

DIARY

Book 212

September 16 - September 21, 1939

- B -

	Book	Page
Bank of America		
Giannini "telling anyone interested that James Roosevelt is endeavoring to bring about settlement"		
a) Discussed by Foley at 9:30 meeting - 9/18/39..	212	51
b) HMJr discusses with Frank - 9/18/39.....		81
c) HMJr asks Murphy to see Foley - 9/18/39.....		79

- T -

Taxation (War)		
See War Conditions: Taxation		
Transamerica		
See Bank of America		

- U -

United States Savings Bonds		
Comparison of sales and redemptions, 9/1-15/38, 9/1-15/39		47

- W -

War Conditions		
Arms Contracts (Government):		
Conference on profits - 9/18/39.....		23
Brazil:		
See War Conditions: Latin America		
Budget:		
Revised revenue estimates: Haas report of telephone conversations with advisory group members - 9/18/39		49
Business situation for week ending 9/16/39:.....		69
Haas memorandum		
Capital Movements:		
Federal Reserve Bank of New York letter extending facilities to Securites and Exchange Commission in connection with investigation of registration statement filed by Konversionskasse fur Deutsche Auslandsschulden and the Deutsches Reich - 9/16/39.....		1
China:		
See War Conditions - Tung Oil		
Credits to Belligerents (Section 3 of Neutrality Act):		
See War Conditions - Neutrality Act		
Customs, Bureau of: See War Conditions - Neutrality		
Federal Reserve Bank of New York:		
Banking resume sent to Bank of England but not to United States Treasury: HMJr asks Bailie to talk to Knoke - 9/18/39.....		87

War Conditions - (Continued)

Financing, Government:

	Book	Page
Note issue (proposed): Haas memorandum - 9/18/39....	212	29
Refunding operation of Treasury notes maturing 12/15/39 discussed by Federal Reserve Board, Burgess, and Bell - 9/19/39.....		175

Five-Power Pact: See War Conditions - Japan

France:

See also War Conditions - Tung Oil		
Foreign Investments, Registration of: Official decree concerning - 9/18/39.....		36
Exchange control resumé - 9/18/39.....		40
Purchasing mission: Castan calls on Treasury - 9/21/39.....		264
a) Reynaud explains to Finance Committee of the Chamber United States regulations affecting purchases: "Cash and carry for everything except war materials; cash and don't carry for war materials" - 9/21/39.....		277

Germany:

Konversionskasse für Deutsche Auslandsschulden and the Deutsches Reich: Investigation by Securities and Exchange Commission of registration statement: letter from Federal Reserve Bank of New York extending facilities - 9/16/39.....		1
Reichsbank statement for mid-September.....		118
Standstill Agreement: Conference; present: Hanes, Baile, Stewart, Smith, White, Foley, Bernstein; and Rovensky (Vice President, Chase National Bank), representing American banking group - 9/21/39.....		270

Government Bond Market:

Recent changes in prices - 9/20/39.....		217
---	--	-----

Great Britain:

Financial Measures: Ruling on liability of Americans under - 9/16/39.....		2
Gold: Government offers 168 shillings per ounce for hoarded gold - 9/18/39.....		45
Corporation for purchasing similar to Universal Trading Corporation: FDR reported to have advised British Embassy against; HMJr inquires as to authenticity - 9/19/39.....		117
a) FDR has not advised for or against; does not, however, want purchasing done by American bank or American banking house		151
b) Financial Counselor, British Embassy, gives resumé of situation to date - 9/19/39.....		165

Sterling "Dumping": Two-price system to be fought by
Treasury

a) Hull provides American Embassy, London, with resumé of plans - 9/19/39.....		122
b) FDR's attention called to New York Times articles		136
c) Conference on release between Treasury group, special advisers, and Federal Reserve Board - 9/19/39		152
d) Cochran sterling price resumé - 9/19/39.....		163,167,240

	Book	Page
War Conditions - (Continued)		
Great Britain:		
Ray, Sir James: On purchasing mission in Canada; will proceed to Washington if HMJR desires - 9/20/39.....	212	220,242
Italy:		
National City Bank to withdraw; American Embassy regrets step - 9/19/39.....		120
Japan:		
Foreign policy discussed at conference in Shanghai by leading Japanese and Chinese officials - 9/18/39		21
a) Neutral policy will <u>not</u> be adopted by Japan		
b) British and French settlements and concessions to be placed under Japanese military control		
c) Japan and U.S.S.R. carrying on close negotiations		
d) Five-power pact (Japan, Germany, Italy, U.S.S.R., and China) advocated by Japan		
Kaltenborn, H. V.: Confers with HMJR - 9/20/39.....		202
Latin America:		
Brazil:		
Coffee situation discussed by Treasury group with representative of subsidiary of Atlantic and Pacific Company - 9/20/39.....		205
Gold: Treasury will sell through Federal Reserve Bank of New York to Banco do Brasil, fiscal agent of Brazilian Government - 9/20/39.....		247
Neutrality:		
Procedure discussed by Interdepartmental Committee in Hull's office - 9/19/39.....		185
Customs, Bureau of: Southeast Patrol District to be abolished - 9/20/39.....		201
Neutrality Act		
Credits to Belligerents (Section 3 of Neutrality Act): Periodical report of all transactions "put on ice" by FDR in view of neutrality message - 9/18/39.....		10
Poland:		
Gold stock of National Bank reported en route to Egypt - 9/20/39.....		249
Price Control:		
Justice preparing statute similar to Lever Act of World War days - 9/21/39.....		282
Securities Market:		
HMJR asks for daily report on prospective offerings - 8/18/39.....		67
Current Developments: Haas memorandum - 9/19/39.....		140
Ship Movements:		
Armed Merchant Ships: Conference between State, Navy, Justice, and Treasury - 9/20/39.....		188

	Book	Page
War Conditions - (Continued)		
Surplus Commodities:		
Food Stamp Plan: Effect of European war - 9/18/39...	212	43
Taxation:		
Excess profits tax during World War to be studied by Magill and Shoup - 9/16/39.....		9,135
a) For report, see Book <u>213</u> , page 267		
Hanes' memorandum on war taxation - 9/20/39.....		216-A
a) HMJr's reply ("put on ice").....		216-D
Tung Oil:		
French in Indo-China requisition trucks assigned to transportation of tung oil - 9/16/39.....		6
Turkey:		
British Loan: United States asked to participate - 9/18/39.....		44
U.S.S.R.:		
HMJr and Knoke discuss withdrawal of \$10- of the \$11 million on deposit in Chase National Bank - 9/18/39.....		95
a) Knoke reports figures exaggerated.....		99

FEDERAL RESERVE BANK
OF NEW YORK

September 16, 1939.

Dear Mr. Secretary:

I wish to acknowledge receipt of your letter of September 15, referring to your earlier letter of September 6, requesting us to make available to examiners of the Securities and Exchange Commission certain documents filed with us during the period of January 2, 1935, to December 28, 1938, showing the amounts of short-term assets in Germany. We note your directions that, for the time being at least, we disregard your letter of September 6.

We shall be glad indeed to receive a visit from the examiners of the Securities and Exchange Commission who are conducting the investigation concerning the registration statement filed by the Konversionskasse fur Deutsche Auslandsschulden and the Deutsches Reich, and to talk with them generally regarding the international movement of capital. Please be assured that we will be prepared to cooperate fully in this respect.

Faithfully yours,


George L. Harrison,
President.

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

MA

PLAIN

London

Dated September 16, 1939

Rec'd 9:22 a.m.

Secretary of State

Washington

RUSH

1683, September 16, 2 p.m.

STRICTLY CONFIDENTIAL FOR STATE AND TREASURY DEPARTMENTS

The following self-explanatory letter and enclosure have been obtained from the British Treasury. As reported in telegram number 1557 of September 9, 3 p.m. and number 1279 August 27, 8 p.m, the Embassy has been deluged with oral and written requests from Americans about their liability under the recently enacted British financial measures. Accordingly, I propose to make this new ruling known to the American banks here and American nationals without, if possible, incurring publicity and without accepting responsibility for the British Government's decision. Incidentally, the British Treasury stated that it would interpret the phrase "cases where residence has been for a longer period than seven years but only for reasons of profession or business will be individually considered" liberally, so that Americans who have been here for reasons of profession or business will have no difficulty in obtaining exemption and that other hard cases will not be rigorously

MA -2- tel # 1683, September 16, 2 p.m. from London

rigorously dealt with. The British Treasury states that because of the cosmopolitan character of London and the number of foreigners who live permanently in England and who for all purposes except passports are British, it is unwilling to give carte blanche to all foreign nationals but wishes to deal with most cases on their individual merits. It is necessary to reassure Americans here as soon as possible and, therefore, unless I hear from you to the contrary I shall on Monday morning begin communicating this information to persons concerned. "The Treasury have very carefully considered the questions that you have raised about the position under the Defence (Finance) Regulations of American citizens resident in this country. I enclose a note with the request that the American Embassy will be good enough to communicate the information which it contains to American nationals in reply to any enquiries which they may receive. We are not making a similar communication to any other embassy at present and so far as possible we should like to avoid publicity." "1. Under the Defence (Finance) Regulation of the 25th August, 1939, which is reproduced as Defence (Finance) Regulation number 1 of the 3rd September, 1939, the Treasury have issued an order that the owners of certain securities shall make a return to the Bank of England and the Treasury may, in due course, make a further order transferring to themselves securities at a price

MA: -3 - tel # 1683, September 16, 2 p.m. from London

price specified in the order. When further orders of this kind are made the Treasury intend that they shall not apply to securities which are shown to the satisfaction of the Treasury to have belonged on the 26th August, 1939, to individuals resident in the United Kingdom who are American nationals and do not possess British nationality and who have not been continuously resident in the United Kingdom for more than seven years up to 3rd September, 1939, (cases where residence has been for a longer period than 7 years but only for reasons of profession or business will be individually considered). The Treasury would, however, always be glad to consider offers of sale from American nationals on a voluntary basis. American nationals who have not yet made a return to the Bank of England may instead of making a return forward in writing to the Bank of England evidence of foreign nationality (i.e. passport number and in cases of wives, husbands passport number and date of issue and for how long valid) and evidence (by their banker or lawyer) that they have not resided continuously in the United Kingdom for more than 7 years up to 3rd September, 1939.

2. American nationals (not possessing British nationality) will not be required to offer foreign exchange for sale to the Treasury provided that they satisfy the Treasury that the foreign exchange has belonged to them continuously since September 3rd, 1939. Evidence to this effect must in all

cases

MA -4- tel #1683, September 16, 1939 2 p.m. from London
cases be furnished to a bank which has been appointed an
"authorised dealer".

3. American nationals resident in the United Kingdom
must offer gold for sale to the Treasury through an
authorised dealer.

4. The above paragraphs 1 to 3 apply to individuals and
not to companies, partnerships, etc.

5. Enquiries must be addressed to the Bank of England
or to another authorised dealer and not to the Treasury or the
Foreign Office.

6. The above information is communicated to the American
Embassy with a request that they will be good enough to pass
it on to their nationals in reply to any enquiries which they
may receive."

KENNEDY

AIC

RECEIVED

SEP 16 1939

THE FOREIGN DEPARTMENT
U. S. DEPARTMENT OF STATE
WASHINGTON, D. C.

COPY

No. 222

QUADRUPPLICATE

CONFIDENTIAL

6

dated
H. M. Cochran
Rangoon, Burma, September 16, 1939.

CONFIDENTIAL

SUBJECT: A report on conditions at Haiphong.

THE HONORABLE

THE SECRETARY OF STATE,
WASHINGTON, D. C.

SIR:

I have the honor to report that thirty Ford trucks of the Foo Shing Trading Corporation, waiting at Haiphong to be sent into China for use in transporting tung oil, were requisitioned by the French authorities in Indochina after the declaration of war with Germany, and that an order against the movement of any trucks at that port was issued, according to news brought here this week from Haiphong by H. A. Rhinemiller, service engineer of the Chrysler Export Corporation, who came to Rangoon last March in connection with the assembly at this port of Dodge trucks for Chinese Government interests, and who recently visited Indochina.

Mr. Rhinemiller was told of the requisitioning of the Foo Shing trucks by L. D. Greff, superintendent of motor transport for the Texas Company, who, in company with E. B. Head, an American mechanical engineer, passed through Rangoon last June en route to China over the Yunnan-Burma highway with the object of organizing motortruck transport for the Foo Shing Corporation. Later Mr. Greff reported to
Mr. Rhinemiller

Mr. Rhinemiller that the French authorities had agreed to return the trucks, but the latter says that the trucks had not been returned up to the time of his departure from Haiphong, on September 11th.

American Transport Experts.

Both Mr. Head and Mr. Groff were in Haiphong while Mr. Rhinemiller was at that port. During his stay there the three Americans connected with the Keeshin Freight Line, Incorporated, of Chicago (Maurice E. Sheahan, Andrew B. Bassi, and C. W. Van Patter), whose services have been obtained by the Ministry of Communications of China for transport-organization work, reached Haiphong on their way to China, accompanied by Dr. John L. Buck.

Four Thousand Assembled Trucks.

Mr. Rhinemiller estimates that 4,000 assembled motor trucks destined for China, most of them American vehicles, are now at Haiphong. They cover, he says, an open area of possibly 25 acres, and some of them have been there for months, as evidenced by the grass which has grown up around the tires. In addition to the trucks, there are 40 or more motor cars and a number of American motorcycles, according to the Chrysler engineer. He reports that there are some truck chassis still in cases, and that some of the cases are standing in water.

Most of the assembled trucks at Haiphong have been equipped with bodies, of various kinds, Mr. Rhinemiller says, and the work of assembling trucks and building truck bodies has been continuing at that port, but, of late, only on a very limited scale. Following the action of the French authorities in requisitioning Foo Shing trucks, it appears to have been reported that additional trucks with bodies would be taken for military purposes.

purposes, and this resulted in the Chinese dismantling trucks then being fitted with bodies, in the hope of saving them, according to Mr. Rhinemiller's news.

Freight Accumulation at Haiphong.

Mr. Rhinemiller reports that there is a great accumulation of freight for China at Haiphong, in addition to the motor vehicles and any munitions that may be stored in warehouses, and that shipment of these supplies over the French railway to Yunnanfu would require from a year to a year and a half, according to estimates. The supplies, he says, include structural, bridge, and railroad steel, railway equipment and materials, lead, brass, mineral oils, motor-vehicle parts, cement, chemicals of various kinds, textiles, machinery, and hardware.

Mr. Rhinemiller is making a report to his company on conditions at Haiphong. He says that facilities for the assembly of motor trucks at that port are not as good as those in Rangoon, and that facilities for body-building are no better. He is of the opinion that any additional motor trucks for China should be sent to Rangoon, pointing out that by the time they could be assembled and equipped with bodies dry-season improvement of the Yunnan-Surma highway would be under way, and that it would then be relatively easy to send the trucks into China over that road.

Respectfully yours,
AUSTIN C. BRADY
Austin C. Brady
American Consul

Distribution:

- 1. In quintuplicate to Department
- 2. Copy to American Embassy, London.
- 3. Copy to American Consulate General, Calcutta.

800 ACE/cp

September 18, 1939

I asked Magill and Shoup to make a study for me on how the excess profits tax worked during the World War and to give me arguments pro and con on this form of taxation. They are to have this for me by the first of October.

File as 89-18-39

10

The President said he wanted this "put on ice"
in view of his neutrality message. 9-22-39

9-18-39

MEMORANDUM FOR THE PRESIDENT:

In order to enable the Treasury Department to administer the provisions of your regulations of September 6 and 11, 1939 concerning credits to belligerents, I have signed and am submitting herewith for your approval, regulations requiring persons to report periodically all credit transactions with belligerents.

The proposed regulations, which have been recommended by the Advisory Committee assisting me in connection with this problem, will enable the Treasury to keep itself informed as to credit transactions with belligerents, and to detect prohibited transactions.

I recommend your approval of the attached regulations.

E. A. Tamm JWH

EB:mjb 9.18.39

Harriner S. Eccles, Chairman,
Board of Governors,
Federal Reserve System,
Washington, D. C.

Dear Sir:

Reference is made to this Department's letter to you of September 13, 1939 relative to the administration of the President's regulations of September 6 and 11, 1939 concerning credits to balligermats.

Enclosed for your information is a copy of a telegram today sent to all Federal Reserve banks relative to this matter. Also enclosed are copies of the documents referred to in such telegram.

Very truly yours,

Secretary of the Treasury.

Enclosures

JWP:ngt 9/18/39

BG P. 1174 JWH

TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

FROM _____	13
BUREAU _____	
CHG. APPROPRIATION _____	

U. S. GOVERNMENT PRINTING OFFICE: 1928 10-1728

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS (As per attached list)

The following statement relative to the administration of the President's regulations of September 6 and 11, 1939 concerning credits to belligerents has been released to the press:

[Note to telegrapher: Here take in attached press release]

Copies of the regulations relative to reporting credit transactions and report form TCB-1 prescribed thereunder are being sent to you by air mail. Please have copies of such regulations prepared and distributed to all banks, including non-member banks, in your district, and to such other persons as you may deem appropriate. Also prepare copies of report form TCB-1 for furnishing to all interested persons. Reports filed with you should be examined by you in order that you may keep yourself currently informed, with respect to your own district, as to the transactions concerning which reports are required to be filed. You should report to the Secretary of the Treasury, together with all relevant data, any such transaction, attempted or effected, which is not permitted by the Neutrality Act and the Regulations issued thereunder by the President.

Similar instructions are being sent to each Federal Reserve bank.

E. C. F. J. W. H.

Secretary of the Treasury.

CODE OF FEDERAL REGULATIONS
TITLE—31—Money and Finance
SUBTITLE—A—Office of the Secretary
PART 20—REGULATIONS ISSUED BY THE SECRETARY
OF THE TREASURY UNDER THE REGULATION
CONCERNING CREDITS TO BELLIGERENTS,
AS AMENDED.

September , 1939

Section 20.1. Authority for regulations.—These regulations are issued under the joint resolution of May 1, 1937, 50 Stat. 121 (the Neutrality Act) and under the Regulation Concerning Credits to Belligerents, as amended, which was issued by the President pursuant to section 3 of said Act, and under all other authority of law.*

Sec. 20.2. Reports.—Every person purchasing, selling, or exchanging bonds, securities, or other obligations of a government of a belligerent state named in a proclamation of the President issued pursuant to section 1 of the Neutrality Act, or of any political subdivision of any such state, or of any person known by the person making the report to be acting for or on behalf of the government of any such state, issued after the date of such proclamation, or making any loan or extending any credit to any such government, political subdivision, or person (including ordinary commercial credits and short-time obligations in aid of legal transactions and of a character customarily used in normal peacetime commercial transactions) shall furnish to the Secretary of the Treasury, through the Federal Reserve bank of the district in which such person has his principal place of business in the United States, information relative thereto upon report forms prescribed by the Secretary of the Treasury. Such information shall be furnished on a weekly basis except as the Secretary of the Treasury may authorize the information in certain cases or classes of cases to be furnished on the basis of longer intervals, provided, however, that the first report filed by any person hereunder shall cover the period commencing September 3, 1939, and each subsequent report shall cover the period

commencing with the end of the period covered by the immediately previous report. Reports shall be filed within 7 days after the end of the week, or period, covered thereby, provided, however, that an extension of the time for making and filing any report may be permitted with the approval of the Secretary of the Treasury. All persons engaging in reportable transactions prior to the issuance of these regulations shall file their first reports within 7 days from the date of these regulations, which reports shall include all reportable transactions engaged in by such persons commencing September 5, 1939 and prior to the issuance of these regulations. Report forms may be obtained from Federal Reserve banks or branch banks of the Federal Reserve System, or at the Treasury Department, Washington, D. C. Each person required to file a report shall upon request of the Secretary of the Treasury or any Federal Reserve bank furnish such additional information as the Secretary of the Treasury or any Federal Reserve bank may require. Nothing herein shall be construed to authorize the doing of any act or thing prohibited by section 3 of the Neutrality Act or by any other provision of law.*

Sec. 20.3. Records.—Every person required by section 20.2 hereof to file a report shall keep accurate and detailed records of each transaction concerning which a report is required to be filed. Such records shall be preserved for at least 3 years and shall be made available for examination by a duly authorized representative of the Secretary of the Treasury.*

Sec. 20.4. Federal Reserve Banks.—Each Federal Reserve bank shall keep itself currently informed, with respect to its own district, as to the transactions concerning which a report is required to be filed under section 20.2 of these regulations, and shall report to the Secretary of the Treasury any such transaction, attempted or affected, which is not permitted by the Neutrality Act and the regulation referred to in section

- 3 -

20.1 hereof. The Federal Reserve banks will act as fiscal agents of the United States in connection with these regulations.*

Sec. 20.5. Penalties.—Section 3(e) of the Neutrality Act reads as follows:

"Whoever shall violate the provisions of this section or of any regulations issued hereunder shall, upon conviction thereof, be fined not more than \$50,000 or imprisoned for not more than five years, or both. Should the violation be by a corporation, organization, or association, each officer or agent thereof participating in the violation may be liable to the penalty herein prescribed." *

Sec. 20.6. Modification or revocation.—These regulations may be modified or revoked at any time.*

Secretary of the Treasury.

APPROVED:

THE WHITE HOUSE,

September , 1939.

* Joint Resolution of May 1, 1937, 50 Stat. 121; Pres., Regulation Concerning Credits to Belligerents, September 6, 1939; Pres., Regulation Concerning Credits to Belligerents, September 11, 1939.

REPORT TO BE FILED PURSUANT TO SECTION 20.2
OF THE REGULATIONS OF THE SECRETARY OF THE
TREASURY OF SEPTEMBER , 1939.

INSTRUCTIONS:—Before beginning to make report read carefully the Regulation Concerning Credits To Belligerents, as amended, which was issued by the President pursuant to section 3 of the joint resolution of May 1, 1937, and the Regulations of the Secretary of the Treasury of September , 1939, which are appended to this form.

This report should be executed in duplicate and filed with the Federal Reserve bank of the district in which the person or concern reporting has its principal place of business in the United States.

To the Secretary of the Treasury:

Sirs

1. The name and address of the person or concern making this report are

2. This report covers the period from _____ to _____

3. With respect to each and every transaction that was engaged in by the person or concern for which this report is made, and that is required to be reported by section 20.2 of the Regulations of the Secretary of the Treasury of September , 1939, there is furnished the following information (including the names and addresses of all parties involved; description of the transaction including date; description of commodity involved, including quantity, price, etc.; description of the bond, security, obligation, credit or loan, including amount, form, date, term, etc.):

(If the space provided is inadequate, attach a schedule which should be signed, attached to this report and made a part of this item by reference.)

- D. The undersigned represents that the transactions described in item C constitute all of the transactions during the period covered by this report which are required by section 20.2 of the Regulations of the Secretary of the Treasury of September , 1939, to be reported by the person or concern for which this report is made.
- E. The undersigned agrees to furnish upon request of the Secretary of the Treasury or any Federal Reserve bank such additional information as the Secretary of the Treasury or any Federal Reserve bank may require regarding any transaction described in section 20.2 of the aforementioned regulations.

 Name of person or concern for
 which report is made.

By _____

STATE OF _____ }
 COUNTY OF _____ } SS:

I, _____, on oath, depose and say that I am the person
 for whom this report is made, or that I am the _____
 (State relationship
 of affiant to the person for whom this report is made) of the _____
 (Name of
 partnership, association, or corporation for which this report is made)

which is the person for whom this report is made; that I am duly authorized to
 make this report on behalf of such person; that I have full knowledge of the facts
 set forth herein and know them to be true and accurate; and that I do not have
 knowledge of any material facts in connection with this report which have not
 been fully and accurately set forth herein.

 (Signature of affiant)

 (Address of affiant)

Subscribed and sworn to before me this _____ day of _____ 193 .

 (Officer administering oath)

(Notarial Seal)

My Commission expires _____

PROPOSED PRESS RELEASE

"A policy of encouraging banking and business houses to continue a normal international short-time credit business within the scope of the Neutrality Act has been recommended to Secretary Morgenthau by an Advisory Committee which he has formed to assist the Treasury in carrying out its functions under section 3 of the Neutrality Act. This section of the Act governs credit transactions between persons in the United States and governments of belligerent states, or their agents.

"President Roosevelt on September 6 and 11, 1939, approved regulations permitting certain types of credit accommodations and authorizing the Secretary of the Treasury to administer the provisions of the regulations. To assist in the work Secretary Morgenthau designated Under Secretary Hanes to head an Advisory Committee composed of the representatives of the State, Commerce and Treasury Departments.

"The Committee recommended to Secretary Morgenthau that the President's regulations be administered with the least possible disturbance to business. The Committee also recommended that persons seeking guidance on particular transactions should be requested to submit their questions, with a full statement of facts relating thereto, to the Federal Reserve bank of their district, which will act as fiscal agent of the United States in this connection.

"The Committee also recommended the issuance of regulations prescribing weekly reporting of credit transactions with belligerents. These reports which are to be made by any one engaging in a credit transaction subject to section 3 of the Neutrality Act are to be filed with the Federal Reserve bank of the appropriate district.

"The Committee suggested that attention be called to the types of transactions which the Neutrality Act specifically excludes from its prohibitions, for example, transactions in or renewals or adjustments of obligations of a belligerent country which were outstanding on the date of the Presidential Proclamation designating that country as a belligerent. These exemptions are in addition to the exemption which was ordered by President Roosevelt in his regulations of September 6 and 11, 1939 and which applies to ordinary commercial credits and short-time obligations in aid of legal transactions and of a character customarily used in normal peacetime commercial transactions.

- 2 -

"Of course, the Johnson Act of April 13, 1934 relating to financial transactions with governments in default on their obligations to the United States continues in effect.

"The Secretary of the Treasury has adopted the recommendations of the Advisory Committee and, with the approval of the President, has issued the regulations relative to reporting credit transactions with belligerents. Copies of such regulations and the report forms prescribed thereunder may be obtained from Federal Reserve banks or branches or the Treasury Department, Washington, D. C."

Q J. Hoff.

Per _____

M. R. Nicholson
U. S. TREASURY ATTACHE
SHANGHAI, CHINA

Shanghai, September 18, 1939.

WANG CHING-WEI AND YOSHIZAWA CONFERRED ON FOREIGN
POLICY

On September 5th Mr. Yoshizawa (芳澤謙吉), former Japanese Ambassador to China and now Japan's high diplomatic envoy to this country, arrived in Shanghai by plane on important government mission from Tokyo. The same evening he went into conference with leading Japanese and Chinese officials including Wang Ching-wei, Kao Chung-wu (高宗武), Chu Min-yee (褚民誼), Chen Kung-po (陳公博), Mei Sze-ping (梅思平), Ting Mo-tsun (丁默邨), Fu Siao-an (傅筱庵), Soc Shi-wen (蘇錫元), Gen. Yamada (山田大將), Kotama (兒玉忠實), Ikeda (池田), Nagaya (長谷), and the representatives of the Asia Development Board (吳世榮), the Japanese Consulate-General, and the Japanese Embassy. The meeting was presided over by Mr. Matsuoka (松岡洋右) who opened the meeting with remarks that Mr. Yoshizawa came to China this time with an important order from the Emperor to clarify Japan's real policy with regard to her position in the European War. Japan is not going to adopt a neutral policy as generally reported and believed. When conditions warrant, Japan is going to blockade the Whampoo River at Woosung and also close the South Seas forbidding the navigation of various nations. The activities of various nationals are likewise to be restricted and the British and French Settlements and concessions are to be placed under Japanese military control. The property of British and French nationals are to be put under Japanese control. The foreign consuls are to be notified to withdraw within 24 hours or else they will not be responsible for their safety.

After the above remarks by Matsuoka, Mr. Yoshizawa declared that close negotiations are now being carried on between Japan and Soviet Russia

for a proposed alliance, although the treaty has not been signed. The background for this proposed spectacular move is due to the voluntary change of national policy of Soviet Russia which enables Italy and Germany and Japan to come to realize the possibility of cooperation with her. This step if and when taken by Japan, Mr. Yoshizawa hoped, would have the understanding of China.

Wang Ching-wei then asked Mr. Yoshizawa whether Japan has made any representation to Chungking with regard to a possible Sino-Japanese rapprochement, in view of her new relation with Soviet Russia.

Mr. Yoshizawa did not answer the question but told Mr. Wang that he was sent over to consult him on the issue of Sino-Japanese relations.

Mr. Wang remained silent for quite some time then stated that the diplomatic policy of Japan was very disappointing and puzzling to him. He frankly told Mr. Yoshizawa that he is really at a loss as to what to say in this sudden issue but would like to suggest that Japan make her policy clear so that he could formulate a definite program.

Mr. Matsuoka said that in view of the rapidly changing international situation, Japan is also in a difficult position to adopt a fixed policy, and adjust it according to the new environment. He also stated that the proposed five power pact is now definitely under serious consideration. Mr. Wang asked about the names of these five powers and was told, Japan, Germany, Italy, Soviet Russia and China. He laughed coldly and said that he could have nothing to say on this. The meeting then adjourned without any results.

RE PROFITS ON GOVERNMENT
ARMS CONTRACTS

September 18, 1939.
11:30 a.m.

Present: Mr. Duffield
Mr. Foley
Mr. Helvering
Mr. Wenchel
Mr. Mooney
Mr. Lobred
Mr. Burrus
Mr. Reiling

Helvering: The general policy of the thing is going to cause a mess, because if the Army is going to take the attitude of certifying say, 50 percent or 60 percent or something like that, it may not dovetail at all with what the actual situation is. Congress in the law stated 10 percent on general munitions and 12 percent for airplanes, so it kind of puts us in the crux of the thing. That was without any profit.

Of course, then, the depreciation allowed on these things will enter into that profit very greatly.

H.M.Jr: We laid down the thing before I went to Europe. We went all through that thing.

Helvering: But that was on armor plate alone.

H.M.Jr: If a concern wants to invest a large amount of money to increase its plant in order to make good on its delivery, that on certification from the Army or Navy - I will get Foley in here. Foley worked this all out. We should omit, then, the maximum amount of depreciation so that they will go ahead and enlarge their plants. I am not familiar with the Army thing.

In the case of armor plates, I think the Navy is at least a year behind on their six battleships and it is a question of investing six million dollars in addition in order that these people can deliver the armor plate. They worked out this procedure. This Board at first turned them down. Good God, this has been going on since July and the damn thing isn't settled yet.

- 2 -

- Duffield: Mr. Secretary, pending Ed's arrival, because I talked to him at quite some length about it on Saturday, the press release brought it all on.
- H.M.Jr: I wanted the press release to put you on the spot.
- Duffield: I think the question that worries Ed as to whether the certification as to the amount of depreciation allowable is binding on the Bureau or whether the Bureau itself can investigate the facts in the case. I think that is one....
- H.M.Jr: You agree to accept that?
- Duffield: Yes.
- H.M.Jr: We agreed to accept that.
- Duffield: Oh, you did?
- H.M.Jr: Sure we did. But we have got nothing. We have been talking about this thing for weeks and weeks and weeks and nothing happens. I don't know what is the matter.

(Mr. Foley enters the conference)

Ed, I am talking about why we don't get something done on this depreciation. I thought it was all done and there has been nothing done.

- Helvering: This has been done: The committees have been appointed.
- H.M.Jr: No, but they haven't signed up. I want to know, have the armor plate people gone ahead with their explanation or haven't they?
- Wenchel: Mr. Secretary, no one has filed any applications. They have simply come in from time to time and discussed with the committee what they proposed doing. The last one to come in was Colt, and their suggestion - they are going to make a number of Browning guns and they are the only ones who can make them, because they hold the license from Browning. They have come in and requested 75 per cent obsolescence and depreciation. That is why

- 3 -

we have one consideration now. I don't understand that if the Navy certifies 75 percent that we are to take it without any investigations.

Foley: This is in connection with the manufacture of a certain gun.

H.M.Jr: Each case is separate.

Foley: It has to be separate.

Wenchel: That is exactly the principle.

Foley: The armor plate is the only thing that we have really made any statement in connection with.

Wenchel: That is right. On the other hand, let's get this straight, the armor plate people have never come in yet.

H.M.Jr: When I go to the President I want to make sure of my own situation.

Wenchel: They are, Mr. Secretary. As a matter of fact, these regulations were prepared eight days after the Act.

H.M.Jr: I just wanted to make sure there is no comeback.

Foley: You know that Edison got an authorization to spend six million dollars to put stuff in and now he doesn't want to use his money.

H.M.Jr: But I have got to go at 1:00 o'clock and tell the President that I told this-and-so, and the fault is Edison's. I don't want to have Edison say this Board is what is holding him up. I want to make sure my skirts are clean.

Wenchel: They are, 100 percent.

Foley: We are only talking about armor plate now, aren't we? Well, when you have gotten everything you want on that, then I think we ought to have a little discussion....

H.M.Jr: I am going to say to the President at 1:00 o'clock, "I am sorry, Mr. President, I told you the armor plate was finished and it isn't."

- 4 -

Wenchel: It is finished as far as you are concerned, Mr. Secretary.

H.M.Jr: We are waiting on Edison; I want to tell him that.

Duffield: And the steel companies.

Foley: They are satisfied and they are going ahead, as I understand it, and they are not holding Edison up. Based upon this understanding....

H.M.Jr: I just want it so I can tell the President - I don't want Edison to come back and say the Treasury blocked - all right. Now, that is that thing.

Now, what about the Army and the....

Foley: You see, in so far as aircraft is concerned, there is a similar Act that allows a 12 percent rather than a 10 percent profit.

H.M.Jr: Is that before you?

Wenchel: That hasn't come to us.

Foley: That is a dangerous one, Mr. Secretary, because that isn't exactly the same as the armament.

H.M.Jr: But that isn't before you either.

Foley: No.

Wenchel: No, sir.

Foley: I don't know whether we can do anything on Allis Chalmers motors.

H.M.Jr: What about these Browning guns?

Wenchel: They are asking a 75 percent allowance for obsolescence and depreciation and we are going over that with them. We haven't come to any conclusion except we are pretty damn sure we are not going to give them 75 percent.

- 5 -

Foley: Mr. Secretary, if the arms embargo is changed and these firms are able to manufacture guns for transportation to England on a cash and carry basis, then this whole thing will change because the very equipment and the very machinery that they install to meet the contracts given by this Government will also be employed to meet these foreign contracts, and they are not entitled to that amount of obsolescence and depreciation. And if we start by this device giving these fellows an allowance that was never contemplated, we are going to be investigated by Congress, by the people that wanted a profit limitation.

H.M.Jr: We should be.

Foley: And we have to be terribly careful.

Helvering: We are in the middle on that. Congress says 10 and 12 percent.

H.M.Jr: But this was a question of bottleneck and the Navy being behind it, but I don't want the President to think that I told him the Navy - I want to put it back on to Edison and let the President do what he wants, but I didn't want Edison to come back and say, "The damned old Internal Revenue," et cetera.

Helvering: Of course, Congress in the armaments proposition changed that 10 percent limitation in the appropriation that gave Edison the right to boost it up to six million dollars.

Foley: Oh, sure, he doesn't want to go that way now.

Wenchel: This Browning arms contract, that is with the Colt Company but they haven't filed yet.

H.M.Jr: Personally, I want to be kept posted. Keep me posted through Foley.

Wenchel: That is right.

H.M.Jr: Will you, Guy? Is that agreeable to you?

Helvering: Yes.

- 6 -

Burrus: I think it might be said, Mr. Secretary, also, that in the armament manufacturing case the Navy was under obligation to furnish to the battleship manufacturers, themselves, the armor plate for them within specified time limits and were liable in damages if they were not.

H.M.Jr: That is all right. I just want to make sure.

Foley: That isn't present in these other cases: The Colt arms and the Allis Chalmers motors.

H.M.Jr: This is under you, isn't it, Guy?

Helvering: Yes.

H.M.Jr: You, Guy, keep me informed. You don't have to go through anybody. All right?

Helvering: Yes, I will do that.

H.M.Jr: That is all right, but I will rely on both Foley and Helvering.

All right, gentlemen, glad your skirts are clean and so are mine.

Prepared by: Mr. Murphy
Mr. Lindow
Mr. Tickton
Mr. Haas

TREASURY DEPARTMENT

29

INTER OFFICE COMMUNICATION

DATE September 18, 1939

TO Secretary Morgenthau
FROM Mr. Haas *HA*
Subject: Proposed Note Issue

An issue of 5-year notes, for refunding purposes, to anticipate the December note maturity, could probably be offered successfully at the present time. We believe, however, that it would be preferable to delay such an offering until the market is more settled. A rough index of this might be the passage of one or two weeks without Federal Reserve support to any segment of the market.

A 5-year note issue with a coupon rate of 1-1/2 percent would sell at about 101-14/32 based on today's (Monday) close. A 5-year 1-3/8 percent note, on the same basis, would probably sell at about 100-27/32. The "rights" closed today at 100-27/32 bid and 100-30/32 offered.

If such an offer is to be made, we should strongly urge that the exchange offer be held open preferably for a single day only, and in no event more than two days.

The principal arguments against and for making such an offering at the present time appear to be as follows:

CON:

The international situation and the market are still highly dynamic, and the longer segment of the market is still dependent, from time to time, on Federal Reserve support. This casts a shadow over the "freedom" of the whole market. Bankers may be hesitant to embark upon new commitments until there is more evidence that the market has found its new level, from which further change will be gradual.

The War has only been proceeding for about two weeks, and there is at least another month during which the December note issue might be anticipated without interfering in any way with the regular financing date. If an opportunity does not present itself during this time, the December financing may be proceeded with in the regular way and the advantage lost by the omission of the September financing picked up later.

Secretary Morgenthau - 2

It might be better to wait for the new level of the market to develop and hold for a while without Federal Reserve support before undertaking a new financing operation. If the level so developed should be lower (i.e., higher in yield) than the present one, it would still be better for the Treasury to pay the higher rate than to have a new issue go to a substantial discount immediately after issuance.

PROS:

(1) Under any circumstances it is a substantial advantage to keep maturing obligations anticipated three months in advance, in order to provide some leeway in the event of an emergency. The value of this under the present extraordinary circumstances was clearly demonstrated this month.

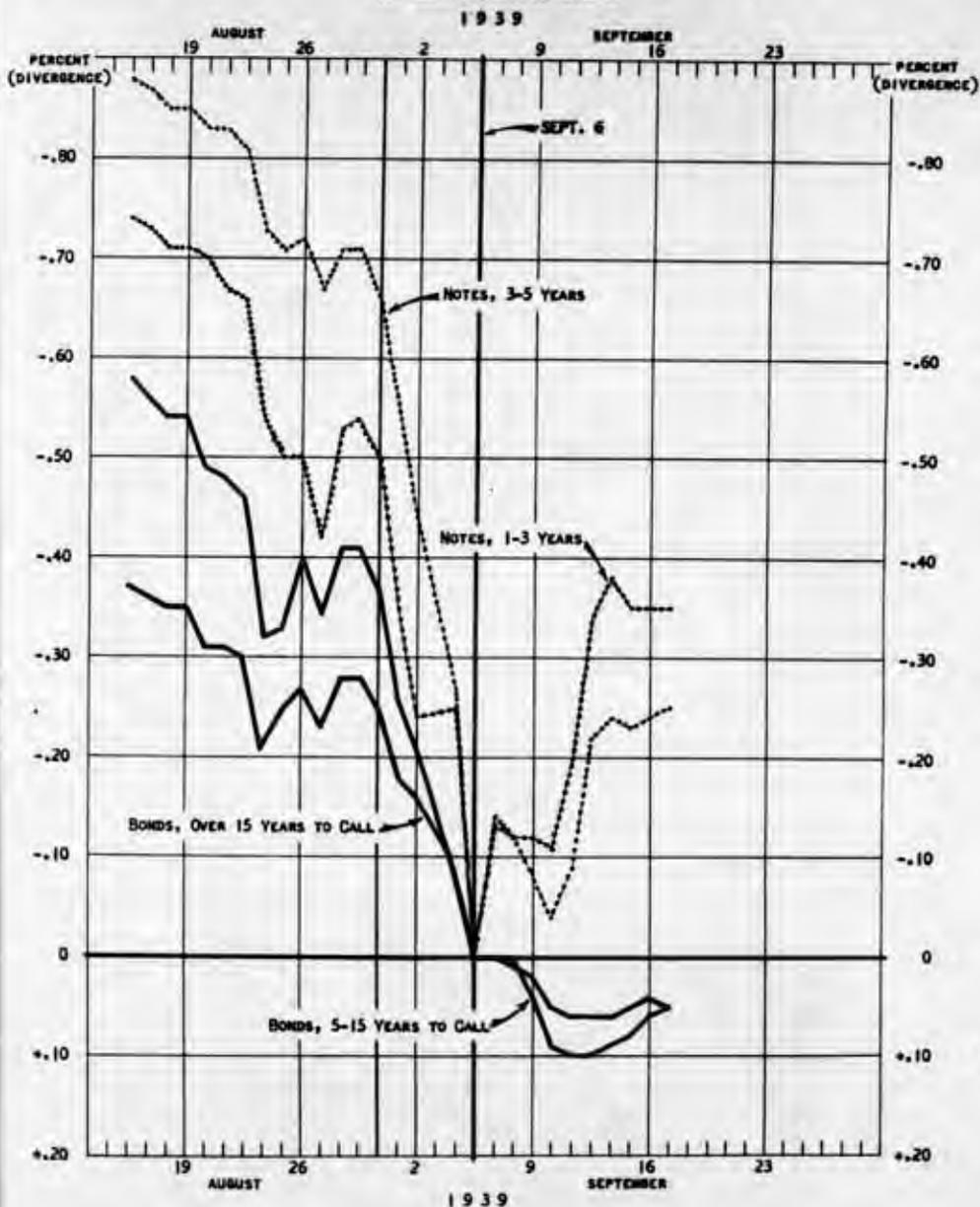
(2) The December note maturity is only \$526 millions. Excluding the \$106 millions held by the Federal Reserve banks, there are only \$420 millions otherwise held. The March note maturity, however, is \$1,378 millions. If the December's are out of the way before the regular financing date, it will probably be possible to anticipate the March's at that time, as well as to raise the necessary new money. Refunding the December's and anticipating the March's and raising new money, however, would probably be too much of a deal for the December financing date, even assuming good conditions. The best bet, therefore, would seem to be to get the relatively small issue of December's out of the way at the earliest convenient opportunity.

(3) The quoted market for notes should be reasonably dependable (particularly for pricing a refunding operation), because the note market at the present time is a reasonably free one. It has received no appreciable Federal Reserve support since September 6, and the only exception to its "freedom" seems to consist of the voluntary agreements not to sell arranged by the Federal Reserve Bank of New York. These agreements, however, can scarcely account for the important rally which the note market has staged independently of the bond market since September 6, as shown in the accompanying chart.

Attachment.

DIVERGENCES IN THE YIELDS OF U.S. SECURITIES BEFORE AND AFTER SEPT. 6, 1939

Points Plotted Represent the Difference from Sept. 6 Yield
of Each Maturity Class



JR

GRAY

London

Dated September 18, 1939

Rec'd 2:30 p.m.

Secretary of State,
Washington.

1701, September 18, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

Two factors are operating to produce a black market in pounds in New York and in other neutral free currency centers: (one) the fact that the current official rate of the pound, particularly in New York, does not actually measure the hazard with which the national currency of Great Britain is faced in this war and (two) the fact that the exchange controls imposed by Great Britain and the component parts of the British Empire are by no means watertight. This condition is both generic and specific: generic, because all countries which have imposed foreign exchange control have always had to face the problem of continuous evasion by continually blocking up loopholes; specific, because Great Britain in order to preserve insofar as possible London's standing as a money market has not completely blocked sterling accounts owned by foreigners in London (and has also given Americans a preference as indicated in paragraph 3 my 1367 of

September

-2- #1701, September 18, 6 p.m., from London.

