

DIARY

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RE LATIN AMERICAN PROBLEM

October 11, 1939.
9:45 a.m.

- Present: Mr. Baillie
- Mr. Cochran
- Mr. Cotton
- Mr. Viner
- Mr. Riefler
- Mr. Foley
- Mr. Hanes
- Mr. White

H.M. Jr: Johnny, can you start this? Well, I will start it this way. This is what I was thinking of doing. When I go over to see Mr. Hull, I am going to show him this letter of September 8th, which I have not answered, and I want to show him this, on page 2.

"I should like to add that it is the understanding of the President that all proposals shall before coming to the committee for consideration be brought to the attention of the Department of State and only upon the recommendation of the Department of State will any particular plan be considered or undertaken by the committee."

That is the only thing that bothers me on this and then on September 13th we got the letter in which Welles says, "The letter sent by the Secretary of State on September 9th regarding the handling of matters in this field has clarified the subject."

Well, it hasn't, as far as I am concerned.

And then the one dated October 4th, which says, "There is no expectation that any agreements shall be reached at Guatemala or any negotiations undertaken." That is what I was going to say. I was going to say, "Mr. Hull, here are the two letters and as far as I am concerned, as long as everything has to originate with the State Department, if that is the way you feel, that is all right with me. And then as some matter comes up that has to do with finance and if you care to ask me to go into the matter, I am willing to do so, but as I wrote you on August 1st, if we do go into it, I will have to get that whole picture -" Where is Cotton?

Ask Mrs. Klotz for a copy of that letter, will you please?

I want to stick by that letter. Can we make those two things - you don't want us to start anything without originating it. O. K. I don't want to get in on anything unless once we are in it - I don't want to be torpedoed the way I was on the Brazilian thing.

Hanes: Yes, that is what you mean to say, all right.

H.M.Jr: I will refine that. I can go through the whole thing and then the other matter is, I want to say, "Now, Mr. Hanes is Undersecretary of the Treasury and it is of tremendous importance to me to have him, and letting him go to Guatemala would be a great sacrifice for me and for him and in view of this thing of October 4th, 'there is no expectation that any agreement will be reached at Guatemala or any negotiations undertaken' why send a valuable man like Mr. Hanes down there to look at the Guatemala costumes of the ladies. I don't know whether he wants to or not.

Hanes: Under those circumstances, I think it would be proper for the State Department to continue this Guatemala business and Feis is going anyway and it seems to me it is absurd unless we want a vacation to go down there and sit down and write letters back here to this group of twenty-one that he has invited to meet in Washington.

H.M.Jr: You had your vacation in July.

Hanes: Sure. It seems like a waste of time and money and everything else and it is going to make us look like monkeys. We can't look like anything else. That is all you have got to do, is go down there and look like a monkey.

Hallie: Unfortunately, the Undersecretary of the Treasury would be made to look like a monkey because he would be the ranking delegate at the head of a thing which they say is to do nothing.

Hanes: I think you could say that in a perfectly nice way - maybe Welles has got an idea we don't understand, but I think you could say in a perfectly nice way that since it is the State Department's function according to that letter to originate these ideas,

it is not the Treasury that wants to originate them, they want the State Department to originate them, and it would seem to me just nothing but common sense that they send the State Department down there and let them originate the ideas and when there are economic problems coming into it, that we be called in.

H.M.Jr: When you say economic, you mean financial?

Hanes: Yes.

Riefler: Are both committees meeting at the same time?

H.M.Jr: I think they start the same day.

Riefler: Can't they be shifted? I should think that would be the more sensible thing to do, to see that they don't conflict.

H.M.Jr: You still have this thing, "There is no expectation that any agreement will be reached at Guatemala or any negotiations undertaken." Why in hell send a valuable man like Hanes down to Guatemala?

White: Mr. Secretary, your position is quite sound but I merely want to remind you of the position you took when that thing was first started. You didn't think anything would come of it. They, in return, pressed you to have the meeting, if only to have the Ministers meet each other and the Treasury present there to discuss things in general, even though they weren't very hopeful that anything would come out of it.

H.M.Jr: I will remind you, if I am correct, that Mr. Welles put it on a strictly personal basis and asked me to cooperate with him on this thing.

White: I was going to say, therefore....

H.M.Jr: I remember Welles said, "As a personal matter, I am asking you to go along with me on this Guatemala thing." Am I right on it? I think so.

White: I didn't know whether it was the President or Welles.

Baillie: There are two great facts, first, the war, and the November 15th conference sponsored by Mr. Welles, which

is primarily a financial conference. The big meeting is the twenty-one here in Washington. I think those two great differences give an easy way out for Mr. Hull if he wishes to have it.

White: I was going to say that therefore the emphasis should be a little bit careful not to place yourself in position of saying, "We knew all this," when you agreed a year ago. Therefore, it seems to me that the emphasis ought to be that at that time you did not understand that there might not be some negotiations going forward, that in fact the implication was that something useful might be accomplished but that this letter eliminates all that possibility. I mean it ought to be that way so as not to....

H.M.Jr: We agree to do something on Mr. Welles' personal solicitation and in the meantime he sets up a new group to meet in Washington. I don't have to be so indirect, Harry. I just say that the State Department begged us to do this thing and on their personal solicitation I agreed, against my better judgment. Now, on the same day they are going to have another group here who are going to have the power. I don't want to have anything to do with it.

White: Would you want to refresh your memory at the time? I think it was the President that asked you to participate.

Hanes: I think he is right, Harry. I think Welles came over here and asked him if he would send somebody down to Guatemala as a personal favor to him. I remember he told me right after that.

H.M.Jr: Even if the President asked me to do it, since they are going to have another conference opening on the same day, I don't want anything to do with it.

Bailie: I think all you would have to read aloud to Mr. Hull is the last line in the telegram which says that Mr. Hanes could mail up things to Mr. Welles. That is in the telegram where they are talking about it, the suggestion is that the Undersecretary might mail up recommendations. Not even by sending....

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H.M.Jr: That isn't in my copy.

Cochran: It is there. Here is a copy (handing copy to Secretary).

H.M.Jr: Where is that mail part?

Cochran: Here it is in the last paragraph.

"Perhaps mail recommendations could be sent." Not even send them by cable. It is just impertinent, Mr. Secretary, at that point.

H.M.Jr: It is a good point.

Cochran: Have we had any suggestion, Mr. Secretary, as to who is going to be on the committee here?

Cotton: No.

Baillie: They haven't even consulted us.

Cotton: Presumably all the top South Americans will come up here. That is another thing, they don't want to go to Guatemala, I shouldn't think, when they want to come up here and borrow money.

White: I suspect that the time was selected with a view to reducing the importance of the Guatemalan conference.

Cotton: Oh, I don't think so, it just happened.

White: Within a few days, when you have that number of months? How could it just happen?

Baillie: It is all very odd.

White: Yes. They meet almost within a few days.

H.M.Jr: This is a damn good letter, the August one.

Baillie: It is a peach.

H.M.Jr: And I can just refer to that thing here. Now, I read somewhere....

Hanes: That is the letter they never answered?

H.M.Jr: Yes.

Baillie: That is the one they had four or five revised answers at different times and they never got one that satisfied them.

H.M.Jr: Yes. What I thought I would simply say is this, "Now, there is no argument that it is up to the State Department to say when we should begin any negotiations with a foreign country, but, Mr. Hull, if you are going to ask the Treasury to participate in any foreign negotiations that affect finances in South America, then I say I will only do it on the basis as laid down in my letter of August 1st."

Now, if that is not agreeable, O. K. I have been through the Brazilian thing and I am not going through another thing like that again. I am just not going to be subjected to the kind of treatment I received from that Department when I went through the Brazilian thing.

Baillie: Mr. Secretary, there is a point in there that goes like this. If you are going to be asked, go to the Hill and ask to have these agreements that are made by the State Department carried out as they will be if you have provisions in them. Then what you say has a double force, because if the Brazilian thing - if the 50 million is asked for, you will be standard-bearer.

Hanes: You will have to be. They will ask you right away.

H.M.Jr: Now, Johnny, when I go over this afternoon, will you and I be singing the same song?

Hanes: Absolutely.

H.M.Jr: Do you want to say something?

Hanes: No, I am primarily interested, of course, in this Guatemalan business, and I think we ought to clear that one up definitely.

Viner: It seems to me you ought to have some suggestions as to how you can get out of this Guatemalan business and not merely condemn it.

Hanes: I was just going to suggest that we turn our minds toward making some concrete suggestion as to whether or not the Treasury wants to send any representative down there in the first place. I think they might want to send some man down, one man, to go with the State Department, but with the State Department carrying the ball.

