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THE WHITE HOUSE
Washington

August 1, 1939

MEMORANDUM FOR
ACTING SECRETARY OF THE TREASURY HANES

I understand the State Department is very anxious to have the Treasury send some financial experts to Cuba and South America, but that people "down the line" in the Treasury say you cannot spare any.

Will you find out what the State Department wants and see if you can find a few to fill their bill? Surely it can be done.

F. D. R.

GROUP MEETING

August 1, 1939.
9:30 A. M.

Present: Mr. Hanes
Mr. Gaston
Mr. Foley
Mr. McReynolds
Mr. Bell
Mr. Gibbons
Mr. Duffield
Mr. Graves
Mr. White
Mr. Haas
Miss Chauncey

H.M.Jr: (To Hanes) I think this comes under the head of new business (handing Hanes a memorandum).

(On phone) I'll talk to George Harrison a little later. But remind me. I'll talk to him.

Think we ought to do anything? I don't want to get in on it.

Hanes: I agree with the sentiment expressed here. I don't know if we ought to do it or not.

H.M.Jr: Turn it over to....

Hanes: I can go up there and talk to him if you want me to. Jimmy Byrnes called me up. I'll find out what he's got on his mind.

H.M.Jr: Jimmy Byrnes. Why don't you do that? I think that would be the best.

Hanes: (Several words spoken too low to be understood) I'm opposed to it.

H.M.Jr: I kept saying, if they do it, we'll cooperate, but I think it's a silly piece of business. This is this banking study. The whole thing is just a study of what they can take away from the Treasury, that's all.

Hanes: Sure that's all. There's no use instigating it.

H.M.Jr: Well, if you could talk to Jimmy Byrnes, I think it would be nice.

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Hanes: I'll be glad to, yes.

H.M.Jr: Thought if you could get away with it....

Hanes: Is anybody else on the Committee? Is Jimmy Byrnes the....

H.M.Jr: No. Would you talk to Crowley, too? Maybe Crowley can....

Hanes: Yes.

H.M.Jr: What?

Hanes: Yes.

H.M.Jr: Supposing you - will you handle it? Do you want that to remind you?

Hanes: I'd better have that.

Duffield: Crowley's trying to get it stuck in that Committee. It's his hope it will never come out of that Committee.

Hanes: Leo?

Duffield: Yes.

H.M.Jr: Well, Hanes will handle this.

Hanes: I'll get a copy and I'll give this back to you.

H.M.Jr: I'd like you in at 10:15. I've got the Chinese coming in. I got this memorandum from Parran. I want to sew that up. Ten fifteen.

Herbert?

Gaston: No, I haven't anything. I notice they put - make our new bonds under the Senate bill subject to taxation. Might make a little problem in connection with the issue.

H.M.Jr: Well, I called up Senator Barkley last night on the phone to thank him for everything he's done, and he said he was sorry about - that they made

these bonds taxable, because it was entirely the President's fault, the way he had handled this thing at his press conference, and the President had nobody but himself to blame. And I was surprised to hear Barkley be so positive.

Gaston: That's the truth, of course.

H.M.Jr: What?

Gaston: That's the truth, of course.

H.M.Jr: Now, I understand - I think I'm right - I don't know where Foley is - I think he's going to try to handle it in the House. But Barkley was surprisingly - he was really quite bitter about it.

Gaston: What I was thinking about - if that sticks, we may have to take some unusual steps in the way of publicity and advertising of the first offering when we put it out.

H.M.Jr: I'm waiting for Foley (on phone). - - What? - - Oh, all right.

White: Well, we've been talking that point over and wanted to raise that issue. The House Committee changed that "not more than half percent" to "not less than half percent" and....

H.M.Jr: Let's wait until Foley comes, because he's talking, she says, to Steagall right now. Let's wait, huh?

Gaston: Yes. The point is, it seems to me, that not only the idea of putting out the issue but the fact that it will furnish a criterion, a test; if it shouldn't go too well, if the spread should be too great, it will hurt us terribly on the problem of removing of exemptions. If we should find a quarter of a point spread there, we may have to take steps to prevent it.

H.M.Jr: Well, let's wait until Ed comes in. He's my "self-liquidator."

Hanes: Be a funny thing to have some Government bonds outstanding, non-taxable, and some taxable.

H.M.Jr: Yes. I think it's silly.

Hanes: I think so, too, but I don't think it will ever get by the House.

Gaston: I suggest if it sticks we might want to use Jim Bryan's list and use some widespread advertising of the securities to try to bring the - get some good distribution at a low rate.

H.M.Jr: Well....

Bell: In the first issues, it will probably be for a short term, low rate.

Haas: Be money market issues.

Bell: Won't make much difference on short term.

Hanes: I don't think it will make much difference in the pricing, but it will make some difference in keeping the thing straight in the market. Be an awful nuisance, headache.

White: I think it's undesirable, but I don't think it's important, particularly if we can get something for it, which I think we ought to try to do.

H.M.Jr: What is it?

White: I think we ought to - I was going to raise that issue, of swapping that for something worse that they have.

H.M.Jr: Let's wait.

Herbert, any other good ideas?

Gaston: No. I suppose on this question that Harry brought up the other day, of injury on wood pulp - we may have to do something on that matter.

H.M.Jr: Well, if it's injurious to Finland, wait until after I've been there.

Gaston: Well, it's coming along.

White: No, it isn't yet.

Gaston: The point is....

H.M.Jr: It would be just like the Treasury - just as I stepped off the boat - saw off wood pulp.

Bell: Just as you sit down at the table.

H.M.Jr: What pals, what pals.

White: Let me say something on that that will assure you.

Gaston: The evidence so far indicates there is a dumping from British Columbia and Germany.

White: That's right. Now, the question - we first have to find a dumping price from the Scandinavian countries before this injury will apply. We have not yet found any dumping price.

H.M.Jr: Isn't that what I'm going there for?

White: You can make that one of your investigations, but you'll have a hurdle over here. Johnson has quite a strong cultural tie with the Scandinavian countries. He has to find the dumping price.

Gaston: That Scotchman?

White: Huh?

Gaston: That Scotchman? No, but the mere leaking out of the information about extra bonds on the other countries is going to hurt the Finnish.

Gibbons: It will take another year to find out whether there is dumping in any of these countries.

White: They doubtless will raise the question with you - somebody in the Scandinavian countries, because pulp exports are important. You can assure them.

H.M.Jr: I'll do just as I did when I arrived in Paris. I was traveling with a tennis racket and no experts. That's what I told them.

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White: And batted the ball around.

H.M.Jr: So that's what I told them in Paris, that I left all the experts home.

White: Except that they know that the Treasury - this is dumped right in the Treasury's lap, so....

Gaston: We are getting a number of letters now applauding the abrogation of the treaty with Japan, but demanding to know why we don't stop buying gold and silver from Japan.

H.M.Jr: Well, I gave a - you know the answer; I gave it to you, gave it to the boys for background in the press. We stand ready to buy all gold at thirty-five dollars an ounce until further notice. And barring, I told them, a war - world war with a country or going to war with a country, we will continue to buy gold. That's a monetary matter, not a foreign policy matter. I think it's important to keep dinning that in, too, that we don't mix our gold and our politics.

White: Particularly since it wouldn't do them any harm if you stopped buying it. They'd just sell the gold elsewhere.

Gaston: Yes, yes. But it's interesting that that comes up.

H.M.Jr: Gene?

Duffield: One time....

H.M.Jr: You got anything else, Herbert?

Gaston: No, I haven't.

Duffield: One time you said you'd like to see things on this Greenlee - stories on this Greenlee fight. Do you want to see them?

H.M.Jr: No, from now on, my - Mr. Hanes would like to see them.

Duffield: Did you see the Kiplinger tax letter on 102?

H.M.Jr: No.

Duffield: It's pretty good.

H.M.Jr: Good? They liked it?

Duffield: I mean they don't take any swings at us for persecuting business.

H.M.Jr: Good. I was amused at Nelson in the New York Times - God, if that fellow ever writes anything nice about what we do in the Treasury, I'd just pass out.

Duffield: Right on the front page they start off....

Hanes: Did Nelson criticize 102?

H.M.Jr: This ruling, yes. This was wrong - about three different things wrong with it. I almost sat down and wrote him a letter - "My dear Mr. Nelson: As a Government employee, what do you think I'm hired to do, look after - collect revenue, or not, and carry out the law?" But I didn't. He's treasurer of the New York Times, I think, or auditor.

(After glancing at Kiplinger letter) Who talked to Kiplinger?

Duffield: Mr. Gaston and I.

Gaston: What do you want to tell on me for?

Duffield: So sorry - just I.

H.M.Jr: Well, if I read this, I would understand what it's all about, so I'd better not read it.

Duffield: At some time somebody mentioned that you might want to make public your letter to Matthew Woll. I don't see any reason to unless you want to.

H.M.Jr: No.

Did you (Graves) talk to Kiplinger?

Graves: No.

Duffield: That's all I have.

H.M.Jr: George?

Haas: I have nothing this morning, Mr. Secretary.

White: Ballantine, State Department, in charge of Far East, was in to speak of that problem with respect to marking, and we are reconsidering it. The only thing of interest he said was that they didn't want to do anything at this stage of the game which might annoy the Japanese, because they might retaliate. That's that. We're not going to do anything until you come back on that - just on that....

H.M.Jr: Harry, I've told - sent word to George - his business review of the week - I want him to have it ready Saturday noon and have it go on the Clipper for me. Just the business review - have it in there. You want to put a page on movement of capital or something like that - you see?

White: Yes.

H.M.Jr: Not the one that I usually get, but....

White: A summary.

H.M.Jr: But anything that's outstanding in the foreign field - one page. What?

White: O. K.

H.M.Jr: Or two pages. George takes about six.

White: O. K.

H.M.Jr: Incidentally, that report this week I thought was very interesting.

Haas: Thank you.

(Foley comes in)

Foley: I was talking to Steagall. I'm sorry.

H.M.Jr: I know. I checked up on you. We're all sitting here a-quiver, waiting for you to tell us what's what on your bill.

Foley: Steagall called up - I mean Sabath called up last night and said he wanted the people that came down to the Rules Committee room with you to come down at half past ten this morning, because he has to defend the rule on the floor and he has to get some material. So that, I suppose, will be Dan and Doc (White) and myself.

Steagall asked a lot of questions. We're going to get him some material. He's going to bring it up today. He can't pass it today. He says it will have to go over until tomorrow, because there will be six hours and he won't be able to get through today.

H.M.Jr: Oh.

Foley: He says it isn't going to be easy, but he thinks that that provision in regard to refinancing farm mortgages, that Dan is opposed to, is going to pull the bill through.

White: Dan isn't opposed to it any more.

Foley: If it wasn't in there, he says, he couldn't get the bill through.

H.M.Jr: I really think the way this bill is handled - I really get a great kick out of this bill. Here we go along and we decide all these things and what we decide usually happens, and we don't say, "Please" to anybody, or how, and nobody says to us "Thank you" or "Good boy." We just go ahead. It's one of the most important bills. I mean it's really very amusing.

Go ahead.

Foley: The vote in the Rules Committee was 6 to 4, and Cox of Georgia and Smith of Virginia voted - I think they voted with the Democrats in the Rules Committee, but they reserved the right to oppose the rule on the floor when it came up for debate. Steagall told me that Cox rode down

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with him this morning and Cox is not going to oppose the rule on the floor.

H.K.Jr: You know, Cox after that meeting the other day came up to me and shook hands with me, and he said, "You most likely are not going to believe what I am going to say, but," he says, "I'm still for you."

White: Maybe he's got another member of his family that wants a job.

H.K.Jr: Well, Mac will be glad to take care of him at the White House.

All right, boys. Now, what are you going to do with this taxing RFC bonds?

Foley: Well, I don't know whether that can be taken out in conference or not. The interest formula is different in the two bills. In the House bill there is a flat one half of one percent that has to be added to the cost of the money to the Government.

White: "Not less than," isn't it?

Foley: It's "not less than."

White: "Not less than half." You might add more.

Foley: I mean you have to add at least a half.

White: You have to add at least a half.

Foley: That's right. That's going to under some circumstances make the interest rate on the House bill higher than the interest rate on the Senate bill.

White: I think that's much more important than the other, Mr. Secretary.

H.K.Jr: What?

White: Than the tax provision.

Foley: I think if we can get that thing out, we might leave the tax provision in.

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White: Swap one for the other.

H.M.Jr: Now listen, gents, I think that to have these things a special classification of bonds, specially taxed - I think it's a mistake. Don't you, Johnny?

Hanes: Yes.

H.M.Jr: I'd vote for both, but - I didn't have a chance to tell you (Foley) - that's what I'm raising - that Barkley feels sore because the President made the statement about the....

Foley: At his press conference.

H.M.Jr: Yes. Now, why don't I call up the President and ask him whether he'd say something to Steagall that there are two things that he - now what about - well, the things we want are these RFC securities tax-free....

Foley: Right.

H.M.Jr: What?

Foley: Yes.

Haas: Same as they are now.

Foley: Same as they are now, tax-free.

H.M.Jr: Same as now, yes. What else?

Foley: And the other thing,

White: Changing interest rates.

Foley:that the Senate interest formula be substituted for the House interest formula in conference.

H.M.Jr: Senate....

Foley:interest formula be substituted for the House.

H.M.Jr: Senate interest formula.

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- Duffield: Well, if you're going to give in - I mean when you go to conference it's a trade between the House and the Senate, and you want one Senate provision and you don't want the other Senate provision. I don't see why the trade should be trading the tax-exempt for the lower interest rate.
- White: Unless there is some other comparable thing.
- H.M.Jr: Yes, but let's ask for both.
- White: The second, I think, is particularly important, because there was another change made - did it catch your notice - of the forty-year PWA - needs Jones's O.K. on whether it can be repaid. Now that means that he has a much larger measure of control than was anticipated to begin with.
- H.M.Jr: Now, just wait a minute. As to the - don't - let's talk about not what goes to conference, but as to what happens in the House while they're arguing about the bill. What can they do in the House? Not in conference, but what can they do in the House?
- Foley: I don't think they can do anything. I wouldn't bother them. Let him get his bill out, because he's all up in the air and you can't talk to him about it. The only thing to do is let him get his bill out, let him fix it up in conference.
- H.M.Jr: All right, you're the doctor. Don't you (Hanes) agree?
- Foley: The House isn't the same as the Senate. You can't amend the bill on the House floor the way you can on the Senate floor. If you open it up to amendments, then they just walk all over you. You've got to hold your lines in the House.
- H.M.Jr: All right. Then you boys will have to do the work to get the President to help in conference.
- White: Well then, you'll have to decide ahead of time just what the compromise will be, because there will have to be a compromise.

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- H.M.Jr: I can't decide ahead of time. It changes every minute. How do you know what amendments will be made on the floor?
- White: I mean before the conference takes place, you may have to decide as to what you will give up for these things.
- H.M.Jr: I'm not - I can't - I'm not going to tie anybody's hands after I leave. I mean it isn't practical.
- White: You may have to make a decision as to which of the two you think is more important to retain.
- H.M.Jr: If you heard Danny Bell trying to get something over to me about the TVA - all he was trying to do was to tell their story; then when he got all through he said, "Now, I've told you their story, but you don't have to do anything."
- White: They have this provision in there about the use of the Export-Import funds for promoting - only for the purpose of promoting trade. Chuck called me up. They wanted to introduce another amendment. We decided on that one as being the least undesirable, and that's the way it's gone in. They can use the funds now only for the promotion of trade.
- H.M.Jr: You know, you fellows are here and I'm not going to lay down the law on a thing that shifts every five minutes. I'm just going to - it isn't practical. That's all.
- White: Well, would you care to express an opinion as to, if it should come to a matter as between the two - those two provisions, which you would rather retain?
- H.M.Jr: No. Who thought that we'd open - we'd make Tia Juana 24 hours away from Los Angeles in order to get a self-liquidating program through? You can think of the most peculiar things these days. Was Ford appreciative?
- Foley: He was enthusiastic. I understand, according to Steagall, he was so enthusiastic that he isn't going to put him up this morning to let him defend the rule; he's going to put Williams up, because he says Williams wasn't so enthusiastic

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for the bill in the House, so they'll listen to him better. So I think we've got Ford oversold.

- Gaston: Should have held it in San Isidro; took in too much territory.
- McR: You don't mean we did more than we ought to?
- White: I think Williams is Ed's pet achievement - getting him for it.
- H.M.Jr: Did Steagall know the price we paid?
- Foley: No, I didn't tell him.
- Gibbons: Boy, if that ever got out, it would be a terrible thing.
- H.M.Jr: Would it? I just think they'd say, "Well, Morgenthau at last has gotten practical."
- Hanes: Gotten to be a politician.
- White: As a matter of practical politics, Mr. Secretary, if the bill fails, are the promises held to - if the bill fails - or are all bets off? I was just curious. I was wondering how you operate.
- Gibbons: If the bill fails, you're stuck with your 24 hours.
- Haas: Twenty-four hour basis.
- McR: One way out of it.
- Gibbons: We collected 53 thousand dollars at Tiajuana and it cost us 37 thousand dollars to do it, and we collected 53 thousand dollars from three million six hundred thousand people coming in.
- McR: One way to get out of it, you know, Steve; that is while this thing is in ninety-day....
- Gibbons: I mean putting 24 hours on it.
- H.M.Jr: I mean why should they go - leaving this thing out entirely, the President of the United States,

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when Mr. Hull passed on it - why should we permit people to go across and buy at a duty-free port Japanese, German goods, Mexican, and have them pay duty into the country and don't pay any to us, and come into competition with our own people? They can't bring it in through the port of Los Angeles, but they can through the port of Tia Juana. I mean on that argument you can say the Customs service collects so much and the whole business - why not let everything come in free?

Gibbons: If a person goes over and buys - they'll have to stay 24 hours. It becomes from a practical standpoint....

H.M.Jr: Well, you can figure the whole duty. Why not let the people go down to Panama? And we stopped this liquor racket from Bermuda, people going down there and bringing it in. I mean if the theory of having duties to protect our home industries is true, why shouldn't we protect the department stores in Los Angeles?

Gibbons: Of course, the tourists - hotel business in Southern California would be hurt by it. It balances....

H.M.Jr: Well, both the President and Mr. Hull gave it very careful consideration on its merits, not in connection with this. They both felt - the President was shocked to learn that you could go down to Tia Juana and buy all these Japanese and German and Mexican goods.

White: If they were going to be determined by their inability to bring that back, they're hardly tourists, they're something else.

H.M.Jr: If you're going to go across and stay 24 hours and bring it across, we'll collect the duty.

Gibbons: There's a hundred dollar exemption even if he stays 24 hours.

Hanes: As it is now, a fellow could go across four or five times a day.

Foley: Back and forth.

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- Gibbons: No way you can identify him except to remember him.
- H.M.Jr: Well, purely on its merits, I'm willing to defend it publicly - on its merits. And the President is. So is Mr. Hull. He didn't object. So I'm not going to worry. That's the least thing that I have to apologize for.
- Ed? You're all right.
- Harry?
- White: Want to raise that matter again of the dumping duty?
- Foley: What?
- White: Aren't you going to....
- Gibbons: We saw the picture.
- H.M.Jr: Yes?
- Gibbons: Terrible.
- H.M.Jr: O. K., I'm not going to worry about it.
- Graves: (Nods nothing).
- Bell: There's the Chairman of the Indiana Bankers Association writing about Postal Savings rates. He wrote to Congressman Ludlow, he wrote to all the other Congressmen and Senators, I guess, from Indiana. And I thought I'd check up on what kind of a reply Postal Savings System has made. They made a very good reply. So I had Mr. Kane down there send me in the form of a memorandum answers to the questions he raised in the Ludlow letter. So I'm just enclosing a copy of that saying that he has met all the points and adding that, after all, the rates are fixed by the Banking Act of 1935.
- (H.M.Jr. signs letter)
- Bell: I finally talked to Governor Harrison about your gold coins. Did he call you yesterday?
- H.M.Jr: Got a call in now.

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Bell: Well, he just wants to say goodbye, wish you a pleasant trip. He says that he has those two sets, that he did talk to you about it and you had a gentlemen's agreement that he would pick out two sets and that one would be kept at the Bank and the other would be brought down here in some way.

H.M.Jr: Library of Congress.

Bell: He didn't know....

H.M.Jr: Library of Congress.

Bell: He said he didn't know whether legislation would be necessary, but he thought maybe the General Counsel ought to try to find some way to keep those collections, and that when you get back and he is down here at some meeting, why, he'll talk to you about it.

H.M.Jr: He sure does hang on to that collection, though.

Bell: He says he's perfectly willing to put them - he'd like to keep one collection for the Bank.

Gaston: Are we going to waive the penalty?

Bell: That's....

H.M.Jr: There's a law on collector's coins.

Bell: Well, you'd have to determine if the Federal Reserve Bank is a collector.

H.M.Jr: Well, I think that - I think it ought to be worked out. They're entitled to keep one complete set of gold coins.

Bell: And he doesn't think that you want to ask legislation for the Federal Reserve Bank to keep them.

H.M.Jr: Well, take it up with our General Counsel.

McH: You'll find that Herman had some study made of that and came to the conclusion that he didn't need legislation - about two or three years ago.

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H.M.Jr: Anything else, Dan?

Bell: That's all I have.

H.M.Jr: Mac?

McR: I told Miss Lonigan to stand by for a talk with Harry.

H.M.Jr: (Words not understood).

McR: (Words not understood).

H.M.Jr: Anything else?

McR: No.

H.M.Jr: Mac, if any of the Bureau chiefs in the Treasury want to say goodbye to me - 3:00 o'clock.

McR: 3:00 o'clock.

H.M.Jr: Or anybody else. You're all expected at one.

Well, this will be the last serious.... Mr. Hanes will be in charge while I'm gone, and I'm not going to worry and I'm sure everything will go along fine.

Foley: There is one thing, Mr. Secretary; I don't know whether you want to take it up or do anything about it now; and that's the amendment of the law to take care of goods that do not originate in the country that makes the subsidy.

H.M.Jr: Well, the President wants that.

Foley: And which are imported into the United States.

H.M.Jr: (To Hanes) This is - we put a countervailing duty on Italian silk, then they ship that Italian silk in the raw state to England and they manufacture it and dump it.

White: Ed, you better straighten that out. That's what the President wanted, and we're giving him something else; what the President wanted was not sound.

Foley: Harry's Committee passed on the two proposals.

H.M.Jr: I can't absorb this.

White: It can go until the fall. There's nothing....

H.M.Jr: I'm not going to absorb anything new.

White: The only reason we suggested it to you - wanted to make sure you knew the President had asked you, and it's on your desk. So you can drop it....

H.M.Jr: No, it ain't on my desk. You're wrong.

RE MALARIA IN CHINA

August 1, 1939.
10:15 a.m.

Present: Mr. Hanes
 Dr. Perran
 Dr. Louis Williams
 Dr. Charles Williams
 Mr. Maxwell M. Hamilton
 Dr. Hu Shih, the Chinese Ambassador
 Mr. K. P. Chen

H.M.Jr: I'm going away this afternoon. Do you know anything about what I'm trying to do, Mr. Hamilton?

Hamilton: Mr. Chen told me briefly just in a word what it was.

H.M.Jr: Well, from Mr. Chen and Mr. Duck I learned about this malignant malaria on the Chinese border, and I put them in touch with Dr. Perran, who sent me this very excellent report to the house last night, of which I'll have a copy made to give to Mr. Hamilton. And before leaving, I did want to make an effort to tie this up and see whether I couldn't leave it in such shape that if the Chinese Government wanted to avail themselves of this opportunity, it would be available.

I think if Dr. Perran would take a minute, just sketch what you think could be done, way,

Perran: I shall be very glad to, Mr. Secretary. Dr. Williams, who is our malaria expert, has been quite familiar, through conversations with many people who have been in Burma, with the general malaria situation there. Dr. Williams served on the League of Nations Committee on Malaria, and so on. And immediately upon being informed about the epidemics of malignant malaria which exist on the Burma-Chinese border, he undertook to gather together the best available information.

It does not appear to be an insuperable problem. It is a problem that is susceptible to control if funds and expert assistance are available. It is a seasonal problem. Dr. Williams has pointed out that at the present time, when the monsoons are on, it is difficult to do anything more than emergency quinine prophylaxis, but that immediately after the monsoon season it should be possible to make intensive studies of malarial breeding immediately along the highway. The mosquito which transmits this

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malaria has a flight range of only about a half mile, certainly not more than one mile, so that one could restrict controlled areas.

It should be possible to locate the camps - because it is a night-biting mosquito, I take it -

Louis W'ms: Night-biting mosquito.

Parran: ... on high grounds, and particularly to protect the areas around the camps by screening or actual control measures, or both.

H.M.Jr: Those would be the work camps.

Parran: Yes, the work camps, and barracks in which presumably the workers are housed.

The information we have through Dr. Chen and Dr. Buck is that when a few deaths occur, the laborers leave, go back to their hills.

Since I talked with the Secretary on Thursday, I've been in touch with Dr. Wilbur Sawyer, who is a director of the International Health Division of the Rockefeller Foundation. Dr. Sawyer's representative in China is one Dr. R. A. Balfour, who is one of the leading malariologists of the world; for seven or eight years was in charge of malaria control work in Greece or elsewhere in the Eastern Mediterranean. His headquarters are in Shanghai.

Just last week Dr. Sawyer received a report from Dr. Balfour. Balfour had been to southwest China and had conferred with the governmental officials in the "New China," as he expressed it, and has recommended to the Rockefeller Foundation that it enter into a cooperative arrangement with the Chinese Government next year for studies of malaria and control methods. Dr. Sawyer felt that if this were an urgent situation in which our Government were interested, it would be possible for them to expedite their assistance, to have Dr. Balfour return either alone or with any commission that we might wish to send out.

The question as to the costs of control and that sort of thing, of course, is a matter which can be taken up only after a preliminary survey is made.

So, briefly, Mr. Secretary, I'd say that if it is the wish of the Administration that Public Health Service give some assistance in connection with this matter, I would suggest that two of our experts, possibly Dr. Williams and either an entomologist or an engineer, preferably an entomologist, who is familiar with the intimate breeding habits of the mosquito, go to this area; that we seek to have Dr. Balfour join them, make a preliminary survey and recommendations.

H.M.Jr: Well, in reading this thing very carefully - would you give Mr. Hamilton a copy of this?

Parran: I shall be very glad to.

H.M.Jr: In reading this thing - if I might make a suggestion, Mr. Ambassador - I see that Mr. Buck suggested doing something with the League of Nations. Well, inasmuch as you - I take it the Public Health Service and the Rockefeller are available, I wouldn't wait for the League of Nations.

Now, another thing. I also gathered in reading this report I don't see why the Ambassador couldn't have a copy of this. Could he?

Parran: Perfectly all right.

H.M.Jr: The reason I called this meeting - it seems in order to meet this thing this survey ought to be made really between now and the first of January. Right?

Parran: Yes, and the earlier the better.

Williams: The earlier the better.

H.M.Jr: That's why I took the liberty of calling this meeting, because if you're going to do something, it really ought to be done immediately.

