

(Telephone:) Hello. Thank you.

Senator King isn't in.

Anything on the Chinese thing?

Haas: Their situation is that last night they had all the information they wanted; they were going to get in touch with their Government and then they were coming back after they heard.

H.M.Jr: Okie dokel John?

Haas: I have nothing, Mr. Secretary.

H.M.Jr: Good. (Nods to Mr. Gibbons.)

Gibbons: I'm giving you a memorandum on Senator Thomas; I have talked to him three times; he says the emergency is over, there will be no war, so he wants, if we do anything, to have the President send for that man because he is - that is the only way it could be done.

H.M.Jr: Send for who, the head of the Mormon Church?

Gibbons: No, the old judge. The Mormon Church can't do anything on it. He said, "For God's sake, don't mention the Church." I have talked to the President of the Church and they can't do anything. The judge and his family are the only people with any

money at all out there supporting him, and they are all against the President (of the Church ?) and if he were let out at this time, the President wouldn't care, as he's not standing by the President at all.

H.M.Jr: Is there any election or anything.

Gibbons: He's up for re-election.

H.M.Jr: Who?

Gibbons: Thomas.

H.M.Jr: Oh.

Gibbons: I am giving you a memorandum,

H.M.Jr: Oh.

Gibbons: so,

H.M.Jr: I see.

Gibbons: He wanted me to have Mr. McIntyre to send for the judge.

H.M.Jr: We'll watch and see what happens in Munich.

Gibbons: He said, "Of course, I am"

H.M.Jr: The play will be Munich to Washington, Washington to Utah, and then back.

Gibbons: Yeah. He's perfectly satisfied that if there was - this emergency arose, that would be an excuse, see?

H.M.Jr: All right. O. K. All right, Steve, anything else?

Gibbons: That's all.

H.M.Jr: Archie?

Lochhead: Well, as I told you before, the tension is off for the moment and that also is the same in the silver market, which came back two cents this morning; it's now about forty-one and a half cents. Everything is quiet in that market again now.

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Gibbons: I heard an announcement on the radio last night - I haven't had time to check on it - that a German boat left Puerto Rico

H.M.Jr: We had that yesterday morning. I mean, the Coast Guard is doing all that. Yes, that is quite true.

Gibbons: Yeah.

H.M.Jr: You got that thing on the stabilization fund?

White: It's a very brief statement.

Lynchhead: I'll get that out now, and have it ready when you finish here..

H.M.Jr: I'll be through in three minutes. Harry?

White: Do you want to take up Portugal soon, or do you want to wait until it comes before you for action?

H.M.Jr: Have you got a copy of the joint memorandum?

White: That is what made me ask the question.

H.M.Jr: I think you ought to give me a little memo on the financial status of Portugal.

White: We have that.

H.M.Jr: If you want to give it to me I'll forward it to Mr. Jones for his study. Have it in that form and have a letter written; say, "Jesse, this is for your confidential information" - the present financial status of Portugal. Huh?

White: All right. We have a much longer memorandum, but we will boil it down.

H.M.Jr: All right; please. Is it just for my information? How is - what is the - how would you rate Portugal's finances?

White: Pretty well.

H.M.Jr: Is she good for five million?

White: It depends on the political situation, but it is a better risk than many countries - most countries.

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H.M.Jr: I thought you were going to say, "... a better risk than Germany."

White: No.

Oliphant: No. Did you see her position in Geneva yesterday?

H.M.Jr: Pardon me?

Oliphant: Did you see her position in Geneva yesterday?

H.M.Jr: Portugal's? What did she do?

Oliphant: Lined up with(words not understood) Franco

White: That is, in the over-all picture, she is a bad risk; in the narrow, financial picture, she is a better risk.

Gaston: Ruled by the Tory British.

H.M.Jr: Anything else?

White: No.

H.M.Jr: George, I think if and when you have that thing, I'll present that myself to the National Resources Board.

Haas: O. K.

H.M.Jr: But if they have anything on it, use their material, but when we have it, I'd like to present it myself.

Haas: In other words, I won't discuss it with any of their people?

H.M.Jr: Oh yes, but the formal presentation - I'd like to do it myself. In other words, work with anybody in the Government who can give you anything. Is that broad enough?

Haas: Fine.

H.M.Jr: Are you through, Harry?

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White: Yes, I am through.

H.M.Jr: Cy?

Upham: In line with what Herbert said about pegging the United States bonds

H.M.Jr: Excuse me, he said sterling, didn't you?

Gaston: No, Government bonds. That was the story.

Upham: a Washington bond man told me last night there is a new set of inquiries from banks to them as to the Government bond situation, and whether the Reserve Board is, and banks are, prepared to take their Government bonds at par. The banks are getting a little nervous about it.

H.M.Jr: Wasn't possibly that inquiry maybe twenty-four hours old?

Upham: It was yesterday, and the day before.

H.M.Jr: Well, I wonder how they feel this morning.

Upham: All right.

Gaston: It was Tuesday I heard the rumor on sterling - we were going to peg; and yesterday I heard the rumor we were going to peg bonds.

H.M.Jr: I'm going to do a little bragging at the press conference..... (speaking too low to hear.)

Upham: It may help.

Lochhead: There was a little article the other day in the American Banker that I thought was good. It was a little strange - the Government bonds not acting the way they should - the banks starting in to realize that a fluctuation of a couple cents didn't mean much, and secondly they said the support is coming in to the market now more quickly than it did before; it was giving the banks confidence there was somebody watching that market and that has kept them from trying to dump. I thought that was a rather interesting comment, coming from a magazine like the American Banker.

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H.M.Jr: Anything else?

Upham: No sir, that's all.

H.M.Jr: If White, Lochhead, Hanes, Gaston, and Oliphant will stay a minute, please.

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JM

222A

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

G-2/2651-II-90

M.C.

September 29, 1938.

MEMORANDUM NO. 24 FOR THE CHIEF OF STAFF:

Subject: The present European situation to
10:00 A.M., September 29, 1938.

General Situation. The dramatic events of the past twenty-four hours are reasonably clarified in the press. These events, more like fiction than fact, seem incredible largely because they disclose so suddenly the devastating change which the Fascist revolution has wrought in conventional European diplomacy. The development of events can no longer be obstructed in stuffy chanceries. Heads of states make momentous decisions and fly by airplane from conference to constituency, or party chiefs, and back again, while military concentrations take place with the same relative speed.

Mr. Chamberlain was interrupted in his solemn speech in Parliament, before a distinguished gallery assembled to hear that war was upon them, by a message from Hitler again inviting him to confer. Mr. Daladier replaced a reasoned radio speech to the French people, justifying imminent war, by a statement that there was yet another chance to avoid it. Cable and telephonic appeals for peace directly from the heads of governments to the head of the German Reich, who alone could postpone the crisis, were part of the new technique in diplomacy necessitated by the dynamism of Nazism and Fascism.

Hitler under terrific pressure from other nations, and perhaps from his conservative advisers as well, compromised with his own declared finality. That the Dictator has hesitated in a crucial decision is clear. Nobody can say what specifically caused him to withhold his orders for the march on into Czechoslovakia and launch his invitations for another conference. The reasons are doubtless cumulative. He was probably finally convinced that Britain was prepared to join France in the event of a forceful entry into Czechoslovakia. This meant a long general war which Germany was not prepared to face.

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Manifestations, governmental and popular, of world opinion against resort to war were pronounced. In this the people of Germany themselves were not an exception. War guilt had unquestionably been shrewdly and surely shifted onto Germany. Italy's lack of enthusiasm and hesitancy in mobilization indicated that Germany might find herself alone in a general war.

To Mussolini goes the honor of being the intermediary. This was satisfactory to British diplomacy and face-saving to Hitler himself. It was in keeping with Mussolini's long-held aims to effect the solution of European problems, problems which had never been squarely faced at Geneva, by arbitrary arrangements among the four large powers. However, without detracting from Mussolini's part in postponing the clash, it is to Sir Neville Chamberlain's broad vision and tireless patience that the world must attribute a peaceful solution, if such emerges from the still critical situation.

But, finally, if the European war is avoided, or postponed, it is believed that Britain's categorical but non-provocative assurance of support to France, and the determined war measures undertaken in these two nations are the fundamental factors in causing Hitler to withhold the abrupt and forceful entry into Czech territory. Hitler's conviction that Germany alone was faced by a general war is believed to be responsible for the immediate possibilities of peace afforded by the Munich conference. It is only a continuation of firmness of Britain and France, with no relaxation in building up the military resources of the two nations, which will permit a sure transition from the system of solving European problems by military intimidation to that of peaceful negotiation. And if real peace is to result, there must be the same appreciation on the part of the democracies for the need of correcting acknowledged maladjustments as Mr. Chamberlain has recently shown.

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Military Situation. The following information is, in substance, taken from Military Attache or State Department cables or the press, as indicated.

Great Britain -

From M.A., London, received 1:55 P.M., September 28.

Naval mobilization ordered; contemplate complete readiness. Strategic mine laying is proceeding. Expected that Italy will attempt seizure Egypt at once. General Ironside left here by aeroplane yesterday to assume command all Middle East forces. Italian Ambassador next door has been shipping all equipment home yesterday and to-day. As result of Hitler's last minute decision just received it is probable that current preparations will be continued but that no new ones will be started pending Munich conference.

France -

From M.A., Paris, sent 1:35 P.M. September 29.

An estimated 100,000 reservists of the territorial antisircraft defense system have been called to the colors. Reservists with colors now total 600,000. The withdrawal 30 kilometers from the Czechoslovakian border of Hungarian troops is reported. Eighty to ninety per cent completion of German mobilization reported.

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Germany -

From M.A. through State Dept., Sent
3:00 P.M., September 28.

Authoritative German military sources state that the idea of the War Ministry for a satisfactory solution would be the occupation of the Sudeten region during the critical period by the British Legion pending further negotiations.

From M.A., Berlin, received 1.25 P.M.,
September 28.

As yet no general mobilization has been ordered. The 23rd Division stationed near Berlin has left its garrison and is believed to be the motorized column reported in last cable. During night of 26th a long motorized column moving east was seen between Weimar and Erfurt. Between Linz and Vienna a strong force including elements of the VII and XVII Corps is reported in a position of readiness north of the Danube River.

From State Dept. Berlin, Sent 8:00
P.M., Sept. 28.

Henderson says that in his conversation with Hitler this morning the Chancellor was much more moderate, that they had been working on an idea of German troops occupying the major portion of those territories predominantly Germanic, with British legionnaires to occupy those territories whose fate is to be decided by plebiscite.

From M.A., Germany. Sent 1:35 P.M.,
September 29.

During the night 28-29 there passed through Berlin headed south for an unknown destination, motorized columns $1\frac{1}{2}$ hours long belonging to 2nd Corps.

Italy -

From M.A., Rome. Received 7:18 P.M.,
September 28.

The same conditions prevail in regard to military.

CONFIDENTIAL

From Press - Unconfirmed.

Unconfirmed reports state that Italy, angered at General Franco's neutrality in the European crisis, will withdraw all Italian troops from Spain immediately.

The Under Secretary for Foreign Affairs assures Polish and Hungarian Ambassadors at Rome that Premier Mussolini (at Munich) will press for consideration of Polish and Hungarian minorities in settling the Czechoslovak crisis.

Poland -

From M/A, Poland. Sent 7:25 P.M., September 28.

The border is closed and all communication with Prague has been interrupted. The partial mobilization of four classes, 1902 to 1905, has been provisionally ordered for October 1. It is believed that this is a defensive measure. Poland is resisting Czechoslovakian mobilization by means of minor engagement. Although the situation is critical it is the belief of the General Staff that a major war may still be avoided. Poland is optimistic over present discussion of minority question. In any eventuality Poland will try to remain neutral at first and will limit her action to her own frontier and Teschen Silesia.

Brussels -

From M/A, Brussels. Sent 1:35 P.M., September 28.

Government maintaining staunch policy of independence. Troops of all arms being moved by General Staff to readiness positions. Eastern frontier guarded heavily. Extensive requisition of horses and motor transportation continues. Regular troops at full strength. More reservists called daily. Measures for defense are being taken with calmness and efficiency. In the coastal areas and near Ghent and Antwerp some concentrations have been made.

Netherlands -

From State Dept. Sent 9:00 A.M., September 28.

This morning the Ministry of Defense called up 25,000 reservists for frontier duty, mostly anti-aircraft troops.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau
FROM Herman Oliphant

September 29, 1938

Jones' suggestion, that we handle the China wheat loan by having the Surplus Commodities Corporation sell the wheat to China, take China's notes therefor and discount those notes with the Export-Import Bank without recourse, is all right. There is ample legal power to do this and it would seem to have some of the psychological advantages suggested by Jones, which makes the transaction more like a sale of wheat and less like a loan to China.