Baillie: May I make a suggestion? I think there is one that would let the State Department and let us out. That is, if the State Department would suggest that the Government of Guatemala who, as I understand it, issued an official invitation, that in view of this November 15th conference it might be well to postpone the Guatemalan conference until after the conference here had taken place because some of the same personnel were going to be used and because, frankly, the State Department and the Treasury are not so heavily staffed as to be able to do both things at once. That would be very dignified and a decent way of putting the Guatemalan conference off until after the twenty-one had finished the meeting and then, possibly six months from now if there is real substance to be discussed, Guatemala could have their meeting.

White: Or we could skip this year. That is supposed to be an annual thing and it might be suggested that this meeting which is coming up here might, for reasons which you have indicated, well replace this year the meeting in Guatemala and in other words, have a joint meeting or they might - call it a joint meeting, whatever you like.

Hanes: The only objection I see is the fact that Guatemala has made great plans for this thing. To them it means a show that they want to put on there.

White: There is one other possibility, John.

H.M.Jr: I am sorry. They knew that you were going to go down and I think it is an impertinence.

Hanes: I am anxious not to give the State Department the idea, or anybody else, that I personally am acting like a prima donna. I don't give a damn about this thing one way or the other on that score. I think I have got my hands full here. I am scheduled on November 1st for that sub-committee of the Ways and

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Means Committee for two months of hard work prior to January 1st. I have got plenty of work to do and I don't want to go down there unless I could be helpful in really accomplishing something. To go down there and sit around and have a good time, I don't think now is the time to do that. I would hate to put myself in a position of saying that, "Well, I want to be the whole show down there. We don't want a show going on in Washington while we are going on in Guatemala." I just think it is futile going down there and wasting time. I have got enough to do with this other thing right on my neck. I don't want to add to it.

- H.M.Jr: We will go over. I will start off and do you want to sew up the Guatemala thing or do you want me to say it?
- Hanes: I think you would do better than I.
- H.M.Jr: I don't know about that. Let's see how it breaks. I can do a little better about not wanting you to go than you saying you don't want to go.
- Hanes: Sure.
- Cotton: If I am not talking out of turn, Welles and Price are getting back presumably Thursday or something. Talking to Mr. Hull about this may make him a little sore.
- H.M.Jr: Good.
- Cotton: I mean I wanted you to understand that. It is Welles' baby. I don't suppose Mr. Hull cares as much about it.
- H.M.Jr: You are here to raise these points, but I want to make Mr. Welles and Mr. Fels sore. I hope they get good and sore.
- Baillie: They ought not to send insulting messages of that kind.
- H.M.Jr: Every time on the financial business in the last six years they have got in a hot spot. When they

get into the thing they fool around for three weeks and insult the man and drive him up against the wall and try to put the screws on him to get - what is it six million or fourteen million dollars, for private bondholders, and they get one and they ruin the man's political career so that he is useless as a friend of the United States, and now what have they got?

Hanes: Is that right?

H.M.Jr: Oh sure, the man is affected. That was the finish. The man was affected and that finished him.

White: Won't people protest, Mr. Secretary? The reason why I am not fully in accord with the procedure is because this position is a duplicate of the one you took when the thing was originated and therefore a little bit weakening, it seems to me, to the strength of your position. I think it might be preferable to consider the alternative of having Johnny go to Welles and say just what he has said and let them settle it before it comes to you. It appears you objected to this in the first place and you are again taking the position now that....

H.M.Jr: No, I am sorry.

White: All right.

H.M.Jr: If you don't mind.

White: O. K.

H.M.Jr: I think we are all right.

October 11, 1939
12:11 p.m.

HMJr: Hello.

Operator: Mr. Harrison. Go ahead.

HMJr: Hello.

George
Harrison: Hello, Henry.

HMJr: George.....

H: Yes, sir.

HMJr:Earle gave me that message of yours on those checks.

H: Yes.

HMJr: And I'm tremendously interested in that.

H: Yes.

HMJr: Now, I'd like to give that to the President.

H: Yes.

HMJr: O. K.?

H: Yes, I think it is, but I -- I think it's terribly important that it not be disclosed beyond that for this reason, that we would then lose opportunity to gain similar advice later on.

HMJr: I understand.

H: You see?

HMJr: I understand.

H: If it got out at all that we had disclosed that confidential information, they would just stop using us.

HMJr: I understand. Now.....

H: So I think it's terribly important that.....

HMJr: I -- I'll impress him on that, but the thing....

H: Because it doesn't prove anything, but it might mean something.

HMJr: Right. And -- what happens to cancelled checks, George?

H: We have them.

HMJr: Could you see what happens with them -- I mean, if they deposit them or will they pay them to somebody?

H: Oh, yes, they were deposited by the ones down there.

HMJr: Yeah.

H: They were deposited in the Riggs.

HMJr: Yeah.

H: And the ones up here were deposited in the Chase.

HMJr: Now just a minute. Just a second.

H: Now what happened beyond that, of course, I have no way of knowing.

HMJr: The ones down here went into the Riggs.

H: That's right.

HMJr: And the ones in New York went to the Chase.

H: That's right.

HMJr: Now -- I get you.

H: What?

HMJr: I say, they have an account with the Riggs and with the Chase.

H: Well that must mean so.

HMJr: Right. That's all -- that's -- from then on you don't know what happens.

H: No, I don't know what happens.

HMJr: I see.

H: That's right.

HMJr: Thank you.

H: But I -- I can't emphasis how important it is to just keep.....

HMJr: I know.

H:it between you two.

HMJr: This is a pipe line and if we let it leak -- ah -- we don't get any more news.

H: That's right.

HMJr: I understand. Now, would you next week -- if you had something on it -- if it continues, will you give me another call?

H: I'll keep close watch of that and some other accounts that I'm watching too.

HMJr: Well, I appreciate it very -- and -- and if you'd call me, I'll be here next week.

H: All right.

HMJr: Thank you.

H: And McKittrick is going to come to see you on Monday if that's all right.

HMJr: That's all right.

H: And I'll ask him to call your secretary.

HMJr: Thank you.

H: First-rate. Goodbye.

October 11, 1939
3:41 p.m.

HMJr: Hello.

Operator: Mr. Davis.

HMJr: Hello.

O: Go ahead.

HMJr: Yeah.

Norman
Davis: Oh -- Henry, this is Norman Davis.

HMJr: Yes, Norman.

D: I got -- I talked to Williams, Dr. Parran's assistant
-- talked to me about the need of vast quantities of
quinine for that Burma.....

HMJr: Yeah.

D:district. Well, what they need will cost about
80 thousand dollars.

HMJr: Yeah.

D: I've already paid out here at Red Cross over 300
thousand dollars more than we've collected.....

HMJr: Yeah.

D:for China..

HMJr: Yeah.

D: And I just told him we couldn't do it -- in fact I'm
still going ahead doing things for them anyhow. But
I thought he better -- that Parran better see the
Rockefellers.....

HMJr: I see.

D:and see if they couldn't give a substantial part
of that. But what I was going to ask you, if the
Chinese -- couldn't they still take that out of the
credit - the government?

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HMJr: I don't know.

D: It seems to me so important I was wondering if they couldn't do that. I could help some, but not anything like that amount. I think it's awfully important.

HMJr: Well.....

D: I thought you might speak to the Chinese Ambassador to see if they wouldn't like to use for a thing like that. They probably feel that we'd all raise it some way and they better not use their own funds if they can help it.

HMJr: Yeah. Well let me think about it.

D: All right.

HMJr: Thank you, Norman.

D: All right.

HMJr: Goodbye.

October 11, 1939
4:12 p.m.

HMJr: Hello.

Operator: Mr. Harrison. Go ahead.

HMJr: Hello.

George
Harrison: Hello, Henry.

HMJr: Yes, George.

H: Oh, Henry, Cochran called me.....

HMJr: Yeah.

H:to tell me of his conversation with Beaulieu.

HMJr: Yeah.

H: And Beaulieu is, I understand, here in town. I told Cochran what I told Earle and I think you before, that I think that the quickest way and the next necessary step in this transaction is for us to get a formal letter from you now requiring us, as fiscal agent of the United States, to open this account. And I would suggest, if it's agreeable to you, to follow that procedure and let Logan and Foley get together and agree upon the terms of such a letter.

HMJr: Now to -- to make life easy for me, would you mind having Logan call Foley direct and I'll tell Foley the call is coming in?

H: That's quite all right.

HMJr: Now.....

H: But you agree that the next thing would be that letter from you because there isn't a thing in the world that we can do legally until we get that letter.