Hu Shih: Mr. Secretary, last week-end I sent - when Mr. Chen told me of your very kind efforts, I immediately sent a telegram to the Chinese Minister of Health, Dr. F. C. Yen, who is a very well trained scientific man. I asked him for information concerning three things. First, the time element in that particular

disease in that region. Second, what the Chinese doctors under his administration have been doing in this matter. And thirdly, what his experts think would be the best kind of aid desirable from this end.

So far we didn't get a report, because probably Dr. Yen, being a scientific man - probably was gathering reports from his experts.

I know there are Chinese doctors working on this road, because there is an American friend, Mr. Nepper, who is employed by the Chinese customs service - Nepper - and he told me that he saw the Chinese doctors working on this road for two things. One is on this malignant malaria; second is on this goiter. In this region the people suffer from the lack of iodine, and sixty percent of the people suffer a kind of a goiter. And they're working on it - tried to put iodine in the salt which the people consume.

But so far I didn't get the reply. I hope to get it in a day or so, and as soon as I get it I'll submit it to the health authorities and also to the State Department.

H.M.Jr: You see, my interest in this, Mr. Hamilton, is purely commercial (with mock seriousness). You see, all we're trying to do is protect our loan from the export-import Bank, so that tung oil will come out. You see? It's purely a commercial interest, you see. I'm very much worried about this loan, and this is the road, and if we don't help the Chinese fight the malaria, why, the tung oil won't come out and we may suffer loss. It's purely commercial interest. And if you could take the broader viewpoint, you see, and help the Treasury out, why - because I suppose they'll have to get some kind of a clearance. Won't Public Health have to get a clearance to let these doctors go?

Hamilton: I think so. I think I'd want to speak to Mr. Welles about it and to the European Division. There has been - we are tied in some way or other with the League of Nations health activities in China, aren't we, Dr. Parran?

Parran: We have membership on the Health Committee of the League, and Dr. Cumming has been able to represent us

on it. The Health Section recently had the resignation of Dr. Rotman; the Director has resigned, and I fear it would be difficult to get promptly any cooperative arrangements.

The League is maintaining at Singapore an epidemic intelligence service. Any of our people who went over there would certainly wish to get in touch with them to ascertain whatever information they have.

Hamilton: Have they any representatives in China now?

Hu Shin: Yes, they have two units. One is essentially French, the other is international. They have two units working in China.

Hamilton: Under League auspices.

Hu Shin: Under League auspices.

Parran: From a legal point of view, Mr. Secretary, all of our consuls have the responsibility to report promptly to us the prevalence of communicable diseases in that area. If in this instance the consuls need medical help in ascertaining the prevalence of epidemic disease, the legal status of such an officer would be fully clarified. And in addition, of course, we have responsibility for quarantine service and - not necessarily malaria, but certainly plague and cholera, which are more constant threats from the Orient; and a first-hand study of the amount of those diseases would be very appropriate purpose for

H.M.Jr: Well, that plus our financial interests ought to be overwhelming.

Parran: I should say, however, that we'll need - I don't know just the mechanism, Mr. Hamilton - but probably executive approval, or certainly a request from the Secretary of State for such action. I hardly know how the initiative should come, but in any event I should think we would need the Secretary's approval.

H.M.Jr: I'm sure Mr. Hamilton knows. And I should think we'd need a formal request from the Chinese Government to do something.

Hamilton: Yes, I certainly think that would come from the Chinese Government.

Hu Shih: That's why I'm ascertaining from the head of the Chinese Health Department the facts about this malaria.

H.M.Jr: This is the confidential report from Dr. Farran (handing report to Dr. Hu Shih).

You (Parran) give me another one for my files.

Farran: This one do?

H.M.Jr: Give me that one.

Hamilton: This is a chronic situation. As I understand it, this malaria has existed there for years.

Hu Shih: For centuries. It is one of those historical diseases in Chinese literature which made that region famous.

H.M.Jr: Well, would these same malaria people be able to take a look at the goiter situation?

Farran: Yes, sir. That's relatively simple, Mr. Secretary. It's a matter of iodine in salt.

Hamilton: This contemplates an expert survey, not the financing of the work to be done, as I understand it.

H.M.Jr: The Chinese Government - it would cost them \$25,000 to have a three-months survey made. Is that right? \$25,000 for the three-months survey?

Farran: Yes. It would - it probably will be less, because with the aid of the Rockefeller people now on the ground we could reduce the cost.

H.M.Jr: That's the outside. I'd rather tell them twenty-five and charge them less than tell them less and find it would be fifty.

Hamilton: Your (Parran) thought would be to work in cooperation with the Rockefeller people?

H.M.Jr: Mr. Hamilton is asking about cooperation with the Rockefeller

Hamilton: Your thought would be to work in cooperation with the Rockefeller people?

Parran: It would be, yes, sir.

Hu Shih: I know the Rockefeller people fairly well. They have the P.U.M.C., one of the largest endowed institutions in China, and they have a very competent staff. I was thinking of asking their participation when I thought of this idea. And Dr. F. C. Yen's hospital has received ample aid from the Rockefeller Foundation from time to time. This will be - I'm sure they'll be quite willing to supply at least Dr. Balfour if we get Dr. Sawyer's cooperation.

H.M.Jr: Well, Mr. Ambassador, thanks to Dr. Parran, we're giving you this survey on a silver platter.

Hu Shih: Wonderful.

H.M.Jr: All ready to serve, see?

Hamilton: What is the advantage, Dr. Parran, of doing this as a cooperative matter as, say, contrasted with the Rockefeller people doing it themselves? Are they prepared to do it, do you know?

Parran: I don't think they are prepared to do it. Normally the request for aid which Dr. Balfour recently has forwarded would not receive action until about the first of next year. Considering the time element plus the number of people available, I doubt if they would find it possible to take experts from elsewhere to send into this situation.

H.M.Jr: Time is the important factor here.

Hamilton: Yes.

H.M.Jr: Because if our tung oil can't come out through Indo-China, the only way it can come out would be through Burma. I'm serious. And, reading this report last night, what got me excited - I'm leaving - I realized that if they're going to do it, they've got to do it immediately; the survey ought to be done in October, November, December, if they're going to find out how to handle it before the next rainy season. I realize it has to be done during the dry

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season. So the time factor is really something.

Hu Shih: Thank you very much, Mr. Secretary. We are, I feel - I'm sure Mr. Chen joins me in our feeling of gratitude for your interest.

H.M.Jr: No, it's part

Hu Shih: I have told Dr. Yen about this very great sympathy and interest on your part, and I am really asking exactly what we are prepared to make a formal request for, because we must know what kind of assistance is desired by our experts at the other end to give us a basis for making a formal request.

And I'm sure, in your absence, Mr. Hamilton and I will - we'll try to, with the help of the doctors - I'm sure

H.M.Jr: well, we're going to step out, because, as I say - and I'm sure Mr. Hamilton will do everything possible to help. But, time being so short - Mr. Hanes is available, but it really is a State Department - stamp of approval (demonstrating with gesture).

Hamilton: All right, we'll be glad to look into it.

H.M.Jr: What? You heard about our mission going out there on - these truck experts?

Hamilton: Oh yes.

H.M.Jr: Fine.

Hu Shih: And shall I - may I read this, or shall I

H.M.Jr: Keep it. Keep it.

Hu Shih: I'll have a duplicate made and send it back to you.

H.M.Jr: Dr. Parran gave me a duplicate.

Hu Shih: You keep this original copy, and may I keep that?

H.M.Jr: No, no, you keep that.

Hu Shih: Thank you very much. I wish you a very pleasant trip.

XXXXXXXXXXXXXXXXXXXX

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Confidential

July 29, 1939

The Secretary of the Treasury

Reference is made to our telephone conversation on July 26th, concerning the epidemic of malignant malaria near the Burma - China border.

Attached is a memorandum from two of my experts, which is self-explanatory.

I have not yet been able to communicate with Doctor Sawyer of the Rockefeller Foundation, but expect to reach him later today.

If the President desires, we have some competent personnel to assist in dealing with this situation. May I talk with you Monday and get further sailing orders?

(Sgd) Thomas PARRAN

Surgeon General

TP:sh
Att.

P.S. Since writing the above, I have talked with Doctor Sawyer who has just received a report from Doctor R. A. Balfour, in charge of Rockefeller health work in China. Doctor Balfour recently visited southwest China by airplane and has recommended that the Rockefeller Foundation undertake a study of malaria in that area. Doctor Sawyer is willing to start such a study promptly, especially on the Burma road, or would join with us in a project such as outlined in attached memorandum.

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July 28, 1939

Assistant Surgeon General C. L. Williams

The Surgeon General

Subject: Epidemic diseases in West China

As requested, a conference was held between Dr. L. L. Williams, Jr., Dr. C. L. Williams, Dr. J. L. Buck, and Dr. K. P. Chen.

Dr. Buck and Dr. Chen informed us that in the area through which passes about 150 miles of the new automobile road from Hangoon into China, there is an endemic disease which may cause death within a few days. It has been diagnosed by the local Chinese medical service as malignant malaria. Apparently the disease has not become epidemic because as soon as one or two deaths occur in a community, the entire community migrates to the hills. The same thing happens in the labor camps along the new road and in consequence this roadway passage has not been placed in good condition. Dr. Buck visited this road within the past month and said that from personal observation he could testify that there was a mere handful of road workers throughout the 150 miles adjacent to the border.

We were also informed that similar conditions appear to be present in a considerable portion of Burma through which this road also passes.

A new railroad is under construction through this territory and work on it is likewise very greatly hampered on account of desertion of laborers when one or two deaths occur. The natives apparently regard the disease as indigenous to the country and due to mists arising from the ground.

Dr. Buck was reasonably certain that the disease was malignant malaria and said there was little likelihood of obtaining from local sources any very accurate description of it. We are inclined to believe that he is correct in the belief that it is malaria.

Conditions ✓ ✓ ✓

The Burma-Yunnan border near Mungting is about 200 miles northeast of Mandalay. The elevation of the river valley is about 1800 feet above sea level and the plateaus about 3000 feet. These elevations and the climate are approximately those of the Assam Tea Garden section (with which Dr. L. L. Williams, Jr. is familiar) with a comparable malaria problem.

Reports from Dr. Rice and Dr. Wayne confirm the assumption that the section in question is a bad "minimus" territory. Anopheles minimus is the principal vector of malaria and there is a possibility that Anopheles maculatus is also present. The two mosquitoes have similar breeding and flight habits and may be considered together. They breed through the colder months of December, January, and February, supplying a large and long-lived, winged population for the warmer months of March to July. Breeding is reduced with the onset of the monsoon, due to flushing of streams and ditches, but the already present adult forms persist through warm weather. During the spring and early summer cool weather slows development of malarial forms in the mosquito and reduces transmission of malaria, which, however, increases sharply with the commencement of the monsoon early in July, reaching a peak in August and September and falling off at the termination of the monsoon about October 1st. Transmission of malaria ceases by the first of December.

The situation is peculiar. In the winter and spring many mosquitoes are bred but cool weather slows development of malaria forms in them, hence, little malaria transmission. The monsoon starts bringing warm weather but so much rain that breeding places are washed out, hence, production of mosquitoes is reduced. The long-lived adult forms already on the wing, however, persist and at the higher temperatures now prevailing malarial parasites rapidly develop in them, the result being a sharp increase in malaria transmission despite a decrease of breeding of mosquitoes.

There is a high endemic index of malaria in this area, much of the disease of the malignant tertian type (Aestivo-autumnal).

A well-planned attack on malaria would contemplate anti-larval measures commencing about January 1st and continuing at top speed until the commencement of the monsoon about the middle of June. At that time anti-larval measures would be reduced to cover only local drains and seepages which trickle in the monsoon and are not subject to flushing effect of the heavy rains.

Fortunately, the usual infective flight range of both minimus and maculatus is confined to approximately 1/8 mile from their usual breeding places. Advantage may be taken of this as an emergency malaria control campaign for a construction project. As a matter of fact this forms the basis of the principal malaria control measures during the monsoon if malaria control must start at that time (and the monsoon is on at present). The infected camps have a heavy density of mosquitoes and must be moved to points at least 1/8 mile away from areas where heavy breeding has occurred. Local monsoon breeding places must be oiled or dusted. Quinine in prophylactic doses should be given to all workmen to control to a reasonable extent the acute illness and death

rates. Such measures if immediately applied are likely to cause a marked reduction in the malaria rate, but good control is not likely before the next season, when inauguration (beginning January 1) of effective anti-breeding measures will prevent production of a new lot of adult mosquitoes.

It is possible that construction of the road and railroad over a 150-mile stretch may need 200 camps. All camps should be located or relocated after a careful mosquito survey.

Recommendations

From our conference, it appears reasonably certain that no very definite picture of the actual conditions can be secured at this distance. It is recommended, therefore, that as a first step, officers be sent to the locality involved for the purpose of making a survey of conditions as they exist and to outline and place in operation an organization for their control. It is suggested that the delegation consist of Drs. L. L. Williams, Jr., Bruce Wayne, J. A. Crabtree, J. R. Murdock, and H. J. Bush. It is our opinion that the survey is a job for expert malarialogists and that while an administrative officer could organize and conduct a control campaign, that his presence would add little to a survey and might hamper it.

It is suggested that the first two named in this list need hardly remain longer than three months which should be sufficient to complete the survey. One or more of the remaining three might be retained either in charge of the control organization or as advisors for an additional period of approximately six months.

It is recommended that the survey party directing the survey undertake to train local personnel both in survey methods and control methods with the intent that in time an entirely local organization or a local organization supervised by one or two Service officers finally take over all control measures.

Costs

The costs of the survey, which is projected to take about three months, would include:

- (1) Salaries of the officers concerned approximately \$9,300.00.
- (2) Travel expenses of officers concerned to and from the locality of the survey approximately \$10,600.00.
- (3) Field expenses related only to the survey approximately \$5,000.00.

- 4 -

Probably expenses of a survey could be paid from P.S.E.D. but would require release of a portion of the reserve in this appropriation.

The cost of a control campaign can hardly be accurately estimated until the survey has been completed. On the basis of information furnished by Dr. Buck and Dr. Chen, however, a tentative figure of \$250,000, is estimated.

League of Nations

Dr. Buck is of the opinion that the survey might best be handled under the sponsorship of the Eastern Bureau of the Health Section of the League of Nations, which is directed by Dr. C. L. Park and has headquarters at Singapore. It is a matter, however, which probably might best be determined by the State Department.

Assistant Surgeon General G. L. Williams

Senior Surgeon L. L. Williams, Jr.

CLW:HW

August 1, 1939.
11:09 a.m.

H.M.Jr: Hello.

Operator: George Harrison.

H.M.Jr: Thank you.

O Go ahead.

H.M.Jr: Hello.

George Harrison: Hello, Henry.

H.M.Jr: How are you?

H First rate, thank you. I've been away for about a month trying to get a rest. I was tired out.

H.M.Jr: Did you get one?

H Oh, I had a fine time. I had very good weather for the first three weeks and the last week was hellish.

H.M.Jr: Where have you been?

H I've been off on my boat.

H.M.Jr: Oh really?

H Yes.

H.M.Jr: Did you go out pretty far?

H Well, I plied back and forth to/London and Fisher's Island and Black Island and did a lot of fishing at Nantucket, Narraganset Bay - I've been all around. Just wherever I felt like going and the wind let me go.

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

H But I got a good rest and lost seven pounds, worked hard....

H.M.Jr: Well.

Hand I feel fine. I called you up yesterday just to let you know I was back; so, you can go now if you want.

H.M.Jr: Good.

H: (Laughs)

H.M.Jr: Well, Marriner tells me he's going too.

H: When is he leaving? I forgot to ask him the other day.

H.M.Jr: He said the fifteenth.

H: I see. Well, Henry, I just want to tell you I hope you have a fine vacation and a good rest. You certainly deserve it.

H.M.Jr: Well, I know I need it and I've done the best I could.

H: You've done a fine job and I - you know, I feel very happy about the fact that I've counted you one of my real friends, just as you have done. Some day I'll really tell you about it.

H.M.Jr: Well, George, we've put over a number of things together and we have our honest differences of opinion but we always end up friends and that's the way I want it to stand.

H: Well, I hope so because I'm very proud of our friendship.

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

H: We - I've been sorry not to see you because I wanted to talk to you since we finally made a sectional portfolio in the Federal Reserve System.

H.M.Jr: Oh, yes - yes.

H: But I think it's going to work out all right.

H.M.Jr: Well, will you be here for the September financing?

H: I'll be here right along now.

H.M.Jr: Well then, Johnny Hanes will get in touch with you I don't look for any great trouble.

H I don't think so.

H.M.Jr: But I've left word....

H You won't be back until after that?

H.M.Jr: No, this will be the first one that I've missed. But I think if things stay the way they are, I think we ought to try to get out a long bond this time. We haven't got out one since last December.

H No, I knew you hadn't, and I hope you're able to do that.

H.M.Jr: Well, that's the word I've left, but I've told them that....

H Well, I'm glad to hear that. I felt that after the last one that you might not want to.

H.M.Jr: No, no. We're very versatile down here, you know.

H Very what?

H.M.Jr: Versatile.

H I know that. (Laughs). Well, if I'd love to come down there any time.

H.M.Jr: Well, I've left - he will - I've told him he should talk to you.

H All right. I'll be around here all the time and I'll go down there sometime and talk with him anyway.

H.M.Jr: All right.

H I'd like to bring Ralph down again too because I'd like the fellows down there to know him better. He's going to do a good job.

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

H And I talked to Danny yesterday about the gold coin thing.

H.M.Jr: Gosh, you do hate to give those up.

H No, I don't, I want to give them up.

H.M.Jr: Well, he's going to - they're going to take another look at it.

H But I - what I wanted to do was to be sure that neither you nor I get into any trouble about it.

H.M.Jr: That's right.

H And I thought we might just go easy on it until perhaps we had a chance to let the lawyers look into it a little.

H.M.Jr: That's what they're going to do.

H Yes.

H.M.Jr: All right.

H Well, have a good time and give my best regards to Mrs. Morgenthau.

H.M.Jr: Thank you.

H Goodbye.

H.M.Jr: Goodbye.

August 1, 1939

2:30 pm

Present:

Admiral Waesche
Mr. McReynolds
Lieut. Burke
Lieut. Bowerman
Mr. Hanes

HM,Jr: Well, where are we on the plane?

Admiral W: After talking to Burke and the rest of our people over there -- I was guided largely by Burke's judgment on this thing -- Burke feels, and I agree, that the Lockheed 14 is the plane for you.

I talked to Admiral Towers' office today after I talked to Burke. He's away and I talked to his First Assistant. They said they probably could get from the Lockheed people, with cyclone engines, a new plane as Burke recommended, in two or three months if they could take one out of production from some other company that was manufacturing.

HM,Jr: Some other contractor?

Admiral W: Under contract to some other company. I think the Army have some under contract and Burke said the Canadian Airways have some under contract. If they could not get one under contract, he thought 5 or 6 months, but it will still a guess. He would have to get in touch with the company, but Burke thinks there should be no difficulty in getting one of those planes in 2 or 3 months.

HM,Jr: I am in no sweat about it. After all, I will only do a little flying in September. Maybe use a plane two or three times, but if it

-2-

could come along in two or three months I think it would be very nice and, if you want a little help, Captain Collins, over in Procurement, I am sure could help.

Admiral W: Yes, sir. I know Collins very well. I will make a memorandum over to Navy, Chief of Aeronautics, that you decide you would like the Lockheed 14 with a description Burke will give me and ask them to take steps to advise me how long it will take to get it and when I get word back, if I think it is unreasonable, I will get in touch with Collins.

HM,Jr: This Lockheed 14 takes off on 650 feet?

Lieut. Burke: Yes, sir.

HM,Jr: What does our present plane?

Lieut. Burke: 900 and some.

HM,Jr: That Douglas 65 that they want me to take is about three times as big?

Lieut. Burke: That's tremendous.

Lieut. Bowerman: A 20,000 pound plane as compared to 15,000 on the Lockheed.

HM,Jr: What does our present plane weigh?

Lieut. Burke: 10 to 11,000.

HM,Jr: A bigger plane. You don't think a little Lockheed would do?

Lieut. Bowerman: No, sire.

Lieut. Burke: Much smaller. Cramped pilot's quarters.

Lieut. Bowerman: As good performance, but it is small.

HM, Jr: You don't think it would be big enough for me?

Lieut. Bowerman: No, sir; I don't.

HM, Jr: The other one is so expensive.

Lieut. Bowerman: You can carry all the equipment you want in it, Sir. Radio, all your accessories, de-icers.

Lieut. Burke: Without worrying about how much it weighs.

Admiral W: The objection to the Lockheed 12 was more on the weight, getting radio equipment in there readily and without having to squeeze it in and keep cutting down.

HM, Jr: Have the Navy in any way raised any question about what I want?

Admiral W: No, sir. They simply -- Admiral Towers said he got word from the President through Secretary Edison to get you the plane you wanted and all we are supposed to do is tell them what you want.

HM, Jr: Mac, do you think it's a mistake to GET ONE AS BIG AS THIS?

Mr. McReynolds: I would hate to see you take the little one. After all, you are looking for a margin of safety and if you get an overload you are taking your safety out.

HM, Jr: Johnnie, I asked them if Martin made any passenger plane and he said they don't.

Mr. Hanes: He only makes the bomber.

HM, Jr: Our present Lockheed takes off in 940 feet and the Lockheed 14 will take off in 650 feet.

Mr. Hanes: Wonderful! And what will it cruise at?

Lieut. Bowerman: 233 miles per hour at 10,000 feet, dropping down to 211 at sea level.

HM, Jr: And at 5,000?

Lieut. Bowerman: It will be somewhere in between there.

HM, Jr: That's using how much power?

Lieut. Bowerman: 75% power.

HM, Jr: Fast! Does that mean when you get going, that you will really be doing 220 or 200?

Lieut. Bowerman: If you use that power you will get that speed.

Lieut. Burke: At 5,000 miles you are making 220 miles.

Mr. Hanes: With a little tail wind, take you about 40 minutes to go home.

HM, Jr: All right. I think we will do that.

Now, if you have any question, which I don't think you will, Mr. Hanes will be here, because you have a written order from the President.

Admiral W: All right, Sir. I don't anticipate any because Admiral Towers says there is no question in their mind.

Mr. Hanes: The Navy have any of these 14's on order?

Admiral W: Navy have none at all. Only have one, a year old, which Towers uses.

Mr. Hanes: How much horse power?

Admiral W: Towers' plane? 850, and the cyclone engine which we will put in your plane is 1,000 horsepower.

Lieut. Bowerman: Actually gives you 1100 for take-off.

HM, Jr: Have they improved this Lockheed 14 since Howard Hughes used it?

Lieut. Burke: Yes, sir. They have improved the take-off characteristics and have improved the landing characteristics, landing speed, by the addition of slots.

HM, Jr: Does this have wing slots?

Lieut. Burke: Yes, sir.

HM, Jr: Is that what makes it take off so fast?

Lieut. Burke: Enables you to maintain control over the airplane at very low speed.

HM, Jr: No question in either of your minds that this model is a successful model?

Lieut. Bowerman: Yes, sir; it is.

HM, Jr: Johnnie?

Mr. Hanes: I agree I wouldn't take the little one. I would take the 14.

Mr. McReynolds: After all, in flying you should have the safest thing and this is the best you can get.

HM, Jr: Where are you going to have your cutters this year, around Greenland or Iceland?

Admiral W: We can have one there.

HM, Jr: Any excuse to have one?

Admiral W: Sure! We can have a survey on this ice patrol. That's right up in the iceberg region and some of the oceanographers would be tickled to death to go up there and make some observations.

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HM,Jr: Do you need it?

Admiral Waesche: Yes, sir.

Mr. McR: He's a good officer!

HM,Jr: Where would you be doing this studying?

Admiral W: Up around the west coast of Greenland.

HM,Jr: How long is it from there over to Oslo?

Admiral W: I should say, roughly, about 1,000 or 1,500 miles.

HM,Jr: Seriously, is there work to do up there?

Admiral W: Yes, sir.

HM,Jr: Don't you think it is a good idea?

Mr. Hanes: Yes.

Admiral W: As a matter of fact, The International Ice Patrol, original plans were we would have a cutter stationed at Nova Scotia and Azores and when the war broke out one of their ships started to the Azores, but under international treaty and under the law we have the authority to maintain North Oceanic control all the year round.

HM,Jr: But on this Ice

Admiral W: There is some scientific work that could be done to great advantage in this general Ice Patrol set-up.

HM,Jr: I think it would be a good idea if you really have justification.

Admiral W: Yes, sir; we have.

There is just one more point. These Hall

aluminum planes, when we had a crash a month or so ago they found a weakness which is being corrected. I have issued instructions not to fill those planes or land them in heavy water until that work is done and in the course of two or three days some of them will be completed. I have limited them to smooth water landing until that part is strengthened.

Mr. Hanes: What's the matter with the Grauman?

Admiral W: The only reason we suggested to the Secretary not to fly in that was because we wanted the pilots to have more experience with the planes. Apparently easy planes to fly. We felt, as a matter of safety, that our pilots should fly them quite a few hours before the Secretary flew in them.

HM, Jr: Is it all right?

Lieut. Bowerman: Oh, yes, sir!

HM, Jr: I asked for it in connection with going to Bar Harbor.

Mr. Hanes: They don't care if I fly in it, but won't let you fly.

HM, Jr: Be careful during Augyst because if anything happens I don't want to have to come back!

Admiral W: We will take care of him.

HM, Jr: I understand a Grauman will be stationed in Washington to take care of Mr. Hanes, back and forth over week-ends.

Lieut. Bowerman: I think the pilot should have plenty of training in it. They have been flying it almost every day.

HM, Jr: Don't let Mr. Hanes go until you are 101% sure.

oOo-oOo

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE August 1, 1939.

TO Secretary Morgenthau

FROM Mr. Haas *HA*

Subject: Reasons for using the "Food Stamp Plan" for the distribution of surplus commodities to privately employed, non-relief families in low income groups -- report of telephone conversation with Mr. Milo Perkins, President of the Federal Surplus Commodities Corp.

The first reason Mr. Perkins gave me for using the "Food Stamp Plan" for the distribution of surplus commodities to privately employed, non-relief families in low income groups was that prior to this year the Appropriation Act of the Department of Agriculture limited surplus food distribution to families receiving public aid. This year that limitation was removed. In view of this he said they felt obliged to at least make a start in the distribution of surplus commodities to low income groups in addition to relief groups.

The Shawnee, Oklahoma, area program, he pointed out, was a very small experimental test which would get under way around the first of September. They plan to use it as a study case, and he felt that even with the most favorable results it would be some time before a similar program would be initiated elsewhere.

The Shawnee city region was selected because the local groups in that area, such as the retail and wholesale grocery trade, bankers, etc., had expressed their eagerness to cooperate in the operation of the plan.

I raised the question as to why they had not taken care of all the people receiving public assistance first. Mr. Perkins' reply was that even though more rapid progress is being made than is apparent from the immediate results, it will take several months before the stamp plans are operating effectively in the various cities. It is necessary to organize trained forces to set the plans up, but once the personnel is trained the program will go along at a geometric rate. He felt that the study case on distribution to non-relief families should be started simultaneously with the development of the distribution to relief families.

8/1/39.