Our original plan to have the Export-Import Bank advance the credit direct to China was worked out when we were not thinking about wheat, but critical and strategic war materials.

TREASURY DEPARTMENT

224

INTER OFFICE COMMUNICATION

DATE September 29, 1938

TO Secretary Morgenthau

FROM Mr. Haas 

Subject: Proposal to sell China 70 million bushels of wheat on credit

Meeting in office of Dr. Feis

Present: Jesse Tapp, President, Federal Surplus Commodities Corporation
Dr. Feis, Economic Adviser, State Department
L. A. Wheeler, Chief, Foreign Service Division, Bureau of Agricultural Economics
Mr. Haas

Mr. Tapp opened the meeting by explaining the proposal and the motives behind it, namely, the advantage which would accrue to the United States in assisting China at this time and in removing surplus wheat from the American market.

Dr. Feis' first reaction was that Secretary Hull would probably feel the same as he has in the past on proposals to aid China. He said that Mr. Sayre would probably "pass out" if the proposal were outlined to him, because of the difficulties which it would produce in the trade agreements work.

Dr. Feis mentioned that the proposal appeared to have all the disadvantages of an outright loan to China, but in addition some other disadvantages, namely, that Canada, Australia, and Argentina would protest vigorously on having the wheat dumped on the world market.

I pointed out that the Department of Agriculture's present plans called for a subsidized export of the same amount of wheat. Mr. Tapp and Mr. Wheeler both agreed that that was essentially the case, but their apprehension was that the

Secretary Morgenthau - 2 -

Chinese, being in desperate need of funds, would liquidate the wheat more rapidly and disturb the whole wheat market situation, which they said in the long run would be a disadvantage to the American wheat producers and raise havoc with negotiations for an international wheat agreement.

I mentioned that Canada had an export subsidy on wheat.

Mr. Tapp and Mr. Wheeler admitted this and said that they were using that point in their attempt to quiet the Canadian opposition to the recent subsidizing of United States wheat exports.

I commented further that the Department of Agriculture might be surprised to find that carrying out such a proposal as is now being discussed might promote and hasten the time when an international wheat agreement could be effectuated, adding that the other wheat producing countries have been continually playing the United States for a "sucker," and even though we talked a good deal at the international conferences about the desperate things that the United States could well afford to do, these statements have never resulted in any action. Dr. Feis indicated that there might be something in that.

Dr. Feis then stated that the proposal might be acceptable to Secretary Hull if the transaction were carried out on a pure barter basis, that is, if the Chinese could find a country, for example, Great Britain who would take the wheat in exchange for munitions or something that China wished to purchase. Such an arrangement, he thought, would be less undesirable from their point of view, as another country in addition to the United States would be involved.

Mr. Tapp said that such a plan would be also more satisfactory from his point of view as it would be much less likely to disrupt the world wheat market.

Dr. Feis ended the discussion by saying that he was not very hopeful that Secretary Hull would feel much different

Secretary Morgenthau - 3 -

on this proposal than he has on similar proposals in the past, but he, of course, did not know.

Mr. Tapp explained that the purpose of this meeting was merely to inform Dr. Feis with regard to the proposal.

Mr. Tapp told me after the meeting, while walking over to the Treasury, that pressure to put this proposal through may result in the State Department's finally suggesting a more direct loan to China.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE: September 29, 1938

TO: Secretary Morgenthau

FROM: M. A. Harris

Sales in the market today by
the Federal Reserve System

1 1/8%	Treasury notes 6/15/43	@ 100.8	\$ 1,000,000
1 1/8%	"	" @ 100.10	500,000
1 1/8%	"	" @ 100.12	500,000
1 1/8%	"	" @ 100.14	510,000
1 1/8%	"	" @ 100.16	1,500,000
2 1/2%	bonds 1949/53	@ 100.29	100,000
2 1/2%	"	1950/52 @ 100.27	250,000
2 1/2%	"	" @ 101.	100,000
2 1/2%	"	" @ 101.2	300,000
2 1/2%	"	" @ 101.4	125,000
2 7/8%	"	1955/60 @ 103.	500,000
2 3/4%	"	1956/59 @ 102.1	250,000
2 3/4%	"	1958/63 @ 101.10	500,000
2 3/4%	"	" @ 101.18	100,000
			<u>\$ 6,135,000 *</u>

* The excess of sales over previous purchases amounts to \$1,500,000. It is assumed that this difference will be made up by purchases of a like par amount of short term securities before the end of the statement week.

A short review of today's market

Prices of bonds and notes advanced steadily throughout the day to close at their highs. With the exception of the three shortest issues, Treasury bonds finished the day with gains ranging from 16/32nds to 26/32nds and Treasury notes were up 3/32nds to 10/32nds. The new 2 1/2% bonds were quoted 101.13/32nds bid, 101.15/32nds asked, up 26/32nds at the close and the new 1 1/8% notes 100.15/32nds bid, 100.17/32nds asked, up 10/32nds. The low price yesterday for the bonds was 100.4/32nds and for the notes 100.1/32nd.

Buying was centered largely in the new notes and the intermediate and long bonds. It was reported that National City Bank of New York, the Shawmut Bank of Boston and the Continental Illinois Bank of Chicago (for a customer) were buyers of large blocks, while banks throughout the country were buying in small lots. The Manufacturers Trust Company of New York was reported to have switched more than 10 million of the 2 3/4s of 1958/63 for 2 3/4s of 1948/51 and 2 3/4s of 1951/54. Insurance companies were not in the market and only one company was reported to have made inquiries.

TREASURY DEPARTMENT

229

INTER OFFICE COMMUNICATION

TO Secretary Morgenthau
 FROM A. Lochhead

DATE: September 29, 1938

Close SEPT. 28, 1938

GOLD HELD IN LONDON
 \$115,000,000

Shipments arranged:

<u>Sailing</u>	<u>Steamship</u>	<u>Amount</u>
Sept. 30	Pres. Roosevelt	\$20,000,000
Sept. 30	American Merchant	10,000,000
Sept. 30	American Shipper	10,000,000
Oct. 1	Washington	25,000,000
Oct. 3	Somers	25,000,000
		<hr/>
		\$90,000,000

AL:ek

MY

GRAY

London

Dated September 29, 1938

Rec'd 10:30 a.m.

Secretary of State

Washington

1083, September 29, 1 p.m.

FOR TREASURY FROM BUTTERWORTH.

Although the first flush of enthusiastic optimism has died away the city has recaptured some sense of confidence and is now inclined to look upon the chances for peace as better than even. In this connection the tenor of the concluding paragraph of the editorial in today's FINANCIAL TIMES may be of interest:

Assuming that this last effort, as Mr. Chamberlain called it, to avert war is successful, it is evident that the world will not quickly after the upheaval of the past days and weeks return to normal. Czech frontier rectification may set others in train which will not be accomplished without tension and danger. Also, as Mr. Chamberlain revealed, the question of the colonies remains in the mind of Herr Hitler for future settlement. The Economic and political balance of Europe is being altered with consequences which cannot be foreseen, and, at best, the transition back from a semi-war to a peace footing will not

be

MY -2- 1083, September 29, 1 p.m. from London

be easy. The events of the past week must have taken the trade cycle further on the downward path. The recovery should be all the more rapid when peace is assured. Today's meeting gives reason a last chance with peace at stake and four resolute men bent on striking a just balance on great issues.

All types of British securities are advancing though the amount of business is not yet large. Likewise the dollar opened offered at 4.73 and later went to 4.74 with the British authorities acquiring substantial amounts. Of the 496 bars offered at fixing at 145 shillings 10 pence the British authorities only had to take some 260 and post-fixing gold was bid at 146 shillings $\frac{1}{2}$ pence.

KENNEDY

RGC
GV

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1944

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SEP 29 1944

OFFICE CORRESPONDENCE

DATE September 29, 1959.

CONFIDENTIAL FILES

SUBJECT TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

L. W. Knoke

I called Hawker at 12:25. They had had a very quiet day in London, he said, with dollars fluctuating between 4.72 1/2 and 4.75 (since London closed the rate had gone up to 4.76 1/4). They proposed to send us new sterling gold prices of 145s 4d and 146s and sterling dollar limits of 4.71 and 4.77. While we were talking sterling went to 4.78 here and when I advised Hawker accordingly he changed his limits to 4.72 and 4.76.

He then referred to the Somers and his suggestion by cable #676 that he could ship \$35,000,000 instead of \$25,000,000; for physical reasons the shipment could not be made until Monday, October 5, to arrive in Portsmouth at about 5:30 p.m. As regards the increase, I told him that I would, of course, have to discuss that matter with the Treasury first but I could say right now that personally I was against it as, in my opinion, that would be too much on one boat. However, I would let him know by cable tonight.

Hawker asked how much gold we had received for his account from Canada today and I replied \$10,000,000. He then told me of the other arrangements he had made to put his account in funds which otherwise, as a result of the Manhattan's delayed arrival, would have been short.

I referred to the two shipments per the Nashville and the Honolulu and asked would their custom house figures show these as exports. Hawker replied "No," although by not letting them go

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE: September 29, 1938.

CONFIDENTIAL FILES

Subject: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

L. W. Knobe

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into the customs figures they had broken the law. It was now their intention to show them possibly in twelve months' time but in the meantime the law had been broken. I asked whether any papers had been issued, such as consular invoices. Hawker replied they did not approach our consul but just took the gold down to the boat, got a bill of lading from the skipper of the boat, and the captain's receipt. The whole thing had been kept out of the papers and out of the customs figures and they were very much pleased with the results so far.

I referred to the fact that we had reduced our gold price last night to 34.60 and asked him not to worry about that. This change had gone through very much as an automatic matter following a reported increase in the war risk insurance rate. At any rate it didn't make much difference under present conditions whether it was 34.59 or 34.60. What I wanted him to know was that the order was there for them to use without hesitancy and that our Treasury had not changed its policy. Hawker replied that they always looked upon these orders to be used as an emergency measure and that it was their intention to avoid using it unless absolutely necessary and it was their belief that they were doing the right thing.

Hawker called me back at 12:55 to ask how the sterling

FEDERAL RESERVE BANK
OF NEW YORK

234

OFFICE CORRESPONDENCE

DATE September 20, 1950.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

FROM: L. W. Kneke

3

market was. I told him 4.78 had been paid and the market seemed to be resting there at the moment; we had a selling order in at 4.78. Hawker replied he thought it would be a bad thing to let the rate go too high unless there was some definite further good news but they would very much like us to prevent the dollar from going higher than 4.78. I told him we would be guided accordingly.

LWK:KW

RECEIVED
SEP 21 1950
FEDERAL RESERVE BANK
OF NEW YORK



HEADQUARTERS

ADDRESS THE COMMANDANT, U. S. COAST GUARD
AND REFER TO NO.

235

TREASURY DEPARTMENT

UNITED STATES COAST GUARD

WASHINGTON 29 September, 1938.

MEMORANDUM FOR THE SECRETARY OF THE TREASURY:

At 1:15 a.m. today, our Fort Hunt Monitoring Station received a message sent from the Norddeich German radio station to station "DJVP". The call letters DJVP are unlisted in the radio and shipping publications. The message sent in plain German and translated is substantially as follows:

"Urgent -- Call in at a Netherlands West Indian port."

During the night the Norddeich German radio station sent a message in 5-letter code to the following German vessels:

WOLFRAM	HERMONTHIS	TAIUS
ESTE	PIONEER	LASBECK
GRANDON	PERNAMEUCCO	PARANA
PORTOS	RHAHOTIS	BARMBECK
MONTVIDEO	PHOENICIA	GENERAL SAN MARTIN
WESTFALEN	PALATIO	

The Norddeich German radio station also sent a message in code to the following unlisted radio stations (vessels) believed to be German:

DJWK	DJWC
DJXD	DJVP

The German Steamship ESTE listed above sailed from San Pedro, California, for Bremen on September 26th. The other vessels above listed, are, according to our maritime information engaged in trade between African, Central and South American ports and Canadian ports.

Information received at 9:50 a.m. today is to the effect that the agent of the German vessel FRIDA HORN, which departed from San Juan yesterday, hurriedly, received a cable from Hamburg advising him that the FRIDA HORN was on her way back to San Juan, Puerto Rico.

R. R. Waesche

R. R. WAESCHE,
Rear Admiral, U. S. Coast Guard,
Commandant.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: September 29, 1938, 3 p.m.

NO.: 1645.

Reference is made to telegram No. 711 of September 28 from the Department.

This morning Cochran visited at the Ministry of Finance. He discussed the general situation with Rueff, and talked with Couve de Murville later on.