September 1, midnight). Furthermore English and to some extent foreign banks here have been made the operating mechanism and this in itself may well make disbursement easier, particularly in trade transactions where the obvious loophole lies in under-invoicing exports and over-invoicing imports.

No doubt as time goes on the British foreign exchange control system will be tightened. It can the more easily be done so without imposing hardships on individuals after the exodus of foreigners who have been resident in the United Kingdom. It is probable that as time goes on the amount of dealings at below the official rate will tend to decline but the rate itself may also decline further as the war in the west increases in intensity and destruction. If Americans take advantage of the present regulations to remove their balances, et cetera and if American exporters take advantage of their rights under the existing regulations to obtain conversion from pounds into dollars for performing contracts at the official rate, sales of pounds, on the black market should not prove disadvantageous to American interests since they would only be made to those who have commitments to liquidate in this country and could thus do so on favorable terms.

But

-3- #1701, September 18, 6 p.m., from London.

But if and when the British do tighten their exchange control they will ipso facto lose much if not most of their huge income from the financial services which London customarily performs--with redounding benefits to New York.

KENNEDY

CSB

RECEIVED

SEP 19 1938

TREASURY DEPARTMENT
Director of the Bureau of
Internal Security in the District

JR

PLAIN

London

Dated September 18, 1939

Rec'd 1:05 p.m.

Secretary of State,
Washington.

1703, September 18, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

With reference to your inquiry regarding the documents relating to recent British financial regulatory measures a complete set goes forward to the State Department in tomorrow's pouch on the MANHATTAN. Delays in official printing of acts and orders rendered the assembly of this material impossible at an earlier date.

KENWEDY

CSB

RECEIVED

SEP 18 1939

THE STATE DEPARTMENT
Division of the Secretary
The Secretary of State

JR

GRAY

Paris

Date: September 18, 1939

Rec'd 11 a.m.

Secretary of State,
Washington.

2028, September 18, 1 p.m. (SECTION ONE)

FOR THE TREASURY.

As a further natural step in the mobilization of all available resources for the prosecution of the war the JOURNAL OFFICIAL dated September 17, appearing this morning, carries a Presidential decree providing for the registering of all foreign investments. The explanatory preamble states that where the system of exchange control makes available to France all resources in its territory similarly the present decree is designed to afford a "complete register of French assets held abroad". Article I reads as follows: "All physical persons of French nationality having their customary domicile in the metropolitan area, in Algeria, in the colonies, and in the African territories under French mandate, and all French moral persons or all foreign moral persons for the establishments w hich they have in the metropolitan area Algeria, the colonies and in the African territories
under

-2- #2028, September 18, 1 p.m. (SECTION ONE) from Paris.

under French mandate who possess abroad movable or immovable property or who possess credits abroad not represented by transferable securities held in France or who have concluded agreements of whatsoever nature assuring them directly or indirectly of participation, interest or income abroad, must make to the office of Foreign Affairs exchange created by the decree of September 9, 1939, a declaration of these assets by category and value as of October 15, 1939. They are likewise obligated to justify at any moment upon request of the office of foreign exchange the existence of these assets or changes therein after October 15, 1939".

(END SECTION ONE).

BULLITT

KLP

RECEIVED

SEP 18 1939

THEATRE DE L'OPERA
Office of the Director
General of National Archives

JR

GRAY

Paris

Dated September 18, 1939

Rec'd 11:16 a.m.

Secretary of State,
Washington.

2028, September 18, 1 p.m. (SECTION TWO).

Article II stipulates that these declarations must be signed before December 1, 1939. An extension is given to February 1, 1940 for "a physical person owner of these assets who is under arms or for a moral person where all the associates, managers, directors or other representatives are likewise under arms". Further delays may be granted by the foreign exchange office in cases of "force majeure". Article III provides that the moral persons cited in Article I must file a similar declaration with the office of foreign exchange concerning any gold or foreign exchange holdings as of October 15, 1939 which are not included within the scope of assets defined under Article I.

Article IV stipulates various penalties ranging from six months to five years imprisonment, fines from one thousand to one hundred thousand francs, confiscation of undeclared assets and deprivation of civil rights.

BULLITT

KLP

MJD

GRAY

PARIS

Dated September 18, 1939.

Rec'd. 12:25 p. m.

Secretary of State,
Washington.

2028, September 18, 1 p. m. (SECTION THREE).

The preamble states that just as in other fields delinquencies were pardoned with the beginning of the war in the financial domain there will be a similar amnesty (for tax evasion) where assets held abroad are now immediately repatriated or included in the new declaration. To this end article 5 provides that "no financial claim for the past may be made subject to the reservation that these assets have not been made the object of any administrative or judicial proceedings prior to the date of the present decree. If (a) the assets are repatriated before October 15, 1939, or (b) they are regularly declared as provided herein". Article 6 stipulates that the interested Ministries shall fix the details of application of the present decree which is to be submitted for ratification by Parliament in conformity with the provisions of the law of March 19th, 1939.

02/1/39
 002 21 579
 THE GOVERNMENT

BULLITT

CSB

JR

GRAY

Paris

Dated September 18, 1939

Rec'd 11:24 a.m.

Secretary of State,
Washington.

2028, September 18, 1 p.m. (SECTION FOUR).

The JOURNAL OFFICIAL of September 17 likewise carries a decree containing additional appropriations of some 254 million francs chargeable to the 1939 budget. Of that sum 150 million francs is for maintenance and improvement under the Public Works Ministry appropriations of "roads and bridges--ordinary repairs and for war damages".

The Bank of France rates this morning for sterling are unchanged, namely 176.50 buying rate and 176.75 selling rate. United States dollar rates are likewise unchanged (43.70 and 43.90). New Canadian dollar rates, however, are 39.70 and 40.15. (END MESSAGE).

BULLITT

KLP

RECEIVED

SEP 18 1939

RECEIVED
DEPARTMENT OF STATE
SEP 18 1939

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: September 18, 1939, 6 p.m.

NO.: 2044

FOR THE TREASURY.

For a moment this afternoon we saw Reynaud. The way the exchange control is working seems to be quite satisfactory to Reynaud; he also seems satisfied with the general French financial situation. He said that there would be nothing to worry about if things were going as well in (omission) fields as they are in the financial.

There was further progress today in smoothing out exchange operations and the backlog of pending applications was somewhat reduced. The new compulsory "census" of France's foreign holdings reported in our telegram No. 2028 this morning has been philosophically accepted in financial circles where it caused no surprise. American banks are of course pleased that for the time being at least it applies only to foreign (moral persons) and not to individual foreigners.

At present there are no indications that there will be any immediate "requisitioning" of the foreign assets which have to be reported now. However, it is our belief that it may only be a question of time until such action is taken, depending on the war's progress and cost. France in the meantime is trying to maintain as much of the liberal economy complexion as is possible, when it does not conflict with the exigencies of successfully prosecuting the war.

END SECTIONS ONE AND TWO.

BULLITT.

LWW

PAP

GRAY

PARIS

Dated September 18, 1939

Rec'd 7:25 p.m.

Secretary of State

Washington

2044, September 18, 6 p.m. (SECTION THREE).

Problems of interpretation of what must be declared will of course arise where French buyers of American corporations are concerned.

The securities market was naturally heavy today but turn over was on a limited scale. The Russian attack on Poland was not unexpected in financial circles and while it naturally had a depressing effect there was no sense whatever of panic. Most rentes issues closed generally lower but a firm undertone prevailed.

LE TEMPS this evening reports a new measure of British cooperation with France in working out exchange control: the British Treasury henceforth will only furnish sterling to French nationals against gold, francs or other foreign currencies and French francs only will be furnished French nationals against sterling holdings. French nationals will therefore not be able to convert their gold holdings in London into dollars

or

PAP -2- 2044, September 18, 6 p.m. (SECTION THREE)

or into other non-allied currencies. The French whole-
 sale price index for August declined from 678 to 674
 owing largely again to a reduction in the foodstuffs
 index. On the other hand retail prices rose from
 759 to 764. New capital issues during July totaled
 969,000,000 francs compared with 681,000,000 for
 June.

(END OF MESSAGE)

BULLITT

EMB:NPL

RECEIVED

SEP 19 1938

THE ARMY DEPARTMENT
 Chief of the Bureau
 Forwarded to the General

TREASURY DEPARTMENT

43

INTER OFFICE COMMUNICATION

DATE Sept. 18, 1939.

TO Secretary Morgenthau

FROM

Mr. Haas *GH*

Subject: Has the outbreak of the European War changed the plans for the development of the distribution of surplus commodities by means of the "Food Stamp" plan?

I put the above question to Mr. Milo Perkins, President of the Surplus Commodities Corporation, and he said that to date there had been no change in their previously worked out plans. He pointed out that the "Stamp Plan" is now operating in Rochester, N. Y., Dayton, Ohio, Seattle, Washington, Birmingham, Ala., Shawnee city region, Okla., Des Moines, Iowa, and Springfield, Ill. The plan may be initiated in Salt Lake City in the very near future unless some unforeseen development occurs.

Mr. Perkins pointed out that the war has cut off the export market for some important food crops, such as apples and citrus, and as a result the surplus disposal operations may have to be expanded.

Mr. Perkins repeated again that the plans for the development of the stamp system were going ahead as before, but if increased business activity here should, for example, result in substantially increased prices for the commodities which they were handling, they would, of course, take another look at the situation.

TREASURY DEPARTMENT

44

INTER OFFICE COMMUNICATION

DATE September 18, 1939

TO Secretary Morgenthau

FROM Joseph P. Cotton, Jr.

Re: Turkey

The State Department apparently knows nothing about any Turkish inquiry as to financing purchases of steel. What you may have heard may be in connection with the following:

The British Ambassador in Turkey recently told our Ambassador that the British were considering a further loan to Turkey and inquired informally whether the United States might in some way participate in making such loan, the proceeds of which might be used to stabilize the Turkish pound. Our Ambassador said he doubted that we would want to participate, especially in view of the fact that Turkey has not repaid advances made by the International Match interests here which were apparently used to acquire the gold reserve now constituting the Turkish currency reserve. There is going to be a conference at State Department tomorrow to consider this Turkish situation.

J.P.C.

(President said this is a purely hypothetical case.)

September 18, 1939

M E M O R A N D U M

Mr. Livesey of the State Department telephoned me about Cablegram #1683 from London shortly after noon on September 16. After receiving the text I called him back later in the day. I found that the Department of State had sent no instruction in the premises to London and most likely would take no action prior to the dead line of Monday morning set by Ambassador Kennedy.

At 9:15 P. M. Saturday, September 16, I read this message to Mr. Bailie by telephone. He thought the British exceptional treatment for Americans was reasonable in all respects, with the possible exception of that for gold. If it might be considered as a contravention of American law for American citizens to hold gold outside of the United States, he thought we should say nothing. If this is legal, he suggested that inquiry be made of the Embassy in London as to whether resident Americans selling their gold could convert the sterling proceeds into dollars at 4.02.

I telephoned Dr. Stewart on the same question at 9:40 Saturday night. He recalled that England has had legislation for several years providing that gold of residents may be requisitioned. This authority is now merely being exercised. He thought Americans had violated no American law in holding gold abroad. He referred to previous cables which he thought provided that sterling proceeds of security sales could only be converted at the "going rate" and thought this might likewise apply to

-2-

to proceeds from gold sales. Dr. Stewart was of the opinion that the British position is reasonable and that if Ambassador Kennedy had raised no objection, we should not now.

I visited Mr. Livesey at the State Department at 11 o'clock Sunday morning. He recalled that the plan to requisition gold of residents of the United Kingdom was made known to us last March in Butterworth's confidential cable, and again on September 4, and that we have taken no exception thereto. He feels that the offer of the British to pay 168 shillings per ounce for hoarded gold is fair. He referred to the British legislation already on their books to the effect that residents of the United Kingdom might be requested to sell their gold. Non-residents assumed that they would not be required to sell gold hoarded in London. The latter are now permitted to ship it out, but in so doing must pay excessive war risk insurance and meet other difficulties. If they hold it in England there is of course the war danger. Some, therefore, may voluntarily offer it to the Control.

Livesey thought the British action was certainly no more extreme than we would take in similar circumstances and that the State Department should make no protest on the general provisions, including that with respect to gold. The State Department might have some observations to make with respect to the 7 years' ruling on residents.



HMC:

DIVISION OF SAVINGS BONDS

September 18, 1939.

To The Secretary
From Mr. Bryan

More Savings Bonds, by several millions, have been bought during the first fifteen days of this September, despite the war and rapidly rising stock market, than were sold the first fifteen days of September a year ago. And, best of all, the redemptions have remained in proportion to amount sold, about the same.

The extraordinary acceptance of Savings Bonds and the apparent determination of their owners to hold on to them must be accredited to advertising. Savings Bonds were sold to stay sold, and our advertising has not only moved these securities, but built up a great bulwark of public credit and confidence in the Government. Advertising can be counted on to do in the future what it has done in the past.

A million dollars a year, for two years, spent in magazines and newspapers and backed up by our great direct-by-mail campaign not only would sell more and more Savings Bonds and keep them sold, but bring tremendous and varied good that would stand our country in good stead in this dark hour of World's history.



COMPARISON OF SALES AND REDEMPTIONS
OF
UNITED STATES SAVINGS BONDS

September 1 thru 15, 1938 - (12 working days)

Total Sales.....\$16,904,900

Total Redemptions.....\$ 3,279,700.

September 1 thru 15, 1939 - (12 working days)

Total Sales.....\$24,008,300.

Total Redemptions.....\$ 5,518,900.

49

TREASURY DEPARTMENT

CONFIDENTIAL

INTER OFFICE COMMUNICATION

DATE Sept. 18, 1939.

TO Secretary Morgenthau

FROM Mr. Hanes *HA.*

Subject: Report of telephone conversations with advisory group members re business outlook in connection with revised revenue estimates.

In connection with the revision of the revenue estimates we are now making, to take into account the changed situation which may result as a consequence of the European War, I discussed the business outlook by telephone on Friday, Sept. 16, 1939, with the following people who have been attending the advisory group meetings on revenue estimates:

Mr. George E. Roberts,
Vice President,
National City Bank of New York.

Col. Leonard P. Ayres,
Vice President,
Cleveland Trust Company.

Mr. Seymour L. Andrew,
Chief Statistician,
American Telephone & Telegraph Co.

Mr. Ragnar D. Naess,
Vice President,
Tri-Continental Corporation.

Mr. Walter Lichtenstein,
Vice President,
First National Bank of Chicago.

**Mr. Joseph S. Crews,
Barrett Associates,
New York City.

Mr. F. Leslie Hayford,
General Motors Corporation.

Mr. Lionel D. Edie,
New York City.

I asked each of them to give me his best estimate of the Federal Reserve Board's Index of Industrial Production and the Bureau of Labor Statistics' Commodity Price Index, as follows:

- (1) Average for Calendar Year 1939
- (2) December 1939
- (3) Average First Six Months 1940
- (4) June 1940

** Mr. Crews was suggested to me by Mr. Hanes some months ago. As I recall, he worked for Mr. Hanes at one time.

In all cases the estimates are the considered opinions of these men and were reported to me after my original call, some of them coming in Friday evening and the remainder on Saturday morning. Their replies are summarized in Tables 1, 2, and 3, which are attached.

Outlook for Industrial Production

You will note that all of them expect the F.R.B. Index of Industrial Production to be at a much higher level between now and the end of this year. Mr. Roberts, Mr. Naess, and Mr. Crews estimate that the index for the calendar year 1939 will average 104. This means that some month between now and the end of this year will have to average 120 or better. Several of them, including Mr. Hayford and Mr. Edie, expect the higher month sometime before December, probably in November.

Although there exists considerable uniformity of opinion with regard to the period between now and the end of this year, there is considerable divergence of opinion with respect to the outlook for the first six months of 1940. Some of them, notably Mr. Edie, who before the outbreak of war were fairly optimistic about the first six months of 1940, have now changed their positions in light of the war developments and look for more or less of a setback during that period. Mr. Edie, Mr. Roberts, Mr. Naess, Mr. Crews, Mr. Hayford, Mr. Lichtenstein, and to a lesser extent Mr. Ayres, feel that the increased business activity between now and the end of this year will to a considerable extent go into inventory of one form or another. They believe that the present activity is borrowing on the future. The only thing, as they see it, which would prevent a decline later would be an increase in war or related orders which would give production the necessary support. They feel it is unlikely that war orders will come in in sufficient volume at such an early period. Mr. Roberts described the present situation as a "boomlet". Mr. Edie said it looked to him like more or less of a stampede which was greatly over-discounting near term developments and was bound to result in a decline.

Mr. Roberts, Mr. Naess, Mr. Hayford, and Mr. Lichtenstein, however, feel that after the decline, business will again be moving upward in the Spring or late Spring of 1940. Mr. Edie and Mr. Crews, on the other hand, were not so optimistic that the adjustment would be accomplished so rapidly, as you will note both of them estimated that the F.R.B. Index next June would average 100.

Mr. Andrew estimated that the F.R.B. Index would continue upward during the first six months of 1940 and would average 130 in June of that year. As you will note on Table 1, he and Mr. Ayres are the most optimistic with regard to the first six months of 1940.

Outlook for Commodity Prices

There is somewhat more uniformity in the commodity price forecasts than in the business forecasts. The group was asked to estimate the B.L.S. Commodity Price Index. This index averaged 75 in August 1939 and for the week ending Sept. 9, 1939 it was 78.4. The June 1940 estimates, as shown by Table 2, average 87. The low estimates are those of Mr. Roberts and Mr. Crews, both being 83. The high figure is 98, that of Mr. Lichtenstein, the next highest being Mr. Hayford's 88. Only Mr. Crews estimated that prices in the first six months of 1940 would average less than his estimate of the December 1939 figure. You will note on Table 2 that he expected a sharp rise between now and December 1939, and then a slight falling off. All the others expect prices in the first six months of 1940 to show an improvement over their estimates for December 1939.

F.R.B. Index	Average	Ayres	Roberts	Andrew	Maess	Crews	Hayford	Lichtenstein	Edie
Average for Calendar Year 1939	103	102	104	101	104	104	102	102	102
December 1939	115	115	122	115	118	118	112	110	112
Average First Six Months 1940	111	117	111	123	112	105	109	107	105
June 1940	113	118	114	130	116	100	115	112	100

B.L.S. Index	Average	Ayres	Roberts	Andrew	Naess	Crews	Hayford	Lichtenstein	Edie
Average for Calendar Year 1939	77.7	77	77.5	77	77	78	78	80	77.4
December 1939	81	79	80	80	80	85	83	83	81
Average First Six Months 1940	85.1	83	81.5	83	83	84	85	95	86
June 1940	87	85	83	85	84	83	88	98	86

	Average		Ayres		Roberts		Andrew		Naess		Crews		Hayford		Lichtenstein		Edie	
	FEB	BLS	FEB	BLS	FEB	BLS	FEB	BLS	FEB	BLS	FEB	BLS	FEB	BLS	FEB	BLS	FEB	BLS
Average for Calendar Year 1939	103	77.7	102	77	104	77.5	101	77	104	77	104	78	102	78	102	80	102	77.4
December 1939	115	81	115	79	122	80	115	80	118	80	118	85	112	83	110	83	112	81
Average First Six Months 1940	111	85.1	117	83	111	81.5	123	83	112	83	105	84	109	85	107	95	105	86
June 1940	113	87	118	85	114	83	130	85	116	84	100	83	115	88	112	98	100	86

GROUP MEETING

September 18, 1939.
9:30 a.m.

Present: Mr. Graves
Mr. Duffield
Mr. Riefler
Mr. Haas
Mr. Thompson
Mr. Gaston
Mr. Cochran
Mr. White
Mr. Bell
Mr. Burgess
Mrs Klotz

H.M.Jr: Herbert, did you have a good time?

Gaston: I had a good time, thank you.

H.M.Jr: Is Mrs. Gaston all right?

Gaston: Very well. We had a very good trip each way. Otherwise, I don't know anything except what I have seen in the papers. I haven't seen anybody.

Burgess: That is the way with Duffield.

Duffield: That is right; sometimes I am surprised to know that.

H.M.Jr: Dan, I guess this would go to you; I don't know. The National Industrial Conference Board on Government Expenditures.

Bell: Yes.

H.M.Jr: I wish you would get some copies and see if you can learn anything.

"The French must report all foreign holdings." Have we got that, Merle?

Cochran: We haven't all the regulations yet. We have the summary.

H.M.Jr: "Britain to buy huge food supplies; details furnished the U.S.A." Will you take that, George? (Handing clipping to Mr. Haas)

I think this editorial - I have only got one copy of it - on "Gold and Peace and War" - I want to refer it to White.

- 2 -

Burgess: What was that in?

H.M.Jr: The Post. Could you get copies and furnish it to the "Sleepless Six"? (To Duffield)

White: I have the article upon which that is based and I will send it around.

H.M.Jr: Will you?

George, did you get my message about notes?

Haas: Yes.

H.M.Jr: When can you give me a picture about the five-year period?

Haas: The message I got was in connection with pricing the five-year....

H.M.Jr: You might sit up closer. Let me give you this (handing paper to Mr. Haas).

I feel this way: After all, my first job is to raise the money and the way my mind is working, so you people can be thinking about this, is that I would like to get that money out of the way as soon as possible.

Burgess: I agree with you.

H.M.Jr: I think the five-year field - somebody told me that the securities have been rising now for some time.

Bell: They have been pretty stable lately.

H.M.Jr: I think Harris told me they were rising.

Burgess: There has been quite a little recovery.

H.M.Jr: This idea of waiting until things get better - they may get a damn sight worse.

Burgess: The Government market is weak this morning and there is very little buying. They are rushing things, hit it a little harder than I would have expected.

- 3 -

H.M.Jr: According to George's chart, which is about the third or fourth of September, the three-quarter percent notes at 44, it is going up. To sit back and say, "Well, we will wait until things get better," that time may not come, and I don't want to give up this most favorable position I have got that I don't have to do something tomorrow. I have got the foresight and I don't want to give it up. Therefore, if the things stayed about the way they are, I am thinking in terms of doing something next Monday, refunding under December notes.

I am just putting you all on notice that this idea of, "Let's wait until war news gets better," and so forth, I can't see it and I don't want to give up the position I am in and find that I have got to do something on the 15th of December and I have got to raise money and all the rest of it. I am talking emphatically, but that doesn't mean I am going to do it. I am trying to explain how I feel so that you people can be putting your heads on it and then be prepared to argue whichever way you feel, but I am putting you on notice.

Burgess: We have got to get the Federal Reserve fellows out of the market before we can be sure of success.

H.M.Jr: I am thinking in terms of the 23rd. That was dated October 1st, wasn't it?

Burgess: Yes. That is a little close.

H.M.Jr: I am going to push you fellows instead of you pushing me, and let's say we did it the 25th, could that be dated December 15th?

Bell: How about dating it September 15th, a month or half a month previous?

Burgess: That is better.

Bell: That is very simple. We can do that, and September, 1944, is vacant.

H.M.Jr: September, '44, is vacant?

Bell: Yes, sir.

- 4 -

- H.M.Jr: They have got....
- Bell: There is 116 million in June and a billion in December. September, '43, is also vacant, but the billion 400 million of bonds are called in October, just a month later.
- H.M.Jr: We will keep those things back of this. When times get worse, they will look pretty good. That is, after all, the number one job of the Treasury and I am going to crowd you people.
- Burgess: O. K.
- H.M.Jr: Now, I don't think for the next 24 hours we will talk about it outside of the Treasury family, see? I mean let's all simmer on it. Does anybody have a strong reaction against what I am saying?
- Burgess: I think it all depends, Henry, on how the market behaves for the next few days. The start-off today is not very auspicious. The question is whether it will settle down soon enough for what you have in mind. I think it very desirable to get the Federal Reserve people out before you do the financing, otherwise you are open to the charge that the market is being rigged for the financing.
- H.M.Jr: There is an offering of some kind this morning. You can watch that.
- Burgess: We will watch that. I think one can be open-minded about it. It is entirely possible it will settle down so you can do it.
- H.M.Jr: I ought to have a list here on my desk of what are the private offerings for this week, and I haven't got it. Who in the room has got it? Who can tell me what are the offerings this week?
- Heas: I can get it.
- H.M.Jr: But who has got it?
- Duffield: I think those are reported in Mr. Hanes' office, Mr. Secretary. I have seen the reports in there.

- 5 -

H.M.Jr: Walk in there and ask if they have them.
That is the most important business I have.

Bell: Most of them have been withdrawn, practically all of them have.

H.M.Jr: But I would like to have it right here.
Ed?

Foley: Delano signed the letter to the Attorney General on insurance and you said you wanted me to take it over to the AG and that you would call him and he would return the signed letter.

H.M.Jr: I told the Cabinet you were going to take it over.

Foley: Jerry Frank called up on Saturday and - have you got....

H.M.Jr: I just have a note that he called.

Foley: He couldn't get you so he talked to me. He had a telegram from his man out on the West Coast that disturbed him very much. He wanted to know if we had been called off.

H.M.Jr: What did you tell him?

Foley: I told him I didn't know about it.

H.M.Jr: Why not read it out loud?

Foley: This is to Robert E. Kline, Assistant General Counsel, from Howard A. Judy, Regional Administrator, San Francisco, September 15th:

"RE OUR TEL 14th TRANSAMERICA FURTHER INFORMATION BEARING ON RUMOR OF SETTLEMENT IS AS FOLLOWS: A SAN FRANCISCO FINANCIAL EDITOR TOLD ME THIS MORNING THAT HE HAD TALKED TO A. P. GIANNINI IN LAST DAY OR TWO WHO ADVISED HIM THAT THE ATTORNEY GENERAL HAD CALLED ON GIANNINI IN CALIFORNIA ABOUT TWO MONTHS AGO AND HAD THEN ADVISED HIM THAT THE PRESIDENT HAD ASKED MURPHY TO ADVISE GIANNINI THAT THE PRESIDENT WAS ANXIOUS TO HAVE SOME SOLUTION BROUGHT ABOUT OF GIANNINI'S DIFFICULTIES WITH GOVERNMENT. GIANNINI TOLD EDITOR IN QUESTION THAT THE REASON WHY

- 6 -

SETTLEMENT HAD NOT BEEN BROUGHT ABOUT HERETOFORE WAS BECAUSE MURPHY HAS BEEN BUSY IN LOUISIANA. EDITOR INDICATED GIANNINI IS TELLING THIS STORY TO ANY PERSONS INTERESTED. FORMER DIRECTOR OF TRANSAMERICA CORPORATION WITH FRIENDS IN BANK OF AMERICA ADVISES TODAY THAT JAMES ROOSEVELT HAS BEEN AND NOW IS IN CONFERENCE WITH GIANNINIS IN SAN FRANCISCO WITH A VIEW TO USING ROOSEVELT TO BRING ABOUT SETTLEMENT OF GIANNINIS DIFFICULTIES WITH GOVERNMENT. WE HAVE HAD IT FROM OTHER SOURCES THAT JAMES ROOSEVELT IS IN SAN FRANCISCO AND IN CONFERENCE WITH THE GIANNINIS. ANNOUNCEMENT WAS MADE ON RADIO YESTERDAY THAT ROOSEVELT HAD RESIGNED HIS POSITION WITH METRO-GOLDWYN-MAYER WHEN DURING PAST FEW DAYS. I HAVE BEEN ASKED WHETHER THERE IS TRUTH IN RUMORS THAT TRANSAMERICA'S DIFFICULTIES WITH COMMISSION HAVE BEEN SETTLED. I HAVE ADVISED THAT THERE IS NO TRUTH IN SUCH RUMORS. FORMER TRANSAMERICA DIRECTOR ADVISES TODAY THAT GIANNINI INSPIRED SOURCES ARE STATING APPARENTLY TO OVERCOME EFFECT OF DENIAL HERE THAT REGIONAL OFFICE IS PURPOSELY BEING KEPT IN DARK CONCERNING NEGOTIATIONS FOR SETTLEMENT. WHILE I APPRECIATE DIFFICULTY OF INVESTIGATING RUMORS I NEVERTHELESS FEEL THAT INVESTIGATION SUGGESTED IN MY TELEGRAM TO YOU OF YESTERDAY WOULD HAVE SALUTARY EFFECT AND WOULD BE THOROUGHLY JUSTIFIED UNDER CIRCUMSTANCES NOW EXISTING. PLEASE ADVISE."

- H.M.Jr: You stay behind and I will talk to you about it. It is kind of a family affair.
- Poley: The letter of criticism was sent for signature.
- H.M.Jr: I will talk to you about that later.
- Rieflert: I have nothing this morning.
- White: The inflow of capital continues at a more moderate rate, and the inflow on account of security transactions continues. In other words, foreigners are still acquiring our securities, though at a moderate rate.
- Burgess: British selling and others buying?

- 7 -

- White: British selling fairly substantial, apparently every day pursuing the policy definitely of getting rid of some all the time.
- Then I have here a table of rates, exchanges rates which are not the official rates but the rates which are quoted each day that we operate under in our Customs regulations, and you may have been following it. Japan is not following sterling all the way down. It stopped at the 15 percent decline, et cetera. I have got the table.
- H.M.Jr: I wish you would give a copy of that to Cochran and Bailie and one to the three "E's." I have had quite a talk with Cochran this morning. We have just got to do something about this so-called black market in New York. I am not at all satisfied with it. I got a call from Bailie and I understand he is going up there. Harris will be here today.
- Burgess: Yes, he is here.
- H.M.Jr: Harry Knight sent a cable to the Bank of England which I understand we paid for, telling them what has happened in the market, and we are not furnished a copy of the cable. It is just unbelievable. They gave a summary of the day's operation to the Bank of England, but I don't get it, and I paid for the cable.
- White: I presume that information will soon be forthcoming, but I can speak for myself, I have no information of the amount of transactions which are going on, how much is being offered, et cetera.
- H.M.Jr: Well, beginning tonight. You have had it for two days now, haven't you?
- Cochran: I have it for two days. I requested them last week to give us their whole set of cables from September on.
- H.M.Jr: Where are they?
- Cochran: Nothing has been received yet. We asked for them Friday night.

- 8 -

H.M.Jr: If they are not in the morning mail, you call up Knoke and say, "Put a man on the train and send him down here; I want them. Put a man on the train with that stuff, because I want them today, I don't want any excuses."

White: I don't think we can operate intelligently unless we also know the reasons why the offers are being made, which means we may have to know either the concern or the transactions....

H.M.Jr: I blame ourselves if we are not on top of this. If we don't get the information, I think we are just to blame because we haven't raised hell long enough.

White: There is a conference of the National Resources Committee, a three-day conference, and I should like to attend one afternoon of it, so I would like to leave this noon and come back tonight. It is in Virginia. Come back in the morning, I mean.

H.M.Jr: Fine.

Burgess: I think they need somebody down there to hold them on the ground. I have read their stuff and it is pretty far up in the air.

White: Maybe you would like to go down, too.

Burgess: No, indeed.

White: They would be glad to have you.

Burgess: Nothing like that.

H.M.Jr: Anything else?

White: No.

H.M.Jr: George?

Haas: There is something on the bidding (handing book to Secretary). That shows that everybody is....

H.M.Jr: Anything else?

Haas: I have nothing else. I sent in that report you wanted on Agriculture, probably just after you....

- 9 -

H.M.Jr: I have got it.

White: I think it is important - maybe George is working on it - if not, he might start on finding out how much of this increased activity is due to inventories, and how much is really going into heavy industries.

H.M.Jr: He can find that out.

Haas: I have got something on that.

H.M.Jr: Who did the President ask to report on business over the week-end?

Duffield: Carmody reported on that.

Haas: In connection with these revised revenue estimates, I called up AP in different parts of the country, and I will give you a report on that.

Burgess: Commerce had a meeting here the latter part of last week in which they had some people down, including our man Roberts, or rather Temple. They estimate that the index will be 108 for September and just as a guess, they say 115 for October.

H.M.Jr: When it gets to 150, the budget will be balanced.

Haas: If it stays more than one month.

Cochran: Sterling was weak this morning, 3.77 and 78. It is down ten points. It opened weak this morning, 3.77, as compared with 3.87 last Saturday. The stock market quotations were coming in as I came in. U. S. Steel was down with 15,000 shares sold.

H.M.Jr: Anything else?

Cochran: No good news.

H.M.Jr: Harold, are you getting started on that other....?

Graves: Yes, I am getting them in together on this survey.

H.M.Jr: You have started on Procurement?

Graves: That is right.

- 10 -

Burgess: The Government market, as I say, opened rather weak. The Federal had their bids in at the same spot as they were bidding on Friday. They weren't out all together on Saturday, which was a little under the formal opening, but they expected that it would come down to their figures very shortly. Their operating orders are the same as they have been, but all the presidents of all the Reserve Banks are here this morning and they are having a big powwow to decide what their policy will be. No change so far.

H.M.Jr: They are all here?

Burgess: All here.

H.M.Jr: And you are here?

Burgess: I am here.

H.M.Jr: Ask Harris when he comes in whether this fellow ought to be making that announcement or whether that is for us.

Duffield: I will.

H.M.Jr: Dan?

Bell: I don't know whether you have had a report recently on the food stamp operations. They only issued about a million 800 thousand in the six cities and out of that million 800 thousand, a million 200 thousand have been redeemed. There are still about a third of them outstanding.

H.M.Jr: What is happening, George, on that, in view of prices? Are they going ahead with it?

Haas: I will find out. I think they probably will, Mr. Secretary, unless they are stopped, because most of the commodities which would be favorably affected by war demand are not these, like fruits and vegetables, and so on.

H.M.Jr: Including apples?

Haas: Yes.

- 11 -

- Bell: U. S. Housing Authority has entered into contracts up to September 13 for \$494,000,000 out of the \$800,000,000, and they expect to enter into contracts before the year is out of \$180,000,000, making a total of \$674,000,000 in contracts by June 30. That is about as far as they can go, because they are limited in their subsidy contract to \$28,000,000. They have spent out of the \$114,000,000 which we borrowed for them, \$89,000,000, leaving a balance of \$25,000,000, which they think they will spend before the end of October, and they may. That just about fits into our scheme of financing. We contemplated \$100,000,000 in October and \$150,000,000 in February (handing report to Secretary).
- Thompson: I have a letter from the Acting Secretary of Agriculture asking me to designate an Advisory Director to serve on the fiscal operation. I am designating Mr. Haas.
- Bell: You remember it came up in a conference with Secretary Wallace.
- Thompson: There is one other matter here. Mr. Delano....
- H.M.Jr: Which Delano?
- Thompson: Comptroller. He has a man, George W. Blattner, that he wants to put on for about six months to get up a good annual report this year beginning with the Federal Reserve and the FDIC reports.
- Haas: He used to be Assistant Director to Goldenweiser. Then he left and went up to New York. Do you know him, Randolph?
- Burgess: Yes, he worked with the National Bureau of Economic Research. He had a breakdown in health, but he has now recovered. He is a very good man. Their reports to the Comptroller have been quite inadequate and I think that is a good thing.
- H.M.Jr: (To Thompson) Have Upham bring that in to me.
- Thompson: There is one other matter. You might sign this. That is a very modest request on the part of your

- 12 -

assistants for their reimbursement.

H.M.Jr: What fund does this come under?

Thompson: Under the stabilization fund.

White: That is a stable answer.

H.M.Jr: I would like you three fellows (Foley, Duffield and Gaston) to stay.

(Mr. Hadley enters the conference)

Will you give us a report?

Hadley: The Governments opened about the same as Saturday in the first minute or two and then they started to sell off and they are now standing about where the Federal Reserve bids left off in the middle of last week. And at the present time your long-term Government bonds are down about 9 or 10/32nds. There is not too much activity, but there is a little selling and there are no buyers in the market.

Burgess: How much have they bought?

Hadley: They have bought 750,000 over the counter and less than 100,000 on the Board.

Burgess: That is not bad.

H.M.Jr: That is bad?

Burgess: Not bad.

H.M.Jr: O. K.

September 18, 1939

67

FOR THE SECRETARY:

You asked at the 9:30 meeting today that you be informed each morning by Mr. Cochran on the prospective private security offerings. The following arrangement has been worked out with the SEC: The head of their Registration Office will call Mr. Hadley of Mr. Cochran's office each afternoon and give him the names and amounts of security offerings which are registered and also will tell him which registrations are about to become eligible, that is, available for public offering.

I have told Mr. Cochran and Mr. Hadley that this will be done.

ESD



TREASURY DEPARTMENT

68

WASHINGTON

September 18, 1939.

MEMORANDUM FOR THE SECRETARY:

Report of important matters concerning the Bureau of
Customs for the week ended September 16, 1939.

Cotton Import Quotas. - On September 14, a circular letter was issued giving instructions to collectors of customs with regard to the administration of the import quotas on raw cotton and cotton waste established in the President's proclamation of September 5, 1939 (T.D. 49956). Since the proclamation limits the amount of cotton or cotton waste which may be entered from the countries listed therein and prohibits the entry of such articles from all other countries, entries or withdrawals for consumption covering cotton or cotton waste will not be accepted on and after September 20 without telegraphic authorization from the Bureau. By this means the Bureau will be able to maintain complete control of the quotas without delaying the movements of the commodity to any great extent. (Previous report, September 8, 1939.)

Countervailing duties. - On September 11, a Treasury Decision (49958) was issued giving the following further instructions in regard to the countervailing duty order contained in T. D. 49821, as amended by T. D. 49849 and supplemented by T. D. 49878:

Collectors of customs are granted authority to proceed with the liquidation of entries of dutiable merchandise from Germany without requiring the deposit of estimated countervailing duty or final assessment of countervailing duty in those cases in which evidence of the nature outlined in the decision was furnished and they are satisfied that no bounty or grant has been paid or bestowed on the imported merchandise, such action to be taken without referring the matter to the Bureau.

Collectors are also authorized to proceed with the liquidation of entries covering merchandise of other than German origin imported from countries other than Germany in dutiable containers of German origin without the assessment of countervailing duty. (Previous reports, March 24 and 31, April 7 and 28, and June 9, 1939.)

Daniel Harris

Assistant to the Secretary.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE September 18, 1939

TO Secretary Morgenthau
FROM Mr. Haas
Subject: The Business Situation,
Week ending September 16, 1939.

Conclusions

(1) A rapid rise in industrial production and employment is now under way, which may carry the FRB index to a level approximating its 1936-37 high before the end of this year. Since the upturn has been brought on partly by a surge of speculative buying, however, this initial rise is likely to be followed by some setback, unless the export demand expands sufficiently by that time to carry production forward.

(2) The prospect of an excessive price rise is becoming somewhat more threatening. Our huge credit resources, which have been impotent as a price factor so long as they were not put to use, are beginning to take part in the price rise through an expansion of commercial loans, apparently in large part for inventory accumulation. An expanding consumer demand due to rising payrolls and increased farm income, together with the effect of any increase in war orders, will add additional impetus to the rise in commodity prices in coming months.

(3) During the past week, further statistical evidence of the business upturn has appeared. The New York Times index rose 3.0 points in the second week of September. Our weekly new orders index has increased sharply, exceeding any high of this year or last. Steel operations are scheduled this week at a 9-point advance, reaching 79.3 per cent of capacity. Automobile output has been stepped up 50 per cent. In the meantime, the rise in sensitive commodity prices has flattened out and prices of some commodities have suffered sharp reactions.

The general situation

The past week has seen a further rise in business activity under the influence of a continued broad surge of buying from domestic consumers, much of which has been of a speculative

nature. New orders in some industries, notably in steel and textiles, have shown sensational improvement. The Iron Age characterizes the volume of steel orders as "almost unprecedented within so short a period". Sales of textiles continued in heavy volume last week, after their record-breaking expansion the week before.

In certain respects the present situation resembles that in the summer of 1933, following our embargo on gold, when consumers and speculators embarked on a frantic buying movement owing to the fear of price inflation and rising production costs under the NRA. In that year the FRB index rose from a low of 59 in March to a high of 100 in July. A collapse of the price boom in the early fall, however, brought a drop in the FRB index to 72 in November. The recent upturn in basic commodity prices, during the week ended September 9, exceeded that of any week in 1933.

Speculative buying movements of this nature characteristically acquire such momentum as to over-discount the factors responsible for them. For this and other reasons it seems likely that industrial production will be carried sharply higher over the next several months, perhaps approaching the peak reached in the 1936-37 boom, when the FRB index in December reached 121.

The rise has been predicated in part, however, upon the expectation that war orders will increase sharply. This makes business vulnerable in the event that orders do not increase immediately, or particularly in the event of a peace gesture. Furthermore, the present level of production is about in balance with consumption, leaving no slack to be caught up, hence a further increase in production must depend upon either an increase in consumption (including exports) or an increase in inventories of manufactured goods.

Consumption will doubtless expand, perhaps sharply, in the months ahead. The momentum of the buying movement, however, will tend to increase inventories too rapidly, and as a consequence may be followed by a setback in production. This might be avoided if war orders should increase rapidly enough during that period to provide an offsetting influence.

Low inventory situation being corrected

Data now available indicate rather clearly that the low levels to which inventories generally had been reduced because of price weakness and European uncertainties was an important

Secretary Morgenthau - 3

factor in the recent heavy buying movement. The National Industrial Conference Board estimates that manufacturers' stocks of raw materials at the end of July were the smallest during the period of six and one-half years that their index has been compiled, and about 16 per cent lower than the year before. Total inventories of 163 concerns at the end of July, as reported by this organization, were 8 per cent lower than on the same date of the previous year.

Our estimate of inventories, derived from a cumulation of differences between production and estimated consumption, (See Chart 1), shows a declining trend in recent months. The end-of-July figure, in dollar value, was 9 per cent lower than the year previous. The estimate for the end of August is not yet available.

Trade comments during the past two weeks indicate that a widespread re-stocking of supplies and materials is under way. This appears confirmed by a recent rise in bank loans for commercial and related uses, according to a series of loan figures which in the past has been closely correlated with our inventory index. (Shown on Chart 1.) Commercial loans, of course, are generally made for the purpose of buying goods and materials.

Loan expansion affects price outlook

The expansion of credit created by an increasing volume of commercial loans may be of considerable inflationary significance in the outlook for commodity prices. The huge volume of available bank credit has had little effect on prices because it has not (since 1937) been put to work to any extent in buying commodities. If the present upturn in loans marks the beginning of a general credit expansion similar to that in the 1936-37 price boom, it would doubtless have considerable influence on commodity prices, particularly when accompanied by an increase in both consumer demand and war demand.

The upturn in sensitive commodity prices has flattened out during the past week, with sharp declines in prices of some commodities offsetting gains in others. The price rise in raw materials has been quickly reflected in prices of semi-finished goods, and has already had a substantial influence on finished goods prices. (See Chart 2.) The BLS all-commodity index rose to 78.4 during the week ended September 9, which compares with an August monthly average of 75.0.

As in other price rises, finished goods will doubtless be slow to reflect fully the upturn in prices of basic commodities, hence producers of raw materials and workers whose incomes are increased as the result of improved business will enjoy a temporary advantage. Several leading industries, including steel, automobiles, paper, chemicals, and rayon, have expressed their intention to hold down prices of their products through the remainder of this year.

