

GROUP MEETING

October 24, 1938.
9:30 A. M.

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

H.M.Jr: Herman, I think at two thirty today I'd like to meet with you on that letter to Mr. Hull.

Oliphant: I have had some more stuff on that. May is in town, from Berlin.

H.M.Jr: How about two thirty?

Oliphant: I think I can finish the revising of it. I want to give you a different version.

H.M.Jr: You want to let it go until tomorrow?

Oliphant: I'd a little rather, yes.

H.M.Jr: Good. Ten thirty tomorrow morning?

Oliphant: Yes.

Klotz: Oh, that's (low.)

H.M.Jr: Well, ten forty-five.

Oliphant: All right.

H.M.Jr: Ten forty-five. Now, who do we want on that?

Oliphant: Well, my shop.

H.M.Jr: Well, you, and your shop; we want White on that.

- 2 -

Oliphant: Yes.

H.M.Jr: Anybody else? All right. Well, that - we'll do that at ten forty-five. Mrs. Klotz, will you
(talking low)

Klotz: (Nods "Yes.")

H.M.Jr: Maybe I'll read them tonight.

Oliphant: I'll write you a lot of notes.

H.M.Jr: Then, why don't we save two thirty this afternoon to do the letter on China? We'll want Mr. Hanes here. How will that be - two thirty we can do China. I don't know whether a letter came in from Mr. Jones or not, do you?

Klotz: I haven't got it on my desk.

H.M.Jr: (Over telephone:) Miss Chauncey, on the phone, please.

It gives us a little more time to prepare the letter because the President won't be in until

(Telephone.) Hello. Is there a letter from Jesse Jones in regard to China? Well, call up his office; he was going to send it to me; and find out where it is - in regard to a loan to China - and tell him I am waiting for it.

Hanes: (Coming in.) Hello.

Klotz: Good morning.

H.M.Jr: Have you got a letter from Jones on China?

Hanes: That's where I was, now. He said he was going to be a little delayed; he was going to get it over this morning. I just talked to him this morning. He was going to call me before; then he called back.

H.M.Jr: (Over telephone:) Miss Chauncey. Mr. Hanes says he was just talking to Jones about the letter from Jones on China; it's not written yet.

I put down two thirty for that; think you men can be ready?

- 3 -

- Hanes: Hardly.
- H.M.Jr: Huh? Can't you be ready on the German thing today?
- Hanes: Jesse said he thought you wanted this in time to go over at noon today; he said he guessed the President wouldn't be back until tonight and that would give him a little more time. I said, "Be sure to get it over this afternoon."
- T.S.Jr: Well, if you men are ready at two thirty, come on in and I'll give you until tomorrow, because that is more important. O. K. If you're ready, I set aside two thirty for China.
- Hanes: Want us to have that letter from Jesse by then if we can?
- T.S.Jr: Yes. Otherwise, I can't handle it.
- Hanes: No use having a meeting unless we have that.
- H.M.Jr: Will you let Mrs. Klotz know? Nothing else pending except this letter on the Chinese Loan, and the Chinese dumping? Got anything else we could do at two thirty, huh?
- White: ^{you're} Japanese/probably going to handle at the same time?
- Olliphant: I won't be ready on that.
- H.M.Jr: Well, does anybody else want two thirty for anything which I am not up to date on?
- Well, in order to give you people - why not say give you plenty of time, I'll do the Chinese at ten o'clock tomorrow morning; how's that? Then there is no question. Huh? You won't have any two thirty, Mrs. Klotz. Give China ten o'clock tomorrow morning. Huh? How's that? Well, since there is nothing - nobody wants to see me at two thirty
- McReynolds: I'll put in a bid for it, on some Administrative matters.
- H.M.Jr: Sold to McReynolds - five cents.
- Herman?

- 4 -

Oliphant: Nothing.

H.M.Jr: What?

Oliphant: Nothing.

H.M.Jr: Herbert?

Gaston: Nothing, except that I think arrangements are all made for ten o'clock. I invited R. F. C., Federal Reserve, and F. D. I. C., and the people around the building, and the newspapermen and photographers.

H.M.Jr: Preston Delano baptized at ten o'clock.
Anything else?

Gaston: Nothing else.

H.M.Jr: George?

Haas: I have nothing important this morning. That (lays book on H.M.Jr's desk). I'll give you a memorandum on the conversations with Ruml; didn't finish until last night - he called me.

H.M.Jr: Georgie, didn't we used to get, every week, the employment figures of Hopkins? I don't get those any more.

Haas: Don't you get those? Oh my!

H.M.Jr: Can't you give those to me? I see all the statements Hopkins is making in the papers. I am sort of curious to see if he's doing anything besides making statements.

Haas: I'll see that you get them.

H.M.Jr: If you can give them to me, today. Are you and Dr. Parran and Miss Lonigan making any headway on the two-price system?

Haas: Some. We couldn't do anything after that first meeting with Tapp because he left town, and was supposed to be back this morning. He promised us at that meeting a statement which would show the relationship between the distribution of the

- 5 -

surplus commodities, and that that Parran worked on, but he hasn't delivered that yet.

H.M.Jr: Will you put a little pressure on it?

Haas: I tried to last week but couldn't get hold of him.

H.M.Jr: Hopkins asked me what it was all about; he sent Aubrey Williams over to try to find out what it was all about.

Haas: Did you see my memorandum on that?

H.M.Jr: No. .

Haas: Didn't you?

H.M.Jr: It doesn't mean I didn't get it. Hopkins says, "What is it?" The only difference I see, instead of giving the food away they are going to sell it to the poor. He was terribly excited about it. He thought that was terrible.

Haas: I could tell you now, very briefly, if you haven't read the memorandum.

H.M.Jr: I'll read the memorandum.

Haas: It's not much; it's a big idea they are working on. They have about as much in the paper as was any place else.

McReynolds: It's very complicated.

H.M.Jr: What's happened to the three million people Parran said are under-nourished and under-fed?

White: Still under.

Haas: Still

Upham: Still under.

H.M.Jr: Put a little pressure on it. If necessary, prepare a letter for me to write to Wallace.

Haas: They are working right now, putting all their energies on this cotton situation. One point that developed in the meeting was, I asked them how

- 6 -

they were going to put the cotton into these lower ordinary uses to be used by people of lower income, and the amount they were figuring on, it would take another hundred fifty million dollars, and I asked them where they were going to get that, and they said they'd have to go to Congress for that. It looks as though this is another layer on the cake.

- H.M.Jr: Well, I see they are back in the business of buying oranges and lemons again, according to the paper.
- Haas: He's promised me a report to show how that correlated with Parran's stuff.
- H.M.Jr: The biggest purchase they made last week was labels.
- Oliphant: Was what?
- H.M.Jr: Was labels. Seriously. They bought fifteen thousand, or fifteen million labels.
- Klotz: What for?
- H.M.Jr: I don't know.
- Upham: To put on the jars.
- Klotz: Jars of what?
- Upham: Preserves.
- White: Caviar.
- Klotz: (Laughs) He's good this morning.
- H.M.Jr: This is funny, and sad; you can either laugh or cry. This is what they bought for the under-nourished last week. They bought three hundred and eleven something of apples; they bought thirty-eight units of snap beans; they bought two hundred forty-one units of fresh beets; they bought eighty units of blackberries; then they bought this eighteen thousand - I don't know - units of butter; and one thousand nine hundred units of cabbage; they bought a hundred seven units of cane

- 7 -

syrup; a hundred twenty-four units of carrots; twenty-one units cauliflower; one eighty-three units of celery; eight units of corn; a hundred seventy-three units of cotton fabric; two hundred seventy-nine units of flour; five hundred fifty-five units of grapefruit juice; they bought fifteen thousand units of labels; twenty-five hundred units of mattress ticking; eighty-nine hundred units of dry skim milk, and eighty-three hundred units of fluid milk; nine hundred seventy-nine units of onions; and three units of fresh peas; three thirty-four units of sweet potatoes; three thirty-four units of white potatoes (right amount is 2,365 for white potatoes - read 334); thirteen units of fresh prunes; eleven units of raisins; and a hundred forty-five units of canned tomatoes, and a hundred fourteen units of fresh tomatoes.

Olyphant: Is that going into current consumption or is it storage?

H.M.Jr: Will you, George, please, if you can't get an answer, write a letter and I'll sign it. See?

Haas: He's given me all the answer he could the day he was over, but I think there is some problem they are working on - a pretty big program carried so far - having new expenditures - pretty heavy.

H.M.Jr: And you will let me know what you are working on with Ruml?

Haas: Yes.

H.M.Jr: John?

Hanes: Nothing.

H.M.Jr: Cy?

Upham: You want Mr. Delano in this office before the ceremony, do you?

H.M.Jr: Sure.

Upham: About five minutes of ten?

- 8 -

H.M.Jr: Yeah. Might as well get him whenever you're ready.

(To Mr. Gibbons) I read your letter from Boss Pearson, and on how to handle the Maryland situation; it goes right in to it.

Gibbons: It's interesting, isn't it? I just listened.

H.M.Jr: And I haven't heard from the President.

Gibbons: How?

H.M.Jr: I haven't heard from the President.

Gibbons: I think he saw Steve Early; it's just a kidding game. I understand he contributed seventeen thousand dollars to that campaign over there.

H.M.Jr: He and his two sisters.

Gibbons: Huh?

H.M.Jr: He and his two sisters.

Gibbons: But it's C. I. O. money.

H.M.Jr: What?

Gibbons: It's C. I. O. money, I understand; it's not his at all. You may hear more from it in Congress.

H.M.Jr: New kind of money?

Gibbons: What?

H.M.Jr: New kind of money?

Gibbons: Yeah.

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

White: There is a letter here from American importers of coffee that Miss Chauncey said you wanted raised at this staff meeting.

H.M.Jr: Keep it and I'll talk to you about it.

- 9 -

White: Silver. In the first place, it's approaching the first of the year

H.M.Jr: Is it?

White: Gradually. and the question of price of domestic silver must soon be decided, and, secondly, I think that there is some Japanese silver that may come in, in substantial quantities, sometime in the near future, and it may be appropriate to consider the question of purchases of foreign silver.

H.M.Jr: Well, December 31 is, fortunately, a Saturday, and I suggest you come in and see me one minute past twelve on Saturday.

White: That means you've got your mind made up; I hope it's the right way.

H.M.Jr: No, strange as it may seem, I haven't even thought about it.

White: That is strange. Well, you're getting good, to make up your mind in one minute.

H.M.Jr: No, you've got from minute past twelve to one minute to one; you've got fifty-eight minutes.

Olyphant: The terms of the Silver Purchase Act require the Secretary to purchase silver

White: under such terms and conditions as he deems is in the best interests of the American people. We may be purchasing a lot of Japanese silver soon.

H.M.Jr: Well, you and Archie get together about this silver that is being reported as held up at Hongkong or Shanghai.

White: Archie just told me about it.

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

Lochhead: I haven't been able to get any further news; it's a little too early for it in New York. Incidentally, in regard to foreign silver, that Siam silver they

- 10 -

offered to us, and we turned down, twenty-two million ounces of their coinage, is arriving over here this week, and is being refined daily as long as they're paying the price on it.

- H.M.Jr: I suggest that White, about the first of December, give me a memorandum from your section on both newly mined silver and on foreign mined silver. Will you, the first of December, give me a memorandum?
- Lochhead: In the meantime we'll be getting about twenty-two million ounces of Siamese silver, because they will put it in the bars.
- H.M.Jr: If you give me a memorandum on the first of December. Well, the Siamese people, we can't back away from them.
- Lochhead: No, as long as they get it here, refine it, put it in good delivery bars, pay the tax on it
- H.M.Jr: We can't select the flag under which silver can come in under the law. It's not just a question of how much silver is coming in just now. It would have to be a question of price, whether we want to change our price on this foreign silver coming in. You can't discriminate against Japanese or Siamese or anything.
- White: No, but you could alter the rate of purchasing; you might reduce the rate of your purchases and since you are already partly committed to Siam's silver, Siam silver may take up the bulk of what you feel it is appropriate to purchase.
- H.M.Jr: What do you mean? On Monday we have a price for Siam, Tuesday one for China, and on Wednesday another price for Spain?
- White: No, it's a question of quantity - how much you buy. I think there is a possibility of distinguishing the amounts you might buy.
- Olyphant: Can you keep it out of the world market, Harry?
- White: Well, that's possible.

- 11 -

- Lochhead: You'll have two prices for foreign silver.
- H.M.Jr: Maybe more. I'll say, the first of December, give me a memorandum.
- White: That's ample time.
- H.M.Jr: That gives you five weeks. If there are no cables in from either Butterworth or Cochran, send them one and ask them if there are any comments -- well, they'd do it any way.
- Lochhead: They'll send the comments over.
- H.M.Jr: (Nods to Mr. McReynolds.)
- McReynolds: Danny's Bureau has asked information as to what emergency operations now carried on in the Treasury will have partly expired on the thirty-first of March, 1940. They are very anxious to have that; I don't know what they are going to do to us; they are going to reduce estimates on the basis of the expiration. I have asked Mr. Oliphant's office
- H.M.Jr: Can't you talk to my assistant, Mr. Bell, and ask him to ask the Director of the Budget what it's all about?
- McReynolds: Well, I know what their reason is. There is a possibility of reducing estimates for '40, on the basis of the elimination of some of those activities, without any regard to whether they are likely to be extended.
- H.M.Jr: Well, talk to me about it at two thirty, Mac.
- All right, gents.

Monday
October 24, 1938
11:16 a.m.

HMJr: Hello.

Operator: Admiral Peoples.

HMJr: Thank you.

O: Go ahead.

HMJr: Hello.

Admiral
Peoples: Good morning, Mr. Secretary.

HMJr: Hello, Admiral. Are you at your office?

P: Yes, indeed, sir.

HMJr: Right. Admiral, the President called me up - there's
a Frenchman in town by the name of Monnet - M - o - n -

P: Who?

HMJr: n - e - t.

P: Who?

HMJr: Monnet.

P: B - o - n - e - t?

HMJr: No, M like in -

P: Yes sir.

HMJr: - morning. M - o - n - n - e - t.

P: I see.

HMJr: And ah - Ambassador Bullitt brought him over here. -
He's here without the French Embassy knowing and he
represents Monsieur Daladier, the Prime Minister of
France. See?

P: Yes.

HMJr: Now ^{he} wants to talk about the possibility of their
buy^{ing} aeroplanes over here. See?

- 2 -

P: (Coughs)

HMJr: Hello?

P: Yes.

HMJr: And the President wants you to see him.

P: Yes, indeed, sir.

HMJr: Now - and talk to him and he - he just wants to talk in general terms and get your advice and nobody else - nobody's to know that you've seen him and nobody's to know he's in town.

P: All right, Mr. Secretary.

HMJr: Now when could you see him?

P: Well - ah -

HMJr: Could you see him this afternoon?

P: This afternoon at two o'clock, sir.

HMJr: Two o'clock this afternoon at your office?

P: Fine and dandy.

HMJr: I'll have him there.

P: Yes indeed, sir.

HMJr: I'll have him there.

P: Thank you very much, Mr. Secretary.

HMJr: Thank you.

P: Thank you, sir.

Monday
October 24, 1938
11:53 a.m.

W. Randolph
Burgess:

We ought to tell you that there's a very interesting Swiss fellow here in town and he's going to be in Washington on Wednesday and Thursday.

HMJr: Yes.

B: His name is Straesle - S-t-r-a-e-s-l-e. Now he's the head of the Credit-Suisse.

HMJr: Yes.

B: Which is probably the biggest bank over there. And we've found him very interesting, particularly on this matter of the pound.

HMJr: Yes.

B: And the relation to it of the Dutch and the Swiss currencies.

HMJr: Yeah.

B: And I wondered if you would care to see him.

HMJr: Yes. I would.

B: For a few minutes.

HMJr: Yes.

B: He'll be - he'll be in Washington and available any time Wednesday afternoon or anytime Thursday.

HMJr: Well now, I'm not sure that I'm going to be here Thursday.

B: Yes.

HMJr: Ah - he won't be here Friday?

B: Ah - will you be there Wednesday?

HMJr: Yeah - Wednesday before noon.

B: I see. Yeah - yeah. Well, now - ah - I - he was planning to come back here Thursday afternoon but I think he could stay down Friday.

- 2 -

HMJr: Well, either way. But I couldn't do it Wednesday afternoon or Thursday. I could do it Wednesday morning -

B: Yes.

HMJr: - or Friday morning.

B: Yes.

HMJr: Do you want to get in touch with him?

B: I'll see what he can do, yes.

HMJr: I'll tell you what you do, get in touch with him and then either call me or Mrs. Klotz -

B: Are there any particular times on those days or ah -

HMJr: Well. -

B: Would anytime do?

HMJr: No. No. I don't want to do that. Just a moment.

B: Yes.

HMJr: I'd say - if you could make it Wednesday I could say definitely ten-thirty.

B: Ten-thirty - yes. Yeah.

HMJr: How do you spell his name?

B: Ah - S-t-r-a-e-s-

HMJr: S-t-r-a-e-s -

B: s-l-e.

HMJr: s-l-e?

B: Yeah. Straesle.

HMJr: Well - supposing -

B: And he's the head of the Credit-Swisse.

HMJr: Well, supposing you get in touch with him and see if he can't come down.

- 3 -

B: All right.

HMJr: Ten-thirty. And let's leave it this way - if I don't hear from you it's a date.

B: On ten-thirty Wednesday?

HMJr: Yeah.

B: All right. He - he's probably got something he can shift so that -

HMJr: All right. If I don't hear from you it's a date.

B: All right. That's very good - ten-thirty Wednesday. I'll get in touch with him and then I'll just confirm definitely with Mrs. Klotz.

HMJr: Right.

B: To be sure.

HMJr: Now, while I've got you - another matter.

B: Yes.

HMJr: I wish you'd be thinking over this question of what, if anything, we can do with Central and South America.

B: Yes, I've already - I've been talking this morning with Gordon Rentschler about it.-

HMJr: And here's the thought that I had - this group didn't seem to be awfully good on it - the possibility of my getting together with some of the fellows who do business down there.

B: Yeah.

HMJr: See?

B: Yeah.

HMJr: And sitting down and talking with them and let them tell me their problems.

B: Yes.

- 4 -

HMJr: See?

B: Yes.

HMJr: Both business - I mean, banking interests and other fellows and ah - we might have a little round table on it.

B: Well, I think that's a good idea. We could make some suggestions on that.

HMJr: That's what I'd like.

B: Ah - I had a long talk with Gordon Rentschler this morning about it.

HMJr: Yeah.

B: And I'm going to talk with our - with our fans on South America and see what ideas they've got.

HMJr: Will you do that?

B: We've got some fellows who are darn good at it.

HMJr: All right.

B: They say that this fellow Pierson, on the Export Import Bank, is doing a good job.

HMJr: Yeah.

B: And their first - their first bet is that the plans that he has are pretty good.

HMJr: I see.

B: So that it might be pretty interesting to talk with him too.

HMJr: Right. Well he's not back yet.

B: Yeah. /I think he got back yesterday, didn't he - or the day before?

HMJr: Oh, really? Well I guess you know more than I do.

B: He's just getting back.

HMJr: All right.

B: Yeah. Yeah. All right. Fine, Henry.

HMJr: Thank you.

B: Good. Goodbye.

October 24, 1938

In talking with McIntyre, around 12 o'clock today, he said that he wanted to talk to me about Giannini, because Giannini has been writing him a great many letters and he is very much worried about it. McIntyre wants to write Giannini to tell him to stop writing these letters and to keep him out of the picture.

Monday
October 24, 1938
12:06 p.m.

HMJr: Hello.

Admiral
Leahy: Admiral Leahy speaking, Mr. Secretary.

HMJr: How are you?

L: Fine, thank you, sir.

HMJr: Admiral, I wonder if your people know anything about what happened at Canton - I mean how these Japanese are able just to walk in there as though - without any resistance?

L: Well, we haven't got a thing on it. I assume it was silver bullets.

HMJr: Yes.

L: But that's just an assumption - we have nothing on it.

HMJr: If you get anything would you let me know?

L: Yes, sir. I'll look it up and see if there's anything at all and I'll send it over to you specially.

HMJr: Thanks.

L: But there isn't very much, I know that.

HMJr: It's the most amazing thing, wasn't it?

L: It was astonishing, yes, sir. They just walked out and left it, that was all.

HMJr: Well, if you got anything - if you'd send it over.

L: Yes, sir.

HMJr: Thank you, Admiral.

L: Thank you, Mr. Secretary. Goodbye, sir.

Monday
October 24, 1938
12:55 p.m.

HMJr: Hello.

Operator: Jesse Jones. Go ahead.

HMJr: Hello.

Jesse Jones: Hello.

HMJr: Hello, Jesse.

J: Yeah.

HMJr: They say they think that about 200 million already have been turned in or will be turned in.

J: Yes. It works pretty fast.

HMJr: Yeah. And I think we'll close the books tomorrow night; I don't see any sense in leaving them open more than two days.

J: Well, unless ah - I don't know where they all are.

HMJr: Well, the boys know where they all are.

J: All right.

HMJr: What?

J: Perfectly all right.

HMJr: Ah -

J: You know best.

HMJr: Well I'm going to talk to them once more after lunch, but ah - there's nothing much to be gained - they think they're in the hands of 45 different institutions.

J: Well, they can all get them and if you'd - if you notify them tomorrow night that gives them plenty of time.

HMJr: They can put it in the mail up to midnight tomorrow night.

- 2 -

J: Yes. Yeah.

HMJr: See?

J: All right, sir.

HMJr: They pretty well know where they are and they're selling about at 12 to 14 thirty-seconds premium.

J: Uh huh.

HMJr: Which is just nice.

J: It's the amount which you thought.

HMJr: Yes. I think it's all right.

J: All right. Fine.

HMJr: You've got - you'll have to worry about something else, Jesse.

J: I'm sorry I couldn't get over to the swearing in but I've been busy every minute.

HMJr: Well, I'll bet you.

J: And when - I noticed another thing about that memorandum. On account of the Boss and you being here today I thought I could have until tomorrow with you on that.

HMJr: Well, you couldn't get that in tonight, could you?

J: I think so.

HMJr: Because the boys could work on it.

J: I'm going to try to - yes.

HMJr: If you could get that over - any time up until midnight would help like -

J: I'm going to try to.

HMJr: I thank you.

J: All right, Hen. Goodbye.

Monday
October 24, 1938
2:57 p.m.

Operator: Go ahead.

HMJr: Hello.

Allan
Sproul: Hello, Mr. Secretary. Allan Sproul.

HMJr: Good morning.

S: Good morning. I just wanted to report in that on the new R.F.C. notes the reactions we get from the market are that they've been very well received.

HMJr: Good.

S: A check of the - some of the larger holders -

HMJr: Yeah.

S: - banks and insurance companies which hold over 200 million of the outstanding obligations indicates that they're going to exchange in full -

HMJr: Yes.

S: - so that there doesn't seem to be any question about the success of the issue.

HMJr: Good.

S: In the market they're quoted on a one-issue basis at par 12 - 14, which is about the same as the outstanding issue when account is taken of the difference of four months in their - time they'll be out.

HMJr: Fine. Now, do you see any reason why we can't announce we'll close that midnight Tuesday?

S: No, I don't at the moment. I'll check further on that though. If I have any other -

HMJr: Check and call me about quarter of four on that, will you?

S: About a quarter of four?

HMJr: I have a press conference at four.

- 2 -

S: All right. I'll do that.

HMJr: If you please.

S: Fine.

HMJr: I'd like to close it Tuesday night and get it out of the way.

S: Yeah. All right.

HMJr: Thank you very much.

Monday
October 24, 1938
3:04 p.m.

HMJr: Hello.

Operator: Go ahead.

James A.
Farley: Hello.

HMJr: Hello, Jim.

F: I see where you and Roosevelt and Hopkins have been in Dutchess County - I suppose everything is under control.

HMJr: Well, I read by the papers that Mr. Roosevelt again is the head of the Democratic Party for New York State.

F: I see everything is coming along all right.

HMJr: And ah - so -

F: I haven't had any - I haven't had any report on that luncheon yet, have you?

HMJr: Yes.

F: Was it all right?

HMJr: Ah - Well, ah - the only person I saw was Mr. Roosevelt and he said it will all right.

F: Well, I haven't - I haven't seen Herbert so I haven't had a chance to ask him.

HMJr: He was entirely satisfied. They had a heart-to-heart talk all by themselves. I was up there that evening.

F: Good.

HMJr: And the President seemed to think that he - that it was a good talk and that it was distinctly worth while.

F: That's fine.

HMJr: Yeah.

- 2 -

F: Well I'm glad everything is all right.

HMJr: Yeah.

F: That isn't what I wanted to bother you about, Henry. There's a fellow named Mr. Eaton who is connected with Otis and Company in Cleveland - a banking house.

HMJr: Yeah.

F: He wanted to just stop in and pay his respects and talk with you a few minutes. He's a mighty fine fellow - if you could see him when he stops in on you.

HMJr: Sure.

F: I'll tell Bray to - I'll tell him to get in touch with Bray.

HMJr: Yes.

F: So he - if he does come. He's a mighty fine man; I think he won't take over a few minutes of your time.

HMJr: That's all right.

F: Just say hello to you and just pay his respects to you. He's really a pretty high class fellow.

HMJr: Let's see. Is he -

F: He - he used to be quite a friend of old John D.'s. I don't mean the present John D.

HMJr: Yeah.

F: The old fellow.

HMJr: Well, you have Bray -

F: He's with Otis and Company.

HMJr: I know who he is.

F: Yes.

- 3 -

HMJr: And then you have Bray call up and we'll fix him up.

F: All right. Fine.

HMJr: What else do you know?

F: Well everything is all right I think, Henry, up here, I do.

HMJr: You do?

F: Really, I do.

HMJr: Uh huh.

F: I think we're all right. We'll just stay right with it. Will it be all right with you if I duck the Cabinet Meeting on Friday and let Roper take care of my interests?

HMJr: No, it will not. But what am I going to do about it?

F: All right. Well, you try to protect me in case Dan doesn't.

HMJr: (Laughs) Always.

F: I thank you, sir.

HMJr: Thank you.

F: Ickes probably won't be back from the Coast so it'll be -

HMJr: Well, he -

F: Our side of the line is going to be a little bit light over there.

HMJr: Well, Ickes is looking after the 200 families.

F: I see that. He's purchased it, hasn't he?

HMJr: Yes. And -

F: Listen, he's looking after the 200 and Harry's looking after the 3 million so the boys are apparently doing all right.

- 4 -

HMJr: (Laughs)

F: (Laughs)

HMJr: It's always a pleasure to talk to you, Jim.

F: I thank you, sir. (Laughingly)

HMJr: Goodbye. (Laughingly)

F: As long as we don't take it too seriously we're all right.

HMJr: If we did we'd die.

F: Absolutely.

HMJr: Yeah.

F: By the way, how do you find business, Henry - don't you find a bit of a pickup?

HMJr: Oh, distinctly.

F: Yeah.

HMJr: Distinctly.

F: I think there is too. It's pretty evident in the Post Office Department.

HMJr: Oh, distinctly. And if they won't throw any monkey wrenches the rest of the year ought to be all right.

F: That's fine. Well thanks, Henry.

HMJr: Thank you.

F: Goodbye.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE October 24, 1938

TO Secretary Morgenthau
FROM Mr. Haas
Subject: The Business Situation,
week ending October 22, 1938.

Conclusions

(1)

Business activity, as measured by seasonally-adjusted weekly data, has advanced further under the leadership of the automobile industry, after having shown signs of slackening during the past month.

(2)

Some slight improvement in foreign currencies has appeared this week, and sensitive commodity prices at the end of the week have shown a rising tendency.

(3)

While the general trend of business continues upward, the outlook for the next few months is clouded somewhat by (1) the continued low level of commodity prices, (2) the possibility that business may go through a period of consolidating its gains, after the rapid 5-month upturn, and (3) some uncertainty that has developed in the steel and textile industries.

The general situation

The current trend of business activity, as measured by the New York Times adjusted index, has again turned upward, after a period of hesitation the past month. (See Chart 1.) The combined index for the week ended October 15 shows a sharp rise of 2.8 points to 87.7.

Secretary Morgenthau - 2

A rapid expansion in automobile production, with its strengthening influence on steel activity, carloadings, and other business series, has been largely responsible for the more recent business improvement. The New York Times adjusted index of automobile production for the week ended October 15 rose to 65.9 from the previous week's figure of 51.4. During the current week it has shown a further sharp gain to 85.4. The combined index was also affected by a 6.4-point rise in the index of steel production, a 2.0-point rise in power production, and a 3.1-point rise in miscellaneous carloadings.

General expectations now are that the Federal Reserve Board index for October will be around 95, as compared with 91 in September. Comparing this with the low of 76 in May, the recovery in industrial production within a 5-month period has been among the most rapid initial recoveries on record. This would suggest that business may be approaching a period in which a consolidation of recent gains, rather than further progress, would ordinarily be expected.

Evidence of recent business hesitancy appears in the weekly adjusted data on the two leading industries: steel and cotton textiles. (See Chart 1.) Although steel operations had been expanding during September, this was in line with the normal seasonal trend, and the adjusted figures accordingly showed a flattening-out tendency during that month. Last week's upturn carried the adjusted index above the September plateau.

Cotton mill activity, after seasonal adjustment, has been declining since August, with no recent evidence of improvement. This consumer-goods industry has a tendency to anticipate movements in general business. In 1937 (as shown on the chart) the cotton mill index started to decline in June, while the general index did not turn down until September. New textile orders recently have not been sufficiently large to expand production. A seasonal upturn in orders occurred during September, but print cloth sales this week, according to trade reports, have been equal only to about 25 per cent of current production.

Cotton loan restricts textile activity

At a time when it would seem that efforts should be made to move rapidly into consumption the huge surplus of American cotton, which is not only larger than the previous record surplus in 1931-32 but meets a less favorable world consumption outlook, the cotton loan policy is operating to retard the movement of cotton into domestic consumption and exports.

Secretary Morgenthau - 3

Owing to the large amount of the present crop being diverted into the loan stock, mill buyers find it difficult to obtain desired grades and staple lengths for spinning needs. This has boosted the price of spot cotton and near month futures as compared with the more distant futures, and thereby resulted in hand-to-mouth buying policies in the raw cotton and cotton textile trades.