No plans had been made for a moratorium if a general war should break out, Rueff told me; plans for avoiding a moratorium are on the contrary already made. A decree to this end is carried in today's JOURNAL OFFICIEL. I give below a translation of the vital part of this decree:

"Article 1. The time limits within which protests and other procedure should be instituted for the purpose of maintaining legal rights attaching to all negotiable securities falling due on or after September 8, 1938 or becoming due at the latest on October 28, 1938 are extended until a date which will be fixed later when at the date of maturity the drawee or the subscriber is serving under the colors belonging to the land sea or air forces.

END SECTION ONE.

BULLITT

HR

GRAY

Paris

Dated September 29, 1938

Rec'd 2:15 p.m.

Secretary of State,
Washington.

1645, September 29.

(SECTION TWO).

Article II.

The same extension is granted whatever may be the military status of the debtor in order to serve protest and to maintain legal rights as concerns the holder of a negotiable security, maturing on or after September 8, 1938, or maturing at the latest on October 28, 1938 when at the date of maturity, the holder finds himself under the colors and belongs to land, sea, or air forces.

Article III. The provisions of Articles I and II may be invoked by commercial associations of which all the partner managers or directors find themselves in the military situation indicated in these articles.

Article IV. The negotiable securities to which is applicable the present decree are bill of exchange, bills and warrants."

BULLITT

PEG:KLP

SECTIONS THREE AND FOUR.

I was told by Rueff that the foregoing was the only step so far taken toward easing payments. He said he was certain that there would be no trouble over the end of the month settlement on the stock exchange. The past week there have been various financial steps, such as increasing rates at the Bank of France and on Government securities, which measures were reported in the daily financial cables from the Embassy. Plans for closing French stock exchange or initiating control of operations thereon have not evolved. Any closing that might conceivably be necessitated immediately upon the opening of hostilities would be considered only as temporary.

The procedure of making a census of foreign securities held by the nationals of a country and of taking over such securities against payment in the country's own currency has come to be a common one in the development of exchange control. Rueff told me that no such steps were contemplated here as yet. If exchange control is adopted De Murville stated that such measures would eventually come.

In the consideration of: (1) the limited facilities at present available to France to borrow abroad; (2) the already straitened circumstances of the French Treasury; (3) the large amount of French funds now held abroad in securities or in cash; (4) the important sums of foreign exchange which would be required in purchasing war materials and provisions, it would appear

-2-

entirely probable that the French Government would call upon resources abroad early in the war in the most effective manner that could be arranged, thus involving the sale or at least the pledging of the securities in order to obtain foreign exchange.

During the Great War it will be recalled that French private holdings of foreign securities which were acquired by the Treasury against francs constituted an important source of foreign exchange for financing the war.

Further developments in the premises will be discreetly followed and reported promptly.

EA:BJW

REB

GRAY

Zurich

Dated September 29, 1938

Rec'd 3:30 p. m.

Secretary of State,
Washington.

September 29, 4 p. m.

CONFIDENTIAL.

Conference with high financial circles, including Dr. G. Bachman, President of the Swiss National Bank, indicated that while military precautions are being taken there is no feeling that Switzerland is in any immediate danger of enemy attack. Dr. Bachman states that yesterday the Swiss National Bank sold between three and four million dollars to support the franc which between 4 and 5 p. m. fell to nearly 4.60 francs to the dollar. The entire available bank supplies of American dollars were sold out yesterday. The American Express Company, Zurich disposed of its entire stock of travelers checks and letters of credit. Cable transfers were also fairly heavy. Total Swiss purchases of dollars yesterday were estimated in banking circles up to four million dollars. Following the announcement of the Munich Conference, the Swiss franc rate greatly

REB

2- From Zurich, Sept. 29, 4p.m.

greatly improved and reverse movements of funds set in today. While there was much nervousness among the population yesterday the situation is calmer today. Transient Americans numbering perhaps two thousand for the whole country are being informally advised by the Consulate-General, as opportunity offers, to consider the desirability of proceeding home as soon as possible, if no compelling reason prevents.

FROST

PEG

REB

GRAY

London

Dated September 29, 1938

Rec'd 5:30 p. m.

Secretary of State,
Washington.

1092, September 29, 8 p. m.

FOR TREASURY FROM BUTTERWORTH:

The U.S.S. SOMERS which is scheduled to arrive Portsmouth October 1 has been ordered to depart upon the arrival of the SAVANNAH on October 3. Siepmann of the Bank of England telephoned to explain under what conditions of tremendous pressure the staff in the vaults are working to despatch gold bullion and apologized courteously for the fact that the shipment for the SOMERS can only reach Portsmouth between 4 and 6 p. m. October 3. The Bank of England asked that this word be passed on to Washington.

The Naval Attache of the Embassy informs me that in so far as he knows no difficulty should arise even though the SOMERS be delayed by tide from sailing on the scheduled date of October 3.

KENNEDY

GW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, London

DATE: September 29, 6 p.m.

NO.: 1089

FROM BUTTERWORTH.

Yesterday, Bewley asked me to lunch, and as it is not actually certain that the menace of war has been entirely eliminated as yet, the main points of our conversation held just before the House of Commons proceedings might be of interest. Hugh L. Bewley expects to sail on the steamship Empress of Britain October 1.

I understood from him that he had seen the British Treasury officials, and that all of them wanted his advice concerning two matters: 1. as to the degree of benevolence of American neutrality; 2. as to what point and under what circumstances might American intervention in a European war be expected. Bewley informed me that in replying to (1) he had exercised great caution, and that concerning (2) he had stated that it would depend upon circumstances, which might be accidental, and which it was impossible to foresee at this time. Bewley stated further that he considered that his principal task, should there be a war, would be to pave the way for the sale, which would probably be made through insurance

- 2 -

insurance and banking syndicates, of American securities which would be acquired from residents of Great Britain by the Government of that country. He quite rightly mentioned, in this connection, that British insurance companies have shares of outstanding value in American business.

It is now generally assumed in the City that some type of promise of British financial assistance to Italy constituted one of the inducements to Mussolini for using his good offices with Hitler. And from a thoroughly reliable quarter in a position to know, I obtained confirmation that some such indirect approaches were made as were reported in the second paragraph of my 475, September 28, 6 p.m.

KENNEDY.

EG

PLAIN

London

Dated September 29, 1938

Rec'd 2:40 p.m.

Secretary of State,
Washington.

1089, September 29, 6 p.m. (SECTION TWO)

Today's Bank of England return shows a jump in note circulation of 21.7 million pounds. "Other deposits" are also up by 7.2 million pounds probably reflecting a policy on the part of overseas and other institutions of reducing their holdings of bills and securities in order to be more liquid, preferring deposits with the Bank of England.

A reduction of 7 million pounds in public deposits reflects exchange equalization account purchases of Treasury bills in the market and has helped to maintain bankers deposits at less than 1 million pounds below last week's level, in spite of the jump in the note circulation. A considerable amount of cash has been withdrawn from the banks by individuals and institutions in preparation of immediate emergency needs, but the bulk of the increase in the note circulation is believed to be now held by the banks in anticipation of heavier

-2- #1089, September 29, 6 p.m. (SECTION TWO) from London

heavier demands in the event of hostilities. British security markets continued firm during the afternoon; war loan for example which yesterday adhered to the minimum price of 93 pounds closed today at 99 but the volume of trading is not at all large and the city continues in a state of anticipation. The dollar has continued offered at around 4.75 but the volume of trading has not been large. (END MESSAGE).

KENNEDY

KLP

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: September 29, 1938, 6 p.m.

NO.: 1646

FROM COCHRAN.

When I talked with my friend at the Bank of France at 12 noon today, the French stabilization fund had gained a few pounds around 178.50 to 55. There had been no activity on the part of the London control. A market operator tells me this afternoon that the Bank of France has continued to get a little sterling, while apparently a good amount of dollars has been bought by the British control. The developments of yesterday have relieved sentiment here; however, the market is still waiting to see what happens. Considerably better rentes. As of September 22 the statement of the Bank of France showed a further advance to the government of 1,500,000,000 francs. Also, discounts were up 1,355,000,000, and there was an increase in circulation of 1,382,000,000. Coverage was 43.01 versus 43.69.

For the current week withdrawals from savings and other banks have been heavier. Therefore a greater increase in discount portfolio and note circulation will undoubtedly be shown on the next Bank of France statement.

Today 110 million francs gold bars for shipment on the PRESIDENT ROOSEVELT were invoiced by the Bank of France, to go to the Federal Reserve Bank, New York.

You

- 2 -

You are requested to refer to telegram No. 1645 of September 29 from the Embassy for a report of conversations at the Finance Ministry and comments on credit and stock exchange developments and possibilities of action.

END MESSAGE.

BULLITT.

EA:LWW

FEDERAL RESERVE BANK
OF NEW YORK

Mr. Lockheed 249
a Reminder !!
DATE *September 29, 1938.*

OFFICE CORRESPONDENCE

FILES _____

L. W. Knoke _____

SUBJECT: _____

Confidential - Personal

With reference to Hawker's statement over the telephone that on our gold shipments per different cruisers they were not showing the exports in the country's custom house figures, thus actually breaking the law; that they had not approached our consulate in the matter and had obtained no papers other than a bill of lading from the skipper and the commanding officer's receipt and that they did not intend to show these figures except possibly in a year's time from now, I spoke to Lockheed and he promised me that they would not show any figures either now and that if they decided to report these imports later on they would first give me a chance so to advise the Bank of England.

LW
LWK:KW



HEADQUARTERS

ADDRESS THE COMMANDANT, U. S. COAST GUARD
AND REFER TO NO.

250

TREASURY DEPARTMENT

UNITED STATES COAST GUARD

WASHINGTON 29 September, 1938.

MEMORANDUM FOR THE SECRETARY OF THE TREASURY:

The latest developments in the present situation are:

Since last night German vessels in the North Atlantic have ceased communicating with American radio stations, German vessels are communicating with their own Norddeich German Radio Station. A decline in the sending of personal messages is noted. This is probably due to apprehension that the sending of such messages would disclose the position of the transmitting vessel.

The German vessel ADRIA which, according to latest information, sailed from Brake, Germany, on September 14th, for Port Arthur, Texas, received urgent orders from Hamburg to proceed to Cadiz. There is a Cadiz in Spain and a Cadiz on the South Coast of Venezuela. The former is probably the one to which the ADRIA has been ordered.

At 11:00 a.m. today the Norddeich German Radio Station began calling forty (40) German radio stations all believed to be vessels of German nationality.

The German steamer WALKURE, which operates between German and Canadian ports, received orders from the Norddeich German Radio Station "to proceed immediately." The WALKURE was, on September 26, 1938, reported to be 500 miles east of Belle Isle, Newfoundland, en route Hamburg, Germany, to Montreal, Canada.

The German steamer HANS LEONHARDT at Pictou, Nova Scotia, cast off her lines in darkness today (September 29th) and raced for the open sea without pilot or clearance papers. The HANS LEONHARDT arrived September 28th at Pictou on her maiden voyage. Her holds were only half filled with pulpwood when she made her unexpected departure. Customs officials notified Government officials at Ottawa, Canada.

Memorandum for the Secretary.

29 September, 1938.

The German steamer COLUMBUS now on a Caribbean cruise curtailed her schedule and will return to New York next week.

The German tanker OSSAG received orders at about 2:45 p.m. today from Hamburg, Germany, to proceed to Curacao, Netherlands West Indies, for orders and not to Tampico, Mexico.

The North German Lloyd Liner POTSDAM due at Singapore today, September 29th, from Hong Kong with numerous British passengers for Singapore canceled its visit and was expected to remain at sea or call at a Dutch East Indian port.

The German steamer TACOMA discharged all of her passengers in San Pedro on September 28th and began fueling to capacity.

The German steamer SCHWABEN was also at San Pedro September 28th fueling to capacity.



R. R. WAESCHE,
Rear Admiral, U. S. Coast Guard,
Commandant.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 30, 1938

TO Secretary Morgenthau

FROM A. Lochhead

Close SEPT. 29, 1938

GOLD HELD IN LONDON
\$124,000,000

Shipments arranged:

<u>Sailing</u>	<u>Steamship</u>	<u>Amount</u>
Sept. 30	Pres. Roosevelt	\$20,000,000
Sept. 30	American Merchant	10,000,000
Sept. 30	American Shipper	10,000,000
Oct. 1	Washington	25,000,000
Oct. 3	Somers	25,000,000
		<hr/>
		\$90,000,000

DEPARTMENT OF STATE
WASHINGTON

In reply refer to
FA 811.515 Gold Purchase/1639

September 30, 1938.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits the enclosed communication for consideration and such action as may be required.

Attention: Mr. Archie Lochhead,
Room 281, Treasury Building.

2-A

11-P-R

REB

GRAY

London

Dated September 29, 1938

Rec'd 5:30 p. m.

Secretary of State,
Washington.

1092, September 29, 8 p. m.