HMJr: Now here's a -- here's a thing which Foley knows about - I had Eccles for lunch and I told Marriner this: I said, "Now, Marriner, this is something the President and I want very much. Now I'd like your cooperation, and please don't ask the Federal

- 2 -

Reserve of New York to get the approval of the Federal Reserve of Washington for this." See?

H: Yeah.

HMJr: And he said, well he had certain legal responsibilities that.....

H: He had what?

HMJr: Certain -- he thought he had certain legal responsibilities under the 1933 Banking Act.

H: Yeah.

HMJr: And -- but he's going to look it over and I think he's going to be satisfied if I simply -- if I write him a letter informing him of the arrangement that I have made.

H: Yeah.

HMJr: Not asking his approval, but just informing him.

H: Umehm.

HMJr: See?

H: I see.

HMJr: Now that would certainly be highly satisfactory to you, wouldn't it?

H: Well that's all right for us because the agreement that we now have with the Federal Reserve Board is that on fiscal agency matters any further or different arrangement would be worked out between him and you.

HMJr: Well then that -- then that checks.

H: And he also -- I understood him to tell me when he was in my office on Friday that -- that in view of that memorandum he didn't see that it was necessary for me to go to them for their approval.

HMJr: Well -- now Foley knows all about this; I'll tell him of this call, and ask Logan to contact him, will you?

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H: Yes, I will. Now, Henry, as a practical matter, may I make one suggestion to you now as your fiscal agent?

HMJr: Yeah.

H: I think it would be wise for you, before you sign such a letter.....

HMJr: Yeah.

H:and under the law you've got to sign it I think, because it says "Upon direction of the Secretary of the Treasury".....

HMJr: Yeah.

H:that rather than act upon the oral statement of Beaulieu, or anybody else, you get a letter from the Ambassador asking you to do this.

HMJr: I see. O. K. I -- I think it's a good idea.

H: I think it's the only way you can protect yourself.

HMJr: All right. It's a good idea.

H: And that being so, we may not get the account open by Monday, but still there's no great rush. They've taken over two weeks to decide.

HMJr: That's right. All right, George.

H: All right, sir.

GROUP MEETING

October 11, 1939.
9:30 a.m.

Present: Mr. Hanes
Mr. Burgess
Mr. Duffield
Mr. Graves
Mr. Foley
Mr. Thompson
Mr. Bell
Mr. White
Mr. Cochran
Mr. Stewart
Mr. Viner
Mr. Riefler
Mr. Bailie
Mr. Harris
Mr. Cotton
Mr. Gaston
Mrs Klotz

Hanes: Did you want to talk to Dan and Harry White and Joe Cotton?

H.M.Jr: I just got a memorandum from - well, it is signed Hanes, Bailie and White, and written by Cotton, and I want....

White: It is what, signed?

H.M.Jr: It is to Morgenthau, Hanes, Bailie and White, written by Cotton, and I want to - why the astonishment?

White: I thought you said it was signed.

Duffield: It sounds like a firm name.

H.M.Jr: To Morgenthau, Hanes, Bailie and White from Joseph B. Cotton, Jr., memorandum, Latin American problems.

White: Period.

H.M.Jr: No, no period, it is underlined. I would like to compliment Cotton, because it is very refreshing to get a memorandum like that the night before I go and see Mr. Hull instead of the night after.

Immediately after this meeting, I would like to meet with White, Bailie, Hanes and Cotton. Are any of the three "E's" interested in this?

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Riefler: What is the problem?

H.M.Jr: Latin American problems.

Riefler: I am very interested.

H.M.Jr: What is the matter, Viner?

Viner: Not a thing.

H.M.Jr: Are you interested?

Viner: Yes.

H.M.Jr: Does that mean yes or does it mean no?

Viner: I would have to see the memorandum. You mean it is a general range of problems?

H.M.Jr: No, it is this particular relationship I told you about at lunch yesterday. I told you I was going over that today.

Viner: I am interested in that.

H.M.Jr: It is the particular relationship between Mr. Hull and myself and particularly Mr. Hanes' future conduct.

White: Mr. Stewart is interested in that.

H.M.Jr: All right.

White: And Duffield....

H.M.Jr: Are you interested?

Viner: Yes.

White: Mr. Secretary, I think as a matter of course - I didn't notice whether you indicated it - that there ought to be somebody from the legal division in all these discussions, because they do raise legal problems.

H.M.Jr: Would Mr. Foley do?

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White: I don't know. You would have to put him through his examination before he gets there.

H.M.Jr: Don't all start getting temperamental. There is only one fellow around here that can get temperamental and that is me.

White: Did you comment on that or are you still being facetious? I am serious.

H.M.Jr: Well, if you are, you had better leave the room.

White: If I am facetious or serious?

H.M.Jr: Serious.

White: On this point I am serious. If I have got to leave the room, I will leave it.

H.M.Jr: Oh, you are being serious.

White: I am being serious on this point.

H.M.Jr: What, about having a lawyer?

White: No, on all these economic discussions, when they come before you I think there ought to be a lawyer.

H.M.Jr: I think one lawyer would be good seasoning against four economists.

White: I am still in the air as to your question and the answer.

H.M.Jr: Try and keep Foley out. I don't know where that leaves you, Merle.

Anyway, we are going to discuss my going to see Mr. Hull with Mr. Hanes this afternoon. Anybody that is interested is invited. Fair enough?

Hanes: Yes.

H.M.Jr: We have got that settled, have we? Do you think we fixed Harry?

Hanes: I think Harry is pacified.

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H.M.Jr: That is something.

Gene?

Duffield: Nothing.

Foley: I have a memorandum here about extracts from the Congressional Record. Downey started that speech on Friday and it wasn't inserted in the Record until he finished on Monday, so yesterday was the first day that it was available. Here is the....

H.M.Jr: Don't give it to me.

Mr. Foley has a staff who reads the Congressional Record and picks the subjects out. He is going to get in touch with Thompson.

Foley: I have.

H.M.Jr: And it is up to Thompson to see that controversial subjects are assigned to somebody and that that somebody prepares an answer, and it is up to you (Thompson), if necessary, to hire somebody to see that within a reasonable time it is answered.

Now, in so many cases we may want to ask some Senator or Congressman to answer the thing, get the Record changed, but I want the thing done systematically, the study being made in Foley's office and the subject being assigned by you. Now, if anybody wants to have that thing modified or wants any particular thing brought to their attention, will they get in touch with Thompson. But, I want the thing to click regularly and if there is any particular subject that they are interested in that they would like to have, tell Thompson. Some one person can be assigned to that and that responsibility will flow from Bernard to this person in your office, assigned, and then see that those things are attended to. Will you assume that responsibility?

Thompson: Yes.

Duffield: Mr. Secretary, where these things are contemplated for publication, either through a Congressman or

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as a letter, I would like to see them.

H.M.Jr: Mr. Thompson is available from 9:00 to 5:00.

Foley: This is merely to bring to the attention of the people who are interested the items that appear.

Duffield: But suppose there is a letter to be read.

Foley: That is the answer in the item.

H.M.Jr: The purpose of my saying this out loud is that if anybody has any ideas, will they see Thompson? At least, I know this is a system which we haven't had and it is going to be attended to and if somebody like Downey gets up and makes a crack on gold, says we are going to hold it all, and we let a thing like that go by unanswered, I think it is silly.

Foley: We are going to have a messenger pick up the Record before 8:00 o'clock every morning at the Government Printing Office. We are going to have two lawyers going over it so the material will be in Thompson's office before 9:30.

H.M.Jr: Can you get some able person that you have confidence in that can assign this to somebody and then ride that person like hell until the thing is answered? Then anybody who is interested in some particular subjects, just write Mr. Thompson a note and say if anything is said on the Hill that affects shipping or Customs or Procurement or anything that they would like to know about, call it to their attention.

Thompson: I think it will work very nicely.

White: The Division of Research and Statistics gets out an analysis, I think, of the Congressional Record. I don't know whether the Legal Department is aware of that or not.

Bell: Every day.

White: I never read it, but....

H.M.Jr: What do they do with it, put it in the vault?

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White: I receive it and I presume others receive it. It is apparently a duplication.

Thompson: It is a long-winded affair. I like this arrangement much better.

H.M.Jr: Then kill it if it is being done in the Division of Research.

White: Not Monetary Research. It is not my division. I thought you pointed to me.

H.M.Jr: No, I am telling Thompson we shouldn't do the same thing twice.

Thompson: If it is a publication which might serve some useful purpose, we will let it go on. If not, we will stop it.

Bell: Well, I read it. Whenever I see a report I am interested in, I send for it. They always give a list of the reports on various bills coming out of the committees. I look at that every day.

Thompson: Possibly somebody will be interested in it.