Normally, in years of large supplies, spot cotton and the near-month futures are enough below the more distant futures to cover carrying charges, which encourages buying and hedging by mills and exporters. Now the 10-market spot average is above the December future, and this in turn is one-half cent higher than the October 1939 future. This restricts buying in two ways: (1) It discourages buying of cotton and cotton textiles by those who normally hedge their purchases, since such buyers face a loss on their hedges; (2) the lower prices for distant deliveries create the belief that prices are tending downward.

Sterling and commodity prices firmer

An encouraging development of the week has been some evidence of improvement in sterling exchange, though the upturn to date has not extended far. (See Chart 2.) This may have been one of the factors tending to lift prices for wheat and cotton, and for certain other sensitive commodities, near the end of the week, thereby raising the Dow-Jones index to a new high for the movement, as shown on the chart. The fact that prices have risen with no important developments in the news to account for their strength suggests that underlying price factors may be turning more favorable. If this trend continues it will remove one of the chief uncertainties in the present business situation.

Increased production of certain basic commodities in response to recent industrial demand, particularly the metals, may have some retarding effect on any commodity price rise. A recent strong upturn in non-ferrous metal prices, which had tended to offset weakness in other commodity price groups, will to some extent be counteracted by this week's decision of the international copper cartel to remove all restrictions on copper production. In line with this decision, domestic copper producers are expanding mining operations.

Secretary Morgenthau - 4

The steel situation

Steel ingot output this week was reduced 2 points to 49.4 per cent of capacity, apparently because of uncertainty over the outlook due to price unsettlement. New orders reported by the U. S. Steel Corporation this week were at an equivalent rate of 45 per cent of capacity, as compared with 52 per cent last week. According to the Iron Age, however, the aggregate bookings of many mills have increased during the past week, and are running ahead of those in September.

Evidence of some uncertainty in the steel outlook has appeared in a weakening of steel scrap prices at Pittsburgh. Following a period of little or no demand from mills, an order of 3,000 to 4,000 tons of heavy melting scrap has been bought at \$14.50, which compares with previous quotations of \$15.00 to \$15.50. Movements in steel scrap prices serve as some measure of changes in the demand for raw materials in the steel industry, and normally accompany or precede changes in the rate of steel operations. The recent mark-up of \$1 a ton in pig iron prices would ordinarily have been expected to strengthen steel scrap prices, since the two materials are largely interchangeable in steel making. The signs of weakness in scrap prices, though not conclusive, lend some degree of uncertainty to the steel outlook.

The reductions in finished steel prices reported last week apparently represented a culminating phase of recent price cutting in the steel industry, which has ended with the restoration of prices this week to their original levels. It appears that secret price concessions, particularly on automobile steel, had been increasing for several months; and that last week's drop in quoted prices, by bringing into the open the extent of concessions that were being made, brought the industry into agreement to correct the situation. On Wednesday of this week one of the leading steel producers notified its customers that it was cancelling all the concessions recently made. Other producers soon fell into line, and the entire steel price structure was restored to the basis established last June.

The firming of steel prices is looked upon in the trade as likely to encourage increased buying of heavy steel products, since buyers of such products had been inclined to hold back orders in the hope of lower prices. On the other hand, a considerable volume of requirements for the lighter steels, particularly in the automobile industry, was covered during the recent period of price weakness. Hence, further orders from these consumers over the next few months are expected to be lower.

Secretary Morgenthau - 5

Trade reports suggest that the recent stocking of steel ingots and semi-finished steel by the mills in anticipation of increased demand from the automobile industry is likely to make any further gain in ingot output (the basis of the American Iron and Steel Institute figures) rather moderate over the next few months. Finished steel operations, on the other hand, are expected in the trade to rise appreciably from present levels.

Automobile output continues to rise

Automobile production this week broke away from last year's trend, (See Chart 3) the estimated output of 68,400 units representing a gain of 17,900 units over last week's production, while in the corresponding week of last year production gained only 2,300 units, reaching its peak for the season in that week at a total of 92,000 units. Present schedules, according to reports in the newspapers, contemplate a production of around 360,000 units during November, equaling last year's total.

The increase in employment and payrolls occasioned by the rise in automobile output will itself tend to strengthen the foundation for further business improvement. The General Motors Corporation has announced a planned increase in employment and wages sufficient to increase its total payroll by more than \$1,000,000 a week. The Corporation also announces that substantial inventories in excess of retail demand will be built up during the winter months, in anticipation of a seasonal increase in demand next spring.

Current business news

New orders during the third week of October have declined somewhat, according to our preliminary index, (See Chart 4) largely because of a downturn in orders for steel and textiles. For the month to date, however, the total index has averaged close to 80 (1936 = 100) which is substantially higher than any previous month this year.

Department store sales during the past week have been seriously affected by unseasonably warm weather, which has curtailed the buying of fall and winter goods that usually increase sales totals at this season of the year. The weekly figures for reporting stores showed a decline during the week ended October 15, according to Federal Reserve Board data, when normally the trend is upward. Total sales were 18 per cent below the corresponding week last year, which compares with a decline of 3 per cent the previous week.

Secretary Morgenthau - 6

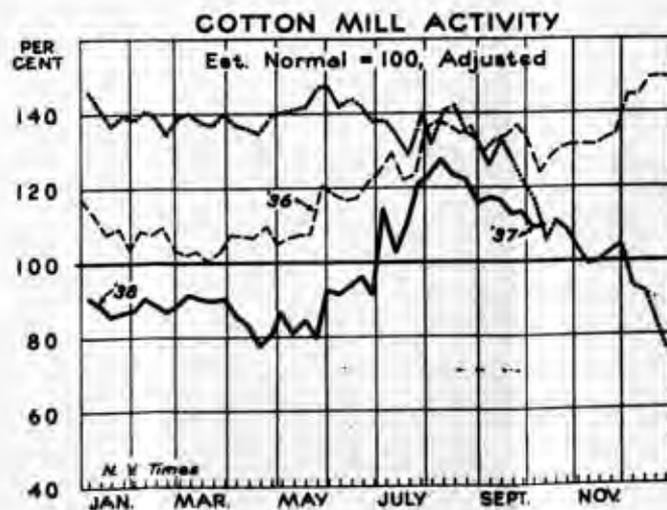
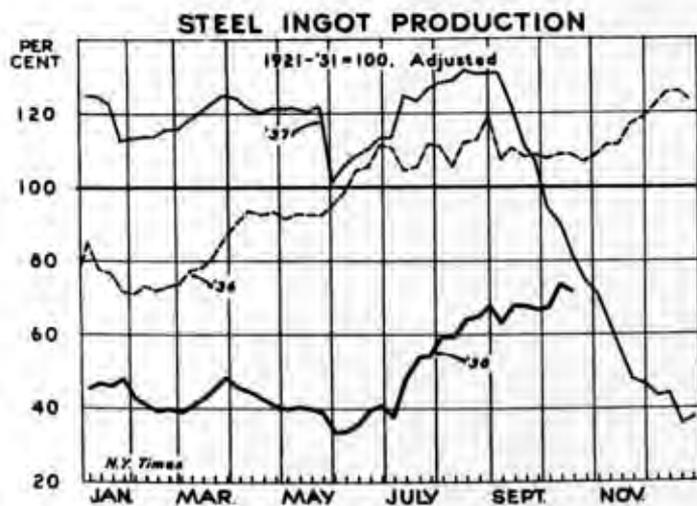
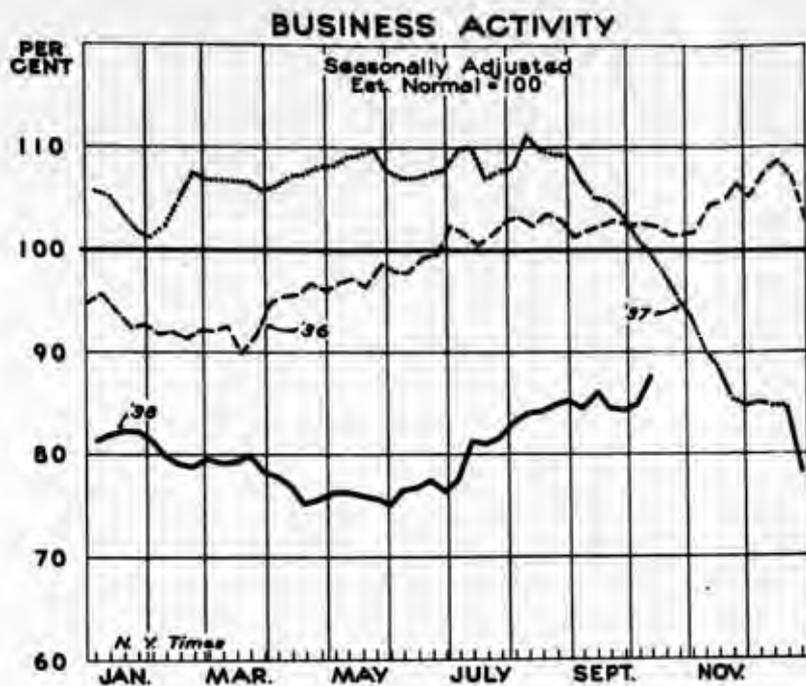
A recent survey conducted by the Standard Statistics Company, to determine the opinions of industrial executives regarding the present business trend, brings out the following conclusions:

(1) The backlog of unfilled orders in practically all companies remains very small.

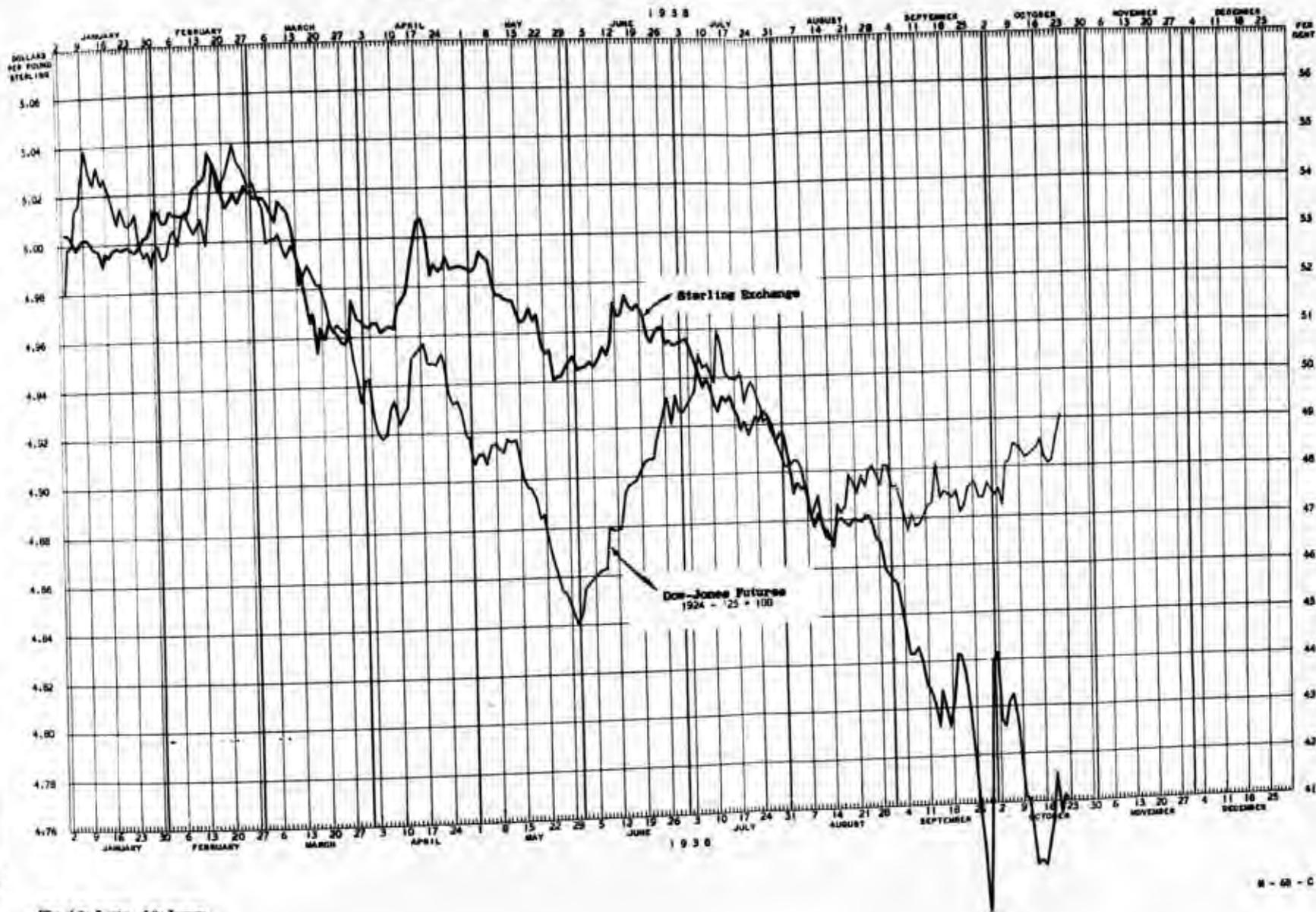
(2) Practically no corporations have plans for expansion in the near future. A frequent statement was that expansion programs were completed last year, and that business must exceed 1937 levels before further additions will need to be made.

(3) Executives of large industrial corporations feel that the capital market is not yet ripe for new money issues. Since most of them have adequate financial resources, and no present expansion plans, few of them are considering new financing.

(4) A gradual but steady business improvement is expected in 1939.



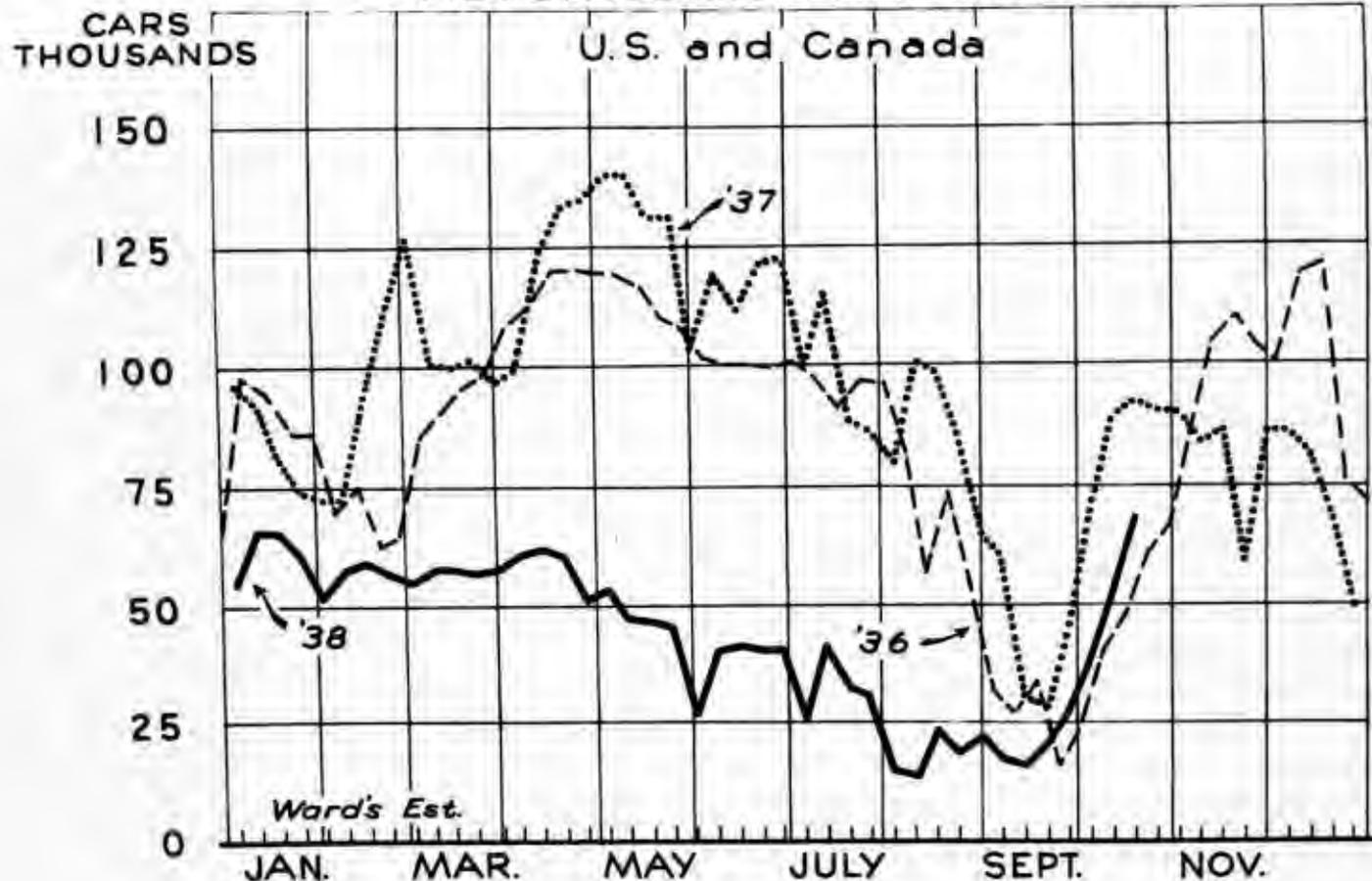
STERLING EXCHANGE AND PRICES OF COMMODITY FUTURES



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

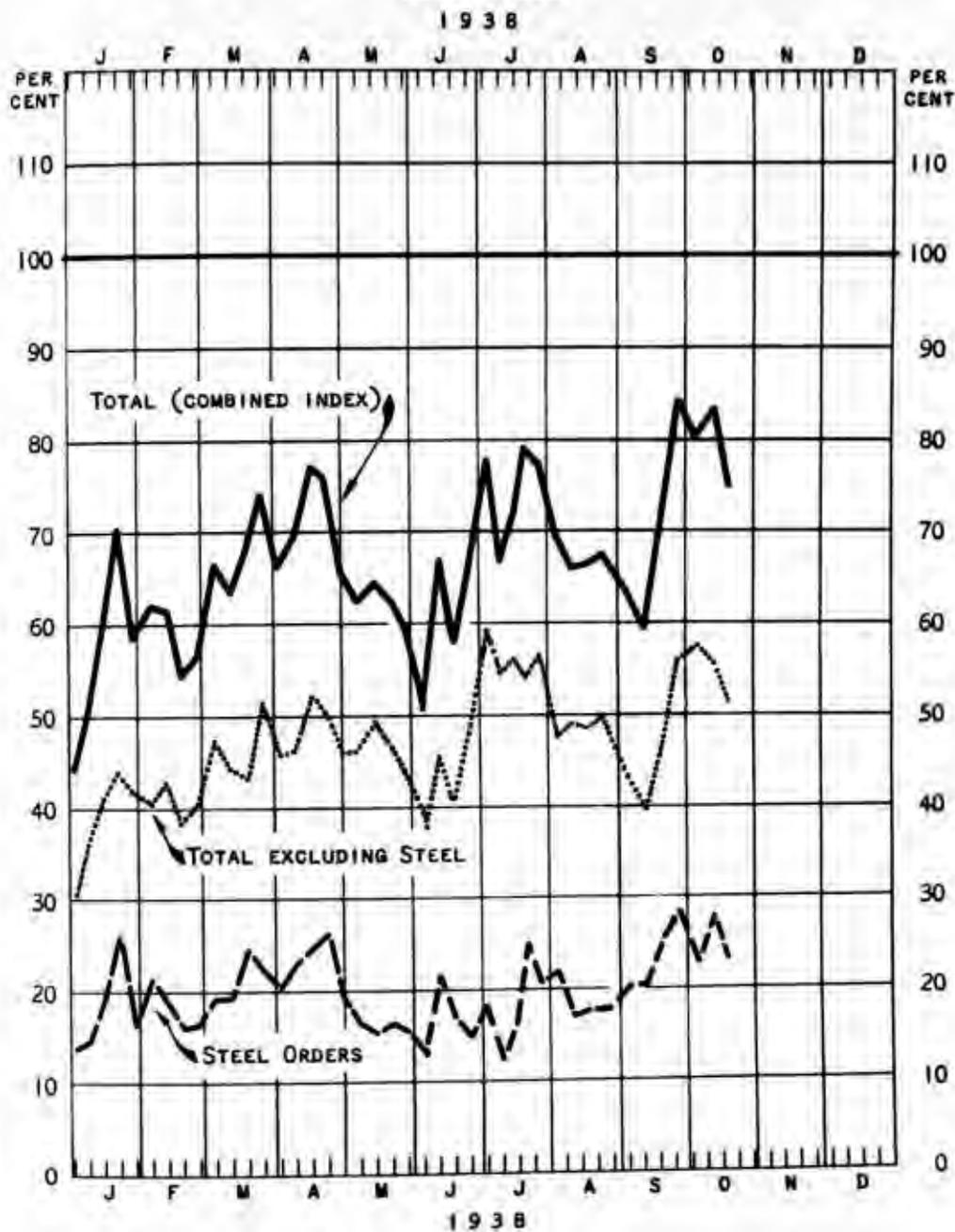
W-60-C

AUTOMOBILE PRODUCTION



INDICES OF NEW ORDERS
1936 = 100

278



RECONSTRUCTION FINANCE CORPORATION
WASHINGTON

JESSE H. JONES
CHAIRMAN OF THE BOARD

October 24, 1938

Dear Mr. Secretary:

Reference is made to our conversation regarding a suggested loan of \$20,000,000 by the Export-Import Bank to a Chinese owned American trading company, the loan to be guaranteed by the Government of China or the Bank of China and the proceeds used to buy agricultural products and manufactured goods in this country for export to China.

In 1934 we agreed to lend China \$50,000,000 to be used in the purchase of cotton and wheat. Only \$17,105,585.80 of this credit was used. In 1931 the Grain Stabilization Corporation, a Government agency, sold China 15,000,000 bushels of wheat for a consideration of \$9,212,826.56. The unpaid portions of these credits were taken over by the Export-Import Bank in April 1936.

In April 1937, a loan of \$1,800,000 was authorized for the purchase of locomotives in this country. Disbursement of \$753,300 on this loan was made in April 1938. It matures monthly over a period of five years.

It will be seen that our total Government credits to China since September 1931 aggregate \$27,051,412.36. \$14,419,892.56 has already been repaid and the balance is being paid as it matures. \$3,801,055.62, including interest, has been paid since September 30, 1937, the last payment having been made September 30, 1938.

While it is not possible to foresee the outcome of the present situation in China, it is probably safe to assume that China will pay her debts, and if none of the purchases in this country would be in conflict with the Neutrality Act, I see no reason why the credit should not be made. Particularly since it is contemplated the borrowers will sell to American importers Chinese products necessary for us to import, for delivery within the period of the maturity of the note, approximating the amount of the credit.

The Export-Import Bank would need to be put in funds through the purchase by the RFC of its preferred stock in the amount of the credit. The President approving, the Bank is prepared to make the loan under suitable provisions to assure the disbursement of the funds in this country for the purchase of American products.

Sincerely yours,

Jesse H. Jones
Chairman

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

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Monday, October 24, 1938.
10/22/38.

Press Service
No. 15-4

The Secretary of the Treasury, on behalf of the Reconstruction Finance Corporation, today announced the plan for refinancing the outstanding notes of Series K of the Corporation maturing December 15, 1938, through offering for subscription, at par, through the Federal Reserve banks, notes of the Corporation, designated 7/8 percent notes of Series P, and at the same time offering to purchase on November 1, 1938, at par and accrued interest, the outstanding notes of Series K, maturing December 15, 1938, to the extent the holders of such maturing notes subscribe for the new notes. The amount of the present offering of notes of Series P will be limited to the amount of Series K notes tendered for purchase.

The notes of Series P now offered will be dated November 1, 1938, and will bear interest from that date at the rate of 7/8 percent per annum payable semiannually. They will mature on November 1, 1941, and will not be subject to call for redemption prior to maturity. They will be issued only in bearer form with coupons attached, in denominations of \$1,000, \$5,000, \$10,000 and \$100,000.

The notes will be fully and unconditionally guaranteed both as to interest and principal by the United States. They will be exempt both as to principal and interest from all taxation (except surtaxes, estate, inheritance, and gift taxes) now or hereafter imposed by the United States, by any Territory, dependency, or possession thereof, or by any State, county, municipality, or local taxing authority.

- 2 -

Subscriptions will be received at the Federal Reserve banks and branches and at the Treasury Department, Washington; they will not be received at the Reconstruction Finance Corporation. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve banks and the Treasury Department are authorized to act as official agencies. Subscriptions should be accompanied by a like face amount of notes of Series K tendered for purchase, the principal proceeds of which will be applied to payment for Series P notes. Notes of Series K so tendered must have the coupon maturing December 15, 1938, attached and accrued interest from June 15 to November 1, 1938, about \$5.70 for \$1,000, will be paid to the subscriber following acceptance of the notes.

The right is reserved to close the books as to any or all subscriptions or classes of subscriptions at any time without notice. Subject to the reservations set forth in the official circular all subscriptions will be allotted in full.

About \$298,972,000 Series K notes of the Reconstruction Finance Corporation will mature December 15, 1938. The present offering affords the holders of these notes an opportunity to acquire other notes of the Corporation. Any notes of Series K not now tendered will be paid in cash when they mature.

The text of the official circular follows:

RECONSTRUCTION FINANCE CORPORATION

7/8 PERCENT NOTES OF SERIES P, DUE NOVEMBER 1, 1941

Dated and bearing interest from November 1, 1938

FULLY AND UNCONDITIONALLY GUARANTEED BOTH AS TO INTEREST AND PRINCIPAL BY THE UNITED STATES, WHICH GUARANTEE IS EXPRESSED ON THE FACE OF EACH NOTE

Exempt both as to principal and interest from all taxation (except surtaxes, estate, inheritance, and gift taxes) now or hereafter imposed by the United States, by any Territory, dependency, or possession thereof, or by any State, county, municipality, or local taxing authority.

1938
Department Circular No. 597
Public Debt Service

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, October 24, 1938.

I. OFFERING OF NOTES AND INVITATION FOR TENDERS

1. The Secretary of the Treasury, on behalf of the Reconstruction Finance Corporation, invites subscriptions, at par, from the people of the United States for notes of the Reconstruction Finance Corporation, designated 7/8 percent notes of Series P.

2. The Secretary of the Treasury, on behalf of the Reconstruction Finance Corporation, offers to purchase on November 1, 1938, at par and accrued interest, the outstanding notes of the Corporation designated Series K, maturing December 15, 1938, to the extent to which the holders thereof subscribe to the issue of Series P notes hereunder. Tenders of Series K notes for that purpose are invited.

3. The amount of the offering of Series P notes under this circular will be limited to the amount of Series K notes tendered for purchase in accordance herewith.

II. DESCRIPTION OF NOTES

1. The notes will be dated November 1, 1938, and will bear interest from that date at the rate of 7/8 percent per annum, payable semiannually on May 1 and November 1 in each year until the principal amount becomes payable. They will

mature November 1, 1941, and will not be subject to call for redemption prior to maturity.

2. The notes will be issued under authority of an act of Congress (known as "Reconstruction Finance Corporation Act") approved January 22, 1932, as amended and supplemented, which provides that the notes shall be fully and unconditionally guaranteed both as to interest and principal by the United States and such guaranty shall be expressed on the face thereof; and that they shall be exempt both as to principal and interest from all taxation (except surtaxes, estate, inheritance, and gift taxes) now or hereafter imposed by the United States, by any Territory, dependency, or possession thereof, or by any State, county, municipality, or local taxing authority. These notes shall be lawful investments, and may be accepted as security, for all fiduciary, trust, and public funds the investment or deposit of which shall be under the authority or control of the United States or any officer or officers thereof.

3. The authorizing act further provides that in the event the Reconstruction Finance Corporation shall be unable to pay upon demand, when due, the principal of or interest on notes issued by it, the Secretary of the Treasury shall pay the amount thereof, which is authorized to be appropriated, out of any moneys in the Treasury not otherwise appropriated, and thereupon to the extent of the amounts so paid the Secretary of the Treasury shall succeed to all the rights of the holders of such notes.

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

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

III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve banks and branches

- 3 -

and at the Treasury Department, Washington, and should be accompanied by notes of Series K tendered for purchase, to a par amount equal to the par amount of notes of Series P subscribed for. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve banks and the Treasury Department are authorized to act as official agencies. The Secretary of the Treasury reserves the right to close the books as to any or all subscriptions or classes of subscriptions at any time without notice.

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

IV. PAYMENT

1. Payment at par for notes subscribed for hereunder must be made on or before November 1, 1938, or on later allotment. Notes of Series K tendered for purchase must have coupons dated December 15, 1938, attached, and payment will be made at par and accrued interest to November 1, 1938. The principal proceeds of the Series K notes will be applied in payment of the Series P notes, and accrued interest from June 15, 1938, to November 1, 1938, on Series K notes (\$5.696721 per \$1,000) will be paid following acceptance of the notes.

V. GENERAL PROVISIONS

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

- 4 -

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

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

HENRY MORGENTHAU, JR.,
Secretary of the Treasury.

Translation of Cablegram
received from Chungking
by the Chinese Embassy.

Dated Chungking, October 24, 1938
Recd. Wash., D.C. October 24, 1938 9:30 AM

FROM: DR. H. H. KUNG
TO: AMBASSADOR DR. HU
AND MR. K. P. CHEN

Confidential -- Referring to your telegram 22nd we were all much concerned fall of Canton which was due to insufficient troops stationed in Kwangtung Province resulted from large numbers having moved to Yangtze front and due to oversight of local authorities (stop) Japanese move on South China long been contemplated but delayed fear involving British interests (stop) Recent move largely precipitated firstly by Czechoslovakias settlement exposing Englands desire to avert war at all cost and secondly by enemies unsuccessful advance on Hankow (stop) In order to avoid undue sacrifice we intended to draw enemies inland where we could be better able to defend (stop) Regarding future military plan I have telegraphed to Generalissimo for information (stop) Although we lost Canton but conditions still stable (stop) We wish our American friends would not be perturbed by loss of Canton and would continue extend help to us (stop) Yunnan-Burma highway nearing completion to overcome transportation difficulties. KUNG

~~MM~~

Translation of Cablegram
received from Hong Kong.

Dated Hongkong, Oct. 24, 1938 4:30 PM
Recd. Wash.D.C. Oct. 24, 1938 10:30 AM

FROM: Shanghai Commercial & Savings Bank
TO: Mr. K. P. Chen

Private & Confidential -- Your telegram received (stop)
Report Canton fall due negligence and disloyalty Gen. Yu Han Mou
denied by Central News Agency (comma) but declaration issued by
Governor Wu Te-Chen not countersigned by Yu.
Paragraph Rumoured peace talk strongly opposed by both
Shanghai and Hongkong Chinese newspapers (stop) Rumours
retirement Generalissimo Chiang and formation new Cabinet by
Wang Ching-wei or Sun Fo in connection with peace talk (comma)
we have no means get confirmation (stop) Heard British
Ambassador Kerr on way to Chungking (stop) Regarding political
situation opinion here no great change likely although things
confused for time being (stop) Will report again.