The steel situation

A significant steel development of the past week is the announcement by the U. S. Steel Corporation that finished steel prices for delivery up to December 31 will be held unchanged, despite a substantial rise in steel scrap prices, a recent upturn of \$2 a ton in pig iron prices, and increased costs of other steel-making materials. The announcement was followed by a new wave of steel buying. With a near-certainty of higher steel prices next year, the remaining months of 1939 are likely to see unusually heavy buying by steel consumers, partly at the expense of early-1940 business. Because of the probable strain to complete delivery by December 31, it is believed in some quarters that the end of the year may see steel output among the highest in history. The probable use of many antiquated hand mills may result in a greater increase in employment than the rise in output would indicate.

The Iron Age reports that steel orders recently have virtually swamped the sales and clerical forces of steel companies. Comparatively little of the volume has come from abroad, although export business has expanded. An important factor has been a rush of specifications on steels contracted for at low prices last May, on which mid-September had been set as a deadline.

There is much speculative steel buying going on, according to trade reports. The American Metal Market says that steel companies are proceeding cautiously and accepting orders only if accompanied by definite specifications, since they see no reason for so much sudden covering for future needs, other than to beat a possible price rise.

Meanwhile, various steel-using industries have been expanding operations. The railroads have suddenly increased their building and repair programs, and are taking on extra men for repair work as well as for handling the increased

volume of business expected this fall. Inquiries for railroad equipment are increasing, led by Illinois Central, which is planning to spend \$8,000,000 for new equipment.

The rate of steel operations this week (See Chart 3) made another wide gain to 79.3 per cent of capacity, the highest since September 1937. Steel scrap prices, often considered an important barometer of the underlying steel situation, made further gains last week, reaching the highest level since the fall of 1937. (Shown on same chart.)

Automobile output continues to rise on new model production, increasing 50 per cent this week to 41,245 units, marking a seasonal expansion about a month earlier than in either of the past two years. (See Chart 4.) Automobile dealers are reporting a remarkable interest in 1940 models, perhaps due in part to the recent optimistic turn in business sentiment and the improvement in agricultural prices.

Current business improving

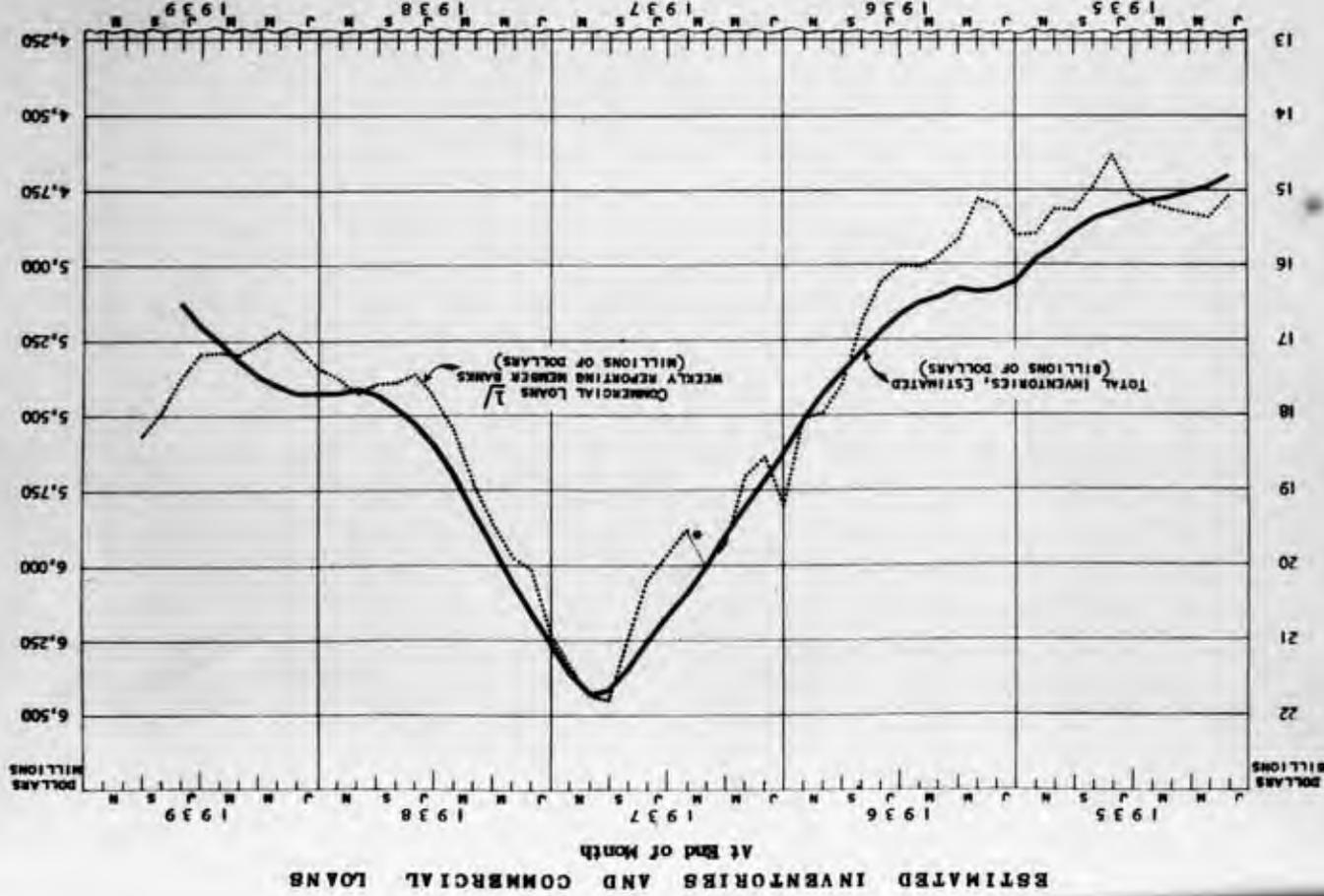
Our weekly index of new orders for the first week of September rose very sharply, due to a marked expansion in textile orders and a rise in steel orders, exceeding any previous figure for this year or last. (See Chart 5.) A further increase is likely in the following week, owing to various lags in the figures as reported.

The New York Times index for the week ended September 9 (Shown on Chart 5) rose 3.0 points to 97.0, with all components higher except cotton mill activity, which was down slightly. The seasonally adjusted indices for automobile production, steel production, electric power production, and carloadings showed notable improvement. Preliminary data for the following week show a further marked rise in the automobile index and a rise in the index of steel activity.

Series includes commercial, industrial, agricultural and real estate loans, and open market paper.

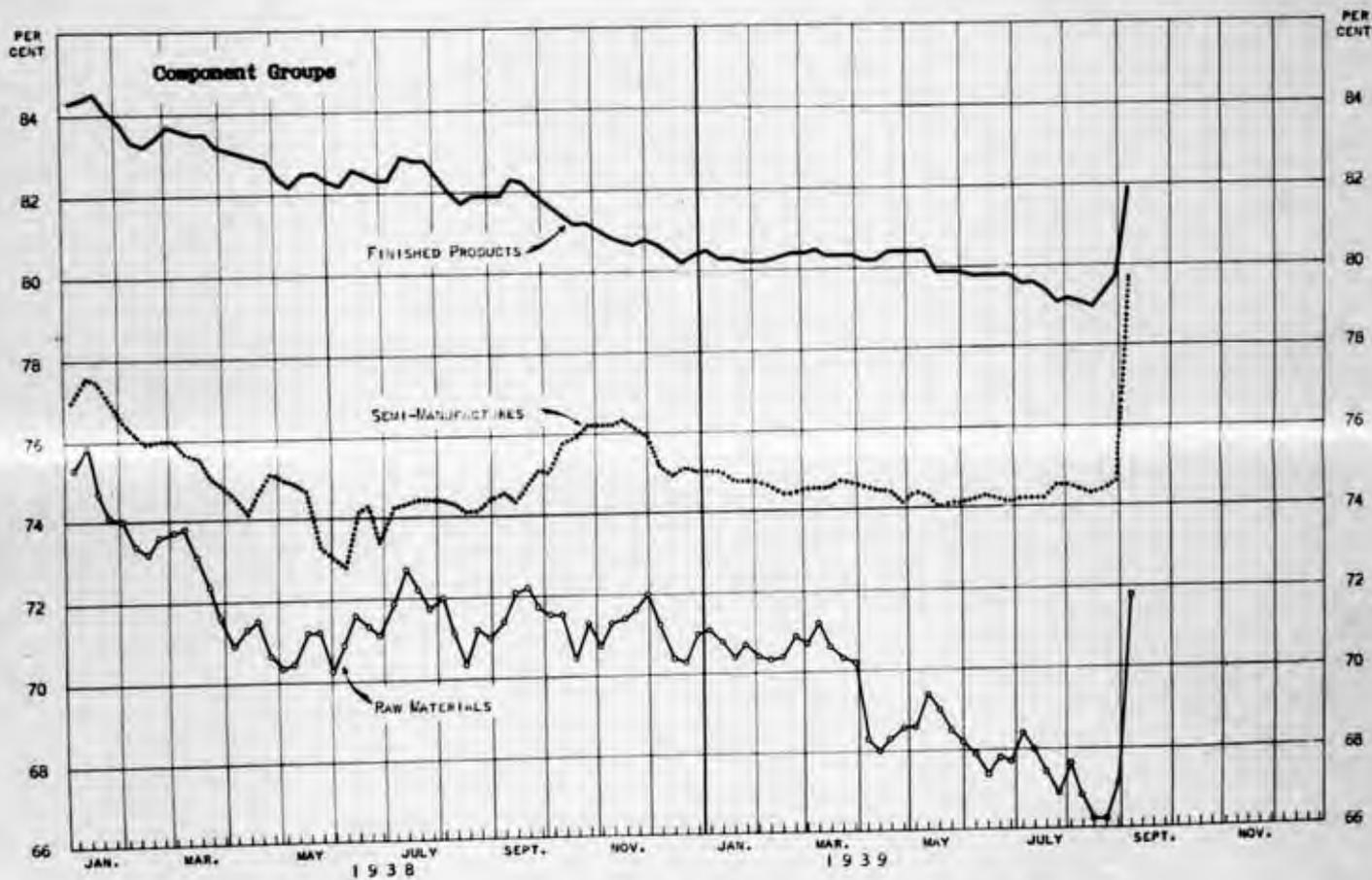
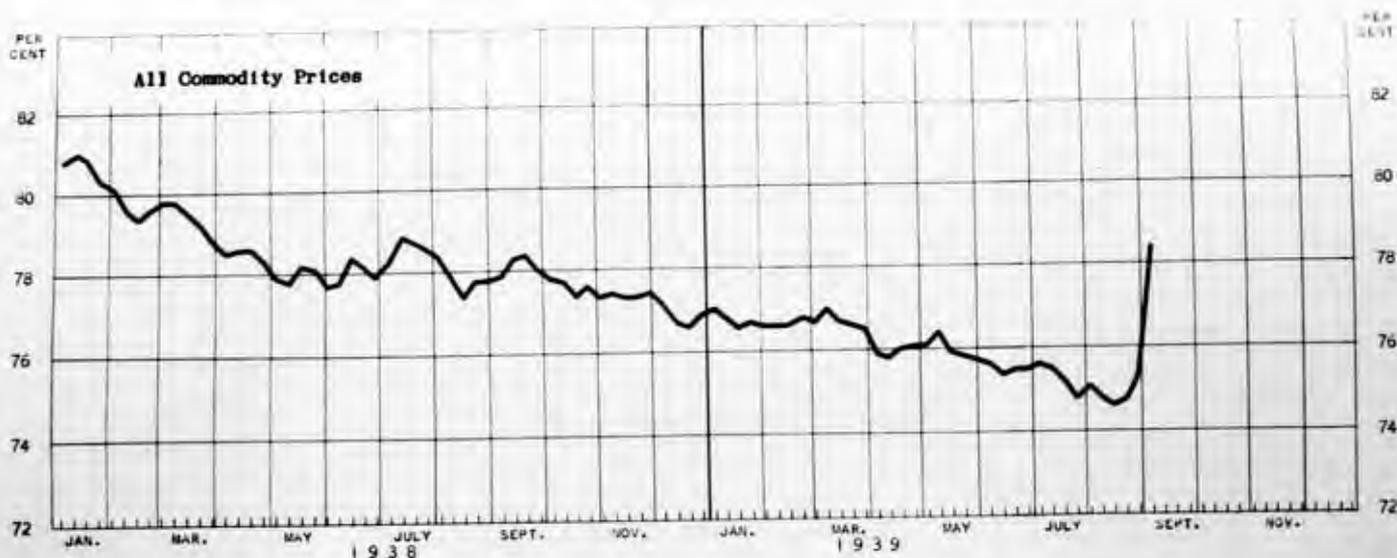
Office of the Secretary of the Treasury
Division of Research and Statistics

CHANGE IN COMPOSITION OF SERIES ON COMMERCIAL LOANS BEGINNING MAY 1937



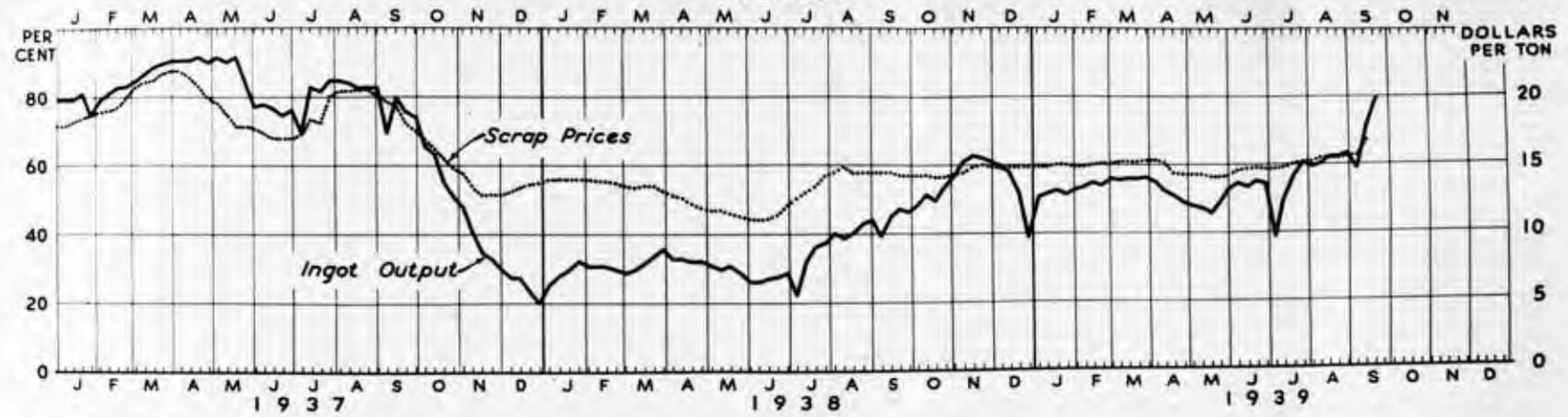
ESTIMATED INVENTORIES AND COMMERCIAL LOANS

B.L.S. ALL COMMODITY PRICE INDEX AND COMPONENT GROUPS
1926 = 100



STEEL OUTPUT AND SCRAP PRICES

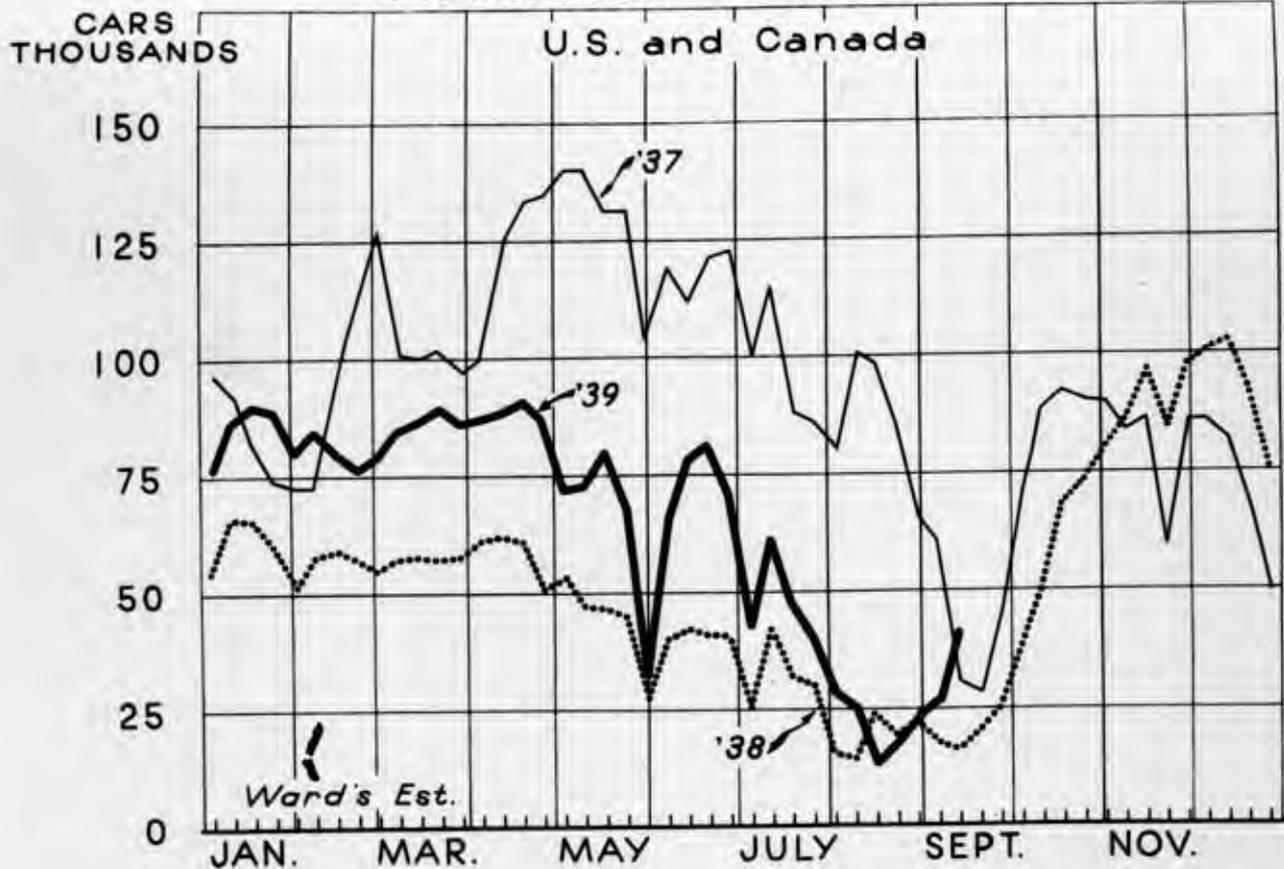
Ingot Output in Percent Capacity
WEEKLY



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

C-190-A

AUTOMOBILE PRODUCTION



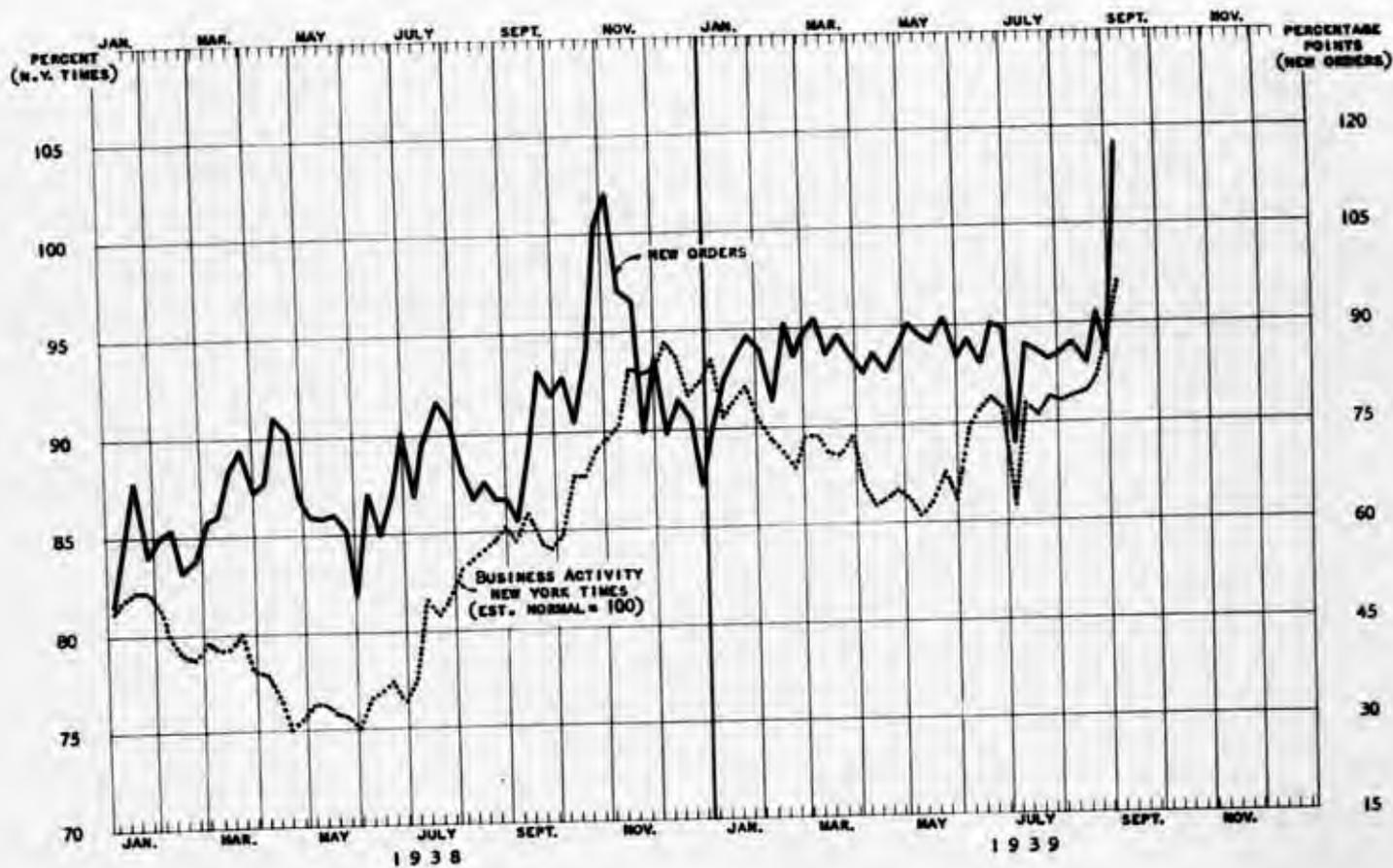
Office of the Secretary of the Treasury
Division of Research and Statistics

C-233

77

Chart 4

WEEKLY NEW ORDERS AND BUSINESS ACTIVITY



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

Chart 5
 Confidential
 1-96 78

Regraded Unclassified

September 18, 1939
10:22 a.m.

HMJr: Hello.

Operator: The Attorney General.

HMJr: Hello.

Frank
Murphy: Yes.

HMJr: Frank.

M: Yes.

HMJr: Henry talking.

M: How are you?

HMJr: I'm fair. I've got this bad cold that's going to
my ears now.

M: That's too bad.

HMJr: How are you?

M: Fine.

HMJr: Frank, I'd like you to see Ed Foley at your con-
venience on Bank of America and Transamerica.

M: Yes.

HMJr: When could you see him?

M: Right away.

HMJr: Right away?

M: Sure.

HMJr: Ah.....

M: Have him come over this morning.

HMJr: Will you give him a definite time?

M: Well at a quarter of eleven?

- 2 -

HMJr: A quarter of eleven.
M: Yeah.
HMJr: He'll be there.
M: Yeah.
HMJr: Thank you so much.
M: All right, Henry.
HMJr: Goodbye.

September 18, 1939
11:04 a.m.

HMJr: Hello. Hello.

Jerome Frank: Hello.

HMJr: Jerry.....

F: Yes, sir.

HMJr: Henry talking.

F: Yes.

HMJr: I'll talk a little bit in riddles but I think you'll get me. You know when I was out Saturday you called and you talked to Ed.....

F: Yes.

HMJr:about a certain telegram.

F: Yes.

HMJr: And you sent a copy of that to my superior.

F: To -- to the President?

HMJr: Yeah.

F: I sent it to Jim Rowe.

HMJr: Oh.

F: And I told him I thought the President might want to see it. I also sent a copy to Frank Murphy.

HMJr: Good.

F: Because I -- I sent it with a note to him saying that since his name was involved, as well as the President's, he might want to investigate it.

HMJr: Right. Well, the reason I'm asking you is because I wanted to show it to him unless you had some objection.

- 2 -

F: None at all. At least, I'm not sure that Jim Rowe got it to him so I wish you would get it to him.

HMJr: Now, and in that connection, so that if you have any worries you can lay them to rest - and just remember this, I've been with Mr. Roosevelt seven years here and four years in Albany and I've -- I've yet to have him call me on anything.

F: Oh, I know that's so because we have talked to him about this matter and he told us to go full speed ahead.

HMJr: Yeah.

F: And the -- the younger gentleman that's mentioned there.....

HMJr: Yes.

F:was in something else recently.

HMJr: I don't hear very well; my ears are stopped up.

F: I say, the young gentleman that's mentioned in the telegram.....

HMJr: Yeah.

F:was in something else recently, and I went over and talked candidly to him about that.

HMJr: Uh-huh.

F: He is a little careless, you know.

HMJr: This young gentleman.

F: Yes.

HMJr: Damn careless.

F: Very careless.

HMJr: Yeah.

- 3 -

F: And whether these rumors are at all justified so far as he is concerned, I don't know.

HMJr: Yeah.

F: But just for your private ear, he very foolishly did butt into it about six months ago.

HMJr: Yeah, I remember. He asked for a conference; don't you remember?

F: I beg your pardon?

HMJr: He asked for a conference between your organization and mine.

F: That's right. And he had me -- and talked to me for an hour about it.

HMJr: Yeah.

F: And I told him that I could think of nothing worse for his relative than for him to continue to do so.

HMJr: Yes. Now, the reason I have a good opportunity is this: This morning the Treasury sent over to the Attorney General a complaint against Transamerica and the Bank of America on that insurance fund.

F: Yes.

HMJr: I'm sending you a copy of it.

F: Fine.

HMJr: Of my letter to the Attorney General.

F: Yes.

HMJr: I'm also furnishing the President a copy of it.

F: Yes.

HMJr: And this gives me a chance, when I give him a copy of our letter to Frank Murphy, which I've asked Frank to take and Ed has asked him particularly to put Rogge on it.

F: Yeah.

HMJr: You see?

F: Yes, fine.

HMJr: It's half Bank of America and it's half Transamerica.

F: Yes.

HMJr: And a copy of that will be in your office this afternoon.

F: Well thank you.

HMJr: Now this thing, while we're not as sure as we are on -- about Moe Annenberg, they've got a hell of a lot of explaining to do.

F: Yes.

HMJr: And for the first time it brings the Attorney General into the picture.

F: Yes.

HMJr: See?

F: Yes.

HMJr: And this company which did -- the insurance company is a wholly owned subsidiary of Transamerica, so it brings you in.

F: Yes.

HMJr: Now, when you boil down the five-page letter, what it looks like, as though they used this device to pump two million dollars cash out of the Bank of America into Transamerica.

F: Yeah.

HMJr: That's what it looks like.

F: Yeah. Well now, I'm down here.....

HMJr: I know.

- 5 -

F:at this -- this is that National Resources Committee.

HMJr: Yeah.

F: And I'm planning to be -- drive up early tomorrow morning.

HMJr: Yeah.

F: I might -- do you think I'd better surely be there on that account?

HMJr: Oh, no, no, no. This -- this is in Frank Murphy's hands now. Ed was there at a quarter of eleven.

F: Yes.

HMJr: He -- it's in the Attorney General's hands. There's nothing for you to do.

F: Yes.

HMJr: As far as I know, the Attorney General investigates to see whether it has any criminal aspects. But it throws an entirely new light -- I think I told you about it before I left.

F: Yes, you did.

HMJr: Well, it's taken all of this time to get the facts together.

F: Yeah.

HMJr: And it ought to be very useful to S.E.C.

F: Yes, indeed.

HMJr: And I wanted you to know about it but I didn't want to use your telegram.

F: Oh, I wish you would.

HMJr: But it gives me an ideal chance to say, "Mr. President, in connection with his telegram, here is the latest information on Transamerica, Bank of America."

- 6 -

F: Fine.

HMJr: And it's an ideal thing to put both on his desk.

F: Fine. I think that's splendid.

HMJr: But I didn't want to do it without first talking to you.

F: That's quite all right. Now if you -- if you want me for anything, you can get me down here.

HMJr: Well, I don't -- I think our own markets, in view of what happened over the weekend, are acting very well.

F: I didn't^{get}/it this morning. I just.....

HMJr: Well, they're off I think about two and a half points.

F: Yes.

HMJr: Which I think is very little.

F: Yes. All right, thank you for calling me.

HMJr: Goodbye.

September 18, 1939
11:10 a.m.

Earle
Baillie: Good morning, Henry.

HMJr: How are you?

B: Reasonably well. How are you?

HMJr: Well, I've had a terrific cold and it's settled in my ears and I have great difficulty in hearing.

B: Oh, that's a shame. Mine settled in my stomach.

HMJr: Oh, my!

B: (Laughs) Nothing serious. I just want you to -- I want you to feel sympathetic to me as I do to you.

HMJr: Well, I felt very, very sorry for myself Saturday.

B: I know you did. You had reason to.

HMJr: Earle, I'm talking officially.

B: Yeah.

HMJr: I don't know whether you're going to have time to see Knoke when you're up there or not.

B: Well that's really my main purpose in being down town.

HMJr: Now, aside from the mess of last week, which was just an incident, you see?

B: Right.

HMJr: I feel the more I go into this thing, the more I feel that the United States as a whole is not on top of its job on foreign exchange.

B: I agree with you, Henry. I've been.....

HMJr: Now, I want to give you a little -- I want.....

B:thinking about it over and over over the weekend.

- 2 -

HMJr: I want to give you a little incident where again, I think, the Fed. of New York has not treated us right. For some time they have sent every night a cable to the Bank of England giving them a review of what happened during the day.

B: But not to us?

HMJr: Not to us - but what gripes me most is I'm paying for those God damn cables.

B: (Hearty laughter)

HMJr: (Laughter) Now.....

B: Excuse me if I laugh.

HMJr: Good. I don't mind -- It's bad enough not to get them but when you pay for them.....

B: Yeah.

HMJr: And I just sent word to Knoke, we asked for copies of all since the first of September and they weren't here, and I said if they wanted to put a messenger on the train and bring them down.

B: That's right.

HMJr: Now -- I don't know, I didn't feel the time to get excited is now.

B: That's right.

HMJr: And.....

B:planning on getting excited tomorrow morning and my first step was going to be to talk very carefully to Cochran.....

HMJr: Ah.....

B:and ask him whether he felt that his setup in that room was fairly adequate - he wasn't nervous about it.

HMJr: Well, I'm not so very.....

- 3 -

B:some.....

HMJr: I don't hear terribly well.

B: I say, I was going to talk to Cochran tomorrow morning.....

HMJr: Yeah.

B:first, as my first step, to find out whether he was perfectly happy.....

HMJr: Yeah.

B:with his setup in his room - the people he has to help him with.....

HMJr: Yeah.

B: I have some reason to believe he's a little worried about him - about -.....

HMJr: Well.....

B: That was my point one.

HMJr: Well, any - yeah.

B: Then my second thing was going to be to have - to find out when I was in to see Knoke today to whom he reported. In other words, I know him well enough.....

HMJr: Yeah.

B:to ask him what the setup is. Because Knoke as an operator is a hundred per cent.

HMJr: Yeah.

B: But as a substitute for the fellow who went to the Standard Oil he's nobody at all.

HMJr: Right.

B: And I want to -- I want to find out who is doing it there, do you see? Then the third thing is to find out whether this fact-finder for whom we're paying \$12,000 a year.....

- 4 -

HMJr: Right.

B:which is \$11,999 more than you'd pay for quite a good man.

HMJr: Well, I just want to let you know.....

B: (Speaks simultaneously with Secy - cannot be understood.)

HMJr: Earle.....

B: Yeah.

HMJr:without going into too much -- I think it's well worth your time to look into it.

B: Well, I'm -- I'm starting to do it right now, Hen.

HMJr: Fine.

B: I've just gotten in and that's my only real job.

HMJr: Fine.

B: How are you this morning, Henry?

HMJr: Fine.

B: You're O.K., are you?

HMJr: Pardon me?

B: I say, are you O.K. this morning?

HMJr: Oh yes. I'm not -- no, I'm not O.K. but I'm -- I'm O.K. enough. (Laughs briefly)

B: O.K. enough? Well, I'm coming down on the late afternoon train.

HMJr: All right.

B: And I'll be in tomorrow morning early.

HMJr: All right, Earle.

B: Take care of yourself.

HMJr: Thank you.

B: Goodbye.

September 18, 1939
11:34 a.m.

HMJr: Hello.

Ed
Foley: Mr. Secretary.....

HMJr: Yes.

F:at your convenience I'd like to come in
and give you a report on my talk with the A.G.

HMJr: I want to hear it. In the meantime I've had a
most interesting talk with him.

F: Well he's -- he's obviously quite disturbed and
I want to tell you.....

HMJr: I know he is.

F:the things he said.

HMJr: All right. I'll see you in a little while.

F: Fine.

September 18, 1939
3:08 p.m.

HMJr: (Pause - holding the wire.)

Operator: He's out of his office. I'll get him in just a minute.

3:08½ p.m.

HMJr: Hello.

O: Mr. Foley. Go ahead.

Ed
Foley: Hello.

HMJr: Ed.....

F: Yes.

HMJr: I think I've got a good idea. If we're going to have Mr. Rogge try this case under section 30.....

F: Yeah.

HMJr:I think it would be nice from his standpoint and ours if he saw the 24-page letter before it went out.

F: I think that's a good idea. I don't think he's in town. I think he'll be back sometime -- few days.

HMJr: Well where is he?

F: Ah -- I think he's still in New Orleans.

HMJr: Find out.

F: Yeah.

HMJr: And take it up with the Attorney General and say this is going out. Now, Mr. Morgenthau, if this comes, is going to ask you to let Rogge try it.

F: Yeah.

HMJr: And if we're right on this place, would it be all right with you that we have Rogge go over it and

- 2 -

have the understanding with you that when this does come to trial Rogge is going to try it.

F: Yeah.

HMJr: What do you think?

F: Yeah, I think that's a good idea.

HMJr: And -- and it sets the stage, you see, for later on that we get Rogge.

F: Yes.

HMJr: And Rogge, if he's got to try it, he -- he ought to see that letter.

F: That's right.

HMJr: What?

F: Sure.

HMJr: Don't you think that's a good idea?

F: Yeah, I think that's a good idea. It won't take him so long to go over it as it would somebody that didn't know anything about it.

HMJr: If you find out where he is and it goes airmail he'll have it tomorrow.

F: All right. I'll check up right away. I saw -- I saw Ben at -- at lunch.

HMJr: Yes.

F: Tom is out of town and won't be back until tomorrow.

HMJr: Yeah.

F: Ben didn't see the A.G. and didn't talk with him after he talked with us. He thinks maybe Tom did see the A.G. Neither one of them, so far as he knew, had seen Hoover. They don't have any contacts or traffic with him.

HMJr: What did he think of that conversation?

F: Well he -- (laughs shortly) he didn't -- he didn't -- didn't say. He said it was just -- it was interesting. He wanted to know if you wanted him to do anything about it and I said no, you just wanted me to inform him.....

HMJr: That's right.

F:so that he would know what the developments were.

HMJr: That's right. Okey-doke.

F: O. K. Thanks.

September 18, 1939
3:37 p.m.

95

HMJr: Hello.

Operator: Mr. Knoke. Go ahead.

HMJr: Hello.

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

HMJr: Knoke.....

K: Yes.

HMJr: Did you know that Russia drew out 10 of its 11 million
dollars in the Chase Bank?

K: No.

HMJr: What?

K: No.

HMJr: Well they have.

K: You mean within the last few days?

HMJr: Today.

K: Today?

HMJr: We got word today that they drew their account --
they had 11 million dollars on deposit.....

K: Yes.

HMJr:with the Chase - they drew it down to one.

K: No, I didn't hear that.

HMJr: Well.....

K: Ah.....

HMJr:I don't know how I'm going to get information
of what's going on in New York, but I certainly
don't get it through you.

- K: Mr. Secretary, two weeks ago I asked Rovensky, the chair -- the Vice President of the -- of the Bank in charge of the foreign business to please keep me posted on -- to watch the -- the U.S.S.R. state bank account.
- HMJr: Well, what about this wonderful committee you've got up there to advise you and all the rest of that stuff?
- K: Well, Mr. Secretary, this -- this is.....
- HMJr: I mean, this is important to.....
- K: Yeah, I -- I -- and -- I realize that full well, but I -- I don't think it could.....
- HMJr: Well, it's no secret how I got it. I'll tell you how -- how we got it. Mr. Aldrich called up the State Department and the State Department did the courtesy of -- of letting -- of letting Merle Cochran know. That's how I got it.
- K: Well, was Aldrich's purpose to advise the -- the administration or.....
- HMJr: Well, I suppose advising Mr. Hull, but I don't know -- it's a foreign exchange matter. I don't -- I don't know why I shouldn't know the -- the same minute it happens and why you people shouldn't know it.
- K: Of course we wouldn't -- we -- the figures would show it to us when -- when the reports are made at the end of the week but.....
- HMJr: Well -- I mean, this is -- this is a matter though -- a thing like this is important.
- K: I -- I don't quite understand why Aldrich should have called Mr. Hull and not you. That I don't see offhand, but evidently it was something that they considered worth -- sufficiently important to bring to Washington -- not through us but directly.
- HMJr: Well, it's just by accident that I got it from the State Department. I don't gather that Mr. Aldrich told them to tell the Treasury. He may have but

I don't know. But I mean -- you're my eyes and ears in New York.

K: Well, I'm sorry, but I can only repeat what I said before -- that I -- I -- the request was made by me at the time.

HMJr: To whom, please?

K: To Mr. Rovensky.

HMJr: Oh, you can call up Rovensky and tell him that -- that I don't understand why you aren't informed so that you could inform me.

K: Yes.

HMJr: And if there's anything like that happening -- I mean, I -- I don't want to set up another agency in New York to get information. I've got to rely on you.

K: Well, of course, the -- Secretary, the -- the committee couldn't possibly get it because no bankers would report to the committee its own operations.

HMJr: Well, of course --- I mean -- they're not -- but here's something important and Rovensky ought to call up Knoke and tell Knoke at once.

K: Yeah. Well I'll -- I'll -- I know I hadn't heard from Rovensky and I'll have -- I'll.....

HMJr: You can call him and -- and you can say that I heard this through the State Department and you want to know why doesn't he tell you direct.

K: Yes.

HMJr: That you're there as a fiscal aide to the United States Treasury and we want to know these things.

K: Well, I'll certainly tell him that -- that they've painted me in the wrong light.

HMJr: It certainly does! After you've talked to him
will you call me back?

K: Yes, I -- I shall. Certainly.

HMJr: Thank you.

September 18, 1939
4:29 p.m.

HMJr: Hello.

Operator: Mr. Knoke.

HMJr: Hello.

L. W.
Knoke: Mr. Secretary?

HMJr: Yes, Knoke.

Knoke: Knoke.

HMJr: Can you talk a little louder.

K: Yes.

HMJr: My ears are all stopped up today.

K: I called Rovensky.....

HMJr: Yes.

K:reminded him of the conversation, which he remembered.

HMJr: Yes.

K: He went over the account and came back and said, "I owe you an apology."

HMJr: Yes.

K: The -- but the amounts are not near as big as indicated. He says the figures are as follows: The average balance for that account has been for months between 4 and 5 million dollars.

HMJr: Yes.

K: Last week they went up by 2 million.

HMJr: Yes.

K: And the -- the latter part of last week there were taken out of the account payments as follows:

- 2 -

2 million, mostly transferred to Sweden; 2 million transferred to Amtorg; and (aside: two - four) a million and a half, about, local bills, leaving the balance at one and a half million dollars.

HMJr: Well, do you -- do you see anything particularly significant in that?

K: Well of course today -- ah -- no, I can't. The -- what they probably did is -- I have no doubt but that they got funds from London, and those funds -- they -- they transferred again -- they partly paid out to Amtorg, partly to Scandinavia. Significance, I would say no because we know that they have with us funds which are bigger than -- not bigger but nearly as big as what they have with the -- with the Chase and those accounts -- and that account here stands at $3\frac{1}{2}$ million dollars, including $2\frac{1}{2}$ million gold.

HMJr: And they haven't touched that?

K: No, they haven't touched that. So as far as we are concerned there has been no undue activity at all.

HMJr: All right. Now would you do me a favor? Would you mind repeating this to Merle Cochran?

K: Yes, it's.....

HMJr: So it will save me repeating it to him. Would you mind calling.....

K: I'll do it right away.

HMJr: Right. Thank you.

K: Ah -- as I say, he -- he remembered my request and he just said that he forgot.

HMJr: Well, maybe he won't forget it next time.

K: I hope not.

HMJr: All right. Thank you, Knoke.

K: All right, sir.

HMJr: Good night.

K: Good night.

September 19, 1939
9:12 a.m.

HMJr: Hello.

Joseph Kennedy: Hello, Henry.

HMJr: How are you?

K: Not bad. How are you?

HMJr: I'm feeling fine.

K: That's good.

HMJr: Joe.....

K: Yes.

HMJr: I see by the morning papers that Sir James Rae, Under-Secretary of the British Treasury, is in Canada.

K: James Rae?

HMJr: James Rae.

K: Yeah.

HMJr: The Under-Secretary of the British Treasury.

K: Yeah.

HMJr: Now, as you know, we're having lots of troubles with the pound sterling.

K: Yes.

HMJr: And if this fellow could come down on the record or off the record and spend a day or two with me....

K: Yes.

HMJr:it would be most useful.

K: All right.

HMJr: Now the sooner he comes, the better.

- 2 -

K: All right. Well I'll get busy right away now.

HMJr: What's that?

K: I'll get busy right away and you'll hear from me later this -- today.

HMJr: Because I don't think the British Treasury knows what's going on here.

K: Well I -- I think they're hoping that you'll tell them.

HMJr: Well.....

K: that we've sent over there were -- have been to give an idea of what's going on over there.

HMJr: What's that?

K: That -- that's the point. They want to know what -- what can you tell them about what's going on.

HMJr: Well, we can -- each day we -- we can tell them more.

K: Yeah.

HMJr: And if this fellow would come down, I say, and spend a day or two with us, I think we could come to a better understanding.

K: All right. What is the pound today?

HMJr: Just a second. (Pause) Cochran says -- he's sitting here -- that it opened at \$3.89 in Amsterdam. If you'll wait a minute I'll find out.

K: All right.

HMJr: Wait a second. I -- I've just buzzed, I don't know if anything will happen.

K: Well, I'll get busy, Henry, and I'll get ahold of Carr right away.....

HMJr: Well, wait.....

K:

HMJr: Wait a second. We'll find out.

K: All right. What -- how is the situation in Washington?

HMJr: Our situation?

K: Oh, yours is all right, but how is everything else?

HMJr: I think it's pretty good. I think the President inviting in these two Republicans was swell.

K: That was good, huh?

HMJr: What's that? (Aside)

K:

HMJr: What's that?

K: Do you think it will be a tough fight?

HMJr: I -- I don't think so, Joe.

K: Well that's good.

HMJr: I don't think so. From -- my guess is that he's on top of it.

K: Well that's good.

HMJr: Sterling is \$3.90.

K: I see. Well, that's

HMJr: \$3.90.

K: All right, Henry. I'll get ahold of him right away and see if we can start that fellow John right off.

HMJr: O. K.

K:

HMJr:

Goodbye.