White: That may serve a purpose if he does read it, but so far as I am concerned, I don't, and this would be more serviceable because I can't read - it is six or seven or eight pages every day and I don't read it. I wouldn't ever have seen this gold matter if Larry hadn't called it to my attention.

H.M.Jr: Larry wouldn't have called it to your attention if I hadn't raised heck yesterday. Yes?

Foley: Yes.

H.M.Jr: Can you handle this?

Thompson: Yes.

H.M.Jr: Right.

Anything else?

Foley: Nothing.

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H.M.Jr: Earle?

Baillie: Nothing.

Cochran: You have a new gold purchaser. The Central Bank of Ecuador wants \$350,000.

H.M.Jr: Send them a case of champagne with my compliments.

Baillie: It is the nearest thing to a miracle I ever heard.

H.M.Jr: While shaving this morning with Burgess' favorite 49-cent razor - I mean I was using my own razor - it seemed to me that the logical thing to do next week in view of the behavior of the securities is to refund Commodity Credit. The thing has behaved the best of all the securities. It is selling as well or better than it has at any time. If we do it a week before we have to, we are not at the mercy of the market and with my financing group that I talked to this morning, starting with Mr. Burgess - might I say you were enthusiastic?

Burgess: Right.

H.M.Jr: As to the idea and wanted to borrow my razor. Right?

Burgess: That is exactly right.

H.M.Jr: So we will concentrate, everybody, and do it on Commodity Credit and definitely do that next week. We do it a week before we have to and I think that is always good. If anybody has any doubt, see Mr. Burgess and Mr. Bell.

Jake?

Viner: Nothing.

H.M.Jr: Harry?

White: There was another article by Nadler of New York University, also saying that we are going to get stuck with the gold and I have seen that in several references in other places. It is apparently quite a commonly held opinion, so I have started to write a memorandum or some sort of a reply. Now, how it

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might best be handled, I don't know, but we will have it ready in a couple of days. We would like once and for all to scotch that idea.

H.M.Jr: Before you bring it to me, will you let the three "E's" see it, because I have asked them to look at that? Show the paper to them, see, and then after they have digested it, then I would like to see the four of you. All right, Harry?

White: Yes.

H.M.Jr: Harold?

Graves: I have a memorandum here about electric current.

H.M.Jr: Hang on to it and Mrs. Klotz will see that I see you today.

Graves: Quicksilver in the same category?

H.M.Jr: I will see you today. I will see you at 11:00 o'clock. I wish you would give the greater part of your day to working with Harold Graves. They are going to review this coordinating committee in view of a possible infringement of our Neutrality Act. You originally set the thing up. I wish you could go to work on it today and when they come to see me today I would like you to come too, because the feeling I have is that when you go into this I think you will find that there are a lot of our old friends who used to be in the rum game or in the narcotic game and that we most likely know their haunts and their habits, et cetera. So if you will sit in with the boys, and Thompson is arranging the meeting. Whenever they meet, I would like you to meet with them.

Graves: Yes, sir.

H.M.Jr: Dan?

Bell: Nothing.

H.M.Jr: Thompson?

Thompson: Nothing.

H.M.Jr: Well, it is now South American hour.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

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DATE

TO Secretary Morgenthau
FROM E. H. Foley, Jr.

October 11, 1959.

For your information

The present Chinese Consul General in New York City is Tsune-Chi Yü. He was appointed in April 1955 and has acted as Chinese Consul General in New York since that time.

Dr. Wang, I am informed, is in Hongkong. So far as Larry Morris has been able to find out, it is not contemplated that he will come to this country in the near future.

Larry is endeavoring to ascertain, through Dr. Chen, whether Hecht or his attorneys have been in touch with Mr. Yü and Mr. Yü's story regarding your alleged trip to New York on September 3, 1958.

E. H. F.

October 11, 1939

10:30 am

Present:

Minister Procope
Mr. Hanes

Mr. P: Our people at home are very calm and think things will go well; that there will be something, without yielding our vital rights, that we will come to an agreement in some way. We are thoroughly determined to stick to our neutrality and our independence and I don't think -- we can only hope.

HM, Jr: During the World War the Russians took good care to treat your people in a separate manner than anybody else.

Mr. P: Oh, yes! We were always separate from them. If now they took us, the aims are much more far reaching. It is not to have Finland. It is not to have our forests. They have more forests than they need themselves. It is not so much for our ports, because they have for themselves a lot of ports and now that they have Esthonia and Latvian ports in their hands they don't need them. If they took us, it is for the Aaland Islands in order to dominate all northern Europe or in order to come through Finland over to Scandinavia, the other Scandinavians, and to the Atlantic, and to the Norwegian ports. They are near Great Britain. So their attempt against Finland means -- concerns the total situation in northern Europe and, therefore, we think it is not only our duty against ourselves, but also our duty against Europe in general to resist and we go on. I think we, I hope we will be able to manage this. In any case, our people are far more confident, but it is, of course, a difficult time.

HM, Jr: Very!

Mr. P: But this crisis will pass, I think. And then we have again to think of ordinary life and then particularly we find if now, or when, this crisis passes, as I hope without complications, it is just because the Russians

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find that Finland is too tough a piece to take in the same way they have done the others and thanks to the fact we have our economic situation and our military system pretty good, but we have to develop further that and we have to be absolutely frank. We have to buy a lot of war materials from abroad and, therefore, we come and we also have to construct a few railroads still, which are of great importance for our economic life in general in order to be able to get out from our country under all circumstances, to get to the Atlantic Ocean -- I mean the Arctic Ocean in the North, but we are taking it -- we don't know -- we can take it up to the northeast to one of our own ports or to the Northwest, up to one of the Norwegian ports.

But all this means money and particularly the purchases we have to do at once. I went to see Mr. Jones. I have seen him twice and we have had very long conversations and he has been extremely kind to me and I would say he has tried to do what he could. Now the status is this, that from the Export-Import Bank there is nothing to be done. I understand that all their money is tied up. Then he told me that R.F.C. could not arrange a credit for Finland directly, but they could, he thought of another way, some credits to the, some arrangement of the credit with factories or something like that, but in any case this could not be arranged now and it would take a considerable time to do that.

Now, I come, frankly, to you to ask what shall I do.

HM, Jr: Mr. Minister, you

Mr. P: May I just tell you this. Last night, late, I saw the President to inform him about the situation in our relations between Russia and then I mentioned that we are buying, we are hoping to buy and we are already buying a lot of materials, different materials, some are war materials, some are other materials, and I mentioned that we need money, but I did not discuss it, mentioned only that I had the hope of seeing you one of these days.

HM, Jr: What did he say?

Mr. P: He was extremely sympathetic, but I did not

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like to go into the problem, because I think it would not have been fair to you.

HM, Jr: Let's be practical.

Mr. P: Yes.

HM, Jr: You have been in to see me three or four times.

Mr. P: Yes.

HM, Jr: Always talking about financing.

Mr. P: Yes.

HM, Jr: But you have never said, "Mr. Morgenthau, I am ready to borrow now." I don't know today whether you are ready to borrow.

Mr. P: Haven't I said that?

HM, Jr: Never! Always a hypothetical question. You have never come in and said -- and you have always told me, practically always, "I am not talking for my Government. My Government has not authorized me to talk to you. I just want to find out."

Mr. P: I wonder if the last time I was so hypothetical.

HM, Jr: Uhm! You have never told me "I am authorized by my Government. My Government wants to raise some money." Are you ready now to borrow?

Mr. P: Yes.

HM, Jr: You are?

Mr. P: Yes.

HM, Jr: Authorized by your Foreign Minister?

Mr. P: Yes.

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HM, Jr: How much do you want?

Mr. P: Fifty.

HM, Jr: What do you want it for?

Mr. P: To finance our general situation.

HM, Jr: I mean what kind of merchandise do you want? What do you want to buy?

Mr. P: First, I should say, we want to buy, we want to buy rifles. We want to buy munitions. We want to

HM, Jr: That's out anyway. Can't help you on that. Can't lend you any money for that. That's out.

Mr. P: That's out?

HM, Jr: Definitely!

Mr. P: Even with the great sympathy that is in the country now for the small countries?

HM, Jr: I would say -- Mr. Hull may feel differently -- I am talking now of how I feel and, I think, the President -- I would not help finance to buy munitions, not one penny, as far as I am concerned. This is serious. I don't want to waste your time and I want to let you know where I stand. I would not help one dollar to finance ammunition for any country. Now, if you said you wanted to buy copper or pig iron or gasoline or motor trucks or

Mr. Haneg: or finance a railroad

HM, Jr: or railroad equipment or rails, anything that is not on the munitions list. Anything which is not on the munitions list, which is on the embargo list.