TREASURY DEPARTMENT

WASHINGTON

MEMORANDUM TO THE PRESIDENT:

Executive Order No. 6166, referred to in the memorandum dated October 14, 1938, on the subject of "Aviation Procurement" is in full force and effect, it having been submitted to Congress on June 10, 1933, pursuant to the provisions of Section I, Title III of the Act entitled "An Act to Maintain the Credit of the United States Government."

Therefore your authority exists legally with respect to the consolidation, or any part thereof, in the Procurement Division of any function of determination of policies and methods of procurement, not only as to aircraft, but also as to any other "property, facilities, structures, improvements, machinery, equipment, stores, and supplies" referred to in said Order.

The legal effect of the Executive Order is that:

- *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."

The Director of Procurement has followed the principle that where an agency is performing, efficiently and economically, a special mission, such agency should be permitted to continue to handle the procurement of equipment special to itself; and, therefore, for the reasons stated in sub-paragraphs (a), (b), and (c) of the memorandum of October 14, 1938, the actual procurement of aircraft for the Army, Navy and Coast Guard has been handled by each such agency under sub-paragraph (b) as above-quoted.

M. W. ...
Secretary.

October 14, 1938

MEMORANDUM FOR THE SECRETARY:

Re: Aviation Procurement

On October 25, 1934, the Director of Procurement, in accordance with the provisions of Executive Order 6166, issued an order establishing in the Procurement Division an Aviation Procurement Committee for the purpose of studying and recommending to the Director of Procurement uniform policies and methods of procuring air-craft, air-craft parts and aeronautical accessories for the various Government Agencies handling air-craft. The plan in general contemplated that this Committee would be a "Clearing House" where policies and methods might be coordinated for the various Government Agencies procuring air-craft and after approval such policies and methods would be carried out under the terms prescribed in Executive Order 6166.

In accordance with the terms of this order, the organization meeting of the Committee was held in the Procurement Division on November 5, 1934. At this meeting the Director of Procurement indicated that the Committee was (A) an agent of the Procurement Division of the Treasury; (B) that it was to study and recommend uniform policies and methods for procuring air-craft for the Government Agencies; (C) that the policies and methods were to be those best for the Federal Government; and (D) that members of the Committee are to act as liaison between the Director of Procurement and the Agencies concerned.

After the organization meeting, meetings were held at various intervals during the next fifteen months.

It was early evident in the proceedings that there was a wide divergence of opinion as to technical features between the Army, Navy and Commerce as to technical designs, types, instruments, materials to be used, experimental competitions and conditions of purchase, each service firmly entrenched in its position because of certain fundamental conditions which were:

A. That the Army and the Navy obtain their appropriations from separate committees of Congress; that each service must justify these appropriations and as the funds are made available direct to each service, each such service should have control over the military features of each set of planes and the procurement program for obtaining them.

B. That each service was separately responsible for its efficiency as a fighting arm and hence should have control over its own program.

C. That the mission in each instance was essentially different; on the one hand planes were designed for service over the land or for patrolling coasts

October 14, 1936

at a short distance at sea; on the other hand, for sea planes to be catapulted from aboard ship and to land alongside or of a type suitable for taking off from or landing on board of an airplane carrier. In other words, the Army problem is one thing; the Navy problem another; the Coast Guard still another.

Aviation has been and is expected to be in a constant state of flux of evolution, and it is recognized that the competitive spirit to obtain the best type of plane to perform a particular mission is one which under the constant processes of change should be encouraged so that in the long run each service may gain from the experience of the other.

However, much constructive work resulted through these meetings of the Procurement Aviation Committee. Different statutes being applicable, no general method of procurement can lay down identical procedures to be followed in each case by each branch of the Service. A general method of procurement was agreed to, which permitted the respective Services the rights to make exceptions therefrom in proper cases countenanced by law. The military services were brought closer together, and there was a frank expression of opinions as to experience with and types of plans and methods, and there was developed a necessity for each service working with the other insofar as practicable as to the times of going into the market, - this to their own mutual benefit.

Director of Procurement

TREASURY DEPARTMENT
Washington

October 25, 1934

TREASURY DEPARTMENT ORDER

1. In accordance with the provisions of Executive Order 6166, there will be established in the Procurement Division an "Aviation Procurement Committee" for the purpose of studying and recommending to the Director of Procurement uniform policies and methods of procuring aircraft, aircraft parts, and aeronautical accessories for the various Government agencies handling aircraft.

2. The plan, in general, contemplates that this Committee will be a "Clearing House" where policies and methods may be coordinated for the various Government agencies procuring aircraft; and, after approval, will be carried out under the terms prescribed in Executive Order #6166.

3. This aeronautical procurement function will be directly administered by the Chairman of the Procurement Committee for Aviation, who will receive orders to report to the Director of Procurement for this purpose.

4. The membership of the "Aviation Procurement Committee" is to be composed of six representatives to be selected from agencies purchasing aircraft, consisting of two from the Navy Department, two from the War Department, one from the Department of Commerce, and one from the Coast Guard, Treasury Department. In addition, there will be a Secretary provided for the Committee.

5. The "Aviation Procurement Committee" will convene upon order of the Director of Procurement.

(Signed) C. J. Peoples
Director of Procurement.

APPROVED: Oct. 26, 1934
(Signed) W. Morgenthau,
Secretary of the Treasury.

C
O
P
Y

Oct 24, 1938

MEMORANDUM TO THE PRESIDENT:

Executive Order No. 6166, referred to in the memorandum dated October 14, 1938, on the subject of "Aviation Procurement" is in full force and effect, it having been submitted to Congress on June 10, 1933, pursuant to the provisions of Section I, Title III of the Act entitled "An Act to Maintain the Credit of the United States Government."

Therefore your authority exists legally with respect to the consolidation, or any part thereof, in the Procurement Division of any function of determination of policies and methods of procurement, not only as to aircraft, but also as to any other "property, facilities, structures, improvements, machinery, equipment, stores, and supplies" referred to in said Order.

The legal effect of the Executive Order is that:

- *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.*

The Director of Procurement has followed the principle that where an agency is performing, efficiently and economically, a special mission, such agency should be permitted to continue to handle the procurement of equipment special to itself; and, therefore, for the reasons stated in sub-paragraphs (a), (b), and (c) of the memorandum of October 14, 1938, the actual procurement of aircraft for the Army, Navy and Coast Guard has been handled by each such agency under sub-paragraph (b) as above-quoted.

~~SECRET~~

October 24, 1938

TO THE SECRETARY:

For some time the Federal Farm Mortgage Corporation has been purchasing in the market its 3% bonds of 1944-52. Under a resolution approved by the Board of Directors the purchases were limited to a yield basis of not less than 1.75%. The present market price of the securities bring the yield to about 1.72%, which is below the limit fixed by the Board of the Corporation. It now has under consideration changing this limit to 1.5% and would like to know whether the Treasury has any objection to this procedure. The receipts from interest and repayments on account of the Corporation's outstanding mortgages are coming in a great deal faster than it has been able to purchase its own securities, and some means of investing these funds is necessary.

After talking with the Secretary today about the matter I advised Mr. Snow of the Farm Credit Administration that the Treasury had no objection to the proposed procedure if the Board thought that it was in the best interests of the Corporation to purchase the securities on this basis. I also told him that they should keep the Treasury advised of the purchases each time the aggregate reached \$5,000,000 and, in any case where a purchase would amount to \$1,000,000 or more, they should ask Mr. Dunn, the fiscal agent of the Corporation in New York, to contact Mr. Matteson of the Federal Reserve Bank of New York and get his views as to whether such purchases would in any

may interfere with the market or with Treasury transactions. I said also it was hoped that the Corporation would not buy large blocks of securities so as to disturb the market.

DWB

Mr. Taylor says this is a correct statement and we should approve the proposal

DWB

OK. Wm J.

Oct. 24, 1938

My dear Mr. Jones:

In your memorandum of September 21, 1938 there is discussed the possibility of an extension of credit by the Export-Import Bank to Portugal. It is known that Portugal in 1935 announced that it was beginning a long term program of economic development which would involve an expenditure of \$300 million in the next fifteen years, or about \$20 million per year. The construction of a bridge contemplated in the request for a loan at the present time is probably a part of this elaborate program. The analysis of the loan which I give below relates to this particular request for credit and not to the full program seemingly contemplated by the Portuguese Government.

A study of the economic and financial condition of Portugal — based on published data and some consular despatches available to this department — seems to show that on economic grounds a loan granted by the Export-Import Bank to Portugal under the terms indicated in your memorandum can be made with reasonable expectation that the loan will be repaid, though on political grounds there appear to be certain dangers, cognizance of which you might wish to take in reaching your final decision on the merits of the loan.

The following economic factors which are pertinent to an evaluation of the risk involved appear favorable to an extension of credit:

1. The budget of the Portuguese Government has been operating at a substantial surplus ever since 1928, the year in which Sr. Salazar, now considered the "dictator", became Minister of Finance. The budgetary surplus amounted to \$70 million in the past nine years and only a small portion of this surplus has been used for extraordinary expenses such as public works and armaments. The balance, amounting to about \$50 million, has been kept in liquid form as a reserve for future emergencies. (This fund, we understand, has been used to stabilize the Portuguese exchange rate, which is tied to sterling.) In 1936 and in 1937, more than \$5 million each year has been added to this fund.

The budgetary picture is even more favorable than indicated by the recorded surplus because a substantial portion of the amount used to retire the public debt, amounting to \$35 million in the past nine years, was included in the ordinary expenditures.

Return to Room 208

Sen. Jesse H. Jones - 2

2. The public debt of Portugal has since 1928 been consolidated, the debt charges lowered, and the total value reduced. The total debt was reduced from about \$315 million in 1928 to \$270 million by December 31, 1937. The floating debt, which amounted to almost \$90 million in 1928 was completely eliminated by 1935. The external debt remained about the same. It was \$135 million in 1928 and \$136 million at the end of 1937. (These figures exclude Portugal's war debt to the United Kingdom, in excess of \$100 million, payments on which ceased in 1931.) Annual interest charges on both the foreign and domestic debt has been gradually reduced. Interest rates in Portugal have fallen, as indicated by the reduction in the discount rate of the Bank of Portugal from 7½ percent in 1928 to 4½ percent at present.

The London market price of Portuguese 3 percent sterling securities was 61.5 percent of par value in 1933 and rose to more than 80 percent in the first ten months of 1937. In May of this year the price was about 78 percent of par and in August, had fallen to 75 percent. The effective rate of interest on Portuguese external obligations is therefore about 4 percent, which is exceptionally low for a country of Portugal's state of economic development.

3. The Portuguese currency has a relatively large reserve in gold and foreign exchange assets and the gold reserve has been increasing steadily since 1931. The gold and foreign exchange reserves of the bank of Portugal on August 24, 1938 amounted to \$62 million. In 1931 it amounted to less than one-third of that amount.

4. The satisfactory status of the balance of payments of Portugal is indicated by the fact that although exchange control had been established in 1931, the restrictions have been gradually relaxed since that time. In October 1937 the last remnants of exchange control were removed.

5. Exports of Portugal have been steadily rising since 1933 and in 1937 were about \$55 million compared with only \$35 million in 1933, although it is reported from several reliable sources that the export values are greatly underestimated in published Portuguese statistics. Imports, on the other hand, have remained relatively constant. Portugal usually has an unfavorable balance of trade. The unfavorable balance of trade is offset, in the balance of payments, by immigrant remittances, particularly from Portuguese emigrants in Brazil, and interest and dividend income from Portuguese foreign investments, principally in Portuguese colonies.

Portugal's principal export market is the United Kingdom, which takes 25 percent of Portugal's total exports; Germany, the Portuguese

Hon. Jesse H. Jones - 3

Empire and France each take roughly 10 percent and the United States, only 7 percent. The main items of her export trade are wine, sardines and cork. The increase in the volume of exports, it is reported, is due to efforts by the Government to improve the quality and marketability of the products.

Unfortunately the information available to us with respect to current business conditions in Portugal is quite incomplete. Scattered data and brief comments in publications relating to business conditions in Portugal during the first half of 1938 seem to suggest, however, that Portugal is experiencing a moderate downturn in business conditions. Her foreign trade figures during the first half of 1938 show a 10 percent decline over last year's and the price of her bonds has fallen somewhat. On the other hand, her gold holdings of foreign exchange have increased slightly and her budgetary position continues to show improvement. Altogether, the information we have is inadequate to warrant drawing any definite conclusions with respect to the course of business in Portugal during the past six months.

On the whole, from the information available to us now, a loan to Portugal appears, on purely economic grounds, to have sufficient merit to warrant further investigation. On political grounds, however, there is in my opinion some uncertainty with regard to the wisdom of a loan at this time. Portugal, as a relatively small European country with a valuable colonial empire, must rely on the dominant combination of major European powers for support. She has for centuries been dependent upon Great Britain but when the Spanish episode arose in 1936 Portugal, probably because of her internal form of government, shifted to the Rome-Berlin axis, although she has not cut off her ties with Great Britain in doing so. In any case, Portugal will be affected by any European conflict that might arise between the western democracies and the dictatorships of Central Europe and also is bound to be influenced by the outcome of the Spanish civil war. Moreover, the government in Portugal is a dictatorship and therefore susceptible to violent changes in government which may not respect the obligations of the previous government. On these matters, the State Department, of course, has more information and is doubtless in a better position to evaluate the importance of the political situation in Portugal as it relates to the merits of the loan.

Should you care to have any more details on the economic and financial condition of Portugal, I shall be glad to send you a memorandum on this subject which has been prepared here.

Sincerely,

Hon. Jesse H. Jones,
Chairman, Reconstruction
Finance Corporation,
Washington, D. C.

HDW:HGS:ah
10/2/38

TREASURY DEPARTMENT

298

INTER OFFICE COMMUNICATION

DATE: October 24, 1938

TO Secretary Morgenthau

FROM M. A. Harris

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

Activity in U. S. Government securities last week was confined largely to dealers' transactions as can be seen from the figures given below on dealers' portfolios. Volume of business was extremely small and the market for the most part was dull and featureless with prices of Treasury bonds and notes moving within narrow limits. Changes on any one day did not exceed 1 or 2/32nds.

For the week as a whole Treasury bonds declined 2 to 5/32nds and Treasury notes were unchanged to 3/32nds lower.

Dealers' Portfolios

(in millions of dollars)

	Holdings <u>Oct. 15</u>	Holdings <u>Oct. 22</u>	Change
Treasury bonds	36.8	20.9	- 15.9
Treasury notes (1 year)	42.9	34.6	- 8.3
Treasury notes (1-5 yrs.)	13.5	6.1	- 7.4
Treasury bills	4.7	6.1	+ 1.4
H. O. L. C. bonds	3.7	1.1	- 2.6
F. F. M. C. bonds	<u>3.4</u>	<u>6.2</u>	<u>+ 2.8</u>
	105.0	75.0	- 30.0

Dealers' holdings of U. S. Government securities and guaranteed issues were reduced \$30 million last week. About half of this decrease was in holding of Treasury bonds.

-3-

New Security Issues

Corporate issues last week totaled \$137,800,000, almost entirely for refunding. This figure is made up largely of two issues: the offering on Wednesday of \$80,000,000 first mortgage 3 1/2% bonds of 1968 of the Public Service Company of Northern Illinois at 103% and the offering on Thursday of \$55,000,000 of Ohio Power Company first mortgage 3 1/4% bonds of 1968 at 101 1/2. Both of these issues were well received by the market and immediately were quoted at about a point premium. The Ohio Power Company issue was reported to have been entirely sold the first day.

Two more large offerings are in prospect for this week. They are: \$50,000,000 of Firestone Tire & Rubber Company 3 1/2s and \$55,000,000 of Wisconsin Electric Power Company 3 1/2s.

Corporate Bond Market

Prices showed no pronounced changes but the market as a whole was a shade higher. The market became somewhat sluggish during the week and interest was centered largely in the new corporate offerings. High grade utilities were firm to strong while rails and industrials were about unchanged. Low grade rails and speculative issues were a little lower on average but lower grade utilities continued their recent upturn with small gains again last week.

The Federal Reserve System Account

The only transaction during the past week was the replacement of \$54,179,000 maturing Treasury bills by the purchase in the market of a like par amount of the new Treasury bills due January 18, 1939.

-3-

Treasury Investment Accounts

There were no sales made for investment accounts during the past week and the only purchase was \$1,000,000 2 3/4% Treasury bonds of 1958/63 at 102.25 for the account of the Government Life Insurance Fund.

October 24, 1938

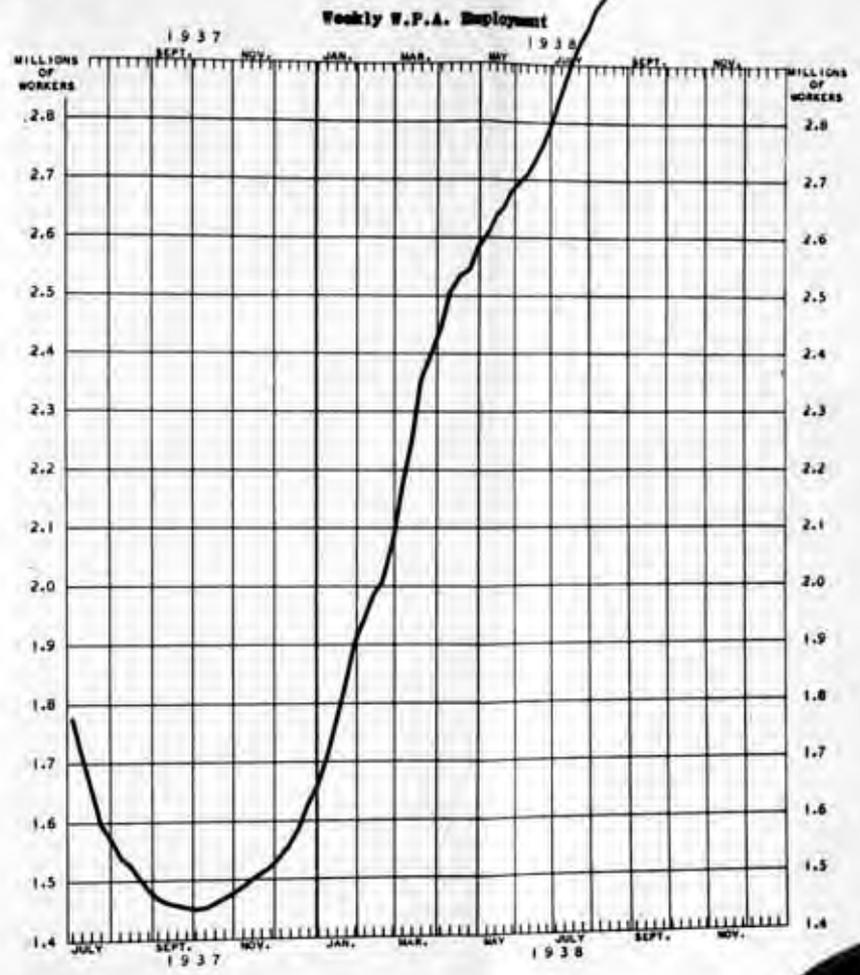
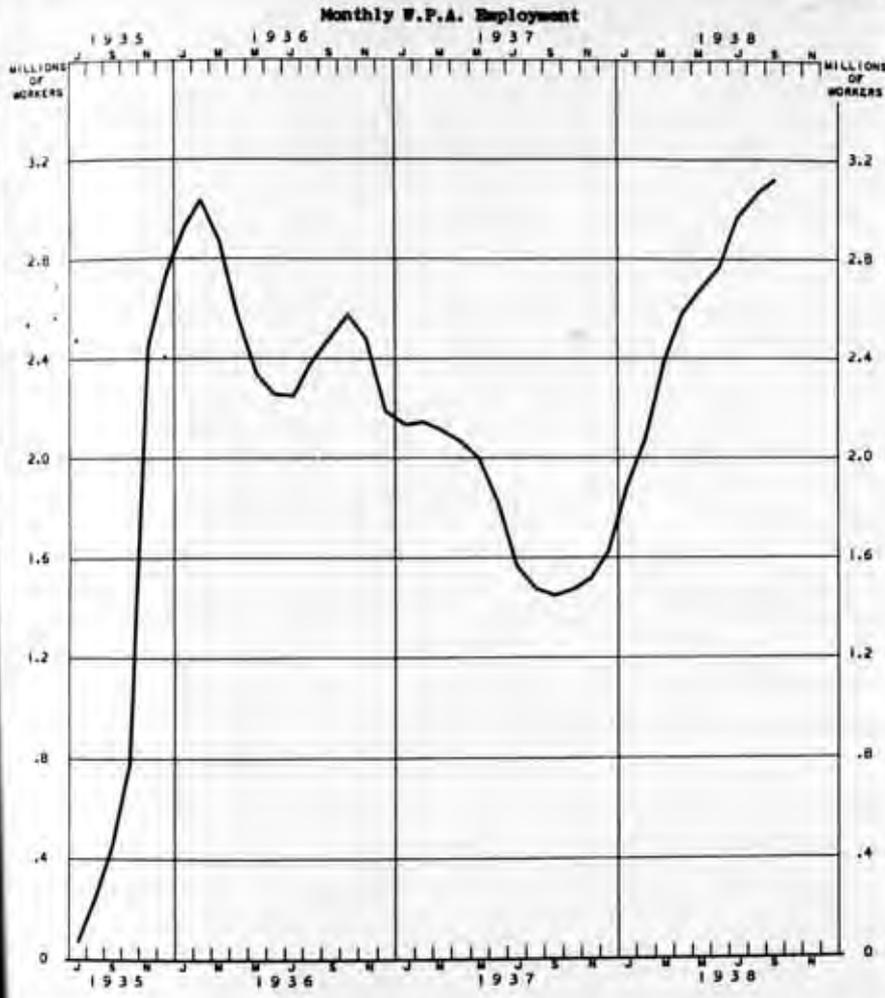
To: The Secretary
From: Miss Lonigan

The total number of WPA workers on October 15, 1938 is 3,167,000. These are the latest figures available. The increase during the week from October 8, to October 15 was 30,636 workers.

WPA employment has increased 1,708,000 during the year from October 16, 1937 to October 15, 1938.

This is the highest number of persons that has ever received WPA employment.

WORKS PROGRESS ADMINISTRATION
Number of Workers Employed
United States



SOURCE: WORKS PROGRESS ADMINISTRATION

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

W-221-A

WORKS PROGRESS ADMINISTRATION

303

Number of Workers Employed - Weekly

United States

Week ending 1938	Number of Workers (In thousands)
February 5	1,945
February 12	1,985
February 19	2,009
February 26	2,076
March 5	2,167
March 12	2,244
March 19	2,357
March 26	2,395
April 2	2,444
April 9	2,504
April 16	2,532
April 23	2,545
April 30	2,583
May 7	2,608
May 14	2,638
May 21	2,652
May 28	2,680
June 4	2,695
June 11	2,711
June 18	2,736
June 25	2,767
July 2	2,807
July 9	2,853
July 16	2,899
July 23	2,938
July 30	2,967
August 6	2,996
August 13	3,017
August 20	3,039
August 27	3,067
September 3	3,086
September 10	3,102
September 17	3,114
September 24	3,120
October 1	3,129
October 8	3,136
October 15	3,167 ^{a/}

Source: Works Progress Administration
 a/ Confidential

WORKS PROGRESS ADMINISTRATION

Number of Workers Employed - Monthly

United States

	Number of Workers (In thousands)
1936	
January	2,926
February	3,036
March	2,872
April	2,570
May	2,340
June	2,256
July	2,249
August	2,377
September	2,482
October	2,581
November	2,483
December	2,192
1937	
January	2,138
February	2,146
March	2,115
April	2,070
May	1,999
June	1,821
July	1,569
August	1,480
September	1,451
October	1,476
November	1,520
December	1,629
1938	
January	1,901
February	2,076
March	2,395
April	2,583
May	2,680
June	2,767
July	2,967
August	3,067
September	3,120 <u>a/</u>

Source: Works Progress Administration
a/ Confidential

RECONSTRUCTION FINANCE CORPORATION

WASHINGTON

October 24, 1938

Dear Mr. Secretary:

Reference is made to our conversation regarding a suggested loan of \$20,000,000 by the Export-Import Bank to a Chinese owned American trading company, the loan to be guaranteed by the Government of China or the Bank of China and the proceeds used to buy agricultural products and manufactured goods in this country for export to China.

In 1934 we agreed to lend China \$50,000,000 to be used in the purchase of cotton and wheat. Only \$17,105,385.80 of this credit was used. In 1931 the Grain Stabilization Corporation, a Government agency, sold China 15,000,000 bushels of wheat for a consideration of \$9,212,826.56. The unpaid portions of these credits were taken over by the Export-Import Bank in April 1936.

In April 1937, a loan of \$1,600,000 was authorized for the purchase of locomotives in this country. Disbursement of \$733,200 on this loan was made in April 1938. It matures monthly over a period of five years.

It will be seen that our total Government credits to China since September 1931 aggregate \$27,051,412.36. \$14,419,892.36 has already been repaid and the balance is being paid as it matures. \$5,801,055.62, including interest, has been paid since September 30, 1937, the last payment having been made September 30, 1938.

While it is not possible to foresee the outcome of the present situation in China, it is probably safe to assume that China will pay her debts, and if none of the purchases in this country would be in conflict with the Neutrality Act, I see no reason why the credit should not be made. Particularly since it is contemplated the borrowers will sell to American importers Chinese products necessary for us to import, for delivery within the period of the maturity of the note, approximating the amount of the credit.

The Export-Import Bank would need to be put in funds through the purchase by the RFC of its preferred stock in the amount of the credit. The President approving, the Bank is prepared to make the loan under suitable provisions to assure the disbursement of the funds in this country for the purchase of American products.

Sincerely yours,

Frank Jones
Chairman

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

Monday
October 24, 1938
3:55 p.m.

HMJr: Hello.

Operator: Mr. Sproul.

HMJr: Who?

O: Sproul.

HMJr: Right.

O: Go ahead.

Allan
Sproul: Hello.

HMJr: Hello.

S: Mr. Secretary, we've checked the market here and our opinion is confirmed by the market that it would be perfectly all right to close the books midnight tomorrow night.

HMJr: O. K.

S: We have 167 million turned in already.

HMJr: Yeah.

S: And ah - don't see there'll be any difficulty on it.

HMJr: Well, we'll get the notice out. Thank you.

S: All right.

HMJr: Thank you very much.

S: We'll get our circular out tonight here then.

HMJr: I'll tell Bell to do it at once.

S: Thank you. Goodbye.

Monday
October 24, 1938
4:19 p.m.

Operator: Operator.
HMJr: Bell.
O: Right.
(Short pause)
O: Mr. Bell.
Dan
Bell: Yes.
HMJr: Bell.
B: Yes.
HMJr: Will you get out the circular closing the books
of the - on the R.F.C. at midnight Tuesday night.
B: Tuesday night, huh?
HMJr: Yes.
B: You have no figures yet, have you?
HMJr: A hundred and sixty odd million turned in but they
know where there's 200 million.
B: Ah - you mean you actually got reports on them?
HMJr: Actually got - Sproul says actually got a hundred
and sixty - yes.
B: Well, that's just New York.
HMJr: I guess so.
B: Yeah, because ah - well I suppose Chicago and
New York are about the only place.
HMJr: Well, he says - he says it's all right, he's
checked it all.
B: O. K. I'll do that.
HMJr: Will you tell Jones' office? - Jesse Jones'
Office?

- 2 -

B: Ah - yes. We'll tell them. And we'll get you
up a circular to sign tonight.

HMJr: Right.

B: All right. Good.

Monday
October 24, 1938
4:58 p.m.

HMJr: Hello.

Operator: Mr. Jones. Go ahead.

HMJr: Jesse.

Jesse Jones: Hello.

HMJr: I thought you'd like to know that we've already taken in 262 million of your notes.

J: 262?

HMJr: Yeah.

J: Pretty good!

HMJr: Yeah. We've only got 38 million outstanding.

J: I think we'll hire you again some time.

HMJr: At the same commission.

J: On the same commissions.

HMJr: (Laughs)

J: (Laughs)

HMJr: All right, Jesse.

J: Thank you very much.

HMJr: Goodbye.

J: Goodbye.

REB

PLAIN

London

Dated October 24, 1938

Rec'd 3:48 p. m.

Secretary of State,
Washington.

1238, October 24, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

(1) This morning's financial press carries reports of a meeting of the American monetary authorities at the end of last week and implies that the dollar sterling exchange was up for discussion. This seems to have produced editorials in both London financial papers.

The FINANCIAL TIMES concludes its editorial: "The obvious remedy is for the authorities to use every available opportunity of raising the value of the pound and there is some evidence that ten days ago they were taking advantage in this way of the technical condition of the foreign exchange market. It is open to argument whether this is the wisest policy. Our future exchange policy depends upon three important factors. First we have lately lost a lot of gold and our reserves though still adequate need replenishment. Next the real need from the standpoint of British credit is the maintenance of a stable pound. If we could

REB

2-#1233, From London, Oct. 24, 6p.m.

could hold sterling at \$4.75 the psychological effect would be far better than that of hoisting sterling back to \$4.86 only to see a fresh relapse a few weeks later. Finally sterling is certainly over-valued at \$4.86 and probably over-valued at \$4.75. These three factors all point in the same direction. We ought to concentrate upon stability at the present level and take advantage of any new demand for sterling to replenish our gold reserves rather than to raise the value of the pound. In this way we could gradually create a fresh atmosphere of stability and also convince the world that we have established the pound at its natural economic level. This is the best and simplest way of maintaining national credit and it is to be hoped that this course will be followed rather than any attempt made to bring about a spectacular recovery in an already overvalued pound."