K:

Goodbye.

September 19, 1939
3:45 p.m.

HMJr: (Holding wire - talking aside to people in his office.)

Operator: He's not in his office; I'll try.....

HMJr: What?

O: He's not in his office. I'll try to find him.

HMJr: Ah -- Miss -- what's her name?

O: McGuire?

HMJr: Yeah.

O: Right.

(Brief pause)

O: Miss McGuire.

Miss McGuire: Yes, Mr. Secretary.

HMJr: Hello, Miss McGuire. How are you?

M: Very well.

HMJr: A memo for Mr. Foley. Tell him while the iron is hot, let's ask the Attorney General that if he decides to prosecute the so-called Schenck cases on the west coast.....

M: Yes.

HMJr:that I'd like Mr. Rogge also to prosecute those.

M: Yes, sir.

HMJr: See?

M: Yes, sir.

HMJr: Will you get that to Mr. Foley?

M: Yes, sir.

- 2 -

HMJr: Righto.

M: he'd like to have him make -- write the memorandum?

HMJr: No, he'll know how to -- he'll be seeing the Attorney -- I'm sure the Attorney General will send for him again in the next 24 hours.

M: All right.

HMJr: And if not he should go over there and say if he decides to prosecute, why I'm asking them -- that he assign Rogge to the Schenck cases.

M: Very well. I shall tell him, sir.

HMJr: O. K.

M: All right.

GROUP MEETING

September 19, 1939.
9:30 a.m.

Present: Mr. Hanes
Mr. Smith
Mr. Burgess
Mr. Stewart
Mr. Graves
Mr. Haas
Mr. Foley
Mr. Duffield
Mr. Bailie
Mr. Gaston
Mr. Cochran
Mr. Risfler
Mr. Bell
Mr. Thompson

Foley: I think if John calls his committee sometime this afternoon, 2:30 or 3:00 o'clock, we will be ready.

Hanes: I asked Berle to be over here this morning and he asked me to please not ask for a meeting this morning, as he had such a serious matter over in the State Department. They were up until 1:00 or 2:00 o'clock with it last night. So he said that he could come sometime during the day, but not to call him this morning.

H.M.Jr: That adds up all right, then.

Hanes: We will get them together this afternoon.

Foley: We will be ready.

Hanes: May I ask, have we ever gotten replies from all the twelve banks yet?

Duffield: Yes, I think John Rademacher has the letters.

Hanes: I notice that the New York Federal Reserve Bank had some suggestions, general suggestions. Gene, did you go over that?

Duffield: Bernie, I think, talked with Walter Logan.

Foley: Walter Logan was down all day yesterday, John, the General Counsel for the Bank of New York.

- 2 -

Hanes: That is the thing that has been holding up the press release.

H.M.Jr: Now they have got some regulations which ought to go out.

Have you got anything?

Hanes: No, I just want to say that I have been over the regulations that we drafted up first and if there has been any change in those regulations, I have no objection to them.

Foley: I want a chance to go over them. I want to talk to Mr. Bailie and I think we will be ready, John, this afternoon whenever you want to get your committee ready and if you want to see us before you get the committee... .

Hanes: Let's try to get them, say, for 4:00 o'clock and then we will all be ready.

Foley: Do you want to see us before?

Hanes: Yes.

Foley: What time?

Hanes: Any time.

Foley: You pick the time and we will be there.

Hanes: Right after this meeting.

Foley: That is too early, because I want to go over them and I want to go over them with Mr. Bailie.

Hanes: When you are ready just call me.

H.M.Jr: Are there changes?

Foley: Yes, there are some changes.

H.M.Jr: Well, I am going to sit tight and do nothing until I hear from Hanes and Duffield.

- 3 -

Baillie: It is a terribly complicated technical problem that Ed is up against, to write out the things in one day. I mean it is some job.

Foley: I think we got some help out of yesterday's meeting from the lawyers who were down here.

H.M.Jr: Herbert?

Gaston: I have some letters here that have been prepared to send to the various people in the field on this law enforcement coordination, change in the system of coordination, instead of having the Coast Guard officers as coordinators, naming other men who are more directly concerned with the sort of work they are doing. If you have no objections, I will sign them and send them out.

H.M.Jr: That is your responsibility then.

Gaston: The only reason I brought it up is because Albert said that he spoke to you about the thing some time ago and you said not to do it right away until you had a chance to talk with me about it.

H.M.Jr: The reason I didn't want to do it, I was waiting on you.

Gaston: O. K., fine.

H.M.Jr: Knowing that you had this in mind. I think that is the reason. It sounds like a good reason today to me.

Gaston: Here is a letter appointing a U. S. Circuit Judge as a member of the Advisory Committee of the Coast Guard Academy. Maybe he would like to have your signature on the letter.

H.M.Jr: Yours is good enough.

Gaston: That is all right.

H.M.Jr: Earle?

Baillie: I have nothing.

H.M.Jr: Gene?

Duffield: Is Duncan Alkman down for 10:30 today?

H.M.Jr: Yes.

Duffield: That is all.

H.M.Jr: Anything else, Gene?

Duffield: That is all.

Foley: I have nothing.

Burgess: The market is all steady this morning. They haven't bought anything yet. No great change in quotations. They had a meeting of the presidents of all the Reserve Banks yesterday, Open Market Committee, squared off. They are having a meeting of the Executive Committee today, so that if we are thinking seriously about financing, we probably ought to indicate to them something about it, I think.

H.M.Jr: It is all right with me.

Burgess: Want me to go ahead and talk to them?

H.M.Jr: Sure.

Burgess: All right.

H.M.Jr: Tell them to clear the tracks, the Treasury is coming.

Burgess: May I add, Henry, that I was talking with Dan and Tom a little - I haven't had a chance to talk with Earle - our feeling is that we would do better if we could to do all at once the jobs we had in mind for September 15th, that is, to refund plus some cash, and that if we waited until October 15th there would be a very good chance of doing this. I think it is a little early yet to do it.

H.M.Jr: I am always amazed at what Washington will do to these New York fellows after they are here two or three days. They get so bushed. I was pushing you yesterday and you want to push me today. It is all right; we will talk it over. I am not sure; I don't know.

- 5 -

Burgess: I think the market is steadying down if we can give it a couple of weeks.

H.M.Jr: I will give you a compromise: Do your refunding and sell a 300 million dollar three-year note to Jesse.

Burgess: I think you can sell straight Treasury obligations better at this time.

H.M.Jr: In view of some past history which I have no control over, I think it would sit better across the White House if you did it that way. It isn't absolutely necessary, but I think it would.

Burgess: That could be done. That is a possible program. It might work. I would like to think about it.

H.M.Jr: Think about it.

Bell: There would be 100 million for Housing, too, even more than we needed for RFC.

Burgess: That is mixing up a little too much to do all that at once.

H.M.Jr: I wasn't thinking of doing it at once. Do the refunding, then wait a couple of weeks or a week.

Baillie: I would like to get some new money.

Burgess: Yes, I would like to see that, then you are sitting pretty.

Baillie: In housekeeping, you have got to go on.

H.M.Jr: The main thing is to let the Federal know that the Treasury wants the tracks clear. I am not implying what kind of a train is on the tracks.

Burgess: That is right.

H.M.Jr: But whatever it is....

Bell: You can have them switched.

- 6 -

H.M.Jr: Let's get her off the tracks.
Have you got that thing that legitimatizes Harold Graves?

Thompson: No, I haven't.

H.M.Jr: Well, let's have it.
Do you have anything, Harold?

Graves: Nothing.

Smith: Glad to see you looking so well.

H.M.Jr: Same to you, Tom. Are you back home?

Smith: Spent Sunday and Monday in St. Louis.

H.M.Jr: Did you lose accounts on account of having worked for me?

Smith: No.

H.M.Jr: Did you get any?

Smith: I am not telling.

H.M.Jr: You look to me as though you had swallowed the cat's pajamas.

Smith: I had a good time anyhow.

H.M.Jr: O. K. Anything you want, Tom?

Smith: No, I have nothing.

H.M.Jr: In view of the business around here, you might get posted on

Smith: That is what I was doing. I had breakfast with Mr. Upham and we have been at it since about a quarter of 8:00. Is that early enough to start?

H.M.Jr: It is for Tuesday.

- 7 -

Stewart: I have nothing to say.

H.M.Jr: Get one of these fellows to tell you about the meeting today in connection with the New York banks, Tom. Stewart knows all about it. Get them to tell you, will you?

Smith: All right.

H.M.Jr: I mean particularly about this morning's meeting so if any question about it comes up, about the Treasury investigating New York banks, you will know just what we did and didn't say, because undoubtedly you will be asked.

George?

Haas: I have nothing in particular. Here is a little note on the stamps. I talked to Perkins. That other item on the British, the British item you handed me, I have got the information on that. It doesn't amount to much. I just got it before I came in. That item you saw in the paper about - they can't substantiate it but there is another thing which it might have been based on. I will give you a note on it.

H.M.Jr: Merle?

Cochran: Just had this last rate on sterling of 3.95. It closed last night at 3.81 and three-quarters. It opened at 86.

In talking to New York, the Federal attributed it to three things, the first perhaps to your press interview of yesterday afternoon, the second to the fact that it is beginning to be known now that they are selling those cotton bills at 4.02. That is taking some of the burden off this other market. The third is some hope that there might be a conciliatory speech by Hitler, that it might be so interpreted.

Hanes: That is at noon today.

Cochran: Yes.

- 8 -

Balle: Have they seen any British intervention in the so-called black market?

Cochran: They wondered whether there had been some in Amsterdam. That opened strong yesterday morning.

H.M.Jr: I was nervous after my press interview. I didn't know how it would go. I realized that I was walking on eggs, but I did the best I could.

Cochran: That is all.

H.M.Jr: Are you leaving at noon?

Riefler: I changed my mind.

H.M.Jr: Can't I get rid of you?

Riefler: No.

H.M.Jr: Dan?

Bell: That newspaper clipping you gave me yesterday on expenditures of the Industrial Conference Board was a report on the total expenditures of Government units of the country and we haven't the detailed report yet and won't get it until tomorrow, but as far as I can tell it is about the same as the article written by Roy in the Treasury Bulletin. I don't know whether you had a report on last night's Treasury bills, but we have received bids for 490 million, which was an increase of 140 million over the previous week and the rate dropped 15.9 to 12.5.

H.M.Jr: Would you write me a memo based on that so I can send it to the President?

Bell: Yes.

H.M.Jr: Will you give it to me?

Bell: Yes.

Here is another item that may be of interest to you. I saw in a Social Security Board release - I don't know what it means - the report ending September 2nd showed that the claims received

- 9 -

for unemployment compensation dropped 11 6/10ths.
That was the fourth week.

We got 30 million dollars yesterday from this
Frederick W. Vanderbilt estate. That is nice.

H.M.Jr: He was a neighbor of the President's.

Gaston: No suit, just an ordinary settlement?

Bell: Just payment of ordinary taxes. Quite a chunk.

H.M.Jr: What this country needs is more dead Vanderbilts.

Foley: How long has that been hanging?

Bell: I don't know.

Foley: Twenty years or more?

H.M.Jr: Oh, a couple of years or more.

Baillie: A very short time. He just had loads of securities
and they were easily evaluated. He hadn't been in
business at all.

Bell: As a matter of fact, I didn't know he was dead.

H.M.Jr: You do now.

Anything else?

Bell: This is a death notice to me.

That is all.

Thompson: You may be interested to know that Captain King,
Commissioner of the Lighthouse Service, has retired
since they have consolidated with the Coast Guard.

H.M.Jr: What is he, Commissioner?

Thompson: Commissioner of Lighthouses.

H.M.Jr: The head of it?

- 10 -

Thompson: Yes.

H.M.Jr: What is he going to do?

Thompson: Just retire.

H.M.Jr: All right, gentlemen.

September 19, 1939

Merle Cochran came in and reported that Pinsent, Financial Attache of the British Embassy, tells him that the President says he does not want the British to form a corporation for buying at this time.

I called up Miss Tully and said, "Will you please ask the President if he did tell that to the British, because I understood that was what he did want and I understood him to say he wanted a corporation formed along the line of the Universal of the Chinese. Ask him please tell me what did he want."

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin, Germany

DATE: September 19, 1939, 10 a.m.

NO.: 1314

The Reichsbank statement for mid September shows a decrease in the Reichsbank note issue during the week of 362 million marks to a total of 10,608 million marks a figure which however is still 1902 million marks higher than on August 15. While figures for rentenbank note issuance are not available it is assumed that their circulation expanded, to judge by the increasing number of small denomination rentenbank notes which in place of silver are encountered in daily transactions.

Total loans and investments of the Reichsbank decreased 118 million to 11875 million marks. On September 15, 1938 the figure was only 7219 million. Reichsbank holdings of bills and checks decreased 262 million during the week to 10330 million marks but eligible securities increased 102 millions to 18064 millions. The item miscellaneous assets registered a large decline of 468 million marks during the week indicating that presumably as a result of the heavy tax receipts of September 10 the Treasury, the state railroads, and the postal system, have repaid a part of their operating credits with the Reichsbank.

Even with the declines of the past week the Reichsbank

bank

- 2 -

bank check and bill portfolio is 1900 million marks and the "miscellaneous assets" item is 276 million marks higher than on August 15, 1938.

Under the new Reichsbank law of June 15, in the first of these items commercial bills and treasury bills are merged together, presumably in order that the extent of government borrowing from the Central Bank can be concealed from the public. The new law virtually abolished formal limits for state borrowing from the Bank. Very probably most of the aggregate increase in both Reichsbank bill holdings and miscellaneous assets of 2176 million marks is made up by government borrowing from the Central Bank during the past month of military preparations and actual warfare. The aforementioned borrowing is additional to the amounts of recent sales of treasury bills to the private banks, sales to the savings banks and insurance companies of long term bonds, and the issuance of tax anticipation certificates in part payment for purchases by the Government,--all of the last mentioned amounts being as yet unpublished.

It is requested that this telegram be repeated to the Treasury from Heath.

KIRK.

EA:LWW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rome, Italy

DATE: September 19, 1939, noon

NO.: 411

The National City Bank's representative at Milan has informed me that the Bank has decided to withdraw from Italy. He said that they have so advised the Governor of the Bank of Italy. It seems to me that the Bank's decision is at least inopportune, coming just at this time when, I believe, our policy should be to maintain our contacts with Italy and to avoid giving the impression of indifference. In Italian circles, the action of the National City Bank will unfortunately be subject to misinterpretation.

PHILLIPS.

RECEIVED

SEP 19 1939

TELETYPE UNIT
(Please see to right)
RECEIVED BY TELETYPE UNIT

EA:LWW

CJ

GRAY

PARIS

Dated September 19, 1939

Rec'd 2:40 p.m.

Secretary of State,
Washington.

2059, September 19, 6 p.m.

FOR THE TREASURY.

THERE WERE no developments of interest on the exchange market today and rates were unchanged. The securities market was again marked by heaviness. The turn over was light however and rents which were well supported receded only fractionally.

The foreign exchange office has requested through the Union Syndicale des Banquiers the various approved banks to submit questions of interpretation as well as suggestions regarding the operation of exchange control. Opinion here is unanimous that much progress in smoothing out the mechanism has been made in the week since the system went into effect.

RECEIVED

BULLITT

SEP 20 1939

CSB

THE TREASURY DEPARTMENT
Office of the Secretary
GENERAL INVESTIGATION DIVISION

TELEGRAM SENT

JR

PLAIN

September 19, 1939

AMERICAN EMBASSY

LONDON

1011, nineteenth.

The following article from the New York Times of September 19 is reproduced for Butterworth's information and for forwarding by him by mail to the American Embassies in Paris and Berlin:

Washington, September 18. The Treasury is studying means of coping with "the two-price" situation which has developed in sterling exchange, Secretary Morgenthau told his press conference this afternoon. He said that he was "disturbed" by the situation.

Heavy dumping of British currency in the United States money market, which the Secretary described as "the only free market left in the world," has caused the rate on sterling in New York to vary considerably from "the official rate" in London. Foreign dispatches have described "a black bourse" in sterling existing in New York.

"The rates show it," the Secretary declared on being asked if he was aware of the so-called "black bourse" development. "There are two rates. You can call it what you want."

Asked

-2- #1011, nineteenth, to London.

Asked if he received his advice on the exchange situation from the Bankers Committee headed by R. F. LOREN, vice president of the Guaranty Trust Company, which the New York Federal Reserve Bank recently formed to cope with exchange speculation, the Secretary replied:

"The Federal Reserve Bank is my agent, not the committee. That committee has no power. They're in the business."

Efforts at a Curb. Recalled.

Assuming that he referred to the fact that some of the banks represented on the committee have regularly traded in foreign exchange, the Secretary was asked if "those fellows aren't the same ones you were trying to keep from speculating just a while back."

"Right," Mr. Morgenthau replied.

He said that at one time the discrepancy between the official British rate on the pound and "the unofficial" rate in New York was 20 cents, "but we've narrowed it," he added.

Because of the sharp fluctuations in sterling the Treasury's \$2,000,000,000 stabilization fund is virtually out of the market, the Secretary indicated.

"We're not risking the Stabilization Fund," he said. "We haven't risked one dollar of the fund."

The

-3- #1011, nineteenth, to London.

The fund was established in 1934 to be used as an instrument to help maintain stability in the foreign exchange market and was successful in the effort, particularly after 1936, when the British and French cooperated under the Tri-partite Agreement.

There were indications in government quarters today, although the secretary declined to discuss the matter, that the British have not recently handled their foreign exchange very skilfully. It seemed that there have been serious doubts here as to what the British were trying to do.

Tripartite Pact Still in Effect.

Secretary Morgenthau has said, repeatedly, however, that while there have necessarily been some changes due to recent developments the principle of cooperation enunciated by the Tripartite Agreement is still being observed.

The feeling at the Treasury seemed to be that the sterling situation would be under control shortly. It was noted that the British only yesterday announced a trade "black list" of companies which engaged in business in foreign countries. This would, presumably, include any companies acting in such a way as to unsteady the pound.

While Secretary Morgenthau said that a number of foreign central banks were among the offenders who are

liquidating

-4- #1011, nineteenth, to London.

liquidating sterling here, he declared that he had no evidence that their action is "malicious."

"My information is not adequate yet," he declared, "but there is no evidence that it is malicious. People are worried and are getting rid of sterling at any price. We are studying the situation with a view to combating it. We are the only free market left in the world, and we intend to keep it that way. It is of great importance to us and to the rest of the world that it be kept free."

Two Sterling Rates are Quoted.

The "official" pounds quotation today was \$4.02, compared with \$3.83 in New York, Treasury officials said.

The Secretary added:

"It is terribly important we keep things open here, since it is the one place in the world where you can buy and sell and speak freely."

From a practical point of view, the Secretary said that it was "very unsettling to our exporters and importers" to have two sterling rates.

While the Treasury imposed a variety of exchange control for a short period when the present Administration came into power during the acute depression, it has since received only voluntary reports of exchange transactions from foreign exchange traders.

It

- #1011, nineteenth, to London.

It was learned, however, that the power to license all foreign exchange transactions contained in Title I of the Banking Act of 1932 is available if needed. To invoke such power would be to resort to the type of controls which Secretary Morgenthau has strongly criticized when used abroad."

HULL
(FL)

EA:FL:LWW

RECEIVED

SEP 20 1939

INVESTMENT PROGRAM
UNITED STATES DEPARTMENT OF THE TREASURY
WASHINGTON, D. C.

TREASURY DEPARTMENT

127

INTER OFFICE COMMUNICATION

DATE Sept. 19, 1939.

TO Secretary Morgenthau
FROM Mr. Haas *HA*

Subject: Reported plan of Great Britain to purchase huge food supplies in the United States.

I asked Mr. Milo Perkins, President of the Federal Surplus Commodities Corporation, if he could supply me with some information regarding the plan of Great Britain to purchase huge food supplies in the United States, as outlined in the attached clipping from the New York Times of Sunday, September 17, 1939, which you handed to me at Staff Meeting yesterday.

Mr. Perkins told me that no such proposal or plan had come to his attention. He later called me back after he had made an investigation and said that the only thing the Department of Agriculture had received in this connection from Great Britain was a cable from the American Agricultural Attache about ten days ago, in which it was stated that Great Britain may be interested in some wheat and mentioned a possibility of trading wheat for Australian and New Zealand wool. Mr. Perkins said the message contained no tangible proposal and evidently was put forth as a "feeler".

SPECIAL

9/17/39 THE NEW

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BRITAIN TO BUY HUGE FOOD SUPPLY

Details Furnished to U. S.
Agricultural Office by
Embassy in London

WILL CONTROL PRICES

Delivery Is to Be Deferred
Until Products Are Needed
and Ships Available

WASHINGTON—Details of the
plans of the British Food Ministry,
which has sole authority over the
importation of all essential food-
stuffs into the United Kingdom,
were furnished to the U. S. Agricultural
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PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, London, England

DATE: September 19, 1939, 8 p.m.

NO.: 1017

FOR THE AMBASSADOR FROM THE SECRETARY OF THE TREASURY.

In further regard to telegram No. ¹⁶⁵³1563 from Butterworth and No. 969 from the Department.

You are requested to deliver to the Chancellor of the Exchequer the following information -

It is probable that the improvement in the rate for sterling today in the New York market was due mainly to the fact that the British control is now buying commercial bills more extensively. Approximately 750,000 pounds sterling, it is our best belief, was offered from abroad today, the offers emanating from South America, Amsterdam, Near and Far East and Scandinavia. About 265,000 pounds were purchased mainly by Paris, the Far East, South America, and Amsterdam.

In the future this type of information, when of an unusual character, will be submitted to you. We would welcome your suggestions for development of this service.

HULL
(FL)

EA:LWW

September 19, 1939

129

To: The Secretary

From: Mr. Hanes

I have talked with Louis Johnson and find that Captain Collins is cooperating with his committee on emergency purchases of essential war supplies in the \$10 million program. I was further advised by Louis Johnson that Collins is serving on a committee with the Army and Navy Munitions Board and the State Department, to which the President had suggested that a member of the Procurement Division be added. This committee is functioning largely in the field of sales to foreign governments in order to insure against our government being thrown into a competitive position when purchasing war materials. I think this clears up the matter about which we were talking.

J. W. H.

LAR

TELEGRAM SENT

PLAIN

130

September 19, 1939.

AMERICAN EMBASSY

LONDON

1012, nineteenth.

FOR BUTTERWORTH FROM THE SECRETARY OF THE TREASURY.

I appreciate immensely your comprehensive cablegrams 1651 on the functioning of the British economic system and 1647 on British price policy. Messages of this type portraying important developments and policy trends are most helpful in present circumstances.

HULL
(FL)

EA:FL:LNW

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1939 (MAY) 10 10 10

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE September 19, 1939 ¹³¹TO CONFIDENTIAL FILESSUBJECT TELEPHONE CONVERSATION WITHFROM L. W. KnokeBANK OF ENGLAND.

I called Mr. Hawker at the Bank of England and spoke to him at 1105 this afternoon. I gave him the range for sterling this morning in our market (2.88 to 2.95 or possibly 2.96) and discussed sterling with him.

I mentioned that our market was still very uncertain as to the extent to which the British control would furnish dollars at 4.02. Hawker replied that he had had lots of inquiries from the American banks in London and tried to explain to them the position. In respect of sterling balances he had advised them that the British control was furnishing dollars provided the holder of such balances confirmed (1) that the sterling was in their account prior to September 3, (2) that the balances were actually held for American nationals, and (3) that such sterling balances were not covered by forward purchases of dollars. All of the American banks had inquired freely but few had made application, probably because they were not in a position to confirm all three of the above provisos. The situation was gradually being straightened out and Hawker thought that things would be cleared up before long.

I pointed out that the same kind of uncertainty prevailed in our market as to the question of dollar exchange being made available by the British control on current trade transactions with the Empire. Exchange was being provided, Hawker replied, in respect

FEDERAL RESERVE BANK
OF NEW YORK

132

OFFICE CORRESPONDENCE

DATE September 19, 1939.

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

FROM L. W. Knoke

2

of permitted imports into the British Empire, that is imports which were permitted under the so-called regulations. What are these permitted imports, I asked? He could not, of course, give me a list, he replied, but suggested as a safe way that the American exporter should have the importer in the British Empire confirm to him either that he, the importer, had a license to import that particular merchandise, or that that merchandise was on the free list. If the importer was in a position to give that assurance, there was no question but that he would get from the British control the necessary exchange at the official rate with which to pay the exporter. What he had told me about Empire trade, Hawker continued, applied to the whole Empire except Canada, Newfoundland and Hongkong which were expected to find their own exchange, I suppose because they are in a position to do so. For the other parts of the Empire, exchange would be forthcoming either from the country concerned or, as would probably happen in most cases, from London. Australia he mentioned as a case where exchange was almost certain to come from London.

From all Hawker told me I had the impression that they are just beginning to develop a procedure and that this procedure is not sufficiently complete to be laid down black on white.

I referred to his cable today asking us to open a new account "M" on our books and asked for what purpose this request

OFFICE CORRESPONDENCE

DATE September 19, 1939.

To CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

FROM L. W. Knoke

BANK OF ENGLAND.

3

was made. Hawker explained that it was exclusively for reasons of convenience and better accountancy and that it was their intention to conduct over this new account all transactions (purchases and sales) in mail transfers and checks and long term documents which they would be called upon to handle but the exact maturity of which they would never know for certain. By keeping these items off their regular accounts with us they were enabled to know exactly from day to day what their available cash balance was in New York. From time to time the balance in the "M" account would be transferred to their regular accounts.

There were no other news, Hawker stated, except that everybody was discouraged about the sinking of the Courageous.

LWK:W

RECEIVED

SEP 20 1939

TREASURY DEPARTMENT
(Office of the Secretary)
Federal Reserve Bank of New York

September 19, 1939

MEMORANDUM TO THE PRESIDENT

I thought you might be interested in the following information concerning the sale of Treasury Bills during the past four weeks, the proceeds from which, as you know, are used to redeem maturing Treasury Bills.

Date bids received	Amount of bids received	Amount allotted	Discount rate
			(Average)
1939 Aug. 29	\$ 320,012,000	\$ 100,403,000	0.076%
Sept. 2	322,135,000	100,358,000	0.108%
Sept. 12	340,813,000	100,107,000	0.159%
Sept. 19	480,166,000	100,046,000	0.125%

DVB:WLR

by hand

DVB

September 19, 1939

MEMORANDUM FOR UNDER SECRETARY HANES:

Will you please have Mr. Blough make a study for me as to how the excess profits tax worked during the World War; also, to give me arguments pro and con on this form of taxation.

H. H., Jr.

September 19, 1939

My dear Mr. President:

I thought you would be interested in the inclosed article from the New York Times, particularly that part of the article which I have underlined with a blue pencil.

Yours sincerely,

The President,
The White House.

September 19, 1939

137

My dear Mr. President:

I thought you would be interested in the inclosed article from the New York Times, particularly that part of the article which I have underlined with a blue pencil.

Yours sincerely,

The President,
The White House.

September 19, 1939

138

My dear Mr. President:

I thought you would be interested in the inclosed article from the New York Times, particularly that part of the article which I have underlined with a blue pencil.

Yours sincerely,

The President,
The White House.

SEP 19 1939

44 C

BUSINESS

TREASURY TO FIGHT STERLING 'DUMPING'

Morgenthau Deplores 'Two-
Rate' System in New York and
London as Bar to Trade

LICENSING MOVE POSSIBLE

Banking Act Has Curb on For-
eign Exchange—Foreign
Banks Suspected

Special to THE NEW YORK TIMES.

WASHINGTON, Sept. 18—The Treasury is studying means of coping with "the two-price" situation which has developed in sterling exchange, Secretary Morgenthau told his press conference this afternoon. He said that he was "disturbed" by the situation.

Heavy dumping of British currency in the United States money market, which the Secretary described as "the only free market left in the world," has caused the rate on sterling in New York to vary considerably from "the official rate" in London. Foreign dispatches have described "a black bourse" in sterling existing in New York.

"The rates show it," the Secretary declared on being asked if he was aware of the so-called "black bourse" development. "There are two rates. You can call it what you want."

Asked if he received his advice on the exchange situation from the Bankers Committee headed by R. F. Loree, vice president of the Guaranty Trust Company, which the New York Federal Reserve Bank recently formed to cope with exchange speculation, the Secretary replied:

"The Federal Reserve Bank is my agent, not the committee. That committee has no power. They're in the business."

ing the situation with a view to combating it. We are the only free market left in the world, and we intend to keep it that way. It is of great importance to us and to the rest of the world that it be kept free."

Two Sterling Rates Are Quoted

The "official" pound quotation today was \$4.02, compared with \$3.83 in New York, Treasury officials said.

The Secretary added:

"It is terribly important we keep things open here, since it is the one place in the world where you can buy and sell and speak freely."

From a practical point of view, the Secretary said that it was "very unsettling to our exporters and importers" to have two sterling rates.

While the Treasury imposed a variety of exchange control for a short period when the present Administration came into power during the acute depression, it has since received only voluntary reports of exchange transactions from foreign exchange traders.

It was learned, however, that the power to license all foreign exchange transactions contained in Title I of the Banking Act of 1932 is available if needed. To invoke such power would be to resort to the type of controls which Secretary Morgenthau has strongly criticized when used abroad.

Prepared by: Mr. Murphy
Mr. Lindow
Mr. Tickton
Mr. Haas

TREASURY DEPARTMENT

CONFIDENTIAL

INTER OFFICE COMMUNICATION

DATE Sept. 19, 1939

TO Secretary Morgenthau
FROM Mr. Haas *CH*
Subject: Current Developments in the High-grade Securities Markets

SUMMARY

- (1) The average yield on all long-term Treasury bonds was higher on Monday, September 18, than at any time during the Munich crisis and is the highest since April 1938 (Chart I). Up to September 6, prices of all maturity classes of Government securities had been falling sharply. Since that date the notes have rallied while the bonds have continued to fall, although much more gently than previously (Chart II).
- (2) Official purchases have continued to support the Government bond market, but at a slower pace (Chart III). Federal Reserve banks have reduced their holdings of Treasury bills by \$25 millions, thus partially offsetting their purchases of bonds (Chart IV).
- (3) The high-grade corporate bond market has declined somewhat further, but the underlying tone is noticeably improved. Our average of the yields of high-grade corporate bonds was 3.32 percent on Monday (Chart I).
- (4) Weekly reporting member banks have maintained their holdings of Government securities with only slight reductions (Chart V). During the past two weeks these banks increased their commercial, industrial and agricultural loans by \$163 millions (Chart VI).
- (5) British consols have remained at about the official minimum price; French rentes have declined further. Britain has taken steps to acquire private holdings of gold. Canada has instituted exchange control.

Secretary Morgenthau - 2

I. Price Movements of United States Securities

Treasury bonds tended somewhat lower during the calendar week ended September 16 and were off further on Monday, September 18. The average yield on all long-term Treasury bonds stood at 2.66 percent on Monday, September 18 (Chart I).^{*} This yield was higher than any reached during the Munich crisis, and is the highest since April 1938, immediately preceding the desterilization of the inactive gold. It is lower, however, than the average had been prior to that time, except for a few months immediately preceding the 1937 break.

Wednesday, September 6, was the last day on which the market declined precipitously. Up to the close on that day all maturity classes of Government securities had been falling indiscriminately. Since that date the notes have rallied sharply while the bonds have continued to fall, although more gently than they had been doing before that date (Chart II). This is all the more significant inasmuch as the notes had had some official support before and on September 6, whereas since that time official support has been concentrated almost entirely upon the bonds.

II. Federal Reserve and Treasury Purchases of United States Securities

The Federal Reserve banks continued to purchase Government securities in the open market during the week ended September 16, but at a slower pace than during the preceding week. Gross purchases amounted to \$121 millions as against \$204 millions the week before. On Monday, September 18, further purchases of \$3 millions were made. The Treasury also tapered off its market purchases for its trust and investment accounts, acquiring \$19 millions of Governments as against \$36 millions the week before. About \$1 million of Governments were purchased for Treasury accounts on Monday, September 18.

Chart III compares the total purchases of Government securities by the Federal Reserve banks and the Treasury day-by-day beginning September 1, with the daily fluctuations in the average yield on long-term Treasury bonds during the same period. It is desirable to look at these

^{*} This average was increased by .04 percent on Friday, September 15, as a result of dropping the 3's of 1951-55 which on that day became securities with less than 12 years to their earliest call date.

two things at the same time because pressure on the market may be reflected either in increased official purchases or in price declines, or both. It will be observed that the days of large official purchases have generally also been those of the greatest price declines. Practically all of the official purchases since September 6 have been of bonds.

Offsetting their purchases of securities in the open market, the Federal Reserve banks permitted a \$25 million run-off in their holdings of Treasury bills by failing to replace maturities on September 13. For the preceding three weeks there had been practically no change in bill holdings (Chart IV).

A mild outside demand for issues maturing within five years was apparent during the week, but the Federal Reserve banks continued to be the principal market for long-term securities.

The Federal Reserve bank purchases of United States securities for the week ended September 13 constituted the main factor in the further increase in excess reserves for the week.* Excess reserves of member banks amounted to \$5,270 millions on September 13, an increase of \$300 millions over the preceding week.

III. High-Grade Corporate Bond Market

The tone of the high-grade corporate bond market was noticeably improved during the past week, although prices declined somewhat further. The Treasury average of high-grade corporate bonds increased in yield from 3.27 percent at the close on Saturday, September 9, to 3.33 percent on last Wednesday and closed at 3.32 percent on Monday.

These fluctuations reflected a rather marked degree of stability as contrasted with the sharp increases in yield during the two preceding weeks. Moreover, the yield on Monday was well below the high of 3.41 percent reached on the 5th and 6th of September (Chart I).

* Some of last week's purchases were for delayed delivery and did not affect excess reserves until this Wednesday's statement.

The volume of domestic corporate bond sales on the New York Stock Exchange was higher on Tuesday and Wednesday of last week than on any day since the outbreak of war. For the week as a whole, volume aggregated about 30 percent more than the previous week.

There were no new corporate bond flotations last week, thus extending to three weeks the period during which no new offerings have been made. During this same period, likewise, no municipal issue was publicly offered in the New York market. On Monday, September 18, however, a small industrial offering reached the market (\$1,600,000 of 10-year $4\frac{1}{2}$ percent convertible debentures of Durez Plastics & Chemical Inc.).

IV. Bank Loans and Holdings of Government Securities

Weekly reporting member banks have not reduced their holdings of Government securities appreciably during the first two weeks following the outbreak of war. During this period, reporting member banks in New York City increased their holdings of direct Government securities by \$36 millions while reporting member banks in one hundred other cities reduced their holdings by \$112 millions, of which about half consisted of Treasury bonds and about half of Treasury bills -- note holdings remaining practically unchanged (Chart V). During the same period the holdings of guaranteed securities by all weekly reporting member banks declined by \$64 millions, but this was largely due to the maturity of \$100 millions of FFMC bonds on September 1.

Total loans of reporting member banks increased by \$106 millions during the first two weeks of the war. Commercial, industrial and agricultural loans increased by \$163 millions, but loans to brokers and dealers in securities declined \$40 millions. The increase in commercial, industrial and agricultural loans was about equally divided between the two weeks (Chart VI).

V. Foreign Markets

An element of stability returned to foreign markets last week, but its significance is diminished by official and unofficial controls. British $2\frac{1}{2}$ percent consols stood at 62 all week, and closed Monday at the same price, equivalent to a yield of 4.03 percent. Little significance can be attached to this price stability, however, for the minimum price prescribed by the London Stock Exchange practically prevents any decline below this level.

The British Treasury bill rate declined further to 3.51 percent on Friday as compared with 3.60 percent the week before, a renewed demand for some of the shorter maturities tending to keep the rate down. Call money remained unchanged at 2 1/2 percent, and 6 month bills continued to be quoted at 5 percent.

The French market has been thin since the imposition of exchange controls, and speculation has been discouraged. 3 percent perpetual rentes continued to decline slightly in price, and the yield rose to 4.45 percent on Monday.

Regulation of foreign assets has just been undertaken in France by a decree requiring the declaration of all property held abroad by French residents, and of all gold held either at home or abroad. Great Britain has required that all private gold holdings of residents of the United Kingdom be sold to the Government.

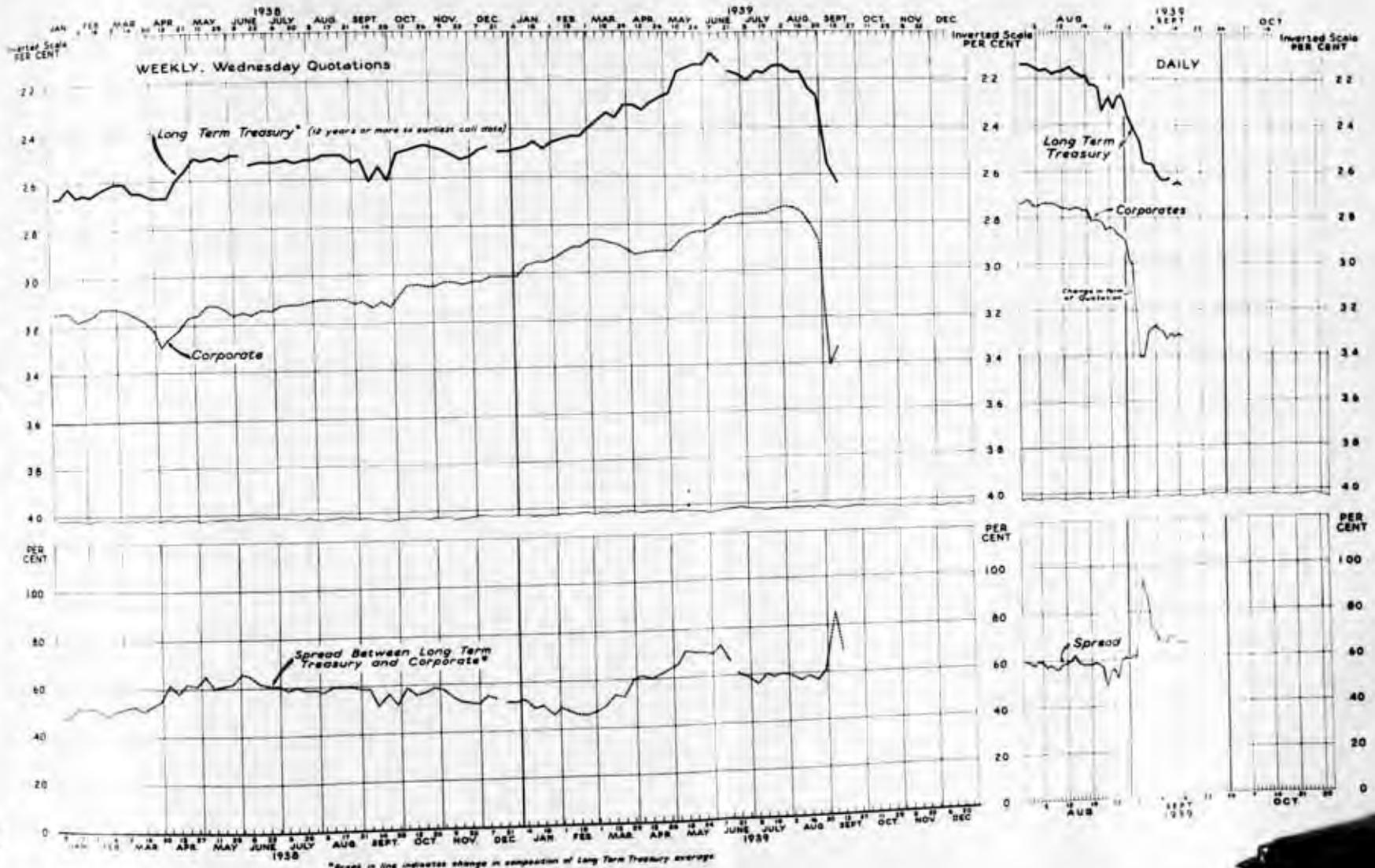
Note circulation has again increased to record levels in both France and Great Britain. The latest statements show that in three weeks the circulation of the Bank of England has increased 8.9 percent and that of the Bank of France 13.7 percent.

The statement of the Bank of France for September 7 shows no change in the amount of advances to the State during the first week of war, and withdrawals of Government deposits from the bank amounted to only 433 million francs. This is taken in press comment to indicate that public and bank subscriptions to Government bonds were sufficient for the Treasury's extraordinary needs.

On Friday, Canada instituted exchange control. The note circulation of the Bank of Canada increased approximately 2.5 percent in the week ending September 13.