FOR TREASURY FROM BUTTERWORTH:

The U.S.S. SOMERS which is scheduled to arrive Portsmouth October 1 has been ordered to depart upon the arrival of the SAVANNAH on October 3. Siepmann of the Bank of England telephoned to explain under what conditions of tremendous pressure the staff in the vaults are working to despatch gold bullion and apologized courteously for the fact that the shipment for the SOMERS can only reach Portsmouth between 4 and 6 p. m. October 3. The Bank of England asked that this word be passed on to Washington.

The Naval Attache of the Embassy informs me that in so far as he knows no difficulty should arise even though the SOMERS be delayed by tide from sailing on the scheduled date of October 3.

KENNEDY

GW

CONFIDENTIAL

G-2
J M

254 A

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

G-2/2657-11-90

September 30, 1938

MEMORANDUM NO. 25 FOR THE CHIEF OF STAFF:

Subject: The present European situation to
10:00 A.M., September 30, 1938.

General Situation. Details fully covered in the press.

The almost universal popular enthusiasm, except possibly in Czechoslovakia, over the negotiated settlement is indicative of widespread abhorrence of war and weariness with the long sustained menace of war. This almost hysterical joy of the masses that war has been averted is no sure basis for relaxation on the part of responsible officialdom in facing the future.

Hitler and Mussolini remain, and the extremists of their respective parties remain. The cult of dynamism continues to be the predominant faith in Germany and Italy, and this means essentially that changes in Europe and elsewhere are still to be wrought in accordance with the will of the strongest.

Hitler, under the threat of an undesired general war, compromised to the extent of negotiating a settlement. This undeniably was a concession on his part, and in the nature of dictatorships, obvious and important concessions do not fit the role. Nevertheless, the concession was a shrewd political stroke which at least momentarily disarmed the democracies. In the ensuing negotiations, military intimidation was never absent, even if it was not accentuated, and Hitler obtained practically all that he demanded. As to method and time schedule only does he seem to have conceded any points.

Nobody can yet say what the ultimate results of the recent events may mean for international stability. Perhaps a necessary demographic adjustment has been accomplished. Perhaps other maladjustments of the post-war treaties may be approached in a spirit of compromise. The violence of German and Italian demands may abate as the possibilities of so-called inequities become sus-

CONFIDENTIAL

CONFIDENTIAL

254 B

ceptible to adjustment. The Italians show signs of weariness with continued excitement; the Germans too may begin to tire of the abnormalities in their social, economic and military existence.

Of regimes responsible for keeping Europe on edge, Soviet Russia has been fairly well driven into diplomatic isolation, or has chosen this status. Italy's desire for a normal existence seems to vary inversely with the violence of Mussolini's oral efforts to whip up martial spirit. The desire among Italians to reach an Anglo-Italian Agreement seems latterly to have been revived. Hitler's announcement that Germany has no further territorial demands in Europe, and his agreement to join in a guarantee of the integrity of Czechoslovakia, after the Polish and Hungarian claims have been adjusted, are favorable assurances for the future.

There exists some justification for the hope that Europe may enjoy a reasonable period devoted to negotiations among the heads of the four big states, and a chance of settlement of some fundamental issues. Nevertheless, it is too early for European Governments to assume that anything but the immediate crisis over the Sudeten affair has subsided.

CONFIDENTIAL

CONFIDENTIAL

2546

Military Situation. The following information is, in substance, taken from Military Attache or State Department cables or the press as indicated:

Great Britain -

From M.A., London. Sent 6:23 P.M., September 29, 1938.

No change military situation except some units London Balloon Barrage spotted. Construction of bombproofs continues night and day.

From Press.

All British military precautions previously taken have been continued in force.

France -

From Press.

A government decree issued at Paris during the conference of the heads of the four powers at Munich gave Premier Daladier authority to enforce at once the Law for the Organization of the Nation in War of July 11, 1938. This law provides for the complete mobilization of the man power, industry and finance of the nation for war or in a period of external tension.

France in the meantime maintained her status of partial mobilization and no measures toward demobilization have yet been taken.

Germany -

From Press.

German troop concentrations continued yesterday to grow along the Danube. The cities of Passau and Linz look like huge military camps.

Czechoslovakia -

From State Dept. Received September 29, 9:00 P.M.

The Munich conference is viewed anxiously by army circles, the lack of Csech representation giving rise to fear of a sell out. A general belief exists that they will have to fight some time and will never again be so well prepared as now.

The army feels that if attacked it could hold out for months.

Feverish work on field fortifications, machine gun positions and barricades revealed by reconnaissance

CONFIDENTIAL

2541

northwest of Prague. Around Teplitz and area beyond to near the border, few soldiers were seen.

Italy - No change.

Poland -

From Press.

Official circles stated that Poland would refuse to be bound by any agreements reached in the Munich Four Power Conference without her participation. . . .

. . . It is claimed that 70 Poles have been killed in clashes on the Teschen border. . . . No reply has been received from Prague to the Polish note of Tuesday which contained detailed proposals for the settlement of the Polish minority questions in Teschen and Silesia.

U.S.S.R. - Nothing to report.

Netherlands -

From State Dept. Received 4:00 P.M., September 29, 1938.

Further mobilization held in abeyance pending Munich developments.

Dutch police on German border report rumors that German reservists in frontier districts near them have shown reluctance to don uniform.

Finland -

From State Dept. Received 6:00 P.M., September 28.

The Finnish Government in agreement with Sweden and others expects to proceed to the garrisoning and fortification of the Aland Islands.

Measures are being taken to place the coast defenses at full strength.

Greece -

From State Dept. Received 4:00 P.M., September 28.

The Prime Minister said in case of war Greece desires to remain neutral; this attitude cannot be changed without consultation with Turkey and Balkan allies. Turkey also desires to be neutral.

The British Minister told U. S. Minister that in case of war Greece must let Britain use her harbors. The Greek Prime Minister said that in such an event

CONFIDENTIAL

England must first agree to protect us from deadly air attack.

Latvia -

From State Dept. Received 5:00 P.M., September 28.

Latvia would remain neutral as long as possible. The Military Attache reports opinion divided in Latvian Army as to whether she should side with Germany or Soviet Union.

Turkey -

From State Dept. Received 3:00 P.M., September 28.

Turkey expected to remain neutral although strongly sympathetic to Great Britain.

Ireland -

From State Dept. Received 11:00 A.M., September 28.

In case of war Ireland will endeavor to maintain friendly neutrality with Britain.

Egypt -

From State Dept. Received 10:00 A.M., September 28.

If Italy involved in general war Egypt would probably be invaded from Libya.

Air bombing particularly feared. Gas masks are not available for the civil population.

Tunis -

From State Dept. Received 11:00 P.M., September 28.

Tunisia will give support to France. Much uneasiness exists because of absence of adequate protection against gas.

Germany -

From M.A., Berlin, Germany. Received 9:25 A.M., Sept. 30. Sent 12:50 P.M., Sept. 30.

No change in military situation.

GAL

PLAIN

Praha

Undated

Rec'd 10:05 a.m.

September 30th, 1938.

Secretary of State,
Washington.

261

Effective September 29 all exportation Czechoslovak and foreign currency, allocation of foreign currencies for any purpose and crediting of Czechoslovak crowns to foreign accounts subject to National Bank permit. Urgent private inland telegrams now accepted in plain language, enterprises designated as important for national defense may send telegrams abroad, other outbound telegrams subject permit Defense Ministry.

Repeat Commerce.

CARR

KLP

03V13334

1938 09 30

COMMUNICATIONS SECTION

OFFICE OF THE SECRETARY OF STATE

OFFICE CORRESPONDENCE

DATE September 30, 1928.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

FROM: L. W. Knoke

I called Hawker at 12:05. Things had been very calm in London today, he said. At the opening the dollar had been down to 4.85 but they did not operate. Later a few orders came in and the dollar moved to 4.88. Since then it had fluctuated between that figure and 4.88 1/2. A fair amount of business had been done; some people, he thought, were now buyers of dollars for the purpose of acquiring American securities. Most of the demand had been met by the market and arbitrageurs who were now working in gold without covering the war risk. He had sold about £500,000 gold in the market today all of which had gone to arbitrageurs. His operations in dollars had been nil. The market was getting back to a more normal position; gold had been practically fixed at shipping parity. I asked whether war risk insurance was again freely obtainable. Hawker thought a fair amount could be had but that business was still a matter of negotiation and it would probably take two or three days before they were entirely back to normal.

Francis had been somewhat weakish and Cariguel had lost about £500,000. It seemed to him (Hawker) that from now on the market would once again fix its eye on the French franc and, for that matter, also on the dollar, the latter in connection with the coming elections.

Sterling now was about 4.82. They were prepared to take dollars at 4.85 or thereabouts and give them at about 4.81. Sterling

FEDERAL RESERVE BANK
OF NEW YORKOFFICE CORRESPONDENCE
CONFIDENTIAL FILES

DATE September 20, 1938.

TO
FROM L. W. KnobeSUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

2

was probably overvalued in recent months but 4.85 at the moment looked to them like a reasonable rate. Their main idea just now was to get back to normal; that being so, would we mind if they discontinued giving us a sterling range and thus return to the pre-panic days. I replied that that was, of course, entirely satisfactory to us. Hawker continued that he had just cabled us new gold limits, 143s 8d and 144s 4d. I replied that we had bought between £300,000 and £400,000 at his earlier gold price but that from now on we would, of course, be guided by the later ones.

Had we decided as to the shipment of the \$10,000,000 gold already packed; I said that for the time being we would leave that matter open.

I referred to four of his shipments coming in over the weekend and suggested that if he wanted us to get the whole lot through on Monday he had better give us instructions tomorrow morning so that we could make the necessary customs entries tomorrow and begin unloading at 8 a.m. on Monday. Hawker said he didn't know yet whether they wanted all of it sold but he would see to it that we received definite instructions by tomorrow morning.

LWK:KW

GAL

PLAIN

London

Dated September 30, 1938

Rec'd 2:40 p.m.

Secretary of State,
Washington.

1107, September 30, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

British security markets have continued yesterday's upward movement; war loan for example today going from 99 to 102 which is about the pre-crisis level. The city's general attitude is well reflected in the following:

THE FINANCIAL TIMES: "There seems good reason to hope now, however, that the negotiations will bring to an end without recourse to the arbitrament of war a period of dangerous tension which has banished the peace of mind of most of the civilized world just as it has cast a blight over its economic activities. . . . If the remaining obstacles are surmounted as there is reason to hope they will be the gratitude of the world will go out first of all to Mr. Chamberlain for his magnificent efforts. President Roosevelt and all others who have contributed their influence

-2- No. 1107 dated September 30 from London

influence to the cause of peace have earned our thanks no less." THE FINANCIAL NEWS in a more cautious editorial entitled "Agreement in Principle" after emphasizing the value of the achievement "which might have destroyed the bases of our present civilization" concludes "has war been averted now or only postponed for a period? That is a question which in due course will - and must - be asked. For whatever the precise formula which may be adopted at Munich it has been evident since the Anglo-French proposals were first formulated that a settlement secured by any means short of war would represent a substantial victory for a powerful and aggressive state at the expense of a weaker neighbour. Herr Hitler has stated explicitly that the limit of his territorial ambitions in Europe has been reached. Mr. Chamberlain appears to have accepted this declaration as an honest statement of intention and all now will hope that he is right. There is one way in which the Fuehrer's sincerity can be put to the test. Is he willing that the Munich agreement shall be followed - and followed quickly while the recollection of grim September days of crisis is still vivid - by a conference aimed at the
disarmament

-3- No. 1107 dated September 30 from London

disarmament of Europe including the dictatorship states? If not there is but one conclusion for this country to draw from its escape from the abyss - that the settlement of any future question which may arise must for the world's sake be based on Britain's strength and power to enforce her conception of justice if need be on any state in the world." There is a good deal of talk in the city to the effect that the National Government should cash in on Chamberlain's personal, and at present popular, achievement by holding a general election before the deterioration in Britain's economic position becomes more apparent and the Spanish situation and the question of a colonial settlement with Germany come to the fore. The dollar opened at 4.81 bid and went as low as 4.85. New York came in a seller of dollars and the rate moved to 4.81 closing at 4.82. The French internal financial position is again coming under consideration and the franc has moved to 179. Gold fixing of 313 bars at 144s. 1d. worked out at 34.76 which was about parity without war risk insurance. The British authorities took most of the fixing.

KENNEDY

RGC
HTM

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

DATE: September 30, 6 p.m.

NO.: 1854

FROM COCHRAN.

Today the JOURNAL OFFICIAE carried a decree which permits the settlement through bills drawn on the Treasury of contracts, or other statements, exceeding the sum of 3,000 francs as partial or complete payment, covering expenditures for transport, services and supplies effected for account of the State. These will be negotiable eighty day bills and may be cashed through the national fund for state contracts/or through banks.
(Caisse Nationale des Marches)

Misgivings arising with regard to the French franc has been witnessed today by the Paris exchange market. This morning the opening rate was 178.50, but this quickly moved near 179 with some sterling being yielded by French control. However, the important trading today is in dollars and sterling rather than in francs.