Mr. P: But we are not at war.

HM, Jr: I know. I know. But you are damn near it. I am being very serious, because I always feel it

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is much better to be frank. Don't you, John?

Mr. Hanes: Yes. Absolutely.

Mr. P: Of course.

HM, Jr: And this is no time to kid anybody.

Mr. P: Of course.

HM, Jr: Do you agree with me, John?

Mr. Hanes: Yes, I do. Just for the sake, so the Minister may understand -- he's terribly sympathetic with Finland and wants to do everything he can to help Finland, but he knows our political situation so well he thinks it would be foolish, and I do too. I agree with you so heartily on that.

Mr. P: You mean it could not pass?

HM, Jr: We are not going, with this bill pending on the Hill, to take any risks. The whole picture is so important for you and for everybody else, the whole picture.

The question of things which are not on the embargo list. If you came in and said, "Here's a list of purchases that we want; we want so many motor trucks; so much gasoline; so many rails; so much copper; so much zinc; so much

Mr. Hanes: Cotton.

HM, Jr: so much cotton, I would go to work at once, but up to now you and I have been shadow boxing. I have had nothing to work on. As Mr. Hanes says, of course I am sympathetic.

Mr. P: This means, in any case, it could be just a loan for purchases here in this country?

HM, Jr: Bring me in a list of merchandise that you want to buy in this country which is not on the embargo list and say, "Mr. Morgenthau, this is what my country needs" and then let Mr. Hanes and I go to work on it and see what we can do. See? But give us a list, something to put our

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teeth in. "This is what Finland wants."

Mr. P: Yes. Do I understand then

HM, Jr: but let us see whether we can devise some method of helping you to finance the purchases of this merchandise.

Mr. P: You don't, you can't see your way to give us directly a loan?

HM, Jr: No. No. I told you that the other day.

Mr. P: I know that.

HM, Jr: I told you that before the first of January, no. Excuse me for being so direct, but these are serious times and I think it is better to be direct.

Mr. P: Thanks. Very serious time for me, and that's the reason I came to you. I haven't forgotten the word that you said

HM, Jr: I can't take up the question with Congress for a direct loan before the first of January, but bring me a list of merchandise which is not on the State Department's embargo list and let Mr. Hanes and I see whether we can work out some method to help you finance and it won't be a matter of weeks either. It won't take long. Is that right, Johnnie?

Mr. Hanes: Absolutely!

HM, Jr: But we have nothing to work on. You have \$45,000,000 in your Stabilization Fund. You can buy munitions somewhere else.

Mr. P: You mean in our Stabilization?

HM, Jr: The Stabilization Fund has a reserve against another depression. Well, a war comes before a depression. You have \$45,000,000 in cash, gold, and foreign currencies and exchanges. They had it when I was there.

Mr. P: Yes. We have even a little more.

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HM, Jr: Well, you can use that for munitions, where you can buy munitions, and this other thing we will do the best we can and I will tell you frankly yes or no we can do it.

Mr. P: I see. And that money then would be available just only for fixed purchases?

HM, Jr: Right!

Mr. P: Purchases I inform you about?

HM, Jr: That's right.

Mr. Hanes: You are not saying you close the door after January first.

HM, Jr: No, no! No!

Mr. Hanes: And if the Neutrality Act is changed, you understand

HM, Jr: But John, don't let's leave

Mr. Hanes: No commitment of any kind.....

Mr. P: No. No.

Mr. Hanes:..But a disposition to help.

HM, Jr: A disposition to help. And we said after the first of January. With the Administration policy it would be bad to go to Congress and ask for a direct Government to Government loan and if the Neutrality bill passes we are not committed to do so and so.

Mr. Hanes: No. No.

Mr. P: No, I understand. After that you would again take it up.

HM, Jr: A new loan. A fresh one.

Mr. P: A new one. And you then take it for granted that Congress will go on leave as soon as the law is passed?

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HM, Jr: Yes.

Mr. P: There is a lot of different expenditures when a country has to mobilize so that the Fund, the Stabilization Fund, may be necessary to meet other needs.

HM, Jr: I can appreciate that and I would be the last person to tell you how to use it, but I just wanted to let you know I was aware of its existence.

Mr. P: Yes, I am too.

If now I come with a list, let us say, rails, things we may need for that railway, they are things I don't think are going to be shipped in next few months, so that credit would not be any use for that purpose.

HM, Jr: Making gestures of assistance. When you know what things you want -- no use talking about things you need 3 to 6 months from now -- is there anything you want to buy now?

Mr. P: There is a lot we want to buy now, but they are not what you want us, what you can give us credit for.

HM, Jr: Give me a list of things which are not on the embargo list and we will go to work and try, in a few days, to give you an answer yes or no.

Mr. P: What about airplanes?

HM, Jr: I would have to inquire. I don't know. I don't know.

Mr. P: Of course, they can be both for civil use or for other use, but I don't like to give you a false opinion. They are for military purposes.

HM, Jr: I don't know.

Mr. P: I think you will appreciate that I am being absolutely frank with you.

HM, Jr: Oh, yes! And I am trying to be equally frank with you.

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Mr. P: Yes.

And have you a feeling that credit in Wall Street will be possible to get?

HM, Jr: Well, I think right now, I would not think the chances were so good.

Mr. P: The list which I should have to give you, must that only be Government purchases, because we are, of course, buying a lot of gasoline and a lot of

HM, Jr: No.

Mr. P: and a lot of different stuffs.

HM, Jr: It does not have to be only Government. You have various export corporations, import, don't you?

Mr. P: We have lot of importers.

HM, Jr: Cooperatives?

Mr. P: Cooperatives and things like that.

HM, Jr: O.K. It does not have to be the Finnish Government. They might want the guarantee of the Bank of Finland, though.

Mr. P: You want

HM, Jr: We might; if I know Jesse Jones, he will.

Mr. P: Yes. Yes. And it could then be arranged as a credit for Finland on which, with the Finnish Government's consent, also private could draw.

HM, Jr: Yes.

Mr. P: For the purchases here.

HM, Jr: Yes. Sure!

Mr. P: This is again a new thought for me.

HM, Jr: Everything is new every day.

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Mr. P: Everything is new every day.

HM,Jr: But I again want to say I am trying to be direct in order to give it to you -- in order to be most helpful to you.

Mr. P: Yes, and I very much appreciate that.

HM,Jr: All right.

Mr. P: May I now say it is not your fault and not my fault that we did not get on more actively in the Spring when you first took the thought up. That is not my fault.

HM,Jr: Yes, and it wasn't mine.

Mr. P: No. And I am very sorry.

You made no commitment for the time after the first of January, but can I tell my Government that you would favor it or reconsider?

HM,Jr: All I can say is you always have a welcome here when you come here to discuss anything.

Mr. P: In any case I could say that you would reconsider the matter.

HM,Jr: I will take a fresh look at it.

Mr. P: You can't say no and you can't say yes.

HM,Jr: That's right.

Mr. P: In order not to bother you any more, could I in some way get to know if airplanes could be included in this?

HM,Jr: We can ask this afternoon when we go over. We are going over this afternoon. Yes, we will ask and Mr. Hanes will let you know.

Mr. P: Thank you. With the President I have always had a most favorable welcome and understanding. I had an understanding which deeply touched me last night.

HM,Jr: I can assure you, if you bring that list

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in, certainly within a few days we can give you a yes or no.

Mr. P: Thank you.

HM, Jr: I hope it will all work out. And may I say, with all sincerity, I admire the courage of your people and I was so glad I met your Field Marshal.

oOo-oOo

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 11, 1939

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIALU R G E N T

Mr. Leroy-Beaulieu, Financial Attaché at the French Embassy, telephoned me from New York at 12:10 noon. He stated that the French Government had taken a definite decision in favor of utilizing the Federal Reserve Bank of New York, in opening an account with that bank as fiscal agent of the United States. He stated that the French Government now desires to open such an account as quickly as possible, preferably by Monday next. He asked me what procedure should now be followed by his people. That is, is he now free to go to the Federal Reserve Bank this afternoon and take up with Governor Harrison the practical details of opening the account? I promised to call Leroy-Beaulieu back as soon as I had cleared this question with the Secretary.

If we clear this, should I not telephone Governor Harrison or Vice President Knoks to this effect?



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 11, 1939

TO Secretary Morgenthau

FROM Mr. Cochran

I spoke to Secretary Morgenthau at 1:00 P.M. today in regard to the confidential memorandum which I had prepared after Mr. Leroy-Beaulieu had telephoned me at 12:30 noon. The Secretary authorized me to telephone Governor Harrison at once in the Federal Reserve Bank at New York to inform him of the French decision. The Secretary told me that if Governor Harrison had any question in regard to procedure, he should telephone back to the Secretary himself after 3:00 P.M.