The FINANCIAL NEWS concludes its editorial: "Yet there is surely a happy medium between a policy of stubborn resistance to sweeping and fundamental pressure and a policy of allowing surface tendencies to produce marked fluctuations. It would be quite unfair to criticise the authorities for having allowed sterling to fall by some 6% during the crisis itself. But the wide fluctuations
that

REB

E-#1238, From London, Oct. 24, 6p.m.

that have taken place since September 28 when the crisis passed its climax might surely have been avoided in the interests both of trade and of stimulating confidence in sterling. What is the use of allowing every spell of bear covering to cause a sharp rise in the rate when the authorities know or ought to know that at its higher level sterling will once more become vulnerable? Only when there is a reversal of the outflow of capital will it be justifiable to allow demand for sterling to cause a noteworthy appreciation. In the meantime to allow speculative operations to cause alternating rises and falls of 1% or more is clearly unsatisfactory. The root of the trouble seems to be that the exchange account is not in sufficiently close touch with the market. It has to meet buying or selling pressure whenever it arises yet apparently does not possess adequate information about the causes and nature of the pressure. As a result every kind of pressure is treated alike and speculative movements are allowed to produce needlessly pronounced effects on the rate. Is it possible that empiricism has its limitations after all?"

(2) Those in the city who follow developments in France are mostly of the opinion that (a) Daladier has not yet

reached

REB

4-#1238, From London, Oct. 24, 6p.m.

reached any definite decision as to how he will use his economic and financial powers and (b) what is entirely clear from the election returns is that the "anti-Communist complexion of the Senate has been further strengthened and that the door has been more closely barred than ever to unorthodox financial experiments."

(3) The foreign exchange market has experienced its quietest day for several weeks. The dollar which opened at 4.76 1/8 with offerings from Switzerland and Paris moved to 5/8 but towards the end of the day went back to 4.75 7/8 at which point the British authorities intervened. The volume of trading has been very small. Gold was fixed at 145 S. 11D., 1/2D. premium, and of the 152 bars 75 were married and the British fund supplied most of the remainder. The French franc has been bid as a result of the election and the French fund acquired between three and four hundred thousand pounds of sterling.

KENNEDY

CSB

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: October 24, 1938, 4 p.m.

NO.: 1804

FROM COCHRAN.

Re the last paragraph of my telegram of October 22,
No. 1799 -

Today there is a full column cablegram in AGENCE ECONOMIQUE, a report from its New York correspondent with regard to the Treasury experts' meeting. In the report it is estimated that the conference was held to incite England to support its currency; in an adjoining column there is a report that Senator Thomas has been putting forth new effort to obtain dollar devaluation to \$.50.

At noon today I had a telephone call from the Bank of France, asking whether I knew the significance of the Washington meeting which was reported on Saturday and today in AGENCE ECONOMIQUE.

According to my Bank of France friend, the slight trend to the Right in the French senatorial elections held on Sunday had improved somewhat this morning the atmosphere of the exchange market in Paris. The fund by noon had acquired 238,000 at the rate of 178.62; \$2,000,000 had been purchased by the British equalization fund by the same hour.

Following

314
[Handwritten signature]

- 2 -

Following yesterday's election, and awaiting the Marseille meeting from October 26 to 30 (omission) this week the Radical Socialist Party promises to be devoted to French politics for the most part. Warnings are already being given to Daladier by some financial writers that he should not be content with easing the situation of the Treasury arising out of the issue of a large number of bank notes during the September crisis for investment in part in Treasury bills; these writers also advise Daladier not to be content with any improvement which may come simply from the elections on Sunday and follow a drifting policy. They believe he should take really active measures which in the end must be carried out before it will be possible to achieve a lasting amelioration of the French economic and financial situation. It is believed/that Daladier will refrain from strong positive action as long as the positions of the Treasury and exchange are not critical. There is less criticism from others of his policy of inaction, because they feel that he has kept the country out of international war and free from any serious internal (omission) by following a careful and hesitant policy up to the present. If it were possible to follow this policy in the future, Daladier might conceivably benefit from a general move in Europe for peace. French economy would be benefitted more by such a move, and certain measures which

seen

- 3 -

imperative at the moment would not then be necessary.

The following apparently inspired article appears in a press report from Berlin -

"... rumors according to which the devaluation of the Reichsmark is imminent have been echoed in the foreign press. These rumors are qualified as pure nonsense by informed official circles. Competent German circles repeat that the German Government rejects any sort of monetary manipulation. The trip of the German Minister of Economics to the countries of southeastern Europe and the conclusion of trade credits show clearly that the German commercial policy rejects entirely any manipulation of the currency".

According to a Bern press report, the Federal Council of Switzerland apparently has succeeded in reducing to approximately 55 Swiss francs the deficit for the Swiss budget for 1939; it formerly was 70.

At four o'clock this afternoon a market trader told me that sterling sales to the French control had apparently stopped during the official session. He also said that there had been a slight weakening of the franc, as the market felt that the results of the elections on Sunday had been discounted, and there is no indication as yet that the Government will cease political maneuvering and put its financial and economic powers to serious use. For a while today the Bank of Indo-China sold sterling heavily against various gold currencies. END MESSAGE.
WILSON.

EA:LWW

316A

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, October 25, 1938.
10/24/38.

Press Service
No. 15-8

Secretary of the Treasury Morgenthau announced last night that the subscription books for the current offering of 7/8 percent notes of Series P of the Reconstruction Finance Corporation will close at the close of business Tuesday, October 25, at which time the offer to purchase Series K notes of the Corporation will terminate.

Subscriptions addressed to a Federal Reserve bank or branch, or to the Treasury Department, and placed in the mail before 12 o'clock midnight, Tuesday, October 25, will be considered as having been entered before the close of the subscription books.

Announcement of the amount of subscriptions and their division among the several Federal Reserve districts will be made later.

—oOo—

REB

GRAY

Berlin

Dated October 26, 1938

Rec'd 2:11 p. m.

Secretary of State,
Washington.

571, October 26, 6 p. m.

27. FOR TREASURY FROM REATH.

It was announced this afternoon that the new Reichs loan had been oversubscribed by 350 million marks so that the final issue would be 1,850 million marks instead of ~~1,500~~ million marks as originally announced. The bank consortium organized by the Reichsbank total 1,200 million marks; the public subscribed for 650 million marks.

The Reichsbank statement for the third week of October came out this afternoon showing that 1,466 million marks or 88.7% of the great September increase of Reichsmarks credits have been repaid so far this month. The bill portfolio of the Reichsbank stood at 6,737 million reichsmarks on October 22 as compared with 6,547 million marks on September 23.

Total currency in circulation on October 22 stood at 9,069 million marks as compared with 9,266 million marks

the

1,500 million
to P 311A

317A

CORRECTION ON CABLE

October 26, 1938

In cable 571, October 25, 6 p.m., from Berlin, signed Wilson,
for Treasury from Heath, page 1, line 5 delete (?) and insert
"1,500 million".

REB

2-#571, From Berlin, Oct. 25, 6p.m.

the week before, 8,786 million marks on September 23 and 8,935 at the end of August. It is stated that a considerable amount of currency was issued in exchange for Czech currency in the hands of the Sudeten inhabitants.

WILSON

KLP

WWC

REB

GRAY

London

Dated October 25, 1938

Rec'd 3:30 p. m.

Secretary of State,
Washington.

1243, October 25, 7 p. m.

FOR TREASURY FROM BUTTERWORTH.

One. The foreign exchange market was even more inactive today than yesterday. The dollar fluctuated within a range of 4.76-1/8-3/8. 260 bars were dealt in at fixing at 145 shillings 11 pence, parity, of which 180 were married and the remainder supplied by the British fund. The French fund had to sell a small amount of sterling but foreign exchange dealers and operators are restricting franc commitments pending issuance of Daladier's decrees now expected Thursday.

Two. Hawkey states he is scheduled to leave the Guaranty Trust Company tomorrow and is awaiting further orders.

KENNEDY

KLP

WVC

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: October 25, 1938, 4 p.m.

NO.: 1812

FROM COCHERAN.

I had a telegram yesterday afternoon from Director Baudewyns of the Belgian National Bank, Brussels, asking for an appointment with me. Today he visited and lunched with me. The Director's first question was as to the significance of the meeting which it was reported was held last week in the U.S. Treasury to which the European press has given so much attention.

Today's AGENCE ECONOMIQUE had a cable from New York which I showed to Baudewyns. In the report it was stated that the American Secretary of the Treasury said yesterday in a press conference that he thought it unwise for him to discuss the exchange situation and that it would not be opportune at this moment from a political point of view for him to make any official declaration in regard thereto. According to the press report, the Secretary had added that he would not want to say that he thought the situation was serious, or that the Tripartite was not functioning satisfactorily. At the end of the report it was stated that the Secretary had also indicated that monetary considerations are not tied up with the prospects of a British-American trade agreement.

END SECTION ONE.

WILSON.

SECTIONS TWO TO SEVEN INCLUSIVE, NO. 1812 OF OCTOBER 25,
1938, FROM PARIS

As for this press report, I told Baudewyns that other than what I read in the papers, I knew nothing of the meeting; I said that I knew that from time to time the Treasury held meetings which were attended by the several experts whose names were mentioned in the report. The Director agreed that lately there had been sufficient topics of interest in the monetary field to warrant the consideration of such a group of experts.

My friend said he had visited in London since the last meeting of the BIS directors, at which time I had had a talk with him. He found opinion in London rather foggy as to the future of ~~the~~ British monetary policy. The British argued that they could not see what sterling's future would be in view of the prospects of a large loan and heavy armament expenditures, the competition in foreign trade and resulting decline in exports from Great Britain, and particularly the unfavorable balance of trade between Great Britain and the United States. It is Baudewyn's opinion that if the British stabilization fund had stopped sterling firmly at 4.86 it would not have been as costly as the current fluctuations. He does not think that the British fund has been forceful enough in opposing purely speculative tendencies, and ^{he thinks} that under the present policy such

- 2 -

such tendencies will be encouraged and grow. British psychology as to sterling, he said, was the same in the entirely different period from 1931 to 1935 as it is now. I showed Baudewyns data to refute the arguments that our favorable trade balance with the British recently had resulted from any undervaluation of the dollar as compared to sterling.

During the recent tense weeks, my friend said, the Belgians were quite happy that their currency was tied to gold. This relationship must now of necessity be kept up. The National Bank of Belgium had regained 7 million Belgian francs gold since September 1, he said, and this was not an influx of foreign funds but almost entirely repatriated Belgian capital. About 75 percent of the gold lost last May during the Belgian crisis has now been recovered by the National Bank of Belgium. Maintaining the belga on a gold basis had had no adverse effect. Belgian trade has at least held its ground, even if it has not increased recently.

My friend pointed out that one effect of the recent political crisis in Europe was to show how similarly several of the central banks looked on their problems, particularly the Swiss and Dutch, which cut loose from sterling after

- 3 -

a few days of hesitation and then managing their currencies independently upon a gold basis. The policy which Governor Rooth and other Scandinavian bankers adopted was also mentioned by Baudewyns. In his opinion London had been sharply impressed by this experience, and ~~was~~ some of the disadvantages and weak points of the sterling group had been shown by this course of events.

Baudewyns understood the concern our country might feel if there should be undue depreciation of sterling in Great Britain, followed by a decline in other sterling group currencies in countries which compete directly with our country. My friend said that he understood the United States Government was disposed to keep its authority for further devaluation of the dollar as a protective measure. No direct representations were made by Baudewyns to us, and he did not offer any suggestions as to whether or in what manner sterling depreciation should be opposed by the United States. However, he did let me know frankly that Belgium was interested in seeing maintained the terms of the Tripartite. They would want to be informed of any negotiations or agreements made between parties to that agreement. It is of course realized that the agreement is on a 24-hour basis, but the Belgians feel nevertheless that

- 4 -

that no party to the agreement should carry out a policy either suddenly as the French did or gradually as it appears the British are doing, without prior consultation, as the agreement might conceivably be contravened thereby.

My friend admitted, on the other hand, that French devaluation had not had serious effects on international trade competition, because the principal benefits from devaluation in France had been outweighed by other factors. In the present circumstances he does not see much hope that the British will return to a definite gold basis. However, he insists that if a real lead in this direction were taken, there are several European countries which would speedily grasp the opportunity of returning to some sort of gold standard. I was not asked by Baudewyns to seek information from my Government on any of the above points, but he did ask me to keep the Belgian authorities as fully informed as to American monetary policy as I could.

Finally Baudewyns said that he was unhappy about the lack of confidence in the recent agreement concluded in Munich, as revealed by the evident determination to go ahead actively with armaments in Great Britain and France. It is his belief that there is a real opportunity for peace,

and

- 5 -

and expressed the hope that the Governments and statesmen involved might soon develop a better understanding and confidence among themselves.

Today the Paris exchange market has been quiet, some sterling around 178.72 was yielded by the French stabilization fund. The maximum limit has been reached for the two-year national defense bonds, therefore Caisse Autonome has stopped issuing them. 400,000 pounds were bought by the National Bank of Belgium yesterday on its own account for conversion into gold; today on a BIS order it bought dollars.

END MESSAGE.

WILSON.

EA:LWW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: October 25, 1938, 6 p.m.

NO.: 1815

The Government is guarding very well the secret concerning the contents of the decree laws; skeptics attribute this to the belief that Daladier has not yet made up his mind about them.

Nothing definite is known, but there are nevertheless straws in the wind giving an indication of the direction along which many people are thinking with regard to methods for improving the economic situation in France. In conversations with Frenchmen who are considering this problem, I find the feeling that France must have a more vigorous government and that perhaps the democracies have something to learn from the totalitarian states when it comes to working out problems of an economic and commercial nature. For instance, it is not improbable that consideration is being given to the idea of establishing some sort of more rigid control over exports and imports with the thought that France would be made more self-sufficient and less dependent on foreign countries for supplies. Furthermore, it is not unlikely that thought is being given to the possibility

of

- 2 -

of increasing customs duties as a means of correcting the unfavorable balance of trade - this is an utterly erroneous conception since expansion of French markets overseas is what is needed.

Such ideas may never develop, but I believe that they are in the air for the moment.

WILSON.

EA:LWW

GROUP MEETING

October 25, 1938.
9:30 A. M.

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

H.M.Jr: Dan, did you get a notice from me that Straus is coming at eleven tomorrow?

Bell: Yes, I got that.

H.M.Jr: We want to talk about his issues.
(To Mr. Hanes:) Hello.

Hanes: (Coming in) Good morning.

Bell: Foley ought to be here.

H.M.Jr: Foley. You (Mr. Taylor) want to sit in on that?

Taylor: What is that?

H.M.Jr: Straus, about selling his stuff locally. He's very, very anxious about selling his stuff locally.

Bell: We ought to have about, if I may suggest, ten minutes preliminary.

Oliphant: Tax exempt bonds?

Bell: Five - maybe five minutes.

Taylor: What - what is it?

- 2 -

Bell: Straus' securities, to be sold locally.

Taylor: Yes, I know, but when is it?

Bell: Tomorrow at eleven.

H.M.Jr: Well, I'll change it. I'll give you fellows eleven and Straus ten minutes past eleven.

(Over telephone:) Tell Straus to come in at ten minutes past eleven.

Now, if anybody's interested, the point I was told is the ten per cent he has he can sell locally.

Bell: He has authority to go up to ninety.

H.M.Jr: Now, I don't know what the orders are; I don't know what the arguments are, back and forth, but our gang will be in here at eleven, and we'll have Straus in at ten minutes past. Let me ask you this question: if we sell those bonds, are those United States Governments?

Bell: They are guaranteed Government securities.

H.M.Jr: But they don't appear on the

Bell: Public debt.

H.M.Jr: ... public debt.

Bell: No sir, except as a continued public liability.

H.M.Jr: Then we don't give any more than ...

Bell: Home Owners' Loan, or Farm Mortgage Loan, or R. F. C.

H.M.Jr: Do they sell locally?

Bell: No sir, they do not. About the only thing behind them would be the Government subsidies. Of course

H.M.Jr: Well, why doesn't he want to do that? Why is he so keen to sell them locally, as opposed to having us sell them as Government guaranteed? I mean, I

- 3 -

know why we don't want him to do it, on account of the totally tax exempt feature, but I don't know why Straus wants it.

Taylor: He gets a little better rate for them.

H.M.Jr: On account of the Government tax exempt feature?

Bell: Another thing too, he plans to have them sell them locally, on the basis of a serial bond, and the bond that runs for two years will carry a very low rate, and the bond that runs for sixty years will carry a much higher rate, so the average will be much higher than three per cent in payment; whereas, if the Treasury sells guaranteed, he thinks you may want to sell five year notes and ten year bonds, so when you come to the refunding of those securities, he might have to put on a much higher rate than three per cent.

H.M.Jr: Well, if Straus can do that, then Mr. Lambert can do his, and the President better withdraw his whole letter on the question of totally tax exempts to Congress.

Oliphant: That's what it all boils down to.

Taylor: That's exactly what it means.

H.M.Jr: Straus is very persistent, but he saw the President; I saw Straus last night, and the President had no message for me, but we might just as well get it out of our system, and get it over with.

Bell: Aside from the tax exempt feature, I am in favor of selling them locally.

H.M.Jr: I would too.

Bell: Because I think they are a good deal more than a continued public liability.

H.M.Jr: Is there any way - I think that legislation should be put through, making it impossible for them to sell them totally tax exempt; I mean, removing the totally tax exempt features, and then if he wants to sell them locally, fine.

McReynolds: He can't sell them.

H.M.Jr: If it - ask Harris, just for fun, to figure me an eighteen year, totally tax exempt, four per cent bond. What would that sell at? I said it would be around a hundred twenty to one twenty-five; I said somewhere between one twenty and one twenty-five. And talk to him about it. I talked to Stewart McDonald yesterday; he was asking me where we stood on Lambert; he said what it boils down to, they want a two per cent bonus in order to sell his bonds. He said, totally tax exempt, eighteen year bonds would sell at two per cent of something, and they are going to sell it at four and are giving the investor a two per cent bonus. I said, "That is right." I should think a totally tax exempt, eighteen year totally tax exempt bond would sell somewhere around one twenty or one twenty-five. And it's the same thing with Straus.

I want to get these people off my neck, and attending to their own business.

Mac?

McReynolds: Nothing.

H.M.Jr: Marvelous. Mac walked out, and got everything out of his system.

McReynolds: No, I told you I didn't; I've got some saved back.

Oliphant: Mac's all dressed up this morning.

McReynolds: Procurement Division is O. K. this morning; everybody is on the job.

H.M.Jr: (Holds side conversation with Mrs. Klotz.)
(Mr. Bell hands Mrs. Klotz a memorandum.)

H.M.Jr: All right. What do you know?

Bell: I have nothing.

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

- 5 -

Lochhead: Nothing. Oh, the rates, as I told you - they're very quiet, and there's a very small turnover.

H.M.Jr: Harry?

White: The Navy, some time ago asked for - if they could get a memo on Japanese foreign exchange. I'll send them a copy of this, that I'll leave with you.

H.M.Jr: Pardon?

White: I'll send them a copy of what I leave with you.

H.M.Jr: I think for their transmission, a letter - I think you'd better prepare a letter from me - from the Secretary of the Treasury. Recently a letter came over from them to me, and I think any letter to them should go over my signature, as Secretary of the Treasury.

White: Yes, that's the way it would go. There are some figures that came in with regard to U. K. which I think are interesting. For the first half, or the second quarter of 1938, their industrial production dropped very sharply - almost ten per cent over the first quarter, and contra-seasonal too. Other indications seem to be sympathetic with that. They apparently are getting into a recession. Their steel is showing a marked change, as ours did earlier; it dropped a third, as compared with last year, even though they've got this enormous armament.

H.M.Jr: Have you got that in memo form?

White: No.

H.M.Jr: I'd like - fix it up; I'd like to send that over to the President. Anything else?

White: No.

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

Hanes: I got the Speaker on the phone, and he was very much pleased with that.

H.M.Jr: That is tonight.

Hanes: And I haven't heard a thing from Jesse; I haven't heard a thing. Have you heard anything?

H.M.Jr: Yes, I've got it here. I'll read it. Incidentally, what is our appointment to do China?

Oliphant: Ten o'clock.

H.M.Jr: Well, you fellows won't be ready.

Oliphant: I think we are.

H.M.Jr: You can't because you've got to incorporate this letter.

Oliphant: Oh, I didn't know about that.

Hanes: Is there something in that letter we've got to change in the other draft?

H.M.Jr: I don't know what your letter is. You're not ready to see me; when is your appointment?

Oliphant: Ten forty-five. That is Germany and Japan. I want a few minutes to clear on that man I am going to see this afternoon.

H.M.Jr: Yes. Excuse me. (Speaks to Mrs. Klotz.)

Well, let me read this letter out loud; then you fellows can say whether you need more time or not. I might want to look this German thing over this afternoon and do the China thing this morning.

"Reference is made to our conversation regarding a suggested loan of \$20,000,000 by the Export-Import Bank to a Chinese owned American trading company, the loan to be guaranteed by the Government of China or the Bank of China and the proceeds used to buy agricultural products and manufactured goods in this country for export to China."

And then he goes on and sketches what our business was, and then:

- 7 -

"In April 1937, a loan of \$1,600,000 was authorized for the purchase of locomotives in this country. Disbursement of \$733,200 on this loan was made in April 1938. It matures monthly over a period of five years."

And so on; and then he says some more about how they paid the interest, etc., and this is the meat of it:

"While it is not possible to foresee the outcome of the present situation in China, it is probably safe to assume that China will pay her debts, and if none of the purchases in this country would be in conflict with the Neutrality Act, I see no reason why the credit should not be made."

See? I mean, that is it.

"Particularly since it is contemplated the borrowers will sell to American importers Chinese products necessary for us to import, for delivery within the period of the maturity of the note, approximating the amount of the credit.

"The Export-Import Bank would need to be put in funds through the purchase by the RFC of its preferred stock in the amount of the credit. The President approving, the Bank is prepared to make the loan under suitable provisions to assure the disbursement of the funds in this country for the purchase of American products."

So I would say that is highly satisfactory. Now you (Mr. Hanes) want to take this (letter)? Now, I don't know whether the thing will be in the - what I'd like to do

Oliphant: I'd just add a sentence - I'd attach a letter.

H.M.Jr: I want to do two things; I want - with Taylor's permission I want to add - I'd like to do it this way: Write a letter to the President, and say, "My dear Mr. President: I am enclosing herewith, (1) my recommendation to you in regard to a loan to China; (2) Jones' cleverly - R. F. C.'s. letter, and (3) an inter-office memorandum from Mr. Taylor to myself bearing on this thing." See? That doesn't - I mean, I am putting it this way: an

- 8 -

inter-office memorandum from Assistant Secretary Taylor to me. See, that thing isn't to the President, but it is to me. In other words, then he's got the whole picture. Is that agreeable to you?

Taylor: Absolutely. No, that was - and I know it was clear to you that my memo was to you.

H.M.Jr: Yes. But I simply feel - in a thing like this, I don't want you to feel I am keeping - with holding from the President, all the information which he should have, so I put in "an inter-office memorandum from Taylor to me," but it isn't to him. Is that agreeable to you?

Taylor: Perfect.

H.M.Jr: I mean I am - just in fairness to him and fairness to you and myself, I want him to have that.

Taylor: Well, I have been wrong many times before, so that is

H.M.Jr: That's all right, but I mean, it is just too important a memorandum to withhold. I am not - I am doing it this way because it is not a memorandum to the President; it is a memorandum to me. And I mean I am not - what I am doing is, it is no trick or anything; I just feel that

(Dowling comes in)

H.M.Jr: Give this (a leather bag) to Miss Chauncey and say in there is a memo from Taylor to me on China. Have her dig it out for me.

On that basis, would we be ready to go ahead on that at ten o'clock?

Oliphant: Yes.

Hanes: Yes, I think so. You want to keep the original on this, or keep a copy?

H.M.Jr: What we'll do is have it photostated. Then we start at ten.

Wayne, you all right?

Taylor Yes, I'm all right.

H.M.Jr: George?

Haas: I've got a couple.

H.M.Jr: Did you ask Edna to get those figures or did she do that on her own?

Haas: I asked her to get them.

H.M.Jr: Oh, good.

Where are your initials on this (memo)? Oh, here. Usually George puts his initials on them (in loud voice, with flourish of hand, indicating large initials:), "GEORGE C. HAAS - APPROVED." On this it is (very low) "George C Haas - Approved."

(Hearty laughter)

Haas: That's just about right.

H.M.Jr: Let me shake your hand. Atta boy!

These are the most recent, are they?

Haas: Tomorrow morning there will be another week.

H.M.Jr: (To Mrs. Klotz:) If and when I see the President, this goes on top. Excuse me, I want to read it.

These confidential figures are as of October 15. He (Mr. Hopkins) now has - well, in the last week he put on thirty thousand additional people, and the figure went up to three million one hundred sixty-seven thousand, an all-time high; so yesterday when they asked me would it help balance the budget if Mr. Hopkins layed them off, I answered, "It might." So I think it would be nice to have a copy of this memorandum made for Mr. Bell.

Haas: There is one other.

H.M.Jr: Oh. That was good; that was very good.

Haas: That is up to five-ten (o'clock) last night.

H.M.Jr: All right; swell. All right, George?

Haas: And I am working on Tapp, but he's not to be in his office until one o'clock today.

H.M.Jr: All right.

Haas: So, if you

H.M.Jr: Wayne, have you had an invitation to go to the Belgian Legation to meet Van Zeeland?

Taylor: Yeah.

H.M.Jr: You're going?

Taylor: I'd like to.

H.M.Jr: You think I ought to go? I've got one here too.

Taylor: All I know about it is a telephone call that came in yesterday, apparently

H.M.Jr: That's what I got.

Taylor: I didn't even know he was coming.

H.M.Jr: What do you think, for me?

Taylor: I think he's an interesting fellow.

H.M.Jr: But he didn't pay his taxes.

Taylor: What?

H.M.Jr: He didn't pay his taxes.

Gaston: I think if he wants to see you he ought to come here and see you.

H.M.Jr: I think - as far as you fellows are concerned, as a daily thing, I don't believe - I think, to foreigners you have to sort of live up to your position.

Gaston: Yes. I think it would be a mistake to go, and say, "I am the Secretary of the Treasury."

- 11 -

Taylor: Think it's all right for me to go?

H.M.Jr: Yes, I do, definitely, but I think it's a little bit too much for me, don't you think so? I am talking about the Secretary of the Treasury; I'm not talking about Henry Morgenthau, Jr.; I'm talking about the Secretary; I'm not talking about H. M. Jr.

(Mr. Kieley comes in.)

You call up the Belgian Ambassador and say I am very sorry but I have another engagement.

I just sort of feel it's a little sudden. If I were in your position, I don't think it would apply.

Taylor: No, no, it wouldn't. I like to do it every chance I can.

H.M.Jr: No; I just was a little bit - I am just a little hesitant about going. Were you invited, Hanes, to the Belgians' - October 31 - Belgians' stag dinner.

Hanes: No sir.

H.M.Jr: I guess it was just Taylor and me. I'm not going; Taylor is going - to meet Van Zeeland.

O. K. We've got George all fixed up.

You (Mr. Hanes) didn't hear the most recent figures - just came in on October 15. They are up to thirty thousand men - an all-time high. They asked me yesterday if laying off the people would help balance the budget; I wasn't so far wrong when I said, "It might."

(Points to Mr. Gaston.)

Gaston: Bob Henderson reported to the press room a few minutes ago from the White House that you had an engagement this morning over there and they called me and wanted confirmation, and I told them the White House would give any such information.

- 12 -

- H.M.Jr: Who's Bob Henderson?
- Gaston: He's the press man over there. I told them that was up to the White House to say when you were coming over.
- H.M.Jr: (Over telephone:) McIntyre, or Kannee.
Have you read the Saturday Evening Post? Three articles by Kiplinger, and starting four years ago on the braintrust.
- Gaston: I haven't seen it.
- H.M.Jr: You (Mr. Oliphant) and I, quite prominently, but not unpleasantly, so far.
- Oliphant: Kiplinger has been an old friend of mine.
- McReynolds: I was wondering when they were going to get
- H.M.Jr: Tommy Corcoran is in it, very, very prominently, and so is Ed Foley.
- Gaston: By the way, Bob is coming over to see me today to outline the plan of that other article he talked to me about.
- H.M.Jr: On that, before I sit on it, or you sit down, I want to see the rest of this stuff before I talk to him.

(Telephone.) Hello. Hello, Kannee. How are you? But I eat with him but I don't work with him. Is that it? I get you. Eat but no work. And the other one goes over until two tomorrow? Good. Because - well, that's off; well, that's fine, because I hope to go up to Princeton Thursday to see my son, and I guess that will be all right, won't it? On Thursday - what? Oh, Well, ah - ah - fine. Thank you so much.

I eat today, with the President, but discuss Budget at two o'clock tomorrow. (To Mr. Bell) Our appointment is at two o'clock tomorrow.
- Bell: That is with Hanes.

H.M.Jr: Hanes and Bell and me.

Klotz: (Speaking low) eat Jesse.

H.M.Jr: Gee! Well, just call him up and tell him - "Sorry." Just cancel it. If he has any business he wants to talk to me about he can have two thirty - at two o'clock if he wants to talk business.

Now, what I'd like to do, Herbert - this third article goes into the whole question - you think this over before we do the other. I'd like to see installment two and three, and all I want, if they are fair, which they were, as far as I was concerned; they were fair as far as Olyphant is concerned - if they are fair, I am willing to work with them on another. If they are not fair, I am not going to work with them. Isn't that fair?

Gaston: Yes, I'd be willing to take quite a few chances with Alsop and Kintner. They are - he's coming over today, not to get anything from me but to tell me the scheme of the thing, what he proposes to do and what they have in their minds, to write.

H.M.Jr: Well, would you keep this sort of in mind, and see whether you can do it.

Gaston: I'll ask him when the next installment is due.

H.M.Jr: Or even the next two; but it wouldn't give us a chance to see it. There's nothing in this at all. At least I didn't see anything on it.

Olyphant: You suppose they're through with the Treasury?

H.M.Jr: It isn't the Treasury. As near as I can make out, it looks as though they are weaving this piece of cloth; all through this whole thing is this thread of Tommy Corcoran. It looks as though they started in and are going to trace all the way through, and it particularly looks as though Hopkins - see? That's the way it looks to me. Three articles on Tommy Corcoran, but they have covered it up in this thing, that all the people who sort of revolve around him - I mean, how he was first out and how he gradually worked his way in. See; that's what it looks like. All I ask for is just fair treatment for the Treasury, and we'll work with them.

- 14 -

I think that is a reasonable request. Herbert?

Gaston: Yes. I'll find out today what his schedule on the thing is, too.

H.M.Jr: What else?

