

DIARY

Book 215

October 1 - October 4, 1939

	Book	Page
China		
Malaria Control:		
Farran suggests survey of situation; tells HMJr of immediate need of quinine - 10/3/39.....	215	293-A
a) FDR approves McNutt's recommendation for appropriation - 10/3/39.....		293-C
1) HMJr discusses at 9:30 meeting - 10/4/39.....		270
2) HMJr informs Chen - 10/4/39.....		284
Transportation experts group arrives.....		294
Additional loan to China:		
a) Chen confers with HMJr, Hanes, White, and Cotton - 10/4/39.....		282
b) Memorandum concerning.....		299

Hatch Act		
Ross, Nellie Tayloe (Director of Mint): Confers with Attorney General before consulting Foley; discussed at 9:30 meeting - 10/3/39.....		200

Public Health Service		
Prevention of Epidemics appropriation: FDR authorizes McNutt to take charge - 10/3/39.....		293-B
a) McNutt recommends allocation for survey on malaria control in China; FDR approves.....		293-C

Ross, Nellie Tayloe
See Hatch Act

War Conditions		
Australia:		
British Government arranges for purchases of surpluses of most primary products; plans to arrange for sale of Australian wool to United States - 10/4/39.....		255
Belgium:		
National Bank inquires of Federal Reserve as to import gold point for belgas - 10/4/39.....		310
Business situation for week ending 9/30/39:		
Haas memorandum.....		101
Canada (securities): See War Conditions - Great Britain Credits to Belligerents (Section 3 of Neutrality Act): See War Conditions - Neutrality Act		
Financing, Government:		
Refunding: Opinion of each adviser requested - 10/2/39..		85,128
a) Kennedy consulted.....		132
b) Eccles ".....		138
c) Burgess ".....		142
d) Jones ".....		147
Refunding postponed one week; Harrison disappointed - 10/3/39.....		175
"Refunding of Decemblers and RFC's": Conference; present: HMJr, Burgess, Bell, Hanes, Murphy, and Miss Michener - 10/4/39.....		228

	Book	Page
War Conditions - (Continued)		
Foreign Governments, Accounts for (in connection with purchasing):		
HMJr asks Harrison to set up as Administration policy - 10/3/39.....	215	175
Germany:		
Standstill Agreement: Hanes reports on what State Department answer will probably be - 10/3/39...		197
a) State Department's answer - 10/3/39.....		174
1) Discussed at 9:30 meeting - 10/4/39..		267
2) Hanes and Rovensky confer - 10/4/39..		241
Reichsbank statements of 8/31 and 9/30 reviewed by American Embassy, Berlin - 10/4/39.....		244
Schacht, Hjalmar: Whereabouts reported by State Department - 10/4/39.....		264
Government Bond Market:		
Current Developments: Haas memorandum - 10/3/39..		180
Great Britain:		
See also War Conditions: Australia; India - Silver Policy		
Financial and economic life transformed by inquisition of Government controls: Butterworth memorandum - 10/4/39.....		249
Canadian securities: Disposal of by British residents reported on by Butterworth - 10/4/39...		265
India:		
Conference on embargo laid down on imports of silver - 10/2/39.....		76
a) Pinsent and HMJr confer concerning British embargo - 10/3/39.....		156,194
1) Butterworth informed.....		157
2) HMJr and Pittman confer.....		207
Latin America:		
Panama conference: Text of resolution on economic cooperation as approved - 10/2/39.....		89
Neutrality Act:		
Credits to Belligerents (90-day Clause):		
a) HMJr-FDR conversation concerning - 10/1/39.....		1
b) Conference at HMJr's home; present: HMJr, Livesey, Bernstein, Hanes, White, Foley, Viner, Domeratsky (Commerce) - Sunday, 10/1/39.....		4
c) Final draft: Credits to Belligerents.....		52
d) Neither Johnson Act nor provisions of Neutrality Act relating to making of loans and extension of credit to belligerent countries applies to Government or any agency thereof: Treasury ruling in which Attorney General has concurred - 10/2/39.....		72
Pittman's inquiries concerning Johnson Act:		
Foley memorandum - 10/4/39.....		237
a) Copy sent to FDR - 10/4/39.....		315

War Conditions - (Continued)

Poland:

	Book	Page
Change in signature for Polish National Bank discussed by Cochran with Livesey, Knoke, et cetera - 10/2/39.....	215	151
a) State Department's notification to Treasury - 10/2/39.....		101
b) State Department's announcement of continued recognition of Polish Government - 10/2/39.....		164
c) HMJr discusses situation with Bullitt.....		165
d) American Embassy, Paris, reports on situation.....		169
German plans for absorption: report of American Embassy, Berlin - 10/3/39.....		176

Pittman, Key (Senator): See War Conditions - Neutrality Act

Purchasing Missions:

See War Conditions - Foreign Governments, Accounts for (in connection with purchasing)

Ship Movements:

German Embassy warns American ships not to zigzag or they may be mistaken for belligerent ships - 10/2/39.....		115
--	--	-----

Silver: See War Conditions - India

Strategic War Materials:

Gasoline, HMJr asks for study by Puleston, Viner, White, et cetera, which he could take to White House - 10/4/39.....		334
---	--	-----

Surplus Commodities: See War Conditions - Wool

U.S.S.R.:

Antorg discussed by Edison and HMJr - 10/3/39.....		216
--	--	-----

Wool:

See also War Conditions - Australia		
Stevens calls on HMJr; HMJr asks Agriculture to interview - 10/2/39.....		125

act 1.

1

~~September 21, 1959~~

Report of HM, Jr's conversation with President
(on preparation of material for Kay Pittman on (1) whether
the credit clause in the cash and carry plan was contrary
to Johnson Act and (2) extension of 90-day credits,) is
filed in the special folder in safe of conversations with
the President.

NAZIS' OIL PAUCITY HELD FATAL DEFECT

List of Their Likely Sources
Falls to Sum Up to Huge
Total Needed to Win

SUBSTITUTES ARE COSTLY

Allies, on Other Hand, Look to
Resources of America,
Almost Unlimited

By WALDENAB KEMPFFERT

Not men or explosives, not food and metals (for these will probably come from Russia), but oil is Germany's major problem in the conflict now raging. The late Lord Curzon said after the armistice in 1918 that the war had been won not only by blood but by oil, and Winston Churchill remarked that the Allies had floated on a sea of oil to victory. If this was true twenty years ago, it is just as true today.

The mechanization of armies had only begun when the fatal shot that killed the Austrian archduke was fired at Sarajevo in 1914. Since then there has been an increase of 400 per cent in the world's use of petroleum and 1,400 per cent in the number of motor vehicles.

Airplanes, tractors, tanks, motor trucks make new demands on every army in the field. If, as Curzon and Churchill maintained, the last war was won by the Allies because they had free access to oil supplies, what shall be said of this conflict?

Oil-Poor Nation Is Crippled

The anti-Nazi Posenny, in "Tomorrow's War," goes so far as to say that the German Army will be reduced to immobility in a much shorter period than the British anticipate. Ferdinand Friedensburg, writing in the *Deutscher Volkswirt* of April 16, 1937, admits that the army of an oil-poor country may be completely crippled by lack of liquid fuel and that the effect would be the same as if it were stripped of its weapons. But his prediction was made before the German-Russian alliance.

No one knows exactly how much oil will be needed to wage a prolonged conflict. In the last World War the Allies consumed in a single month as much as 300,000 tons, which does not include merchant marine or naval requirements. Allied airplanes alone numbered 7,497 when the armistice was signed. Besides there were tractors and many motor trucks, tanks, automobiles and motorcycles. Most of the airplanes were driven by single motors.

As the present conflict progresses, the number of heavily powered pursuit planes, interceptors, reconnaissance machines and bombers in service will mount to several times 7,497. Moreover, squadron fighting was introduced only during the last stages of the World War.

Tanks, relatively few in number, were only occasionally sent against an opposing force in 1918. Today they are destined to play an important part in battle. To their requirements must be added those of the tractors that have taken the place of horses in hauling artillery.

Posenny, who has made probably the most thorough statistical study of an army's requirements, decides that as much as 40,000,000 metric tons will be needed by a belligerent, not including naval consumption. The *Wehrtechnische Monatshefte's* figure is 12,600,000 tons annually, an estimate that is too low. For the purpose of this article it is assumed that Germany cannot win a long war unless she is able to obtain a minimum of 20,000,000 metric tons of oil annually—an assumption that agrees with that of most military authorities in Great Britain, France and the United States.

Big Reserve Unlikely

Five petroleum products are of special importance. These are ordinary gasoline, fuel oil, Diesel or gas oil, high-test aviation fuel and lubricating oil. The demand will be heaviest for gasoline.

World Petroleum credits Germany with a domestic crude oil production in 1938 of 550,000 tons (including Austrian production for eight months and with domestically produced motor fuel (including benzol, propane, synthetic gasoline and alcohol used as fuel) of 2,000,000 tons, a total, therefore, of 2,550,000 tons. Not very much of the importation (5,000,000 tons) could have been stored, considering the needs of an army that has been for two years on a quasi war footing and of a rapidly expanding industry. Even the partial mobilization necessitated by the seizure of Czechoslovakia made itself felt throughout Germany in the perceptible difficulty that private car and truck owners encountered in purchasing gasoline. This, however, might be explained by official rationing.

We must add to the foregoing estimate of 2,550,000 tons about 20,000 that can be produced in Czechoslovakia. How much can be obtained in addition from the Polish wells retained by Germany as her share of the hoary divided between herself and Soviet Russia is highly problematical. Polish production normally amounted to 500,000 tons annually. In their retreat the Poles destroyed refineries and wrecked wells. The most important Polish field, that of the Drohobycz area, has been ceded to Soviet Russia. Hence Germany loses about 80 per cent of Polish production. Even if she rehabilitates the Polish fields and refineries left to her, she can hardly squeeze more than 300,000 tons annually out of her conquest. This, however, is little better than a guess. Adding the Czech and Polish possibilities in the foregoing estimate of 2,550,000 tons, we have 2,850,000 tons.

Germany's Aid Problematic

How much petroleum can Germany draw from Rumania, in accordance with her trade agreement? Rumanian production has been steadily declining. In 1938 it was 2,705,064 tons; in 1939 only 2,600,000. Soon after Germany made her trade arrangement with Rumania, France concluded one of her own. Then there is the British-Romanian pact, which calls for the delivery of Rumanian oil to England.

It is important to remember that the British and French are prepared to pay cash, whereas Germany can only barter and then at a time when her industries are taxed to the utmost to fill her own military requirements. Rumanian production can undoubtedly be greatly increased by new borings; but prospecting, drilling and the construction of new refineries is a matter of many months.

Despite their efforts in the last war, the Germans extracted from rehabilitated Rumanian fields and refineries only 1,240,000 tons in 1917 and 1918. It is doubtful if Germany can count on as much as this annually from Rumania. Nevertheless, we add these 1,240,000 tons to 2,800,000 tons and we have 4,040,000 tons.

The recently concluded trade arrangement between Hitler and Stalin leaves no doubt Germany will receive some oil from Russia. There remains the difficulty of transportation by water and over inadequate railways and a highway system that cannot be compared with Germany's. Pipelines and pumps take many months to lay and install.

Soviet Russia's production is about 22,500,000 tons annually, of which approximately 840,000 tons were exported in 1938. Her principal oil exports have been kerosene and fuel oil, whereas Germany needs gasoline and gas oil. It is impossible to infer how much oil

Russia will send to Germany. As a result that Germany has been running that it will amount to the exportable surplus of about 1,000,000 tons, our previous total is increased to 5,040,000 tons.

First Year's Resources

Germany's situation at its best presents itself thus for the first year of war:

Domestic Production (Including Austria)	
	metric Tons
Crude oil.....	580,000
Motor fuel (including synthetic gasoline, benzole, propane and fuel alcohol).....	2,000,000
Czecho-Slovakian crude.....	20,000
Polish crude.....	200,000
Imports	
Rumanian crude and refined products.....	1,340,000
Soviet products.....	1,000,000
	2,040,000

This total falls far short of the actual requirements and far short even of consumption in a recent peace year.

During the last war, though cut off from Chile and her nitrates, Germany still managed to meet her requirements for fixed nitrogen—the base of all explosives—by means of the Haber process for synthesizing ammonia. In the last few years she has stepped up her production of synthetic petroleum products to 2,500,000 tons a year, including benzole, propane and fuel alcohol. It is certain that she will bend every effort to make good her natural oil deficit by synthesis, though the cost is four times as high as that of ordinary liquid fuel.

Apart from the enormous investment required for new plants, there remains the question of labor. On the basis of a war demand of only 12,000,000 metric tons of gasoline, the Wehrtechnische Monatshefte states that "the production of this amount demands the employment of 250,000 workers in round numbers, to which must be added 100,000 miners for the delivery of the necessary coal." For it takes between four and five tons of coal to make a ton of synthetic gasoline.

"To find this number of workers," the German publication continues, "will probably be more difficult than the raising of the necessary capital for the construction of plants; for today's war of materials makes such demands on skilled labor that any advantage that may be gained by liquefying coal must be paid for by a shortage of labor in other industries."

Total Short of Needs

With only 5,040,000 metric tons of petroleum products in sight, it is

more heavily than we have allowed on Rumania. It is conceivable that by applying pressure, with Rumania's consent, Germany might obtain nearly all the Rumanian production of 6,000,000 tons. Add 6,000,000 to our previously obtained total of 5,040,000 and we have 11,040,000 tons.

This still falls short of the Wehrtechnische Monatshefte's estimate of 12,000,000 tons as the minimum requirement. By drastically curtailing civilian consumption and by resorting to "gazogènes" (portable and stationary plants that generate gas from such low-grade material as wood waste, peat and the lignite, the improbable total of 11,040,000 tons might be slightly increased. In the light of the most favorable statistical presentation, it seems doubtful if Germany can fight the war of three years for which Great Britain is prepared.

Last year General Serigny, head of the French Chambers-Syndical, estimated that the principal countries of Western Europe, including Germany, would need between 50,000,000 and 70,000,000 metric tons of oil and oil products annually in war—about double their peace-time consumption. Where are the extra 20,000,000 tons and more to come from? Obviously from the Americas. Mexico must be left out of consideration because of the complexities introduced by the policy of President Cardenas. In any event her possible contribution would not be of critical importance in the world picture.

Experts in this country unhesitatingly affirm the ability of the United States to meet the petroleum demands of the Allies.

"Production could easily be raised from the present level of 3,500,000 barrels daily to 4,000,000 barrels by increasing allowances in States where proration prevails and by making it economically attractive to expand output elsewhere" is the opinion of World Petroleum. It believes that South American fields will be expanded and that they "may be reasonably counted upon to satisfy 25 per cent of the added war demand, while the United States provides the other 75 per cent."

But World Petroleum agrees with Dr. Gustaf Egloff of the Universal Oil Products Company, who has stated that our present output could be increased 50 per cent without great difficulty, with the result that we could meet all demands made upon us without imperiling our own resources.

Sunday, October 1, 1939

4 p m.

(At Secretary's home.)

Present:

Mr. Livesey
Mr. Bernstein
Mr. Hanes
Dr. White
Mr. Domeratsky (Commerce Department)
Mrs. Morgenthau
Mr. Foley (at end of meeting)

Mr. Hanes: (Before group came in) Key Pittman does not know where it originated. (90-day clause in the Neutrality Act.) Because he went down to see Senator George, who was working with State in drafting this, and I asked him to tell me quickly something about the history of this thing. He said, "I can't. I found it there when I went to the first meeting." So I said, "Would you call up Key Pittman and find out from him if he knows anything about the background?" He called Pittman and he said it came from the House. I don't know who introduced it in the House. Looks like, from the Congressional Record, that Bloom introduced it, but the State Department has an idea Bruce Barton was the father of it. So the so-called Voorhis amendment which was the one changed. That was taking away from the President the right of determining when he should issue a neutrality proclamation. That was in Section 1 of the Act, about which I was asking this morning. But it would be interesting to know who put that in.

Senator George told me also that Johnson had come before the Committee and said that this particular provision was in conflict with the Johnson Act and he was going to so state on the floor. It isn't so. So we have Senator Johnson as a witness against himself.

HM, Jr: Did you tell that to George?

Mr. Hanes: Yes. I showed George the State Department release of 1934 when the Attorney General gave the ruling on the Johnson Act which clearly shows that the interpretation Johnson has on this is not right.

It may have been a change recommended to the Committee and Bloom, as Chairman, endorsed it. We know it came to the Senate by way of the House.

Personally, I would just as soon see the whole business go out. I don't think it is important from our standpoint. It's completely confined to Governments, isn't it?

(At this point, Dr. White, Mr. Bernstein, Dr. Viner and Mr. Livesey came in.)

Mr. Livesey: I picked up this telegram, which comes in strictly confidential to the President, Secretary of State and Secretary of Treasury.

HM, Jr: Thank you. I will put it in my pocket and read it later.

Now, to get down to this business. I was to get this in two pieces, wasn't I?

(Bernstein handed the Secretary a draft and HM, Jr suggested that Bernstein read it out loud.)

Bernstein: (reading)

"CREDITS TO BELLIGERENTS.

"Section 7 of the Senate neutrality bill relates to financial transactions with belligerents. It continues the existing provisions of the neutrality statute which prohibits the making of loans to belligerents and persons acting therefor. It is also to be noted that the existing neutrality law authorizes the President, when he finds it in the interest of the United States, to exempt from this prohibition "ordinary commercial credits and short-term obligations in aid of legal transactions and of a character customarily used in normal

"peacetime commercial transactions." The Senate Committee apparently felt that this provision could be strengthened, without sacrificing American interest, by limiting the discretion of the President and by confining to a more limited category the permissible forms of short-term commercial credits. Accordingly, the Senate bill provides that the short-term commercial credits may not be for a period more than 90 days without renewal, and also that if any belligerent or person acting therefor defaults on any such 90-day credit, no further commercial credit may be extended; and thirdly, the bill adds the requirement that the President report to Congress every six months full information as to each commercial credit which has thus been permitted."

HM, Jr.: I take it this is a memorandum to the President.

Mr. Bernstein: In the nature of a memorandum from you to the President.

HM, Jr.: And for him to do what he wants with it.

Mr. Bernstein: That's right. It's part of it in the form of law which might properly come from the Attorney General.

Dr. Viner: On this first paragraph, you say "Accordingly, the Senator bill provides that the short-term commercial credits may not be for a period more than 90 days without renewal." And shall not be renewable?

Mr. Bernstein: Any particular credit cannot be renewed. I have used the possibly ambiguous language of the statute. A slight ambiguity in the statute, which may be cured if it was taken up with the Committee.

(Mr. Bernstein resumed reading.)

"It is thus entirely clear that the power to extend short-term commercial credits to belligerents has been a part of the neutrality law continuously since February, 1936, and that the only changes which the Senate bill makes in the existing law are in the direction of further restriction of the permissible short-term commercial credits.

7

-4-

"It has been urged that the provision for short-term commercial credits to belligerents is inconsistent with the Johnson Act of 1934, is the opening wedge in the granting of loans to belligerents, and is a departure from the cash-and-carry theory which has heretofore been embodied in the Neutrality Act. I think that an examination of the Johnson Act and the Neutrality Act will show these criticisms to be unfounded.

JOHNSON ACT.

"The Johnson Act provided in part as follows:

'That hereafter it shall be unlawful within the United States or any place subject to the jurisdiction of the United States for any person to purchase or sell the bonds, securities, or other obligations of, any foreign government or political subdivision thereof or any organization or association acting for or on behalf of a foreign government or political subdivision thereof, issued after the passage of this Act, or to make any loan to such foreign government, political subdivision, organization, or association, except a renewal or adjustment of existing indebtedness while such government, political subdivision, organization, or association, is in default in the payment of its obligation, or any part thereof, to the Government of the United States.* * *'

"Within a few weeks after the passage of the Johnson Act a number of problems arose necessitating the interpretation of that statute. On April 27, 1934 a conference was held at the Treasury Department attended by Senator Johnson, the Attorney General, the Secretary of State, the Secretary of the Treasury and a number of other officials of the State Treasury and Justice Departments. During the conference, Senator Johnson was asked if he thought that the statute applied to such every-day commercial instruments as time drafts, bankers' acceptances, etc. Senator Johnson stated

-5-

that he did not think that the statute could be interpreted in any such manner and that it was not the intention of the statute to interfere in any way with ordinary commercial transactions. It also appeared to have been the view of the participants of the conference that the Johnson Act did not apply to time drafts, acceptances, etc., employed in connection with ordinary commercial transactions. Attached is a copy of the memorandum of the conference which is in the Treasury Department files."

Dr. Viner: May I suggest "It also appeared to be the view of the other participants."

Mr. Bernstein: I did not want to leave out Senator Johnson.

Dr. Viner: But you say Senator Johnson "stated that he did not think that the statute could be interpreted in any such manner?" and then you go on as if he were not a participant. "This view seems to have been shared by the other participants."

Mr. Bernstein: The prior statement of Johnson was it was not the intention, etc. Then everybody said that the statute did not apply. Then he specifies time drafts, acceptances, etc.

Dr. Viner: In other words, the second sentence is supposed to include Senator Johnson. Couldn't you say "including Senator Johnson"?

Mr. Bernstein: No trouble at all to say that.

Mr. Bernstein: (resumed reading)

"On the same day" -- that is, the same day as the conference -- "the State Department issued the following press release:

'Enquiries have been received at the Department of State as to whether the Act of Congress approved April 13, 1934, to prohibit financial transactions with foreign governments in default on their obligations to the United States, applies

"to ordinary commercial 'acceptances or time drafts,' such as are used by foreign governments to finance the current requirements of their embassies and consulates in the United States.

"The Department of State and the Attorney General are in agreement that such instruments do not constitute 'obligations' within the purview of the Act.

"Certain other questions that have been presented regarding the interpretation of the Act are under consideration."

"On May 5, 1934, in response to a request from the Secretary of State, the Attorney General rendered an opinion on a number of questions relating to the Johnson Act. The Attorney General in his opinion dated May 5, 1934, stated in part as follows:

"(2) To what types of transactions does the Act apply?"

"The Committee Reports (S.Rept.20 and House Rept. 974, 73d Cong.) recite that the bill was introduced following an investigation by the Senate Committee on Finance and the revelation therein that 'billions of dollars of securities *** offered for sale to the American people' were overdue and unpaid; that some of these 'foreign bonds and obligations*** were sold by the American financiers to make outrageously high profits'; and stated a purpose 'to prevent a recurrence of the practices which were shown by the investigation to be little less than a fraud upon the American people*** to curb the rapacity of those engaged in the sale of foreign obligations ***.'

"This, I think, is indicative of a purpose to deal with such 'bonds' and 'securities'

-7-

"of like nature, observing the rule of ejusdem generis - that is, obligations such as those which had been sold to the American public to raise money for the use of the foreign governments issuing them - not contemplating foreign currency, postal money orders, drafts, checks and other ordinary aids to banking and commercial transactions, which are 'obligations' in a broad sense but not in the sense intended. It was obviously not the purpose of the Congress to discontinue all commercial relations with the defaulting countries."

* * *

"4) Does the Act apply to acceptance or time drafts?"

"This question appears to be sufficiently answered by the comments under Question No. 2, supra. It appears proper to add, however, that such transactions must be conducted in good faith, in order to be within the law, and not as mere subterfuges to circumvent its purpose."

"In other words, the Attorney General concluded that the Johnson Act prohibited the sale of bonds and securities to countries in default but did not prohibit these ordinary short-term credit devices customarily used in international trade. The entire text of the opinion of the Attorney General was quoted in a State Department press release dated May 5, 1934 which also included the statement that the State Department concurred in the Attorney General's interpretation of the Johnson Act. Unquestionably this opinion has been relied upon by American business interests in their commercial transactions with defaulting countries and persons acting on their behalf. To say the least it would be utterly unfair and improper at this late date to construe the Johnson Act as making illegal those short-term transactions made available to defaulting governments in connection with otherwise permissible trade and commercial transactions."

The next part deals with the Neutrality Act.

-8-

HM, Jr.: Let's just wait a minute. Anybody want to raise any question?

Dr. Viner: I had one question, so I will understand this. The defaulting countries did not float bonds in this market on which there were big losses.

Mr. Bernstein: I take it that comment must be addressed to Senator Johnson and the Congress.

Dr. Viner: It does not bear on this interpretation, but they got confused.

Mr. Bernstein: I can answer that question as to what happened. Johnson's original plan was not to apply to Governments in default on Government obligations, but to Governments in default to American nationals, which would really have hit the countries he wanted to deal with, namely: South America, but they apparently talked him out of the latter phase and had the thing as spite against war-debt countries.

HM, Jr.: O.K. Check?

Dr. Viner: O.K. There is confusion there, which isn't our fault.

Mr. Bernstein: The reason we quote the history, from a lawyer's point of view, is to show the type of obligations they are talking about, namely: some of the bonds that the banks in this country floated and not time drafts and bankers' acceptances.

HM, Jr.: All right.

Mr. Bernstein: (resumed reading)

NEUTRALITY ACT

"In February, 1938 Congress in amending the then existing Neutrality Act included the following provision:

"SEC. 1a. Whenever the President shall have issued his proclamation

*as provided for in section 1 of this Act, it shall thereafter during the period of the war be unlawful for any person within the United States to purchase, sell, or exchange bonds, securities, or other obligations of the government of any belligerent country, or of any political subdivision thereof, or of any person acting for or on behalf of such governments, issued after the date of such proclamation, or to make any loan or extend any credit to any such government or person: Provided, That if the President shall find that such action will serve to protect the commercial or other interests of the United States or its nations, he may, in his discretion, and to such extent, and under such regulation as he may prescribe, except from the operation of this section ordinary commercial credits and short-term obligations in aid of legal transactions and of a character customarily used in normal peace-time commercial transactions.

*It will be noted that this provision, which has been the law since February 1936, specifically authorized the President to permit short-term ordinary commercial loans to belligerents and persons acting therefor. The debate in Congress reveals no feeling that this provision was inconsistent or in conflict with the provision of the Johnson Act. The view of Congress was quite the contrary. The House report on this provision in the 1936 amendment stated:

* * * It is the law now under the Johnson Act that it is unlawful to sell bonds, securities, etc., in this country of any foreign country that is in default of its indebtedness to the United States. This covers most of the greater powers in Europe. This section, however, goes much further and makes it unlawful, as before stated, to

-10-

"all belligerent countries. Now, there is a provision in this section that if the President shall find that such action will serve to protect the commercial or other interests of the United States or its nationals, he may, in his discretion, and to such extent and under such regulation as he may prescribe, except from the operation of this section ordinary commercial credits and short-term obligations in aid of legal transactions and of a character customarily used in normal peacetime commercial transactions. There is also another provision that this section does not apply to renewal or adjustment of indebtedness which may exist on the date of the President's proclamation. The only discretion given the President under this section is in reference to such credits used in normal peacetime commercial transactions."

"Congress understood this provision in the Neutrality Act to have the same effect as the provisions of the Johnson Act, namely, to prohibit the sale of bonds and similar securities in this country. By specifically prohibiting in the Neutrality Act the extension of "any credit" (which words do not appear in the Johnson Act) Congress apparently intended, in the Neutrality Act, to prohibit even short-term commercial credits unless the President felt that it was in the public interest to permit short-term commercial credits, in which event, such credits could be extended to belligerents."

Dr. Viner: I should like to change that paragraph. Very confusing. I should make the first sentence read "Congress intended by this provision to go beyond the Neutrality Act and restrict commercial credits subject to the discretion of the President to grant them in specific cases." In other words, I would make clear that "any credit" takes this out of the class of the Johnson Act, instead of drawing a parallel to the Johnson Act. I would say this deliberately went beyond the Johnson Act and permitted credits subject to the discretion of the President.

-11-

Mr. Bernstein: I think it would be better to state it that way.

HM, Jr.: You still have me confused. The Neutrality Act -- is that the proposed law?

Dr. Viner: No. Existing law.

HM, Jr.: Existing law. By specifically prohibiting in the Neutrality Act extension of any credit, nobody could even give them a 90-day credit unless the President issued a proclamation?

Dr. Viner: That's right.

HM, Jr.: But then they drew my attention to the fact -- didn't that phase of the Act expire in April?

Mr. Bernstein: No. Not that. The phase that expired in April was that provision which related to transfer of title to goods. That was the cash-and-carry provision that expired in April.

HM, Jr.: By saying "any credit" this thing would -- could this be interpreted that the Neutrality Act attempted to define a 90 day credit as a credit?

Mr. Bernstein: I think this Act

HM, Jr.: In talking here, you people are going to say a 90-day credit is out? Does that include "any credit"?

Mr. Bernstein: I think that is the point which is being resolved here, from a legal point of view. Two arguments. You can argue either that the term "any credit" means -- what it does to me -- anything other than actual cash. Wipe out everything. But gave the President the authority to permit short-term credits. The other way of arguing is by "any credit" they did not mean to include short-term credits because that's equal to cash and the proviso was only put in for caution.

HM, Jr.: But just for me, who is only a farmer boy, I don't want both sides; I want an opinion.

-12-

Mr. Bernstein: That's what I attempted to give.

H.M.Jr: Are you giving the opinion in that paragraph?

Mr. Bernstein: That's right. On that particular point.

Dr. Viner: Mr. Bernstein interprets that provision as a prohibition on the extension of even short-term commercial credits, and the question that is in controversy is whether short-term credits are cash in the ordinary usage.

H.M.Jr: Does that paragraph define it? May I read that again -- well, that paragraph says it. Does it to you?

Dr. Viner: Yes, I think the last sentence says that.

H.M.Jr: Well, if that says that in that paragraph, do you mean here that a 90-day credit is a short-term credit? The answer is yes.

Dr. Viner: And is prohibited under the Neutrality Act unless the President makes specific exception. That's his opinion.

Mr. Bernstein: Yes.

Dr. Viner: I may say I think it is the only safe position to take.

Mr. Domeratski: That would not be consistent with our memorandum, but our memorandum takes it up from the ordinary commercial usage. In ordinary commercial usage it would not be.

Dr. White: When you say "our memorandum" I am going to disassociate myself with it. It's a question of usage.

Dr. Viner: No matter what the ordinary commercial usage may be, if the law says "any credit" I would hate to be in the position of Pittman or the President saying that short-term credit isn't any credit.

H.M.Jr.: Will the General Counsel's office and the Attorney General be together?

Mr. Bernstein: I think so because the presence of the words, "any credit" in the Neutrality Act, which does not appear in the Johnson Act. The Johnson Act refers to sale of bonds or making of any loans.

H.M.Jr.: Is this the same as this morning on this thing?

Mr. Bernstein: I have changed it a little bit. Mr. Viner raised a question and to eliminate any doubt I have rephrased it, but I think the point I made this morning fundamentally is the same thing. The argument I made in my memorandum, on the point of attempting to reconcile extension of short-term credits with the so-called ordinary concept of cash-and-carry, and in the common parlance people would say that a 90-day credit is so much like cash as not to warrant any different treatment than if it were a straight cash transaction. That avoids the difficult problem of saying that something is cash that isn't cash.

Dr. White: Moreover, in justice to him, I said the last two pages should not be regarded as a memorandum to you, but something for Pittman to use.

H.M.Jr.: If a person lends money for one day, to me that's credit.

Mr. Domeratski: That's perfectly true, but on the other hand you know perfectly well that in this country there was a disposition not to give Russia any credit to speak of on the part of private exporters. But at the same time for the last -- I should say for the last six months or year, the Russian Government was regularly getting either 30-days and towards the end 45 days. That was not considered giving the Russian Government credit.

Dr. Viner: Until 30 days ago it was customary to give English importers 30-60-90 days and now they don't give them that. If you were to ask an American how he treated with England, he would say on a cash basis.

Dr. White: No, he's getting paid before hand now.

Dr. Viner: What Mr. Bernatein is doing here is he's trying to interpret what Congress meant by the statute. Congress may not have known the loose usage of businessmen and when Congress said, "any credit" I think he would have to have pretty conclusive evidence that "any credit" meant only certain kinds of credit. He's not interpreting here what businessmen mean by a term but what businessmen accept.

Mr. Bernatein: I said there were two reasons why I thought the Attorney General would agree with me. One, there are these words "any credit" which appear in the Neutrality Act which do not appear in the Johnson Act; two, consider the purposes of the statute. Johnson tried to put an end to the sale of bonds in the American market. The Neutrality Act is trying to preserve this country in a state of security, and, in order to preserve that state of security, we want not only perhaps to refrain from buying their bonds, but to refrain from having any financial interest in it that might undermine our peace and security. They go on to say, however, in the proviso that if the President thinks it's all right to have short-term credits he can do it, but unless he does it they wipe everything out.

H.M.Jr: It's clear to me as to the language, what the language means.

Mr. Bernatein: I think there is an art in interpreting statute. You look at the language and also at the intent and I think obviously the Attorney General did that in the Johnson Act. He went back to the intent. I think if he did similarly under the Neutrality Act he would find a somewhat different intent, and when he came to construe the words loans and obligations and add to that credit, he would make it sweeping, saying Congress intended it to be sweeping to include short-term credits because it delegated to the President the power to lift that sweeping power and lift it to the extent of short-term credits. For the purpose of the whole program we were discussing this morning however, there is nothing I say here different from what I said this morning on the legal point, but I do think those two sentences should be changed the way Dr. Viner suggested.

H.M.Jr: O.K.

-15-

(Mr. Bernstein resumed reading:)

"No change was made in this provision of the Neutrality Act when the Neutrality Act was otherwise amended in 1937. When the neutrality legislation was considered in the House of Representatives last July, it was proposed to circumscribe further the President's power to permit short-term commercial credits to belligerents by limiting such credits to 90 days without renewal, and to require the President to make periodic reports to Congress of such transactions. These limitations on the existing statutory provision are included in the Senate bill, and in addition thereto the Senate bill prohibits further 90-day credits if a belligerent defaults on prior 90-day credits given to it."

(Mr. Foley came in at this point.)

Dr. Viner: On your last sentence "these limitations *** wouldn't it be better to say "at the discretion of the President?"

Mr. Bernstein: If it isn't clear that that's what is meant.

Dr. Viner: It makes the point we want to make. Your point is that this bill is not increasing the powers of the President; it's further restricting them.

Mr. Bernstein: Then we'll say "these limitations on the powers of the President" etc.

This paragraph I have on a new page:

"If any inconsistency exists between the short-term credit provision and the so-called cash-and-carry clause, that inconsistency was not introduced by the present bill, but has existed in the neutrality law for several years. Furthermore, it should be noted that the so-called cash-and-carry provision merely required that the American seller completely divest himself of title in the goods sold and that non-American ships carry the goods to the belligerent, and did not require the actual payment of money to the American vendor before the goods left the country. The provision of the neutrality act may more appropriately be called "transfer of title and carry" instead of "cash-and-carry." If this is the correct interpretation of the cash-and-carry provision, then there is no inconsistency between it and the short-term credit provision."

Dr. Viner: I see this paragraph for the first time, but I would say here that the person who reads this will have to know that Neutrality Act very well in order to understand it. I think you ought to give the cash-and-carry provision. You see, this is the first reference to this.

Mr. Bernstein: Of course if this is a memorandum to the President there will be no better informed person as to what it meant.

Dr. Viner: He may want to give this out.

H.M.Jr.: The way we are, if I got a call in the next two hours, I would have to give him this in the form of a memorandum to myself and not to Senator Pittman. We are not ready. I hope he does not call me.

Dr. Livesey: You concentrate on the vendor. Is that interpretation of the law or merely a statement that in its terms it does not require cash because by interpretation you find it very hard to say a man who has sold goods and has not been paid for them has any title to them.

Mr. Bernstein: I think it is correct in both senses, both by express terms and I think by action of law. It does not require actual payment.

Mr. Domeratski: Does not that statement mean if a vendor wants to surrender title without getting cash immediately, but having to wait say, 30 or 90 days, then it would not be against the law?

Mr. Bernstein: That's the point I am making. You can completely divest yourself of title of goods and rely solely on the general credit of the purchaser.

H.M.Jr.: I think if you're going to do this last thing it ought to be about three pages instead of one. I think you should do it. You have too much condensed here in half a page. "If any inconsistency exists between the short-term credit provision" -- of what? "And the so-called cash-and-carry clause" -- of what? "That inconsistency was not introduced by the present bill, but has existed in the neutrality law for several years." I think you are suddenly jumping into the most important thing and it is worthy of a couple of pages.

-17-

Dr. Viner: It had to be longer so I can follow it and I would say also that it depends just how this memorandum is going to be used whether this is raising a necessary issue.

Dr. White: Will you want the President to have such a long memorandum?

H.M.Jr: What have you done here? You have done two things here. You have explained what this credit to belligerents is under the Johnson Act. That the Johnson Act is not in conflict. Then you go on to the next phase, the Neutrality Act, and I take it what you are doing is to show that the bill -- you explain the process by which the bill -- you define what a credit is and finally it got down to the point where you can only extend 90-day credit provided it's paid for each time.

Mr. Bernstein: That's right.

H.M.Jr: And those are the two things. You haven't said anything about title. You suddenly jump into something else. If there is a third thing I think it ought to be done, if it's important. It should be done as well as these two phases. I think they have been done extremely well.

Dr. Viner: I would even do it one, two, three.

H.M.Jr: Definitely, and is the third thing important enough?

Dr. Viner: I don't know.

H.M.Jr: How about the State Department.

Mr. Livesey: I don't see that it is definitely involved there. You are having an argument with somebody else's thesis and you don't know quite what the thesis is.

Mr. Bernstein: I think we are tilting there with what we have read in the papers. Suggest that it was suddenly slipped over on the public, the 90-day credit. For years we have talked about cash-and-carry and now we have 90-day credit. Second, they say it's utterly inconsistent with the cash-and-carry provisions, with the other cash-and-carry

-18-

the provisions of the law. I think/first part answers Johnson's point. This thing has been in the law for three years and what we are trying to do now is limit the President's discretion. The last paragraph that I put on a separate page is an effort to explain that there is no real inconsistency between the short-term credit and the transfer of title and carry which I think is what was intended by the Neutrality Act.

H.M. Jr.: In the request that Mr. Hull had from Senator Pittman, did he ask for that part of it?

Mr. Livesey: No, not that I know of. It didn't come to me.

H.M. Jr.: I think for the time being I would skip it.

Dr. Viner: I would say skip it but prepare something.

H.M. Jr.: Have it ready for tomorrow but for tonight skip it. Johnny?

Mr. Hanes: Yes, I would leave it out.

H.M. Jr.: As to title?

Mr. Hanes: Yes.

H.M. Jr.: Shall we stop here and then go on to what you economists have?

Dr. White: The question is whether prohibition of short-term credits to belligerent governments would have a restrictive effect on our export trade; in other words, if they knocked that provision out.

(Reading) "In view of the conditions under which the belligerents will be purchasing supplies, it is likely that our trade with the belligerent nations would be only slightly less than if we granted the privilege of short-term financing. Belligerent governments will keep their purchases from the United States to the minimum possible for the effective conduct of war, inasmuch as they are eager to conserve as much of their foreign exchange as possible.

-19-

"On the other hand, the prohibition may prove to be a handicap to American exporters selling in neutral countries. This is true because the prohibition on the extension of credits would apply not only to the government of a belligerent country or political sub-division thereof, but also to "any person acting for or on behalf of" such government. The American business man may be unable to ascertain whether a prospective purchaser located, let us say, in Sweden, is or is not acting on behalf of a belligerent government. If because of this uncertainty the American exporter will sell to the person in Sweden only if payment in cash is made before the goods leaves this country, the American may be unable to sell as much as he could if he sold on short-term credit terms. To argue that the American business man should extend the ordinary commercial credits unless he knows that the person to whom he is selling is acting on behalf of a belligerent government is to ask the American under the existing provisions of the statute to run the risk of very substantial criminal and civil penalties. Were short-term commercial credits to be extended to belligerents as well as to non-belligerents, the American exporter will be able to sell his goods on the short-term credit basis without being required to determine at his own risk whether or not the purchaser is acting on behalf of a belligerent.

"There are differences of opinion with respect to the net effect the failure to extend short-term commercial credits to belligerents would have on our trade with neutral countries. In order for the trade to be reduced it would be necessary to have an exporter be afraid in the first place that the foreign purchaser might be acting as an agent for a belligerent government and, in the second place, the foreign purchaser would purchase the goods elsewhere, or not purchase them at all, if he could not get credit from the American exporter. Doubtless there would be some transactions lost through this combination of circumstances, but how great that loss would be is uncertain."

Dr. White: It is our opinion that the reduction in trade arising from this fear on the part of business men would be small in our trade with Latin America, but might be significant in trade with European neutrals.

-20-

It's not a good job. We can do it over in an hour. Make it intelligible. But I don't quite see why it's up to us what the effect on trade would be. In my opinion, I think Mr. Domaretsky would agree with me the way it is stated. I don't know how Mr. Livesey feels.

Mr. Livesey: Apparently that's about what can be said insofar as it concerns trade with belligerents. You don't find any opinion except that trade will be cut down. There are going to cut down. They are going to measure what they buy with what they can pay. Therefore you reduce this thing to the effect effect on neutral trade and I imagine that that will move under so many restrictions that this additional restriction or danger that the American trader might possibly lose his customer, because he can't give them this ordinary accommodation, to some other supplier that it's not very large. So when it comes down to a conclusion, there is no heavy-weight argument against simply withdrawing the privilege.

HM, Jr: You see, Congress evidently does not hold that same view and if they are going to advance the view that it may be harmful to our neutrals, particularly South America, I would very much want a memorandum.

Mr. Livesey: I don't know what your contacts were.

HM, Jr: Only with Mr. Domeratski.

Mr. Domeratski: Trade with neutrals should be considered from a different standpoint from trade with belligerents. In the first place, trade with neutrals might affect a much larger number of business men in this country in more or less moderate circumstances, people who perhaps would not be in position to do much trade with belligerents. People who have been trading with Latin America and have contacts and connections there, if they were to be cut off from that trade by that threat against extension, I think in a way it would be more harmful and out of proportion to the actual amount involved, actual trade involved, because you have to think in terms of trade connections and trade usage and also the fact that many American business men feel that the medium-sized business man does not get as much attention as the big business man. From a political angle I think that is a factor which should be considered.

-21-

Dr. White: In other words, you feel that if they have to sell for cash to some of their customers that they will lose some business and they will want to sell for cash because they might be afraid that it may be going to Germany or England or France.

Mr. Domeratsky: Certainly. The additional risk they would have to take.

Dr. Viner: I see another angle to it and that is that even if a relaxation of that sort were desirable or permission of credits, I would much rather see it forced on the Administration than see the Administration pass it through Congress.

HM, Jr.: See what forced?

Dr. Viner: This permission of credits. The charge that Johnson is going to make is that this is an attempt to evade restrictions that Congress has tried to impose. If business men feel they are going to be strongly hurt by these provisions, let them go to Congress and demand that Congress put it in, rather than his jeopardizing his whole neutrality bill.

HM, Jr.: The point Hanes made, which I think is much more important than that, and that is that tonight Mr. Roosevelt ought to make up his mind that he wants to fight for this thing and stick by it, or throw it overboard, but one or the other, and that either it is worth fighting for and fight for it or it is not, and tell Pittman 'I just don't give a damn; let it go.' That's what I am attempting to do and let him make up his mind. I would like to give him a very careful factual and legal opinion. He can make up his own mind.

Dr. White: The hesitancy I have in giving him anything with respect to trade is you are going to give him a memorandum that it is or it isn't going to affect trade very much and whatever our conclusion would be it is an estimate, a guess, and somebody from some other Department may give a different view and some business men may give a different view and we are hardly in a position to prove our point, to demonstrate it through reasoning, and I don't see why we should go on record. It's a matter of judgment.

HM, Jr.: I am surprised to hear Livesey say it's not important.

Mr. Livesey: They called me into a meeting in the Secretary's office yesterday. I told them then I did not think it was important. I called up Grosvenor Jones, head of the Finance Division of Commerce, and put the question to him point blank, "How important would it be to eliminate that proviso from Section 3 of the present Act?" He said, "I don't think it would be important at all," and said, "I have just written a memorandum saying so and sent it to the Secretary of Commerce." He says no person, even an American business man, is taking any chance in extending credit over there. They are demanding cash and if they undertake a piece of work which takes some time to complete, they want a letter of credit, which is cash, drawn on an American bank so he can get his money. They want a letter of credit established now although it may take four months to deliver the goods and under ordinary practice they deliver the goods and give them 45 days' time, because that happens to have been the trade practice in shipping heavy machinery to Great Britain.

I went in this afternoon and told him that since yesterday I have been canvassing all around and tried to get somebody who would say 'I am an authority on this' and practically every man I spoke to that claimed to be an authority on this, during the course of the conversation without any inquiry on my part, he volunteered the opinion that he did not think this whole thing was very important from a practical point of view.

Dr. White: Let the State Department say it.

HM, Jr.: You told him that this afternoon?

Mr. Livesey: I told him that this afternoon.

Mr. Domeratsky: Do they distinguish between belligerent and neutral?

Mr. Livesey: No. Last night I called up until my arm got tired holding the telephone to my ear, talking to these different people. Long talks. Let them talk along. They all volunteered, during this general survey of the thing, that it did not look worth while.

-23-

HM, Jr.: I think Mr. Domeratsky makes a very good point. I can see his point. Some fellow who may have a \$5,000 or \$10,000 order for toys

Mr. Hanes: It is not affected under this.

Dr. White: But he might fear

Mr. Hanes: This is loans to neutral Governments.

Dr. White: Or their agents. The point is, this man selling to Sweden a small bill of goods might be afraid the particular man he's selling to may turn out to be an agent of one of the belligerents, and, therefore, he will be afraid to sell on 90 days and will demand cash, and, demanding cash, he will lose his business.

HM, Jr.: Probably scrap business.

Mr. Domeratsky: Another element. I agree with Fred Livesey that as things are at present -- we have seen a large number of cables where people want to change agencies especially for Latin America, or where they are in great need for certain supplies, and in many cases they say they are willing to give an irrevocable letter of credit. That's perfectly true. Every business man is probably thinking that the only safe way to sell is good cash. But, after all, it is possible that in a few months it may change; that many of them might want to loosen up on short term credit to Latin American countries; may also happen that some of the Latin American countries may not have enough foreign exchange credit, but they are beginning to benefit from high prices which the war will bring about for some of their products and many people who are thinking in terms of diversion of trade in Latin America as belligerents of the United States are thinking of the necessity of short term credit.

Dr. Viner: That might meet that point: "That the prohibition of credits shall be applicable to belligerents or their agents in belligerent countries or in this country."

Mr. Bernsteini: That won't satisfy Mr. Johnson.

HM, Jr.: No. Then you just invite the Germans to open an agency.

Dr. White: You have to have two conditions present in order to lose trade: (a) The exporter has to be so afraid that the fellow he is selling goods to might be an agent that he would rather lose the sale, and (b) if he is afraid that the prospective purchaser will not accept cash terms. And when you consider all the factors I think the total amount of trade that might be lost is probably not large.

Mr. Domeratski: That's possible, but I surely make the point that the amount of importance to be attached to it may not be the amount of trade involved.

Dr. White: Exporters and bankers will make a great deal of this. "We know this is losing a lot of business. You say you are not." They will say, "How the devil do you know?" In the midst of war, this country has an opportunity to build up a short-term and acceptance business. This will hamper that.

HM, Jr.: That's not important. We mentioned this morning, and I don't want to forget and I lay great stress on this, that there should be a one-page, one-line memorandum to the President that the export-Import Bank should be exempted from all this. We agreed on that this morning. On a separate page.

Mr. Foley: To show that it isn't a change. The existing situation isn't changed.

HM, Jr.: Yes. I don't know. The Stabilization Fund, can we make a loan against the Chinese currency?

Mr. Foley: Sure.

HM, Jr.: I don't know.

Dr. White: It is at present defined in this bill; just as it is in the Neutrality Bill.

Mr. Bernstein: No change on that.

Mr. Livesey: The President has to remember that only a month ago he issued a proclamation.

-25-

Mr. Domeratski: I believe in Dr. Viner's strategy, that the pressure should come from Congress. I believe it would be much better if pressure for relaxation should come from some business men rather than the President.

HM, Jr: That's all right.

Dr. White: In other words, if he wanted to push it under Pittman's door and say, "Use it," just so you don't know where it came from.

HM, Jr: You think we are together on the two things, the Johnson Act and interpretation of what is a credit?

Mr. Livesey: Yes.

HM, Jr: Then we will be fulfilling at least strictly Treasury business as far as our obligations might go.

Mr. Livesey: The Secretary of State knows you are going over there. I suppose he expects to be called in more or less. He contemplated that.

HM, Jr: Just a minute! Mr. Hull suggested that I get in touch with the President on account of his cold and rather than go himself he would phone the President. That was our conversation.

Mr. Livesey: The real question which I mentioned.....

HM, Jr: I want you to know I am going to see the President at Mr. Hull's suggestion.

Mr. Livesey: The real question which I have from Mr. Hull is whether to fight for the retention of the present revision as drafted, or to let it go, or to give it a push. That is, the administration might hold hands off or the administration might say to Pittman, "We don't want to get this thing tied up with this matter to which we attach no real importance." I imagine Mr. Hull will be much interested in getting some decision on that, because I was called in there for a discussion which had been going on and there they were, apparently they had been going through that.

HM,Jr: Is Berle in town?

Mr. Livesey: Yes.

HM,Jr: How does he feel on this? I didn't know he was in town.

Mr. Livesey: He has not made himself very active on the thing, but I think he has that same opinion, that it is not worth while. As a matter of fact, he gave that opinion more or less offhand the other day. Coming from a meeting he said as far as he could see there was no importance to this.

HM,Jr: That the 90-day credit is not important?

Mr. Livesey: Yes, the whole proviso. The whole question of 90-day credits is not important.

Dr. White: It is not important if it is in or out?

Mr. Livesey: Not important if it is out.

HM,Jr: I gathered from Mr. Hull this morning he does not agree with you.

Mr. Livesey: I speak only for myself and without question about Mr. Berle. He had not professed to have studied it.

Mr. Hanes: I think Mr. Hull is supposed to have told Key Pittman that he did not think it was important if it stayed in.

Dr. White: That is, he did not care if it was taken out.

Mr. Bernstein: From the facts as developed here we have Johnson coming in to the meeting and saying this is contravening the Johnson Act.

Hm,Jr: We have Johnson cold on this.

Dr. White: Do you feel it makes any difference if this is out?

Mr. Hanes: If you leave out "any credits".

If I had anything to do about doing the job, I would strike out "or extending any credits"; leave the language just the way it is with those words stricken. Then go on to "any governments or political subdivisions", and then strike the rest of the paragraph. I am looking at this politically to appease Johnson because Johnson is making a fight on this proviso because it contravenes from this point on the interpretation given the Johnson Act by the Department of Justice in 1934; in other words, that interpretation of the Johnson Act stays as his interpretation and holds good. Then we would be consistent.

Dr. White: In other words, you would prefer not to see this out?

Mr. Hanes: I would prefer not to see this restriction. I think it would be unfortunate if we got a different law on the statute books interpreting the Johnson Act any different from the manner the Attorney General interpreted it in 1934.

Dr. White: Do you think it would be an economic loss or a political one?

Mr. Hanes: Both. Politically I think it would be an impossible situation and economically I think it would be

Dr. White: Then you do think it is important? injurious.

Mr. Hanes: I think it is important to delete those words.

Mr. Domerataki: But if the President considers it important and Congress does not, then they can come back and say if you think it is more important to foreign trade, why don't embarrass the administration.

Mr. Hanes: That's why I was interested in learning the genesis of this particular part of the bill. It isn't his. Congress put this in, but this amendment was an amendment submitted by Bloom, an amendment apparently handed to him by somebody else and he agreed. It was added in the House Bill. The President had nothing to do with putting the restriction in. I therefore take it the President would just as soon take it out. I shouldn't like to see the President make a fight to keep this in the bill because I think it puts him in an impossible position politically.

Mr. Domeratski: I would agree with you and of course if it is important to export trade they will probably bring pressure when it gets to the House.

H^m. Jr.: Have they expressed any opinion?

Mr. Domeratski: I haven't seen any yet but they will.

Dr. White: They will because the bankers will be the spearhead and will say nobody can sell on credit because if this is eliminated bankers will lose from 3 to 10 million dollars and, confined to the New York banks would lose the bulk of it in discounts. John, by a small revision you are showing how to leave that in without appearing to do so, but I am taking the essence of the clause, the essence of the difficulty, from an economic point of view. Shall you permit exports on short-term credits to belligerent countries or shall you not? The way the provision is now without the President's O.K. you can't; on the other hand, if you take it out you can. If you take it out altogether you can't export goods to belligerent countries on short-term credits. In that event the New York banks will lose a million dollars potentially.