Chart I

COMPARATIVE YIELDS OF AVERAGE OF ALL LONG TERM U S TREASURY AND AVERAGE OF HIGH GRADE CORPORATE BONDS



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

Chart II

DIVERGENCES IN THE YIELDS OF U.S. SECURITIES BEFORE AND AFTER SEPT. 6, 1939

Points Plotted Represent the Difference from Sept. 6 Yield of Each Maturity Class

1939

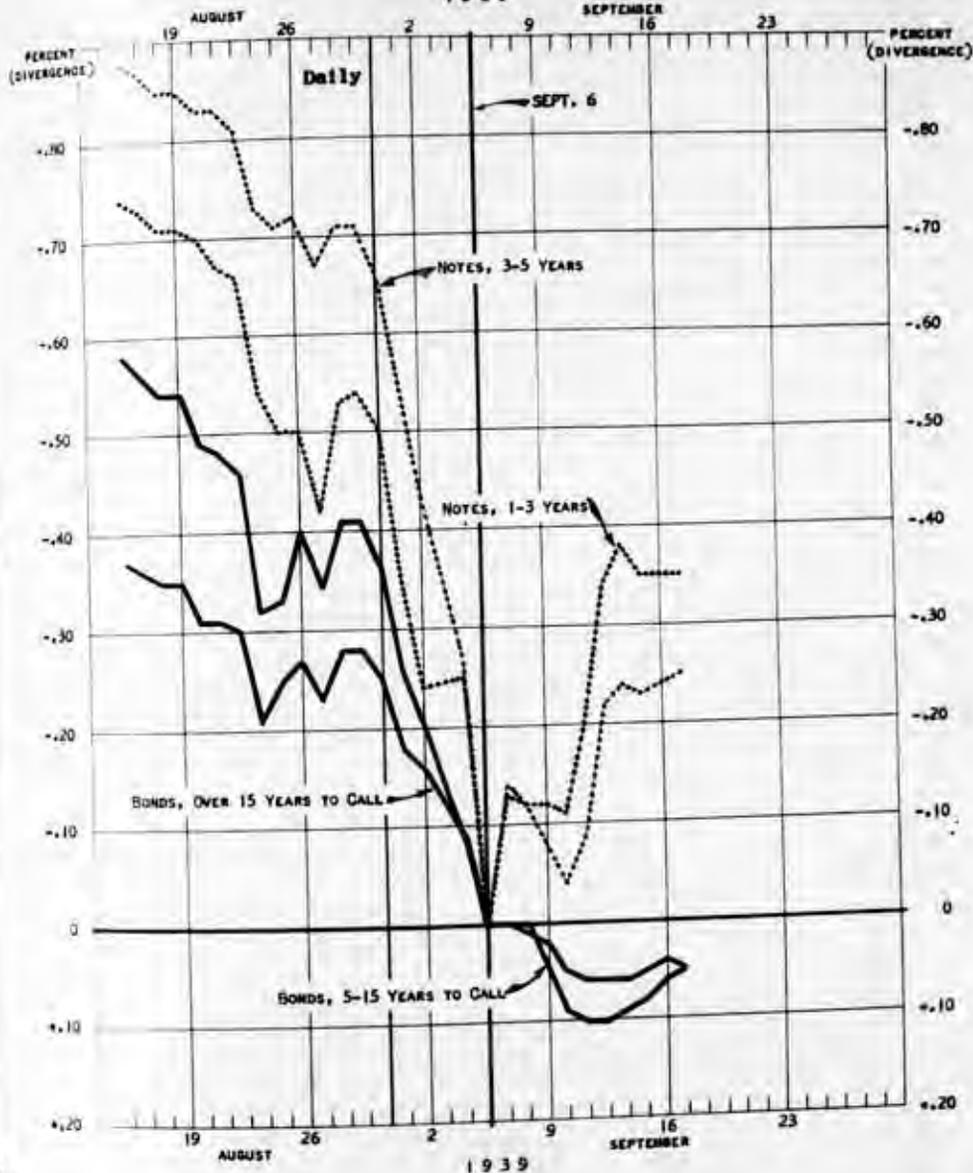
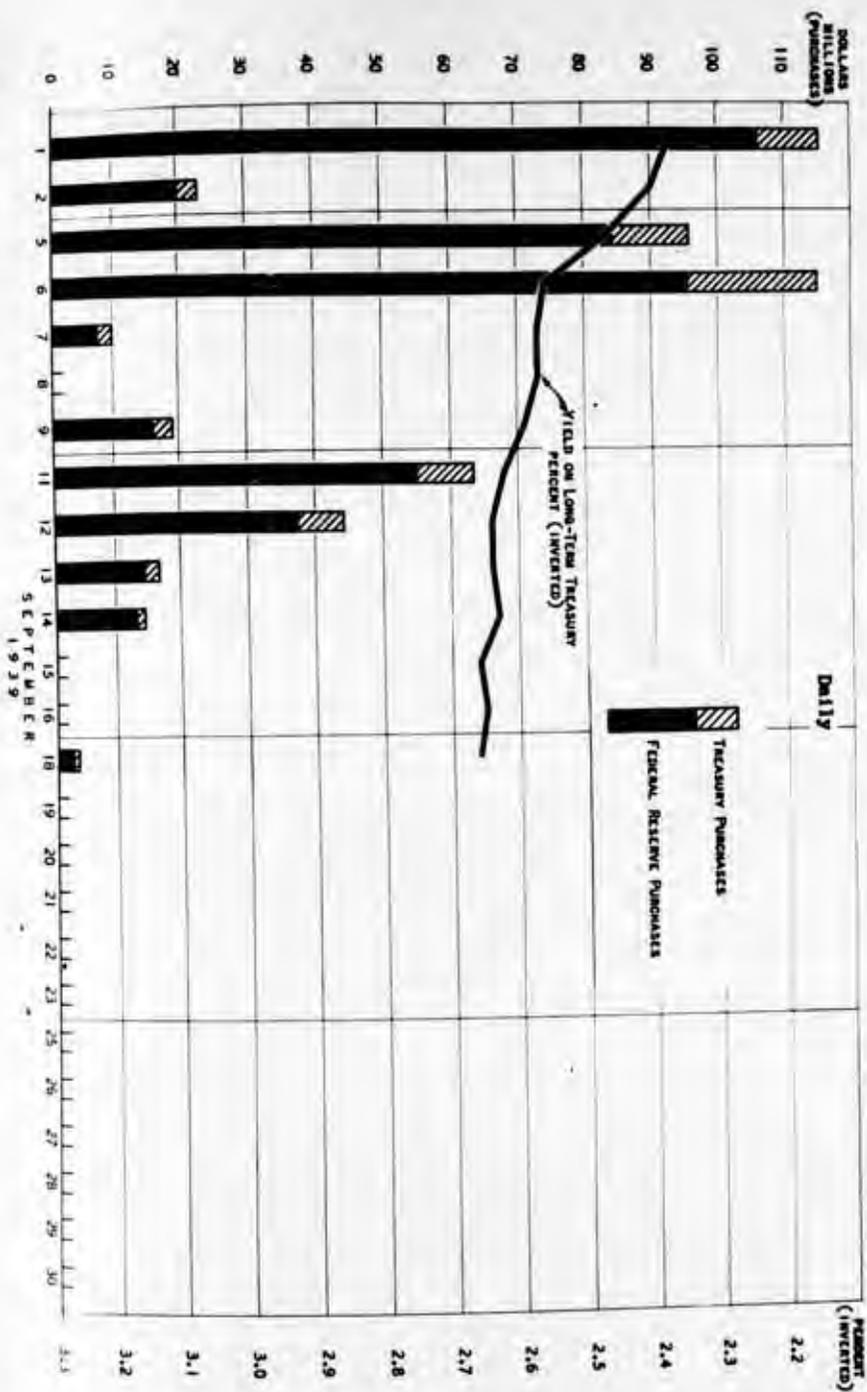


Chart III
 FEDERAL RESERVE AND TREASURY PURCHASES OF U.S. SECURITIES
 COMPARED WITH AVERAGE YIELD ON LONG-TERM TREASURY BONDS



Office of the Secretary of the Treasury

Chart IV

FEDERAL RESERVE BANK HOLDINGS OF U.S. SECURITIES

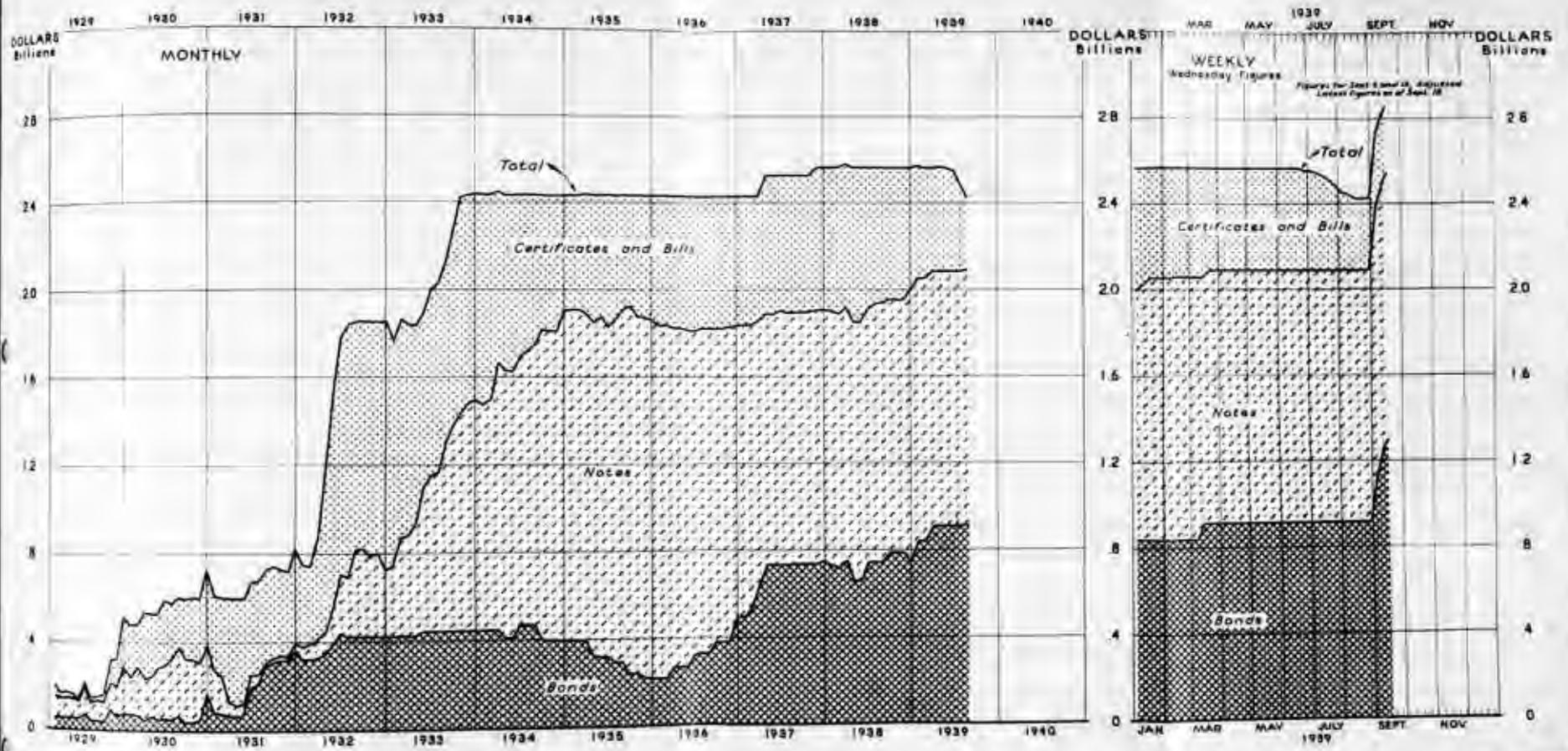


Chart V

**U.S. GOVERNMENT SECURITY HOLDINGS
WEEKLY REPORTING MEMBER BANKS
Cumulative Net Change From Feb 21, 1939**

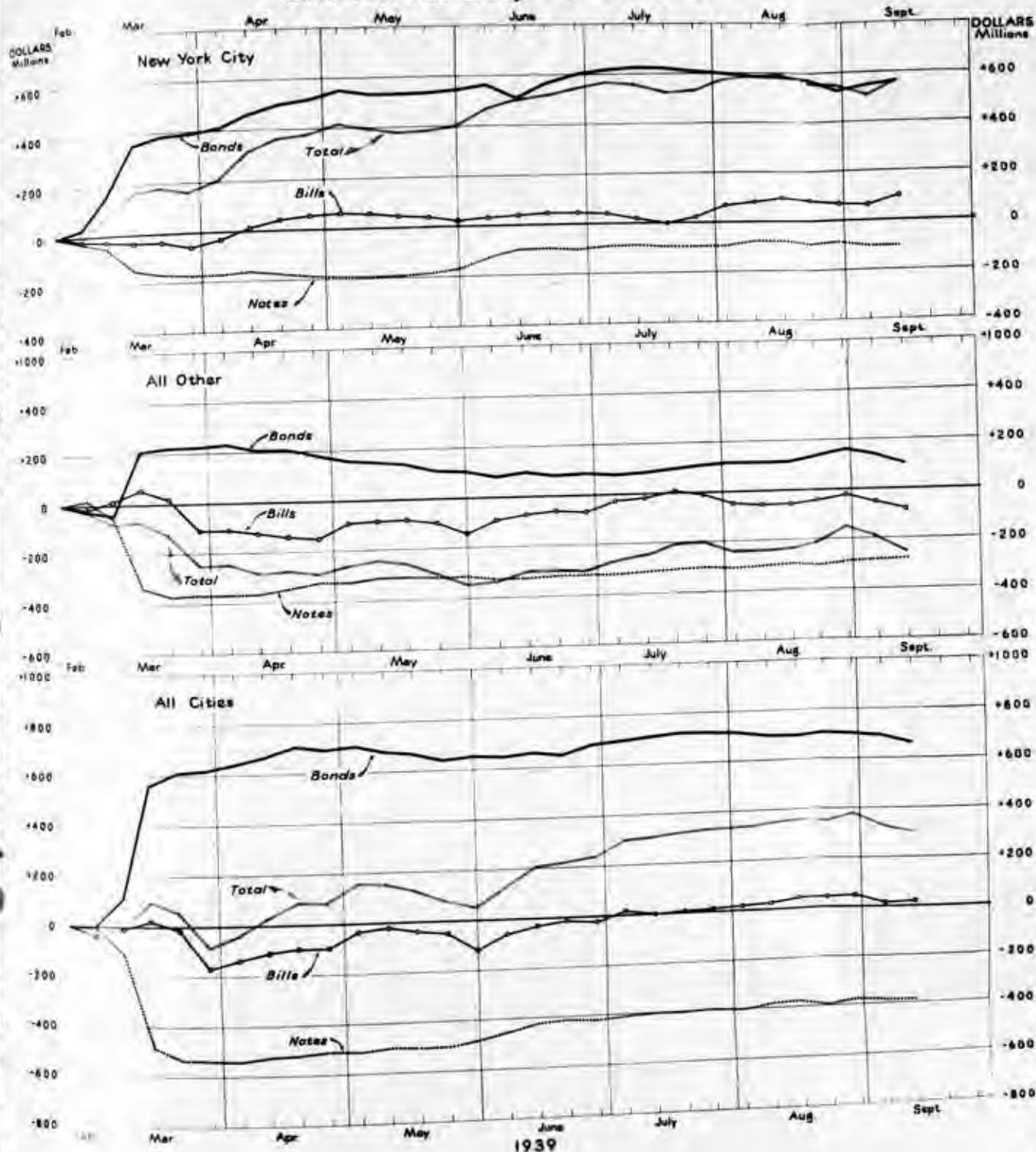
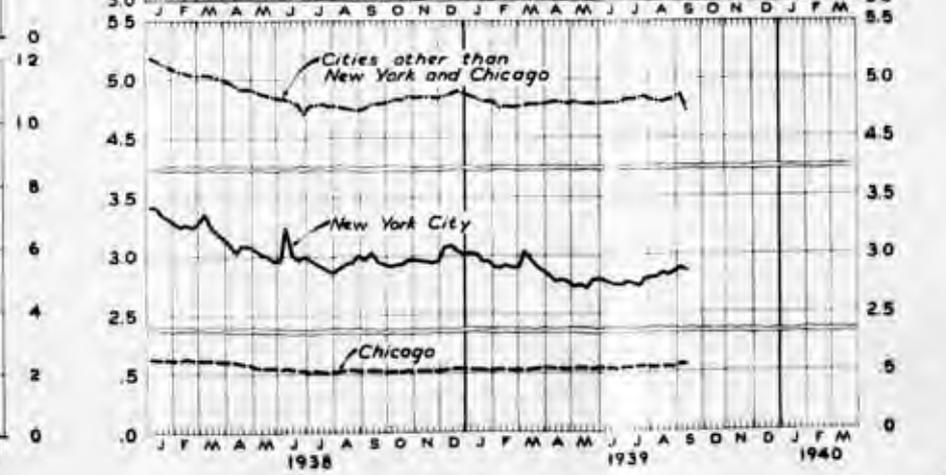
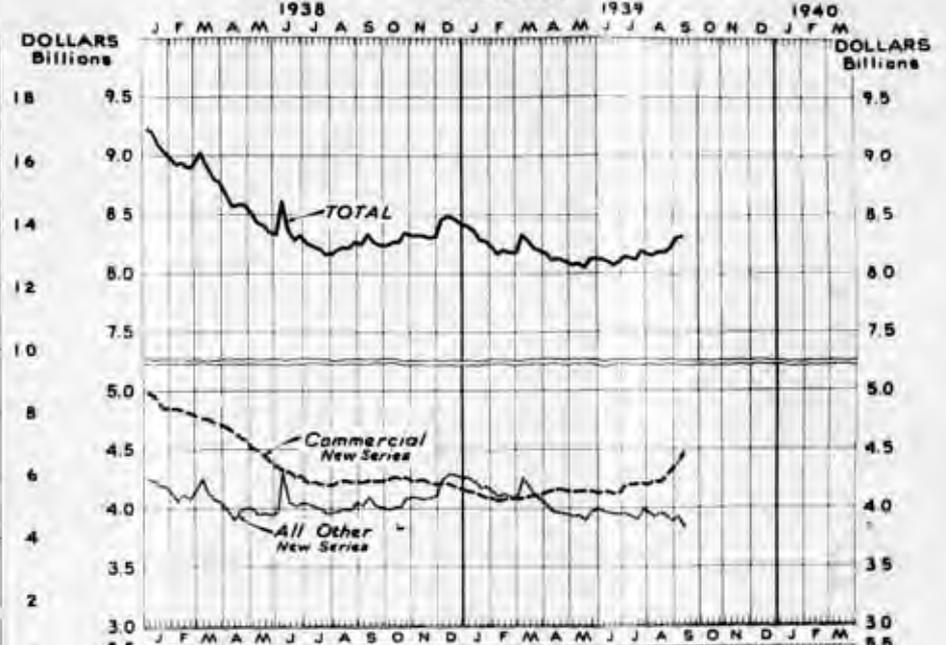
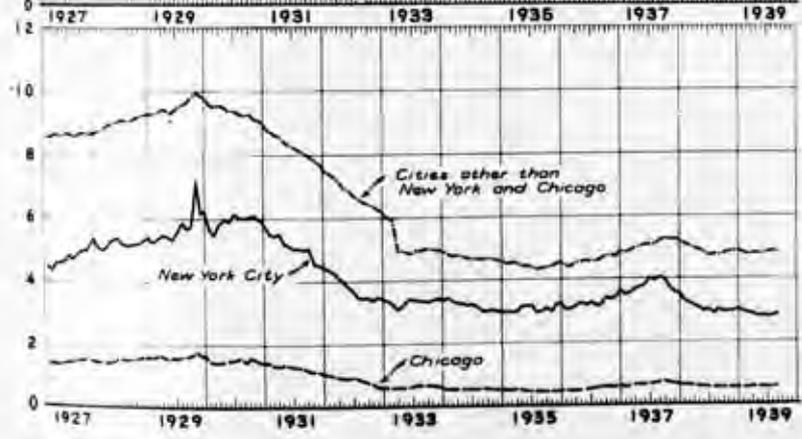
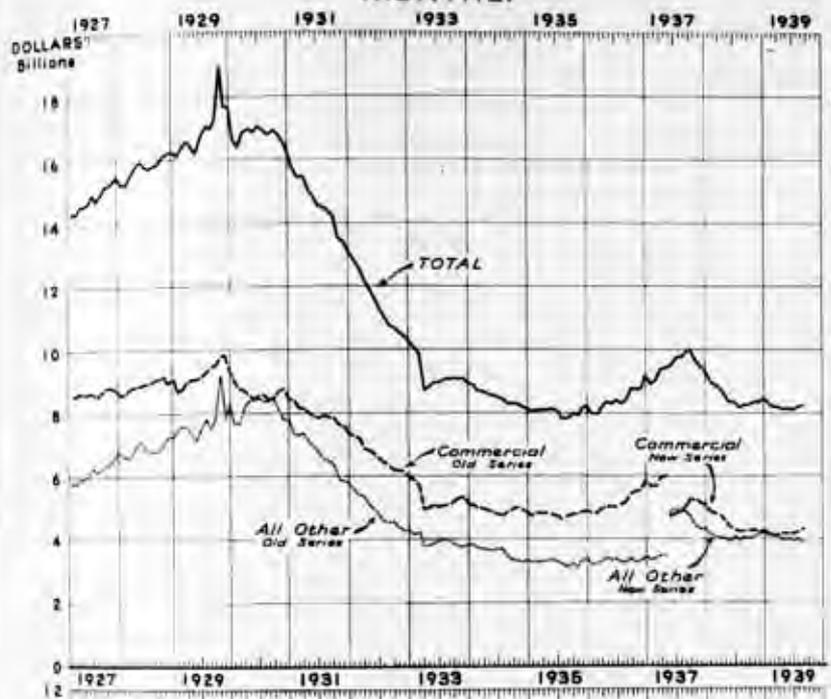


Chart VI

LOANS - WEEKLY REPORTING MEMBER BANKS

MONTHLY

WEEKLY



Office of the Secretary of the Treasury
Division of Monetary Affairs

THE WHITE HOUSE
WASHINGTON

September 19, 1939.

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

Telephone Message from the President:

I have not told them either to form a corporation or not to. In other words, they can do it either the Chinese way or the Russian way but it should be a British organization, commission or corporation but it should not be an American bank or an American banking house.

G. G. T.

RE NEWS RELEASE ON VALUE
OF POUND STERLING

September 19, 1939
8:30 a.m.

Present: Mr. Hanes
Mr. Foley
Mr. Cochran
Mr. Stewart
Mr. Bailie
Mr. Ransom
Mr. Harrison
Mr. Dreibelbis
Mr. Sproul
Mr. Gardner

Ransom:

Mr. Secretary, last Friday afternoon I had word in connection with the report on the matter of the information about the British sterling which had been discussed earlier in the day that it was your wish and the President's wish that the New York Bank's report should contain very specific information as to the transactions of individual banks, was the way I got the message. Assuming that to mean some transactions of the banks whose officers were involved in the question of when and how the information was released, I called Mr. Harrison in New York and passed on the request to him. He said there were certain somewhat technical questions involved in the time schedule, and as to just what might be meant by that, that he would like to discuss and offered to come down on the train that evening to be here Saturday morning. I explained that you had had to leave town and that Mr. Bailie and some of the other members of your staff were away, and suggested that as he was to be in Washington yesterday, which was Monday, that we try sometime during the day to get in touch with you so we could ascertain just what was wanted and see if that could be supplied.

Yesterday, as you know, we were in a meeting of the Federal Open Market Committee, and talking to you later in the afternoon it was suggested that we get together this morning. So, here we are, and the purpose of our visit is, at my suggestion, to ascertain just exactly what is wanted and see if it isn't possible to get that information for you.

H.M.Jr:

Well, to clarify my position a little bit, in discussing it with the President he asked whether the

- 2 -

investigation which the Board is undertaking included finding out whether any members of this Advisory Committee had taken advantage of having this information in advance, and I said I took it for granted that the investigation would include that. But, to make doubly sure, I passed the word on. So that is the whole story. Now, there is no more, see?

Ransom: Then that clears up one possible question which was on my mind as to just which banks were involved in your inquiry, and it would be those banks whose officers were members of the Advisory Committee, as I understand.

R.M.Jr: Well, it would be those banks who had the advantage of having this information anywhere from zero up to an hour and ten minutes earlier than other people.

Ransom: Because of some of the factors involved in the time schedule, I thought it would be helpful if we could meet with Mr. Harrison and with you and let Mr. Harrison go into some of the practical questions involved in that, because in the hour and ten minutes, as I understand, is involved the fact that it was about 2:00 o'clock before any of this information reached any of the banks in question. And then, if I am correct - Mr. Harrison will correct me if I am not - from that point on up until it reached the ticker at 2:40 in New York, various banks were being advised by the Chairman of the Committee, so that as each one of these banks, I take it, Mr. Harrison, there would be the question of just what time it received this information and what might have been its transactions between that particular point which was zero hour for it and the 2:40 period.

R.M.Jr: Before Mr. Harrison speaks, I would like to make my position clear. I asked the Board whether they would cooperate in this matter. I have entire confidence in both the Board and Mr. Harrison as President of the Federal Reserve of New York, that they will satisfy themselves as to whether or not anybody has taken advantage of this. I don't want to be put in the position of telling you, the Board, or Mr. Harrison how they should go about this, but I

- 3 -

just wanted to point out what I think is the perfectly obvious thing that in conducting the investigation both the Board and Harrison will satisfy themselves, individually, that nobody profited by this thing.

Lansons:

In talking to you last week about it, you will recall that it was understood that the New York Bank was making a complete report on the whole matter and that that report would be given both to you and to the Board simultaneously. I think it would be helpful to Mr. Harrison to know just what it was expected that that report should contain. Is there any other question, Mr. Harrison, beyond what has been said this morning or heretofore about it that would be helpful to you in clarifying what you want?

Harrison:

I think I understand. I think that I would like to say by way of explanation or supplementing what has already been said, first, that there was not a gap of one hour and ten minutes. It was a gap of only 40 minutes between the time that the first person outside the Federal Reserve Bank knew of it and it appeared on the ticker, according to the Dow-Jones statement at the time they released it. That was between 2:00 and 2:40. Now in that interval, and I may explain that I am not really a qualified witness because I am giving hearsay evidence only, I knew of nothing at the time - in that interval. Mr. Loree called the eight other members of his Committee with the understanding from the first that each one of those eight members of that Committee would immediately get on the telephone and get in touch with each one of his groups. The Committee was set up to handle the matter just that way, rather than to have us do it as we have in the past, reach individual members of the market by the telephone, ourselves.

Now, as to Mr. Loree, he has given me a statement and I have seen the transcript of all his transactions. The Guaranty Trust Company did not buy a pound of sterling between 1:39 and 2:49, so that in the interval of 40 minutes, they had no purchases of sterling whatever. Their first purchase was nine minutes after the release and they bought

- 4 -

5,000 pounds at 3.95, pretty near the top on that day.

Now, as to the other members of the Committee....

Warrington:

May I ask you if the report on that purchase would be a complete clarification of it, if it would be necessary to consider their sales?

Marrison:

As I say, I have a complete transcript of all their transactions for the whole day, their sales, too. That would not, however, indicate that there was any advantage being taken of the information because the character of the sales was obviously for customers' accounts and could not have been intended, certainly, to take advantage of a rising market in sterling.

Now, as to the other eight members of the Committee, I have come to this question in my own mind, as to how they could have taken advantage of information that was being given to them for the purpose of letting them know of a certain practice which, according to all of our best estimates, all of us, would probably make the pound rise. In fact, getting the information to the market had as one of its purposes a decrease in the differential between the London rate and the New York rate, so it was anticipated the pound would go up at some point.

Now, when Mr. Loree telephoned each one of these eight members, he did not say that this was going to be announced on the ticker at such and such a time. None of them had any way of knowing that there was a deadline before which they must not operate. I don't know, in getting the evidence, what intervals I should cover except certainly if between 2:00 and 2:40 they did nothing, it would be a complete clearance, although I must say in defense of them and of us that they did not know it was coming out at 2:40. They didn't know it was to be on the ticker at all. They thought it was advice to the market, as we have given advice to the market before in circumstances not quite comparable. However, I am perfectly willing to give them an opportunity to clear any suspicions that any one may

- 6 -

have as to what they did or did not do in the interval between 2:00 o'clock and 2:40.

Ransom: I think that answers the question, Mr. Secretary. Was there anything else you wanted?

H.M.Jr: Not a thing.

Ransom: You, Mr. Harrison?

Harrison: I didn't know quite the genesis of this meeting until you spoke now. It appears to me to be a very formidable one with counsel for both the Treasury and the Federal Reserve Board, and I didn't have an opportunity to bring my counsel, and I haven't even got my own expert witness here. I am the one fellow who does not know first-hand anything that I am telling you. I got it all through Knoke.

Ransom: I think the Secretary and you both understand the position of the Board. We are trying to be helpful in the situation, do all we can to clarify any questions which may arise in any one's mind, and my reason for asking my staff men to be present is that this is a very technical matter and in addition to the technicalities involved, we were advised that the transcript of the Treasury's various memoranda on the subject would be given us because, as you know, there are a few other things that are occupying my time.

I had asked Mr. Dreibelbis to go through that and see if there was anything we might want to suggest, either to the Treasury or the Federal Reserve Bank of New York, in connection with the transactions, which would help clarify it. It is formidable from our point of view only in the sense that we are trying to be helpful if we can.

Harrison: I, of course, want to be just as helpful as I can be, too, and as long as we are the ones that are indicted I am going to make sure that the record is as clear as I can make it.

Ransom: I think that is all, Mr. Secretary.

H.M.Jr: Nobody has indicted you.

Harrison: Well, I think there is grave question in somebody's mind as to the procedure, and that is what worries me a little, because frankly I think it is fair to Knoke to say that he thought, in the rush between 1:30 and 2:00 o'clock when all this transpired, that he had advised the Treasury of everything that he knew and certainly from the earlier conversations with Mr. Lochhead, he thought that Mr. Lochhead understood that he was going to give this to the market because the purpose of the telephone call - the second telephone call, which Mr. Lochhead knew about in advance - was to find out whether Mr. Bolton would give us authority to advise the market, which Mr. Lochhead told Mr. Knoke he thought was very wise.

Whether Mr. Knoke and Mr. Lochhead talked about the particular procedure that would be followed at that time, I do not know. But again in defense of Mr. Knoke, the question of our making a release on the ticker never occurred to him because we used the machine that we had set up in advance with great forethought to advise the market of anything that we had to give them.

Furthermore, the Bank of England didn't ask him to nor authorize him to make a formal statement to the market from the Federal Reserve Bank. By us it would have been much more official and apparently they intended - he just asked Knoke to give the market a hint, that is the very word he used, of what had happened, and the way you give a hint is not by formal release. I am very glad we didn't make a formal release, frankly, because there is some question even yet as to how far and under what circumstances the British will sell sterling - I mean buy sterling at 4.02, so I think he did in all good faith what he thought was the arrangement for disseminating information of that sort. He didn't have any idea that there was any question in the Treasury's mind as to the procedure we followed, because he thought Lochhead understood it fully. I think he even talked with you about the Foreign Exchange Committee and you asked him about the composition of it and what it was.

- 7 -

- H.M.Jr: I called him up when I couldn't get any information. I wondered why we weren't getting information and I called up Knoke.
- Harrison: I think Knoke did a great deal in twenty minutes. He talked to Bolton and read to Lochhead the formal statement. I think he talked to you, sir, and then he wanted to be perfectly careful about it, so he had the transcript of his telephone call at 1:30 typed out before he made any statement and he wanted to check that. From that he made a formal release statement that he was to give to Mr. Loree. He read that to the Treasury and he had to have it typed and sent over to Mr.
- H.M.Jr: He read it, the formal release?
- Harrison: I say he read to the Treasury the formal release that was being given to Loree.
- H.M.Jr: That is the first time I have heard of that.
- Harrison: Again, I am just talking from memory and I may be wrong, but I am quite sure he did.
- Ransom: That statement was made at some time during our conferences last week, Mr. Secretary.
- Cochran: He read, as I recall it, the statement which he said he had prepared and sent to Mr. Loree.
- H.M.Jr: As I remember it, he read it after it was sent.
- Harrison: I think that is perhaps true. As he expressed it, this is the formal release that is on its way to Loree.
- Cochran: Yes.
- Harrison: But the fact, Mr. Secretary, that he didn't read that particular statement to Mr. Lochhead in advance isn't the matter of great criticism because of the fact he told Mr. Lochhead and by agreement with Mr. Lochhead the whole purpose of his telephone call with Mr. Bolton and Mr. Lochhead was to get authority to make the release to the market.

- 6 -

- H.S. Jr: I am glad that everybody is here that is here so I can make the following statement, that I sincerely hope that all of us will profit by what happened last week, because I haven't talked to anybody that felt that that was a good way to handle market money news.
- Harrison: Mr. Secretary, we had no - maybe it was an error in judgment. I don't think if I had known about it that I would have authorized Knoke to make a release from the Bank. If you had asked me, I would have advised you not to make a release. Then the only question was one of judgment, maybe, on the part of the Chairman of the Committee as to whether he should have made a ticker release first or do the thing the way that he thought that he was intended to do it, to call his Committee to cover 150-odd exchange brokers.
- H.S. Jr: Well....
- Harrison: But we didn't get any suggestion from any talk Knoke had with the Treasury that there should have been a different method of handling it until 4:30 when you called me after it was all over.
- H.S. Jr: There is no doubt in my mind that any other news from the British Government - we don't want it handled that way.
- Harrison: Well, I have told Mr. Ransom I am certainly not going to continue to follow a procedure which has caused such a stir as this, and we will have a much more definite arrangement, although I think it is fair to say that in this case we had no idea - I am sure Knoke did not think that he was doing anything other than what the Treasury understood he was doing or what the Treasury wished.
- Ransom: Last week, Mr. Secretary, the question came up, you will recall, as to what we might suggest as a method by which such a thing wouldn't occur in the future. And talking to Mr. Harrison and later talking to you again, I understood it was pretty definitely agreed that any such information as this which might come into the New York Bank in the future, the Treasury would have the decision as to when and how it was to be released. And

- 9 -

Mr. Harrison at once said that that was entirely agreeable to him, so I thought that particular aspect of the matter was pretty well closed.

H.M.Jr: I just wanted to make sure that it was understood.

Ransom: Yes.

Harrison: I said it was.

H.M.Jr: I see. But you and I haven't discussed it.

Harrison: I mean just a minute ago.

Baillie: Mr. Secretary, I would like to make one remark. I went in to see Mr. Loree this afternoon and he told me the way the statement finally did get on the ticker. He said it never occurred to him that it should go on the ticker until he happened to talk to the one stockbroker on his Committee, Sidney Weinberg, who said, "Well, have you put it on the ticker," and he said, "Ticker?" and because some of the people with whom he was dealing don't have tickers, I mean - according to Mr. Loree's statement, there are a great many of the brokers whom he was talking to who do not use the ticker as their means of getting information, and he said, "That is a damn good idea," and thereupon it was released because Sidney Weinberg happened to suggest to Loree at 2:30, or whatever it was, that he should put it on the ticker.

Harrison: That was suggested by Mr. Weinberg only when Mr. Loree said to him, "How are you going to cover all in your group," and there were some 50 or 60 of them. He stumbled at the idea of telephoning 50 or 60 people, so he said, "Well, how about the ticker," and that was the first time it occurred to anybody. Certainly, the evidence as far as Mr. Loree is concerned in the Guaranty Trust Company showed that that was handled in all good faith on their part as a way of getting the market information, and his own trader was the last he advised, because he telephoned everybody else first.

Baillie: His comment was also very amusing. He said it was the only hour and ten minutes for months

- 10 -

that there hadn't been any purchases of sterling through this trader, and God must have been there holding us by the hand.

Harrison: That is precisely why I am fearful of getting the transcript, because in the normal course of events - it doesn't necessarily prove that it was any abuse of anything. Furthermore, as I said at the outset, I don't think that even if they had gone out after getting the information to buy sterling that that would have - that they would have thought they were using that information, because the information was being given to them to strengthen sterling.

H.E.Jr: I want to say the Federal Reserve Bank has been my eyes and ears now in New York ever since I have been here. Nothing has shaken my confidence in the Federal Reserve Bank of New York. I am still relying on you to be my eyes and ears. We have had difficulties before and we will have them again, but we have always ironed them out and I told that to Knoke yesterday in a conversation which I don't want to repeat here now. But for everybody's sake, I hope that the investigation will go along the line that we discussed here today, and after you have looked at the record, your word is good enough for me when you say these people have or have not acted in good faith and their transactions have or have not been legitimate, just so there will be no misunderstanding.

Harrison: I appreciate your confidence. It distresses me grievously that any error in judgment or misunderstanding as to procedure that we may have had with the Treasury should have gone to a point where it required an investigation, and we will respond to that investigation just as fully as we can.

H.E.Jr: The investigating powers are solely with you and I am relying on you for a report as to whether anything has or has not happened. Certainly you can't ask for anything more than that.

Harrison: That is right, but I may have to explain some purchases.

H.E.Jr: You explain it to us, and as far as I am concerned, nothing has happened making a change. I will

- 11 -

accept your explanations, but I would like to have an explanation.

Ransom:

That seems to me to close it, Mr. Secretary, for the time being at least.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

*Check memo file
This will be done
date, AM*

163

DATE September 19, 1939

TO Secretary Morgenthau
FROM H. Merle Cochran

Confidential

Sterling opened in New York today at 3.86, rose to 3.95 and closed at 3.91. The improvement in the rate was probably due principally to the fact that commercial bills, especially for cotton, are now being bought more extensively by the British control. During the day we learned that the Irving Trust has now been able to accomplish such transactions, which up until today had been put through only by the Guaranty Trust. The National City and Chase banks also reported that their negotiations were proceeding satisfactorily. Part of the improvement in the sterling rate was attributed to your press statement of yesterday. There was also some market gossip that Hitler's Danzig speech might reveal some hope for peace.

The Federal Reserve Bank of New York received orders today to sell at the best price £25,000 for the Bank of Norway, £50,000 for the Bank of Sweden and £250,000 for the Bank of Latvia. All of these transactions were put through without unduly depressing the market by offering small amounts at a time, the sales being made at from 3.91 to 3.92.

By telephone at 4:30 this evening we learned from Mr. Knoke of the Federal Reserve Bank in New York that total offers of sterling on the New York market from abroad today approximated £750,000, including the £325,000 above mentioned. The offers, aside from Norway, Sweden and Latvia, came principally from South America, Amsterdam, the Near and Far East. Approximately £265,000 were purchased in New York by South America, Paris, Amsterdam, and the Far East. The four

Secretary Morgenthau

-2-

reporting New York banks informed the Federal Reserve Bank that commercial sales of sterling exceeded the purchases.

We have drafted a cablegram which will be submitted for your approval today, acknowledging the cable request from the Director of the Exchange Bank of Brazil for the purchase of gold in New York.

The Central Bank of Uruguay requested through the Federal Reserve Bank permission to purchase gold valued at \$1,000,000, utilizing funds in their account. We have approved this sale through the Federal Reserve Bank subject to confirmation from Uruguay that the gold is required to strengthen their gold reserves.

We have also approved the sale of \$2,500,000 in gold to Argentina tomorrow, which represents part of the approval which we have given for the sale of \$20,000,000 gold to that country. The total which they have purchased, including this sale, amounts to \$17,400,000.

The Federal Reserve Bank of New York received a cablegram today from the Banque Polski, dated Bucharest, September 17. At Mr. Knoks's request I have endeavored to ascertain from the State Department whether the Banque Polski is actually set up in Rumania. The Federal desires some assurances before executing the transfer of \$200,000 requested in the cablegram.

In a separate memorandum I am giving the latest supplemental information obtained by the Federal Reserve Bank in regard to the granting of the 4.02 sterling rate to American holders of sterling balances and for current business transactions with the British Empire.

W. M. H.

September 19, 1939

Secretary Morgenthau

Mr. Cochran

Mr. Pinsent, Financial Counselor of the British Embassy, called on me today at 12:30, on an appointment made at 12:10.

Mr. Pinsent explained that he had been absent in New York several days in order to meet two members of the British Purchasing Mission who had arrived en route to Canada. He said that he wanted to bring me up to date on two or three matters and get my advice on one point.

Mr. Pinsent stated that when the matter had been broached sometime ago, President Roosevelt had advised the British to set up a corporation in the United States for the purpose of effecting their purchases on this market. He said that within the past few days, Thursday or Friday of last week as he recalled it, the President had expressed the opinion that this would not be so advisable as functioning through a straight British Purchasing Commission. When I pressed for precise information as to whether the President himself had given this advice to the British Ambassador, or to someone else, Mr. Pinsent explained as follows. He said that Lord Riverdale had been in the United States even before the outbreak of the war investigating the proper methods of effecting British purchases in the United States. It was Pinsent's understanding that at that time the suggestion had been made by the President, through Acting Secretary Johnson of the War Department, that the setting up of a purchasing corporation in this country would be advisable.

When Pinsent and Chalkey, Commercial Counselor of the British Embassy, last week met the two members of the British Purchasing Commission in New York they discussed this proposition. They subsequently informed the President, through Acting Secretary Johnson, of certain technical objections observed by the two British officials in regard to such a set up, involving taxes, publicity, etc. Considering these objections, Mr. Pinsent states that the advice has now been received from the President, through Acting Secretary Johnson, favoring a simple British purchasing commission without establishing a corporation.

Mr. Pinsent said that no commitments had been taken but that they have the past few days been in conversation with various banks in New York in regard to future British official business. There is no plan for any one bank being the British paying agent. The British officials were turning over in their minds the possibility of several of the New York banks grouping together to extend such short term credits as may be permissible under United States laws. He told me further that from the French Financial Attache Leroy Beaulieu he had gained the idea that the Treasury favored the opening of an official deposit on the part of the French, and presumably the British, Government purchasers with the Federal Reserve Bank of

New York. This raised the question of as to whether the Federal Reserve Bank of New York would accept a foreign government account, or whether the account would have to be opened in the name of the Bank of England. In the latter event, this would make a cumbersome arrangement for the Purchasing Commission in this country. I gave my personal opinion that ordinarily the Federal Reserve Bank did not accept government accounts. I told him I would check this, since a matter of policy might be involved in the present instance.

I let Mr. Pinsent know of the message the Secretary of the Treasury had today conveyed through Ambassador Kennedy by telephone to the British Chancellor of the Exchequer suggesting the desirability of a visit to the Treasury by Sir James Ray, Undersecretary in the British Ministry of Finance, who is now in Canada. Mr. Pinsent stated that this official would sooner or later come to the United States on the Purchasing Mission. It had been decided advisable, however, that this Mission first proceed to Canada, particularly considering the fact that neutrality legislation was yet to be reviewed in the United States. He added that this official is an administrative officer and is perhaps not familiar with straight financial and monetary questions. At least Mr. Pinsent had last week found in New York that the Undersecretary had been unable to provide him with little information on sterling problems. Incidentally, Pinsent was quite unhappy because of the failure of London to keep him and his Embassy informed these recent days with respect to pound policy.

Before leaving my visitor brought up one other matter. He stated that the Embassy here ordinarily draws each month a bill on London, to be sold at a bank in the United States, usually J. P. Morgan, to cover running expenses of the Embassy. When a bill was so offered these past few days Morgans were not able to guarantee payment at 4.02, which rate the Embassy thinks it should obtain. Similarly, the Riggs and other banks in Washington which ordinarily cash the individual checks of the British Embassy staff have no authorization to pay 4.02 for these checks. Mr. Pinsent asked if I thought the Bank of England could arrange through the Federal Reserve Bank of New York, and also have instructions of some sort sent by it to individual banks in Washington, and elsewhere in the United States, to the end that the 4.02 rate be paid for the above type of transaction. I told Mr. Pinsent that I would look into the matter but that I did not see just how this could be done. I explained the system followed in our own Foreign Service whereby the officers abroad sell their checks at the market rate and are then compensated for any loss by exchange through supplemental checks from our Disbursing Officers. I later suggested that his London people should make the necessary arrangements directly or through him with the banks in question.

Shortly after talking with Mr. Pinsent I was in conversation by telephone, with Mr. Knoke, with whom Pinsent had talked over the matter of pay checks while in New York. Knoke confirmed my understanding that his bank as a rule would not open accounts for foreign governments, although as an exceptional arrangement it has taken gold under earmark for a foreign government, namely Siam. He said, however, that this was a matter of policy and that a definitely negative answer would not be given without submitting the matter to his Board.



TREASURY DEPARTMENT

167

INTER OFFICE COMMUNICATION

DATE September 19, 1939

TO Secretary Morgenthau
FROM Mr. Cochran

At 1 o'clock this noon Mr. Knoke telephoned me. He said that he had just talked with the Bank of England. In the absence of Bolton, he had spoken with Hawker. Hawker explained how the sterling situation was being handled. He said the Bank of England was receiving a great many inquiries from banks, which were being answered somewhat as follows:

Foreign exchange is being made available at 4.02 provided three points are met:

- (1) That the sterling balance actually existed on September 3.
- (2) That the ownership is entirely United States.
- (3) That the owner has not covered the sterling balance by forward sales.

Hawker gave the impression that some applications by American banks had annoyed him since he gained the idea that they had covered their cash balances by forward operations and could not give proof to the contrary.

With respect to sterling resulting from current transactions between Americans and the Empire, Hawker explained that there is no question as to the ability of the American exporters to obtain exchange at the rate 4.02 if the transaction covers "permitted" imports. In reply to Knoke's question as to what "permitted" imports were, Hawker replied that no list could be provided. Permitted imports are those which the British Government says it needs. Such items may change from day to day. The best procedure is for the American exporter to have the British (Empire) importer state whether the latter has been given an import license or confirm to the American exporter that the import commodities under reference are on the free list. There is no question then as to the ability to obtain foreign exchange at 4.02. Knoke believed that the Bank of England had given a story somewhat along the above line to the Wall Street Journal correspondent in London. Hawker made the point that Hong Kong, Canada and Newfoundland, having their own exchanges, are not included in the applicability of the above provisions.

The above report is based on my telephone conversations with Knoke. This evening he will mail us a transcript of this telephone conversation with Hawker which should constitute the official record.

Knoke confirmed that he was giving the foregoing information to no one, either directly or through any committee, but submitting it promptly to the Treasury.