I reached Governor Harrison by telephone at 1:05 P.M. and told him of the French decision. Governor Harrison raised the question of instructions from the Treasury to his bank. I told him this should be taken up directly with Secretary Morgenthau after 3:00 P.M. When Governor Harrison suggested that the Treasury lawyers might begin work on this case, I expressed the opinion that even this should be delayed until the Governor had talked with the Secretary. It was agreed with Governor Harrison that I should not call Leroy-Beaulieu back until the Governor and the Secretary had discussed the question of the account.

Leroy-Beaulieu telephoned me from New York at 3:30 to inquire as to whether an answer could be made. He was anxious to cable his government yet this evening. I told him that the matter was still being discussed by the Secretary and Governor Harrison and that he should await further word from us.

At 3:40 P.M. Knoke telephoned me in regard to the conversation which I had had with Governor Harrison at lunch time. Knoke made the point that his call to me was entirely informal, and should not be of record. He was merely exploring the problem with the view to assisting the Governor in formulating the steps that should be taken in the opening of the account. Knoke's idea was that the first step should be the sending of a letter from the Treasury Department to the Federal Reserve Bank of New York, requesting the latter to act as fiscal agent of the United States in opening the account. The next step, he thought, should be a letter from the French Ambassador in the United States, transmitted through the State Department, as in the recent case of Siam.;

- (a) Giving the Federal Reserve Bank a remittance;
- (b) Stating who would draw against the account and
- (c) Producing the signature of the individual who was to be authorized to draw on the account.

- 2 -

I told Knoke that I could do nothing pending the termination of the conversation between Governor Harrison and the Secretary, but that I thought it wise that the Federal Reserve Bank should have its own requirements fairly well in mind so that their attorneys could discuss the matter with the Treasury's legal advisors after the Secretary and the Governor had talked the matter over.

The Secretary called me to his office at 4:40 P.M. He said that he had spoken with Governor Harrison, and that the latter wanted some sort of a letter from the Treasury. He told me to telephone Leroy-Beaulieu not to rush the matter, but to telephone the Secretary at Beacon 211 at 12:45 Thursday October 12. The Secretary suggested that I let Leroy-Beaulieu put in the call from my office.

I telephoned Leroy-Beaulieu at 4:45 and gave him the message as instructed by the Secretary. It was agreed that Leroy-Beaulieu would come to my office at 12:30 and that the call would be put in from here at 12:45.

Messrs. Foley and Bernstein came to my office shortly after 5:00 o'clock. Mr. Foley had with him a transcript of this afternoon's conversation by telephone between the Secretary and Governor Harrison. The three of us, together with Mr. Dietrich, talked over the opening of the account. During our conversation, Vice President Logan telephoned from the Federal Reserve Bank of New York to Mr. Foley, and the conversation took place from my office. I told Mr. Foley that Leroy-Beaulieu was coming to the Treasury tomorrow. Mr. Foley was to discuss the question with the legal advisor of the Federal Reserve Bank tomorrow morning and receive a call in the afternoon from Mr. Logan.

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[Signature]

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 11, 1939

TO Secretary Morgenthau

FROM Mr. Cochran

The foreign exchange market was again dull today. The rate for sterling moved in a narrow range, opening at 4.03-1/2; it touched a high of 4.03-5/8, and closed at 4.03-3/8.

Reporting banks in New York and the Federal Reserve Bank reported sales totaling £595,000, from the following sources:

Commercial concerns.....	£ 251,000
Foreign banks (Europe and Far East).....	£ 294,000
Fed. Res. Bk. (For Sweden).....	£ 50,000
Total.....	£ 595,000

Purchases of sterling amounted to £372,000, as indicated below:

By commercial concerns.....	£ 301,000
By foreign banks (Far East and Europe).....	£ 71,000
Total	£ 372,000

The Bank of Latvia purchased in this market 24,000 belgas.

The following banks sold gold from their earmarked accounts in the amounts indicated:

National Bank of Belgium	\$1,060,000
Central Bank of Chile	\$ 132,000
Total	\$1,192,000

The release of gold by the Central Bank of Chile represents all of the gold which that Bank had under earmark with the Federal Reserve Bank of New York.

The following gold shipments were reported:

- \$ 70,000 from England, consigned to J. P. Morgan and Company
- \$ 485,000 from India, consigned to The Chartered Bank of India, Australia and China, New York
- \$1,930,000 from India, consigned to The Chase National Bank, New York
- \$2,485,000 Total

CONFIDENTIAL

- 2 -

The National Bank of Rumania, Bucharest, cabled to the Federal Reserve Bank inquiring at what rate it would buy gold on deposit in London against dollars. With the approval of the Treasury, the Federal Reserve Bank of New York cabled to the National Bank of Rumania that the Secretary of the Treasury is purchasing gold at present only upon delivery in New York, on terms and conditions quoted in his statement of January 31, 1934.

A handwritten signature in dark ink, appearing to be 'B. M. S.', is centered on the page.**CONFIDENTIAL**

RE COMMODITY CREDIT FINANCING

October 11, 1939.
9:20 a.m.

Present: Mr. Hanes
Mr. Bell
Mr. Burgess
Mr. Murphy

H.M.Jr: I have been doing a little thinking while I was shaving this morning.

Burgess: That is the best time.

H.M.Jr: And it seems to me that the thing to do next Monday is to do Commodity Credit. Now, if we wait until a week from Monday then we have got to do it. I think we can make better terms. I have this chart before me. They have been very steady and they are back up to the highest they have been since the 25th of September, the three-quarter note and the 5/8ths note is higher than it has been any time. I don't know whether you are familiar with these charts. These two show that it is as good or better than it has been at any time. If we do Commodity Credit next Tuesday and Wednesday, the market can't tell us we have got to do it.

Burgess: I think you are right. I think that is a good point.

H.M.Jr: And they don't have me where the hair is short. It will be a two-year note and we don't - we bill to a two-year note.

Burgess: Isn't that interesting? It has come back beautifully.

H.M.Jr: It seems to me like such an obvious thing to do.

Burgess: I agree with you completely. I think it is a good idea.

Bell: Mr. Secretary, I call your attention....

H.M.Jr: Sit down, Henry (Murphy). The point that I got shaving this morning, it seems to me that next Tuesday the thing to do is Commodity Credit. If we are a week ahead of time we can do it when we don't have to do it and it is the only one of these various commodities that is either at its height or higher than it has been at any time since September 25th.

- 2 -

Bell: That is the August issue.

H.M.Jr: There are two different issues here.
You make that chart, don't you, Henry?

Murphy: Yes, we do.

Burgess: And you would use the same schedule we had laid out for the notes?

H.M.Jr: Yes.

Burgess: Get together Monday, send out word, send them out staff on Saturday and shoot it Tuesday morning?

H.M.Jr: Yes.

Burgess: I like that, because....

Hanes: It would be a two-year note?

H.M.Jr: Two-year note.

Burgess: I was a good deal troubled by trying to shoot the December note first and then the Commodity Credit so soon after. If you do this, then you have got the decks cleared for the refunding of the December note whenever the market says so and you can see how long it takes to settle down. Otherwise, you put yourself in a box.

H.M.Jr: Well, you take this second discussion I had with Eccles, where after consultation he put me on notice that maybe he will go back in the market. What does it do to me? It completely upsets me. He says it to me and he says it to everybody else. He says it to these twelve bankers. What is the answer? You have no assurance that they won't be back this afternoon or tomorrow. Well, it leaves me with a cold sweat. Now, this thing here, I don't give a damn whether they are back or not. I just go ahead, business as usual.

Hanes: Sure.

H.M.Jr: And other performance there, it has got a beautiful performance and we can get them a good rate. If we

- 3 -

wait until the following week, we are boxed and we have got to do something. How does it sound to you, John?

Hanes: It sounds good to me and it will also give you some indication as to how the market is feeling about new issues.

H.M.Jr : Sure.

Burgess: I have only one question.

H.M.Jr: And if it is a great success, we can do something else.

Burgess: What kind of razor do you use that gives you ideas like this?

H.M.Jr: To you? A 75-cent Gillette.

Burgess: That is funny, that is what I have been using too, a 49-cent Gillette.

Hanes: It doesn't sharpen your wit.

H.M.Jr: It seems like such an obvious thing. I said, "My God, that is the thing to do."

Henry?

Murphy: It seems good to me.

H.M.Jr: What is the matter with George Haas, is he sick?

Murphy: Yes.

H.M.Jr: What is the matter with him?

Murphy: I don't know.

Bell: I have one question. There is an RFC maturity on November 1st, 1941, of 298 million. That falls on the same day.