Mr. Hanes: Not if this bill as written passes. If they take that out and go back to status quo, we are in exactly the same position.

Dr. White: But that means a certain other change. You wouldn't go back to status quo if you took that word out. You would make a slight change which would appear to be consistent with the purpose and won't permit exports to the belligerent countries.

Mr. Hanes: Not exports, but permit short-term credits.

H^m. Jr.: If the President said, "Now, Henry, what do you advise me?" My advice to the President is, "I wouldn't lift a finger to get it."

Mr. Hanes: To get this proviso in. On the contrary, I would be inclined to tell Pittman that there seems to be a lot of opposition developing on the motive behind this clause and Johnson is so misinterpreting it that he's turning his position completely around from what he was in '34, and therefore I would say as Chairman of the Senate Committee I have no objection if you wish to strike this clause out.

-29-

Then, to please Johnson further, put Johnson in the act, "Terms and provisions of the Johnson Act shall remain as is", and we are not disturbing it in any way.

Mr. Livesey: There are other Senators besides Johnson.

HM, Jr: Senator Nye or Senator Clarke wouldn't be pleased by that.

But getting back, as an individual, if he insists I take a position, "Mr. President, I would not fight for this thing because it isn't worth fighting for." That's in accord with what you personally think?

Mr. Livesey: Yes.

Mr. Domeratski: From the question of strategy, it is not good for the President to push it.

HM, Jr: From the standpoint of the President, from the speech he made, for him to be consistent with the Congress and with the people of the United States, if he insists I take a position, my advice is don't fight for this. Do you check with this, Elinor?

Mrs. Morgenthau: It seems to me, absolutely.

HM, Jr: From what Mr. Livesey said I don't think Mr. Hull and I see eye to eye on this, but I am not going to advise him unless the President says, "Don't sit here dumb; tell me what you think." And if he says that, all right; then I will tell him; otherwise I will just give him the memo. I got the impression over the telephone that Hull would like to see the 90-day credit remain in there.

Mr. Livesey: That's not the impression I got.

HM, Jr: Today?

Mr. Livesey: Yes. Just about the last remark as the thing broke up. We hear from one side if this stays in you will have several hundred million dollars' credit outstanding, and on the other side if you take it out no very bad practical results may come about.

-30-

HM, Jr.: If you have to deliver something to Pittman, you can't do anything until you hear from the President.

Mr. Livesey: I think I fall out until I hear from you, the President or Mr. Hull.

HM, Jr.: I have asked to see the President and I take it he will see me. When he does I deliver this document to him. I fulfill my legal and moral obligation as Secretary of the Treasury; then I drop out. I emphasize to Mr. Hull we do not intend to have any communication between the Treasury and anybody on the Hill. I am not going to communicate with anybody on the Hill to tell them how I feel. That's up to the President or Mr. Hull.

Dr. White: In view of the fact that there may be some public misunderstanding I would like to ask Mrs. Morgenthau would it be your understanding that on a cash-and-carry basis we would permit a shipment of goods to a belligerent country to be paid for, let's say, 90 days after the day it leaves New York. Is that your concept of cash-and-carry?

Mrs. Morgenthau: Not as written in the original statement but it would be written in this proviso. When I listened to the President the thing was to be bought and paid for; that was my interpretation.

Dr. White: That's why they will think he's slipping something in.

Mrs. Morgenthau: Credit is not cash.

HM, Jr.: Mr. Hull is my authority that the President knows nothing about this.

Mr. Livesey: I asked the man who works on this. He said none of this came from the State Department and that the State Department had nothing to do with it going through.

Mr. Hanes: It's interesting to hear what Ham Fish had to say in the minority report, which proves the President had nothing to do with it because the minority report, the whole tenor of the debate, was to restrict the power of the President. They are going to handcuff him so he couldn't do these things.

-31-

It is foolish to say the President would have suggested such a thing, because it is inconsistent with his whole philosophy.

Dr. White: That's because the President does not understand the whole thing. Their concept of cash-and-carry is it is paid for before it leaves these shores and this would permit it to leave without being paid for.

Mr. Hanes: Pittman has no love for this. "Let's strike it out; it's unimportant to the main issue involved; I would say let it go, but let's not be inconsistent with the Department of Justice in 1934 when they interpreted the Johnson Act. We shall do nothing in the Neutrality Act which makes criminals out of everybody who has done anything since 1934."

Mr. Domeratski: It would be a good point for somebody to bring up that point.

Mr. Hanes: That's what I understand Pittman is going to do.

Dr. White: But you see there is a kind of dual position which Johnny is taking which I am not sure is quite clear. If they eliminate that provision and do nothing else, it means they cannot export any goods on short-term credits because it says, "any other credit".

Mr. Hanes: Yes, but I started my statement with the proviso that you eliminate those four words.

HM, Jr.: If the President puts me in the position of asking my advice I am going to say to him, "I do not think this is worth fighting for."

Dr. White: I agree with you.

HM, Jr.: And I am not going any further, and you would not advise me to go any further.

Mr. Hanes: He will take a good deal that you say and I would say to him, "I hope you don't make any fight for this part of it."

-32-

HM, Jr.: I agree with you. Let the fight come from the fellow who wants the business. He has leaned over so far backwards on this thing it would be a shame for him to change his position in the minds of the public for something that is not important.

Mr. Hanes: I was shocked yesterday when I saw what Senator Johnson said. I believe he's stirring up another bed of snakes in order to get to kill them. It seems to me from what I learned today that he came in to the meeting of the committee and asked the question, "Does this change the spirit of philosophy of the Johnson Act"? And the chairman of the committee said, "I think it does." Which I can't see at all. That gives Johnson the spring-board upon which he jumped yesterday afternoon.

(The Secretary then instructed Mr. Bernstein to arrange to have the revised draft sent to the Treasury to be retyped and returned to the Secretary's house for submission to the President later in the evening.)

C
O
P
Y

first draft

35

4 October
Oct 1, 1939

CREDITS TO BELLIGERENTS

Section 7 of the Senate neutrality bill relates to financial transactions with belligerents. It continues the existing provisions of the neutrality statute which prohibits the making of loans to belligerents and persons acting therefor. It is also to be noted that the existing neutrality law authorizes the President, when he finds it in the interest of the United States, to exempt from this prohibition "ordinary commercial credits and short-term obligations in aid of legal transactions and of a character customarily used in normal peacetime commercial transactions." The Senate Committee apparently felt that this provision could be strengthened, without sacrificing American interests, by limiting the discretion of the President and by confining to a more limited category the permissible forms of short-term commercial credits. Accordingly, the Senate bill provides that the short-term commercial credits may not be for a period more than 90 days without renewal, and also that if any belligerent or person acting therefor defaults on any such 90-day credit, no further commercial credit may be extended; and thirdly, the bill adds the requirement that the President report to Congress every six months full information as to each commercial credit which has thus been permitted.

It is thus entirely clear that the power to extend short-term commercial credits to belligerents has been a part of the neutrality law continuously since February, 1936, and that the only changes which the Senate bill makes in the existing law are in the direction of further restriction of the permissible short-term commercial credits.

It has been urged that the provision for short-term commercial credits to belligerents is inconsistent with the Johnson Act of 1934, is the opening wedge in the granting of loans to belligerents, and is a departure from the cash-and-carry theory which has heretofore been embodied in the Neutrality Act. I think that an examination of the history of the Johnson Act and the Neutrality Act will show these criticisms to be unfounded.

JOHNSON ACT

The Johnson Act provided in part as follows:

"That hereafter it shall be unlawful within the United States or any place subject to the jurisdiction of the United States for any person to purchase or sell the bonds, securities, or other obligations of, any foreign government or political subdivision thereof or any organization or association acting for or on behalf of a foreign government or political subdivision thereof, issued after the passage of this Act, or to make any loan to such foreign government, political subdivision, organization, or association, except a renewal or adjustment of existing indebtedness while such government, political subdivision, organization, or association, is in default in the payment of its obligations, or any part thereof, to the Government of the United States. * * *"

Within a few weeks after the passage of the Johnson Act a number of problems arose necessitating the interpretation of that statute. On April 27, 1934 a conference was held at the Treasury Department attended by Senator Johnson, the Attorney General, the Secretary of State, the Secretary of the Treasury and a number of other officials of the State, Treasury and Justice Departments. During the conference, Senator Johnson was asked if he thought that the statute applied to such every-day commercial instruments as time drafts, bankers' acceptances, etc. Senator Johnson stated that he did not think that the statute could be interpreted in any such manner and that it was not the intention of the statute to interfere in any way with ordinary commercial transactions. It also appeared to have been the view of the partic-

- 3 -

ipants of the conference that the Johnson Act did not apply to time drafts, acceptances, etc., employed in connection with ordinary commercial transactions. Attached is a copy of the memorandum of the conference which is in the Treasury Department files.

On the same day the State Department issued the following press release:

"Enquiries have been received at the Department of State as to whether the Act of Congress approved April 13, 1934, to prohibit financial transactions with foreign governments in default on their obligations to the United States, applies to ordinary commercial 'acceptances or time drafts,' such as are used by foreign governments to finance the current requirements of their embassies and consulates in the United States.

"The Department of State and the Attorney General are in agreement that such instruments do not constitute 'obligations' within the purview of the Act.

"Certain other questions that have been presented regarding the interpretation of the Act are under consideration."

On May 5, 1934, in response to a request from the Secretary of State, the Attorney General rendered an opinion on a number of questions relating to the Johnson Act. The Attorney General in his opinion dated May 5, 1934, stated in part as follows:

"(2) To what types of transactions does the Act apply?"

"The Committee Reports (S. Rept. 20 and House Rept. 974, 73d Cong.) recite that the bill was introduced following an investigation by the Senate Committee on Finance and the revelation therein that 'billions of dollars of securities * * * offered for sale to the American people' were overdue and unpaid; that some of these 'foreign bonds and obligations * * * were sold by the American financiers to make outrageously high profits'; and stated a purpose 'to prevent a recurrence of the practices which were shown by the investigation to be little less than a fraud upon the American people * * * to curb the rapacity of those engaged in the sale of foreign obligations * * *'

- 4 -

"This, I think, is indicative of a purpose to deal with such 'bonds' and 'securities' and with 'other obligations' of like nature, observing the rule of ejusdem generis - that is, obligations such as those which had been sold to the American public to raise money for the use of the foreign governments issuing them - not contemplating foreign currency, postal money orders, drafts, checks and other ordinary aids to banking and commercial transactions, which are 'obligations' in a broad sense but not in the sense intended. It was obviously not the purpose of the Congress to discontinue all commercial relations with the defaulting countries."

* * * * *

"(4) Does the Act apply to acceptance or time drafts?"

"This question appears to be sufficiently answered by the comments under Question No. 2, supra. It appears proper to add, however, that such transactions must be conducted in good faith, in order to be within the law, and not as mere subterfuges to circumvent its purpose."

In other words, the Attorney General concluded that the Johnson Act prohibited the sale of bonds and securities to countries in default but did not prohibit those ordinary short-term commercial credit devices customarily used in international trade. The entire text of the opinion of the Attorney General was quoted in a State Department press release dated May 5, 1934 which also included the statement that the State Department concurred in the Attorney General's interpretation of the Johnson Act. Unquestionably this opinion has been relied upon by American business interests in their commercial transactions with defaulting countries and persons acting on their behalf. To say the least it would be utterly unfair and improper at this late date to construe the Johnson Act as making illegal those short-term credit transactions made available to defaulting governments in connection with otherwise permissible trade and commercial transactions.

NEUTRALITY ACT

In February, 1936, Congress in amending the then existing Neutrality Act included the following provision:

"SEC. 1a. Whenever the President shall have issued his proclamation as provided for in section 1 of this Act, it shall thereafter during the period of the war be unlawful for any person within the United States to purchase, sell, or exchange bonds, securities, or other obligations of the government of any belligerent country, or of any political subdivision thereof, or of any person acting for or on behalf of such government, issued after the date of such proclamation, or to make any loan or extend any credit to any such government or person. Provided, That if the President shall find that such action will serve to protect the commercial or other interests of the United States or its nationals, he may, in his discretion, and to such extent and under such regulation as he may prescribe, except from the operation of this section ordinary commercial credits and short-time obligations in aid of legal transactions and of a character customarily used in normal peace-time commercial transactions."

It will be noted that this provision, which has been the law since February, 1936, specifically authorizes the President to permit short-term ordinary commercial loans to belligerents and persons acting therefor. The debate in Congress reveals no feeling that this provision was inconsistent or in conflict with the provisions of the Johnson Act. The view of Congress was quite the contrary. The House report on this provision in the 1936 amendment stated:

* * * * It is the law now under the Johnson Act that it is unlawful to sell bonds, securities, etc., in this country of any foreign country that is in default of its indebtedness to the United States. This covers most of the greater powers in Europe. This section, however, goes much further and makes it unlawful, as before stated, to all belligerent countries. Now, there is a provision in this section that if the President shall find that such action will serve to protect the commercial or other interests of the United States or its nationals, he may, in his discretion, and to such extent and under such regulation as he may prescribe, except from the operation of this section ordinary commercial credits and short-

time obligations in aid of legal transactions and of a character customarily used in normal peacetime commercial transactions. There is also another provision that this section does not apply to renewal or adjustment of indebtedness which may exist on the date of the President's proclamation. The only discretion given the President under this section is in reference to such credits used in normal peacetime commercial transactions."

Congress understood this provision in the Neutrality Act to have the same effect as the provisions of the Johnson Act, namely, to prohibit the sale of bonds and similar securities in this country. By specifically prohibiting in the Neutrality Act the extension of "any credit" (which words do not appear in the Johnson act) Congress apparently intended in the Neutrality Act to prohibit even short-term commercial credits unless the President felt that it was in the public interest to permit short-term commercial credits, in which event, such credits could be extended to belligerents.

No change was made in this provision of the Neutrality Act when the Neutrality Act was otherwise amended in 1937. When the neutrality legislation was considered in the House of Representatives last July, it was proposed to circumscribe further the President's power to permit short-term commercial credits to belligerents by limiting such credits to 90 days without renewal, and to require the President to make periodic reports to Congress of such transactions. These limitations on the existing statutory provision are included in the Senate bill, and in addition thereto the Senate bill prohibits further 90-day credits if a belligerent defaults on prior 90-day credits given to it.

If any inconsistency exists between the short-term credit provision

- 7 -

and the so-called cash-and-carry clause, that inconsistency was not introduced by the present bill, but has existed in the neutrality law for several years. Furthermore, it should be noted that the so-called cash-and-carry provision merely required that the American seller completely divest himself of title in the goods sold and that non-American ships carry the goods to the belligerent, and did not require the actual payment of money to the American vendor before the goods left the country. The provision of the Neutrality Act may more appropriately be called "transfer of title and carry" instead of "cash-and-carry." If this is the correct interpretation of the cash-and-carry provision, then there is no inconsistency between it and the short-term credit provision.

White's draft at
4 pm meeting
at Peep House
10-1-39

In view of the conditions under which the belligerents will be purchasing supplies, it is likely that our trade with the belligerent nations would be only slightly less than if we granted the privilege of short-term financing. Belligerent governments will keep their purchases from the United States to the minimum possible for the effective conduct of war, inasmuch as they are eager to conserve as much of their foreign exchange as possible.

43

On the other hand, the prohibition may prove to be a handicap to American exporters selling in neutral countries. This is true because the prohibition on the extension of credits would apply not only to the government of a belligerent country or political sub-divisions thereof, but also to "any person acting for or on behalf of" such government. The American business man may be unable to ascertain whether a prospective purchaser located, let us say, in Sweden, is or is not acting on behalf of a belligerent government. If because of this uncertainty the American exporter will sell to the person in Sweden only if payment in cash is made before the goods leaves this country, the American may be unable to sell as much as he could if he sold on short-term credit terms. To argue that the American business man should extend the ordinary commercial credits unless he knows that the person to whom he is selling is acting on behalf of a belligerent government is to ask the

American under the existing provisions of the statute to run the risk of very substantial criminal and civil penalties. Were short-term commercial credits to be extended to belligerents as well as to non-belligerents, the American exporter will be able to sell his goods on the short-term credit basis without being required to determine at his own risk whether or not the purchaser is acting on behalf of a belligerent.

There are differences of opinion with respect to the net effect the failure to extend short-term commercial credits to belligerents would have on our trade with neutral countries. In order for the trade to be reduced it would be necessary to have an exporter be afraid in the first place that the foreign purchaser might be acting as an agent for a belligerent government and, in the second place, the foreign purchaser would purchase the goods elsewhere, or not purchase them at all, if he could not get credit from the American exporter. Doubtless there would be some transactions lost through this combination of circumstances, but how great that loss would be is uncertain.

Sunday, October 1, 1939

11:15 a. m.

— President —
 Hull has referred to me
 inquiry from Pittman
 on ninety day credit clause.
 Pittman ~~is~~ ^{is} ~~referring~~ ^{referring} on today.
 x Before giving opinion
 consider it of utmost
 importance that I see
 you on your return x
 What time will be
 convenient for you.
 Magenthau

11.15 A. M. Sunday

(telegram)

October 1, 1939

Telephone conversation between Secretary Hull and Secretary Morgenthau, as reported by Mrs. Morgenthau.

Pittman Bill not in conflict with the Johnson Act. Meeting in Mr. Morgenthau's office April 28, 1934, at the Treasury. Hull attended this meeting. Johnson said his bill did not affect short term credits, at that meeting.

HM, Jr: This thing bothers me. The Pittman bill is title and carry and not cash and carry. Revolving Fund might run up to 5 or 6 millions. The point I am raising: is F. D. R. familiar with the fact that our banks could lend several millions to belligerents? You are the only person who can answer this to me.

I am worried about the President. Has he crossed this bridge?

Mr. Hull: The President has had nothing to do with it.

HM, Jr: Then before I pass on this as Secretary of the Treasury, I would want to bring this to the President's attention. I still raise the question that we should ask to see the President when he comes home this evening and let him decide it. I have not been in this. I don't expect to, as far as the Hill is concerned, but as long as you brought me into it, I always like to make 100% sure that the President knows all about it. The President gets in at 6 p. m. It is furthestest from my mind to get in touch with Pittman directly. How shall we leave it?

(Secretary Hull suggested that he would phone the President and that Mr. Morgenthau should arrange to see him.)

F to FDRS

47

attention.

11 Raise the question
we should ask to
FDR when he
comes this morning
let him decide it.

It has to be in the
report to us

The Hill is crucial
as long as you bring
it, I always like
100% sure that
Woodward Knowall
S.T.

President gets in at
5:15 — 48

Thought how my mind
is in touch with
man direct.

How shall we transit?

with fact that our
 banks could lend
 several million to
 allegorists? — Hall
 of person that our
 saw this to H. G. J.R.

I am worried about
 the President — has
 worried the BRIDGE.

Hull answered F.A.R.
 had nothing to do
 with it.

— Three later 1 year
 this as Sec of Treas.
 I would want to bring

50
50

• Human Bill not in
conflict with Johnson
Sept 28 - 1934 at
Treasurer
Johnson said his bill
not at all shot from
T.

• The thing bothers me -
Human Bill Title &
• May Bill - not Cash-Carney
Resolving Fund might
be up to 5-6 millions
• Great Dam Raising -
No F.D.R. entirely American

A conference was held at Secretary's Morgenthau's home on October 1, at 9:00 A.M. Those present were: Secretary Morgenthau, Under Secretary Hanes, Mr. Bernstein and Mr. White of the Treasury and Mr. Livesey of the State Department.

Mr. Livesey reviewed the details of the inquiry which Senator Pittman made of Secretary Hull relative to the 90 day credit provisions of the Neutrality Act, and again referred to the request by Senator Pittman that the departments directly concerned with the matter — State, Commerce and Treasury — prepare a statement of expert opinion on the disputed points for his information. There was read and discussed a memorandum on the problems prepared by the Treasury in response to Secretary Hull's wishes as transmitted to Secretary Morgenthau via Mr. Livesey on the afternoon of September 30. This memorandum discussed the applicability of the Johnson Act to short term credits, gave the history of the short term credit provision in the Neutrality Act, and described reasons why such provision was included in the Neutrality Act.

Secretary Morgenthau telephoned Under Secretary Noble of the Department of Commerce and suggested that he might wish to have a representative of the Department of Commerce present at the conference to participate in the preparation of the material. Mr. Noble arranged for Mr. Domeratzky of the Commerce Department to attend the meeting. Mr. Domeratzky appeared toward the end of the morning conference and participated in the discussions in the afternoon and evening.

Secretary Morgenthau also discussed the matter with Secretary Hull and inquired whether the problem had been called to the attention of the President. Upon Secretary Hull's replying in the negative, Secretary Morgenthau suggested that the matter be taken up with the President. Secretary Morgenthau thereupon sent a message to the President that he wished to see him upon his return. Secretary Morgenthau also called the Attorney General and advised him of the problem and arranged for Bernstein to furnish him with the memorandum on the subject.

Secretary Morgenthau fixed another conference at 4:00, at which time two memoranda were to be discussed — one on the question of the interpretation of the Johnson Act and the history of the credit provisions in the Neutrality Act, and another memorandum canvassing the need for the short-term credit provision in the neutrality legislation.

W.D. White

Nell:

10/2'39

Original Memorandum on Sec'y's stationery and one carbon copy was delivered to the Usher at the White House last evening.

One copy delivered to the Secretary.

Carbon to Hanes
Viner
Reifler
Bernstein
Chauncey (original of re-run)

P.S. copy delivered to A.G. last night, and he is to return with his McGuire

approval. We to furnish him with new copy when this is done.

Final draft

October 1, 1939

MEMORANDUM

Re: Credits to Belligerents

Section 7 of the Senate neutrality bill relates to financial transactions with belligerents. It continues the existing provisions of the neutrality statute which prohibits the making of loans and credits to belligerents and persons acting on their behalf. It is also to be noted that the existing neutrality law authorizes the President, when he finds it in the interest of the United States, to exempt from this prohibition "ordinary commercial credits and short-term obligations in aid of legal transactions and of a character customarily used in normal peacetime commercial transactions." The Senate Committee apparently felt that the existing provision could be strengthened, without sacrificing American interests, by limiting the discretion of the President and by confining to a more limited category the permissible forms of short-term commercial credits. Accordingly, the Senate bill provides that (i) the short-term commercial credits may not be for a period more than 90 days without renewal; (ii) if any belligerent or person acting for a belligerent defaults on any such 90-day credit, no new commercial credit may be extended; and (iii) the President report to Congress every six months full information as to each commercial credit which has thus been permitted.

It is thus entirely clear that Presidential authority to permit short-term commercial credits to belligerents has been a part of the neutrality law continuously since February, 1936, and that the only changes which the Senate bill makes in the existing law are in the direction of additional restrictions on the Presidential discretion to permit short-term commercial credits.

It has been charged that the provision in the present bill relating to short-term commercial credits to belligerents is inconsistent with the Johnson Act of 1934, and is the opening wedge for the granting of loans to belligerents. I think that an examination of the history of the Johnson Act and the Neutrality Act will show these charges to be unfounded.

JOHNSON ACT

The Johnson Act provided in part as follows:

"That hereafter it shall be unlawful within the United States or any place subject to the jurisdiction of the United States for any person to purchase or sell the bonds, securities, or other obligations of, any foreign government or political subdivision thereof or any organization or association acting for or on behalf of a foreign government or political subdivision thereof, issued after the passage of this Act, or to make any loan to such foreign government, political subdivision, organization, or association, except a renewal or adjustment of existing indebtedness while such government, political subdivision, organization, or association, is in default in the payment of its obligations, or any part thereof, to the Government of the United States. * * *"

Within a few weeks after the passage of the Johnson Act a number of problems arose necessitating the interpretation of that statute. On April 27, 1934, a conference was held at the Treasury

Department attended by Senator Johnson, the Attorney General, the Secretary of State, the Secretary of the Treasury and a number of other officials of the State, Treasury and Justice Departments. During the conference, Senator Johnson was asked if he thought that the statute applied to such every-day commercial instruments as time drafts, bankers' acceptances, etc. Senator Johnson stated that he did not think that the statute could be interpreted in any such manner and that it was not the intention of the statute to interfere in any way with ordinary commercial transactions. It also appeared to have been the view of the participants in the conference, including Senator Johnson, that the Johnson Act did not apply to time drafts, acceptances, etc., employed in connection with ordinary commercial transactions. A memorandum of the conference is in the Treasury Department's files. A copy of the memorandum is attached.

On the same day the State Department issued the following press release:

"Enquiries have been received at the Department of State as to whether the Act of Congress approved April 13, 1934, to prohibit financial transactions with foreign governments in default on their obligations to the United States, applies to ordinary commercial 'acceptances or time drafts,' such as are used by foreign governments to finance the current requirements of their embassies and consulates in the United States.

"The Department of State and the Attorney General are in agreement that such instruments do not constitute 'obligations' within the purview of the Act.

"Certain other questions that have been presented regarding the interpretation of the Act are under consideration."

On May 5, 1934, the Attorney General, in response to a request

from the Secretary of State, rendered an opinion on a number of questions relating to the Johnson Act, which opinion stated in part as follows:

"(2) To what types of transactions does the Act apply?"

"The Committee Reports (S. Rept. 20 and House Rept. 974, 73d Cong.) recite that the bill was introduced following an investigation by the Senate Committee on Finance and the revelation therein that 'billions of dollars of securities * * * offered for sale to the American people' were overdue and unpaid; that some of these 'foreign bonds and obligations * * * were sold by the American financiers to make outrageously high profits'; and stated a purpose 'to prevent a recurrence of the practices which were shown by the investigation to be little less than a fraud upon the American people * * * to curb the rapacity of those engaged in the sale of foreign obligations * * *'."

"This, I think, is indicative of a purpose to deal with such 'bonds' and 'securities' and with 'other obligations' of like nature, observing the rule of ejusdem generis - that is, obligations such as those which had been sold to the American public to raise money for the use of the foreign governments issuing them - not contemplating foreign currency, postal money orders, drafts, checks and other ordinary aids to banking and commercial transactions, which are 'obligations' in a broad sense but not in the sense intended. It was obviously not the purpose of the Congress to discontinue all commercial relations with the defaulting countries."

* * * * *

"(4) Does the Act apply to acceptances or time drafts?"

"This question appears to be sufficiently answered by the comments under Question No. 2, supra. It appears proper to add, however, that such transactions must be conducted in good faith, in order to be within the law, and not as mere subterfuges to circumvent its purpose."

In other words, the Attorney General found that while the Johnson Act prohibited the sale of bonds and securities of countries

in default it did not prohibit those ordinary short-term commercial credit devices customarily used in international trade. The entire text of the opinion of the Attorney General was quoted in a State Department press release dated May 5, 1934 which also included the statement that the State Department concurred in the Attorney General's interpretation of the Johnson Act. Unquestionably this opinion has been relied upon by American business interests in their commercial transactions with defaulting countries and persons on their behalf. In the light of this background and at this late date, the Johnson Act should not be construed as making illegal short-term credit transactions with defaulting governments relating to otherwise permissible trade and commercial transactions.

NEUTRALITY ACT

In February, 1936, Congress in amending the then existing Neutrality Act included the following provision:

"SEC. 1a. Whenever the President shall have issued his proclamation as provided for in section 1 of this Act, it shall thereafter during the period of the war be unlawful for any person within the United States to purchase, sell, or exchange bonds, securities, or other obligations of the government of any belligerent country, or of any political subdivision thereof, or of any person acting for or on behalf of such government, issued after the date of such proclamation, or to make any loan or extend any credit to any such government or person: Provided, That if the President shall find that such action will serve to protect the commercial or other interests of the United States or its nationals, he may, in his discretion, and to such extent and under such regulation as he may prescribe, except from the operation of this section ordinary commercial credits and short-term obligations in aid of legal transactions and of a character customarily used in normal peace-

time commercial transactions."

It will be noted that this provision, which has been the law since February, 1936, specifically authorized the President to permit short-term ordinary commercial loans to belligerents and persons acting on their behalf. The debate in Congress reveals no feeling that this provision was inconsistent or in conflict with the provisions of the Johnson Act. The view of Congress was quite the contrary. The House report on this provision in the 1936 amendment stated:

"* * * It is the law now under the Johnson Act that it is unlawful to sell bonds, securities, etc., in this country of any foreign country that is in default of its indebtedness to the United States. This covers most of the greater powers in Europe. This section, however, goes much further and makes it unlawful, as before stated, to all belligerent countries. Now, there is a provision in this section that if the President shall find that such action will serve to protect the commercial or other interests of the United States or its nationals, he may, in his discretion, and to such extent and under such regulation as he may prescribe, except from the operation of this section ordinary commercial credits and short-time obligations in aid of legal transactions and of a character customarily used in normal peacetime commercial transactions. There is also another provision that this section does not apply to renewal or adjustment of indebtedness which may exist on the date of the President's proclamation. The only discretion given the President under this section is in reference to such credits used in normal peacetime commercial transactions."

By specifically prohibiting in the Neutrality Act the extension of "any credit" (which words do not appear in the Johnson Act) Congress, in view of the purposes of the Neutrality Act, apparently intended thereby to prohibit even short-term commercial credits unless the

- 7 -

President found that the making of such short-term commercial credits to belligerents was in the public interest, in which event, such credits would be lawful.

No change was made in this provision of the Neutrality Act when the Neutrality Act was otherwise amended in 1937. When the neutrality legislation was considered in the House of Representatives last July, it was proposed to circumscribe further the President's power to permit short-term commercial credits to belligerents by limiting such credits to 90 days without renewal, and requiring the President to make periodic reports to Congress of such transactions. These limitations on the power given to the President by the existing statutory provision are included in the Senate Bill, and in addition the Senate bill prohibits further 90-day credits if a belligerent defaults on prior 90-day credits given to it.

TREASURY DEPARTMENT

Washington

Commissioner of
Accounts and Deposits

April 28, 1934

CONFERENCE RE: JOHNSON BILL:

(Public No. 151, 73rd Congress)

The Secretary of the Treasury called a conference at 11 o'clock Friday, April 27, 1934, for the purpose of considering some of the difficulties in interpreting the provisions of the so-called Johnson Bill, which prohibits the flotation of loans in the United States by governments in default on their indebtedness to the United States Government. Those present were the Secretary of the Treasury, the Attorney General of the United States, Senator Johnson of California, Under Secretary Phillips and Assistant Secretary Moore of the State Department, Mr. Hackworth, Solicitor of the State Department, Mr. MacLean, Assistant Solicitor General, Mr. Coolidge, Mr. Oliphant, and Mr. Bell, of the Treasury. Secretary Hull came in at 11:20.

The Secretary asked Senator Johnson to outline to the meeting the objectives which he had in mind in presenting the bill to the Congress.

Senator Johnson went into the history of the measure and stated that as it was first introduced and passed the Senate more than a year ago, he had in mind definitely the protection of the American citizen in his purchases of foreign securities in the United States issued by foreign governments which are in default on any of their indebtedness to the United States Government or its nationals. He stated that he had definitely in mind at that time the South American governments. He stated that just after the bill first passed the Senate, Senator Robinson asked that it be laid on the table and reconsidered. At a conference between him and Senator Robinson at a later date, he agreed to further amendments, after which it was referred back to the Foreign Relations Committee and was there amended to its present form. He thought as the bill now stands, its main objective was to preclude the flotation in this country of any securities of those governments or any subdivisions thereof which are in default on their indebtedness to the United States Government.

The Secretary asked him just what he meant by the term "default" and did he have definitely in mind including those governments which have made token payments as a result of which the President had stated that he did not consider those governments in default?

Senator Johnson said that it was his personal opinion that if these governments did not pay the full amount due they were certainly in default as to the remaining balance. However, he realized that this was largely an administrative matter and the President under the powers granted by the Constitution to handle foreign affairs, certainly had the authority to state whether or not a particular government was in default on its indebtedness to the United States Government. He did not think

2.

that the act was intended to disturb the action already taken by the President in declaring those governments not in default.

The Attorney General stated to the Senator that he thought the President's previous action was quite in line with his authority, but asked the Senator if he thought the President could take similar action on future token payments in view of the act.

The Senator stated that his personal opinion was that the President had no authority after the passage of this act to accept from our debtors token payments and then consider them not in default.

The Secretary then asked the Senator if he thought the bill included such everyday commercial transactions as time drafts and bankers' acceptances etc. The Senator said he did not think it could be interpreted in any such manner and that it was not the intention of the bill to interfere in any way with ordinary commercial transactions. The question was then raised as to what was meant by time drafts, acceptances, etc. Mr. Coolidge explained an ordinary commercial transaction with respect to the purchase of cotton in the United States by the national of some foreign government - that the concern selling the cotton might draw a bill of exchange on the purchaser, which would be honored in thirty days more or less and that this bill of exchange could be sold on various terms. It was the consensus of opinion that such a transaction would not fall within the provisions of the act.

The Attorney General then asked the Senator if he thought that a fair interpretation of the act was that it did not intend in any way to limit the ordinary everyday commercial transaction, and the Senator said that, certainly, was the interpretation he would put on it.

Mr. MacLean, Assistant Solicitor General, then called attention to the fact that France exercised a monopoly in tobacco, and that the organizations in this monopoly would no doubt in the course of business sell their drafts and other instruments of credit in this country. The Senator said that he did not have such transactions in mind and that the words "organizations or associations" in the act were not his language. It seemed to be the consensus of opinion that these transactions would fall within a commercial transaction and not within the provisions of the Act.

Mr. Backworth brought up the question that had been presented to him just before he came to the Treasury, i. e., as to whether the operations in coupons on German bonds would fall within the provisions of the act. He explained that coupons falling due on many of the German bonds were paid partly in cash and partly in scrip, and that later the scrip was purchased by a bank in Germany which was more or less under the supervision of the Reichsbank and the German Government.

Senator Johnson thought that such a transaction would clearly fall within the exception in the act with respect to renewal or adjustment of existing indebtedness.

3.

Mr. Coolidge said that he thought that one way in which to interpret the act was to decide whether or not any of the transactions passed upon involved new American money and that this should be a deciding factor. This seemed to be agreed to by the Attorney General and Mr. Hackworth.

(Initialed) D.W.B.

*This is final draft
to be sent to
the President*

October 1, 1939

82

MEMORANDUM

Re: Credits to Belligerents

Section 7 of the Senate neutrality bill relates to financial transactions with belligerents. It continues the existing provisions of the neutrality statute which prohibits the making of loans and credits to belligerents and persons acting on their behalf. It is also to be noted that the existing neutrality law authorizes the President, when he finds it in the interest of the United States, to exempt from this prohibition "ordinary commercial credits and short-term obligations in aid of legal transactions and of a character customarily used in normal peacetime commercial transactions." The Senate Committee apparently felt that the existing provision could be strengthened, without sacrificing American interests, by limiting the discretion of the President and by confining to a more limited category the permissible forms of short-term commercial credits. Accordingly, the Senate bill provides that (i) the short-term commercial credits may not be for a period more than 90 days without renewal; (ii) if any belligerent or person acting for a belligerent defaults on any such 90-day credit, no new commercial credit may be extended; and (iii) the President report to Congress every six months full information as to each commercial credit which has thus been permitted.

It is thus entirely clear that Presidential authority to permit short-term commercial credits to belligerents has been a part of the neutrality law continuously since February, 1936, and that the only changes which the Senate bill makes in the existing law are in the direction of additional restrictions on the Presidential discretion to permit short-term commercial credits.

It has been charged that the provision in the present bill relating to short-term commercial credits to belligerents is inconsistent with the Johnson Act of 1934, and is the opening wedge for the granting of loans to belligerents. I think that an examination of the history of the Johnson Act and the Neutrality Act will show these charges to be unfounded.

JOHNSON ACT

The Johnson Act provided in part as follows:

"That hereafter it shall be unlawful within the United States or any place subject to the jurisdiction of the United States for any person to purchase or sell the bonds, securities, or other obligations of, any foreign government or political subdivision thereof or any organization or association acting for or on behalf of a foreign government or political subdivision thereof, issued after the passage of this Act, or to make any loan to such foreign government, political subdivision, organization, or association, except a renewal or adjustment of existing indebtedness while such government, political subdivision, organization, or association, is in default in the payment of its obligations, or any part thereof, to the Government of the United States. * * *"

Within a few weeks after the passage of the Johnson Act a number of problems arose necessitating the interpretation of that statute. On April 27, 1934, a conference was held at the Treasury

- 3 -

Department attended by Senator Johnson, the Attorney General, the Secretary of State, the Secretary of the Treasury and a number of other officials of the State, Treasury and Justice Departments. During the conference, Senator Johnson was asked if he thought that the statute applied to such every-day commercial instruments as time drafts, bankers' acceptances, etc. Senator Johnson stated that he did not think that the statute could be interpreted in any such manner and that it was not the intention of the statute to interfere in any way with ordinary commercial transactions. It also appeared to have been the view of the participants in the conference, including Senator Johnson, that the Johnson Act did not apply to time drafts, acceptances, etc., employed in connection with ordinary commercial transactions. A memorandum of the conference is in the Treasury Department's files. A copy of the memorandum is attached.

On the same day the State Department issued the following press release:

"Enquiries have been received at the Department of State as to whether the Act of Congress approved April 15, 1934, to prohibit financial transactions with foreign governments in default on their obligations to the United States, applies to ordinary commercial 'acceptances or time drafts,' such as are used by foreign governments to finance the current requirements of their embassies and consulates in the United States.

"The Department of State and the Attorney General are in agreement that such instruments do not constitute 'obligations' within the purview of the Act.

"Certain other questions that have been presented regarding the interpretation of the Act are under consideration."

On May 5, 1934, the Attorney General, in response to a request

from the Secretary of State, rendered an opinion on a number of questions relating to the Johnson Act, which opinion stated in part as follows:

"(2) To what types of transactions does the Act apply?"

"The Committee Reports (S. Rept. 20 and House Rept. 974, 73d Cong.) recite that the bill was introduced following an investigation by the Senate Committee on Finance and the revelation therein that 'billions of dollars of securities * * * offered for sale to the American people' were overdue and unpaid; that some of these 'foreign bonds and obligations * * * were sold by the American financiers to make outrageously high profits'; and stated a purpose 'to prevent a recurrence of the practices which were shown by the investigation to be little less than a fraud upon the American people * * * to curb the rapacity of those engaged in the sale of foreign obligations * * *.'

"This, I think, is indicative of a purpose to deal with such 'bonds' and 'Securities' and with 'other obligations' of like nature, observing the rule of ejusdem generis - that is, obligations such as those which had been sold to the American public to raise money for the use of the foreign governments issuing them - not contemplating foreign currency, postal money orders, drafts, checks and other ordinary aids to banking and commercial transactions, which are 'obligations' in a broad sense but not in the sense intended. It was obviously not the purpose of the Congress to discontinue all commercial relations with the defaulting countries."

* * * * *

"(4) Does the Act apply to acceptance or time drafts?"

"This question appears to be sufficiently answered by the comments under Question No. 2, supra. It appears proper to add, however, that such transactions must be conducted in good faith, in order to be within the law, and not as mere subterfuges to circumvent its purpose."

In other words, the Attorney General found that while the Johnson Act prohibited the sale of bonds and securities of countries

- 5 -

in default it did not prohibit those ordinary short-term commercial credit devices customarily used in international trade. The entire text of the opinion of the Attorney General was quoted in a State Department press release dated May 5, 1934 which also included the statement that the State Department concurred in the Attorney General's interpretation of the Johnson Act. Unquestionably this opinion has been relied upon by American business interests in their commercial transactions with defaulting countries and persons on their behalf. In the light of this background and at this late date, the Johnson Act should not be construed as making illegal short-term credit transactions with defaulting governments relating to otherwise permissible trade and commercial transactions.

NEUTRALITY ACT

In February, 1934, Congress in amending the then existing Neutrality Act included the following provisions:

"SEC. 1a Whenever the President shall have issued his proclamation as provided for in section 1 of this Act, it shall thereafter during the period of the war be unlawful for any person within the United States to purchase, sell, or exchange bonds, securities, or other obligations of the government of any belligerent country, or of any political subdivision thereof, or of any person acting for or on behalf of such government, issued after the date of such proclamation, or to make any loan or extend any credit to any such government or person: Provided, That if the President shall find that such action will serve to protect the commercial or other interests of the United States or its nationals, he may, in his discretion, and to such extent and under such regulations as he may prescribe, exempt from the operation of this section ordinary commercial credits and short-term obligations in aid of local transactions and of a character customarily used in normal trade-

time commercial transactions."

It will be noted that this provision, which has been the law since February, 1936, specifically authorized the President to permit short-term ordinary commercial loans to belligerents and persons acting on their behalf. The debate in Congress reveals no feeling that this provision was inconsistent or in conflict with the provisions of the Johnson Act. The view of Congress was quite the contrary. The House report on this provision in the 1936 amendment stated:

"* * * It is the law now under the Johnson Act that it is unlawful to sell bonds, securities, etc., in this country of any foreign country that is in default of its indebtedness to the United States. This covers most of the greater powers in Europe. This section, however, goes much further and makes it unlawful, as before stated, to all belligerent countries. Now, there is a provision in this section that if the President shall find that such action will serve to protect the commercial or other interests of the United States or its nationals, he may, in his discretion, and to such extent and under such regulation as he may prescribe, except from the operation of this section ordinary commercial credits and short-time obligations in aid of legal transactions and of a character customarily used in normal peacetime commercial transactions. There is also another provision that this section does not apply to renewal or adjustment of indebtedness which may exist on the date of the President's proclamation. The only discretion given the President under this section is in reference to such credits used in normal peacetime commercial transactions."

By specifically prohibiting in the Neutrality Act the extension of "any credit" (which words do not appear in the Johnson Act) Congress, in view of the purposes of the Neutrality Act, apparently intended thereby to prohibit even short-term commercial credits unless the

President found that the making of such short-term commercial credits to belligerents was in the public interest, in which event, such credits would be lawful.

No change was made in this provision of the Neutrality Act when the Neutrality Act was otherwise amended in 1937. When the neutrality legislation was considered in the House of Representatives last July, it was proposed to circumscribe further the President's power to permit short-term commercial credits to belligerents by limiting such credits to 90 days without renewal, and requiring the President to make periodic reports to Congress of such transactions. These limitations on the power given to the President by the existing statutory provision are included in the Senate bill, and in addition the Senate bill prohibits further 90-day credits if a belligerent defaults on prior 90-day credits given to it.

Commissioner of
Accounts and Deposits

April 28, 1934

CONFERENCE RE: JOHNSON BILL

(Public No. 151, 73rd Congress)

The Secretary of the Treasury called a conference at 11 o'clock Friday, April 27, 1934, for the purpose of considering some of the difficulties in interpreting the provisions of the so-called Johnson Bill, which prohibits the flotation of loans in the United States by governments in default on their indebtedness to the United States Government. Those present were the Secretary of the Treasury, the Attorney General of the United States, Senator Johnson of California, Under Secretary Phillips and Assistant Secretary Moore of the State Department, Mr. Backus, Collector of the State Department, Mr. Maclean, Assistant Collector General, Mr. Goodidge, Mr. Ollivant, and Mr. Bell, of the Treasury. Secretary Hall came in at 11:20.

The Secretary asked Senator Johnson to outline to the meeting the objectives which he had in mind in presenting the bill to the Congress.

Senator Johnson went into the history of the measure and stated that as it was first introduced and passed the Senate more than a year ago, he had in mind definitely the protection of the American citizen in his purchases of foreign securities in the United States issued by foreign governments which are in default on any of their indebtedness to the United States Government or its nationals. He stated that he had definitely in mind at that time the South American governments. He stated that just after the bill first passed the Senate, Senator Robinson asked that it be laid on the table and reconsidered. At a conference between him and Senator Robinson at a later date, he agreed to further amendments, after which it was referred back to the Foreign Relations Committee and was there amended to its present form. He thought as the bill now stands, its main objective was to preclude the flotation in this country of any securities of those governments or any subdivisions thereof which are in default on their indebtedness to the United States Government.

The Secretary asked him just what he meant by the term "default" and did he have definitely in mind including those governments which have made token payments as a result of which the President had stated that he did not consider those governments in default?

Senator Johnson said that it was his personal opinion that if these governments did not pay the full amount due they were certainly in default as to the remaining balance. However, he realized that this was largely an administrative matter and the President under the powers granted by the Constitution to handle foreign affairs, certainly had the authority to state whether or not a particular government was in default on its indebtedness to the United States Government. He did not think

E.

that the act was intended to disturb the action already taken by the President in declaring those governments not in default.

The Attorney General stated to the Senator that he thought the President's previous action was quite in line with his authority, but asked the Senator if he thought the President could take similar action on future token payments in view of the act.

The Senator stated that his personal opinion was that the President had no authority after the passage of this act to accept from our debtors token payments and then consider them not in default.

The Secretary then asked the Senator if he thought the bill included such everyday commercial transactions as time drafts and bankers' acceptances etc. The Senator said he did not think it could be interpreted in any such manner and that it was not the intention of the bill to interfere in any way with ordinary commercial transactions. The question was then raised as to what was meant by time drafts, acceptances, etc. Mr. Coolidge explained an ordinary commercial transaction with respect to the purchase of cotton in the United States by the national of some foreign government - that the concern selling the cotton might draw a bill of exchange on the purchaser, which would be honored in thirty days more or less and that this bill of exchange could be sold on various terms. It was the consensus of opinion that such a transaction would not fall within the provisions of the act.

The Attorney General then asked the Senator if he thought that a fair interpretation of the act was that it did not intend in any way to limit the ordinary everyday commercial transaction, and the Senator said that, certainly, was the interpretation he would put on it.

Mr. MacLean, Assistant Solicitor General, then called attention to the fact that France exercised a monopoly in tobacco, and that the organizations in this monopoly would no doubt in the course of business sell their drafts and other instruments of credit in this country. The Senator said that he did not have such transactions in mind and that the words "organizations or associations" in the act were not his language. It seemed to be the consensus of opinion that these transactions would fall within a commercial transaction and not within the provisions of the Act.

Mr. Hackworth brought up the question that had been presented to him just before he came to the Treasury, i. e., as to whether the operations in coupons on German bonds would fall within the provisions of the act. He explained that coupons falling due on many of the German bonds were paid partly in cash and partly in scrip, and that later the scrip was purchased by a bank in Germany which was more or less under the supervision of the Reichsbank and the German Government.

Senator Johnson thought that such a transaction would clearly fall within the exception in the act with respect to renewal or adjustment of existing indebtedness.

3.

Mr. Coolidge said that he thought that one way in which to interpret the act was to decide whether or not any of the transactions passed upon involved new American money and that this should be a deciding factor. This seemed to be agreed to by the Attorney General and Mr. Backworth.

(Initialed) D.W.B.

TREASURY DEPARTMENT

72

INTER OFFICE COMMUNICATION

DATE 10-2-39

TO Secretary of the Treasury
FROM Mr. Foley

As you know, we have ruled that neither the Johnson Act, nor the provisions of the Neutrality Act relating to the making of loans and the extension of credit to belligerent countries, apply to the Government or an agency thereof. The Attorney General has concurred in this view. Nothing in the Neutrality Bill, which has been reported out in the Senate, necessitates a change of this view.

E. W. F. L.

F9

PLAIN

London

Dated October 2, 1939

Rec'd 10:10 a.m.

Secretary of State,
Washington.

1890, October 2, 4 p.m.

FOR TREASURY FROM BUTTERWORTH.

Changes in official rates of exchange during last week (see section 3 of my 1829, September 26, 6 p.m.) have been as follows:

The rate for the belga was moved on Thursday afternoon from 23.50-30 to 23.60-85 and again on Friday to 23.65-90. The rate for Dutch guilders was moved on Friday to 7.50-60 but returned today to 7.49-57. The Swiss franc was moved to 17.65-85 on September 29. Other official rates remained unchanged.

Another feature of the week has been the official quotations of forward rates on a monthly basis as follows: New York $\frac{1}{2}$ cent premium - par. Montreal $\frac{1}{8}$ cent premium - par. Paris par - $\frac{1}{4}$ franc discount. Amsterdam $1\frac{1}{2}$ cent premium - par. Brussels 4 cents premium - par. Zurich 3 cents premium - par. Oslo and Stockholm 3 ore premium - par.

Another feature of the week was the quotation of official rates

FS 2-No. 1890, October 2, 4 p.m. from London

rates for silver coinage which are quoted 4.17 for
American silver coins (face value) and 4.62 for Canadian.

CSB

KENNEDY

RECEIVED

OCT 5 1939

TREASURY DEPARTMENT
Office of the Director
Federal Reserve Bank of New York

TREASURY DEPARTMENT

75

INTER OFFICE COMMUNICATION

DATE October 2, 1939

TO Secretary Morgenthau

FROM W. H. Hadley

Premiums on Recent Note Offerings

Starting with December, 1937 premiums on note offerings have shown values ranging from $29/32$ nds to 1 point $18/32$ nds on the date of offering. The accompanying table gives terms and premiums on the last six note offerings.

<u>Date</u>	<u>New Note</u>	<u>Terms</u>	<u>Premium on day of offering</u>
Dec., 1937	1-3/4 5 yrs.	Cash and Exchange	$29/32$ nds
June, 1938	1-1/8 5 yrs.	Exchange	1 pt. $18/32$ nds
Sept., 1938	1-1/8 4-3/4 yrs.	Cash and Exchange	1 pt. $12/32$ nds
Dec., 1938	1-1/8 5 yrs.	Cash and Exchange	1 pt. $2/32$ nds
March, 1939	1-1/8 4-3/4 yrs.	Exchange	1 pt. $7/32$ nds
June, 1939	3/4 5 yrs.	Exchange	1 pt. $7/32$ nds

THE EMBARGO LAID DOWN BY INDIA
ON IMPORTS OF SILVER

October 2, 1939.
4:25 p.m.

Presents: Mr. Hanes
Mr. Bailie
Mr. Riefler
Mr. Cochran
Mr. Foley
Mr. White
Mr. Viner
Mr. Bernstein

H.M.Jr: I would say that you gentlemen start about where Mr. Hanes and I start, with a one yard handicap.

Bailie: Have you seen, Mr. Secretary, the memorandum that Mr. Cochran made of his conversation with Mr. Pinsent? Just to remind you of it, I will give you the main point of it, which was that Mr. Pinsent said to Mr. Cochran that the Indian Government was thinking of putting an embargo on further importations of silver and asked whether or not you thought that it would be an unfortunate thing to do this in view of the present neutrality embargo discussions going on and whether it might influence the silver bloc. Now, I think that is the essence, isn't it, Merle?

Cochran: Yes, and they wanted our reaction to the embargo.

Bailie: Well, of course I think all of us agreed that we wish that our friends wouldn't ask us such silly and impossible questions. I mean, it is the kind of question that is extremely difficult to answer in any way that doesn't cause more trouble than you have already. We have an answer which we would suggest that Mr. Cochran give orally to Mr. Pinsent and it isn't fully satisfactory, but it is as little unsatisfactory as anything we have been able to think of.

H.M.Jr: As little unsatisfactory?

Bailie: As little unsatisfactory as we could frame. I mean there isn't really any satisfactory way of answering that kind of question. The two points are these: One, Mr. Cochran says to Mr. Pinsent, "You asked me as to the effect of this action on the neutrality legislation. We have no views as to the effect of

- 2 -

such action and if we had, we wouldn't be in the position to express them."

Now, that is the longhand statement of what we hope Mr. Cochran will be able to express by a shrug and a laugh and saying, "You know, you really mustn't ask me a question like that."

In the present circumstances, that sort of question just can't be answered. But if he is forced to it, the guts of what we have to say was that the Treasury has no views on that and if it had them they couldn't express them. The reason we put the second part in is because we hope that they won't ask us internal political questions of that sort during the continuance of the next few weeks any oftener than possible, because then we won't have to make that kind of reply again.

The second point is that in view of....

H.M.Jr: This sums up like the fellow that says, "Don't ask."

Bailie: That is exactly it.

White: Spelled with an "e."

Bailie: If we could be sure that Mr. Pinsent understood the full implications of that, I would say that was the perfect answer.

The second point is that in view of this Government's policy - do you think Mr. Pinsent would understand it?

Cochran: I think he would.

Bailie: Maybe that is the short answer. Our second point is that in view of this Government's policy with respect to silver, the Secretary of the Treasury can hardly regard with favor the closing of one of the principal silver markets of the world.