At eleven o'clock this morning, when I visited my friend, I found him happy over the Munich agreement but the future of the franc caused him some concern. Due to the mobilization of French forces, the French Treasury situation is made more serious by its heavy expenditures.

Yesterday the French Bank statement showed drawing

by

-2-

by the Treasury for 1,500,000,000 francs in addition to the 3,000,000,000 in the previous week; leaving a balance of approximately 7,500,000,000 that can be drawn under this credit.

Due to the departure of aliens from France and of stagnation of commercial business incident to the war scare, tax receipts will likely become less satisfactory and foreign exchange arising from tourist expenditures will be greatly lessened. The Government has not risked asking for a long-term loan on the French market during the past critical weeks and has been obliged to raise interest rates and otherwise make its short and medium term securities more attractive.

Today the beginning of the system of paying for state supplies with the type of bills described above may be interpreted as a makeshift emergency financing which is likely to continue in the Treasury's present difficult circumstances.

Inasmuch as these bills, as well as the new type of three months three percent Treasury bills may be realized on at the Bank of France, it seems that this institution will for the present have to bear the brunt of state financing.

All

-3-

All of these circumstances tend to confirm the opinion expressed some time ago that while the franc depreciated rapidly along with the pound, there was hardly any likelihood that it would achieve and maintain a corresponding recovery. A real repatriation of capital into France might start should the European political situation continue to improve quickly, but it is entirely unlikely that this could come in time to relieve the Treasury in meeting its heavy bills this Fall. Therefore, it is possible that, unless the French Government may be able to follow up the present achievement of international peace by some successful and unexpected financial move, the question of letting the franc depreciate beyond 179 or of instituting exchange control may shortly arise.

END OF MESSAGE

BULLITT

EA:DJW

STRICTLY CONFIDENTIAL

Paris, September 30, 1938.

INTERNATIONAL BANK NOTES (Letter No. 265)

The Honorable Cordell Hull,
Secretary of State,
Washington, D. C.

Dear Mr. Secretary:

On a recent visit to Paris Mr. Maurice Colay, General Manager of the Swiss Bank Corporation at Basel and an old friend of mine, told me of a table which he was preparing showing the public debt of various countries as expressed in kilograms of gold in 1914 and today. Since the countries which he had chosen for his study are those which have adhered to the Tripartite Monetary Agreement to which we are a party, I thought this table would be of particular interest to us, and asked him kindly to provide me with . . .

- 2 -

with a copy whenever his study might be completed.

I now have pleasure in attaching a copy of the English translation.

It should be pointed out that the figures for Switzerland include the debts of the Federal Railways, which is not the case for the other countries.

Very sincerely yours,

H. Merle Cochran
First Secretary of Embassy

Enclosure:

1. Table of public debts.

In quintuplicate.

HMC/ama

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TELEGRAPH DEPARTMENT
U.S. DEPARTMENT OF STATE
WASHINGTON, D.C.

PUBLIC DEBTS (in millions)

<u>Country</u> <u>Monetary Unit</u>	<u>Date</u>	<u>Internal debt</u>		<u>External debt</u>		<u>Total debt</u>	<u>Total debt according to old parity.</u>	<u>In kilograms fine gold.</u>
		<u>Consolidated</u>	<u>Floating</u>	<u>Consolidated</u>	<u>Floating</u>			
<u>United States</u> <u>dollar</u>	June 30, 1914	967.9	Nil (1)	Nil	Nil	1,189.2	1,189.2	1,787,501
	June 30, 1937	21,824.4	14,602.7	Nil	Nil	56,427.1	21,514.7	22,371,642
<u>United Kingdom</u> <u>pound sterling</u>	March 31, 1914	614.5	35.5(2)	Nil	Nil	704.2	704.2	5,171,022
	March 31, 1936 (prov.)	6,272.-	842.-	1,032.-		8,146.-	4,922.3	24,022,922
<u>France</u> <u>franc</u>	Jan. 1, 1914	21,452.-	1,524.-	Nil	Nil	22,976.-	22,976.-	9,573,522
	Dec. 31, 1936	228,522.4	49,822.3	(4)		400,000.-*	22,534.-	9,722,122
<u>Switzerland (S)</u> <u>franc</u>	Dec. 31, 1913	1,440.7	69.6	Nil	Nil	1,710.3	1,710.3	426,224
	Dec. 31, 1937	4,929.9	1,210.9	Nil	Nil	6,140.8	4,222.6	1,224,222
<u>Netherlands</u> <u>florin</u>	Jan. 1, 1914	1,148.4	13.2	Nil	Nil	1,161.6	1,161.6	702,224
	Dec. 31, 1937	3,241.5	804.9	Nil	Nil	4,046.4	3,312.2	2,022,247
<u>Belgium</u> <u>franc</u>	Dec. 31, 1913	4,092.5	237.9		196.4	4,626.6	4,626.6	1,245,122
	Dec. 31, 1936	22,346.1	1,713.7	20,605.7 (5)		54,626.5	5,674.6	1,647,422

(*) Estimate at this date.

(1) Non-interest bearing debt; 220.3 on June 30, 1914.

(2) Various capital debts; 54.4 on March 31, 1914.

(3) Confederation of Federal Railways.

(4) Commercial external debt calculated at par amounted to 7,475 million francs on July 31, 1924.

(5) External debt calculated at the rate of exchange with the exception of certain loans in French francs converted at the parity before the devaluation of October 1936.

Source: Memorandum on Public Finances 1922-1926, League of Nations.
Annuaire Statistique of the League of Nations. 1937-38.

10/100

Basel, September 4, 1938.

Regraded Unclassified



DEPARTMENT OF STATE
WASHINGTON

October 14, 1938

In reply refer to
EA 462.00 R 296 B.I.S.-
Special Reports/311

My dear Mr. Secretary:

I enclose a copy of Strictly Confidential Letter
No. 263, dated September 30, 1938, with enclosure, in
Mr. H. Merle Cochran's series of letters entitled
"INTERNATIONAL BANK NOTES".

Sincerely yours,

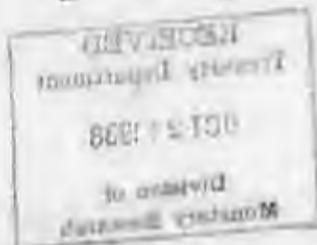
Herbert Feis

Herbert Feis,
Adviser on International
Economic Affairs.

Enclosure:
From Paris, No. 263,
September 30, 1938,
with enclosure.

The Honorable

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



CONFIDENTIAL

Return to Room 285 268

October 15, 1938.

Dear Mr. Feis:

In the absence of the Secretary, who is away from Washington, I am acknowledging your letter of October 14th, transmitting a copy of Confidential Letter No. 265, in Mr. H. Marie Cochran's series of letters entitled, "International Bank Notes". This material will be brought to Mr. Morgenthau's attention when he returns to the office the first of the week.

Sincerely yours,

H. S. Klets,
Private Secretary.

Mr. Herbert Feis,
Advisor on International
Economic Affairs,
Department of State,
Washington, D. C.

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CONFIDENTIAL

TREASURY DEPARTMENT

269

INTER OFFICE COMMUNICATION

TO Secretary Morgenthau

DATE: October 1, 1938

FROM A. Lockhead

Close SEPT. 30, 1938

GOLD HELD IN LONDON
\$84,000,000

Shipments arranged:

<u>Sailing</u>	<u>Steamship</u>	<u>Amount</u>
Oct. 1	Washington	\$25,000,000
Oct. 3	Somers	25,000,000
		<hr/>
		\$50,000,000

INSTRUCTIONS RE REQUESTS TO FOREIGN
COUNTRIES FOR FINANCIAL INFORMATIONSeptember 30, 1938.
9:00 a.m.

- H.M.Jr: Mr. Lochhead, there was one cable last night which aroused my curiosity. Why did Mr. Hull send a cable to Bullitt asking him about what the French were doing about closing the stock exchange?
- Lochhead: The cable that came from Kennedy, or Butterworth, giving what England would do, brought up the question there. Speaking of Douglas, Mr. Douglas came over to speak to them there as to what the other - thought it was a good idea to know what England would do, so they decided it would be a good thing to find out what the other would do.
- H.M.Jr: Who's "they"?
- Lochhead: S.E.C., Douglas - whether the other ones had any plans; be a good idea to have them beforehand. Tried to word it so it would not be
- H.M.Jr: Well, some place, somewhere, I wish you'd register that when they wish - they ask the French on financial questions, they shouldn't do it without clearing it with me.
- Lochhead: They mentioned it - talked with Mr. Hanes. Douglas was over there, and in the rush over there Feis mentioned that to me.
- H.M.Jr: Well, did it clear through you?
- Lochhead: Yes.
- H.M.Jr: All right.
- Lochhead: Yes, and I cleared through Mr. Hanes.
- H.M.Jr: Because I would have cleared it differently. I would have asked Roy Beaulieu to do it casually.
- Lochhead: They claimed they were going to do it casually.
- H.M.Jr: There was nothing casual about it.

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- Lochhead: And they meant to do it with Switzerland - the wording of the cable
- H.M.Jr: I think the way it was handled, if the thing is as critical as it was, it might have been upsetting, and I just wouldn't have handled it that way.
- Lochhead: One other point I did make: it was rather odd, that cable that came in from England said that they thought Mr. Douglas should be informed. Mr. Feis said Douglas was over there speaking about that - the cable was addressed to the Treasury, and that Mr. Hanes - it would be cleared through Mr. Hanes if anything came up; that Mr. Hanes was over here to clear that stuff.
- H.M.Jr: Well, inasmuch as you handled it and it's over, I wish you'd tell Herbert Feis that in the future any request for financial information of any foreign country must clear through me.
- Lochhead: (Nods yes)
- H.M.Jr: It's over but we'll have other emergencies, see. And you might also say for me that the way the cable was worded, the way they sent it - I thought it didn't show the best judgment, under the circumstances. Will you tell him that?
- Lochhead: I'll tell him that.
- H.M.Jr: Didn't show the best judgment. It's over and through.
- Lochhead: Yes.
- H.M.Jr: But the whole thing that I was trying to do through this whole period was to show no nervousness on the part of the Treasury. That was the whole thing: no nervousness, business as usual. Then we send a cable asking Holland, Switzerland, France, "What you going to do about the stock exchange, what you going to do about American securities?" Read a column - "Oh, for God's sake what you going to do?" - just the way you read it. The whole thing I was trying to do, and did do, was keep the whole thing calm. We could have done it very casually. Or Knoke could have asked Bolton. Just for the future - not terribly important; it's past. But I don't want any agency other than myself - me - asking foreign countries for financial information.

RE PROPOSED CHINESE AGREEMENT

September 30, 1938.
9:05 a.m.

Present: Mr. Hanes
Mr. Oliphant
Mrs Klotz
Mr. Lochhead
Mr. Haas
Mr. White
Mr. Jones
Mr. Tapp

H.M.Jr: Now, we've got five minutes before Jesse the Jones comes in, and I read Haas's memorandum and - which, boiling it down, was that these people, on this suggestion of selling wheat under these methods, are terribly nervous it's going to do something about the trade treaty. Right?

Haas: That was

H.M.Jr: I remember you said, "They're so nervous about it, maybe they'll come through for a straight loan."

Haas: That's what Tapp told me walking out.

H.M.Jr: Well, right after that I spoke to Feis twice, and the first time I talked to Feis I said, "Herbert, I'm just serving you notice that, inside the family, I'm going to fight the State Department the way I never fought before for a loan to China. I'm not going to stand any nonsense. We might just as well have it out now whether we're going to continue this policy of trade treaty or whether you're going to let us help with the gold that we've got here, and the money, countries like China and Brazil; or are you going to continue this policy of trade treaty and see one country after the other just stop doing business with us?"

So he said, "Well, you're going to cause a fight inside the State Department."

I said, "Fine. I think it's fine. Let's take a look at just what the trade treaties have accomplished. I think it's time. What have they accomplished? If it's going to cause a fight inside," I said, "fine, let's have it out now. Are we going to help Brazil or are we going to continue to give them a lot of mouth-bets?" I said, "Nothing personal, but

-2-

this is the way I feel."

Well, about 9:30 he called me back, said, "I've been thinking this over. I've got two suggestions to make. One.." - now get this thing - "...one, that we make an Export-Import straight loan, just make them a straight loan, but keep it a secret. I'd never have to make a report; no one in Washington will know." And he says, "The other one.." - put your hands under the chair, both hands, will you please, so you'll hold yourself down -he said, "Why don't you pay China \$1.29 for their silver?"

White: Both suggestions are silly, equally silly.

H.M.Jr: I howled, I just shrieked. I said ...