KMC

CONFIDENTIAL

168

September 19, 1939

Secretary Morgenthau

H. Merle Cochran

Sterling opened in New York today at 3.86, rose to 3.95 and closed at 3.91. The improvement in the rate was probably due principally to the fact that commercial bills, especially for cotton, are now being bought more extensively by the British control. During the day we learned that the Irving Trust has now been able to accomplish such transactions, which up until today had been put through only by the Guaranty Trust. The National City and Chase banks also reported that their negotiations were proceeding satisfactorily. Part of the improvement in the sterling rate was attributed to your press statement of yesterday. There was also some market gossip that Hitler's Danzig speech might reveal some hope for peace.

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CONFIDENTIAL

169

-2-
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September 19, 1939

MEMORANDUM FOR UNDER SECRETARY HANES;

Will you please have Mr. Blough make a study for me as to how the excess profits tax worked during the World War; also, to give me arguments pro and con on this form of taxation.

H. M., Jr.

September 19, 1939.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

In response to your request for an explanation of the final paragraph of the attached interdepartmental agreement and order, the following is submitted:

The purpose of this agreement and order is to clarify the division of responsibility between the Treasury Department and the Commerce Department with respect to paragraph 3 of the Executive Order of September 5th, which makes the enforcement of neutrality with respect to merchant vessels a joint responsibility of the Treasury and Commerce Departments.

Practically all the duties imposed by the neutrality proclamation relate to functions of Customs or Coast Guard. An exception is the matter of the issuance of any new regulations relating to clearance of vessels under the special circumstances created by the Neutrality Act. This order provides that the Secretary of Commerce shall issue such instructions, but only after consultation with the Treasury Department. All other duties in connection with the enforcement of neutrality with respect to merchant vessels are assigned by the order to the Bureau of Customs. As a matter of fact the several special instructions with respect to clearance that have been issued within the last month were the result of suggestions to the Commerce Department by the Treasury.

September 19, 1939.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

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INTERDEPARTMENTAL AGREEMENT AND ORDER

Paragraph No. 3 of Executive Order No. 8233 of September 5, 1939, 4 Fed. Reg. 3822 MI, "prescribing regulations covering the enforcement of the neutrality of the United States" provides as follows:

- "3. Treasury Department and Commerce Department:
 (Under such further division of responsibility as the Secretary of the Treasury and the Secretary of Commerce may mutually agree upon) Enforcement of the neutrality of the United States as prescribed in the above-mentioned proclamation so far as concerns all vessels except those referred to in paragraph numbered 2 hereof, with the special cooperation of the Department of the Interior in the territories and outlying possessions where the Treasury Department and the Commerce Department are required by law to carry out their respective functions, and except in the Philippine Islands, the Canal Zone and the outlying possessions subject to the exclusive jurisdiction of the Navy Department".

Pursuant to the above provision of the Executive Order it is mutually agreed between the Secretary of the Treasury and the Secretary of Commerce that all instructions relating to vessels, except instructions relating to the clearance of vessels, will

*File and original sent to
 Johnson's Customs by
 Rand 9/20/39*

be issued by the Secretary of the Treasury to Collectors and other officers of Customs, respecting enforcement of the provisions of Proclamation No. 2348 of September 5, 1939, 4 Fed. Reg. 3809 DI, Proclamation No. 2353 of September 8, 1939, 4 Fed. Reg. 3851 DI and Proclamation No. 2399 of September 10, 1939, 4 Fed. Reg. 3857 DI, or any amendments or supplements thereto.

It is also mutually agreed between the Secretary of Treasury and the Secretary of Commerce that all instructions relating to vessels, except instructions relating to the clearance of vessels, will be issued by the Secretary of the Treasury to Collectors and other officers of Customs, respecting enforcement of the provisions of Proclamation No. 2349 of September 5, 1939, 4 Fed. Reg. 3819 DI, Proclamation No. 2354 of September 8, 1939, 4 Fed. Reg. 3852 DI, and Proclamation No. 2360 of September 10, 1939, 4 Fed. Reg. 3857 DI, or any amendments or supplements thereto.

All instructions to Collectors and other officers of Customs relating to the clearance of vessels will be issued by the Secretary of Commerce, who, in such matters, will consult with the Secretary of the Treasury.

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Secretary of Commerce

H. E. Sweet:VS



TREASURY DEPARTMENT

WASHINGTON

175

CONFERENCE BETWEEN MEMBERS OF THE FEDERAL RESERVE BOARD,
MR. BURGESS, AND MR. BELL CONCERNING TREASURY PROBLEMS,
HELD IN THE FEDERAL RESERVE BOARD ROOM TUESDAY MORNING,
SEPTEMBER 19, 1939

All of the members of the Board were present and in addition Mr. Harrison, President of the Federal Reserve Bank of New York and member of the Executive Committee of the Open Market Committee; Mr. Sproul, Vice President of the Federal Reserve Bank of New York; Mr. Leach, President of the Federal Reserve Bank of Richmond, also a member of the Executive Committee of the Open Market Committee; Mr. Martin, President of the Federal Reserve Bank of St. Louis; Mr. Day, President of the Federal Reserve Bank of San Francisco; and Mr. Parker, President of the Federal Reserve Bank of Atlanta.

Mr. Burgess said that we wanted the Board and the Executive Committee to know that the Treasury was most anxious to refund Treasury notes maturing December 15 just as soon as the market was in condition to accept a refunding operation, and the question had been raised whether it could be done the following week. At this point he asked me to give the Board the estimate of the Treasury's cash position.

I explained that the Secretary wanted, as the Board had been told on many occasions, to keep a sufficient cash balance in the Treasury and refunding operations three months ahead so that he could skip a financing date whenever an emergency situation required it. Such a situation arose early in September because of the European crisis and for that reason the Secretary decided to postpone all contemplated financing for September fifteenth. I said that the Secretary feels this is a very comfortable

- 2 -

position for the Treasury to be in at all times, and that just as soon as market conditions would permit, he was desirous of returning to that position. His first problem is, therefore, to refund the December 15 notes, and his next problem is to raise additional cash, either by the sale of guaranteed obligations, or by the sale of direct obligations, or both.

With this picture before them I explained that our estimates, made up prior to the European crisis, contemplated the raising of new funds through the sale of Treasury obligations in the amount of \$500,000,000 on September 15 and refunding at the same time the Treasury notes maturing on December 15 in the amount of \$526,000,000. I said we had also contemplated that in October we would sell guaranteed obligations of the United States Housing Authority in the amount of \$100,000,000, and in November \$300,000,000 of the guaranteed obligations of either the Reconstruction Finance Corporation or the Commodity Credit Corporation, or both, and in addition, refund Commodity Credit Corporation notes maturing in the amount of \$206,000,000. No new financing was contemplated for December except, possibly, the refunding of the Treasury notes maturing March 15, 1940, in the amount of \$1,376,000,000. Based on this proposed financing program, I gave them the estimated balances of \$1,770,000,000 going out of September; \$1,475,000,000 going out of October; \$1,624,000,000 going out of November; and \$1,387,000,000 going out of December. I explained that if we did no financing whatever and paid off the \$206,000,000 of Commodity Credit Corporation notes maturing in November, we would go into December with a balance, after providing for the purchases made for in-

- 3 -

vestment accounts during the month of September to date, of approximately \$550,000,000. I told them that the Secretary was anxious to carry through this program some time prior to December 15 if it is possible to do so.

Mr. Burgess then said that he thought the first question before us was whether the Treasury should refund the December notes at this time. Governor Eccles agreed that this was the first question to determine and he went around the room and asked various representatives of the System present their opinions. We got various views, but generally speaking they all agreed that the Treasury should refund the December notes just as soon as the market would permit, and that they should be refunded into notes. It was also agreed that, certainly before any refunding took place, the Federal Reserve System should get completely out of the market. Mr. Burgess emphasized that the Secretary wanted the "track cleared" in advance of any refunding. Curiously enough, there were some present who even went so far as to say that the Treasury should not only do the refunding but should sell additional securities for cash at the same time.

Mr. Burgess said the Board knows what the Treasury is thinking about, and we would appreciate it if it would give some consideration within the next few days to our problem. Mr. Burgess and I then withdrew.

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September 20, 1939

The Treasury heard nothing further from the Federal Reserve Board the balance of September 19 or the morning of September 20, but we learned

through the Federal Reserve Bank of New York during this morning that the Executive Committee of the Open Market Committee had decided not to put any bids in the market this morning. I called Allan Spruill on the telephone and asked him for background on this decision of the Committee, and he said that it was partly in response to our request for consideration of the Treasury financing problem and partly in response to arguments put up by Governor Harrison and himself that the System should withdraw from the market. Secretary Morgenthau saw Chairman Eccles at lunch and the subject appears to have been mentioned then.

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September 21, 1939
5 p.m.

Mr. Burgess called a meeting in his office, which was attended by Mr. Ballie, Mr. Riefler, Mr. Stewart and Mr. Bell.

Mr. Burgess said that the Federal Reserve System had been out of the market for a period of two days, that the long bonds had gone down about 1-1/2 points during that time, and he wanted to discuss with this group the question as to what policy the Treasury should follow, whether or not we should ask the Board to go back into the market or whether we should discuss with them the question of the Treasury's buying some securities for its investment accounts, which it seemed to him would not have the same effect in the minds of those who deal in the

- 5 -

market as the Federal Reserve purchases to support the market. He said that he had not heard from the Board for two days and what it was contemplating doing tomorrow he was not informed. Mr. Bailie and I were in favor of the Treasury and the System staying out of the market until it showed signs of needing our help, and then we should go in only for the purpose of cushioning the market on its way down. Mr. Riefler was in favor of selling Treasury bills and buying on a large scale those long bonds which are below par, which would mean, in effect, that we would be refunding the long-term debt into a very short-term debt. Mr. Stewart was not in favor of Mr. Riefler's plan, but he was in favor of canvassing all of the possibilities and getting into a position so that we could discuss with the Secretary any plan that we might favor whenever the situation demanded action.

While we were sitting there discussing the matter the Secretary sent for Mr. Burgess and Mr. Bailie. When they returned they advised the group that they had briefly discussed the day's market operations with the Secretary and he stated he was not worried about the market, that he did not think we should take any action other than to let the market try for another day to adjust itself. This group then adjourned with the idea that it would watch the market for another day or two.

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September 22, 1939

The market opened this a.m. somewhat easier, the long bonds being off about six thirty-seconds from the previous night's close.

Some time between 10:00 and 10:30 the Treasury learned through Mr. Badley, who in turn had been advised by the operating clerk in the Federal Reserve Bank of New York, that the Federal Reserve System had re-entered the market and had placed bids across the board and over the counter for the various issues. This came as quite a shock to the Treasury as it was a reversal of the previous two-day policy on the part of the System, and we thought the Committee should have discussed it with us before the final decision was made. The Secretary called Mr. Hannes, Mr. Burgess, Mr. Stewart, Mr. Smith and myself into his office for a discussion of the matter.

The Secretary said he wanted advice as to whether he should call Mr. Eccles on the phone or whether we should write him a letter. While we were discussing the matter Governor Harrison of the Federal Reserve Bank of New York phoned him to tell him of the Committee's decision to re-enter the market, and explained that the reason he had not called him sooner was that he had been on the phone constantly with the Committee but wanted the Secretary to know that he was out-voted and that he was still of the opinion that the System should not have re-entered the market at this time. It seems that in Mr. Wolfe's absence on Thursday, Mr. Symczak voted as Mr. Wolfe's alternate and he voted with Governor Harrison and Leach to stay out of the market, whereas, when Mr. Wolfe returned on Friday he voted with the other two members of the Board on the Committee to re-enter the market.

After this conversation the Secretary raised the question whether he should write a letter to Mr. Eccles, but before sending it, should read it to the President. He asked the group there to try drafting such

a letter, stating that it was the Treasury's responsibility to carry out the financing operations of the Government and that it could not do this as long as the Federal Reserve System was carrying out its policy without consulting the Treasury.

The group then retired to Mr. Hanes' office to draft a letter.

After some consideration of the matter the group drafted a letter for the Secretary's signature and returned to the Secretary's office about 12:30 to discuss it with him. However, recommendation was made that the letter be not sent and that the whole matter be handled on more or less of an informal basis. While in the Secretary's office it was decided that the letter should be changed to memorandum form. Mr. Burgess and I were instructed by the Secretary to call Mr. Hoopes and ask for a conference with the Committee and to use the memorandum as a basis for our discussion, reading the memorandum to the Committee if we thought advisable but using our own judgment in the matter. A copy of the memorandum is attached hereto.

-00-

Conference at 2 P.M., Friday,
September 22, between the Federal
Reserve Board and Mr. Burgess
and Mr. Bell

Mr. Burgess explained to the Board that the Treasury was quite surprised to learn indirectly during the morning that the System had re-entered the Government security market. He said that he did not want to criticize the action taken, that while we were not in complete agree-

ment with what had been done and the Board might be right in its decision, that we wanted to discuss more than anything else was the question of procedure. He said that the Treasury felt that this whole Government security market policy was a matter for the consideration of both the Treasury and the Federal Reserve System and that the two should cooperate in every way possible. He then said that we discussed on Tuesday with the Board the matter of Treasury financing, that we had not heard anything from them since that day, that we had only learned indirectly of the withdrawal of the System from the market, and of the System's decision to re-enter the market. This, he said, was not adequate cooperation.

For a period of two hours there was quite a heated discussion of the whole matter. Mr. Burgess, during this discussion, told the meeting of our conference here in the Treasury on the previous evening and that during that conference we had discussed the possibilities of buying some securities for the Government investment accounts and of the feeling that there would be some psychological advantage in the Treasury's buying over the System's buying.

Governor Eccles then stated that, if that was the case, it looked to him as if the Treasury was also guilty of discussing a matter of policy without advising the Committee. It was made quite plain that if the Treasury had decided to buy for investment accounts we would have discussed it with the Committee before any action was actually taken. Members of the Board also raised the question whether the Secretary had not, in effect, announced Federal Reserve policy in his press conference of the day before.

During this discussion Governor Eccles made a statement that should be recorded here. He said, in discussing the question of whether the Committee had acted wisely during the past two weeks, that there had always been some question in his mind as to whether it was a function of the Federal Reserve to maintain the Government security market at a time like this when there was an ample supply of bank reserves, discount rates were low, and there was no real money market question. He was inclined to believe that it was strictly a Treasury responsibility. Mr. Burgess said that maybe he was right. Mr. Eccles said he was not yet ready to suggest that the responsibility be passed back to the Treasury but might do so later.

We finally adjourned with the understanding that so far as practical, the Chairman of the Committee would hereafter communicate with the Treasury before any change in policy is made. Mr. Burgess did not read the memorandum although he referred to it and said he had covered its substance. He mentioned particularly that the memo indicated that the Secretary had asked Mr. Burgess and Mr. Bell to represent the Treasury in this whole matter.

After we returned to the Treasury, Mr. Piser phoned saying that the Committee had instructed him to advise me that he (Piser) would call me several times during each day for the purpose of acquainting the Treasury with actual operations, prices, and purchases made by the System, and that Governor Eccles would phone either Mr. Burgess or the Secretary whenever a change of policy was being effected.

Bulow memo.

AWF

September 22, 1939

Memorandum

The Treasury advised your board the early part of this week that we would like to conduct a refunding operation of the Treasury notes maturing December 15, next. We asked your consideration of our problem and it was understood that there was a definite feeling among members of the Executive Committee of the Open Market Committee, as well as the Presidents of the Federal Reserve Banks present, that the Treasury should proceed with this refunding operation as soon as market conditions made it advisable.

We had assumed that the primary purpose in your withdrawal from the market on Wednesday and again on Thursday was to permit the market to find a level where it would maintain itself without intervention.

I learn this morning indirectly, through a Treasury operating clerk, that the Federal Reserve System has suddenly reentered the market. I am not unmindful of the responsibilities of your board, and I have tried to keep you advised at all times of any contemplated moves on the part of the Treasury which affected your responsibilities. I believe you will agree that I had a right to expect the same consideration from your board.

The Treasury believes that in order to discharge its responsibility for management of public debt that on occasion when new financing is in prospect the Federal Reserve System should either be entirely out of the market for government securities or that its operation should be conducted in consultation with the Treasury.

As you know, in order to facilitate consultation I designated Messrs. Burgess and Bell to represent me in dealing with such matters of common interest between the board and the Treasury.

SEP 18 1939

Handwritten initials 'AH' in the top right corner.

TO: THE SECRETARY
FROM: MR. BATES

Meeting on Neutrality

The meeting of the Inter-Departmental Committee on Neutrality was held in Secretary Hull's office on Saturday, September 16, at 11:30 a.m. State, Treasury, War, Navy, Justice, the FCC and other agencies were represented at the meeting. The following matters were discussed:

1. The setting up of mechanism for examination, report and determination of status of merchant vessels arriving in United States ports armed for defense: Are the armaments defensive or offensive?

The procedure set up by the Treasury to handle this matter was explained to the Committee and approved as satisfactory.

2. The setting up of a sub-committee to advise on the existence of danger zones from which American ships should be warned, and to persuade such ships not to enter such zones.

This question arises because of the demand made by the maritime unions for bonuses for seamen entering dangerous zones. It was agreed that a sub-committee should be set up to prepare a narrative statement for issuance by the Maritime Commission. The ship operators are now functioning under an agreement with the unions that any bonus payments agreed upon will be retroactive. The purpose of the issuance of the narrative statement is to define the limits of the existing danger zones. Secretary Hull is of the opinion that the Government should not certify any areas as safe. Any statement of that kind should say merely that the Government was without knowledge of the existence of dangerous conditions in certain areas. At my suggestion it was agreed that Basil Harris should be a member of the sub-committee.

3. Policy regarding proposal that American ships submit to British inspection for the purpose of avoiding visit, search or seizure at sea by British war ships.

Secretary Hull read a first draft of a document the contents of which were to be delivered orally to the Counselor of the British Embassy. The document reserved fully all principles of international law applicable to the position of the United States as a neutral, but agreed to an exchange of information between the United States and the United Kingdom with respect to possible methods of inspection. Upon receipt by the United States of information outlining a proposed method of inspection, the United States would reply that it had no comment if the method were satisfactory. If the method were unsatisfactory, it was agreed that there would be full opportunity for oral discussion. The purpose to be accomplished by this procedure is the elimination of the necessity of formal protest. The procedure was approved by the Committee.

4. Proposed establishment of a committee to consider means of accumulating reserve stocks of certain raw materials.

Mr. Johnson, Acting Secretary of War, stated that a committee to consider means of accumulating reserve stocks of certain raw materials was already in existence and was functioning smoothly. It was stated that the President had asked Treasury to add a member to this committee and that the Treasury had been notified of this request.

5. Policy as to sealing radio sets of belligerent ships in American ports.

It was agreed that the practice of sealing radio sets of merchant vessels of the belligerent powers entering American territorial waters should be initiated immediately. Telegrams to accomplish this objective were dispatched to Coast Guard officers Saturday afternoon.

6. Setting up of mechanism for investigating charters of ships made in American ports; examination of logs and radio files of vessels entering American ports, and supervision and investigation of crew desertions from belligerent and neutral vessels.

This matter raises the question of protecting American vessels and American industry from sabotage by foreign agents. The FCC is continuing its study of the question and it is anticipated that it will request the assistance of the collectors of customs when it has settled upon a definite procedure. For the present the Committee agreed that collectors of customs should request masters of vessels to notify them of any desertions from all vessels. Collectors will then turn this information over to the District Headquarters of the FBI.

7. Other matters.

(a) The FCC presented additional comments on the proposed proclamation with respect to communications. The comments were referred to the committee considering the proclamation.

(b) The question arose of the general enforcement of neutrality in the Philippine Islands. This was referred to the sub-committee considering this matter.

(c) The NBC and the CBS wish to broadcast a session of the Committee. At the request of the White House, it was agreed that the broadcasting companies would not be turned down but that the Committee would not agree to the request.

J W H



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT
PROCUREMENT DIVISION
WASHINGTON

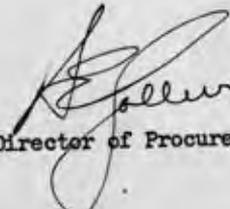
187

September 20, 1939

MEMORANDUM FOR THE SECRETARY

Colonel H. K. Rutherford of the War Department phoned me this afternoon concerning a deficiency appropriation on which the War Department is now working and which, it is understood, will be submitted at the special session of Congress meeting tomorrow.

Colonel Rutherford stated that it was their desire to include in their estimate an item of \$90,000,000 for the balance of the \$100,000,000 authorized for critical materials, the understanding being that such money would be appropriated to the Treasury Department for use by the Procurement Division in the purchase of critical materials.


Director of Procurement

The Secretary today said to Capt. Collins, with reference to the above memo, "The President said sit tight and we will do that. I asked the President a specific question and he said no."

September 20, 1939.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

SUBJECT: Armed merchant ships.



I attended a meeting at eleven a.m. today in the office of Judge Hackworth at the State Department. Those present were Judge Hackworth, Captain Moore of the Navy, Mr. Hunt of the State Department, Huntington Cairns and myself. Judge Townsend of Justice came in later.

The meeting was precipitated by a cable request from Bullitt stating that the Naval Attache had been asked by the French Ministry of Marine whether we would permit vessels armed for defensive purposes only to enter and clear our ports as merchant vessels. The question of reply to this message had been put up to us yesterday. Believing that anything we communicated to the French might just as well be announced publicly, Cairns had prepared a proposed press release for the Secretary of State announcing the policy of making a distinction between the vessels armed for purely defensive purposes and those armed for offensive purposes, which are to be treated as vessels of war.

The proposed press release included the material which we had used in a confidential letter to Collectors and District Commanders of the Coast Guard instructing them how to distinguish between defensively armed and offensively armed vessels. These confidential letters were mailed out to Customs and Coast Guard representatives on Sunday, September 3rd. The text of the letter, which was drafted by Huntington Cairns and me, had been agreed upon by representatives of State, Navy and Justice following a meeting in Mr. Hackworth's office the preceding week.

Although we had prepared this proposed press release we stated our belief that it might be unwise to make anything public on the matter at this time just as Congress was about to convene since Nye and others might seize upon the announcement to make an attack which would prejudice the fight for modification of the embargo provisions. The others agreed to this and finally, after some argument, agreed to our proposal to inform Bullitt tonight merely that the whole subject was under consideration and that he would be advised later.

- 2 -

The sub-committee meeting in the State Department during the week of August 28th at which the instructions to the Collectors and Coast Guard officers were agreed upon was preceded by a larger committee meeting in Secretary Hull's office, at which Cairns and I were present. We asked at that meeting for this sub-committee session and we insisted upon State Department representation since there were important questions of international law involved. However, I don't believe that the State Department had up until today really focused on the question and I doubt that they have discussed all its implications with the President. A matter of very high policy is involved. Permitting armed merchant vessels to enter and clear our ports as merchant ships may quite likely be seized upon by the Germans as giving them license for unrestricted submarine warfare, that is, the sinking of merchant vessels without giving warning. The policy of permitting British ships to arm was adopted in 1916 after unrestricted submarine warfare had been put into effect and after the British had rejected our view that all armed vessels were to be treated as vessels of war. Generally in international law any armed vessel is regarded as a vessel of war. The President, however, has under our law the discrimination to permit armed vessels to enter and clear as merchant vessels. There is a provision of the Neutrality Act which gives the President power to forbid the entrance of armed vessels, but their entry is not forbidden by law. During the last World War several nations, notably the Netherlands, adhered resolutely to the policy of treating all armed vessels as ships of war.

As I noted above the policy of making a distinction between offensively and defensively armed vessels is already in effect, although we have not publicly announced it. I assume that the President wishes this policy to be continued and there is evidence of this in his reaction to the Normandie case. I think it ought to be continued, but that all the points involved ought to be put before the President as it is a matter on which he alone should make final decision. We stressed this view strongly to the State Department people.

WJG

September 20, 1939.

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The proposed press release included the material which we had used in a confidential letter to Collectors and District Commanders of the Coast Guard instructing them how to distinguish between defensively armed and offensively armed vessels. These confidential letters were mailed out to Customs and Coast Guard representatives on Sunday, September 17th. The text of the letter, which was drafted by Huntington Cairns and me, had been agreed upon by representatives of State, Navy and Justice following a meeting in Mr. Hackworth's office the preceding week.

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9-20-39

Government Asks Manganese Bids In Program to Build Up War Stocks

(Bureau of Journal of Commerce)
WASHINGTON, Sept. 19.—Moving swiftly to build up in this country stocks of war-time strategic materials and to encourage production by domestic interests of known sources of supplies, the Army and Navy Munitions Board swung into action today to give effect to provisions of the Thomas-Fadden Act authorizing purchases of such materials from either foreign or domestic sources.

Invitations were forwarded today to prospective bidders for supplying the Government with an unannounced quantity of ferro grade manganese ores as steps were taken at the same time to draw up specifications for purchase of other ma-

terials classified as "strategic" by the department. Among those items which have been mentioned as being in line for early purchase are chromium, tungsten, tin, quinine and quartz crystals.

No information could be obtained at this time of the amounts of the various items to be bought. Every effort is being made to keep this matter secret, as was evidenced today in the invitations on manganese, which stated only that bids were desired on quantities ranging from lots of 3,000 tons to 40,000 tons for delivery at Baltimore, Md., and Ogden, Utah.

Reason for this secrecy, it was explained, is that the Government is trying to prevent a rise in the price of the commodity. It was indicated, however, that the Government does not anticipate making any large scale purchases of manganese at this time in view of the fact that there is only \$10,000,000 available for expenditure during the first year under the Thomas-Fadden Act it is essential that other materials also be bought.

Bids for purchase of manganese ores will be opened by the procurement division October 18. Manganese offered on these bids must be from new importations or from domestic mines and must not be drawn from stocks now in warehouses, thus assuring a net addition to the nation's available supply.

Materials acquired under the act, except for retention to prevent deterioration, are to be used only upon order of the President in time of war, or when he shall find that a national emergency exists with respect to national defense as a consequence of the threat of war.

The specifications and proposals for manganese ore were issued under two covers by the Procurement Division today. The bids submitted under the first specification would be used chiefly by importers since the delivery is to be made F. O. B. Army Ordnance Depot, Curtis Bay, South Baltimore, and C. I. F., Baltimore harbor. The other proposal would appear to be for domestic producers since it provided for delivery at Ogden, Utah, as well as the Baltimore area.

Bids Asked on A, B, C Grades

Grades on which bids are being sought are A, B and C and conform to grades of this description known generally in the trade. Among conditions contained in the specifications is a requirement that only ships of United States registry shall be used (if available) in the transportation of manganese to the United States.

Although manganese ores of domestic production are lower in grade than are those obtained from abroad, domestic interests feel confident that they will be able to supply the grades sought by the Government provided a sufficient differential is allowed to cover added costs of processing.

Ample authority exists in the law for the Government to give such a differential and it is believed likely that this authority will be used in order to encourage domestic producers to bid and, in that way, help development of the domestic industry. It is recalled that when the Navy Department recently purchased manganese, a differential of 25 per cent in price was allowed domestic producers over their foreign competitors.

Another way in which the Government may aid in development of the domestic industry is in establishment of stock piles near known sources of supply. It was reported today that this matter is being studied and new delivery points may be established.

September 20, 1929

My dear Mr. President:

I thought you would be amused by the financial page of the New York Tribune, which I inclose herewith.

If the Pound had gone down nine and one-quarter cents instead of up, I wonder how the Tribune would have handled the story!

Yours sincerely,

The President,

The White House.

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SEP 20 1939

Pound Shifts Its Course to Close 9 $\frac{1}{2}$ Up

Brisk Rally Due to Easing of Pressure and Covering of Commitments

Sterling Rise Hauls Franc Up 5 $\frac{1}{2}$ Points

Buying Held Touched Off by Morgenthau Re- mark on Unit's Break

Sterling reversed its course abruptly yesterday and advanced $\frac{3}{4}$ cents net to a closing price of 85.91. During the day the unit sold as high as 83.95, or within 7 cents of the preferred rate maintained by the Bank of England. The rising pound hauled French francs upward, too, with the latter race scoring an advance of $\frac{3}{4}$ points.

The brisk rally in sterling was occasioned by some lightening of the pressure against the rate, on the one hand, and by a tendency of those with payments to make in the United Kingdom to anticipate requirements, on the other. The buying movement appeared to be touched off primarily by the remark by Henry Morgenthau Jr., Secretary of the Treasury late Monday that he was disturbed by the break in the pound and was studying the situation.

Mr. Morgenthau indicated that he believed the weakness in the pound was attributable to speculation and to sales of sterling by foreign banks of issue. Bankers here were inclined to believe that the speculation in this market against sterling was of very small proportions. The bankers agreed shortly before war broke out to refuse to handle from customers' speculative transactions in sterling and the impression exists here that this principle has not been departed from.

Foreign Bank Deposits Up

The banking statistics last week showed that there was a further accumulation of foreign central bank balances here. Foreign bank deposits in the Reserve banks increased approximately \$53,000,000. It was not doubted that some foreign banks of issue which did not get all of their balances out of London before the official support of the pound was withdrawn were selling sterling, but it was not known here what could be done about the weakness in the pound which came from this selling, if the British and American Treasuries persisted in their unwillingness to buy sterling when capital was moving from London to New York.

Foreign exchange circles here were unable to understand Mr. Morgenthau's remark about the weakness in sterling having a very unsettling effect on American exporters and importers. It was pointed out that the Bank of England was making dollars available against necessary imports at \$4.02. It was pointed out, too, that the Bank of England was ready to sell sterling at \$4.06. Importers of British goods could count on getting sterling at \$4.06, but if that rate did not suit them, they could buy sterling in the free market. But Mr. Morgenthau's statement that he was looking into the free market for sterling caused some buying of sterling yesterday in advance of requirements.

The foreign exchange committee held a meeting yesterday, at which presumably Mr. Morgenthau's aspersions on the committee's work were discussed, but the members refrained from comment after the meeting.

Other Currencies Gain

French francs closed at 222 $\frac{1}{4}$ after selling up to 222 $\frac{1}{2}$. Belgian advanced 1 point. Swiss francs 4 points and guilders 19 points. Canadian dollars closed at a discount of 9 1-16 per cent. The market here heard that the Canadian foreign-exchange board will issue in the next few days a fuller explanation of the regulations issued since last Friday. The yen, still independent of sterling, was off $\frac{1}{2}$ points at 23 5-16.

Gold continued to move to this country from Canada. The daily gold statement reported the arrival here of \$2,522,000 of Canadian gold and \$1,100,000 of gold from Colombia. The Federal Reserve Bank of New York was advised of the fact that \$4,162,000 more gold was en route from Canada and \$288,000 from India. The gold stock, according to the Treasury, increased \$448,000 on Sept. 18 to a new high of \$16,553,974.63.

Buffalo Reports Action

BUFFALO, N. Y., Sept. 19 (AP).—The Buffalo Clearing House Association announced today that local commercial banks suspended dealings in Canadian exchange.

The association said that checks and drafts drawn on Canadian banks would be accepted for collection only, while Canadian currency and cash would be accepted on a contingent basis for conversion into American money only at rates which banks will be able to negotiate in the future.

Meanwhile, local banks posted no daily discount rate on the Canadian dollar and there was virtually no buying or selling of Canadian funds.

Rochester Policy Varied

ROCHESTER, Sept. 19 (AP).—Rochester banks pursued varied policies today in handling Canadian exchange.

Lincoln-Alliance Bank and Trust Co., largest in the city, discounted currency 14 per cent and checks 13 per cent.

Union Trust Co., second largest and a member of the Marine Midland group, suspended currency transactions but accepted checks subject to collection. Their discount on currency rates is 8 per cent. Other banks' policies varied between the two extremes.

see 9-22

September 20, 1939

My dear Miss Tully:

I am sending herewith a memorandum from Mr. Merle Cochran to me, in regard to a conversation between Mr. Pinsent, of the British Embassy, and himself.

filed in folder
of Cochran's
memo.

As this is the matter that I referred to yesterday, I would appreciate it if you would hand the inclosed confidential memorandum to the President, and oblige

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The White House.

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September 20, 1939

MEMORANDUM FOR THE COMMISSIONER OF CUSTOMS:

FROM: E.J. Shanhart, G.L.C. Pratt, S.B. Strubinger.

Re: Southeast Patrol District

Upon the basis of (1) an investigation made from September 12 to 19, 1939, and (2) the report of the Ballinger Committee dated July 22, 1939, and (3) changed smuggling conditions; and with full consideration of the new factors presented by neutrality enforcement, it is recommended that:

1. The Southeast Patrol District be abolished for the following reasons:
 - (a) Smuggling by small boats between ports of entry, to combat which a patrol force was originally established in that district, is now practically non-existent therein.
 - (b) Based on results accomplished in the narcotic smuggling drive, maintenance of the organization is not essential for narcotic smuggling prevention in that district.
 - (c) For more than two years the principal functions performed by patrol officers in that district have been guarding and searching common carrier vessels at ports of entry, which are Collectors' responsibilities and functions.
2. The personnel of the Southeast Patrol District be transferred to other organizations in the Customs Service for the following reasons:
 - (a) Most collection districts are in urgent need of additional customs guards, particularly since the neutrality proclamations, and additional patrol officers are urgently needed on the Mexican border.
 - (b) Greater efficiency will result if officers performing guarding and searching functions are under the control of Collectors.
3. Personnel of the Southeast Patrol District not be used as a land patrol operating in conjunction with the Coast Guard sea patrol, as they can be more effectively used as outlined in paragraph 2.

Approved:

E. J. Shanhart
G. L. C. Pratt
S. B. Strubinger

Commissioner of Customs

(Signed) _____

Secretary of the Treasury

September 20, 1939. 202

FOR THE SECRETARY'S FILES:

The Secretary today saw H. V. Kaltenborn.

Mr. Kaltenborn opened the conversation by asking about the Tripartite Agreement. The Secretary replied that he had told newspapermen that the Agreement still existed and that the machinery for exchange of information between the treasuries continued to function. The Secretary added that he had said, off the record, that the Tripartite Agreement could be considered non-existent if a person wanted to be technical, but that the Treasury was interested in putting the best face possible on the situation and not doing anything which would injure the financial stability of Great Britain and France. Mr. Kaltenborn next asked about regulation of short-term credits to belligerents. The Secretary told him that a press release on this subject would be forthcoming shortly. Mr. Kaltenborn asked whether any definition of short-term credit had been worked out and Mr. Duffield, at the Secretary's request, replied that such a definition would be arrived at only through an accumulation of rulings on specific inquiries. Mr. Kaltenborn next asked about the Government bond market, saying that he had been told by an unnamed Senator that a 10 per cent decline in the Government bond market would bring about socialism in America. The Secretary replied that the

Government bond market was performing well and was causing him no worry. He cited figures from a memorandum showing that the depreciation in Government bonds (amounting to \$15,000,000,000) which were held by insured banks had amounted to only \$500,000,000 since June 30. The Secretary explained that in a year and a half the Treasury has been ahead on its refunding and has held large cash balances so that it could run comfortably for six months without any financing if a crisis should develop. He said the Treasury was now reaping the benefits of this preparedness. He also pointed out that the Treasury has had its emergency staff lined up since the middle of April 1939, so that it was able to call these people in with a minimum notice. The Secretary said that the Treasury had been set up on the assumption that the war would be long-drawn out. If this assumption proved incorrect, the cost to the country would be very small, whereas if the Treasury were to be caught unprepared, the cost to the country might be tremendous. Mr. Kaltenborn observed that he found more people in Washington than in New York who seemed to contemplate American participation. The Secretary replied that of course he hoped and prayed that America would stay out. The Secretary also said that he wanted to leave one additional thought with Mr. Kaltenborn. The Treasury's fundamental rule of action will be to do as little as possible to restrict the freedom of individuals during this emergency. It is easy, the

Secretary remarked, to reach out in a period like this and to impose this regulation and that restriction. The Treasury, however, will do as little of this as is possible because of the fundamental conviction that the maintenance of free markets and all that goes with freedom of action was of the greatest importance now that North America was practically the only remaining island of freedom in the world.

Mr. Kaltenborn asked if the Treasury were willing to run the risks of runaway markets and such disturbances which are involved in this policy. The Secretary replied that the Treasury thought the policy was worth the risks.

ESD

September 20, 1939

2:35 p. m.

Present:

Mr. Derent Friele (of the American Coffee Corporation, which is the Atlantic and Pacific Tea Co. subsidiary handling the buying of coffee in Brazil.

Mr. Walter Stewart
Mr. Earle Bailie
Dr. White
Mr. Cochran
Mrs. Klotz

HM, Jr: How much business do you do in coffee from Brazil?

Mr. Friele: The present price of coffee, as you know, is very low and it's hurting Brazil quite a bit. We buy from \$18,000,000 to \$18,000,000 worth of coffee from Brazil.

HM, Jr: What Mr. Friele told me before you gentlemen came in was this. He says there is no reason why Brazil should suddenly be better off, but every reason why she should be worse off.

Mr. Friele: Exactly.

HM, Jr: Do you want to explain why?

Mr. Friele: Brazil's trade with Germany is quite considerable, principally in cotton, but also in coffee. Germany has always been a large consumer of coffee, not as large as Germany was before the war. I would say Germany may take 10% of Brazil's coffee crop and one-third of Brazil's cotton crop and Germany is also taking cocoa and some vegetable oils. So trade with Germany has been considerable.

In return, Brazil has taken from Germany machinery, rails, coal and equipment generally, some war supplies, most of which Brazil has been buying at, I would say,

-2-

lower prices than Brazil could buy similar products in the United States.

But, nevertheless, this trade which Brazil has enjoyed with Germany, frankly speaking, has been profitable to Brazil. There has been criticism here of Brazil's trade with Germany. Rightly so, because we should with the favorable balance of trade we have with Brazil -- or unfavorable balance for the United States, Brazil should buy more from us, but we cannot buy her cotton and we can't buy all of the coffee, so whatever Brazil can dispose of in Germany, looking at it as a Brazilian, has been good business.

Now that business is off. Brazil will not know where to place the cotton. She will have to place it, I assume, in England and some in France, but very little. Japan is a big consumer of cotton, but Germany has been the biggest. Now with that trade, as I assume the British blockade will eliminate that trade for the time being, Brazil will have to place orders, not in Great Britain, not in France, because those countries will need everything they can produce, but Brazil will have to place orders in the United States. She will have to buy more of our equipment, more of our rails and the things that Brazil used to buy in Germany. And Brazil will have to pay higher prices, not only because commodity prices have gone up and cost of production has gone up, but our price level is higher than the price level in Germany and in Europe generally. So that Brazil's balance of trade will, in my opinion, become less favorable unless the value of coffee, which is her principal export, goes up. Of course Brazil

HM, Jr: May I interrupt you. What percentage of total coffee exports in dollars do you buy?

Mr. Friele: From Brazil? You mean the company?

HM, Jr: Yes.

Mr. Friele: About 20 percent.

Mr. Cochran: 20% of the Brazilian?

Mr. Friele: I have to correct myself. A little

-3-

over 10% of her total exports and 20% of what we import in this country.

HM, Jr: But dollars' worth of coffee that she sells, what percentage do you buy?

Mr. Friele: What she sells to the United States, 20%. What she sells to the world, a little over 10%.

HM, Jr: Of coffee?

Mr. Friele: Yes.

Now, the coffee market has not moved up with other commodities, although there has been a slight bulge which is mainly due to shortage of supplies in this country, which is a temporary shortage and also due to neutral countries buying in anticipation of the blockade becoming more severe. But the prices on Brazilian coffee have hardly moved up more than 3% or 4% since war broke out and it is the general opinion -- it was the general opinion when I left Brazil the 21st of August, that a war would be detrimental to coffee prices, because coffee is not a war necessity and Germany has made up her mind to get along without coffee. The British never did drink much coffee and the French drank some, but whatever they -- I would say, 40% of France's imports of coffee today comes from French colonies. So a war, as far as coffee prices are concerned, cannot be helpful. And coffee is still 40% of Brazil's exports.

The next commodity in importance is cotton, but one-third of the cotton crop has been exported to Germany and maybe 20% has been exported to Japan and the balance to England and France and neutral countries. Where Brazil will place her cotton now -- that is, what Germany cannot buy -- I could not answer, because I just don't know where she can find a market. I assume she will in England mainly and that's the only country that will pay in gold or any good currency. What she sells to Japan has to be compensated too.

Mr. Baillie: They have had a severely competitive price.

Mr. Friele: Yes. Of course, Brazil has been

-4-

underselling us right along, as far as cotton is concerned.

Well, the net is Brazil should buy more. She is anxious now more than ever to take advantage of whatever facilities we can offer. Of course, she will have to buy more and what she buys in this country she will have to pay for in dollars. It is true that her balance of payments with the United States have been very favorable. In other words, Brazil has always had a good balance, maybe \$50,000,000 to \$60,000,000 here with the United States, but that will be quickly absorbed once Brazil places her orders for machinery, in rails and all other needs, in this country.

And I do know that in the last few weeks, and this of course is confidential information that we get from the banks from time to time and you, no doubt, can get the same information if you call any of your commercial banks in New York and ask how the balances of the Bank of Brazil are getting along or what the trend is of the balances of the Bank, and I am sure most of them will say that the balances are dwindling and falling rather rapidly.

Under the Brazilian agreement with the United States, the Bank of Brazil has to furnish prompt exchange for any merchandise exported from the United States and they are living up to that agreement religiously, because they do not want another freezing condition and, therefore, the Bank of Brazil has been, to my knowledge, very liberal in giving out exchange for imports from the United States. As far as remittance of interest and dividends for American companies in Brazil, they are still far behind, but I understand that this does not enter into the agreement. The agreement only calls for prompt payment of imports. So there is every reason to believe that Brazil will need credits in this country.

And there is another condition which should be kept in mind and that is that Brazil has been able to buy, for instance, in Germany and Europe on a long term basis, on much longer terms than Brazil has been able to buy here. So that that's another reason for Brazil needing credits here.

HM, Jr.: You started to say, before these gentlemen

-8-

came in, that something has been happening, the last day or two, on the exchanges. Do you want to go over that again?

Mr. Friele: Yes, sir.

When the war broke out, and this I did not tell you, Mr. Secretary, but I will add this to my comments, the Government declared a holiday. It just happened that was on Friday. And Saturday was also declared a holiday and Monday was Labor Day so they took advantage of our holiday and declared that a holiday. And during those four or five days they were able to organize themselves for whatever shock might come, and when business -- when the banks opened on Tuesday, evidently they had agreed with the Bank of Brazil not to compete for foreign exchange and not to pay rates that were more favorable than rates fixed by the Bank of Brazil. They were afraid that it would be a sudden panic on foreign exchange and to hold the rate where it was, they agreed not to compete and not to depress the milreis. But yesterday -- I should say this morning, because it happened before I left

HM, Jr.: Did you fly down?

Mr. Friele: yes, sir..... we got a cable from Santa Paula which said that evidently the bank had released -- the Bank of Brazil had released the other banks from their promises not to enter into the exchange market and the milreis was quoted at a slightly lower price than yesterday.