Now, let me explain that. We feel clear that if we were the British, this is exactly what we would do. The reason we would do it is because in past wars, periods of this sort, India has been a perfect sponge for the absorption of silver. The great Indian

- 3 -

princes and the great commercial houses order precious stones and gold and silver in times like this. While the imports of silver in India are now taxed, I believe, and the amount going in has been small, the reason for this, thinking about this embargo, is obviously because the British feel that the movement might become very large. Now, if it became very large there would be a lot of silver buying in the world market. It is the embargo of silver going into India that they are thinking of doing so as to save that amount of buying power for other things that they think are more necessary to the Empire than the purchasing of silver.

H.M.Jr: Jake isn't happy.

Viner: No, I wouldn't tell them that. I wouldn't tell them what is on that sheet, not at this stage of my thinking on it.

Bailie: Can I finish just what I am saying, because I am not suggesting this thing. I am just trying to explain to the Secretary the reason for the statement.

We think if we were the British we would do just what they are doing, but we feel it would be very unfortunate if just at this time the Secretary of the Treasury were quoted as having encouraged the British to put an embargo on silver in India. It is for that reason that we say that in view of this Government's policy with respect to silver, which you have always tried to carry out, the Secretary of the Treasury can hardly regard as favorable the closing of the silver market in any part of the world.

White: There is an agreement on that that we were discussing.

Bailie: We haven't come to a full agreement on that second point.

H.M.Jr: I don't want to be saying something to the British Treasury, "Now, boys, let's..." I have got to say, "Don't close the silver market," but off the record I understand the problem is all right.

Bailie: We don't want you to.

H.M.Jr: I don't think - let me go the other way. When I say something to the British that I don't like it, I sincerely hope that they will stop, look and listen and I don't want to say that I don't like something unless it is terribly important. Evidently, there is not an agreement here.

Baillie: No.

H.M.Jr: I want to keep that for very, very rare instances, that I say to the British Treasury, "Now, Sir John, you are doing something I really don't like. I wish you wouldn't do it."

Baillie: He has asked you this question: "Do you think it will hurt your neutrality legislation if I do this now," that is the question he has asked you.

H.M.Jr: Well, as to that, I say facetiously, "Don't ask me."

Baillie: That is the substance of our first paragraph.

H.M.Jr: I think that is all right. Now, as to the second one, about closing their own things, I don't care to comment on it.

White: There is another - do you want to develop the thought that we had?

Baillie: Go ahead.

White: It is a political one as between you and Pittman, that if you make that statement with regard to the second one....

H.M.Jr: I don't care to comment on it?

White: That you don't care to comment on it, it may come up when they make this public, Pittman may say, "Didn't you have prior notice of this, didn't the British notify you prior and didn't you make any effort to stop it?"

Now, in order to avoid all that difficulty, particularly since we have no particular axe to grind, we were just talking about that point when we came in and wondering whether it wouldn't be possible for you to call up Pittman and say, "I have got this question."

- 5 -

H.M.Jr: Sure, I know how he will answer it.

Baillie: That is the reason I didn't want you to ask him.

White: It is better for him to answer....

H.M.Jr: You know how he will answer it, "I don't give a damn." He has always told me that.

White: It is better for him to say that before.

Baillie: Then if that is the case, it seems to me we are relieved.

White: You ought to ask him.

Baillie: I don't think we need to.

White: If he is going to take that position, I think he should be asked. I think he should be asked in any instance, because only trouble can come later. Then what you will say, I think, should depend in part on what his reaction is.

H.M.Jr: I can call him up. What is the specific question?

Viner: I would say to call him up, if it were sure as to his reply.

Foley: Suppose it is the other way, Mr. Secretary, and he tells you that you have got to kick it in the pants?

Viner: What I think the British ought to be told is, "Buy all the airplanes you can, don't spend your money on silver."

Hanes: Let me ask from ignorance, for a moment, suppose Pittman should say as Ed says, "Kick it in the pants." Now, the British have asked us the question, as I understand, "What political effect will there be?"

White: No, this is the second part. The first part we are not answering. It relates to, "Does this Government have any objection to their placing an import restriction against silver?"

Hanes: Then is there harm to be done if Pittman should give us an adverse answer? Would there be any harm in

our saying off the record to Pinsent, "We don't think you ought to do this thing."

- White: The answer is that Pittman's judgment on that wouldn't be definitive but it should be definitive of what the Secretary says, because if Pittman does think it is bad and we permit it, there is going to be trouble later and if he is wrong, let the British take whatever action they want.
- Hanes: What I say, isn't that what they are trying to avoid, getting in trouble with our Congress?
- White: That is right. Well, they would like - I mean obviously they would prefer that we didn't mind their doing this. Now, they may do it anyhow or they may not.
- H.M. Jr: But at least the Secretary would be in the clear.
- White: The Secretary would be in the clear and I think that is the only important point in this issue, because it is not very important. They will take whatever action they please.
- Hanes: That is what I would do. I would certainly clear my skirts with Pittman and let the chips fall where they will. I can't see where the Secretary is in anything but a strong position if he takes that attitude and follows it through.
- White: That is my feeling.
- Foley: Mr. Secretary, I thought if Pittman - if there was a possibility that Pittman would come back and say that you should indicate to the British that they shouldn't take this action, it would be better to have this record to show to Pittman if he subsequently criticizes you for your action when he finds out that the British made the inquiry and you didn't take a strong stand. This second answer that has been outlined in the paper that Mr. Baillie has would give you a record of protection and at the same time it doesn't put you in the position of putting yourself under obligation to Pittman, should Pittman say that you should take a strong "No" attitude on the proposal.
- White: Ed, I don't quite agree with you because this answer is too clever. It is so clever that it is obvious

- 7 -

the Secretary is trying to be clever and dodge the issue, and if Pittman says he doesn't care, then the next step is cleared, but should he say that you ought to give it a kick in the pants, then I think that the statement that the Secretary makes ought to be so phrased that Pittman will find no fault in it.

H.M.Jr: Well, what they want to know - after all, aside from everything else, there is no law to keep somebody in the British Embassy from asking Mr. Pittman this question. They may see him, you know. Now, going back, if I did the usual thing, the usual thing is before I have taken any action of importance in the world silver market, I have not only asked Pittman but I have asked McNary. I have done that regularly. I have always done that. I mean, if I just followed my regular course, I would call them both and say, "This thing has been put up to me. I would like to ask your advice."

White: I feel strongly that that ought to be pursued.

H.M.Jr: I have done that right along.

Baillie: Not as long as the Secretary is....

White: I didn't know about McNary, but I knew about Pittman.

H.M.Jr: I have done that right along. McNary has never broken confidence once. Neither has Pittman, not once. But anything new that comes up, I have always called them up.

Baillie: It seems to me that what we want to do is leave the British free to do what they want to do.

H.M.Jr: If you and Riefler, Jake, have some worries about this, I will call tomorrow morning.

Riefler: I would like to get a line from you on the more fundamental policy. It does worry me about the idea as to their going to as drastic action as to embargo imports of silver in the one real market left. Don't you care about that?

H.M.Jr: Me?

- 8 -

Riefler: Yes.

H.M.Jr: No.

White: It is not a very real market except potentially.

Viner: I see something more fundamental, that if the war causes an increase in Indian prosperity, the Indians will try and put lots of their new income into silver and whether the British Empire has resources available for the purchase of a useless commodity now and whether we should insist that they use it for that purpose....

White: I don't think we should unless Pittman insists, and I think that is decisive. That might be pointed out to Pittman. If he says we ought to kick against it, then it may be pointed out to Pittman what their problem is, but I certainly think that it ought to be Pittman's baby.

Viner: What you might point out to Pittman is that if they take silver, it may mean that much less gold that they take, or keep.

White: And it means we get more gold.

H.M.Jr: He is not interested in that.

White: He is not interested in foreign....

H.M.Jr: No, I mean that they take less silver or more gold or more gold and less silver. He has never thought along those lines.

White: He has never been interested in the merits of the problem.

H.M.Jr: No, he isn't interested in foreign silver, I don't think, but I think the fellow most likely has been on his feet five hours. I think the first thing tomorrow morning I will call him up. That is the normal thing that I do. I have always done it.

White: There is no grave importance from the British point of view that it be rushed, because this is a step that they can take....

- 9 -

- Foley: Don't you think it might be dangerous to call McNary?
- H.M.Jr: Never has been.
- Foley: Well, he is opposed to the repeal of the arms embargo. He might try to make some political question of it.
- H.M.Jr: He has never broken confidence once, not once.
- White: Is it your thought that you show them both the first and the second question?
- Baillie: Just the second point.
- H.M.Jr: No, I am not speaking of the neutrality. All I am going to say is this, "The English put up the following proposal to me, that the Government of India is thinking of imposing an absolute embargo and they have asked me to comment on it. I wish you would advise me if it is of any interest to you." I am not - I am just going to duck the other thing.
- Baillie: If each of them come back and say kick it in the pants, our second paragraph as written kicks it in the pants. The reason for the second paragraph was so that you would have kicked it in the pants in a mild way if they didn't like it.
- H.M.Jr: I want to know what they say. I take it nobody in the room really thinks it is important.
- Baillie: It isn't important to us at all. It seems to me it is logical for the British to want to do it, and as you said just a moment ago, you didn't want to say no to the British if you could possibly help it, so I hope you are right about what Pittman will say because I think if Mr. Pittman says, "I am not interested," then we can say we have no comment at all.
- H.M.Jr: Unless somebody gets agreed, I think tomorrow morning when he is fresh I will call him. I can also then have a chance to read what he said, so I can say something on the phone to him first on what he has said.

October 2, 1939

HM, Jr called in each of the following men and asked each, in turn, this question: "If you had to decide whether you would do a refunding this week, what would be your decision?".

Mr. Hanes: I am not nearly convinced that it is a good thing to do it this week. I have been hanging in the balance. Last week it looked pretty good, but I have been reading very carefully the comments in the papers and I am not as certain, as I was last week. I want to think a little bit more about it.

HM, Jr: I am in the process of making up my mind not to do it. The old elbow does not feel right. The market is nervous. The whole world is nervous. I am asking you now because I am sufficiently uncertain myself and, therefore, do not want these people to come down from New York to see me.

Mr. Hanes: I studied the financial page for the first time in five months and I came away with a feeling of hesitancy. If I was buying I would not risk my capital to buy anything at this time.

* * * *

Mr. Bailie: I would say yes. I would certainly refund this week, because I do not think anything is worse now than it will be any other week from now on. I feel that a five-year note will go very well. I do not think the rate makes a bit of difference. The problem is to have a healthy interest. If they want a three-year note instead of a five-year note, I do not think that would make any difference.

HM, Jr: I am not in agreement with you. I am asking the different people for their opinions. I am not interested in rates for the moment. I feel that this is the week that England and France and Germany will decide whether there will be a world war or peace and I do not think that this is the time for me to have a refunding.

* * * *

Dr. Riefler: I would start issuing bills and build up the balance.

HM, Jr: I do not need any more money. I have 1 billion four. What I am asking you is this: I want to know are you in the frame of mind to buy any securities or bonds? If the Bamberger Foundation had any money to invest, would you do it now?

Dr. Riefler: Yes, I would.

HM, Jr: You have not given me just what I want.

Dr. Viner: If you do not refinance now, when would you do it?

HM, Jr: December 15th, as a refunding. I might have to do some financing.

Dr. Viner: I would refund now, just to know how the market reacts. I would refund on a five-year note.

HM, Jr: I am not interested in rates for the moment. I feel that this is the week that England and France and Germany will decide whether there will be a world war or peace and I do not think that this is the time for me to have a refunding.

Dr. Viner: Yes, I think this is the week, but I think the decision has already been made.

HM, Jr: But the public does not know this.

Dr. Viner: If you do not do it this week, can you do it next week?

HM, Jr: Oh, yes! I can do it at any time.

Dr. Viner: I thought that if you did not do it this week you would not be able to do it until December 15th. In that case, I certainly would not refund this week.

* * * * *

The Secretary also conferred over the telephone with Dr. Burgess and Mr. Eccles, and records of their conversation are attached.

JIL

GRAY

Paris

Dated October 2, 193

Rec'd 3:15 p.m.

Secretary of State,
Washington.

2281, October 2, 7 p.m.

FOR THE TREASURY

The undertone was firm in light trading on the securities exchange today. The month end liquidation passed off satisfactorily with a carryover rate of $3\frac{1}{4}\%$ on the exchange against $1\frac{3}{4}\%$ at the previous liquidation. The curb rate remained unchanged at $7\frac{1}{2}\%$. Most rente issues improved fractionally.

The Journal Official of October 1 publishes a decree raising the rate of interest on the three year National Defense bonds from $3\frac{1}{2}\%$ to 4%

(END SECTION ONE)

CSB

BULLITT

JIL

GRAY

Paris

Dated October 2, 1939

Rec'd 3:15 p.m.

Secretary of State,
Washington.

2284, October 2, 7 p.m. (SECTION TWO)

The Journal Official of September 4 carried a decree (transmitted with the Embassy's despatch number 4915 of September 5) restricting relations with the enemy; based thereon the Journal Official of October 2 stipulates conditions of application of this measure insofar as it relates to property rights and interests of French Nationals held in enemy territory at the outbreak of hostilities. These rights and interests must be reported to the office of private property and interests, Ministry of Finance (the body charged with handling sequestration claims growing out of the last war).

(END MESSAGE)

BULLITT

RECEIVED

OCT 3 1939

THE DEPARTMENT OF STATE
OFFICE OF THE SECRETARY
WASHINGTON, D. C.

CJ

PLAIN
PANAMA VIA N.R.

Dated October 2, 1939

Rec'd 7:10 p.m.

Secretary of State,
Washington.

35, Second.

Following is the text of the resolution on economic cooperation approved at the plenary session on September 30.

"The meeting of the foreign ministers of the American Republics resolves:

One. In view of the present circumstances, to declare that today it is more desirable and necessary than ever to establish a close and sincere cooperation between the American Republics in order that they may protect their economic and financial structure, maintain their fiscal equilibrium, safeguard the stability of their currencies, promote and expand their industries, intensify their agriculture and develop their commerce.

Two. To create an Inter-American financial and economic advisory committee consisting of twenty-one experts in economic problems, one for each of the American Republics, which shall be installed in Washington, D. C., not later than November 15, 1939, and which shall have the following functions

-2- #35, - October 2, from Panama via NR

functions: (A) to consider any problem of monetary relationships, foreign exchange management, or balance of international payment situation, which may be presented to it by the government of any of the American Republics, and to offer to that government whatever recommendations it deems desirable. (B) To study the most practical and satisfactory means of obtaining the stability of the monetary and commercial relationships between the American Republics. (C) To provide, with the cooperation of the Pan American Union, the means for the interchange of information between the governments of the American Republics with reference to the matters mentioned in the two preceding subparagraphs, as well as for the exchange of production, foreign trade, financial and monetary statistics, custom legislation and other reports on Inter-American commerce. (D) To study and propose to the governments the most effective measures for mutual cooperation to lessen or offset any dislocations which may arise in the trade of the American Republics and to maintain trade among themselves, and as far as possible, their trade with the rest of the world, which may be affected by the present war, on the basis of those liberal principles of international trade approved at the Seventh and Eighth International Conferences of American States and the Inter-American Conference for the Maintenance of Peace. These principles shall be retained as the goal of their

-3- #35, October 2, from Panama via NR

their long-term commercial policies in order that the world shall not lack a basis of world-wide international trade in which all may participate after world order and peace may be restored. (E) To study the possibility of establishing a custom truck, of reducing custom duties on the typical commodities which an American country may offer in the market of another American country, of abolishing ^(or?) of modifying import licenses on such commodities, as well as all the other obstacles which render difficult the interchange of products between the said countries, of adopting a uniform principle of equality of treatment, eliminating all discriminatory measures, and of giving ample facilities to salesmen traveling from an American country to another. (F) To study the necessity of creating an Inter-American institution which may render feasible and insure permanent financial cooperation between the treasuries, the central banks and analogous institutions of the American Republics, and propose the manner and conditions under which such an organization should be established and determine the matters with which it should deal. (G) To study measures which tend to promote the importation and consumption of products of the American Republics, especially through the promotion of lower prices and better transportation and credit facilities. (H) To study the usefulness and feasibility of organizing an Inter-American commercial
institute

-4- #35, October 2, from Panama via NR

institute to maintain the importers and exporters of the American Republics in contact with each other and to supply them with the necessary data for the promotion of Inter-American trade. (I) To study the possibility of establishing new industries and negotiating commercial treaties, especially for the interchange of the raw materials of each country. (J) To study the possibility that silver be also one of the mediums for international payments. The Inter-American Economic Advisory Committee shall communicate to the governments the results of the studies made in each case and shall recommend the measures which it considers should be taken.

Three. To recommend to the governments of the American Republics:

(A) To take measures in accordance with their own respective legislation, with a view to avoiding increases of rates or premiums to an extent not justified by the special expenses and risks incurred because of the present state of war, by shipping companies which maintain transportation services between the countries of the continent, and marine insurance companies operating in their territories. (B) To promote the negotiation of bilateral or multi-lateral agreements for the organization and maintenance of regular and connected steamship services between the countries of the continent in order to facilitate the direct traffic of passengers and cargoes. These agreements

are

-5- #35, October 2, from Panama via NR

are to make special provisions for traveling salesmen and commercial samples. (C) To study the possibility of reducing to a minimum consular fees on manifests of vessel in the above-mentioned services, so as to make possible the shipment of reduced quantities of commodities which require rapid and special transportation. (D) To study the possibility, in accordance with their legislation, of reducing to a minimum port, sanitary and other formalities applied to the traffic of merchandise between the American Republics.

Four. To recommend to the governments that they do everything possible to abolish obstacles to the free Inter-American movement of capital.

Five. To recommend to the governments that, when deemed necessary, they negotiate agreements, in accordance with the circumstances and legislation of each country, with a view to the establishment of bases that would make feasible and secure the granting of Inter-American credits which may serve to intensify the interchange of products as well as for the development of natural resources.

Six. To request the governments of the most industrialized countries of the continent to do whatever is possible, within their legal faculties and circumstances, to prevent excessive and unjustified increases in the prices of manufactured articles destined for export.

Seven.

-6- #35, October 2, from Panama via NR

Seven. To recommend that the American Governments promote the negotiation of arrangements, in accordance with their legislation and within their possibilities, with a view to obtaining ample facilities with regard to the treatment or reembarkation of merchandise sold or acquired by American countries, detained at the present moment on board merchant vessels of countries at war which are unable to transport it to its original destination.

Eight. To recommend to the respective governments that they preserve in a reciprocal and generous form the legitimate principle of freedom of communications and transit through the ports and territories of the American nations, in accordance with the legislation and international agreements in force.

Nine. To recommend that countries bordering on each other hold, among themselves, meetings of their ministers of foreign affairs, or of their ministers of finance, or of special plenipotentiaries, in the capacity of one of them, in order to arrive at agreements for solving common problems of a financial, fiscal, or economic character, in conformity with the relevant general principles of commercial policy approved at recent Inter-American conferences.

Ten. To make every effort in order to complete their respective

-7- #35, October 2, from Panama via NR

respective sections of the Pan American highway and to recommend to the countries which have ratified the Buenos Aires Convention that they designate as soon as possible one or more experts to expedite the fulfillment of the recommendations of the Third Pan American Highway Congress."

WELLES

NPL

RECEIVED

OCT 3 1935

FOREIGN DEPARTMENT
OFFICE OF THE SECRETARY
WASHINGTON, D. C.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin, Germany

DATE: October 2, 1939, 5 p.m.

NO.: 1542

A reliable and authoritative source has informed us that Germany so far has been able to meet its war time fiscal needs from the larger revenues from taxes (resulting from the new war surtaxes) and by issuing short term treasury bills. It is stated that at this time the Reich is not contemplating a long term loan.

This source states furthermore that as a result of rationing and other restrictions on private expenditures, there is an abundance of funds in the money market.

The German Army, it will be noted, is now using wehr macht ver pflichtungs schein (army certificates of indebtedness) to pay for many of its emergency expenditures. These certificates are in effect treasury bills for three and six months which pay interest at 4 percent.

Apparently large quantities of tax anticipation certificates and ordinary treasury bills are being issued in addition to the aforementioned extraordinary bills.

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

KIRK.

EA:LWW

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

Er
97

DATE October 2, 1939.

TO Secretary Morgenthau
FROM Mr. Haas *HA*

The attached tables and chart show WPA employment, weekly through September 20, 1939, and monthly through August 1939, the latest figures available on these series.

The total number of WPA workers during the week ending September 20, 1939 was 1,733,000, an increase of 39,000 over the preceding week, and of 72,000 over the week ending September 6, 1939, the week covered in my last memorandum.

Attachments

WORKS PROGRESS ADMINISTRATION
Number of Workers Employed - Weekly
United States

Week ending 1939	Number of Workers (In thousands)
January 7	3,070
January 14	3,030
January 21	3,001
January 28	2,986
February 4	2,966
February 11	2,966
February 18	3,011
February 25	3,043
March 4	3,032
March 11	3,009
March 18	3,015
March 25	3,009
April 1	2,980
April 5	2,906
April 12	2,761
April 19	2,752
April 26	2,751
May 3	2,734
May 10	2,660
May 17	2,622
May 24	2,609
May 31	2,598
June 7	2,594
June 14	2,590
June 21	2,578
June 28	2,551
July 5	2,388
July 12	2,290
July 19	2,250
July 26	2,200
August 2	2,081
August 9	2,053
August 16	1,976
August 23	1,896
August 30	1,841
September 6	1,661
September 13	1,694
September 20	1,733

Source: Works Progress Administration.

WORKS PROGRESS ADMINISTRATION
 Number of Workers Employed - Monthly
 United States

99

	Number of Workers (In thousands)
1936	
June	2,256
July	2,249
August	2,377
September	2,482
October	2,581
November	2,483
December	2,192
1937	
January	2,138
February	2,146
March	2,115
April	2,070
May	1,999
June	1,821
July	1,569
August	1,480
September	1,451
October	1,476
November	1,520
December	1,629
1938	
January	1,901
February	2,075
March	2,395
April	2,582
May	2,678
June	2,767
July	3,053
August	3,153
September	3,219
October	3,346
November	3,319
December	3,094
1939	
January	2,986
February	3,043
March	3,009
April	2,751
May	2,598
June	2,551
July	2,200
August	1,841

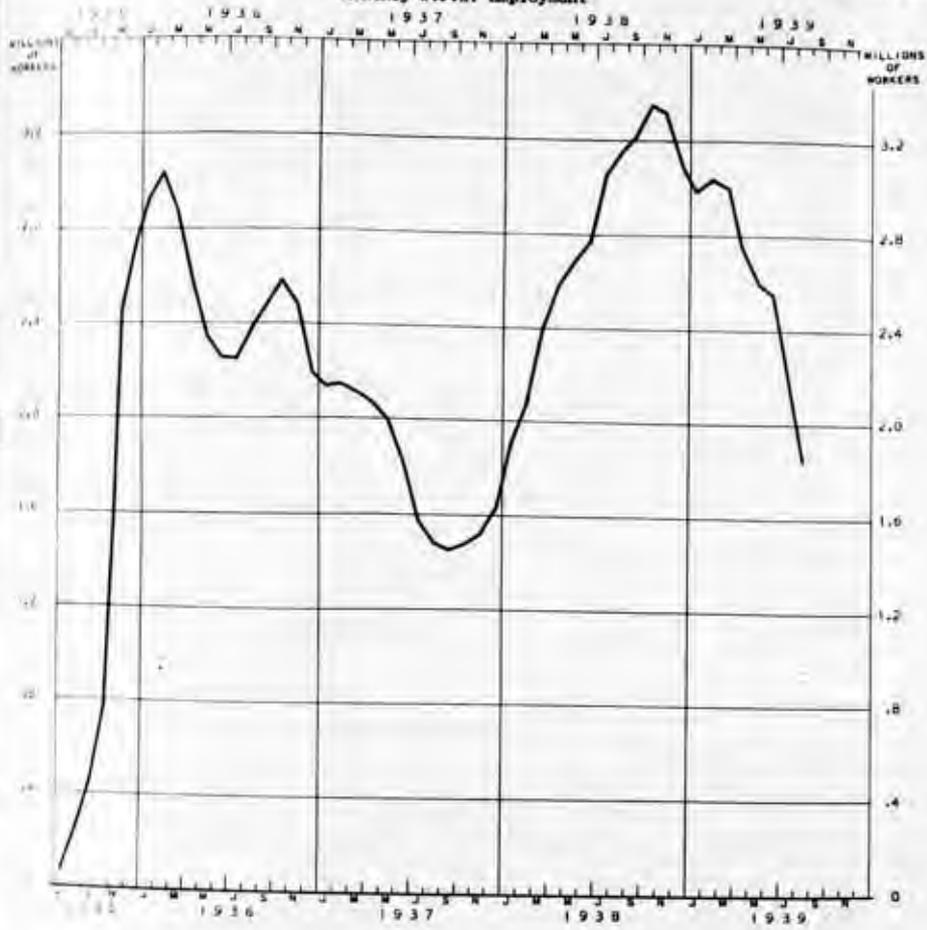
Source: Works Progress Administration.

Monthly figures are weekly figures for the latest week
 of the month.

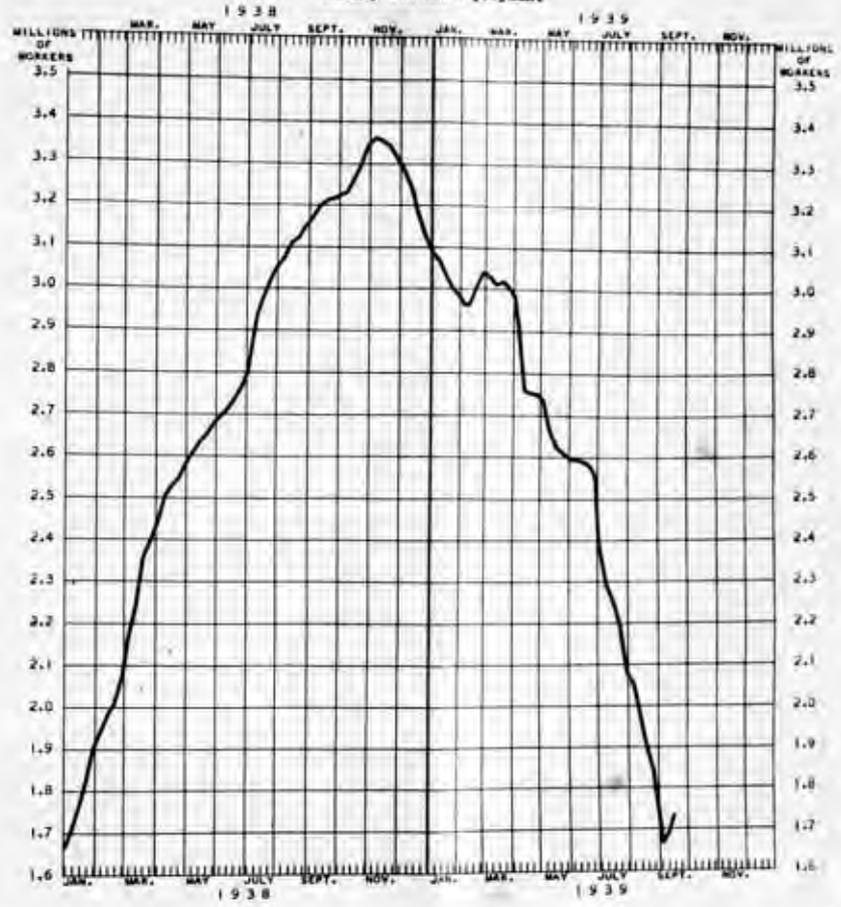
They include certified and noncertified workers.

WORKS PROGRESS ADMINISTRATION Number of Workers Employed United States

Monthly W.P.A. Employment



Weekly W.P.A. Employment



SOURCE: WORKS PROGRESS ADMINISTRATION

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

E-22

TREASURY DEPARTMENT

101

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE October 2, 1939

TO Secretary Morgenthau
FROM Mr. Haas *OK*
Subject: The Business Situation,
Week ending September 30, 1939.

Conclusions

(1) The first stage of the rise in commodity prices, in which war psychology played a prominent part, has apparently come to an end. With more nearly normal operation of supply and demand factors during the past week or more, declines have occurred in prices of many commodities.

(2) Owing to increased supplies which are now becoming available, more or less delay is likely to be experienced before prices start a broad upward movement under the influences of rising costs, increased demand, and monetary expansion. This delay may be shorter, however, than during the World War, because of the more inflationary potentialities in the present monetary situation and the stronger position of labor unions.

(3) An FRB index of about 110 is expected for September (versus 102 in August), with a further strong rise probable during the last quarter of the year. The volume of new ordering, however, has fallen off from its earlier high levels, and the probabilities now seem to favor some setback in industrial production from its fourth-quarter peak during the first half of 1940.

- - - - -

The price situation

The speculative buying wave of early September has given way to a period of more cautious buying, and prices of many basic commodities have turned downward. (See Chart 1.) Increased supplies of various commodities, particularly of agricultural products, attracted to the market by the prevailing high price levels, have added additional pressure on prices, and active buying interest has been noticeably lacking in some commodities on the decline.

Secretary Morgenthau - 2

It appears that the war-scare stage of the commodity price rise is over, and that more or less delay may be experienced before a general price rise gets under way on a more substantial basis, assuming a continuation of the war. In the meantime, increased production of various products and materials, where costs have not increased as much as prices, will tend to hold prices down. The large volume of buying already done must also be digested before another important buying movement gets under way.

The outbreak of the World War was similarly followed by an immediate speculative buying movement, which lifted the BLS all-commodities index 2.3 points (1926 = 100) from July to August 1914. This year, the rise in September over August was about 4 points.

Quoting a report of the War Industries Board on the 1914 situation: "Many of the panicky apprehensions proved to be mistaken or at least premature, so that the prices which had bounded up so suddenly subsided again in September or October." After this flurry, the price index dropped back to its pre-war level and remained there until late in the following year, despite an almost immediate rise in exports. In view of the present huge volume of excess bank reserves, greater ability of labor unions to force wage increases, and other factors, the basis for a general price rise is apparently stronger today than it was in 1914.

BLS index keeps step with raw material prices

One reason for doubting that the general price level will go much higher in the immediate future is the fact that wholesale prices of semi-finished and finished goods, as measured by the BLS price indices, have already fully reflected the rise in raw material prices. This results largely from the fact that the recent panicky buying spread to all types of goods, whereas usually an increase (or decrease) in demand is first reflected in raw material prices and later translated into prices of finished products.

The notable price rise in 1936-37, for example, (See Chart 2) began first in raw material prices. The BLS all-commodities index continued to lag until the spring of 1937, owing to the usual delays in marking up prices of finished goods. On the decline in 1937-38 the same sequence was observed.

For several months previous to the recent outbreak of war, the general commodity price index, as shown on the chart, was in approximate balance with raw material prices as determined by previous relationships. Weekly data shown at the right of the chart indicate that the recent speculative buying movement has raised the general index even faster than the index of raw

material prices. Until the latter start another rise, which appears not an immediate prospect, the chances seem against any material further rise in the general ELS price index.

Cost factors important in price outlook

So long as the cost of producing commodities and goods does not rise, no material increase in prices can be expected, since the volume of production will be stepped up to meet the increase in demand. Physical inability to expand production immediately, however, may result in temporary price rises even if costs remain low.

The increase in supplies in response to higher prices was one important reason for the fact that the trend of prices remained flat for more than a year after the outbreak of war in 1914, except for the initial speculative flurry. The increased demand brought on by the war was quickly met by a pronounced rise in industrial production and by increased output of mines. It was not until factory output approached its practical limit of capacity, in the latter part of 1915, and labor costs increased, that prices began to rise.

In the present situation, production costs may increase through the operation of some combination of the following factors:

- (1) Increased labor costs, which will come sooner now than in 1914, owing to the stronger position of labor unions.
- (2) Increased material costs resulting from curtailed imports of some products, higher shipping costs on others, and limited domestic supplies of some products (such as steel scrap).
- (3) Bottlenecks in some industries producing raw materials or semi-finished products due to present capacity limitations.
- (4) Unusual facilities for credit and monetary expansion, which, combined with speculative tendencies in trade and industry, may result in raising prices of industrial raw materials more rapidly than the supply can be increased, and contribute toward developing an inflationary spiral.

An indication that higher production costs are likely to affect commodity prices somewhat sooner than during the World War appears in the prompt movement among labor unions to use the recent rise in commodity prices as a basis for increased wage demands. In the textile industry, the A.F.L. union is to launch a drive immediately for wage increases "of at least

20 per cent", while the C.I.O. union has voted to request manufacturers in the woolen division for "an immediate and substantial increase in wages" due to higher living costs. In the steel industry, a new C.I.O. drive to organize workers in independent steel plants is scheduled to get under way this month.

The steel situation

The rate of operations in the steel industry rose this week to 87.5 per cent of capacity, virtually reaching the peak level of 1937. (See Chart 3.) The current rate is close to the practical limit of present capacity, though the capacity may be increased through obsolete mills being re-conditioned and brought into operation.

A feature of recent weeks has been a pronounced rise in steel scrap prices, (Shown on Chart 3), occasioned in part by a limited available supply. The rise in scrap and other raw material prices has led the Lukens Steel Company (a leading manufacturer of steel plates) to raise prices on all its steel products \$5 a ton. Steel prices for shipment during the first quarter of 1940, on which an announcement is likely soon, are expected in the trade to show substantial advances over present levels, which explains in part the rush to get delivery before January 1.

Steel companies now are reported to have unfilled orders sufficient to carry them at peak operations through the rest of the year, and, in some instances, through the first quarter of next year. New orders reported confidentially this week by the U. S. Steel Corporation, probably representing bookings made by their subsidiary corporations a week or so earlier, rose to a higher figure than any previous record back to the beginning of 1933.

The possibility of further heavy buying of steel during the first quarter of next year is suggested by the fact that steel companies have attempted to limit present orders to volumes that can be delivered before January 1, on the expectation that prices will be increased after that time. This has involved reducing many orders, and allocating orders to customers according to their usual volume of business. It is said that salesmen are being used to cut down orders instead of to solicit orders.

Structural steel orders have increased substantially, in company with the increased orders for other steel products. (See Chart 4.) Heavy construction awards, however, have tended to decline, as shown on the same chart, hence the buying of structural steel may be largely for inventory. Last year, structural steel orders during one week in September (noticeable on the chart) were sharply expanded by a huge order for a New York housing project of the Metropolitan Insurance Company.

New buying slackens

Evidence is beginning to appear that the buying wave of recent weeks is decreasing, and that price mark-ups in various instances are meeting consumer resistance. In the market for steel scrap, for example, recent price increases demanded by sellers are meeting no real test, and the lack of important consumer buying at these levels has left the price situation uncertain.

In the pig iron market, according to reports from the Cleveland area, no important sales have yet been made at the increased prices announced more than a week ago. With most consumers well covered for the fourth quarter, buying is reported again almost at a standstill.

Our new orders index (See Chart 5) rose to a new high during the week ended September 23, owing to the further marked rise in reported steel orders, which probably were orders actually placed during the preceding week. Textile orders declined for the second successive week, and orders for products other than steel and textiles remained rather low. Trade reports mention a general falling off in new buying in the past week, with a disposition among buyers to take a more cautious attitude toward prices.

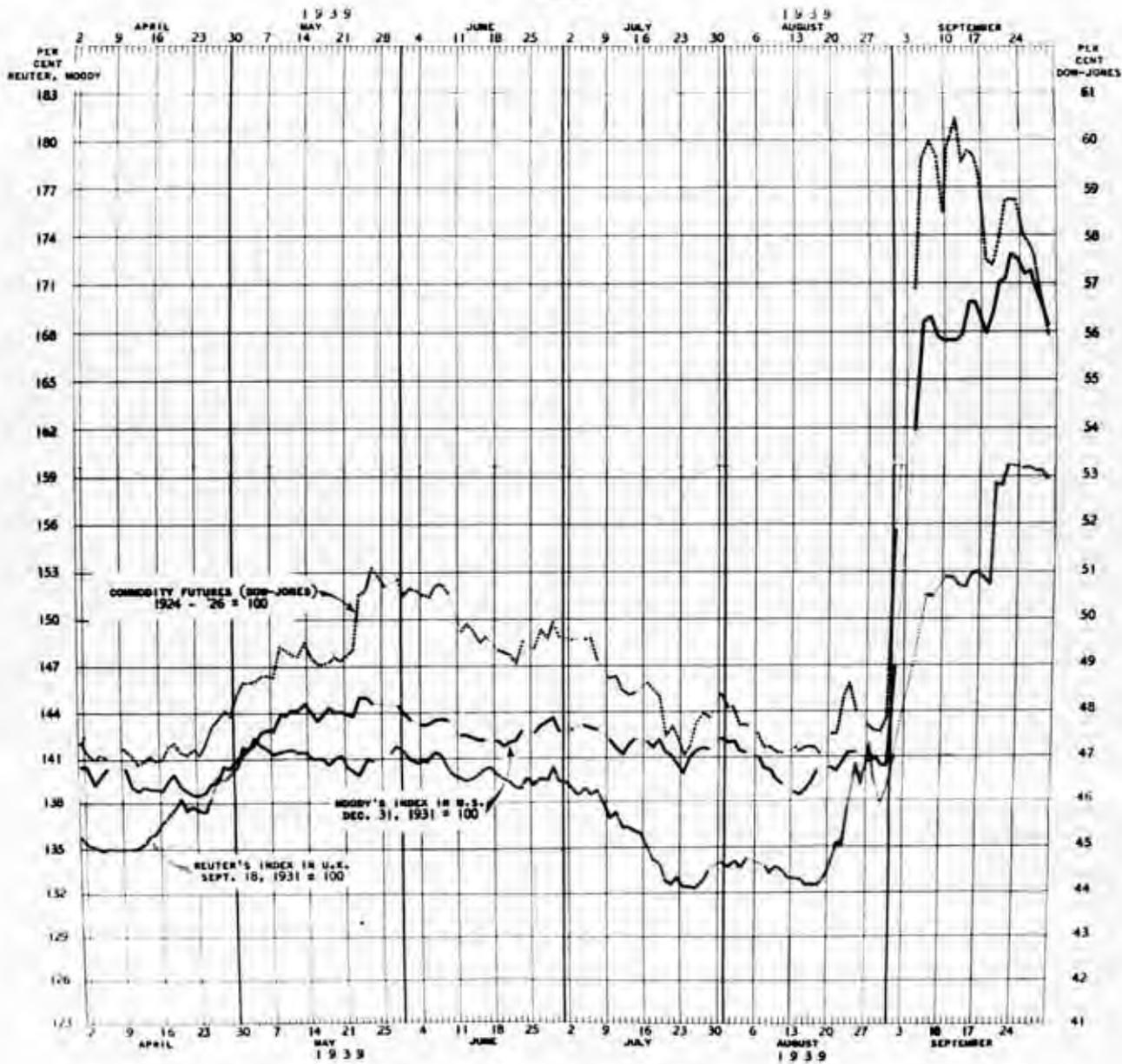
New orders for lumber during the week ended September 23 increased somewhat further, reaching the highest level since 1930, according to reports of the National Lumber Manufacturers' Association. While production of lumber for the year to date is 17 per cent over 1938, new orders are 21 per cent higher.

Current business news

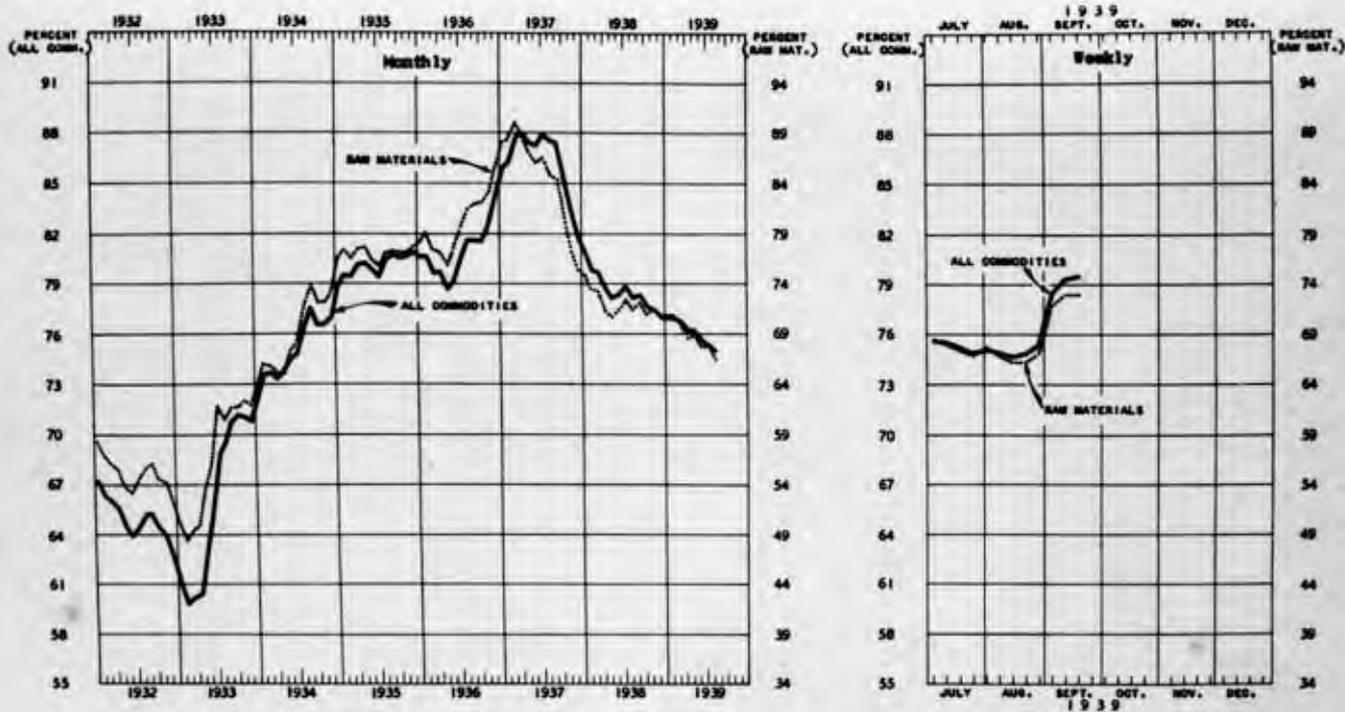
The New York Times business index for the week ended September 23 rose 1.1 points to 101.1, the highest figure since the week ended October 2, 1937. Marked increases in the indices of steel production and automobile production were partly offset by declines in indices of electric power production, cotton mill activity, and "all other" carloadings. The cotton mill index turned down moderately after a sharp rise in the previous week, which had carried it to the highest level since the summer of 1937.

The Federal Reserve Board estimates confidentially, on the basis of weekly data so far available, that the index for September may be about 110, as compared with 102 in August. The large volume of domestic orders placed after the outbreak of war, the reopening of oil wells following an extensive shutdown in August, together with a continuation of recovery that was already under way, are cited as causes of the 8-point upturn. Comment is made that further increases in output are likely in October, and that the production index "may exceed 115".

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



B.L.S. ALL COMMODITY PRICE INDEX AND INDEX
OF RAW MATERIALS
1926 = 100



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

P - 183

Chart 2

108

Regraded Unclassified

STEEL OUTPUT AND SCRAP PRICES

Ingot Output in Percent Capacity
WEEKLY

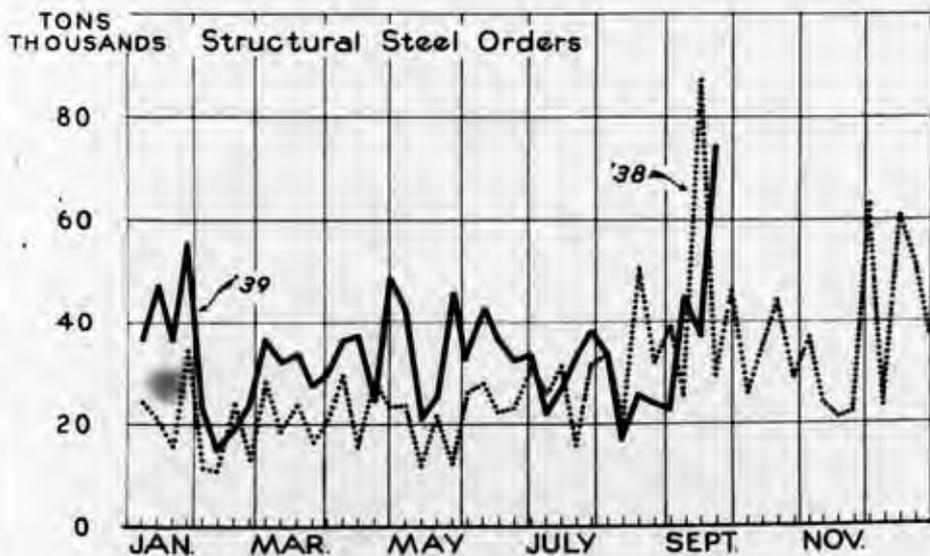
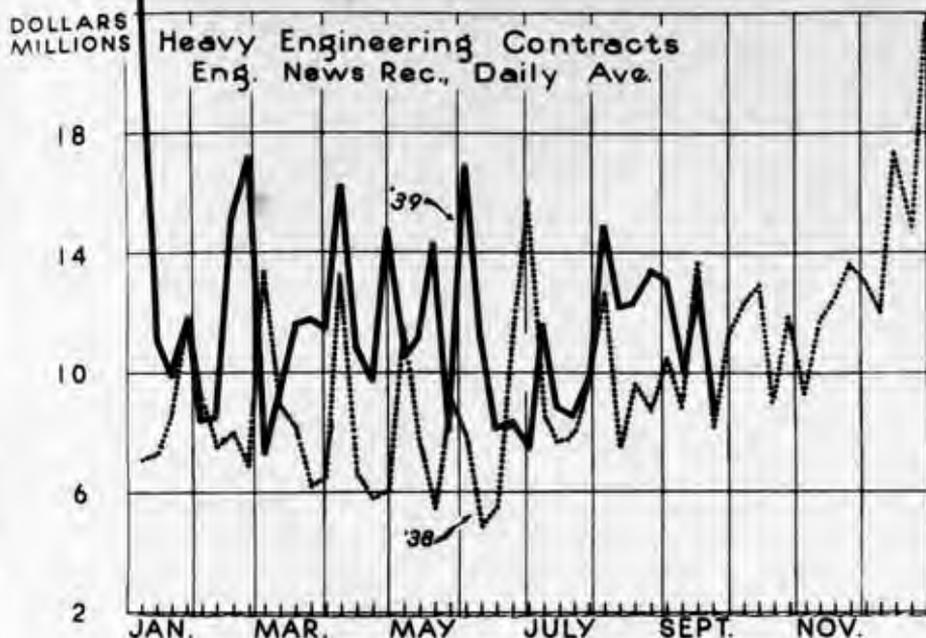


Office of the Secretary of the Treasury
Division of Research and Statistics

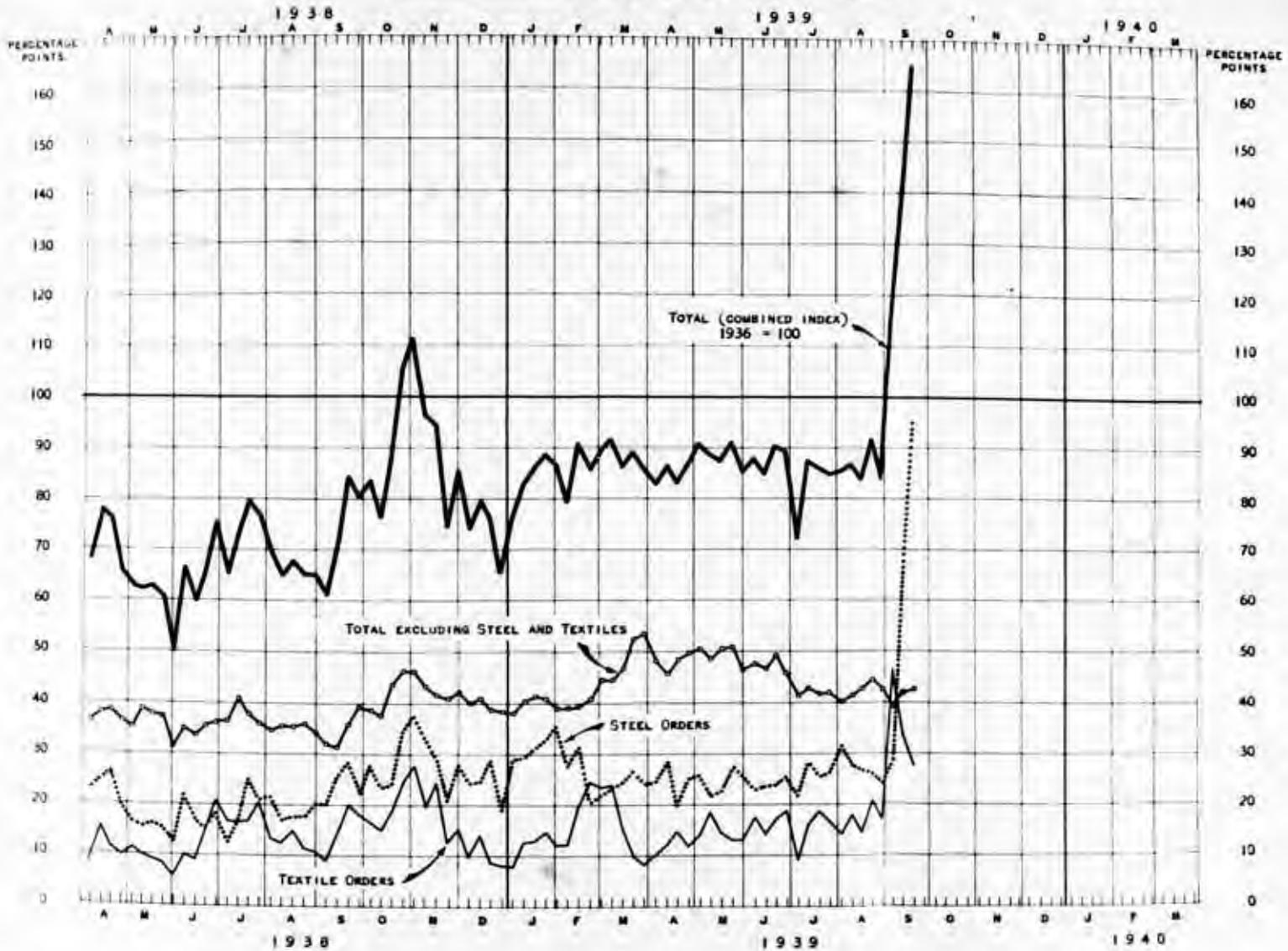
C-190-A

Chart 1
1939

CONSTRUCTION AND STRUCTURAL STEEL ORDERS



INDICES OF NEW ORDERS
Combined Index of New Orders and Selected Components



GROUP MEETING

October 2, 1939.
9:30 a.m.

Present: Mr. Gaston
Mr. Viner
Mr. Graves
Mr. Duffield
Mr. Thompson
Mr. Haas
Mr. White
Mr. Bailie
Mr. Hanes
Mr. Cochran
Mr. Riefler
Mrs Klots

H.M.Jr: (To Mr. Hanes) Did you get my message about Delano, saying he has been away three weeks now? I want him to come back immediately. He has been playing around at Salt Lake and Seattle and one place and another for three weeks. I would like to have him back here and have him tend to his job. I would like him to come back at once. There is a lot going on here. Can you see any reason why he should be gone for three weeks? I would definitely like to have him back.

Now, we will bring everybody up to date, Duffield amongst others. I am doing the best I can. We had a request from the State Department to assist them to prepare a memorandum on this 90-day credit clause and the people worked Saturday and all of Sunday, and last night a memorandum went to the President stating our position on the Johnson Act, in which we take the position that there is absolutely no conflict between the Johnson Act and the 90-day credit clause, and giving a history of the credit clause.

In my conversation with Mr. Hull, I made it very clear to him that we would in no way communicate with anybody on the Hill, I mean we would concentrate our communication with the President and with Mr. Hull, and I want to live up to that, you see, and particularly in view of my conversation with the President last night.

On this memorandum, he didn't want it said that it was from me to him because he is leaning over backward and he is not going to make any recommendations. I take it what he did, although he didn't

- 2 -

tell me, was that my memorandum went - I take it, I don't know - to Mr. Hull and from Mr. Hull to the Hill, but I don't want it changed, I don't want it to show that, so be extra careful, will you please.

Duffield: We just don't talk about the 90-day credit.

H.M.Jr: No, if there are any questions, just refer them to the State Department. I take it Dr. Viner has got a copy of that memorandum.