Oliphant: I'll say you did.

H.M.Jr: I said nothing had happened since the Czechoslovakian thing that had made me laugh so. "Well, all I can say, Herbert, is that I've got a good chance of winning if you talk such foolishness."

White: If they come across with something like that - of course, the second one is less than childish. The first thing

H.M.Jr: The other thing - this is the significant thing - said, "Well, what you're saying is, if you don't do this thing, then it's up to the United States Army and Navy." And I said, "Yes."

White: Well, maybe they're paving the way for an Export-Import credit, the way you wanted it in the first place.

H.M.Jr: Yes.

Klotz: Exactly.

H.M.Jr: Just a straight open credit. But I wanted to give you - but I'm going right down the line, especially in view of the fact that the President said, "If there's peace in Europe, it's all the more reason to do it."

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Lochhead: Mr. Morgenthau, maybe we could bring Pittman in on that if we gave China a straight credit for purchases in this market, and let them pay off the credit in silver at \$1.29. Following that line - people making such suggestions - I can make all kinds of suggestions they want, if they can listen to that kind; I haven't had the nerve to mention this kind of suggestion, but I mean if you want to fake a credit

Oliphant: Have you seen Jones's suggestion?

H.M.Jr: Wait until Jones - just wait a minute.

Oliphant: You get the idea of Jones's suggestion to do that the other way around. Just as good as

H.M.Jr: Yes, I got that. I read that: that the Surplus Commodity sell it and take a note, and that in order to finance Surplus Commodity through the Export-Import Bank

Oliphant: They'd discount that note without recourse to the Export-Import Bank.

H.M.Jr: Why does it flow to the Surplus Commodity? Why not to R.F.C.?

Oliphant: Because it's under Jesse's power to lend to banks.

H.M.Jr: Then Export-Import would go to R.F.C.?

Oliphant: Yes.

H.M.Jr: You're sure Surplus Commodity can't loan?

Oliphant: Well, for the promotion of foreign trade he probably could do it direct, but I think that's largely his convenience

H.M.Jr: No, I have a reason - could Surplus Commodity - could we buy their notes?

Oliphant: Treasury?

H.M.Jr: Treasury. What I'm getting at is, Export-Import - State Department sits on it. Surplus Commodity - they don't; not a director.

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Oliphant: Let me just take another look at that suggestion.

H.M.Jr: See what I mean, Herman? They're all - also, Wayne is so terribly opposed to this, see; but he's not on Surplus Commodity. Not that - I mean I'd tell this to Wayne if he was sitting here, but - after all, he's entitled to his opinion and his vote just the way - but if he wasn't - if he didn't have to vote on it, he might feel happy about it.

Lochhead: I think that's very distinctly

H.M.Jr: Very?

Lochhead: Very distinctly the case. Wayne has no objections to making a loan to China, but he hates to sit down and vote on one of the Export-Import loans that it's a good credit, that it's a proven credit. That's the way he feels.

H.M.Jr: Bring Tapp in. He might know. Tell him to come in. See? And the State Department doesn't have to vote either on Surplus

(Tapp comes in)

H.M.Jr: Hello, Tapp.

Tapp: Good morning.

H.M.Jr: Do you know if, for instance - if Surplus Commodity Corporation needed the money, could you borrow directly from the Treasury?

Tapp: Well, we have no authority to borrow from the Treasury. Whether the Treasury has authority to lend

Oliphant: You have authority to bor-- I mean the charter (words indistinguishable) ... It's a question - you have authority to borrow from anybody, but the question would be the authority of the Treasury to lend. I'd want to

Tapp: I think that would be your problem. I think we have authority, Mr. Secretary, to borrow from anybody that wants to lend us, or can lend.

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- Oliphant: I'd want to check on our authority to lend.
- H.M.Jr: I'll tell you what I have in mind: this thought of Jesse Jones of you people taking these notes, see?
- Tapp: Well, we've already borrowed that money. See, we've borrowed money from the R.F.C. to buy this wheat.
- Oliphant: Direct, not from Export-Import.
- H.M.Jr: We've already got the money.
- Tapp: We haven't got all of it. (Further words not understood)
- H.M.Jr: You've got it from R.F.C. Why drag the Export-Import into it?
- Tapp: See, we've got to pay that loan back. The only - if we sell this wheat on credit, the only out we have to get it back would be to get the Export-Import Bank to take over the credit and liquidate our R.F.C. loan.
- H.M.Jr: Let's just say this is a three-year loan. Now, you go ahead and sell this thing. You're not going to get any money for three years. Why would you have to do anything? Let's say you've got all the money you need from R.F.C.
- Tapp: We have this problem, Mr. Secretary. Under our present contract with R.F.C., we borrow the money, sell the wheat for cash, then take the cash proceeds plus a payment from the Secretary of an indemnity for the loss we take on that, and the cash plus the indemnity liquidates the R.F.C. loan.
- H.M.Jr: But if you get no cash, which you won't in this case?
- Tapp: Well, we'd have to modify our program with the R.F.C.
- Oliphant: Your contract with the R.F.C.
- H.M.Jr: Let me give you what's in the back of my head, so if you think well of it you can play my game. I'd like to for the moment keep the Export-Import out entirely and have it just between Jones, Agriculture, and Treasury; and then the directors who are on the Export-Import, who are from other departments, just don't get a vote. I mean they might feel much happier

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if they didn't have to vote. See what I mean?

Tapp: Yes.

H.M.Jr: I mean Mr. Assistant Secretary of War wouldn't have to vote.

Tapp: Then I would think that Mr. Jones could do this as easily as the thing he suggested. Instead of having the Export-Import Bank buy this paper, the R.F.C. can take over this paper on a non-recourse basis. But because of our obligations under Section 32, it would have to be liquidated before July 1, 1939. But if they take that view

H.M.Jr: That's the thought.

Tapp: But we'd have to liquidate the deal ourselves before June 30, 1939.

H.M.Jr: Well, that's - I mean it all comes on me anyway. See what I mean?

Tapp: Yes.

H.M.Jr: These people - if Mr. Moore doesn't - he's your director on Export-Import?

Tapp: State Department.

(Jones comes in)

H.M.Jr: Hello, Jesse, come on in.

Jesse, what we were talking about - we got three or four minutes; I don't know whether Tapp had a chance to explain to you - they saw Feis and tried to explain it to him, see? The only thing I've got to add was, Feis called me twice last night about this thing.

Jones: What?

H.M.Jr: Feis called me twice, and they're very much bothered about the trade treaty part of it, see; so much bothered that, for instance, he made this kind of a silly suggestion: why don't we pay them \$1.29 for their silver?

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Now, if they're that much bothered and we keep crowding them on this wheat thing, maybe they'll come through with a suggestion of a straight loan, from either the R.F.C. or the Export-Import, which is where we started, and then I'd be tickled. But they're very much bothered about it, you see, and I just thought I'd tell you.

And the other thing that I asked Tapp - that, taking your suggestion, which Oliphant looked up and recommended it from our standpoint as all right, that on this paper which those boys would get, I'd like to modify your suggestion and not have it clear through the Export-Import, but if they have to discount it, let it - they've already borrowed the money from the R.F.C. to do this job, they've got a contract - let them discount it with you instead of Export-Import, so that the State Department doesn't have to vote. They might feel much happier if they don't have to vote on it; we'd keep it between R.F.C., Agriculture and Treasury. He says he's already borrowed the money from you.

Tapp: See, we borrowed the money from you with which we're buying this wheat. It means you'd take over this paper. See, we have to liquidate our transaction before June 30, because the money we have for export payments is on a fiscal year basis; we have to make those payments and liquidate this deal by June 30, 1939. So if we made them a sale on credit, we would have to turn that paper over to you in payment of our loan from you. You see?

Jones: Well, if that's legal, why, of course, we'll be glad to do that. I do believe

H.M.Jr: Do you see? Then the Export-Import directors don't have to vote.

Jones: I see the point.

H.M.Jr: And they might be lots happier. They might say, "Yes, as long as we don't have to vote on it."

Oliphant: Don't have to go on record.

H.M.Jr: They don't have to go on record.

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Jones: Well, fine, but - we'll be glad to do it if it's legal.

H.M.Jr: If it's legal.

Jones: Now, I think it's - I think the sale of wheat on credit is much better from the Administration standpoint than loaning them the money. I think we can defend that a good deal better than we can defend an outright loan. I'm speaking now of the Administration.

H.M.Jr: Well, the way I feel is this. I've got just one object. I want to do something to help keep peace in the Pacific.

Jones: Yes.

H.M.Jr: So we don't have to have two fleets instead of one. Now, I don't care how we arrive at it, and I'm willing to share publicly my proportion, or more than my proportion

Jones: ... of the responsibility.

H.M.Jr: ... of the responsibility, and if you think it looks better that way, all right.

Now, I told Herbert Feis so he'd get it to Hull that, inside the official family, I was going to fight for this the way I'd never fought before. So he says, "Well, it's going to mean a split in the State Department over the trade treaties." I said, "Fine, maybe it's time we examine just what the trade treaties have or haven't done. You fellows are talking trade treaty and we can't do anything with Brazil; we can't - we want to lend Brazil some money. It's always trade treaty; we're losing one market after another. We've lost Mexico." And I says, "I'm going to fight this out the way I've never fought before. We've got a little bargain, and if it means reexamining the whole trade treaty thing, fine."

Now, as far as the trade treaty goes, you heard what the President said about my seeing these people, and - on account of it's just a question, with all due respect to anybody else, whether six cents on wheat is or isn't - which is more important. And as George Haas,

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who was at the London Wheat Conference, said, we've been talking for over five years - we started in '32 when I went to Ottawa for the President before he took office - talking about a world wheat conference, and maybe the way to get a world wheat conference is to choke some wheat down their throat; then maybe you'll get one. But for five years you've been trying to get one and you haven't.

Did you (Tapp) know I went to Ottawa in '32 for the President?

Tapp: No.

H.M.Jr: Yes, I went to Ottawa before he took office, and we've been talking about it, and the only - unfortunately, the only thing that these fellows understand is a big stick. Now, we saw what happened yesterday. I mean there's the best demonstration. And it's a terrible thing, but that's what they understand. Now, the Administration has tried for five years to get a wheat agreement, and you can't get one.

Tapp: Of course, our prospects are somewhat better since we started subsidizing exports - the Argentines.

H.M.Jr: Well, let's go a little further, and if the President says - let's tell them that this is only once. But that's the only change, Jesse, since I've seen you.

Jones: All right. Well, I'm ready.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 30, 1938.

TO Secretary Morgenthau
FROM Mr. Haas *HA*
Subject: Proposal to sell China 70 million bushels of wheat
on credit

Meeting in Secretary Hull's office, Friday morning, Sept. 30

Present: Secretary Hull
Secretary Morgenthau
Jesse H. Jones, Chairman, Reconstruction Finance Corp.
Jesse Tapp, President, Federal Surplus Commodities Corp.
Stanley K. Hornbeck, Adviser on Political Relations,
State Department
Maxwell M. Hamilton, Chief, Division of Far Eastern
Affairs, State Department
Herbert Feis, Adviser on International Economic Affairs,
State Department
George C. Haas

Secretary Hull opened the meeting by asking whether this was a proposal to help China or one to sell surplus wheat.

Secretary Morgenthau said we want to help China and we have some wheat we want to sell. He then went on to describe the proposal to Secretary Hull, indicating such steps as had been taken to date. Secretary Morgenthau pointed out that the Department of Agriculture had 100 million bushels of wheat which they proposed to export under a subsidy. Thirty million bushels of this amount has already been exported, leaving a remainder of 70 million bushels. The proposal under discussion, he indicated, was to sell this 70 million bushels to China on credit. The Surplus Commodities Corporation had the wheat and was to make the sale, and the Export-Import Bank would not be involved.

Secretary Morgenthau said he had informed Mr. Chen with regard to the proposal, indicating strongly that no commitment on the part of the United States was involved at this stage. In fact, he said he repeated this three times to Mr. Chen as a matter of emphasis.

-2-

Secretary Hull asked if the wheat was to be sold to the Chinese Government. Secretary Morgenthau replied that the wheat would be sold to a Chinese relief corporation which would be set up to act in this capacity.

Secretary Hull then asked what arrangement would be made with regard to the marketing of the wheat. Mr. Jones said none; when we sell the wheat it is theirs.

Mr. Tapp said that the matter of marketing of the wheat had given the Department of Agriculture some apprehension, in that the Chinese in their desperate need for funds may liquidate it too rapidly and seriously depress the world wheat market. If this should be the case, he continued, the United States would be sure to receive protests from Canada, Australia, and Argentine, and this action on the part of the United States, he thought, would seriously handicap, if not make impossible, any early international wheat agreement. He said further that the selling of the wheat in this manner to China was of no aid to the Department of Agriculture, as they would prefer to market it themselves, as under such a program they could insure an orderly marketing. He indicated that the decision with regard to this proposal to sell to China must hinge on whether or not it is considered desirable to aid China and not as a means of assisting in the disposal of United States' surplus wheat.