The reason for that, in my opinion, is first: that the Bank realizes now that they cannot hold this rate and they do not want to create another artificial situation. They evidently feel it would be better if the milreis would find its level even though it would be a lower level. So the milreis today is weaker than it was yesterday and since the war broke out, and, if the banks have reported correctly to us, the balances which the Bank of Brazil have had in New York are falling off and one bank, I know, has been asked to accommodate the Bank of Brazil. The Bank of Brazil, Mr. Secretary, has a very good record and enjoys a very high credit standing. The Bank of Brazil is, of course, functioning as a Government bank. I think the Government of Brazil has the

-8-

governing shares in the Bank, but it is operated as a commercial bank, but it is really the issue bank as there is no Central Bank in Brazil yet and all exchange transactions are handled by the Bank of Brazil for the Treasury, and from what I have heard the Bank of Brazil is seeking accommodations, maybe an overdraft. As a rule, the Bank of Brazil would be given an overdraft with banks. At least, the banks in New York have been willing in the past. I don't know whether they would be today, but it's a rather sudden change. It may not be as bad as that. They may anticipate that these balances will disappear completely and it has happened in the past that the Bank of Brazil has taken advantage of an overdraft with banks in New York just for the purpose of holding their exchange rate.

Dr. White: Why do you believe their balances have been decreasing? What would make them?

Mr. Friele: Increased purchases in the United States. For instance, all these orders that were placed in Germany and cannot be executed now have to be placed here now.

Dr. White: Do you think they have to pay for them when they make the order?

Mr. Friele: No, but I do think importers like to cover their exchange when they make it.

Dr. White: You mean, the moment they make the order they buy foreign exchange and, as a consequence

Mr. Friele: That's only a theory, but it would be natural in view of the fact that Brazil had orders outstanding with Germany which Germany cannot fill. Brazil needs railroad cars and rails; they need coal; they need machinery of all kinds.

Mr. Bailie: I wonder if you have any knowledge of what resources the Bank of Brazil has in other markets besides this.

Mr. Friele: Very little, Mr. Bailie.

-7-

Mr. Baillie: They are doing all their business abroad, yet they have no other balances?

Mr. Friele: The Exchange Director, whom I know very well and whom I saw in Rio before I sailed, and this was on the 21st of August, told me that he would not buy Sterling; that he would not keep Sterling balances and he said if there should be war Sterling would undoubtedly collapse and he wasn't going to be trapped with Sterling and I believe, I believe that they converted their Sterling balances where they had a rate. I have no knowledge of that.

HM, Jr: I want to switch a moment. These people may want to continue this particular technical discussion after I get through with you.

The one point, we have got this immediate situation which we don't understand and you have enlightened me a lot and certainly our hunch that there was no reason for Brazil to be suddenly better off is correct.

Dr. White: I am not sure.

HM, Jr: All right, Harry. Just hold it. Please!

Now, what I want to ask you is this: there is the hour-to-hour thing, which we have been talking about here. These gentlemen, if you don't mind, may want to talk to you further about that -- this particular rate business.

And the other thing I wanted to ask you was this: what can the United States Government do, to your way of thinking, to help Brazil, to get her on a sound financial basis? I am thinking of the long term basis. This thing has changed in view of the world war. What can we do here to be most helpful to Brazil to put her on a sound financial footing?

Mr. Friele: I don't think I have answered the first question completely as yet, and that is

-8-

this: that, I did mention to you that possibly the Brazilian Government did not want to increase its indebtedness in the United States and I was told they would not like to borrow too much money abroad. I should add just this comment, and I want you gentlemen to feel that I am very sympathetic to Brazil and whatever I do with it and whatever I say is not only with the sincere intention of being helpful to you, but also to be helpful to Brazil, if I can. I want to be helpful to her if I can. When I make this statement I am doing it just so you will understand what goes through my mind and it's this: that Brazil has gone rather Nationalistic. Personally I do think the war is going to change Brazil's attitude, in a good many respects. Not that Brazil is not friendly towards the United States; to the contrary. The people certainly are and the President is and the Minister of Foreign Affairs and, I think too, the Secretary of the Treasury. The Foreign Minister is friendly, very much so, towards the United States, but there is a group within the Government that is extremely Nationalistic and feels that Brazil should get along with its own resources and its own facilities, let's say, and should not ask for favors. There could be lots of false pride connected with it, but this Nationalistic feeling may have some bearing on Brazil's attitude at the moment, although I do think it will change.

HM, Jr: But they are asking something of us right now.

Mr. Friele: They are?

The second question, if you will please repeat it to me.

HM, Jr: What I want to ask you is this. I mean, after all I take it a prosperous Brazil is to your company's interest as much as it would be to the interest of good relations between the countries. We don't want to see Brazil collapse.

Mr. Friele: We certainly do not want to see that.

-9-

HM, Jr: What can we do here which would be most helpful? At this time what does Brazil need in the way of money?

Mr. Friele: Brazil needs long term credit, particularly on equipment and particularly on the type of merchandise that Brazil has been in the habit of buying in Europe. Whenever we have lost business to Europe the answer has generally been, "Well, your price is a little high, but we would not have minded paying the price, but we cannot pay, let's say, in a month or two or three. We have to pay in six months. We have to pay in a year. We have to pay in two years."

HM, Jr: I want to get down more specifically. You have you have just come back. Great friend of Mr. Aranha. Up to now, between the two countries, there has been all this shadow boxing. Mr. Aranha comes up here, spends three or four weeks, goes back and the only thing out of that is the foreign exchange agreement, which was good for us because it unfroze foreign exchange. But, in view of this thing, there is nobody here from Brazil right now asking for anything other than this particular gold loan. But looking ahead, what would you do in the next couple of months so it would be helpful to Brazil and helpful to our own business people?

Mr. Friele: In addition to a loan which would enable Brazil to stabilize her currency, because without stable currency I don't think Brazil ever can get out of her economic problems, I think the Export-Import Bank can be most helpful by extending long term credit against export of equipment and of rails and merchandise that can be and should be paid for over a period of time. Aside from that, we can be helpful by buying in Brazil raw materials that do not compete with the raw materials that we produce. Now, naturally, coffee is a non-competitive item and while Brazil does not want to enter into any new valorization scheme -- they would rather burn their fingers than do that -- we can help keep a steady flow of coffee coming out of Brazil and we are, I think, buying considerable cocoa and paying good prices for cocoa at the moment.

-10-

HM, Jr: Do you buy cocoa?

Mr. Frisler: No; our company does not buy much cocoa. Small item with us.

I know that the Secretary of Agriculture had a representative in Brazil -- I can't remember his name -- but he made a very comprehensive study of non-competitive raw materials that Brazil is producing and that we can buy and use in this country at great advantage and that will increase Brazil's exports and in that way would help a lot. In other words, by buying more in Brazil and facilitating the imports of any raw material that we can use now or later or that we could create a demand for by giving Brazil reasonable long term credit on the type of merchandise that Brazil used to buy in Europe and Brazil has been used to paying for on long term basis, I think the Export-Import Bank could be very helpful. Of course, I do not know to what extent the Export-Import Bank is able to enter into any such transactions at the present time, but the capital of the bank should be increased and specifically for the purpose of facilitating trade with Latin America.

I think that's quite general all over Latin America. You will find that our exports will increase as a result of the war, but there is one condition in Brazil which is always an uncertain factor and that is what the Government of Brazil buys abroad. All kinds of estimates as to how much the Government is spending on war supplies and on airplanes. Recently placed an order with England for destroyers. Of course, that might be cancelled now and it would be a lesson for Brazil if they were cancelled, because they probably don't need those destroyers very badly. They do need airplanes in Brazil and we can supply them with airplanes and they need a strong air force because it's the only way to police that country. For their protection and ours, a strong air force would be of great help.

And usually when the balance of payments is

-11-

out of balance it is due to this unknown quantity of Government commitments abroad. All of a sudden the Bank of Brazil is asked by the War Office to come out with one or two or three million dollars for the payment of certain supplies needed by the War Department and this obviously makes it very difficult for the Bank to operate its exchange on that basis.

Now the other serious condition in Brazil is with the banking structure. While commercial banks in Brazil are sound and there is no danger of any bank failing, interest rates are terribly high and the cost of Government financing, for instance, is outrageous. I think the Brazilian Government pays at least 6 or 7% for all its money, and everyone else has to pay in proportion to what the Government pays, so commercial credit is 8 or 9% and it's an almost economic waste. It should be possible for a country like Brazil -- it's new and underdeveloped -- it should be possible to have a banking system which would enable industries to borrow money on a reasonable basis and, furthermore, it would save the Government an enormous amount of money.

HM, Jr.: That's what Mr. -- the Foreign Minister, wanted. Part of his plan.

Mr. Friele: Yes; exactly.

HM, Jr.: He hoped to level interest rates because as soon as you get out of Rio the interest rates are terrible.

Mr. Friele: That's right. But otherwise Brazil is a country that is bound to develop and bound to increase its wealth over a period of years. I think any help that we can give Brazil today will be rewarded manifold in years to come. Certainly there is tremendous room for expansion in Brazil and while they may be pinched today, in 10 or 20 years from today they should be in just as strong a position as any other country.

HM, Jr.: If you have time, I would like to

-12-

you to talk further to these gentlemen.

Mr. Stewart: We might have a little talk.

HM, Jr: I think if you and White would talk to him some more. And I may want you (Mr. Friele) to come down again.

Mr. Friele: I would be glad to.

I want you to feel that if I can be of any help in getting you the Brazilian point of view I can get it. They never hide anything from me and speaking their language and having lived with them so long, knowing we mean well, we want to help Brazil all we can, they will always be very frank with us.

HM, Jr: Thank you. Fine!

(All left the Secretary's office except Mr. Bailie and Mrs. Klotz.)

HM, Jr: I had him here because talking with Walter Stewart, Walter being of a suspicious nature, he thinks the whole business is phony. Walter Stewart says "I don't believe that conditions are such in Brazil that they should have what they say they have." So I said, "Well, I will find out for you by sending for the fellow who is the biggest coffee buyer." Stewart said, "This does not ring true." This fellow rang true to me today. I am impressed by what he said. Stewart thinks maybe the money they get to put up here comes from Germany.

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THE UNDER SECRETARY OF THE TREASURY

WASHINGTON

September 20, 1939

Dear Henry:

Ever so often I am struck with the inclination to set down on paper, for whatever they may be worth to you, certain views in regard to the national situation which, unfortunately, due to the pressure of the problems now upon us I do not have the opportunity to discuss with you at length. Such views may not be in accord with your own, and in that case "to the wastebasket" without hurt feelings on my part.

You will remember that on December 13, 1938, prior to the convening of the last Congress, I took occasion to place before you certain views in regard to Administration policy to be pursued during that session of Congress. I respectfully refer you to that communication.

Here goes for another one:

(1) I am sure it is not necessary for me to tell you of my hearty approval of the purpose prompting the President to call the special session of Congress, and I am in complete agreement with what I understand will be the limited scope of the recommendations of the President to the Congress.

(2) Feeling that an attempt will be made at this extra session to bring up the question of war taxes, I have endeavored to prepare myself for this emergency by making the following moves: — (a) I am asking Roy Blough to make a complete survey of all war tax legislation introduced during the World War. (b) I have asked Commissioner Helvering to make a complete survey of the administrative side of the picture resulting from those taxes enacted during the World War. (c) I have called a meeting between the Treasury staff, and the staff of the Joint Committee on Internal Revenue Taxation, for next Monday afternoon at 3 o'clock to discuss these questions in detail.

My apprehensions are that there will develop in the Congress a movement to enact revenue legislation in anticipation of our entering the war. To my mind this would be a grave mistake, and it is my sincere conviction that the full power of the Administration should be mobilized to prevent passage of such legislation if it should be proposed.

I make this statement for the following reasons:

(1) If this country should finally enter the war, it will require a declaration by Congress, and our entire fiscal policy will be immediately revised in the light of the then existing conditions. I assume that the

Treasury will have prepared a tax bill to submit to Congress upon the declaration of war. The Treasury bill will of course be based upon experience and information relevant to our economic and social condition at the time its enactment becomes mandatory.

(2) In my opinion, the country expects the special session, under the leadership of the Administration, to strengthen our national defense, and make provision for the protection of our people against aggressions from without and against aggressions from within. This can and should be done without arousing our people into a frenzy of fear that we are moving faster than is justified by public opinion. The rank and file of the American people are favorable to the removal of the present embargo, but recent events in Russia within the last twenty-four hours, in my judgment, have reinforced the determination of our people to keep American soldiers out of Europe. To be frank with you, I am satisfied that the kaleidoscopic movement in Europe will serve to strengthen the opposition to the proposal of the President. Our people were tremendously impressed by the speech of Lindbergh, and I hear them talking that in the past hundred years, Poland has been partitioned four times by war, and you hear plain men say, "Why in the hell is it necessary for America to shed blood over a boundary dispute in Europe?". I did not mean to lapse into this phase of the situation, but it is important to consider national psychology and its bearing on the immediate action of the Congress.

(3) The above point is pertinent to the immediate issue I am making for the reason that the enactment of a war tax bill with its necessarily drastic provisions will tend to create the impression that the Administration regards war as inevitable. The very proposal of such a measure as was circulated among the Senators last spring, and signed by fifty-four of them, providing for a confiscatory tax bill would have the effect of immediately retarding the forces of recovery on every front, and result in a sudden application of fear that would stifle the present dominant spirit of economic recovery for which you and I have so patiently and persistently striven to accomplish.

(4) You will also find that the opponents of the President will drag out again the old skeleton of war mongers and war profits, and undertake to relight the political antagonisms against munitions makers from the DuPonts down. In spite of the fact that the opponents of the President know that a war tax bill will eliminate profits, they will contend that we are driven into war by the hidden forces and powers of those who seek to fatten upon the miseries of the world. I do not see how they can get by with this plan, but it affords such a masterful theme for demagogues, combined with the confusion of the public mind that it will not be neglected or postponed in this session of Congress. It is from this group that you may expect to originate the movement for the immediate passage of a war-time tax bill, but it will hardly be proposed until after

the passage of the President's neutrality measure, and will be offered then as an embarrassment to the Administration under the guise of contributing enormously to the movement to keep us out of war.

(5) Just one other point, and this is most important. I am convinced that if this Congress passes the President's proposal, and keeps its hands off war-time taxes, that the revival of private enterprise in all its implications, which I shall not here detail, will multiply Federal revenue, increase the national income to over eighty billion dollars, and thereby contribute to the solution of our great problem - the balancing of our Federal budget.

Sincerely,

Johnnie Hanes

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

35000 paid to
put on ice



THE SECRETARY OF THE TREASURY
WASHINGTON

Preliminary Draft

Dear Johnnie:

I was very interested in your comments on war tax plans in your letter of September 20, 1939. I heartily approve of your program of preliminary studies since we must be prepared for every contingency.

However, the President, with whom I have discussed the matter, does not regard the time opportune for deliberations which involve conferences outside of the Treasury. He does not wish to have any department cooperate with committees on the Hill until after the neutrality legislation is out of the way and hopes that there will be no committee hearings of any kind.

In our general discussion about the tax legislation for 1940 I found that the President and I were in accord with regard to the central problems. We both feel that our fiscal policy has an important part to play in the protection of our democratic institutions. In this period of world conflict when free enterprise and private profit are being attacked on both flanks -- from Fascism on the one hand and Communism on the other -- it is especially important that we in the United States pursue a course which serves to strengthen and not weaken our basic institutions.

As I see it, the forces threatening our democratic structure will find increased support in this country if the government overlooks the interests of the under-privileged groups while at the same time permitting -- whether actively or passively -- over-privileged groups to attain special gains. We must help maintain the unity of the great mass of Americans by curbing the extremes of excessive suffering and excessive profits.

Let me give you an example of what I have in mind. You yourself stated that the tobacco growers in North Carolina have lost their market during this war and you indicated that they look to the Federal Government to do something to help them. I agree with you that they have a right to look to their government for protection against

- 2 -

external forces which threaten them with serious economic loss and perhaps ruin. Even aside from humanitarian considerations, such groups should receive assistance.

I personally participated in the fight during the last great crisis in agriculture in 1933, when the farmers were struggling for their very existence against economic forces beyond their control and I know how farm groups react to situations in which they feel themselves to be the innocent victims of social forces. In the months to come the discontent of certain impoverished groups will be aggravated should they feel that certain favored persons are permitted to make and keep extraordinary profits as a consequence of the war abroad, while they themselves experience a further decline in their standard of living. If the government doesn't do something for them they will be duped into joining organizations like the Ku Klux Klan, Silver Shirts, White Camellias, Communist fronts, or any of the others which seek to achieve their destructive aims through the exploitation of ignorance and mass suffering.

I feel that the Treasury can make a real contribution toward maintaining our democratic form of government through its tax recommendations. It is from this point of view that I should like to consider our 1940 tax program.

The program I have in mind is not a program of war taxes. It is a tax program of national defense for a neutral country in a war-torn world. I have in mind a tax program that will help keep us neutral -- one that will facilitate the adjustment necessary for the preservation of neutrality. I think we can provide shock-absorbers for those sections of the community that may be injured by economic forces generated by the war; but to do so it will be necessary to tap the flow of special gains that accrue to others in the community. The Treasury should increase its revenues to help balance the budgets to pay for the necessary increases in armaments, and to spread to the most impoverished groups some of the special economic gains that may accrue to this country as a consequence of the conflict abroad. The maintenance of a reasonable balance among the different strata of society is, in my opinion, the most effective means of checking the drive towards war -- a drive which

- 3 -

otherwise will obtain impetus from those groups which hope to find economic salvation in war, and from those groups which would seek to ~~perpetuate~~ ^{prolong} and to enhance their unusual profits in war.

It is impossible to prophesy the nature, or duration of the war abroad. But one line of policy is clearly desirable. We must avoid, as much as possible, distortions of our economic system which would have disastrous consequences when present conditions move into reverse. We should not permit the mirage of temporary business prosperity and high profits to lead us into situations which inevitably result in severe contractions later. We should, of course, do everything possible to promote healthy and balanced recovery, yet we must be constantly alert to avoid the development of that type of boom which is largely a war phenomenon and which of necessity is followed by deep depression and social instability.

One distortion, for example, that may well occur in the ensuing months is an unhealthy rise in the price of certain commodities that for one reason or another are strategically situated. In numerous instances such an increase in price will give rise to exorbitant and spectacular earnings for some at the expense of the many. There will be a popular demand that something be done about it. In my discussion with the President we both agreed that if a plebiscite were taken to choose between the alternatives of price control and taxation, the great bulk of the people would vote for taxation.

The President and I also feel that during the coming period of increasing business activity it would be feasible to increase taxes on the middle income groups and lower exemptions in lower income groups. Such action is not only appropriate in view of their increased ability to bear higher taxes but is also wise as a step in the direction of putting our fiscal house in order and attaining a more equitable distribution of our tax burdens.

I am glad you gave me this opportunity to state my position to you in writing, although I confess I should not have done so had you not yourself taken the initiative in writing to me. We shall, of course, have ample opportunity to discuss our tax program at length during the coming months.

Sincerely,



THE SECRETARY OF THE TREASURY
WASHINGTON

Dear Johnnie:

I was much interested in your letter of September 20th and think your schedule of preparatory taxation studies a good idea. I have discussed taxation with the President, and we agreed that the time is inopportune for deliberations which involve conferences outside the Treasury. I believe there is general agreement at both ends of Pennsylvania Avenue that no tax legislation will be offered at this Special Session of Congress.

The President and I are in complete accord with regard to the central problems of tax legislation. We both feel that in this period of world conflict when free enterprise and the profit motive are being attacked on both flanks -- from Fascism on one side and Communism on the other -- it is particularly important that our tax policy should serve to strengthen and not weaken our basic institutions.

As I see it the forces threatening our democratic structure will find support in this country if the government overlooks the interests of the under-privileged groups while at the same time permitting over-privileged groups to attain special gains. In the months to come the discontent of the groups which have been injured by the war situation will be aggravated if they feel that favored persons are permitted to make and keep the extraordinary profits that arise as a consequence of the war. From my own personal experience in the agricultural crisis of 1933 I know how people react to situations in which they justly feel themselves to be the victims of social forces, even in the absence of the contrast of spectacular gains by others.

You yourself told me of the tobacco growers of North Carolina who have just lost their market and you indicated that they look to the government to help them. I agree with you that they, like others who are hard hit by the war, have a right under such circumstances to look to their government for assistance. But I consider it wise social policy as well as wise fiscal policy to obtain funds to help these groups by tapping the special gains that flow from the war situation.

The President and I are agreed that during the coming period of increasing industrial activity it would also be feasible to increase taxes on the middle income groups and lower exemptions in the lower income groups. Such action is not only warranted by the increased ability to bear higher taxes but it is also wise as a step in the direction of putting our fiscal house in order and attaining a more equitable distribution of our tax burden.

This is not a war tax program. To my mind it is an appropriate tax program for a neutral country in a world at war. I feel that through such an enlightened policy we can check that impetus towards war which springs from excessive war gains on the one hand and excessive misery on the other. Such a fiscal program would not only strengthen our neutrality but would help balance the budget in the face of growing defense needs.

It is impossible to prophesy the nature or duration of the war abroad. But one line of economic policy is clearly desirable. We must avoid, as far as we can, distortions of our economic system which would have disastrous consequences when the period of expansion slackens. We should not permit the mirage of a temporary boom and exorbitant profits to lead us into situations which inevitably result in severe contractions later. We should, of course, do everything possible to promote healthy and balanced recovery, yet we must be constantly alert

- 3 -

to avoid the development of that type of boom which is largely a war phenomenon and which of necessity is followed by deep depression and social instability. Taxation intelligently applied is one of the instruments which can effectively reduce such distortions while keeping our democratic institutions intact.

I am glad you gave me this opportunity to state my position to you in writing, although I confess I should not have done so had you not taken the initiative in writing to me. We shall, of course, have ample opportunity to discuss our tax program at length during the coming months.

Sincerely,

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

TREASURY DEPARTMENT

217

INTER OFFICE COMMUNICATION

DATE September 20, 1939

TO Secretary Morgenthau
FROM Miss Miehener *AMH*

In response to your request this afternoon, the attached memorandum has been prepared by Mr. Murphy, Mr. Lindow, and Mr. Tickton, in consultation with Mr. Haas by telephone.

Attachment Recent Changes in Prices of US Securities

Recent Changes in Prices of United States Securities

Today's price declines were greatest on the long end of the market. This is shown in the following table:

	Average price decline
<u>Notes:</u>	
1 to 3 years	3/32
3 to 5 years	5/32
<u>Bonds:</u>	
Under 5 years to call	1/32
5 to 15 years to call	14/32
Over 15 years to call	22/32

The price declines in the table are based on official or "thin sheet" figures -- i.e., mean of over-the-counter closing bid and ask for notes and actual stock exchange sales for bonds. Figures based on over-the-counter bid and ask prices would show somewhat greater price declines for the bonds.

These declines occurred in a market entirely without official support. Chart I shows the amount of Federal Reserve and Treasury support to the market daily, beginning September 1. It will be observed that there have been three days prior to today -- Friday, September 8, and Friday and Saturday, September 15 and 16 -- on which there have been either no Federal Reserve or Treasury purchases of Government securities, or purchases in an amount too small to plot (less than half a million dollars). Today, however, was the first day on which the official bids were actually withdrawn rather than merely being below the market.

Chart II shows the daily price and yield fluctuations since July 1 of four selected Government securities. It will be noted that the 2-3/4's of 1960-65 declined much more sharply in price today than any of the other three issues shown in the chart.

- 2 -

The 2-1/2's of 1949-53 shown in the chart closed at 99-31/32. The 2-1/2's of 1950-52 closed at the same price, and the 2's of 1947 at exactly par. We are informed that good buying came into these issues and other issues closely approaching par.

Chart III shows daily the average price changes since September 6 of Treasury securities classified in the same manner as in the above table. This date is used because it is that at which the decline in Government securities first became selective. Up to that date the prices of securities of all maturity classes had been declining indiscriminately. Since then, however, the market has shown a marked preference for securities with maturities or call dates of less than five years. As is shown in the chart, these have rallied substantially, while securities with maturities or call dates of over five years have continued to decline.

This difference in the behavior of the market before and after September 6 is clearly shown in Chart IV. This chart (which was prepared in connection with our recent review of the high-grade securities markets and is on a yield basis) shows the general decline of the market before September 6, as well as the selective price movement thereafter. The strength of notes since September 6 is particularly interesting in view of the fact that they have received no appreciable official support. Prior to that date official purchases of notes had been considerable; and, while most of such purchases were made in connection with the take-over of dealers' positions, some purchases had also been made in the open market.

Attachments.

PAP

PLAIN

LONDON

Dated September 20, 1939

Rec'd 6:10 a.m.

Secretary of State

Washington

RUSH.

1728, September 20, noon.

FOR THE SECRETARY OF THE TREASURY.

Sir James Ray who is in Canada is a retired Under-Secretary of the British Treasury who has been recalled for temporary duty. He is in the Establishments Section of the British Treasury which deals with contractual purchases and budgeting the various British Government Departments. He is not a financial expert comparable, say, to Sir Frederick Phillips, and would not be in a position to participate in technical discussion, for example, on the dollar-sterling rate but he is regarded in the British Treasury as having great common sense and expert knowledge of buying. He is on a purchasing mission in Canada. Simon is willing to instruct him to go to Washington if you feel it would be desirable or necessary given the above circumstances, but he points out that Osborne is scheduled to go across shortly and you might
care

PAP -2- 1728, September 20, noon from London

care to wait and see him, though Osborne is an official of the Bank of England and will be authorized to act for the Treasury and in any case war has pretty much broken down such duality of the Bank of England and the British Treasury as existed.

KENNEDY

CFW:JRL

RECEIVED

SEP 20 1938

THE TREASURY DEPARTMENT
U. S. DEPARTMENT OF THE TREASURY
WASHINGTON, D. C.

GROUP MEETING

September 20, 1939
9:30 a.m.

Present: Mr. Hanes
Mr. Duffield
Mr. Riefler
Mr. Graves
Mr. Thompson
Mr. Harris
Mr. Gaston
Mr. White
Mr. Baillie
Mr. Stewart
Mr. Burgess
Mr. Smith
Mr. Cochran
Mr. Morgenthau, Sr.
Mrs Klotz

H.M.Jr: Have you got anything?

Hanes: I would like to talk with you sometime this morning if you could get Norman Thompson and talk about this staff of Roy Blough's. We have got more work there than we can do and we need some more men.

H.M.Jr: Then we can do that right after this meeting.

Hanes: That is all I have.

H.M.Jr: Herbert?

Gaston: I don't think I have a thing. I can't think of it now.

H.M.Jr: I think you are getting a little Coast Guard voice.

Gaston: I am trying to cultivate a bridge voice.

H.M.Jr: I think you are getting a little military.

Burgess: It ought to be naval for that, hadn't it?

H.M.Jr: Aye, aye, sir.

While we are on this thing, these rules and regulations - what happened to them?

Foley: Here is a memorandum to the President. If you will

- 2 -

sign it, I will get the original and put it all together. (Handing memorandum to Secretary)

- H.M.Jr: And then will you have Norman Thompson take it over?
- Foley: Yes.
- H.M.Jr: And the instructions are not to come back until it is signed.
- Foley: Here is a letter to Eccles you might want to see.
- H.M.Jr: All these letters are so vacant, there are no initials on them.
- Hanes: They are the result of the meeting we had yesterday. They are the recommendations of that committee.
- H.M.Jr: And then when it comes back all right, what happens to it?
- Foley: I think Thompson ought to give it to Gene Duffield and he will put out the release and we will put the telegram on the wires to the Federal Reserve banks.
- H.M.Jr: Is that all right?
- Hanes: Yes.
- Foley: Justice is drafting the price-fixing bill and they want someone from the Treasury to work with them. There is a meeting over there this afternoon. If it is all right with you, I would like to designate Joe O'Connell, who is on the Monopoly Committee and is most familiar with that.
- H.M.Jr: It is all right, if we could have a look at it before it is too late.
- Foley: Well, that is the only way we can find out what they are doing, and they have asked us to come in.
- H.M.Jr: All right.
- Tom?

- 3 -

Smith: Trying to keep up with things is pretty hard.

H.M.Jr: What do you want to know that I am doing?

Smith: I am keeping up with you on anything that affects banks.

H.M.Jr: We are making you step?

Smith: Well, I'll say.

H.M.Jr: I want your judgment when we get down to it as to what is a good time as for financing.

Smith: You are talking to me?

H.M.Jr: Yes.

Smith: I have been talking to Burgess about that.

H.M.Jr: They are keeping you posted on the various Bank of America - Transamerica adjudication?

Smith: That is what I say, you have to step fast to keep up with it. Yes, I think I am up to date. I have just been talking to Foley and I am up to date on these things that have happened in the last two minutes.

H.M.Jr: God bless you.

All right, Dan.

Bell: United States Savings bonds haven't come in yet in any volume. You asked me to look into that the other day.

H.M.Jr: Refund?

Bell: As a refund, yes. We had about 22 million so far this fiscal year as opposed to 17 million in the same period last year. Of course, this year we have a much larger volume outstanding.

H.M.Jr: How many refunds?

- 4 -

- Bell: 22 million up to date this fiscal year, two months and a half.
- H.M.Jr: As against?
- Bell: As against 17 million in the same period last year, but this year we have a much larger volume outstanding so you are bound to get a larger refund.
- H.M.Jr: You notice how Tom Smith cocks his ear when you talk about baby bonds?
- Bell: In September to date we have had six million as compared with 3 million 600 thousand last year.
- H.M.Jr: How about the refunds on Postal Savings?
- Bell: We haven't noticed any of those.
- H.M.Jr: Will you take a look at it?
- Bell: As a matter of fact, we have been investing their current cash.
- H.M.Jr: Would you look that up?
- Smith: You mean withdrawals and the total deposits?
- H.M.Jr: Anything else?
- Bell: That is all.
- Duffield: I think those figures, though, for September do show that the thing has stepped up recently, don't they?
- Bell: Yes, slightly, but nothing to get alarmed about yet.
- H.M.Jr: Postal Savings?
- Duffield: No, the redemption of Savings bonds has increased this month, but nothing phenomenal. The trend was up.
- Bell: Last September this period there was about 20 percent of the sales redeemed, that is, in dollars and cents, and this month it is about 25.

- 5 -

H.M.Jr: Anything else, Dan?

Bell: That is all.

H.M.Jr: I am initiating a new information service through Cochran. This morning he gave me a review of what happened in the foreign exchange market and it was very good, and I am asking him not only to give me a copy every morning, but give one to Hanes, one to Bailie for his group, one to Walter Stewart for his, and one to Harry White. Those of you who don't have safes, please return them because they are highly confidential. Then I think we might write a letter to Mr. Hull saying this is something new and we are sending it to him for his information.

Cochran: Send one copy?

H.M.Jr: Yes. Will you do that, and send one to Mr. Eccles?

Cochran: All right.

H.M.Jr: That covers the field pretty well, don't you think so, John?

Hanes: Yes, I think so.

H.M.Jr: Draw their attention to the fact that it is highly confidential.

Cochran: This morning sterling is opening a little weaker but not much trading, 3.88 and 3.89, as compared with 3.91 yesterday evening. There have been no offers conveyed to the Federal. Yesterday morning they had three fairly large ones. This morning there is nothing so far.

On the securities sales yesterday, the net was 179,000 and the British sales, 789 sales. The Dutch were buying more, with 566 net.

H.M.Jr: Earle?

Bailie: Nothing.

Burgess: This morning the track is clear. Federal Reserve is out of the market altogether. It is too early to tell just the effect.

- 6 -

H.M.Jr: Have you any whisky? I want a drink. The drinks are on me, ladies and gentlemen. This is too much.

Burgess: The market is on the bottom on the longest bonds.

H.M.Jr: Did you ever ride in a plane?

Burgess: Why, yes, I have.

H.M.Jr: First you strap yourself in and if that doesn't hold you when you hit the air pockets, you kind of get down like this, and I think if you sit like that for a day or two you will be all right. But they are out?

Burgess: They are out.

H.M.Jr: Wonderful. You have earned your one dollar a year.

Burgess: I think I earned more than that this time.

H.M.Jr: Don't you think so?

Hanes: Yes. This ought to be an autographed dollar.

H.M.Jr: That is wonderful.

Burgess: We will see.

H.M.Jr: Just another thought on that. If I did anything, I wouldn't do it on a Monday, I would do it on a Tuesday or Wednesday.

Bell: That would be better.

H.M.Jr: I would do it on a Tuesday or Wednesday and not on a Monday. That would give us a chance, you see. There is no reason why we have got to do it on a Monday.

Burgess: All right.

H.M.Jr: Well, we will play all day and see what happens. I sent over a copy of the financial page of the Tribune to the President to read what they said about Morgenthau. I said, "Heavens, it went up. What would the Tribune have done to me if it had gone down?"

- 7 -

Who is on guard this Friday and Saturday, you or Earle?

Burgess: I am here. I am here Friday and on the telephone Saturday.

H.M.Jr: But I mean that you could go up to New York.

Burgess: Yes.

H.M.Jr: But you will be here this Friday?

Burgess: Yes.

H.M.Jr: Who will be in New York Monday?

Burgess: I will.

Baillie: We decided it is too complicated to shift it every week, so I am going to run the Monday to Thursday and Randolph is going to run the Tuesday to Friday except in time of crisis.

H.M.Jr: Which is every week.

Baillie: That is what we are afraid of.

I have nothing.

H.M.Jr: Harry?

White: There is a memo here on the status of the standstill agreement. You may want to look it over and if you want to get in it, there is something that may have some interest to us.

H.M.Jr: We are in it.

Hanes: We are up to our necks in it.

White: Who?

H.M.Jr: Hanes and Baillie.

White: Well, there are certain banks that may be in a very special position to get advantages at the expense of the rest of the people. I take it

- 8 -

that that is what they are taking care of.

H.M.Jr: That has not reached me yet, so will you talk with Hanes and Bailie? Are you in this, Stewart?

Stewart: Not that I know of.

Bailie: I think that Stewart ought to be in it whether he wants to or not.

H.M.Jr: Johnny, will you pull Harry in on that?

Hanes: Yes.

White: That sum in Brazil was a million and a half a month.

H.M.Jr: I have a very good memorandum here. It is entitled "Current Developments in High Grade Security Markets; Relation of Treasury Bonds and Others." Have you seen this?

Burgess: I have. I thought it was excellent.

H.M.Jr: Have you seen it?

Bailie: Yes.

H.M.Jr: Has everybody seen it?

Hanes: I have got a copy of it.

Bell: I think he gave copies to everyone.

Smith: It is a good thing, too.

Harris: You may have seen in the paper of a shipment of ammunition on an American ship that has been featured. Our investigations to date indicate that there has been no violation of the Neutrality Act. The munition was principally shotgun shells and small arms ammunition, which is allowed under this present Act.

Gaston: Twenty-two longs and shorts.

- 9 -

- Harris: Yes. Some of it was even clay pigeons and stuff of that nature.
- White: Where do they shoot any clay pigeons?
- H.M.Jr: What is the status on this business of this trouble with the labor unions?
- Harris: Well, it is very bad. It is either going to be settled this morning or it is going to blow up completely. I rather think it is going to blow up. In other words, the ship owners disavow their agreements with the unions and throw the whole thing wide open. That is probably what is going to happen unless they get together by 10:30 this morning.
- H.M.Jr: Who is responsible for that in Washington?
- Harris: That is the labor end of the Maritime Commission.
- Bell: Maritime Labor Board?
- H.M.Jr: Well now, just to educate me, you say the labor in the Maritime - the labor end of the Maritime Board. There was a special labor board....
- Duffield: It is the Maritime Labor Board.
- H.M.Jr: What is the name of this fellow who is the head of that?
- Harris: Well, yesterday they sent over a man named Bernard.
- H.M.Jr: No, his brother is the head of the big Savings Bank in New York. His name is Robert Bruere.
- Harris: I don't know where he comes in there.
- H.M.Jr: Well, he is the head of some maritime union board.
- Gaston: Maritime Labor Board.
- H.M.Jr: Just for curiosity, find out where his committee fits in, I mean are they part of the Maritime Commission or are they separate?

- 10 -

- Harris: A man named Woodward, Commissioner Woodward, on the Commission - heretofore, this has more or less come under his supervision, but I think this has gotten a bit too heavy for him and they have kind of called in others.
- H.M.Jr: Well, just - I am curious so that I may know what is going on.
- Harris: It is frightfully involved. It would take me all day to try and tell you it.
- H.M.Jr: No hurry, but I just wonder where Robert Bruere and his group fit into the picture.
- White: I just heard this bit, which is a sort of very brief over-all picture from the point of view of one of the groups. The owners are eager to throw the thing up in the air because they feel the Maritime Commission will take a strong hand and clamp down on the labor end, so they are taking advantage of the situation to see that something has to be done to get things going. That may be a key to some of it.
- Harris: I don't think there is much in that. I think the real crux of this thing is that the actual leadership in the union is very bad. Apparently there isn't much difficulty with the actual men themselves, but the leadership is sitting on a fence and they feel they have got to pull something big to retain their leadership or they are going to be thrown out.
- White: Are you speaking of Ryan?
- Harris: No, I was talking of someone else.
- H.M.Jr: Everything else quiet?
- Harris: Yes. You asked me to look into the question of the re-exportation of manganese. That is in the works and we are also going into about ten other vital materials and we will have that for you very soon.
- H.M.Jr: Thank you. Anything else?
- Harris: That is all.

- 11 -

H.M.Jr: I had a little talk today with Harold Graves and Captain Collins and we agreed that by December 31st they will have completed their program for the buying of all the departments except the Army and Navy. Is that right?

Graves: That is right.

H.M.Jr: That is through Executive Order, you see. We were doing it for the emergency agencies. We have never done it for the others, have we?

Gaston: That is field buying.

H.M.Jr: All buying.

Gaston: Well, they were doing all the local buying.

H.M.Jr: In the District.

Gaston: But weren't doing the field buying.

H.M.Jr: That is right.

Thompson: Some of the Washington buying didn't go through it.

H.M.Jr: I refer to the field of the United States.

Gaston: Yes.

H.M.Jr: You call it "the field."

Gaston: Well, it is the small end of it. It is not the main Washington purchases.

H.M.Jr: Is it?

Graves: No, the field end, I would say, is the big end of it.

Gaston: Is the big end of it?

Graves: That is right.

H.M.Jr: That is what I thought.

Anything, Harold?

Graves: No.

H.M.Jr: Did Elmer see you and tell you the gossip?

Graves: Yes. That is very good news.

H.M.Jr: Also music.

Bell: I noticed that they asked for bids yesterday on strategic materials.

H.M.Jr: Yes, they cleared it through Gene and I told them to make it just the regular Treasury stuff.

Duffield: Two more this morning.

Thompson: We have a request for an additional lease of wires.

H.M.Jr: I don't use the wire.

Thompson: I have taken off all the calls we can possibly take off.

H.M.Jr: Who is using it?

Thompson: Dietrich said yesterday the calls were coming in back and forth so fast, particularly from his office, that he was....

H.M.Jr: How many leased wires have we?

Thompson: Two.

Baillie: Mr. Secretary, part of the fact comes from the fact that with the uncertainty of the market on sterling, there is a necessity of calling back and forth to the Federal in New York more than in ordinary times. Mr. Thompson said we can lease this thing almost by the week so that we don't....

H.M.Jr: That is what I want to ask you, do you have to sign up for a year?

Thompson: No, there is a regular contract form.

H.M.Jr: For a month?

Thompson: There is for a month, on a monthly basis.

H.M.Jr: But no other outside departments use it?

Thompson: No, I have cut everything off.

H.M.Jr: When I used to be over at Farm Credit, I used to use the Treasury wires to New York.

Thompson: That is all out now.

White: They found it cheaper to get you in here.

Baillie: Mr. Thompson cleared a lot of Treasury departments away from using the wire in order to give the stabilization people the right of way. I think it is necessary.

Gaston: Have you got one of these teletype services for your financial end, such as they use in the law enforcement end?

H.M.Jr: We have teletype service, which I understand they put in when I was coming back, between here and the Coast Guard.

Gaston: I was thinking perhaps one for financial matters might be well.

H.M.Jr: What other important business have you got?

Thompson: That is all I have.

September 20, 1939

About a quarter of six, last night, Tom Gorcoran called me up to inform me about the luncheon which Ed Noble had given on South America.

He said that they had people from the Department of Commerce, plus White and Cotton from the Treasury, plus MacLeish, the new Librarian, plus Carl Bickel, former head of United Press who was probably the President's "contact man" on South America. That they had tried to get Bickel to go in as one of Hopkins's technical assistants, but he wouldn't but he is taking a free lance job.

The purpose of this meeting was to get things organized for me so that I could "bowl over" the State Department and carry out my policy in South America. My comment was "That's very interesting."

I sent for White this morning and told White that I would have absolutely nothing to do with it; that it was an outrageous performance with Sumner Welles now on his way to Panama to call a meeting like this, and I said, "Harry, just remember that this same crowd could call the meeting to "bowl over" the Treasury and I don't want anything to do with it.

White said that the meeting was very unsatisfactory and that everybody knew a little bit but nobody seemed to know what they wanted to do.

My own attitude is going to be "very interesting" and watch developments, but certainly keep out of it.

September 20, 1939

To: The Secretary

From: Mr. Hanes

Now that Harold Graves has been transferred from the Bureau of Internal Revenue to the Procurement Division, will you be good enough to approve his removal from the payroll of the Bureau, and authorize payment of his salary by the Procurement Division? I assume that this will be done automatically, but in view of the fact that Commissioner Helvering has asked me the question I promised to take it up with you.

For your information the Bureau of Internal Revenue is running behind the amount allotted in its budget for personnel, and between now and the end of the fiscal year will be forced to let places, made vacant by men retiring from the service, remain unfilled until this deficit is made up. Therefore, the removal of Harold Graves from the payroll of the Bureau will be a real help.

J. W. H.

September 20, 1939

237

To: The Secretary

From: Mr. Hanes

I attach hereto memorandum from Commissioner Helvering concerning the removal of Mr. Harold N. Graves from the position of Deputy Commissioner and his transfer from the payroll of the Bureau of Internal Revenue. This is in accordance with our agreement this morning that Mr. Graves would be assigned to the Secretary's payroll as Assistant to the Secretary in charge of Procurement Division, Bureau of Engraving and Printing, and the Bureau of the Mint.

Norman Thompson told me tonight that Harold Graves expressed a desire to remain on the payroll of the Bureau of Internal Revenue. I told Thompson that I do not believe this would be good administration as the law does not allow the expenditure of funds allotted to the Bureau for purposes other than the collection of revenue. I, therefore, hope you will allow the order to stand as it is.

J. W. H.

(JW)



OFFICE OF
COMMISSIONER OF INTERNAL REVENUE

ADDRESS REPLY TO
COMMISSIONER OF INTERNAL REVENUE
AND REFER TO

TREASURY DEPARTMENT
WASHINGTON

238

September 20, 1959.

Memorandum to Mr. Hanes:

Treasury Department Order No. 25 signed by the Secretary of the Treasury (copy of which is attached) designates Mr. Harold N. Graves, a Deputy Commissioner of Internal Revenue, as Assistant to the Secretary in charge of other Treasury agencies. As these agencies have no connection with Collecting the Internal Revenue, I take it that Mr. Graves' salary will be paid by the Treasury or by one of these agencies.

Since it will not be necessary to fill the place of Deputy Commissioner, the transfer of Mr. Graves will effect a saving which will assist us in our endeavor to close this fiscal year within our appropriation. As I explained to you a few days ago, our budget was overdrawn as of July 31, 1959 to the extent of \$671,500 should the personnel then on our rolls be continued to the end of the fiscal year.

Please let me have your advice in the premises.


Commissioner.

copy

239

TREASURY DEPARTMENT

Washington

Office of
The Secretary

September 19, 1959

TREASURY DEPARTMENT ORDER NO. 25.

Effective from and after this date, the following assignments to Mr. Harold N. Graves, Assistant to the Secretary, are hereby ordered:

1. Procurement Division.
2. Bureau of Engraving and Printing.
3. Bureau of the Mint.

Department Circular No. 244 of February 1, 1937, is modified accordingly.