Viner: No, I don't keep them.

H.M.Jr: If you want to see one or Mr. Riefler wants to see one, it is available, and if Mr. Bailie wants to see one, it is available. You can just read it and turn it back.

Have you got a copy for yourself?

Hanes: Yes.

H.M.Jr: I have got one, a carbon copy. Has Foley got them?

White: Foley has got one. We have got one.

Did you have time to use the revised one?

H.M.Jr: Yes, I did. The revised one went. I just wanted to caution Duffield that you worked all day yesterday on it on account of my conversation with Mr. Hull and I don't want the President in it or any comment, please.

Duffield: Yes.

H.M.Jr: And if you want to read it so that you....

Duffield: I guess I better hadn't.

H.M.Jr: Well, it is very interesting. I went over it yesterday and I am satisfied. In other words, what the President is doing is - my advice, when he asked me, was that he should not try to push the 90-day clause and he said that that was just exactly what he had in mind and he is particularly delighted to

- 3 -

find that a meeting took place in this office in 1934 at which Senator Johnson was present and we asked him the specific question whether short-term credit was in conflict with what he had in mind, and he said no.

Now, there is a memorandum here from Foley backing up a telephone conversation that I had with Mr. Bullitt about the Poles. I take it they want to either transfer their gold to the United States or something or other, and I think Foley ought to satisfy himself first on this thing. I want to be triple careful on this Polish question and if the Fed comes in and we are crowded on the thing and the Fed can retain counsel as they did before on the suggestion that we retain Mr. Stimson on this if we need actual advice, you see. But if Bullitt and Biddle - if the two "B's" are going to crowd me on this thing, which I imagine they will, and there is any doubt, why then, I would like to retain Mr. Stimson, you see, because I can't and the Federal of New York can.

Baillie: New York Federal can, yes.

H.M.Jr: And on the silver thing for the request from London, that is in the hands of the three "E's", is it not?

Cochran: I passed copies of the memorandum on to them.

H.M.Jr: The request about the sale of silver by India. Will you fellows take a look at that this morning?

Baillie: Yes.

H.M.Jr: I think we ought to give an answer to that Indian silver today if we can, and I am sure that Mr. Bullitt will be crowding us on the other question.

Then there is an extra-confidential cable in here which was handed me yesterday from Kennedy and I will give it to Cochran. He hasn't got it yet. Anybody who thinks he is entitled to read it, the sales of securities and gold, can read it in Mr. Cochran's office, but I don't want it to get out of his hands.

Cochran: All right, sir.

- 4 -

Hanes: We have got a letter from the committee here to the Director of the Budget (handing letter to Secretary). It is a revised estimate but it shows it is down about 188 million from the last time.

H.M.Jr: Where is it down mostly?

Hanes: Two items. One is 125 million and the other is 25 million. The 125 - what was that?

Haas: Customs.

Hanes: That is right. The Customs estimate is down 125 and what is the other, Social Security?

Haas: Social Security, for freezing that tax.

Hanes: With a loss of about 25 million.

H.M.Jr: Shall I give this to Thompson?

Hanes: Yes, unless it should go back to George's office.

H.M.Jr: Anything else?

Hanes: No.

Gaston: The officer of the Coast Guard called me up Saturday afternoon to read me a communication handed him by Thomsen of the German Embassy through the State Department which the State Department transmitted to the Coast Guard and which we in turn transmitted to the different stations, which was a warning to American ships not to zigzag or attempt to run away from German submarines, otherwise they might be mistaken for belligerent ships.

Then one of the radio technicians over there who listens in on his own set in his spare time reported that he heard two British stations repeating a message which they said they had picked up from a German station announcing that hereafter because British ships were generally being armed, they would be sunk without warning.

H.M.Jr: Well, they sunk this Danish....

- 5 -

- Gaston: They did sink the Danish ship without warning. Apparently they are sending out general instructions to that effect now.
- H.M.Jr: Did you make a start on that suggestion to the White House?
- Gaston: Yes, I did, and Starling and the Chief came up and talked to me about it and I have written him a memorandum about it. The substance of it is that they feel that they have no jurisdiction on the streets and that they have asked for the help of police departments in patrolling their territory and that there is nothing new about it, they have done it for 26 years.
- H.M.Jr: But these streets are inside the White House.
- Gaston: He says they are not inside the White House, they are only patrolling this street out south of the White House on the public street, outside the fence, and that there are no metropolitan police or national park police inside the White House grounds.
- H.M.Jr: I still say I saw twice the park police inside the portico.
- Gaston: You saw them inside the portico?
- H.M.Jr: Sure. I stopped and asked a fellow. I said, "What are you," and he said, "I am park police."
- Gaston: Well, I will talk to the Chief again about it. He told me that all that they were doing was patrolling the street to the south of the White House grounds.
- H.M.Jr: I go through the east portico and I have twice now seen this fellow, a man with this triangle on his shoulder and I stopped and talked to him and said, "What are you," and he told me what his record was with a revolver, and I just had a little conversation with him.
- Gaston: I imagine they are just being chummy. They would rather sit there in the White House than patrol their beat, but I will talk to the Chief about it.

- 6 -

H.M.Jr: If I can see them inside the White House, so can anybody else.

Gaston: Yes.

H.M.Jr: Anything else?

Gaston: No, nothing else.

Duffield: Nothing.

H.M.Jr: Is there anything interesting in today's paper?

Duffield: I didn't see anything in the New York Times. I didn't get a Tribune nor the Wall Street Journal.

H.M.Jr: Run through these (handing clippings to Duffield) while you are here.

Earle?

Baillie: Nothing.

H.M.Jr: How was the country?

Baillie: Not as wet as this part of the world.

H.M.Jr: Are you all right?

Baillie: Yes.

H.M.Jr: Merle?

Cochran: I have nothing.

H.M.Jr: You are here early this morning, aren't you?

Riefler: No, late. I had to wait a half hour for a taxi.

H.M.Jr: George, at 11:15 walk in here, and I want to know what the theoretic premium that we figured on the last four note issues we got out, is, at what price they would sell, the five-year note issues. Look up the last four.

Haas: What we had at the time they were issued?

- 7 -

H.M.Jr: Yes, when they were issued, what we figured they would sell at and what they opened at. We always have a theoretical and there is so many 32nds premium.

Haas: Yes, and what they actually sold at.

H.M.Jr: Do you think you can do that?

Haas: Yes, I think so. I think we have a record of it.

H.M.Jr: I think there must be a record somewhere.

Haas: I think we have it.

H.M.Jr: In other words, I would like to know what we figured they would sell at and what they did sell at when they opened. Will you come in at 11:15?

Haas: Yes.

H.M.Jr: You know what I mean?

Haas: Yes, I know what you mean.

H.M.Jr: I figured, well, they are going to sell at three-quarters to a point premium. We always have a figure, you know.

Haas: Oh yes, I know you do. Sometimes there is some disagreement.

You asked for some charts.

H.M.Jr: Let's have that at 11:15.

Haas: Yes, and I have that other stuff here (handing report to Secretary).

H.M.Jr: Then have it at 11:15.

Haas: All right. That is all I have.

H.M.Jr: Ed?

Foley: Here are some memoranda for you. (Handing documents to Secretary).

- 8 -

H.M.Jr: Is there any necessity for doing anything?

Foley: No.

H.M.Jr: This is what Foley said: "We have ruled that neither the Johnson Act nor the provision of the Neutrality Act in relation to making of loans or extension of credit to belligerent countries apply to your government or any agency thereof. The Attorney General concurred in this. Nothing in the Neutrality Bill, which has been reported out of the Senate necessitates any change of this view."

Then, there is nothing to do, just sit tight.

Now, this memorandum which we gave the President last night, has the Attorney General got that?

Foley: I talked with him last night and sent a copy to him.

H.M.Jr: I would like something from him. Can you give him a little memorandum asking for a note to me, saying that he concurs?

Foley: Yes.

H.M.Jr: I think it is too important to have it just over the phone.

Foley: O. K.

H.M.Jr: If he would send back a memorandum or something to say that we are all right.

Foley: O. K.

H.M.Jr: Ed?

Foley: I will take care of it.

H.M.Jr: What else?

Foley: I wasn't able to get Ince on Saturday. He wasn't in his office. I will call him this morning.

- 9 -

H.M.Jr: He is sick, I understand, in the hospital. Stomach trouble.
Anything else?

Foley: No.

H.M.Jr: Harry?

White: The first preliminary reports of trade are in for the first twenty-two days in September and they are of some interest because they show, as one would expect, a pretty sharp decline in exports. Exports practically disappeared to Germany and Poland and there was a very sharp drop to France. There was an ordinary drop to the other countries. Altogether, if one makes an estimate on a proper rate on a basis which may be altered before the end of the month, our exports will have dropped about a fourth for this month. There is some other data.

H.M.Jr: I have that.

White: For the week ending September 20, there was a capital inflow of 35 million and we sold - I mean we bought back more American securities, that is, foreigners are selling American securities, about 9 or 10 million at the end of that week.

H.M.Jr: On balance?

White: On balance.

H.M.Jr: Over what period?

White: The week ending September 20.

H.M.Jr: That is not much.

White: No, it just indicates that there is a steady....

H.M.Jr: When you give me a figure like that, do you ever check it with statisticians of the SEC?

White: We get their figures on just stocks alone, each day, and there is always a comparison made. This is the

- 10 -

figure which includes not only stocks but bonds which we get a week later.

H.M.Jr: Do you ever call them over here to follow that?

White: No, I haven't recently. We haven't had anything for over six months. Would you like them to get these figures?

H.M.Jr: I would like to have some contact between them and ourselves on that.

White: We get a report from them every day, their report, but they don't get our report. In other words, their report does not include bonds. Ours does. They don't get them until three months later.

H.M.Jr: Who is their head fellow over there?

White: Goldschmidt is in charge of this aspect of it.

H.M.Jr: Why not have a talk with him and ask him if he would like this and if he does, I will send it formally the first time to the Chairman of the SEC and then after that regularly.

White: Right.

H.M.Jr: I think once in a while you ought to talk to those people. See what they are doing. He might have something new.

White: Right.

H.M.Jr: Anything else?

White: Nothing. Did you say you want this?

H.M.Jr: Yes.

White: This is the Department of Commerce figure (handing document to Secretary).

H.M.Jr: Harold, I can't remember why I am seeing Collins at 11:00. Can you be here?

Graves: Yes.

- 11 -

H.M.Jr: I don't know why, do you?

Klotz: I don't know either.

H.M.Jr: We have taken care of that question of rates in Governments and cities, haven't we?

Graves: Yes.

H.M.Jr: Then we can just cancel that. Tell Collins I don't need him.

Graves: All right.

H.M.Jr: I will meet George at 11:15. Will you tell him?

Graves: Yes, sir.

Thompson: I am all O. K.

H.M.Jr: In the next two days I am concentrating on whether we will or will not finance, so if anybody has got any ideas, you might write me a little memorandum on this financing thing. That is all I have.

73
OCT 2 1939

Dear Mr. Smith:

In accordance with the request contained in your letter dated July 15, 1939, there is attached herewith a photostatic copy of the revised estimate of revenues for the fiscal year 1940 for use in connection with the President's statement on the submission of the 1940 Budget. These estimates will replace the ones sent to you on August 14, 1939.

For your convenience the table compares the present estimates for fiscal year 1940 revenues with the original estimates as presented in the Budget transmitted to the Congress on January 8, 1939.

Sincerely,

(Signature)

Secretary of the Treasury.

Hon. Harold D. Smith,
Director of the Budget,
Washington, D. C.

(Signature)
Enclosure.

File to Mr. Thompson

AFO:D:mda 9-30-39

By hand

Estimates of receipts in fiscal year 1940

Comparison of the September 1939 revisions and the original estimates as presented in the Budget transmitted to the Congress January 1939

(Money figures in thousands of dollars)

General and special accounts	Budget estimates of January 1939	Revised estimates of September 1939	Increase (+) or decrease (-) September over January	Percentage increase (+) or decrease (-) September over January
1. Internal revenues	1,901,000	1,888,000	- 13,000	- .7
(1) Taxes (less)	6,500	6,000	- 500	- 7.7
(2) Miscellaneous internal revenues	175,400	178,700	+ 3,300	+ 1.9
Federal alcohol tax	325,300	371,400	+ 46,100	+ 14.2
Excise tax	33,000	33,000	0	0
RST tax	50,000	50,000	0	0
Alcoholic beverage taxes	510,500	508,500	- 2,000	-.4
Tobacco taxes	55,500	47,115	- 8,385	- 15.1
Other taxes	427,700	411,700	- 16,000	- 3.7
Manufacturers' excise taxes	144,000	150,300	+ 6,300	+ 4.4
Miscellaneous taxes	2,115,100	2,108,200	- 6,900	-.3
Total miscellaneous internal revenues				
(3) Employment taxes	587,800	579,600	- 8,200	- 1.4
Share on employment by other than carriers	88,500	100,300	+ 11,800	+ 13.3
Federal Insurance Contributions Act	186,300	186,300	0	0
Federal Unemployment Tax Act 1/	173,000	173,000	0	0
Total	447,800	460,000	+ 12,200	+ 2.7
Share on carriers and their employees (Chap. 9, Subchap. 2, of the Internal Revenue Code)	140,000	119,600	- 20,400	- 14.6
Total employment taxes	587,800	579,600	- 8,200	- 1.4
Total internal revenues	1,901,000	1,888,000	- 13,000	-.7
2. National Unemployment Insurance Act 2/	403,900	378,600	- 25,300	- 6.3
3. Customs	207,500	196,000	- 11,500	- 5.5
4. Miscellaneous revenues and receipts	5,661,700	5,478,600	- 183,100	- 3.2
Total receipts, general and special accounts				

September 26, 1939

Source: Bureau of Economic Warfare and Statistics.

1/ The estimated receipts from the tax originally levied by Title II of the Social Security Act on carriers with respect to employment prior to July 1, 1937.

2/ The amount that 10 percent of the total tax liability under the Act will enter general and special accounts. It is also assumed that liabilities will be paid on a quarterly basis, as time liabilities for only.

October 2, 1939
10:47 a.m.

HMJr: Hello.

Operator: Secretary Wallace.

HMJr: Hello.

O: Go ahead.

HMJr: Hello.

Henry
Wallace: Hello.

HMJr: Henry.....

W: Yes.

HMJr: Henry Morgenthau.

W: Yes.

HMJr: Henry, Bob Stevens who is in the textile business
in New York.....

W: I remember him. He used to be down here back in
'33 and '34.

HMJr: Right. Now he was in this morning - he's in my
outer office - and he has this idea which he has
worked out and I gather you have it also, about a
swap of cotton for wool, and in view of the fact
-- he says in the last thirty days that the Navy's
-- has been trying to get seventy-five thousand
blankets, the price has increased fifty per cent
and he says there's no reason for it.

W: That's on woolen blankets?

HMJr: Yeah. For the Navy, and they can't get but I under-
stand -- he said a third of what they want. Now I
wondered if -- I told him that this was distinctly
a problem that belongs to you and would you care to
see him. He's got it all typewritten out and every-
thing else.

W: I tell you what, I -- I don't think I'd want to see
him myself right now.

HMJr: Right.

W: But I would like to have him -- have him see Robbins.

HMJr: See who?

W: Robbins.

HMJr: Robbins?

W: Yeah.

HMJr: Is he -- what.....

W: Carl -- Carl Robbins, yes.

HMJr: And -- where is he?

W: He's at the Commodity Credit now.

HMJr: Well, could he see him this morning?

W: Why I think so. Robbins is in town I know.

HMJr: Well.....

W: We can make an appointment for him this morning or this afternoon. I don't.....

HMJr: Well.....

W: One or the other.

HMJr: How -- how could I let him know?

W: Ah.....

HMJr: He's in my outer office now.

W: Well, could you just let him -- hold him there and let me have Robbins call him?

HMJr: Yes, or -- yes. That would be.....

W: We -- we hadn't -- you see after all what this gets around to -- frankly I doubt if there's anything will come of Stevens' suggestion.

HMJr: Yes.

W: But I think we ought to follow up everything of the sort. What it finally gets around to is what the British are -- are willing to do.....

HMJr: Yeah.

W:on -- with their Australian wool-clip.

HMJr: Yes. Well, he thinks they could use more cotton and if we could -- he thinks they've got more wool than they need.

W: Well, I think -- I don't think there's any doubt about that.

HMJr: And.....

W: They have more wool than they need.

HMJr: And.....

W: It's just a question -- it gets it down to a fine question of arguing just -- just how we should approach the British and when.

HMJr: Yeah. Well, Stevens is a good man. He's full of pep and of course.....

W: Oh, yes. He's a nice young fellow.

HMJr: And it's no selfish interest because he's trying to bring the prices down.

W: Yeah.

HMJr: So supposing -- I tell you.....

W: I'll have -- I'll have Robbins call Stevens in your outer office.

HMJr: Yes.

W: And make -- make an appointment.

HMJr: I -- thank you.

W: All right, Henry.

HMJr: Thank you.

W: Goodbye.

HMJr: Goodbye.

October 2, 1939
10:58 a.m.

HMJr: Hello.

Randolph
Burgess: Hello, Henry.

HMJr: Where are you, Randolph?

B: I'm at the Federal.

HMJr: Uh-huh. Well what have you learned this morning?

B: Well, I find these fellows are kind of short-sighted. That is they -- they think a two and a half or three year note would go a lot better than a five year.

HMJr: Yeah.

B: They say that the -- the short bonds give so much better yield than the five year notes that there's -- that's a kind of a funny market and pretty thin, but they say we could do it. It's just a question of how much it would disturb the market. They think we'd have to put out a five year note at one and a half, but -- possibly one and three-eighths.

HMJr: Well, does anybody there raise the question as to whether this is a -- a good or bad time, this week?

B: No, they think this is all right, the time is all right if we keep it short enough.

HMJr: Yeah, well I don't want to do that.

B: Yeah.

HMJr: How do you feel about it?

B: Well I think we can -- I think we can -- I should think we could step out for five years. We're taking a little more of a chance but on the other hand, if we get a good result why it's more cheering to the market.

HMJr: Yeah.

B: So I'm not prepared to say we can't do it.

HMJr: Yeah. I don't feel very good about it this morning.

B: Well, the market Saturday wasn't very good.

HMJr: No.

B: Yeah.

HMJr: Ah -- what time do these fellows leave to come down and see me?

B: They leave about two thirty.

HMJr: Well, could you be somewhere around one o'clock so I could talk to you?

B: Yeah, yeah.

HMJr: Ah.....

B: I'll be over at the -- be leaving here a little before that and be over at the City Bank.

HMJr: Well where will you be around one?

B: At the City Bank.

HMJr: At the City Bank?

B: Yeah.

HMJr: Well, I'll get you there.

B: It would be better at a quarter of one than one. I've got people coming here for dinner -- to lunch.

HMJr: Well, frankly, I'm going -- I'm going home to rest and I don't know whether it would be a quarter of one, or one, or one thirty.

B: I see. All right, you can always get me.

HMJr: I mean, I'm -- I'm not sure of myself because I'm not.....

B: I see.

HMJr: -- I'm not feeling terribly well.

B: Well I'm sorry for that, Henry.

HMJr: But I -- I won't pay one and a half per cent and I don't want to go two or three year -- I don't want to force it.

B: Yeah. Well, you can do three years without forcing it at all.

HMJr: Yeah, what would we pay for that?

B: About one to one and a quarter - somewhere in there.

HMJr: No.

B: One and an eighth.

HMJr: No, no. Well, I'll talk to you sometime between one and one thirty. I mean, if you'd leave word where I can get you.

B: Yeah, yeah.

HMJr: I mean, if you don't mind.

B: That's all right.

HMJr: You'll know -- and tell the boys not to start down here until they finally check with you.

B: Yes. Oh, yes, we'll check together first.

HMJr: See?

B: Yeah.

HMJr: Tell them not to come down till they check.

B: Yes. A little before one would be better than after if you could do it, Henry.

HMJr: What.....

B: I've got a -- the trustees of the Academy are coming to lunch.

HMJr: I'll do the best I can.

- 4 -

B: All right, but I'll be available any time you want me.

HMJr: I'll -- I'll make the effort.

B: (Laughs)

HMJr: Thank you.

B: Thanks.

October 2, 1939
11:46 a.m.

HMJr: Hello.

Operator: Here's Ambassador Kennedy.

HMJr: O. K.

O: Go ahead.

HMJr: Hello.

Joseph Kennedy: Hello, Henry.

HMJr: How are you?

K: Hello, Henry.

HMJr: How are you?

K: I'm fine, Henry.

HMJr: Joe.....

K: Yes.

HMJr: I want you to put your mind on a bond market a minute.

K: (Laughingly) All right.

HMJr: Sometime between now and the first of December I've got to do a refunding.....

K: Yes.

HMJr:of -- over -- a little over five hundred million dollars.

K: Yes.

HMJr: We have been thinking of doing it this week.

K: Yes.

HMJr: But my old elbow tells me that this week wouldn't be so good.

- K: Well, it seems to me that this is going to be a restless week at that.
- HMJr: Yeah.
- K: Ah -- on the other hand, I don't see anything that will make it any worse -- the situation any worse except than it will be later on. In other words, if they make a proposition and it's turned down, which it will be.....
- HMJr: Yeah.
- K:I -- I should think that that would be a state of affairs that would last until you put the stuff out.
- HMJr: Well -- but this announcement of what they will or won't do will come sometime the end of the week, won't it?
- K: Oh, during this week.
- HMJr: Yeah, well now you see I would be exposed on that from Wednesday to Friday night because we've got to give these fellows three days.
- K: I see.
- HMJr: So that would be just about the worst time, wouldn't it?
- K: This week you won't be any worse off than you will next week.
- HMJr: Well.....
- K: I -- I would think that's so. We -- I think I'd wait and see what the political developments are this week.
- HMJr: Yeah, well that was my hunch and I just wanted to check it with you.
- K: I think that's probably all right unless you were prepared to do it at once.
- HMJr: No. No, I can do it just as easily next week.

- 3 -

K: I see. Well the situation, I would think, would -- I mean to say, you've got a war situation that you're going to finance on anyway.

HMJr: Yeah.

K: So you're -- you're not going to have anything. If it gets better why it'll finance easier and it can't get any worse than a war.

HMJr: But at least by next Monday the rest of the world is going to know whether we're having a world war or not, won't we?

K: Yes, I should think very good.

HMJr: What?

K: I should think this week would get you over all of that -- all of that talk.

HMJr: Yeah, well that's what I thought.

K: Yeah.

HMJr: Joe, that cable which came in yesterday which was marked as I -- one of the -- I was one of the three to get it.

K: Yes.

HMJr: Very, very helpful.

K: Well, I sent that to you Saturday morning.

HMJr: Well, Livesey delivered it to me -- Sunday morning.

K: Well, I -- I sent it to you Saturday morning from here.

HMJr: Well Livesey delivered it at the house Sunday morning.

K: Yeah. Well.....

HMJr: So.....

K: They ought to have sent it Saturday after -- they had it in Washington by I should -- around noontime Saturday your time.

HMJr: Well, I -- Livesey brought it Sunday morning.

K: Yeah.

HMJr: But that.....

K: Was it all -- any good for you?

HMJr: Very helpful and we'll just have to wait now until....

K: I'll be on top of those things, Henry, and if you get any idea of -- along the lines that you'd like to....

HMJr: Yeah.

K:

HMJr: Yeah.

K: Why, if you will call me about that I've arranged to have a conference fairly often with the -- with that fellow that I sent you the long wire about.

HMJr: Right.

K: And so if you will give me something to point up to that will clear in your mind I'll send -- I'll get it for you.

HMJr: Well, when I do I'll give you a ring on the phone.

K: All right, anytime, because I'm planning to see him any time that I get stuck about it.

HMJr: Good.

K: I thought that there were some very interesting observations there.

HMJr: Very.

K: Yeah.

HMJr: And -- ah -- very useful.

K: Well I'm glad of that, Henry.

HMJr: Thank you, Joe.

- 5 -

K: Henry, did you -- is there any reaction there today on -- on Churchill's speech?

HMJr: Ah -- no. I -- I can't say that I've gotten any yet.

K: Well that was all right. I just wondered if there was anything that -- you heard any excitement about.

HMJr: No, I haven't, but I might not be a good fellow to -- to know.

K: Yeah, I see.

HMJr: But I've been right at my desk all morning, but I haven't heard anything and the people who are working with me haven't mentioned it.

K: There hasn't been anything that -- turned in bad or anything?

HMJr: No.

K: Yeah.

HMJr: No.

K: there was -- there was one point there that I wasn't very sure about.

HMJr: I -- I can imagine what it was.

K: Yes.

HMJr: No.

K: Whether there would be a bad reaction to that or not.

HMJr: But there might be and I wouldn't know it, but the fellows in the Treasury, I've seen them and -- all morning, and none of them mentioned it.

K: I see.

HMJr: Yeah.

K: All right, Henry.

HMJr: Thank you, Joe.

- 6 -

K: Are you speaking with Madam Perkins these days?

HMJr: Ah -- Oh, I see her once a week.

K: (Laughs) Well, you can tell her that tonight I'm sending her an outline by the -- by the Clipper on Wednesday -- an outline of the labor situation. I thought she might like to have that.

HMJr: O. K. I'll get that word to her.

K: Good bye.

HMJr: Goodbye.

October 2, 1939
11:52 a.m.

HMJr: Hello.

Operator: Chairman Eccles. Go ahead.

HMJr: Hello.

Marriner
Eccles: Hello.

HMJr: Marriner.....

E: Good morning, Henry.

HMJr: How are you?

E: Fine.

HMJr: I've been thinking and talking all morning about
doing a refunding this week.

E: Yes.

HMJr: And I want to let you know how I feel. This week
will be the week that they decide in Europe whether
they are or not going to have a world war.

E: It looks like it.

HMJr: I've talked to Kennedy and last week I talked to
Bullitt.

E: Um-hm.

HMJr: Now, it'll most likely come at the end of the week,
which would be just the time we've got our refund-
ing open.

E: Um-hm.

HMJr: Now, with this thing hanging over us everybody's
upset and I talked to Burgess this morning and they're
talking about a three year note one and a quarter,
which I won't do.....

E: That's too much for a three year note.

HMJr: Too much, and if I want five year I've got to pay
one and a half, which I won't pay.

- E: They're both -- they'd raise the dickens with the present issues. You'd -- wouldn't it?
- HMJr: So my feeling is that -- I'm going to postpone the thing for the balance of this week unless you had some very decided other opinion.
- E: I don't feel otherwise at all. As a matter of fact, my advice would have been even before now -- last week -- to let this thing settle down, especially after the.....
- HMJr:after Saturday.
- E: It -- it shows that very little selling -- now, there wasn't -- there was practically no selling on Saturday; just the least little bit of selling, and the dealers can always, if they want to -- if they've got a -- if they've got very few bids in the market, very little buying with -- with a very little selling they can break that market.
- HMJr: Yeah.
- E: And buyers without any question are -- are just waiting.
- HMJr: Yeah.
- E: And -- and as long as we're out, and of course we can't go in and do anything about the market; didn't -- we didn't want to at least even though it broke a point practically on Saturday with practically no selling, because in anticipation of this financing -- of course we feel that there just isn't anything we can do about it.
- HMJr: Yeah. Well, unless you have some very strong opinion to the contrary, I think I'm going to call it off for this week.
- E: Well I'm very much in favor of it and -- and I would say this: that -- that the rates that you've suggested even for next week, or any other time soon, are entirely out of line and I would be very much opposed to.....
- HMJr: Well I'm not even considering them.

E: I'd put bills out first and let them -- and let them get tired of -- of one tenth of one per cent and then maybe they'd get reasonable.

HMJr: Well, I don't need any money right now.

E: Of course you don't.

HMJr: I'm all right. And I'll withhold the refunding until we can get it on what we consider fair terms.

E: That's right. I -- I'm just with you one hundred per cent, because when you look at the money they've got and the excess reserves they've got, it's just going to be a question of time until they're going to be reasonable. By the way you said that you had talked to Bullitt and -- and Kennedy.

HMJr: Yeah.

E: And it's their judgment that this thing ~~ought~~ to be termin -- settled one way or the other by the end of the week.

HMJr: That's what Kennedy said. Bullitt -- Bullitt put it a little bit differently. He said that Paris will be bombed this week.

E: Oh, yes. You.....

HMJr: But that's just for you, Marriner.

E: Yes, yes, I wouldn't -- I wouldn't repeat it.

HMJr: Strictly confidential.

E: In other words, it would appear that the British and the French, if they got an offer that was -- that was acceptable, they'd be willing to consider it. That's.....

HMJr: No, no. Kennedy very much. Kennedy said they'll turn it down.

E: No matter what kind of an offer they get.

HMJr: No matter what kind of an offer, they'll turn it down.

E: Well of course if they're not going to do that they're doing an awful lot of bluffing right now.

HMJr: Yeah, but -- but all of that's in the air. Nobody is going to believe it until it happens.

E: That's right.

HMJr: And I don't want to have a refunding just in the middle of this thing.

E: Yes.

HMJr: See?

E: I think that's right. Well now, we'll call that meeting off tomorrow.

HMJr: That's why I'm calling you.

E: Yeah. O. K. then.

HMJr: Thank you.

E: You bet.

October 2, 1939
11:59 a.m.

HMJr: Hello.

Operator: Dr. Burgess.

HMJr: Hello.

Randolph
Burgess: Hello, Henry.

HMJr: Randolph.....

B: Yes.

HMJr:I've come to the decision I'm not going to
do any financing this week.

B: Oh, really?

HMJr: Yeah.

B: I wonder if that would be interpreted as -- as our
feeling the market isn't good enough?

HMJr: No. You can tell the boys this - that with Europe
deciding this week whether they're going to have
a world war or not.....

B: Yeah.

HMJr:and it coming towards the end of the week
and the decision is going to be made towards the
end of the week whether or not they're going to
have a real world war.

B: Uh-hm.

HMJr: And I just don't want to be caught at that time
with a refunding.

B: Yeah. Um-hm.

HMJr: And I -- I've spoken to Kennedy in London and I've
checked all around and it's -- it's just the
height of -- of foolishness.

B: I see.

HMJr: I mean, nobody knows whether they're going to make peace or they're going to have a world war.

B: Yeah.

HMJr: Hitler is going to make address and then if the thing is rejected and they bomb London or Paris.....

B: Yeah.

HMJr:this whole thing -- it's going to come this week.

B: I see. Yeah.

HMJr: Now why -- why have a refunding this week?

B: Yeah. Um-hm.

HMJr: And that's the thing. I mean, it's -- it's just foolish.

B: Yeah.

HMJr: With -- with -- with this thing, and as each day goes on they're going to realize more and more that this is the week.

B: Yeah. Yeah.

HMJr: Now nobody -- nobody is going to think about a refunding this week. They're going to think, "What is England and France going to do to Mr. Hitler's offer."

B: Yes, that's true.

HMJr: And until we know, everybody is going to sit on the sidelines.

B: Yeah. Yeah. I think your announcement wants to be carefully thought about.....

HMJr: Well.....

B: ...so it won't have a reaction on the market.

HMJr: Well, I have a press conference at four o'clock and I'll handle it off the record myself.

B: Well then you don't want to see these fellows, do you?

HMJr: No.

B: No, we'll cancel the appointment.

HMJr: But you explain at that end.....

B: Yeah.

HMJr:why I'm doing it.

B: Yeah, yeah.

HMJr: 'hat with this thing in the offing.....

B: Yes.

HMJr:that it's just plain silly.

B: Yeah, yeah.

HMJr: I mean, that's the way I feel.

B: Yeah, yeah.

HMJr: I mean, you don't -- supposing Thursday or Friday they decide they're going to have a world war or they're not, or that they bomb Paris or London - Thursday or Friday.

B: Yeah. Well I think there's a good deal in that.

HMJr: And I -- I don't want -- don't drag Kennedy into this thing.....

B: No.

HMJr:but I checked very, very carefully - also with Bullitt.

B: Yeah.

HMJr: And everybody thinks this is the week.

B: Yeah. Um-hm.

- 4 -

HMJr: Now, let's say they're going to have a world war and fight - the public has got to adjust itself to that. And if they're going to have peace they've got to adjust themselves to that.

B: Yeah.

HMJr: And either way it would be very upsetting to a big refunding.

B: Yes.

HMJr: And five hundred million dollars is a lot of money.

B: Yeah. Of course I think you could go through with it on a three and a half or four year basis without any great disturbance.

HMJr: Well -- ah -- Eccles, for once, is with me a hundred per cent.

B: Is he really? Well that -- if you can find anything you can agree with him a hundred per cent, let's do it.

HMJr: Well Eccles is with me a hundred per cent.

B: (Laughs) All right, sir. So.....

HMJr: So I mean, I've done nothing but hang on the phone so -- but you put it in New York and tell the boys it's on this Europe -- and.....

B: Yeah.

HMJr: I think you'll find, if you put it on the European situation.....

B: Yeah.

HMJr:and not whether it's on five years or four years or an eighth or a thirty second.....

B: Yes.

HMJr:which is unimportant.

B: Yeah.

HMJr: But why get caught in a jam on a world political situation where one of the most important decisions in my lifetime is being made by somebody over which I have no control?

B: That's right. Well, now, Henry, I think I'd better not say anything to anybody in the market until you've made your press announcement. I'll talk to the boys at the Fed.

HMJr: That's right.

B: And I can call off the appointment without giving any reason.

HMJr: Well I -- you use your own bean.

B: O. K.

HMJr: All right.

B: That's fine, Henry.

HMJr: O. K.

B: Good.

HMJr: Then I won't have any supper people tonight.

B: Right. That's right.

HMJr: Righto.

B: Very good.

HMJr: Thank you.

B: Goodbye.

HMJr: Goodbye.

October 2, 1939
3:26 p.m.

Jesse Jones: Any news of any sort?

HMJr: Well, the only news I got is this: That on account of the European situation I've postponed our Government financing for at least a week.

J: Uh-huh.

HMJr: We were seriously thinking of doing it Wednesday, but with things the way they are in Europe.....

J: You better wait a while.

HMJr: And I thought it was --I might -- well, I wouldn't have to pay any more for my money and I might get it cheaper.

J: What's the market doing today?

HMJr: Well, it was off - common stocks were off a little bit.

J: You mean Government.....

HMJr: Commodities were off; Government's -- most of them are off.

J: Um-hm.

HMJr: A few of them are up.

J: Did you plan luncheon for Wednesday?

HMJr: I'm -- I'm counting on you.

J: Could you have it another day?

HMJr: Yes.

J: Any other day would suit me, Henry, but it's happened that I have^a/friend be here that particular day.

HMJr: Well let's make it Thursday.

J: Well that would suit me much better.

HMJr: Fine.

J: Thank you very much.

HMJr: Thank you.

J: Call me if anything occurs to you.

HMJr: I will.

J: Goodbye.

October 2, 1939
4:43 p.m.

149

EMJr: Hello.

(operator: Mr. Cohen.

EMJr: Hello.

O: Go ahead.

Ben
Cohen: Hello.

EMJr: Hello, Ben.

O: Yes, Mr. Secretary.

EMJr: How are you?

O: All right. I just wondered if you had a little
time with a Jewish matter that I wanted to talk
over with you.

EMJr: Sure, always got time.

O: Well, now or are you getting ready to go home?

EMJr: Well, I -- you know I've been under the weather
a little bit.

O: Oh, I'm sorry.

EMJr: I had a touch of catarrhal jaundice.

O: Oh that's bad.

EMJr: But we're home tonight if you care to drop in -
just my.....

O: All right. Shall I drop in around 8:30 or 9:00?

EMJr: Well about 8:30 would be perfect.

O: All right.

EMJr: Is that too early?

O: No that'll be all right.

HMJr: It'll be -- that'll be perfect.

C: All right, I'll drop in then.

HMJr: I'll be glad to see you.

C: Thanks.

TREASURY DEPARTMENT

51

INTER OFFICE COMMUNICATION

DATE: October 2, 1939

TO: Secretary Morgenthau

FROM: Mr. Cochran

At one o'clock Saturday, September 30, I received an envelope containing a description of the telephone conversation which the Secretary had had with Ambassador Bullitt at 10:45 that morning in regard to the Polish National Bank. I was informed that a copy had also been sent to Mr. Bernstein.

Mr. Bernstein called at my office shortly after I received this cablegram. After talking with him, I telephoned Mr. Livesey in the Department of State. It was arranged that I was to get in touch with Mr. Livesey between 5 and 6 that evening to see if the cablegram which Ambassador Bullitt said he was sending had been received. If it had not come on Saturday afternoon, I was to call Mr. Livesey between 11 and 12 on Sunday morning. It was agreed with Mr. Bernstein that I would keep him informed.

At 5 minutes past one I telephoned Mr. Knoke in New York. I told him that I wanted to tip him off that we had received a telephone message from Ambassador Bullitt in regard to a change in signature for the Polish National Bank, and to warn him in regard to any Polish transactions on Monday morning. Knoke replied that the Financial Counselor of the Polish Embassy had already brought up this question with the Federal Reserve Bank last week and that Governor Harrison had brought a letter to Washington, addressed to the Secretary of State, requesting information in the premises. Knoke said there was no need to do anything on this case insofar as his bank was concerned over the week-end. I told him that Bernstein and I were standing by to receive the message whenever it came in and to see what the Treasury Department was to do about it.

I was in touch with Mr. Livesey on Saturday afternoon and again on Sunday, calling at his office on Sunday noon. Since the message had not at that hour been received in his office, it was arranged that his secretary should bring it to my hotel when it arrived. Through this channel I received the cablegram about 5:30 P.M. I then endeavored to get in touch with Mr. Bernstein through his home. He called me back between 6 and 7 from the Treasury Department and, at his suggestion, I came directly to Mr. Foley's office and gave copies of the message to Messrs. Foley and Bernstein. We discussed it for a few minutes.

When called to the Secretary's office at 9:25 this morning I gave him the original of the Polish message and explained the background. I provided him further with information as to the holdings of the Bank of Poland with the Federal Reserve Bank of New York, namely, that the dollar balance was at close of business on September 30, \$1,900,000 and the remaining gold account \$2,246,000. No Bank Polski gold was held in the BIS account with the Federal. This information had been procured by Mr. Dietrich from the Federal Reserve Bank at 9 A.M.

CONFIDENTIAL

The Secretary brought up the Polish matter at the 9:30 meeting and told Mr. Bailie to take charge of it. Following the meeting, Messrs. Bailie, Foley, Yimer, Bernstein and I went to Mr. Bailie's office. Before going downstairs I looked into my own office. Mr. Dietrich informed me that while I was in the meeting, at about 9:35, he had instructed a member of our staff to read the message to Mr. Knoke's secretary. I told Mr. Dietrich I approved this but asked him to let Mr. Knoke know that our group here was taking this matter up immediately and that we would let him know shortly what action should be taken.

After the above-mentioned group discussed the cablegram for a few minutes, Mr. Bailie put in a telephone call for Governor Harrison and spoke with him at 10:33. He told the Governor that the cablegram had not been addressed to the Treasury Department but had been put in our lap since Ambassador Bullitt had telephoned Secretary Morgenthau directly in the premises and had let him know that the cablegram was coming.

Mr. Bailie told the Governor that it was our hope that the State Department would assume the responsibility for an official notice to the Federal Reserve Bank of New York and to the correspondent banks in New York City. But whether it was the State Department or Treasury Department, effort was being made to expedite the matter. In answer to Mr. Bailie's question, Governor Harrison replied that the communication, which Bailie explained had been telephoned to Knoke, had not yet reached the Governor. It was Bailie's suggestion that the Federal Reserve Bank inform the correspondent banks at once of the message that had been received. He added that when the matter had been submitted to the Secretary, the latter suggested the retaining of legal counsel by the Federal Reserve Bank.

Governor Harrison telephoned back at 11 o'clock. He informed Mr. Bailie that he had personally telephoned the correspondent banks in regard to the message under reference. Mr. Bailie let the Governor know that we had not yet had a chance to clear finally with Secretary Morgenthau as to how the matter was to be disposed of officially.

Shortly after 11 o'clock Secretary Morgenthau received Messrs. Bailie, Foley and Cochran. Mr. Bailie informed him of our recommendation that Messrs. Bailie and Foley visit the Solicitor of the State Department, explain the manner in which this matter came to the Treasury's attention, and ascertain whether the State Department, if satisfied as to the facts in the case, is disposed to assume the task of sending official word to the Federal Reserve and other New York banks, or whether the Treasury Department is to proceed further in the matter. Mr. Backworth agreed to receive Messrs. Bailey and Foley at 12:10.

Upon my return from luncheon, Mr. Knoke spoke with me at 2:30. He asked what the latest developments were in this case. In answer to my question, he said that he had been informed of Governor Harrison's conversation with Bailie. I told him what had transpired since then, up to the time Bailey and Foley left for the State Department. In answer to my question, Knoke confirmed that all of the banks had been notified. When I asked if any transactions had come up which required decision, Knoke said that his bank had received none and that it had considered the Bank Polski account practically frozen the past ten days. The banks to which the

CONFIDENTIAL

- 3 -

Federal had telephoned also gave the impression that anyone would have a difficult time getting Polish money away from them.

At 12:50 on October 5 Mr. Bailie told me that he had spoken with Vice President Walter Logan of the Federal Reserve Bank of New York. The latter said that the lawyers of the Federal Reserve and the banks in New York acting as correspondents of the Bank Polaki had gotten together in a meeting on October 4 and had agreed that no decision was possible until documents might be received from Paris. They had gotten in touch with White & Case and the Paris office of this law firm was to send the necessary documents by air mail. Pending their receipt, no decision as to the Karpinski signature would be taken by the New York banks.

There are attached copies of the correspondence between the Department of State, the Treasury Department, the Federal Reserve Board, and the Federal Reserve Bank of New York, which explains the official steps taken on this problem.



CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 2, 1939.

TO Secretary Morgenthau
FROM Mr. Cochran

The foreign exchange market was quiet today, with increased volume in sterling transactions. The rate for sterling moved in a narrow range, opening at 4.01-3/4, then rising to 4.01-7/8 in the late morning, and for the remainder of the day it was quoted at 4.01-3/4.

Reporting banks in New York and the Federal Reserve Bank reported sales totaling £631,000, from the following sources:

Commercial concerns.....	£	137,000
Foreign banks (Europe, Far East and South America).....	£	444,000
Fed. Res. Bk. (£50,000 for Sweden).....	£	50,000
Total	£	631,000

Purchases of sterling amounted to £632,000, as indicated below:

By commercial concerns.....	£	302,000
By foreign banks (Europe, Far East and South America)...	£	330,000
Total	£	632,000

We received through the Federal Reserve Bank of New York a request from the Central Bank of Argentina to purchase \$2,500,000 in gold to be added to their earmarked account, which request was approved. This purchase makes a total of \$34,400,000 in gold purchased by Argentina since August 28, 1939.

The Bank of France today sold to us \$10,000,000 gold from their earmarked account.

We were notified that Canada was shipping to this country gold valued at \$7,210,000 for sale to the Assay Office at New York.

The Bank of Sweden cabled to the Federal Reserve Bank of New York to inquire if they were willing to buy, and at what price in dollars, gold earmarked at the Bank of England. With the approval of the Treasury, the Federal Reserve cabled to the Bank of Sweden that the Secretary of the Treasury is purchasing gold at present only upon delivery in New York, on terms and conditions set forth in his statement of January 31, 1934.



CONFIDENTIAL

135

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 3, 1939

TO Secretary Morgenthau
 FROM Mr. Cochran

At 3:20 P.M. on October 3 Mr. Livesey of the State Department telephoned me that Secretary Hull had had a request from Senator Byrnes for any data to assist in the senatorial debate with respect to credit clauses in the Neutrality Bill. The question seemed to be as to whether it was worthwhile for the Bill to carry the 90-day proviso, or any other in favor of commercial credits. It will be recalled that Mr. Livesey had gotten in touch with me last Saturday afternoon in regard to the request received by Secretary of State Hull from Senator Pittman for material to use on Monday in his opening speech on the Neutrality Bill. After Livesey had talked with me, I had gotten in touch with Secretary Morgenthau and several meetings of economists and lawyers took place, principally at the Secretary's home, during the week end. The resulting memorandum had been sent to the White House by Mr. Foley late on Sunday evening, after the Secretary had already spoken to the President in regard to the substance thereof.

When Mr. Livesey spoke to me today, he said that he was not aware as to what final action had been taken on Pittman's request, since he did not participate in any meeting subsequent to that terminated about 6 P.M. Sunday evening at the Secretary's house. Livesey did not know whether the product of the week-end consultations had ever gone to the original inquirer, Senator Pittman.

In view of the above circumstances, I saw the Secretary in regard to Mr. Livesey's inquiry in behalf of Senator Byrnes. The Secretary telephoned Mr. Livesey, in the presence of Mr. Foley and myself, stating that Secretary Hull was, he thought, fully informed as to what had taken place on Sunday evening. He told Mr. Livesey to get in touch with the Secretary of State before preparing any answer for Senator Byrnes. The Secretary regretted that a copy of the Treasury Department memorandum had not been provided to the Department of State, and he instructed me to send a copy immediately to Mr. Livesey. I procured such a copy and sent it to Mr. Livesey by special messenger. This is attached hereto.

CONFIDENTIAL

Enclosure

October 3, 1939

Pinsent was in at 11 o'clock.

HM, Jr: This inquiry about the British Government placing an embargo on all imports of silver into India. In the first place, I appreciate your Government asking us, but I have given the matter careful consideration and I do not wish to express an opinion. On the other hand, if you decide to do it, we will not raise any objection.

Mr. Pinsent: I think they had gotten to the point of deciding to do it. After I convey your message, they will put the matter in force right away.

HM, Jr: Does that take care of that?

Mr. Pinsent: Yes. Our Government seemed uncertain as to whether a matter of that sort might upset the silver Senators today.

HM, Jr: (Facetiously) I cannot hear very well today.

In the last 24 hours I have had occasion to talk to Senator Pittman.

Mr. Pinsent: I wanted to thank you about the Federal Reserve. As far as I know, no decision has been made. I have not heard from London.

HM, Jr: If for some reason you were advised that they did not wish to do it, before you made some other move would you please advise me personally.

Mr. Pinsent: They were uncertain whether you wanted to give them advice or whether you wanted to leave it entirely to us.

oOo-oOo

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, London, England

DATE: October 3, 1939, 4 p.m.

NO.: 1145

The following is strictly confidential from Secretary Morgenthau for Butterworth.

I have been informed by the British Embassy's Financial Counselor, Pinsent, that the Government of India has been releasing Government silver to the market in India because it wants to conserve its foreign exchange holdings, under the present circumstances. It was proposed that in order to make this policy more effective, the Government of India should impose an absolute embargo on silver imports at an early date. The British Financial Counselor was instructed by his Government to ascertain my reaction to this proposed action.

I said in reply that I appreciated his Government's consulting me about the contemplated measure. However, I said that I did not want to express any opinion as to this policy, but that I did not raise any objection to the action.

HULL
(FL) 1145

EA:LWW

October 3, 1939

MEMORANDUM

To: Mr. Livenessy

From: Mr. Cochran

Will you kindly forward the following cablegram:
"American Embassy, London. Strictly Confidential
for Butterworth from the Secretary of the Treasury.
Financial Counselor Pincent of the British Embassy
has informed me that the Government of India,
desiring in present circumstances to conserve its
foreign exchange holdings, has been releasing
Government silver to the Indian market. To make
this policy more effective, it was proposed
that the Government of India impose at an early
date an absolute embargo on silver imports.
Pincent said his Government had instructed
him to ascertain my reaction to this contemplated
measure.

I replied that I appreciated the action of
his Government in consulting me; that I did not
desire to express any opinion as to this policy;
but that I did not raise any objection thereto."

(Init.) H. M. C.

HMC/emk

October 3, 1939

Dear Sirs:

Enclosed is a copy of a letter which has this day been sent to the Federal Reserve Bank of New York, together with the enclosures referred to in such letter.

Very truly yours,

Secretary of the Treasury.

Hon. Marriner S. Eccles,
Chairman, Board of Governors
of the Federal Reserve System,
Washington, D. C.

BB:mau
10/2/39

October 2, 1939.

Dear Sirs:

Enclosed herewith is a copy of a letter dated October 2, 1939 received from the Secretary of State, together with enclosures referred to therein.

You are instructed to forward immediately to the Guaranty Trust Company, the National City Bank, the Bankers' Trust Company, the Irving Trust Company and the Chase National Bank copies of the translation of full powers and State Department Press Release No. 480 dated October 2, 1939, both of which are enclosed, and also the information contained in the enclosed letter from the Secretary of State.

Very truly yours,

Secretary of the Treasury.

Federal Reserve Bank of New York,
New York, New York.

EB:neu
10/2/39



DEPARTMENT OF STATE
WASHINGTON

In reply refer to
EA

October 7, 1944

My dear Mr. Secretary:

The Department has been informed by the American Ambassador at Paris that the Polish Ambassador to France has stated to him that Zygmunt Karpinski, Director of the Bank Polski, had been given full powers from the President of the Bank Polski and the directors to disburse on his own authority all of the stocks of gold and balances which are now, or will in the future, be credited to the account of the Bank Polski in foreign banks. The American Ambassador also reported that Director Karpinski submitted to him on September 30 the original of his full powers and also a copy of these full powers attested by the Polish Ambassador in Paris and sealed with the seal of the Polish Embassy at Paris. Copies of a translation of these full powers, received from the American Ambassador by telegraph, are enclosed.

Director

The Honorable
Henry Morgenthau, Jr.,
Secretary of the Treasury.

J.
V.A.

Director Karpinski and the Polish Ambassador requested that information regarding these full powers be transmitted immediately to the Secretary of State, the Secretary of the Treasury, the Governors of the Federal Reserve System, and to the United States banks which are correspondents of the Bank Polski. The banks in the United States are the Guaranty Trust Company, the National City Bank, Bankers Trust Company, the Irving Trust Company, and the Chase National Bank.

You are requested to transmit to the banks named copies of the enclosed translation of the full powers given to Director Karpinski, together with the above-mentioned information.

Although the territory of Poland has been occupied by foreign military forces and its Government has had to seek refuge outside the borders of Poland, the Government of the United States regards the Government of Poland as in existence, and continues to treat with it. You may so inform the aforementioned banks and furnish them with copies of this Department's press release no. 480, dated October 2, 1939, a number of which are enclosed.

Sincerely yours,

Enclosures:
Translation.
Press release.



TRANSLATION OF FULL POWERS

"Luck, September 9, 1939.

Full powers.

The President and the managers of the Bank Polski hereby delegate Director Zygmunt Karpinski to London with following full powers:

Director Karpinski is authorized to dispose on his own authority of the stocks of gold which are now or will in future be deposited to the account of the Bank Polski in foreign banks.

Furthermore, Director Karpinski is authorized to dispose of the balances of the accounts of the Bank Polski with his foreign correspondents.

Should for legal reasons the disposal by Director Karpinski on his own of the said stocks and balances be impossible, the President and the managers of the Bank Polski hereby authorize the Polish Ambassador in London, or any person designated by the latter, to sign for the Bank Polski together with Director Karpinski.

The President of the Bank Polski, signed Byrka, the Manager of the Bank Polski, signed Baranski and Nowak, certified to by the Polish Ambassador in Paris, Julius Lukasiewicz.

Paris September 27, 1939."

DEPARTMENT OF STATE

FOR THE PRESS

OCTOBER 2, 1939
No. 480STATEMENT BY THE SECRETARY OF STATE

More than twenty years ago the United States recognized, and has since maintained diplomatic relations with, the Polish Government. Poland is now the victim of force used as an instrument of national policy. Its territory has been taken over and its Government has had to seek refuge abroad. Mere seizure of territory, however, does not extinguish the legal existence of a government. The United States therefore continues to regard the Government of Poland as in existence, in accordance with the provisions of the Constitution of Poland, and continues to recognize Count Jerzy Potocki as its Ambassador in Washington. For the present at least Mr. Biddle will remain near the Government to which he has been accredited.

September 30, 1939
10:45 a.m.

165

HMJr: Hello.

Operator: Ambassador Bullitt. Go ahead.

HMJr: Hello.

Ambassador Bullitt: Hello, Henry. How are you?

HMJr: I'm just fair, Bill. I've been a little under the weather.

B: Well I'm awfully sorry. Look here, Henry, what I want to tell you is this. I'm sending you a telegram on this subject right away but I wanted to tell you over the phone at once.

HMJr: Go ahead.

B: The President and the Managers of the Bank Polski, that's the Polish National Bank.....