Burgess: That would be a two year. How big is that?

Bell: 298 million.

- 4 -

Burgess: Make it a year and a half or a year and a quarter.

Bell: A year and a half would be - or two years and a half....

H.M.Jr: Date this October 1st.

Bell: That is all right.

H.M.Jr: Now, I don't want to get - I am going on this theory, which I have said before, that this is a long show and I don't want to get out any one-year paper.

Burgess: You want to make it two years?

H.M.Jr: Yes.

Burgess: All right.

Murphy: Could a two-year maturity on that be interpreted as bearish on commodity prices?

H.M.Jr: All right, how do you interpret it if Mr. Wallace reduced the interest rate to the former one percent on commodity prices?

Murphy: My idea was merely that it would indicate - I am just thinking out loud.

H.M.Jr: It is a good point, Henry, but everything we have sold has been two years.

Murphy: But since we changed - this is our first war CCC issue and some people might suppose that with a war market we had more hopes of getting out.

H.M.Jr: It is all right to raise it but it doesn't influence me.

Bell: They certainly look at the guarantee and nothing else and I doubt if they tie up these obligations in any way with any commodity whatever.

Hanes: That is what I thought.

Murphy: I wasn't thinking of the effect on the bond market, I was thinking of the possible effect on the

commodity market in view of the amount of the tied-in cotton, however, which is not a war commodity.

H.M.Jr: I want to get my stuff out as far as possible. Is that right, Johnny?

Hanes: Yes.

Bell: I think it would be rather simple to make this 2 1/2 years if you wanted to go that far, May, '42.

Burgess: How about 2 years and 8 months?

H.M.Jr: What is this?

Hanes: That is what he has been advocating.

H.M.Jr: Oh, I think....

Hanes: What effect would that have on your rate, Danny?

Bell: Maybe an eighth.

H.M.Jr: You would have to fill in the year issue rates to get this thing out.

Bell: Have to what?

H.M.Jr: When you send out these instructions you would have to fill in.

Bell: Not this week. We would have to wire it on Monday.

H.M.Jr: But you can do your paper work now, can't you?

Bell: Oh, yes, surely. We will leave the date and the rate blank.

H.M.Jr: The length and the rate you are going to leave blank, but your paper work you can get out?

Bell: Absolutely.

Burgess: The boys are getting some papers in their files.

H.M.Jr: If you fellows agree with me, I wanted the paper work out.

- 6 -

Bell: We will get that out Saturday morning.

Hanes: I can't see any possible objection to it at all. I think it is a swell idea.

Burgess: Of course, if you would rather, you can bat for Wednesday, which wouldn't be quite as close as Tuesday and then you have that much leeway left.

Bell: Yes, you have got Wednesday and Thursday of next week to operate if you want to.

H.M.Jr: The main thing, I wanted to see first whether you fellows thought I was talking sense. I gather you think I am. The question is to get the paper work out and do the rest of it Monday morning. Is that all right?

Hanes: Yes.

Burgess: 100 percent.

H.M.Jr: Burgess wanted to know what kind of a razor I used. Then you (Murphy) tell the boys back there and tell Hadley that the chances are nine out of ten that next week will be Commodity Credit.

Murphy: O. K.

H.M.Jr: So they should be concentrating on that.

Murphy: And I will phone Mr. Haas.

H.M.Jr: Please. Find out what is the matter with him, I would like to know.

Murphy: I shall.

H.M.Jr: Will you let me know or let Mrs. Klotz know?

Murphy: Yes. (Mr. Murphy leaves the conference)

Burgess: I should think we needed a little flexibility, as to whether it would be a year and nine months or three months.

- 7 -

H.M.Jr: Now that we know what it is, we can concentrate on that.

Hanes: Yes.

H.M.Jr: Now, we have made up our mind, let's....

Bell:relax.

H.M.Jr: Right.

OCT 11 1939

My dear Mr. Secretary:

With reference to your letter of October 6, 1939, concerning letter received from the Brazilian Embassy in Washington, Captain H. E. Collins, Director of Procurement, Treasury Department, will be very glad to talk with Dr. Christiano Teixeira Lobão of the Central do Brasil Railway at any time convenient for him to call.

On several occasions in the past representatives of other American republics have conferred with Captain Collins concerning procurement methods of the American Government, and with you I agree that such cooperation contributes substantially to the maintenance of cordial relations with them.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

The Honorable,

The Secretary of State

File to Mr. Thompson

HEC:gm

Copy of this ltr and copy of incoming
sent to Captain Collins 10/11/39

10/11/39

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 11, 1939

10:00 A. M.

TO Secretary Morgenthau
 FROM W. H. Hadley

CCC Notes

Of the following possible CCC issues, a 7/8% 1-1/2 year, a 1% 2 year (1 year, 11 months) or a 1-1/8% 2-1/2 year issue appear to give premiums in line with previous offerings of CCC notes. The offerings of May, 1938 and of July, 1939 gave premiums of about 12/32nds. The market for these short guaranteed issues appears to be on a very firm basis.

<u>Maturity</u>	<u>Coupon</u>	<u>Yield</u>	<u>Market Price</u>	<u>Premium</u>
1-1/2 yrs. (April 1941)	3/4%	0.58	100.8	8/32nds
	7/8%	0.58	100.14	14/32nds *
	1%	0.58	100.20	20/32nds
	1-1/8%	0.58	100.26	26/32nds
1 yr. 11 mos. (October 1941)	7/8%	0.78	100.6	6/32nds
	1%	0.78	100.14	14/32nds *
	1-1/8%	0.78	100.21	21/32nds
	1-1/4%	0.78	100.29	29/32nds
2-1/2 yrs. (April 1942)	1%	0.91	100.7	7/32nds
		0.93	100.5	5/32nds
	1-1/8%	0.91	100.16	16/32nds *
		0.93	100.15	15/32nds
	1-1/4%	0.91	100.27	27/32nds
		0.93	100.25	25/32nds

* Most satisfactory issues in the present market.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE October 11, 1939

TO Secretary Morgenthau

FROM W.H. Hadley

Premiums on Date of Offering
of Recent Short Guaranteed Issues

<u>Issue</u>	<u>Date of Offering</u>	<u>Terms</u>	<u>Premium</u>
GCC	May, 1938	3/4% 1-1/2 yr.	13/32nds
"	July, 1939	5/8% 2 yrs.	12/32nds
RFC	July, 1938	7/8% 3 yrs.	16/32nds
"	October, 1938	7/8% 3 yrs.	13/32nds
"	February, 1939	7/8% 3 yrs.	15/32nds
HOLC	May, 1939	3/8% 1 yr.	6/32nds
"	May, 1939	5/8% 2 yrs.	14/32nds
USHA	January, 1939	1-3/8% 5 yrs.	29/32nds

JR

GRAY

London

Dated October 11, 1939

Rec'd 1:13 p.m.

Secretary of State,
Washington.

2004, October 11, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

A friend here would appreciate it if information could be informally made available to him (a) as to the amount of assets in New York of March 15 of the Czech National Bank and (b) whether these have been estopped in any way.

KENNEDY

CSB

RECEIVED

OCT 11 1939

THE DEPARTMENT OF THE TREASURY
WASHINGTON, D. C.
RECEIVED

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 11, 1939.

TO The Secretary
FROM Mr. Gaston



The following plan will be made effective at once for--

- (a) The circulation of information in regard to suspected violations of the Neutrality Laws coming within the jurisdiction of the Treasury Department, or in regard to events or circumstances pointing to the possibility of such violations; and
- (b) For the conduct of any investigations of such violations which may be considered desirable.

Information from Customs Sources

1. Reports of Customs officers in the field will be transmitted to the Bureau of Customs at Washington.
2. The Bureau of Customs will immediately transmit copies:
 - (a) To Coast Guard Headquarters; and
 - (b) To the Coordinator, Treasury Agency Service.

Information from Coast Guard Sources

3. Reports of Coast Guard officers in the field will be transmitted to Coast Guard Headquarters at Washington.
4. Coast Guard Headquarters will immediately transmit copies to the Coordinator.

Transmittal of Information to Agencies Outside the Treasury Department

5. Upon receipt of significant information from Coast Guard or Customs field officers, as above provided, and after the Coordinator has been advised, Coast Guard Headquarters will immediately notify the proper Naval authorities and the State Department; and Coast Guard Headquarters will be the sole avenue of communication for this purpose.