My dear Mr. Rolles:

I wish to acknowledge your letter of July 22, requesting the Treasury Department's suggestions as regards the inquiry of the Colombian Minister of Finance as to the possibility of financial assistance from the Federal Reserve Bank of New York after settlement of outstanding debt and exchange matters. I appreciate your referring this inquiry to me since, as I am sure you will agree, it is appropriate, as a matter of general policy, that matters of this sort should be considered in the first instance by the Treasury Department and, to the extent practicable, handled by the Department rather than through the Federal Reserve Bank of New York or other agencies.

I take it from your letter, although I am not quite clear about the matter, that the Colombian inquiry relates to two distinct problems: (1) the possibility of a gold bullion loan, and (2) the possibility of obtaining dollar availabilities against gold collateral. In the absence of specific congressional authorization such as envisaged in the case of Brazil in the Aranha agreement of March 9, 1939, the Treasury probably would not be in a position to make a gold bullion loan. Whether or not the Federal Reserve Bank of New York or

other agencies would be in a position to make such a loan would require further investigation, which I have not initiated pending clarification of the Colombian request and of the general nature of the cooperative program. As regards the possibility of dollar availabilities against gold, the Treasury would be in a position to render effective assistance along these lines through Stabilization Fund operations and would be prepared to render such assistance provided other aspects of the general settlement between the United States and Colombia appeared satisfactory.

I trust that the above provides a sufficient basis to enable you to put the American Ambassador in Colombia in a position to reply satisfactorily, at this preliminary stage of negotiations, to the Colombian inquiry. However, at this time, I should like to take the opportunity to explain the Treasury Department's views as to how the settlement of financial and monetary problems, involved in the working out of programs for cooperation and settlement of outstanding questions between the United States and Latin American countries, should be approached.

Once decision has been taken by the President of the United States and the Secretary of State to go ahead and attempt to work out a program, and the general scope of the program determined upon, I feel that the question of financial assistance and other financial and monetary aspects are primarily matters of concern to the Treasury Department and that, insofar as practicable, the Treasury Department

- 3 -

from the outset should be in a position to attempt to work out these matters with the authorities of the country concerned. There is also a further point which I should like to stress. In most of the Latin American situations, debt defaults involving United States investors constitute a major obstacle to the working out of the kind of program which is necessary to obtain our objectives. The mutual trade relations between the United States and the countries concerned, as well as the long-run interests of the private bondholders, can only be served, in my opinion, by a policy of financial cooperation which aims primarily at an increase in the long-run productivity of those countries. Unless the problem of private debt adjustment is approached on this basis, which seems to me the only practicable one, I feel that there is little hope of achieving substantial results in the attempt to work out programs for economic cooperation with Latin American countries. Accordingly, if the Treasury Department is to be in a position to attempt to work out arrangements for financial and monetary cooperation on a sound basis, I consider it essential that the Treasury, before going into any of these situations, should have information which gives assurance that the private debt question is being approached on a basis which is in harmony with our long-run objectives.

I trust that my views as to how problems of financial assistance and other financial and monetary aspects of United States'

- 4 -

cooperation in Latin America should be approached, as outlined above, are in accord with your own. As I see it, it is only along these lines that the Treasury Department can participate effectively in the hope of achieving constructive results.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Honorable Sumner Welles,
Under Secretary of State.

JPC, Jr.:lmf 7/31/39.

R. C. P. M. A.

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AUG 1 1939

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- 4 -

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Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Honorable Sumner Welles,
Under Secretary of State.

JPG, Jr.:lmf 7/31/39.

August 1, 1939.
8:55 a.m.

H.M.Jr: Hello.

Butterworth: Hello, sir.

H.M.Jr: How are you?

B Very well, sir. I'm looking forward so much to seeing you.

H.M.Jr: Good. We're off tomorrow.

B Fine.

H.M.Jr: Butterworth, I have received a message from Sir John Simon,

B Yes.

H.M.Jr:both from Johnson and from the Embassy here.

B Yes.

H.M.Jr: And Sir John Simon - are you familiar with it?

B Oh yes, I know about it all.

H.M.Jr: I take it it came through you.

B That's right.

H.M.Jr: Now, what I'd like you to do is this: tell them we appreciate very much their kind invitation, but we don't expect to get to England until about the first of September.

B The first?

H.M.Jr: Yes. Until about September 1.

B September 1. I see.

H.M.Jr: So, inasmuch as his invitation is for August,....

B Yes.

H.M.Jr:we won't be able to accept.

B All right, I'll

H.M.Jr: But if and when we do get to London and he's there and his engagements are not too pressing,....

B Yes.

H.M.Jr:maybe I can see him officially.

B Right, I'm sure that will be arranged.

H.M.Jr: What's that?

B I'm sure that will be arranged.

H.M.Jr: Well, what the State Department is telling the various people that I will do only those official things which are absolutely necessary. See? And nothing else.

B Yes, sir.

H.M.Jr: But, I'll have a chance to talk to you when you meet us.

B Yes, I'll meet you at Southampton.

H.M.Jr: Now, we have three or four hours in London, haven't we?

B Yes, your train doesn't leave until a little after eight, I think.

H.M.Jr: At night?

B From London. It depends upon what time the Normandie docks.

H.M.Jr: I see. Well, then we can go to some hotel and stay there for a couple of hours, can't we?

B Easily.

H.M.Jr: What?

B Oh, easily, or you could come to my house.

- 3 -

H.M.Jr: Well, we can - we'll talk it over when you meet us.

B Right.

H.M.Jr: We don't want to put you to too much trouble.

B No, it won't put me to any trouble at all. I'm looking forward so much to the pleasure of seeing Mrs. Morgenthau and the children as well as yourself.

H.M.Jr: Now let me ask you this - this is very important - in September in London do you need a heavy winter overcoat?

B No.

H.M.Jr: You do not.

B No.

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

B Perhaps you should take a spring overcoat with you.

H.M.Jr: Well, I have that - a black overcoat.

The Ambassador is down at the Mediterranean?

B Yes, he's down in Cannes.

H.M.Jr: When does he get back?

B On - well, he didn't say when he left here, but I should think it would be about that time. What he said was that he hoped to stay on and get a good vacation, but he was not setting any particular time for his return because he didn't want to - if he did have to come back - people to say, "Well, the crisis must be awful because he's come back."

H.M.Jr: I see. Well, answering Sir John this way is all right, isn't it?

B Oh yes.

H.M.Jr: And you'll tell Johnson?

B: I will indeed.

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

B: He asked me to say to you how much he was looking forward to the pleasure of seeing you.

H.M.Jr: Good. Well, I think we're going to have a good time. There's no use, once we're on the boat, worrying whether there's going to be a war or not.

B: Oh, no.

H.M.Jr: There's time enough to worry if there is one.

B: Oh, I agree.

H.M.Jr: What?

B: Yes, I agree, sir. They keep pushing the date back now.

H.M.Jr: They do.

B: Yes.

H.M.Jr: How far back have they got it now?

B: Well, they say that things are going to be quiet they hope until the party rally.

H.M.Jr: When is that?

B: You know - the Nuremberg rally.

H.M.Jr: That's in September, isn't it?

B: About the - well about the 7th of September, I think.

H.M.Jr: I see.

B: No one really knows because it all depends on Hitler.

H.M.Jr: Right. All right, I'll see you then in about a week.

B Goodbye, sir.
H.M.Jr: Goodbye.
B And bon voyage!
H.M.Jr: Thank you.

August 2, 1939

See leaf

MEMORANDUM TO THE PRESIDENT

The Minister of Finland came in to discuss the question of the anti-dumping duty orders against the import of matches from Finland. The following is a resume of Finland's position in this matter.

In 1931 Anti-dumping Duty Orders were issued concerning the import of matches from the following eight countries: Finland, Sweden, Norway, Kathleen, Latvia, the Netherlands, Austria and Poland. Already previously such an Order had been issued concerning imports from Russia.

These orders were revoked as far as Sweden is concerned August 12th, 1933 and in respect of Russia January 24, 1934.

Japan, which seems to be the third biggest of match importers to this country, is also exempt from Anti-dumping Duty Order.

The total value of matches produced in the United States is about 30 millions. The total value of imports of matches during 1938 was \$285,000.

Imports from Finland were in 1938 \$31,000, which corresponds to only a fraction of one per cent of the value of the total production in this country and to some 11 per cent of the total imports.

Of the total imports of \$285,000 almost all or about \$250,000 comes from Sweden, the U.S.S.R., and Japan, i.e. from countries not under Anti-dumping Duty Orders.

The Finnish price is considerably higher than the price for matches from the above mentioned countries.

It is argued that American matches are sold cheaper than the Finnish price free duty paid eastcoast ports.

The present Finnish price for matches exported to this country is higher than the corresponding price on the Finnish home market.

It is evident under these circumstances that the Finnish imports cannot constitute an injury to the American industry.

It is furthermore argued by the imports of Finnish matches that the Finnish home market is a closed market as the home market prices are fixed by a joint committee representing all the factories and that the price on the United States market is no lower than the corresponding price for corresponding grades of matches to other markets in general.

- 2 -

It is respectfully requested

- 1) that the Anti-dumping Duty Order concerning Finnish matches be repealed at the earliest possible opportunity, and**
- 2) that still unliquidated entries be finally liquidated without requiring payment of any additional duty.**

Mass. C.

61

August 1, 1939

MEMORANDUM FOR THE PRESIDENT:

In answer to your memorandum dated August 1st regarding the request of the State Department for financial experts to be sent to South America, this is to advise that I have taken this matter up with Under Secretary Sumner Welles and I am advising him today that we will send a Treasury tax expert to Colombia well qualified to advise on the subject of depletion and depreciation basis for property of foreign oil companies in Colombia.

For your information, the Secretary asked for an appropriation of \$50,000 in the Deficiency Bill in order to defray expenses of Treasury employees loaned to the State Department for South America work. I have just learned that the Deficiency Bill which was introduced in the House today at noon denied our appropriation for this additional \$50,000. However, I feel sure that we can find ways and means of assisting the State Department in this work.

(Signed) J. M. G. [unclear]

By spec memo - 8-3-39

JWH:ca

August 2, 1939

Dear Sumner:

Just after I talked with you on the telephone today I called the Appropriations Committee and learned that the Deficiency Bill in which we had made a request for \$50,000 to take care of the expenses in connection with the South American Department has been denied. The only hope we have of getting this appropriation as I understand it is that we get it included in the bill when it reaches the Senate Appropriations Committee. I will try to have it included there but the prospect is not bright unless we can get some assistance perhaps from the President.

In the meantime, I have a tax expert available who is well qualified to go to Colombia to advise on the subject of depletion and depreciation of oil properties. This, I understand, is what the State Department desires. If you will advise me when you are ready to see him in order to give him instructions, I will arrange the details.

With warm regards,

Sincerely yours,

(7-20-39) JOHN W. HANSEN

John W. Hansen
Under Secretary of the Treasury

The Honorable Sumner Welles,
Under Secretary of State,
Washington, D. C.

JWH:cc



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT
PROCUREMENT DIVISION
WASHINGTON

63

August 2, 1939

MEMORANDUM FOR THE SECRETARY

This morning at 10:30 Lord Riverdale and Sir Owen Chalkley called to discuss the functional organization of the Procurement Division.

Lord Riverdale stated that it was contemplated to establish in this country a Mission which would operate in the event of war as the sole purchasing agent of the British Government. As an alternative he stated they had also considered the creation of a corporation similar to Universal Trading. He was particularly interested in the functional organization of the Procurement Division with particular reference to those parts of it which might be applicable to any procurement agency that might be set up by his Government. The information given him was of a very general character and answered the questions which he asked.

In leaving he stated that the results of his visit to this country would be presented to the British Cabinet upon his return to England with recommendations that either a British Mission or a British Company be formed in lieu of having their purchasing done by a private American corporation as was the case in the last war.

Lord Riverdale further stated that he had had similar discussions with representatives of the War Department and is planning to call on the Paymaster General of the Navy this afternoon.

None of our publications was asked for or given.


Director of Procurement

8-2-39

OFFICE OF
THE SECRETARY OF AGRICULTURE

64

Secretary Morgenthau:

Secretary Wallace asked
me to send you the enclosed


M. Huss
Personal Secretary

The drought conference, comprising representatives from states of the North East region, met with Director A. W. Manchester and regional executives at 9:30 this morning.

Reports of drought damage to farm crops were made by state representatives and discussion of extent of damage and proposals for special soil-building practices to repair damage to spring seedings of biennial and perennial legumes and grasses were heard.

The conference adopted the following program for recommendation to Administrator R. M. Evans at 2:30 p.m. today:

1. Designation of drought-damaged counties
 - a. Upon recommendations of State Committees
2. In designated drought areas
 - a. Establish rate for midsummer seedings to replace spring seedings killed by the drought at a rate of \$3.00 per acre.
 - b. On farms on which the regular soil-building allowance has been used for other soil-building practices, pay for midsummer seedings in excess of the allowance up to a maximum of one-half of the allowance.

The representatives from the states pointed out that not only would such seedings quickly put the farmers back into their normal rotations and repair some of the more lasting damage of the drought, but they would prevent pressure for abnormal expansion of wheat and corn acreage in 1940 on

the land left bare by the failure of 1939 spring seedings.

As midsummer seedings, while entirely practical, are unusual in much of the area, a large amount of educational work will be necessary if they are to be widely adopted by farmers.

Heaviest participation in the proposed special program is indicated by New Jersey and Connecticut, with lesser participation by New York, Pennsylvania, New Hampshire and Massachusetts.

Estimated seedings:

New Hampshire.....	3,000 acres
Massachusetts.....	2,000 "
Rhode Island.....	300 "
Connecticut.....	1,500 "
New York.....	30,000 "
New Jersey.....	15,000 "
Pennsylvania.....	4,500 "
<hr/>	
Total.....	56,300 acres.

##

Dear H. L. -

I thought you might be interested in the enclosed which I believe is satisfactory to Mr. Babcock.

H. A. Waller

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin

NO.: 723

DATE: August 2, 1939, 3 p.m.

Reference is made to my telegram no. ⁶⁹⁸609, of
July 26, 1939, 3 p.m.

No. 51. FOR TREASURY FROM HEATH.

An officer of the Schroeder Banking Corporation who is in Berlin at the present time informs us that it is doubtful that banks in the United States will be willing to make any of their credit lines covered by the standstill agreement available to finance purchases of American cotton by Spain or that it will be insisted by the Reichsbank that they do so. Spanish firms importing cotton from the United States are already receiving "considerable credits" from Swiss banks, the informant stated. He said that banks in Switzerland had had a good deal of experience with business firms in Spain, and he remarked that if necessary, the Swiss Government could include such credits in some kind of a clearing arrangement to protect them.

KIRK

EA:EB

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin

NO.: 734

DATE: August 2, 1939, 4 p.m.

Reference is made to my no. 583 of July 3, 6 p.m.

It is insisted by Barbarin, head of the Russian delegation to the German-Russian trade negotiations in Berlin, that the negotiations are still in a purely preliminary stage, in spite of the fact that they have been in progress for more than a month. When a member of the Embassy staff talked with him regarding the prospects of the negotiations, Barbarin was extremely reticent but the impression was gained that it was expected by the Russians that they would be able to agree with the Germans on some increase in trade.

A conversation was held yesterday with an authoritative German source, who said he was optimistic over the outcome of the negotiations, maintaining that the Soviet Union is in a position where it has to import industrial equipment and machinery for replacements, and Germany is either the only source of supply or is the most economical source of supply of these goods. The prediction was made by the informant that the result of the agreement would be that Germany would again

import

-2-

import 200,000,000 marks worth of goods a year from Russia, which was the figure attained during the period 1933-1935, while German imports from Russia in 1938 reached a total of only 47,000,000 marks. It was indicated by our informant that the Germans are chiefly interested in increasing imports of petroleum, lumber and manganese.

Please repeat to Treasury from Heath.

KIRK

RECEIVED
MAY 2 1939
TREASURY DEPARTMENT
WASHINGTON, D. C.

EA:EB

C O P Y

August 3, 1939

MEMORANDUM FOR THE PRESIDENT:

I suggest the attached telegram as the reply to Senator McAdoo's wire which was read to me over the telephone by Miss Tulley.

(signed) John W. Hanes

Under Sec'y's office sent to
White House - 8-3-39 - 5:45 P.M.

initialed file to Foley's office

EHF:ce 8/3/39

C O P Y

Hon. William G. McAdoo
311 California Street
San Francisco, California

Treasury Decision 49925 published today provides that the exemption of a hundred dollars accorded residents of the United States shall not be applied to any port in Collection District No. 25 (San Diego) to articles acquired in the Republic of Mexico by a returning resident of the United States, unless such resident has remained beyond the territorial limits of the United States for a period of not less than twenty-four hours STOP The regulation is effective on the day following the expiration of ninety days after July 26, 1939, with respect to goods arriving at any port in the United States when free entry under the hundred dollar exemption is claimed by reason of the arrival of a resident of the United States who has returned to a port in Collection District No. 25.

Since the decision has been published, I suggest you submit to Treasury Department before the expiration of the ninety day period any matters which in your opinion bear upon the advisability of the issuance of the Decision.

Franklin D. Roosevelt

EHF/cp 8/3/39

C o p y

69

August 3, 1939

Memorandum for Mr. Hanes

Miss Tulley, White House, called at 3:08 and gave me this message: The President asked me to call the Secretary and read him a wire received from Senator McAdoo which reads as follows: "It is reported that the Treasury Department proposes promulgation August 3d regulations requiring visitors to Mexico along Southern California boundary to remain 24 hours in Mexico before they can bring in to United States purchases less than \$100, however, small, without paying duty. I hope this report is incorrect. Such discrimination against Southern California and many tourists who come here is in my opinion of doubtful constitutionality and is not justified on economic or political grounds." - He also says that he will greatly appreciate it if the President will authorize the Treasury to delay this order until the President can acquaint himself fully regarding this.

The President would like to know what kind of answer (wire) should be prepared for his signature to the Senator - would like to have this today.

For Lidy
10
August 3, 1939

MEMORANDUM TO THE FILES:

Lord Riverdale came to pay his respects to the Secretary of the Treasury and to thank him for the cooperative manner in which the Procurement Division had handled his request for information.

It seems that the British are desirous of setting up a purchasing agency in this country for the purpose of buying raw materials. It is their desire that they cooperate with the purchasing department of the Federal Government here in order that their purchases may not be competitive or in conflict with the purchases of this Government. He stated that they had not made up their minds definitely as to how they would proceed with this commission, but that he had gained a great deal of benefit from his visit at the Procurement Division and was on his way back to England via New York and Canada and the decision would not be made until he reached London.

Lord Riverdale stated the British were terribly desirous of increasing their purchases from this country and were in a position to do so immediately, but that the one thing which continued to bother them was the matter of foreign exchange. He stated that the unfavorable balance of trade against England between the two countries militated very largely against their making extraordinary large purchases at this time.

He referred to the difficulty under the Johnson Act and stated that in his opinion it was a calamity that the two countries could not arrive at a satisfactory settlement of the debt. He seemed extremely anxious to talk about the debt question. He referred to it many times during his conversation and I gained a distinct impression that he wanted me to make the suggestion that we enter into informal negotiation or discussion upon the question of a proper settlement. My impression may be incorrect, but I believe the British are thinking in serious terms of starting conversations with our Government looking toward an adjudication of this question.

JWH

For Secy

71

August 3, 1939

MEMORANDUM TO THE FILES: ✓

Captain Collins came in to advise us officially that the representatives of the British Government, who had been sent to us by the State Department, headed by Lord Riverdale had finished their work at the Procurement Division. Captain Collins said that he had answered all questions by giving them such information as was made available to the general public. He stated that the British representatives seemed entirely satisfied with the information they had received.

JWH:

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin

NO.: 728

DATE: August 3, 1939

Reference is made to my no. 654 of July 15, 10 a.m., paragraph 7.

CONFIDENTIAL. A member of the Embassy staff has been informed by an authoritative German source that because of the armament boom in other European countries German firms had very recently received increased export orders and opportunities. He said, however, that the fact that there was an accumulation of orders for the German Army (which still receive priority) made it impossible for most German export manufacturers to take advantage of the increased opportunities because they were unable to offer delivery terms that were satisfactory. It was asserted by the informant that military supplies and machinery for foreign armament industries were not the only lines in which there was improvement in the opportunity for export but that an increasing demand for non-military goods was accompanying the "armament booms" which were taking place in foreign countries. It was stated that, for example, if it

were

-3-

Slovakia or to return there with them. He stated that an infringement of Slovak sovereignty would not necessarily be involved in a currency union if Germany had a free monetary system. However, he stated, if a customs union with Slovakia were brought about in order to prevent the German exchange control system from collapsing it would be necessary for Germany to have, say, 3,000 foreign exchange control officers in Slovakia in view of the ^{present} ~~import~~ exchange restrictions, which he thought would continue for a considerable time even if there were a real relaxation of international tension.

It was also stated by the informant that as long as the 35-percent additional duties were imposed by the United States there was no prospect of increasing German exports to the U.S. He stated that the German economic authorities had received a great many proposals for reciprocal trading schemes from German exporting firms and also from American exporters and importers. All of them, however, involve practices defined by the United States Treasury Department as constituting export subsidies. He stated that the United States was the only country where the boycott of German goods was still of decisive importance.

Please repeat to Treasury as no. 53 from Reath.

XIRK

EA:EB

To: The Secretary

From: Mr. Hanes

Cabinet meeting - President August 4th, 2 o'clock

Present: The President, Under Secretary of State Welles, Under Secretary of the Treasury Hanes, Assistant Secretary of War Johnson, Attorney General Murphy, Assistant Secretary of the Navy Edison, Secretary of Agriculture Wallace, Under Secretary of Commerce Noble, Secretary of Labor Perkins, and Vice President Garner

The President brought up for discussion the suggestion that has been made to him on several occasions concerning the formation of the governmental commission for the purpose of studying the possibility of the Federal Government fostering art educational projects all over the country. It is the President's idea that perhaps from the storerooms of the various art museums can be gathered together a good representative collection of works of art from all parts of the world that might be transported from one part of the country to the other, accompanied by lecturers, which would be of great educational value to the people. Quite a lengthy discussion ensued with the net result that the President suggested the appointment of a committee under the leadership of Mr. Ed Bruce of the Treasury, and to consist also of a representative from the Departments of Commerce, Agriculture, Education and Security. (I have asked Ed Bruce to come to see me in order that I might explain this mission more clearly to him.)

Under Secretary Welles reported the largest mobilization by Germany in peace time history, to be completed about September 2d, and involving the mobilization of 2,300,000 men. He stated in his opinion the critical period with which the world is confronted would be between the 2d and 15th of September. He reported that the German financial condition was getting steadily worse.

Louis Johnson talked for a few minutes on the subject of airplane production and progress being made in the purchase of planes.

The following persons had nothing to report: Frank Murphy, Edison, and Ed Noble.

Secretary Wallace urged that all departments interested should cooperate with the Department of Agriculture in encouraging the production of non-competitive products in South America. The President made the specific request that Treasury, Commerce, and Agriculture cooperate in every way possible for the purpose of creating closer contact with South America. He suggests that we give all possible aid to the State Department, especially in man power and experts, in order to foster a better feeling in South America toward the United States. The President stated that for every one man that this Government sends to South America, the Germans are sending ten.

Madame Perkins reported to the President an agreement had been reached in committee on the General Motors strike, and that announcement would probably be made over the week-end to that effect. She reported further that she had learned that there was a pick-up throughout the whole steel industry. Lastly, she informed the President that the Bethlehem Steel Company was the lowest bidder for the Maritime Commission's three new ships.

It was a short meeting and adjourned at 3:20.

J. W. H.

ML

GRAY

Paris

Dated August 4, 1939

Rec'd 2:35 p.m.

Secretary of State

Washington

1444, August 4, 6 p.m.

FOR THE TREASURY.

This morning's Journal Official publishes a list of about 60 industrial products on which quota restrictions are removed. The Commerce Ministry explains that the items affected which include certain textiles, hides and skins and machinery are those for which the quotas were not fully utilized. The importance of the measure which is taken in conjunction with similar steps by the Belgian Government (abolition of fifteen out of eighty products hitherto subject to quota restrictions) lies in the fact that it constitutes a reversal of the general policy hitherto pursued by the French Government and may be an opening wedge in the freeing of foreign trade from existing encumbrances. There remain another two hundred forty odd industrial quota restrictions and abolition of most of these will, however, prove more difficult partly because of opposition of affected manufacturers and partly if duty increases in lieu thereof are contemplated

ml #2- from Paris, Aug. 4, 2:35 p.m. #1444 Sec. 1

contemplated because of existing commercial treaty obligation. Care has been taken in selecting the list to avoid unduly alarming domestic manufacturers and no agricultural quota restriction has been removed.

(END SECTION ONE).

BULLITT

KLP:DDM

JR

GRAY

Paris

Dated August 4, 1939

Rec'd 2:55 p.m.

Secretary of State,
Washington.

1444, August 4, 6 p.m. (SECTION TWO).

A move in this direction has been urged by Reynaud for some time partly to increase the Treasury's customs revenue but mainly as a means of keeping down prices. On this latter point Rist, writing in the bulletin DE L'ACTIVITE just published, states that "while the cost of living has risen but 8% in the past year which is less than had been feared, if this increase is continued an increase in the size of certain agricultural quotas to the extent that increase in national production do not equal demand would be the most natural solution and the only effective one". He continues that this should be "accompanied by an enlargement of industrial quotas or by the suppression of industrial quota restrictions which hinder or render more onerous plant renovation. In the absence of such measures the present increase of labors income instead of producing a real improvement in the standard of living will be lost in a general rise in prices

-2- #1344, August 4, 6 p.m. (SECTION TWO) from Paris.

prices with all the well known consequences which this rise brings". Referring to the methods of financing this mad rearmament race Rist writes that according as governments "content themselves with capital voluntarily furnished from savings or have recourse under more or less disguised forms to the 'creation of credit' the rise of prices and a monetary depression will be more or less rapid in each nation."

BULLITT

WIC:KLP

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED (SECTION THREE)

FROM: American Embassy,
Paris

DATE: August 4, 6 p. m.

NO.: 1444

FOR THE TREASURY

The aforesaid bulletin estimates that in spite of the rising tendency of the French cost of living wholesale prices here are still 12% and retail prices 19% below British prices (as against 17% and 27% below last September and 10% and 20% respectively last January).

Again today the exchange market was very quiet. In view of Monday's British bank holiday sterling was a little more bid partly on short covering. (However, the French fund gained about a half million pounds last evening). On buying by the fund for interest payments the Swiss franc was more bid. The florin was stronger at 20.10 3/4 and the belga was unchanged. Offerings for the forward franc were made at 8 1/2 and 24 centimes respectively for one month and three months. Again the security markets were slow with a decrease of 35 centimes on rentes and closing down 15 centimes.

The National Bank of Belgium's return for a period of nine days ending July 27 sets forth increases of 385,000,000 Belgian francs in gold holdings and 322,000,000 Belgian francs in foreign exchange. (END OF MESSAGE).

NPL EMB
FL:lar

BULLITT

THE WHITE HOUSE
WASHINGTON

CONFIDENTIAL

August 5, 1939.

MEMORANDUM FOR

THE ACTING SECRETARY OF THE TREASURY

A friend writes that the structure of the totalitarian states has been strengthened, if not upheld, by the United States through its purchases of gold, and that on this gold price is based the price of everything in the world. He asks "Why should not the United States take the position that it will buy gold only from those nations with whom we have fair, cooperative relations?" He goes on to say that if the United States should refuse to buy Japanese gold, the Japanese economy would be seriously affected, and the same in regard to Germany and Italy. He suggests that in case such a course were followed with Japan, the United States would not purchase gold from any country that buys gold from the Japanese; also, that it would tend to stop a Nazi-Russian economic deal.

What is your slant on this?

FDR F. D. R.

For Lacey

To: The Secretary

From: Mr. Eanes

Cabinet meeting, Friday, August 4th, 2 o'clock ✓

Present: The President, Under Secretary of State Welles, Under Secretary of the Treasury Eanes, Assistant Secretary of War Johnson, Attorney General Murphy, Assistant Secretary of the Navy Edison, Secretary of Agriculture Wallace, Under Secretary of Commerce Noble, Secretary of Labor Perkins, and Vice President Garner

The President brought up for discussion the suggestion that has been made to him on several occasions concerning the formation of the governmental commission for the purpose of studying the possibility of the Federal Government fostering art educational projects all over the country. It is the President's idea that perhaps from the storerooms of the various art museums can be gathered together a good representative collection of works of art from all parts of the world that might be transported from one part of the country to the other, accompanied by lecturers, which would be of great educational value to the people. Quite a lengthy discussion ensued with the net result that the President suggested the appointment of a committee under the leadership of Mr. Ed Bruce of the Treasury, and to consist also of a representative from the Departments of Commerce, Agriculture, Education and Security. (I have asked Ed Bruce to come to see me in order that I might explain this mission more clearly to him.)

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It was a short meeting and adjourned at 3:20.

(15-50) 1000. W. 1000

JWH:ce

RFP

GRAY

Berlin

Dated August 5, 1939

Rec'd 10:40 a.m.

Secretary of State

Washington

737, August 5, 2 p.m.

Referring to a report appearing in the "NEW YORK JOURNAL AMERICAN" to the effect that the British Government had invited Secretary Morgenthau to initiate negotiations with a view inter alia to "adapting the Tripartite Monetary Agreement to new conditions" and to "financing British raw material purchases in case of war," this morning's BERLINER BOERSEN ZEITUNG comments that such suggestions are not at all surprising in the light of the current policy of Great Britain which would like to entice the United States to add new war debts to the old. Great Britain is seen as desiring once again to obtain raw material against credit although it is pointed out that a problem would arise in that at least a formal assurance of payment of former debts would probably have to be arranged before new credit could be granted. The reference to the Tripartite Monetary Agreement is regarded by the BOERSEN ZEITUNG as signifying an intention to prevent the "limited degree of currency stability" provided

rfp -2- #737, August 5, 2 p.m. from Berlin
provided by that agreement from being disturbed by such
debt payments as might be made with a view to obtaining
new credits.

Repeat to Treasury.

KIRK

GW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy,
Berlin
DATED: August 5, 1939, Noon
NO.: 735
(part air)

No. 53 FOR TREASURY FROM HEATH

Reference is made to my No. 723, August 2, 3 p. m.

A member of the Embassy staff was informed yesterday by a German banker whose past information has been reliable that offerings to German banks of "dollar cotton acceptances of the Spanish Government" are being made at a discount of 18% payable after one year. The informant asserted that, as a personal investment, he was purchasing some of these acceptances with some dollar exchange allowed, by the German Government, to be retained by him. He regards it a fair risk, he said, since he believed special efforts to establish the credit of the Spanish Government would be made by Franco for the first year at least. It was also stated by the informant that it was his belief that he would be able to regain his money in reichsmarks through the Spanish-German clearing arrangement even if after a year there was a default as regards foreign currency payments of these acceptances.

RR

KIRK

FL:lar

77
DEPARTMENT OF STATE

DIVISION OF FAR EASTERN AFFAIRS
August 7, 1939

To: Mr. Hanes
From: Mr. Hamilton

Referring to the conference held in Secretary Morgenthau's office on August 1, there are enclosed a copy of a telegram sent by the Chinese Ambassador on July 28 to the Chinese Ministry of Foreign Affairs and a copy of the Ministry of Foreign Affairs' reply of August 7. The Chinese Ambassador, when leaving these copies with me on August 7, said that on August 5 he had sent a second telegram to the Chinese Ministry of Foreign Affairs, informing the Ministry of Foreign Affairs of the conference in Secretary Morgenthau's office on August 1. The Chinese Ambassador said that he expected to receive a reply to his second message within a few days, at which time he would get in touch with me again.

H. W. H.

**TEXT OF A TELEGRAPHIC MESSAGE TO THE MINISTRY OF
FOREIGN AFFAIRS, DATED JULY 28, 1939.**

Also for Minister Yen Fu-ching.

**Secretary Morgenthau yesterday in interview with
K. P. Chen and Dr. Buck expressed special concern over
reported prevalence of malignant malaria on Yunnan side
of Burma route. Secretary went so far as to invite
experts of Health Service to confer today to discuss
how American Government might help combat this disease.
Kindly cable immediately information concerning
disease, what has been done by our health authorities
and what kind of aid American Government can best
render.**

Hu Shih.

July 28, 1939.

TEXT OF A TELEGRAPHIC MESSAGE FROM THE
MINISTRY OF FOREIGN AFFAIRS, DATED CHUNGKING, AUG. 7, 1939.

Referring to your telegram of July 28th, the Chinese Government deeply appreciates Secretary Morgenthau's concern over the malaric problems in Yunnan. Malignant malaria is prevalent in Yunnan, Kwangsi, Kweichow; it is worst in South-western Yunnan traversed by the Yunnan-Burma Highways, the Yunnan-Indochina Railway, and the Yunnan-Burma Railway now under construction. In many districts as Ning-Erh, Sze-Mao and Yun-Hsien, morbidity reaches 85% with high mortality. Extensive and severe incidence greatly hampers Government's program of railway and highways construction, mining and heavy industry development. By combined efforts of Central and Provincial Governments, a five-year Anti-malaria campaign and three-year research program with intensive anti-malaria work in the more heavily infected region have just been started. However available fund and experts are insufficient to meet the needs. Will heartily welcome American Government collaboration with malarialogists, sanitary engineers, quinine and sanitary equipments and materials for sanitary construction.

Above from Wei-Sheng-Hsu (Public Health Administration)
with our endorsement.

Waichiaopu

PARAPHRASE OF TELEGRAM RECEIVED

FROM: The American Embassy,
Rio de Janeiro

DATE: August 7, 1939, 2 p. m.

NO.: 238

The first renewal drafts and instructions to pay ten percent of the face amount of the original credit are being sent today, in accordance with the terms of the arrangements, to the commercial banks participating in the 19,200,000 dollar acceptance credit by the Bank of Brazil.

I have been informed, confidentially, by the Director of Exchange that authorization from April 10 to date has been made by the Bank of Brazil of remittances totalling approximately 3,500,000 dollars for earnings, seventy-five percent of which represents profits, granted by the Embassy's request, of American companies.

CAFFERY

GSB

EA:FL:lar



THE UNDER SECRETARY OF THE TREASURY
WASHINGTON

80

August 3, 1939

Dear Henry:

I am attaching hereto a memorandum which I sent to the President on August 4th, in response to his request for certain information as to the right of the President in case of an emergency to take control of the vessels of any belligerent powers in our ports. I am passing this along to you as a matter of interest.

Hoping you are having a swell time and with best regards, I am

Sincerely,

Johnnie

The Honorable Henry Morgenthau, Jr.,
c/o American Embassy,
London, England.

August 4, 1939

81

MEMORANDUM TO THE PRESIDENT:

Title 50, sec. 191 of the U. S. Code provides in part that, whenever the President by proclamation or executive order declares a National emergency to exist by reason of actual or threatened war, or disturbance or threatened disturbance of the international relations of the United States, the Secretary of the Treasury may take, by and with the consent of the President, full possession and control of any vessel, foreign or domestic, in the territorial waters of the United States to secure the observance of the rights and obligations of the United States.

A proclamation to accomplish this objective has been prepared and is in the Treasury safe.

A draft of telegram to Treasury enforcement agents has been prepared and is in the Treasury safe, directing them to detain, intercept if under way, and turn over to local collectors of customs possession of the vessels of the belligerent powers in territorial waters pending further instructions.

/s/ John W. Hanes

sent by special messenger
8-4-39 - 11:40 A.M.

TREASURY DEPARTMENT

82

INTER OFFICE COMMUNICATION

DATE August 8, 1939

TO Secretary Morgenthau
FROM Under Secretary Hanes

The following news item regarding Lochhead and Cochran appeared on the Dow Jones News Ticker this morning.

"Stabilization Fund Director expected to resign this fall.

Washington. Archie Lochhead, Director of the Treasury's \$2 billion Exchange Stabilization Fund during recent years is expected here to resign from that post some time this fall in order to return to private business. The expectations here are that Mr. Lochhead will be succeeded by H. Merle Cochran, the First Secretary of the U. S. Embassy at Paris. Mr. Cochran has functioned as an economic adviser in his present post and is understood to have been close to the operations of the Stabilization Fund."

Chick Schwarz believes that this information emanated from someone in the State Department, and I feel quite certain that there has been no leak from the Treasury.

We have received several inquiries regarding this report and we have neither confirmed nor denied it. However, we are handling the matter as a strictly personal one between yourself and Lochhead and therefore have no comment to make.

J. W. H.

For Sec'y

August 8, 1939

83

MEMORANDUM FOR THE SECRETARY: ✓

On August 8th I received a memorandum from the President written in his handwriting as follows: "H.M.Jr. - Coll. of Port - Norfolk - Eliot Heath - with - good lawyer - Norfolk - friend of Glass but Walton Moore says very good - will go with us. Seems good - check." Also, a memorandum of transmittal to the Acting Secretary of the Treasury, stating - Will you speak to me about this at your convenience?

The President left last night for Hyde Park. I called General Watson and told him that I was having the check made and would report to the President on his return to Washington August 26th. General Watson said this would be the proper way to handle it. I have written him a memorandum which he will take with him to Hyde Park tomorrow.

See file -
Miss Flannagan - App'ts
for complete story

JWH:ce

C O P Y

August 8, 1939

Dear Henry:

I am attaching hereto a memorandum which I sent to the President on August 4th, in response to his request for certain information as to the right of the President in case of an emergency to take control of the vessels of any belligerent powers in our ports. I am passing this along to you as a matter of interest.

Hoping you are having a swell time and with best regards, I am

Sincerely,

(signed) John W. Hanes

The Honorable Henry Morgenthau, Jr.,
c/o American Embassy,
London, England.

To McHugh to send to Sec'y
8-8-39 - 4:10 P.M.

August 8, 1939

MEMORANDUM TO THE PRESIDENT:

At Cabinet on Friday you asked us to organize a committee from Agriculture, Commerce, and Treasury, with Mr. El Bruce as chairman, to study and report on art educational projects. I find Mr. Bruce is absent from Washington on vacation and will return in about two weeks. Without instructions to the contrary, I will await Mr. Bruce's return before starting this committee at work, because I think he is undoubtedly the best qualified man for this job.

(signed) John W. Hanes

C A B L E

From: Bankers Trust Co. of N.Y.
London Office

Date: August 8, 1939
Tuesday

CONTROL COMPELLED SELL MODERATE AMOUNTS OF DOLLARS AT 468-1/8.
FORWARDS WANTED AS CONTROL NOT OPERATING. SPOT FORWARD FRANCS STEADY.
DE CASTELLANE REPORTS CONTROL CONTINUES RECEIVES FOREIGN EXCHANGE IN
SUBSTANTIAL AMOUNT. TREASURY PURCHASE SATISFACTORY AND BUSINESS CON-
DITIONS IMPROVING. INTERNATIONAL SITUATION CONSIDERED VERY SERIOUS
AS GERMANY WILL SHORTLY HAVE COMPLETED GENERAL MOBILIZATION. FRENCH
PRESS REPORTS EXTENSIVE REQUISITIONS YESTERDAY IN BERLIN OF CARS,
LORRIES AND CHAUFFEURS.

CONFIDENTIAL



DOMINION OF NEW ZEALAND

66

OFFICE OF MINISTER OF FINANCE,
WELLINGTON N.Z.

copy
m

At Washington, D. C.
9th August, 1939.

Secret and Confidential

Mr. John W. Hanes,
Acting Secretary of the Treasury,
Washington, D. C.

Dear Mr. Hanes:

Following the discussions between Mr. Henry Morgenthau, Jr., Secretary of the Treasury, yourself and myself in connection with the trade balances between the United States of America and New Zealand, I am writing to set out the purport of our conversation and the suggestions which I made in connection therewith.

The value of imports from the United States into New Zealand during the ten-year period 1929-1938 in New Zealand currency amounted to £ 55,571,000

The exports from New Zealand to the United States in the same period were valued at 20,692,000

Total in favor of the United States £ 34,979,000

The figures for the last calendar year (1938) were:-

Imports into New Zealand from the United States	£ 6,859,000
Exports from New Zealand to United States	<u>1,405,000</u>
Balance in favor of United States	£ 5,454,000

Some of the principal imports in 1938 into New Zealand from the United States of America were:-

Tractors	£ 599,000
Motor Spirits	528,000
Motor Vehicles and parts	771,000
Leaf Tobacco	320,000
Cinema Films	228,000
Lubricating Oils	212,000

Exports from New Zealand to the United States of America declined from £4,772,000 in 1937 to £1,405,000 in 1939.

- 2 -

The major items showing decline were:-

	1938	1937
Sheep Pelts	£477,217	£1,167,018
Sausage casings	217,662	304,011
Rabbit Skins	203,350	399,925
Wool	168,212	2,281,082

There are many commodities produced in New Zealand in which our trade could be extended to the advantage of both the United States of America and New Zealand. Wool, mutton and lamb, butter and cheese are commodities which New Zealand produces in excellent quality and in large volume, and if facilities were provided to extend the purchase of these goods by the United States of America the present disparity in trade figures could be considerably reduced.

I pointed out during our conversations that the United Kingdom purchases the major proportion of New Zealand's exports; between 1929 and 1938 the proportion ranged from 73% to 88%. For many years the value of imports into New Zealand from the United Kingdom has left a large balance of sterling funds in favor of New Zealand out of which purchases from other countries, particularly the United States of America, have been financed. To a certain extent due to the fall in returns from the sale of wool there has been a decline in the sterling fund reserves from which our imports are financed.

The amount of sterling funds declined to such an extent last year that the New Zealand Government were compelled to take steps to regulate imports and in addition to provide further funds to enable the importation of essential commodities to continue.

During the past month the United Kingdom Government have arranged special facilities to finance the importation of essential commodities of United Kingdom origin and with these arrangements it will be possible to continue the usual trade between the United Kingdom and New Zealand.

The trade between my country and the United States of America has been valuable to both our countries for many years and New Zealand is particularly desirous of maintaining and ultimately

extending the trade, but it will not be possible to do so unless either the purchase of our produce by the United States of America is extended or some procedure is arranged that will enable the balance of our purchases over our sales to be financed.

After pointing out the difficulty of raising foreign loans through the usual private channels in the United States of America I suggested to you that arrangements should be completed whereby the Government of the United States loaned to the Government of New Zealand the sum of \$25,000,000 for a period of either ten or twenty years at a rate of interest not exceeding 4% per annum.

This sum would be used in the ordinary course of trade to finance purchases by New Zealand traders from United States producers. A direct loan of this nature would be the most convenient and advantageous method of assisting the United States exporters who desire to maintain their trade with New Zealand.

If it is not possible in accord with United States statutes or it is not considered desirable to make a direct loan, I suggested that the United States Government should recommend that the facilities of the Export-Import Bank should be used to finance, under agreed conditions, United States exporters against the usual shipping documents and under usual trade terms, subject to a guarantee by the New Zealand Government to reimburse the Export-Import Bank the sums so paid as overseas funds became available.

In any case, the necessity to reconcile imports into New Zealand with the amount available from the sale of our exports will entail some regulation and reduction of imports into New Zealand from all countries; but if the funds are made available in the United States, as suggested, the extent of the reduction will be reduced to a minimum and the normal procedure for the financing of trade could be reintroduced at a reasonably early period.

I have to leave the United States of America by the "Mariposa" from Los Angeles on the 16th instant, and it would facilitate consideration of the future policy in connection with our mutual trade if it were possible for a reply to reach me prior to that date.

May I in conclusion say how much I appreciated the friendliness of my discussions with the Secretary and yourself and express the hope that it will be possible to extend and maintain the happy and friendly nature of our trade relations which have existed for so many years.

Yours sincerely,

W. Nash

W. NASH.

Minister of Finance.

Walter Nash

DEPARTMENT OF STATE
DIVISION OF FAR EASTERN AFFAIRS

83

August 9, 1939.

To: Mr. Hanes
From: Mr. Hamilton

Referring to my memorandum of August 7, there is enclosed herewith a copy of a further telegram under date August 8 received by the Chinese Embassy from the Chinese Ministry of Foreign Affairs in regard to the malaria problem in southwest China.

M.H.

Left with me by Mr. Tsui
of the Chinese Embassy on
August 9. -- HME

TEXT OF A TELEGRAPHIC MESSAGE FROM THE
MINISTRY OF FOREIGN AFFAIRS, DATED CHUNG-
KING, AUGUST 8, 1939.

90

Referring to your telegram of August 5th, the Chinese Government's request for assistance contained in our telegram of August 7th is formal and with the full approval of Dr. H. H. Kung who deeply appreciates American concern over the malaria problem. Preliminary surveys have already been made, but they need to be followed by more thorough survey and research and control. Assistance is urgently desired in carrying out this double program of research and survey and control at the earliest time. When Dr. Balfour visited China's South-west last May, he expressed his personal interest in the malarial work. We will communicate with him at once and work out a plan for presentation to the Rockefeller Foundation for its co-operation.

The Chinese Embassy,

Washington, August 9, 1939.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin, Germany

[Partly by Air]

DATE: August 9, 1939, 8 p.m.

NO.: 757

Reference is made to my telegram No. 724 of August 2, 7 p.m.

Today a member of the Embassy staff was informed by the Chargé d'Affaires of the Soviet Embassy that rapid progress was being made in the German-Russian trade negotiations here. He said that it was quite probable that they would conclude a trade arrangement shortly. The Chargé said that new machinery was needed for a large number of German designed and equipped factories, and the Soviets could get long term credits only from Germany. There were being discussed credits by Germany of five, six and seven years duration, Russian commodities to be used in payment.

The Chargé added that Germany was not insisting that payment be made solely in important commodities such as manganese and petroleum products. The Germans were quite willing to accept almost anything that Russia had to dispose of, including such products as cotton waste. Russia had a surplus of this, which could not be easily sold abroad and which she could not use herself.

It is requested that this telegram be repeated to the Treasury as Heath's No. 54.

EA:LWW

KIRK.

JR

GRAY

Rio de Janeiro

Dated August 10, 1939

Rec'd 2:40 p.m.

Secretary of State,
Washington.

241, August 10, 3 p.m.

My telegram No. 230, July 29, noon.

The Director of Exchange informs me that the German compensation mark is now crossed with the dollar at the rate of 3.53. The spread between the buying and selling rates for compensation marks is fixed at 450 reis.

CAFFERY

DDM:WVC

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE August 10, 1939.TO CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.FROM L. W. Knobe

Mr. Hawker called me at 12:34 today. War fears on the Continent and in the Far East were developing as the recently much talked of August 15 (the day on which German mobilization supposedly reaches its climax) was approaching and the Japanese situation was steadily growing worse. As a result of all this, the demand for spot and forward (for end August and for three months delivery) dollars today, both from the Far East and from the Continent, had been heavy and the British fund had sold about \$30,000,000 in support of sterling. In other words today had been a real bad day; the first one, as a matter of fact, in many weeks. Talk in the street and in the press about a possible further devaluation of sterling in the next three months was increasing and Morgenthau's visit to Europe was causing further rumors. Up to today they had been doing a good deal of business in the forward market but, not wishing to encourage speculation by offering the market a chance to operate for forward delivery, they had withdrawn today with the result that three months dollars were now quoted at a discount of 2 3/8 points, equivalent to about 3% per annum. All one could say as to the future of sterling was that it really should be weak in view of all these fears and talk of war the world over and of the strain on Britain's finances which the rearmament program was bound to cause. One must expect to see sterling under attack so long as this war fear and tension in Europe continues. The French franc was firm and return of capital to France continued. Belgium was likewise experiencing a reflux of

FEDERAL RESERVE BANK
OF NEW YORK

93

OFFICE CORRESPONDENCE

DATE August 10, 1938.

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

FROM L. W. Knoke

BANK OF ENGLAND.

2

money, partly due to repatriation, partly, however, also to substantial sales by Belgium of steel to England. At one time these sales had represented about 80% of Belgian production but British orders had recently been considerably reduced and the demand for belgas might, therefore, ease up some hereafter. The Dutch guilder was steady as a result of the formation of de Geer's cabinet, which, however, was not expected to last very long. Demand in the London market for gold coin was increasing and sovereigns and eagles were particularly wanted at prices which represented a premium of nearly 1%.

I referred to the arrangements recently made by Glynn Mills and Samuel Montagu for the earmarking of gold in Uruguay and Argentina respectively and asked Hawker, if possible, to let me have copies of the certificates issued in London in connection with such earmarks abroad.

LWK:KW

August 10, 1939

Mrs. E. S. Friedman

Mr. Dietrich

Confirmation of telephone conversation.

Will you please send the following cable to Lt. McKay.

"Newspaper item states Secretary ill. President
anxious about his condition. Please cable rush.

Hans"

FD:KMO

Therese, D. H. K.

Phoned to Mrs. Friedman - Aug. 10/39 - 11:25 a.m.

Copy

32w

Y156BU 52 GOVT

CHICAGO ILLS AUGUST 11 39 1251p

1939 AUG 11 PM 3 22

HON EDWARD FOLEY JR

GENERAL COUNSEL TREASURY WASHN D C

RE M L ANNENBERG PLEASE BE ADVISED THAT THE GRAND JURY
RETURNED AN INDICTMENT AT NOON TODAY AGAINST THIS
INDIVIDUAL, CHARGING EVASION OF TAXES FOR YEARS 1932
TO 1936 INCLUSIVE, AND THAT WALTER H. ANNENBERG, ARNOLD
W KRUSE AND JOSEPH E HAFNER WERE ALSO JOINED AS AIDERS
AND ABETTORS. KINDEST PERSONAL REGARDS.

WILLIAM CAMPBELL

310 P

Memorandum of call of Secretary Morgenthau on Mr. Vilhelm Buhl, Danish Minister of Finance, 11 a.m., August 11, 1939 (accompanied by Mr. Perkins, Chargé d'Affaires a.i.).

With regard to general conditions in Denmark, Mr. Buhl said that there had been a very satisfactory harvest and that export prices were well maintained, especially for bacon. Prices for butter were not so good. As it is the Danish practice to feed milk to hogs, there is a close relation between the prices of butter and bacon. Mr. Morgenthau said that this was unlike the situation in the United States, where a close relation exists between the prices of corn and hogs. He also mentioned that there was a large production of pork in the United States and that the price might conceivably drop to five cents per lb.

Mr. Buhl continued that the Danish unemployment conditions are not critical at present, inasmuch as the total number of unemployed is now only about 50,000 as compared with 100,000 during the early part of the year.

The Minister then said that the paramount question of interest at the moment is that of peace or war and referred to the large accumulations of gold and silver in the United States.

Secretary Morgenthau said that it was true that we had enormous amounts of gold and silver in the United States but that

that this was better than having quantities of worthless paper: in the last few years the countries which had possessed gold reserves had not done so badly in an economic way. He added that large amounts of gold in the United States were earmarked as belonging to foreign governments and that, if there was an assurance of peace, a billion or two of gold would leave the United States within a month. Several foreign governments had been sending gold to the United States for some time - the Swiss Government, for example, which had been doing so for the last two years. Reference was also made to the improved financial position of France and to the competency of M. Reynaud in effecting this very remarkable recovery.

Mr. Morgenthau remarked that, in distinction from the policy followed in the Hoover Administration, the United States had been building up its fleet and that this was not for aggressive purposes or with a view to a conflict with any particular country. It was simply for general defensive purposes. The Secretary added that Japan was becoming weaker constantly, for the Japanese were under the expense of maintaining in the field an army of one million and a half men, and that their credits in foreign exchange now amounted to only some \$150,000,000. It was due to this shortage of gold that the Japanese were so desirous to take over foreign

concessions

concessions in Tientsin where there are stored very large amounts of silver and jewels. In reply to Mr. Buhl's inquiry, the Secretary said that it was of course impossible to comment as to the likelihood of the United States becoming involved in a European war. He could say, however, as a plain matter of fact, that England and France were today more popular in the United States than at any time in the past twenty years, and that Germany was correspondingly less popular.

Mr. Buhl remarked that it was not feasible at the present time for the Danish Government to refund any of its outstanding indebtedness in the United States on account of the fear of war and a possible aggression of Germany against Denmark. This apprehension in the United States rendered it quite impracticable to undertake any refunding operations at the present time.

M.F.P.

ask Mr. Head

54

Memorandum of call of Secretary Morgenthau on Mr. C. V. Bramsnaes, Governor of the National Bank of Denmark, 11:30 a.m., August 11, 1939 (accompanied by Mr. Perkins, Chargé d'Affaires a.i.)

Mr. Bramsnaes said that the foreign exchanges had lately been very quiet. In 1931, following the depreciation of the British pound, the Danish crown had been devalued to about 51% of its former value. Just lately the American dollar had appreciated somewhat but, even if the dollar should appreciate more, this would not have a very important effect on Danish finance inasmuch as the majority of Danish trade is with England, and the crown would simply follow the pound pari passu.

Mr. Morgenthau asked whether it might not be necessary for England to purchase supplies abroad in increasing quantities on account of their armament program, and whether this might not cause the pound to depreciate. Mr. Bramsnaes said that this was quite likely but that, for the reasons stated, he did not consider that this would be an important matter for Denmark. He believed that the British would try to supply their wants from the home market to the greatest extent possible. Most of the northern countries were in the same position as Denmark with regard to following the British pound, and he believed that they were generally content with

this

this situation with the possible exception of Sweden, which had a crown of somewhat higher value.

With regard to Danish agricultural loans, Mr. Bramsnaes said that these were not made in the form of credit grants to farmers but in the shape of bonds which the farmers sold on the exchange for cash. Thus the National Bank of Denmark was not concerned with this procedure, although they were accustomed to buy these bonds on the exchange as suited their purposes from time to time. Mr. Bramsnaes said that there existed a double national budget in Denmark; one for operating expenses and another for capital account. This was done not only under the present Socialist Government but also under a preceding Conservative Government. Mr. Morgenthau remarked that the United States Government was accused of being a Socialistic Government for even suggesting the use of this form of a double budget. If the United States had a separate capital outlay budget, it would, of course, make our books look better. However, even then, the annual operating expenses would cause somewhat of a deficit.

M.F.P.