HMJr: Yes.

B:delegated Director Zygmunt Karpinski - K-a-r-p-i-n-s-k-i.....

HMJr: Yes.

B:with full powers, which I have here - had the original of and of which I have a copy - which I just sent to you by telegram - he disposed on his own account of the stocks of gold which are now or will in the future be deposited to the account of the Bank Polski in foreign banks.

HMJr: Yes.

B: And he is authorized also to dispose of the balances of the accounts of the Bank Polski with his foreign correspondents.

HMJr: Can you talk a little louder, Bill?

B: He is also authorized to dispose of the balances of the accounts of the Bank Polski with his foreign correspondents.

HMJr: Yes.

B: And should he for legal reason on his own authority find it difficult to dispose of the said drops in balances the president and managers of the Bank Polski authorize the Polish Ambassador in London, or any person designated by the latter, to sign for the Bank Polski together with Director Karpinski.

HMJr: Yes.

B: Now, in other words, Karpinski holds full powers from the National Bank of Poland. You understand?

HMJr: I - I hear you.

B: And he - he called on me today at the request of the Polish Ambassador and submitted these full powers to us, which appeared to be in full and legal form. And he asked me if I would communicate that to you....

HMJr: Yes.

B:and if - and also to the Secretary of State, of course....

HMJr: Yes.

B:and if I could ask that that be communicated to the Federal Reserve Bank and to the correspondents in the United States of the Polish National Bank.

HMJr: Yes.

B: Those correspondents are the National City Bank, the Guaranty Trust Company, the Bankers Trust Company, the Chase National Bank and the Irving Trust Company.

HMJr: Yes.

B: You understand the reason for that?

HMJr: Ah - I - I think so.

B: Yes.

HMJr: Ah - (Laughs) - should I read Charlie Ross?

B: (Laughs)

-3-

HMJr: (Laughs heartily)

B: Yeah.

HMJr: What?

B: Yeah, that listens all right.

HMJr: (Laughs)

B:amuse you?

HMJr: What?

B: Did that amuse you?

HMJr: Did it?

B: I say, did that amuse you?

HMJr: Of course it did.

B: (Laughs) Good enough.

HMJr: Oh - it - that was wonderful!

B: (Laughs)

HMJr: I hope they make a record of this one.

B: They'll try. Well, Henry.....

HMJr: Yeah.

B: There it is. Now I will telegraph all of that....

HMJr: Yes.

B:at once to let you know that immediately....

HMJr: Yes.

B: ...in case there should be any attempts at action from other quarters today.

HMJr: Well, you get it to us and I'll put our attorneys right on it.

B: That's fine. Much obliged, boy. How - you've still got that jaundice, have you?

-4-

HMJr: Still get - no, I just came from the doctor's and he said it's over but it's left me kind of shaky, see?

B: That's too bad.

HMJr: I shook it off, I had that much vitality.

B: Uh huh. Good for you, Henry.

HMJr: Ah - the - they think now it looks as though they might come to a vote in the Senate in about two weeks.

B: Two weeks?

HMJr: Yes.

B: Well, that's swell. I'm perfectly delighted.

HMJr: Right.

B: I'll not expect to see the vote because we expect to be blown up here in about one week.

HMJr: Really?

B: I hope it's the proper vote anyhow. (Laughs)

HMJr: Well.

B:anyway.

HMJr: In about a week? What?

B: Yeah.

HMJr: That's nice.

B: Yes. Well, God bless you, boy. Take care of yourself.

HMJr: All right.

B: Goodbye.

HMJr: Goodbye.

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

DATE: September 30, 1939, 8 p.m.

NO.: 2267

THIS IS A CONFIDENTIAL TELEGRAM.

1. I was requested today by the Polish Ambassador in Paris to receive Zygmuntkarpinski, the Director of the Bank Polski, which is the National Bank of Poland. Director Karpinski has been given full powers from the President of the Bank Polski and the directors to disburse on his own authority all of the stocks of gold and balances which are now or will in the future be credited to the account of the Bank Polski in banks in foreign countries, the Ambassador said.

This afternoon I received Director Karpinski. He submitted to me the original of his full powers and they seemed to be in good legal order. He also submitted a copy of these full powers attested by the Polish Ambassador, ^{in Paris,} Lukasiewicz, and sealed with the seal of the Paris Embassy of Poland.

The following is a copy of a translation of these full powers:

PAP

GRAY

PARIS

Dated September 30, 1939

Rec'd 6:37 p.m.

Secretary of State

Washington

2267, September 30, 8 p.m. (SECTION TWO).

"Luck, September 9, 1939.

Full powers.

The President and the managers of the Bank Polski hereby delegate Director Zygmunt Karpinski to London with following full powers:

Director Karpinski is authorized to dispose on his own authority of the stocks of gold which are now or will in future be deposited to the account of the Bank Polski in foreign banks.

Furthermore, Director Karpinski is authorized to dispose of the balances of the accounts of the Bank Polski with his foreign correspondents.

Should for legal reasons the disposal by Director Karpinski on his own of the said stocks and balances be impossible, the President and the managers of the Bank Polski hereby authorize the Polish Ambassador in London, or any person designated by the latter, to sign for the

Bank

PAP -2- 2267, September 30, 8 p.m. (SECTION TWO) from
Paris

Bank Polski together with Director Karpinski.

The President of the Bank Polski, signed Byrka, the
Manager of the Bank Polski, signed Baranski and Nowak,
certified to by the Polish Ambassador in Paris, Julius
Lukasiewicz.

Paris September 27, 1939."

BULLITT

GW

(PARTIAL PARAPHRASE OF TELEGRAM NO. 2267 continued)

3. I have been requested by Director Karpinski and the Polish Ambassador to transmit^{immediately}/information regarding the full powers to the Secretary of State, the Secretary of the Treasury, the Governor of the Federal Reserve System, and to the United States banks which are correspondents of the Bank Polski, the National Bank of Poland. These United States banks are the Guaranty Trust Company, National City Bank, Bankers Trust Company, The Irving Trust Company, and the Chase National Bank of New York.

Of course, the Government of Poland fears that now that Germany is in physical possession of Warsaw, she may attempt to lay hands on property of the National Bank of Poland by some ruse or legal friction.

BULLITT

EA:MSG

CJ

GRAY

RIO DE JANEIRO

Dated October 3, 1939

Rec'd 4:02 p.m.

Secretary of State,
Washington.

348, October 3, 6 p.m.

My 340, September 27, 11 a.m.

I have just received the following letter from the
Minister of Foreign Affairs:

"I have the honor to inform Your Excellency that the
Bank of Brazil is, for all intents and purposes, fiscal
agent for the Brazilian Government, being able, therefore,
in the exercise of these attributes, to maintain a gold
account in the (*)". *Federal Reserve Bank*

Copies of letter being forwarded by air mail.

CAFFERY

(*) Apparent omission
EMB

RECEIVED

OCT 10 1939

RECEIVED
OCT 10 1939
U.S. DEPARTMENT OF STATE
WASHINGTON, D.C.



DEPARTMENT OF STATE
WASHINGTON

*See memo memo
of 10/4/39*

*(Conversation
with Rovinsky)*

174

October 3, 1939

My dear Mr. Secretary:

In reply to your letter of September 23rd regarding the attitude of the State Department toward the proposal for the renewal of the so-called "Standstill Agreement" presented by Mr. Joseph Rovinsky, Vice President of the Chase National Bank and one of the American representatives on the German "Standstill Agreement Committee", I beg to state that we have given consideration to the proposal.

We have in mind the position taken by the Treasury that no question of legality is presented under Section 3 of the Neutrality Act.

This Department is of opinion that it can give no advice or suggestion in the matter, but must leave the determination of the suggested renewal of the Standstill Agreement to the parties concerned. They no doubt have in mind the possibility that there are presently pending before the Congress proposals to modify Section 3 of the present Neutrality Act and that such amendment might wholly change the situation.

Very truly yours,

Cordell

The Honorable
Henry Morgenthau, Jr.
The Secretary of the Treasury.

October 3, 1939

George Harrison was in and told the Secretary that he was disappointed in having the refunding postponed for a week.

Mr. Morgenthau said, "This thing of having the French and the English open an account with you as fiscal agent was something that both the President and I wanted. I explained it to Eccles and he was enthusiastic. It is an Administration policy matter and I am going to ask you, as my fiscal agent, to carry it out in that spirit. Mr. Harrison replied, "I have done it already. I saw Beaulieu and he is worried about a few things. Beaulieu asked a lot of questions. One of the questions was "what if Congress wanted our money to offset against war debts". He also asked a lot of legal questions and I told him he would have to refer to the Treasury lawyers. I shall certainly do what you ask me to."

HM, Jr then said, "I wanted to let you know, man to man, that this is something that we definitely want." Mr. Harrison replied, "We do not think that it is our obligation to say whether you are wise in doing it," and HM, Jr answered, "Yes. I understand. I am not asking. Until this thing is settled, I would like to do it face to face with you."

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin, Germany

DATE: October 3, 1939, noon

NO.: 1560

Reference is made to my telegram No. 1512 of September 30, noon.

An authoritative source informs us that the Reichsbank and other departments of the Government wished completely to absorb German-occupied Poland into the Reich's banking and monetary structure after a short period of transitory measures and arrangements. However, there is possible significance in the fact that Hitler himself insisted that the entire occupied area, including the Corridor, have a separate credit and monetary structure; he excepted Polish Upper Silesia, which he agreed should be economically consolidated with the Reich at once.

Central bank and note issuance functions in the occupied territory are taken over by the Reichs Kreditkassen. This is an institution which had been set up on paper some years ago - to begin operating in time of war. In fact, small denominations of mark currency had actually been printed, in anticipation of such an emergency. The institution, under original plans, was designed not only to function in militarily occupied territory, but also to serve as a Reichsbank auxiliary to meet extraordinary war time credit and currency conditions in Germany itself. However, this
latter

- 2 -

latter function will not be taken up, and the institution will confine its operations to occupied Poland. It was stated that it is urgently necessary that the Reichs Kreditkassen Scheine mark notes be issued, as there is an extreme dearth of currency in certain centers of Poland because of hoarding or withdrawals by refugees.

Hitler himself ordered that the central organization of the Reichs Kreditkassen be located at Lodz; it had been the wish of the Reichsbank that it be established at Posen. The new institution intends gradually to withdraw all zloty from circulation and issue its own marks to replace them. There was some debate on the question of the new relation of the zloty to the mark. The exchange rate, for convenient computation, had been arbitrarily set at 50 pfennigs by the Army instead of 47 pfennigs, its previous parity. It was the contention of monetary experts and price control authorities that this rate would set up price and other economic disturbances in both countries, in view of the fact that eventually there would be substantially free trade between Germany with its high prices and occupied Poland with its low prices. Therefore it was suggested that the zloty be revalued at its purchasing power parity with the mark, and the experts thought around 66 pfennigs would be the rate. A point worth noting is that when Danzig was taken over,

the

- 3 -

the Danzig gulden, which formerly had an exchange rate of 47 pfennigs, was rated at 70 pfennigs. It was the opinion of the monetary authorities that the gulden was slightly over-valued under this rate. However, it is understood that the Ministry of Finance objected to a rate of 66 pfennigs for the zloty on the ground that the Reich's military expenditures in Poland would be increased thereby. It is understood that from the Reichsbank came the conservative objection that it would be admitting that the mark itself was overvalued by setting a rate higher than that which prevailed before. Therefore the dissenting experts were voted down.

The Embassy understands that for the present the Reich price control authorities will keep the present level for Polish prices. However, for some unexplained reason, the independent Reichs Food Estate has made several purchases of grain from stocks in Poland and from large estates at the same artificially high price which is paid to grain farmers in Germany. It is the belief of competent observers that there will be a rise in prices of Polish products, and that there will be speculative activity and general price, wage and supply disturbances, as firms in Germany are clamoring for permission to send their representatives into Poland to purchase any kind of stocks at the relatively low prices now prevailing. During the occupation of Austria, the Sudetenland
and

and Czechoslovakia similar phenomena occurred. However, the German authorities in those cases exercised considerable control to prevent denuding of those areas of stocks of merchandise by German speculators. In the Polish case, no measures to prevent such an occurrence have as yet been announced.

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

END MESSAGE.

KIRK.

EA:LWW

RECEIVED

DEC 4 1938

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

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

TREASURY DEPARTMENT

100

INTER OFFICE COMMUNICATION

DATE October 3, 1939.

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

SUMMARY

- (1) Treasury securities rose during the past week (Chart I). All maturities participated in the rise — the medium and long terms somewhat more than the short (Chart II). Considering their normal amplitude of fluctuation, however, the shorts did better than the mediums and longs.
- (2) Long-term Treasury securities are now at about the same level as in February 1935, while short-term securities are considerably higher (their yields lower) than at that time (Chart III).
- (3) The bill holdings of the Reserve banks have decreased by \$325 millions so far this year, while the bond holdings have increased by \$475 millions, and the note holdings by \$89 millions (Chart IV). The proportion of total bills outstanding held by member banks has tended to decrease, and the proportion held by "all others" to increase in recent years (Chart V).
- (4) The high-grade corporate bond market has just kept pace with the long-term Treasury bond market during the past week (Chart I). New corporate financing was the largest since the week ended August 19, and was well received. Municipal bond prices, as measured by the Dow-Jones average yield of 20 bonds, remained unchanged during the past week.
- (5) The discount rate of the Bank of England was reduced from 4 to 3 percent during the week, and was accompanied by a general reduction in short-term money rates in Great Britain. It is hoped that this may facilitate the floating of a war loan, perhaps late this month.

Secretary Morgenthau - 2

I. Current Developments in United States Securities

Treasury bonds rose during the first five days of last week, and then declined sharply on Saturday. The notes rose during only the first four days, declining on both Friday and Saturday. Bonds advanced and notes remained about unchanged on Monday, October 2. The average yield of all long-term Treasury bonds stood at 2.74 percent on Monday, as compared with 2.79 percent a week before (Chart I).

The relative movement of different maturities of Treasury securities during the past eight days is shown in the following table:

	Average Price Change		
	Week ended Sept. 30	Monday October 2	Total
	(In thirty-seconds)		
<u>Notes</u>			
1 to 3 years	+ 8	0	+ 8
3 to 5 years	+ 16	+ 1	+ 17
<u>Bonds</u>			
Under 5 years to call	+ 9	+ 3	+ 12
5 to 15 years to call	+ 24	+ 2	+ 26
15 years and over to call	+ 20	+ 2	+ 22

Medium- and long-term securities, as will be observed in the table, have risen somewhat more than short, but not by as much more as might normally be expected in a rally of this character. It seems a reasonable observation, therefore, that the shorter securities have continued to show during the current rally the better price behavior which they have manifested ever since September 6 (Chart II).

Additional evidence of the relative strength of the shorter end of the market is furnished by this week's offering of Treasury bills. The average rate on the bids accepted for Treasury bills on Monday, October 2, amounted to .036 percent. This compares with .082 percent on the previous Monday, and is the lowest since August 14.

Secretary Morgenthau - 3

Monday, September 25, was the last day on which any official support was given the Government bond market. Total official purchases on that day amounted to \$6.9 millions, of which \$6.6 millions was for the Federal Reserve banks, and the remaining \$.3 millions for Treasury investment accounts.

The Federal Intermediate Credit banks sold \$30 millions of consolidated debentures on Thursday, September 28. These debentures were 9-1/2 month 3/4's priced to yield about .63 percent, and were heavily oversubscribed. The last previous issue of Intermediate Credit bank debentures had been \$30 millions of 4-1/2 month 3/4's offered September 8 at a price to yield .50 percent.

II. Longer-Term Comparison in the United States Security Market

Chart III compares the position of the United States security market on September 30, 1939, with that on February 21, 1935. On each of these dates the average yield on long-term Treasury bonds stood at 2.75 percent, and the earlier date was the first time at which the average yield had ever been so low. At that time the longest-term Treasury bond was the 3's of 1951-55 (the Mellon 3's) which was selling to yield 2.74 percent. This is exactly the same yield as that of the 2-3/4's of 1960-65 at the close on Saturday.

Short-term securities were yielding considerably more, however, in early 1935 than at the present time. The longest note, for example, yielded 1.48 percent in 1935, as compared with 1.03 percent on Saturday.

The difference in the market between now and early 1935 may be explained in several ways. Excess reserves at the end of February 1935 amounted to \$2,237 millions, as compared with \$5,330 millions on last Wednesday. The mechanical downward pressure on short-term money rates was, therefore, less than at the present time. More important, excess reserves were still a relatively new phenomenon, and the money market was still unaccustomed to adjusting itself to them.

Long-term securities, on the other hand, had at that time the benefit of the high expectations characteristic of the early days of a bull market in gilt-edge securities.

Today, the mechanical pressures upon which low short-term rates rest are greater, while the psychological expectations so important to long-term rates are less bullish.

III. Distribution of Ownership of Treasury Bills

During the statement week ended last Wednesday, Federal Reserve banks permitted another \$30 millions of Treasury bills to run off. This reduction comes on the heels of other reductions in bill holdings which the Reserve banks have made over recent months, aggregating \$325 millions since the first of this year. The very large purchases of bonds and notes made during September more than offset the decline in bill holdings, however, as may be seen in Chart IV. Bond holdings of the Reserve banks are now \$475 millions higher, and note holdings \$89 millions higher than at the end of 1938.

Inasmuch as there has been no change for over a year in the total amount of bills outstanding, the large reduction in Federal Reserve holdings has had to be absorbed by other holders. Chart V shows, for March 4, 1935 to date, the total amount of Treasury bills outstanding and the distribution of their ownership between Federal Reserve banks, member banks and "all other" holders. The figures are plotted as of member bank call report dates from March 4 through December 31, 1938, and weekly beginning with February 8, 1939, the first date for which weekly figures are available. The weekly figures for member bank holdings represent the holdings of weekly reporting member banks; but only small amounts are held by nonreporting member banks.

For the dates shown in the chart, the total amount of Treasury bills outstanding increased from slightly less than \$2 billions on March 4, 1935 to \$2.4 billions on December 31, 1935. Thereafter, there were irregular decreases to a low of about \$1.2 billions on June 30, 1938. Beginning with September 1938, the amount became stabilized at \$1.3 billions. (The figures just cited do not reveal the full range in the amount of Treasury bills outstanding between 1935 and 1938 because only the dates of member bank call reports could be used in the chart. Actually, the amount of Treasury bills outstanding ranged from a high of approximately \$2.8 billions in the middle of September 1937 to a low of \$1.0 billions in July 1938.)

It will be noted that the bill holdings of Federal Reserve banks changed very little between the spring of 1935 and the end of 1938. During 1935 and 1936, member banks, on the average, accounted for about 70 percent of the remaining bills outstanding. In 1937 and 1938, however, the holdings

Secretary Morgenthau - 5

of member banks decreased both absolutely and relatively, with a corresponding shift to "all other" holders, who at the end of 1938 held more bills than did member banks.

During 1939, the holdings of member banks remained at about the same level. Thus, the large decline in the holdings of Federal Reserve banks has been absorbed entirely by "all other" holders.

IV. Other Domestic Securities Markets

High-grade corporate bond prices advanced during the past week. The Treasury average of high-grade corporate bonds decreased in yield from 3.33 percent on Saturday, September 23, to 3.29 percent on Saturday, September 30, and decreased further to 3.28 percent on Monday (Chart I).

New corporate issues last week amounted to \$15,400,000, the largest volume since the week ended August 19 -- i.e., since the beginning of the war crisis. Over half of the volume was accounted for by the \$8,865,000 offering of 2-3/4 percent equipment trust certificates of the Pennsylvania Railroad, maturing 1940 to 1954, awarded to a syndicate headed by Salomon Bros. and Hutzler at a price of 99.119. An immediately successful public reoffering was made of the 1945 to 1949 maturities at prices to yield 2.40 to 2.90 percent. The 1940-44 and the 1950-54 maturities were placed privately.

Municipal bond prices, as measured by the Dow-Jones average yield of twenty 20-year bonds, remained unchanged for the week at an average yield of 3.25 percent. This was the first week since the end of July that the municipal market has not registered a decline from the previous week's level, as measured by the Dow-Jones average. At the end of July the average stood at 2.63 percent and has now risen to 3.25 percent. This is identical with the rise in yield registered by the average of all long-term Treasury bonds during the same period.

New municipal issues with a maturity of one year and over totaled \$4.2 millions during the week as compared with the previous week's total of \$5.3 millions. In addition, there were \$47 millions of issues with a maturity of less than one year, \$45 millions of which consisted of New York City revenue bills with a maturity of only a little over a month. These were sold at a rate of 1/2 of 1 percent as compared with a rate of 3/8 of 1 percent obtained by the City on its last sale of such bills.

Secretary Morgenthau - 6

V. The British Money Market

There was little activity in the market for British Government securities during the past week. Gilt-edge securities in London are still frozen at the minimum prices established by the Stock Exchange, although it is hoped that the reduction of the Bank of England discount rate last week may free the market.

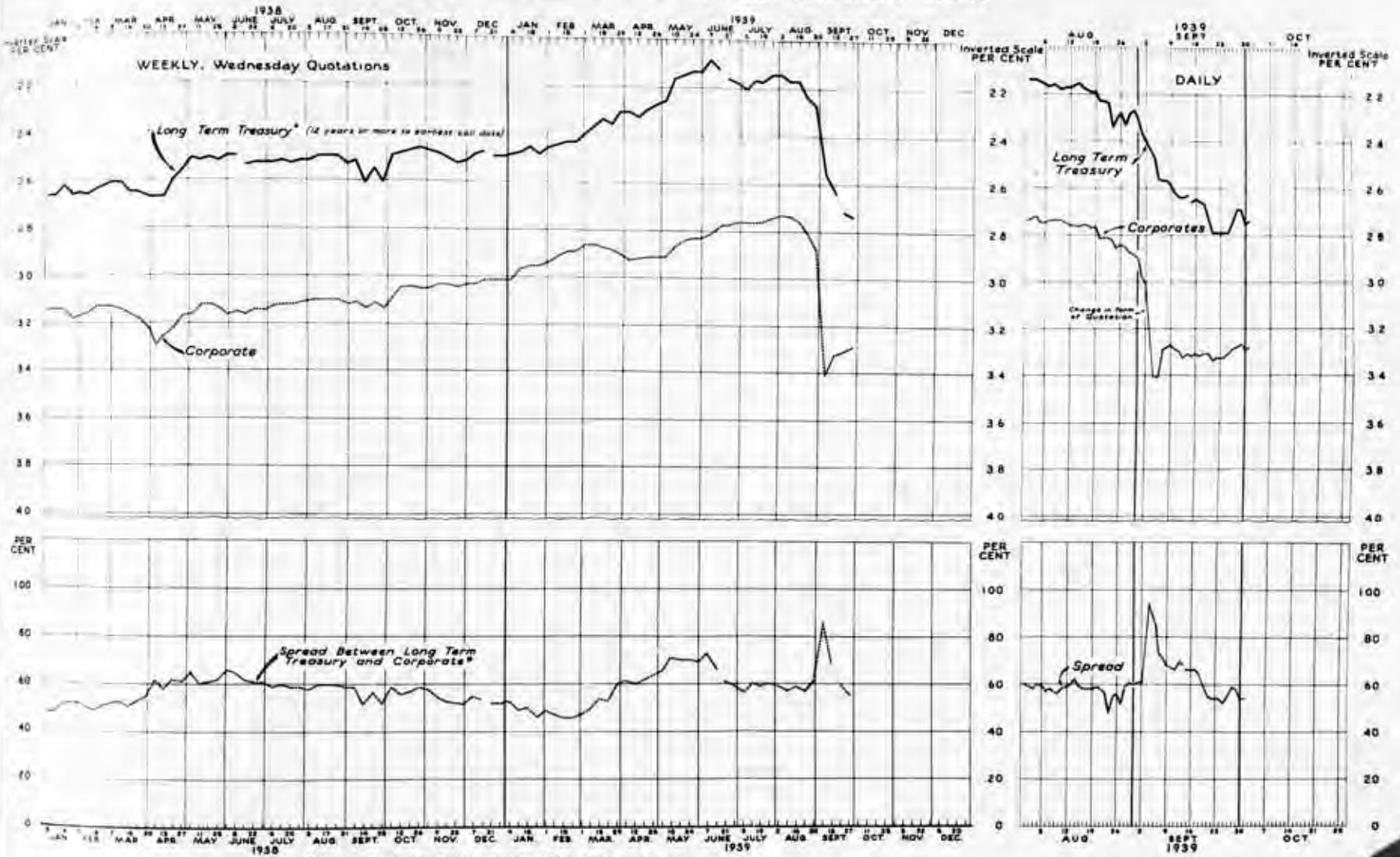
The reduction of the Bank Rate on Thursday from 4 percent to 3 percent was interpreted in press dispatches as a preliminary step to the flotation of a war loan late this month. The next step is expected to be a reduction of the minimum prices imposed by the Stock Exchange unless the market frees itself in the meanwhile by a rise in the actual prices quoted. Current rumors are that the loan will bear interest at 3-1/2 percent and will be offered at about 90. This would be equivalent to a yield of about 3.90 percent on a perpetual loan.

Short-term money rates in the London market were easier last week, especially after the reduction of the Bank Rate. Call loans against commercial bills were quoted at 2 percent at the week-end as compared with 2-1/2 percent a week earlier. The rate on 6-month bills fell from 5 percent to 3-1/4 percent during the week. Friday's offering of 90-day Treasury bills sold at an average rate of 2.44 percent. This is the lowest rate since August 18 and compares with a rate of 3.31 percent last week.

Attachments.

Chart I

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



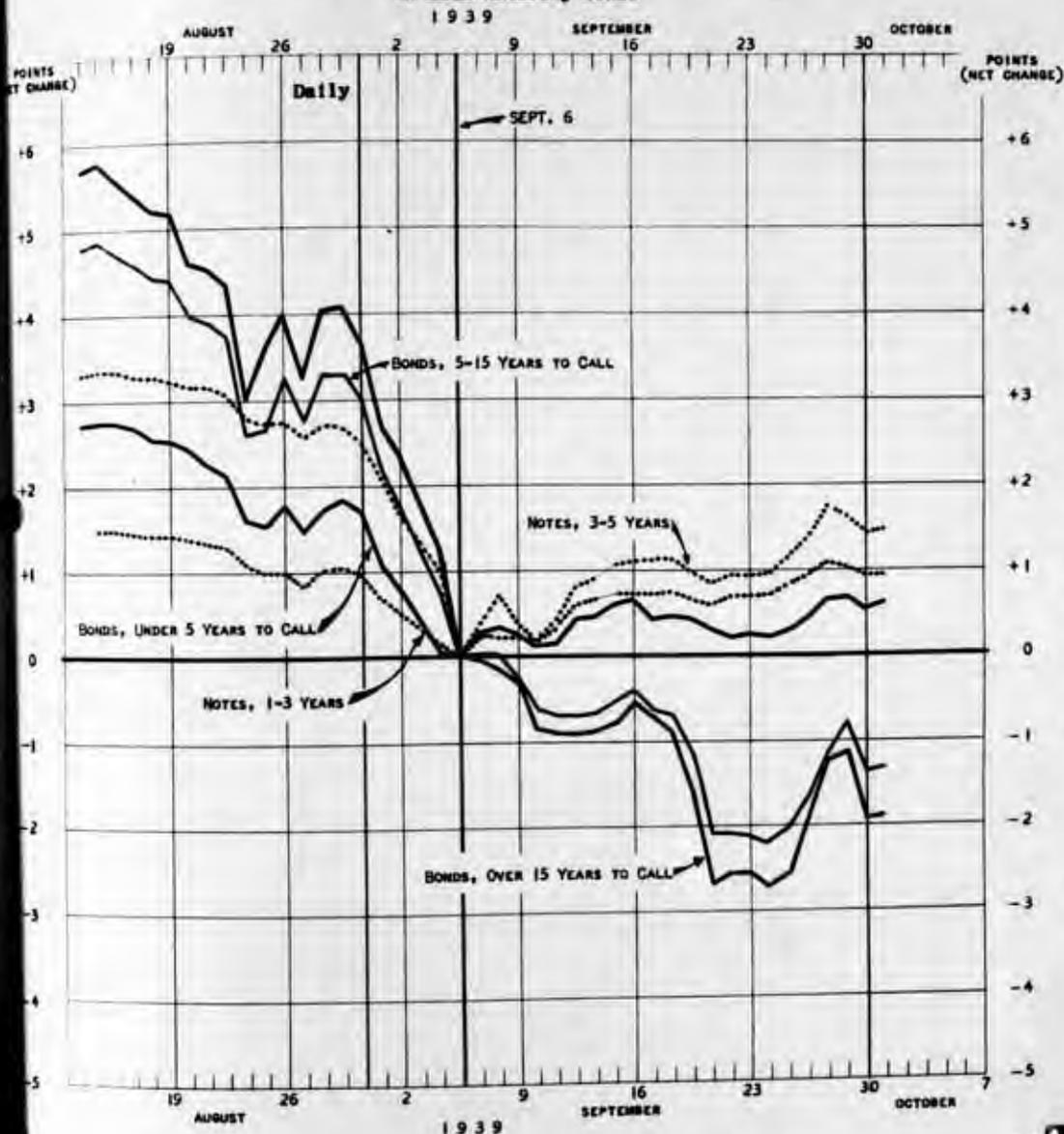
U.S. Treasury Department

*Break in line indicates change in composition of Long Term Treasury average

Chart II

CHANGES IN THE PRICES OF U.S. SECURITIES BEFORE AND AFTER SEPT. 6, 1939

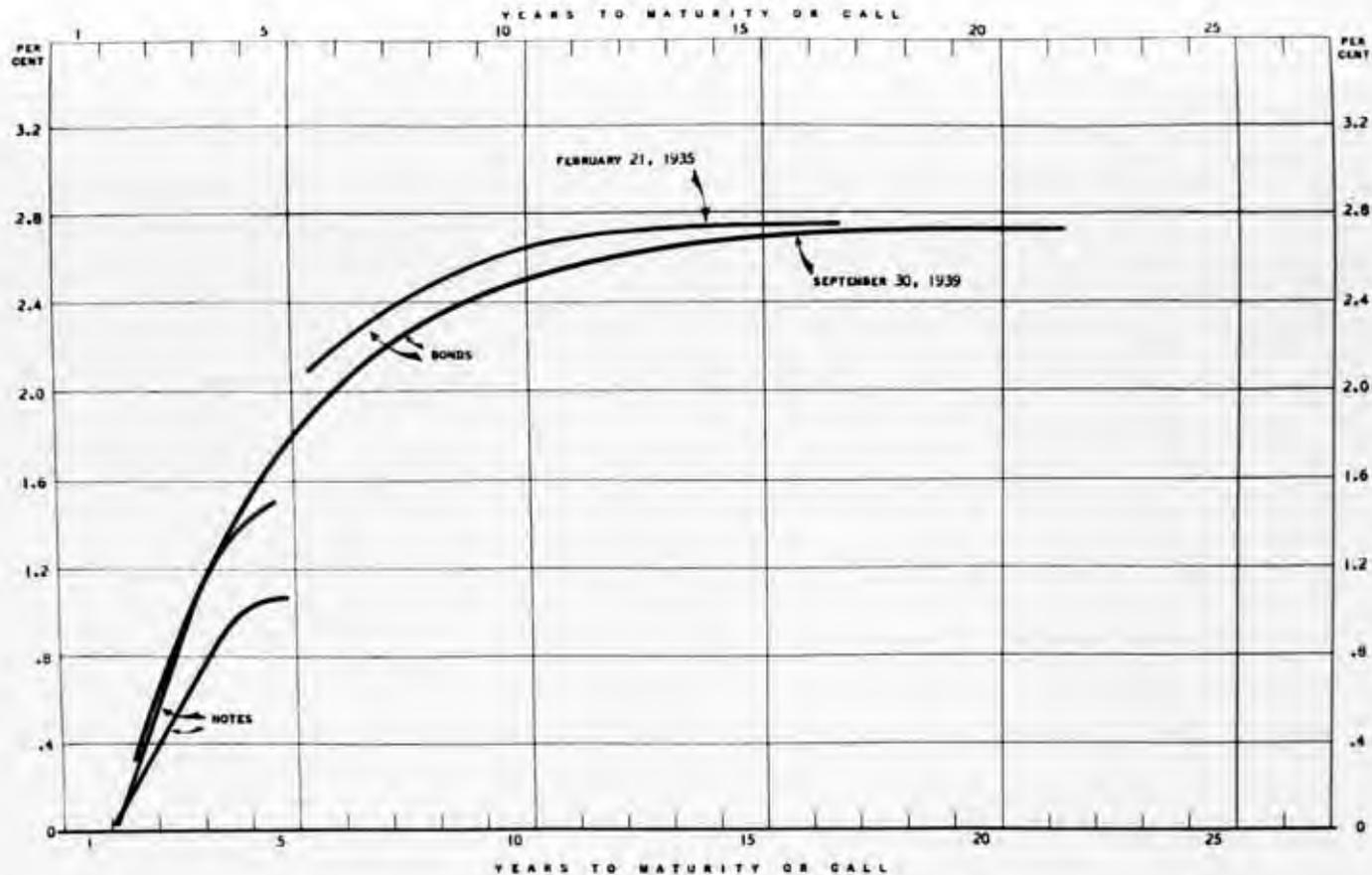
Points Plotted Represent the Difference from Sept. 6 Price of Each Maturity Class



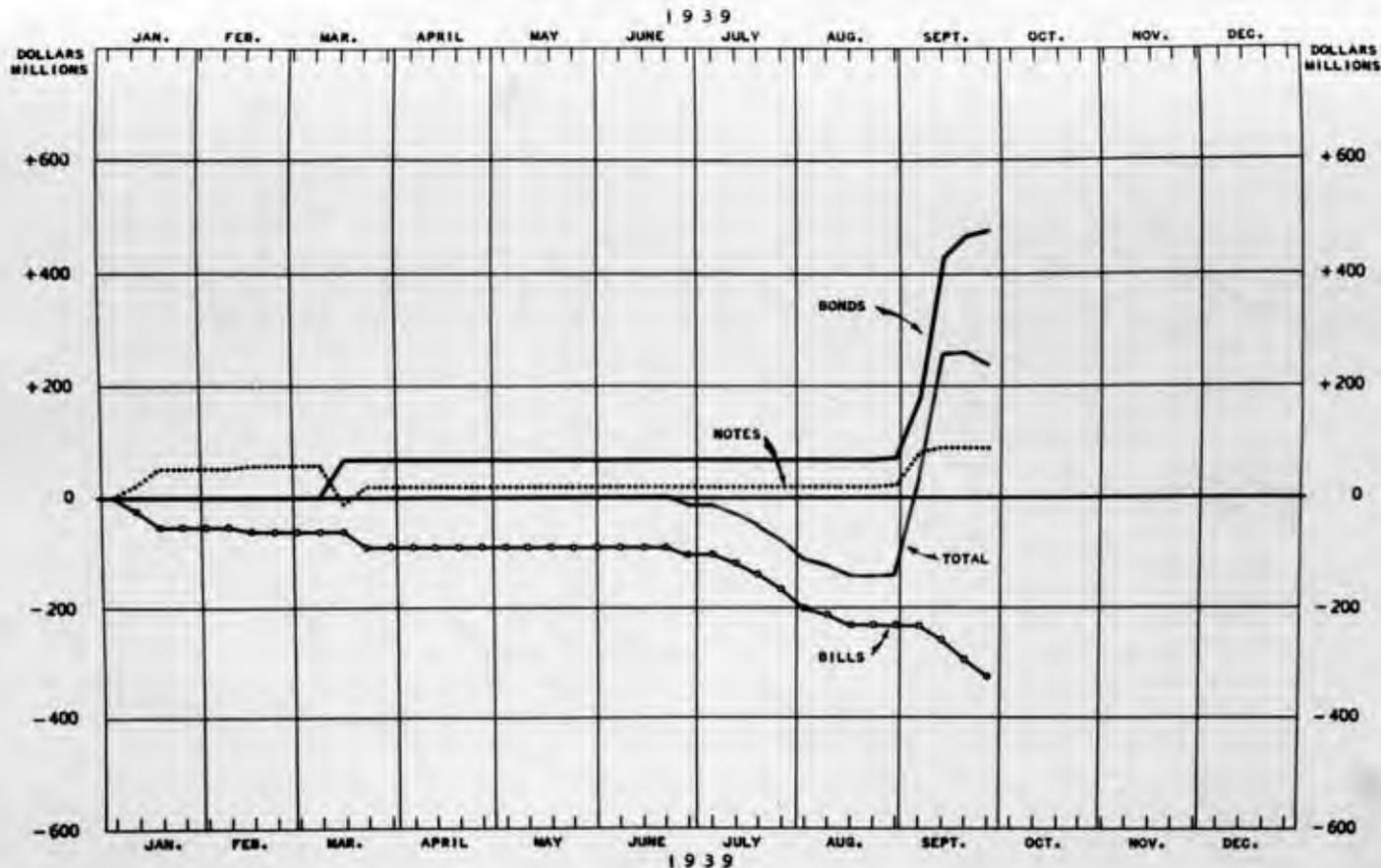
NOTE: BREAK IN LINE INDICATES CHANGE IN COMPOSITION OF A MATURITY CLASS

Chart III

YIELDS OF TREASURY BONDS AND NOTES
Based on Closing Prices

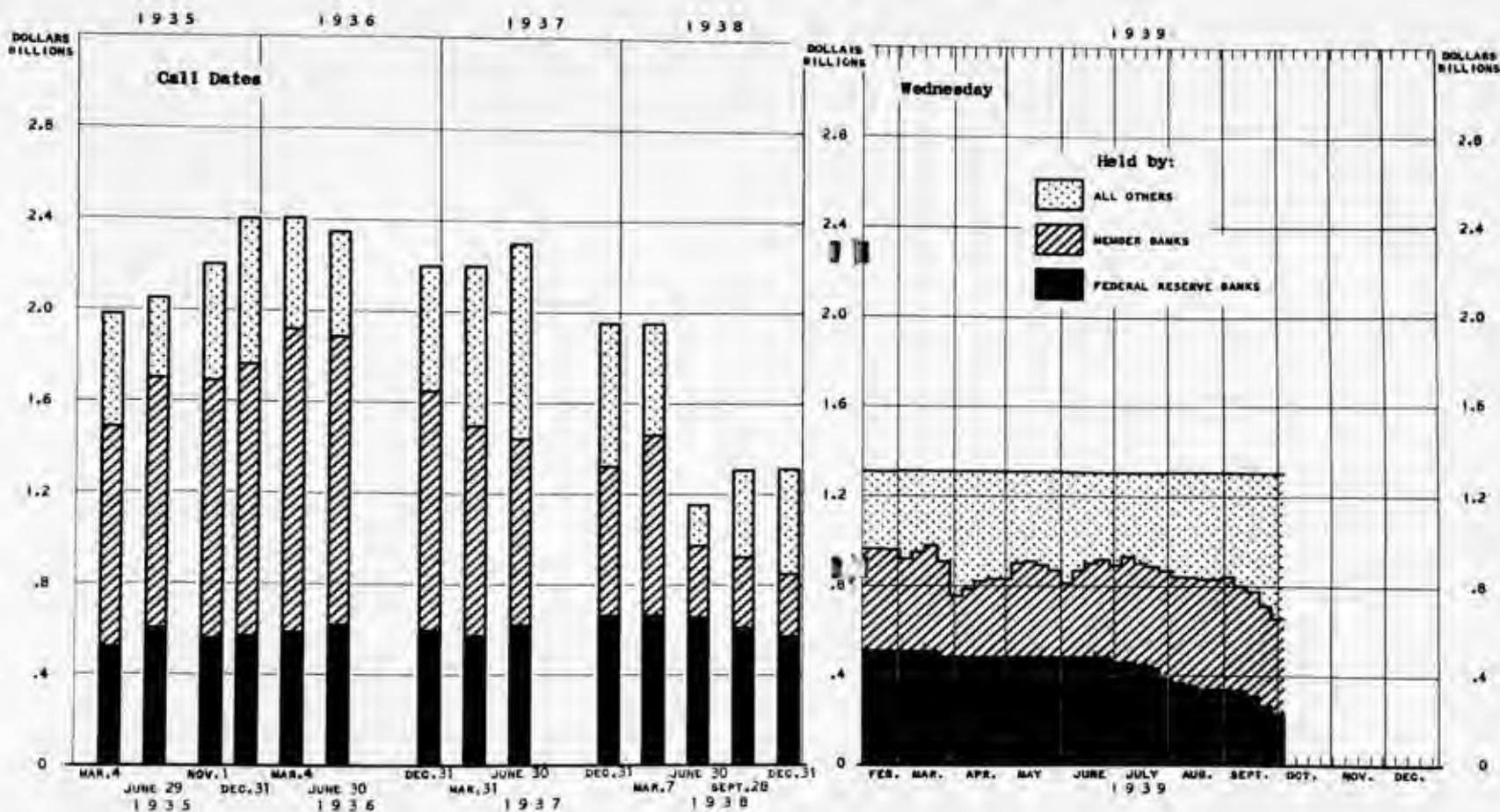


FEDERAL RESERVE BANK HOLDINGS OF U.S. SECURITIES*
 Cumulative Net Change From December 28, 1938



* INCLUDES GUARANTEED SECURITIES

Chart V
 DISTRIBUTION OF OWNERSHIP TREASURY BILLS



JI

GRAY

Paris

Dated October 3, 1939

Rec'd 3:00 p.m.

Secretary of State

Washington

2261, October 3, 5 p.m.

FOR THE TREASURY

The securities market registered but small changes from previous quotations and the turnover was light. International issues were in somewhat more demand. Rentes advanced fractionally.

During the period September 1-15 withdrawals from ordinary savings banks totaled 1,118 million francs and deposits but 105 million. Excess of deposits over withdrawals in ordinary savings banks therefore from January 1 to September 15 were thus reduced to less than 144 million francs.

(Please see our telegram No. 2095, September 21, 6 p.m.) Official speculators foreign exchange rates were unchanged.

BULLITT

CSB

RECEIVED
OCT 4 1939
TREASURY DEPARTMENT
WASHINGTON, D. C.

JR

GRAY

Rio de Janeiro

Dated October 3, 1939

Rec'd 4 p.m.

Secretary of State,
Washington.

346, October 3, 4 p.m.

Embassy's despatch 1768, September 18.

The Director of the Exchange informs me that Bank of Brazil will resume the allocation of dollar exchange for remittance of earnings and administrative expenses of some foreign (predominately American) companies operating in Brazil.

CAPPERY

CSB

OCT 10 1939

OCT 10 1939

THE SECRETARY OF STATE

WASHINGTON, D. C.

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, London

NO.: 1148

DATE: October 3, 1939, 7 p.m.

FOR BUTTERWORTH FROM PURCELL

It is our understanding that security dealers in London are trying to get a ruling from the Canadian authorities which would permit British residents to dispose of Canadian securities owned by them. The Securities and Exchange Commission would appreciate it if you would advise in detail as soon as possible what progress has been made with reference to this plan.

HULL

EA:EB

RECEIVED
OCT 5 1939
U.S. DEPARTMENT OF STATE

TREASURY DEPARTMENT

194

INTER OFFICE COMMUNICATION

DATE October 3, 1939

TO Secretary Morgenthau

FROM Mr. Cochran

Mr. Pinsent telephoned me at 5:50 yesterday evening, wanting to know if I could give him any answer in regard to the Indian silver question he had raised. He said he had taken the responsibility of cabling his people to hold off on their decision since the drop in silver the past few days might have made this question of increased importance to the United States Treasury.

I mentioned this matter to the Secretary this morning, and it was arranged that Mr. Pinsent should come in for an 11:30 appointment. The Secretary received him, with Mrs. Klotz and myself present.

After the meeting, I prepared, at the Secretary's request, a cablegram to London, for Mr. Butterworth's information, reporting the answer which had been given Pinsent. A copy of this cablegram is attached.

Mrs. Klotz took notes of the conversation.

When Mr. Pinsent, just before leaving, raised the question again as to the opening of an account with the Federal Reserve Bank of New York as fiscal agent of the Treasury by the British Government or its purchasing commission, and intimated that it was his understanding that the decision was left with the British, the Secretary told him that if the British were disposed to decide on utilizing any banks other than the Federal Reserve Bank of New York for the business under consideration, Pinsent should come and talk with him first.

Upon this visit, as on other occasions, Mr. Pinsent raised with me the question of the possibility of publicity in connection with an account carried with the Federal Reserve Bank of New York as fiscal agent. I have let him know that this question had also been raised by his French colleague, Leroy-Beaulieu, with whom I understood he was in close contact, and that they would both receive such information as early as we were in a position to give it.

* * * *

October 7, 1939

Mr. Pinsent was received alone by Secretary Morgenthau at 11 A.M. October 4.

It had been planned to have Leroy-Beaulieu come in the same day, but the appointment was changed and the Secretary did not see the French Attaché until 11:45 Friday morning, October 6. This meeting was between the Secretary and Mr. Leroy-Beaulieu alone. The question of publicity which Mr. Leroy-Beaulieu raised with me before going into the Secretary's office has been reported in a separate memorandum.

J.M.R. CONFIDENTIAL

October 3, 1939

MEMORANDUM

To: Mr. Livesey

From: Mr. Cochran

Will you kindly forward the following cablegram:
"American Embassy, London. Strictly Confidential
for Butterworth from the Secretary of the Treasury.
Financial Counselor Pinsent of the British Embassy
has informed me that the Government of India,
desiring in present circumstances to conserve its
foreign exchange holdings, has been releasing
Government silver to the Indian market. To make
this policy more effective, it was proposed,
that the Government of India impose at an early
date an absolute embargo on silver imports.
Pinsent said his Government had instructed
him to ascertain my reaction to this contemplated
measure.

I replied that I appreciated the action of
his Government in consulting me; that I did not
desire to express any opinion as to this policy;
but that I did not raise any objection thereto."

(Init.) H. M. C.

CONFIDENTIAL

TREASURY DEPARTMENT

286

INTER OFFICE COMMUNICATION

DATE October 3, 1939

TO Secretary Morgenthau

FROM Mr. Cochran

The foreign exchange market was very quiet today with decreased volume in sterling transactions. Sterling opened at 4.01-3/4 and shortly thereafter rose to 4.01-7/8 at which rate it remained until the early afternoon. A small demand for sterling was then in evidence and the rate firmed up to 4.02-3/8. Towards the close of the day sterling was still in demand in small amounts when the rate touched a high of 4.03-1/2. The rate subsequently receded closing at 4.03.

Reporting banks in New York and the Federal Reserve Bank reported sales totaling £514,000, from the following sources:

Commercial concerns.....	£	235,000
Foreign banks (Europe and Far East).....	£	229,000
Fed. Res. Bk. (£50,000 for Sweden).....	£	50,000
Total	£	514,000

Purchases of sterling amounted to £425,000, as indicated below:

By commercial concerns.....	£	208,000
By foreign banks (Europe, Far East and South America)...	£	217,000
Total	£	425,000

The National Bank of Belgium today sold to us \$645,000 gold from their earmarked account.

There were no engagements of gold for shipment to this country reported today.

CONFIDENTIAL

GROUP MEETING

October 3, 1939.
9:30 a.m.

Present: Mr. Hanes
Mr. Riefler
Mr. Bell
Mr. Graves
Mr. Burgess
Mr. Duffield
Mr. Baillie
Mr. Viner
Mr. Cochran
Mr. Smith
Mr. Thompson
Mr. White
Mr. Foley
Mr. Harris
Mr. Haas
Mr. Gaston
Mrs Klotz

Hanes: Have you had a reply from the State Department to our letter about the renewal of the German standstill agreement by the New York banks?

H.M.Jr: No, I have had no answer.

Hanes: I obtained from Mr. Berle last night some indication of what the answer of the State Department was going to be, namely, that since there was no question of the legality of the renewal under Section 3 of the Neutrality Act - renewal of the standstill agreement - that the State Department must leave the determination of whether or not to renew the standstill agreement to the bankers. The State Department did call attention, however, to the fact that there is a proposal now before the Congress to amend the Neutrality Act and I assume their reason for calling this to the attention of the German standstill chairman was to caution him against too much publicity at this particular time.

H.M.Jr: I will let you know if I hear anything from the State Department.

Gaston?

Gaston: Admiral Stark came over to the Coast Guard and spent about an hour with Waesche yesterday at the request of the President's naval aide to find out what we

- 2 -

were doing with respect to the coastal patrol and other matters. He left very much pleased and very much surprised, he said, at what the Coast Guard was doing.

H.M.Jr: Is Stark Chief of Operations?

Gaston: Chief of Operations, yes. We turned down a request from our friend Juan Tripp to freight some parts for the Yankee Clipper from Boston up to Shediac where the Clipper is broken down. We couldn't see it in the absence of any specific instructions. It is just the sort of thing we don't do for ships when they are safe in harbor. There is no question of loss of life or property, because we thought we would wait until we got instructions.

Would it be permissible to use a telephone tap for the purpose of getting evidence against one of our own employees, not for the purpose of making a criminal case, but one of our own employees, about the alcohol tax in Baltimore. He is believed to have been giving information to a distillery which they have under surveillance.

H.M.Jr: How does that come to you, Herbert?

Gaston: Through Elmer.

H.M.Jr: Oh. One of your own employees?

Gaston: Yes. He is a special agent of the alcohol section. They want to supervise his phone. He is quite sure that this fellow has been tipping off suspects but they haven't the evidence. They want evidence to dismiss him.

H.M.Jr: O. K. You recommend it?

Gaston: Oh yes, I do. I think in a case like that where it isn't for court - it will never be produced in court. It isn't a criminal trial, it is just a dismissal.

H.M.Jr: Tom?

Smith: I spent last week in Seattle, as you know. I found the people I wanted to see were all there and had plenty of time with them. I am ready to report.

- 3 -

H.M.Jr: O. K.

Smith: The principal thing that the bankers were interested in was whether the bond market was artificial.

H.M.Jr: Did you enlighten them on that?

Smith: I tried to. I don't know whether I did or not.

H.M.Jr: Did you also try to tell them who supplied the artificiality?

Smith: They know that.

Gaston: I think our publicity was excellent. I think that was well handled. I compliment Mr. Duffield.

Smith: Even though you state that the Federal Reserve is out of the market, they refuse to believe it. I don't know how you can get by that hurdle except by re-stating it.

H.M.Jr: Well, they can read the report.

Smith: Well, Wednesday's report hadn't been received when these conversations were taking place.

Viner: Are these bankers?

Smith: Well, they run banks.

Viner: They wouldn't understand the report.

Smith: Well, the report hadn't been received when these conversations were taking place.

Gaston: Do they run banks or are they connected with banks?

H.M.Jr: I will see you later, Tom.

Ed?

Foley: We have received from the State Department what I consider to be a satisfactory letter in connection with Bullitt's cable, changing the signatures so

- 4 -

far as withdrawals from accounts in American banks go. I haven't had a chance to clear it with Jake and Win Riefler and when I see them after the meeting we will send these two letters up to you. One is to the Fed in New York and the other is to the Federal Reserve Board.

H.M.Jr: Let Harry see them too.

Foley: And Harry.

Mrs. Ross, on her own, went to the Attorney General and asked whether or not....

H.M.Jr: When it is all ready, and so forth, let it come up to me through Mr. Hanes, will you? Send it to Mr. Hanes and when Hanes is ready I will ask him to walk it in to me.

Foley: Mrs. Ross, on her own, went to the Attorney General and asked whether or not she was covered by the Hatch bill in so far as making speeches and political activity goes, and he said she was and now she has come to me and wants to get me to intercede.

If it is all right with you, I think I will tell her that it would be embarrassing for the lawyers to go to the Department of Justice now. The regular procedure is for us to give our opinion first and then for the Attorney General to give his.

H.M.Jr: Isn't there a penalty for going to the Attorney General without first giving my lawyers a cut? She is Harold Graves' baby. I had forgotten, Harold, how do you let your babies run around like that.

Graves: I wasn't looking.

H.M.Jr: Didn't you know that Harold Graves has the Bureau of the Mint? Absolutely, and you are a Bureau official, a former post-office inspector, aren't you?

Graves: I wasn't looking for that.

H.M.Jr: I refer the matter for action to Mr. Harold Graves. Do you mind taking it?

- 5 -

Graves: No.

H.M.Jr: I just want to warn you to get a bath towel and put it over your shoulders.

Let her see Harold.

Foley: Sure, I will give it to Harold and....

Thompson: I was planning to get out a circular for the guidance of the department.

Foley: What is that?

Thompson: I was planning to get out a circular for the guidance of the department as soon as the Attorney General makes a rule on it.

H.M.Jr: Strictly in the room, you know what she does, don't you? She makes these talks and gets paid for them.

Foley: I see.

H.M.Jr: And that is why she is so interested. She won't make a political talk or any kind of a talk unless she gets paid.

Foley: I didn't know that.

H.M.Jr: Sure. I don't know just what she gets, but she gets several hundred dollars for a talk and that is why she is so interested.

Foley: Well, I think this ruling of the A.G.'s is pretty narrow.

H.M.Jr: Incidentally, you might take a look at that - I mean why should she take pay?

Cochran: Mr. Pinsent telephoned last night to see if we had any reply on silver.

H.M.Jr: I have a call in for Mr. Pittman. His wire was busy for half an hour.

Earle?

Baile: Nothing.

- 6 -

Burgess: I had a nice visit in New York.

H.M.Jr: Good. You both look happy. Are you satisfied with yesterday's press statement?

Burgess: Yes, I think that is as well as you can do. I don't think it is going to bother the market particularly. The market is very good up to three or four years and thin beyond that, but I think it is coming along all right. There is nothing much to worry about.

H.M.Jr: Well, I am more than pleased to sit back and let the clouds roll by this week and see what comes.

George?

Maas: I have nothing this morning.

H.K.Jr: Harris?

Harris: Bent but not broken.

H.M.Jr: That fellow isn't a very nice boy to play with, is he, Ritter?

Harris: You have got to play his rules or nothing.

Baillie: He is the meanest one of the lot when he gets going.

Harris: I know him very well, personally, but about ever so often you get into something that rubs him.

H.M.Jr: If I may offer some advice, I would sit tight and just let it die out.

Harry?

White: Nothing.

H.M.Jr: Harold?

Graves: Nothing.

H.K.Jr: Dan?

Bell: I suppose you noticed the Treasury bill rate.

- 7 -

H.M.Jr: Very nice.

Bell: The volume, however, fell off about 110 million for the previous week. This was the first issue that went over the year end. I assume it was largely window dressing, maybe some tax securities.

Savings bonds haven't come in to any extent to get alarmed at, but the subscriptions have fallen off from about 16 or 17 million a week down below 10. That is all I have.

H.M.Jr: Thompson?

Thompson: Nothing.

H.M.Jr: All right, I am available if anybody wants to see me.

October 3, 1939
10:23 a.m.

Operator: Go ahead.

HMJr: Hello.

James A.
Farley: How are you?

HMJr: Fine.

F: Did Durning call you?

HMJr: Yeah.

F: Did you get all straightened out?

HMJr: No, I told him that I couldn't -- didn't -- we were talking over three switchboards.

F: Yes.

HMJr: And I said I didn't want to go into details. Well, he said he knew enough - that he'd see what he could do.

F: Yeah, I talked with him, you see, and I told him that I thought you might have to -- you might want to give him some more -- he -- he knows that crowd pretty well, you see.

HMJr: But he said he thought without my saying anything more he -- he could get me, or at least try to get me what I wanted.

F: O.K. I'll follow it up.

HMJr: Thank you.

F: You're all right, are you?

HMJr: Well I -- I've had -- I've been -- you see, I've had this little touch of jaundice.

F: Oh, I didn't know that.

HMJr: It leaves me kind of low but otherwise I'm all right.

F: Are you home?

HMJr: No, I'm at the office.

F: I see. Oh, I didn't know that.

HMJr: Yeah.

F: Did it make you weak?

HMJr: Very.

F: It does, huh?

HMJr: Yeah.

F: What -- what -- I heard over the radio last night you postponed your refinancing. What was the reason for that?

HMJr: Well.....

F: Not a propitious moment?

HMJr: Yeah -- I mean, this is the week, it looks to me, as though they're going to make up their mind whether they're going to have a real war or have peace.

F: That's right.

HMJr: And while they're making up their minds, one day the market goes up, the next day it goes down, and it's all over the lot.

F: I see.

HMJr: And I thought I'd simply wait until it settles down to whether -- to whether it's a peace market or -- or a world war market.

F: I see.

HMJr: Then I know what level I'm on.

F: Oh, I see. Well that's all right.

HMJr: But this way I just don't know.

F: I see.

HMJr: What?

F: If you see Carmody will you give him my very best?

HMJr: (Laughs) O. K., Jim.

F: (Laughs) O. K. Goodbye, Henry.

October 3, 1939
10:30 a.m.

HMJr: Hello.

Operator: Yes, sir.

HMJr: Will you put him on.

O: Go ahead.

Key
Pittman: Hello.

HMJr: Hello, Key.

P: Yes, Henry.

HMJr: How are you?

P: Fine.

HMJr: Well, you got off to a swell start yesterday.

P: Very good.

HMJr: I congratulate you.

P: Thank you. I - I'm going to follow - I'm going to follow some of them pretty soon now and do some of the sob sister stuff.

HMJr: I get you.

P: (Laughs) I didn't want it yesterday.

HMJr: Now, Key, I need a little advice and help.

P: Huh?

HMJr: I need some help from you.

P: My God, man, I don't know how I can help you.

HMJr: Well, the British sent in their financial attache to see me, with a message...

P: With what?

HMJr: With a message.

P: Yeah.

HMJr: Can you hear me?

-2-

P: Yeah.

HMJr: A message? No, they were giving me a message, I say.

P: Oh, yes. Thank you.

HMJr:that the British Government were considering placing an embargo on all imports of silver into India.

P: Yes.

HMJr: And they wanted to know how we would feel about it.

P: Uh huh.

HMJr: And before I answer them I'd like to know how you'd feel about it.

P: Well, Henry.

HMJr: Yeah.

P: In times of war...

HMJr: Yes.

P: In times of war I don't see that we can make any objection to what any country wants to do.

HMJr: I see.

P: I don't see how. They - they have their own monetary and financial difficulties of which we of course might have some idea but not as much as they do.

HMJr: Right.

P: Now, naturally, this is going to disrupt all kinds of exchange and movements and I don't see that we can make any objection to it.

HMJr: Well, they - they likely said that before doing it they'd like to know how we felt. And before I took anything I'd like - want to get your ideas and so I take it that my answer to them will be that - that we raise no objection.

P: I don't see why - I wonder what they want to do it for.

-3-

HMJr: Ah...

P: What do you think their main idea is?

HMJr: Conserve their money.

P: I see. That's it.

HMJr: Conserve their money.

P: Well, but - what is it - they don't want any gold to move out of India if there's any there?

HMJr: I suppose so. And just - well, and - and not have the Indians sending sterling out to buy silver...

P: Yeah.

HMJr: ...conserve their foreign exchange.

P: I imagine that's it.

HMJr: Yes.

P: Well, of course, I think they're justified in it.

HMJr: Well, I think it's just to conserve their foreign exchange.

P: Well, of course, logically we, on account of any of our domestic laws or anything of that kind why we can't interfere - or shouldn't interfere with any domestic policy any belligerent wants to carry out.

HMJr: Yes. Well, I didn't want to make any move without first being advised by you.

P: Well, that's very good and thank you. But, as I've said two or three times to you, you know, that I think that - that our silver policy should be used for the best interest of the United States....

HMJr: Yes.

P: ...and certainly not in an exceptional way to other people any more than we have to.

HMJr: Yes. Well, I'll just say to them that I appreciate

-4-

their asking us but we don't care to raise any objection.

P: Yes.

HMJr: Is that all right?

P: Yes. I - I would say that - I may go a little further for the record....

HMJr: Yes.

P:if there ever is going to be any record of it.

HMJr: Yes.

P: I would say that we don't desire to express any opinion.....

HMJr: All right. That's.....

P: but...

HMJr: Yes.

P: ...we will make no objections.

HMJr: Right. I- I'll say it just like that.

P: I don't want it to be in a form there where somebody might say that we - that our Government had approved a policy...

HMJr: No.

P: I mean - we don't know anything about it. I think we'd better all be pretty careful - just say something like that - that we don't desire to express any opinion upon the policy...

HMJr: Yeah.

P: ...but that we will make no objections.

HMJr: I'll say just that.

P: All right.

HMJr: Thank you. Very much obliged. Goodbye.

October 3, 1939
3:27 p.m.

HMJr: I'm sorry I couldn't answer.....

Marriner
Eccles: Well it was not very important. I was planning to go -- to be out of town on Thursday and Friday.....

HMJr: Oh, I see.

E: You suggested a meeting for Thursday at one o'clock.

HMJr: Well.....

E: I was wondering if it was anything special or if it was.....

HMJr: No.

E:just a weekly meeting with.....

HMJr: That was all. Jesse called up would I make it Thursday instead of Wednesday because he couldn't make it Thursday.

E: I see. Well.....

HMJr: Ah -- couldn't make it Wednesday.

E: Well, you see no reason why I should put off going up to New York?

HMJr: None whatsoever.

E: Well then - Ransom is here.....

HMJr: Yeah.

E:and he'll be over to the meeting Thursday.

HMJr: O. K.

E: But I didn't want to -- to go out of town if there was something special you thought I should stay for.

HMJr: No, no, it was just that Jesse couldn't make it Wednesday and asked to make it Thursday.

E: I see.

HMJr: Sorry.

E: Well -- now, on this meeting of the executive committee with the Treasury you anticipate that we should meet next week?

HMJr: Well, it's -- it's within the realms of possibility, yes.

E: But we possibly could wait until Monday.

HMJr: Oh, yes.

E: And then if the situation appears to -- to warrant a meeting.....

HMJr: Right.

E:we could even call it for Tuesday if we know early enough Monday.

HMJr: That's right.

E: But in the meantime I've -- I've told them that it will be subject to call and I don't know when we'll have a meeting.

HMJr: Fair enough.

E: Yeah, O.K. then.

HMJr: You're going on a 24-hour basis too.

E: Yeah. (Laughs) All right then.

HMJr: Thank you for calling.

E: Goodbye.

October 3, 1939
3:34 p.m.

213

HMJr: Hello.

Operator: Mr. Livesey. Go ahead.

HMJr: Hello.

Frederick
Livesey: Yes.

HMJr: Morgenthau speaking.

L: Yes.

HMJr: Livesey, very confidentially, I gave our material
to the President.

L: Yes.

HMJr: The Pres -- the reason I'm saying "very confiden-
tially" the President didn't want them to know
that it was -- went through the White House.

L: Yes.

HMJr: I know it got to Senator Pittman. How it got there
I don't know.

L: Yes.

HMJr: Now I take it it went through Mr. Hull.

L: Yes.

HMJr: Now, I have reason to believe that the President
and Mr. Hull discussed this Sunday night. Hello?

L: Yes.

HMJr: But the President sort of -- how shall I say --
well he -- he didn't want to appear in it. There-
fore, may I make the suggestion that you talk to
Mr. Hull.

L: Yes.

HMJr: If Mr. Hull isn't satisfied where we stand on the
ninety-day thing, I would be glad if Mr. Hull
would call me.

L: Yes.

HMJr: Do you mind doing it that way?

L: I'll be glad to do it that way.

HMJr: And inasmuch as you helped us, I will see that immediately that Mr. Cochran sends you over a confidential copy of what we furnished the President.

L: Yes. All right, sir.

HMJr: That'll be over within five minutes, and I'm sorry it didn't go over -- I -- it's.....

L: Well, I intend to draft here a little statement.....

HMJr: Well, I.....

L:on this thing so it can be used.....

HMJr: Well.....

L:in the form of the argument that this statement -- such statements as Mr. Borah made are irrelevant to the intentions of the people who desire this clause.

HMJr: Yes.

L: They do not regard it as an extension of credit, and so forth.

HMJr: Well -- well, I haven't changed my position and I don't think it's important. Hello?

L: Give them -- give them a little line which at least justifies the of it at the present time. And it's not so much the purpose of extending credit as it is a matter of a business convenience and the ability of our merchants to carry on business the way they're accustomed, and so forth and so on.

HMJr: Well.....

L: I'll draft something of that kind.

HMJr: Well anyway, I'll have Cochran immediately send over by special messenger a full copy of what we gave the President, and please.....

L: All right, sir.

HMJr:be very careful with it. And if you're not satisfied - Mr. Hull isn't satisfied, I'm here and I'd be glad to discuss it.

L: All right, sir.

HMJr: Thank you.

L: Thank you.

October 3, 1939
3:56 p.m.

216

Operator: Go ahead.

HMJr: Hello.

Charles Edison: Hello, Mr. Secretary. Charles Edison.

HMJr: How are you?

E: You remember you were asking about a certain purchasing group over here at Cabinet the other day?

HMJr: Purchasing group?

E: Huh?

HMJr: I don't get you.

E: Well, you remember - Amtorg.

HMJr: Oh yes, surely.

E: Well now I -- I've got a little rather -- there's not much to it but I -- I thought I'd send it over to you under special cover.....

HMJr: Right.

E:and you can destroy it when you're through with it.

HMJr: I'd appreciate it.

E: It's -- it's -- it comes from one of our men that has done business with them who had some contact there that he got something from.....

HMJr: Yes.

E:but not very much.

HMJr: Right.

E: However, I'll send it along for what it may be worth.

HMJr: Thank you.

E: All right, sir.
HMJr: Thank you very much.
E: Goodbye.

October 3, 1939
3:59 p.m.

18

HMJr: Hello.

Operator: Secretary Wallace. Go ahead.

HMJr: Henry.

Henry
Wallace: Yes, Henry.

HMJr: I apologize for not answering before. I just kind
of was under a million bales of cotton.

W: Oh that's - (Laughs) -- that's hard luck.

HMJr: Yeah.

W: Why there are two things.

HMJr: Yes.

W: One that -- I sort of wanted to get in touch with
you before I met with a banker over here, but I
think it's something which won't make any great
difference to you. It was our Commodity Credit
folks have been working with the bankers on getting
their cut on the interest rate cut down on these
Commodity loans.

HMJr: I saw that on the ticker.

W: And we got them to -- them to -- they've been getting
a two and a half per cent out; we've got them to agree
to take -- take two instead of two and a half.

HMJr: I see.

W: I sort of wanted to get it to you.

HMJr: Yeah. Well I would have liked to have had it. I
appreciate that.

W: And I didn't think it made any -- I didn't think it
entered into your policy particularly in any way,
but I wanted -- I wanted you to know it as.....

HMJr: Well, I -- I.....

W: -- what we were up to.

HMJr: I appreciate it. I mean, I appreciate your trying to tell me.

W: Yeah. And the other -- the other point -- I don't know whether you remember Bill Settle or not?

HMJr: Yes, I do.

W: He was active -- very helpful back in 1936 in the farm campaign.

HMJr: Yes, I do.

W: And active in some of the old farm co-op movements. He's in today representing one of the big butter co-ops out in the middle west.

HMJr: Oh, yes.

W: It's a matter that has to do with -- they've been buying cream separators on a quantity basis.....

HMJr: Yeah.

W:from a Finnish outfit and selling them -- or selling them to their members.....

HMJr: Yeah.

W:on a very favorable basis. It appears that -- probably that some of the American manufacturers have been complaining that the Finns were engaging in export dumping on it and Bill doesn't think there is, and I just wondered if you could arrange for him to meet whoever should be met over in Treasury to.....

HMJr: Sure, I.....

W:present his side of the case. Apparently it's a matter that's likely to come up very soon.....

HMJr: Sure.

W:in the Customs.

HMJr: If it's something -- he ought to see the Commissioner of Customs, Basil Harris.

W: What's the name?

HMJr: B-a-s-s-e-l, Bassel.

W: Bassel Harris.

HMJr: Harris. I'll be glad to fix it up for him.

W: Could you -- could you.....

HMJr: When would he want to see him?

W: Why I -- just a second. (Talking aside: Bill, when would you like to see him?) Could it be fixed up sometime tomorrow do you suppose?

HMJr: Sure, I -- I -- if he's -- he's a couple of doors from me and I'll tell him now ten thirty.

W: Ten thirty.

HMJr: Tomorrow.

W: All right. He'll be over at ten thirty unless we hear at this office to the contrary then.

HMJr: Righto.

W: Fine. Thanks, Henry.

HMJr: Thank you.

W: Yes, sir.

October 3, 1939
4:40 p.m.

221

HMJr: Hello.

Key
Pittman: Hello, Henry?

HMJr: Yes, Key.

P: In my speech yesterday I stated that I understood there had been some rules and regulations with regard to the administration of the Johnson Act.

HMJr: Yes.

P: And that if there were that I would put them in records, but I -- I understood from Johnson today there weren't any.

HMJr: Any rules?

P: Hiram Johnson said he understood there weren't any regulations on it.

HMJr: Well now, wait a minute. Ah -- this is the history: We had a meeting in my office which Johnson attended and of which Danny Bell kept minutes.

P: Yeah. I have those minutes.

HMJr: You've got.....

P: They're confidential of course.

HMJr: I understand. And then subsequently, based on that meeting, the Attorney General got out a ruling .

P: Yeah.

HMJr: And certainly we asked the important questions of Johnson here in my office.

P: Yeah.

HMJr: And he left no doubt in my mind or the minds of the other people here that a short credit was not what he had in mind.

P: Yeah.

EMJr: But as to formal rules -- I mean, the banks of the country have been doing business based on the Attorney General's opinion.

P: Um-hm. I see.

EMJr: Which was issued -- oh, I forget, somewhere along in May '34 I believe.

P: Well.....

EMJr: Those -- those are the rules and regulations.

P: Did you ever have any occasion to pass on it?

EMJr: Who, I?

P: Yeah.

EMJr: Ah -- you mean after the Attorney General.....

P: I mean, was there any question put up to you there as to -- as to an interpretation outside the Attorney General's?

EMJr: Well, without checking I would say that everybody took the Attorney General's ruling and I don't know that anybody has ever raised any question.

P: All right. (Laughs)

EMJr: What?

P: That's all right with me. I just simply thought maybe they had issued some regulations or other.

EMJr: Well, I -- no, I mean, they took the Attorney General's ruling, everybody knew that Johnson was here, everybody knew how he answered the questions, and we -- after all, that's '34 - this is '39 -- five years of usage.

P: Yes.

EMJr: Which almost makes it common law, doesn't it?

P: Ah -- yes -- oh, yes

HRJr: And that.....

P: I wouldn't have to unless some particular case came up there where there was a question and then of course you'd have to.....

HRJr: But I'll check immediately with Ed Foley, but I'm 90 per cent -- 95 per cent sure that it has never been raised until last week.

P: Um-hm. Well, Johnson asked me today and I told him -- he said, "I understand there weren't any regulations." I said I didn't know whether there were or not; I said if there were I'd put them in the record.

HRJr: No.

P: Because in my speech I stated there.....

HRJr: No.

P:and read the Attorney -- parts from the Attorney General's opinion -- I read it, you see.

HRJr: Yes.

P: And I said, "Now if they've made any regulations under that I'll put them in the record." Johnson said that they understand they didn't make any regulations, so I said, "All right."

HRJr: Well, I -- I -- as I say, I'm 90 per cent sure I'm correct, but immediately when I'm through talking with you I'll find if there's any case or anybody has raised any question about it.

P: Yeah. Of course, in my speech yesterday I referred to the conference.

HRJr: Yes, I know you did.

P: And I said that I understood that Senator Johnson was present.

HRJr: Well.....and does he -- does he question that?

P: Huh? No, he didn't question it.

HMJr: No.

P: No, he didn't question it at all. He was sitting there.

HMJr: And you've got a copy of those minutes?

P: I've got them in my pocket all the time.

HMJr: 'Attaboy!

P: I don't think I'd use them, however, unless he should indicate that anything that I've said wasn't true.

HMJr: Well you've got him where the hair is short, haven't you?

P: Absolutely.

HMJr: (Laughs) All right.

P: There's no question about it. I've got him on two or three things. I'm sitting with them in my pocket.

HMJr: (Laughs) Now what else could I do?

P: That's all.

HMJr: All right.

P: All right.

HMJr: Thank you.

October 3, 1939

225

4:50 p.m.

Operator: Operator.

HMJr: Foley.

O: Right.

(Brief pause.)

O: Mr. Foley.

HMJr: Hello.

Ed
Foley: Yes, Mr. Secretary.

HMJr: I'm just through talking with Key Pittman.

F: Yes.

HMJr: And he says that Johnson has asked him whether there were any rules and regulations gotten out on this question of short term credit since the Johnson Act.

F: Yes.

HMJr: I told him as far as I know there were not any other than the Attorney General's ruling.

F: And the press release of the Secretary of State.

HMJr: Well.....

F: Yeah.

HMJr:I -- I take it that he has that.

F: That's right, because that was attached to the material that was given to the President Sunday.

HMJr: Then he asked me question number two: Had there ever been any question in the courts in regard to this.

F: In regard to short term credits.....

HMJr: Short term credits.

F:under the Johnson Act.

HMJr: Yeah.

F: I don't know of any, Mr. Secretary, but.....

HMJr: I told him I didn't know of any but I would ask you to search the records.

F: O. K., and I'll do it right away and give you a report in the morning.

HMJr: That's right. Has there ever been any -- and then number three, has anybody ever asked the Treasury for any ruling?

F: All right. Whether we -- anybody in the Treasury.....

HMJr:has ever given a ruling.....

F:ever given any rulings.

HMJr:on -- on short term credits under the Johnson Act.

F: We'll check that also.

HMJr: And the boys will have to work at night if necessary.

F: Yeah.

HMJr: I told him I was 90 per cent sure we had given no rulings because I said nobody has ever raised any questions.

F: I -- I think you're -- I think that's a safe statement, but I think we want to make very -- we ought to be very sure.

HMJr: I want to be a hundred and one per cent sure.

F: And we'll check everything.

HMJr: Righto.

F: I have from the Attorney General a -- a letterⁱⁿ which he says that he concurs in the legal conclusions

expressed in the memorandum that we sent to him Sunday night.

HMJr:

Fine.

F:

And I'll give that to Mrs. Klotz for your records.

HMJr:

And I talked with the President about this thing of putting this thing in the bill making it mandatory for the English and French who deposit with the Federal Reserve.

F:

Yeah.

HMJr:

He said he'd rather not have it; he'd rather do it by asking them if you wanted to.

F:

All right.

HMJr:

He'd rather do it by word of mouth.

F:

Fine.

HMJr:

So that's that.

F:

All right. Well, we'll put it on ice. (Laughs)

HMJr:

All right.

F:

Good night.

RE REFUNDING OF DECEMBERS AND RFCS

October 4, 1939.
4:00 p.m.

Present: Mr. Burgess
Mr. Bell
Mr. Hanes
Miss Michener
Mr. Murphy

Burgess: I just told them, Henry, that I thought that weekly summary in the Government market that they get up is a swell job.

Bell: I called up Haas yesterday and said the same thing. It is the nicest job of the kind I have ever seen.

H.H.Jr: All right.

Burgess: Henry, I think our problem in some ways starts with the next definitive maturity, which is the maturity of the Commodity Credit Corporation notes on November 2nd. There is a maturity of 200 million dollars that ought to be refunded at that time. We can't wait two weeks and do it afterwards. It is a refunding job.

Now, it is an easy job because it can be refunded in short maturities if there is a good market for them, but it does have to have a little room around it so that you are not doing something else just a few days before or something else just a few days after. That is the only definite maturity of all the financing that we have to do until you get along to December 15th. This FIC is November 1st, but I think that can take its own course, we don't have to bother about that. Now, that job ought to be done on October 25th or thereabouts, because it takes about a week to print the certificates. That is really just an exchange problem.

H.H.Jr: They don't need any money?

Bell: No, I think they can get along. They have about a 100 million dollar balance and the only large expenditure in the mill at this time is a 40 million dollar expenditure to make on a loan which will go out sometime between October 15th and November 15th, so the balances they have at this time will last beyond December 31st, I think.

- 2 -

H.M.Jr: I got the impression from you they needed new money.

Bell: In my financing estimates, I put in 300 million dollars of new money in November for either the Commodity Credit or RFC. I said we could take either one we wanted or both. I am shifting that to RFC.

H.M.Jr: But RFC doesn't need it, either.

Bell: They don't, but they owe us 250 million dollars which we might as well get if the opportunity presents itself.

H.M.Jr: 250?

Bell: About 250, yes, sir.

H.M.Jr: O. K.

Burgess: If we start from that as a point of departure, we had the feeling in talking it over this morning that we ought to get this job of refunding the Decembers done before that CCC job, if it is any-way possible. We could let it go to November 15th, but that means that we use up November, which is a good month, for doing some of this RFC stuff.

H.M.Jr: Wait a minute. You said you ought to do which ones first?

Burgess: The refunding of the December notes ought to be done before we do this Commodity Credit.

H.M.Jr: When you said November 15th, didn't you mean October 15th?

Burgess: No, I say that there are two alternatives with the December notes, assuming we knew it ahead of time. One is to do it before the Commodity Credit. The other is to wait until November 15th. I think there are two good reasons for not waiting until November 15th. One is that we have already made some gestures in this direction. It has been discussed twice, once on September 15th and once last week, so that from the point of view of our strength with the public it is better to do that job now.

- 3 -

The other reason is that if we wait until November for that refunding, we are using up our time when we might be taking cash for RFC or handling this Housing Authority, 100 million, and we ought to leave November clear for that if we can. So the conclusion is that we ought to do the December note refunding before October 25th, and it can't be too close to October 25th or we would congest the market.

Now, can we do it then? I think the week beginning the 16th is a little too close to the Commodity Credit, due to the note one week and just the next week to do 200 million of the Commodity Credit note is crowding the market a little. Now, if we don't do that, the only time we can do it is next week. Next week, unfortunately, Thursday is a holiday in New York and in most of the other states. Dan says there are only three or four of the Federals that are open.

Sell: Three banks, I think.

Burgess: Now, that isn't insuperable.

Ballie: Pretty nearly.

Burgess: But you don't want it open on that holiday because there is no market open for trading and it is a nuisance. Now, the only two days we see next week when we could do it are Tuesday and Wednesday. Now, we think you could, as you suggested the other day, do it in two days if we push down the accelerator and force it to them.

Sell: They are pretty closely held, too, their notes.

Burgess: Now, we worked that through further to see whether it would work. That would mean a schedule of sitting down Monday morning and deciding definitely and then getting the telegram out early Monday afternoon, opening the books on Tuesday morning and going to it. Now, it seems to us that that is not impossible.

H.M. Jr: With the European thing....

Burgess: But would it be any better a week from then?

H.M.Jr: I don't know. I think this thing - I may be wrong, but Hitler is talking now about addressing the Reichstag Saturday or next Monday.

Bell: I thought that was Friday. It has been changed, has it?

H.M.Jr: I saw somewhere Saturday or Monday. And then Mr. Chamberlain will answer the address Monday.

Wille: Mr. Secretary, there are two factors here which I think explain why Mr. Burgess and the rest of us feel some need of haste. One of them is, the cash position which is still excellent, but I think in my own mind that if we went below a billion dollars that we would have the situation reflected in the price of the securities that we have to put out afterward. In other words, once they saw the Treasury cash was issuing down below a billion dollar figure, I think it would begin to be a market influence.

The second thing is that if you wait until November 15th, only a month away from that December 15th maturity, not only will you be in a position where you interfere with the RFC, but I think we must face the fact that for the next several years we will always have a catastrophe possibly for the next week and that we must just live with that and recognize that we may have to have unsuccessful Treasury offers, and the important thing to have an unsuccessful Treasury offer which previous administrations have lived through very well, although during your incumbency here you have never had to have one, you can live through them very prettily if you have plenty of cash, and therefore to see the cash go below a billion dollars is to give a hostage to a bad turn in the war, which I think would be dangerous for us to do.

H.M.Jr: When would it go below a billion?

Bell: Well, let's see. It will get awfully close to a billion around November 1st.

H.M.Jr: You and the people in the Treasury have been talking about selling 150 billion dollars a week.

- 5 -

Burgess: I think that is an alternative.

H.M.Jr: You people have got to give me something to think about. I don't expect to make up my mind just like that. What we could do - I don't like the idea of doing this thing next week.

Burgess: I don't either.

H.M.Jr: I will think about it.

Frankly, I don't think there is going to be much difficulty. We could do the three C's on the 23rd, couldn't we?

Burgess: Yes.

H.M.Jr: And we could do December 15th on November 6th or October 31st.

Bell: That would be the following week.

H.M.Jr: Yes. If you had the three C's on the 23rd and the following week some time if things were all right you could go along and do the other.

Baillie: I think if we did that, Mr. Secretary, we ought to start increasing our bill issues next week, because to start increasing your bill issues before we make any offering is just an incident which will cause no comment. There will be a little headline on the financial page saying, "Treasury Increases Bill Offering Fifty Million This Week." But if we should have an offer open of refunding and then an unsuccessful offer of refunding and then the next week put out 150 million, then we have really got a headline and I would rather get people accustomed to a varying amount of bills at the time when it would cause the least notice.

Bell: Well....

H.M.Jr: I am not ready to decide.

Bell: We should decide Tuesday.

- 6 -

Burgess: My feeling is this, that we could decide Monday morning whether to go ahead with this refunding immediately or not and that we could be all ready to do it and not make up our mind until Monday and still do it, because I don't think with the arrangement that we have already given the market that we need to give them any advance warning. I am going to be in New York on Friday of this week and I can get the feel of things there. I can either be in New York Monday morning or I can be here, either way you like. I could take a look there while you were looking here and the Executive Committee could be available down to the Board if you want them. And then we could just announce it Tuesday morning, two days, if things look well on Monday. If they don't, I just wouldn't do it, that is all.

W.L.Jr: Well now, you have given me something to think about over the night and I don't want to make up my mind right now. I would like to hear what Hanes says.

Hanes: I like the suggestion that Randy makes. I don't like to be thrown into this week with the holiday in it. I feel somewhat the way you do about it, about the situation not having clarified any by next week. Maybe it will have, I don't know. None of us know that. But I like the suggestion to be ready. I think we ought to get ready in any event, Henry, so that we could take this two days and turn on the gas and go when the time looks good.

W.L.Jr: What I think we can do is this: I will be thinking about this thing continuously. You will be in New York Friday, won't you?

Burgess: Yes.

E.M.Jr: Let's stay on a 24-hour basis and take a look at it. You people can be feeling things out for me.

Burgess: I think if they mean the thing can go - it will be a 3½-year or 4-year, it seems to me. With the war situation, we have got to get used to not giving the market low notes in advance, because we can't

- 7 -

tell them just what we are going to do ahead of time. Second, we must get used to giving the market what it will take and then give them time without waiting for a 5-year note or any particular time. If you are going to do 3 $\frac{1}{2}$, that is O.K., we will get it out of the way.

- H.M.Jr: You have stated it very clearly and I have got the picture. It isn't just what I thought it was, because I was thinking that Commodity Credit had to have some cash, which they don't. RFC doesn't have to have any.
- Bell: That is right.
- H.M.Jr: When does U.S.Housing have to have some?
- Bell: They will probably be out of money early in November. Of course, we can carry them along like we did before.
- H.M.Jr: How much do they use a month?
- Bell: They used 13 million dollars in the month of September. Now, they claim that is going to jump gradually and will get to about 20 million dollars in January.
- H.M.Jr: They will need about 25 or 30 million dollars for the rest of the year?
- Bell: We can give them the credit like we did before.
- H.M.Jr: Really, when you get down to it, nobody needs any cash except the Treasury.
- Bell: That is right, Mr. Secretary, but in my cash estimates you recall that I had 400 million of other cash.
- H.M.Jr: But I say as far as using it up, the Treasury is the only place that needs to re-fuel.
- Bell: But we were getting cash for other people, so we could use it.
- Burgess: The alternative proceeding, I think, Henry is to say that the first major job we will do is Commodity Credit. We can do that the last week in October.

- 8 -

We will put off refunding our December notes until the middle of November and see if it doesn't look better then, but if we do that, we ought to start raising new money for bills.

H.M.Jr: I agree with you.

Burgess: Because then we would be blocking off the chance to do some RFC refunding.

H.M.Jr: I agree with you, as of tonight.

Baillie: Let's settle on that one.

H.M.Jr: Well, you have given me something to think about.

Burgess: It is that damn holiday next week that really makes the trouble.

Baillie: Columbus is really the trouble now.

H.M.Jr: Let's all think about it. All right?

Burgess: Fine.

Bell: I would like to bring this in, Mr. Secretary. Beginning shortly afterward the 16th of October, our balances with the Federal Reserve Banks will run down to the 300 million that we informally agreed we would keep there.

H.M.Jr: Well, when will that happen?

Bell: Shortly after the 16th, when our interest payments pile up, and so forth.

H.M.Jr: 16th of what?

Bell: October. Now, that means that we are going to make calls on the banks which we haven't done since January, 1938, and I am wondering if we don't have the bill issues if I couldn't start that in a small way, say next week.

H.M.Jr: Well, don't....

Bell: Because I think it would - might not hit them so hard and get them used to it again.

H.M.Jr: Let's wait and see what we decide.

Bell: We can decide that Monday.

Burgess: I wouldn't do that the same day or within two or three days. If we begin things this week, make your first call the week following.

Bell: That will be all right.

Baillie: One of the reasons, possibly, for starting the new bill issues is so as not to have to make those calls, because sometimes calls start small banks selling.

H.M.Jr: What I would like you (Burgess) and Bell to do is to go over to Federal tomorrow. Do you see them every day?

Burgess: Friday. We will have tomorrow here.

H.M.Jr: Give them the same talk that you gave me.

Burgess: Fine.

H.M.Jr: Give them the same picture you gave me and tell them also about this thing.

Bell: I wouldn't discuss that call with them.

H.M.Jr: I would give them just what you have given me.

Burgess: Fine.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

237

DATE

TO Secretary Morgenthau
FROM E. H. Foley, Jr.

October 4, 1939

I am attaching a ribbon copy of the memorandum which you transmitted to Senator Pittman this morning.

I have not included the attachments. However, there is in your files a complete set of attachments.

E.H.F.

Attachment

Secretary Morgenthau

October 4, 1939

E. H. Foley, Jr.

I am attaching a ribbon copy of the memorandum which you transmitted to Senator Pittman this morning.

I have not included the attachments. However, there is in your files a complete set of attachments.

(Initialed) E. H. F., Jr.

Attachment

EHF:is Typed 10/4/39

October 4, 1939.

Secretary Morgenthau

Mr. Foley

Re: Senator Pittman's inquiries
concerning the Johnson Act.

Summary

Senator Pittman asked you whether any regulations were issued under the Johnson Act. So far as we have been able to ascertain, no Government agency has issued any regulations under the Johnson Act. The Treasury Department has not issued any rulings thereunder. The Attorney General has rendered four opinions and the State Department has issued two press releases which may be deemed to be administrative interpretations or rulings on the Johnson Act. In connection with its passing on the issue of securities, the SEC has had occasion to determine whether the issuer of the securities was a defaulting government and whether the issue constituted a renewal of an indebtedness. We have been able to find only one reported court decision involving the Johnson Act and the decision is of no particular interest to the problem now being considered.

A.

The Johnson Act was passed on April 13, 1934. Immediately a number of problems arose necessitating the interpretation of that statute.

On April 27, 1934 a conference was held at the Treasury Department attended by Senator Johnson, the Attorney General, the Secretary of State, the Secretary of the Treasury and a number of officials of the State, Treasury and Justice Departments. Various questions of interpretation of the Johnson Act were considered. A memorandum of the conference is in the Treasury Department files.

The Treasury Department did not at that time, nor has it at any time since, issued any rules or regulations under the Johnson Act, and so far as we have been able to ascertain, no other agency of the government has issued regulations under the Johnson Act. Senator Pittman's suggestion on the Senate floor on October 2 that the Treasury issued rules and regulations is erroneous.

B.

On the same day that the aforementioned conference was held, the State Department issued a press release in which it stated that it and the Attorney General were in agreement that ordinary commercial "acceptances or time drafts" did not constitute "obligations" within the purview of the Johnson Act.

The Attorney General rendered three opinions in May, 1934, and one opinion on March 29, 1938 on questions relating to the Johnson Act. All of these opinions have been printed and made public by the Department of Justice, and in addition the first three opinions were given wide publicity by the State Department.

Although these opinions are not regulations in the customary sense, they may fairly be described as administrative rulings on the Johnson Act. Certainly they were intended to be relied upon by the public, and there is every reason to believe that they were in fact so relied upon.

In view of the fact that in his speech on October 2 on the floor of the Senate Senator Pittman said that he would set out in full at the end of his address the rules and regulations prescribed under the Johnson Act, he may desire to have printed in the record, as constituting administrative rulings and interpretations of the Johnson Act, the aforementioned opinions of the Attorney General and the press releases of the State Department, copies of which we can furnish immediately to Senator Pittman.

C.

We have also ascertained that the State and Justice Departments as well as the Treasury have received, during the past five years, many written inquiries relative to the Johnson Act. For instance, on many occasions the Treasury and State Departments have furnished, upon request, lists of the countries in default and information regarding the status of a particular country. In accordance with established practice, the Department of Justice refused to render opinions to private persons in response to questions as to the meaning of the Johnson Act. On many occasions copies of the aforementioned opinions of the Attorney General were furnished in response to inquiries. In connection with the flotation of certain foreign bond issues, the Securities Exchange Commission has had to satisfy itself as to whether the issue was a permissible renewal of an indebtedness permitted by the Johnson Act or that the issuing government was not in default under such Act. You will also recall that when the French Government asked whether we would have any objection to its naming J. P. Morgan & Co. as agent in the United States for the purpose of paying the coupons on the proposed French bonds, the Treasury advised the French that in view of the American legislation "it does envisage objections to the appointment of an agent in New York for the purpose of making such payment in dollars."

D.

A careful examination has revealed only one reported decision in either the State or Federal courts on the Johnson Act. That case is Soviet American Securities Corp. v. Bolger, 16 F. Supp. 622, decided by the District Court of New Jersey on October 14, 1936. The case is of no particular importance to the problem under consideration. The case, apparently a civil action for damages between private parties, construed a certain bond issue of the Soviet Government to determine the date of issue thereof. The court determined that the date of issue of the bonds was prior to the effective date of the Johnson Act. The case is entitled to but little weight as an authoritative interpretation of the Act.

In one or two instances State and Treasury have referred cases to Justice for investigation as to whether there was any violation of the Johnson Act. We expect to hear from Justice in a very short while as to whether or not there have been any criminal prosecutions under the statute.

(Signed) E. H. Foley, Jr.

[Handwritten signature]
October 4, 1939

241

To: The Secretary
From: Mr. Hanes

After discussing the matter of Secretary Hull's reply to the Treasury inquiry concerning the German Standstill Agreement, I telephoned Mr. Rovensky at 12 noon today. Mr. Bernatein listened to the conversation and the following is a transcript of same:

Hanes: You know I told you as soon as we had received an answer back from the State Department I would advise you as quickly as possible. We have an answer from the State Department now and I am going to read it to you -

"This Department is of the opinion that it can give no advice or suggestion in the matter, but must leave the determination of the suggested renewal of the Standstill Agreement to the parties concerned. They no doubt have in mind the possibility that there are presently pending before the Congress proposals to modify Section 3 of the present Neutrality Act and that such amendment might wholly change the situation.

Rovensky: Will you please repeat that - I want to get a girl to take it down.

Mr. Hanes repeated the above.

Well, thank you very much. That gives us some kind of peg for us to see what we can do next.

Hanes: Yes, sir.

Rovensky: I am very much obliged.

Hanes: Not at all.

J. W. H.

October 4, 1939

242

To: The Secretary

From: Mr. Hanes

After discussing the matter of Secretary Hull's reply to the Treasury inquiry concerning the German Standstill Agreement, I telephoned Mr. Rovensky at 12 noon today. Mr. Bernstein listened to the conversation and the following is a transcript of same:

Hanes: You know I told you as soon as we had received an answer back from the State Department I would advise you as quickly as possible. We have an answer from the State Department now and I am going to read it to you -

"This Department is of the opinion that it can give no advice or suggestion in the matter, but must leave the determination of the suggested renewal of the Standstill Agreement to the parties concerned. They no doubt have in mind the possibility that there are presently pending before the Congress proposals to modify Section 3 of the present Neutrality Act and that such amendment might wholly change the situation.

Rovensky: Will you please repeat that - I want to get a girl to take it down.

Mr. Hanes repeated the above.

Well, thank you very much. That gives us some kind of peg for us to see what we can do next.

Hanes: Yes, sir.

Rovensky: I am very much obliged.

Hanes: Not at all.

10-29/39
10-29
10-29
10-29
10-29

October 4, 1939

MEMORANDUM

To: Mr. Livessy

From: Mr. Cochran

Will you kindly communicate the following telegraphic message to Under Secretary of State Welles from Secretary of the Treasury Mergenthau, through whatever channel you find most expedient:

"Please accept my congratulations for the excellent economic program developed at Panama. I am particularly impressed with the stated functions of the projected economic advisory committee. I think the results of the conference represent real progress and augur well for future inter-American economic relations."

(Init.) H. M. G.

HMG:cmk
10.4.39

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin

NO.: 1579

DATE: October 4, 1939

If an observer made a superficial comparison of the September 30 statement of the Reichsbank with the statement of August 31, he might be led to the wrong conclusion and might think that so far the war has been financed by Germany principally from increased tax revenues instead of heavy dependence, as was the case during the World War, on credit creation by the Central Bank and on the printing press. It is a fact that during September there was only a moderate increase in total loans and investments of the Reichsbank--an increase of 205,000,000 marks to a total of 11,844,000,000 marks. The bill and check portfolios of the Reichsbank indeed actually decreased 167,000,000 marks during September to a total of 10,104,000,000. Loans on securities also decreased 36,000,000 marks to a total of 23,000,000 marks. The item miscellaneous assets which is not included in the group "total loans and investments" but which includes the current operating credit advances to the Treasury the German state railroads and posts also declined 267,000,000 marks to a figure of 1,609,000,000 marks. On the

- 2 -

the other hand, there was an increase of 311,000,000 marks in holdings of eligible securities by Poland, bringing the total to 1,324,000,000 marks. There was also an increase of 97,000,000 marks in Poland's holdings of miscellaneous securities.

On the liabilities side the Reichsbank note issue increased only 87,000,000 marks during the month to a figure of 10,995,000,000 marks. On the other hand the sight liabilities (deposits) which must be counted as a monetary itemize increased 121,000,000 marks to a figure 1,601,000,000 marks a record figure for recent years.

It is necessary to remember that statistics for September transactions of the Reichsbank subsidiaries, the Renten Bank and the Gold Discount Bank cannot be secured. It must also be remembered that the reestablishment of the "Oeffa" occurred during September (reference my telegram no. 1455 of September 27, 5 p.m.). It would appear that the Oeffa is exercising some Central Bank functions through its loans, discounts and guarantees of industrial and commercial undertakings. Also, the Reichs Kreditkasse has been set up in the part of Poland occupied by Germany. This organization is taking over the functions of the Bank Polski and is issuing mark notes. It is obliged, under its charter, to lend up to 1 billion marks to the Reich for expenditures in Poland. Apparently the
Kreditkasse

Kreditkasse will finance to a considerable extent the military expenditures in German-occupied Poland but the Reichsbank statement will not show the currency issued by that organization. Moreover, it has not yet been disclosed that the issuance of Renten Bank notes was recommenced at the end of August, although it is certain that the number of these notes in circulation is increasing. Thus in its statement of assets of September 30 the Reichsbank shows holdings of Renten Bank notes of 158,000,000 as compared with only 22,000,000 on August 31. There is likewise no recent statement of the issuance of fractional currency. The Reichsbank's holdings of fractional currency also increased from 55,000,000 marks on August 31 to 200,000,000 on September 30.

In view of the considerations and developments set forth above, the moderate expansion which is shown in the Reichsbank statement of September 30 must not be taken as indicating that to date Germany's needs for wartime credit have been small; nor must it be taken as indicating that the Reich is not obtaining loans from the Central Bank. However, until statements are issued by the other institutions which are mentioned in the foregoing discussion, the extent of Germany's demands on the Central Bank will not be known. The Central Bank of the Reich includes several other institutions in addition to the Reichsbank.

Please

Please repeat to Treasury.

(END OF MESSAGE)

KIRK

EA:LWV:EB

8 3 1 1 3 3 8

8 3 1 1 3 3 8

RECEIVED
TREASURY DEPARTMENT
WASHINGTON, D. C. 20548

(COPY)

248

PAP

GRAY

SS SANTA ELENA

Dated October 4, 1939

Rec'd 11:10 p.m.

Secretary of State

Washington

43, October 4, 10 p.m.

The economic and financial advisory committee agreed upon at Panama is to be a permanent body which will turn its attention to any and all questions of inter-American relationships in these fields in which it may appear that useful result is to be expected. The meeting scheduled at Guatemala is one of treasury representatives for purpose of technical discussion and interchange; there is no expectation that any agreements will be reached at Guatemala or any negotiations undertaken.

I suggest that the Guatemala meeting in carrying on the discussion and interchange on the topics in its agenda could do a useful job in defining the tasks in the monetary and financial field that the permanent committee could undertake and perhaps mail recommendations to it. I see no reason why this meeting should be delayed.

WELLES

EMB:CFW

FS

PLAIN

London

Dated October 4, 1939

Rec'd 2:10 p.m.

249

Secretary of State,
Washington.

1926, October 4.

FOR TREASURY FROM BUTTERWORTH.

British financial and economic life has now been largely transformed by the imposition of Government controls. Nevertheless the critical observer is forced to the conclusion that the full implications of the magnitude of the financial and industrial calls that the war will make upon this country may not have been fully grasped by those controlling policy. There are weak points in the economic and financial armor at the present time which give rise to misgivings in many quarters. There seems to be in higher Government circles a certain complacency which is based on the fact that prompt provision was made at the outset of the war for avoiding some of the mistakes of the last war or for accelerating and making more complete the processes which developed gradually between 1914 and 1918. For example the new-issue control has been made complete and compulsory at the outset in contrast to the voluntary system which gave rise to difficulties in 1919 (discussed on pages 4-17 in the memorandum dated June 13, 1939,

entitled

PS 2-No. 1926, October 4, from London

entitled "Government Intervention in the Capital Market in Great Britain since 1914"). Again provision has been made for the mobilization of overseas assets and the use of the exchange equalization account for this purpose was more or less obvious. Finally the experience of the last war indicated the dangers of inflationary price rises. By prompt measures for the control of food and certain essential materials through rationing or price fixing a check has been effected to hoarding and sharp price increases such as took place in 1914. But these measures have not prevented profiteering in uncontrolled products (for which new legislation is now being drafted) nor can it be expected that the freezing of certain prices at arbitrary pre-war levels will prove indefinitely tenable since the British Government does not control the supply of many of the articles for which it has fixed prices nor has it taken into account the need for some stimulus to the production of certain essentials which can only be afforded by a moderate price increase. Heavy taxation has been imposed with the avowed double purpose of (a) raising a larger proportion of current costs by means of revenue than was done in the last war and (b) avoiding inflation by curtailing consumption. As regards (a) the attempt is obviously laudable but if the war lasts a long time it will no doubt fail. As regards (b) the steps taken were appropriate but

the

FS 3-No. 1936, October 4 from London

the timing seems faulty for the reasons touched on in paragraph numbered 4 of my 1869, September 29. Furthermore, if the avowed three years war is in reality being prepared for, the problem facing the British Treasury cannot be defined in terms of "avoiding inflation" but must be admitted as one of limiting and controlling the inflationary process so far as is practicable. Indeed, a moderate inflation would prove expedient at a later period as a means of reducing the purchasing power of wage earners on whom a direct tax might prove politically impracticable. Though the monetary machinery is far more flexible than in the last war and must be admitted to be of a nature that will prove of great practical use to the Government in wartime, it still has to be adapted rapidly to a number of new conditions. The new monetary machinery was logically enough supplemented by exchange control at the outset of war but an incomplete exchange control which neither prevents some capital escaping nor leaves unimpaired London's unique position in financing international trade. Though the development of monetary technique since 1932 may well be cited as an instance of the British genius to adapt to new circumstances it must be remembered that this development took place slowly and empirically. The British indeed are at their best in evolving such a system gradually but it is obvious

FS 4-No. 1936, October 4, from London

obvious that the present situation calls for speedy action in many directions where empirical methods may prove inadequate because they are not expeditious. Indeed the city has been surprised, as put by a banker writer to the MANCHESTER GUARDIAN, not to have been "given its marching orders" on the outbreak of war. "Discount houses expected to be told that they must continue to buy Treasury bills at about 15s, but they were quite contented with that rate. Banks and financial institutions generally expected to be requested politely to take up allotments of war loans at low rates. All this was common talk in the city - quite naturally after 8 years of increasing Treasury control, and it presented a more favorable terrain for war finance operations of the Government. Not only has all this been thrown away but it is disturbing that the Governor of the Bank of England should consider the eve of totalitarian war as the right moment for a return to laissez faire in finance." The writer goes on to suggest some of the "marching orders" that should be given to the city, including a fixed rate of 15s, for Treasury bills, and order to banks to restrict advances to the existing totals and to increase their holdings of investments as their Treasury bill holdings rise, etc. He ends with the words "The Government has only to give its orders. There is no need for it to be afraid of the city, which is only anxious for leadership".

leadership". Though the Government's plans for the mobilization of manpower for industry as well as military purposes will not be known until the National Register (which was taken last Friday) has been completed, there are on many sides misgivings as to whether a complete and comprehensive plan has been thought out for bending all efforts towards the winning of the war. Furthermore the problems of the transition period, especially the need to keep internal business going which will produce taxable profits and incomes, seems to have been lost sight of. Above all a patchy rationing and price fixing system which assures to the consumer adequate supplies of necessities at a reasonable price tends to free the remainder of his purchasing power for indiscriminate expenditure on uncontrolled products with the danger not only that their production will be stimulated but also that speculation in such products might attract funds needed by the Government, especially since the necessity of and practical methods for assuring that all available savings can be tapped by the Government for its war needs, do not seem to have been thought through. Thus arises the impression that, given the new problems for which the last war's experience does not provide a guide, the absence of a coordinated economic and financial policy may well render many of the miscellaneous controls conflicting and ineffective. In
this

FS 6-No. 1936, October 4 from London

this connection reference is made to 1631, September 13, 6 p.m. So far economically and financially the British are half slave and half free and it may well be asked will they not have to be wholly slave to win. The above quotations from the MANCHESTER GUARDIAN reflect the readiness of the country to accept the slavery that may be needed and the plea for leadership expresses the desires of the majority in the industrial and trading as well as the financial world.

HTM

KENNEDY

RECEIVED
OCT 1 1936
THE MANCHESTER GUARDIAN

OCT 4 1939

My dear Mr. Secretary:

This will acknowledge the receipt of your letter of September 23, in which you inform me of the action taken by the British Government in arranging for the purchase of the surpluses of most primary products of Australia and of the intentions of the British Government to arrange for the sales of Australian wool to this country.

I wish to thank you for transmitting this information, and I hope that you will keep me informed of any further developments which may take place.

Sincerely,

(Signed) H. Morgenthau, Jr.

The Honorable,

The Secretary of State.

ORIGINAL FORWARDED TO ADDRESSEE
FROM OFFICE OF THE SECRETARY

by messenger

HG:lrs:dal
9-29-39

FILE COPY

MR. MORGENTHAU'S OFFICE TO-

Mr. Hanes Mr. Bell
Mr. Gibbons Mr. McReynolds
Mr. Gaston Mr. Foley

Mr. Alexander Mr. Hanna
Mr. Allen Mr. Harper
Mr. Bartelt Mr. Helvering
Mr. Batchelder Mr. Irey
Mr. Berkshire Mr. Julian
Mr. Bernard Mr. Kilby
Mrs. Betts Mr. Lochhead
Mr. Birgfeld Miss Lonigan
Mr. Blough Mr. Maxwell
Mr. Broughton Mr. Rose
Mr. Bryan Mrs. Ross
Capt. Collins Mr. Sloan
Mr. Delano Mr. Spangler
Miss Diamond Mr. Tarleau
Mr. Duffield Mr. Thompson
Miss Flanagan Mr. Upham
Mr. Graves Mr. White ✓
Mr. Haas Mr. Wilson
Mr. Hall Mr. Young

*The Secretary asks that
you be good enough to
prepare a suitable reply*
mc



DEPARTMENT OF STATE
WASHINGTON

reply refer to

September 23, 1939

My dear Mr. Secretary:

I quote below from a telegram dated September 11, 1939, from the American Consul General at Sydney, Australia:

"Arrangements have been made for purchase by Great Britain of all surpluses over Australian requirements of most primary products including wool, canned and dried fruits, meat, butter, et cetera. No announcement yet regarding wheat."

The foregoing constitutes confirmation of the many reports in circulation regarding the control by the British Government of stocks of primary products produced in Australia. The Department had also been informed that the object of such an arrangement with Dominion Governments was to enable the British Government to control whatever proceeds in foreign exchange may be derived from the sale of these products in non-British countries, particularly the United States, since obviously the total
production

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

production would not be expected to be consumed or stored in the United Kingdom. The first intimation received by this Government of a hope on the part of the British Government that barter or similar transactions be entered into between the two Governments was made to the Agricultural Attaché at London. This report transmitted the intimation that the British Government may formally propose an exchange of Australian wool for certain American surpluses, particularly wheat. A further intimation has reached the Department in an informal communication from the Commercial Counselor of the British Embassy, which I quote below:

"The present clip has been acquired by the British Government. I should think that undoubtedly, as before, some Wool Control will be set up in London which among other functions will have that of supplying neutral countries with their requirements.

"In the last war the supplies of U.S. requirements were coordinated through the Textile Alliance, a U.S. corporation, which is still in existence with all records.

"Lord Barnby, who was Wool Controller in the last war, is at present in this country and has conferred, in a personal and unofficial capacity, with leaders of the Wool Textile Industry, with Mr. Frank A. Fleisch, the former General Executive of the Textile Alliance, and Mr. E. Farnham Greens, the senior remaining director. I have received Lord Barnby's report and recommendations.

"Mr. L. R. Macgregor, the Australian Government Trade Commissioner, has been approached by Mr. Arthur Besse, president of the National Association of Wool

Manufacturers.

Manufacturers, and Mr. H. Clyde Moore, president of the Boston Wool Association. These gentlemen are anxious for information as to arrangements which can be made for providing for U.S. requirements of Australian wool. Mr. Macgregor has informed them after consulting Canberra that while Australia has an important indirect interest any business arrangements regarding obtaining the current or succeeding clip should be made with the British Government or its representatives. They are therefore desirous of consulting me at the earliest possible moment.

"I now propose to refer to London for information and instructions but in the meantime I shall be glad that you ascertain whether Departments of the United States Government have an interest in any aspect of the subject which they would wish to discuss with me informally or otherwise.

"I think there may be two such main aspects, viz. (A) the trade aspect, even though it were proposed that arrangements should be concluded directly between an organization such as the Textile Alliance and the Wool Control in London, and (B) the finance aspect.

"You will appreciate that (B) raises the consideration that the clip represents a sterling asset which might provide dollar assets or credits utilisable for general purposes or for specific purchases of or exchange for commodities in the United States. I should like to know the opinion of the Department of Agriculture whether this consideration opens up any possibilities under Public Resolution - No. 52 - 76th Congress and Public - No. 387 - 76th Congress, both approved August 11, 1939, relating respectively to sale and exchange of surplus agricultural commodities.

"I may have occasion to make similar enquiries in regard to Jute Control."

The last paragraph but one of the foregoing would appear to be a clear intimation of the British Government's desire to make some proposal for the exchange of

British

British Empire primary products for some of the American surpluses.

This informal communication and the enclosed excerpt from a telegram just received from the American Embassy at London were read at a special meeting of the Executive Committee on Commercial Policy, convened on September 15 to consider the problem of the price of wool, and are now transmitted for the information of the agencies and departments represented on the Committee. The Committee decided to establish a subcommittee to study the question of methods of meeting conditions growing out of new British economic organization as typified by the wool situation.

Sincerely yours,

Corde Hue

Enclosure:

Excerpt of telegram.

RECEIVED
SEP 20 1941
U.S. DEPARTMENT OF COMMERCE
WASHINGTON, D.C.

EXCERPT FROM A CABLE FROM THE AMERICAN EMBASSY LONDON

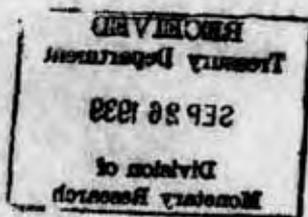
A new and interesting technique lies in the opportune possibilities which the younger brains of the Ministry of Economic Warfare see in the plans for large purchases of Empire and other supplies of important commodities which the Ministry of Supply and the Food Control Department are considering. These departments are faced with the necessity of obtaining essential supplies without exhausting Britain's foreign exchange resources (the Ministry of Supply have already taken over the whole Australian wool clip for example) with a view to using the surplus beyond Britain's own needs for the obtaining of other products on the most advantageous terms. The Ministry of Economic Warfare see in such a policy the means of obtaining control of a large proportion of world supplies of some important commodities, centering their sale in London and possibly also using them in barter deals or compensation arrangements which would increase Britain's power of preventing supplies from going to Germany direct and of undermining Germany's export trade by exchanges with neutral countries for products which they might furnish to Germany. Incidentally Anglo-French buying is to be carefully coordinated. These examples provide a glimpse of the magnitude and ramifications which British economic policy is likely to encompass. The task of coordinating the effort is obviously tremendous. The raw materials will be allocated to British industry by the various agencies handling their control; the Treasury will allocate the foreign exchange and the new capital which may be issued; the military departments, through the Ministry of Supply, will have priority in materials and manpower; and the Ministry of Food and the Ministry of Supply will be engaged in large commodity transactions and the Board of Trade will control the exports and imports. The Ministry of Economic Warfare, however, must have recourse to many of the controls in the hands of other agencies to further its objectives. There is as yet no one person who is relieved of other duties whose sole function is to coordinate the efforts of the various departments. Therefore it is impossible to assess the speed with which the economic and financial policies as a whole will be crystallized. But certain implications are apparent. The urgency of need and the availability of supplies will of course make for large purchases in the United States market but two factors will certainly operate against this and a third factor may or may not. (1) The British (and French) desire to conserve their free foreign exchange resources as much as possible. For example the British Treasury has instructed

the

-2-

the British tobacco companies to cease purchases of American tobacco. (3) Strategic purchases in markets contiguous or near Germany and Italy either (a) to prevent such supplies reaching Germany or (b) to increase political leverage through rectification of the balance of payments. For example attempts are being made to purchase large quantities of lead from Yugoslavia and dried fruits from Turkey. (3) Shipping, which involves the whole question of the availability and safety of ships under submarine warfare conditions, the length of the haul and whether or not a ballast voyage is involved.

KENNEDY



VRH

GRAY

262

Paris,

Dated October 4, 1939

Rec'd 2:30 p.m.

Secretary of State,

Washington.

2309, October 4, 6 p.m.

FOR THE TREASURY

A decree published in the Journal Official this morning authorizes the minting of 5 franc coins of a bronze aluminum alloy up to a maximum of one billion francs to replace the 5 franc notes recently placed in circulation by the Bank of France (which in turn replaced the former nickel coins, - - please see our telegram No. 2148 September 23, 1 p.m.)

At today's Cabinet meeting a decree law was approved making more flexible the wheat office restrictions and suspending existing limitations on plantings. The Government likewise approved a decree law establishing under the Ministry of Agriculture a general food supply service.

A news despatch from Belgrade reports that the Yugoslav Minister of Finance has decided to suspend foreign exchange transfer authorization for service on Yugoslav debts in France.

The securities market was calm and inactive with small changes with the exception of Suez Canal shares which registered a 500 francs increase to 15, ~~450~~ 455. Rentes were firm.

BULLITT

CSB

FEDERAL RESERVE BANK
OF NEW YORK

100(7)
163

OFFICE CORRESPONDENCE

DATE October 2, 1938

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF FRANCE.

FROM L. W. Snook

Mr. Carigual called at 9:55 a.m. He stated that he had just cabled us to the effect that the payment requested in his No. 749 should not be effected by us until we heard from him further. I verified that No. 749 had not been acted upon by us as yet and so advised him on the telephone.

I asked what he could tell me about the foreign exchange market in Paris and he replied that it was running very satisfactorily for them; they were better off today than they had been on any day since the first of September. It was necessarily a limited market, considerably reduced in volume.

LWC:KW

Payment to be made for 1/2 of \$4,000,000, against delivery of an amount for that amount -

RECEIVED

OCT 2 1938
FEDERAL RESERVE BANK
OF NEW YORK



DEPARTMENT OF STATE
WASHINGTON

October 4, 1939

In reply refer to
Eu 862.002/344

My dear Mr. Secretary:

Acting on your request that I endeavor to find out, if possible, the present whereabouts of Dr. Schacht, I telegraphed our Minister in Switzerland, who has replied as follows:

"A close personal friend of Dr. Schacht in Zurich tells me that at the moment he is not in Switzerland. Two days ago this friend received a letter from Dr. Schacht postmarked Berlin, which gave no intimation of any intended departure from Germany. The letter merely asked for a box of chocolates to be sent him. If and when Dr. Schacht comes to Switzerland this same friend is certain that he will be advised."

Sincerely yours,

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, London

NO.: 1930

DATE: October 4, 1939, 9 p.m.

FOR PURCELL FROM BUTTERWORTH

Reference is made to the inquiry contained in your no. 1148 of October 3, 7 p.m.

Permission was freely given until the middle of last week to British residents to dispose of Canadian securities with the provision that the Canadian exchange resulting from such disposal was to be turned over to British authorities in charge of monetary affairs. It is stated by the British Treasury that the subsequent withholding of permission was the result of a request by the Canadian authorities. The latter are tightening their arrangements for exchange control. Representations have been made to the Treasury by the Canadian authorities that it is desirable by reason of the nature of their securities markets that British holdings be liquidated in a fashion that would be more planned and orderly. The press report to the effect that the export from Great Britain of Canadian securities is being prohibited is denied by / the British Treasury. Canadian banks and securities dealers are

-2-

are unable to think of a satisfactory motive. It is my impression that British finance (defense) regulations were practically copied by the Canadian monetary authorities and that now they are discovering that some of the provisions do not apply to particular circumstances in Canada.

Sir Robert Kindersley has informed us confidentially that it was his estimate that the nominal value of British holdings of Canadian securities totaled, at the end of 1938, about 440,000,000 pounds, of which 300,000,000 pounds were bonds and 140,000,000 pounds were equities.

Please inform Treasury.

KENNEDY

EA:EB

RECEIVED
OCT 3 1938
TREASURY DEPARTMENT
U. S. DEPARTMENT OF THE TREASURY
WASHINGTON, D. C.

GROUP MEETING

October 4, 1939.
9:30 a.m.

- Present: Mr. Hanes
- Mr. Graves
- Mr. Gaston
- Mr. Foley
- Mr. Duffield
- Mr. Bell
- Mr. Smith
- Mr. Riefler
- Mr. Bailie
- Mr. Burgess
- Mr. Viner
- Mr. Cochran
- Mr. White
- Mr. Harris
- Mr. Thompson
- Mrs Klotz

H.H.Jr: This letter just came in from Mr. Hull. I am going to read it. I don't know who all is in on this.

"In reply to your letter of September 23rd regarding the attitude of the State Department toward the proposal for the renewal of the so-called 'Standstill Agreement' presented by Mr. Joseph Rovensky, Vice President of the Chase National Bank and one of the American representatives on the German 'Standstill Agreement Committee', I beg to state that we have given consideration to the proposal.

"We have in mind the position taken by the Treasury that no question of legality is presented under Section 3 of the Neutrality Act.

"This Department is of the opinion that it can give no advice or suggestion in the matter, but must leave the determination of the suggested renewal of the Standstill Agreement to the parties concerned. They have no doubt in mind the possibility that there are presently pending before the Congress proposals to modify Section 3 of the present Neutrality Act and that such amendment might wholly change the situation."

That closes this, doesn't it?

Foley: No, don't you want to send Rovensky a copy of that letter?

H.M.Jr: Not without Mr. Hull's permission.

Foley: I think you ought to get it. Then just send that letter along to Rovensky.

H.M.Jr: Not without Mr. Hull's permission.

Hanes: We could tell them that the Standstill had asked us - they went first to the State Department and the State Department referred it over here to us. We then said that it didn't involve a legal question under Section 3 of the Neutrality Act, but we sent it back to the State Department and then the State Department answered back to us, because they hadn't been in touch with Rovensky. I think the fair thing to him would be to call him on the telephone or send him a note. I think it would be better by word of mouth, to tell him that the State Department....

Foley: I think maybe we ought to have a record, Mr. Secretary. There may be some lawsuits.

H.M.Jr: Well, if you want to write it, then the thing would be for somebody to send a copy of Mr. Hull's letter, but you can't do that without Hull's permission.

Foley: I think he ought to get it.

H.M.Jr: Who was in on this?

Foley: Livesey was in on it. He could get it.

H.M.Jr: Livesey is your baby, isn't he?

Cochran: I think so.

Bailie: Mr. Secretary, I wonder if Mr. Foley's point wouldn't be met if a stenographer took down on one of these telephones where you can hear both sides of the conversation with Rovensky, because Rovensky asked us an oral question; he didn't write us, and if he

had a - in the presence of two or three witnesses who heard Rovensky talk, a statement made, let us say by the Undersecretary to Mr. Rovensky, then wouldn't that be satisfactory to you?

Foley: Earle, I have in mind that the last thing we said to Rovensky was, "It is up to us now and you will hear from us." I would like to close it by having something that we could show if the question is ever raised.

Baillie: Would a transcript signed by all of us who were there, had listened on it....

Foley: Sure, that is all right. But if you were going to go that far, then I don't see why you don't have a letter, because you have got to have Mr. Hull's permission anyway to tell him that you have been notified by the State Department that much.

Baillie: That is true.

H.M.Jr: What I would like to suggest, John, carry this, close it, and kiss it goodbye, and you have got these other fellows to help you. Just close it and kiss it goodbye as far as I am concerned.

Congressman Gore called up, from Tennessee, and he just had been asked to find out why you dismissed Ted Vaughn sometime this August. If you would let Congressman Gore know - he is on Banking and Currency in the House. He is an important fellow, and talking of kisses, he is the fellow who gave the kiss of death to the liquidating bill. He is against the U. S. Housing. He is the boy who gave it the kiss of death. He either opened or closed the Mexican border to get one vote from the Congressman in Los Angeles. He may have to do something with the Secret Service. I can't remember whether he opened or closed the border.

Foley: Closed it for 24 hours.

H.M.Jr: That is slipping up on the Treasury's standards.

The only other thing I had, did you read the New York Tribune, Randolph?

Burgess: I thought they were very good to us.

H.M.Jr: I did too. I think all the papers have been good to us. You might call up and say that I appreciate it.

At 10:25 I would like to have you (Hanes) and Harry and Cotton come in. Dr. Chen is coming in, Export-Import Bank man. I thought you could come five minutes ahead of time because....

White: There is a memorandum which Cotton prepared for you.

H.M.Jr: I will have to take the matter up orally but I won't tell you fellows what the President said and I am very much pleased that yesterday I was able to take over to the President a memorandum on getting Public Health to help the Chinese on malaria on the Chinese-Burma border, and he approved it, signed it, so there are some 500,000 people there that have suffered for centuries with malaria and the Public Health people think that they can cure it. So they are going to send a mission. It is in the history, the poetry, everything, that all of these people have this disease and Public Health said it is nothing they don't think they can cure. When the rainy season comes, they all go to the mountains and the time that they get it, queerly enough, is in the dry season. They don't get it from the rainy season. They become infected with it during the dry season and not during the rainy season.

John?

Hanes: You saw the President's press conference yesterday? He mentioned the Export-Import Bank.

H.M.Jr: Yes. You saw what he said about Basil Harris?

Hanes: Yes, he seemed to throw....

H.M.Jr: Gene, tell him what the President said.

Duffield: Clarence Linz of the Journal of Commerce asked the President if he had had his attention called to

- 5 -

this Treasury order prohibiting the use of information out of import manifests and the President said no, he hadn't known anything about it until he had seen it in the paper that morning, and I began to get a little bit worried. He said he had meant to mention it to the Secretary of the Treasury but he had forgotten to at lunch and he said, "But I think it is absolutely necessary in maintaining our neutrality." That made me feel very good in the ninth inning. I wasn't very sure up to that time which way it was going. Linz was very much taken aback and tried to say, "But import manifests, the ships are already here," and the President said, "But the ships may go back." I didn't understand that one but it silenced Mr. Linz anyway.

H.M.Jr: That is pretty good backing for democracy.

Harris: Great.

H.M.Jr: Don't get too cock-sure. They treat a fellow when he first comes down here a little extra nice.

Harris: What made me a little shaky was, as they say in the Journal of Commerce this morning, they expect a shake-up.

H.M.Jr: Well, I got quite a kick out of it. Both the President forgot and I forgot.

Are you all right, John?

Hanes: Yes.

H.M.Jr: Herbert?

Gaston: I don't know of anything. Those men over at the White House, it seems they have been in the habit for some time past when anybody is sick over there - they have just enough men to fill the posts, and when anybody is sick they borrow somebody either from the National Park Police or Metropolitan Police. Within the last month they have had National Park Police, one man on two different occasions for three days and they have a Metropolitan policeman there now for a similar cause.

- 6 -

H.M.Jr: O. K. They must be awfully short-handed, but it is all right.

Gaston: He says they just have enough men for the regular posts, and if one of them gets sick then they borrow somebody.

H.M.Jr: All right.

Foley: I have this Pittman material.

H.M.Jr: Well, is it other than what I told the Senator?

Foley: Yes, this is a fuller, detailed letter. I think that you probably will want to read this and you may want to send it down to him.

H.M.Jr: We ought to have it down quick.

Foley: Yes.

H.M.Jr: I haven't got time, so I tell you what you do. You contact Fred Livesey, who is handling it, and ask Fred Livesey what he would like us to do with it. You tell Fred Livesey of my conversation with Pittman, what I told him, and what would he like us to do. Do they want to transfer it? I told Mr. Hull I wouldn't do it directly. I can't do it.

What Pittman wanted to know was whether there were any rules and regulations on the short-term credit which had been given by banks since the Johnson Act has been enforced. And I said, "None that I know of," but we would check it. He asked if there had been any challenge of it in the courts and I said I didn't think so, but I would find out. Whatever you find out, do it and then send a memorandum and I can read it at the house tonight. If anybody else is interested in the memorandum, furnish them with a copy. Just to save time, because Pittman is going on the debate immediately after this, get in touch with Livesey and tell him about it and ask him what he wants to do. Livesey called me last night on the 90-day clause and I said, "Now, you will have to ask Mr. Hull," because I had communicated with the President and Mr. Hull hadn't told Livesey, you see, what had happened Sunday night. So I said,

- 7 -

"You had better get that from Mr. Hull."

- Foley: We worked quite late last night and we have here all the material from State and Justice, SEC and ours. I think it will be helpful to Pittman in handling questions.
- H.M.Jr: I agree with you, but to keep faith with Mr. Hull, call up Livesey, tell him what you have, is it agreeable to him, does he want to transfer it or should you. Will you let the State Department decide, because I want to keep faith with Mr. Hull, but I would do it at once. O. K.?
- Foley: Yes.
- H.M.Jr: As a matter of fact, I think you ought to be excused to do that now.
- Foley: All right.
- H.M.Jr: And then anybody that wants a copy of that, you folks can just ask for a copy, but if there is somebody going up on the Hill, I want you to go yourself.
- Foley: All right.
- (Mr. Foley leaves the conference)
- Smith: I would like to get a little more information concerning the agreement between the Department of Agriculture and the banks, as to the rate on these Commodity Credit loans.
- H.M.Jr: Where is George Haas? George is the fellow who is a member of the Commodity Credit for us. You know the Treasury has a member on their Board.
- Smith: I can get it from George.
- H.M.Jr: Ask George.
- Bell: I can give you some of the background. I can give you the present discussions going on, I think, but they are not settled yet.

- 8 -

H.M.Jr: Well, you were wrong then, it was all in the papers last night.

Bell: Really?

H.M.Jr: Sure.

Bell: I talked to Goodloe yesterday afternoon and he said there were discussions going on and he told them at yesterday's meeting that he thought the rate ought to be cleared with the Treasury and he said he thought they would do that before they released it.

H.M.Jr: Mr. Wallace called me in the morning and I was busy and couldn't answer the phone, and he called me a second time and a third time and when I finally got him he said he wanted to tell me they were going to reduce the rate to 43. He said the banks used to get 2 $\frac{1}{2}$ and now they get 2. Then the New York papers which go to press at 4:00 o'clock all had the story, which means they must get it out some time in the morning, but Wallace told me and I said, "I am very much interested," because after all, how does he know at what price we can re-finance that 200 million dollars worth of loans.

Smith: They were reducing the rate on outstandings from 2 $\frac{1}{2}$ to 2 by agreement, they say.

H.M.Jr: Yes, with the A.B.A.

Smith: I want to find out who they talked to. Where will I get that information?

Viner: A.B.A.

Smith: I didn't hear, did somebody speak over there?

H.M.Jr: All I can say, I think the coordination of the Treasury is wonderful compared with the A.B.A.

Smith: You want to make a little bet?

H.M.Jr: On what?

Smith: I bet they didn't talk to the A.B.A.

- 9 -

H.M.Jr: I will make you a bet. A quarter?
Smith: Fifteen cents.
H.M.Jr: Bankers are hard up these days.
White: That was just a natural response.
Smith: Do you think we can find out who they talked to?
Bell: I think so.
H.M.Jr: Anybody want to take a piece of my bet? Make a note, Mrs. Klotz, fifteen cents. Will you split the difference, make it twenty?
Smith: Yes, I guess that is all right, just as a favor to you.
H.M.Jr: Twenty cents that the A.B.A. - representing that the A.B.A. knew about it.
Burgess: Bailie and I are taking five of that between us, so don't be too hard on Tom.
H.M.Jr: On Tom's side?
Burgess: Yes.
Smith: Oh, you are joining. Let's make it a quarter then and have a little sport here.
H.M.Jr: Back to a quarter.
Burgess: To a quarter.
H.M.Jr: All right, it is a quarter.
Smith: The Secretary of the Treasury will owe me 25 cents, minus 5 cents. Well - thank you, Mr. Secretary.
You think we can get the information?
Bell: I think so.
H.M.Jr: Anything else, Tom?

Smith: No.

Cochran: Sterling was bid at 4.02 7/8 this morning. It went up to 4.03 1/2 yesterday.

H.M. Jr: Anything else?

Cochran: No, sir.

H.M. Jr: You people would be interested to know that in my talk with Senator Pittman yesterday, Senator Pittman's position on the embargo of silver by the Indian Government is that it is no concern of ours and if they do it, we can tell them that we will raise no objection. So I transmitted that to Pinsent. I mean Pittman's attitude wasn't that the - it was that the British were fighting a war and if they have to do this, it is their own business. In reporting it to the President, the President took exactly the same position. If I were the British Government and somebody told me I couldn't put embargoes on silver in the middle of the war, I would say, "Go along little boy, don't bother me."

Earle?

Balle: Nothing, Mr. Secretary.

H.M. Jr: Tom Smith has eclipsed you.

Balle: He has blacked me out.

H.M. Jr: Anything else?

Balle: Nothing.

Burgess: Nothing.

H.M. Jr: Randolph, if you could get me just a little memo with Bell and get it to me sometime today - I haven't got it clearly in my mind what these various agencies need like between now and the first of December. I just want to carry the figures in my mind.

Bell: I am in the process of revising my whole estimate and I will have some figures either today or tomorrow,

- 11 -

both from Commodity Credit and U. S. Housing.

H.M.Jr: Tomorrow will be time enough, but I would like to have it.

Bell: We will have it Thursday night.

Burgess: I might mention, Mr. Secretary, there will be one complication next week about financing. Thursday is a holiday, Columbus day, in New York and several other states.

H.M.Jr: What did Columbus do for America?

Burgess: Maybe he made a mistake.

H.M.Jr: The banks are closed, are they?

Bell: All but three.

Smith: I heard some talk around your bank calls. I guess you know there was a bank call?

H.M.Jr: Yes. But the banks outside of New York don't close on Columbus day, do they?

Burgess: Some states have it and some don't. It is a very confusing day to have stuck in there.

Bell: I think there are only three Federal Reserve Banks open.

Gaston: It is a state holiday, isn't it?

Burgess: Yes.

H.M.Jr: That does make it worse, doesn't it? Any other good news?

Burgess: No.

H.M.Jr: Riefler?

Riefler: Nothing.

H.M.Jr: Viner?

- 12 -

Viner: Nothing.

H.M.Jr: Harris?

Harris: Nothing.

H.M.Jr: What did you do about that?

Foley: I called Livesey and he said he would have to speak with the Secretary and call me back.

H.M.Jr: You told him about it?

Foley: I told him the problem.

H.M.Jr: Right.
Harry?

White: You may have seen this cable from Welles as to the results of the conference down there.

H.M.Jr: Yes, it is very good, isn't it?

White: I think it is a very comprehensive outline.

H.M.Jr: Will you prepare a letter for my signature congratulating Mr. Welles on that? I might send him a radio if you could do that today. I think it would be nice to send him a radio.

This is a summary of the conference. Doesn't that go automatically to Mr. Hanes, Merle, a cable like that?

Cochran: Oh, yes.

H.M.Jr: Wouldn't that go to him?

Cochran: Yes.

White: There are numerous copies of this.

H.M.Jr: Well, it came to my house late last night.

Harold, the President of the United States confidentially would like to know what is the quicksilver situation. You do it through Procurement.

- 13 -

Harry, I want you to do a study for me on world quicksilver and have it ready for me Monday morning. World quicksilver, I mean the production, the whole picture.

Harold, will you get busy on it?

Graves: Yes.

H.M.Jr: Were you through, Harry?

White: I was through.

H.M.Jr: Harold?

Graves: Nothing.

H.M.Jr: Have you heard anything from the Department of Agriculture, Harold, as a result of my letter?

Graves: No.

H.M.Jr: Are you all right, Dan?

Bell: Yes.

H.M.Jr: Thompson?

Thompson: I have a letter about Mr. Gordy. I don't think of any place we could use him. He is pretty much of a politician and I don't know that he would fit in so well in the Treasury.

Smith: Tell him the suggestion.

Thompson: The suggestion was made that he might take Mr. Smith's place. He said he would take double his salary if you wanted him.

H.M.Jr: I am glad you got this letter. I want you to stay a minute. That is good service, you see.

Wiley: Mr. Secretary, I think we ought to get organized in connection with Wagner's investigation of monetary and other matters.

H.M.Jr: I didn't see Harry White whisper that to you.

- 14 -

Foley: He didn't whisper it to me. I'm getting kind of worried about it. The Federal has been working on it for several months.

White: I will tell you what we are doing.

H.M.Jr: Well, look....

Foley: We ought to have a committee, I think, with one central responsibility.

H.M.Jr: Johnny, how are you fixed?

Hanes: All right. I got a note on that yesterday.

H.M.Jr: Could you take it and then make the suggestion to me how we should handle it, and a lot of people around this room are interested in it, but would you take it and make a recommendation to me?

Hanes: Yes.

H.M.Jr: O. K.

Foley: There is an interesting exchange of correspondence between Healy of the SEC and Congressman Ford of Los Angeles in regard to the conduct of the Trans-america re-listing program and Treasury activity on the Giannini case. I think you would be interested in seeing it.

H.M.Jr: Correspondence between who?

Foley: Healy of the SEC and Congressman Ford of Los Angeles.

H.M.Jr: I would like to see it. Will you give it to Mrs. Klotz?

Foley: Yes. Chester Lane sent it to me last night.

H.M.Jr: Who was the so-and-so in it?

Foley: SEC and Treasury, I guess.

H.M.Jr: I would like to see it.
Anything else?

- 15 -

Foley: Healy wrote a very good letter. Ince is coming down on Thursday and he wants to see only Claude Hamilton. He is interested in the State Department.

H.M.Jr: Anything else?

Foley: No.

H.M.Jr: Earle, can I talk to you a minute?

October 4, 1939

62

10:30 a.m.

Present:

Mr. Chen
Mr. Hanes
Dr. White
Mr. Cotton

(Before the arrival of Mr. Chen)

HM, Jr.: Have you fellows got a plan?

Mr. Cotton: I have a brief thing setting forth the proposition as presented so far. Perhaps you would like to look it over.

HM, Jr.: Can you boil it down?

Mr. Cotton: Just read that first paragraph. It gives the gist of it.

HM, Jr.: Well I'm not going to read this thing now. I haven't got time. This is what my thought is, to see Mr. Chen. The President says to do everything that we can for him that we can get away with. This is going to be a kind of long protracted thing and we have to bring in the Export-Import Bank and have to bring in Jesse. You (Hanes) helped me on the last Chinese loan and we finally put it through. I thought I would bring in Chen and tell him of the President's interest and my interest and I thought I would turn this particular problem over to you and we may want to tell Chen we Haven't had time, want to study it or to come in and talk with you now, but the point is we would like to do it.

One of the things which is difficult, and I don't know whether it's in the memorandum, is the question how much authority has Chiang Kai-shek over this Province.

Dr. White: I put that question to him. He told me the arrangements they now have with the Governor on this matter, and there is also the question of control which was a question I told him you would be most interested

in which he should answer directly to you.

HM, Jr.: I am not going to go into that today and I don't expect Mr. Hanes necessarily to do it this morning, but maybe this afternoon or tomorrow -- until you have got the thing, and when you have it bring it back.

Mr. Hanes: I should see Chen and get the background?

HM, Jr.: That's right. See if there is something we can do. The President would like us to do everything we can. This fellow (Cotton) is a Director of the Export-Import Bank and White is one-fourth Chinese. I'm just dividing up these different assignments and you (Hanes) helped successfully to push the other one through and we have to get Uncle Jesse in this thing sooner or later and Pierson on the rest and it is going to take time. It's not one of the things you can just do.

Mr. Cotton: We have to consider the whole picture, policy of Japan, the Treaty, all that sort of thing. This is a big thing.

HM, Jr.: Then I suppose as we get along we will have to tell -- who's the head of the Far Eastern Division?

Mr. Hanes: Does the State Department get in on this?

HM, Jr.: They blocked it for months but I got the thing all cooked up.

Mr. Hanes: You wouldn't do anything with the State Department now? The only people we want to talk with are Jesse Jones and Pierson?

HM, Jr.: Then when we have a proposition I think we will go back and put it on the President's desk.

Mr. Hanes: This is the way you can do it if you can get the State Department in accord with you.

HM, Jr.: The last time we waited until Hull got on the boat for Rio and one week out the President said yes. This isn't going to be easy.

Mr. Hanes: The other one wasn't easy but I think we know more how to get this one than the other.

HM, Jr.: But I would like to leave it with you and then when you need help say so. But the President is very much interested and so am I.

Dr. White: And you would like to push it as rapidly as you can at this end, as far as we are concerned?

HM, Jr.: Definitely.

(At this point Mr. Chen came in.)

Mr. Chen: I am sorry this war spoiled your summer.

HM, Jr.: You look a little thinner.

Mr. Chen: I feel a little bit tired.

HM, Jr.: You will be pleased to know that yesterday I took over to the President the documents that have to do with giving Public Health \$20,000 on the malaria.

Mr. Chen: Yes. Yes.

HM, Jr.: And he signed it yesterday.

Mr. Chen: That's fine. Thank you very much. I was over in the Embassy yesterday just trying to get information.

HM, Jr.: He signed it yesterday.

Mr. Chen: I think our Ambassador has already sent another memorandum to the State Department and giving the latest information about the actual conditions there.

HM, Jr.: Well, I have not got it, but you see I started this when Public Health -- I don't know whether they were still in the Treasury or not, so Mr. McNutt seemed to have some trouble and asked me to take it over to the President, and he signed it. So that's done.

Mr. Chen: This is very important work because without labor and labor enjoys good health there will be no work done.

HM, Jr.: If you have a report on those conditions I would like to see it.

Mr. Chen: Yes, I will have Ambassador send you copy.

Now I come to you to appeal to you for more financial help for China.

HM, Jr.: Before you get on this, may I say this, as a farmer talking to a business man, you can use your discretion on how you pass it along. The Ambassador came in here the other week saying he wanted to get a loan against tin and then in the same breath he tells me, "But we can't move any more traffic over the Indo-China railroad." If you can't move any more traffic over the Indo-China railroad and tin is considered munitions of war, why lend you any money?

Mr. Chen: Mr. Secretary, I have some material here and I think, I hope I can answer your question. I can tell you as far as Universal Trading Corporation shipment is concerned. I have report here which has been rechecked and I will just read you figures briefly and to show you that for the purchases made from the proceeds of 25 million dollar loan the goods has been moved to China. Total arrival at Haiphong and Rangoon is 43,720 tons. Arrival at Haiphong 35,000 tons; arrival Rangoon 8,660 tons. The Total transhipped into China from these two ports is 31,782 tons which is 85 per cent of cargo, only to the interior. That is 31,000 tons moved to interior. From Haiphong, 28,000 tons; from Rangoon 3,876 tons. This report I received sometime ago from different date. I have table here August 31, September 15 and recently I have received cable and I have this checked again from Dr. Buck and Mr. Grove who is man engaged for Mr. Keeshin to look after transportation of 1,000 trucks for wood oil.

HM, Jr.: An American?

Mr. Chen: An American loaned to us without pay from the Texas and formerly connected with Grayhound, and that is one unusual feature of their service, because we bought large quantity of oil and they usually

send a man. So this telegram I received yesterday, I had figures checked and here I have original copy of telegram and these figures correspond lovely.

HM, Jr: You see, it's very unfortunate I have to undo all this for the President because based on what the Ambassador told me I told the President the stuff wasn't moving.

Mr. Chen: So this is, I can say it is, I can speak with confidence because it is checked twice and this is the latest information we have.

HM, Jr: You are going to leave that?

Mr. Chen: Yes.

HM, Jr: Wonderful, but I wish I had had it two weeks ago.

Dr. White: Does the Ambassador have access to that information?

Mr. Chen: I saw him last night. He received first information from Haiphong because when war was declared the Colonial Governor put embargo on importations of munitions and including trucks and gasoline. Second report, second telegram received through the arrangement Mr. T. V. Soong is negotiating with the Colonial Governor in order to have some sort of understanding so that goods will be transhipped over railway smoothly and so they are working on that and there is no longer any embargo on the trucks and gasoline and commercial goods.

HM, Jr: There is none?

Mr. Chen: No. But there is still embargo against munitions.

HM, Jr: There has been right along.

H. M., Jr: Yes. Rangoon is open, but Indo-China has been closed for munitions for a year.

Mr. Chen: Never different.

HM, Jr: But it's no different. Nothing has happened in the last 30 days.

Mr. Chen: No. Another interesting thing I would like to report, that as soon as war was declared and these French military people in Haiphong commandeered all trucks, seized it, so Mr. Grove said, "This is American goods; it is not Chinese goods. We would like to see this thing moved," so upon hearing that it has been released right away.

HM, Jr: Good!

Mr. Chen: So I leave you this report on the question of transportation.

HM, Jr: I have a selling job to do now. I have to unsell the President on what the Ambassador told the President and what, I believe, he told the State Department.

Dr. White: Wouldn't the Ambassador get it clear with you so that the information is correct?

Mr. Chen: Yes, I made that point last night.

I have another report about trucks. We have ordered 3,000. Already en route 1,000. I am not very satisfied with this report because there are still in boxes in Haiphong 1,126 trucks waiting for assembly and movement so this report, personally, I am not so pleased.

HM, Jr: Over 1,000 waiting in Haiphong in boxes?

Mr. Chen: Yes, we bought 3,120. I will give you this report.

HM, Jr: These are facts. This takes all the guess out of it. On the road. In transit. The whole business is here. You and I always understand each other because we always tell each other the truth.

Mr. Chen: I hope so. I am glad I have your confidence.

HM, Jr: Well, this gives me confidence. It gives me the good and the bad.

Mr. Chen: And I want to tell you briefly my work in New York for last six months.

We have imported last six months 15,000 tons wood oil. Maybe a little more. Actually 17,000, because there is 2,000 en route, hasn't arrived yet. We had sold over 10,000 tons of wood oil and we have paid back or retired our first note. That was five-year note but we paid it beforehand.

HM, Jr: You are as good as Finland.

Mr. Chen: Thank you. We have paid at the end of June \$70,000 interest and I expect to make another payment of a quarter of a million dollars next week. At the end of this year I expect to complete payment of \$2,000,000.

HM, Jr: Fine! Wonderful!

Mr. Chen: And we have completed the purchase of 17 million dollars up to date and have reserved 7 million 250 thousand dollars for payment of freight, insurance. That is roughly speaking over \$19,500,000. So still \$5,000,000 worth of goods under negotiation and I think I can complete it by the end of this month.

HM, Jr: Fine. Some of the prices you paid last July must look cheap now.

Mr. Chen: Very cheap. We paid copper 10%; now it's 12%, but it's so hard to get. We sent out inquiry. There will be no more. We are in the market for 200,000 tons of zinc. I went to see my old friend Mr. Hoehschild, asked him for his help.

HM, Jr: Is he a friend of yours? Harold?

Mr. Chen: Oh, yes. I have known him for 20 years. He was in China for a long time in connection with sale of silver to Chinese government mint; so I asked him for his help. He said, "I am sorry, all zinc is 99. fine; you want 99.975. You have to pay premium on that. We don't produce that." So that's

going to be our future problem, where to get material. It's not question of price. We will be glad to get it.

I want to show you map here showing distribution of purchases in this country made in different states. Michigan is on top, \$4,000,000; New York \$3,000,000; Ohio \$1,500,000; Oklahoma \$1,200,000; Texas \$1,000,000.

HM, Jr: You're getting real American. And charts?

Mr. Chen: I got some experience. Better prepared than last year.

This is a list of different kinds of articles we bought. This is exhibit number one and this is our report for this month's workings of the Universal. Now most interesting, here. This is trade report issued by the National Paint and Varnish and Lacquer Company. He has good words for Universal here. He says, "The committee is unanimous in it's feeling that in view of the emergency situation in China the Universal Corporation, through bringing quantities of wood oil which is distributed to the consumers through dealers has done a good job."

Dr. White: Would you want to suggest how much the price of wood oil would have been if Universal had not been in existence?

Mr. Chen: Probably be 48¢.

Dr. White: What is it now?

Mr. Chen: 23¢. Mr. Frank Sherwin spoke to me -- if it had not been for Universal it would have been 48¢.

Mr. Haneg: What is that substitute that has been coming up from South America?

Mr. Cotton: Oilcola.

Mr. Chen: That is very poor substitute for wood oil and Sherwin bought five carloads and they found it could not be used. The price is not cheap. The price is 19¢.

Mr. Cotton: Very successful in selling it though.

Mr. Chen: Mr. Secretary, I hope I'm not taking too much of your time.

HM, Jr.: That's all right. You have another ten minutes.

Mr. Chen: Here comes business part. Due to this war in China we are short of material and therefore I come to you today for some additional help, and I have wire, cablegram, from Dr. Kung asking me to transmit to you and also to express to you his deep appreciation of your kind interest in our struggle in China. And Dr. Kung wished to propose to you for a new credit of \$75,000,000.

HM, Jr.: (Facetiously) I don't hear very well today. Funny think, I have trouble with my hearing! It sounded like seven and a half to me.

Mr. Chen: Credit, just like \$25,000,000, for purchase of agricultural and manufactured goods repayment by installments within ten years. We pledge Chinese tin 10,000 tons a year for ten years. The proceeds of this tin will be remitted back to China Government for payment to the Yunan Provisional Government and certain amount for freight and insurance, and have to be used for payment of the loan.

HM, Jr.: You give Dr. Kung my best regards.

Now what else?

Mr. Chen: I won't bother you with this but I will just try to give you brief memorandum on Chinese tin.

HM, Jr.: Fine.

Mr. Chen: Yearly production is 13,000 tons a month. And I have map.

HM, Jr.: Fine! You have done a good job, all right, all right!

I have heard so much about the Curtiss Aeroplane Plant. Is it started?

-10-

Mr. Chen: Yes, they are working.

HM, Jr: What are they doing?

Mr. Chen: Assembling.

HM, Jr: Will you get me a little information?

Mr. Chen: Yes.

HM, Jr: Are they turning out planes?

Mr. Chen: Yes. Chinese Government have given contract to Curtiss-Wright.

HM, Jr: Could you get me some information about that?

Mr. Chen: Yes I will get you, I will send you memorandum.

HM, Jr: Bring it in. But I would like to know what they are doing, how many planes and what kind of planes they are turning out. I see in the papers that the Chinese, for the first time, took the offensive.

Mr. Chen: Yes.

HM, Jr: I wondered if that was where these planes were. You see what you have done, if you have something like that which is good, give it to me and I can make good use of it.

Mr. Chen: Yes.

HM, Jr: See? You know.

Mr. Chen: Yes, I will do that.

Dr. White: You have a list of things you would hope to.....

Mr. Chen: Yes, I have list of things we wish to buy and here is the list: Automotive equipment, gasoline lubricants and fuel oil, ferrous and non-ferrous materials, electrical equipment, medical supplies, textiles, general machinery and railroad equipment for tin mining, total \$74,000,000.

Hm, Jr: Mr. Hanes doesn't even blink an eyelid!

Dr. White: Those purchases would extend over how long a period?

Mr. Chen: We want to make shipments as quickly as we can. We are going to ship 500,000 tons of tin in the next ten days; beginning November we expect shipment of 10,000 tons regularly a month. And this Chinese tin is free and is not member of the Syndicate and there is prospect of increased production and improvement of qualities too and consumption in this country is quite big and this probably will help.

Mr. Hanes: Does that tin meet the Army specifications?

Mr. Chen: Small quantity is 99.75; I think that would meet, but this ore, in different parts in that area produces different kinds of qualities so we have a smelting plant there and produce some 99.75. So additional work we have to put on for more efficient refining.

Hm, Jr: Is that what the general machinery is for?

Mr. Chen: Yes.

Hm, Jr: Tin mining machinery?

Mr. Chen: Yes.

Hm, Jr: Let me just say this, because it will take time to digest this.

I had a chance to talk to the President about this yesterday. The Ambassador had talked to him about three weeks ago. The President says he wants to do everything possible to be helpful within legal limits. Now I have asked Mr. Hanes whether he would take this matter over for me because we have to divide up here and he has the time and he would like to do it. And when you and he, with the assistance of these two gentlemen, feel you have got a proposal, then Mr. Hanes will let me know and I will sit down with you again, but in the meantime Mr. Hanes will do everything he can to be helpful. I don't know whether he wants to do it now or some other time.

-12-

Mr. Hanes: What I would like to do, if you would give me a chance to study this memorandum and study a little bit here so I get the background -- I am not as familiar as I want to be -- and then I would like to see you (Chen) sometime within the next 24 hours.

Mr. Chen: I will be here all this weekend.

Mr. Hanes: Give me the next 24 hours to get familiar with this and then I will get these boys and you and we will sit down and see if we can work out some program.

HM, Jr.: Thanks, Mr. Chen.

Mr. Chen: Thank you very much, Mr. Secretary.

HM, Jr.: But we will do everything we can to be helpful. We don't know what we can do.



IN REPLYING
ADDRESS THE SURGEON GENERAL
U. S. PUBLIC HEALTH SERVICE

FEDERAL SECURITY AGENCY
U. S. PUBLIC HEALTH SERVICE
WASHINGTON

293-A

October 5, 1939

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

My dear Mr. Morgenthau:

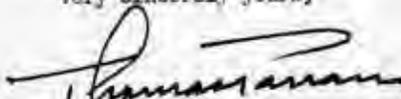
I have received from Dr. Wilbur A. Sawyer, Director of the Rockefeller Foundation, a short letter in which he quotes the following paragraph from Dr. M. C. Balfour, representative of the International Health Division of the Rockefeller Foundation in the Far East. Dr. Balfour has visited southwest China and is conversant with conditions in that part of the country.

"If money and experts are available for a survey, so much the better. I suspect, however, that quinine given either directly or indirectly would be the most likely and useful form of assistance. For such medical relief, the Chinese Government and other local agencies cannot hope to have or purchase the quantity of drugs which are needed for the minimum requirements of malaria treatment of the affected populations."

The malaria experts in the Public Health Service are in agreement with Dr. Balfour's statement that large quantities of quinine made immediately available would be the most rapid means of malaria control in the affected area. The draining and oiling of standing water, the relocation of camps beyond the flying range of Anopheles, and similar measures are the only ones that will secure permanent control of malaria, but these require time to accomplish and probably would not be fully effective for a year or more. Quinine distribution, however, would materially lower the incidence of malaria and in particular would greatly reduce the number of deaths, thereby quickly relieving the more emergent features of the situation.

I am writing you this because of your personal interest in this problem and because it is not possible for the United States Public Health Service to engage in supplying quinine. The efforts of the Service can hardly go beyond a survey of the situation and an outline of measures to be undertaken.

Very sincerely yours,


Surgeon General.

10/11/39

THE WHITE HOUSE
WASHINGTON

My dear Mr. Administrator:

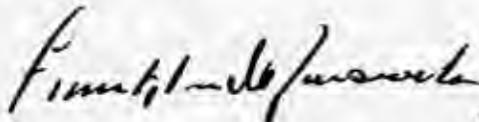
With reference to the appropriation for the prevention of epidemics, contained under the title "Public Health Service," in the Acts making appropriations for the Treasury Department, and reading as follows:

"Prevention of epidemics: To enable the President, in case only of threatened or actual epidemic of infectious or contagious disease, to aid State and local boards or otherwise in his discretion, in preventing and suppressing the spread of the same, and in such emergency in the execution of any quarantine laws which may be then in force, \$305,000, including the purchase of newspapers and clippings from newspapers containing information relating to the prevalence of disease and the public health."

you are hereby directed to take charge of the expenditures thus authorized and provided for, and direct the execution of the provisions of this statute, employing for this purpose the United States Public Health Service, when in the opinion of the Surgeon General of that Service there is a threatened or actual epidemic.

In case of an actual or threatened epidemic of infectious or contagious diseases you are authorized to carry out the provisions of the Act of Congress approved February fifteenth, eighteen ninety-three, together with such rules and regulations as have been or shall be made by you in conformity therewith.

Very sincerely yours,



Honorable Paul V. McNutt,
Federal Security Administrator.

September 29, 1939,

MEMORANDUM FOR THE PRESIDENT:

On July 26, Secretary Morgenthau advised Surgeon General Parran that information had reached the Treasury Department that a severe epidemic of malignant malaria existed in southwest China and was particularly intense along the new Burma-Yunan Road, and interfering with construction progress. Secretary Morgenthau emphasized the fact that the interest of the Treasury Department stemmed from the fact that if the road is not constructed promptly, payments made on tung oil on a recent Export-Import Bank loan to China would be impaired.

On the morning of August 1, Surgeon General Parran attended a conference in Secretary Morgenthau's office at which were present the Chinese Ambassador, Doctor K. P. Chen, the Assistant Secretary of the Treasury, and Mr. Hamilton, in charge of the Far Eastern Division of the State Department. The seriousness of the malignant malaria and other contagious diseases was discussed, together with the possibility of the Public Health Service rendering some professional assistance to the Chinese Government. Following this conference a formal request was received from the Chinese Government requesting the assistance of the Public Health Service.

Under existing law, the Public Health Service receives current information from all American consular offices abroad concerning the prevalence of epidemic diseases. From time to time in the past, medical officers have been assigned to give technical assistance to our consular and diplomatic representatives in securing epidemic intelligence. An investigation, such as is requested by China, would be an appropriate charge against our appropriation, "Preventing the Spread of Epidemic Diseases", out of which we are now paying a number of medical officers in foreign countries.

Under date of August 30, this office requested the Bureau of the Budget to release \$20,600 of the reserve of the appropriation, "Preventing the Spread of Epidemic Diseases", for the purpose of paying the expenses of the survey. It was pointed out to the Bureau of the Budget that because of the war situation in China, it is impossible to know accurately the extent of several diseases of importance to the United States. It is known, however, that cholera and plague are epidemic both in China and in India. The new highway constitutes a new route of introduction and is likely to create an additional hazard to the introduction of quarantinable diseases into the United States and its possessions. The Public Health Service is anxious not only to ascertain definitely the nature of the new disease which is epidemic but to inform itself more fully concerning the prevalence of other quarantinable

diseases in China, and to appraise the extent of the hazard which may be created by the new highway.

In the opinion of the Surgeon General, the condition as reported to us is sufficiently serious, and the lack of more exact information concerning health conditions in China is sufficiently important to warrant the use of funds recommended in obtaining knowledge and in advising as to measures which might lessen the danger of the introduction of disease into the United States and its possessions.

As you know, the discretion for expending this appropriation lies with you, and in the past, by letter to the Secretary of the Treasury you have delegated the responsibility to him. In view of the fact that the Bureau of the Budget raised a legal doubt as to the use of this appropriation, it seems advisable that a new letter be addressed to me transferring the responsibility from the Secretary of the Treasury for this appropriation. The General Counsel of the Federal Security Agency, as well as the Surgeon General and myself, feels that there is no question but what this fund can be legally expended for the purposes outlined if it is in accordance with your policy.

If you sign the letter, will you please indicate on this memorandum whether the sending of the proposed epidemic commission to China at this time is in accordance with your policy. The members of the commission, of course, would be assigned to the State Department and report to the proper State Department representative in China.

[Signature]
Administrator.

Approved:

[Signature]

The White House.

Oct 3 1939.

OCT 4 1939

Dear Mr. Chen:

I wish to acknowledge and thank you for your letter of September 19, informing me of the arrival of Dr. Buck and the group of transportation experts at Chungking.

It is gratifying to hear of the steps taken to arrange for the reception and work of the group.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Hon. Kwang Fu Chen,
Room 1918,
630 Fifth Avenue,
New York, New York.

JPG, JR.:BJ 10/3/39

78

KWANG PU CHEN
8000 10th
810 Fifth Avenue
New York

September 19, 1939

Dear Mr. Morgenthau:

I have just received word that Dr. Buck and the transportation experts group, headed by Mr. Maurice E. Sheahan, arrived at Chungking on the 16th of this month after a safe and pleasant trip. The party was originally scheduled to arrive in Hongkong on August 25th, but unfortunately, due to bad weather conditions, they were delayed in Guam and Manila, and finally reached Hongkong on September 3rd.

The journey from Kunming to Chungking was made on the highway, thus giving the members of the group an excellent opportunity to acquire a first hand knowledge of the existing road and traffic conditions. They will be invited to go on the road again, either taking the Northwestern trip via Lanchow, the Southwestern trip via Kweilin, Nanning and Chen Nan Kwan, touching part of Hunan, or the new Luchow-Yunnan-Burma highway.

An Information Committee has been duly organized under the auspices of the Executive Yuan. All details with regard to arranging the itinerary and the personal wants of the experts during their stay in the Interior have been carefully attended to by the Committee. A memorandum was prepared and submitted to the experts upon their arrival in Kunming. A condensed outline of the memorandum submitted is as follows:

Introduction: a study of map of communications, surveys of present transport systems and control organizations, motor vehicles and fuel consumption, engineering standards, tolls and license fees.

Principal Highways: routes, history, financing, road service conditions, structures, such as bridges, etc., administration.

Page 2
Sep. 19, 1939
Mr. Morgenthau

286

Highway Administration; operating organizations, supervising administrations.

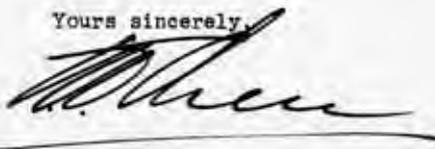
Highway Transport; physical equipment, personnel training, traffic rates and repairing service.

Other Means of Transport; water, rail, air, pack animals, carts.

Foreign & Domestic Trade; new economic organizations, general description of exports, control and coordination of domestic trade, general description of native goods, highway transportation exports and imports.

With personal regards,

Yours sincerely,



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

KPC:MO

October 4, 1939

297

To: The Secretary

From: Mr. Hanes

Some time ago I sent you a memorandum concerning the President's request, which he made at Cabinet on August 4th while you were in Europe, that the Treasury organize a committee under the leadership of Mr. Ed Bruce composed of representatives from Agriculture, Commerce and Treasury for the purpose of studying and reporting on certain art projects.

I had luncheon with Mr. Bruce yesterday and explained to him what the President had in mind, and he is now in the process of drawing up a memorandum with his ideas which, at the proper time, I will turn over to you to hand to the President.

J. W. H.

PAP

GRAY

85 SANTA ELENA

Dated October 4, 1939

Rec'd 11:10 p.m.

Secretary of State
Washington

43, October 4, 10 p.m.

The economic and financial advisory committee agreed upon at Panama is to be a permanent body which will turn its attention to any and all questions of inter-American relationships in those fields in which it may appear that useful result is to be expected. The meeting scheduled at Guatemala is one of treasury representatives for purpose of technical discussion and interchange; there is no expectation that any agreements will be reached at Guatemala or any negotiations undertaken.

I suggest that the Guatemala meeting in carrying on the discussion and interchange on the topics in its agenda could do a useful job in defining the tasks in the monetary and financial field that the permanent committee could undertake and perhaps make recommendations to it. I see no reason why this meeting should be delayed.