Gaston: I talked to the Fortune - Davenport brothers -- both of them yesterday, and John called me up yesterday evening at home. He is working on another rewrite, and he'd rather not come down until he has that to show us, and he asked if I would send him, tonight, my comments on the stuff that has been sent, which I told him I'd do. Then he talked about coming down the weekend, and I told him that would depend on your plans.

H.M.Jr: I'll be here.

Gaston: You'll be here, for instance, Saturday, if he comes down? Or would you rather have him come down Thursday night.

Klotz: You'll be busy Thursday night.

H.M.Jr: I'll be busy Thursday night, but I have no appointment Friday night.

Gaston: All right. He asked particularly about Friday afternoon and evening.

H.M.Jr: I am free Friday night.

Gaston: Then he could come down Friday morning and be here the afternoon and evening.

(Mrs. Klotz and H.M.Jr. converse.)

H.M.Jr: Yes.

Gaston: O. K. I have here a document which I suppose I'd better turn over to Mr. Hanes. It is a letter from Frederic Delano as Acting Chairman of the National Resources Committee, submitting data on corporations which they obtained on income tax returns, asking our approval for publication.

White: (Speaking low.) I'll take that over for
Mr. Hanes

Gaston: Thanks.

H.M.Jr: Oliphant?

Oliphant: Nothing, except to clear on that two o'clock.

H.M.Jr: Well, I'm all right now, so long as I - I don't
know.

We might just as well go right into China.

October 25, 1938.
10:00 a.m.

Jesse
Jones:

I understand that the - some of the directors out there are insisting that Herbert resign immediately. Now I had - ah - he's been talking to me roughly on an average of once a day - crying, of course.

H.M.Jr:

Yes.

J:

And I talked to him yesterday afternoon and I told him that if he felt, as he must feel by this time, that he would have to get out that he ought to prepare his own valedictory - that he ought to prepare his statements and release it himself; give it out as to why he was getting out and I thought that the Directors of the Bank would give him - would accord him that privilege, you see.

H.M.Jr:

Yes.

J:

That would save him a little bit, don't you understand.

H.M.Jr:

Well - ah.....

J:

I mean let him tell his own story - ah - the banks can take care of that. So that - I just mention that - I don't know whether you.....

H.M.Jr:

Well I'll pass it along to Preston Delano, see?

J:

All right, I'm sorry I couldn't get over to his dedication yesterday.

H.M.Jr:

Yes.

J:

But I just couldn't make the grade.

H.M.Jr:

All right.

J:

John McKay gave them a little cocktail party last night and I couldn't even get to that.

H.M.Jr:

Golly!

J:

So that I - I missed out on Preston.

- 2 -

H.M.Jr: All right, well.....

J: All right. I'll - I'll keep you - I'll call you.

H.M.Jr: Thank you.

October 25, 1938.
10:03 a.m.

Preston
Delano: Hello.

H.M.Jr: Delano.

D: Yes sir.

H.M.Jr: Good morning.

D: Good morning, sir.

H.M.Jr: Ah - to pass it along to you - Jones just called me up and he said that Herbert Fleishhacker has him on the wire every day about his resignation and that if they're - the Directors are going to force his resignation, he wants to write his - his own farewell speech - hello.

D: Yes.

H.M.Jr: His own explanation.

D: Yes.

H.M.Jr: So all I said was that I would pass it along to you which I'm doing.

D: Yes.

H.M.Jr: And that's all I've got to say, see?

D: Well - ah - my own disposition there - I would like to get your opinion, Mr. Secretary, inasmuch as it's pretty green to me, you know.....

H.M.Jr: Yes.

D:is that we want him out just as soon as we can get him out.

H.M.Jr: This is Herbert.

D: Yes.

H.M.Jr: I see.

D: Don't you agree with that?

H.M.Jr: Perfectly.

- D: And - that - ah - I think at least if he wants to write a farewell message or speech we should let him and get it over with.
- H.M.Jr: Well I don't particularly care to comment on that but I will comment that I think the sooner he is out the better.
- D: Well that's my.....
- H.M.Jr: Now that's all - what he wants to say - we couldn't stop him anyway, could we?
- D: No that's the point and if he wants to say anything why - ah - it's up to him to say it.
- H.M.Jr: And I don't - as long as your asking me, I don't think it would be up to the Comptroller or any of his people to make any speeches on it.
- D: Oh Heaven's no.
- H.M.Jr: I mean this is Board action on the part of the Board and I think it's up to the Board Members to say what they want.
- D: Right.
- H.M.Jr: What?
- D: I agree entirely, Mr. Secretary.
- H.M.Jr: Well we're in accord.
- D: Righto.
- H.M.Jr: But every day there's - ah - a little bit - ah - where are you now?
- D: I'm in my office.
- H.M.Jr: In the Comptroller's office?
- D: Yes.
- H.M.Jr: All right. Well then the other thing which - of tremendous significance which happened was this and this is just for you and Upham.
- D: Yes.
- H.M.Jr: Ah - McIntyre called me up yesterday and he's very much disturbed because Mr. Giannini's been

- 3 -

writing him letters every day, keeping Mr. McIntyre informed as to the progress.

D: Yes.

HMJr: And Mr. McIntyre want to write a letter to Mr. Giannini with my assistance, getting himself out of the situation. He says he wants to get out of it; he does want to have anything to do with it and he said he doesn't want to appear in the trial or anything else.

D: Of course.

HMJr: And he says the President has written a draft for McIntyre to sign - ah - which he's to write but he said he wanted to show it to me.

D:

HMJr: And he said he's very much distressed, and he wants to completely wash his hands, and I thought that was very fine and I thought it was another straw in the wind.

D: Very proper thing.

HMJr: And I thought it was encouraging.

D: Yes, so do I, Mr. Secretary.

HMJr: All right, sir, that's just for you and Cy.

D: I suppose Mr. Jones will get in touch with me about this other thing probably.

HMJr: He most likely will call you in about five minutes.

D: Right.

HMJr: All right.

D: Thank you. Goodbye.

HMJr: Goodbye.

RE PROPOSED CHINESE AGREEMENT

October 25, 1938.
10:05 a.m.

Present: Mr. Hanes
Mr. Taylor
Mr. Oliphant
Mr. White
Mr. Lochhead

H.M.Jr: Now, if I can catch my breath - where the hell are we? Hankow - you know, every time you pick up the paper - I mean every time "Hankow is Falling."

Hanes: That's where a lot of the tung oil is too, isn't it, Herman?

Oliphant: 30,000 tons in Hankow.

Hanes: That belongs to the Japs now.

H.M.Jr: They're dynamiting

Oliphant: Hankow hasn't fallen?

H.M.Jr: Hankow has fallen.

Lochhead: They went in this morning.

H.M.Jr: Yes, they went in.

Hanes: They did?

H.M.Jr: You don't keep up with it.

Hanes: The last headline I saw, they were 22 miles from Hankow. They covered that distance in exactly nothing.

H.M.Jr: No, they went in at 4:30 yesterday. So if you don't hurry up we won't have any government to do business with.

Lochhead: I would correct that. They went in at 4:30 this afternoon.

Oliphant: This afternoon.

Lochhead: Their time.

-2-

H.H.Jr: That's right, they went in this morning.

White: It's being held by several writers, and it would seem so, that one of the important reasons why Canton fell was because they got no - either promise or real assistance from any foreign country in the last couple months.

H.H.Jr: Well - and it is also held by the number one man in the United States Army and the number one man in the United States Navy that the generals were bought.

White: I say that's - they were bought, and the reason why they were bought.

H.H.Jr: I refuse to take that, Harry.

White: I can give a much better defense than that, Mr. Secretary. I think there's a very great deal in that, Mr. Secretary.

Connors: I had a talk with Mr. Chen yesterday. He's feeling very downhearted. But there were two things he said. First of all, he's feeling very badly, naturally, about the Canton thing. He's been struggling with himself the last two or three days; he cannot make up his mind that the general was bought. He said - he admits there is buying of generals back and forth in internal warfare; that's one thing. But he can't picture that this fellow actually was bought, because he said, with what has gone on even in Canton - the Canton generals - he doesn't think they could face that. But what he does say was that they were depending on France and Great Britain to make protests against Japan coming into the south of China. Depending on that, they decided they'd use their forces up north, so they were caught with really very small defenses, and the generals just folded up down there.

Now, the second thing, he said about this loan - he was talking about possibility of a loan - he said with this condition just as it is now, he's very busy sounding out all his own - not only Kung, I mean his own branch of his own bank, to get reactions just now. He told me that the loan right now, he feels, would be psychologically helpful to a great extent. Because, first of all, although he hasn't explicitly said this

-3-

to China, to Kung, he is depending on having some American directors on the company so that the money can more or less be controlled from this side. And he doesn't think that if it is to be used to purchase goods to be shipped into China that you can spend it very fast.

H.M.Jr: You can or cannot?

Lochhead: Cannot be spent very fast. He says he thinks - I got his idea that - probably some of those funds being impounded, going to be kept for that purpose. He said psychologically it would be a great advantage to say that they've received this help - I mean as the whole world has marched out on them.

H.M.Jr: I don't get the purpose of what Harry White said. Are you trying to blame the United States Treasury that Canton has fallen?

White: No, I'm merely making a statement which I think is a very important interpretation of the event. I think the failure not of the United States, but the failure of Great Britain and the United States, because those are the two countries they felt they might look to - the failure of those two countries to give substantial financial aid within the last few months has made it possible for Canton to collapse without this - without any substantial military opposition. That's been largely responsible for it, in my opinion. I think one could make a very good defense of that position.

Oliphant: Well, like everything else, isn't the cause of everything the thing you want to tinker with, and isn't that all water over the dam?

H.M.Jr: Well, Harry - I mean such a startling statement, and I don't see - I'm surprised that you make it at this time. I mean why - I mean here the Japanese land, they march through marshy country, rivers, hills, and there's no defense whatsoever.

White: That's right.

H.M.Jr: Now, why try to transfer that blame from the Chinese on to somebody else? I mean what's in your mind?

-4-

White: Well, I'm attempting to explain a very important phenomenon, namely, that the Kwantung province offered no serious military opposition to the Japanese. And I say the chain of circumstances leading from that back is that the Kwantung province thought that the Central Government doesn't stand a chance, that they felt that they're not going to get any financial aid, they're not getting any financial aid, that their silver assets will be all gone, which is - the United States was helping them out materially, and that they felt that - I'm speaking now of the leaders who have been in general more or less anti-Chiang Kai-shek and pro-Japanese - have had much more reason to support their position that they oughtn't to seriously oppose the Japanese, because they're going to get licked in the end, and they might as well get in on the bandwagon.

If, on the other hand, Britain and the United States - either or both - had given an indication that they were going to substantially assist them financially, they would know in the first place that they had somebody to deal with, and they would have had some promise, even though it mightn't have been very great, of foreign support. As a consequence of that, their attitude might have been quite different.

Oliphant: Well

White: I'm not trying to blame. I'm merely trying to explain the collapse.

Oliphant: I think that suggestion of Chen is very interesting. I should think the board of strategy might very well have planned a year ago on the assumption that the general Canton-Hongkong area might have been safe because of French and British protests, and hence, having limited military resources, they concentrated on north and central China. I don't think that's an awfully shrewd sermon; sounds very reasonable.

White: I didn't mean to get into that.

H.A.Gr: I'm just saying - I mean we've taken ten minutes out of a half hour - I just don't see why you make such a startling statement at this time, because I

-5-

White: I merely made an observation. I didn't know you were going to pursue it.

H.M.Jr: I didn't know - the inference is, and I'm not going to accept it, that we're partly - the United States Government is partly responsible for the fall of Canton. I'm not going to accept that interpretation, because I don't think it's fair. I mean if these bastards want to sell out - I mean why blame it on the United States Government? I mean they've done it right straight along. No, I mean it's so obvious what they did, and I don't see why we should take the responsibility.

I mean it's one thing - certainly you could say the same thing about the Spanish Government, and they're much more hard-pressed. But there are those fellows hanging on at the Ebro River and putting up the fight of the century. You could say that because the United States Government neutrality policy didn't let them have anything they could quit; but because they fight they're brave people.

Now, what I say - taking the same thing as the Ebro River and giving those same people ten times as strategic territory to defend, and if they had one-hundredth of the courage of the Spaniards, it would have taken them six months to a year to get up to Canton.

And I happen to have spent yesterday forenoon - General Craig was here all morning, and General Craig was in China and knows China, and I say one-hundredth of the courage of these small bands of Spaniards, fighting for the Spaniards - the courage they show there..... Now if they failed tomorrow, the Spanish Government collapsed, you going to say it's the fault of the United States?

White: No, what you say is a hundred percent true, but it was not what I was indicating.

H.M.Jr: I think if a man's - if people are cowardly, I know what - I don't even in the room take it as partly inferred that anything that my government may or may not have done is reason for one of the most disgraceful performances I have ever seen.

-6-

- White: Well, it isn't that.
- H.M.Jr: That doesn't mean that I'm not still going to try to help these fellows. But if - I mean you've got the demonstration. In one place you have courageous people who are going to fight until they're dead to defend their territory; that's Spain.
- White: The Chinese are very courageous, but one must distinguish between their government, their leaders, and the soldiers. I'm sure you do.
- H.M.Jr: Well
- White: Well, I'll just want to develop that, because what you say I think I would agree with wholly, but as I
- H.M.Jr: I know why you said it, and it was unnecessary; that's why I argued with you. You're afraid I'm not going to go through with this thing.
- White: Well, not wholly.
- H.M.Jr: Well, I don't think it was justified.
- White: That wasn't in my mind, Mr. Secretary.
- H.M.Jr: What?
- White: No, I don't think so.
- H.M.Jr: Well, I just don't think it was justified. I don't think you have to hammer me to help the Chinese.
- White: That wasn't in my mind, Mr. Secretary.
- H.M.Jr: I hope it wasn't; but you don't have to
- Lochhead: Mr. Morgenthau, I'll just take a minute, tell you one other item Chen told me. I said to him, "If you feel that there is the pressure of all four parties, Japanese, Germans, English, and French - possibly decided to let China go," I said, "what about your - Hongkong is going to be open, and what about French Indo-China? Will you be able to get stuff in and out, this wood oil?"
- He said, "Yes, we'll be able to get wood oil out."
He said, "About stuff coming in, yesterday" - that

-7-

was Sunday - "I ran into a gentleman in the hotel, a Frenchman by the name of Monnet. Do you know him?"

I just had heard of him. He was an old friend of mine.

"He did a little bit of business in China. I asked him as an individual whether he thought the French would let munitions and airplanes come in through there, and Monnet says, 'Well, I don't know, but I'm just doubtful.'"

So he said he thinks the commercial articles - the French will work along with commercial articles, but he has the feeling when it comes to airplanes and heavy munitions they would not let them go through.

H.M.Jr: Right on that, let me see this map, will you? Right at this point, before we go any further.

Lochhead: This isn't the map he sent in, but this is

H.M.Jr: Where did Buck say these two ports are? If anybody wants

Oliphant: May I look over your shoulder?

H.M.Jr: I wish you would.

Where did Buck go?

Lochhead: He went - first of all he was down at Haiphong.

H.M.Jr: Now where is

Lochhead: That's French Indo-China.

H.M.Jr: Now what did he say about that? Let's just take a minute. Let's just take a minute.

Lochhead: "Haiphong Harbour. Vessels of a maximum tonnage of 8,000 can dock at Haiphong, which is about two hours' sailing time up the Red River. Large ocean steamers can anchor at the mouth of the River, but seldom do so, as Haiphong is a small port. The dock at Haiphong is a modern one, and the freight is handled by small trucks on tracks. These tracks cross the boulevard to the warehouses and the railroad. Only three freight cars

-8-

were being loaded at 9:30 a.m., the time of my visit, and not more than 15 cars were in sight. Every evidence points to limited rolling stock."

When it goes from here, speaking about the Southwest Transportation Company, whose headquarters is at Hanoi.

H.M.Jr: Here?

Lochhead: Yes.

H.M.Jr: This is - did he say how much he saw? This is a railroad, isn't it?

Lochhead: That's a railroad. He's speaking about that port - "limited rolling stock." Then he speaks about the representative of the Southwest Transportation Company, talks about the railroad.

H.M.Jr: And that's Hanoi?

Lochhead: That's their headquarters. He speaks about the Yunnan Railway from Haiphong to Kunming.

H.M.Jr: From where?

Lochhead: From Haiphong to Kunming - K-u-n-m-i-n-g. And the government railroad from Hankow to Tong Doi.

H.M.Jr: Who sees Hankow on this map?

Lochhead: This is the Yunnan Railroad.

H.M.Jr: Well, go ahead. See if we can't check it some other

Lochhead: "They have enough equipment to handle our shipments, which normally are about 100 tons per day. Just at present some of our shipments are held up because 100 cars" - he learned later it was 400 cars - "are being held at Hanoi in readiness in case war breaks out in Europe.

"Freight rates from Haiphong to Yunnan are the highest in the world. The charge between these two points, a distance of 700 kilometers, is about 42 piastres per ton for ordinary goods, 92 piastres for cartridges,

-9-

and 360 piastres per ton for bombs. It is too expensive to ship to Kunming, so we prefer shipping as much as possible via government railway to the Kwangsi border, and the cost to Kweiling from Kwangsi is only about 30 piastres per ton for rail and truck costs."

H.M.Jr: Now, where's Kwangsi? I can't find it.

Lochhead: Let's see

H.M.Jr: Here's Kwangsi.

Lochhead: That's the Kwangsi - that's the province, but still that's the

Hanes: Kweiling in Kwangsi?

Taylor: Kweiling is right up there.

H.M.Jr: That's their new headquarters.

Lochhead: Yes.

H.M.Jr: All right.

Lochhead: "We are able to move shipments by truck as soon as they reach the rail heads. At present shipments are in much smaller quantities, partly on account of the European situation.

"An inspector for the Yunnan Railways informed me on September 17 in the freight yards of Haiphong that the French Government does not now permit the shipment of munitions over the railway, the last shipment having been made in December, 1937."

H.M.Jr: See, that's the point.

Lochhead: They don't allow munitions.

"In the freight yards, and in the open spaces between .. warehouses and along the dock, I saw considerable quantities of government materials awaiting shipment. The inspector informed me that these had been held up by a big mountain slide on the railway in Yunnan. The railroad was out of commission for one and one half

-10-

months. He stated that it would take about 1200 cars to accommodate shipments already on hand, and about one month's time. The railroad has only about 600 freight cars."

And they repeat again that the French Government is holding 400 cars in readiness because of the European crisis.

"The inspector stated that shipments via the Kwangsi border were about 50 tons per day, 'a drop in the bucket' compared with the need.

"Among the government shipments I myself saw only industrial material, mostly marked from Great Britain. I saw nothing of a munition nature."

Now, you see, there's an Inter-continent Corporation, "an organization partly private and partly government, engaged in transporting materials for the new aircraft factory at Yunnanfu. He has large shipments en route to the factory, which was first moved from Hangchow to Hankow. Curtiss-Wright has a large interest in this factory."

H.M.Jr: I'd check that. I don't believe it.

Lochhead: They speak about the Kwangsi Railroad from Nanning.

H.M.Jr: Where's Nanning?

Lochhead: And this engineer, who is located at "Langshan, near the rail head of the Indo-China Government Railway at Dong Dang, reports as follows on September 20, 1938: ..."

H.M.Jr: Huh?

Lochhead: "Dong Dang" - I never heard of that one before.

"The bed of the Kwangsi Railway from Dong Tong to Nanning is finished. No bridge's have been built and no ties or rails laid. Such construction will begin as soon as the rainy season ends, in October."

H.M.Jr: Do you know any of these places, Harry? Can you point them out?

-11-

White: I think so.

H.M.Jr: Well, come on.

White: I was going to look at that after you're through.

H.M.Jr: I haven't got time.

Do you know where Nanning is?

White: Nanning is right here.

Lochhead: All right, then from Dong Dang - this is one that they're trying to finish up here.

White: This is all trying to get around ...

Lochhead: See, they're going down further south.

"This section of the railway will be completed in 18 months. The railway bed"

H.M.Jr: It's not finished?

Lochhead: This is the one from the rail head - they're trying to make work go on.

"The materials are supplied by the French Indo-China Government on credit."

Now, he said "No work has been done yet on the Kweiling-Nanning section, which will be finished in two years. French credit is only for the Dong Dang-Nanning section, for materials. The Chinese have enough rolling stock saved from other railways to supply the Hengyang-Kweiling-Nanning section."

Then he said, "The proposed British Railway from Burma to Yunnanfu is impractical, as three 3,000-meter mountains must be crossed, and three large bridges built. The traffic will also be insufficient to pay dividends. A shorter route by 700 kilometers can be made via the new Kwangsi-Hunan Railway to Chungking and Chengtu.

Then he saw the roadbeds were completed, but the

-12-

H.M.Jr: Well, what I'm getting at is this, because we - the motor road from Hanoi to Kwangsi. That's the question. Where's the motor road?

Lochnead: "The road from Hanoi to the Kwangsi border is macadam, and excellent, although narrow near the border."

(White points out road on map)

H.M.Jr: But can the boats get up to Hanoi?

White: Looks like a river.

H.M.Jr: That's important. Do they have to go by rail, or how can they go up to Hanoi?

White: I think Hanoi is a port.

Lochnead: That just says "headquarters of the company."

H.M.Jr: What I'm trying to get at is this, gentlemen. With this thing gone, see, is Hanoi the only port that they have; because the road to Burma isn't finished, and is this the only port? And if it is, I don't think they're going to permit stuff to go up.

White: They're going to have a lot of trouble getting up in that area, because they'll (Japanese) come down here and in just a little bit ...

H.M.Jr: I want you fellows to see Chen, and if Hanoi is the only thing they've got - and with Monnet in town, we could ask him - just ask what the situation is as of today. I can ask him; I'll send for him.

But what I'm getting at is, gentlemen, I'm going over to see the President; I'm taking this with me, at 1 o'clock. If he'll sign this - I'll take it along. Then he turns and says, "All right, Henry, how they going to get the tung oil out and how will they get the motor trucks in?" And what am I going to say? I mean that's the thing the President's going to ask me. What am I going to say?

White: Well, they're in a bad way.

-13-

H.M.Jr: What am I going to say, Mr. White?

White: You're going to say, "They're in a tough spot."

H.M.Jr: Well now, before I get down to

White: I'm afraid they're through, that's all.

H.M.Jr: I mean the French - now they said since December, '37 - I mean it's very timely. Now mind you, this stuff is from Buck - very pro-Chinese; nobody can question his feelings or anything. And I go over to see the President and he says, "All right, Henry, a fine idea and everything, but how - where are the Chinese going to get in?"

I mean where are they going to take these trucks?

I think you boys better get Chen in right away and put this up to him. He'll tell the truth.

Lockhead: I spoke to Chen yesterday. That's why I said I was speaking to him. I said, "Will the French cut you off?" And his answer is that on the commercial transactions such as wood oil coming out he doesn't feel there would be any stopping. He doesn't think they'd let them ship in straight munitions such as airplanes, so forth. Trucks, yes.

Oilpaent: All that would have to move in through Russia - straight munitions.

Lockhead: Straight munitions. He told me that he naturally felt if they're cut off there the pressure would be over toward Russia more and more.

H.M.Jr: If I'm correct, that's still simply a caravan trail with camels to Russia; that there aren't - no one's told me that there are any roads.

White: Up to Sian they've got a

H.M.Jr: Sian. S-i-a-n.

White: Yes. They've got a motor road.

H.M.Jr: But from there on?

-14-

- White: They're building a road.
- Lochhead: It's a long hard run, no doubt about that.
- White: I think they're through, myself.
- H.M.Jr: Huh?
- White: I think they're through. I think what's going to happen is that we'll see a split, with the guerrilla forces continuing activities, probably more heavily supported by Russia.
- H.M.Jr: Supposing the President approves this credit and everything else. I mean I want to before I put him on the spot, so to speak - I mean the situation is such - I mean how can these fellows get the stuff out?
- Oliphant: Without French cooperation.
- H.M.Jr: Well, with French or English. If they go to Burma - let's say - here's this cable comes in - let's say the thing will be finished in a month or two, the road out through Burma. Will the English open that port and let the stuff roll in and out that way?
- I mean before we do this thing, I'd just want to.... The President could very well say, "Well, that's very nice, but I don't want to let them take it back."
- Taylor: Seems to me Herman's first question is the important one. I mean: will the French let it through? Because after they've got finished roads down there, the Burma thing, why, still may be
- H.M.Jr: Well, according to Buck they let commercial stuff go through, but they won't let any
- Oliphant: Well, they probably haven't reexamined their whole foreign policy in relation to the Orient - haven't had time yet - the French - and in relation to some of their western problems.
- Hanes: What port will they use to ship tung oil out to this country?

-15-

H.M.Jr: That's just the point.

Lochhead: Probably Haiphong.

White: There are a few small places above Hanoi, but they will probably take those soon, probably block - Navy will go right down and block every place except the French port. Through Indo-China and through Burma - through Burma is almost impossible.

H.M.Jr: Well, let's take a look at the letter anyway. Let's see what it looks like.

Hanes: Got something like - just dashed that off hastily.

Lochhead: Mr. Morgenthau, do you want me to ask Chen to come down in the meantime?

H.M.Jr: Just let's wait a minute.

Lochhead: You've got plenty of time. All right.

H.M.Jr: Just let's let everything wait a minute.

Hanes: We have two drafts of letters here. Do you want to - they're both the same except in the second draft I've left out a paragraph beginning "As you are fully aware...." I think we might just read that first page anyway.

"Dear Mr. President: As I have previously reported to you, a delegation representing the Government of China has been in Washington for over a month seeking financial assistance. I have conferred at length with them and experts in the Department have given careful study to their problems.

"As you are fully aware, from an economic standpoint, China's plight at the moment is desperate; her morale is badly shaken and without immediate outside assistance she may not be able to hold out much longer against Japanese aggression. If this Government is to come to China's assistance in her present crisis, now is the time to do so. It is believed that a comparatively small loan at this time will enable China to continue her defense for a considerable time, if not indefinitely. Should China collapse, undoubtedly

-16-

it will be necessary for this Government to spend large additional sums for naval expansion. The construction and maintenance of two separate fleets would then seem inevitable.

"From a broad national viewpoint, even a comparatively small loan to the Chinese Government at this time, therefore, would appear to be a sound venture even though the repayment of the loan is doubtful. But if a plan can be evolved which also affords a reasonable chance for repayment of the loan, the resulting national benefit is even more apparent. And though perhaps of less tangible advantage, there should not be overlooked the added material value to the United States in having China's good-will for the future. The potential economic development of China is admittedly enormous; and if this country helps China in her time of need, a resulting benefit to American trade and business can be counted upon in the years to come."

Now that's the first paragraph which I've left out of the second draft.

H.M.Jr:

(On phone) Ask Mrs. Klotz whether they can get Mr. Monnet down here at 11 o'clock. If he can't come at 11, she should let me know.

Hanes:

In the next draft I left that out - all that talk about China I just left out; go right into the business.

"As I have previously reported to you, a delegation representing the Government of China has been in Washington for over a month seeking financial assistance. I have conferred at length with them and experts in the Department have given careful study to their problems."

Then I go into the plan.

"The only plan which appears feasible is a comparatively simple one - in essence it is merely the financing of an exchange of necessary Chinese goods for domestic products. China produces, and is in a position to export, tung or wood oil - an industrial product much needed here and of particular value in the manufacture of quick-drying varnish and paint. Last year approximately 75,000 tons of this oil were consumed here of which less than 5 per cent was

-17-

produced domestically. It is obvious, therefore, that as more than 95 per cent of our needs must be imported in any event, no competition harmful to American industry can result from the importation of tung oil from China.

"In order to finance the purchase of Chinese tung oil, a Chinese trading corporation has just been organized under New York law. The plan under discussion contemplates that this corporation, which will be controlled by the Chinese Government, will make a contract to purchase 350,000 tons of tung oil from the appropriate Chinese agency, delivery to be made in fixed yearly amounts over a five year period, beginning at 50,000 tons per year and increasing 10,000 tons annually. The trading corporation will pay the Chinese agency immediately one-half or more of the purchase price which will be advanced before any tung oil is delivered. If the oil is purchased for 12¢ per pound, the cost of the five years' supply of tung oil would be \$84,000,000. If the initial payment is one-half of the purchase price the Chinese Government would receive \$42,000,000 which should be adequate for their immediate needs. The Chinese trading corporation would obtain the necessary funds for this initial payment by way of loan from the Export-Import Bank. The Bank, in turn, would be put in funds for this purpose through the purchase by the R.F.C. of its preferred stock. Security for the loan would be:

- "A. All inventories and other assets of the Chinese trading corporation,
- "B. A loan agreement between the Export-Import Bank and the Chinese trading corporation based upon the contract of the Chinese agency to deliver tung oil to the trading corporation. The loan agreement would also provide that upon the sale of tung oil in this country, according to the above example, one-half would be paid to the Export-Import Bank to retire the loan, and the other half would be credited to the Chinese agency, and
- "C. An unconditional guarantee of the notes of the Chinese trading corporation by the Chinese Government.

-18-

"Adequate provisions to insure that no disruption of the business of either the American dealers or consumers will take place, and that all dealers and consumers will be treated on a parity would be included in the contract between the Export-Import Bank and the Chinese trading corporation. An additional safeguard would be a requirement that all the proceeds from the sale of tung oil, i.e., \$84,000,000, would be expended by the Chinese trading corporation for the purchase of American goods, and to this extent business in this country will be stimulated and employment created. The Chinese trading corporation would also sell the tung oil in this country at prices based upon the contract between it and the Chinese agency, making nominal allowance for operating expenses (i.e., the Chinese trading corporation will not realize a profit from the transaction) so it is expected that the price of tung oil to American consumers will be somewhat reduced below the average for the past few years and that speculation will be curtailed or perhaps eliminated entirely.

"I am informed that the plan would meet the approval of tung oil consumers since it would effect price stabilization of a product which has been subject to drastic price fluctuations (during the last few years the price has ranged from 6¢ to 29¢ per pound) as well as insuring a regular and continuous supply of tung oil in this country.

"Before negotiating further with the Chinese delegation, I would appreciate an expression of your views concerning this plan. An early conference with representatives of the Treasury, the R.F.C. and the Export-Import Bank might prove helpful.

"Sincerely,"

The only difference between this letter and this one is that I have left out all reference to "As you are fully aware, from the economic standpoint, China's plight..."

H.M.Jr: I'd leave that out.

Oliphant: I think that last letter is a better one.

H.M.Jr: I do. Now, who has - who has seen this letter? Who's had a chance to read it?