For Secy

COPY

101

MEMORANDUM TO GENERAL WATSON

§ SECRETARY TO THE PRESIDENT:

I refer further to your memorandum of August 7, 1939, to the Secretary, inclosing a letter of August 5, 1939, from Congressman Charles Kramer with regard to the recent Department ruling requiring persons in this country to remain in Mexico for 24 hours before being entitled to the \$100 traveller's exemption when returning through ports in the San Diego customs collection district.

Attached is a draft of a reply which I believe would be appropriate.

101 Stephen B. Liffers

WRJ/mgp 8-11-39

(COPY)

My dear Mr. Kramer:

I refer to your letter of August 5, 1939, requesting revocation of the Treasury regulation recently issued to limit the allowance of the \$100 traveller's exemption with respect to articles acquired in Mexico by a traveller who returns to the United States through a port in the San Diego customs collection district to cases in which the traveller has remained abroad at least 24 hours.

I am advised that the factors stated in your letter were carefully considered by the Treasury Department before the regulation in question was issued and that the Treasury reached the conclusion that the regulation, as issued, was necessary to enforce at the ports where it is to be effective the requirement of law that the exemption be applied only to articles acquired as an incident of a foreign journey. I am further advised that under section 321 of the Tariff Act of 1930, as amended, tourists bringing articles, of an aggregate value not exceeding \$5, from Mexico for their personal use into ports in the San Diego district can receive free entry. It appears that this should cover in large measure the incidental purchases of bona fide tourists spending but a short time in Mexico.

In the circumstances, the Treasury regulation appears to be consistent with law and not a matter in which any intervention on my part would be appropriate.

Very sincerely yours,

Hon. Charles Kramer,
House of Representatives.

WBJ/mgp 8-11-39

TREASURY DEPARTMENT

103

INTER OFFICE COMMUNICATION

DATE AUG 11 1939

TO Secretary Morgenthau

FROM Mr. Foley

Re: Final report on status of Treasury Department's legislative program at the end of first session of 76th Congress.

I attach herewith in tabular form a final report on the status of Treasury-sponsored legislation at the end of the first session of the 76th Congress. This report is as of the date of adjournment on August 5, 1939. I am glad to be able to report that the past session has been the most successful one we have had since the establishment of the Legislative Section in the summer of 1934 and the centralization in it (with some exceptions) of Treasury legislative activities. The following tabulation succinctly tells the story:

<u>Session year</u>	<u>Number of bills handled</u>	<u>Number of bills enacted</u>	<u>Percentage of bills handled which were enacted</u>
1939	31	27	87%
1938	24	13	54%
1937	32	22	69%
1936	29	21	72%
1935	31	19	61%

Some extremely important Treasury legislation was enacted during the last session. The Stabilization Bill was of course, as you aptly put it, our "Harvard game" and no one knows better than yourself of the stormy passage which that bill had through Congress.

While the session would not have been a success without the enactment of that bill, it is gratifying to be able to report that we were able also to secure the enactment of some other very constructive Treasury legislation. I think it worth picking out from the attached tabulation a few of the more important of these bills, and briefly describing them to you.

Notable among these was the Second Liberty Bond Act amendment removing the \$30,000,000,000 bond limitation partition from the Public Debt. This bill, of course, served as a sounding board for a good deal of Public Debt oratory of the obvious sort. However, the bill's chief troubles came from the fact that it got mixed up with the highly controversial T.V.A. legislation authorizing the issuance of T.V.A. bonds for the purchase of certain private utility properties. Senator Norris added the T.V.A. bond amendment to our bill in the Senate but this was eventually dropped after an agreement was reached on the separate legislation on this subject.

An important, but little publicized, Treasury bill enacted into law was the one extending and streamlining the Government Losses in Shipment Act which the Department got through Congress in 1937. This session's bill was hailed with general enthusiasm by members and committees of Congress when we told them that losses payable out of the revolving fund set up by the 1937 Act have been less than \$500 all told, whereas prior to 1937 we were paying insurance premiums to private interests of over \$200,000 a year to insure against losses on Government shipments of valuables, a net savings to the Government of almost half a million dollars in two years.

- 3 -

Another major bill enacted was our big relief bill to cover disallowances and adjustments in the accounts of present and former Treasurers, disbursing officers, and others. This bill, one of the longest of its kind on record, covered over \$1,100,000 in disallowances and adjustments, and dealt with matters which have been hanging fire for many years, some of them dating back to war-time days. Almost half of this amount resulted from losses of receipts from sale of securities by the postal service. The bulk of the remainder covered unavailable items in the accounts of present and former Treasurers resulting from what are known as "check reclamation" cases. These are usually checks bearing forged endorsements for which the Treasurer, without having any means to detect such forgeries, is held responsible. This relief bill also contains an item validating salary payments made to the late Captain Sayles in his capacity as Assistant Deputy Commissioner of the Alcohol Tax Unit. This, you will remember, was a somewhat controversial matter and efforts to obtain legislation on the subject several years ago failed due to congressional opposition.

A number of important Coast Guard bills were enacted. These included the so-called Coast Guard National Defense Bill, which authorizes the Secretary of the Treasury to construct three large Coast Guard cutters, establish an Alaska base and air station, and purchase fifteen seaplanes. Over \$14,000,000 is involved. Another Coast Guard bill increased the line officers of the Coast Guard by 154 and established the rank of rear admiral for the offices of Assistant Commandant and Chief Engineer of the

Coast Guard. A bill was also enacted establishing a voluntary and involuntary retirement system for Coast Guard enlisted men of twenty years or more of service, as well as another bill establishing the Coast Guard Reserve to be made up of private yachtsmen and motorboat owners who will voluntarily assist the Coast Guard and encourage law observance. Several bills were also enacted designed to perfect the consolidation of the Lighthouse Service with the Coast Guard provided by Reorganization Plan No. II, particularly with respect to the integration of the personnel of the two services.

Finally, several important Treasury-sponsored law enforcement measures were enacted into law, notably the so-called forfeiture bill to subject to forfeiture vessels, vehicles and aircraft used to facilitate violations of the narcotic laws, the counterfeiting laws, and the National Firearms Act. A Treasury bill on this subject was pending during the entire life of the last Congress, the 75th, but our repeated efforts to secure its enactment during that Congress were unavailing.

Of the four Treasury bills still pending in Congress, two have passed one House. Since the recent adjournment marked the end of a session and not the end of a Congress, these will retain the same status in the next session which they have achieved in this.

We also, of course, did a great deal of work on other legislation, notably the Social Security Act amendments, the Revenue Act of 1939, and the big Lending Bill, the first two of which were passed by Congress. None of these bills, however, was, strictly speaking, a Treasury bill.

- 5 -

Aside from the foregoing, the Legislative Section of this office handled a total of 691 Treasury reports on legislation during the past session. This compares with a total of 402 during the 2nd and 3rd sessions of the 75th Congress (which you will remember were virtually consecutive). Of the 691 reports handled during the session just ended, 440 were reports to committees of Congress, 135 were reports to Budget on pending or proposed legislation, and 116 were reports to Budget on enrolled bills to assist the President in determining whether or not to approve these bills.

The Legislative Section transacted legislative business with legislative counsel and worked with and appeared before virtually all the major and many minor committees of both houses of Congress during the session. In addition, it drafted or assisted in drafting much legislation not covered by this report, such as bills which are still in process, bills which were completed but which for one reason or another you or Mr. McReynolds decided not to submit at this time, bills prepared as a courtesy accommodation to members of Congress, etc. The Legislative Section also opposed legislation objectionable to the Treasury Department and drafted or participated in drafting a considerable number of executive orders, proclamations, and proposed reorganization plans. In addition, this section did a large amount of miscellaneous research work on legislative and other problems of interest to the Department and generally strove to keep the various bureaus and branches of the Department advised about all phases of legislative matters in which they were interested.

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The foregoing summarizes the legislative activity of this office during the past session. To get a complete picture of all Treasury legislative activity during the session, it will be necessary for you to consolidate this report with the corresponding report of Mr. Tarlean's office.

E. W. H.

100

FINAL PROGRESS REPORT ON TREASURY LEGISLATION DURING THE
FIRST SESSION OF THE 76TH CONGRESS

- A. Treasury-sponsored legislation enacted during the session. The bill first mentioned in each case is the bill which was enacted. If there was a companion bill in the other House it is cited in parentheses.

<u>BILLS</u>	<u>BRIEF EXPLANATION</u>	<u>APPROVED</u>	<u>PUBLIC OR PRIVATE NUMBER</u>
1. H. J. Res. 110 (S. J. Res. 75) Coyle, Commander Henry - for- eign decoration	Permits acceptance of medal from Greece.	Mar. 28, 1939	Private Res.No. 1
2. S. 529 Relief of Margaret Rose Uncapher	Authorizes payment of balance due as compensa- tion for post office site.	Apr. 15, 1939	Private No. 26
3. H. R. 3231 Coast Guard Mailing of firearms	Extends to Coast Guard officers privileges en- joyed by officers of other military services of sending firearms through mails.	May 15, 1939	Public No. 77
4. S. 2244 (H.R.5836) Lizzie Beck bequest	Authorizes the U. S. to accept certain real estate devised to it by Lizzie Beck, Mena, Ark.	May 22, 1939	Public No. 84
5. S. 1876 (H.R.4982) Coast Guard readjust commissioned personnel	Increases line officers of Coast Guard by 154, and establishes rank of rear admiral for officers of Assistant Commandant and Chief Engineer.	May 24, 1939	Public No. 89
6. S. 595 Coast Guard 20 year retirement	Establishes voluntary and involuntary retirement system for enlisted men with 20 years or more service.	May 24, 1939	Public No. 87
7. H. R. 4131 Relief of Melvin Gerard Alvey	Compensates enlisted man for personal property lost in fire at Nome, Alaska.	May 31, 1939	Private No. 46
8. S. 1369	Authorizes Secretary of the Treasury to con-	June 2, 1939	Public No. 104

A. Treasury-sponsored legislation enacted during the session (Continued).

<u>BILLS</u>	<u>BRIEF EXPLANATION</u>	<u>APPROVED</u>	<u>PUBLIC OR PRIVATE NUMBER</u>
9. S. 2404 (H.R.6017) Portland, Oregon, Courthouse	Authorizes demolition of old post office building.	June 13, 1939	Public No. 128
10. H. R. 5966 Coast Guard Reserve	Establishes voluntary reserve of private yachtsmen and motorboat owners to assist Coast Guard and encourage law observance.	June 23, 1939	Public No. 152
11. H. R. 3325 Stabilization Fund	Continues powers relating to stabilization fund, devaluation of the dollar, and purchase of silver.	July 6, 1939	Public No. 165
12. S. 2167 (H.R. 5349) Coast Guard Hurricane Relief	Authorizes reimbursement of Coast Guard personnel for losses of personal property in 1938 hurricanes.	July 15, 1939	Private No. 93
13. H. R. 5346 (S.1953) Relief of Mrs. A.R. Bernard and others (Stephens, Prairie, and Mrs. Needles)	Provides compensation for loss of life and motorboat in attempt to help Coast Guard boat.	July 15, 1939	Private No. 95
14. H. R. 5748 Second Liberty Bond Act amendment	Removes \$30,000,000,000 bond limitation partition in the Public Debt authorization.	July 20, 1939	Public No. 201
15. H. R. 5611 Coast Guard District Commanders and constructors	Places District Commanders and constructors in the line of the Coast Guard and abolishes the district commander and constructor corps, thus doing away with the last of the special service corps of the Coast Guard.	August 5, 1939	Public No. 292

A. Treasury-sponsored legislation enacted during the session (Continued).

<u>BILLS</u>	<u>BRIEF EXPLANATION</u>	<u>APPROVED</u>	<u>PUBLIC OR PRIVATE NUMBER</u>
16. H. R. 7288 (S.2859) Lighthouse Service personnel	Provides for the induction into the Coast Guard military establishment in ranks, grades, or ratings appropriate to their qualifications, experience and lengths of service as determined by the Secretary of certain professional, scientific, and other personnel of the Lighthouse Service which was transferred to the Coast Guard by Reorganization Plan No. II.	August 5, 1939	Public No. 291
17. S. 1540 National Advisory Health Council pay	Permits Secretary of the Treasury to compensate nongovernmental members of the National Advisory Health Council at rate of not to exceed \$25 per diem instead of \$10.	August __, 1939	Public No. __
18. S. 1156 (H.R.2742) Morehead City Target Range	Transfers target range at Morehead City, North Carolina, from War Department to Treasury. (Coast Guard).	August __, 1939	Public No. __
19. H. R. 5375 (S.2166) Coast Guard Nautical Education	Authorizes Commandant of Coast Guard to detail officers to state and territorial nautical schools to give nautical instruction.	August __, 1939	Public No. __
20. H. R. 6556 Seizure and forfeiture of vessels, vehicles and aircraft	Provides for seizure and forfeiture of vessels, vehicles and aircraft used in violating narcotic, and counterfeiting laws and National Firearms Act.	August __, 1939	Public No. __
21. S. 1899 Surgeon General - Assistant to	Creates office of Assistant to Surgeon General with rank of brigadier general and authorizes detail of Public Health Service officers to serve in such office.	August __, 1939	Public No. __

Where the approval date and public or private number of a bill are left blank it indicates that congressional action was completed on that bill prior to the adjournment of the session and the bill needs only the President's signature to become law.

A. Treasury-sponsored legislation enacted during the session (Continued).

<u>BILLS</u>	<u>BRIEF EXPLANATION</u>	<u>APPROVED</u>	<u>PUBLIC OR PRIVATE NUMBER</u>
22. H. R. 6555 Evidence - purchase of	Permits advance of funds elsewhere appropriated by Congress to narcotic and customs officers to purchase evidence and information of violations of narcotic and customs laws.	August __, 1939	Public No. __
23. S. 1882 (H.R.5896) Relief of Thomas A. Ross	Compensates Coast Guard enlisted man for loss of personal property in a fire in Nome, Alaska.	August __, 1939	Private No. __
24. H. R. 6614 Government Losses in Shipment insurance bill	Extends scope of Government Losses in Shipment Act of 1937, which was sponsored by the Treasury, and generally streamlines that Act and remedies difficulties which administration of that Act has disclosed.	August __, 1939	Public No. __
25. H. R. 6021 (S.2473) Akron, Ohio, post office	Repeals law fixing minimum price of \$100,000 for sale by Government of old post office building and site at Akron, Ohio.	August __, 1939	Public No. __
26. H. R. 7049 (S.2706) Relief of Summers, Allen, and Sayles, etc.	Adjusts accounts of present and former disbursing officers and treasurers of the United States and covers disallowed salary payments to the late Captain William R. Sayles in his capacity as Assistant Deputy Commissioner of Alcohol Tax Unit.	August __, 1939	Private No. __
27. S. 2170 (H.R.6747) Lighthouse Service retirements	Permits retirement at age of 64 instead of 65 of certain Lighthouse Service personnel who have 30 or more years of service and whose positions may be abolished as a result of the consolidation of the Lighthouse Service with Coast Guard effected by Reorganization Plan No. II.	July 27, 1939	Public No. 239

Where the approval date and public or private number of a bill are left blank it indicates that congressional action was completed on that bill prior to the adjournment of the session and the bill needs only the President's signature to become law.

B. Treasury-sponsored legislation pending in Congress at the end of session.

<u>BILLS</u>	<u>BRIEF EXPLANATION</u>	<u>STATUS</u>	<u>REMARKS</u>
1. H. R. 2539 D. C. Credit Unions	Transfers jurisdiction over District of Columbia Credit Unions to Farm Credit Administration.	Jan.13, 1939 - Introduced and referred to House District of Columbia Committee. Jan.25, 1939 - Referred to Judiciary Subcommittee of that Committee.	This bill has been stalled by opposition of D. C. Credit Unions.
2. S. 844 (H.R.2541) To simplify the accounts of the Treasury (5% bill)	Covers into Treasury balance of funds deposited for redemption of national bank notes (5% fund).	Jan.13, 1939 - Introduced in House and referred to House Banking and Currency Committee. Jan.19, 1939 - Introduced in Senate and referred to Senate Banking and Currency Committee. July 25, 1939 - Favorably reported by Senate Committee (Senate Report No. 928). August 1, 1939 - Passed Senate.	We expect to get enactment of this bill at the next session. The busy calendars of the House and Senate Banking and Currency Committees crowded it out this session. However, in securing Senate passage of the bill more progress was made than during the 75th Congress when the bill was submitted to Congress but did not pass either House.
3. H. R. 6767 Enforcement officers - death and disability benefits for	Increases death and disability benefits of law enforcement officers throughout the Government.	June 9, 1939 - Introduced in House and referred to House Judiciary Committee. June 10, 1939 - Referred to Subcommittee No. III of the House Judiciary Committee.	This rather controversial bill was submitted to Congress too late to have a chance of enactment during the past session.

B. Treasury-sponsored legislation pending in Congress at the end of session (Continued).

<u>BILLS</u>	<u>BRIEF EXPLANATION</u>	<u>STATUS</u>	<u>REMARKS</u>
4. S. 2689 Copyright Act amendments	Authorizes joint regulations by Secretary and Postmaster General to prevent importation of piratical copies of works copyrighted in U.S. irrespective of manner of importation. Present law limited to <u>mail</u> importations. Also irons out administrative difficulties involved in enforcing this law, particularly those raised by recent Supreme Court decision (<u>Washingtonian Publishing Co. case</u>).	June 23, 1939 - Introduced in Senate and referred to Senate Committee on Patents. July 11, 1939 - Favorably reported by Senate Committee (Senate Report No. 760). August 1, 1939 - Passed Senate.	This bill likewise was submitted too late to be enacted during the past session. Senate passage, however, was secured and we discussed the bill with Dr. Sirovich, Chairman of the House Committee on Patents, and he stated that he would push it through for us at the next session.

APPENDIX TO FINAL PROGRESS REPORT TO TREASURY LEGISLATION DURING THE FIRST SESSION, 76th CONGRESS.

The following bills, for various reasons indicated below, have not been included in the general progress report on Treasury legislation during the first session of the 76th Congress:

<u>BILLS</u>	<u>BRIEF EXPLANATION</u>	<u>STATUS</u>	<u>REMARKS</u>
1. H. J. Res. 308 Toothbrush Bill - Customs marking provisions	Interprets "ultimate purchaser" as used in customs marking law (section 304 of Tariff Act). Two recent Customs Court decisions appear to have defeated the congressional intent in this respect.	May 29, 1939 - Introduced in House and referred to House Ways and Means Committee. July 7, 1939 - Favorably reported to full committee by Ways and Means Subcommittee.	The Treasury is not pressing this bill. We submitted it without recommendation and have discharged our obligations in calling the matter to congressional attention. The full Ways and Means Committee considered the bill at an executive session meeting on July 7, and was unanimously in favor of the bill but, before proceeding further, decided to contact the Senate Finance Committee to see whether it could be used as a vehicle for extensive tariff amendment in the Senate.
2. H. R. 6830 Navy Department - New buildings for	Secretary of the Treasury authorized to acquire land and to construct new Navy buildings in District of Columbia.	June 14, 1939 - Introduced in House and referred to House Public Buildings and Grounds Committee. July 1, 1939 - Reported favorably by House Committee. (House Report No.	This bill was submitted to Congress too late to secure passage during the past session. Reorganization Plan No. 1 transferring the Public Buildings Branch of the

APPENDIX (Continued).

<u>BILLS</u>	<u>BRIEF EXPLANATION</u>	<u>STATUS</u>	<u>REMARKS</u>
H. R. 6830 (continued).			Procurement Division to the new Federal Works Agency makes this proposed legislation now of concern to the Federal Works Agency rather than the Treasury.
3. H. R. 6639 Auto Mileage Bill -	Permits the use of privately-owned vehicles for official travel when duly authorized without regard to present requirement that vehicles, in order to be used, must be registered in the name of the traveler.	June 6, 1939 - Introduced in House and referred to House Committee on Expenditures in Executive Departments. July 18, 1939 - Reported favorably by House Committee (House Report No. 1213). July 31, 1939 - Passed House.	Enactment of this bill could have been secured during the past session. However, at the time the bill passed the House Representative Taber, a Republican, tacked on an amendment reducing the allowance to Government travelers for use of their own cars from 5 cents a mile to 4 cents a mile. Rep. Cochran, House sponsor of the bill and Chairman of the Committee that reported it, advised us that while we were free to attempt to have this amendment deleted in the Senate, in view of the economy temper of the House he could not vouch for his ability to secure House concurrence in a Senate amendment striking out the Taber amend-

APPENDIX (Continued).

<u>BILLS</u>	<u>BRIEF EXPLANATION</u>	<u>STATUS</u>	<u>REMARKS</u>
H. R. 6639 (continued).			therefore, instructed us to kill the bill for the session, although we could have easily secured Senate passage of it as passed by the House. We will revamp the bill for introduction next session in a form in which it will not readily be amenable to amendments reducing the mileage allowance.
4. H. R. 7492 For the relief of J. Frank Kumer	Validates salary payments made to Mr. Kumer, a Private in the Uniformed Force of the Secret Service, during the period from July 1, 1938 to November 25, 1938, notwithstanding the fact that he was not a citizen of the United States and existing law accordingly prohibited any salary payments to him. Mr. Kumer believed that he was born in Ohio and as a consequence was a citizen of the United States. He subsequently learned of his error from the census records.	August 3, 1939 - Introduced in the House and referred to the Committee on Claims.	This bill cannot properly be tabulated among bills during the last session since it was not introduced until Aug. 3, 1939, two days before the end of the session.

APPENDIX (Continued).

<u>BILLS</u>	<u>BRIEF EXPLANATION</u>	<u>STATUS</u>	<u>REMARKS</u>
5. International Toll Bridge Bill (No number, bill not yet introduced)	Requires owners and operators of international toll bridges and tunnels to furnish adequate rent-free quarters to Government agencies, such as customs, necessarily stationed at bridge or tunnelheads for inspectional purposes.	July 11, 1939 - Proposed legislation on this subject sent to Hill. No bill introduced prior to adjournment.	Because of its impact on private interests, this bill will probably require public hearings. Under these circumstances it was submitted to Congress too late to secure any consideration during the past session.

100-1-1049

MEMORANDUM TO THE PRESIDENT ✓

This is in response to your memorandum of August 5, requesting an evaluation of a proposal to cease purchases of gold from Japan.

1. The Japanese industrial organization and military establishment can be maintained only with the continued importation of necessary raw materials. Japan imports the bulk of its petroleum, metals, machine tools, lumber, cotton, fertilizers and a large number of vehicles and airplanes.

To purchase these commodities in foreign countries, a continuous flow of foreign exchange is needed.

2. Sales of gold to the United States are a current source of foreign exchange to Japan. However, Japan acquires a larger amount of foreign exchange from other sources, particularly from her commodity exports.

In 1938 Japan sold abroad \$430 million of commodities, of which \$120 million was sold in the United States. She acquired \$185 million from the proceeds of the sale of gold, all of which was sold to the United States; \$40 million from the liquidation of dollar deposits in the United States; and \$46 million from credit extended to the Yokohama Specie Bank by New York banks on an overdraft. (It was reported that this overdraft had full collateral in United States Government bonds.) In addition the Japanese may have been liquidating foreign securities which were owned by the Japanese Government or by Japanese individuals and institutions.

Japan has already sold two-thirds of the gold stock which she had accumulated prior to the outbreak of hostilities in China. From March 1937 through July 1939, Japan sold \$513 million of gold to the United States and \$4 million to England. It has been estimated that Japan has about \$150 million in gold stocks left. She produces about \$60 million per year.

3. The refusal by the United States to buy Japanese gold could not prevent Japan from selling her gold in other markets. (Our refusal to purchase gold from Russia during the period 1920 to 1934 did not prevent Russia from obtaining the world price for its gold.)

Sent to WDC: Memo 7-11-45
10:02 AM

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The proposal that the United States make effective its refusal to buy Japanese gold by refusing to purchase gold from any country which does buy Japanese gold is not administratively feasible for the following reasons: (a) It is difficult to trace gold, the identity of which can readily be changed; (b) gold is purchased and sold throughout the world by individuals as well as by governments; (c) foreign governments, particularly England, would probably not cooperate in a program involving the sterilization of Japanese gold because it would upset their traditional free gold market. When England imposed sanctions and clearing arrangements against Italy in the Ethiopian crisis the London gold market remained free for the sale of Italian gold. The expenses of shipping would be greater to Japan but the additional expenses involved would be relatively trivial.

4. Unless this country were prepared to reduce the price of gold in terms of the dollar, this country, acting alone, could not appreciably reduce the amount of dollar exchange Japan would receive for its gold. It is assumed that we would not take any action at this time that would appreciate the value of the dollar in terms of the world's currencies.

5. The value of gold as a medium for the settlement of international balances would be affected adversely. Since the United States now holds almost 60 percent of the world's gold this matter is of great importance to us.

6. The amounts of gold sold by Germany and Italy are not substantial in comparison with the amount of foreign exchange these countries acquire through exports and the liquidation of foreign assets. Germany reported sales of \$35 million in gold in 1938, in comparison with sales of commodities of more than \$2 billion. Italy reports to have sold less than \$1 million in gold in 1938.

Russia sold \$114 million of gold in 1938 but all of this gold was sold on the London market and if it came to the United States, came indirectly as British gold.

7. I cannot foresee any direct effect this proposal might have upon German-Russian economic relations.

8. The objective sought in the proposal, i.e., that of weakening Japan, can be achieved more effectively and with fewer disadvantages to the United States by imposing restrictions on the commodity trade

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of Japan, either by the United States acting alone or acting in cooperation with other major countries. Some suggested proposals of this nature are as follows:

Remove Japan from the list of countries obtaining the benefit of the Trade Agreement tariff concessions as provided in Section 350 of the Tariff Act.

Imposition of new and additional duties on Japanese imports to the United States under Section 338 of the Tariff Act of 1930.

Administrative embargo on the export of arms and ammunition to Japan.

Administrative embargo on the export to Japan of materials used in the conduct of war.

Congressional action to embargo the shipment of war materials and supplies to Japan.

(Signed) John W. Hanes

Acting Secretary

BB:HG:lrs
8/8/39

C O P Y

August 11, 1939

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MEMORANDUM TO THE FILES

In response to a telephone request from Mr. Jesse Jones, who is now on the Pacific Coast, asking whether or not we should consider at this time application for a new capital by the Bank of America, Mr. Hanes called a meeting on August 10th, which was attended by the following: Messrs. Uphan, Mulroney, Foley, and Gaston. It was the unanimous opinion of that group that the Secretary should not consider making a request upon the Reconstruction Finance Corporation to furnish new capital to the Bank of America until satisfactory answer had been made to the Comptroller's letter of criticism dated July 31, 1939. Accordingly, Mr. Hanes had the following telephone conversation with Mr. Jones in Los Angeles on August 11th:

"Secretary will not request Reconstruction Finance Corporation to make loan or subscribe to stock of Bank of America until Bank of America has made satisfactory reply to Comptroller's letter of criticism of July 31, 1939."

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate General,
Amsterdam, The Netherlands

DATE: August 11, 1939, 3 p.m.

The death in Paris on August 9 of the managing director and guiding figure of the private Mendelssohn bank in Amsterdam, F. Mannheimer, was sudden but not unexpected. This morning the bank applied for permission to declare a moratorium on all debts owed by the bank. At the present moment this is the only known fact, but it is said that the amounts involved - particularly large commitments made under the personal direction of Mannheimer - are enormous although France, Switzerland and Belgium are the principal countries interested.

The result of this action may be liquidation, but it is believed that would be of relatively little direct importance to the Netherlands and the United States, although secured loans have been made by some banks in each country.

Apparently the first reactions to the unexpected announcement by the bank involve no serious concern for the general situation in banking circles in Amsterdam, nor is it thought that there will be any important effect on national confidence.

[Telegram received without signature.]

CJ

GRAY

PARIS

Dated August 11, 1939

Rec'd 3:55 p.m.

Secretary of State,
Washington.

1488, August 11, 6 p.m. (SECTION FOUR).

The markets here were nervous today on the suspension of Mendelsohn and Company in Amsterdam apparently hastened by the death of Mannheimer. (Although he has long been suffering from a very bad heart rumors of suicide are not unnaturally circulating). A communique issued by the Ministry of Finance recognizes the importance attributed to the suspension in financial circles and indicates that the French Government is in no way affected. The Banque de Paris et des Pays Bas has been appointed the French Government's fiscal agents in Amsterdam in place of Mendelsohn. While little is yet known here of the reasons behind Mendelsohn's suspension it is felt that that concern may have been biting off more than it could chew recently on the French and other loans. There is also a feeling that Mendelsohn's was pretty much a one man show - Mannheimer - and with his death

-2- #1488, August 11, 6 p.m. (SECTION FOUR) from Paris
death the other partners may wish a moratorium to see
just where they stand and what his personal commitments
may amount to. The Amsterdam markets seemed to have
taken the suspension calmly.

BULLITT

CSB

CJ

GRAY

PARIS

Dated August 11, 1939

Rec'd 4:05 p.m.

Secretary of State,
Washington.

1488, August 11, 6 p.m. (SECTION FIVE).

The fund again gained considerable sterling today with the pound under pressure held at 176.71 (yesterday's drop from 176.72 was due to the difference in value date). The forward dollar was strongly bid and the forward franc increased its premium to 7 centimes and 12½ centimes for one and three months respectively. The Swiss franc and belga were unchanged and the florin was strong closing at 20.22 partly on liquidation of contracts and short covering on the Mendelssohn failure. Rentes were down about 50 centimes at the opening but closed only 10 centimes on support by the rentes fund.

Today's Bulletin de la Statistique Generale shows the general industrial production index at 100 for June (base year 1928) the principal improvement over the 98 for May resulting from rises in the rate of operations in the textile industry, steel, metal working, building, and mines which offset declines in the chemical and paper

industriess

-2- #1488, August 11, 6 p.m., (SECTION FIVE) from Paris industries. The index for miscellaneous industries remained stationary at 110.

Owing to the Assumption Day holidays the markets will be closed until Wednesday.

(END OF MESSAGE).

BULLITT

NPL:CSB

Mr. Hanes

no 3

CORRECTION

Please write "End of Message" at end of Section 3
of Paris cable #1490, Aug.12.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: August 12, 1939, 2 p.m.

NO.: 1490

FOR THE TREASURY.

This morning Rueff confirmed to us that while as yet nothing definite is known, the main reason for the Mendelssohn suspension seems to have been lack of liquidity resulting from its recent flotations of French and Belgian loans, and the calling in of short term advances which had been extended to Mendelssohn on the part of these loans it still held. Rueff said again that no deposits were held by Mendelssohn for the French Government, and the suspension would not directly affect them. It was possible, he admitted, that French loan quotations might suffer, but he said that in the Netherlands holders of such securities have formed an organization which will probably be able to prevent any great drop in the quotations. He did not say anything about the implications involved in Mendelssohn's retention of such substantial blocks of their recent issues.

On the Swiss Bourse today, Rueff said, French securities are strong; the Swiss Bourse was the only one open today. No evidence of fraud has come to light so far, he said, and his impression is that Mendelssohn's liabilities will be about balanced by their assets.

END SECTION ONE.

BULLITT.

EA:LWW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, The Hague, Netherlands

DATE: August 12, 1939, 3 p.m.

NO.: 118

STRICTLY CONFIDENTIAL.

The reaction on the Amsterdam market yesterday to Mannheimer's death and the Mendelssohn firm's application for suspension of payments was relatively slight, as the Department is probably aware. After the first flood of rumors, public opinion here both in and out of banking circles is that it apprehends no serious repercussions for other Dutch banks or for the general Dutch financial fabric. No difficulties are envisaged by the Handel Maatschappij, which might have been expected to be most adversely affected by the situation of the Mendelssohn firm; the general view is that this is the case. Such rumors as there may have been that Mannheimer committed suicide may be discounted; his death might have occurred at any moment in view of his extremely bad health for a long time.

The claim is made by Treasury and National Bank officials here that they have seen this coming for some time - and I see no reason to doubt them in this respect. This situation was foreseen particularly during the last month when Mendelssohn's private loans to France and Belgium, mostly to France, were distinctly overdone, according to one informant. The French Finance Ministry communique of yes-

terday stated

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terday stated that these private contracts had been executed in connection with the recent public flotations of French loans by a consortium of Dutch and Swiss banks, including Mendelssohn. Whether or not this is the case, there naturally is danger of the large amount of French paper which Mendelssohn holds coming on the market. Although it has been denied in the press, I have been informed confidentially that yesterday the French Government gave active support to French issues on the market in Amsterdam.

The view is also expressed by the officials mentioned above that the present Mendelssohn situation will have no serious ill effects for the Netherlands. In addition they say that there are no Dutch deposits with the Mendelssohn bank, although there are some foreign deposits, and Dutch bank loans to this bank are well covered.

It is noted with some interest that the local press, in trying to find reasons for Mendelssohn's difficulties, reports that "according to data of the Securities Exchange Commission", at the end of May some 550,000 shares of American Bosch were held by the firm of Mendelssohn in the name of other Amsterdam firms.

END MESSAGE.

GORDON.

EA:LWW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin, Germany

[Partly by air]

DATE: August 12, 1939, 4 p.m.
[Received August 14.]

No.: 788

Puhl, the active head of the Reichsbank under Funk the nominal head, said in a conversation with a member of the Embassy staff that he greatly regretted the publicity given here to the recent statements by Grady on German-American trade. He also regretted the Securities and Exchange Commission's action in refusing to permit registration of German conversion bonds. Puhl said that the efforts which moderate elements in the Government were exerting to bring about a "moderation of policy" on the part of the Reich were weakened by these actions, and the hands of the extremist influence in the Party and the Government were strengthened. On both occasions, he said, he had been the subject of reproaches to the effect that he could see now that he wasn't getting anywhere with his policy of conciliation.

At the time Grady's statements were published in the local press, he had been called in by Funk. The latter wanted to issue a statement "correcting" the reported statement that no proposals for solving the trade and economic issues between Germany and the United States had been put forward by Germany. It was Funk's idea to make reference

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reference to the proposals suggested last summer, presumably in a speech by Brinkmann. [Reference: telegram No. 387 of August 16, 1938, 6 p.m., from the Embassy.] A personal letter had also been addressed to the Ambassador, which it is understood is in the Department's files, in which it is suggested as a provisional scheme that German-American trade be carried out on the basis of a special "Amerika mark". Funk also wanted to make reference to this suggestion.

Puhl said that he was able to dissuade Funk from making a public reply to Grady's statements. He suggested that since he, Puhl, knew Grady personally and favorably, he might write him a personal letter to try to have the "misunderstanding" cleared up. In addition, Puhl said that on both sides there were mistakes and misunderstandings as regards trade relations. He said that he was thoroughly aware of the disastrous effect on German economic relations of German policies of exchange control and overvaluation of the mark. However, it was not possible to eliminate ~~them~~ ^{these policies} at the moment, even though they were economically vexatious and disadvantageous to the Germans.

It is requested that you repeat this telegram to the Treasury as Heath's No. 55.

KIRK.

EA:LWW

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123

August 14, 1939

Dear Mr. Campbell:

I have just had a cable from Secretary Morgenthau requesting me on his behalf to congratulate you and those members of your staff who have worked so diligently for the Annenberg indictment. We all think it a job exceedingly well done.

With kindest regards, I am

Sincerely yours,

(Signed) John W. Hanes

Mr. William Campbell,
United States Attorney,
450 U. S. Court House,
Chicago, Illinois

JWH:ce

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August 14, 1939

Dear Elmer:

I have just had a cable from the Secretary of the Treasury, asking that I convey to you, to Mr. Madden, and the agents associated with him, his warm congratulations on the successful outcome of several years of diligent and painstaking work leading to the return of a true bill by the Grand Jury in Chicago against Annenberg.

With every good wish, I am

Sincerely yours,

(Signed) John W. Hanes

The Honorable Elmer L. Irey,
Chief, Intelligence Unit,
Bureau of Internal Revenue,
Washington, D. C.

JWH:ce

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125

August 14, 1939

Dear Frank:

I have just had a cable from the Secretary requesting me on his behalf to congratulate you and those members of your Department who have worked so diligently for the Annenberg indictment. We all think it a job exceedingly well done.

With kindest regards, I am

Sincerely yours,

(Signed) John W. Hanes

The Honorable

The Attorney General.

JWH:ce

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THE UNDER SECRETARY OF STATE

Washington

August 15, 1939

Dear Johnny:

Thank you for the trouble you took with regard to my telephone inquiry this morning in connection with the question asked me by the Venezuelan Ambassador. The extract from the letter of the Federal Reserve Bank enclosed with your letter to me of today's date gives me exactly the information I needed.

My best regards, and believe me

Yours very sincerely,

(Signed) Sumner Welles

The Honorable

John W. Hanes,

Acting Secretary of the Treasury,

Washington, D. C.

August 15, 1939

Dear Sumner:

I am enclosing herewith an extract from a letter dated May 12th from the Federal Reserve Bank of New York to the Bank of Venezuela, concerning earmarked gold. This seems to bear out the thought which you had that earmarked gold could be transferred to the owner at any time unless there is some change in existing law or regulation. I think this answers your inquiry.

With warm regards,

Sincerely yours,

The Honorable Sumner Welles,
Under Secretary of State.

MEMORANDUM

August 15, 1939

Mr. Welles called Mr. Hanes today and said that the Venezuelan Government, which has approximately \$6,000,000 in gold earmarked with the Federal Reserve Bank, wants to know whether such gold will be free for export under any and all conditions.

It is suggested that the following reply be made to the Venezuelan Government:

"The gold which the Federal Reserve Bank of New York is holding under earmark for you under its special license is, under the terms of such special license and existing laws and regulations, subject to export by you at any time. It is, of course, not possible for us to guarantee the permanency of existing laws or regulations, or the continuance of the special license of the Federal Reserve Bank of New York, or to forecast their change. It seems appropriate for us to point out, however, that since early in the year 1933 when gold transactions in this country were first placed under restrictions, the Federal Reserve Bank of New York has continuously been granted licenses by the Secretary of the Treasury to export, at the request of the owner, all gold earmarked in its vaults for account of any foreign government or foreign central bank."

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, The Hague, Netherlands

DATE: August 15, 1939

NO.: 119

The local press this morning, and I presume the American press also, carried what purported to be a statement of assets and liabilities on which the Amsterdam court yesterday granted provisional suspension of payments to the firm of Mendelssohn; this statement revealed a deficit of a little over five-and-a-half million florins. It was further reported that on November 30, the court after a further hearing of trustees and creditors will make a final decision as to whether suspension of payments will be granted or not. (I am informed that if granted such suspension will be effective for eighteen months with a possibility of renewal for a further similar period upon request of the creditors; if refused it means out and out bankruptcy).

I received intimations later in the morning that the deficit would be nearer to 75 or 80 million florins than five-and-a-half million florins. An extra edition, early this afternoon, of the HANDELSBLAD, which purported to give figures from the list of creditors which was submitted to the clerk of the Amsterdam Court stated that

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that the deficit was much greater than the figure of five-and-a-half million, and the purported itemization of creditors could be interpreted as substantiating a deficit of something around an additional seventy million florins. The substance of this special edition article, I understand, has also been cabled to the United States for publication in the newspapers today.

The following portion of the telegram is strictly confidential.

In view of the above, I took the matter up at once with the Secretary General of the Foreign Office and he got into touch immediately with Doctor Trip and with the Ministry of Finance. According to Doctor Trip the figures which were contained in the afternoon special edition were not officially given out by the court, and the reporters were responsible for erroneously compiling them. A deficit figure of between five and six million florins is correct, states Doctor Trip. Apparently short term paper--principally French, consisting of renewable three-months maturities--had been sold by Mendelssohn up to an amount which approximates sixty million florins on the condition of repurchasing it, if requested, at early maturity dates. In
the

-3-

the opinion of Doctor Trip, however, it is most unlikely that the holders will attempt to shove this back on Mendelssohn (which it is presumed would put them in the disadvantageous position of competing creditors) or to realize at an early date of maturity with depression of the price as an attendant risk.

It is generally expected here that the French Government will issue a statement concerning the support of these securities, possibly in conjunction with Dutch banks.

This is the end of the strictly confidential portion of the telegram.

It is hoped that the foregoing statements will prove to present a true picture of the situation, thus serving to clear up a mass of conflicting local information which has probably been reflected in today's American press, to some extent.

Yesterday and today prices on the Amsterdam stock market did not decline to any material extent, excepting the shares of the Handel Maatschappij, such shares declining fourteen points in the last two days; however, the remainder of the market was not appreciably unsettled.

GORDON

EA:LWW

CJ

GRAY

BERLIN

Dated August 15, 1939

Rec'd 1 p.m.

Secretary of State,
Washington.

795, August 15, noon.

My 783, August 12, noon.

The Berlin press this morning headlines the Enderis interview with Funk on German-American trade relations and these accounts according to Enderis correspond in all essential particulars with his despatch to the NEW YORK TIMES. In addition there is considerable editorial comment which is summarized below:

The D.A.Z publishes a lengthy front page editorial entitled "Commercial Policy Without Doctrine" which recapitulates the German attitude as enunciated by Funk and reviewing the reasons which have led Germany to seek "new forms and methods" in foreign trade quotes Hitler to the effect that Germany "has only one doctrine which is that in economics there is no doctrine". Citing percentage figures of the decline of American exports to Germany the editorial contends that the American farmer has been particularly affected by the loss of the German market and is now reacting against

-2- #795, August 15, noon, from Berlin

against existing American commercial policy as is witnessed by the recent activity of 60 western and southern representatives to restore trade with Germany. Furthermore American industrialists have recently sharply criticized the Hull trade policy, notably Howard of General Motors who is reported to have stated that the great mistake of the Hull policy was the failure to conclude agreements with the totalitarian states. While placing responsibility for the present situation on the United States the editorial asserts that as comprehension grows in the United States of German "forms and methods" it will once more be possible gradually to reconstruct German American trade and in this connection the attitude of the sixty congressmen is interpreted by Funk as a "hopeful sign". Concluding on an optimistic note the editorial declares that with good will for cooperation "sound common sense can prevail over the difficulties" and it will eventually be possible to organize the trade anew in such manner that while taking into account the peculiarities of each system both parties will benefit.

The VOLKISCHER BEOBACHTER gave a front page spread to the interview entitled "dogma is the enemy of economics" but made no editorial comment. Yesterday's edition of the paper however published under a Washington dateline a despatch stating that the "catastrophic" decline of agricultural exports has moved the Secretary of Agriculture to order

-3- #795, August 15, noon, from Berlin

a thorough investigation of the reasons for this decrease with particular reference to the possibility of new markets. Commenting on this report the VOLKISCHER BEOBACHTER states that "Wallace appears presumably to be more stupid than he is" as the "catastrophic decline" in American exports is the result above all of the boycott agitation against totalitarian countries which has made it impossible for them to cover as formerly a large part of their import requirements in the United States. The editorial concludes by stating that this is particularly true for cotton exports which were in the past taken principally by Germany and holds the Roosevelt Administration "fully responsible" for the boycott as it has countenanced it by word and deed.

The BOERSEN ZEITUNG gives the interview front page prominence and follows it up by editorial comment in the financial section similar to that of the D A Z and concluding with the statement that Germany has found that differences in trade systems have not hindered the development of trade relations and that the differences between liberal and totalitarian economic systems should not in a practical sense stand in the way of a restoration of commodity exchange.

Repeat to Treasury.

KIRK

CSB

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin, Germany

DATE: August 15, 1939

NO.: 799

According to further reports the Russian-German economic negotiations have been practically concluded, and it is expected that within a short time an accord will be signed. One source of information intimates that the amount of the German credit to Russia would be 200,000,000 marks, approximately.

This message should be repeated to the Treasury Department.

KIRK

EA:LWW

Via Coast Guard

Send by messenger to

129

Lieut. Pollio,
Room 505,
Liberty Loan Building.

CABLEGRAMXXXXXXXXXXXXXXXXXXXX

Contingent Expenses

August 16, 1939.

Henry Morgenthau, Jr.,
Grand Hotel,
Stockholm, Sweden.

Your wire 16th. The Act of February 25, 1919 appropriated \$100,000,000 as a revolving fund for the participation by the United States, at the discretion of the President, in the furnishing of food stuffs and other urgent supplies to the populations of certain countries of Europe or countries contiguous thereto. Under the authority of this Act the Government of Finland received from the American Relief Administration, which had been designated by President Wilson to administer the appropriation, food supplies amounting to \$8,842,302.92 for which the Government of Finland gave its obligations in the principal amount of \$8,281,928.17, the balance of \$560,275.75 representing ^{free} commodities delivered for child feeding. The obligations given to the United States matured June 30, 1921, with interest at the rate of 5 per cent per annum. However, no interest was paid at this rate. Finland evidenced its good faith by making a payment on March 8, 1923 of \$300,000 on account of interest to the United States and at the same time designated Mr. Axel Acton, its then Envoy Extraordinary and Minister Plenipotentiary at Washington, to confer with the World War Foreign Debt Commission with a view to funding Finland's indebtedness to the United States. After full consideration of the problems involved an arrangement was made to fund the obligations of the Government of Finland to the United States on the basis of the terms previously agreed upon by the United States and Great Britain. These terms provided that the accrued and unpaid interest to December 15, 1922 should be recomputed at the rate of 4-1/4 instead of 5 per cent, and

August 16, 1933

- 2 -

from such amount should be deducted the \$300,000 paid by Finland in March of that year, the balance of the debt funded as of December 15, 1922 by Finland issuing to the United States, after a small cash adjustment of approximately \$9,300, bonds in the principal amount of \$9,000,000 to be paid over a period of 62 years with interest at 5 per cent for the first 10 years and 3-1/2 per cent thereafter.

It might interest you to know that the Government of Finland was the first government to sign a formal agreement funding its indebtedness to the United States. Its agreement was signed under date of May 1, 1923, whereas the British agreement was not signed until June 18, 1923. The Government of Finland has promptly met all of the payments called for under this funding agreement except during the Hoover moratorium (fiscal year 1931) when payments due from all debtor governments were by agreement suspended. The Government of Finland has paid under the funding and moratorium agreements \$390,688 on account of principal and \$4,466,615 on account of interest. The principal of the indebtedness today is \$6,233,166, including \$113,526 on account of interest postponed under the moratorium agreement.

HERBERT E. GASTON

DHB/gm

CABLEGRAMXXXXXXXXXXXXXXXXXXXX

Contingent Expenses

August 16, 1939.

Henry Morgenthau, Jr.,
Grand Hotel,
Stockholm, Sweden.

Your wire 16th. The Act of February 25, 1919 appropriated \$100,000,000 as a revolving fund for the participation by the United States, at the discretion of the President, in the furnishing of food stuffs and other urgent supplies to the populations of certain countries of Europe or countries contiguous thereto. Under the authority of this Act the Government of Finland received from the American Relief Administration, which had been designated by President Wilson to administer the appropriation, food supplies amounting to \$8,842,202.92 for which the Government of Finland gave its obligations in the principal amount of \$8,231,926.17, the balance of \$660,276.75 representing ^{free} commodities delivered for child feeding. The obligations given to the United States matured June 30, 1921, with interest at the rate of 5 per cent per annum. However, no interest was paid at this rate. Finland evidenced its good faith by making a payment on March 6, 1923 of \$300,000 on account of interest to the United States and at the same time designated Mr. Axel Astrom, its then Envoy Extraordinary and Minister Plenipotentiary at Washington, to confer with the World War Foreign Debt Commission with a view to funding Finland's indebtedness to the United States. After full consideration of the problems involved an arrangement was made to fund the obligations of the Government of Finland to the United States on the basis of the terms previously agreed upon by the United States and Great Britain. These terms provided that the accrued and unpaid interest to December 15, 1922 should be recomputed at the rate of 4-1/4 instead of 5 per cent, and

August 16, 1939

- 2 -

From such amount should be deducted the \$300,000 paid by Finland in March of that year, the balance of the debt funded as of December 15, 1922 by Finland issuing to the United States, after a small cash adjustment of approximately \$9,300, bonds in the principal amount of \$9,000,000 to be paid over a period of 62 years with interest at 3 per cent for the first 10 years and 3-1/2 per cent thereafter.

It might interest you to know that the Government of Finland was the first government to sign a formal agreement funding its indebtedness to the United States. Its agreement was signed under date of May 1, 1923, whereas the British agreement was not signed until June 18, 1923. The Government of Finland has promptly met all of the payments called for under this funding agreement except during the Hoover moratorium (fiscal year 1931) when payments due from all debtor governments were by agreement suspended. The Government of Finland has paid under the funding and moratorium agreements \$880,568 on account of principal and \$4,468,615 on account of interest. The principal of the indebtedness today is \$8,223,158, including \$113,828 on account of interest postponed under the moratorium agreement.

HENRY E. GARDNER

DHG/gm

CABLEGRAMXXXXXXXXXXXXXXXXXXXX

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Contingent Expenses

August 16, 1939.

Henry Morgenthau, Jr.,
Grand Hotel,
Stockholm, Sweden.

Your wire 16th. The Act of February 25, 1919 appropriated \$100,000,000 as a revolving fund for the participation by the United States, at the discretion of the President, in the furnishing of food stuffs and other urgent supplies to the populations of certain countries of Europe or countries contiguous thereto. Under the authority of this Act the Government of Finland received from the American Relief Administration, which had been designated by President Wilson to administer the appropriation, food supplies amounting to \$8,843,302.92 for which the Government of Finland gave its obligations in the principal amount of \$8,291,925.17, the balance of \$550,375.75 representing ^{free} commodities delivered for child feeding. The obligations given to the United States matured June 30, 1921, with interest at the rate of 5 per cent per annum. However, no interest was paid at this rate. Finland evidenced its good faith by making a payment on March 8, 1923 of \$300,000 on account of interest to the United States and at the same time designated Mr. Axel Astrom, its then Envoy Extraordinary and Minister Plenipotentiary at Washington, to confer with the World War Foreign Debt Commission with a view to funding Finland's indebtedness to the United States. After full consideration of the problems involved an arrangement was made to fund the obligations of the Government of Finland to the United States on the basis of the terms previously agreed upon by the United States and Great Britain. These terms provided that the accrued and unpaid interest to December 15, 1922 should be recomputed at the rate of 4-1/4 instead of 5 per cent, and

August 16, 1933

- 2 -

From such amount should be deducted the \$300,000 paid by Finland in March of that year, the balance of the debt funded as of December 15, 1922 by Finland issuing to the United States, after a small cash adjustment of approximately \$9,300, bonds in the principal amount of \$9,000,000 to be paid over a period of 62 years with interest at 3 per cent for the first 10 years and 3-1/2 per cent thereafter.

It might interest you to know that the Government of Finland was the first government to sign a formal agreement funding its indebtedness to the United States. Its agreement was signed under date of May 1, 1923, whereas the British agreement was not signed until June 18, 1923. The Government of Finland has promptly met all of the payments called for under this funding agreement except during the Hoover moratorium (fiscal year 1931) when payments due from all debtor governments were by agreement suspended. The Government of Finland has paid under the funding and moratorium agreements \$380,668 on account of principal and \$4,466,615 on account of interest. The principal of the indebtedness today is \$8,233,160, including \$113,826 on account of interest postponed under the moratorium agreement.

HERBERT H. GASTON

DHD/gm



TREASURY DEPARTMENT

WASHINGTON

August 16, 1939.

TO THE SECRETARY:

September 15 Financing

Under normal conditions the announcement of the September 15th financing would be for Tuesday, September 5th. However, you recall that last year because of the foreign situation you decided that you did not want to make the decision as to the rate on Saturday and have all of the documents concerning the announcement lie in the mails for a period of two days before they were announced to the public. You decided, therefore, that you would make the decision on Tuesday following Labor Day, the Federal Reserve Banks notified late Tuesday afternoon after the close of the market, and the announcement made to the public on Thursday. This meant that one business day intervened between the day of the decision and the announcement to the public just the same as Sunday intervenes under the procedure followed for the other three quarterly financing dates.

In view of the talk in the press to the effect that we might expect some foreign disturbance in the early part of September, I plan the following schedule for the September 15th financing unless you have some objection.

Bell will probably be in New York on the 28th and 29th at which time he will discuss the forthcoming financing with representatives of the Federal Reserve Bank of New York and a few of the dealers and bankers. We will have an open market meeting on Friday morning, September 1st

and I shall announce informally to the press Friday noon the amount of the forthcoming issue for cash, that the announcement will be released to the public Thursday, September 7th, and if conditions look favorable announce at that time that it will be a long-term bond and that the holders of the December 15th maturities will be given an opportunity to exchange their holdings for the new issue. If conditions are not favorable I will hold this last mentioned part of the announcement open until Saturday, or, possibly, Tuesday. We would determine the rate and term late Tuesday, September 5th, wiring the Federal Reserve Banks Tuesday evening after the market closes.

I assume that you will want to telephone me Thursday or Friday, either the 31st of August or the 1st of September. I shall be glad if you will cable me the day and approximate hour that you expect to telephone.

The following are for consideration in determining the type of security to be offered in the September financing:

- (1) Conditions being favorable offer a 2¹/₂% bond for \$500,000,000 cash with as long a term of years as market conditions will justify, increase the amount of the offering by giving the December 15th noteholders an option to exchange for the new issue and by reserving not to exceed \$150,000,000 of the new issue for Government investment accounts. This would make \$500,000,000 cash, \$500,000,000 exchanges and not to exceed \$150,000,000 for Government

investment accounts, or a total of about \$1,150,000,000 to finance. Present market indications are that we can sell a $2\frac{1}{2}\%$ 30-35 year bond which would be quoted at about 101- $\frac{3}{4}$. It might be possible to sell a $2\text{-}\frac{3}{8}\%$ 20-25 year bond which would be quoted at approximately 101- $\frac{1}{2}$. There are no maturities at the present time in the 30-35 year period and the only maturity in the 20-25 year period is the \$1,485,000,000 of $2\text{-}\frac{3}{4}\%$ Treasury bonds callable December 15, 1960 and maturing December 15, 1965.

(2) If conditions are not so favorable yet we can be assured of success by splitting the issue, offer a long-term bond as above and a 5-year note, probably confining the 5-year note to December exchanges. September, 1944 is a vacant date.

(3) If conditions are such that 1 or 2 could not be adopted, issue a 5-year note for \$500,000,000, cash only.

(4) If market conditions are such that no financing should be done in September, we could go over until October or November or even carry over to December and raise some additional money in the meantime through the sale of Treasury bills if deemed necessary. Our balances would still be about \$500,000,000 going into December if we had no financing whatever. The present balance is \$1,778,000,000.

John W. Hanes

John W. Hanes,
Under Secretary of the Treasury.

swb

August 16, 1939.

TO THE SECRETARY:

September 15 Financing

Under normal conditions the announcement of the September 15th financing would be for Tuesday, September 5th. However, you recall that last year because of the foreign situation you decided that you did not want to make the decision as to the rate on Saturday and have all of the documents concerning the announcement lie in the mails for a period of two days before they were announced to the public. You decided, therefore, that you would make the decision on Tuesday following Labor Day, the Federal Reserve Banks notified late Tuesday afternoon after the close of the market, and the announcement made to the public on Thursday. This meant that one business day intervened between the day of the decision and the announcement to the public just the same as Sunday intervenes under the procedure followed for the other three quarterly financing dates.

In view of the talk in the press to the effect that we might expect some foreign disturbance in the early part of September, I plan the following schedule for the September 15th financing unless you have some objection.

Bell will probably be in New York on the 28th and 29th at which time he will discuss the forthcoming financing with representatives of the Federal Reserve Bank of New York and a few of the dealers and bankers. We will have an open market meeting on Friday morning, September 1st

and I shall announce informally to the press Friday noon the amount of the forthcoming issue for each, that the announcement will be released to the public Thursday, September 7th, and if conditions look favorable announce at that time that it will be a long-term bond and that the holders of the December 15th maturities will be given an opportunity to exchange their holdings for the new issue. If conditions are not favorable I will hold this last mentioned part of the announcement open until Saturday, or, possibly, Tuesday. We would determine the rate and term late Tuesday, September 5th, wiring the Federal Reserve Banks Tuesday evening after the market closes.

I assume that you will want to telephone me Thursday or Friday, either the 1st of August or the 1st of September. I shall be glad if you will cable me the day and approximate hour that you expect to telephone.

The following are for consideration in determining the type of security to be offered in the September financing:

- (1) Conditions being favorable offer a 2½% bond for \$500,000,000 cash with as long a term of years as market conditions will justify, increase the amount of the offering by giving the December 15th noteholders an option to exchange for the new issue and by reserving not to exceed \$150,000,000 of the new issue for Government investment accounts. This would make \$500,000,000 cash, \$500,000,000 exchanges and not to exceed \$150,000,000 for Government

- 3 -

investment accounts, or a total of about \$1,150,000,000 to finance. Present market indications are that we can sell a 2½% 30-35 year bond which would be quoted at about 101-¾. It might be possible to sell a 2-¾% 20-25 year bond which would be quoted at approximately 101-½. There are no maturities at the present time in the 30-35 year period and the only maturity in the 20-25 year period is the \$1,485,000,000 of 2-¾% Treasury bonds callable December 15, 1960 and maturing December 15, 1965.

(2) If conditions are not so favorable yet we can be assured of success by splitting the issue, offer a long-term bond as above and a 5-year note, probably confining the 5-year note to December exchanges. September, 1944 is a vacant date.

(3) If conditions are such that 1 or 2 could not be adopted, issue a 5-year note for \$500,000,000, cash only.

(4) If market conditions are such that no financing should be done in September, we could go over until October or November or even carry over to December and raise some additional money in the meantime through the sale of Treasury bills if deemed necessary. Our balances would still be about \$500,000,000 going into December if we had no financing whatever. The present balance is \$1,778,000,000.

(Signed) John W. Hanes

John V. Hanes,
Under Secretary of the Treasury.

DWB:HBW
8/16/39

scw

orig. to Secy (no plans
to n.y.) to American Embassy
London, England.
In memo Aug-9, 304. m. 8-17-39

FEDERAL RESERVE BANK
OF NEW YORK

129

OFFICE CORRESPONDENCE

DATE August 16, 1929.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

FROM L. W. Knoke

BANK OF ENGLAND.

I called Mr. Hawker at 12 noon today. They were still having a difficult time, he said, and had so far today sold \$12,000,000 (their subsequent cable gave a total of sales for the day of \$21,000,000). There had been a big demand for forward dollars and they had intervened from time to time at 1 7/8 but were out of the market at the moment, having decided it was worth while letting the rate go a little and make speculative operations more expensive. It developed from the conversation that the figures for sales which they cable us daily are spot sales only. However, as most of their forward transactions, in addition to their spot transactions, are switches - they buy spot and sell forward dollars - their net dollar position was not affected by their forward operations. Their outright sales for forward delivery amounted to no more than \$5,000,000 in a week or so, he added. Their switch operations, Hawker continued, served a double purpose: (1) it, of course, prevented the forward rates ^{from} going too far, which would make sterling look very much weaker, and (2) by means of these switches they put back into the market sterling funds which otherwise their sales of spot dollars would take out. I asked whether the question of names on forward contracts ever bothered them. It did, from time to time, Hawker replied, as the forward position increased in size. This went especially for American banks such as the Chase and the Guaranty Trust who were very heavily in the market at the moment, and quite particularly for people like Lazard and Dreyfus, who he suspected had very big positions open.

FEDERAL RESERVE BANK
OF NEW YORK

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OFFICE CORRESPONDENCE

DATE August 16, 1929

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.FROM L. W. Knoke

2

The demand for dollars, Hawker continued, was largely attributable to press talk on the Continent and in England about the possible devaluation of sterling, which in turn was closely connected with Mr. Morgenthau's visit to Europe. People kept on saying he had come over to discuss the position of sterling and the possibility of sterling devaluation. British capital was not moving out so far on a large scale, he thought, although there might, of course, be some isolated cases of flight of such funds. On the other hand, there was a big anticipation by British firms of commercial requirements but so far he had not noticed a big exodus of British funds. The British were playing the game, as he put it. Of course there were no Government restrictions on spot dollar transactions, he was quick to add.

The demand for gold continued on a substantial scale with sovereigns commanding a premium of 1 1/4%. Hoarding of gold, he thought, was an indication that uneasiness on the part of capitalists was only in part due to the political situation and the uncertainty of the future of sterling was also a reason. If it was only war which people feared the whole movement would be into dollars, not partly into gold.

The French franc and the belga were still strong partly due to repatriation and partly ^{to} trade requirements. The guilder had been firm because of the Mendelssohn situation which had brought on the

FEDERAL RESERVE BANK
OF NEW YORK

141

OFFICE CORRESPONDENCE

DATE August 16, 1939.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITHFROM L. W. KnokeBANK OF ENGLAND.

3

covering of short sales of guilders for foreign account. He did not expect any serious repercussions from the Mendelssohn difficulties although the Paris market might be more badly affected than any of the others. He understood that Lazard had some quite big commitments but was expected to come out all right. He had heard of one Hungarian bank having loaned dollars uncovered in the amount of \$1,250,000.

In the general political situation there was nothing new. "The Far East does not look very nice and neither does Danzig." Yesterday's wave of optimism was temporary, without much justification, and possibly was due to the fact that Paris and Brussels were closed yesterday. The London stock market was holding up fairly well.

LWK:KW

CHINESE EMBASSY
WASHINGTON

August 16, 1939.

Sir:

I am instructed by my Government to inquire if the United States Government may not be moved to participate and assist in the scientific and humanitarian campaign of survey and control of the epidemic disease tentatively designated as "Malignant Malaria", which is prevalent in the Provinces of Yunnan, Kwangsi and Kweichow and which is worst in the southwestern part of Yunnan, a region traversed by the Yunnan-Burma Highways, the Yunnan-Indochina Railway and the Yunnan-Burma Railway which is now under construction. In many districts such as Bing-erh, Sze-mao and Yun-hsien, the morbidity reaches 85% with high mortality. Long and sad experience has taught the people to flee to the hills as soon as one or two deaths occur in a community. Similar extensive incidence is taking place in the labor camps along the new motor roads and the new railway, thus greatly hampering the Government program of construction.

Preliminary surveys have already been made by the National Health Administration, but they need to be followed by more thorough survey, research and control. By combined efforts of the Central and

Provincial

Honorable Sumner Welles,
Secretary of State.

-2-

Provincial Governments, a five-year anti-malarial campaign and a three-year research program with intensive anti-malarial work in the more heavily infected regions have been started. However, in view of the very vast extent of the malaria area, the available funds and experts are insufficient to meet the needs.

Knowing the deep interest of the United States Government in the study and control of epidemic diseases, I have been instructed by my Government to make appeal to your Government that a mission of American expert malarialogists be sent to Yunnan to make a survey of the conditions concerning this disease, to check up the results of the preliminary surveys already made, and, on the basis of their findings, to advise and assist the Chinese Health Administration in the organization and operation of an effective control.

I have the assurances of my Government and in particular of the National Health Administration that, should such a survey mission be sent from the United States, every courtesy and co-operation would be accorded to them by all Governmental agencies.

Accept, Sir, the renewed assurances of my highest consideration.

Hu Shih

C
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P
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144

William J. Campbell
United States Attorney
U. S. Court House
Chicago

August 16, 1939.

Honorable John W. Hanes,
The Under Secretary of the Treasury,
Washington, D. C.

Dear Mr. Hanes:

Many thanks for your letter of August 14th
expressing Secretary Morgenthau's congrat-
lations to myself and my staff on our work
in the Annenberg case. Please convey my
sincere appreciation to him for his thought-
fulness.

I am indeed glad to have your letter of
praise and I hope to merit your continued good
wishes.

With kindest personal regards, I am

Sincerely yours,

(Signed) William J. Campbell

WILLIAM J. CAMPBELL

144-A

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: August 16, 1939, 5 p.m.

NO.: 1499

FOR THE TREASURY.

There is a feeling that the repercussions of the Mendelssohn situation will not be too serious. The amount and distribution of Mendelssohn's liabilities (now estimated at the equivalent of around \$150,000,000) have occasioned surprise even in those financial circles in Paris which had for some time suspected that the operations of the concern had been over-extended. Important reservations concerning the size and the nature of Mannheim's private commitments govern this feeling. Nothing is even yet known here in this regard. The attitude of the various Dutch banks, which have "pension" loans constituting substantial portions of the holdings, will determine the effect of the suspension on the French and Belgian issues involved. It is felt, however, that any precipitate liquidation in important volume will be avoided with support from the Bank of France and interested French banking houses. The shock should be prevented from being too severe on any one market because the liabilities are spread over such a large list of banking institutions and several financial centers. There has been

been a good reception here on the action of Belgium in making the Handels Maatschappy fiscal agents for the servicing of the Belgian issues affected. ^{The Mendelssohn difficulties} /It may well soon be forgotten for more important developments in the arena of international politics, although the Mendelssohn difficulties continue to be a principal topic of interest of the Paris markets.

For the present, the contemplated Belgian loan in Amsterdam has been abandoned. (See Embassy's telegram No. 1315, July 17, 5 p.m.)

END SECTIONS ONE AND TWO.

BULLITT

EA:MSG

For Secy

41

August 17, 1939

VIA NAVAL COMMUNICATION

To the President

U. S. S. Tuscaloosa

STRICTLY SECRET
CODE

At a meeting called today by Under Secretary Welles at which representatives of State, Treasury, War, Navy and Justice Departments were present, it was suggested that Treasury head an informal committee to be composed of a representative of Federal Reserve Board, State, and Justice and possibly to be augmented later by a representative of Securities and Exchange Commission and Commerce, to study and complete whatever plans are necessary to exercise, in case of an emergency, control over transactions in foreign exchange; transfers of credit; export of coins and currency; sale of securities in the American market by foreign holders; other matters arising under section three of the Neutrality Act; and any other related matters which might arise. I feel I should have your approval before proceeding to create such a committee.

DWR:MLE

Acting Secretary of the Treasury

FEDERAL RESERVE BANK
OF NEW YORKOFFICE CORRESPONDENCE
CONFIDENTIAL FILES

DATE August 18, 1939.

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

L. W. Knoke

Mr. Hawker called me at 10:25 a.m. just to tell me, as he put it, that things were going on as before; in other words, they were having a hard time today. So far they had today sold \$15,000,000 spot and the interesting thing about yesterday's and also today's demand for dollars was that the orders were emanating from New York. I pointed out that that was difficult to reconcile with the fact that we had not bought any sterling here at all yesterday in the afternoon. In addition to the \$15,000,000 spot, he had swapped \$5,000,000 forward, so that the net picture for the day so far was as follows: sold/^{net}\$10,000,000 spot, plus \$5,000,000 forward, or total sales of dollars for the day \$15,000,000. The difficulty for them now was that they were building up rather a heavy short position - they were now from \$100,000,000 to \$120,000,000 short on dollars -; they were anxious to get that position down and therefore thought the best thing for them to do would be to give us some gold against our weekly order. Accordingly, he was going to cable us tonight that he had today earmarked in his vaults \$15,000,000 of gold and if the order were renewed for next week, he would earmark a similar amount on Monday or Tuesday. He was advising me over the telephone, he said, so that we could let him know promptly whether we would wish the gold shipped, in which case he would have it packed immediately. I replied that as things were abroad at the moment, the Treasury would undoubtedly want to bring the gold back to the

FEDERAL RESERVE BANK
OF NEW YORK

247

OFFICE CORRESPONDENCE

DATE August 16, 1939.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

TO: L. W. Knoke

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United States without much delay. Would he therefore proceed with the packing as soon as he could? Probably we would ask him to ship on the Washington on August 24.

I referred to his gold shipment on the Mauritania scheduled to arrive today and told him that rather than leave the gold on the pier over the weekend (the Mauritania is scheduled to sail again tomorrow, Saturday, afternoon) we had decided, if we could do so before nightfall, to bring it into the Assay Office today, or else, even though there was a holiday in New York tomorrow, some time early tomorrow morning. Hawker apologized for the trouble caused but I replied that we appreciated the difficult times through which they were passing. My main purpose of telling him was to warn him that the proceeds of this gold shipment would, under no circumstances, be available before Monday.

I also made mention of the Laconia, carrying \$11,500,000 worth of gold for the Bank of England, which is now scheduled to reach here late on Monday night. He was going to instruct us, Hawker said, to deliver it straight to the Treasury upon arrival.

There were no political news at all. The Continent was getting more and more worried about Danzig and the British also about the Far East. In addition there was this continual worry and discussion about the future of sterling which was necessarily having a very bad effect upon their currency. Their difficulties were added to by the

FEDERAL RESERVE BANK
OF NEW YORK

140

OFFICE CORRESPONDENCE

DATE August 18, 1939.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

M. L. W. Knoke

5

fact that they now had to bear also the brunt of the speculative movement against the Shanghai and the Hongkong dollars: where a speculator had previously been ready to hold sterling, he now wanted dollars, which of course increased the demand for the latter.

Mr. Hawker referred to my recent request for copies of the certificates issued by Glynn and Montagu in connection with gold earmarked in Uruguay and Argentina. He had seen Glynn but Glynn's had told him that they weren't doing anything of the sort for Uruguay. Should he call on Montagu? I replied that if he felt he could conveniently do so I would appreciate it, adding that our interest was, of course, entirely academic and that we were trying to keep abreast of these things.

LWK:KW

Sept. 15, 1939

To Mrs. Klotz

148

From Mr. Viner

Mr. Viner is returning this material which the Secretary passed to him on board ship.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

150

DATE August 18, 1939.

TO Secretary Morgenthau

FROM Miss Michener *amh*

In accordance with your request to Mr. Haas, there are transmitted herewith two memoranda as follows:

1. Current developments in capital movements, gold, and foreign exchange, prepared in the Division of Monetary Research.
2. Notes on the Business Situation as of Friday, August 18, together with accompanying charts, prepared in the Division of Research and Statistics.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE August 18, 1939.

TO Mr. Haas

FROM Mr. Glasser *MG*

Subject: Current Developments in Capital Movements, Gold
and Foreign Exchange

1. The inflow of capital into the United States was \$24 million in the week ended August 9, 1939. The inflow was principally of short-term banking funds for Canadian account. The recent trend of small but persistent net selling of American securities by foreigners, which was interrupted during the week of August 2, was resumed during the week of August 9, sales exceeding purchases by \$5.8 million.
2. Net gold imports including changes in earmarking amounted to \$66.5 million in the week ending August 16, 1939, of which \$60 million was for the account of England.
3. Total gold held under earmark for foreign central banks and governments declined \$23 million during the week ending August 16; the amount held for the Bank of England declined \$36 million and the amount held for Netherlands rose \$14 million. England now has \$92 million of gold on earmark, a decline of \$93 in the past 3 weeks.
4. There was little activity in the European exchanges during the week of August 16, 1939. The Netherlands guilder was strong despite the announcement of the suspension of the international banking firm of Mendelssohn and Company of Amsterdam on August 11, 1939. Chinese exchange declined to a new low of 6.08 cents during the last week but recovered to 6.55 cents on August 17, 1939.

Prepared by: Mrs. Elizabeth May

CONFIDENTIAL

Notes on the Business Situation
as of Friday, August 18, 1939.

Commodity Prices

Commodity prices in the United States have risen slightly this week (see Chart 1), spot prices having risen more than futures. Reuter's Index, on the other hand, shows a generally downward trend in United Kingdom prices.

Security Prices

Stock prices in both the United States and the United Kingdom rose during the first two days of the week but began falling sharply on Wednesday. (See Chart 2.) The decline is generally ascribed to renewed fears of the European situation.

The suspension of Mendelssohn and Company of Amsterdam, reported August 11, caused less liquidation than might have been expected.

After five weeks marked by net sales of United States stocks by foreigners (see Chart 4), the daily reports show net purchases at the end of last week and every day but one this week.

Business Activity

The Federal Reserve Board has announced a preliminary figure of 102 for its index of industrial production for July, the highest since the figure of 104 for December 1938. It compares with 98 for June 1939 and 83 for July 1938. The London Financial Times index of business activity in July reached a new high level for the current upward movement, although it declined somewhat in the later weeks so far reported. (See Chart 6.)

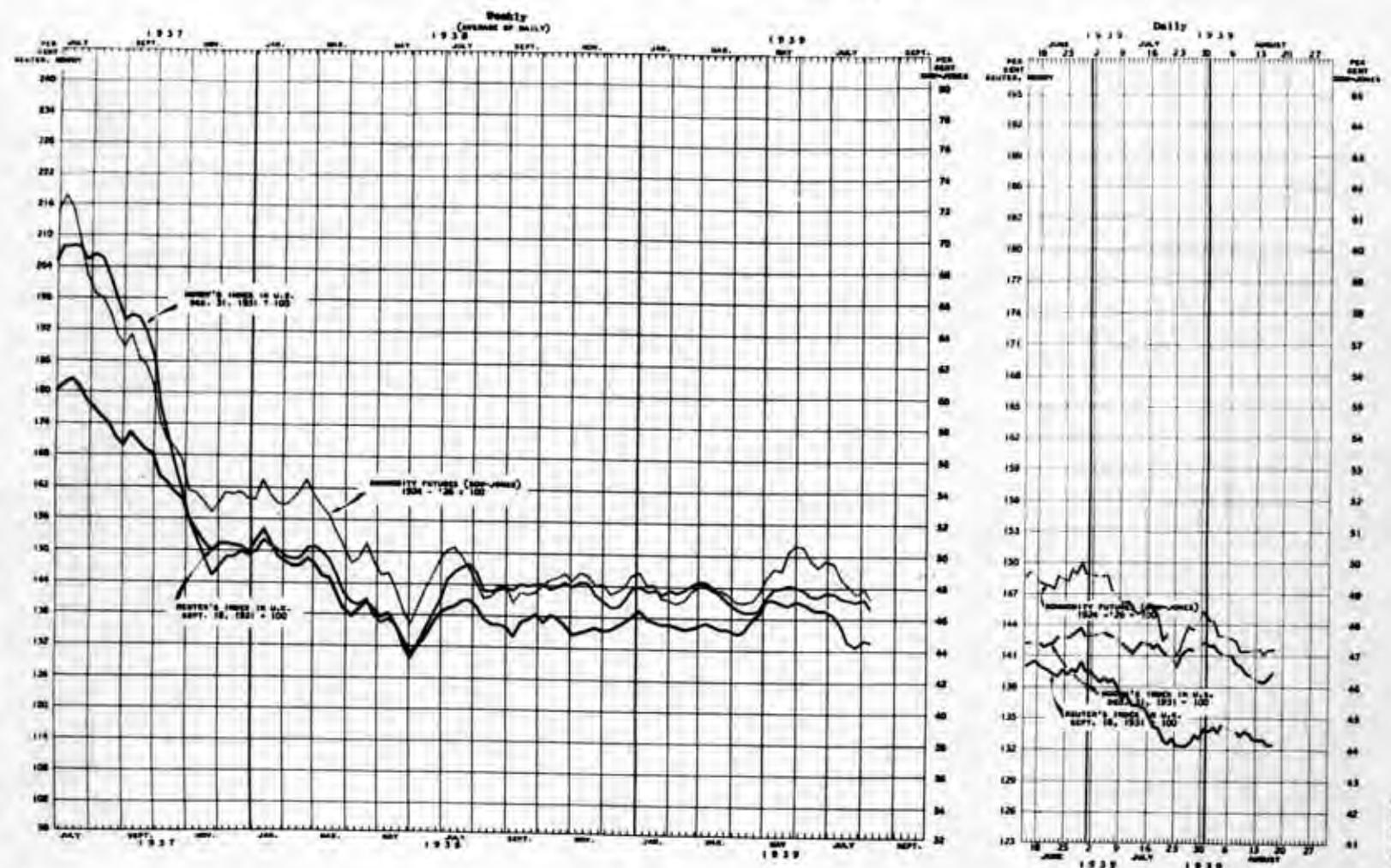
The New York Times Index for the week of August 12, estimated from all components except cotton mill activity, is up 0.2. (See Chart 5.)

The increase in this composite is accounted for by a slight rise in the seasonally-adjusted figure for electric power production to a new record level not exceeded since November 1937. (The figure without seasonal adjustment shown on Chart 5 also increased.) Two other seasonally-adjusted components of the New York Times Index -- "all other" carloadings and steel ingot production -- advanced, steel to a new record not exceeded since December 10, 1938. Lumber and automobile production both declined.

For the week ended August 19 steel ingot production has advanced contra-seasonally to another high for this year, "the most important business news of the week," according to the Annalist. Orders continue to be well diversified. Automobile production for this week is again very sharply reduced, contrary to Ward's expectation last week. General Motors has announced that the Buick plant at Flint will start assembly of new models on Monday, August 21. The trade expects other manufacturers to follow shortly.

Petroleum production, which is not a component of the New York Times Index, showed a very steep increase for the week ending August 5 followed by a decline for the week ended August 12. (See Chart 5.) The increase resulted from cancellation of Saturday-Sunday closings in Texas and served to increase stocks that were already high. An uncertain market situation developed when some refiners reduced the price offered for crude. A fifteen-day suspension of production was later agreed upon by regulatory authorities in states producing 68 per cent of the crude petroleum of the United States. Uneven distribution of stocks is expected to result in the closing of a large number of refineries, in spite of the fact that stocks were previously alleged to be excessive.

COMMODITY PRICE INDEXES IN U.S. AND U.S.



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

Chart 1.

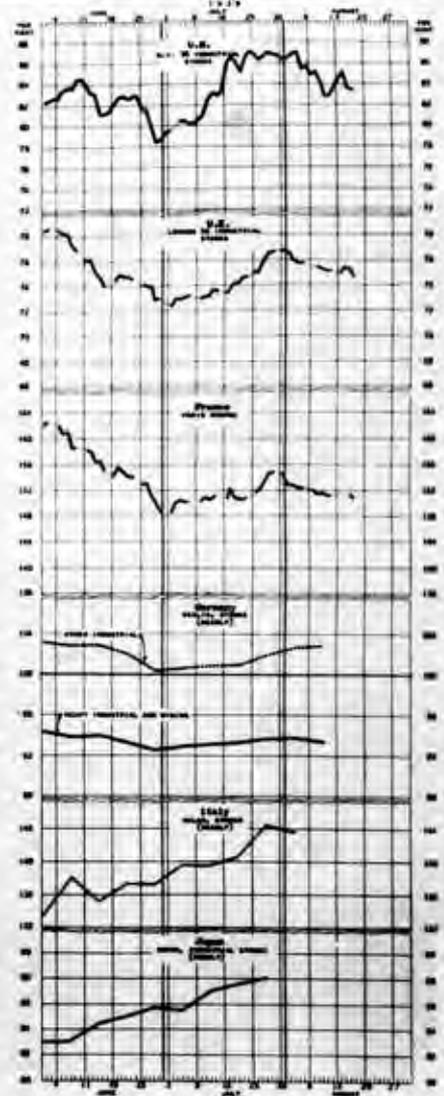
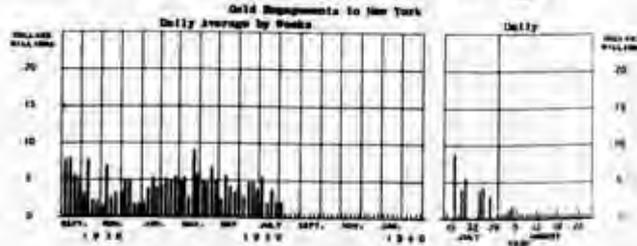
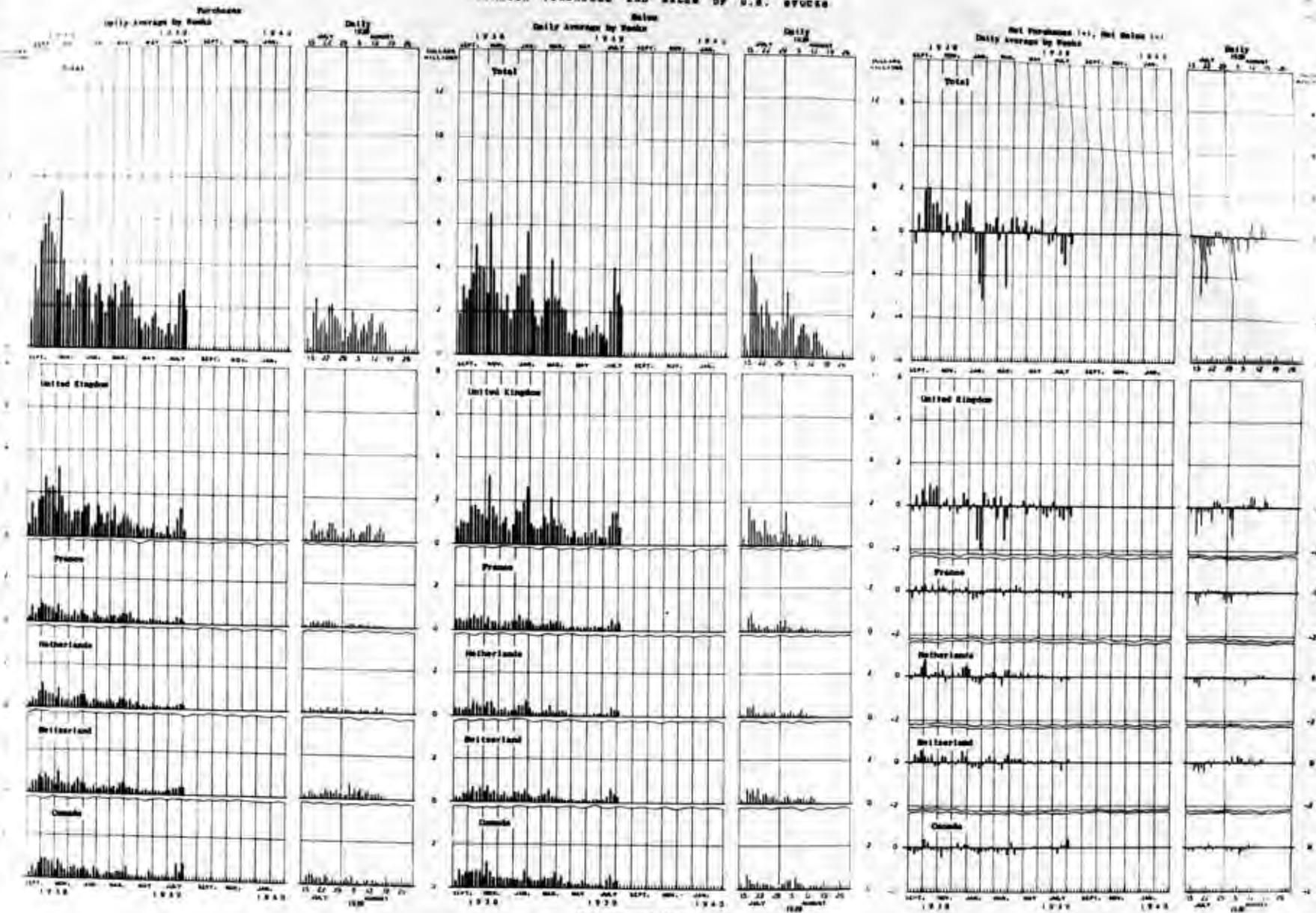


Chart 2.

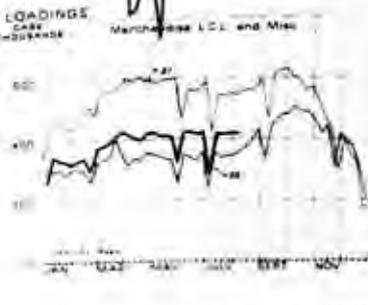
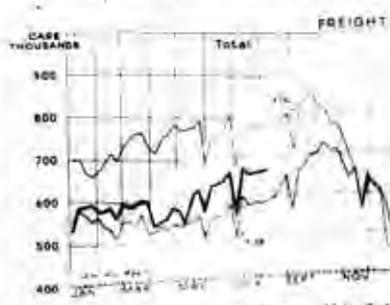
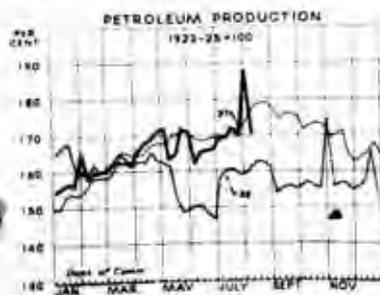
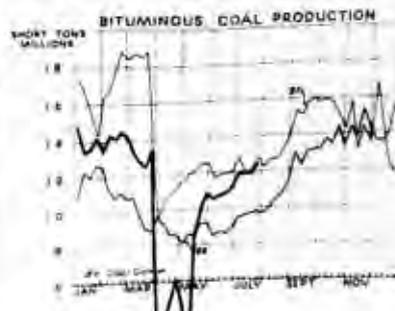
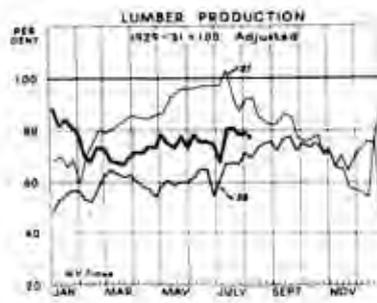
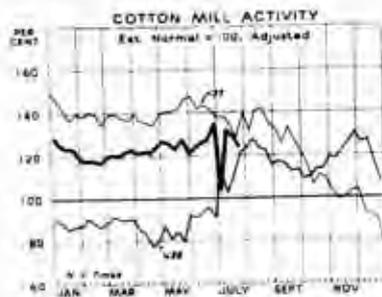
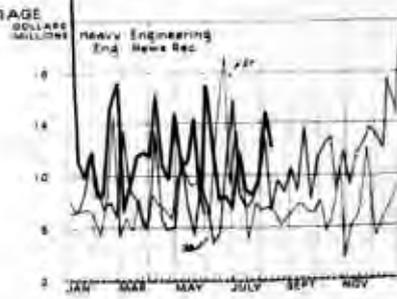
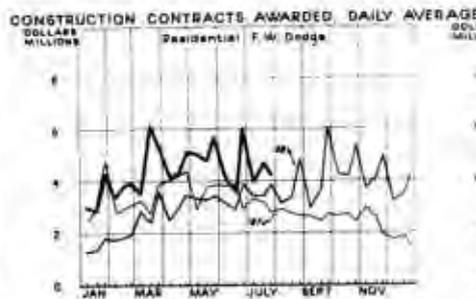
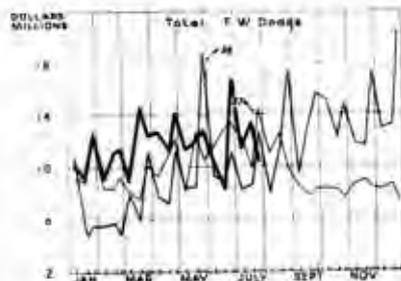
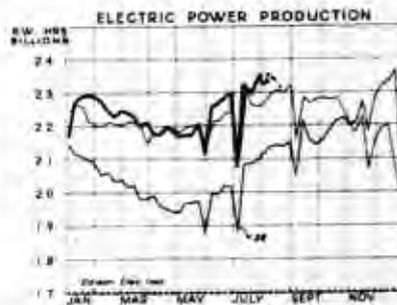
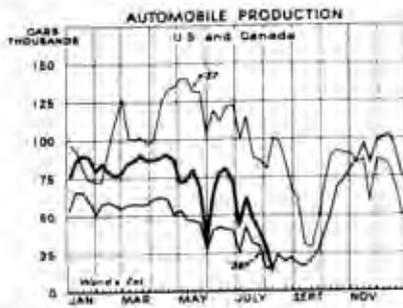
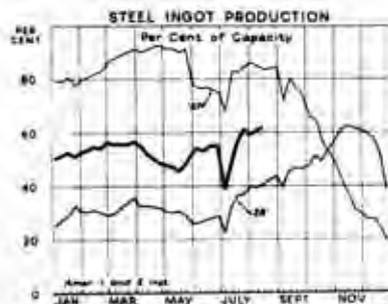
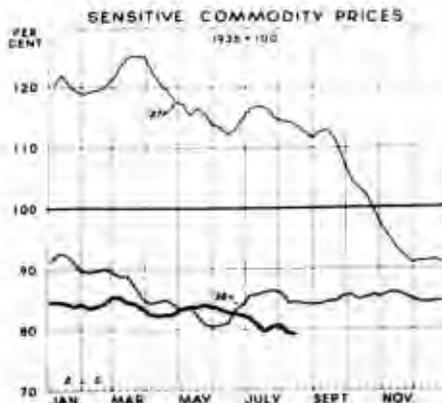
FOREIGN PURCHASES AND SALES OF U.S. BONDS



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

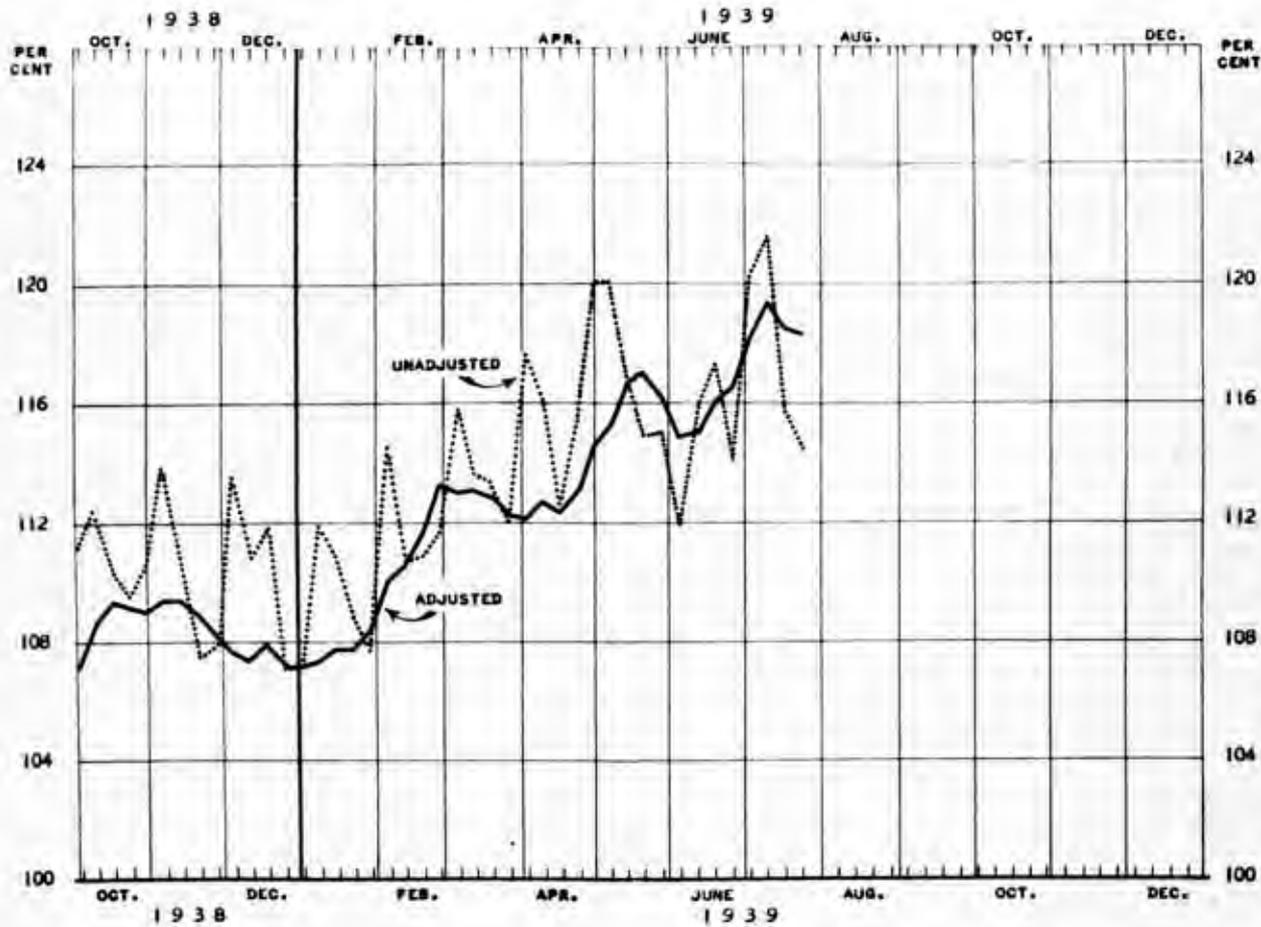
GENERAL BUSINESS

Weekly



* Combined index published by Bureau of Economic Warfare.

INDICES OF UNITED KINGDOM BUSINESS ACTIVITY,
LONDON FINANCIAL TIMES
Weekly



For Office of the Secretary

W. H. Anderson
U. S. TREASURY ATTACHE
SHANGHAI, CHINA.

Shanghai, August 18, 1939.

WANG CHING-WEI HAS IMPORTANT MISSION IN
CANTON

Wang Ching-wei's trip to Canton is a matter of great political significance and his future career and the future of his proposed federated regime will depend to a great measure on the result of his present sojourn there. Inside circles report that Mr. Wang is in Canton for the three following reasons. (1) He is to arrange for the evacuation of Japanese troops from the occupied areas there. This is the first step of his understanding with the Japanese army leaders as this will build up his prestige among the Chinese people, as most over-seas Chinese are natives of this area, and it is thought that withdrawal of Japanese troops through his efforts will bring over-seas Chinese to support him both morally and financially. (2) Mr. Wang is in Canton in an effort to win over the war leaders such as Gen. Chang Feh-kwei (張若奎), Gen. Yu Han-mou (余漢謀), Gen. Li Han-huan (李漢魂) and Gen. Wu Chi-wei (吳奇偉) which some time ago he told the Japanese he would be able to do. He has also done considerable work to win over Gen. Chen Chi-tang (陳濟棠) in the past and the present trip may complete the deal. He hopes to secure an understanding with these war leaders so that in the event of Japanese withdrawal from the area, they will help to maintain peace and order in a neutral capacity. This means that at least they will promise not to fight and chase the Japanese upon the latter's voluntary withdrawal. But Mr. Wang's schemes along these lines are already known to Chungking and as a result precautions have been taken.

These generals particularly Gen. Chang Fah-kwei and Gen. Chen Chi-tang openly denounced Mr. Wang to clarify their own stand and to reiterate their support to Chungking. The Japanese occupation of Shun-chun (浮城) a few days ago is believed to be an outburst of dissatisfaction over the failure of the Cantonese war leaders to come to arrangement with Wang Chin-wei. They had hoped that Wang Ching-wei would succeed in arranging with the Chinese war leaders to take over the occupied area for the new federated government so as to relieve them of garrison duty and relieve their government of shortage of men power. Now they could not withdraw if Wang Ching-wei's attempt fails, for they will have no reason to do that. (3) Another purpose of Wang Ching-wei's trip to Canton is to set up a local puppet regime, which will form a part of his proposed federated government of China. The failure of his attempt to win over these above-mentioned generals may cause some delay in the inauguration of his regional administration there.

Mr. Wang's close associates claim that their leader has now the necessary and unanimous support of Japanese army in China and the way for him to set up the federated regime in Hanking is now all clear. But his attempts in China to win over the war leaders have not been as smooth as expected.

RECEIVED

SEP 11 1945

10/11/45

CJ

GRAY

BERLIN (Part Air)

Dated August 18, 1939

Rec'd 8:17 a.m.

Secretary of State,
Washington.

829, August 18, 5 p.m.

No. 56. TREASURY FROM HEATH.

Some statistical evidence of recent Reich budgetary and monetary expansion has become available during the past 24 hours. The official statement of tax revenues for the first quarter of the fiscal year ending June 30, 1939 gives total collections of 5221 million reichsmarks, an increase of 1351 million reichsmarks or some 42 percent over the corresponding period of a year ago. It is to be noted no substantial payments on the new additional income tax fell due in this period. This tax originally was scheduled to produce 300 million marks per annum but because of public objections the tax has been revised and is now expected to yield only between 100 and 150 (*) marks. Judging by the collections for the first quarter and assuming an increase from the additional income tax and steadily improving collection methods of the fiscal authorities it would appear the Reich Treasury forecast of

-2- #829, August 18, 5 p.m., from Berlin (PA)

22 billion marks tax revenue during the fiscal year would be more or less fulfilled.

In spite of the increased tax revenue there has been no decrease of Government borrowing. Figures just published show an increase for May of 1,223 million marks in the floating debt alone. No figures have yet been published regarding long term debt for that month but it is understood there was an issuance of bonds to the saving banks and insurance companies. In April the increase in the total disclosed debt both floating and long term was 1210 million marks. It is believed that Government borrowing in June was at an even higher figure and it is altogether probable that the total Government borrowing for the quarter will not be far under 4 billion marks. Adding this figure to the tax revenues indicates a total Government expenditure during the June quarter of around 9 billion marks and an annual rate of expenditure of 36 billion marks per annum. The present Central Government rate of expending would appear to be one third greater than that of the last fiscal year when total Central Government outlays were estimated to be between 26 and 27 billion marks. It is to be noted that of the floating debt increase in May some 669 million was in the form of new financial plan certificates.

As regards monetary expansion the Reichsbank report
for

-3- #829, August 18, 5 p.m., from Berlin (PA)

for the mid-month shows credits and currency circulation but little below the record heights of July 31st. Normally there is a considerable decline at this period of the month. Total Reichsbank investments (bills and checks, security holdings and security loans) totaled 9,662 million marks as compared with 9,711 million marks on July 31st and 9,271 on July 15th. The total currency circulation on August 16th of 10,896 million marks was nearly 400 million higher than that of July 15th and only 314 million under the record figure of 11,209 million attained at the end (*)

There have been reports of Reichsbank open market purchases to sustain the sagging prices of the tax certificates of the new financial plan. If they have occurred they are well hidden in the Reichsbank statement since the item security holdings shows no large increase. Furthermore there has been only a small improvement in the quotations of tax certificates of class two which today are quoted between 94 and 94 7/8. This gives the purchaser an effective interest rate of 6 percent whereas a year ago short term investors had to be satisfied with 3 5/10 percent interest on short term Treasury bills and "delivery certificates".

Repeated to Stockholm for Secretary of the Treasury.

KIRK

GW:CSB

(*) Apparent omission

EDA

GRAY

BERLIN

Dated August 18, 1939

RECEIVED 1:45 p.m.

Secretary of State
Washington

826, August 18, 2 p.m.

Since my 795, August 15, noon there has been relatively little discussion in the German press on German-American trade relations and such as has appeared was largely a repetition, chiefly in provincial newspapers of what has already been summarized in my telegrams on this subject. This morning's BOERSEN ZEITUNG, however, reverted once more to the matter in a front page editorial which praising the reply of Funk to Grady expresses skepticism respecting American readiness to replace dogma by practical business considerations. Quoting an A.P. report to the effect that the American Government would grant a credit to Germany and give it access to American goods at cheaper prices if Germany is ready to disarm and to revise its commercial policy the editorial states emphatically that Germany "needs no credit and will take no credit" but does require an outlet for its goods so that it can buy foreign commodities and further that this condition

EDA - 2 - #826, August 18, 2 p.m. from Berlin

is not linked up with "finance operation" or "cheaper prices". As to cheaper prices the editorial finds that this sounds like an offer to let Germany participate in export dumping instigated by the United States through export subsidies, which is nothing more than an "amusing nuance" and "which is, whether ordinary or dumping prices, distinctly not the question". As for disarmament and revision of commercial policy by Germany, the editorial characterizes these conditions as presumptuous and as showing how unfruitful the Funk statements have been in bringing the discussions to a factual basis. Funk it is contended has in no way demanded that the United States modify its system and he sees in German methods no dogma which should hinder cooperation with other countries. In Germany the editorial concludes "we do not make speeches on credit and systems but only on the useful exchange of commodities by both sides" and Mr. Wallace would not need to investigate on the possibility of new markets for American fats and cotton if Washington would concern itself about the preservation of the former great German market. Inform Treasury.

KIRK

CSB

Per. Office of the Secretary

M. P. Anderson
U. S. TREASURY ATTACHE
SHANGHAI, CHINA

Shanghai, August 19, 1939.

FIFTY ITALIAN AND GERMAN AVIATORS JOIN JAPANESE
AIR FORCE IN SHANGHAI

According to information secured from Ing. Mini Brondello, the Italian agent of Mr. Wang Ching-wei, fifty Italian and German aviators arrived in Shanghai recently to help the Japanese in aerial activities in China. These aviators came as volunteers from the axis countries as reinforcements to Japan's shortage of aviators. In the past week, the aerial demonstration and daily flights of Japanese military planes above this city were done by these Fascist aviators and not by the Japanese. At least two of these aviators lost their lives in the outskirts of Shanghai a few days ago as result of mishaps in flying. These aviators will be assigned to bombing and reconnoitering duties around Shanghai and the Yangtze Valley.

A foreign agent of Mr. Wang Ching-wei states the talk of American action to ban the exportation of arms, munitions, scrap iron and other war materials to Japan is nothing more than a farce. Arrangements have already been made by American munition business men to export their cargoes to the Philippine Islands under the pretext of selling to some buyers there. From the Philippines, these war goods will be transhipped to Japan without any difficulty, and the Japanese will get whatever war material they require from the United States under this new arrangement, the agent alleged.

Gen. Liu Hsi-cheng, Wang Ching-wei's future army chief, who was responsible in recruiting a number of foreign agents and aviators for the ex-Kuomintang leader, is very much upset because Mr. Griffith, the British agent, through whom many foreign aviators had been engaged

has sided up with Chungking lately. Mr. Griffith knows all the plans of Wang Ching-wei's group and throwing his lot with Chungking is a great blow to Wang Ching-wei's camp. Mr. Li Fong (李芳), Manager of the Lichwang Company (利興公司) who went to Hongkong over one month ago in an effort to win over Mr. Griffith is not returning to Shanghai because of his failure. Furthermore, the failure of Wang Ching-wei to reach an agreement with some Kwangtung and Kwangsi leaders led him to decide to remain in business for the time being, as he thinks there is no future for Wang Ching-wei.



03413038

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Moscow, U.S.S.R.

DATE: August 21, 1939, 3 p.m.

NO.: 453

My telegram No. 452, August 20.

A Tass announcement in today's press reports the conclusion after long negotiations on August 19 of a commercial credit agreement between the Soviet Union and Germany, signed by the Soviet trade representative, Baba and Schnurer. The report continues: "The commercial credit agreement envisages the granting by Germany to the Soviet Union of a credit in the amount of 200,000,000 German marks at 5% interest maturing in seven years for the purchase of German goods within two years from the date of the signature of the agreement. The agreement envisages also the delivery of goods on the part of the Soviet Union to Germany during the same period, namely, within two years in the amount of 180,000,000 German marks." According to the German Embassy here the agreement was signed at 2 a.m., on August 20 but is apparently considered as of August 19.

PRAVDA and IZVESTIYA this morning devote their leading editorials to the new agreement. Both editorials emphasize that although the negotiations were difficult because of the strained political relations between the two countries nevertheless in view of the desire on both sides to improve the commercial relations an agreement was
successfully

successfully reached. The IZVESTIYA editorial after reviewing the decline in Soviet-German trade which resulted from the tension in political relations states that "it is possible to state boldly that the new agreement is a turning point in the business relations between the two countries." In respect of the agreement itself both editorials state that the 200,000,000 mark credit is in reality a financial credit since it is guaranteed 100% by the German Government and will enable the Soviet trade representative in Germany to pay in cash for the goods purchased. In addition the editorial states that the German Government has agreed to prompt fulfillment of Soviet orders and will for this purpose assist the Soviet trade delegation in its dealings with individual German firms. Mention also made of the low rate of interest in comparison with previous credits and also the length of time for repayment which will be seven years on an average with 30% repayable within six and one-half years, 40% in seven, and the remaining 30% within seven and one-half years. Both editorials forecast that the credit agreement will result in a wide expansion of trade between the two countries and PRAVDA concludes with the following words: "The new commercial credit agreement between the Soviet Union and Germany which was born in an atmosphere of strained political relations is summoned to relieve

relieve

- 3 -

relieve this atmosphere. It may represent a serious step in the matter of the further improvement of not only the economic but also the political relations between the Soviet Union and Germany".

It is not yet possible to get full details of the agreement, but from the information in the Soviet press, it would appear that in general it follows the lines indicated in telegram of February 19, 1939 from the Embassy. The agreement presumably provides for purchase of goods by the Soviet in Germany to the amount of 320,000,000 marks during the next two years. During the same period the exports from Russia to Germany would amount to 180,000,000 marks; the operation of the credit would meet the discrepancy.

STEINHARDT.

EA:LWW

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE August 21, 1939.CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

L. W. Knoks

Mr. Hawker called me at 11:27 a.m. They were having a very bad time this afternoon, with total cash sales so far of \$30,000,000, which he expected to go up to \$40,000,000 by the close. In addition he had done \$14,000,000 switches (bought that amount for cash and resold for forward delivery).

The Continent was very much more anxious about the political situation and the result was further increased demand for dollars. Sterling was definitely weaker all around. Everybody from everywhere, except the British, was buying dollars.

Had the Queen Mary arrived? I referred him to our earlier cable advising that both the Queen Mary and the Laconia were fog bound and would not reach here before Tuesday and Wednesday, respectively. That being so, Hawker asked would we take another \$15,000,000 of gold in London. I replied that in my opinion that was the purpose of the order which we were giving him every week. Then he would earmark that further amount and cable us today. I suggested that immediately this amount had been set aside he have it packed, as in all probability we would request shipment of \$25,000,000 on the Washington and \$10,000,000 on the American Banker, both this week. I referred to my telephone conversation with Bolton of November 26, 1938 in which he had requested that if at any time we were uncovered, we realize gold from their earmark and that we consider this as standing instructions. I pointed out that this had never been confirmed in writing and wondered

FEDERAL RESERVE BANK
OF NEW YORK

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OFFICE CORRESPONDENCE

DATE August 21, 1939.TO CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITHFROM L. W. KnekeBANK OF ENGLAND.

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whether the order was still good. Hawker replied that that order stood.

There were no news of any kind. He was pessimistic on the outlook and found it difficult to see how Hitler could climb down and yet save his face. He didn't even seem to consider the possibility of England being ready to go to a second Munich. All this is, of course, Hawker's personal opinion.

LWK:KW

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AUG 23 1939

TELETYPE SERVICE
FEDERAL RESERVE BANK
OF NEW YORK

CJ

GRAY

PARIS

Dated August 21, 1939

Rec'd 3:15 p.m.

Secretary of State,
Washington.

1534 August 21, 6 p.m.

FOR THE TREASURY.

A communique published in Saturday's press informs holders of French Treasury bonds expressed in florins, Swiss francs and dollars issued in Holland on May 31 last, that interest payments due on these securities from the interest date of August 30 1939 will be made by the Banque de Paris et des Pays Bas and the Nederlandsche Handel Maatschappij at Amsterdam. The communique adds that after that date holders may renew the bonds in Paris at the Banque de Paris et des Pays Bas and at Lazard Freres et Compagnie.

Mendelssohn also floated privately an issue of Treasury bills renewable up to six years in the amount of 155,000,000 guilders on the face of which no interest rate is specified, the rate being privately arranged between the French Treasury and Mendelssohn. (END SECTION ONE).

BULLITT

CSB

CJ

GRAY

PARIS

Dated August 21, 1939

Rec'd 3:55 p.m.

Secretary of State,
Washington.

1534, August 21, 6 p.m. (SECTION TWO).

The Government communique at this capitol announced however that they then bore four percent. Please see despatch No. 4440 of May 31. Some doubt has now arisen first as to the rate of interest to be paid thereon in the future and secondly to whom it should be paid. Mendelssohn may hold that as there was no breach of contract between them and the French Government the interest should legally be paid to it. On the other hand holders of these bills which were extensively "peddled" without renewal obligation will presumably insist that since they cannot obtain repayment of their advances from Mendelssohn the interest is due to them. A substantial portion of this issue estimated at between 80 million and 130 million francs is finding its way back to the Paris market and is not being too readily absorbed. Also it appears that the French Government is loath to take direct measures on a large scale to support the various Mendelssohn issues. In fact there is noticeable

-2- #1534, August 21, 6 p.m. (SECTION TWO), from Paris
able reluctance in official circles to discuss the after-
math of the Mendelssohn difficulties.

BULLITT

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