H. MORGENTHAU, Jr.
Secretary of the Treasury.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 20, 1939

TO Secretary Morgenthau

FROM Mr. Cochran

Mr. Knoke telephoned me at 11 A. M. He stated that the sterling market in New York was decidedly more orderly than yesterday. Buying and selling orders from abroad were practically balanced. South Africa was buying sterling; while the Far East was selling. The volume was much smaller than yesterday. The Chase and Guaranty has both gotten more commercial bills through at the rate of 4.02. It was understood confidentially that since this business started the Guaranty has negotiated a total of 500,000 pounds of cotton bills at the official rate. New York banks were today trying to get through some oil and grain bills. When I told Mr. Knoke that I understood the National City had not yet been able to sell cotton bills at the rate of 4.02 he said Mr. Shaw had told him yesterday that negotiations were moving along.

The foreign exchange market was much quieter for the day. Sterling opened in New York at 3.89; went to a high of 3.94-1/4 late in the afternoon and closed at 3.92. The reason for the improvement toward the close of the day was that the Bankers Trust Company needed £20,000 just at a time when there was a scarcity of selling. The four reporting banks in New York purchased approximately \$508,000 of which \$185,000 was from commercial concerns and \$320,000 from foreign banks. An additional \$5,000 was purchased by Finland Bank through the Federal Reserve Bank of New York. Sales totalled \$491,000 of which \$316,000 was sold to commercial concerns, and \$100,000 to foreign banks and \$75,000 by Central Banks through the Federal Reserve Bank of New York. Of this latter amount \$25,000 was from Norway and \$50,000 from Sweden.

Mr. McKeon of the Federal Reserve Bank informed us that the National City Bank had sold \$15,000 in cotton bills to the British Control and that the Guaranty Trust Company had sold a sterling sight cotton bill for delivery within thirty days to the British Control at 4.01. The Guaranty Trust Company advised Mr. McKeon today that they had requested ~~through~~ their London office to inquire of the British Control if they would purchase sterling arising from grain bills. The British Control said that they were not purchasing such sterling at the present time.

There were two shipments of gold reported today from London, \$268,000 consigned to the National City Bank of New York for their own account and \$81,000 to the Bank Belge pour l'Etranger by their London office, both on the S. S. MANHATTAN. Mr. McKeon informed us that these banks applied to the British Control which granted permission for the shipments.

CONFIDENTIAL

Secretary Morgenthau.

Mr. Leroy Beaulieu, French Financial Attache, called from New York this morning. He referred to the Herald Tribune report of Secretary Morgenthau's press conference and inquired whether the Treasury was taking any regulatory steps with respect to the New York exchange market or intervening through the Stabilization Fund, as suggested as possible by the press article. I let Leroy Beaulieu know that we were following the sterling situation closely and keeping the British informed as to the results of our observations. I said this system of exchanging information in regard to the market and as to the application of the official rate for certain American transactions was the extent of our activities so far.

Leroy Beaulieu volunteered the information that there was very little trading in francs at New York, the rate being merely nominal most of the time. The only upset came three days ago when the French Consul General in New York, without first consulting Leroy Beaulieu, who might have been in a position to advise the Consul General as to individuals who at that moment required francs, offered on the weak and thin market approximately 20,000,000 French francs. When this amount was dumped, banks immediately let the rate go down to .0213, which is the lowest level of recent days.

Leroy Beaulieu was anxious to obtain copies of the regulations to be issued by Mr. Hanes' committee with respect to credits that can be extended to belligerents under Section 3 of the Neutrality Act. I promised to send him by airmail two copies as soon as available.

The Federal Reserve Bank notified us of confirmation from Uruguay that gold purchase of one million dollars requested yesterday is to strengthen their gold reserves, so this transaction is being completed.

The Netherlands Bank sold to us \$751,000 of gold from their earmarked stock.

Favorable reply to Brazil on gold purchase proposition has been made.

**CONFIDENTIAL**

PAP

TELEGRAM SENT

242

GRAY

September 20, 1939

9 p.m.

AMEMBASSY

LONDON

1026

FROM THE SECRETARY OF THE TREASURY.

Reference your 1728, September 20, noon.

Considering situation of Sir James Ray, there is no reason for him to make a special visit to the Treasury. It will be a pleasure to receive Mr. Osborne whenever he may come.

HULL
(FL)

EA:FL:LWW

RECEIVED

SEP 21 1939

INTERNATIONAL TELEGRAPHIC COMPANY

OJ

GRAY

243

PARIS

Dated September 20, 1939

Rec'd 5:53 p.m.

Secretary of State,
Washington.

2080, September 20, 6 p.m.

FOR THE TREASURY.

The entire financial press prominently carries an account of Secretary Morgenthau's "declarations" at his press conference yesterday and emphasizes a "firm desire" to maintain close cooperation with France and Great Britain in monetary matters.

There were no changes in the official rates for dollars and sterling today. The banks continue to report an increased flow of authorizations of exchange transactions. The stock market was again somewhat heavy but the trading was light and rents were well supported.

(END SECTION ONE).

BULLITT

NPL

OJ

GRAY

244

PARIS

Dated September 20, 1939

Rec'd 6 p.m.

Secretary of State,
Washington.

2080, September 20, 6 p.m. (SECTION TWO)

The money market is developing with an easier tone and banks report increased loans against treasury bills, armament bonds, et cetera. In fact the money market is more normal today than it has been for the past three weeks. Subscriptions for treasury bills and armament bonds we learn are coming in at a satisfactory rate (this was confirmed to us by Valery, Financial Secretary of Daladier's Cabinet with whom we lunched today). A declaration of the Minister of Commerce designed to encourage exports wherever possible and pointing out that exports are exempt from recent profit tax measures indicates that the government is turning urgent attention to this important source of foreign exchange and will attempt to stimulate production of certain "peace" export industries many of which were paralyzed by general mobilization. The JOURNAL OFFICIEL this morning publishes a decree ratifying

CJ -2- #2080, September 20, 6 p.m., (SEC TWO) from Paris
ratifying the financial agreement with Poland of
September 7, 1939 and authorizing the Finance Ministry
to hand over 600,000,000 francs to the Polish repayable
at 5% in 15 years!

(END OF MESSAGE)

BULLITT

NPL

RECEIVED

SEP 21 1939

TREASURY DEPARTMENT
Division of the Budget
Section of the Budget

COPY

MJD

PLAIN

LONDON

Dated September 20, 1939.

Rec'd 2:03 p.m.

246

Secretary of State,

Washington.

1741, September 20, 6 p.m.

It is reported here that the Australian Prime Minister has announced that Great Britain will buy the complete Australian export surplus of refined zinc, a large proportion of lead and a specified percentage of copper at prices approximately equal to those prevailing before the outbreak of war.

Please inform Treasury with reference to telegrams Nos. 1631, September 13, 6 p.m., and 1647, September 14.

KENNEDY

CSB

send copy to Capt. Collins (see St. 9-27-39)

PARAPHRASE OF TELEGRAM SENT

247

TO: American Embassy, Rio de Janeiro

NO.: 187

DATE: September 20, 1939, 7 p.m.

Reference is made to your telegram no. 330 of September 16, 8 p.m.

You are requested to inform the Director of Exchange of the Banco do Brasil that, as set forth in the letter of July 15, 1937 from the United States Secretary of the Treasury to the Brazilian Ministry of Finance, as supplemented and modified by the letter of September 2, 1938 from the Federal Reserve Bank of New York to the Banco do Brasil, which was transmitted through the Department of State in Washington by cable, the Treasury Department will be glad to sell gold through the Federal Reserve Bank of New York, acting as the fiscal agent of the United States, to the Banco do Brasil, acting as the fiscal agent of the Government of Brazil. As was stated by the Federal Reserve Bank of New York in its cablegram of October 19, 1938 to the Banco do Brasil, it is prepared, as the fiscal agent of the United States Government, to act in accordance with the above-mentioned letters when it shall have received from the Banco do Brasil, by cable, acceptance

acceptance of the terms contained in these letters and confirmation on the part of the United States of Brazil that it has designated the Banco do Brasil to act as its fiscal agent with the authority to enter into the arrangement referred to in these letters.

RECEIVED

SEP 21 1932

THE UNITED STATES
DEPARTMENT OF THE TREASURY
WASHINGTON, D. C.

EA:EB

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Bucharest, Rumania

DATE: September 20, 1939, 1 p.m.

NO.: 227

Definite information has come to me that recently the Polish National Bank's gold stock was transported through Rumania to Constanza. At that point it was put on board an oil tanker belonging to Great Britain for shipment to Alexandria, Egypt.

GUNTHER.

EA:LWW

RECEIVED
SEP 21 1939
DEPARTMENT OF STATE
WASHINGTON, D. C.

GROUP MEETING

September 21, 1939
9:30 a.m.

Present: Mr. Hanes
Mr. Stewart
Mr. Foley
Mr. Riefler
Mr. Haas
Mr. Thompson
Mr. Duffield
Mr. Smith
Mr. Harris
Mr. White
Mr. Bell
Mr. Cochran
Mr. Burgess
Mr. Morgenthau, Sr.
Mrs Klotz

H.M. Jr: Ed?

Foley: Here is a report on what happened over at Justice yesterday.

H.M. Jr: Gene?

Duffield: No, I haven't anything.

H.M. Jr: This is Customs, Harris (handing paper to Mr. Harris). It is a complaint about smuggling of arms. Will you look into it?

Hanes: The Chairman of the standstill agreement was here today. There is somebody you said you wanted to sit in on this.

H.M. Jr: Who is interested in it, the German standstill agreement?

Bellie: I am, for one.

White: I am not particularly interested. I just didn't know whether the Treasury was in it and if they are, I passed on whatever information I had to the legal division.

H.M. Jr: Earle?

Bellie: Yes, I am interested.

Hanes: You know, Rovensky, the vice-chairman of that standstill agreement is here and he wants to come

- 2 -

in at 10:30, so if you and Wally Stewart and any one else who is interested in hearing what the situation is from the standpoint of the bankers who are running the standstill agreement....

- Baillie: I would like to before that, John. I would like to know what, if anything, we have said or done.
- Hanes: We have said nothing and done nothing. The State Department has referred it to us and it goes to that committee of State, Commerce and Treasury, and we have done nothing on it except in the legal division they have been studying it so we will know what we are talking about when we talk.
- H.M.Jr: You had better have White in also.
- Hanes: I thought Harry was going to bring me some papers yesterday, but I didn't get them.
- White: I passed them in to the legal division because I didn't want to give you additional things that you already knew about. In presenting new material I have, I will pass it on to you.
- Hanes: If there is anybody wants to come in, I would be glad to have all the help we can get on it because it is going to be a difficult situation, I am afraid. Anybody that is interested, be in there at 10:30.
- Burgess: I think I had better not, John, in view of the City Bank's interest in that. I think I had better not appear on it.
- Smith: Where is the meeting?
- Hanes: My office.
- H.M.Jr: Anything else?
- Hanes: That is all.
- H.M.Jr: Did I get by you?

- 3 -

Duffield: Yes.

H.M.Jr: Did you prepare this?

Cochran: I did that.

H.M.Jr: Did you tell them this?

Cochran: No, I haven't told any one yet. I gave that to you.

H.M.Jr: Who put that out?

Cochran: That came out this morning.

Duffield: I haven't seen it yet. I don't know - Matt Keith came in and talked to me about this thing yesterday but he said, "Is it true," or something or other, "the Treasury is marking time," and I said, "Well, I thought there was no decision on the subject." I added to it - and they included it in their story in the Wall Street Journal - the Treasury was anxious that if conditions be favorable to maintain its freedom for any cash or refunding requirements. We didn't like to lose that advantage if the opportunity presented itself.

Baillie: The French Ambassador wants to know how he can best put one of the members of the French financial mission in touch with the Procurement Division. Will you let me know?

H.M.Jr: Cochran was in at a quarter of 9:00 and he phoned that a man was going to be here to see me.

Anything else?

Baillie: No.

Cochran: The sterling is coming around 3.93 and 94 now and there is not much business going on. The stock market is moderately active, the price about the same as yesterday and.... Have you spoken with Hadley about the bond market?

Lurgess: Yes.

- 4 -

Cochran: And Argentina is taking another 2 $\frac{1}{2}$ million dollars of gold from us on the agreement we had some time back.

Ballie: That just about finishes it, doesn't it?

Cochran: That makes 19 million 900 thousand out of the 20 million agreed to, so it practically completes it.

H.N.Jr: Tom?

Smith: I will leave tomorrow afternoon to attend the A.B.A. convention in Seattle, and if anybody has any information they would like me to have, I will absorb it.

H.N.Jr: You won't be surprised if I send for you?

Smith: I won't be surprised at anything.

H.N.Jr: What is this rump meeting they are having in Salt Lake City?

Smith: That is normal. The State Banking Commissioners have an organization - they are having their convention in Salt Lake City and they have just abolished the Comptroller's office. They do that every year, you know.

H.N.Jr: Is everything all right?

Stewart: Nothing this morning.

H.N.Jr: George?

Haas: I have nothing. You probably have noticed that index of ours of the high-grade corporate bonds held up yesterday and the relationship between the high-grade corporates and the long-term Governments is now back to the relationship existing during July and August before the war. What has happened is that the corporate bonds declined much more rapidly than the Governments and now they are both in the same relative position.

- 5 -

- Billie: I had a comment this morning from New York on the high-grade bond market yesterday from a man whose judgment I regard highly. He said that the trades off the Board yesterday in the high-grade market were half a point below that market and that they were in much larger size than they had been heretofore; in other words, blocks as much as from 500 to 800 thousand going at one trade. He himself was pessimistic about that high-grade bond market level being able to hold where it was yesterday.
- Haas: I wasn't making a forecast....
- Billie: I am not making one now. I just wanted to put that in.
- Smith: Is that a difference of about 6/10ths of one percent?
- Haas: The point I was making is that yesterday's Governments - they held up. It was a narrow index, but it is difficult to get many - and the relationship existing between the high-grade corporates and the Governments is now at the same relationship that existed before the war.
- Smith: A difference of about 6/10ths?
- Haas: Something like that.
- H.M.Jr: Anything else?
- Haas: That is all.
- H.M.Jr: Harry?
- White: Nothing. I just want to see you a minute later.
- Harris: I spoke to you yesterday about that blast of Senator Reynolds on admitting aliens. As I have told you, it was very inaccurate. The total number of aliens over a given period has been less than three percent and the ships have actually been sailing from the other side with berths unoccupied, so there is no....

- 6 -

H.M.Jr: Mr. Hull answered it in a statement this morning.

Harris: I didn't see it.

H.M.Jr: Burgess?

Burgess: The Government market opened a little softer, quiet; but on the long bonds, 4 or 5/32nds off. There may be more selling, the kind of thing that Earle reports. It shows that there may be a further development there of some sort so that we can tell, and if there is some evidence of good buying around par on 2^{gs} which are a little under par this morning, the long bond, the '60-'65s are selling at 6.10 above par, 6 and 10/32nds. When that reaches par it may find the level there. The Board is meeting now. They have given some indication of a little restlessness. I think we need to be prepared to give some answer if they call up and say, "We think that the decline has gone far enough and we would like to support it."

I have talked a little with Earle and with Walter. I haven't had a chance to with many others.

H.M.Jr: If they do that, I don't want to have a snap answer. I would like to go into a huddle.

White: I would like to register an objection to letting it go down any further. I may be in a minority, but that is my expression.

H.M.Jr: Basil, thanks for taking care of the Thompsons.

Should I write anybody?

Harris: No.

H.M.Jr: Dan?

Bell: I have nothing this morning.

H.M.Jr: Harold, I want to see you after this. Harold, will you be here at 11:00, please?

- 7 -

I want to talk to you (Mr. Thompson).

When do you (Mr. Hanes) want to see me?

Hanes: I think I had better see you right away.

H.M.Jr: All right, and you can wait outside, Harold.

September 21, 1939
10:55 a.m.

257

HMJr: Hello.

Operator: George Harrison.

HMJr: Hello.

O: Go ahead.

George Harrison: Hello.

HMJr: George.....

H: Good morning, Henry.

HMJr: Good morning. Randolph's in here with me - nobody else.

H: Well, I called you a little earlier and you had your press men there.

HMJr: Yeah.

H: And I wanted to talk to you about this Government bond market because, as you know, I think I have agreed with you from the beginning.

HMJr: Yeah.

H: Yesterday we kept out of the market entirely and press and ticker comments on the whole were very favorable of our giving the market a chance. Now, it's gone off again today some -- well, in some cases up to fifteen or sixteen thirty-seconds. The longest issue is -- the last I had was ninety-nine twenty-eight bid and a hundred asked. The last transaction that I heard of on the exchange went a hundred.

HMJr: Yeah.

H: There isn't very much doing at all and it's just drifting down, but even if we assumed that it's gone off a half a point in some issues, it's been very orderly and, as I say, without much volume and without much pressure. Just not much buying.

- 2 -

Now, I think some of my kafirs have felt that this thing shouldn't be permitted to go through par, and if we gave this new procedure a trial that when it got to par we should step in again and begin buying pretty vigorously. I, personally, don't think it's had a fair trial yet and my own inclination, personally - apart from the Treasury view - is to let it ride, certainly through the day.

HMJr: Well, I -- I hope that they'll let it ride through the day.

H: And I had to cast the deciding vote. That's just for your own ear.

HMJr: I see.

H: And I voted that way.

HMJr: I see.

H: But on the other hand, as long as my own opinion in this is being bolstered somewhat by Treasury opinion, which is the same as mine, I just wanted to be sure that I wasn't speaking out all by myself again.....

HMJr: No.

H:or that you hadn't changed your minds.

HMJr: No, we -- if we did we'd let -- we'd call you first.

H: Well, that's what I hope you'll do, and if I can feel sure that you will it will help me.

HMJr: No, the boys talked to me about it today - what -- if for instance -- if the Fed. called up. So I said, "Well don't let's cross the bridge until they do."

H: Yes.

HMJr: ?.....and when they do we'll go into a huddle."

H: First-rate.

HMJr: And now that we know that you cast the deciding vote we'll certainly talk to you first.

- H: Well, that -- that you'll protect me on. I'm just giving you that for background.
- HMJr: And after all, if the paper comes out tomorrow and shows that -- the net increase as I understand it is only going to be 2 million dollars because they let 39 million run off, I hear -- the bills.
- H: That's right. I think the net is just 2 -- between 2 and 3 million.
- HMJr: That's what Eccles told me.
- H: Yeah.
- HMJr: I think that ought to help.
- H: I think it ought to help, and then as I've told Eccles that, while I have to agree with the Treasury that even if I disagreed with him.....
- HMJr: Yeah.
- H:in a matter where judgment is so tender a matter anyway, that I would vote your way because I think the Treasury has a right to ask for a free market if they are contemplating financing. And I would always subordinate my judgment.....
- HMJr: Yeah.
- H:to that request when I think the Treasury wants to have a free market.
- HMJr: Yes.
- H: But it so happens that I'm in a happy position of agreeing with you anyway. (Laughs)
- HMJr: Yes. Well, I -- I hope they'll let it go today and, as I say, maybe we'll have to buy another pair of pants.
- H: (Laughs heartily)
- HMJr: But I'm going on the assumption that this is a long, drawn-out show.

- 4 -

H: Yes.

HMJr: And I keep referring to Cotton all the time.

H: Yeah.

HMJr: And I don't want to see the Government buy back all the long-term Governments.

H: Yeah.

HMJr: Now.....

H: Well, you've given me just the information I wanted, because I wanted to be sure that I wasn't missing the boat.

HMJr: Now after all, if a fellow had some long-term Governments and they -- and they go below par, he -- he can go borrow a hundred cents on the dollar.

H: They've -- they're not -- they don't mean that isn't the reason they're doing it.

HMJr: No. But as far as I'm concerned, I -- I hope they'll let -- they'll stay put for the rest of the day.

H: All right. Well that's just what I wanted to know.

HMJr: All right.

H: You might -- if you haven't seen it, Burgess ought to read the ticker story today number 15 -- sheet number 15 about the Government bond market - very complimentary that we'd let this thing go yesterday.

HMJr: Isn't that the same thing that was on the front page of the Wall Street Journal?

H: Yes, I presume it is.

HMJr: Because -- I mean, talking about letting the Government bond market go.

H: Yes, and how wise it is, and it's what the market has been waiting for.

- 5 -

HMJr: Yeah.
H: Yeah.
HMJr: That's the same story.
H: Yeah, same one.
HMJr: O. K.
H: Goodbye.
HMJr: Thank you.

September 21, 1939
11:39 a.m.

162

George
Harrison: Hello, Henry?

HMJr: Yes, George.

H: I'm just calling you up on something of a matter of interest. Towers has just called me from Ottawa.....

HMJr: Yes.

H:about a market proposition.

HMJr: Yes.

H: He says he's quite concerned at the extent to which Canadian dollar bonds have gone down.

HMJr: I see.

H: He says he thinks they are scandalously low so much the same problem that we had on a much bigger scale.....

HMJr: Yeah.

H:that they were offering, in many cases, no buyers at all. So that an offering of a very small bloc might knock the bonds down two, or three, or four points, and he asked me whether in principle I thought he would make a mistake if he considered having someone in the market put in occasional bids in some of those issues where there are no bids at all.

HMJr: Yeah.

H: I told him that from time immemorial we had done that here and that I couldn't see any possibility of criticism of his doing it if he wanted to do it.

HMJr: I see.

H: But I -- he wasn't asking us to do anything. He was just asking my advice on a market question, as to whether I saw any objection in principle to his doing it.

HMJr: Well I accept it as -- as information without commenting on it.

H: That's all right.

HMJr: See?

H: Yes, that's all right. I just wanted to advise you because I thought you might -- that you might be interested in it.

HMJr: Well I am.

H: I don't know that he is going to do it.

HMJr: How are our own bonds acting?

H: Well, they -- they seem to be a little better.

HMJr: They do?

H: That is, the trading is confined to very small blocs still.

HMJr: Yeah.

H: And I think in the last hour there hasn't been as much pressure.....

HMJr: Um-hm.

H:as there was. They're down as far as eighteen thirty-seconds on some issues.

HMJr: I see.

H: But there's some inclination to steady.....

HMJr: Good.

H:during the past hour.

HMJr: Good. Well I hope they do.

H: So I hope they do too.

HMJr: Well thanks, George.

H: All right.

HMJr: Goodbye.

CONFIDENTIAL

September 21, 1939

MEMORANDUM

264

Collect
1-1-40
1-1-40
1-1-40

Toward 6 o'clock yesterday evening the French Ambassador telephoned me to the effect that Mr. Castan, Assistant to the French Commercial Attache Garreau-Dombasle, was arriving in Washington this morning. The Ambassador reminded me that Garreau-Dombasle was to be in charge of the French official purchasers coming to this country. The immediate idea would be for Mr. Castan to get in touch on this visit with the appropriate officers of the Treasury, and particularly with the Procurement Division, in order that he, as liaison officer, may keep the American Government informed as to the activities of the French purchasers. I told the Ambassador that I would consult with Secretary Morgenthau this morning and would call him back.

At 8:45 this morning I told Secretary Morgenthau of the above conversation. He instructed me to tell the Ambassador that he would be glad to receive Mr. Castan if the latter called at 11 o'clock this morning.

The Secretary had Mr. Graves, Captain Collins of the Procurement Division, and myself in his office at 11 o'clock this morning to receive Mr. Castan. The latter arrived 15 minutes late, however, as a result of being shown to the "Redemption" instead of the "Reception" office of the Treasury. Consequently, the Secretary was unable to see him. The following summarizes the conversation which the visitor had with Messrs. Graves, Collins and Cochran.

Mr. Castan explained that the Ambassador had told him that the American Government desired to be kept informed with respect to the operations of French official purchasers in this country, and desires to cooperate with them. He specifically referred to the mutual advantages that would result from joint efforts to keep prices from rising unduly on commodities in which the French were interested. Furthermore, the French would desire the advice of the Procurement Division with respect to current prices, etc.

Mr. Castan explained that he was the General Secretary of the Commercial Attache, Mr. Garreau-Dombasle, and had held this position for several years. Their office is in the Maison-Francaise (Rockefeller Center), New York City. It is the present plan to have Castan come to Washington with visiting French purchasers and introduce them to the appropriate American officers. As liaison officer, he may also come to Washington in advance of such visiting commissions to seek our advice.

In answer to our question, Castan said that the French purchasers coming to this country would be officials of the French Government. While some of them would be technicians, their character would be official.

-2-

Mr. Castan had two or three specific problems to take up today with Captain Collins, but desired to fly back to New York this afternoon. Captain Collins had a full schedule. We took advantage of this fact and stated that we would consult with the Secretary as to our official position with respect to the above liaison and would then communicate with the French Embassy. Mr. Castan is anxious to have this matter regularized in order that he may come back early next week to take up specific questions with Captain Collins. The latter, in turn, hopes for an early understanding, since the War Department is keenly interested in the matter of the French purchasers.

J. M. S.

CONFIDENTIAL.

TREASURY DEPARTMENT

266

INTER OFFICE COMMUNICATION

DATE September 21, 1939

TO Secretary Morgenthau
FROM Mr. Cochran

The market for sterling in New York today was orderly and on a reduced volume, with the opening rate 3.91-1/2, high 4.00-5/8, and closing 3.99-1/2.

Sales in New York approximated £556,000 divided as follows:

By commercial concerns	£159,000
By foreign banks (Europe & Far East)	£332,000
By Fed. Res. Bk. (for £25,000 Norway; £40,000 Sweden)	£ 65,000
Total	£556,000

In addition to the sales mentioned, there were sales by commercial concerns of £130,000 which were purchased by the British Control at the official rate.

Purchases of sterling amounted to £449,000 as follows:

By commercial concerns	£334,000
By foreign banks	£115,000
Total	£449,000

Upon inquiry being made of the British Control, an American bank was informed that exports of canned fruits, milk and nuts were not entitled to their proceeds in sterling being converted at 4.02. The Guaranty Trust advised the Federal Reserve Bank of New York that a cotton bill which they had offered to the British Control was questioned to make sure that the sterling had not been sold at the pre-war rate of 4.68, then covered by the seller at a rate below \$4.00 and was now being offered to the Control at the official rate of 4.02. The Control was satisfied that this was not the case and purchased the sterling. The Guaranty Trust had also inquired of London as to whether cotton bills drawn by American firms in Brazil covering British cotton exports to the Empire would be eligible for the 4.02 rate. The reply was negative.

Argentina is tomorrow taking \$2,500,000 gold from us, making a total of \$19,900,000 to date on the \$20,000,000 agreement which had been arranged.

We today bought \$27,000 gold from the National Bank of Belgium, released from their earmark account in New York.

With respect to the above strengthening of the sterling rate on the free market in New York today, it is noted that even Amsterdam, on which market sterling ordinarily opens weaker of a morning than quoted on New York the preceding evening, reported by telephone this morning that the Dutch were not

CONFIDENTIAL

Secretary Morgenthau.

-2-

offering sterling for sale, and no offers came from Amsterdam during the day. The Bankers Trust had a buying order from Switzerland for 75,000 pounds late in the day, which they returned as not executed. Today's market is interpreted by Knoke as revealing a purely short-term view of sterling. The market feeling is that if a long war is carried on, with England bearing the brunt of financing of such a conflict, the pound will eventually be weak. For the immediate future, however, the market is figuring on a rise. They feel that British Empire trade will be more channeled than ever and that the countries outside of the Empire will have difficulty in trading with the Empire, except in a matter of munitions. They expect the Empire to provide such items as copper, zinc and lead exclusively to London.

The market points out that with the building up of the intra-Empire trade, there should be a reduced demand for dollars, and consequently less pressure on sterling. The demand for sterling for such commodities as copper and tin will continue - these being bought on a sterling basis. The Chartered Bank, which has branches in India and the Straits Settlements, is even now having difficulty in getting the sterling it requires.

While England used dollar balances and gold to peg the dollar-sterling rate in the last war these reserves may now be devoted directly to war requirements, especially on the American market.

With the supply of sterling reduced, and the demand being maintained, as above indicated, the market thinks the British may soon be faced with the problem as to whether:

- (1) The free rate for sterling should go above the official rate, or
- (2) The official rate be raised, or
- (3) The Control sell sterling to keep the free rate down, and thus accumulate foreign balances.

H. M. S.

CONFIDENTIAL

CONFIDENTIAL

September 21, 1939

MEMORANDUM

Forward 6 o'clock yesterday evening the French Ambassador telephoned me to the effect that Mr. Gaston, Assistant to the French Commercial Attaché Barreau-Dombasle, was arriving in Washington this morning. The Ambassador remarked that Barreau-Dombasle was to be in charge of the French official purchasers sending to this country. The immediate idea would be for Mr. Gaston to get in touch on this visit with the appropriate officers of the Treasury, and particularly with the Procurement Division, in order that he, as liaison officer, may keep the American Government informed as to the activities of the French purchasers. I told the Ambassador that I would consult with Secretary Mergenthau this morning and would call him back.

At 8:15 this morning I told Secretary Mergenthau of the above conversation. He instructed me to tell the Ambassador that he would be glad to receive Mr. Gaston if the latter called at 11 o'clock this morning.

The Secretary had Mr. Graves, Captain Collins of the Procurement Division, and myself in his office at 11 o'clock this morning to receive Mr. Gaston. The latter arrived 15 minutes late, however, as a result of being shown to the "Redemption" instead of the "Occupation" office of the Treasury. Consequently, the Secretary was unable to see him. The following summarizes the conversation which the visitor had with Messrs. Graves, Collins and Ockers.

Mr. Gaston explained that the Ambassador had told him that the American Government desired to be kept informed with respect to the operations of French official purchasers in this country, and desires to cooperate with them. He specifically referred to the mutual advantages that would result from joint efforts to buy prices from rising unduly on commodities in which the French were interested. Furthermore, the French would desire the advice of the Procurement Division with respect to current prices, etc.

Mr. Gaston explained that he was the General Secretary of the Commercial Attaché, Mr. Barreau-Dombasle, and had had considerable experience for several years. Their office is in the Liaison-Francaise (Banker's Office), New York City. It is the present plan to have Gaston come to Washington with visiting French purchasers and introduce them to the appropriate American officers. As liaison officer, he may also come to Washington in advance of such visiting commissions to seek our advice.

In answer to our question, Gaston said that the French purchasers coming to this country would be officials of the French Government. The name of them would be confidential, their character would be official.

CONFIDENTIAL

Mr. Gantum had two or three specific problems to take up today with Captain Collins, but desired to fly back to New York this afternoon. Captain Collins had a full schedule. We took advantage of this fact and stated that we would consult with the Secretary as to our official position with respect to the above liaison and would then communicate with the French Embassy. Mr. Gantum is anxious to have this matter regularized in order that he may come back early next week to take up specific questions with Captain Collins. The latter, in turn, hopes for an early understanding, since the War Department is keenly interested in the matter of the French purchasers.

HMC:enk
9.21.39

~~WA~~
September 21, 1939

To: The Secretary
From: Mr. Hanes

I am attaching herewith a memorandum on the meeting held in my office this morning concerning the German Standstill Agreement.

JWH

September 21, 1939

271

Memorandum of conference - re. German Standstill Agreement

There was a meeting this morning at 10:45 A. M. in Under Secretary Hanes' office, at which were present Messrs. Hanes, Bailie, Stewart, Tom Smith, White, Foley, and Bernstein of the Treasury and Mr. Joseph Rovensky, Vice President of the Chase National Bank, representing the American banking group interested in the German Standstill Agreement. The meeting lasted for about 1½ hours.

Mr. Rovensky described the situation leading up to the termination of the Agreement by the British and American banks on September 3d and the provision of the Agreement permitting such termination; the action which was taken beginning September 5th to set-off and attach German balances and property in the United States; and he read the telegram which the Germans had sent the American bankers asking that the Standstill Agreement be continued and the reply of Harvey Gibson stated that the problem was being studied but that for the moment it did not seem to be desirable for the Americans to enter into a many-sided discussion with the Swiss, the Belgians, and the Dutch, as well as the Germans on the question. Mr. Rovensky also stated the following:

The Standstill Agreement was last entered into in May 1939, at which time the American share was about \$1 billion dollars. At the time of the termination of the Agreement the American share of the outstanding indebtedness was about \$6 billion dollars and the remaining \$1 billion dollars was in unused credits. Of this outstanding indebtedness about forty-nine million was absolutely frozen and the remaining 17 or 18 million was in so-called commercial paper. He said a figure of 9 million had been mentioned as representing German assets in this country, although Rovensky thought that the amount of attachable property was nearer 6 million of which 4 million was in the form of German balances in American banks which had been set-off. The proposition which he was considering called for a continuation of the Standstill Agreement after eliminating the 15 million unused credit and deducting the value of the property which had been attached, (Rovensky did not make it clear whether he meant the 4 million bank deposits or all assets which had been attached in this country) and also requiring that the money that would become available to the Germans under the Standstill Agreement would have to be spent in this country for American goods. Under this arrangement the Germans would continue paying interest on the total \$6 billion dollars at the annual rate of about 2½ percent; and there would be about 17 or 18 million dollars less the property attached which would be used as a revolving credit fund. This would permit the reestablishment of banking relationships between this country and Germany. He also referred to certain outstanding German bonds which he referred to as the Lee-Higginson bonds which apparently \$3 billion were owned by American banking institutions. The Germans have continued to pay interest on these bonds. He expressed the fear that these bonds, as well as the outstanding Standstill credit

would go into default unless some new arrangement were worked out. He indicated that the American banks participating in the Standstill arrangement held different views as to the course to be followed; that some banks, particularly the First National of Boston, wanted to continue the outstanding credit to Germany and that others did not wish to do this. He felt that although the proposition was not likely to be accepted by the Germans it would nevertheless make the American record look better when consideration is given after the war to settlement of the German debt. He added however that he could not guarantee that Germany would refuse to enter into the arrangement nor could he guarantee what capital the Germans would seek to make out of a continuation of the Standstill arrangement. Rovensky stated there was no question in his or his colleagues' minds, but that the contemplated arrangement did not violate the Neutrality Act since it involved merely a renewal of an indebtedness and was for an ordinary commercial transaction and that consequently he was not asking the Government to pass on the legality of the proposal. The reason he was making the inquiry, he said, was to ascertain the desirability of the proposal he mentioned from the point of view of the Administration's policy.

There was a general discussion in an effort to elicit all the facts and ascertain the various aspects of the problem. The type of reply which Rovensky might like or which might conceivably be made were discussed. The conference adjourned immediately after Rovensky was told that for the time being he had given the Treasury all the information needed for its consideration of the proposal; that Rovensky had come to the Treasury voluntarily to discuss the matter which was appreciated by the Treasury, but that nothing that had occurred thus far was to be construed as in any way restraining the American bankers from doing whatever they thought was appropriate under the circumstances.

After Mr. Rovensky left it was the consensus that since Rovensky had not raised any question as to the legality of the proposal, there was no question for the Treasury to consider under Section 3 of the Neutrality Act and the President's Regulations on Credits to Belligerents, and that the sole question was a policy question relating to international relations and neutrality which was for consideration by the President the State Department.

September 21, 1939.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston



I talked to Captain Shea, Coast Guard Liaison Officer at the Navy Department, this morning and told him that we were quite willing to do anything the Navy wished with respect to the cutters, but that it had been our understanding that only two were to be assigned to the North Atlantic patrol; therefore I hoped they would write us a letter stating their wishes. He reported back later that the Navy did not wish to give us any instructions and did not feel that, as a matter of courtesy, they ought even to make requests of us. They had simply stated that it was their understanding that they were to keep two destroyers on station on the sea lanes, which required two additional destroyers for relief. In view of the assignments of the BIBB and CAMPBELL they wanted to know how we interpreted our instructions. They did not feel they had a right to make any suggestion to us.

Rereading Secretary Edison's letter in the light of this, I concluded that we ought to interpret our instructions in the same way that the Navy had interpreted theirs. Edison's letter says that "The President has directed that two destroyers be despatched" and adds "It is understood that he has also directed that two Coast Guard cutters are likewise to be assigned to this same duty." This seems to indicate pretty plainly that it was designed to be a

fifty-fifty project between Navy and Coast Guard. I have therefore instructed Admiral Covall to put the DUANE, when she arrives from the West Coast, in this service and to add, when she arrives, the HAMILTON, which left San Francisco today to come around.

A handwritten signature in cursive script, possibly reading "JCB", enclosed within a simple oval loop.

September 21, 1939.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

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HBC:ow

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

NO.: 2095 (SECTION ONE)

DATE: September 21, 1939, 6 p.m.

FOR THE TREASURY

Yesterday Reynaud went before the Finance Committee of the Chamber. Today we had a telephone conversation with him in which he told us with some amusement that the Committee had asked him to define United States laws which affected purchases by France, to which he said he had replied: "Cash and carry for everything except war materials. Cash and don't carry for war materials." He inquired whether or not the definition which he had given to the Chamber was correct, and he made specific reference to payments which he had made recently for motors and planes. (END SECTION ONE)

BULLITT

EA:EB

BLS

GRAY

PARIS

Dated September 21, 1939

Rec'd 7:20 p.m.

Secretary of State,
Washington.

3095, September 21, 6 p.m. (SECTION TWO)
(that?)

He told finance committee the while no credits necessary for national defense would be refused and profiteering would be vigorously suppressed; price control would be strict. He described the Treasury situation as eminently satisfactory and stated that since November 1938 the gold reserves of the Bank of France had increased by 533 tons or more than 28,000,000,000 at present quotations. He said that subscriptions to Treasury bills continued satisfactory without the necessity of raising interest rates. Currency withdrawn in preparation for the war emergency is now being reabsorbed; withdrawals from savings banks have already ceased. Whereas such savings bank withdrawals of September a year ago had totaled 5,000,000,000 only 3,000,000,000 had been withdrawn this year with the outbreak of war. He stated that the Treasury has not yet drawn upon its advance account of 25,000,000,000 francs at the Bank of France (please see telegram No. 1727, September 2, 2 p.m.). He concluded

by

-2- #2095, September 21, 7:20 p.m., from Paris.

by emphasizing the importance of maintaining the economic activity of the country at as high and normal a level as possible.

(END SECTION TWO)

BULLITT

RECEIVED
SEP 25 1939
THE POLICE DEPARTMENT
CITY OF NEW YORK

BLS

GRAY

PARIS

Dated September 21, 1939

Rec'd 7:30 p.m.

Secretary of State,
Washington.

2095, September 21, 6 p.m. (SECTION THREE)

Action has been speedier today in obtaining authorizations for foreign exchange transactions and the wheels are turning more smoothly. There were no changes in rates.

A firm tone prevailed on the securities market today with an increased volume of business.

Most rente issues recorded gains but compared with yesterday's close changes were not important. The improvement is due in part to the increased confidence inspired by Reynaud's above described resumé and the unexpected and substantial improvement shown in the Bank of France statement of September 14 published today.

Advances under the commercial portfolio decreased by 2,000,000,000 francs indicating that banks had somewhat overestimated their cash needs in the early days of the war. Advances against securities decreased by 68,000,000 and thirty day advances decreased by 375,000,000. Note circulation was down 1,140,000,000 to a total of
145,000,000,000.

-2- #2095, September 21, 6 p.m., from Paris.

145,000,000,000. Current and deposit accounts decreased by 522,000,000 francs. The Treasury account increased by 89,000,000 to a total of 908,000,000. The ratio of gold cover increased from 58.46% to 59.05%.

(END OF MESSAGE)

BULLITT

EMB

RECEIVED

SEP 25 1939

TREASURY DEPARTMENT
U.S. DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 21, 1939

TO Secretary Morgenthau
FROM E. H. Foley, Jr.

For your information.

Mr. O'Connell reports as follows as to the meeting yesterday at the Department of Justice on the drafting of price fixing legislation:

"In accordance with your instructions I attended a meeting this afternoon at the Department of Justice. South Trimble of the Department of Commerce and a Mr. Donoho of the Department of Agriculture were present, as well as five or six Department of Justice lawyers, including Mr. Hopkins.

"As it was explained to me, the Attorney General has directed that a statute be prepared providing for Government price control along the lines attempted by means of the Lever Act during the World War. There was practically no discussion of the policy behind such a statute, it being the position of Mr. Hopkins that they have an assignment to write the statute along the lines I have indicated and are not at this time concerned with the broader question of policy. I agreed to cooperate in drawing such a statute, the main problem being that of working out adequate standards to guide whatever administrative agency is clothed with the function of administering the Act. We expect to meet daily for the next few days and I will keep you advised of developments."

E. H. F.

EG

PLAIN

London

Dated September 21, 1939

Rec'd 8:30 a.m.

Secretary of State,
Washington.

1746, September 21, 2 p.m.

FOR THE SECRETARY OF THE TREASURY FROM BUTTERWORTH.

The following message from the Chancellor of the Exchequer was received in a letter dated September 20 which arrived this morning:

"I am very grateful for the information given in your message which I received this morning. Your promise to send in future this type of information whenever you think it of interest is most helpful to me. I will not fail to let you know in future if I have any suggestions to make as to points on which information would be useful."

KENNEDY

HPD

RECEIVED

SEP 21 1939

U.S. DEPARTMENT OF STATE

W

TELEGRAM SENT

BLS

GRAY

September 21, 1939

6 p.m.

AMEMBASSY

LONDON

1031.

FROM THE SECRETARY OF THE TREASURY.

With reference to cablegram no. 1746, September 21, 2 p.m., from Butterworth, you are requested to communicate the following information to the Chancellor of the Exchequer:

"Foreign sterling sales in the New York market today totaled approximately £400,000 which were readily absorbed in small amounts by commercial demand. Offers originated mainly from Europe and the Far East. Amsterdam, which heretofore has been a constant seller, today offered no sterling. One buying order from Switzerland for sterling could not be executed in late trading."

HULL
(FL)

RECEIVED

EA:FL:EB

SEP 22 1939

RECEIVED
 DEPARTMENT OF THE TREASURY
 RECEIVED AT THE OFFICE OF THE SECRETARY

JR

PLAIN

London

Dated September 21, 1939

Rec'd 1:15 p.m.

Secretary of State,
Washington.

1757, September 21, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

With reference to my 1701, September 18, 6 p.m., the following article by the City Editor in today's TIMES is patently inspired and in this sense may be of interest:

"The view that continuous depreciation of sterling in New York and other foreign centres is likely and that the authorities should at all costs take steps to avoid such a contingency in view of the effect it would have on the sales of foreign exchange to the Treasury, is one not generally held in London banking circles. On the contrary the opinion is freely expressed that it is much more likely that rates abroad will gradually tend to approximate to the official rate in London. Now that the first gust of sales of sterling by foreign owners who were prepared to accept such low rates as those recently current abroad has passed sterling already has a steadier appearance. In New York during the last few days the rate has fluctuated within relatively narrow limits in the neighborhood of \$3.90-3.91 compared with \$3.75 to which it fell last week.

There

-2- #1757, September 21, 6 p.m., from London.

There would in fact appear to be little prospect that any appreciable quantities of sterling are likely to be available for sale abroad. For one thing both imports and exports are strictly controlled by the authorities in London while to an increasing extent international trade may be financed in foreign currencies in place of sterling. This would mean that the amount of free sterling that could be offered abroad would be so small that any attempt at large scale speculative attacks on the pound could be easily dealt with by the authorities. These considerations leave out of account the possibility of action by the United States Government which has been hinted at by our New York correspondent."

KENNEDY

HPD

RECEIVED

SEP 21 1939

INTERNATIONAL FINANCE
DEPARTMENT
UNITED STATES DEPARTMENT OF THE TREASURY