Mr. Jones said that we want to help China, and wheat does supply a means by which this help can be given. He pointed out that we have only 70 million bushels left that we plan to put on the export market this year, and that any inquiries for further export sales could be taken care of by simply indicating that no more wheat is available for export sale.

Secretary Hull pointed out that this proposal involves the United States in the China-Japan conflict, in that it provides definite economic support to China. He said that his department had been preaching strict neutrality, and that even the President in his peace notes to Europe the other day in every instance always put in a statement definitely indicating the neutrality position of this country.

Secretary Hull went on to say that the Japanese would certainly find out about this transaction, and it would be difficult to anticipate what form their retaliation might take. He pointed out that at the present moment his department has numerous incidents regarding American property in Japan.

Secretary Hull continued, saying that in addition he did not know how an action of this sort, which breaks away from the neutrality policy, could be explained to Congress. The policy which Congress laid down had been one of neutrality, and this was a deviation from it. But, he continued, a change in this policy is up to the President. He said he considered it his duty to advise the President that this proposal would conflict with the neutrality policy.

Secretary Morgenthau said that the President approved the carrying out of this proposal, but said that they, Mr. Jones and himself, should go across the street to see Secretary Hull. Mr. Jones, at the Secretary's request, confirmed this statement.

Secretary Morgenthau said that if the President and Secretary Hull requested him to do so, he would be glad to take the responsibility of explaining the proposal to Senators Pittman and McNary.

Mr. Jones pointed out that the proposal was one of selling wheat, and the agencies involved would carry it out on their own responsibility, and Secretary Hull would not have anything to do with it except that, of course, he was Secretary of State.

Secretary Hull said he did not believe that would help very much in his dealing with the protests which would come from the foreign governments, that in the final analysis the action is one of the executive department of the government, which is the President's responsibility. He elaborated on this point by saying that even in actions which are the definite responsibility of state governments, the United States Government has attempted to disclaim responsibility for actions against foreign subjects, but in the end the Federal Government has had to assume the burden.

Mr. Jones said that he, himself, would go through with it as a wheat-selling proposition, but if he were in Secretary Hull's place, as Secretary of State, he would oppose it.

Secretary Morgenthau asked Mr. Jones if he meant he was opposed to the proposal. Mr. Jones said no, that he would go through with it, but Secretary Hull, as Secretary of State, might at the same time oppose it.

Secretary Hull said that did not give him much relief, as the job would be done by someone else but all the burden would be on his shoulders.

Secretary Hull said his own personal feeling lay with the Chinese, but doing something such as involved in this proposal would mean entanglement in the Far East war and a definite change of their neutrality policy. He said perhaps something else could be devised.

Secretary Hull explained how they had stopped the shipment of American planes, etc. to Japan as a protest against aerial bombing which involved some American citizens, but this action, while effective in hindering Japan's war operations, had a plausible explanation in the protection of American citizens.

Mr. Hornbeck pointed out that Secretary Hull should also explain that the restriction of shipments of planes did not involve only Japan but any country where planes were used in bombing if American citizens might be involved.

Secretary Hull said they, of course, phrased their explanation in general terms, just as statutes are always written in general terms even though they are aimed at specific instances.

Secretary Hull added further that as regards this wheat proposal the advisers in his department were not in agreement.

Secretary Morgenthau, in referring to Secretary Hull's suggestion of other things that might be done, indicated they had been all through that, and the amounts involved were very small. It would mean giving small amounts to the Chinese over a rather extended period and would be of no aid to the Chinese who must have rather substantial amounts quickly. Secretary Morgenthau indicated further that the aid would represent funds well expended because it later may obviate the necessity of having to maintain two fleets, one in the Pacific and another in the Atlantic Ocean.

Secretary Morgenthau then asked Mr. Hamilton what he thought the Japanese reaction might be to the carrying out of the wheat proposal.

Mr. Hamilton said that the Japanese policy has been to play United States against Great Britain, playing up the United States as being strictly neutral in all her activities and playing Great Britain down. He indicated that any conclusion with regard to the reaction on this particular proposal is no more than a matter of attempting to balance probabilities. He expressed the opinion that even if this aid was given to China in this manner, that he doubted if the Japanese would consider it to their interest to change their previous policy as related to the United States and Great Britain. However, he indicated at the same time that it was very difficult to have any degree of assurance about it. He pointed out further that some incidents might take place as a result of a move by some "hot-headed" army man, such as the Panay incident, but all this was in the range of pure conjecture.

Mr. Hornbeck said he thought that the decision to go through with this proposal or not rested on whether or not it was thought the Chinese situation was important enough to the United States to cause a deviation from our strict policy of neutrality. He then went on to say, if the decision were made to deviate in this instance, would the amount involved be large enough to be effective? He used the illustration of giving food to a starving man, indicating that the man would still starve if only a small amount of food were given to him, that what was necessary to produce any results was enough food to sustain him.

In connection with giving an effective amount of aid to China, Mr. Hornbeck said he thought it was important to consider what other countries might do if the United States made the first move. He said he felt that Great Britain and France would follow, and that was even more probable now that the European situation had improved.

Secretary Hull asked Mr. Jones what he would do. Mr. Jones said he would be inclined to go through with it, but, of course, with the reservation that he did not have Secretary Hull's familiarity with the world picture, and that he would need to be informed in that regard.

Secretary Morgenthau asked Secretary Hull if he were open-minded on the proposal. Secretary Hull said he was, and repeated again his feeling that we were all in favor of doing something for China but it conflicts with the neutrality problem.

Secretary Morgenthau closed the conference by saying he did not want to rush Secretary Hull, but if Secretary Hull did not object, he would ask the President at the Cabinet Meeting if he would see Secretary Hull and himself on Monday with regard to this proposition. Secretary Hull stated it would be agreeable to him.

Mr. Tapp told me, on the way back to the Treasury, that he thought Dr. Feis was going to approve their trading wheat for strategic materials. It occurs to me that the fact the Department of Agriculture has this other wheat proposal in the "fire" with the State Department may account for Mr. Tapp's obvious effort at the meeting to indicate to Secretary Hull that no pressure from Agriculture would be put on the State Department with regard to the Chinese wheat proposal.

September 30, 1938

N.Y. Times Weekly Business Index

	<u>Weight</u>	<u>Sept. 24 Wk.</u>	<u>Change</u>
Automobile Production	.03	30.6	up 5.1 ✓
Steel Ingot "	.10	67.4	off .3 ✓
Electric Power "	.49	94.1	off 3.6* ✓
Lumber "	.06	77.7	up 1.0 ✓
Miscellaneous Carloadings	.19	71.3	off .9 ✓
All Other "	.08	83.5	up 2.5 ✓
Cotton Mill Production	.05		

*Based on preliminary figure. Production for the New England district not available because of the hurricane.

On basis of available data, NYT business index in Sept. 24 wk. would be off 1.6.

Next wk.:

NYT index of auto production in Oct. 1 wk. rose to 36.3 from 30.6.

McNOSH
APPLES



TABLE 2 - ALL STATES (1947-1952)

ALL STATES	COLLECTIONS	DELINQUENT #	UNMATURED
	Comp. 22,196,782.27 Unmatured 1,075,000.00 Total 23,271,782.27	2,245,000.00	\$ 23,271,782.27 \$ 1,075,000.00

TABLE 3 - ALL STATES (1947-1952)

REGION	COLLECTIONS	DELINQUENT #	UNMATURED
REGION I (D.C.)	Comp. 21,400,000.00 Unmatured 1,000,000.00 Total 22,400,000.00	2,000,000.00	\$ 22,400,000.00 \$ 1,000,000.00
REGION II (MISSOURI)	Comp. 10,000,000.00 Unmatured 500,000.00 Total 10,500,000.00	1,000,000.00	\$ 10,500,000.00 \$ 500,000.00
REGION III (INDIANA)	Comp. 15,000,000.00 Unmatured 750,000.00 Total 15,750,000.00	1,500,000.00	\$ 15,750,000.00 \$ 750,000.00
REGION IV (N.C.)	Comp. 12,000,000.00 Unmatured 600,000.00 Total 12,600,000.00	1,200,000.00	\$ 12,600,000.00 \$ 600,000.00
REGION V (ALABAMA)	Comp. 8,000,000.00 Unmatured 400,000.00 Total 8,400,000.00	800,000.00	\$ 8,400,000.00 \$ 400,000.00
REGION VI (ARKANSAS)	Comp. 6,000,000.00 Unmatured 300,000.00 Total 6,300,000.00	600,000.00	\$ 6,300,000.00 \$ 300,000.00
REGION VII (NEBRASKA)	Comp. 4,000,000.00 Unmatured 200,000.00 Total 4,200,000.00	400,000.00	\$ 4,200,000.00 \$ 200,000.00
REGION VIII (TEXAS - OKLAHOMA)	Comp. 18,000,000.00 Unmatured 900,000.00 Total 18,900,000.00	1,800,000.00	\$ 18,900,000.00 \$ 900,000.00
REGION IX (CALIF. - ILL. - W. V.)	Comp. 14,000,000.00 Unmatured 700,000.00 Total 14,700,000.00	1,400,000.00	\$ 14,700,000.00 \$ 700,000.00
REGION X (COLORADO)	Comp. 3,000,000.00 Unmatured 150,000.00 Total 3,150,000.00	300,000.00	\$ 3,150,000.00 \$ 150,000.00
REGION XI (OHIO)	Comp. 9,000,000.00 Unmatured 450,000.00 Total 9,450,000.00	900,000.00	\$ 9,450,000.00 \$ 450,000.00
REGION XII (PENNSYLVANIA)	Comp. 7,000,000.00 Unmatured 350,000.00 Total 7,350,000.00	700,000.00	\$ 7,350,000.00 \$ 350,000.00

UNITED STATES TREASURY DEPARTMENT
OFFICE OF COMMISSIONER OF ACCOUNTS AND GENERAL
CENTRAL ACCOUNTS OFFICE - FIELD SUPERVISION DIVISION

* DELINQUENT INSTALLMENTS RECEIVED BY EXTENSION.

**FEDERAL RESERVE BANK
OF NEW YORK**

September 30, 1938.

Dear Mr. Secretary:

Yesterday and today, with the abatement of European war fears, there was evidence of a distinct revival of interest in long term financing. After a cessation of all progress in bringing corporate issues to market, two large issues totaling \$135,000,000 were placed before the Securities and Exchange Commission - one registered under the Securities Act and one filed under the Holding Company Act as a preliminary to registration. These two issues, combined with the issue that has been postponed for the past two weeks, another that will become eligible for sale next week, and several others that may be offered within the next month or so, make up a total of over \$419,000,000 of issues which can be termed near-term prospects. The individual issues are as follows:

\$42,000,000	Michigan Consolidated Gas Company - merger and refunding
37,500,000	Virginia Electric and Power Company - refunding
80,000,000	Public Service Company of Northern Illinois - refunding
65,000,000	Ohio Power Company - refunding
50,000,000	Firestone Tire and Rubber Company - new capital
69,500,000	Wisconsin Electric Company - merger and refunding
50,000,000	Public Service Company of Colorado - refunding
25,000,000	Argentina - foreign new capital
<u>\$419,000,000</u>	

The great majority of them are to be in the form of mortgage bonds, and only the Firestone and Argentine issues and small portions of other issues are for new capital.

There was improvement also in the municipal bond market during the past week. Although interest costs of some awards were rather sharply higher than in recent weeks, a total of \$12,400,000 was awarded through Thursday, and award of \$5,400,000 more is expected to be made today. Moreover, the public reception of the larger issues has

been very good; over \$8,000,000 of awards made Thursday were almost entirely sold.

Corporate security issues in September will total only a little over \$100,000,000 - less than a third of the August total. Of this \$100,000,000, some \$60,000,000 is for new capital purposes. The amount of new issues to finance plant, equipment, and working capital has been declining each month since June, but the monthly average for the third quarter, as shown in the accompanying diagram, is the highest since the second quarter of 1937 and has been surpassed during the recovery period by only the three best quarters of 1936-37. Particularly in view of the large total of issues expected during the next few weeks, the low September total should be regarded partly as temporary (when the Czechoslovakian situation seemed most critical discussion of new issues was practically suspended) and partly as accidental. The longer-term trend still seems to be upward, although activity again seems to be running more toward refunding than toward new capital issues.

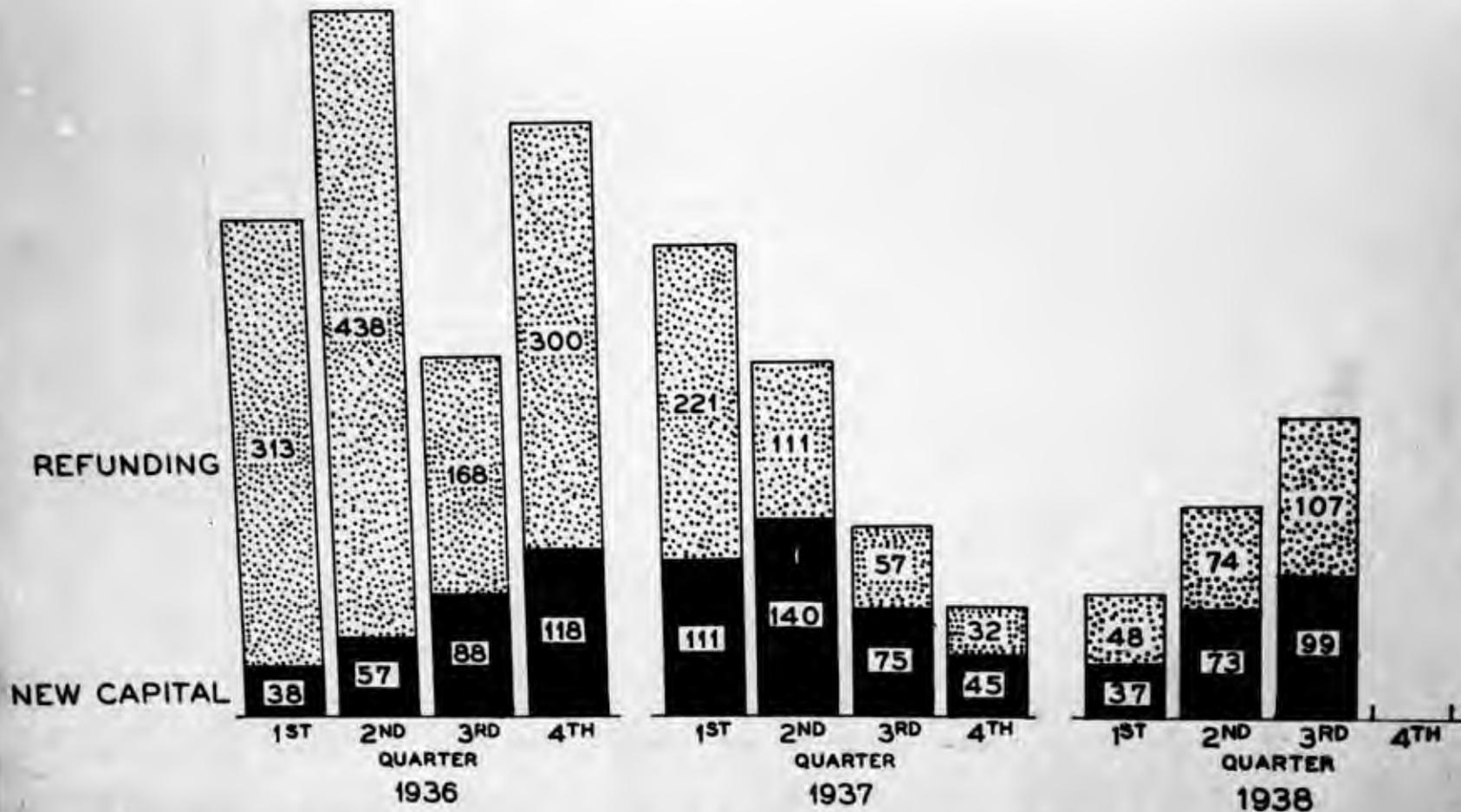
Yours faithfully,



Aylan Sproul,
First Vice President.

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

Enc.



Average Monthly Volume of Domestic Corporate Security Issues for New Capital and for Refunding
(In millions of dollars)

170

file 9-30-38

October 8, 1938

Memorandum for Mr. Hanes:

I have already verbally approved the two suggestions in your memorandum of September 30th and I do so now formally.

(S) [unclear] [unclear], Jr.

"O.K."
HMJr

OCT 10 1938

Copy

September 30, 1938

To: The Secretary
From: Mr. Hanes

I had a conference this morning with Mr. Colin F. Stam, Chief of Staff, Joint Committee on Internal Revenue Taxation, regarding enactment of the Internal Revenue code. As you know, this matter has been before the Treasury for some time, and I am advised by Mr. Stam that Mr. Doughton is anxious to have this code approved by the Bureau of Internal Revenue in order that the Ways and Means Committee may submit it for enactment as one of the early measures of the new Congress. The code has been revised to contain the 1938 Act, and the changes are being studied at this time by Mr. Wenchel's office in the Bureau of Internal Revenue. I advised Mr. Stam that I would take this matter up with you immediately, and that we would give him an answer at the earliest possible moment.

Mr. Stam made a further suggestion for simplification of income tax returns of small corporations. He said that Senator Harrison had suggested to him the thought that differentiation should be made in the Bureau of Internal Revenue forms between very small corporations and large corporations, in order to greatly simplify the effort required by the small retailer, for instance, in making corporation tax returns.

PROBABLE CHRONOLOGY OF CHINESE LOAN

There appears to be nothing in the record prior to June 1, 1938.

June 1, 1938: H. Morgenthau, Jr., and Wallace talked to Hull about making a loan to China so China could buy flour and grey goods. There are no details in the record on how the loan was to be handled. Hull suggested that if any proposal was made to China, a similar proposal should be made to Japan.

June 2, 1938: Herman Oliphant reported to H. Morgenthau, Jr., that he had talked to Wallace's man, Blandi, about the possibility of either the Federal Surplus Commodities Corporation or the Reconstruction Finance Corporation handling an interchange of agricultural commodities for strategic commodities.

June 6, 1938: A conference was held at which Secretaries Morgenthau and Wallace, Sumner Welles, Dr. Feis, Wayne Taylor, Herman Oliphant, Harry White and George Haas were present to discuss loans to China and Haiti. The State Department representatives pointed out the difficulties from a neutrality standpoint in the way of making a loan to China and suggested a plan for purchasing surplus agricultural commodities in this country with relief monies and distributing them to the Chinese through the American Red Cross. Wayne Taylor thought no action should be taken on a loan through the Export-Import Bank without express Congressional authorization. Secretary Morgenthau pointed out that the important thing to keep in mind was the necessity for disposing of surplus agricultural products and the thing was important enough to warrant a further study and further discussion. The record does not contain any discussion as to the mechanics of making a loan.

- 2 -

June 24, 1938: Dr. Feis forwarded to the Secretary a copy of information received by the Secretary of State from the Ambassador at London stating that in a conversation the British Treasury had referred to the desirability of making funds available to China.

July 12, 1938: At a conference attended by the Secretary, Ambassador C. T. Wang and Messrs. Taylor, White and Lochhead on the subject of Chinese silver, Wang stated to the Secretary that while he had no specific instruction from Dr. Kung he had been looking over the record of the wheat and cotton loan and found that China had used up something like \$18,000,000.00 instead of over \$50,000,000.00 and had paid about one-third of it back. He wondered whether it would not be possible to renew their request for the use of the balance of the loan. The Secretary simply indicated that he and his associates would think it over. The Secretary stated that he was leaving Friday (July 12) and doubted that he would have an answer for Wang before that time.

July 26, 1938: A paraphrase of telegram received from Ambassador Bullitt indicated that Secretary Morgenthau had been visited by Wellington Koo, Chinese Ambassador, that morning. (The Secretary indicates this was at Bullitt's suggestion. See notes on meeting of September 6 with State Department representatives.) Koo mentioned the vital importance for the Chinese to obtain financial aid. The Secretary told them he could make no promises but said it would be advisable if K. P. Chen, with whom the Secretary had a previous acquaintance, could be sent to the United States for the purpose of looking into the possibilities of getting credit for

purchasing flour and grain products. Koo said that he would immediately get in touch with the Chinese Government.

August 8, 1938: Ambassador Bullitt wrote to the President outlining the financial plight of China, mentioning H. Morgenthau, Jr.'s conversation with Koo and recommending a credit to China of \$100,000,000.00 for the purchase of flour and grey goods in the United States. Bullitt asked the President's reaction to the proposal so that he could try to push Bonnet into making good his statements with regard to the readiness of the French Government to take simultaneous and similar action.

August 16, 1938: The President forwarded this letter to Acting Secretary of the Treasury Magill and asked him to push the matter with the State Department and Agriculture, and, if necessary, the Reconstruction Finance Corporation, Commodity Credit Corporation, and Export-Import Bank.

August 18, 1938: Acting Secretary of the Treasury Magill advised the President by letter that Wayne Taylor had called on Secretary Hull in accordance with the President's instructions and had also discussed the matter with Secretary Wallace. He also told the President that a message from Secretary Morgenthau, received about August 8, stated that he was not familiar "with details of proposed loan to China" but favored making flour and cotton grey goods loan. This message from H. Morgenthau, Jr., was evidently in answer to a wire from Wallace saying some people in the Treasury were holding up a wheat loan.

September 2, 1938: The Chinese matter was brought up at the Cabinet meeting on this day. Apparently no statement was made at the meeting to

the effect that the matter was settled. Hull talked for the first time at the meeting about a relief loan for China. The President told H. Morgenthau, Jr., that he ought to see Ambassador Wang. When H. Morgenthau, Jr., returned from the Cabinet meeting he had a 'phone message from Wang wanting to see him. The Secretary, however, said that he was leaving in five minutes (evidently for the farm) so "they caught" Wang somewhere between Washington and Philadelphia, probably at Wilmington, and they got him off the train and he turned around and started for the farm. (The identity of "they" is not clear from the notes.)

September 3, 1938: Wang arrived at the farm all ready to get what he thought was a \$25,000,000.00 loan. Wang thought that the President had given him to understand that we would lend flour to the Chinese and that they would pay us back in flour. H. Morgenthau, Jr., told Wang that he thought it would be preferable to lend the Chinese the money to buy flour and for them to pay us back in dollars, with which Wang agreed. The Secretary told Wang, however, that while he had been in favor of making a Chinese loan for over two months, the matter was not at all settled and had not cleared the State Department. He told Wang that if the President and Mr. Hull would say yes, he could settle the matter with him in twenty-four hours. However, the Secretary also cautioned Wang that he should not send any cables or anything to indicate that the matter was closed.

September 6, 1938: On this date the Secretary met at 10:55 A.M., with Messrs. Oliphant, Taylor, Loomhead and White, and outlined to them the details of his meeting at the farm with Wang. Later in the day he met with the same men and Messrs. Moffat, Hamilton and Fels of the State Department. At this meeting it was brought out that the Chinese Ambassador

had been to see the Secretary of State several times with a view to reinstating the Reconstruction Finance Corporation credit of 1933, amounting to some \$30,000,000.00 and that the last approach made by Wang to Hull was about a credit for relief purposes. The Secretary then outlined to the meeting his conversations with Bullitt and Koo and the arrangements made to have K. P. Chen come to the United States. He also told the meeting that he had seen the President on September 5, and that the President had told him that he had made no promises to Wang. The President had said further that "I am sympathetic to the thing. Work it out with the State Department and Agriculture. Work it out and see what we can do." The matter of a relief loan was talked about and dismissed. The possibility of arranging a purchase of tungsten from China was mentioned. The Secretary finally stated that he thought the United States Government could and should offer the Chinese Government a direct credit, probably through the Reconstruction Finance Corporation, and indicated that the State Department representatives should put it up to Hull. He also indicated that Mr. Chen should carry out his plans to sail for the United States on the 10th of September. The Secretary also said that if Wang should call him up, he would simply indicate that he was still studying the matter. (So far as the Secretary was concerned, he would just as leave see Wang out of town so that he could do business with Chen.)

September 7, 1938: The Secretary talked with Bullitt by phone and it was understood that Chen was to make the trip and that progress was being made on the loan with the State Department.

- 6 -

September 9, 1938: Bullitt wrote the Secretary under this date outlining the commodities which he thought the Chinese could use and telling the Secretary what he knew about Mr. Chen.

Note: (1) The other matters in the file are those about which Mr. Foley has personal knowledge, i.e., the meeting with Jesse Jones, John Goodloe, and Sabin at the R.F.C., on September 22, 1938; the report to the Secretary about the meeting on the same day; and the later meeting that day between the Secretary and Mr. Chen. (2) There is also in the file a letter addressed to the Secretary, dated September 6, 1938, from J. Lossing Buck, Treasury representative in China, in which Buck outlines certain conversations that he had had during the latter part of August and the first part of September with various Chinese and American officials in China. These memoranda indicate that Wang was negotiating with private interests in this country for a private loan with the knowledge of Dr. Kung but that despite Kung's warnings, the Ambassador had evidently been negotiating with irresponsible persons and contrary to Kung's instructions Wang had not kept the Treasury and the State Department fully informed.