-19-

Oliphant: Ed and I.

Hanes: Everybody here has seen it. You (White) haven't - you saw the first draft.

White: Yes.

Oliphant: You've (White) seen it.

White: Yes. I suspect that there might be a qualifying sentence that needs to be put in now about - in the light of what - just what you've been talking about.

H.M.Jr: What's that, Harry?

White: With respect to the possibility of delivery.

Oliphant: We can take care of that after we decide whether or not to give him the letter.

White: There are two questions: one, whether the letter should go forward; second, if it goes there should be a sentence in there that we expect difficulties about delivery.

H.M.Jr: If we put in - let's discuss the first one first; that is, the propriety of giving this to the President; I mean that's

White: I'm in favor of waiting now until developments

H.M.Jr: What?

White: I'm in favor of waiting a few days.

H.M.Jr: You are?

White: There are all sorts of possibilities. You remember that last - there is a possibility that negotiations are going forward for some kind of a settlement now. How far they've gone I don't know. There's a possibility that Chiang Kai-shek might resign. Of course, they deny it absolutely, but they would deny it even if they were contemplating it.

H.M.Jr: And nobody knows where he is.

-20-

White: There is a possibility that the difficulties of getting it out may be so great that you'd have to reduce very substantially the amounts involved in the contract, even to - the idea might be good - instead of using the 50,000 tons the first year, you might want to reduce it to ten or fifteen thousand tons.

But I think things are moving so fast now that I think a couple days is worth waiting.

H.M.Jr: What do you think, Archie?

Lochhead: I'd rather go ahead with it. I admit things are moving so fast - that's why I think we have to get moving ourselves. The question of whether or not the oil will be moved out is more or less secondary, because, I was going to say, we could correct that by more or less impounding these funds. In other words, it's not a question of their being able so much to spend the money right now. And if you're going to be able to get it out, any benefit - if they're going to get any benefit out of it, it has to be now or never. I think every day makes it less valuable.

Hanes: Well, it seems to me we've all been on this thing so long; I would want to go ahead and get the machine oiled, no matter what you make up your mind to do. I'd get the machine in order, go ahead with this thing, get the President's approval, get Jesse Jones to put it through the Export-Import Bank, and get everything in readiness to move on a moment's notice, because if you don't then we find ourselves next week wishing to move and then we'll have to go through the whole headache over again. I'd rather get it ready. Then, it seems to me, you can still make up your mind whether you want to move; you don't have to move. It seems to me we should get the machinery ready, everything cleared away. I'd find out very definitely if the President wants us to go ahead. If he does, let's get it ready so we've got the thing passed through the Export-Import Bank and we're ready to deliver the money to China immediately if, as, and when we decide that.

White: I think there's a third alternative, which is a good one, which is to go ahead with all the details. But if the President were asked, it seems to me the President might well be advised to say, "I can't give you an answer on

-21-

this now. Let's look at the way things are going, let's wait a few days."

Now, if it's possible to go ahead with the details, so as to get as much ground covered as possible within the Treasury and the other agencies before it reaches the President - the more progress you make in that direction, the better. But if you're speaking of getting the President's final OK at this stage of the game - the thing has gone on so long and things are moving so fast now that I think, if it wouldn't delay it seriously, if you could go on with the details, you might wait, because you might find that in a few days the situation would be so completely changed that you might not want to go forward with it at all. So why raise the issue in its acutest form to the President at all now?

But I would like to see the details pushed forward, so if it were possible to make it go, then the less delay the better.

- Oliphant: The imminence of the Japanese advance has been hanging over us all these weeks. This is good if it goes through to the extent of only 10 million. And I think it is highly desirable, particularly desirable for the reasons you have given, White, that the United States make its moral position unambiguous. This is the time to act.
- White: But I should be inclined, then, if that were presented to the President, to make the other aspects clear.
- Oliphant: Even if there is only a token delivery of tung oil, our position is unambiguous.
- H.M.Jr: Foley, is it fair to ask you to express your opinion? I mean
- Foley: I think so. I feel
- Oliphant: We're very close.
- H.M.Jr: I mean on account of your (Oliphant) just having made this very emotional speech, I wonder if Foley
- Oliphant: It isn't emotional; my speech isn't emotional, it's a matter of conviction.

-22-

H.M.Jr: Aren't convictions emotions?

Oliphant: Not in this case.

Foley: I feel we've gone as far as we possibly can go within our own group. I think that the sooner the thing is brought up before the President and his pulse is taken on it, the better it is both for us and for the Chinese. I think the loan agreement between the Import-Export Bank and the trading corporation can be hedged in such a way that no advance has to be made, no cash has to be turned over until we are fully satisfied, in the light of events at that time, that it is the prudent and safe thing for us to do. But I think that we ought to move the thing forward, find out whether we're going down to that point or whether we're going to cut off the negotiations entirely. I think it's only fair to the Chinese that we do that.

H.M.Jr: I haven't asked you, Wayne, because I don't - I mean

Taylor: No, I - I don't think the situation has changed any, because all the discussions that I have heard with Chen and with this Chinese group were in anticipation of just exactly what's happened. In other words, that Hankow was going to fall, that the coast was going to be closed, and this was to establish a transportation system after those things had happened.

H.M.Jr: Well, I envisaged the fall of Hankow, but I did not envisage the closing of Canton.

White: Not, at least, until after many months of fighting.

Taylor: Chen certainly - I've heard him discuss that.

H.M.Jr: Well, I frankly didn't - I mean I figured that Hongkong and Canton would be open, be a number of other places.

Taylor: When he was talking to Jim Moffett and the people who were down here, it was - all this was envisaged at that time. The time schedule was, let's say - was slightly altered, but the situation is exactly as it is now.

White: Makes an enormous difference whether Canton is lost after many months of severe fighting, as was the case

-23-

in Shanghai, and if it were lost as it has been lost. Makes all the difference in the world between what's happening politically within China and what would have been happening politically had the same type of defense been made of Canton as was made of Shanghai. And though it was recognized as a possibility, generally recognized that one of the dangers was that the Kwantung gang might sell out right along, it was felt that the chances of that were not very great. At least, they were very hopeful about it. And the fact they have sold out, I think, alters the situation very materially.

Oliphant: If it's a fact.

H.M.Jr: Huh?

Oliphant: If it's a fact.

White: Well, either they sold out or just - doesn't matter whether they sold out or just gave in. Either case, it's bad.

H.M.Jr: Either case, they're no longer virgins.

White: That's right.

Is it possible to compromise, Mr. Secretary,....

H.M.Jr: I got a - this is what I think to do: I'm going to walk over there with this stuff unsigned and say to the President, "If events had not moved as fast as they have in the last two or three days, I had every expectation of working this up for yesterday to bring it to you. Now, in view of what's happened in the last two days, what do you think, Mr. President?" See? "What do you think?" See? "I mean we've worked this all up here, we've got this thing, we've got Jones - sent this thing - it's all here. Now, frankly, what would you suggest?"

And I mean I'll take it over, and I'm not going to sign it. I'm just going to take it over like that, say, "What do you think?"

Oliphant: I think that's just the way to handle it.

H.M.Jr: What?

-24-

- Oliphant: I think that's just the way to handle it. May I suggest
- H.M.Jr: I mean there's such a thing - I mean I don't know how to compare it, but - as somebody working here in the Treasury bringing me something on which the evidence has changed in the preparation; while we're preparing the case, your premises have completely changed.
- White: That's right.
- Oliphant: I think that's the desirable way to handle it.
- H.M.Jr: Now, to go over and say, "Here we have prepared this case for you, Mr. President, but during the preparation our premises have completely changed. Canton has fallen, Hankow too. What do you think?"
- Oliphant: I think that's just the way to handle it, but I do think before you go over there more attention ought to be given to a suggestion Taylor has made; there ought to be another conference with Chen to find out - if there is the possibility of developing a long-term transportation system from the west, that's different than to throw up their hands.
- H.M.Jr: I think after - let's see, what have I got? Have you got a set of that?
- Hanes: No, sir, this is just a rough draft. I don't know whether you want to leave that the way it is.
- White: I take it in the conversation the Secretary may point out that there are many more details and it might be desirable if the President wants to go ahead with the details without the final definitive action being taken.
- Oliphant: Well, we're going to see Chen right after the meeting anyhow; Taylor will see him, or somebody.
- H.M.Jr: What I'll do is, I'll say just - I'll repeat again - "Mr. President, if you had been here yesterday and if you had seen me, this was all prepared for my Monday lunch with you. Now while I've been preparing this thing, Canton's fallen, Hankow's fallen. What do you think? What do you advise me? And I think you're just as much interested in China as I am. What's your advice?"

-25-

Now, that's fair to him, and it's a tenable position for me. Don't you think so, Harry?

White: I think that's the only procedure.

H.M.Jr: I mean then if he says, "Well, look what's happened," - then - so forth.

Lochhead: Do you want Buck's notes?

H.M.Jr: I think that just confuses the President.

Oliphant: Would you like to take with you what Taylor learned from a definitive talk with Chen this morning?

H.M.Jr: No, Chen doesn't know.

White: This is beyond and above him now.

H.M.Jr: I think we'll just go over there. "We've done this thing, we've gone as far as we can, and here it is." I mean, in other words, I don't want to do to the President what I don't want done to myself. I don't want to put the President in an impossible position. I mean - because when I go over I'd like to go over feeling if I recommend something and feel it very strongly - I want to have the President feel that when I bring him something with a very positive recommendation, it is something that he should do. But it would be - I just don't know

Oliphant: Well, if the movement of this tung oil out is a part of the long-term plans for the development of that auxiliary transportation system, I think that has a bearing.

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

Now look, gentlemen, this whole thing has been changed and I want plenty of time on this German thing, see? So I want to do it this afternoon.

Oliphant: What time?

H.M.Jr: Well, you had this fellow coming in ...

Oliphant: ... at two.

-26-

H.M.Jr: At two. Supposing we say three. What?

Oliphant: That's all right.

H.M.Jr: Now, who's in on that? You're (Lochhead) in it. White and Taylor.

White: Cairns.

H.M.Jr: Taylor, you're in on it.

Oliphant: I'll handle that. Cairns is in on something else. I'll handle that, if I may.

H.M.Jr: Somebody give Taylor a chance to be brought up to date. It's the question of taking another look at that order which the Treasury got out and I think that you signed - how should I say - making it possible for American people to barter.

Oliphant: Press release of December 23, '36.

H.M.Jr: It's a question of re-examining that on account of - the thing that brings it to a head is the letter of this labor leader.

Oliphant: Matthew Woll.

Taylor: Matthew Woll.

H.M.Jr: It's a re-examination. Are you familiar with that? Are you as familiar as I am? Now, I'm going to school at three o'clock. So we go to school - either prepare before or get the stuff before or - but at three o'clock I want to go to school on that, and I want plenty of time, and I want to do it slowly, see? It's a question of how to handle that, because - oh, I'm just not satisfied until I do re-examine it, see?

White: Did you want to do the Japanese at the same time or a subsequent date? They're tied up, more or less.

H.M.Jr: Well, I'll save from three for the rest of the afternoon.

White: We'll bring them both in.

- H.M.Jr: You can bring them both in and we'll see where we get. Now, what else have we got? I got - you (Oliphant) want to see me. I got this fellow Pope outside. I tell you, Herman,
- Oliphant: Any time before two.
- H.M.Jr: Well, I'll have to see you - how much time do you want on that?
- Oliphant: Oh, I should say ten minutes would be enough.
- H.M.Jr: Well, do you want to come in at 11:15? 11:15 - yes.
- Oliphant: I'll be in at 11:15.
- H.M.Jr: Now this is - this is serious business, and I don't for a minute feel that I'm - I mean I realize just how serious it is. But I just will reiterate that our premises are - the basis for this whole thing is shifted.
- White: You remember in your letter you said you envisaged this possibility, you said that the defense may disintegrate very quickly.
- H.M.Jr: Who was the bright boy that sent us this cable that Japan in marching on Canton made another major mistake?
- Lochhead: That - you mean this one
- H.M.Jr: Somebody about two weeks ago.
- Lochhead: About two weeks ago. I think that came from Hongkong - Treasury. I think Nicholson felt that way, still feels that way. He still feels that way.
- Oliphant: Why?
- Lochhead: He feels that the mere fact that Japan, economically, the more they spread out - even though they gain a temporary military victory, he says, from what his feeling of Japan - knowing China and Japan both - that it is really in the long run a mistake.
- Oliphant: 11:15.

October 25, 1938

The President told me at lunch today that he had sent for the British Ambassador this morning and told him that he would stand for no nonsense, that the British would have to give a permanent homeland to the Jews and that they would have to keep their word; that he just would not stand for any nonsense. He said, 'There are 400,000 Arabs that are working for the Jews and to let them get out of this section and to have the Jews keep out of the section occupied by the Arabs.' The British Ambassador said, 'We want to keep the friendship with the Arabs,' and the President said, 'You can buy that for about £50,000,000 and the United States will be glad to chip in.'

October 25, 1938.
2:35 p.m.

HMJr: Hello.

Operator: The Naval Aide, Captain Callahan.

HMJr: Thank you.

O: Go ahead.

HMJr: Hello.

Capt.
Callahan: Good afternoon, Mr. Secretary.

HMJr: Good afternoon. Hello, Captain.

O: How are you sir?

HMJr: Fine. At lunch with the President today, he asked that I call you and Colonel Watson and inform both of you that Saturday afternoon at Anacostia he'd like to have the most recent Navy planes there for his inspection.

O: Yes, sir.

HMJr: And he said he'll be accompanied by Mr. Bell and myself, and he wants to go over Saturday afternoon and see the most recent Navy and Army planes.

O: Navy and Army planes at Anacostia, Saturday afternoon, sir.

HMJr: If you please.

O: Yes, sir. Did he specify the time Mr. Secretary.

HMJr: No, he just said - say Saturday afternoon. He wants the most - the most recent advanced models that you have.

O: I see, sir, for inspection there.

HMJr: For inspection at Anacostia.

O: Yes, sir.

HMJr: When I say Anacostia, I don't know whether you have it on the Navy side or the Army side, but you know what I mean.

O: Yes, sir.

- 2 -

HMJr: At the field I suppose - I'll leave that to you
and Watson.

C: Yes, sir. Well, we'll get together and arrange it
so it'll be most convenient to him to make the
inspection.

HMJr: But he wants the most recent models of both War and
Navy.

C: Both Army and Navy planes.

HMJr: If you please.

C: All right, sir, we'll do it.

HMJr: Thank you.

C: All right, sir. Thank you.

October 25, 1938.
2:41 p.m.

HMJr: Hello.

Operator: Oliphant.

HMJr: Yes.

O: Go ahead.

HMJr: Hello.

Oliphant: Hello.

HMJr: Yes.

O: Mr. Monnet has worked out a way so he can be here Friday morning, and take the Bremen Friday night.

HMJr: Well, I've asked for an appointment for tomorrow morning, see?

O: Uhhuh.

HMJr: For him to see the President. If there's any reason he can't, he can stay over, but I've asked for it for Wednesday morning.

O: Uhhuh. Well, will you be seeing him?

HMJr: Well, I will hear this evening, you see?

O: Yes.

HMJr: And I will leave word at his hotel, or if he will -

O: Have you any message you want me to give him?

HMJr: Yes, I would suggest that he call up the Treasury tonight.

O: Uhhuh.

HMJr: Around - oh - let me just think - about 8.15 tonight, if he calls District 2626 and ask if I - any message for me.

O: All right.

HMJr: District 2626.

O: I'll take care of it.

- 3 -

HMJr: Thank you.

O: All right.

October 25, 1938

2:45 pm

Present:

Mr. Hanes
Mr. Gaston
Dr. White
Dr. Haas
Mrs. Klotz

Hm, Jr: I said to the President, on this first meeting of the Fiscal Committee, I said, "We are getting along beautifully." I said, "Maybe you would like to read Haas' memorandum." So he read it very carefully and he said, "This is fine. This does not interfere with any of the Budget work, does it?" And I said no. And he said, "Get me a statement ready for my Friday morning press conference."

He took it like this (Secretary makes gesture of snapping fingers). I thought it might take months to sell this to him.

This is the thing you fellows have to get together for his Friday's press conference. He wants to write -- this is the President speaking -- "Now that industry is definitely better, he's undertaking a study of two sister problems, first, national income on a full employment basis and, secondly, Government budgeting correlated to these figures; that we have a definite Government objective: the increase of national income to \$90,000,000 to \$100,000,000."

Can you imagine how fast we moved? "And that this new study is by the way of planning for that objective and the effect on the country and the budget of such an income. Therefore, following conferences held by the Secretary of the Treasury, the Treasury is undertaking certain phases of this study, the Federal Reserve others and the National Resources Board others."

Then I said, "Wouldn't you just as lief go the whole way and announce that you have appointed a Fiscal

-2-

Committee, of which I am Chairman, and this is being done under that Committee?" and he said, "Fine!".

You know, I said Sunday night if we could get this thing so the whole Administration would be turning and maybe we could get the President to say something? He just took it hook, line and sinker.

Dr. White: Merriam and Ruml will throw a fit if they read that in the papers.

HM, Jr: What I want you people to do is this: I won't be back here until Thursday night. I am going to do it differently than anybody else in Washington. I want the National Resources to see this statement before it goes out, in strictest confidence, Mr. Delano; and I want to show it to Mr. Eccles. He's a member, and so is Mr. Bell. See, Herbert?

Mr. Gaston: Yes. Yes.

HM, Jr: And you (Mr. Hanes) put a little pep in this thing too. Gee Whiz! If we can get the President to announce business is better and he's thinking in terms of \$90,000,000 and \$100,000,000 national income and he's going to tie the Budget to this thing, just think what it means!

Mr. Hanes: It will electrify the whole country.

HM, Jr: It's the darndest thing that has happened to me.

Mr. Hanes: It will -- no question of it, business will just jump up and crack its heels.

HM, Jr: That's number one. Number two. I showed him this memorandum on the Chinese thing and I said, "Now, Mr. President, I am bringing you this memorandum which has been in preparation and" I said "it's ready, but" I said "in view of the fall of Canton and Hankow, frankly I want your advice." He said, "Now let me think out loud." And he said, "If I should announce this today and then find that a provisional government had been set up which was different from the one I had loaned \$20,000,000, I would be subject to grave criticism, but if, on the other hand," he said, "I waited and if the Chinese should during

-3-

the next week or so announce they had simply withdrawn their troops to strengthen their position and they were going on to fight, I will make this loan."

So I said, "Couldn't I tell this to the Chinese, because it might make the difference." He said, "You can."

On France, Bullitt was with him this morning while, he said, he was snaving (the President) and he said he had never seen Bullitt was wildly enthusiastic. He said I am going to save France and the Democracy of the world with my plan.

Then, George, I gave him -- he's got it -- Edna Lonigan's memorandum on the unemployment thing. He looked at it and when he saw that as of October 15th the figures were up 30,000, one of the rare times I saw the President angry and he tried his best to get Aubrey Williams on the telephone and could not, but he was very angry. He said, "Gosh, Henry! Did you know I was going to make a statement about reduction in unemployment this afternoon at my press conference?" So I said, "Mr. President, I need not tell you by now that I am only working for you."

I showed him the thing by Maynard Keynes about the bi-lateral trade treaty and he read that.

On Captain Knox, tell McReynolds that he is an "old sweetie" and to do it. The other fellow is a damn nuisance and not to do anything.

This is from Cordell Hull, a suggestion on a conference at Lima that we have a meeting and take up the question of conferences with Treasuries and Central Banks.

As I told the President, "You know, you have drummed it into me against me going to any world conferences. I don't want to go to any world conferences." The President said, "Well, whatever you do, leave the Central Banks out." He said, "I don't like Central Banks." So he said, "Fix it up that we will be glad at any time to confer with any Treasuries that have anything to confer about. If they want to put it through the United States Government, its Treasury is ready to confer with any Treasury in North and South America that has any trouble to confer

-4-

confer about. But leave Central Banks out. I hate Central Banks."

I ran into Colonel Johnson over there and he seemed to think it was a great secret. I said, "Listen, Mr. Johnson, I don't know you very well, but please don't try to kid me. Either you want to tell me or you don't. If you don't, I can read about it in the papers, but don't try to kid me. I have been around this town too long." "But we will tell you the whole plan." I said, "If you want to. His idea -- I never saw a fellow so hushy-hush, was something about forming an R.F.C. corporation in which the Government is subscribing to 50% or 51% of the stock. They are talking in terms of \$500,000,000. I think certainly the President should be in on it.

But I would like to get it first-hand. I think, as Secretary of the Treasury, we are entitled to know. If we are talking about a billion dollar corporation to finance public utilities, I want to know about it. Jones has gotten out three issues which he has done himself. Every single one was faulty -- something, legal work bad or something. How Johnson knew I was interested, Charles Elliott told him that I was inquiring. The Treasury is on the outside.

You three guys (Gaston, Hanes and Haas) can give us a good statement. I want something good.

oOo-oOo

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 24, 1938

TO Secretary Morgenthau

FROM Mr. Haas

Subject: Conference with Mr. Beardaley Ruml with regard to research investigations concerning budgetary problems, on Friday, October 21, 1938, 10:30 a.m. to 12:15 p.m.

Attached is a list of seven research projects, together with the name of the agency which is expected to work on each. Mr. Ruml brought a list with him outlining the first six projects. He said he worked up the outline the night before in his hotel. He was reluctant to make any additions until after subsequent meetings of the committee, to be held in your office, had raised further questions. Among questions which I raised was the problem of the transition from Government spending to private spending, and the effect of credit measures and other related operations to this problem. Mr. Ruml was seeking for a problem which the Reserve Board staff might work on, and this was my suggestion. He accepted it with some reluctance Friday but called me on the telephone Sunday after his meeting with the National Resources Committee, and said that after considering it further he had become very enthusiastic about having some work done on this phase.

Mr. Ruml was extremely enthusiastic over the meeting in your office and the opportunity it afforded to work on the budgetary problem as he visualized it. Mr. Ruml's interest seemed to be almost entirely centered on these longer-range budgetary problems, or philosophy, rather than on any of the budgetary situations which immediately confront you.

During the meeting Friday he said he would call me on the telephone Sunday, after his meeting with the Resources Committee, and advise me with regard to working arrangements with the staff of the National Resources Committee. He told me Sunday that Gardiner Means would get in touch with me today.

Gardiner Means and some members of my staff met in my office today to discuss the research program, as Mr. Ruml suggested. The discussion continued for over two hours. With

Secretary Morgenthau - 2 -

the exception of item two on the list of projects, on which the Resources Committee has done some work, practically all of the other projects have to be undertaken as initial investigations, although some work has been done by our staff on many of these problems in connection with work on current Treasury matters.

The whole program is very much in the "idea stage." Everyone it would seem is in agreement with the objective of the policy "increase of national income, production and employment," and is sympathetic with the ideas for research presented on the attached sheet. The skepticism felt by some concerns itself with whether or not the ideas can be supported by facts and whether or not practical technique can be developed to put the theories into effective operation.

Objective of policy:

Increase of national income, production and employment

Investigations required:

1. Amount of national income to balance budget (Treasury)
 (a) At different price levels

2. Amount of national income with full employment (National Resources Committee)
 (a) At different price levels

3. Principal bottle necks under (National Resources Committee)
 1. Above
 2. Above

4. Effect on national income of principal budget classifications (Treasury)

5. Effect on national income of Federal fiscal operations outside the budget (National Resources Committee)
 (a) Actual
 (b) Proposed

6. Possibilities of increased flexibility in (Treasury)
 (a) Expenditures
 (b) Receipts

7. Transition problem (Federal Reserve Board)
 (a) Timing
 (b) Methods

My dear Mr. President:

As I have previously reported to you, a delegation representing the Government of China has been in Washington for over a month seeking financial assistance. I have conferred at length with them and experts in the Department have given careful study to their problems.

One plan which appears feasible is a comparatively simple one - in essence it is merely the financing of an exchange of necessary Chinese goods for domestic products. China produces, and is in a position to export, tung or wood oil - an industrial product much needed here and of particular value in the manufacture of quick-drying varnish and paint. Last year approximately 75,000 tons of this oil were consumed here of which less than 5 per cent was produced domestically. It is obvious, therefore, that as more than 95 per cent of our needs must be imported in any event, no competition harmful to American industry can result from the importation of tung oil from China.

In order to finance the purchase of Chinese tung oil, a Chinese trading corporation has just been organized under New York Law. The plan under discussion contemplates that this corporation, which will be controlled by the Chinese Government, will make a contract to

- 3 -

purchase 180,000 tons of tung oil from the appropriate Chinese agency, delivery to be made in fixed yearly amounts over a three year period, beginning at 60,000 tons per year and increasing 10,000 tons annually. The trading corporation will pay the Chinese agency immediately one-half or more of the purchase price which will be advanced before any tung oil is delivered. If the oil is purchased for 12¢ per pound, the cost of the three years' supply of tung oil would be \$45,200,000. If the initial payment is one-half of the purchase price the Chinese Government would receive \$21,600,000. The Chinese trading corporation would obtain the necessary funds for this initial payment by way of loan from the Export-Import Bank. The Bank, in turn, would be put in funds for this purpose through the purchase by the R. F. C. of its preferred stock. Security for the loan would be:

- A. All inventories and other assets of the Chinese trading corporation,
- B. A loan agreement between the Export-Import Bank and the Chinese trading corporation based upon the contract of the Chinese agency to deliver tung oil to the trading corporation. The loan agreement would also provide that upon the sale of tung oil in this country, according to the above example, one-half would be paid to the Export-Import Bank to retire the loan, and the other half would be credited to the Chinese agency, and
- C. An unconditional guarantee of the notes of the Chinese trading corporation by the Chinese Government.

- 3 -

Adequate provisions to insure that no disruption of the business of either the American dealers or consumers will take place, and that all dealers and consumers will be treated on a parity would be included in the contract between the Export-Import Bank and the Chinese trading corporation. An additional safeguard would be a requirement that all the proceeds from the sale of tung oil, i.e., \$43,200,000, would be expended by the Chinese trading corporation for the purchase of American goods, and to this extent business in this country will be stimulated and employment created. The Chinese trading corporation would also sell the tung oil in this country at prices based upon the contract between it and the Chinese agency, making nominal allowance for operating expenses (i.e., the Chinese trading corporation will not realize a profit from the transaction) so it is expected that the price of tung oil to American consumers will be somewhat reduced below the average for the past few years and that speculation will be curtailed or perhaps eliminated entirely.

I am informed that the plan would meet the approval of tung oil consumers since it would effect price stabilization of a product which has been subject to drastic price fluctuations (during the last few years the price has ranged from 6¢ to 29¢ per pound) as well as insuring a regular and continuous supply of tung oil in this country.

Before negotiating further with the Chinese delegation, I would appreciate an expression of your views concerning this plan. An early

- 4 -

conference with representatives of the Treasury, the E. F. C. and the Export-Import Bank might prove helpful.

Sincerely,

Secretary of the Treasury.

The President

The White House.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 20, 1935.

to Secretary Hargrave
from Mr. Taylor

Regardless of the technicalities which appear to surround modern conflicts, it is obvious that Japan and China are engaged in a bitter war. If an agency of this Government extends credit to the Chinese Government to enable that Government to purchase food, clothing or war supplies and fails to extend similar credits to the Japanese Government it is equally obvious that this Government has chosen to aid one of the combatants, and that the world at large and the combatants in particular will so interpret such an action. If, on the other hand, in a spirit of impartiality an agency of this Government should extend credit to both combatants on equal terms, this Government would then be in the position of underwriting a war, and thereby helping to prolong it to the extent to which this Government might make such credits available.

The nuance involved in an agency of this Government making a loan to a Chinese Government owned American Corporation, which in turn advances substantial amounts of money obtained from the American taxpayers on the security of a contract for possible future deliveries of tung oil does not in any way alter the fundamentals. The transaction is one involving responsible officers of this Government in a series of acts leading to the use of public funds for the purpose of giving financial aid to a belligerent.

While no one has ever been wise enough to predict the duration of any struggle of this character, the length of the present conflict

is particularly difficult to estimate, or is it possible to evaluate the credit performance of nations engaged in armed combat. Nevertheless, it should be evident that the longer the combat, the more the credit, the greater the destruction of human and economic values and the greater the ultimate credit collapse. Certainly our own experience as a creditor would indicate that outright gifts to belligerents, even when these belligerents are on our own side, is preferable to disguising as credits our contributions to a cause which we have selected.

Many things have happened in the world since Congress last expressed itself on the subject of neutrality, it may well be the case that the people of this country would like to aid the Chinese people in their conflict and that if the questions were presented to them through their chosen representatives that they would vote to extend credits to the Chinese Government or to make a gift of some of our abundant wheat and cotton. However, in the absence of a specific expression of opinion by the American people on the specific points at issue, it is my conviction that any executive officer of this Government would stretch to the breaking point any authority hitherto delegated to him by Congress if he approved the proposed tung oil transaction, the wheat and cotton credits, or any other credits involving the direct or indirect use of Government funds to aid active combatants engaged in declared or undeclared war.

I strongly recommend to you that these and similar credit negotiations be dropped for the reasons which I have stated above.

Weyne Taylor

1. France ✓

393

2. China ✓

3. Unemployment ✓

4. Airplanes ✓

5. Conferences ✓

Fiscal Committee

RE GERMAN AND JAPANESE BARTER PRACTICES October 25, 1938.
3:10 p.m.

Present: Mr. Taylor
Mr. Oliphant
Mr. White

H.M.Jr: Well now, shall we go to school on Germany?

Oliphant: Uh-huh.

H.M.Jr: Please.

Oliphant: Well, who's teacher?

White: You. Fair enough.

Oliphant: Want to do the German thing before the Japanese thing?

H.M.Jr: If you don't mind.

Oliphant: I have here for your purposes a rather complete file, which I failed to initial. (Initials it) In that file is a possible draft of a letter to the Secretary of State, enclosing a memorandum pointing out that it looks like we'll have to invoke countervailing duties on account of the way they are now handling German shipments. And attached also is a general background statement or running account of this whole German thing from the beginning, maybe somewhat oversimplified, but it does tell the story. And then finally there is attached a copy of that famous press release of December 23, '36, and a tabulation of our exports to Germany, which is the last thing, and it shows a total of 125 million from '37, with 55 million of it copper, 20 million of petroleum, and 12 million - I mean cotton: 55 cotton, 20 petroleum, and 12 copper.

Taylor: Yes, cotton.

Oliphant: I don't know just how fresh the history of this thing is in your mind.

H.M.Jr: Well, go on the assumption it isn't.

-2-

Oliphant: Well, I - well, we start with Section 303 of the Tariff Act, which requires - not authorizes, but requires the imposition of countervailing duties upon any foreign country that pays or bestows a grant or bounty on its own export trade. And this story begins in the spring of '36, when we were bothered about the then practices of payment of cash bounties by the German Industrial Association, and things we called scrip and bond procedures and the Aski marks and other currency manipulations. We took the position that that required - that those required the imposition of countervailing duties.

H.M.Jr: Excuse me. (Leaves room to take phone call in wash room)

(H.M.Jr returns)

Oliphant: We took the position that those procedures contemplated a payment of bounty and required the imposition of countervailing duties, and you wrote the Secretary of State to that effect. He came back with a letter saying that the legal position of the Treasury to him seemed doubtful. And then on April 16 you laid the whole matter before the President; he said that before taking action on a thing of such importance and in which there was a conflict between departments, he might want to submit the matter to the Department of Justice. And you remember the long and difficult process we went through and we finally obtained from the Department of Justice an opinion which sustained us in all respects in the formal opinion which I had in the meantime given you.

So we issued on June 4, 1936, an order which condemned the then current practices of payment of cash bounties, the scrip and bond procedures, and those currency manipulations, including the Aski marks.

That was on June 4, '36. During that summer, following that order, a German mission came to this country, and their first purpose was to protest against the order and argue against it.

H.M.Jr: But you skipped the part where Mr. Hanes came up - I mean Mr. Taylor

Taylor: Mr. Taylor and Mr. Johnston flew up.

-3-

H.M.Jr: And a very hot day - had a nice swim in the ocean.

Taylor: It was very pleasant.

H.M.Jr: All right.

Oliphant: Where were you then?

Taylor: Weyanoke.

Oliphant: What?

Taylor: Weyanoke.

Oliphant: I don't know what I thought you said.
What were you talking about then?

Taylor: The one of - it would be June, '36, or the first order.

H.M.Jr: The first order.

Oliphant: Well, I remember one question arose under that: should we apply that June 4 order to the old contracts or merely to new contracts negotiated after the order? And we decided that we'd apply it, and the Germans promised - thereafter promised that they'd refrain from using it, in connection with new orders, new contracts, which I think is the angle you discussed with the Secretary.

H.M.Jr: Well, it isn't clear.....

Taylor: It was a question of the timing, whether it ought to be made 30 days or made retroactive.

Oliphant: That was retroactive as to merely new contracts. The question was whether the 30-day provision would be sufficient to take care of any old contract.

Taylor: That's right. They wound up, though, by agreeing to abandon these procedures in connection with new contracts. And then they sought frequently from the Bureau suggestions as to what method they could adopt for handling their export trade which would be within the law. And Johnston, who did most of the seeing of them, and everybody else consistently refused to make

-4-

any suggestions at all. After that, the Bureau got a great many inquiries from American firms, importing firms and exporting firms, and banking interests representing both, notably Schroeder - isn't that Schroeder?

Taylor: Schroeder.

Oliphant: and they would set up various hypothetical ways of handling it and ask whether or not these things were legal. And that thing led to the issuance of the press release of December 23, 1936, which is the document that's under attack by Matt Woll.

That press release had three parts. First, it said it would be all right for them - if they permitted these Americans who were importing goods from Germany to pay for those goods with old marks that came over from the old regime, the old good marks that they had held all along, because that would involve no bounty because of the value of those marks.

The second thing it provided for as being all right was an outright exchange of merchandise - and I mean an outright exchange. That would be a case where Columbia University had an X-ray, scientific machine of some sort, and the University of Heidelberg had another one, and they exchanged it.

And then the third, and the part subject to dispute, provided as follows: that it would be all right if the payment of the purchase price of German goods was made with proceeds of the sale in Germany of merchandise exported from the United States. And it's cotton and copper we're going to talk about, because it's practically all been paid for with the proceeds of the sale of cotton and copper.payment of the purchase price in whole or in part with the proceeds of the sale in Germany of merchandise exported from the United States, provided that such proceeds, until so used in the payment for such German goods, had been continuously owned by the person for whose actual account the American merchandise is sold in Germany and that person for whose actual account the German goods are purchased in that country."

H.A.Jr: Well, let me ask - this letter

-5-

Oliphant: Press release.

H.M.Jr: ... press release was not submitted to the Attorney General before it was released.

Oliphant: No.

H.M.Jr: The other one was. Right?

Oliphant: That's right.

H.M.Jr: This was not.

Oliphant: And this press release was issued merely as in the process of further defining, drawing a boundary around the order of June 4, and it was contemplated to take care of a relatively limited - a few relatively limited classes of cases.

Now, taking that particular paragraph, it turns out from information that has recently come to us, principally from a publication of the Department of Commerce, Special Circular #426, and information we have been able to get informally from Mr. May, our representative in Berlin, and so on, that that thing has been expanded or conventionalized into a way in which a very substantial part, from a third to a half, White thinks, of German imports into this country are being handled.

And I might take a transaction now and describe this new way of handling it.

Taylor: Might even be higher than that. I think 50 percent is probably conservative, isn't it?

White: One-third to two-thirds.

H.M.Jr: One-third to two-thirds of what?

Taylor: Total business.

Oliphant: Is now being handled by this what I would call an abuse of this

White: We can find out exactly if we have your permission to send somebody up to New York and spend probably three or four days, something like that; we can find

-6-

exactly how much business in 1938 was done by this arrangement.

H.M.Jr: How do you find out?

White: They have to attach to each consular invoice a statement - a sample giving the necessary information.

Oliphant: The amount is substantial, if you say a third or a half.

H.M.Jr: I say now, do it, send him up.

White: May take two or three men a few days.

H.M.Jr: Do it.

Oliphant: It may be a case of the camel's nose under the tent, or it may be a case of their having out-smarted us, I don't know. But the case has developed to this point.

I'll give you a typical example of the way it's used. You're a jeweler on Broadway and 42d Street in New York, and you want to buy \$10,000 worth of binoculars from Germany. Now, this is what you actually do. You call up a cotton broker down in Wall Street and say, "I've got \$10,000 I want to remit to Germany." He says, "I've got a bill to Germany."

Taylor: Merchant, Herman.

Oliphant: What?

Taylor: Cotton merchant. It has to be a shipper rather than just a broker. It's important. In other words,

Oliphant: Well, all right, it's a cotton merchant who has a correspondent firm in Hamburg through whom he transacts business. He says, "All right," and he cables to Hamburg and gets a bid price on cotton, see? He calls this - the jeweler back and says, "You need.." - whatever it is - "... a hundred and fifty-one and a half bales of cotton."

-7-

He says, "All right, I'll take it."

In the meantime, the cotton is probably out at sea, on its way to Germany, and the shipping documents have gone forward.

Now, when the ...

Taylor: It might - it even might be warehoused, let's say, in Hamburg.

Oliphant: It might be warehoused in Hamburg. Clayton & Anderson probably have a great deal

Taylor: Controlled by Anderson-Clayton, MacFadden, whoever it might be.

Oliphant: Yes. Now then, the cotton is sold in Germany and the proceeds of that sale are blocked in this sense: that they'll be released by this exchange authority for the purchase of the listed German exports that are permitted to be purchased. In general, you can use the proceeds for purchasing almost anything except these three classes of articles. And of course, these three amount to a great number.

First, you can't use this favored cotton procedure to purchase goods on which Germany or German firms have a monopoly throughout the world. People have to come to them and buy it anyway, you see.

Second, you can't use them for the purchase of goods in the manufacture of which in Germany a great deal of foreign raw material had to be used, in the manufacture of which they constituted a heavy drain on German foreign balances.

And finally, you can't use these marks to purchase goods of which there is a shortage, such as fats and what not.

But with those exceptions, which are large - then as to the remaining permitted list, the marks are released for purchase at this over-price.

H.M.Jr: At the what price?

-8-

Oliphant: At an over-price.

H.M.Jr: Over ...

White: "Uberpreis," they call it.

Oliphant: If you shipped your cotton to Germany, just sold it and insisted on free marks, the dollar equivalent of that would in the case of cotton be - what is it, 33 1/3 percent? -

White: The "uberpreis" is now 33 1/3 percent.

Oliphant: - ... over what you'd get if it's free marks.

White: A third more marks than if you sold it for free marks.

Oliphant: I think it all boils down to this, Henry. It became perfectly clear to me in trying to analyze this procedure that if this jeweler who wanted to buy binoculars, having dollars, had, instead of going through cotton into marks, gone through French francs into marks, with that special favored treatment for the resulting marks, of course it's a bounty; then it would occur to me that cotton is a medium of exchange. That is, to the jeweler it is. To Clayton & Anderson, the - or the German merchant - the American cotton merchant or his correspondent in Hamburg, the cotton is cotton; they bought it for the ordinary purposes for which cotton is bought, namely, either to be used or to be sold at a profit. But the jeweler doesn't buy cotton for the purpose for which cotton is ordinarily bought. He knows he won't make a profit. He doesn't want to use it in his business, and he knows he won't make a profit on it, because he takes pains to get his bid price before he commits himself. What most of all he wants is that there should be no profit or loss on his deal so far as the period of time when he is in cotton is concerned.

So what they have actually done, you see, in effect is to make a special medium of exchange out of cotton, which mediates between the dollar on the one side and the mark on the other.

H.M.Jr: What is this one-third "uberpreis"? I never heard of it before.

-9-

- Taylor: Cotton, instead of being worth 10 cents in Germany, is worth 15 a pound for this purpose.
- Oliphant: For purchasing these favored commodities.
- H.M.Jr: I see.
- Oliphant: That's the whole story. Just boiled it down.
- H.M.Jr: Now, without going into arguing about this thing, inasmuch as it seems as though - I take it we'll find out to what extent - it naturally is interesting how much the abuse amounts to in proportion to the total amount of trade - what action can the Treasury take to keep them from breaking the law? That's what it amounts to?
- Oliphant: Well, the procedure I would suggest - I want first to get in as a matter of formal record the formal statement of Mr. May of these facts that we've had from him informally, and I have a letter to May - he's now in this country - to get those facts. With that perfection of our record, our factual record, then I would suggest that you drop a letter to Hull along the lines I indicate there, saying that you have had these complaints and that you have re-examined the matter, and when you come to re-examine it, it looks about like this. Then enclose a memorandum which describes the current procedure and indicates why it looks like it's the payment of a grant or bounty.
- I would anticipate that from that you may get another unfavorable reply. In that event, I'd do what I did before, bring it to the President's attention, say it's a matter on which there is a division of opinion between the departments and a matter of very broad interest to the Administration as a whole, and you'll probably want to submit it to the Attorney General.
- H.M.Jr: Now, do you think we ought to prepare them in advance or just send it over cold?
- Oliphant: Well, people with more contact with State Department than I have would know better than I do.
- H.M.Jr: When would you be ready to have me send this?

-10-

Olipphant: Oh, first of the week.

White: Would it be well if we could have the amount by that time? I don't know how many men it would take. But if you could state specifically, maybe, what - if it takes three men

Olipphant: Well, if it's a violation of law - I mean I'm not very anxious to go into that. If it's a violation of law, I mean, it's - the case is just as strong if it's a third as if it's a half.

H.M.Jr: But I still think I'd like to know.

Olipphant: You'd like to know for your own satisfaction.

H.M.Jr: I'd send enough men to have - for them to be back Monday.

White: Need to go through a whole year's, but we can probably take a sample for a couple of months.

H.M.Jr: Do I want to keep this, as of today?

Olipphant: Except you want to - I want to review this lesson.

H.M.Jr: No, I'll give it to the man.

I would like - this has been up since the fall of '37, hasn't it?

Olipphant: '36.

H.M.Jr: '36. So it's two years.

Olipphant: It's been growing up over a long term.

H.M.Jr: So it seems as though they had definitely outsmarted us. Do you want to say anything on this before I drop it, Wayne?

Taylor: No, I don't, Henry, except this one thing. It isn't necessarily directed to this particular case, it isn't necessarily directed towards any particular country; because you're going to find that in each one of these countries which engage in what I describe as state

-11-

trading, for want of a better name.....

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

Taylor: ... you'll find something similar to this. You're going to find the equivalent of it in the Jap situation; you're going to be able to go to any one of these countries where we have similar problems to meet and you're going to find in one form or another that type of thing. Therefore, I think that we, as a government, ought to ask ourselves a series of rather simple questions, but they're very difficult questions to answer.

They're about like this. I just wrote them out here. One: I say, "State trading exists. You might as well recognize the fact that it does exist. The tendency favors its increase rather than decrease."

Two: "A state utilizing no major controls over exports and imports finds it very difficult to do business with state traders except on the terms of state traders."

and that leads you to the three questions:

Three: "Do we wish to do business with state traders? If so, on what terms?"

Four: "Do we wish to compete with state traders in neutral markets where trend is not yet determined? If so, how should we organize to do so?"

Five: "If we decide we do not wish to do business with state traders, present cotton barter question, which is the one that I'm mentioning, is unimportant and full powers granted the President should be utilized."

In other words, he ought to go the whole hog on it.

H.M.Jr: And do what?

Taylor: Use the powers that Herman has in mind under the tariff.

Oliphant: Countervailing duty.

Taylor: Under the Tariff Act, so on - discrimination against

-12-

American trade. In other words, if you do this, it's - it's a very long tail, and I don't think - I don't think you're even taking an inch of it. You may be taking two inches, you may be taking a quarter of an inch. But I don't think we as a country are facing the important questions involved. If we decide we do not wish to do it, and so on, the full powers granted the President should be utilized and in addition we should completely organize to compete realistically with state trading and neutral markets.

H.M.Jr: Now, may I ask you, because - I mean have you any feelings on this yourself as to what direction we should take?

Taylor: No, I haven't, Henry. I think that we - it's a decision that the government has to make. Either way might be right. But I think if we kid ourselves and go along a little bit here and a little bit there, without having determined what our policies are - I don't think we'll do very much good. You can play either way, and I think you could win either way, but I don't - on this particular subject, I just don't think a quarter of an inch of a tail does very much good.

H.M.Jr: Well, do you think, in view of the law, and if this information is correct, we ought to do nothing?

Taylor: I'd go right ahead with this exactly as Herman indicates. But I don't think that you're meeting the fundamental question, which is: state trading exists; what do we want to do about it?

H.M.Jr: Well, let's see if you and I - I mean my purpose is to think out loud. AS I envisage the Treasury, we are here to carry out the Customs laws.

Taylor: That's right.

H.M.Jr: And do so promptly and vigorously. What you bring up I don't think comes within the purview of the Treasury. I mean all the trade treaties and everything else are conducted by the State Department.

All that we are here for is just - if an importer was finding some method of evading the tax on wine and it

-13-

was brought to our attention, should we see that he paid the full tax on wine, or shouldn't we? But whether we want to increase the imports with that country, bring in more wine or less wine, I don't - I don't feel that that's up to us. I mean I don't - I mean I wouldn't attempt and I think that it's beyond our realm to get into the question of do we want to continue - what it really gets down to: do we want to continue with Mr. Hull's trade treaties as a national policy, or do we want to do some other way? And as far as I'm concerned I don't want to get in on it, see?

Oliphant: It's because you recognize it does have that implication that you're sending it to the Secretary of State.

H.M.Jr: Well, it's a matter of foreign affairs.

Oliphant: Yes.

Taylor: We're saying, "All right, here's something that we're going to do," or "The facts look like this to us; this obviously is going to cause annoyance." Let's put it that way.

Oliphant: "You obviously are interested in this."

Taylor: Yes. And - "you're interested" and that "it's probably going to cause annoyance."

H.M.Jr: Well, this is a legal matter and my offhand opinion this afternoon would be that our General Counsel should bring it to the attention - I'll sign it - to the attention of the General Counsel of the State Department, and explain it to him and let him take it up with Mr. Hull. That's the way I feel.

Oliphant: Why shouldn't I just sign it?

H.M.Jr: What?

Oliphant: That would be very unusual, for me to write a Solicitor a letter.....

H.M.Jr: No, you wouldn't write him. I mean one of two ways I can send it over: cold; or you can call up - what's

-14-

the fellow's name over there? -

Oliphant: Heckworth.

H.M.Jr: - ... Hackworth; say, "Here's this thing; we don't want to send it over cold, we want to give you the background, so here it is."

White: I think a letter is preferable.

Oliphant: What?

White: I think a letter is preferable.

H.M.Jr: I mean he'd take the letter over there.

White: Yes, but give him a chance to know about it, not officially, before he is called on to express an opinion.

Oliphant: Now that's better.

H.M.Jr: Herman Oliphant will let Hackworth know what's coming. "This is what's coming. This is the background. Now this letter is going over to Mr. Hull. We want to let you know how we feel about it, and how we arrived at it, so you, Mr. Hackworth, won't take the thing up cold." Just as a matter of courtesy between attorneys in the same government. That's the way.

Oliphant: That's right. I'll take him up a copy of everything and leave it with him.

H.M.Jr: The way I look at this thing, Wayne - I'm not arguing with you as to the question you raise, but I'm - I'm the policeman on foreign trade, as far as imports and exports go. And all I want to do is my police duty and I don't want to go - I want to do that and do it very well, and just as promptly as I know how. And then if in enforcing the law it should be contrary to something that Mr. State Department thinks, then let them get the law changed. But as long as the law is the way it is, it's up to the Treasury to enforce it.

Taylor: That's right.

-15-

Oliphant: Or in effect do what they did the last time, sort of appeal to the Attorney General. I mean they didn't appeal; you really suggested it.

H.M.Jr: Well, that is always a good - we can always do that, if necessary, but if the facts are the way you say it, I don't see that there's much question involved. I mean the thing is - I don't see how they could argue very much about it.

Oliphant: All right.

H.M.Jr: But I do think if you'll put the heat on your people, so we could have something by Monday or Tuesday, the latest

Oliphant: I'm ready - I'll be ready.

H.M.Jr: By Monday or Tuesday.

Oliphant: Oh, I'll be ready easily by - in fact, I'll be ready Friday.

White: We'll send somebody up tonight.

H.M.Jr: What?

White: We'll send somebody up tonight.

Oliphant: I can be ready by Friday on it.

H.M.Jr: But I'm just going at this - I'm charged with enforcing the Customs laws, and that's what I want to do.

Oliphant: I'd like to - well, that's all.

H.M.Jr: What?

Oliphant: This is a better copy of this stuff I'm turning over here. Will you get back those other copies you took to the farm?

H.M.Jr: (To reporter) There's some other stuff covering Customs; get it from Miss Chauncey or Mrs. Klotz and return it to Mr. Oliphant.

Now what's the next one?

-16-

White: Japan, you had.

Oliphant: Japan. Do you want to

White: Do you have the memo?

Oliphant: A memo.

I have here a memorandum for you, and to which is attached a memorandum from Mr. White to me, and Mr. White's memorandum starts out that: "In my opinion the information contained in the official reports of the United States representatives in the Far East indicates that Japan is discriminating in fact at home and in occupied areas of China against American commerce and in favor of commerce of third countries or in favor of its own commerce, and this discrimination is evidenced by the following instances." And there follows a list of some dozen instances.

H.W.Jr: What are they? An instance of them.

Oliphant: First: "Discrimination in fact at home against American commerce in cotton, in favor of Chinese and Brazilian cotton. Chinese importers have been able to purchase cotton

White: Japanese - I'm sorry - "Japanese importers."

Oliphant: "Japanese importers have been able to purchase cotton from the occupied areas in China without obtaining foreign exchange in the usual and more difficult manner in which prospective purchasers of American cotton must purchase foreign exchange." There is a citation to a consular dispatch.

Second: "Foreign exchange is released for payment of cotton imported by Japan immediately upon the shipment of the cotton from Brazil, whereas cotton imported from the United States is not given such treatment."

When do they get their payment when they ship?

White: Not specified. Maybe several weeks or longer. This material has been taken from consular dispatches, and they don't always go into detail.

-17-

Oliphant: What are they doing, just borrowing our balances in the meantime, using our balances?

White: I don't know. Possibly.

Oliphant: Second: "Discrimination in fact by Japan against American commerce in favor of third countries in the occupied areas of China." Under that: "German merchant ships are traveling up the Yangtze, while American ships have been and are being scuttled." That's from a Shanghai paper.

Then: "Discrimination in fact against American commerce in favor of Japanese commerce in the occupied areas of China."

There follows a list of one, two, three, four

H.W.Jr: I can't hear very well, Herman.

Oliphant: There follows a list then of five instances where they have discriminated against American commerce in favor of Japanese commerce in the occupied areas.

First: "Under the exchange control system enforced by the Manchoukouan puppet government, all transactions in foreign currencies, including transactions in United States dollars, are subject to rigorous administrative control, but the Japanese yen is exempt from this control." Numerous cables to that effect.

Second: "In the conquered areas of North China, Americans are permitted to export only if they conform to regulations which force them to handle foreign exchange through Japanese banks or branches of Japanese banks, and to accept blocked Japanese currency at rates specified by the Japanese authorities, in exchange for the proceeds of their export sales." Again numerous dispatches.

Third: "Japanese military and naval authorities in the conquered areas of North China and the Yangtze Valley have engaged in smuggling and certain tariff practices by which products imported from Japan or elsewhere enter these areas without the payment of Chinese customs duties. In one instance it was reported that imports thus entered were sold in the Chinese market." Three dispatches.

-18-

Next: "The military and naval authorities in North China and the Yangtze Valley permit Japanese ships to enter ports and conquered areas without the payment of port and customs duty, while at the same time American vessels are not permitted to do so." They are permitted to enter, but they have to pay duties, port charges.

Again: "In all the occupied areas, purchases of American goods are discriminated against in favor of purchases of goods from Japan through monopolies and other forms of trade control under the administration of the local puppet government, or under control of the Japanese military or naval authority."

And finally: "American citizens are excluded from export trade or export commerce in..." - let's see - "American citizens are excluded from export trade or export commerce as directed through Japan." What does that mean?

White: There's a clause which

Oliphant: "... which is directed through Japan by the establishment of monopolies or from the"

H.M.Jr: Herman, I'm dizzy. Don't give me any more. Makes me dizzy. How many are there like that?

White: There's a lot of citations there which bear witness. There's one weak one there, admittedly weak - b under A.

H.M.Jr: Take it out if it's weak. Don't weaken them all by putting in a weak one. If there's a weak one, strike it out.

What do I do with this?

White: This is not the same as the other. This is not the responsibility - from my point of view; I don't know whether you agree - of the Secretary, to enforce this. This is either the Tariff Commission's or anybody who wishes to call attention of the President to the facts of discrimination, and involves, if the President so finds, either withholding of the most-favored-nation clause or application of the 338, which will permit him to increase duties by 50 percent.

-19-

H.M.Jr: What's 338?

Oliphant: That's the one we carried over to the White House the other day and he put in the middle drawer.

H.M.Jr: But this is not my responsibility?

White: Not your responsibility. May I qualify: that's my view.

Oliphant: I think you, as Secretary of the Treasury, are responsible under official duty to bring to the President's attention all these circumstances where he has authority to act and might want to act, and where if you kept them from him he wouldn't be able to act. Now this is a case where the President, if he thinks it in the public interest, can act.

H.M.Jr: What would he do?

Oliphant: Well, the simplest thing to do, and the thing that's clearest, is for him to treat Japan as he ...

H.M.Jr: To do what?

Oliphant: Treat Japan like he has treated Germany and Australia - Australia once and Germany many times under the Trade Agreement Act.

White: There's something further must be said.

Oliphant: May I finish that? Now, your Trade Agreement Act provides that the President may suspend the application of trade agreement rates to articles of the growth, product, or manufacture of any country because of acts or policies which in his opinion tend to defeat the expansion of foreign markets for the products of the United States. Now, if you act under that, then you can use all of White's evidence without any question, both where Japan is discriminating - evidence of where Japan is discriminating against American commerce in favor of the commerce of third nations, and also where it is discriminating in favor of its own commerce. That's the simplest thing to do; the statutory basis for it is clearest, and it is buttressed by the fact that we have already repeatedly done it in the case of Germany and once in the case of Australia.

-20-

Now, the other possibility is under the section of the Tariff Act which gives the President the power by proclamation to provide for additional duties where a country is discriminating, if he thinks it in the public interest. Now, if you wanted to act under that section, I am now perfectly clear that you could act, because Japan had discriminated in favor of the commerce of third countries. I am less clear, although I think it is probably true, that you could apply that act because she discriminated in favor of her own commerce.

White: Well, that raises the question... First, may I say with respect to the latter, according to the Tariff Commission that's never been invoked, though it has frequently been threatened and negotiations have proceeded under the implied promise that they would be - threat that it would be imposed if certain changes weren't made, and apparently those adjustments were always made before it was necessary - before it was applied. But it has never been applied.

Secondly, the question - the latter one which you raise, is the complicated one of Japan's doing this in China. We do not recognize Manchoukuo; we recognize China. And therefore, in order to impose this against goods coming from Japan, it would have to be necessary to sustain - I don't think that would be very difficult - that these acts were due to Japan's de facto control over the areas in question.

H.M.Jr: Whew!

Oliphant: Well, I think I agree with you, and I sum it up this way. The President's right to act under and suspend the benefit of trade agreement rates is just as clear as crystal and there is ample evidence. And he's done it in the case of Germany a number of times.

H.M.Jr: Now, why do I bring this to the President's attention?

Oliphant: Because you have knowledge of it.

H.M.Jr: Well, let's say I bring it to the President's attention. Then what would he do with it?

Oliphant: He would determine for himself whether or not it was

-21-

in the public interest to do anything about it.

H.M.Jr: Well, he has no General Counsel. I still say what would he do with it?

White: The law allows him leeway. He has to determine whether it's in the best interests of the country.

Oliphant: That's his duty under devaluation, his duty under all - almost all his executive powers he has.

"Whom.." - I get you - "Whom would he ask?" I'm gradually coming back to earth.

H.M.Jr: What?

Oliphant: I'm gradually coming back to earth.

H.M.Jr: Well, I tell you what you do, gents. Give me a polished document Monday forenoon and I'll think over what I'm going to do. I don't know what I'm going to do. But give me a polished document. And if there's anything a little bit doubtful, don't put it in.

White: It's clear, Mr. Secretary, that this evidence is obtained from consular dispatches, that we have no way of going there and checking up.

Oliphant: We haven't gone there and checked up. We could go there and check up. And I think we ought to go there and check up, myself.

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

Oliphant: What?

H.M.Jr: I don't.

Oliphant: I mean we ought to know what's going on, don't you think?

H.M.Jr: Yes. I'm amazed, for instance, that this German thing could grow up this way for two years and - well, that the people whom it hurts in this country have been so quiet about it. Nor, for instance, in the Department of Commerce bulletin, their monthly bulletin. They discuss things like this, Japanese things.

-22-

- H.M.Jr: I mean it isn't summarized.
- White: Not the Japanese one. But they have occasionally used them - cables, or something.
- Oliphant: If there is any responsibility on that, I want to be sure to take it all myself. I mean I touch one of these situations and I don't touch it again for a year. Maybe I ought to check back and see how the thing is operating.
- H.M.Jr: What's operating?
- Oliphant: I mean they've been a little smart, maybe, and put one over on us.
- H.M.Jr: I think they have. And I think we've been a little slow about catching them.
- Oliphant: Well, better late than never.
- White: Would you think it would be desirable to give one of the members of the Tariff Commission this Japanese discrimination, see what they think of it?
- H.M.Jr: Yes.
- White: See what they think of it, huh?
- H.M.Jr: Yes, I do.
- Oliphant: Before Monday.
- H.M.Jr: Before Monday. Before Monday.
- White: It really is their prime responsibility.
- H.M.Jr: Their prime responsibility. It's really - they're the ones should call the President's attention. Don't know as it's their prime.... - but ..
- Taylor: I would say, carrying out the Secretary's simile: What's the duty of a good cop? Why, if there's something going on on the block that he happens to be in charge of, even if there isn't a law against it or it's somebody else's responsibility to do something about it, I think a good cop would report it.

-23-

Oliphant: He'd tell the Chief, yes.

White: Particularly since it came to him through his investigations of exchanges. That's how we first - our interest developed in it.

H.M.Jr: Well, following what Taylor said, when I first came here we had a case - I think it was New London, if I remember rightly - I think it was either a narcotic or counterfeiter arrested; they sent 17 different Treasury agents to investigate this one thing, because it was narcotics, counterfeiting, and he'd done something else. That's why I consolidated the agencies. Well, the old attitude used to be that if one side of the street walked a counterfeiter and a Treasury narcotic agent on the other side of the street, and he saw the counterfeiter, he'd say, "That's none of my business; that's a counterfeiter." And the narcotic fellow would let him go by, pay no attention.

Here I am, a cop, working for the United States Government. I see a country breaking a law. It may not be the Treasury's law, but he is breaking the law. Should I report that to the Chief of Police or should I say, "Well, just because he isn't breaking a Treasury law, but he's breaking a law which has to do with the Tariff Commission, I don't report it to the Chief."

Taylor: That's the point I'm making.

H.M.Jr: And I think, following Taylor's thought, that if I see somebody's breaking the Federal law, even though I don't happen to be in charge of that, and he is breaking the Federal law, I should report it to the Chief of Police, who happens to be the President of the United States.

Oliphant: And we do it all the time....

Taylor: That's just the way I feel about it.

Oliphant: And we do it all the time in our relations with Justice. We do it all the time.

H.M.Jr: And if you fellows could polish it up - anybody who could be helpful in polishing it - you're at liberty to show it to and consult anybody in the United States

-24-

Government. How's that?

Oliphant: I didn't want anything [^] said to imply criticism of those career boys in Customs. They're operating under great handicaps, you know.

H.M.Jr: Well, I don't think that necessarily it would be on them, inasmuch as it's legal, isn't it?

Oliphant: Factual - what's happening.

H.M.Jr: All right. Well, I think this is a good meeting. Now, the way it stands, you're going to polish up the German one, have it ready for me Monday or Tuesday, and the Japanese one would be ready for me in the forenoon, so in case I want to take it to the Chief of Police, I can. And you people are free to confer with anybody you think can be helpful in the polishing process. All right.

Oliphant: Well, May is on his vacation out in Illinois. I'm asking him to come to town one day to give us that document.

H.M.Jr: All right.

TREASURY DEPARTMENT

418

INTER OFFICE COMMUNICATION

DATE OCT 25 1938

TO Secretary Morgenthau
FROM Herman Oliphant

As indicated in our telephonic talk on October 17, I have under consideration a possible letter to the Secretary of State concerning the handling of German exports to this country. A tentative draft of such a letter, and of the memorandum which would accompany it, is attached.

Attached also, for background purposes, is a summary statement of the history of this whole matter.

Attached also are copy of the press release of December 23, 1936 and a tabulation of American exports to Germany.



Superseded by another Summary Statement, attached.

Summary Statement on
Countervailing Duties

419

Section 303 of the Tariff Act of 1930 provides for the imposition of countervailing duties whenever there is paid or bestowed directly or indirectly any bounty or grant upon the manufacture or production or export of any dutiable article or merchandise manufactured or produced in a foreign country.

Order of June 4, 1936

On June 4, 1936, the Treasury issued an order announcing the application of countervailing duties to certain German products. This order was based upon information in possession of the Department disclosing that exports from Germany to the United States of particular commodities were being aided by the following three devices:

- (1) Payments of direct cash bounties by German industrial associations.
- (2) Scrip and bond procedures.
- (3) Currency manipulations.

The first device requires no comment.

The second procedures involved the use of certain foreign-owned German bond coupons and securities. The foreign creditor received substantially less than par in foreign exchange; the German debtor paid his full obligation in marks into a German bank; and the difference was used to aid exports. These procedures appeared to the Treasury to amount to the bestowal of a bounty or grant.

In the case of the third device, controlled marks were used in payment for goods exported from Germany. These marks were purchased

by American exporters at substantial discounts. It was the Treasury's view that a bounty or grant was bestowed in the amount of the discount.

The views of the Treasury were submitted to the State Department in the Spring of 1936, and on April 2, 1936, the Secretary of State advised the Treasury that, in his opinion, there was considerable doubt with respect to the soundness of the Treasury's legal position. On April 15, 1936, the General Counsel of the Treasury concluded in a formal opinion that a bounty or grant was bestowed within the meaning of the statute in all three cases mentioned above.

On April 16, 1936, the Secretary laid the matter before the President, together with the letter from Secretary Hull, dated April 2, 1936. The matter was referred by the President to the Attorney General, who advised the Secretary on June 2, 1936, that the Treasury Decision subsequently issued on June 4, 1936, was within the requirements of section 303.

Thereafter, during the summer of 1936, a German mission was in this country to protest the order of June 4 and later to acquiesce in it by agreeing to discontinue the three procedures dealt with in that order. They sought from the Bureau suggestions of methods of handling their exports which would be within the law. These were consistently refused.

Thereafter, the Bureau received numerous inquiries from American importing, exporting, and banking interests asking whether various hypothetical procedures tying up German imports to this country with

the export of American products and involving old holdings of marks would be within the law.

Press Release of December 23, 1936

On December 23, 1936, the Treasury Department issued a press release holding that certain procedures in connection with imports from Germany did not involve the payment or bestowal of any bounty or grant within the purview of section 303. For present purposes, the principal import procedure approved involved the payment of the purchase price in whole or in part with the proceeds of the sale in Germany of merchandise exported from the United States, provided that the proceeds so used were continuously owned by the person for whose actual account the American merchandise was sold in Germany and the German goods were purchased in that country.

December 23, 1936, to Present Time

It now appears that the picture has radically changed since the issuance of the press release of December 23, 1936. The principal import procedure above described has become a standard device for financing imports from Germany at reduced costs. On July 15, 1938, the United States Department of Commerce published Special Circular No. 426, outlining the procedure for the information of American traders and giving an English translation of the controlling German regulations. This publication, recent indications of the surprising volume of trade carried on under the procedure, and new information from our Treasury Attache at Berlin have led us to reexamine the matter in the light of the current situation. This reexamination indicates that what seemed in December, 1936, to be only an opportunity, in a limited class of

cases, to utilize commercial profits to offset high German prices has been developed into a systematic device which is operated to subsidize exports to the United States.

A regulated over-price is paid on the two American articles now extensively used in the procedure. On cotton the over-price is uniformly 33-1/3%, and on copper it ranges from 50 to 70%. Thus the selected commodities perform the function of a special medium of exchange; in reality, they amount to a form of money and are utilized as such in addition to dollars and marks. This over-price furthers exports by permitting a reduction in the cost of the purchasing mark. In essence, it is a substitution for a selective or discriminatory devaluation of the mark.

Possible Future Action

Before any action is taken, we should secure a more detailed description of present practices and additional evidence of their use. Special inquiry along these lines has been made of Erwin G. May, Treasury Attache at Berlin, who happens to be in this country at this time.

If and when it is proposed to make any of the present practices the basis of Treasury action imposing countervailing duties, the procedure followed before the issuance of the order of June 4, 1936 might well be used again. Thus a letter would go to the State Department indicating the Treasury's views, and, when its response was received, the Treasury would advise the President that, under all the circumstances, he might want to secure the opinion of the Attorney General before final action was taken.

Summary Statement on Countervailing Duties

423

Section 303 of the Tariff Act of 1930 provides for the imposition of countervailing duties whenever there is paid or bestowed directly or indirectly any bounty or grant upon the manufacture or production or export of any dutiable article or merchandise manufactured or produced in a foreign country.

Order of June 4, 1936

On June 4, 1936, the Treasury issued an order announcing the application of countervailing duties to certain German products. This order was based upon information in possession of the Department disclosing that exports from Germany to the United States of particular commodities were being aided by the following three devices:

- (1) Payments of direct cash bounties by German industrial associations.
- (2) Scrip and bond procedures.
- (3) Currency manipulations.

The first device requires no comment.

The second procedures involved the use of certain foreign-owned German bond coupons and securities. The foreign creditor received substantially less than par in foreign exchange; the German debtor paid his full obligation in marks into a German bank; and the difference was used to aid exports. These procedures appeared to the Treasury to amount to the bestowal of a bounty or grant.

In the case of the third device, controlled marks were used in payment for goods exported from Germany. These marks were purchased

by American exporters at substantial discounts. It was the Treasury's view that a bounty or grant was bestowed in the amount of the discount.

The views of the Treasury were submitted to the State Department in the Spring of 1936, and on April 2, 1936, the Secretary of State advised the Treasury that, in his opinion, there was considerable doubt with respect to the soundness of the Treasury's legal position. On April 15, 1936, the General Counsel of the Treasury concluded in a formal opinion that a bounty or grant was bestowed within the meaning of the statute in all three cases mentioned above.

On April 16, 1936, the Secretary laid the matter before the President, together with the letter from Secretary Hull, dated April 2, 1936. The matter was referred by the President to the Attorney General, who advised the Secretary on June 2, 1936, that the Treasury Decision subsequently issued on June 4, 1936, was within the requirements of section 303.

Thereafter, during the summer of 1936, a German mission was in this country to protest the order of June 4. The German Government later acquiesced in the order by agreeing to discontinue the three procedures dealt with therein. The mission sought from the Bureau suggestions of methods of handling their exports which would be within the law. These were consistently refused.

Thereafter, the Bureau received numerous inquiries from American importing, exporting and banking interests asking whether various hypothetical procedures tying up German imports to this country with

the export of American products and involving old holdings of marks would be within the law.

Press Release of December 23, 1936

On December 23, 1936, the Treasury Department issued a press release holding that certain procedures in connection with imports from Germany did not involve the payment or bestowal of any bounty or grant within the purview of section 303. For present purposes, the principal import procedure approved involved the payment of the purchase price in whole or in part with the proceeds of the sale in Germany of merchandise exported from the United States, provided that the proceeds so used were continuously owned by the person for whose actual account the American merchandise was sold in Germany and the German goods were purchased in that country.

December 23, 1936, to Present Time

It now appears that the picture has radically changed since the issuance of the press release of December 23, 1936. The principal import procedure above described has become a standard device for financing imports from Germany at reduced costs. On July 15, 1938, the United States Department of Commerce published Special Circular No. 426, outlining the procedure for the information of American traders and giving an English translation of the controlling German regulations. This publication, recent indications of the surprising volume of trade carried on under the procedure, and new information from our Treasury Attache at Berlin have led us to reexamine the matter in the light of the current situation. This reexamination indicates that what seemed in December, 1936, to be only an opportunity, in a limited class of

cases, to utilize commercial profits to offset high German prices has been developed into a systematic device which is operated to subsidize exports to the United States.

A regulated over-price is paid on the two American articles now extensively used in the procedure. On cotton the over-price is uniformly 33-1/3%, and on copper it ranges from 50 to 70%. Thus the selected commodities perform the function of a special medium of exchange; in reality, they amount to a form of money and are utilized as such in addition to dollars and marks. This over-price furthers exports by permitting a reduction in the cost of the purchasing mark. In essence, it is a substitution for a selective or discriminatory devaluation of the mark.

Possible Future Action

Before any action is taken, we should secure a more detailed description of present practices and additional evidence of their use. Special inquiry along these lines has been made of Erwin G. May, Treasury Attache at Berlin, who happens to be in this country at this time.

If and when it is proposed to make any of the present practices the basis of Treasury action imposing countervailing duties, the procedure followed before the issuance of the order of June 4, 1936 might well be used again. Thus a letter would go to the State Department indicating the Treasury's views, and, when its response was received, the Treasury would advise the President that, under all the circumstances, he might want to secure the opinion of the Attorney General before final action was taken.

Superseded by clipped statement

American Exports to Germany

	Calendar Years	1937	1936
Cotton, cotton linters and cotton waste.....		\$55,000,000.....	\$49,500,000
Petroleum, crude, and derivatives.....		20,000,000.....	18,500,000
Copper and copper scrap.....		12,500,000.....	7,000,000
Tobacco, unmanufactured.....		1,400,000.....	1,300,000
Dried and evaporated fruits.....		1,250,000.....	1,250,000
Lumber.....		1,000,000.....	1,400,000
Aircraft.....		<u>1,000,000.....</u>	<u>1,400,000</u>
Totals.....		\$92,150,000.....	\$80,350,000
Total Exports.....		\$125,800,000.....	\$100,600,000

PRINCIPAL AMERICAN EXPORTS TO GERMANY
 Calendar years 1930-1937, inclusive

	1930	1931	1932	1933	1934	1935	1936	1937
Cotton, unmanufactured, lintless, and waste	\$124,909,352	\$ 85,384,360	\$ 88,474,093	\$ 78,385,977	\$ 47,462,321	\$41,298,952	\$ 49,487,481	\$ 54,948,000
Petroleum and products	23,574,738	10,612,164	7,945,037	9,723,000	11,599,580	13,838,437	19,376,980	21,888,000
Copper ingots, bars, etc., and scrap	13,758,046	8,668,163	2,964,725	3,012,975	6,416,846	4,567,227	7,151,020	12,466,000
Iron and steel scrap	56,367	354	8,390	162,099	122,043	99,142	122,498	1,610,000
Brass and bronze, old and scrap	1,286,689	469,380	683,496	503,468	1,149,274	1,628,021	652,330	1,648,000
Tobacco, unmanufactured	4,026,323	2,743,895	2,061,169	1,719,641	1,985,640	2,357,209	1,356,548	1,438,000
Phosphate rock	1,325,686	760,616	378,410	760,770	1,007,158	1,606,570	2,188,458	1,321,000
Logs, timber and lumber	3,092,893	1,145,668	784,465	1,193,388	1,617,982	3,004,249	1,658,669	1,297,000
Carbon black and gas black	902,712	771,243	695,446	745,052	706,348	982,262	733,491	1,173,000
Grains and flour	6,191,334	3,611,102	2,580,435	647,870	635,593	243,805	100,542	1,165,994
Dried and evaporated fruits	6,375,924	6,865,721	4,093,223	5,736,060	4,237,690	2,169,350	778,648	1,126,000
Industrial machinery	5,389,665	5,283,585	723,095	1,085,214	1,705,084	1,093,053	721,860	1,123,000
Machinery and tools	593,808	2,257,472	3,712,376	591,828	482,534	506,777	591,069	1,068,980
Machinery and tools	1,141,363	1,238,086	961,995	777,932	935,075	996,210	996,298	1,051,000
Sodium borate	261,655	26,840	192,501	349,539	1,761,607	196,464	411,252	1,027,000
Aircraft, parts and accessories	2,190,000	1,240,778	1,119,135	1,370,152	1,054,238	971,970	1,064,599	950,000
Gum resin	2,816,366	1,945,833	721,016	1,393,934	767,247	868,464	854,250	875,000
Sulphur, crude	5,789,966	5,016,588	3,991,724	3,100,094	2,379,135	1,053,150	999,651	843,000
Fresh apples and pears	1,273,254	1,054,928	1,132,766	2,014,659	1,929,195	764,684	680,363	559,000
Sausage casings	10,179,931	3,773,692	1,294,027	814,751	952,953	1,182,794	320,666	387,000
Automobiles, parts and accessories	12,728,614	11,648,571	9,425,446	7,185,274	1,546,219	182,694	1,066,450	265,000
Lard	4,759,214	1,414,004	170,559	305,268	226,272	167,248	132,741	268,000
Coal tar products	5,605,185	4,033,502	3,142,619	2,046,897	2,273,452	761,050	292,100	152,000
Furs, undressed	3,931,032	1,837,885	1,937,724	874,172	1,006,254	702,778	73,563	140,000
Office machinery and appliances	1,370,275	809,730	776,649	518,339	72,815	28,851	46,657	4,853
Also oil								
Total exports	\$278,269,296	\$166,049,927	\$138,665,297	\$140,023,797	\$108,738,464	\$91,980,719	\$101,956,411	\$125,884,000
General imports	176,380,503	127,028,693	73,572,000	78,125,000	68,805,000	77,792,000	79,679,000	92,644,000

The Honorable

The Secretary of State.

Sir:

Recent information coming to the Treasury Department from responsible quarters, indicating that practices in connection with exports from Germany to the United States involve subsidies that require the application of countervailing duties under section 303 of the Tariff Act of 1930 (U. S. C., title 19, sec. 1303) has led the Treasury Department to inquire into current procedures and reexamine the whole matter.

The present stage of this examination is set forth in the enclosed memorandum, which is submitted to you at this time for any comment you may care to make.

Very truly yours,

Secretary of the Treasury

October 25, 1938

430

MEMORANDUM

Under current regulations of German governmental authorities, the importation of substantial amounts of many German products into the United States has come to be financed through the medium of so-called "barter" arrangements. The essential features of all these arrangements as set forth in Special Circular No. 426, issued by the United States Department of Commerce on July 15, 1938, and other reliable information before the Treasury Department, are:

(1) The prospective American importer of German goods "buys" one of a limited number of kinds of merchandise (cotton or copper in most, if not all, cases) for dollars at the world price. The kind of merchandise to be admitted into Germany for the purpose of the "barter" must be approved by the German import control authorities, and such approval is strictly limited to a very few kinds of goods.

(2) The merchandise is shipped into Germany, having theretofore been sold to a German purchaser for free marks (which, as appears below, are immediately blocked) at a price substantially higher than the mark equivalent of the total cost to the vendor, if such cost is calculated at the current official rate of exchange. This spread or "uberpreis" (over-price) is uniformly 33-1/3% in the case of cotton. It has been less uniform but usually greater in amount in the case of copper. In every case the price to be paid by the German vendee must receive

prior approval by the German import control authorities.

(3) The marks paid by the German vendee are required to be paid into special accounts in German banks, where, as mentioned above, they are held as "blocked" or controlled funds for the account of the prospective American importer mentioned above.

(4) Whatever the formal limitations upon the use of such controlled funds by their American owner may be, their only practical use is in payment for German goods to be shipped to the United States. The kinds of goods for which such payment may be made are restricted to those set forth in detail in a list published by the German exchange control authorities on July 19, 1939. Excluded from this list are, in general:

(a) Articles and commodities in which Germany has a virtual international monopoly to such extent that their export at the current high German prices requires no assistance.

(b) Goods of which there is a shortage in Germany so that their export is not favored by the German Government.

(c) Goods composed of foreign materials to such a large extent that their export is objectionable to the German Government because of the drain on

Germany's foreign balances which would result from the purchase of the materials used in their manufacture.

The net result of the above described system would seem to be that, to those who avail themselves of it, the grant of a valuable privilege is being bestowed by the German Government in connection with the exportation from Germany to the United States of the selected kinds of merchandise enumerated in the above mentioned list. It appears that, by restricting imports, fixing import prices, regulating the method of paying for imports, and controlling the disposition of the proceeds of payment, the regulatory system of the German Government has provided a means whereby commodities (cotton and copper) suitable for the purpose may be used as a special medium of exchange for converting dollars into marks on the basis of an assured premium of marks, on condition that the total marks received, including the premium, be used for the purchase of the listed goods to be exported from Germany to the United States.

The purposes and underlying causes of the regulatory system appear to be immaterial. If the result of the system is to benefit exports in an amount which may be determined or estimated and in such manner that the goods may be sold to the United States for less than would otherwise be possible, it seems clear that there is a bounty or grant within the meaning of our countervailing duty law. The features of the system which give to the American importer certainty as to the premium rate at which his dollars will be converted into marks by the use of cotton or copper as an intermediate and special medium of

exchange, and those features which restrict the use of the enhanced mark proceeds of the exchange transaction, would seem to preclude a conclusion that the premium created in the form of marks to be used for promoting exports is a profit on the sale of the cotton or copper in Germany by the American importer, rather than a subsidy on the export of German goods.

Since the usual and ordinary result of the system in its current operation seems to be the payment or bestowal of a bounty or grant upon the export of German merchandise in the form of an assured sum in marks for the German exporter in addition to the equivalent of the investment made by the American importer in transactions directed solely to payment for the German goods, it would seem clear that such goods which are dutiable under the Tariff Act of 1930 are subject to countervailing duties under section 303 of that Act (U.S.C., title 19, sec. 1303) in the amount of the premium. Downs v. United States, (1903) 187 U.S. 496; Nicholas v. United States, (1919) 249 U.S. 34; (1936) 38 Op. Atty. Gen. 489.

TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE,
Wednesday, December 23, 1936.

Press Service
No. 9-25

The Treasury Department announced today that, under the circumstances stated below, the following procedures in connection with imports from Germany would not involve the payment or bestowal of any bounty or grant within the purview of section 303 of the Tariff Act of 1930 (U.S.C., title 19, sec. 1303).

1. Payment of the purchase price, in whole or in part, with the use of controlled mark credits, provided that the credits so used have been, from the time they became subject to German governmental control, continuously owned by the person for whose actual account the merchandise is purchased for direct or indirect shipment to the United States.
2. Payment of the purchase price, in whole or in part, with the proceeds of the sale in Germany of merchandise exported from the United States, provided that such proceeds, until so used, have been continuously owned by the person for whose actual account the American merchandise is sold in Germany and the German goods are purchased in that country.
3. Combinations of the foregoing two procedures.
4. Exchange of merchandise between single German and American parties without any monetary transaction actually taking place.

The foregoing contemplates that the purchase of German goods will be made for the actual account of the original and continuous owner of the controlled mark credits used, or of the American vendor of the American exports sold in Germany, and that in no case will the German funds of such owner or vendor be used to purchase German products for the account of any other person or organization; and likewise that the German products exchanged for American goods in any permitted barter transaction will be received for the actual account of the person or organization for whose actual account the American exports were shipped to Germany.

October 25, 1938

8:30 pm

(At the Secretary's home)

Present:

Ambassador Hu Shih
Mr. Chen
Mr. Hanes
Mr. Lochhead
Dr. White

HM, Jr: I thought it would be better to have you here.

Ambassador: It is very kind of you to let me meet with the experts.

HM, Jr: What I wanted to say, I felt it was so important you would want to hear it from me directly, but how you want to handle I will leave it to you gentlemen.

Mr. Chen has been here now -- I don't know whether it's three weeks or a month, on my invitation and we have been working very hard to do something to help, to lend money one way or the other, and we had prepared and finished all the documents in connection with this loan on tung oil in connection with this American corporation which Mr. Chen has organized, and Mr. Jones had given his approval this morning, only this morning.

Mr. Chen: Yes.

HM, Jr: The letter came at 9 o'clock this morning. So I took all of our papers

(At this point the Secretary interrupted himself to make Dano, his Great Dane, lie down.)

.... everything was ready today. And I am being as frank as I know how. And I went over with these documents to see the President at lunch and I said, "Mr. President, we have finished the documents which have to do with making this loan for three years against tung oil,

-2-

but, as you know, in the last three or four days first Canton has fallen and today Hankow, and there are all these rumors about General Chiang Kai Shek and, frankly, I don't know whether I can or cannot recommend this, because I don't know what Government there will be in China to do business with." I mean, I am being very honest and frank and, I hope, courteous.

Ambassador: Thank you.

HM, Jr: The President said, "Let me think a few minutes." And then he said, "If we should decide to make this loan today, and tomorrow or next day we found a new Provisional Government had been set up," he said, "it would be very embarrassing to me." And he said, "I think the thing to do is this: let us wait a few days or a week and see what statement the Generalissimo makes. If he makes a statement that he has withdrawn his troops at Canton and Hankow for strategic purposes and expects to re-form his lines and continue, and convinces the world that he can continue with his present form of Government, probably more in the interior of China, and if he makes such a statement," the President said, "I will be very glad to promptly approve this loan."

So I said, "Well, Mr. President, this is very important and can I inform the Chinese representatives here?" He said, "You may."

Now, I thought that was a very important message and I wanted to tell this to you -- it only happened at one o'clock today -- just as promptly as I could and then you two gentlemen could decide among yourself what would be the best way to communicate that to the head of your Government.

But I think you realize the position we are in. When we started, we talked about the possibilities of Hankow falling, but we never thought of Canton. Canton wasn't even mentioned. Nobody thought of Canton. We certainly never envisaged such a possibility. And when you look at the map tonight, the only possible place at the Sea is this port

Mr. Lochhead: French Indo-China.

Dr. White: Haifong.

-3-

HM, Jr: Which is the only place that's left and what position the French Government will take, I don't know whether you know, and if the Japanese should threaten that port, what other methods of transportation you have left. I don't know. Yousee, we don't know anything about what methods you have.

We don't know anything about your method of transportation from Russia. We don't know how the things come down, whether it's be caravan, whether it's motor truck -- I mean, how the things come down.

And then, of course, the Burma road isn't finished yet and I just don't get the picture if Indo-China is closed to you just how you could get this tung oil out and how you could get your supplies in.

Now, I could not be any more confidential or more frank and I realize your situation is very serious. I think you must realize for today for the President to announce this with what's taken place in the last two or three days would subject him to grave criticism, but if, on the other hand, within the next few days or week the situation should clear away and we find that General Chiang Kai Shek is still in control and he makes a satisfactory statement as to what his plans are, the President says he will immediately approve of this loan.

Now, I will be glad to answer any questions, but that's the whole story.

Ambassador: Mr. Chen, we will leave that to you, the expert.

HM, Jr: That's the whole story and I worked just as hard as I could, Mr. Chen.

Mr. Chen: Yes.

HM, Jr: ... to do this just as rapidly as possible. I pushed just as hard as I could. We have been doing this since last June and we started last June on this idea and I have had just one barrier after another placed in my way and there are so many people that did not want to do it and we have just gotten the thing finished today and then this very unfortunate news comes along about Hankow.

-4-

Ambassador: Really, Mr. Secretary, I am sure Mr. Chen will agree we are most grateful for your effort and for the efforts of your experts who have helped in these months to work up this plan really to help an almost losing cause because it's a very -- we don't consider it's a losing cause, but in the eyes of the world this situation that China is in certainly is very discouraging. So we are really most grateful that you have taken this really generous, most generous step, taken all these pains to go into details. So I can tell you how much we appreciate this.

And what you have said to us tonight, does not give us any discouragement at all. It's very great encouragement to us. I am sure we will be able to get a definite statement in a day or so, because, as far as we know, the retreat from Canton, according to the latest information, has been quite orderly, because the evacuation was completed before the entry of the enemy into Hankow and so far, for five days, there is no report from Japanese sources of any army of any size, and those facts gave us the conviction that it was a planned strategic retreat.

As to the Hankow situation, we have not any definite news, but they have had enough time to prepare the retreat, probably much more orderly than the Canton retreat. Mr. Chen probably gave you a telegram, some days ago, in which the Generalissimo stated that the attack on Canton has necessitated a reorientation of the war plans. He said from now the captures will lose their strategic importance and the war will be fought on the Canton-Hankow Railroad and they say the major portion of the Railroad in covering the Yunan Province and the northern part of Szechwan Province is the most mountainous region. It's easy to defend. So probably that section in that telegram indicated, quite a few days before, this present position. So it is part of the plan to withdraw. And the latest news is that the General's headquarters are in Changsha, capital of Hunan. Changsha is farther south. That they are all on the Canton-Hankow Railroad.

We have not so far received any definite news from the Generalissimo himself for four days, probably due to the military situation and probably too busy to give us any definite news, but I am sure in a day or so

-5-

we will be able to get more definite information.

HM, Jr.: I think you appreciate -- I don't think our position is unreasonable.

Ambassador: It's quite reasonable and the fact that the President has practically assured us, through you, that as soon as the Generalissimo makes a definite statement that he is going to fight on -- practically amounts to that, really -- is encouraging on this loan.

HM, Jr.: The President said 'immediately'.

Ambassador: That's most encouraging.

HM, Jr.: He said 'immediately'. He said just as soon as he gets some statement or some statement is made to the world that the Chinese Government is intact and that they expect to carry on, that he would immediately approve the loan. The papers are all finished. It could be done in 24 hours or less. That's the main thing.

The other thing: if in cabling now you could ask them in view of the present situation what methods they will use to get supplies in and out. You see?

Mr. Chen: Yes.

HM, Jr.: Because we just had some cables, the other day, from Professor Buck, who was down on -- I can't pronounce this road that starts at the Red River ...

Ambassador: On the French Railway.

HM, Jr.: Well, when you read his description of it you realize that it can't carry very many supplies even if they were permitted to. They have had land slides all the time and very few railroad cars, and they say freight rates are prohibitive. So I just wondered what method your Government would use to get supplies in and out and how they would do that in view of what happened. And if you could find that out for us. And, as I say, here it's a complete blank just how you get things in and out from Russia. We just don't know. As far as we know, it's a mystery like Shangrela.

-6-

Ambassador: It's a mystery even to us.

What is Shangrela?

Mr. Hanes: Place of eternal youth.

HM, Jr: Lost city in Tibet. This English author wrote it.

Ambassador: Is that same as Lost Horizon?

HM, Jr: By the same author.

Ambassador: I read Lost Horizon.

HM, Jr: It's the book Lost Horizon.

Ambassador: Newton Baker gave me a copy of Lost Horizon.

HM, Jr: Have you (Mr. Chen) read it?

Mr. Chen: No, but I saw the picture.

HM, Jr: All right. Let's say you know it.

To us, how you do this is a great mystery.

Ambassador: French Indo-China has never been open to us; has never been publicly open to us. The French Government has always told the Japanese that they have never openly allowed Chinese munitions to go in. They have never allowed it. But, so far, we have been using it practically 14 or 15 months. That's largely due to the effort of the Minister of Commerce, Mons. Montero, who is a very enthusiastic man, very sympathetic towards China.

HM, Jr: Minister of Colonies? The present one?

Ambassador: Montero.

HM, Jr: No, not quite. I will think of his name in a minute. But it's a weak reed to lean on.

Ambassador: It's weak. That's why we are pushing the Burma route. Burma route is finished.

-7-

Mr. Chen: Burma route is finished, but bridge is not finished and the railway terminus from Burma to China is still short some distance.

HM, Jr: As I say, in view of what happened I suppose they must be planning some way to get supplies in and out, and the question we naturally raise is how would they get tung oil out?

Mr. Chen: I think tung oil from Yunan to Haifong that's French railroad, is commercial goods; that seems to be, will be much easier question to solve than transportation of munitions, because commercial boats. That route, I think, should be opened also to American trade, to trade with Southwestern, Southeastern provinces of China. I don't think that French Government or French Railway people will have least objections to it by closing that route to Chinese-American commerce.

HM, Jr: Have I overlooked anything, Archie?

Mr. Lochhead: No. That covers it. I had just about two or three minutes with Mr. Chen this afternoon and I asked him the question about the actual use of the credit in these emergencies.

(At this point, Miss Chauncey was excused from taking any more notes, and she left the Secretary's house. The men remained for further general discussion.)

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

MA
442

DATE October 25, 1938

TO Secretary Morgenthau
FROM Mr. Taylor

This message was received today from Mr. Hamilton of the State Department and represents the answer to the second of the two questions which you directed to the State Department. I don't know that it is particularly significant in view of recent developments, but thought that you might want to have it before you talked with the Chinese this evening.

W.S.

DEPARTMENT OF STATE

443

DIVISION OF FAR EASTERN AFFAIRS

Oct. 25

To: *Mr. Taylor*

From: *Mr. Hamilton*

Confidential

444

P A R A P H R A S E

A telegram (No. 6) of October 24, 1938, from the American Consul General at Hong Kong in response to a telegram from the Department, making inquiry on the basis of information received by the Treasury Department from its representative in Hong Kong in regard to the Chinese section of the Kowloon-Canton railway, reads substantially as follows:

The Consul General is of the opinion, after making inquiries on the subject, that there is nothing in Hong Kong to substantiate the report that under present conditions the bondholders of the Chinese section of the Kowloon-Canton railway are protected fully. The information received by the Treasury Department is perhaps the version given by a Chinese stockholder of a statement made by the Jardine Company, trustees of the bondholders, to the effect that the interests of the bondholders were protected as fully as possible. Although it is believed by some, including the Jardine Company, that because one terminus of the railway is in British territory the situation in this case is more favorable than with the railways in north China, assurance has been received from a number of reliable sources to the effect that there is as yet no Anglo-Japanese arrangement relating to the operation of the Canton-Kowloon railway after the south
China

- 2 -

China military campaign of the Japanese has been completed.

893.77/3167.

P A R A P H R A S E

The pertinent portion of a telegram (No. 1232) of October 21, 1938, from the American Ambassador at London in response to a telegram from the Department, making inquiry on the basis of information received by the Treasury Department from its representative in Hong Kong in regard to the Chinese section of the Kowloon-Canton railway, reads substantially as follows:

The questions raised in the Department's telegram of October 20 in regard to the Chinese section of the railway were mentioned in a discreet manner to Sir Frederick Leith-Ross. He said that he knew nothing of any arrangement providing for the purchase of the Chinese section of the railway by British interests. He remarked that he could not imagine anyone coming forward under present conditions to buy the railway and he added that a number of the bridges had been bombed and that the railway had to compete with traffic on the river even in normal times. Sir Frederick took it for granted that the Japanese would use Kowloon as little as possible when they captured Canton.

893.77/3186.