RECEIVED

ELLES

OCT 5 1939

EMB:CFW

FILE COPY

H. M. Cochran

DEPARTMENT OF STATE
OFFICE OF THE SECRETARY
WASHINGTON, D. C.

RE: ADDITIONAL LOAN TO CHINA

7.4.1939

As explained by K. P. Chen, the Chinese Government wishes to explore the possibility of additional credits upon the security of the prospective sale of Chinese tin in the United States, following the pattern of the \$25,000,000 5-year Export-Import Bank credit to the Universal Trading Corporation which is secured by and repayable from proceeds from the sale of Chinese tung oil in the United States. In brief, in order that China may be in a position to finance its alleged requirements for war purchases in the United States during the coming year, a \$75,000,000 credit is requested which would be secured by and repayable from the proceeds from the sale of an average of 10,000 tons of Chinese tin annually in the United States over a 10-year period.

In its broader implications, the proposal signifies that China feels compelled in view of recent events to turn to the United States as the only reliable external source of supply and the only potential source of further credit to meet its war needs. The following is, however, limited to consideration of the proposal as presented:

1. Proposal as presented.

The Central Government has made arrangements to take over the tin production of Yunnan Province amounting to some 10,000 tons annually, which has been a monopoly of the Provincial Government. Arrangements will have to be made to compensate the Provincial Government which has been selling the tin in London in order to make military purchases and to obtain foreign exchange to support the local currency. In view of direct connections with the Kunming-Haiphong Railway, without the

necessity of trucking, it is claimed that transportation would be relatively easy provided, and it is admitted that this assumption is basic, the rail route through Indo-China remains open. The Central Government also controls the tin output of Kwangsi, amounting to some 3,000 tons annually. These two sources should assure an aggregate output of 10,000 tons annually for sale in the United States, which could be increased by devoting a portion of the credit obtained to improvement of production facilities. It is proposed that scheduled deliveries should commence at a lower figure and should increase on a graduated scale so as to average 10,000 tons a year over the 10-year period. Cartel restrictions on production for export to the United States market would not apply since China is not a member of the International Tin Cartel.

2. Comment.

The basic problem, both from the standpoint of provisioning China and providing for the repayment of the credit, is whether adequate transportation facilities can be maintained over the Kunming-Haiphong Railway. This would seem largely a political problem. In addition, our projected Neutrality Act will probably make the transportation problem more difficult by preventing the use of United States bottoms and might prevent China from importing vital materials. Aside from the major risk that scheduled tin deliveries to the United States could not be maintained, the volume of tin offered relative to the amount of credit requested provides little margin of security on any conservative estimate of tin values over the next ten years.

(a) Financial and strategic aspects.

Tin is an important peace-time commodity and a strategic war material. The United States produces substantially no tin and normally imports and consumes about two-thirds of world production, which has averaged 150,000 tons annually over the past fifteen years. The major sources of production and the percentage of world output of each are: British Malaya, 36 per cent; British East Indies, 20 per cent; Bolivia, 10 per cent; Nigeria, 5 per cent and China, 5 per cent. Tin has suffered from chronic over production since 1930, which led to the restriction of production under the auspices of the International Tin Cartel formed in 1931, in which the major producing countries accounting for upwards of 80 per cent of the world output have participated. The New York tin price has averaged about 45 cents per pound over the past ten years. Since the European war the price has increased from 48 cents to 68 cents.

Over the near term, advantage might be taken of any arrangement with China to accumulate reserves at advantageous prices if strategic considerations favor such policy in the case of tin. However, the major risk that deliveries could not be maintained detracts from the attractiveness of the scheme from a strategic standpoint.

As to the long-term aspect, it would not seem justified to project values other than on the basis of the average price

over the past decade. On a 45 cent basis, the proceeds of 10,000 tons a year for ten years would be about \$100,000,000, which does not afford much margin of security for a credit of \$75,000,000.

This financial setup may be compared with the setup of the existing \$25,000,000 credit based upon tung oil deliveries over a 5-year period. The original assumptions at the time the credit was extended were roughly: Deliveries of 220,000 tons of oil over five years at an average price of about 15 cents per pound then current, amounting to \$60,000,000, one-half of which or \$30,000,000, would be ample to repay the credit with interest, the balance constituting in effect 100 per cent additional security, should one-half the proceeds prove insufficient to amortize the credit over the 5-year period. In addition, it should be noted that an inducement to the Chinese to use every effort to fulfill the contract is present in the case of tung oil which would not be present in the case of tin, arising from the fact that one-half of the proceeds may be used for purchases in the United States rather than for repayment of the credit.

(b) Production and transportation aspects.

Since the tung oil credit was extended at the beginning of this year, transportation difficulties have increased due to the loss of control of practically all Chinese ports and the only remaining outlets are the Burma road, thence by rail

to Rangoon and the railway from Kunming in Yunnan through Indo-China to Haiphong. Transport over the Burma route costs four times as much as over the Indo-China route and has been comparatively little used. Yunnan in the southwestern corner of China is far from the Japanese controlled area and has been traditionally independent of the Central Government. As compared to the tung oil situation, with scattered collection centers and difficult transportation conditions by truck, the concentrated output and direct rail connection with Haiphong in the case of tin appears to present a relatively more favorable picture, provided the political control of the Central Government over production is assured. From the technical transportation standpoint, tin represents greater value per ton than tung oil and it seems clear that the Kunming-Haiphong Railway has sufficient capacity to transport tin for export in the amount contemplated. The capacity of the road to carry the \$75,000,000 worth of United States goods, assuming such to be China's budgeted war needs for the coming year, requires further investigation. In any event the continued availability of this route would seem largely a political question vis-a-vis the French Government.

An interim report to the directors of the Universal Trading Corporation, covering its first six months of operation, to September 9, 1939, gives some indication of what has been

accomplished under increasingly difficult transportation conditions. Approximately \$9,000,000 worth of goods, out of a total of approximately \$19,000,000 worth for which orders have been placed in the United States, has already been shipped in American bottoms. (The \$19,000,000 figure is exclusive of some \$4,000,000 worth of petroleum products contracted for, which are shipped directly by the sellers, a substantial portion of which has presumably already been exported). Chen stated that 21,000 tons out of a total of 25,000 tons of United States merchandise which has been delivered at Haiphong or Rangoon has been shipped into China. From the standpoint of tung oil deliveries, the report indicates that 16,000 tons have been shipped from China, of which 14,000 tons have already arrived in the United States. The Corporation has drawn on the credit to the extent of about \$11,500,000; has already made repayments aggregating over a million dollars and expects to make a further repayment of one-quarter of a million dollars this month. It thus appears that, in spite of increasing transportation difficulties, the arrangement has worked satisfactorily during the first six months of operation, both from the standpoint of provisioning China and from the standpoint of supplying the United States' tung oil market and providing for the repayment of credit extended.

October 4, 1939
9:17 a.m.

HMJr: Hello.

Albert
Gore: Mr. Secretary.

HMJr: Talking. How are you?

G: Fine. How are you today?

HMJr: Oh, just fair.

G: The last time I saw you I believe we were in the
Banking and Currency Committee on the Lending Bill.

HMJr: That's right - in the chairman's room when he said
that you had taken Mr. Hull's place.

G: (Laughs) Well, I was pretty strong for that
proposal. I thought it was a good thing.

HMJr: I do to and I think we still ought to try to get it
next session.

G: I think it was a good thing. I -- I don't have that
opinion on the U.S. Housing Bill, but I did of the
Lending Bill. I thought it was a sound proposition
and the Government would get its money back - at
least a substantial part of it.

HMJr: Well, that's the way I felt and still feel.

G: What I'm calling you about, and must apologize for
calling you, but you are the only man I know down
there in that department.

HMJr: Well, I'm here to help when I can.

G: Mr. Ted Vaughn, who is in the Secret Service.....

HMJr: Yes.

G:has been there about four years.....

HMJr: Yes.

G:and he was let out, I believe, August the 15th.

HMJr: Yes.

G: And he asked me to call you. I -- I know I'm not familiar with the service he has rendered. I do know that he's a fine man and.....

HMJr: Yeah.

G:I'm complying with that request.

HMJr: Fine. Well, I'll be glad to look into it and either Mr. Gaston, the Assistant Secretary who is in charge of Secret Service, or I will let you know - one or the other.

G: Thank you very, very much. And I'm coming down to talk with you before long.

HMJr: Any time - I'm at your service.

G: I want to talk with you about the legislation for part of next session. I think by all means this export-import bank.....

HMJr: Yeah.

G:should be extended in view of.....

HMJr: Fine.

G: -- of our cutting off of the commercial relations with other countries.

HMJr: Any time, Mr. Gore, I'm at your service.

G: Thank you very much.

HMJr: Goodbye.

TREASURY DEPARTMENT

307

INTER OFFICE COMMUNICATION

DATE October 4, 1939.

TO Secretary Morgenthau
FROM Mr. Cochran

The feature of the foreign exchange market today was the rise in the rate for sterling to 4.05-1/2. After opening at 4.02-7/8 bid, the rate moved up to 4.04-3/8 about noon, then eased to 4.04-1/8. Late in the afternoon the rate reached the new high of 4.05-1/2 and closed at that rate.

Factors causing the sterling rate to strengthen are a shortage of sterling in the market and the fact that commercial banks are endeavoring to reduce the amounts of the long term contracts for sterling which they have purchased. We have been informed that the leading banks are advising their customers, either banking or commercial, that they are willing to extend only partial amounts of forward contracts for sterling which they purchased from their customers. The banks are requesting that 50% of the contracts be delivered. This necessitates the customer going into the open market to purchase the remaining 50% for spot delivery. Contracts which were originally made for 90-day delivery are being renewed by the banks for 30 days in most cases.

A possible reason why the banks are endeavoring to reduce the amount of these forward contracts is that at some future time they fear that sterling balances may be blocked in London, and if such is the case they do not want to be caught with large balances.

Forward sterling firmed and was quoted in the open market at the close as follows:

One month 3/4¢ per £ discount = 2-1/4% per annum.
Three months 3-1/8¢ per £ discount = 3-1/8% per annum.

The rise of the rate above 4.04, the quotation at which the British Control will sell sterling, brings up the following two interesting questions:

- (A) If the rate persists in staying above 4.04 will the British Control sell sterling? (B) Will the British Control raise its selling price for sterling?

The Federal Reserve Bank informed us that the Chase National Bank requested their London correspondent to purchase sterling in London at 4.04, but they did not receive a reply as their cable probably had been sent too late to be acted upon.

CONFIDENTIAL

Reporting banks in New York and the Federal Reserve Bank reported sales totaling £443,000, from the following sources:

Commercial concerns	£	72,000
Foreign banks (Europe and Far East)	£	321,000
Fed. Res. Bk. (£50,000 for Sweden)	£	<u>50,000</u>
Total	£	443,000

Purchases of sterling amounted to £432,000, as indicated below:

By commercial concerns	£	218,000
By foreign banks (Europe, Far East, South America and Near East)	£	<u>214,000</u>
Total	£	432,000

The Bank of Latvia purchased 21,000 guilders in this market.

The following banks sold to us gold from their earmarked accounts in the amounts indicated:

Bank of France	\$	5,014,000
National Bank of Belgium	\$	<u>1,800,000</u>
Total	\$	6,814,000

There were no engagements of gold for shipments to this country reported.

We made two purchases of silver totaling 100,000 ounces in the New York market under the Silver Purchase Act. These are the first purchases of such silver made by us since August 9th.

At noon today Mr. Knoke told me that the Chase Bank had spoken with him in regard to the desire of Russia to sell gold in Oslo or to get an advance in dollars against it. This offer had first been made to the Federal Reserve Bank itself, as recorded in my memorandum of September 30, 1939. The Chase Bank had informed the Russian State Bank that they were neither interested in taking gold in Oslo nor in giving dollars against it pledged there. When they were then asked if they would make an advance against the gold in transit, they agreed, and it is understood that such an advance is now being made against the gold, amounting to \$2,250,000, which has been placed on board the SS OSLOFJORD. It is not known to what extent of the value of the shipment dollars have been advanced. It is understood, of course, that the Chase has close relations with the Russian State Bank, carrying a deposit for it in New York.

Knoke stated confidentially that, as of October 3, the dollar balances of the Russian State Bank with the Chase Bank amounted to \$3,400,000, of which

CONFIDENTIAL

-3-

\$1,300,000 were blocked. As of the same date, the Amtorg held \$2,200,000 with the Chase. As of today, the account of the Russian State Bank with the Federal Reserve Bank of New York amounts to only \$11,000, since \$500,000 have been withdrawn from the Federal and deposited with the Chase.

When giving the above information, Knoke let me know that he had spoken with Ceriguel in the Bank of France today by telephone and that the latter had said the Paris market was quite satisfactory and that the situation was really better than at any time since September 1. There was a reduction in volume of business, but the trend was satisfactory.

Knoke is sending me copies of exchange regulations received from the Commonwealth Bank of Australia and from the Bank of France. After we have made photostatic copies thereof, the originals are to be returned to Mr. Knoke, together with one photostatic copy. We, in turn, are providing Knoke with photostatic copies of certain official British documents which we are not sure he has received.

J. W. S.

CONFIDENTIAL

To: Secretary Morgenthau
From: Mr. Cochran

October 4, 1939.

MEMORANDUM

Mr. Knoke telephoned me on October 3 that the National Bank of Belgium had inquired of them as to the import gold point for belgas. Knoke and I discussed the possible significance of this inquiry. I requested him to give us a copy of the cabled inquiry, and promised to give him my reaction thereto this morning.

After receiving a copy from Mr. Knoke of Cablegram #270, I telephoned him at 11:45 this morning, suggesting that he send a reply to the National Bank of Belgium, giving the technical answer required, and that he then telephone, preferably to Mr. Baudewyns, endeavoring to sound the National Bank of Belgium out as to what their intentions may be with respect to supporting the belge. Upon ascertaining that Mr. Knoke was not on such terms with anyone in the National Bank of Belgium that he could start a quite informal conversation on this subject, particularly as a result of Baudewyns inability to understand English, I agreed with Knoke's idea that a cablegram drawn up to contain such message as we cared to transmit might be the proper channel. After getting Knoke's ideas in the premises, I told him that I would phrase a suggestion for a message and telephone him back. At 3:15 P.M. my secretary telephoned the attached draft to Mr. Knoke's secretary, with the request that Mr. Knoke call me back to discuss this matter.

In his informal memorandum of September 29, 1939, Knoke confirmed my opinion that, having taken care of the Dutch situation by our message of last week, we do not risk acquiring gold abroad unless we ourselves buy foreign exchange in this country. While the Tripartite Agreement with Belgium gives us the facility of acquiring gold against belgas in Brussels, the initiative is left to us.

The following table shows the balances of the National Bank of Belgium with the Federal Reserve Bank and recent transactions involved in such balances:

	<u>August 16</u>	<u>October 3</u>
Gold of National Bank of Belgium earmarked with Federal Reserve	\$226,000,000	\$218,000,000
Dollar Balances of the National Bank of Belgium with Federal Reserve		3,900,000

CONFIDENTIAL

October 4, 1939

311

BELGIAN GOLD TRANSACTIONS

	<u>Sales to Us</u>	<u>Purchases from Us</u>
Sept. 18 - 23	\$ 992,000	\$ 175,000
Sept. 25 - 30	2,507,000	—
Oct. 3	<u>645,000</u>	<u>—</u>
	\$4,144,000	\$ 175,000
Less	<u>175,000</u>	
Net Sales	\$3,969,000	

Before telephoning Mr. Knoks in the sense of the attached memorandum, I told Secretary Morgenthau that I had this question up, and I let him know the progress that was being made. I had originally spoken with him at 9:15 this morning and had obtained his authorization to go ahead and work through Knoks on the matter.


Mr. Merle Cochran

* * * *

October 5, 1939

Mr. Knoks telephoned me back late yesterday evening and we agreed upon certain modifications in the message to which I had drafted and had telephoned to his secretary. I have now received from Mr. Knoks a copy of his outgoing cablegram #3850 to the National Bank of Belgium which sets forth the text as we had agreed upon, and as actually dispatched. This message is attached hereto.



CONFIDENTIAL

October 4, 1939

312

MEMORANDUM

It is suggested Mr. Knoke answer Cablegram #270 of October 3, 1939, from the National Bank of Belgium by

- (1) Giving his technical answer to the questions posed on the import gold point for belgas at New York, and
- (2) Adding paragraphs along the following lines:

"We are at today's rate thus some distance from the gold import point for belgas. We note your recent releases of gold from your earmarked account with us through which you have the facility for supporting the belga."

"For your information, several European Central banks have been informed in reply to their recent inquiries that the U. S. Treasury is purchasing gold at present only in New York. In actual circumstances no operations involving acceptance of gold abroad could be consummated without prior consultation."

CONFIDENTIAL

COPY

313

INCOMING CABLEGRAM

Brussels, October 3, 1939.

Federal Reserve Bank of New York

New York

No. 270

Please cable at what rate you estimate import gold point Belgas at New York owing to rise in cost of shipment and insurance on war risk Brussels New York.

Following our calculations export gold point here about 6.15

Thanks

Banque Nationale de Belgique.

CONFIDENTIAL

C O P Y

14

OUTGOING CABLEGRAM NO. 3850

SENT ON October 4, 1939

Banque Nationale de Belgique

Brussels

Attention Mr. Banderwyns

No. 366

Your No. 270 At prevailing rates for freight and insurance which are of course subject to change without notice, we calculate gold import point Brussels to New York at about .1660 cents per belga on shipments by United States flag vessels or at from .1638 to .1643 cents per belga on shipments by other neutral vessels. We shall give full details by mail. At today's closing rate for belgas of about .1680 cents we are thus some distance from the gold import point. We note that you are now releasing gold from your earmarked account with us through which you have the facility for supporting the belga. For your information several European central banks have recently been informed by us in reply to their inquiries that the United States Treasury is purchasing gold at present only upon delivery in New York. In prevailing circumstances no operations involving acceptance of gold abroad could be consummated without prior consultation.

Regards

Kocks

CONFIDENTIAL

315

10-4-39.

MEMORANDUM FOR THE PRESIDENT:

In accordance with the suggestion of the State Department, I sent a letter and memorandum, copies of which are enclosed, to Senator Pittman in response to Senator Pittman's inquiry over the telephone concerning the Johnson Act. Copies of the letter and memorandum have also been sent to Secretary Hull with a covering letter, copy of which is enclosed.

Enclosures.

EB:men
10/4/39

8.14 FH

316

10-4-39

My dear Secretary Hull:

In accordance with the suggestion of your Department, I have sent to Senator Pittman a letter and memorandum, copies of which are enclosed, in response to Senator Pittman's telephone inquiry concerning the Johnson Act.

Sincerely yours,

Secretary of the Treasury.

The Honorable
The Secretary of State.

Enclosures.

BB:men
10/4/39

BB E.S. Th

317

10-4-39

My dear Senator Pittman:

In response to your inquiry over the telephone last evening concerning the Johnson Act, I attach a memorandum which discusses in detail the questions you raised.

I hope that this gives you the information you need.

Sincerely yours,

Secretary.

Honorable Key Pittman
United States Senate.

Enclosures.

E.W.H.

October 4, 1939

Secretary Morgenthau

Mr. Foley

Re: Senator Pittman's inquiries concerning the Johnson Act.

Summary

Senator Pittman asked you whether any regulations were issued under the Johnson Act. So far as we have been able to ascertain, no Government agency has issued any regulations under the Johnson Act. The Treasury Department has not issued any rulings thereunder. The Attorney General has rendered four opinions and the State Department has issued two press releases which may be deemed to be administrative interpretations or rulings on the Johnson Act. In connection with its passing on the issue of securities, the SEC has had occasion to determine whether the issuer of the securities was a defaulting government and whether the issue constituted a renewal of an indebtedness. We have been able to find only one reported court decision involving the Johnson Act and the decision is of no particular interest to the problem now being considered.

A.

The Johnson Act was passed on April 13, 1934. Immediately a number of problems arose necessitating the interpretation of that statute.

On April 27, 1934 a conference was held at the Treasury Department attended by Senator Johnson, the Attorney General, the Secretary of State, the Secretary of the Treasury and a number of officials of the State, Treasury and Justice Departments. Various questions of interpretation of the Johnson Act were considered. A memorandum of the conference is in the Treasury Department files.

The Treasury Department did not at that time, nor has it at any time since, issued any rules or regulations under the Johnson Act, and so far as we have been able to ascertain, no other agency of the government has issued regulations under the Johnson Act. Senator Pittman's suggestion on the Senate floor on October 2 that the Treasury issued rules and regulations is erroneous.

B.

On the same day that the aforementioned conference was held, the State Department issued a press release in which it stated that it and the Attorney General were in agreement that ordinary commercial "acceptances or time drafts" did not constitute "obligations" within the purview of the Johnson Act.

The Attorney General rendered three opinions in May, 1934, and one opinion on March 22, 1938 on questions relating to the Johnson Act. All of these opinions have been printed and made public by the Department of Justice, and in addition the first three opinions were given wide publicity by the State Department.

Although these opinions are not regulations in the customary sense, they may fairly be described as administrative rulings on the Johnson Act. Certainly they were intended to be relied upon by the public, and there is every reason to believe that they were in fact so relied upon.

In view of the fact that in his speech on October 2 on the floor of the Senate Senator Pittman said that he would set out in full at the end of his address the rules and regulations prescribed under the Johnson Act, in my desire to have printed in the record, as constituting administrative rulings and interpretations of the Johnson Act, the aforementioned opinions of the Attorney General and the press releases of the State Department, copies of which we can furnish immediately to Senator Pittman.

C.

We have also ascertained that the State and Justice Departments as well as the Treasury have received, during the past five years, many written inquiries relative to the Johnson Act. For instance, on many occasions the Treasury and State Departments have furnished, upon request, lists of the countries in default and in operation regarding the status of a particular country. In accordance with established practice, the Department of Justice refused to render opinions to private persons in response to questions as to the meaning of the Johnson Act. On many occasions copies of the aforementioned opinions of the Attorney General were furnished in response to inquiries. In connection with the flotation of certain foreign bond issues, the Securities Exchange Commission has had to satisfy itself as to whether the issue was a permissible renewal of an indebtedness permitted by the Johnson Act or that the issuing government was not in default under said Act. You will also recall that when the French Government asked whether we would have any objection to its naming J. P. Morgan & Co. as agent in the United States for the purpose of paying the coupons on the proposed French bonds, the Treasury advised the French that in view of the American legislation "it does envisage objections to the appointment of an agent in New York for the purpose of making such payment in dollars."

D.

A careful examination has revealed only one reported decision in either the State or Federal courts on the Johnson Act. That case is Soviet American Securities Corp. v. Bolger, 16 F. Supp. 622, decided by the District Court of New Jersey on October 14, 1936. The case is of no particular importance to the problem under consideration. The case, apparently a civil action for damages between private parties, construed a certain bond issue of the Soviet Government to determine the date of issue thereof. The court determined that the date of issue of the bonds was prior to the effective date of the Johnson Act. The case is entitled to but little weight as an authoritative interpretation of the Act.

In one or two instances State and Treasury have referred cases to Justice for investigation as to whether there was any violation of the Johnson Act. We expect to hear from Justice in a very short while as to whether or not there have been any criminal prosecutions under the statute.

(Initialed) E.H.F., Jr.

S:men
10/3/39

BB7 JWP BB

Opinion of the Attorney General of May 18, 1934 --

37 Op. Atty. Gen. 527.

5171

"I have the honor to refer to your letters of May 8 and May 17, requesting my opinion whether acceptance by American bondholders of 'scrip or funding bonds, not issued by the debtor (the German state, municipality, or corporation), but by the German Government or the conversion office (a subsidiary of the Reichsbank),' is permissible under the interpretation of the Johnson Act in my opinion to you of May 5, 1934. (37 Op. 508) The situation is more precisely indicated by the following excerpt from the opinion of your Legal Advisers:

"The bonds, the interest coupons of which are to be liquidated, are those of German States, Municipalities, and Corporations. The German Government controls all foreign exchange in Germany. Sufficient exchange to enable the obligors to meet the interest payments on their bonds is said not to be available. The plan, therefore, contemplates payment of the interest by the obligors to the German Government and the issue in turn by the Government of its obligations, scrip or bonds, in satisfaction, in part at least, of the coupons.

* * * * *

"It will be seen from the foregoing that the German Government has by law prohibited the German obligors on these bonds from making payment to the bondholders; has required those obligors to pay the money over to an agency of the German Government, and has discharged the debtors from further obligation toward the creditors. There is, in effect, a sequestration by the German Government of property or property rights of the foreign creditors for which the German Government is liable under international law."

"Other documents submitted by you make it plain that these bonds had been issued prior to the passage of the Johnson Act and it, in terms, applies only to bonds issued after its passage. It also appears that the German statute providing for the stated method of settlement was enacted June 9, 1933, effective July 1, 1933. If it had the effect of substituting the liability of the German Government, either wholly or pro tanto, for the liability of the obligors the change was effected before the passage of the Johnson Act. Upon this view there would be no question of the lawfulness of the transaction as a 'renewal or adjustment of existing indebtedness' of the German Government, as indicated in my opinion of May 8.

- 2 -

"It is, however, unnecessary for me to determine whether the German law did effect a substitution of the liability of the German Government for that of the original obligors; it did at least provide a means of settlement which, while compulsory upon the German obligors, is nevertheless optional so far as the obligees in this country are concerned and, therefore, if accepted by them, constitutes a renewal of adjustment of existing indebtedness.

"It follows from these considerations that the acceptance by American bondholders of scrip or funding bonds, under the circumstances hereinbefore set forth, is not forbidden by the Act of April 13, 1934."

Respectfully,

(Signed) Homer Cummings.

To the Secretary of State.

Opinion of the Attorney General of May 12, 1934 --

39 Op. Att. Gen. 581.

Sirs:

I have the honor to comply with your request of May 16 for my opinion upon the following question, stated by you to have arisen under the Act of April 13, 1934, forbidding financial transactions with foreign governments in default on their obligations to the United States.

"If a Government that has made a so-called 'token' payment on its obligations to the United States, and is now in the non-defaulting category under the Attorney General's ruling of May 5, should pay the full amount of the next installment, would it still be regarded as not in default?"

The operation of the statute, as applied to a particular country, is dependent upon a failure on the part of such country to meet its obligations to the United States. A government which made the so-called token payments had not met its obligations in full; but it was a necessary effect of the statute, as interpreted in my opinion of May 5, to exclude as a "default" such partial failure theretofore occurring as resulted from the making and acceptance of token payments under the circumstances indicated.

There was no waiver of the accounts overdue, and I feel confident that both the President and Congress contemplated their payment within a reasonable time. However, as no definite time was specified, it could not be said that the mere maturing of a subsequent installment which was paid when due would in itself automatically create a default. The statute, being penal, should not be unduly extended by construction.

It follows from these considerations that if a government which made a token payment under the circumstances stated in my opinion of May 5 should pay the full amount of the installment next due on its indebtedness, it would not be in default, within the meaning of that term as used in the Act of April 13, 1934.

Hozer Cummings.

To The Secretary of State.

C
O
P
YOpinion of the Attorney General of March 29, 1936.Volume 39, Op. Atty. Gen.

The Secretary of State.

My dear Mr. Secretary: I have your letter of March 19 inclosing a copy of a proposed treaty with the Government of Nicaragua and requesting my opinion whether its ratification would remove that Government from the operation of the Johnson Act.

The treaty recites that the Government of Nicaragua is indebted to the Government of the United States in the principal sum of \$289,898.78 for arms and ammunition, and that the Government of Nicaragua makes claim on the Government of the United States for \$372,879.06, representing income taxes exacted from the Ferrocarril del Pacifico de Nicaragua, incorporated under the laws of Maine when the taxes were collected but stated in the documents submitted by you as "for all practical purposes * * * owned by the Government of Nicaragua." The treaty provides that the Government of the United States shall pay to the Government of Nicaragua the sum of \$72,000, which the latter agrees to accept in full settlement of its claim, and further provides that "in consideration of such agreement the Government of the United States of America hereby cancels the present indebtedness of the Government of the Republic of Nicaragua to it for arms and ammunition * * * in the principal amount of \$289,898.78, together with interest thereon."

The Johnson Act (48 Stat. 574; U.S.C., title 31, sec. 804 (e)) forbids the purchase or sale of obligations of, or the making of loans to, any foreign government "while such government * * * is in default in the payment of its obligations, or any part thereof, to the Government of the United States." (Italics supplied.)

Understanding that the indebtedness specified in the treaty is the only overdue and unpaid indebtedness of the Government of Nicaragua to the Government of the United States, it is my opinion that ratification of the treaty will remove the Government of Nicaragua from the operation of the Johnson Act.

Responding to your further inquiry, I am aware of no objection to the proposed treaty.

Respectfully,

Robert H. Jackson,

Acting Attorney General.

THE WASHINGTON POST, MARCH 9, 1937, pp. 1 and 4.

* * *

"The French query, to sound out American official opinion, according to Senator Robinson, was sent from Paris at 8 p.m., March 5. At 3:45 p.m., on Saturday, March 6, the Secretary of the Treasury delivered to the French Ambassador for transmission the American reply.

"The French question:

"Would the United States authorities have any objection if the French government name some bank or firm in New York, such as J. P. Morgan & Co., to act as the agent in the United States for the purpose of paying coupons of the proposed loan in cases where payment is requested in dollars.

"The American answer:

"While the Treasury cannot, of course, express either its disapproval of the proposal of the French government to issue a loan payable in either francs, pounds or dollars at the option of the holder, nevertheless, in response to your specific inquiry and in view of American legislation, it does envisage objections to the appointment of an agent in New York for the purpose of making such payment, in dollars. (It was learned that no agent other than J. P. Morgan & Co. had been considered.)

"Secretary Morgenthau appreciates the co-operative attitude of Minister Auriol in informing him of the details of the financial program of the French government, and hopes that the new loan will be a great success."

DEPARTMENT OF STATE

FOR THE PRESS

APRIL 27, 1934

Enquiries have been received at the Department of State as to whether the Act of Congress approved April 13, 1934, to prohibit financial transactions with foreign governments in default on their obligations to the United States, applies to ordinary commercial "acceptances or time drafts," such as are used by foreign governments to finance the current requirements of their embassies and consulates in the United States.

The Department of State and the Attorney General are in agreement that such instruments do not constitute "obligations" within the purview of the Act.

Certain other questions that have been presented regarding the interpretation of the Act are under consideration.

DEPARTMENT OF STATE

26

FOR THE PRESS

MAY 5, 1934

The Secretary of State has received an opinion upon various questions pertaining to the Act of April 13, 1934, entitled "An Act to prohibit financial transactions with any foreign government in default on its obligations to the United States", known as the Johnson Act. The Department of State concurs in the interpretation of the Act expressed in the Attorney General's opinion.

Following is the full text of the Attorney General's Opinion:

DEPARTMENT OF JUSTICE
Washington
May 5, 1934

Sir:

I have the honor to refer to your letter of April 17 requesting my opinion upon various questions under the Act of April 13, 1934, entitled "An Act to prohibit financial transactions with any foreign government in default on its obligations to the United States", which reads as follows:

"That hereafter it shall be unlawful within the United States or any place subject to the jurisdiction of the United States for any person to purchase or sell the bonds, securities, or other obligations of, any foreign government or political subdivision thereof or any organization or association acting for or on behalf of a foreign government or political subdivision thereof, issued after the passage of this Act, or to make any loan to such foreign government, political subdivision, organization, or association, except a renewal or adjustment of existing indebtedness while such government, political subdivision, organization or association, is in default in the payment of its obligations, or any part thereof, to the Government of the United States. Any person violating the provisions of this Act shall upon conviction thereof be fined not more than \$10,000 or imprisoned for not more than five years, or both.

"Sec. 3. As used in this Act the term 'person' includes individual, partnership, corporation, or association other than a public corporation created by or pursuant to special authorization of Congress, or a corporation in which the Government of the United States has or exercised a controlling interest through stock ownership or otherwise."

Your questions, in the order in which they are set forth, my views thereon are stated below:

"(1) What Governments, political subdivisions, or associations are in default on their obligations to the United States?"

"Default" is a common word which conveys at once a known meaning, but as applied to particular situations, it is often a matter of uncertainty whether or not or when a "default" has occurred. Concerning it, Chief Justice Eyre declared in

Doe

Doe v. Dacre, 1 B. & P. 237, 258; 126 Reprint 837, 891, "I do not know a larger or looser word than 'default'"; but as to civil liability the following definitions are enlightening:

"As used in such an instrument (a contract), it can mean only the nonperformance of a contract - a failure upon the part of one of the contracting parties to do that which he had contracted to do." (Sixteen hundred Tons of Nitrate of Soda v. McLeod, 61 Fed. 849, 851.)

"In one sense, any failure is a default, whether it arises from the omission to perform a contract, or from a neglect of duty. In many reported cases the omission to pay a debt or to perform a contract is spoken of as a default." (Burrill v. Crossman, 69 Fed. 749, 752.)

However, the word cannot safely be accepted as importing so inclusive a significance when it is used in a penal statute, as pointed out by the Supreme Court of Nebraska in State v. Moores, 52 Neb. 770, 787, upon consideration of a constitutional provision which rendered ineligible to public office "any person who is in default as collector and custodian of public money or property", which the court declared to be "penal in its nature."

Lipman v. Equitable Life Assur. Soc. of the United States, 58 F. (2d) 15, and Hartsuff v. Hall, 58 Neb. 417, each dealing with written instruments providing for payment at a stated time with grace, reached contrary conclusions upon consideration of the context and probable intention as to whether "default" occurred at the time specified for payment or at the end of the grace period, thereby indicating that no absolute or rigid meaning is to be assumed in a civil case, and a fortiori in a criminal case.

In view, therefore, of the flexibility of the term, and bearing in mind that a penal statute is to be strictly construed against the imputation of criminality to an act which is not malum in se, I think it is required that we seek carefully from authorized sources the probable intent of Congress. In connection therewith your letter indicates particular concern as to Great Britain and other countries which have made so-called token payments, and as to the Soviet Government which has not yet, as you informed me, recognized as binding upon it the obligations incurred by prior governments in Russia. I shall, therefore, indicate to the extent that I properly can, my views in these instances.

On November 7, 1933, the President issued the following statement:

"For some weeks representatives of the British Government have been conferring with representatives of this government on the subject of the British debt to this country growing out of the World War, ***

"It has, therefore, been concluded to adjourn the discussions until certain factors in the world situation - commercial and monetary - become more

clarified.

clarified. In the meantime, I have as Executive noted the representations of the British Government. I am also assured by that Government that it continues to acknowledge the debt without, of course, prejudicing its right again to present the matter of its readjustment, and that on December 15, 1933, it will give tangible expression of this acknowledgment by the payment of seven and one-half million dollars in United States currency.

"In view of these representations, of the payment and of the impossibility, at this time, of passing finally and justly upon the request for a readjustment of the debt, I have no personal hesitation in saying that I shall not regard the British Government as in default."

On the same day the Chancellor of the Exchequer addressed the House of Commons to the same effect, concluding with the President's statement that he would not regard the British Government as in default.

A statement of similar import has been made by the President in June, 1933, shortly before certain installments upon the debts were due. It is unnecessary to repeat here the statement then made or to treat further of later statements by the President and their acceptance in good faith, except to say that Great Britain and certain other countries made partial payments on installments due in June, 1933, and in December, 1933, with the expectation and belief that they would thereby avoid a default.

In his annual message to Congress delivered at a joint meeting of the two Houses on January 3, 1934, the President stated:

"I expect to report to you later in regard to debts owed the Government and people of this country by the governments and peoples of other countries. Several nations, acknowledging the debt, have paid in small part; other nations have failed to pay. One nation - Finland - has paid the installments due this country in full." (Cong. Rec. v. 78, p. 5.)

It does not appear, however, that any further report in regard to these debts was transmitted to Congress prior to the enactment of the statute.

I find no record of the expression of any views in the Senate upon the meaning of the word "default" when the bill was under consideration, but the matter was considered in the House, as indicated by the following excerpts from the Congressional Record.

"Mr. BANKHEAD. Under this bill, what would be the status of governments like England, that made a so-called 'token payment,' but has defaulted in the main?

"Mr. MOREYNOLDS. The President of the United States, as I understand it, has held that they are

not

not in default." (Cong. Rec. Vol. 78, p. 6192.)

"Mr. BRITTEN. Does the gentleman agree with the gentleman from New York (Mr. Fish) that those governments which have made a small token payment will not be held in default by our Government?

"Mr. JOHNSON of Texas. I am not so sure about that." (Cong. Rec. Vol. 78, p. 6194.)

* * * * *

"Mr. JOHNSON of Texas. Yes; the language is broad and comprehensive, but the question of what constitutes a default is one that will have to be determined by the terms of the original contracts supplemented by any subsequent agreements that may have been lawfully made." (Cong. Rec. Vol. 78, p. 6195.)

"Mr. KLOEB. Since that time we have beheld the spectacle of all these debtor countries, save one, either actually defaulting in the payments of the installments as they become due or making a so-called 'token payment' in order to avoid the ugly word 'default.'" (Cong. Rec. Vol. 78, p. 6197.)

"Mr. BRITTEN. Mr. Speaker, I am going to vote for this bill because I have, to my own satisfaction at least, concluded that any nation of Europe in default of any portion of its indebtedness, interest or principal, to us is included in the intention of the bill.

"I realize that in the following statement I am disagreeing with the chairman of the committee and probably with the ranking Member on this side, but on page 2, in speaking about the indebtedness it says, 'While such government is in default in payment of its obligation or any part thereof.' I fail to see why England with a surplus this year of \$150,000,000 in her treasury, or France, with countless millions of gold in her treasury, more gold in her treasury per capita than we have, and governments of that type should be excluded from the provisions of this bill, and France is not, I realize, just because they made some insignificant token payments on account of their vast obligation to us.

"If the State Department were to exclude those nations from the provisions of this bill then Czechoslovakia, Great Britain, Greece, Italy, Latvia, Lithuania, and Rumania would be excluded because they have all made some small payment.

* * * * *

"My contention is that the State Department should not act that way, nor has it the authority to presume that because an infinitesimal payment has been made on an indebtedness of billions it takes

that

that nation out of one class and puts it into a preferred class." (Cong. Rec. Vol. 78, pp. 6197-6198.)

Mr. McReynolds was in charge of the bill during its consideration by the House and, therefore, under the rules applied by the courts in considering such proceedings, his apparent view that Great Britain and other countries similarly situated were not to be deemed in default, is entitled to special weight.

Moreover, the President, by signing the bill, participated equally with the Houses of Congress and his view as to the meaning of words employed in it is of great significance. I cannot assume that he believed Great Britain to be in default, within the meaning of the word as used in the bill, in view of his express statements on the subject; and from such information as I now have before me it would appear that Czechoslovakia, Italy, Latvia, and Lithuania fall in the same category with Great Britain. I conclude, therefore, that these five countries are not, at the present time, in default under the terms of the Act in question.

Beyond this a specific answer as to what governments, political subdivisions, organizations or associations are in default on their obligations to the United States would seem to require a survey of data not immediately available to this office, but in general it may be said, in the words of the statute, that a "foreign government, political subdivision, organization or association is in default" if it has failed "in the payment of its obligations, or any part thereof, to the government of the United States," according to its promise or undertaking to pay a fixed amount at a definite time, unless such default has been postponed or waived in some competent manner or by a transaction having that effect in law or good morals. Should any authoritative statement, in harmony with this opinion, be issued in the form of an administrative declaration that named countries are or are not in default, I should be inclined to follow it insofar as the Department of Justice is charged with the responsibility of instituting prosecutions in cases of violation, thereby removing misapprehension and uncertainty to those who desire to avoid conflict with the statutory interdiction; and should the question come before the courts it is reasonable to believe that they would honor any such administrative determination.

With regard to the status, under the Act, of a political subdivision of a defaulting country when the subdivision itself is not in default, attention is called to the fact that while explaining the bill in the House of Representatives, Mr. McReynolds stated that in such a case the political subdivision such as a city in a defaulting country, would not come within the inhibitions of the bill if the city itself were not in default (Cong. Rec. Vol. 78, p. 6200). I approve this view, not only because of the presumption arising from Mr. McReynolds' explanation, but because a reasonable interpretation of the statute itself supports the conclusion that the default of a foreign government would not be imputed to a political subdivision thereof, e.g., a municipality, so as to prohibit the purchase or sale of bonds or securities of the latter, if the municipality is not itself in default.

It

It has also been asked whether or not Canada, a member of the commonwealth of nations which compose the British Empire, is to be regarded as a political subdivision of Great Britain. The question should properly be answered in the negative, and this conclusion was suggested in Congress (Cong. Rec. Vol. 78, p. 6195), but it appears to be immaterial in view of my conclusion above stated concerning the intention of Congress as applied to the obligations of political subdivisions. Canada, I believe, is not in default.

"(2) To What types of transactions does the Act apply?"

The Committee Reports (S. Rept. 20 and House Rept. 975, 73rd Cong.) recite that the bill was introduced following an investigation by the Senate Committee on Finance and the revelation therein that "billions of dollars of securities * * * offered for sale to the American people" were overdue and unpaid; that some of these "foreign bonds and obligations * * * were sold by the American financiers to make outrageously high profits"; and stated a purpose "to prevent a recurrence of the practices which were shown by the investigation to be little less than a fraud upon the American people * * * to curb the rapacity of those engaged in the sale of foreign obligations * * *."

This, I think, is indicative of a purpose to deal with such "bonds" and "securities" and with "other obligations" of like nature, observing the rule of *ejusdem generis* - that is, obligations such as those which had been sold to the American public to raise money for the use of the foreign governments issuing them - not contemplating foreign currency, postal money orders, drafts, checks and other ordinary aids to banking and commercial transactions, which are "obligations" in a broad sense but not in the sense intended. It was obviously not the purpose of the Congress to discontinue all commercial relations with the defaulting countries.

"(3) What constitutes a renewal of an existing credit?"

Your Legal Adviser has concluded, in the memorandum transmitted with your letter of April 23d, that:

"It would seem that any instruments which would be issued for the purpose of replacing the evidence of any existing indebtedness would constitute a renewal or an adjustment of an existing indebtedness. If new bonds were issued to replace old ones, it would seem that such a transaction would be permissible. Any instrument given in satisfaction or extension of an existing indebtedness would, it is believed, come within this exception."

In general, I approve this statement, but obviously it will be a question of fact in each case whether or not what is done amounts in good faith to the mere "renewal * * *" of existing indebtedness."

"(4) Does the Act apply to acceptance of time drafts?"

This

This question appears to be sufficiently answered by the comments under Question No. 2, *supra*. It appears proper to add, however, that such transactions must be conducted in good faith, in order to be within the law, and not as mere subterfuges to circumvent its purpose.

"(5) Is the present Soviet Government, as the successor to prior governments of Russia, to be regarded as in default, in view of the fact that no payment has been made on the bonds issued to the Government of the United States by the Provisional Government, on account of loans made to that Government by the United States during the period of the war, the Provisional Government having been the immediate predecessor of the Soviet Government?"

The proceedings in the House of Representatives indicate acceptance of the view that our Government regards the Soviet Government as responsible for the obligations incurred by prior Russian governments. (Cong. Rec. Vol. 78, p. 6192.) The position of our Government in this respect accords with accepted principles of international law, as illustrated by the following authorities:

Moore, Int. Law Digest, v. 1, sec. 96, quoting Secretary of State Adams (August 10, 1818):

"No principle of international law can be more clearly established than this: That the rights and the obligations of a nation in regard to other States are independent of its internal revolutions of government. It extends even to the case of conquest. The conqueror who reduces a nation to his subjection receives it subject to all its engagements and duties toward others, the fulfillment of which then becomes his own duty."

Halleck, Int. Law (3d ed.) v. 1, p. 90:

"Public debts, whether due to or from the revolutionized State, are neither cancelled nor affected by any change in the constitution or internal government of a State."

The same rule is stated, in substance, in Kent's Commentaries (12th ed.) v. 1, p. 26, and in an opinion of Attorney General Griggs, 22 Op. A. G. 583, 584. In connection with, and in support of, these statements the authors cite 1 Whart. Int. Law Dig., sec. 6; Hall, Int. Law, (4th ed.), pp. 104, 106; Rivier, Principes du Droit des Gens, I, pp. 70-72; United States v. MacRae, L. R. 8 Eq., 69; Vattel, Droit des Gens, lib II, ch. XII, §§ 183-187; Grotius, de Jur. Bel., lib II, cap. IX § 8.

This view, in fact, was stated in Congress (Cong. Rec. Vol. 78, p. 6192) to have suggested the insertion of the provision in Section 2 of the statute excluding from its operation public corporations controlled by the United States, which are permitted to engage in the transactions prohibited to individuals and private corporations, if administratively determined to be desirable. I, therefore, regard the Soviet

Government

Government as in default, within the contemplation of the statute.

"(6) However the last question may be answered, can the Soviet Government be considered in default to the Government of the United States pending negotiations that are being had with a view to arriving at the amount of the indebtedness due from the Soviet Government to the Government of the United States?"

Bearing in mind what I have just stated in response to your fifth question, I am aware of no principle of law under which a previously existing default is waived or overcome because of the mere pendency of negotiations "with a view to arriving at the amount of the indebtedness due," assuming that there is any uncertainty in this regard, although, of course, the matter might be affected by the outcome of any such negotiations.

"(7) Would the issue and sale in the United States of 'scrip' or funding bonds in part payment of outstanding obligations be in violation of the Act?"

This question appears to present only a detail of the matter treated generally under Question No. 3, and the same answer is applicable. In other words, such "scrip" or "funding bonds" are authorized if issued in the bona fide "renewal or adjustment of existing indebtedness."

It is made unlawful, as I have said, "to purchase or sell the bonds, securities, or other (similar) obligations of any foreign government * * * issued after the passage of this Act, or to make any loan to such foreign government * * * except a renewal or adjustment of existing indebtedness." The word "renewal" needs no definition by me - it is frequently used and commonly understood in banking, business and commercial transactions - and the word "adjustment," relating to accounts or claims, has been used in our statutes since the formation of the Government. (See the Act of September 2, 1789, 1 Stat. 65, and the Act of March 3, 1817, 3 Stat. 366). It is used, I think, in the sense of compromising or determining how much is to be paid, when and where, upon what terms and the like. Thus an adjustment of an existing indebtedness within the meaning of the Act is any lawful arrangement entered into in good faith between the debtor and the creditor which compromises or determines the amount to be paid by the debtor to the creditor and it may include other details of composition or settlement.

Respectfully.

HOMER CUMMINGS,

Attorney General.

The SECRETARY OF STATE.

+ Gasoline

RE STUDY OF OIL SITUATION

October 4, 1939.
11:30 a.m.

Present: Mr. White
Mr. Viner
Mr. Cotton
Captain Puleston

H.M.Jr: I'm trying something new here. You all know Captain Puleston, don't you?

Viner: Oh, yes.

H.M.Jr: And I don't know whether it will work, but we will try it. Captain Puleston is doing some things for me on oil. He has a lot of material which has been furnished to him, and then I asked Dr. Viner to have this man - what is his name?

Viner: Dr. Egloff.

H.M.Jr: The thought that I had in mind was we could pool all of this stuff together and get it down so that I can absorb it and I can give something to the President. I thought I could ask Harry White's staff to take this stuff, both what Viner had and what you (Captain Puleston) had, and work it up and then give it to me, do you see? Would that break any confidence that you have with your people?

Puleston: No. That would be quite all right.

H.M.Jr: How about you?

Viner: I was just talking along those lines with Mr. White, Mr. Secretary. I think that is fine.

H.M.Jr: I have got you (Cotton) on the theory that you are going to have this new assignment, you see, downstairs. It is something I didn't want to wait. If this goes through, what we are talking about is to have Mr. Cotton work as an ambassador between these three economists downstairs and me and these other three men downstairs and me and between the others. I don't know whether it is going to work, but we are trying it, you see. In other words, if I ask the three economists to do anything, Mr. Cotton is to know about it or if I ask the

- 2 -

other people he is to know about it. I expect him to lose at least ten pounds in the first week. Is this all right with you?

Paleston: Perfectly.

H.M.Jr: With you?

Viner: Fine.

H.M.Jr: Harry?

White: Yes, we have already talked about it.

H.M.Jr: This would be, I think, the way to do it and then I would like awfully if I could have something Monday to show the President on the oil situation.

White: Today is Wednesday. You will have something.

H.M.Jr: And then....

White: We will clear all through to make sure that....

Paleston: They usually make these about every two weeks. They could make them oftener if it was critical.

H.M.Jr: No, no.

Now, another thing which flows into this thing, it is up to you to get it (Cotton). Pollio over at the Coast Guard has got a special watch on all oil tankers which are sailing. That ought to be incorporated in this.

White: And then Harris has some information or can get some additional information to use on the tanker situation. We can contact him. That is part of the problem.

H.M.Jr: I don't know whether there is such a thing, but in the oil administration under Mr. Ickes' office I wonder if he has anybody whom he could lend us who knows the world oil situation and follows it. They have an oil administration.

- 3 -

White: Would you need to borrow him or would you need to make arrangements merely so that he would be available to advise and assist and then whatever conferences we have he could attend and comment on the memoranda, and so on, so we would get the benefit of whatever they have there and his advice.

H.M.Jr: If there is somebody over there who thinks in terms of world oil production and consumption, if there is anybody over there....

White: And there is somebody in the Bureau of Mines, too.

H.M.Jr: Well, that is Ickes' shop. But if there is such a person, I think he ought to be pulled in.

White: I am sure there is such a person because we have contacted him.

Viner: They run it periodically, see.

White: But I think the request should go from you to him.

H.M.Jr: Pardon?

White: The request should go from you to him.

H.M.Jr: I will phone Mr. Ickes. I don't want to do anything that isn't right.

White: You would like to find out who it is before you speak to him?

H.M.Jr: Yes. Then I can phone and say we are doing this job and tell this man to cooperate with the Treasury.

Cotton: We will find out who it is and then let you know.

H.M.Jr: I don't want to do it unless the fellow really contributes something.

White: They have a lot of information and they couldn't do any harm.

H.M.Jr: Have they information outside the United States?

White: Yes.

- 4 -

- Viner: What I find is that quite a few people in town have worked on it at one time or another but nobody is working on it at this moment. At various times, somebody has gotten on it and then gotten off it and I couldn't find anybody who was at this moment working on it.
- Puleston: That data would be a good background, but the situation is changing, so it has got to be kept current.
- H.M.Jr: I think if we had it over two weeks that would be all right.
- Puleston: That would be plenty.
- H.M.Jr: I think every two weeks would be good enough.
- Puleston: It is going to be increasingly more difficult to get it.
- H.M.Jr: Well....
- White: Is the Maritime Commission interested at all?
- H.M.Jr: There is no reason why, that I know of, that Baillie or Burgess or Smith should know about this. I don't know any reason why they should know about this. It is no concern of theirs and they can't contribute anything, see. There is nothing they can contribute, so I don't know why they should know about it. It is an assignment from me which the three "E's" are involved in and thereby, I want you (Cotton) to know about it, but I don't know why they should know about it because they can't help us. The less people who know about it, the better.
- Did you say something, Harry?
- White: I was going to say that one of the important problems here is with regard to the availability of tankers. Either Harris or somebody would have to contact the Maritime Commission or somebody in the big oil companies who have arrangements with the big tanking associations as to what they shall or shall not do. That is an area we can't get at here.
- H.M.Jr: We can get at it through the Standard Oil of New Jersey. Jay Crane up there can get anything I want.

Fuleston: He could, but there is - he could for his own outfit, but there is a question as to whether he could from some of the others.

H.M.Jr: If not, get it through the Maritime Commission.

White: Then we contact the Maritime Commission.

H.M.Jr: Let Basil Harris do it.

White: Then we can just give him the problem.

H.M.Jr: I think that covers that, doesn't it?

Fuleston: Yes.

H.M.Jr: You are not breaking any confidences?

Fuleston: Oh, no.

H.M.Jr: You see what this would do?

Fuleston: I do. I think it is a splendid idea. It will help me.

H.M.Jr: You have no staff.

Fuleston: No, it will help me.

Cotton: And then we will get up the basic document every two weeks.

White: Yes.

H.M.Jr: Will you (Captain Fuleston) turn over what you have to White and you (Viner) turn over what you have to White? Seeing that you had the idea, is it all right?

Viner: Sure.

White: There would be more than a question of turning it over. It is a question of working together on this.

Viner: I will keep in touch with Harry.

H.M.Jr: I would like to talk to Fuleston a minute.