Transmittal of Information to the Secretary
and Other Interested Officers of the Treasury Department

6(a). The Coordinator will immediately transmit to Mr. Gaston, Mr. Harris, and Mr. Foley all information received from Coast Guard Headquarters and from the Bureau of Customs, as above provided, and Mr. Gaston will be responsible for laying it before the Secretary, or, in the absence of the Secretary, the Under Secretary. In the event of Mr. Gaston's absence, the Coordinator will transmit such information to the Secretary or the Under Secretary in Mr. Gaston's stead.

(b). Important information received by Coast Guard Headquarters out of office hours will be communicated to Mr. Gaston, or, should Mr. Gaston be inaccessible, to the Secretary direct.

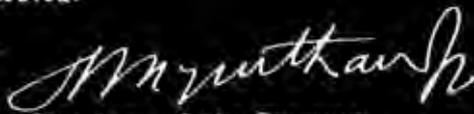
Office of the General Counsel

7. The Coordinator will specially refer to the General Counsel, or his designated representative, any report or information which appears to raise a legal question, or with respect to which a legal opinion is desired.

Investigations

8. If special investigations by Treasury agencies other than Coast Guard and Customs should be considered necessary as the result of information received from field officers, such investigations will be handled under the direction of the Coordinator, and no such investigations will be undertaken by field officers other than officers of Customs and Coast Guard except as he may direct. This is not intended to preclude follow-up and routine investigations by field officers of the Coast Guard and the Customs Service, nor the usual interchange of information among the field services of the Treasury Department.

Approved:



Secretary of the Treasury.

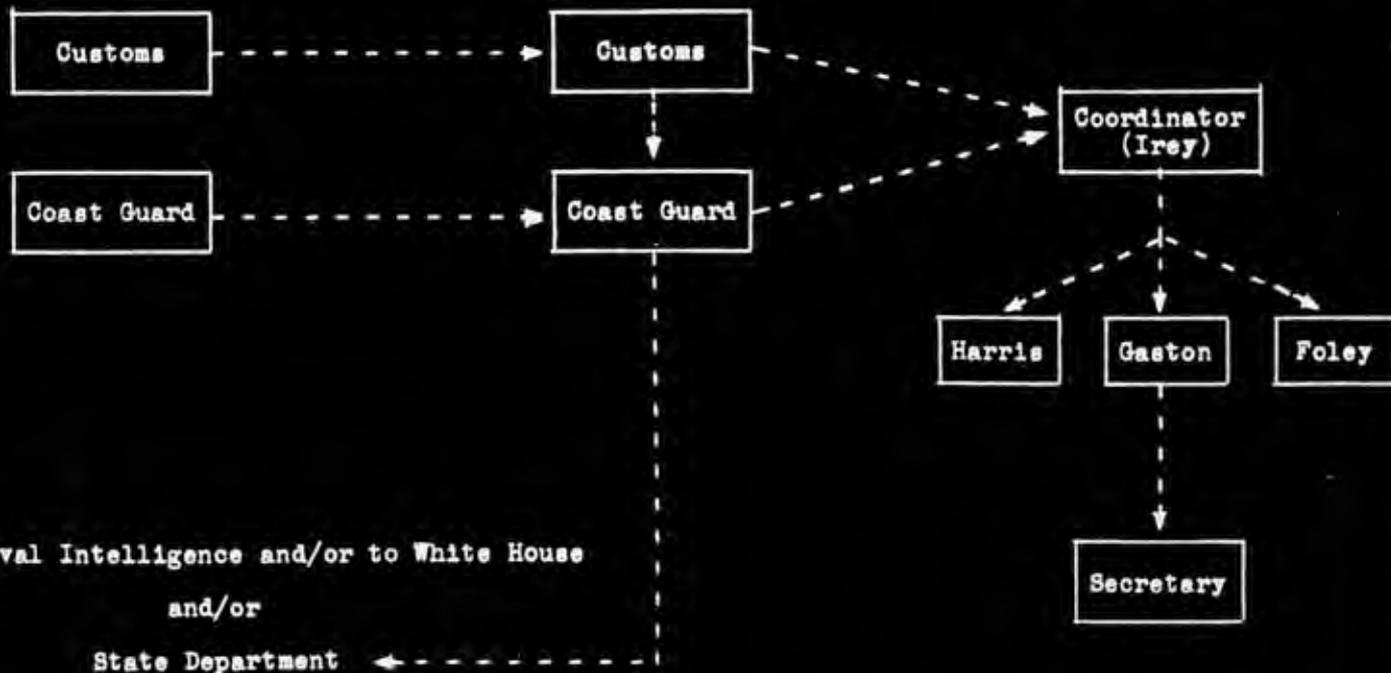


Chart Showing Flow of Information
under Coordination Scheme

Field Offices

Bureau Headquarters

Department



Secretary Morgenthau

October 11, 1959.

E. H. Foley, Jr.

For your information

The present Chinese Consul General in New York City is Tsune-Chi Yü. He was appointed in April 1955 and has acted as Chinese Consul General in New York since that time.

Dr. Wang, I am informed, is in Hongkong. So far as Larry Morris has been able to find out, it is not contemplated that he will come to this country in the near future.

Larry is endeavoring to ascertain, through Dr. Chen, whether Hecht or his attorneys have been in touch with Mr. Yü and Mr. Yü's story regarding your alleged trip to New York on September 3, 1958.

[Signed] E. H. FOLEY, JR.

EHF:is Typed 10/11/59

RE COORDINATION

October 11, 1939.
3:00 p.m.

Present: Mr. Hanes
Mr. Harris
Mr. Graves
Mr. Thompson
Mr. Cairns
Mr. Gaston
Mr. Foley
Mr. Duffield
Mr. Irey

H.M.Jr: Has anybody got a copy of this memorandum for Mr. Hanes?

Hanes: I am familiar with it. I have been all through it.

H.M.Jr: (Reading) "The following plan will be made effective at once for - (a) The circulation of information in regard to suspected violations of the Neutrality Laws coming within the jurisdiction of the Treasury Department, or in regard to events or circumstances pointing to the possibility of such violations; and (b) For the conduct of any investigations of such violations which may be considered desirable.

"Information from Customs Sources

"1. Reports of Customs officers in the field will be transmitted to the Bureau of Customs at Washington.

"2. The Bureau of Customs will immediately transmit copies: (a) To Coast Guard Headquarters; and (b) To the Coordinator, Treasury Agency Services.

"Information from Coast Guard Sources

"3. Reports of Coast Guard officers in the field will be transmitted to Coast Guard Headquarters at Washington.

"4. Coast Guard Headquarters will immediately transmit copies to the Coordinator.

"Transmittal of Information to Agencies Outside the Treasury Department

"5. Immediately upon receipt of significant information from Coast Guard or Customs field officers, as above provided, Coast Guard Headquarters will notify the

- 2 -

Chief of Naval Operations, the President's Naval Aide, and/or the State Department, as may be appropriate, and Coast Guard Headquarters will be the sole avenue of communication for this purpose."

Why change it?

- Gaston: I think it is not proposed to change this system that we are using now. The Coast Guard informs Admiral Stark and they inform Naval Intelligence and they inform the State Department. They inform Captain Puleston and they inform me. They have an understanding with Stark that he informs Callahan, the President's Naval Aide. We have been doing that for some time and I don't believe this contemplates changing that.
- H.M.Jr: Why put it down there?
- Graves: I was told....
- H.M.Jr: That isn't at all what you said.
- Graves: I was told by the Coast Guard people that in the event they couldn't get Stark they would communicate directly with the President's Naval Aide.
- Gaston: So far they have always been able to get either Stark or his assistant, but Stark told them he had no objection to their calling Callahan.
- H.M.Jr: What you said and what the paper said are different. It says the Chief of Naval Operations, the President's Naval Aide and/or the State Department.
- Gaston: That isn't quite what they are doing. What they are doing now is through an understanding with Admiral Stark.
- H.M.Jr: Then that is two. Admiral Stark and Naval Intelligence.
- Gaston: And Naval Intelligence, yes, sir. It is Admiral Stark's personal - Admiral Stark, personally, or his office, takes care of giving the information to Callahan and I don't think there has been any occasion yet when either he or his assistant haven't been there to get that information.

- 3 -

H.M.Jr: It doesn't say anything about it.

Graves: That was not intended to change the practice that is now followed. There is a misunderstanding on my part as to what the practice is.

H.M.Jr: Could that paragraph be rewritten?

Graves: Yes, indeed.

H.M.Jr: What I want to know is what is happening. I would like to know what is the practice, see.

Gaston: That is the practice now, what I told you.

H.M.Jr: Who does it for the Coast Guard?

Gaston: Pollio's office, Coast Guard Intelligence.

H.M.Jr: (Reading) "Transmittal of Information to the Secretary and Other Interested Officers of the Treasury Department"

"6. The Coordinator will immediately transmit to Mr. