October 1, 1939

MEMORANDUM

Res: 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 12, 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 8, 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. 80 and House Rept. 974, 73d Cong.) recites 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
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 8, 1954 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 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 regulations as he may prescribe, except from the
operation of this section ordinary commercial credits
and short-term obligations in aid of like 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 to 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.
April 28, 1934

Commissioner of Accounts and Deposits

CONFERENCE ON JOHNSON BILLS (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. Backworth, Solicitor of the State Department, Mr. Mackean, Assistant Solicitor General, Mr. Coolidge, Mr. Dillichant, 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 those 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...
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 would 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 would 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 organisations 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 "organisations 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.
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.
MEMORANDUM FOR THE SECRETARY

In the course of conversation this afternoon with M. Leroy-Beaulieu, he informed me that the French Naval Attache is negotiating a contract with the E. W. Bliss Company for the purchase of 100 torpedoes, the price of each being approximately $1,800.

Director of Procurement
French purchases in the United States

Since the war broke out, the French Air Mission has placed the following orders, subject to a contingent clause in case the embargo on arms should not be lifted:

1° - Contracts signed:

General Electric (reflectors and trucks) $5,650,000
Sperry Gyroscope (detectors) $5,950,000
United Aircraft (2,250 engines) 41,000,000
Glenn Martin (130 planes) 13,400,000

2° - Contracts to be signed within a week:

Curtiss (630 planes) $23,500,000
Wright (1440 engines) 28,000,000
 Beschorcraft (500 planes) 27,000,000
North American (200 planes) 4,400,000
Douglas (130 planes) 10,400,000
$159,300,000

In addition to these orders, the French Naval Attaché is negotiating the purchase of an order of torpedoes from the E.W. Bliss Company for delivery of 100 torpedoes, subject to an additional option, the price of each torpedo being $1,800.00 roughly.

(1) 138 searchlights, 384 power plants, 640 trucks
(2) 256 " , 256 sound locators
MEMORANDUM FOR THE SECRETARY

October 7, 1939

There is attached hereto a statement indicating the present status of those contracts reported by memorandum to you under date of September 19th.

There is also attached a statement of new contracts that have been made between the French State and the contractors indicated since September 29, 1939.

The contract with the Pratt and Whitney division of United Aircraft indicated above provides for the French State's furnishing approximately $3,600,000 for additional plant facilities.

The 100 one-engine pursuits, P-40, are to be powered with Allison Motors.

From information received this morning it is indicated that contracts are also pending with the Wright Aeronautical Corporation, the Beechcraft Corporation, North American Aviation, Inc., and the Douglas Aircraft Company, further information concerning which will be furnished promptly upon its receipt.

[Signature]

Director of Procurement
### AIRPLANES

<table>
<thead>
<tr>
<th>Contractor</th>
<th>Description</th>
<th>Ordered</th>
<th>Delivered</th>
<th>Complete Delivery</th>
</tr>
</thead>
<tbody>
<tr>
<td>Curtiss-Wright Corporation</td>
<td>1 engine Pursuit 75-A</td>
<td>200</td>
<td>200</td>
<td>Dec. 31, 1939</td>
</tr>
<tr>
<td>Glenn L. Martin Company</td>
<td>2 engine Bomber 187-F</td>
<td>215</td>
<td>15</td>
<td></td>
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<tr>
<td>Douglas Aircraft Company, Inc.</td>
<td>2 engine Bomber DB-7</td>
<td>100</td>
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<td>North American Aviation, Inc.</td>
<td>Basic Trainer</td>
<td>250</td>
<td>198</td>
<td>Nov. 15, 1939</td>
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<tr>
<td>United Aircraft Corporation</td>
<td>Dive Bomber V-156</td>
<td>40</td>
<td>20</td>
<td>Nov. 30, 1939</td>
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<tr>
<td>Chance-Vought Division</td>
<td></td>
<td>785</td>
<td>451</td>
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### ENGINES

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<tr>
<td>United Aircraft Corporation</td>
<td>P&amp;W 1850 Twin Wasp</td>
<td>1,851</td>
<td>818</td>
<td>July, 1940</td>
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<td>Pratt &amp; Whitney Division</td>
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<tr>
<td>United Aircraft Corporation</td>
<td>P&amp;W 1535 Twin Wasp, Jr.</td>
<td>520</td>
<td>10</td>
<td>July, 1940</td>
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<td>Pratt &amp; Whitney Division</td>
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<tr>
<td>Curtiss-Wright Corporation</td>
<td>CW R-2600 Twin Cyclone</td>
<td>42</td>
<td>8</td>
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<td></td>
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<td>2,385</td>
<td>831</td>
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### SPARE ENGINES ORDERED BY NORTH AMERICAN AVIATION, INC., FOR BASIC TRAINER CONTRACT

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<tr>
<td>Curtiss-Wright Corporation</td>
<td>CW R-975-E Single Row Whirlwind</td>
<td>115</td>
<td>50</td>
<td>Dec. 31, 1939</td>
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Oct. 7, 1939 (F)
### AIRPLANES

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<tr>
<td>Curtiss-Wright Corporation</td>
<td>1 engine Pursuit 75-A</td>
<td>550</td>
<td>0</td>
<td>Dec., 1940</td>
</tr>
<tr>
<td></td>
<td>1 engine Pursuit P-40</td>
<td>100</td>
<td>0</td>
<td>Dec., 1940</td>
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<tr>
<td>Glenn L. Martin Company</td>
<td>2 engine Bomber 167-F</td>
<td>150</td>
<td>0</td>
<td>June, 1940</td>
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### ENGINES

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<tr>
<td>United Aircraft Corporation</td>
<td>PW 1850 Twin Wasp, 2 speed</td>
<td>2,250</td>
<td>0</td>
<td>Dec., 1940</td>
</tr>
<tr>
<td>Pratt &amp; Whitney Division</td>
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<td></td>
<td></td>
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### OTHER EQUIPMENT

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<th>Contractor</th>
<th>Description</th>
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<tr>
<td>General Electric</td>
<td>Searchlight Equipment</td>
<td>128</td>
<td>0</td>
<td>Nov., 1940</td>
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<td></td>
<td>Trucks (General Motors)</td>
<td>640</td>
<td>0</td>
<td>Nov., 1940</td>
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<td></td>
<td>Portable Power Plants</td>
<td>384</td>
<td>0</td>
<td>Nov., 1940</td>
</tr>
<tr>
<td>Sperry Gyroscope Company</td>
<td>Searchlight Equipment</td>
<td>256</td>
<td>0</td>
<td>Nov., 1940</td>
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<tr>
<td></td>
<td>Sound Locators</td>
<td>256</td>
<td>0</td>
<td>Nov., 1940</td>
</tr>
</tbody>
</table>

Oct. 7, 1939 (F)
French purchases in the United States

Since the war broke out, the French Air Mission has placed to date the following orders, subject to a contingent clause in case the embargo on arms should not be lifted:

1) Contracts signed:

Not affected by the embargo

- General Electric (128 searchlights, 384 power plants 640 trucks $ 5,650,000
- Sperry Gyroscope (256 searchlights 256 sound locators $ 5,950,000
- United Aircraft (2,250 engines, latest model Pratt Whitney SC4G) $ 41,000,000
- Glenn Martin (150 planes, bombers 167) $ 13,400,000
- Curtiss (650 planes: 530 F. 36 and 100 F 40) $ 23,500,000
- Wright (1,440 engines) $ 28,000,000

2) Contracts to be signed within a week:

- Beechcraft (500 planes) $ 27,000,000
- North American (200 planes Model BT9 same as pre war order) $ 4,400,000
- Douglas (150 planes DB 7) $ 10,400,000

The Curtiss, Glenn Martin and Douglas are to be equipped with engines Pratt Whitney SC4G.
The French Air mission contemplates to purchase 100 more Douglas. If the U.S. Army gives the release for the latest Douglas A 20, the additional purchase would be 150 ships. General Arnold’s decision will be known in a few days.

Searchlights. The French Government needs very badly the searchlights which are not subject to the embargo, and would be of the utmost value for the anti aircraft defense of the big cities. Under the contracts the deliveries are to start in February but will not be important before April. The U.S. Army has placed a large order for the same searchlights, and the deliveries will start in November. Would it be possible to shift the deliveries from the American to the French contract.
Orders placed in Paris
(Contracts to be signed here)

1) Machine tools

Cincinnati Milling - 120 machine tools $ 800,000
Brown & Sharp 350 " " 2,500,000
National Acme 50 " " 400,000

2) Trucks and motorbicycles

White 2,500 trucks Price not yet settled
Studebaker 2,500 " "
Indian 5,000 motorbicycles "

Regraded Unclassified
TO Secretary Morgenthau
FROM Mr. White

Subject: The Present Situation Re. Quicksilver

1. The stocks of quicksilver in the United States were probably exhausted when war broke out in September. The stocks were reported at only 550 flasks in December 1938, and evidently were no larger in September 1939, since imports, which usually supply a large part of our needs, were negligible during the first eight months of this year.

The price of quicksilver fluctuated around $90 per flask from April through August 1939. When war broke out, the price rose very quickly, reaching $170 per flask on September 16, 1939 and the price has remained at that level since.

2. The consumption of quicksilver in the United States in the last few years has ranged from 25,000 to 35,000 flasks. Consumption in 1938 when industrial activity was relatively low was approximately 25,000 flasks, and in 1937, a year of high industrial activity, 35,000 flasks.

The Procurement Division estimates that in the case of a national emergency 36,200 flasks of quicksilver would be required each year by military service and civilian industries. Quicksilver is listed as one of the strategic materials by the military services, but it is in the third priority and no recommendations concerning its purchase have been made.

Quicksilver is a necessary material in munitions production, in gold mining, in medicine, in ship building and for the production of scientific instruments. No substitutes are available for most of the uses.

3. In the past few years the domestic industry has yielded from 15,000 to 18,000 flasks of quicksilver per year (which is about one-half of our domestic needs).
Domestic Production of Quicksilver

(In flasks)

<table>
<thead>
<tr>
<th>Year</th>
<th>Production (flasks)</th>
</tr>
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<tbody>
<tr>
<td>1934</td>
<td>15,445</td>
</tr>
<tr>
<td>1935</td>
<td>17,518</td>
</tr>
<tr>
<td>1936</td>
<td>16,569</td>
</tr>
<tr>
<td>1937</td>
<td>16,508</td>
</tr>
<tr>
<td>1938</td>
<td>17,991</td>
</tr>
</tbody>
</table>

The expansion of the domestic production is dependent primarily upon the discovery of new sources of quicksilver or upon a great increase in the price which would make profitable the more intensive exploitation of low yield ores.

The Bureau of Mines estimates that if the price of quicksilver were maintained at $100 per flask or more the production would be increased by some 7,000 to 12,000 flasks per year within a two or three year period. If the price of quicksilver is maintained at the present high level our domestic output, plus the Mexican output could -- if the statement of the Bureau of Mines is correct -- meet our emergency needs as estimated by our Procurement Division.

However, the domestic sources of quicksilver are uncertain because the reserves of quicksilver are unknown and because the richest known deposits were exhausted in the past half century. The operating mercury mines are high cost, and the ores have a low yield in comparison with mines of European countries. At the present time there are only 90 producing mercury mines, although there are a large number of mines which have yielded mercury in the past but which are now inactive.

4. The United States has relied on foreign sources for half its needs of quicksilver, the bulk of which came from Italy and Spain. In addition to the recorded imports of quicksilver, we have been buying Mexican quicksilver in the form of ore concentrates which do not appear in the import statistics as quicksilver but amounted to 2,600 flasks in 1938.

Imports of Quicksilver

(In flasks)

<table>
<thead>
<tr>
<th>Year</th>
<th>Imports (flasks)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1934</td>
<td>10,192</td>
</tr>
<tr>
<td>1935</td>
<td>7,815</td>
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<td>1936</td>
<td>18,088</td>
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<td>1937</td>
<td>18,918</td>
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<tr>
<td>1938</td>
<td>2,362</td>
</tr>
<tr>
<td>1939</td>
<td></td>
</tr>
<tr>
<td>1st 8 months</td>
<td>220</td>
</tr>
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</table>
5. The principal sources of quicksilver are Italy and Spain, and significant quantities are also produced in the U.S.S.R., Germany, Mexico and China.

Approximate Production of Quicksilver by Countries in 1937-38

(In flasks of 76 pounds)

<table>
<thead>
<tr>
<th>Country</th>
<th>1937</th>
<th>1938</th>
</tr>
</thead>
<tbody>
<tr>
<td>Italy</td>
<td>66,963</td>
<td>66,719</td>
</tr>
<tr>
<td>Spain</td>
<td>28,357</td>
<td>40,000</td>
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<tr>
<td>United States</td>
<td>16,508</td>
<td>17,991</td>
</tr>
<tr>
<td>U.S.S.R.</td>
<td>8,700</td>
<td>1/</td>
</tr>
<tr>
<td>Mexico</td>
<td>4,963</td>
<td>5,519</td>
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<td>China</td>
<td>1,736</td>
<td>65</td>
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<tr>
<td>Japan</td>
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<td>1/</td>
</tr>
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<td>Turkey</td>
<td>484</td>
<td>1/</td>
</tr>
<tr>
<td>Algeria &amp; Tunisia</td>
<td>139</td>
<td>331</td>
</tr>
</tbody>
</table>

1/ Not available
2/ Exports

There is no information to indicate the extent to which the production of quicksilver in foreign countries will be expanded as a result of the higher prices now prevailing.

6. World stocks of quicksilver seem to be held principally in London and Italy. At the end of 1937 London held 22,000 flasks of Spanish quicksilver. In 1938 Italy produced 67,000 flasks and exported only 55,000 flasks, indicating that Italy's stocks of quicksilver at the present time are probably relatively high. The stocks in the United States, which, since 1934, have varied from 2,400 to 4,300 flasks were only 550 flasks at the end of 1938 and probably declined during 1939. We have no information with respect to the stocks that may be held by Germany.

7. The duty on imports of quicksilver is a specific rate of $19 a flask.
Carloadings Forecast. For the last three months of 1939, as compared with the same period in 1938, it is estimated that the Atlantic States Region will show an increase of 14.6 percent. For the country as a whole a 13.8 percent increase is estimated.

Railway Equipment Situation. The 13.8 percent increase estimated for the country as a whole is equivalent to average weekly carloadings for the last three months of this year of 715,000 cars. The latest figure available on actual weekly carloadings is 834,600 cars for the week ended Sept. 30, 1939. The seasonal peak will probably be reached in the first half of October. The 715,000 cars, which is the average weekly figure forecast for the remaining three months of the year, may be compared with 769,000 cars, the average for the whole year of 1937, and 819,000 cars, the average for the month of October, 1938. Carloadings in the highest week in October, 1938 were 826,000 cars.

Mr. Gray and Mr. Willard estimated in their report to you last spring that the cars in good order at that time were sufficient to take care of a 25 percent increase in traffic, which would be equivalent to average weekly carloadings of 741,000 cars per week. This report also contained an estimate that if the bad order cars were put in good order a 45 percent increase in traffic could be handled. This estimate was later raised to 50 percent by the Executive Committee of the Association of American Railroads. The 50 percent estimate is equivalent to about 889,000 cars per week. With the Sept. 30, 1939 weekly figure now having already reached 834,000 cars, which is an increase of about 40 percent over the level last May, it appears that the Gray and Willard estimate was conservative as a large number of the bad order cars have not as yet been put in good condition.

New car orders by the railroads have increased sharply since the first of September. New car orders from the first of the year to October 3 amount to 59,560, and of this amount 38,000 have been ordered since Sept. 1, 1939.

The outbreak of the European War cut off British coal shipments to Canada and the New England states. This resulted in a very sudden and increased demand for coal cars to make coal shipments into those areas. The Canadian shipments involve particularly long hauls but the railroad representatives at the meeting felt confident that they would be able to satisfactorily meet this situation.

The representatives of 13 railroads who reported at the meeting all gave reassuring statements that they could meet the increased traffic situation which has developed. Each of them said that bad order equipment is being placed in good order immediately and all of them recited lists of new orders for equipment which their particular roads have placed. They also urged the shippers to discourage buyers from inflating orders. It was more or less generally felt that many buyers were apprehensive of a possible freight car shortage and that this was one factor resulting in the sharply increased current traffic.

A paper read by a representative of the Association of American Railroads sharply criticized analyses of railway equipment needs made by "sharp pencil" statisticians. He stated that the number of cars now available, as compared with those available during the war period, is not an adequate measure of the traffic which railroads can now handle. They fail, he pointed out, to take into consideration the increased efficiency of operation resulting from larger average tonnage carried per car now as compared with then, increased train speed, etc.
Is there any car shortage now?

Is there congestion at any ports?

None at any port.

None anywhere.

834,000 carloadings last week.

At rate $73 million per yr. Against 1916 rate of $44 million.
MEMORANDUM

The Secretary telephoned me from his home at 9 A.M. I gave him the news. He stated that if Leroy-Baillieu telephoned wanting an appointment, he would be available at his home a little before 12 o'clock.

At 11:30 the Secretary telephoned me again. I reported the morning's transactions. In answer to his inquiry, I said Leroy-Baillieu had not telephoned. If he did later this morning, I was to get in touch with the Secretary at his home.

The Secretary told me that if Foley, White, Bernstein and I would get together on the Brazilian matter and O.K. the cablegram which was drafted yesterday, he would leave the matter in our hands. He told me that he thought he had cleared this matter with me on Thursday and had told me to go ahead, I replied that this was my definite understanding and that I had gone ahead and thought the matter was finished as far as the Treasury was immediately concerned. I explained that the dollars had been received by the Federal Reserve Bank from commercial banks in New York; that the Federal Reserve Bank had purchased gold therewith and had deposited it in an earmarked account held by the Federal Reserve Bank as fiscal agent of the United States Treasury for the Bank of Brazil as fiscal agent of the Brazilian Government. I told him that we had let Knox know that we preferred a bank to bank deposit but that Knox had insisted that, with the Bank of Brazil not having such an account at present, it was impossible to take care of the immediate transaction other than through the fiscal agency method. I told him that I had agreed to this, with the definite understanding that the Federal Reserve Bank would take the initiative with the view to opening the bank to bank account, into which the present account would be eventually transferred. I told the Secretary that I contemplated doing nothing more until I learned yesterday that Mr. Baillie had telephoned from the Federal Reserve Bank in New York to Foley, suggesting the lines of the cablegram which was drafted. I told the Secretary further that I did not want the cablegram to go out today as drafted. I said there was no urgency in the matter and that he should bother no more about it until Mr. Baillie came back and those of us who were interested therein had thrashed out a solution for the Secretary's approval.

H. Marie Cochran

CONFIDENTIAL
The foreign exchange market was very dull today with decreased volume in sterling transactions. The opening quotation for sterling was 4.02-1/4; it rose to 4.02-5/8, and eased off to close at 4.02-1/8.

The discount on the Canadian dollar at the close last night was 11-3/4% and improved today to close at 11-1/8%.

Reporting banks in New York and the Federal Reserve Bank reported sales totaling £244,000, from the following sources:

- Commercial concerns: £46,000
- Foreign banks (Europe and Far East): £148,000
- Fed. Res. Mk. (£50,000 for Sweden): £50,000

Total: £244,000

Purchases of sterling amounted to £130,000, as indicated below:

- By commercial concerns: £50,000
- By foreign banks (Far East, Europe and South America): £80,000

Total: £130,000

The National Bank of Belgium sold to us $100,000 gold from their earmarked account.

Three gold shipments, totaling $783,000, from Canada were reported.
TREASURY DEPARTMENT  
INTER OFFICE COMMUNICATION  

DATE: October 7, 1939  

TO: Secretary Morgenthau  
FROM: W. H. Hadley  

Possible Treasury Note Offering  

The market had a very firm tone today so that the bases for these estimates appear more satisfactory than yesterday.

<table>
<thead>
<tr>
<th>Maturity</th>
<th>Coupon</th>
<th>Yield</th>
<th>Market Price</th>
<th>Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 yrs. 2 mos.</td>
<td>3/4%</td>
<td>0.60</td>
<td>100.13</td>
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<tr>
<td>(June 1942)</td>
<td>7/8%</td>
<td>0.60</td>
<td>100.24</td>
<td>24/32nds</td>
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<td></td>
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<td>0.56</td>
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<tr>
<td>3 yrs. 5 mos.</td>
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<td>0.90</td>
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<td>(March 1943)</td>
<td>1-1/8%</td>
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<td>1.05</td>
<td>100.25</td>
<td>25/32nds</td>
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<tr>
<td></td>
<td>1-3/8%</td>
<td>1.03</td>
<td>101.11</td>
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<td></td>
<td></td>
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<td>1.11</td>
<td>101.9</td>
<td>1 pt. 9/32</td>
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<tr>
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<td></td>
<td>1.11</td>
<td>101.28</td>
<td>1 pt. 28/32</td>
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</tbody>
</table>

Note: Estimates on the 5-year notes, although somewhat conservative on the basis of outstanding issues, continue to be less certain than shorter maturities and by no means as accurate as estimates on similar issues in the past.
REPORT FOR SECRETARY MORGENTHAU:

During the week ended October 6, 1939, no new requests for closing agreements under the Vinson-Trammell Act were received.

In regard to closing agreements which have been requested and are now under consideration, the following applies:

Colt's Patent Fire Arms Manufacturing Company

The tentative draft of the proposed agreement in this case was completed and during the week was considered by the various reviewing officers, reaching Mr. Wemohal's desk on October 5, 1939. On October 6, 1939, Mr. Wemohal held a hearing in his office which was attended by Messrs. Kades, Ryan, Reiling, Hazard, Appel and Reddish. Intensive consideration was given to the proposed agreement and decisions were made as to the final form under which it would be referred to the Secretary's office. These changes are being incorporated in a revised draft at the time of the writing of this report.

Representatives of the company were in Washington on October 5, 1939 and they came over to the Bureau to ask if matters had progressed to the point where they might receive a copy of the draft of agreement. They were informed that the draft was not quite completed.

Consolidated Aircraft Corporation

The formal copy of the expected certificate from the Navy Department has not been received at this writing but a carbon copy thereof was forwarded to Mr. Reiling on Thursday. In the meantime, work has been under way in the preparation of a tentative form of agreement and has not yet been finished.

There were no other transactions in regard to closing agreements. Nothing has been heard from the Bethlehem Steel Corporation in this regard.

[Signature]
Commissioner.
November 1, 1939.

October 7, 1939.

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Commissioner.

Copy for Commissioner.
PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin, Germany
DATE: October 7, 1939, 3 p.m.
NO.: 1626

Certain experts in the Reich monetary and banking control authorities are still alarmed over the inflationary possibilities in Germany, despite reassuring stories from the Reichsbank and in the German press that Germany can avoid inflation by reason of the additional taxes that have been imposed, control of price, and the rationing measures which have been imposed, and because of the "discipline and patriotism" of the German consumer and bank depositor. During the past six weeks there has developed a fairly substantial domestic flight from the mark, although because of the rationing restrictions and the severe penalties for hoarding, withdrawal of funds and goods purchases have not reached anything like panic proportions.

Germany has not recently published savings bank statistics, and during the war they will probably not be published. However, reliable sources of information estimate that net withdrawals of savings accounts since the last week of August have amounted to about 600,000,000 Reichsmarks. Net withdrawals from savings amounted to 158,000,000 Reichsmarks during the war scare in September 1938. Furthermore, it is understood that there may have been just as heavy withdrawals from
from non-savings deposits (term deposits and demand deposits) but the commercial bank statements will not show these since the withdrawals have been in the form of checks which the seller of the merchandise in turn has deposited to his own account. There has been a steady increase in the list of goods which is subject to buying permits (bezugscheine).

It was recently discovered that consumers were investing in carpets, and so this commodity was added to the list. Reports have been received of the formation of carpet-buying companies, the members of the groups pooling their individually insufficient resources to purchase oriental rugs of a large size.

The Embassy is informed that higher authorities have as yet given no serious consideration to further tax increases, although individual experts have memorialized their superiors to impose higher taxes in order to absorb excess income and prevent inflationary developments.

It is requested that this message be repeated to the Treasury Department.

END OF MESSAGE.

KIRK.

EA:LMW
TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE October 7, 1939
12 Noon

TO Secretary Morgenthau
FROM W. H. Hadley

Guaranteed Note Issues

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<th>Yield</th>
<th>Market Price</th>
<th>Premium</th>
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<td>0.63</td>
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<td></td>
<td>1%</td>
<td>0.63</td>
<td>100.16</td>
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<td>100.23</td>
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<td>1.05</td>
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<td>29/32nds</td>
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</table>
October 9, 1939
8:55 a.m.

HMJr: Hello.

Harold Ickes: Henry.

HMJr: Good morning, Harold.

I: Do you know anything about these Jewish medical students from Scotland?

HMJr: Well, I -- I just heard something; I haven't been in on it -- about going back to study.

I: Well, what I know about it is this. They went over there originally because the medical schools here wouldn't take them in.

HMJr: Yes.

I: Some of them had been one year, some of them two, and I think some of them three.

HMJr: Yeah.

I: Now, they want to go back. They're willing to run the risk -- about four hundred of them.

HMJr: Yeah.

I: They're willing to run the risk.

HMJr: Yeah.

I: And the State Department won't issue them passports.

HMJr: I see.

I: Which I think is God damned rotten.....

HMJr: Yeah.

I: ......between you and me.

HMJr: Yeah.

I: Now we've been -- there's been a good deal of sentiment and we're willing over here to help all that we can, although the office of education isn't under me any more.....

Regraded Unclassified
Yeah.

I: 

......to bring pressure to bear on the Medical Americans -- the American Medical schools to dis- tribute -- hell, there'd be only three or four a school. It wouldn't hurt them at all.

HMJr: 

No.

I: 

It's just -- it's just one terrible outrage.

HMJr: 

Well......

I: 

Now the American Medical Association is -- is standing in the way.

HMJr: 

Yeah.

I: 

That insists that the standards in the Scottish medical schools aren't high enough, although if these people had passed -- had finished their courses over here they could -- they would have been eligible to come back and take the state examinations for admission to practice.

HMJr: 

Yeah.

I: 

But I think it's just -- it's just racial discrimina- tion there too.

HMJr: 

Well Harold, let me ask you this. Do they have a spokesman?

I: 

Wait a minute. (Aside: Have they a spokesman? Who's representing them here?) I think they have but we don't know who it is.

HMJr: 

I see. And is it too late to let them go to Scotland?

I: 

No, it isn't too late to let them go to Scotland.

HMJr: 

I mean, would Scotland take them still?

I: 

Oh, I understand Scotland is willing to take them.

HMJr: 

Yeah -- I mean, I saw or heard somewhere that now that they haven't gone, Scotland doesn't want them any more.
I: Well, that might be. Lord only knows; that's the way those things happen, but if that is true then I think we ought to -- if I were running the office of education what I'd do would be this, Henry. I'd call in here the presidents of the universities and -- that have medical schools -- have separate medical schools -- and I'd just put it up to them cold turkey......

HMJr: Where is the office......

I: ......to distribute these -- why, it's under McNutt.

HMJr: McNutt. Well, Harold......

I: Yeah.

HMJr: You -- you don't -- as I say, you don't know who their spokesman is?

I: No, but I'll try to find out and let you know.

HMJr: Would you?

I: Yeah.

HMJr: And do you -- and do you know whether the boss has been brought into it or not?

I: No, that's the reason I called you. I was wondering if you were going to see him today.

HMJr: I am.

I: Well then I wish you'd take it up with him.

HMJr: Well, there's nothing more for me to learn besides......

I: If there is I'll get it to you.

HMJr: Would you before one o'clock?

I: Yeah.

HMJr: It's damn decent of you to have taken an interest yourself in it.
I: Why it isn't at all. If a -- the thing has outraged me.

HM Jr: Yeah. Well, if you......

I: I'll see if I can get you any additional information.

HM Jr: I -- I......

I: And if they have a spokesman in Washington do you want to talk to him?

HM Jr: Yes.

I: All right.

HM Jr: Yes.

I: I'll get him to you.

HM Jr: Thank you, Harold.

I: All right.
EE FINANCING

Present: Mr. Hanes
Mr. Bell
Mr. Duffield
Mr. Bailie
Mr. Haas
Mr. Hadley
Mr. Murphy

H.M. Jr: (On phone) Hello. (Telephone conversation with George Harrison follows:)

October 9, 1939.
11:50 a.m.
October 9, 1939
11:48 a.m.

HMJr: Hello.
Operator: Mr. Harrison.
HMJr: Hello.
O: Go ahead.
HMJr: Hello.
George Harrison: Hello, Henry.
HMJr: I wasn't quite ready before. My gang hadn't gotten in here.
H: I see.
HMJr: They're all here......
H: I just want to record the fact that I called you promptly at 11:45.
HMJr: You're very good, George.
H: (Laughs) Well, Henry, we've had a stronger bond market this morning.
HMJr: Yeah.
H: And the longer bonds went up as high as seven to eleven -- a hundred and one seven to eleven.
HMJr: Yeah.
H: They're down now to four eight again......
HMJr: Yeah.
H: ......which is up eleven points from Saturday's close.
HMJr: Yeah.
H: I think you can do your refunding.
HMJr: What do you want me to do - get out a long bond?
H: No. Not yet.
HMr: Uh-huh.
H: No, I think I would put out a short note. I think it's better in all the circumstances, than to tempt fate.
HMr: What's the short note? How many years?
H: Well, we were thinking in the terms of two years and eight months.
HMr: Oh-oh. No, George.
H: Which you can put out perhaps on a seven-eighths basis -- or a seven-eighths coupon.
HMr: No. It doesn't taste good.
H: Why I thought that would be very tasty to you this morning.
HMr: No.
H: Because last week we were thinking more on terms of one percent for it.
HMr: No. Well -- no. It doesn't attract me at all.
H: Well, what -- what's in your mind?
HMr: Well, as a matter of fact, I don't want to particularly get down today to years or interest rates. See?
H: Yeah.
HMr: Because I'm not at all convinced that Tuesday and Wednesday are the days to do it.
H: I see.
HMr: See? Ah -- with Mr. Chamberlain's speech coming sometime Wednesday everybody seems to think that there's teeth in the air if he should by any chance give a bellicose speech, why we might see our bonds go the other way because they seem very sensitive to peace and war news.
H: Yes. Yes they do.

HMJr: What......

H: I think you've got the advantage in your short note. That will go whatever happens.

HMJr: Yeah.

H: And it's the biggest and best insurance you can have and you're not paying very much for it.

HMJr: Yeah.

H: That's the advantage of it.

HMJr: Well......

H: That's the thing that everybody will want and take.

HMJr: Yeah.

H: And anyone who is holding these other notes would take that rather than not because otherwise they'll lose their three-quarters of a point premium on their rights. All things considered, we felt here that the short note was the wise thing to do and I think I'd go ahead and do it.

HMJr: Well......

H: Here -- here -- your experts here though, I think, are closer to it than I am. They've been debating it all morning.

HMJr: Well, let's hear them.

H: I'll let Mr. Burgess talk to you first.

HMJr: Well, he's one of those longhaired fellows, huh?

H: Yeah. I don't know whether he's in the category of quick-thinkers or not, but......

Randolph Burgess: No, I'm a slow thinker, Henry.
I see. Longhaired and bow necktie. What?

Well, I've been giving this powerful thought, Henry, for -- over the weekend, and this morning and canvassing it with Sproul and with Rouse and......

Can you talk a little louder?

I say, we've been canvassing this here very carefully with Sproul and Rouse, and four of the dealers who are in this morning, and we went over the whole thing. Now of course the -- the thing one obviously thinks about is the -- the first thing is the foreign situation; that's the first thing we have to consider. The question there first is what kind of week this is. Now these fellows abroad have been giving us a wrong steer pretty consistently. They were completely wrong about last week. As it turns out, last week would have been an ideal week to do our financing.

Uh-huh.

Now anybody's guess is as good as anybody else's.

Yeah.

My own feeling is that this is another such week.

I see.

That it's a good week for financing.

Yeah.

That this is a week when people are talking peace.

Yeah.

I think next week is likely to be a very bad week.

I see.

Because next week there's a very good chance they'll be starting fighting again.

Yeah.
But I think Chamberlain is bound to state their war aims in as conciliatory way as Hitler did. Otherwise he isn't playing for the neutral groups and he isn't playing for his own people. He's got a great problem of morale, so it seems to me that -- that the chances are good if this is a peace week.

HMJr: All right. Well now let's say that you're right.

B: Yeah.

HMJr: And......

B: And now I'd -- I'd rather start from there and say, "Now suppose I'm wrong."

HMJr: Yeah.

B: Now I'd like to see us do some financing that is all right if I'm wrong......

HMJr: Right.

B: ......about that.

HMJr: Right.

B: And suppose Mr. Chamberlain makes a very bellicose speech.

HMJr: Yes.

B: Now I think what we ought to do is to do some financing that is safe under those conditions.

HMJr: Yeah.

B: Have a bomb-proof, and a Hitler-proof, and a Chamberlain-proof financing.

HMJr: Right.

B: And for that reason I'm driven away from a five-year note and a four-year note, because I think the market isn't quite sure on those and if they blew up Paris in the morning they wouldn't go.

HMJr: Yeah.
B: At the same time I'm convinced through studying it here that a three-year note or around in there would go even if Mr. Chamberlain made a bellicose speech.

HMJr: Yeah.

B: I think it's a bomb-proof -- it's the kind of thing we talked about last year when we talked about an all-summer bond.

HMJr: Yeah.

B: That is, something you can do in your stride as we've done it before when there was a -- a banking holiday or some damn thing happening. We went ahead and we -- and we did something because we didn't know whether the next week would be better or worse.

HMJr: Yeah.

B: Now I think it is important, Henry, to get this out of the way. I was much interested in the dealers this morning. We didn't suggest the word "new financing" to them at all, but three of them voluntarily and out of the blue said, "This market will behave better when the Treasury has gotten this out of the way because people have it in mind and they think if the Treasury doesn't get going on it, it's going to be in a kind of a jam."

HMJr: Yeah.

B: So that -- that I'm very strongly of the opinion that we ought to go ahead.

HMJr: Yeah.

B: That is, I definitely recommend it, and these fellows here do too......

HMJr: Yeah.

B: ......for tomorrow morning.

HMJr: Yeah.

B: Because I think if you just let it go that you're running a more grave risk than doing it.
HMJr: Yeah.
B: And I think we can put out an issue that will be sure to go.
HMJr: Well......
B: That is our recommendation.
HMJr: Yeah. Well, I'll give it serious consideration. I'm going to talk with Mr. Eagle now if he's in town and I'll talk with the President at one o'clock......
B: Yeah.
HMJr: and I'll come back and see our crowd. Then we'll make up our mind. We'll let you know unless you want us to talk with you again after lunch.
B: No, just as you say.
HMJr: Well, it'll be......
B: If you call again, why we're here.
HMJr: Well, it'll be sometime between 2:15 and 2:30.
B: Yes.
HMJr: Sometime between 2:15 and 2:30.
B: Yeah.
HMJr: But in the meantime you might be thinking of this: That if I decide not to do any refunding this week....
B: Yeah.
HMJr: then I'm seriously thinking of increasing the bill issue by 50 million dollars next Monday.
B: I would do that. If you decide not to do this financing I -- I'm definitely sure I'd increase the bill.
HMJr: Right.
B: But I -- I -- I'm very strongly recommending doing the financing.

HMJr: O. K.

B: First rate, Henry.

HMJr: I'll be talking to you between 2:15 and 2:30.

B: I'll be over here then -- 2:15 to 2:30.

HMJr: Righto.

B: Very good.

HMJr: Thank you very much.

B: Right.
Bell: The Federal Reserve Board is in conference over there from 11:30 on and said they would be available if you wanted to discuss this matter with them and they have discussed it already. John McKee says that twelve gentlemen who represent them in an advisory capacity are also in town. If you would like to see them, he is sure they would be glad to come over. They are rather enthusiastic for a five-year note. They represent banks outside of the District. He said they are talking a five-year note with 1¼ coupon. That is thinner than we have been talking about.

H.M.Jr: Who said 1 3/8ths?

Badley: I said 1 3/8ths will give you the needed insurance.

Bailie: What insurance does that mean?

Badley: We will have a possible premium of as much as 1¼ up to 1½.

Bell: It also means this, Earle, that if the market should go off as much as it did at the lowest point when the notes — long notes sold on a 129 basis, this new note would still sell somewhere between 9 and 13/32nds.

H.M.Jr: The five-year note?

Bell: Yes, sir.

Bailie: On that point, the thing I was impressed about, Mr. Secretary, when I was at the Federal, was the strong feeling of the fellows there that while mathematically the five-year note does exactly what you (Badley) say, that the volume of the market and the temper of the market is not so good in the fourth and fifth year as it is in the third and therefore you can't be sure that your mathematics would work in the five-year groups. Those fellows think it will in the three-year group. They doubt it on the five. That news can upset the five-year obligation and the three-year obligation is very near bomb-proof.

Bell: Well, we have got previous facts on which to go that the long notes did, as a matter of fact,
sell on a 129 basis in the worst news. They had a little support in discount notes.

Bailie: Adding another 500 million, it is a little bit different when you take something new. The will to take something new is different from the deciding not to sell something old. It is quite a different psychology and often has different market effects.

H.W.Jr: Well, let me get Eccles. (Places call to Mr. Eccles).

Bailie: That is something new, isn't it? Am I right? I mean Burgess talking about years.

H.W.Jr: No, he was talking about the year when Mr. Bell and I were here the other night and he talked it to you on the telephone from New York the other morning.

Bailie: I think he has been a three-year man all along.

H.W.Jr: It didn't make any impression.

Bailie: I heard him talk.

H.W.Jr: I will take your word for it, but it sort of brought me up short this morning.

Hadley: I think he changed sometime last week, about ten days or so ago. Five years look pretty good to him.

Bailie: He changed, Hadley, after his and Bell's visit to New York when they became aware of the fact that the fellows who were actually working in the market felt that the market was thoroughly healthy in a big way in the one, two and three-year sections, that the fourth and fifth year were not so good. Now, that was impressed on my mind very strongly on Friday morning when I talked to him.

Bailie: Yes, I think you will recall, Mr. Secretary, that when he came back he said, "I will admit that I have been wrong about this five-year market." He switched then.

H.W.Jr: (On phone) Hello. (Telephone conversation with Mr. Eccles follows)
October 9, 1939
12:28 p.m.

HM Jr.: Hello.
Operator: Chairman Eccles. Go ahead.
HM Jr.: Hello.
Marriner Eccles: Hello, Henry.
HM Jr.: Yes, Marriner.
E: We were just discussing this matter when I talked to you so we hadn't had very much opportunity. We discussed it again after I had hung up and I wanted to clarify a matter or two for the other members of the committee.
HM Jr.: Please.
E: And the members of the board are here who aren't members of the -- that's Mr. Chester and Ronald.
HM Jr.: Right.
E: And they all feel that the financing -- it would be desirable to get the financing out of the way this week.
HM Jr.: Yeah.
E: If it is going to be anticipated at some definite date next week or the following week, see? Unless it was going to be put over, and could be put over indefinitely, depending upon conditions, you see, that it would be desirable to get it out of the way this week.
HM Jr.: Yeah.
E: The reason being that -- assume a bad market should develop.
HM Jr.: Yeah.
E: And from a standpoint of the open market committee we may feel that -- that we should get into the market.
E: That, in turn, would — would conflict, of course, with the -- the -- possibly the Treasury's desire to do financing in that particular week.

E: And inasmuch as we have been out now for nearly two weeks......

E: ......the market is in good shape -- nearly three weeks -- there was some feeling that if it -- if it would -- it should get out of the way this week or put off until such time as -- in case of war, until such a time as it could be done in an orderly market again.

E: Well that doesn't click with what you told me, that if I wanted to do it next Monday or Tuesday and had to pay more, you'd feel perfectly satisfied.

E: Well, that's right. I'd feel perfectly satisfied so far as -- as the cost of financing.

E: There's only this question, that -- that comes up, and that is - assume that the market is pretty bad.

E: You wouldn't want to do financing at the time we were in the market.

E: No.

E: That's the only point.

E: Well, I don't think in these times a person can be -- see every possible angle to a thing like this.
E: That's right. I agree.

HMJr: It's impossible. I don't know how the President feels but I think it's terribly important to keep our customers satisfied.

E: Yes.

HMJr: I don't think there's any question I could get by with an issue this week, but it might sell off within three or four days sharply and then I'd have a -- a line of dissatisfied customers.

E: Well of course if it's very short it'll sell off less, that's a certainty.

HMJr: Yeah.

E: And even when the bond market has been pretty weak the last several weeks, the note market was only bad for a few days and straightened out.

HMJr: That's right.

E: And in our operations we bought no notes except about the first week. After that the note market took care of itself.

HMJr: Yeah.

E: And so that a very short note, and especially a refunding note, does not of course create the problem that the bonds create.

HMJr: But you personally haven't changed, as I gathered from when I talked to you, that if it was left to you, I gathered you wouldn't do it this week.

E: Well, unless it would be on a very short issue.

HMJr: Yeah. Well I don't......

E: Now, if you could do it on the -- on the -- on the two......

HMJr: I don't......

E: --year eight months, on the -- on the three fourth -- three quarter yield......
HY. Jr: Yeah.

E: ......which gives them eight thirty-seconds premium. See? Eighteen thirty-seconds, over a half a point, then I -- I'd be favorable to that.

HY. Jr: Well, I don't want to use up my open dates at this time.

E: Yes.

HY. Jr: Because I'd like to keep those for sometime when things are really bad, which I don't consider they are......

E: Well then I'd say I wouldn't be favorable to -- to doing this week -- to financing this week on the longer term issue, because I think that you've got to over-price it.

HY. Jr: Well, if I was going to do it this week, I'd want to go four or five years.

E: Um-hm. Well I -- now my position would be I wouldn't favor it. McKee, on the other hand, does favor it. Sir Draper doesn't furnish it -- favor it.

HY. Jr: I see.

E: Now it......

HY. Jr: I appreciate......

E: But......

HY. Jr: ......your calling me back and after I've seen the President I'll call you.

E: O. K.

HY. Jr: Thank you.

E: Goodbye.
MM. Jr: Well, the thing that I was afraid of was that he might say, "Well, if he had only done it when we told him to why he could have done it so much cheaper."

Now, let's just go around a minute and - what do you think, Bell? They are highly interesting conversations. Dan?

Bell: Well, I would like to see the refunding out of the way just as quickly as possible and I think the market is strong and I think we can do it now and I think we can do it at a price which will stay above par and it is certainly the worse situation we have had in the last six weeks.

MM. Jr: How much did we have to pay?

Bell: Seven-eighths, which would be 28/32nds. I think all Eccles said was true, that three-quarters is probably enough, but he forgot to mention that we were in a war and I think 7/8 costing you about $800,000 for the thirty-seconds is pretty good. What I would like to see done is issue a 3-year note at 1¼.

MM. Jr: But you are leaning which way, this week?

Bell: Yes. I like the market tone today and I would like to see it done.

MM. Jr: Gene?

Hadley: I would like to see it out of the way this week. I think your market looks good and I am in favor of five years. I think that these shorter dates you should save for your - you may want cash in December. You have got a big maturity coming due in March. This is a comparatively small one, only about 400 million, when you consider the Federal's amount in it, and if you can get this out on a five-year basis you have still got those short dates for big amounts you may have coming in in the future. In the papers this morning, both the high-grade corporate market and the other investors markets are just holding fire waiting to see if the Treasury goes in this week and if they do, they may come forward with some of their issues. If we
hold it up too long they may get more jitters than they have now.

Bell: I understood the British corporate market was pretty strong.

Hadley: Yes.

Murphy: I am just sitting on the wrong side of Mr. Haas. I am sorry for the commotion that it caused. I think a little in favor of going this week. I think Mr. Haas is a little in favor of going next week, but if we went this week....

E.M.Jr: That is what makes "hoss races."

Murphy: However, I don’t believe that it is a very wide margin one way or the other. I feel this week is probably safer but there is a chance that it may go to a discount shortly thereafter, which tends to be a factor in the other direction. If we go this week, however, I would like to see it 3½ years or shorter. However, I don’t think that a 3½ year would be a good choice.

Bell: That is March, 1943?

Murphy: Yes.

E.M.Jr: George?

Haas: As Henry says, there is not much difference. We were discussing this thing for several days. I would put it this way, that if you were running a corporation, that I would do it this week because you get in and get out. Maybe you don’t have to do it for a year or two, any more financing, but the fact that this is a Treasury operation, that you have to come in repeatedly in the market, I think it is important that the issue be put out if you can wait a week and it is on a war basis, put it out on a war basis, and I think it is of fundamental importance that you keep this in mind. I think today it could be done very easily the way the market looks but the only apprehension I have got is what it might look like next week.
I think it is important that this first one which was done after the European war started, sets well in the market's mind, even if we have to pay a little bit more, so I would like to see the bills started just as soon as you can, because if you start them you have got eight weeks starting next Monday to December 15th and that would keep you on the basis of Bell's figures; that would keep your balance at a billion. At that time you would get 400 million dollars in. The net of mine is, I think you can do it today without any trouble. If you do do it, I would favor a short one, probably 6½ years, but I would be inclined not to do it this week and wait until you find out whether it is a war or peace market.

John?

I think George expounded my speech. I don't think there is any doubt about your being able to do it. I think it is something we should all get behind as quickly as possible because it is blanketing the whole market and it is highly desirable to get it out of the way. My only fear has been all along that we put something out which we can do today but which isn't going to rest well in the market in the future. Now, we have got a lot of opinion as to whether the thing can be done immediately but we haven't had very much on the side of the thing George mentioned, which is, what is it going to look like next week. I am impressed by what Burgess said about making the short one bomb proof. That is fine. He is thinking in terms of what it is going to look like if it has to have that shock absorber on it. My own preference is - and this is based largely on a hunch - my hunch for last week was not good. A good many people think that was wrong. My hunch was not good this week. My hunch is to do it this week when we will know the worst, and if it is bad conditions we can put it out under circumstances which we know and now we do not know what is going to happen unless Chamberlain's speech along with all the other peace gestures which might come in the market gives me cause just to hold back.

Well, a decision now....
It isn't adding much to the conversation.

The decision now is that I want to talk to the President this week or some other week but not about years and rates. Recently I have never bothered him with that, but I do want to talk to him because he could very well have some information about the European situation that I don't. But I am not going to bother him about the years or rates.

Let me ask you one important thing, John. If I wanted to do it next week and had to pay a little bit through the nose, would that bother you at all?

Not a bit.

It wouldn't me either.

No, I think we are in that kind of time now when nobody knows from day to day what the next thing is going to be and I think you have got to adjust yourself accordingly. I wouldn't worry a bit about it.

I was surprised to hear Eccles say he wouldn't be bothered about next week.

I hope we can do it on an advantageous basis, certainly, but it wouldn't bother me if we had to pay more.

I wanted to nail Eccles on that, so that he wouldn't say that we should have done it last week and, "I told you this and that and the other thing and you can't pay this and that and the other thing."

Earle?

Mr. Secretary, the thing that I think makes me plump on the side of what Burgess said on the telephone is because I don't believe we are going to know whether it is a war world or a peace world next Monday. I think the one thing that we have got to recognize is that the pattern is from week to week always going to be a little different and we expect it is going to be. There was good reason last week to think it
was going to boil up fast. Actually, it had been brewing much more slowly. Now, as I read my paper this morning, I have a feeling this is just a perfect week to do it, not because I want to sock the market with something which next week is going to look wrong but because if you put out what I think Burgess is suggesting, which is a two year and eight months bill, I don't believe the premium will be lost and I feel that so long as we sit here not doing our financing, we are blanketing the high-grade bond market, which was Hadley's point, very definitely. The moment this is done, there are lots of forces going to be released which are going to tend to make the market better rather than tend to make it worse, and we can help ourselves if we can get it out. I would only be in favor of putting it out, however, if we pressed it. In other words, I don't want to see us shave pennies on Mr. Eccles' suggestion. You will be taking the responsibility....

Baillet: I have never done that.

N.Jr: And this would be the last time to do it.

Baillet: I have never done that.

N.Jr: We want to price it generously because we always got back in the next issue what we paid in premium in the present issue. We will do it again. I would like to see us do it. I don't think there is any risk in it beyond the one risk which we all have to face, which is that if a tremendous catastrophe happened you may find any offer we make look wrong. Well, there are worse things than that and a two year and eight months thing would take a bellhose reply by Chamberlain in its stride. I think the market just blows from one side to the other.

Baillet: We want to price it generously because we always got back in the next issue what we paid in premium in the present issue. We will do it again. I would like to see us do it. I don't think there is any risk in it beyond the one risk which we all have to face, which is that if a tremendous catastrophe happened you may find any offer we make look wrong. Well, there are worse things than that and a two year and eight months thing would take a bellhose reply by Chamberlain in its stride. I think the market just blows from one side to the other.

Baillet: We want to price it generously because we always got back in the next issue what we paid in premium in the present issue. We will do it again. I would like to see us do it. I don't think there is any risk in it beyond the one risk which we all have to face, which is that if a tremendous catastrophe happened you may find any offer we make look wrong. Well, there are worse things than that and a two year and eight months thing would take a bellhose reply by Chamberlain in its stride. I think the market just blows from one side to the other.

R.W.Jr: Well, thank you all. When I come back from the White House, I will let you know.

Baillet: I am very interested in hearing you say that you are pleased about doing bills if we don't do this, because I think that is essential.

R.W.Jr: Oh, yes. When I take a look at my balance I think we have got to go ahead.
Bailie: I do too.

H.M. Jr: Thanks, everybody.
Hello.

Operator: Chairman Eccles.

HMJr: Hello.

Marriner Eccles: Hello.

HMJr: Hello, Marriner.

E: Good morning, Henry.

HMJr: How are you?

E: I'm fine, how are you?

HMJr: I'm pretty well; Marriner, we're sitting around here talking about the possibility of doing a refunding Tuesday and Wednesday and I just got through talking with Harrison and Burgess who are in New York.

E: Yes.

HMJr: And they both recommend that we do it.

E: Yes.

HMJr: Burgess recommends that we do a three-year note. (Talks aside) Seven-eighths.

E: That's two years and eight months.

HMJr: Yes.

E: A two-year and eight months note.

HMJr: Yes.

E: Yeah.

HMJr: Now, I don't know how you people feel over there - whether you want to say how you feel first or whether you want to ask me how I feel - either way.

October 9, 1939
12:00 Noon

Regarded Unclassified
Well I -- we were just discussing it now and I can tell you how I feel.

Well I'd like to know, please.

I can tell you how some of the others feel. It seems to me that with this uncertainty this week - we've waited this long to finance, Chamberlain's speech coming on Wednesday, and if it's peace -- if the peace efforts continue you're going to get more favorable financing.

That's right.

And we've waited as long as we have, it would seem to me that -- I'd just as soon wait another week.

I see.

Now -- however, I wouldn't feel very strongly about that if very short financing was done.

Yeah.

I think long financing -- that is, by long I mean either four or five years, you're -- you're going to pay too much for it, certainly, if peace developments continue. Now the two-year and eight months - seven eighths, there -- that -- there's a premium on that of twenty-eight thirty-seconds.

Yeah.

That figures about a -- nearly five million dollars on the maturity for two-year eight month financing, which is a pretty good sized premium.

Yeah.

For two-year eight month financing.

Yeah.

I think that a two-year and eight month financing can be done at three-quarters. The premium on that is -- at the present time is eighteen-thirty-seconds.

Yeah.
Which is a little more than a half a point. A half a point is a pretty good premium on less than three-year maturity.

Mr: Yeah.

Ed: And you would save an eighth of a point current interest on that, and you would at the same time save ten thirty-seconds in premium.

Mr: Yeah.

Ed: So that my -- my first choice would be that -- we've waited this long and it's got -- always a very big bill market available; your balances are still comparatively high; and I would -- I would just as soon let this thing ride along. However, as I say, I don't feel strongly and I would be -- would be willing to vote for a two-year eight months three-quarters to eighteen thirty-seconds. If that was new money it would be a little different but it's -- it's a refunding. The Federal Reserve has a very large amount of that, so that the actual amount that the market is going to have to take in refunding is comparatively small. And a -- a premium of eighteen thirty-seconds seems to me to be adequate to absolutely assured success.

Mr: Well......

Ed: Now that's the -- that's the way I feel about the thing. Now I just -- the other members -- some of the other members -- John McKee favors -- he -- he looks at it somewhat differently than I do. He favors the four and a half year at one and a quarter percent which gives you a twenty-eight thirty-second premium.

Mr: Yeah.

Ed: He figures that a twenty-eight thirty-second premium, which would be the same as the seven-eighths, would be the same premium as you'd pay on the two years and eight months.

Mr: Yeah.

Ed: And that if you're going to pay that premium you ought to get longer financing. And a -- a four and a half year at one and a quarter -- I feel that if -- if
you wanted to finance that long that you certainly could -- I feel like John does, that it could be done.

HMJr: Yeah.
E: Now that -- that's just -- if you want to wait just a second I'll ask Mr. Draper -- he's here -- if he wants to express himself and then you'll have the opinion of the three members of the committee.
HMJr: Righto.
E: Just a minute.

(Brief pause)

E: He favors the shorter, the two and eight months.
HMJr: Right. Well now, but -- but you said Thursday that your feeling was rather not do it this week.
E: That's right.
HMJr: Yeah.
E: The -- the -- Chamberlain is going to speak here Wednesday.
HMJr: Yeah.
E: And -- and I don't think that makes any particular difference if you put the two-year -- the very short issue out though. I don't think that would be difficult. I think that -- that I wouldn't favor this week the longer one.
HMJr: Well now, let me give you this to think about because I'm lunching with the President and I want to get his advice.
E: Yes.
HMJr: And while we're doing this you people think this thing over: One, that if we do nothing this week we might increase our bill issue Monday by 50 million, up to 150.
E: Fine!
Because......

Be

Right. Now, -- then we might also, no matter what
the hell the war news was, we might want to Monday
force the refunding through, whatever the situation
is.

Yeah.

And pay whatever the price is.

That's right.

See?

That wouldn't be any problem.

What's that?

That wouldn't be a problem, I don't think, no matter
what the news is.

I mean, if there's -- let's say that after Chamber-
lain's speech Wednesday we knew -- well, what we
were going to have.

Um-hm.

War or peace.

Um-hm.

Whatever the situa -- situation was. If there was a
situation......

Yeah.

And that Monday, being the sixteenth, we might say,
"Well all right, we're going to go through. We know
now and........"

That's......

"...... -- and whatever the price is, we'll go through
with it."
E: Yeah.

HNJr: Now, would -- would that bother you?

E: No, not at all.

HNJr: What?

E: Neither one would bother me at all.

HNJr: Neither one would bother you?

E: Neither one would bother me at all because I think that as far as putting bills out immediately, increasing the bills weekly, it would be a fine thing. I think the market is short of short-term paper.

HNJr: Yes.

E: And you could get them at all the money you need at certainly not more than a tenth of one percent if you put out several billions.

HNJr: Now, let's say that for arguments' sake that as a result of his Wednesday speech this is going to be -- this is a war now.

E: That's right. Well then that -- next Monday wouldn't worry me at all on the -- on the question of refunding notes. You may pay a little more for it.

HNJr: That's right.

E: But -- but -- but after all, to have put it out this week and -- and then next week it went off you'd feel -- you wouldn't feel too good about that.

HNJr: I'd feel very -- I'd feel very unhappy about it.

E: It would -- that would be bad. If you put it out -- put it out on a basis of the market this week....

HNJr: Yes.

E: ......and then next week it was discount -- it was off....

HNJr: Yeah.
E: ......it would look like we had put one over on the public.

HMJr: Yeah, and we've got a line of customers that we've got to keep after.

E: And -- and therefore the -- there's no desire to take advantage of a market that isn't a stable market.

HMJr: Yeah. Well -- you -- I......

E: So I wouldn't worry at all next week if -- if it looked like war then you would -- we could pay the price, whatever it seemed to be, and I don't think on a short issue it would be very much greater anyway.

HMJr: Well then there's no difference in your thinking and mine.

E: Uh-huh. Well, that's -- that's the way -- that's the way we feel here.

HMJr: And if it was war, and we knew it was war Monday.....

E: It wouldn't worry me at all.

HMJr: ......I might have to pay a quarter more and so forth and so on, but I -- I'd feel then......

E: That's right.

HMJr: ......that I wanted to go through with it and get it behind me.

E: That's right.

HMJr: Because I'm......

E: You may pay a little more - you pay an eighth - or as you say, as much as a quarter more for -- for notes.

HMJr: Because on the 24th we've got to do Commodity Credit.

E: Yes, in any case.
HMJr: Yes, in any case.
E: Yes.
HMJr: See?
E: So that you'd want to finance next week in any case
HMJr: Not definitely but -- I mean, I'm just putting it up to you to give you the worst possible picture.
E: Well of course you could -- you could issue, as you say, -- you could -- if you issued more bills, you could post -- you could postpone it even later if you wanted to.
HMJr: Oh yes, but -- I mean, I'm just -- wanted to see how you felt if on the 16th we said, "Now, we've got war and I've got to pay a quarter of a percent more," whether you'd feel happy over at the Fed. about it.
E: Yes.
HMJr: See? You say you would.
E: That's right.
HMJr: O. K.
E: All right then.
HMJr: Thank you. I'll call you up when I come back from the White House.
E: All right, I'll appreciate that.
HMJr: Thank you.
E: Thank you. Goodbye.
The President of the United States says that he can't guarantee any more than the rest of us what will happen this week. There are several things which are pointing up. The only thing where he takes a little different viewpoint than I have is this, that if there should be peace, then he isn't going to be worried about what the market will do. With this assumption, if there is peace in the Government bond market the rest of the market should be strengthened up and he can't subscribe to that at all.

Bailie: I agree with the President.

H.M.Jr: He said just what will happen to the market if there really was peace and the assumption that the Government bond market would continue to strengthen if there really is peace, he said, "This is a thought which I cannot subscribe to," since he doesn't know. If there is war, it is going to harden and if there is peace everything is going to be lovely as far as the bond market is concerned. Just what is going to happen....

Bailie: Remember how we all talked a few days before the war came on?

H.M.Jr: So the upshot of it is that we will postpone it. I thought you (Duffield) ought to have something at 4:00 o'clock.

Duffield: Do you want a press release or just something to tell the boys?

H.M.Jr: You and Bell decide.

Bell: I would be inclined to do it just in the regular way, just say we are going to increase our regular bills.
Duffield: I will talk to them.

H.M., Jr: That will give me something at my press conference that I can talk about.

Bailie: So it won't be exciting.

H.M., Jr: The New York Times fellow last time went away and showed his notebook and said, "There is your press conference."

Bailie: It would have to be the Secretary of the Treasury without a headline.

H.M., Jr: I would rather be without a headline and without the heading. I am perfectly happy.

I guess I had better call Eccles. You know, Eccles called me back a few minutes after you fellows left and said he had been talking it over with his people and they just wanted to let me know that they thought it was better to do it this way but if it got bad they would have to go in the market and then I couldn't finance, so I said, "Well, Marriner, I don't know how you are over at the Federal Reserve Board, but I can't foresee all the angles and I am not going to prophesy what I can or cannot do next Monday if I want to do it." But you see they are sort of serving notice on me that they want to go back in the market and if the market goes floolie, they will. I had it on the tip of my tongue to say - he made a speech about that, saying that since they had been cut for two weeks the bond market was so good. I felt like saying, "Which comes first, the chicken or the egg?" But I didn't. I was very good, Johnny. You would be proud of me. When he said they served notice on me if the market cracked they would go in, I also didn't say, "Well, do your refunding and then you can do the explaining." I was very good this morning. Supposing we go ahead with our refunding and then they go in and do the buying, let them do the explaining. Isn't that right? But there was a little meanness coming back. They just served notice if the market cracks next Monday they are going back into it.

Bell: While you are waiting, the Home Owners Loan still lacks about 10 million dollars of the Igs. In talking
it over with Earle and Randolph last week, we thought it was better to stay out of the market completely. That would still hold for this week.

H.M. Jr: Definitely. You don't want to give Eccles a handle.

Bell: We came to the conclusion we ought to leave the market completely alone.

H.M. Jr: It would be terrible, a calamity.

Bailie: The worst thing about that is that it wouldn't help the market any.

H.M. Jr: (On phone) Hello. (Telephone conversation with George Harrison follows:)}
October 9, 1939
2:45 p.m.

HM Jr: Hello.
Operator: Governor Harrison.
HM Jr: Hello.
George Harrison: Hello, Henry.
HM Jr: George......
H: Yes, sir.
HM Jr: The decision is, no refunding this week.
H: I see.
HM Jr: And we will announce at four o'clock, though an increase of 50 million dollars in our bills.
H: I see. Well, I lost ten cents.
HM Jr: (Laughs)
H: (Laughs)
HM Jr: Well, you're five cents cheaper than Tom Smith. Tom will only bet me fifteen cents these days.
H: (Laughter) Well, I'm sorry but you have -- no doubt you've got good reasons for it.
HM Jr: Well, I don't know how good they are, but at least you can underline that they're sincere.
H: Yes. All right, sir.
HM Jr: And the rest is in the laps of the gods.
H: I see. All right, Henry.
HM Jr: All right.
H: First-rate.
HM Jr: Thank you.
H: Goodbye.

HMJr: Randolph be down tomorrow?

Randolph Burgess: I'm right here, Henry.

HMJr: Are you coming down?

B: Well, I wanted to. I was just talking with Earle Sailie about that. I'd rather like to stay up here tomorrow but he'll go over it with you.

HMJr: O. K. All right.

B: O. K., Henry.

HMJr: Thank you.

B: Goodbye.
Hello.

Operator: Chairman Eccles is at a meeting in the dining room. It will take me a few minutes to get him.

HMJr: Well, while he's -- getting out of the dining room, get me George Harrison.

O: All right.

HMJr: Please.
Hello.

Operator: Chairman Eccles. Go ahead.

Hello.

Marriner Eccles: Hello.

Marriner, the President feels this way on this thing, that of course nobody can tell what will happen this week, you see?

Yes.

But this theory that some of us have been holding that if there should be peace, that everything will be lovely in the government bond market. He doesn't subscribe to that at all because he says he isn't -- at all sure what would happen to all of our markets. See?

Well, I -- I'm -- I feel that if we should get a chance there would be peace, that certainly certain markets, stocks and commodities, might break pretty badly and that may temporarily, I agree -- it may influence the government bond market, but I'd be more inclined to think that the government bond market, in view of that, would likely show her strength.

Well......

But as you say, and as he says, that after all, there is some uncertainty.

Well, he said that he had no strong feelings, but he was perfectly willing to let the thing go for another week and also perfectly willing that we announce this evening increasing the bills next week by 50 million dollars.

Um-hm. Um-hm.

So unless you have some......

But he doesn't feel that -- that we should do financing this week?
HM Jr: No.
E: He thinks it should be put off?
HM Jr: Yeah.
E: And you feel the same way about it?
HM Jr: Definitely! I feel definitely.
E: Yes. And you likely will announce then there will be some bill offering this week -- or next week.
HM Jr: We'll announce that tonight.
E: Yes.
HM Jr: For tomorrow morning.
E: Yes. Well that......
HM Jr: How does that leave you?
E: That leaves me all right.
HM Jr: On the whole program?
E: That leaves me all right. There's only this question that -- that I -- that I raised when I called you the second time; and that is, if there should be war......
HM Jr: Yes.
E: ......and I don't personally think that the thing can be decided that clearly this week.....
HM Jr: Yeah.
E: ......but if it apparently-- but -- but if it should be interpreted after Chamberlain's speech or other developments that war was more or less inevitable, and the bond market should get -- should be rather bad again......
HM Jr: Yeah.
E: ......we -- we may feel that -- that we ought to do something about it. Certainly we've been out and we want to stay out and we would stay out unless
it looks like there is very little selling and practically no buying, and the net result is it's -- it's -- they permit it to show a great weakness which in that case we may want to do something about it. I'll call you, however, before we do.

HM Jr: Three cheers.

E: (Laughs) Under those -- under that situation -- of course that would make it difficult to finance next week.

HM Jr: Yeah.

E: But......

HM Jr: Well, let 's hope it won't be an irresistible body meeting an immovable one.

E: Well, we -- we certainly don't want to go into the market at all if we can keep out of it, I can tell you that.

HM Jr: Yes. Well......

E: And -- and unless the market shows that there is real lack of confidence throughout the country because -- and unnecessarily so, as we felt there was before, certainly we want to stay out of it just as long as we can. And we've been out of it, as you know now, for some little time.

HM Jr: That's right.

E: And we -- when we went in we -- we bought practically nothing but the psychology on the part of the banks throughout the country was that -- well, they just didn't want to sell. They've got confidence in it if we had confidence in it. See?

HM Jr: Yeah.

E: And we wouldn't want them to lose that confidence again due to our failure to do what we think is possibly our duty if that market got bad.

HM Jr: Well, as I told you earlier today, I don't pretend to be able to forecast a day in advance what's going to happen and -- well, we consult you on your financing
and you're going to talk to us about going in the market.

E: That's right.

HM Jr: We, after all -- I think we can get together without any trouble.

E: Well I -- I think so and as I explained to you before that it wasn't any intention on our part of -- was a misunderstanding and I -- I blamed Burgess and Dan as much as I did ourselves. I think we were all maybe a little derelict there in the -- in the excitement of that day or two.

HM Jr: Well......

E: But we'll do what we can to see that it's avoided. And......

HM Jr: After all, we -- we can learn by......

E: We live and -- we live and learn, don't we?

HM Jr: Right, old man.

E: All right. Well, thanks for calling.

HM Jr: Thank you.

E: Goodbye.
H.M. Jr: Well, when we hear Eccles, we will have the whole story.

Bell: Want to change the subject for a minute?

H.M. Jr: Love to.

Bell: There are 3,000 postmasters in town holding their convention. Gene Sloan thought it would be a nice thing if you would appear on the platform for one minute, you and Farley, to thank them for the help they have given you in the U. S. Savings bonds. It would do a wonderful lot of good, they thought. I am inclined to think it would.

H.M. Jr: Is it agreeable with Farley?

Bell: I think so. That will have to be checked, of course.

H.M. Jr: What is that song....

Bell: "Roll out the barrel"?

H.M. Jr: No, "Buy a baby bond's baby." I will get up and sing it.

(On phone) Hello. (Telephone conversation with Marriner Eccles follows)
Hello.
Mr. White. Go ahead.
Hello.
Yes. Yes, sir.
Harry......
Yes, sir.
I talked to the President about this oil situation, and made the suggestion that we include in the group Lauch Currie. He said he'd be delighted. So I -- to save my time call up Lauch and tell him it's my suggestion and I'd like him to work with you on it and the President would too.
All right, sir; I'll do that right away.
Then I can forget about it.
Yes, I'll take care of it.
All right.
On this English plane.

Yeah.
The President said to do just what we're doing, forget about it......

O. K. (Laughs)

......and if the Army wants to take a look at it in storage, O.K. but, you know they're just scared to death in the Army about it.

Yes, I know they are.

So he said put it away and forget about it. Now if anybody asks about it, why it's intended for the duration of the war.

O. K.

See?

Thank you very much. I'm sorry that it came up the way it did, Mr. Secretary.

It's all right, but it's a little difficult at three minutes of one......

I know.

something new.

I know that.

And I'm a little bit below par, but I'd rather have you get me a little off my footing and give to me rather than not give it to me.

Well, I -- I -- I faced that decision and I decided that that's what you'd rather have and I -- I......

If it comes up again, do the same thing, but try to do it a little sooner.
F: All right, Mr. Secretary. Thank you very much.
HMJr: Goodbye.
HM Jr: Hello.
Operator: Hello.
HM Jr: Hello.
George Harrison: Hello, Henry.
HM Jr: Yes, George.
H: Thomas McKittrick -- M-o-K-i-t-t-r-i-o-k, who is an American......
HM Jr: Yes.
H: ......but who has lived in London a great many years has recently been made President of the B.I.S. to take office the end of this year.
HM Jr: Yeah.
H: He had lunch with me today and he's going to Washington and would like to have the privilege of calling on you.
HM Jr: Fine.
H: And I think it would be awfully nice if you would care to see him.
HM Jr: I would.
H: Let's see, he'll be there Thursday and Friday. Could he call up Mrs. Klotz and arrange for an appointment?
HM Jr: He could but it's what we call a bank holiday.
H: What is?
HM Jr: Thursday and Friday.
H: Oh -- oh, are you going out of town?
HM Jr: I'm going up to the farm. It's a bank holiday.
H: (Laughs) Good for you.
H: I says, to hell with it.

H: (Laughs) Well that's the best reason for not having a new issue I know.

H: (Hearty laughter) Well, I was going to do it Tuesday and Wednesday, so I could have had my bank holiday. And if it had gone well I could have had a swell bank holiday.

H: Well, you plan to be there today though. I don't know when he's leaving. Would you be back by Monday?

H: Yes.

H: Well, I'll check with him on that and ask him then if he'll call you Monday if that's all right.

H: Delighted to see him.

H: All right. Thank you very much.

H: All right, sir.

H: Fine! Well I hope you have a good holiday, whether it's a bankers' holiday or a farmers' holiday.

H: Well, it's going to be a -- a tired old farmer's holiday.

H: Good.

H: Yeah.

H: You deserve a rest.

H: Thank you.

H: All right. Goodbye.
October 9, 1939
4:59 p.m.

Robert Wagner: You and I -- this is Bob Wagner.

W: You and I have got a lunch engagement tomorrow.

W: But I've got to go -- I've got to speak tomorrow.

W: I was to speak today but Downey took all day long.

W: And -- and I want to get on at twelve o'clock, and we vote at two o'clock on the Tobe motion.

W: So I wonder if I could have lunch with you -- I think it's rather important that I talk to you.

W: Would Wednesday or Thursday be all right for you?

W: Here's the thing, Wednesday I've got -- I meet every week with Eccles and Jerome Frank and Jesse Jones at lunch.

W: Oh, gee! Well, I don't want to be in there with that bunch.

W: And I was going to go up and take a bankers' holiday on Thursday.

W: Well -- I'll tell you, Henry, let's.......

W: Well......

W: One day next week.
Well, I eat with the President Monday. I'd be delighted to eat with Wagner on Tuesday.

Next -- well that -- we'll make it a week then from tomorrow.

How's that?

That's swell.

Is that all -- will it keep until then?

And with it..... -- huh?

Will it keep until then?

Oh, yes. It's -- I want to talk this general situation over with you, you know.

All right.

The study and all that business.

Well, let's let it go until the 17th.

What?

Let it go until October 17th.

When is that?

That's the following Tuesday.

Tomorrow a week.

Yes.

All right. You and I will meet at one o'clock in the Treasury at -- at -- next -- if you don't forget, on October 17th.

What the hell do you mean, if I don't forget?

(Laughs)

Did I ever forget?

No, you never do, by God. You're a -- you're a star.
HMJr: How -- how's everything going on the Hill?
W: Oh, we're all right.
HMJr: Are we?
W: Oh, yes. Oh, yes.
HMJr: What?
W: I think by a darn good vote.
HMJr: What do you mean......
W: Tomorrow will be a test.
HMJr: What do you think we've got?
W: Well, I don't know -- I should say anywhere between 61 and 64.
HMJr: I see.
W: That's what it looks like to me.
HMJr: Swell. Thank you, Bob. I'll see you on the 17th.
W: Yeah.
HMJr: Right.
W: Goodbye.
The number of persons employed on WPA projects for the week ended September 27, 1939 was 1,788,000, an increase of 55,000 over the preceding week, but a decrease of 53,000 from the number at the end of the previous month, as shown in the attached tables and chart.
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Source: Works Progress Administration.

Monthly figures are weekly figures for the latest week of the month. They include certified and noncertified workers.
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Source: Works Progress Administration.
TO

Secretary Morgenthau

FROM

Mr. Haas

Date: October 9, 1939.

Subject: Wheat export sales and other market data as reported by the Federal Surplus Commodities Corporation.

Sept. 26: Some small lots of Canadian wheat reported sold for export. The Devon City, a British ship, which was expected to load wheat at Portland, has cancelled its charter and proceeded to Vancouver, B.C., to load general cargo for London.

Sept. 27: Foreign demand for grain was very disappointing. Export sales of Canadian wheat estimated at around 300,000 bushels. The Department of Commerce reported that only 366,000 bushels of grain were exported from the United States during the week ending September 23, with 1,479,000 bushels the previous week and 2,779,000 bushels in the same period last year. It is thought that considerable export business will be done in corn soon.

Sept. 28: It was reported yesterday that a ship at New Orleans chartered to take wheat to Europe and also one at Houston had cancelled their charters. No reason given.

A cargo of corn was reported sold to Antwerp from Albany. It was estimated that 1,500,000 bushels of corn had been bought for deferred shipment from this country. This is the largest single day's business in several years.

Sept. 30: It is estimated that possibly 2,000,000 bushels of corn were sold during the week from stocks now in storage in Canadian ports. England is said to have bought about 1,500,000 bushels of Argentine corn during the week.
Oct. 2: World shipments of wheat for the week totaled 8,541,000 bushels compared with 7,613,000 the previous week. North America last week shipped 5,010,000 bushels.

Exporters have inquiries for several cargoes of wheat if freight space can be arranged.

Flour exports from Australia have slowed down and millers are badly in need of export orders to maintain their overseas trade.

Oct. 3: The Winnipeg market was helped some by the sale of two cargoes of Manitoba wheat to Scandinavian countries. Argentina shipped 3,000,000 bushels of wheat last week to England, a long and dangerous haul.

Two cargoes of corn were reported sold to the United Kingdom amounting to about 500,000 bushels.
October 9, 1939

I spoke to Hanes about the tax situation this morning and he said that he had numerous meeting with the Technical Staff of the Joint Committee in his office and that there were positively no commitments made; that when they were ready, they would talk to me.

I told him that I was counting on him to look after our interests.
GROUP MEETING

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

Present:
Mr. Hanes
Mr. Gaston
Mr. Viner
Mr. Haas
Mr. Cotton
Mr. Foley
Mr. Duffield
Mr. Cochran
Mr. Graves
Mr. Thompson
Mr. Ballie
Mr. White
Mr. Bell
Mrs. Klotz

H.M.Jr:

Ed, would you hang on to this thing about Rudolph Hecht and the Universal Trading? I have never done anything like that. It seems such a dirty piece of business. This crowd is suing Universal for commission on the 25 million dollar loan. Instead of their taking a deposition from me, what I would like to see first is get him on record as to what Wang says he did to me on that trip to New York, because here is the thing: Wang says that I came to New York. I never saw Wang in New York in my whole life.

Foley:

And you never called him.

H.M.Jr:

No. I would like to have a copy of a sworn statement of the Chinese Consul General and Wang that I met Wang in New York at the Ambassador Hotel. I never saw Wang in New York in my life. I can say this is a lie, but when he gets into my conversation with Bill Bullitt, I can't give my conversation to Bill Bullitt without asking Bullitt's permission. I don't know what the law is. Can you say, "Well, before the Secretary will do anything, he wants to see a sworn signed statement, not what you say that Wang said but the actual statement that Wang and the Chinese Consul General say about his meeting Wang in New York"?

Foley:

There is no reason why I can't say that. I don't know whether they will do it or not.

H.M.Jr:

Then if they won't, I won't.
Foley: Yes, but that is helping them, Mr. Secretary.

H.M.Jr: But they say this now, first, that I met them at the Ambassador Hotel. They didn't say anything about the Consul General and all the rest of it. As long as they don't know what I did or didn't do, they are just groping.

Foley: That is right.

H.M.Jr: Now, I can ask the Chinese Ambassador here to find out what is Wang's sworn statement and what is the Chinese Consul General's statement about me.

Foley: That is the better way to approach it.

H.M.Jr: And where is Wang, is he in the United States?

Foley: I don't know.

H.M.Jr: Let's do it that way, because after all, the principle thing is they claim that I met this fellow and we went on from there. I don't mind nailing that as a lie, but I am not going into what I said to Bullitt and what I didn't say to Bullitt. They are trying to find out. As a matter of fact, that telephone conversation they have been talking about with Bullitt never took place.

Foley: All I did was to say if they would frame the interrogatories they would like to submit to you, I would be glad to look them over and let them know your wishes in the matter.

H.M.Jr: Ask Larry Morris to try to find out what Wang has said and what the Chinese Consul has done, about my meeting Wang in New York. They even claim they know what took place in Cabinet. You (Hanes) and I know when the Chinese loan was consummated and when a certain gentleman got on a boat to go to South America and not until then.

Hanes: They can't sue you for that.

H.M.Jr: It is such a filthy thing, I hate to get into it.

Hanes: They are suing Universal for....
One million dollars commission for the 25 million dollar loan, saying that this group got influence on Wang and Wang on me, see. The facts are, I distrusted Wang so that I wouldn't discuss it with him and I launched it from Europe through Wellington Koo, whom I trusted and I wouldn't talk to Wang, but I would talk to Wellington Koo and we sent the message from Wellington Koo that way rather than doing it through Wang, because I didn't trust him. They are trying to find the thing out and they just don't know. They want to cross-examine me and I have never permitted it.

They can't - this interrogatory business is not a cross-examination, Mr. Secretary. They just ask these questions in front of a Commissioner and you answer anything you want to, but counsel isn't in the room at all. It may save appearance of witnesses at the trial.

Try it this way first.

Yes.

O. K.

What have you got?

Nothing.

We are having a meeting at a quarter of 12:00 on Government bonds.

Herbert?

Wassche has some figures ready on the power plants for the cutters and he is going to be in my office a little before 10:00 and wanted - do you want to see him this morning?

I can't do it. You will have to try him again tomorrow.

He is going to New York today but he can leave the date of the meeting and we can get Johnson over.

That is all right.
Very confidentially, to make a record of it, I called the President last night and said I was so bold as to make a suggestion that the patrol which is under the Navy would make a systematic search for the next - today and tomorrow - over the path which the Iroquois is going to sail, with airplanes. So he said, "Well, I think that is being done," and I said, "No, Mr. President, I am pretty sure it is not being done and I think it should be. Every square mile should be flown over in advance in view of their having sighted a submarine off Nantucket, supposedly, and one off Maine." He was extremely nice and said he was going to talk to someone about it in a few minutes and raise the question, because you and I know that there isn’t any systematic patrol.

Gaston: I don’t think so.

H.M. Jr: He said he thought so, but having got the idea, I wasn’t going to bed without getting it over to him and he was extremely nice. I was fearful that he might say, "You run the Treasury and let me run the Navy," but he was glad to have the suggestion.

Gaston: Don’t you think whether we give any orders to start or not, it would be a good idea for our people within a limited range off the Coast to make that search? Of course, their regular patrol will cover part of that.

H.M. Jr: Herbert, it is the responsibility of the President and the Secretary of the Navy and Chief of Operations. This free-lance stuff in times like this, I don’t want to do it, especially since I spoke to the President. He took the responsibility and it is his, so I don’t want....

Gaston: They will just keep on their regular cruises, then.

H.M. Jr: Yes. What I was thinking of, you might ask Waesche if any new orders have been issued.

Gaston: Shall I tell him what your suggestion was?

H.M. Jr: Yes. Ask him whether there have been any new orders issued.
Gaston: I will.

H.M.Jr: I had my nerve with me making the suggestion, but having made it I don't want to jump in and then do it. It is the President's responsibility. I think I am right on the procedure that - there is always a question every day that they are going to take over the Coast Guard. By giving them full cooperation, we don't raise that question.

Gaston: Did you give the President the information that you had?

H.M.Jr: No. I didn't want to bring that up.

Gaston: Anything else?

H.M.Jr: That is all.

Gaston: Say something, gentlemen.

On the record, Cotton, I asked Viner last night to make a study for me of the ten or eleven percent distribution on the Canadian dollar and what, if anything, we can do about it. I don't think anybody in the Treasury is doing it. Viner is peculiarly suited for it because for three years he has been doing it for the Canadian Government.

Viner: I have just been thinking that that might be a reason why somebody else ought to do it.

White: What was the alibi?

Gaston: He wants you to interview him, Harry.

Viner: Harry will do it anyway if I take it on.

White: No, I will do another one, you mean.

H.M.Jr: It is still your baby, Jake.

George?

Hans: Here are three memoranda (handing report to Secretary).
One of them is the memo on railway equipment which you asked for at 12:00 o'clock today.

H.M. Jr: Harry?

White: There is a memorandum here on quicksilver.

H.M. Jr: Yes.

White: And there is a memorandum here on a request to purchase Liberian silver which - I mean for Liberia to purchase some of our silver.

H.M. Jr: Which do you mean?

White: The latter. Copies have gone to Mr. Cotton and he will spread them around. The State Department would like an answer today. I take it the group will consider it today. There is an item in Mr. Cochran's cable that I take it is going to receive consideration today. I think that was one that Viner was also specifically interested in, the request of foreign central banks to invest part of their dollar assets in American Governments and possibly in securities. We had that question before us about a year ago. Is that the one you were interested in?

Viner: Yes.

White: But it needs re-examination.

H.M. Jr: Cotton, see that somebody does it, will you? Your answer is, "Aye, aye, sir." You are in the Coast Guard now.

White: That is all I have and I take it that probably sometime after the meeting you will want to see the summary statement of the oil situation.

H.M. Jr: Yes. I will give you the - didn't I tell somebody I would see them at 11:30? I didn't.

Haas: You wanted something at 11:30.


White: Yes.
Bailie: Mr. Secretary, you said a quarter of 12:00, bonds.

H.M.Jr: Yes, they are just going to give me something which really oughtn't to take them more than three minutes, but I am giving them fifteen.

Bell: I thought that was 4:15.

H.M.Jr: George Harrison at 11:15.

All right, Harry?

White: Yes. Possibly it would be best to indicate now, not knowing exactly what you have in mind, there is not a no or yes answer. With that in mind, the time is all right.

H.M.Jr: I have got to learn this story about the doctor, the lawyer and the economist. Do you fellows know that?

Duffield: Tell it to them.

H.M.Jr: They were arguing about which was the oldest of the professions and the doctor insisted his was because it was a medical operation that took the rib out of Adam to make Eve, and the lawyer said, "Why, of course not, because the Bible said that in the first place they brought order out of chaos, and that was the function of the lawyer," and the economist said, "Who do you suppose created that chaos?"

Viner: That is like the fly and the action story. "Look at the dust I raise."

White: That story is very true.

H.M.Jr: All right.

I want to talk to you (Graves)....

White: But you couldn't have order without previously having chaos.

H.M.Jr: ....a minute after this.
Bell: The average rate on these Treasury bills outstanding at the present time is .058. At that rate, it costs us about $750,000 a year. That is $188,000 a quarter for ninety days.

H.M. Jr: But on a yielding basis....

Bell: $188,000 every ninety days.

H.M. Jr: One billion one....

Bell: One billion three and an average rate of .058. It cost us $752,000.

H.M. Jr: $752,000 a year.

Bell: That has that higher rate in there, of course. At the rate we got on the last bills, .056, it cost us $470,000 a year.

H.M. Jr: But the stuff that is outstanding now is 750?

Bell: 750. It looks as though our cash balance on December 1st will be about 800 million, including the Commodity Credit material.

H.M. Jr: But counting on the refunding?

Bell: If you pay off the Commodity Credit it would be down to about 650.

H.M. Jr: If we refunded?

Bell: About 800 million December 1st. On December 15th, it will probably be down to about 650 and if you pay off the Commodity Credit, it will go down to about 450. That 650 might be up a little because we get some income taxes in there.

H.M. Jr: Then I will make it the 14th on my notebook.

Bell: There is a memorandum giving a summation.

H.M. Jr: Is that all?

Bell: That is all I have.

H.M. Jr: I would like to talk to Hanes and I am announcing now we are talking at a quarter to 12:00 on financing, so it is expected you will be here.
MEMORANDUM FOR THE SECRETARY:

Re: Government Requirements for Electric Current.

I submit herewith a statement showing the essential facts regarding the volume and cost of electric current purchased for Government facilities at the principal cities. Corresponding facts are not available for the cities not listed.

This statement is based upon data supplied by the Procurement Division, supplemented by conferences with the Procurement Division engineer in charge of the studies made by that Division, who appears to be highly competent.

The following facts and conclusions are stated for your information:

(1) Navy yards and Federal prisons, for reasons of policy or economy, manufacture their own current. The Brooklyn Navy Yard, contrary to the statement earlier made to you, is not included in the consolidated New York contract.

(2) The rates chargeable to the Government in all localities are the same as the rates charged to private customers for service of similar classifications. Rates fall within the regulatory jurisdiction of public utility authorities, and preferential rates can not be obtained for the Government, for the reason that they would be held discriminatory against other users.

(3) The only approach which can be made in any area to the matter of securing lower rates for the Government is to attempt to aggregate the Government’s scattered requirements in a single contract and a single billing, with a view to securing a more favorable rate classification based upon total consumption. The possibilities of success are very limited. Regulatory authorities generally have disapproved requests from chain stores, chain filling stations, and other similar commercial organizations for consolidated billing, and the utility companies appear to regard the Government as being in the same category.

(4) Broadly speaking, the rates charged the Government, as shown in the attached statement, are considered reasonable. There appears to be no possibility of reductions which would result in savings of any consequence.

In view of these facts, I believe that I should confer with you again before proceeding further.

GRAVES.
<table>
<thead>
<tr>
<th>Area</th>
<th>Locations served</th>
<th>Annual estimated consumption (per k.w.h.)</th>
<th>Average rate</th>
<th>Annual cost</th>
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(b) The District of Columbia, Government service at public rates, separate billing:

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<tr>
<th>Area</th>
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<th>Average rate</th>
<th>Annual cost</th>
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(c) Areas surveyed by Procurement Division, Government service at public rates, separate billing:

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<th>Area</th>
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<th>Annual estimated consumption (per k.w.h.)</th>
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<td><strong>Average rate</strong></td>
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</table>

*Not available.*

**NOTE:** The figures given are as of varying dates, but are believed to represent approximately the current situation.
October 9, 1939.

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HKG/aff

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<table>
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<tr>
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(b) The District of Columbia. Government service at public rates, separate billing:

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(c) Areas covered by Procurement Division. Government service at public rates, separate billing:

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</tr>
<tr>
<td><strong>Average rate</strong></td>
<td></td>
<td></td>
<td></td>
<td>$.02545</td>
</tr>
</tbody>
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Note: The figures given are as of varying dates, but are believed to represent approximately the current situation.

Oct. 9, 1939
Secretary of State
Washington

1981, October 9, 5 p.m.

FOR TREASURY FROM BUTTERWORTH.

1. With reference to penultimate paragraph of my 1631 of September 13, 6 p.m. it is of interest that the Prime Minister was asked in the House of Commons today what authority had been appointed for the economic planning of the nation's war effort, including such aspects as finance, supply of commodities, economic warfare and the stimulus of exports, and whether it was proposed to set up a body to plan the economic war efforts of the Allies. He replied:

"The responsibility for coordination of all branches of the nation's war effort in whatever sphere rests, of course, with the War Cabinet as a whole. In practice, the method adopted is to effect the solution of particular problems by means of consultation between the ministers concerned and, in order that the results may be brought before the War Cabinet some member of the Cabinet is entrusted with the general direction of these consultations."
consultations. In the case of economic and financial policy a committee has been set up under the chairmanship of the Chancellor of the Exchequer, composed of ministers concerned with the various aspects of the subject. The duty of this Committee is to keep under review and to coordinate the working of departments in relation to the economic effort of the country as a whole. This committee is also responsible for supervising the arrangements which have been made for Anglo-French economic cooperation.

Lord Stamp has been asked to assist this committee by becoming adviser on economic coordination. Assisted by Mr. Henry Clay and Mr. H. D. Henderson, Lord Stamp had for some time prior to the outbreak of war been advising upon the economic war plans of the Government, giving guidance and assistance to the departments concerned. In association with the Ministerial Committee, to which I have just referred, he will continue to review our current economic plans and activities in order to propose to the minister or ministers concerned ways of filling any gaps that may be found to exist or remedies for any inconsistencies that may be discovered. There has also been set up under the
The ministerial committee an inter-departmental committee of officials, composed of the permanent heads of the departments concerned. Lord Stamp will be president of this official committee.

As regards Anglo-French economic cooperation, arrangements already exist for discussion between representatives of the two governments on many common problems. Further arrangements are under consideration with a view to establishing the requisite degree of consultation as well as the means for joint action."

As asked further whether, in view of the need for drive and direction in the economic effort, Lord Stamp would be giving his whole time to this work or was anyone to be responsible for the whole-time direction of these activities, the Prime Minister replied that while Lord Stamp would not be a whole-time worker, he would be able to give a very large part of his time to this work.

2. Changes in official rates of exchange during the past week (see my no. 1890 of October 2, 4 p.m.) were confined to the Belgian, Dutch and Swiss currencies which weakened in terms of sterling as a result of fears of possible German invasion. The fall in the guilder was checked on Friday after being 7.52--60 the previous day.
1981, October 9, 5 p.m., from London

day, and this currency has now returned to within one point of last Monday's rate, being fixed today at 7.50 - 58. The Swiss franc was fixed lower on each day last week until Friday when it touched 17.90 - 18.05; and after remaining unchanged on Saturday it was fixed at 17.82 - 97 today as compared with 17.85 - 85 a week ago. The belga was also lowered each day until Friday, declining from 23.60-90 last Monday to 24.00-30 on Friday but was fixed at 23.85 - 24.10 today. The forward rates contained in my telegram referred to above were quoted daily throughout the week.

3. The stock exchange is slowly thawing, although dealings in equities are small brokers state that it is at the moment harder to buy than to sell. There are dealings in the shorter dated government securities at the minimum prices but war loan is virtually frozen, awaiting a reduction of the bank rate and until two-way dealings in war loan place a real market in British Government securities cannot be said to exist.

KENNEDY
Secretary of State,
Washington.

2394, October 9, 7 p.m.

FOR THE TREASURY

This morning's JOURNAL OFFICIAL carries two decrees clarifying certain aspects of the exchange control measures of September 9 and the foreign assets decree published on September 17 (our telegram 2028, September 18, 1 p.m.). The first of these stipulates that all French moral persons must declare to the Foreign Exchange Office all holdings which they possess on November 15, 1939 "in all foreign countries wherein such holdings amount to at least 30% of the capital of said companies wherever the pertinent securities may be located" i.e., whether held in France or abroad. The date on which the required declarations of holdings abroad specified in telegram No. 2028 must be based is postponed from October 15 to November 15. The date for submission of declarations remains fixed at December.

(END SECTION ONE)

BULLITT

NPL: EMB
Secretary of State
Washington.

2394, October 9, 7 p.m.
(SECTION TWO)

The second decree defines persons required to make declarations of assets abroad and the nature of the assets. The former includes (one) French physical persons residing habitually in France and (two) French and foreign moral persons possessing establishments in France.

There has been some slight doubt among foreign residents in the past in view of a statement in the preamble of the decree of September 17 whether foreign physical persons residing in France were similarly required to make such declarations. "The Preamble spoke of the necessity of requiring statements from "all physical or moral persons having their habitual residence or possessing establishments in the territory of the French Empire".

The clear wording of the pertinent Article One of the decree itself, however, indicated that such was not the intention at the present time and we were so assured verbally
verbally at the Finance Ministry and this decree of this morning again omitting any reference to foreign physical persons affords further confirmation of that view.

(End Section Two).

Bullitt

NPL
GRAY  
PARIS  
Dated October 9, 1939  
Rec'd 8:33 p.m.

Secretary of State,  
Washington.

2394, October 9, 7 p.m. (SECTION THREE).

As to assets to declare the decree stipulates that for (French) physical persons all holdings abroad of whatever nature except those securities acquired before November 15, 1939 carried in the foreign dossier of a French bank for the account of the owner (please see our telegram No. 2340, October 5, 6 p.m.); for French and foreign moral persons having their principal field of activity in France all assets held abroad and in addition all gold and foreign exchange held in France (as well as the above mentioned shares in foreign companies where such holdings exceed 30% of the capital thereof regardless of the physical location of such shares).

BULLITT

EMB
Secretary of State,
Washington.

2394, October 9, 7 p.m. (SECTION FOUR)

As a further means of speeding up and facilitating foreign exchange operations the Bank of France announces that beginning today branch agencies of the Foreign Exchange Office will be opened at branches of the Bank of France in Bordeaux, Dunkirk, Havre, Lille, Lyon, Marseille, Mazamet, Nantes, Roubaix, Rouen St. Etienne. These agencies may deliver authorizations for the purchase and export of foreign exchange in payment for merchandise imports on condition that such transactions do not exceed 5,000,000 francs. For sums in excess of that figure the dossier must be referred to the head office at Paris. Furthermore it is indicated that all the branches of the Bank of France as well as "approved intermediaries" are now permitted to grant authorizations for the export of currency, checks, banknotes, cash, and letters of credit for travellers going abroad and the foreign exchange which it may be necessary for them within the limits fixed by the decree of September 9.

(END SECTION FOUR)
The French financial press this morning carries accounts of Sir John Simon's written reply to Mander to the effect that the British Treasury under the pertinent international agreements has not the right to demand the return of its annuity trust deposit in the amount of 26½ million gold marks which the B.I.S. has placed in Germany. AGENCE ECONOMIQUE ET FINANCIERE likewise refers to British press criticism of the Chancellor of the Exchequer's "tardiness and vagueness" in replying to Mander and its contention that the B.I.S. itself admits that its obligations towards the treasuries of countries which have made deposits under the annuity trust account "are not clearly defined". We understand that the monthly meeting of the B.I.S. which was scheduled for today has been postponed. When, as, and if the next meeting is held it seems clear that it will not be attended by representatives of the Bank of England nor
JIL -2- #2394, October 9, 7 p.m. (SECTION FIVE) from Paris

the Bank of France.

The securities market was firm today and rentes advanced. Foreign exchange rates were unchanged.  

(END OF MESSAGE)

BULLITT

NPL
Mr. Philippe Scherechewsky, Chief of the Public Works Department of France, which embraces all phases of transportation, including roads and motor vehicles, as well as the control of the production of minerals in France, called concerning a proposed purchase of 1,000 railway tank cars, 6,000 gallons capacity, 2 axles each, estimated price $2,300 each, for which tenders have been received by him from the Pullman Company and the American Car and Foundry Company.

He stated that this action had been taken before he was cognizant of the desire of the American Government that this office be contacted in connection with purchases of the French Government.

He stated that the purchase of any further equipment in which they were interested would be discussed with this office prior to the time that tenders are asked for pertaining thereto of any manufacturers in this country.
October 9, 1939

FOR THE SECRETARY:

You asked me to inquire about the possibility of a release on the Anti-Malaria Commission being sent to Yunnan Province. The Acting Surgeon-General appeared very reluctant to issue a release or to approve one and said he would not do so without State Department approval. Mr. McDermott, Press Agent of the State Department, indicated that the State Department would issue a statement when the Chinese Government has sent its formal acceptance of the Commission and Mr. McDermott said your interest in the project would be pointed out.

ESD
October 9, 1959.

Memorandum for Mrs. Klotz:

In accordance with your request over the telephone this morning, I am enclosing a brief resume of the proposed closing agreement in the case of the Colt’s Patent Fire Arms Manufacturing Co.

[Signature]
Commissioner.
REPORT FOR SECRETARY MORGENTHAU:

Supplementing the regular weekly report dated October 7, 1939, in regard to closing agreements under the Vinson-Trammell Act, the following refers to provisions of the latest tentative draft of the proposed agreement with the Colt's Patent Fire Arms Manufacturing Company:

Paragraph 2: this paragraph deals, for income tax purposes, with "special tools, jigs, dies, fixtures and gauges" adapted only for use in the manufacture of the guns and provides for a charge-off of the cost thereof on a unit of production basis for the period of performance of the contract.

Paragraph 3: this paragraph deals, for Vinson-Trammell Act purposes, with the special tools referred to in paragraph 2 and provides that a portion of the cost thereof will constitute indirect factory expense and will be allocated to the cost of performing the contract on the basis of the proportion of the number of guns covered by the contract bears to the sum of the guns covered by the contract and any other guns contracted for other than the United States Government.

Paragraph 4: this paragraph deals, for income tax purposes, with additional machinery and provides that it will be depreciated at the rate of 10% per annum with further provision for a limited additional allowance upon completion of contract if conditions at that time justify it, but not in excess (for all allowances) of one-half the reasonable cost.

Paragraph 5: this paragraph deals, for Vinson-Trammell Act purposes, with the machinery referred to in paragraph 4 and provides that a portion of the depreciation allowed and of the additional allowance, if any, will be included in the cost of performing the contract on the basis of the proportion of time used in performing the contract to the total use of such machinery.

Paragraphs 6, 7 and 8: provide that for all purposes the above allowances are the only allowances which will be made; that the allowances shall constitute a reduction of the cost or other basis of the assets; that for income tax purposes the deductions shall be located in the income tax years in which charged off.
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(Signed) Guy T. Hevering
Commissioner.
TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE: October 9, 1939

FROM: Secretary Morgenthau

TO: Mr. Cochran

At 9 o'clock this morning Mr. Baille telephoned me in regard to the Brazilian matter. I told him that I had held up the cable on Saturday which had been drafted by our Legal Department along the lines discussed with him by telephone. I thought the first part of the cablegram in regard to the wording of the fiscal agent authority was unnecessary, or should at least be postponed until the original letter from Brazil arrived. The second part, I thought, would confuse the Brazilian authorities and would complicate arrangements which have already been sufficiently complicated. Our conversation was interrupted by a call from the Secretary.

While with Secretary Morgenthau, he asked me about the Brazilian transaction, and I briefly summarized the events that had transpired since he had given me authority on Thursday to clear the matter. I emphasized that Messrs. Foley, Bernstein and Dietrich had been with me and had participated in the conversations with New York on Thursday evening when, as I had said, we had definitely closed the matter. Knorr had then agreed that the Federal Reserve Bank of New York would initiate the next step with the Bank of Brazil. The Secretary agreed that the matter should not be further complicated and told me that he wanted it straightened out in this sense.

After coming out of the Secretary's office, I telephoned Mr. Baille at 9:10 and offered to come down to discuss the matter. He preferred to see me after the 9:30 meeting, and it was agreed that we would not bring up this question during that meeting.

At 10:45 Mr. Foley called me to his office where he, Mr. Baille and Mr. Bernstein were consulting on the Brazilian matter. From his review of the case, Mr. Bernstein thought it better to let the matter rest at present, sending no cablegram of inquiry to Rio with respect to the fiscal agent authority conferred on the Bank of Brazil, and neither the Treasury nor the Federal Reserve Bank of New York taking any steps now toward the opening of a bank to bank account between the Bank of Brazil and the Federal Reserve Bank. The recommendation on this latter point came from the fact that we do not desire to raise the question, perhaps still undecided in Brazil, as to making the Bank of Brazil a straight Central Bank, or setting up some other organization for this purpose. Incidentally, we might, under the Araujo agreement, be called upon for a $50,000,000 gold loan and the provision of technical assistents if a Central Bank were recognized in Brazil. It was agreed between the four of us that no further action by the American authorities should now be taken and no cablegram sent. Mr. Bernstein telephoned this decision to Mr. Morgenthau, the President of the Federal Reserve Bank in my presence, and I gave the same inform-
October 9, 1939.

Mr. Knocks from my office a few minutes later. The Secretary called me in at 11 o'clock, when I was terminating my call with Mr. Knocks. I told the Secretary the Brazilian matter seemed at least provisionally settled and that no cablegram was being sent. He said O.K.

Mr. Collado of the State Department telephoned me at 12:55 to ask what final decision had been taken in regard to holding the Brazilian deposit. When I told him, he was disappointed. He said this would complicate our bookkeeping. He much preferred bank to bank arrangements as followed in our business with China and Mexico. He thought we could recognize the Bank of Brazil as a Central Bank as easily as several now carrying deposits with the Federal Reserve Bank of New York. He would not be worried if this did lead Brazil to raise the question of the gold loan. He hoped we could yet get this account on a bank to bank basis.
PARAPHRASE OF TELEGRAM RECEIVED
FROM: American Embassy, Rio de Janeiro, Brazil
DATE: September 16, 1936, 9 p.m.
NO.: 330
Reference is made to my telegram No. 256 of October 10, 1936, 1 p.m.

The following is the substance of translation of a memorandum which the Director of Exchange of the Bank of Brazil furnished to me today:

It is the desire of the Bank of Brazil, as agent for the Brazilian Government, to establish a gold reserve with the New York Federal Reserve Bank in accordance with the terms of the agreement with the Secretary of the Treasury of the United States and the Minister of Finance of Brazil.

The Bank of Brazil desires to obtain permission to buy gold in the United States; for this purpose the Bank’s available funds in American currency would be used.

If the New York Federal Reserve Bank is in agreement, the Bank of Brazil will deposit the amounts in dollars and the Federal Reserve Bank will undertake to sell the gold purchase.

The Bank of Brazil will be authorized by the Federal Reserve Bank to use the dollar credits which are guaranteed by the gold deposits, the customary rate of interest being collected by the Federal Reserve Bank. Does the Federal Reserve Bank...
Reserve Bank wish to have the Bank of Brazil establish here corresponding milreis credits?

Note: It is the belief of the Bank of Brazil that it would be possible for it to purchase six to eight million dollars in gold immediately, and monthly thereafter to purchase one and one-half million dollars. The Bank of Brazil thinks it is unlikely that they would have to draw against the credits very soon.

It is the wish of the Exchange Director that he be informed by telegraph whether such an agreement with the Bank of Brazil, on the basis of the above plan, would be agreeable to the Federal Reserve Bank of New York.

END OF MESSAGE.

CAPPERS.
PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro, Brazil
DATE: September 16, 1939, 7 p.m.
NO.: 329

A very favorable exchange situation prevails here. Prompt payment for imports from the United States is possible because there is adequate cover. The Bank of Brazil is augmenting its reserve of foreign exchange as a result of the sharp increase in sales of export bills and the current decline in the import trade. Export bills are being bought by banks at quotations of 19.780 to 19.880 milreis - and selling at 19.980 milreis. On the curb market the milreis continues firm, purchases being reported at 21.700 to 22.0 milreis.

The following is strictly confidential:

On the fifteenth of September the foreign exchange balance of the Bank of Brazil amounted to $16,792,000 as compared with the balance on the thirty-first of August, when it was approximately $7,000,000.

There is continuation of the Bank's liquidation of the "bought" position (omission) German compensation marks. On the fifteenth of September there was a balance in compensation marks in the amount of 5,450,000.

CAPPERS.
TO: American Embassy, Rio de Janeiro

NO.: 157

DATE: September 20, 1939, 7 p.m.

Reference is made to your telegram no. 330 of September 16, 8 p.m.

You are requested to inform the Director of Exchange of the Banco do Brasil that, as set forth in the letter of July 15, 1937 from the United States Secretary of the Treasury to the Brazilian Ministry of Finance, as supplemented and modified by the letter of September 2, 1938 from the Federal Reserve Bank of New York to the Banco do Brasil, which was transmitted through the Department of State in Washington by cable, the Treasury Department will be glad to sell gold through the Federal Reserve Bank of New York, acting as the fiscal agent of the United States, to the Banco do Brasil, acting as the fiscal agent of the Government of Brazil. As was stated by the Federal Reserve Bank of New York in its cablegram of October 19, 1938 to the Banco do Brasil, it is prepared, as the fiscal agent of the United States Government, to act in accordance with the above-mentioned letters when it shall have received from the Banco do Brasil, by cable,
acceptance of the terms contained in these letters and confirmation on the part of the United States of Brazil that it has designated the Banco do Brasil to act as its fiscal agent with the authority to enter into the arrangement referred to in these letters.
MEMORANDUM

To: Mr. Livesy

From: Mr. Cochran

Will you kindly transmit the attached cablegram to the American Embassy at Rio de Janeiro.

It occurs to the Treasury Department that the State Department may also desire to inform Undersecretary of State Welles at Panama of the arrangement mentioned in the cablegram.

H. Merle Cochran

O.K. - H.M. Jr.

HMC/rnm
September 20, 1939

Draft of cable to be sent by Department of State to American Ambassador at Rio de Janeiro, Brazil.

Referring to your cable #330 of September 16, you may advise the Director of Exchange of the Banco do Brasil that the Treasury Department will be pleased to sell gold through the Federal Reserve Bank of New York as fiscal agent of the United States to the Banco do Brasil as fiscal agent of the Brazilian Government, all as provided in the letter dated July 15, 1937 from the Secretary of the Treasury of the United States to the Minister of Finance of Brasil as supplemented and modified by the letter dated September 2, 1938 from the Federal Reserve Bank of New York to Banco do Brasil transmitted by cable through the Department of State in Washington. As stated in the cabledgram dated October 19, 1938 from the Federal Reserve Bank of New York to the Banco do Brasil, the Federal Reserve Bank of New York as fiscal agent of the United States is prepared to act in accordance with these letters upon receipt by it of (a) the cabled acceptance by the Banco do Brasil of the terms thereof and (b) the confirmation by the United States of Brasil that Banco do Brasil has been designated as fiscal agent of the United States of Brasil to enter into the arrangement contemplated by such letters.

Initialed: JWF;ED;HBIHYL;HG;HUV;EB;JPG

Regraded Unclassified
From: Rio de Janeiro
Brazil

To: Federal Reserve Bank of N.Y.

Date: September 26, 1939.
Rec'd. September 27, 1939.

With reference telegram September 21 to American Embassy Rio Janeiro concerning purchase gold by Bank of Brazil through Federal Reserve Bank the Bank of Brazil accepts terms letter July 15, 1937 to Minister Finance Brazil from the Secretary Treasury United States as supplemented and modified by letter September 2, 1939 to Bank of Brazil from Federal Reserve Bank.

Government Brazil is sending to you through American Embassy here letter confirming designations Bank of Brazil as its fiscal agent.

Within few days Bankers Trust will turn over to you in our name gold which we are transferring from London to New York.

(Signed) Francisco Alves Santos Filho
Director CarteiraCambial
PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro
NO.: 340
DATE: September 27, 1939, 11 a.m.

Reference is made to your telegram no. 187 of September 20, 7 p.m.

Last night the Bank of Brazil sent a telegram to the Federal Reserve Bank of New York in which it stated that it accepted the terms of the gold plan.

CAFFERY

EA:EB
September 27, 1939.

Mr. Bernstein

Mr. Dietrich

You will note that the attached cable is signed by the Director of Foreign Exchange Control who is also listed in the signature list of the Banco do Brazil as a Director of that Bank. A director in the sense that he is the manager of the foreign department of the Banco do Brazil.

Furthermore I should like to point out that this cable is not tested.

In discussing this matter with Cameron in New York, I said that I would pass this information on to you and that he would pass it on to Tiebout. I expect that you will receive a call from Tiebout regarding this cable.

FB:fa
9.27.39
INCOMING CABLEGRAM
REC'D SEPT. 27, 1939

RIO DE JANEIRO, Sept. 26, 1939.

Federal Reserve Bank of New York
New York

#1 With reference telegram September 21 to American Embassy
Rio Janeiro concerning purchase gold by Bank Brazil through
Federal Reserve Bank the Bank Brazil accepts terms letter July 15, 1937
to Minister Finance Brazil from the Secretary Treasury United States
as supplemented and modified by letter September 2, 1938 to Bank
Brazil from Federal Reserve Bank.

Government Brazil is sending to you through American Embassy
here letter confirming designation Bank Brazil as its fiscal agent.

Within few days Bankers Trust Co. will turn over to you in
our name gold which we are transferring from London to New York.

Francisco Alves Santos Filho
Director Carteira Cambial

Test O.K. using Cable Number
and test system of
Banco do Brazil.
OUTGOING CABLEGRAM

September 27, 1939

Banco do Brasil
Rio de Janeiro

FOR FRANCISCO ALVES SANTOS FILHO

May we request that for regularity's sake you authenticate your message of today by using test arrangement forwarded to you in our letter of November 1, 1938.

FEDERAL RESERVE BANK OF NEW YORK

Cable, Sept. 26
Serviced and given number and test by Banco do Brasil.
CABLE

From: Banco do Brasil, 
Rio de Janeiro

To: Federal Reserve Bank, 
New York

Date: October 4, 1939.

#2 Our #1

We are remitting $3,000,000 which please apply purchase gold
in accordance terms Brazilian Government agreement crediting our
account. Our credentials as fiscal agent for Brazilian Government
has been handed to your Embassy here.

(Signed) Banco do Brasil

Rec'd by phone from Mr. Lang, Oct. 5, 1939

BdM

cc KB
CABLE

To: Banco do Brasil,
Rio de Janeiro

Date: October 4, 1939.

The following payments were tendered to us today for your account: Guaranty Trust Company, $1,000,000; Irving Trust Company, $1,200,000; Chase National Bank, $400,000; Chemical Bank & Trust Company, $400,000.

Please cable us whether you wish us to receive the above payments to be utilized to cover sales of gold to you as fiscal agent of the Brazilian Government in accordance with the cable sent on September 21, 1939 by our State Department, Washington, D.C. to the American Ambassador in Rio de Janeiro.

(Signed) Federal Reserve Bank of N.Y.

Rec'd by phone from Mr. Lang, Oct. 5/39

EMI

cc EB
The foreign exchange market was quiet today, with increased volume in sterling transactions. After the opening quotation of 4.02, some commercial and Japanese demand appeared for sterling in the afternoon, and the rate moved up to 4.03-3/4, where it remained for the balance of the day.

The discount on the Canadian dollar decreased again and at the close it was quoted at 10-1/2%.

Reporting banks in New York and the Federal Reserve Bank reported sales totaling £548,000, from the following sources:

- Commercial concerns .................................. $ 293,000
- Foreign banks (Europe and Far East) .................. $ 205,000
- Fed. Res. Bk. (For Sweden) ............................ $ 50,000
  Total ........................................ $ 548,000

Purchases of sterling amounted to £504,000, as indicated below:

- By commercial concerns ................................ $ 275,000
- By foreign banks (Far East, Europe and South America) $ 229,000
  Total ........................................ $ 504,000

The National Bank of Belgium sold to us $165,000 gold from their earmarked account.

Gold valued at $261,000 was reported shipped from India to the National City Bank of New York and $42,000 from England to the Bank Belge pour l'Etanger New York.

With reference to the last paragraph on page 1 of my report of October 5, after further discussion today it was decided that the account of Banco de Brasil remain provisionally as a fiscal agency account of the U.S. on the books of the Federal Reserve Bank of New York, and that no communication be sent to Brazil for the present.
TO Secretary Morgenthau
FROM Mr. Haas
Subject: The Business Situation, Week ending October 7, 1939.

Conclusions

(1) Industrial production continues to rise, although the commodity price trend has flattened out and the volume of new orders has declined.

(2) Chancellor Hitler's peace proposal appears to mark a turning point in the economic trend, which will depend largely upon whether an intensified war or a movement toward peace is in prospect. While the outcome is unpredictable at this time, a considerable section of business opinion has turned to the belief that a peaceful solution of the war problem may be worked out. The more cautious buying policies in evidence during the past week or more have partly reflected this change in sentiment.

In the event that important steps are taken looking toward the establishment of peace, and large-scale war operations are further postponed, a levelling-out of the business trend may become evident before the end of the year, despite the present huge volume of unfilled orders on manufacturers' books. Some setback in business during the first half of 1940 seems likely in either event.

(3) While the rapid upturn in business activity, coincident with a seasonal peak in demand for freight cars, has brought some strain on transportation facilities, no freight car shortage seems in immediate prospect. The seasonal trend is passing its peak, and by next year a substantial addition to the number of serviceable freight cars will have been made. Relatively fewer cars now are required than in earlier years, owing to increased transportation by truck and pipe line, larger capacity of freight cars, speedier train service, and other factors.
The general situation

The peace proposal of Chancellor Hitler last week appears to mark a change in the economic trend, the direction of which cannot at this time be predicted. Either (1) the war in Europe will enter a new and perhaps intensified stage, in which event a renewed upturn in commodity prices would be likely, and business activity in the United States would be supported by the rising prices and by increased war orders, or (2) negotiations may be begun looking toward an eventual peaceful settlement of European difficulties, in which event war activities would doubtless be indefinitely held back, and a weakening of the business trend could be expected.

Business opinion in various quarters is turning to the belief that the latter alternative is more probable, and this has been reflected in more cautious buying policies during the past week or more. The stalemate on the western front to date, and the possibility of its continuing for a prolonged period, has also tended to restrain buyers. Business commentators hold this to be a healthy development, since it is tending to prevent a serious readjustment in production.

The stock and commodity markets over the next few weeks will be sensitive to any indication that peace negotiations may have a chance of success, and the underlying trend of business activity will, as usual, be influenced by the direction taken by commodity and stock prices.

Production rising rapidly

An 8-point rise in the FEB index in September to about 110 has carried it to the highest level since September 1937, when it stood at 111, according to preliminary estimates of the Federal Reserve Board. A still higher production level was reached at the end of the month, and current expectations in some quarters are that before the end of the year the index will rise to between 120 and 125. The highest figure on record was 125, reached in June 1929.

Whether these levels will be reached or not will depend to a considerable extent on the outlook for a prolonged war. While the volume of unfilled orders in steel, textiles, and various other industries is so large as to virtually assure a high rate of operations through the remainder of the year,
nevertheless, in the event of definite action toward an early
termination of the war, a levelling off in industrial produc-
tion would probably soon become evident. Some of the orders
predicated on a long war would be cancelled, delivery on many
others would be indefinitely postponed, industrial expansion
plans would be reconsidered, and manufacturers would lengthen
out their production schedules rather than temporarily adding
new workers and speeding up production.

**Railroad car situation**

The sudden expansion in freight carloadings in recent
weeks has caused considerable discussion of a possible car
shortage as a restraining factor in business activity. During
the week ended September 30, carloadings rose to approximately
the 1937 peak, which had been the highest since 1930. (See
Chart 1.)

The possibility of a freight car shortage is probably more
remote than would appear from various current comments. As
suggested by Chart 1, the seasonal trend after early October is
sharply downward, even in a year of rapidly expanding business
activity like 1938, hence the critical period for this year is
probably already being passed. The extensive rehabilitation
program on which the railroads have now entered will provide an
increased supply of freight cars to take care of traffic next
year.

To an appreciable extent the recent increase in shipments
has reflected an abnormal and non-recurring demand for goods
and materials for inventory accumulation, which may be followed
to some extent by an abnormal slackening. Fear of price
increases and of possible delivery difficulties, including the
fear of a freight car shortage, has apparently led to a wide-
spread padding of orders, which has created a temporary tight-
ness in the supply of cars since it coincided with the peak
of the farm crop movement.

A casual comparison of the number of freight cars owned
by railroads now with the considerably larger number owned
in earlier years (See Chart 2) might give some ground for
apprehension over the adequacy of our present freight car
supply. Such apprehension is largely removed, however, when
various qualifying factors are taken into consideration. In
the first place, for a given level of industrial production the volume of freight hauled on railroads is now substantially less than in earlier years (See lower section of Chart 2), due to such factors as increased truck transportation, increased transportation by pipe lines, and the substitution of oil and electricity for coal.

Secondly, fewer cars are required for hauling a given volume of freight, due to an increased capacity per car and an increased efficiency in freight hauling. Between 1929 and 1937 the average capacity of freight cars rose from 46.3 tons to 49.2 tons, and freight trains were speeded up from an average of 13.2 miles per hour (including all stops) to an average of 16.1 miles per hour. Owing to these improvements, the average service performed per day by each serviceable freight car increased from 582 ton-miles in 1929 to 625 ton-miles in 1937.

**Net freight car surplus**

During the latter part of the World War and in the years immediately afterward a severe freight car shortage was one of the limiting factors in industrial activity. Whereas a net surplus of freight cars is normally necessary to guard against deficits in individual areas, practically no surplus existed during this period, and in 1920 an average net deficit was reported for the year as a whole.

In Chart 3 we show the net freight car surplus as compiled by the Association of American Railroads (reported surpluses less reported shortages) in comparison with the volume of freight hauled. In the upper section of the chart (annual data) it will be noted that in none of the years since 1920 have we experienced a real freight car shortage, though some tightness developed in 1937. Monthly data (lower section of chart) show in more detail the trends leading up to the present situation, which apparently compares closely with that in 1937. In that year, no shortages were reported from any region, though some strain developed during the crop moving season.

**Freight car orders sharply increased**

Periods of increasing demand for freight cars, threatening car shortages, have usually been met by heavy ordering of new cars by the railroads, and the shortages have been averted. During the World War, however, the tying up of industrial capacity by war orders, and other factors, prevented an adequate increase in freight capacity when needed.
In the present situation, the railroads are acting quickly to prevent a repetition of this experience. The number of new freight cars ordered during September sharply exceeded the peak figures of both 1929 and 1937. (See Chart 4.) Since the first of the year, up to October 3, orders had been placed for 59,560 new cars, of which 38,000 were ordered since September 1. Orders for locomotives and for steel rails were likewise increased substantially.

Steel operations

It is estimated by the Iron Age that the enlarged railroad buying programs will require well over 1,000,000 tons of steel. This has been an important source of demand in the steel industry, contributing to the unprecedented rise of 29 points in the rate of steel operations in five weeks.

All of the major steel companies are reported to be virtually sold out for the remainder of the year on their principal steel products; and pressure is increasing for an announcement of prices for delivery during the first quarter of 1940, in order that consumers may place an additional volume of orders. Indications are accumulating that an important increase in steel prices may be made at that time. Producers of various steel products have already raised prices, and steel scrap, an important raw material, rose further last week to the highest price since 1923.

The price situation

After rising to a new level in the early weeks of September, the BLS all-commodity index is now levelling off. The component groups of raw materials, semi-manufactured, and finished goods, however, show divergent movements. (See Chart 5.) Prices of semi-manufactured goods have increased proportionately more than the others and have continued to increase when prices for the other two groups have tapered off. It is of interest that a similar wide discrepancy arose during the period of rapid price advance in 1915 to 1918, and again in the post-war price rise of 1919-20. The current action of prices of semi-finished goods represents a general movement on the part of a great many individual items, including vegetable oils, non-ferrous metals, yarns and print cloth.
Although for the month of September agricultural products show a greater percentage increase than non-agricultural products, the entire increase was registered in the first two weeks of the month, and some of it has since been lost. Some agricultural prices are beginning to reflect reports of serious drought extending over a wide area from the Mississippi Valley to the Rocky Mountains. It is reported that only a small proportion of the farmers in this area has been able to seed wheat for next year's crop, and in some quarters a drought situation similar to those of 1934 and 1936 is feared.

Among the non-agricultural commodities, the group of industrial materials has shown enormous increase for the month of September, with some falling off in the early days of October. Copper prices last week were advanced to 12 1/2 cents, the maximum price suggested informally by President Roosevelt. For the rest of this month, trade commentators anticipate no further occasion to increase the price of copper, because the very large sales of recent months leave little scope for extensive new orders. A change in peace prospects, or the granting of tariff concessions to Chile, however, might lower the price.

**Current business news**

A downturn in reported steel orders has reduced our weekly new orders index (See Chart 6) despite small upturns in orders for textiles and for products other than steel and textiles. While current trade reports mention some increase in buying of certain products during the past week, the volume of buying generally remains substantially below that of early September.

The New York Times business index for the week ended September 30 recorded its eighth consecutive advance, rising .9 point to 102.0, the highest since October 2, 1937. All components were moderately higher except the index of electric power production, which was unchanged, and the miscellaneous carloadings index, which declined fractionally.

The Government forecast of the cotton crop released this morning, 11,928,000 bales, shows a reduction of 452,000 bales from the September figure. Official comments mention that the indicated production declined in Oklahoma and Texas because of hot weather, and in the central portion of the belt because of long periods of dry weather which were unfavorable for late fruiting.
Chart 2

**Freight Cars Owned, Freight Traffic, and Industrial Production**

**Freight Cars Owned by Class I Railroads**

- 1924: 2.4 million
- 1926: 2.2 million
- 1928: 2.0 million
- 1930: 1.8 million
- 1932: 1.6 million
- 1934: 1.4 million

**Industrial Production and Freight Traffic**

- 1917: 15
- 1919: 20
- 1921: 30
- 1923: 40
- 1925: 50
- 1927: 60
- 1929: 70
- 1931: 80
- 1933: 90
- 1935: 100
- 1937: 110
- 1939: 120

*Figures for 1939 based on 1st 9 months.*
Chart 3

Freight Car Net Surplus Compared with Freight Traffic

By Years (Monthly Average)

1917 1919 1921 1923 1925 1927 1929 1931 1933 1935 1937 1939 1941

Freight Car Net Surplus (Thousands of Cars)

Freight Carried One Mile (Billions of Tons)

By Months

1932 1933 1934 1935 1936 1937 1938 1939 1940

Freight Car Net Surplus (Thousands of Cars)

Freight Carried One Mile (Billions of Tons)
Telephone conversation between Mr. White and Mr. Luthringer, of the State Department, in response to telephone request by the latter for an answer regarding Liberian currency.

Mr. White: The Department has no objection to the export of silver coins by the Firestones. As you yourself said, there are no legal restrictions on the export of silver coins. However, on the question of broader import, as to whether it is desirable for Liberia to change her currency system from sterling to dollars, I presume you are not raising that question, are you?

Mr. Luthringer: No.

Mr. White: If you want us to comment on that we would need more data on the situation in Liberia.

Mr. Luthringer: We don't particularly want to raise any questions as to the merits of the thing. It is solely as to whether the Treasury has objection to the thing as a matter of policy. Just general decision to use American currency.

Mr. White: I can see where it might be desirable for the U.S. to have Liberia adopt dollars, but whether it is for Liberia's interest, we wouldn't be able to tell unless we went into the matter more. This is the first problem on Liberia we have had occasion to consider and we are working only from information in the cables — and it is inadequate.

If it is understood that we are not commenting on that larger question, but rather only on the sale of silver, there is no objection.

Mr. Luthringer: As I understand it, that would also mean that on a similar basis you wouldn't object if they continue to do this?

Mr. White: If they continue to do it, and if you raise the question as to whether they ought to substitute our currency for sterling, then we would have to go into it more.

Mr. Luthringer: Well that, of course, I suppose is a matter open to some discussion. Does your answer confine itself solely to this one purchase of $100,000? My point was that suppose the Firestones go ahead and eventually purchase $2 million of American currency; would you want further consultation on that point?
Mr. White: Well, as long as we are not asked as to the merits of Liberia's policy, I would say that we have no objection. But once the State Department raises the question with us as to whether we regard it as desirable, then we would have to go into it more carefully. There are no restrictions and they can buy all the U. S. silver coins they wish. It depends largely on the State Department, and if they feel they want our opinion on it we would be glad to cooperate and examine the merits of their monetary program.

Mr. Luthringer: There was general feeling here among people in Near Eastern Division that since the Liberian Government was anxious to go ahead with it, and since it was apparently desired quite as much by the Firestones, we should probably impose no objection to it unless we saw some very good reason for doing so, which we didn't. That is, the thing has been discussed from time to time privately by our people out there and also by the Firestones, so it is something they have wanted to do for some time. It is quite possible they lose seigniorage by using this currency, but they are already losing that to the British. But I think that in so far as we have gone into it I can see no strong objection.

Mr. White: It is quite possible—quite probable, in fact—that we would come out at the same end that you do, but that question has not been considered here. If the State Department is ever interested in our comments on that aspect they can raise the question and give us more time to go into the problem more exhaustively.

Mr. Luthringer: Your answer is simply that you are not fasting on economic merits of the proposal to buy?

Mr. White: Yes, that is right.
TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE October 9, 1939

to Secretary Morgenthau

FROM Mr. White

(Copies to Mr. Cochran and to Mr. Cotton as liaison officer.)

Subject: Liberian proposal to purchase U. S. currency. (Cables attached. An additional cable referring to a desire by Liberia to purchase $100 thousand of U. S. silver has not yet been received by me but the gist of it was telephoned by Mr. Luthringer of the State Department.)

1. The situation

Liberia has hitherto used British coins but according to the appended report there is a shortage of coins for hand to hand circulation reportedly due to the British embargo on currency exports.

Moreover it appears that the Secretary of the Treasury of Liberia believes that a substitution of American currency for British currency as the medium of hand to hand circulation is desirable in view of the general situation.

The Secretary of the Treasury of Liberia has granted the Firestone Company (owners of the only bank in Liberia) the privilege of purchasing $100 thousand in United States silver coins (the denominations not specified) presumably as a first step in the replacement of some L200,000 to L250,000 of British coins and currency now in circulation in Liberia, and I believe the Firestone Company has requested the view of the State Department and the latter has asked our opinion.

2. The problem

Do we have any objections to the acquisition by the Liberian Government (via importation by the Firestone Company) of the $100 thousand in silver coins as a first step toward a replacement of her British coins and currency by American currency? The State Department would like an answer at once, if possible, inasmuch as the Firestone Company appears to lack money for payrolls.
3. Considerations

a. There are no legal restrictions on the export of United States currency. Therefore Liberia does not need our permission to purchase our currency nor does the Firestone Company need our permission to export that currency.

b. The economic effects of the measure are negligible because the amount involved is so small. Since the coins that will be acquired will be subsidiary coins, the Treasury will make a seigniorage profit of 75 cents for every dollar Liberia purchases, a profit which otherwise would not be made. This transaction is a profitable one for the United States.

c. The economic advantage of Liberia using United States currency and pegging her currency to United States currency is negligible in view of the very small trade and financial dealings we have with Liberia. Our exports to Liberia were in 1938 $800 thousand and our imports $1 million.

d. We understand from the Department of State that they have no objection to the Liberian Government replacing British coins with American coins. If the State Department doesn't mind, there probably are no objections from England's point of view.

e. From the point of view of our monetary policy the matter is unimportant but it may be worth something politically for us to be able to say that another country has adopted American currency.

Conclusion

The answer to the State Department should, in my opinion, be that we have no objections.
TO:  
MR. WHITE

This is the answer of the sages, tempered by your conversation with Mr. Bailie. I take it you are handling the matter.

JPC, Jr.

From: MR. COTTON
As you know, there are no legal restrictions on the export of U. S. or other silver coins from the U. S., and such export can be freely arranged through any bank. The Treasury sees no ground for objecting to such purchase by Liberia.
To: Mr. Cotton  From: H. D. White

Please add to Liberian file (PC)
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. Halvering
Mr. Batchelder  Mr. Irby
Mr. Berkshire  Mr. Julian
Mr. Bernard  Mr. Kilby
Mrs. Betts  Mr. Lochhead
Mr. Birgfeld  Miss Lonigan
Mr. Blough  Mr. Maxwell
Mr. Broughton  Mr. Ross
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. Hass  Mr. Wilson
Mr. Hall  Mr. Young
The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and, referring to a telephone conversation with Mr. White of the Treasury Department, encloses herewith a paraphrase of telegram no. 79 of October 4 from Monrovia, relating to the possible use of United States currency in Liberia.

Enclosure:

Paraphrase of telegram.
Department of State

ENCLOSURE

Letter drafted 10/6

ADDRESS TO

Sec. of Treasury.
PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Monrovia, Liberia.

DATE: October 4, 1939, noon.

NO.: 79.

The Firestone Plantations Company has been given permission by the Secretary of the Treasury to import United States coins and currency amounting to one hundred thousand dollars. A definitive reply at an early date to the Government of Liberia's inquiry as to the availability of U.S. currency and coins to displace British coins would be much appreciated by the Liberian authorities.

MALTON

EA: MSG
Treasury Department
Division of Monetary Research

Date: 10/9/39

To: Mr. Cotton - Room 124

From: H. D. White

The only copies of the cables that we have are appended.
Secretary Morgenthau

Mr. White

(Copies to Mr. Cochran and to Mr. Cotton as liaison officers.)

Subject: Liberian proposal to purchase U. S. currency.
(Cables attached. An additional cable referring

to a desire by Liberia to purchase $100 thousand

of U. S. silver has not yet been received by me

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of the State Department.)

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Liberia has hitherto used British coins but according
to the appended report there is a shortage of coins for hand
to hand circulation reportedly due to the British embargo
on currency exports.

Moreover it appears that the Secretary of the Treasury
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for British currency as the medium of hand to hand circulation
is desirable in view of the general situation.

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Firestone Company (owners of the only bank in Liberia) the
privilege of purchasing $100 thousand in United States silver
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step in the replacement of some £200,000 to £250,000 of
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I believe the Firestone Company has requested the view of the
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Liberian Government (via importation by the Firestone Company)
of the $100 thousand in silver coins as a first step toward
a replacement of her British coins and currency by American
currency? The State Department would like an answer at once,
if possible, inasmuch as the Firestone Company appears to
lack money for payrolls.
3. Considerations

a. There are no legal restrictions on the export of United States currency. Therefore Liberia does not need our permission to purchase our currency nor does the Firestone Company need our permission to export that currency.

b. The economic effects of the measure are negligible because the amount involved is so small. Since the coins that will be acquired will be subsidiary coins, the Treasury will make a seigniorage profit of 75 cents for every dollar Liberia purchases, a profit which otherwise would not be made. This transaction is a profitable one for the United States.

c. The economic advantage of Liberia using United States currency and pegging her currency to United States currency is negligible in view of the very small trade and financial dealings we have with Liberia. Our exports to Liberia were in 1938 $600,000 and our imports $1 million.

d. We understand from the Department of State that they have no objection to the Liberian Government replacing British coins with American coins. If the State Department doesn't mind, there probably are no objections from England's point of view.

e. From the point of view of our monetary policy the matter is unimportant but it may be worth something politically for us to be able to say that another country has adopted American currency.

Conclusion

The answer to the State Department should, in my opinion, be that we have no objections.
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10-6-39
I suggest this go to
Mr. Harry & White

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TO:

MR. THOMPSON

October 6, 1939.

As the contents of the letter from the State Department indicate that the Liberian Government wishes to substitute United States coin and currency for the British coin and currency now in circulation, and as this subject seems to be outside the jurisdiction of the Mint, I am returning the letter to you for appropriate attention.

I am also attaching the Bureau file and request that it be returned.

(10/12/39 - Returned to Mr. Howard's office by Mr. White's office)
My dear Mr. Secretary:

The Government of Liberia has on several occasions expressed an interest in substituting American silver coin for the British silver coin which now constitutes the principal circulating medium of Liberia. According to reports received by this Department, the British exchange control is preventing the Bank of Monrovia from obtaining additional British silver coin which is urgently needed to meet pay rolls and for hand-to-hand circulation in Liberia.

In the opinion of this Department the adoption of American silver coin by Liberia will probably be advantageous to both the people of Liberia and to American interests in that country, but before communicating further with the Government of Liberia, this Department wishes to ascertain

The Honorable

Henry Morgenthau, Jr.,
Secretary of the Treasury.
ascertain if the Treasury Department perceives any objections to such a plan.

For your information I am enclosing paraphrases of two telegrams from Monrovia and a memorandum which has recently been received by this Department entitled "Substitution of United States Coin for British Coin in Circulation in Liberia".

Sincerely yours,

[Signature]

Enclosures:

1. Telegram no. 75, from Monrovia, September 20, 1939, (paraphrased).
2. Telegram no. 77, from Monrovia, September 25, 1939, (paraphrased).
Department of State

ENCLOSURE

To

Letter drafted 9/26

Addressed to

Sec. of Treasury.
PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Monrovia, Liberia.

DATE: September 20, 1939, noon.

NO.: 75

I have been requested by the Government of Liberia to explore the possibility of arranging with the Government of the United States for the transfer of U.S. coins and a limited quantity of currency notes to be circulated in this country.

Already a shortage of British coins in Liberia has been created by Great Britain's embargo on pounds. At a cabinet meeting on the 19th of September the practicability of replacing United States coins for sterling was discussed.

A statement that "there seems to be some opposition (to plan) in certain quarters" is made in a note sent me from the Secretary of the Treasury.

WALTON

EA: MSG
Reference is made to telegram No. 45 of September 22, 7 p.m., from the Department.

The Government of Liberia desires, at the earliest convenience, to begin using coins of the United States instead of British coins. The Government of Liberia would devise a practical plan for withdrawing the British coins from circulation.

There is a rapidly diminishing supply of British coins in Liberia now, and the circulation of such coins is no longer favorable to the trade and commerce and fiscal transactions of this country. Sixty percent of the total trade of Liberia was formerly with Germany; this German trade has been reduced to nil. There has been serious curtailment of British credits and trade with the Netherlands.

It is the opinion of Liberians that the most available market for supplies is the United States, and the Liberian Secretary of the Treasury informally suggests that the Commerce Department of the United States cooperate with them in formulating a program designed to promote trade and (omission) between
between the United States and Liberia.

Since there are no mail boats calling at Monrovia, I could send a copy of the note from the Liberian Secretary of the Treasury and of my comments only by air mail, if the Department sanctions this method of transmission.

WALTON.
MEMORANDUM

September 26, 1939.

SUBSTITUTION OF UNITED STATES COIN FOR BRITISH COIN IN CIRCULATION IN LIBERIA

It seems to be the desire of the Secretary of the Treasury of Liberia to import enough American currency to buy up and put out of circulation all British silver coin. His ideas are not very definite as to the period of time over which this transaction would extend and he seems to expect that the capital would be advanced by the Firestone interests and also that the mechanism of the transaction would be handled by the Bank of Monrovia. The Secretary of the Treasury further desires a concrete proposal as to the methods by which this could be accomplished. This would necessarily imply fixing a conversion rate between British and American currency based on the current exchange rates between them, such rate to include the cost and risks involved in shipping currency from America and returning the British currency from Liberia to London, assuming that such currency can be imported into England at face value for an indefinite time. Before such a scheme could be put into operation, the following information would be necessary:

1.
1. As to whether currency can be exported from the United States;

2. Whether British silver in circulation in Liberia could be imported into England;

3. Other details as to who would finance the operation; and

4. The period of time over which it would extend.

This plan would imply immediate conversion of silver held by the bank at the rate agreed upon, together with a corresponding reduction in government and other deposit accounts. The bank would make all payments in American currency at this rate, which would also apply to future deposits of British silver. On the effective date for the introduction of the American dollar, British silver would have to be demonetized and only the American dollar made legal tender.

The Liberian silver and copper in circulation would remain legal tender and would necessarily appreciate to the American dollar level. No accurate information is available as to the total British silver in circulation, but it probably amounts to between 200,000 and 250,000 pounds sterling. It is believed that approximately 80 percent of the coins in circulation are West African palm-tree silver, which are not legal tender in England.

It would probably require $250,000 for the first shipment. Aside from the costs such as freight, insurance, and war risk, there is the possibility of a further decline in
in sterling between the date of conversion and the date of arrival in London for credit, which possibly might be covered by forward selling of sterling. No one is now in a position to estimate the total cost involved. This plan would necessitate certain changes in the loan and depositary agreement between the government and the Bank of Monrovia, Inc., covering the Liberian foreign debt. If the above plan does not seem feasible because of the various risks, costs and conditions outlined, then as a temporary expedient to relieve the current shortage of currency it would probably be acceptable to the government to bring in sufficient American silver to be put into circulation at a value equivalent to the Liberian dollar and to British silver. It would then be advisable to prevent further importation of British silver and to prohibit by law the exportation of American currency except under permit and by the Bank of Monrovia only. A possible weakness in this plan would be the lack of effectiveness in preventing silver from leaving the country by the operation of Gresham's Law.
MEMORANDUM FOR THE SECRETARY

With reference to memorandum from this office under date of September 26th concerning the tonnage of coal used by the Federal Government, there is attached hereto a statement concerning coal used by the Tennessee Valley Authority.

Director of Procurement

att.
<table>
<thead>
<tr>
<th>Plant</th>
<th>State</th>
<th>Contracted</th>
<th>March</th>
<th>April</th>
<th>May</th>
<th>June</th>
<th>July</th>
<th>August</th>
<th>September</th>
<th>October</th>
<th>November</th>
<th>December</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hall on Track</td>
<td>Kentucky</td>
<td>2,500 tons</td>
<td>3,000 tons</td>
<td>3,500 tons</td>
<td>4,000 tons</td>
<td>4,500 tons</td>
<td>5,000 tons</td>
<td>5,500 tons</td>
<td>6,000 tons</td>
<td>6,500 tons</td>
<td>7,000 tons</td>
<td>7,500 tons</td>
</tr>
<tr>
<td>Hall only</td>
<td>Alabama</td>
<td>1,000 tons</td>
<td>2,000 tons</td>
<td>3,000 tons</td>
<td>4,000 tons</td>
<td>5,000 tons</td>
<td>6,000 tons</td>
<td>7,000 tons</td>
<td>8,000 tons</td>
<td>9,000 tons</td>
<td>10,000 tons</td>
<td>11,000 tons</td>
</tr>
<tr>
<td>Hall only</td>
<td>Tennessee</td>
<td>500 tons</td>
<td>1,000 tons</td>
<td>1,500 tons</td>
<td>2,000 tons</td>
<td>2,500 tons</td>
<td>3,000 tons</td>
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<tr>
<td>Hall only</td>
<td>Tennessee</td>
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<tr>
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<tr>
<td>Hall only</td>
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<td>4,500 tons</td>
<td>5,000 tons</td>
<td>5,500 tons</td>
</tr>
</tbody>
</table>

*Regraded Unclassified*
TO: Secretary Morgenthau
FROM: Basil Harris

For your information

Captain Sherman of Naval Operations telephoned us at 12:15 today
and read the following cablegram from the American Minister at
Santo Domingo to the Secretary of State:

"My Number 75, September 30. I was informed today by the Foreign Minister that he had learned that the
SS HISPANIOLA arrived in Fort de France, Martinique, about October 2 with heavy cargo tanks and bunkers, but
has since been detained. A consignment of 150 barrels of Diesel oil for this city loaded at St. Thomas
September 21 was presumably discharged somewhere between the last-named port and Martinique. Since
none was unloaded at the intermediary ports of Guayanilla, Porto Rico, or Ciudad Trujillo, the
inference has been drawn that the cargo was transferred at sea.

"According to the Foreign Minister, the Dominican
Government has taken a serious view of this question
and has already issued instructions recalling by air
for consultation the Dominican Consul at Fort de France.
The Foreign Minister assured me, moreover, that every
effort would be made to trace the matter to a final
conclusion.

"With reference to my telegram 76 of October 7,
4 P.M., it is learned that the HISPANIOLA is of
Dominican registry and of German-Porto Rican ownership."

Captain Sherman wanted to know if the Collector of Customs at
St. Thomas was responsible for the clearance of the vessel and if he
was under the jurisdiction of the Treasury Department. He was advised
that the Collector was responsible and was under Treasury
jurisdiction. Captain Sherman stated that the request had come
from the President and that the Treasury should take no further
action in the matter until it received further advice.

[Signature]

Regarded Unclassified
BOSTON.--NAVY COAST GUARD PATROLS ARE REPORTED TO HAVE BROADENED
THEIR SEARCH BY SEA AND AIR FOR A "FOREIGN" SUBMARINE REPUTEDLY LURKING
ALONG THE EXPECTED ROUTE OF THE THREATENED AMERICAN REFUGEE SHIP
IROQUOIS IN NEW ENGLAND WATERS.
THOUGH ORDERS WERE SECRET, AN AMPHIBIAN WHICH LEFT SALEM COAST
GUARD AIR BASE WAS UNDERSTOOD TO HAVE REJOINED THE SEARCH WHICH
PROVED FUTILE YESTERDAY.
10/10--R1120A
October 10, 1939.

At 2:40 p.m., the following message was dictated over phone by Commander Hirschfield, Duty Officer of Coast Guard, to W.E.L. Robertson:

On Sunday 8 October the Associated Press informed Headquarters that the EDITH, a fishing vessel out of New York upon arrival at New Bedford, Mass., reported that she had sighted a submarine being fueled by a tanker or freighter west of George's Banks, which is east of Nantucket Island and Northeast of Nantucket Light Vessel. This information was given to the Commander, Boston District, with instructions to investigate and advise headquarters.

Today, 10 October, received the following from Boston District in answer to Headquarters' message giving the aforesaid information:

"Deductions indicate that the S.S. THOMAS TRACY while bound Norfolk passed EDITH in reported position of contact sixteen miles east northeast of Nantucket Light Vessel at about 3:00 a.m., reported time contact and that dragger or other craft mistaken by EDITH for submarine passed astern of her. Request Norfolk District contact TRACY to determine if theory substantial."

From the quoted message it would seem that a dragger or other craft was mistaken by the EDITH for a submarine and which also assumed that the THOMAS TRACY was fueling the submarine. This is all based on deduction and should not attach any present suspicion to the THOMAS TRACY. The information received from Norfolk District will be disseminated upon its receipt.
The Stock Exchange Committee for general purposes has announced that it has been officially informed that the Canadian authorities have arranged that the Canadian stock exchange is to allow non-resident owners of Canadian domestic securities to sell their holdings provided they buy other domestic securities of equal value.

In the circumstances, the British authorities have decided to relax the embargo on switches from one security to another insofar as Canadian domestic securities are concerned if the formalities required by the Canadian authorities are complied with. Accordingly, British residents must make application for permission to sell such securities in Canada and to invest the proceeds to the Stock Exchange Committee on special forms and the security purchased registered.

Please inform Treasury.

KELLY
KLP
Secretary of State,

Washington.

2408, October 10, 5 p.m.

FOR THE TREASURY

In commenting this morning on Bourse conversation about the B.I.S., the Agence Economique et Financiere says it would be difficult to imagine the Governor of the Bank of France meeting with the President of the Reichsbank, Dr. Funk. "What good can French participation serve any longer in this institution which has frozen part of its assets in Germany and the activity of which seems to decline more markedly from month to month."

It then mentions the further reduction in the B.I.S. balance sheet from 512,000,000 Swiss francs to 493,000,000 from August 31 to September 30. The foregoing would seem to portray accurately the present French attitude toward the B.I.S. Incidentally B.I.S. shares were last quoted on the Paris Bourse (at 2,300 French francs) on August 22.

(END OF SECTION ONE).
Secretary of State,
Washington,

2408, October 10, 6 p.m.

SECTION TWO.

Some favorable attention has been attracted in French financial circles to the meeting yesterday under the auspices of Daladier and Dautry on the question of speeding up French armament production wherein Jouhaux, the Betencourt of French employers of the new unlamanted days of the Popular Front government, expressed on behalf of the CME full agreement with the industrialists' program and pledged the full cooperation of organized labor toward the common aim of winning the war. The Government's vigorous action in the arrest of some 40 odd Communist deputies has likewise apparently met with general approval in labor circles.

The securities market was again firm and most issues improved. Most rentes issues continued to advance fractionally.
fractionally and the foreign exchange guaranty issues of 1925 and 1937 advanced 1.55 and 2.10 respectively. No change in foreign exchange rates. (End of message)

BULLITT.

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

Secretary Morgenthau

FROM

Mr. Haas

Subject: Current Developments in the High-Grade Securities Markets

SUMMARY

(1) Treasury securities advanced during the past week (Chart I). All maturities participated in the rise (Chart II). The medium- and long-term issues rose somewhat more than the short issues, and acted more in accordance with normal expectation during a rally than they did last week. Federal Reserve banks permitted their bill portfolios to decline further (Chart III).

(2) High-grade corporate bond prices rose last week and yields dropped to the lowest point since September 2 (Chart I). The volume of corporate financing continued at a low level. Private placements of more than twice the amount of the public offerings were reported, however.

(3) The September 30 statements of condition of New York City banks appeared during the past week. Three of the nine of the largest banks have decreased their Government security holdings since June 30. Bankers Trust increased its Governments by 19.5 percent, whereas J. P. Morgan and Co. (including Drexel and Co.) showed a decrease of 15.3 percent (Chart IV). Three of the banks showed a decline in the volume of loans outstanding (Chart V), but Morgan was the only bank of the group to show a decrease in both Governments and total loans. (Its cash more than doubled.)

(4) Both the British and French security markets showed some recovery last week. British 2-1/2 percent consols rose above the official minimum. French rentes also improved. British money rates remained easy, and, while the Bank Rate was maintained at 3 percent all week, a further cut was expected.
I. Current Developments in United States Securities

All Treasury securities rose during last week and on Monday, October 9. The average yield on all long-term Treasury bonds stood at 2.67 percent on Monday as compared with 2.74 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:

<table>
<thead>
<tr>
<th>Notes</th>
<th>Average price change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Week ended: Monday:</td>
</tr>
<tr>
<td></td>
<td>October 7: October 9: Total</td>
</tr>
<tr>
<td></td>
<td>(In thirty-seconds)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Notes</th>
<th>Average price change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 to 3 years</td>
<td>+ 4 + 1 + 5</td>
</tr>
<tr>
<td>3 to 5 years</td>
<td>+ 5 + 2 + 7</td>
</tr>
<tr>
<td>Bonds</td>
<td></td>
</tr>
<tr>
<td>Under 5 years to call</td>
<td>+ 10 + 3 + 13</td>
</tr>
<tr>
<td>5 to 15 years to call</td>
<td>+ 19 + 8 + 27</td>
</tr>
<tr>
<td>15 years and over to call</td>
<td>+ 20 + 10 + 30</td>
</tr>
</tbody>
</table>

Medium- and long-term securities, as may be observed in the table, have risen somewhat more than short securities (Chart II). Relatively, they have moved considerably more than they had in the preceding week when their sluggish movement was noted. Their action this week was more in accord with normal expectation in a rally covering the whole market.

The rate on this week’s offering of Treasury bills was at a new low for the current crisis period — .022 percent as compared with .036 percent last week, and .032 percent the previous week. Press dispatches during the week called attention to the fact that last week’s issue was the first maturing after the year-end statement date, and suggested that the lowered rate might have been the result of purchases for window-dressing and tax purposes.

Bills issued last week went mainly to New York City banks — $51 millions to Guaranty Trust, and $23 millions to other New York City member banks. Bills issued the previous week...
went mainly to Bankers Trust Company ($50 millions) and to two large corporations -- General Motors ($18 millions) and National Power and Light ($16 millions).

During the statement week ended last Wednesday, the Federal Reserve banks permitted another $19 millions of their holdings of Treasury bills to run off (Chart III). This reduction continues the decline in bill holdings, which has occurred over recent months. Since June 21, when the Federal Reserve banks commenced their policy of allowing some of their Treasury bills to mature without replacement, the total reduction has amounted to $253 millions -- 53 percent of their bill holdings on that date.

II. High-Grade Corporate Bond Market

High-grade corporate bond prices advanced during the past week and yields dropped to the lowest point since September 2. The Treasury average of high-grade corporate bonds decreased in yield from 3.29 percent on Saturday, September 30, to 3.22 percent on Saturday, October 7, and decreased further to 3.21 percent on Monday (Chart I). This change is about the same as that enjoyed by long-term Treasury bonds during the same period.

The volume of corporate financing continued at a low level for the seventh consecutive week, involving the public offering during the week of only one new issue -- $6.3 millions of convertible debentures of Affiliated Fund, Inc., an investment trust.

A private placing was revealed in addition to the above flotation, however. The Philadelphia Electric Co. announced plans to sell $10 millions of serial notes, and $5 millions of preferred stock to three insurance companies.

An interesting measure of the change in the corporate market since the beginning of the war crisis is provided by the behavior of new issues sold during the spring and summer. Virtually all of such issues are now selling below their offering prices by a very substantial margin.
Current quotations on a few representative issues are shown in the table below. A Canadian issue has been included to indicate the more drastic declines which have been suffered by such securities.

<table>
<thead>
<tr>
<th>Issue</th>
<th>Offering date</th>
<th>Offering price</th>
<th>Current price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Southern Bell Tel. &amp; Tel. 3's, 1979</td>
<td>7/20/39</td>
<td>107-1/2</td>
<td>96-3/4</td>
</tr>
<tr>
<td>Shell Union Oil Company 2-1/2's, 1954</td>
<td>7/19/39</td>
<td>97-3/4</td>
<td>92-92½</td>
</tr>
<tr>
<td>Terminal Railroad Ass'n of St. Louis 3-3/8's, 1974</td>
<td>8/16/39</td>
<td>102.60</td>
<td>94-95½</td>
</tr>
</tbody>
</table>

III. New York City Bank Statements

In the past few days the large New York City banks have published their statements of condition as of September 30, 1939, and it is now possible to see what these banks individually have been doing with respect to Government securities and loans in the last three months.

Charts IV and V show for selected dates the holdings of direct and guaranteed Government securities and the total loans for each of eight of the largest reporting member banks in New York City. These banks account for about 80 percent of the Government holdings and about the same proportion of the total loans of all New York City weekly reporting member banks. The charts also show, for the same dates as for the individual banks, the Government holdings and the total loans of all weekly reporting member banks in New York City. The Governments and the loans of J. P. Morgan and Co.* are also shown, although this company is not, of course, a weekly reporting member bank.

*Including Drexel and Co.
Although Charts IV and V are similar, the dates used are not identical. Chart IV shows data for June 30, 1936, the quarterly date nearest the all-time peak in the Government security holdings of New York City banks; September 30, 1937, the quarterly date which marked the subsequent low point of these holdings; December 31, 1938; and the two most recent quarterly dates. The total loans of weekly reporting member banks in New York City reached their post-depression peak, however, fifteen months later than the peak in their Government holdings -- in the same month, as a matter of fact, that the Government holdings reached their low. Chart V shows, therefore, data for September 30, 1937, the quarterly date nearest the post-depression peak of loans of New York City banks; June 30, 1938, the approximate date when loans stabilised after the sharp decline from the 1937 high; December 31, 1938; and the two most recent quarterly dates.

The pattern of United States security holdings of individual banks does not conform neatly to the pattern presented by the holdings of all reporting member banks in New York City. In the three months since June all such reporting member banks increased their holdings of Governments by $89 millions, or 2.1 percent. Among the individual banks, however, three decreased their holdings of Governments, offsetting in part the substantial percentage increases registered by other banks in the City. As is shown in the following table (arranged in order of percentage increase), the holdings of the Bankers Trust Co. showed the greatest relative increase whereas J. P. Morgan and Co. showed the greatest relative decrease.

<table>
<thead>
<tr>
<th>Bank</th>
<th>Change, June 30 - September 30, 1939 (millions of dollars)</th>
<th>Percent change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bankers Trust</td>
<td>+ 56</td>
<td>+ 19.8</td>
</tr>
<tr>
<td>First National</td>
<td>+ 16</td>
<td>+ 6.3</td>
</tr>
<tr>
<td>National City</td>
<td>+ 30</td>
<td>+ 4.9</td>
</tr>
<tr>
<td>Central Hanover</td>
<td>+ 6</td>
<td>+ 2.1</td>
</tr>
<tr>
<td>ALL NEW YORK CITY REPORTING BANKS</td>
<td>+ 89</td>
<td>+ 2.1</td>
</tr>
<tr>
<td>Guaranty Trust</td>
<td>+ 13</td>
<td>+ 2.0</td>
</tr>
<tr>
<td>Manufacturers Trust</td>
<td>+ 3</td>
<td>+ 1.1</td>
</tr>
<tr>
<td>Chase National</td>
<td>- 26</td>
<td>- 3.1</td>
</tr>
<tr>
<td>Irving Trust</td>
<td>- 11</td>
<td>- 6.6</td>
</tr>
<tr>
<td>J. P. Morgan &amp; Co.</td>
<td>- 72</td>
<td>- 18.3</td>
</tr>
</tbody>
</table>
The loans of the individual banks, in contrast with their Government security holdings, have, in general, conformed to about the same pattern as that of all reporting banks during the period under consideration, with the exception of Morgan and First National. Only these two banks and Central Hanover have shown a decline in loans since June 30. It is interesting to note that J. P. Morgan and Co. is the only bank in the group which has shown a decrease in both Governments and loans during the past quarter. (Its cash has more than doubled during the period.)

The data on individual banks shown in Chart V refer to total loans, these figures being the only ones available in the statements of the individual banks. These data do not adequately show developments during the quarter because the sharp increase in commercial, industrial, and agricultural loans -- as shown by data for all reporting member banks -- was offset in part by the sharp contraction of loans on securities during the middle of September. During the third quarter, commercial, industrial, and agricultural loans of all weekly reporting New York City banks increased $268 millions, whereas total loans increased only $128 millions.

IV. Foreign Money Markets

Both the British and French security markets gave indications of a return to more normal conditions last week. Gilt-edge prices recovered a little and were accompanied by a somewhat greater revival in the stock market. On Thursday, British consol prices rose one-eighth above the official minimum of 62 for the first time since September 5. By Monday, a further improvement to 63 had occurred.

* It should be noted that the character of the business of J. P. Morgan and Co., particularly in its foreign accounts, may be somewhat different from that of the other banks, and that consequently its cash requirements may differ correspondingly. It should also be noted that the decrease in the Government bond holdings of this firm might be accounted for entirely by an excess of maturities over new purchases of Treasury bills and guaranteed securities, or might be accounted for in whole or in part by sales of Government securities made during July and in August prior to the beginning of the war crisis.
The Bank Rate was maintained at the level of 3 percent all week, but the market continued to expect that there would be a further cut preparatory to the issuance of new war loans. Market opinion, according to the press, is that another reduction in the Bank Rate would greatly stimulate the "thawing" out process in the gilt-edge market. It is also felt that such a step would be in line with prevailing money conditions.

Money rates remained at, or fell slightly below, the easier levels established the previous week. The plentiful supply of funds enabled the British Government to borrow at a reduced rate, the average rate on Treasury bills dropping from 2.44 percent to 2.13 percent.

High-grade securities on the French Bourse also gained last week. Perpetual rentes closed at 68.15 on Monday, to yield 4.40 percent, as compared with a price of 67.10 (yield 4.47 percent) on Wednesday, the low last week.

Attachments.
Chart I

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

WEEKLY, Wednesday Quotations

Long Term Treasury* (10 years or more to earliest call date)

Corporate

DAILY

Long Term Treasury

Change in Net of Discount

Spread Between Long Term Treasury and Corporate*

Spread

*Spread in line indicates change in composition of long term Treasury average.
Chart II

CHANGE IN THE PRICES OF U.S. SECURITIES SINCE SEPT. 6, 1939

Points Plotted Represent Differences from Average Price of Each Maturity Class on Sept. 6

NOTES: 3-5 YEARS
NOTES: 1-3 YEARS
BONDS, UNDER 5 YEARS TO CALL
BONDS, 5-15 YEARS TO CALL
BONDS, OVER 15 YEARS TO CALL

NOTE: BREAK IN LINE INDICATES CHANGE IN COMPOSITION OF A MATURITY CLASS

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

F = 121 - 5
Chart III

FEDERAL RESERVE BANK HOLDINGS OF U.S. SECURITIES

DOLLARS
Billions

MONTHLY

1929 1930 1931 1932 1933 1934 1935 1936 1937 1938 1939 1940

28
24
20
16
12
8
4
0

Total
Certificates and Bills

DOLLARS
Billions

MAY
JULY
SEPT.
NOV.

1938

WHENLY
Wednesday Figures

Figures for First Three 1/2, Adjusted
Current Figures as of 6/30.

Total
Certificates and Bills

0 4 8 12 16 20 24 28

JAN.
MAR.
MAY.
JULY.
SEPT.
NOV.

0 4 8 12 16 20 24 28

This is a survey of the Treasury Bureau's reports on Banks.

Regraded Unclassified
Chart V

TOTAL LOANS OF NEW YORK CITY BANKS

All Weekly Reporting Member Banks in N.Y.C.

Selected New York City Banks

Chase National

National City

 Guaranty Trust

Bankers Trust

J.P. Morgan & Co.
Dresdell & Co.

Central Hanover

Manufacturers' Trust

First National

 Irving Trust

Note: Figures are for the end of month indicated.
October 10, 1939.

Gentlemen:

Attention: Mr. D. J. Cameron

Reference is made to the arrangement with the Banco do Brasil as fiscal agent of the Brazilian Government, set forth in the enclosures with the Department’s letters to you dated July 15, 1937 and September 2, 1938.

It is my understanding that in accordance with the advice contained in Banco do Brasil’s cable No. 1 to you dated September 26, 1939, the Bankers Trust Company, New York has informed you that 52 gold bars valued at approximately $767,500.00 have been shipped by their London Office, consigned to you, for account of the Banco do Brasil on the S. S. Washington scheduled to arrive in New York on or about October 13, 1939.

This will confirm authorization, telephoned to you, to take delivery of the above-mentioned gold bars and to earmark such gold in your vaults as fiscal agent of the United States for account of the Banco do Brasil as fiscal agent of the Brazilian Government in accordance with the terms and conditions of the letter dated July 15, 1937 from the Secretary of the Treasury of the United States to the Minister of Finance of Brazil, as modified and supplemented by your letter dated September 2, 1938 transmitted to Banco do Brasil by cable through the Department of State, Washington, D. C.

No liability will be incurred by you in connection with any acts, arrangements, or agreements entered into or performed in accordance with this authorization except for your own negligence.

The transaction authorized in this letter has been approved by the President.

Very truly yours,

(Signed) Herbert M. Gaston
Secretary of the Treasury.

Federal Reserve Bank of New York,
33 Liberty Street,
New York, N. Y.

Enc: 1/12/40

Init.: H.M.C FD KB WH DWE KELL HE

Regraded Unclassified
TO: Secretary Morgenthau

FROM: Mr. Cochran

Upon an appointment made some days ago, Mr. Pinesent, Financial Counselor of the British Embassy, called this afternoon at 3 o'clock to present Sir James Rae and Lieut.-Col. J. H. M. Greenley, both members of the British Purchasing Commission. These two gentlemen had just arrived from Canada. Lieut.-Col. Greenley is from the industrial concern of Babcock and Wilcox and Sir James Bay is an undersecretary in the British Treasury. The former is acting as controller-general of the Mission, and the latter as chairman and administrative executive.

The two visitors, for whom Lieut.-Col. Greenley did most of the talking, stated at the opening of the conversation that they did not desire to be indiscreet or to cause the Secretary any embarrassment.

The Secretary asked them about Canadian industrial plants. Col. Greenley stated that automotive plants were helping the British quite a bit, but the latter were making the effort not to interfere with these plants meeting Canada's own requirements. Aeroplane manufacturing in Canada was on only a small scale; this could be advantageously supplemented by aeroplane parts, especially engines, exported from the United States to Canada.

Pinesent had learned from Leroy-Beaulieu of the Secretary's conversation with the latter in regard to the opening of accounts with the Federal Reserve Bank of New York as fiscal agency of the United States. The Secretary explained the possible action of the Treasury as a "buffer" in protecting such an account from publicity. It was understood that Mr. Osborne, from the Bank of England, and now in Canada, is the member of the Commission who will discuss this phase of their negotiations. The Secretary stated that he would welcome him at any time and a visit early next week was mentioned. The two members expressed their personal approval of the fiscal agency account idea and continued to show a desire, moreover, to discuss this matter with the Secretary today. Consequently, Captain Collins and I withdrew so that the conversation could be continued by the Secretary and the British visitors.
October 10, 1939
10:36 a.m.

HMJr: Hello.

Harold Iokes: Hello, Henry.

HMJr: Hello.

I: Hello.

HMJr: Harold......

I: Yeah.

HMJr: Henry talking.

I: Yeah.

HMJr: Can you hear me?

I: Yes.

HMJr: I don't hear you very well.

I: All right.

HMJr: I talked to the -- hello?

I: Yes.

HMJr: I talked to the President at lunch yesterday about the point you raised about the visas for these 400 Jewish students.

I: Yeah.

HMJr: And he said that he was opposed to giving any visas to any Americans.

I: Yeah.

HMJr: Whether they wanted to go to Scotland or whether they wanted to go to complete their studies of the or to go back to complete their studies in Germany. And -- hello.

I: Yes, I get you.
In view of his position I called up Ben Cohen.....

Yes.

.....and asked him if he wouldn't help you and me by getting into the thing and see what could be done to get them into the American universities.

Yes.

I just wanted to again thank you for bringing it to my attention and hope it's agreeable to you that I asked Ben Cohen to help out.

Certainly. Ben......

What?

.....called me up and said you had talked with him, and that's quite all right.

Well, I -- I just wanted to tell you because......

All right, Henry.

Thank you, Harold.

Goodbye.
My dear Mr. President;

Upon inquiry at the Bureau of the Budget as to when we could expect the 1936 Budget Summation to be released, I was informed that there was no date set and that there is some doubt in your mind as to whether this should be issued. In your Budget Message of January, 1935, you stated in part as follows:

"In order to promote more satisfactory methods of budgetary control in the Government, I propose this year to inaugurate the policy of having a Summation of the Budget prepared for publication immediately after the Congress has acted on all financial matters. * * *"

You then said that the Summation would exhibit the revenue estimates as revised by the Treasury so as to reflect any changes in the economic situation during the preceding months, also any revisions in the tax laws made by Congress and any revision of the estimates of expenditures based upon the appropriations actually made by the closing Congress.

In accordance with the announcement in your Budget Message of January, 1935, the first Summation was issued in September, 1935, covering that fiscal year and it has been published each fiscal year since that time. The public in general and the newspapers in particular expect this publication to be issued shortly after the closing days of Congress. This year there is unusual interest in it because of the changes made by Congress in the appropriation estimates and the recent Executive Orders enlarging the military branches of the Government. Because of the delay in issuing the Summation, the newspapers are now beginning to make their own estimates of receipts and expenditures and I believe it would be much better for all concerned if these estimates could be obtained from an official document rather than have various estimates made by outside people. Furthermore, I believe that it would be most unfortunate to break the precedent of issuing the annual Budget Summation.

I hope, therefore, that you will reconsider this matter and allow the Summation to be published in the regular manner. I should

File to Mr. Thompson
be pleased, however, if it could be timed so as not to come during or immediately preceding a Treasury financing operation.

Faithfully yours,

(Signed) H. Morganthau, Jr.

Secretary of the Treasury.

The President

The White House.
The foreign exchange market was dull today. Sterling opened at 4.03-1/4; in the early afternoon touched the high of 4.03-3/4, and closed at 4.03-1/2.

The other important European currencies have moved in a narrow range during the last few days and closed today as follows:

- Belgium 1.673
- France 0.9228-3/4
- Holland 0.5313
- Switzerland 0.2245

The Canadian dollar continued to show further strength and closed at 10-3/166 discount.

Reporting banks in New York and the Federal Reserve Bank reported sales totaling £435,000, from the following sources:

- Commercial concerns £ 93,000
- Foreign banks (Europe) £ 292,000
- Fed. Res. Bk. (For Sweden) £ 50,000
- Total £ 435,000

Purchases of sterling amounted to £303,000, as indicated below:

- By commercial concerns £ 185,000
- By foreign banks (Europe and Far East) £ 118,000
- Total £ 303,000

The Bank of Latvia purchased in this market 238,000 belgas and 10,000 guilders.

The National Bank of Belgium sold to us $320,000 gold from their earmarked account.

We received, through the Federal Reserve Bank of New York, a request from the Central Bank of Ecuador to purchase $350,000 in gold. This transaction was approved by the Treasury, provided the gold is to be used to increase the monetary reserves of Ecuador, and subject to confirmation by the Central Bank of that country. This gold is to be held at the Federal Reserve Bank of New York under earmark for Ecuador and is the first sale of gold to that country.

There were no engagements of gold for shipment to this country reported today.
Knocks telephoned me at 3:15 p.m. that, as of October 10, the balances of the Russian State Bank with the Chase Bank had risen to $4,900,000 as a result of the addition of $2,000,000 advanced by the Chase Bank against the Russian gold shipment in transit from Oslo. The Amtorg's account with the Chase had declined to around $500,000, following heavy payments to the market for purchases.

Knocks stated that the Federal Reserve Bank of New York contemplated reducing its customary deposit of $50,000 with the Bank of England to $5,000. He asked if this would upset any Treasury plans. I replied that it would not; that the Stabilization Fund had already reduced its sterling balance to a very small sum; that the decision was entirely with the Federal; and that the Treasury would not take the responsibility of suggesting that they retain their usual balance.
Hello.
Mr. Cotton. Go ahead.
Hello.
Yes.
Cotton.
Yeah.
The President is very much interested in getting some quicksilver as strategic material.
Yeah.
And one of the suggestions he's made is that we should take it up with Warren Pierson.....

.....that Spain might accelerate its payments to us for the cotton that they've gotten by giving us some quicksilver.

Yeah.
See? They've got a lot of quicksilver there.
Yeah.
Now, tell the -- Warren Pierson the President is very much interested in it and is there something he can do along those lines.
I see. Does -- shall we look into it too or just hand that on?
How do you mean, look into it too?
Well, I mean, shall we -- do we want to look into what they have and what they might do or just......
Who?
C: Spain.

HMJr: Well, Harry White wrote me a memorandum on quicksilver, where it is and all the rest of it, which I showed to the President.

C: Um-hm.

HMJr: And you could get a copy from Harry White.

C: Sure. All right, sir.

HMJr: When you talk to Harry White tell him to send one over, a copy, also of his memorandum on quicksilver to Captain Collins by hand right away.

C: To Captain Collins.

HMJr: Collins - head of Procurement.

C: All right. Fine.

HMJr: Will you?

C: Fine.

HMJr: Thank you.
October 10, 1939

To: Secretary Morgenthau
   Under Secretary Hanes
   Mr. Bajie
   Dr. White

From: Joseph P. Cotton, Jr.

MEMORANDUM: RE LATIN AMERICAN PROBLEMS

The Guatemala Conference of treasury experts and the meeting of the Committee of Economic Experts, the creation of the Panama Conference which is to meet contemporaneously in Washington beginning November 15, are impending. The President has announced he will ask Congress at the forthcoming regular session to increase the lending capital of the Export-Import Bank from $100 millions to $500 millions, to enable the Bank to render assistance in Latin America. Welles and Feis will have returned from Panama by Thursday.

Under the circumstances, it seems expedient for the Treasury to attempt to think out the role it may be called upon to play.

I. Background.

In the past couple of years, in addition to the relatively small amount of financing of trade with Latin America undertaken by the Export-Import Bank at the initiative of United States exporters or importers, the United States, through the Bank, has undertaken financial commitments in Latin America as follows:

1. Haiti. $5,000,000 for a public works program involving purchases in the United States.
2. Nicaragua. $500,000 for purchases in the United States, plus an agreement to consider applications for further purchases up to $2,000,000.

3. Brazil. A $19,000,000 credit to liquidate blocked balances of United States exporters; and an agreement to consider applications for financing purchases in the United States; no definite amount specified but $50,000,000 mentioned. In addition, the President agreed to recommend to Congress a $50,000,000 gold loan; and the 1937 agreement by the Treasury with respect to gold exists.

4. Paraguay. $500,000 for purchases in the United States, plus an agreement to consider applications for further purchases up to $3,000,000.

5. Uruguay. $4,000,000 for purchases in the United States.

The commitments are generally in the form of an agreement by the Bank to consider, within the general limits prescribed and presumably in consultation with the authorities of the country concerned, individual applications by United States interests for the financing of purchases in the United States, including United States services and, in some cases, incidental local labor and material costs. Except in the case of Haiti, where a public works program undertaken by J. G. White and Company is in progress, and in Nicaragua where a road-building program is being studied by an EFC man, and with the exception of the portion of Nicaraguan and Brazilian credits advanced to unfreeze blocked balances of United States exporters, no definite plans or arrangements for utilization of the credits have been formulated.
eral objectives in terms of the development of communication facilities and of productive facilities along lines complementary to the economy of the United States are stated.

Apart from general political objectives and the desire in certain cases to help United States export trade in competition with Germany, I am not aware that definite economic or other concessions were sought or obtained in these agreements except as regards treatment of private United States bondholders in the case of Brazil under the Arenal agreement. As regards the other countries with which agreements have been made, either no debt problem exists or obligations are being met. It is clear that selectivity on the basis of treatment of United States private creditors was exercised when entering into these agreements.

Since the War and in order to fortify the position of the United States at the Panama Conference, in addition to the general statement of what the United States is prepared to do in the matter of rendering financial assistance, which was cleared with Mr. Jones and the Treasury, definite promises have been made to Chile and Panama. The Export-Import Bank has approved, upon condition that it has available funds:

1. A $5,000,000 credit to a Chilean Government corporation,
2. A $2,500,000 credit to Panama,
3. Two applications aggregating about $3,250,000 to finance the sale of ships and steel rails to Brazil.

It should be noted that under the pressure of the Panama Conference situation, the fact that Brazil has done little to adjust the
private debt situation as promised in the Aranha agreement except to
deposit $1,000,000 in New York and initiate meetings with the United
States, British and French bondholders' representatives in Rio, which
were terminated upon the outbreak of the War, and the fact that Chile
is servicing her external debt only in part, have been disregarded.

II. Treasury position.

In recent years the Treasury has favored, as part of any general
settlement of outstanding questions by bilateral negotiations between
the United States and Latin American countries, a program of financial
assistance aimed primarily at building up the long-run productivity of
those countries. The Treasury does not feel that it can properly concern
itself directly with the private debt problem, but feels there must be an
assurance that, as part of any general settlement, there will be an ad-
djustment of the private debt situation on a reasonable basis in harmony
with the primary objective. This Treasury position was set forth in the
Secretary's letter of August 1 to Mr. Welles, taking occasion to draw a
moral from the Aranha fiasco and to insinuate our view that the State
Department is permitting the Foreign Bondholders' Protective Council
to obstruct any constructive approach to the debt problem.

The results of the War, so far as known, do not seem to require
modification of the above views, and the emphasis placed upon exchange
stability in the discussions in preparation for the Panama Conference
would seem misplaced. The Treasury advocated caution in committing the
United States at Panama and told the State Department definitely that there would be no departure from precedent in the use of the Stabilization Fund. The increased dependence of Latin America on the United States, due to loss of German trade and the improved domestic economic situation in the United States, should make it easier to pursue long-term objectives. From the standpoint of trade policy in harmony with the financial policy sketched above, the United States should be in a better position to encourage imports from Latin America and trade policies on the part of Latin American countries favorable to the import of capital goods as opposed to consumption goods. As regards the latter, I take it Dr. White has urged this view upon the Executive Committee on Commercial Policy. The Department of Commerce is giving considerable attention to the possibilities of increasing imports from Latin America.

III. Immediate problems.

1. Guatemala Conference. This conference, called pursuant to a provision in the Lima Conference resolution, was designed for the purpose of establishing contact between treasury officials and to lay a basis for further regular contacts. Since then the War supervened, and the Panama Conference has resulted in the meeting of economic experts here where presumably the major objective of the Latin American countries will be to lay a basis for borrowing as much money as they can from the United States.
Under the circumstances, a contemporaneous meeting at Guatemala to discuss a thoroughly academic agenda would seem absurd, and presumably the Treasury will want to do what it can to put off this meeting.

2. Meeting of economic experts – Washington. The Treasury may be asked to participate in this work and should make up its mind whether or not to do so. The agenda covers about everything under the sun. Perhaps the best that could be hoped for would be that the committee might develop the essential facts as to the problems confronting individual countries. Conceivably, if guided in this direction, the committee might develop some ideas as to how United States capital might be loaned safely in Latin America, protected by some multilateral sanction or otherwise.

3. Cooperation between interested United States agencies. Mr. Welles’ answer to the Secretary’s letter of August 1 was clearly Mr. Hull’s letter suggesting an interdepartmental triumvirate consisting of the Secretary, Mr. Jones and Mr. Welles to consider Latin American financial problems. This idea will undoubtedly be pressed again by the State Department and presumably something of the sort is advisable.

It should be noted that the difference between the Treasury and the State Department approach may be aggravated by Mr. Welles’ insistence that this is an emergency in which the problem of rendering financial assistance should not be tied up with any general settlement of outstanding problems. Personally, I feel that the most constructive contribution the Treasury can make is to press the State Department.
to take advantage of the war situation and do everything possible to force an adjustment of the private debt defaults.

4. Export-Import Bank situation. As indicated above, commitments to Chile, Panama and Brazil were rushed through the Bank to help out the Panama situation without the Bank's financial position being really clarified. In addition, there have been recently indications that there will be pressure from American export interests to get the Bank to finance propositions in which the American exporter, on account of the recent pickup in business, is unwilling to assure a share of the risk.

It is recommended that the Treasury oppose any further commitments on the part of the Bank until its financial position is clarified.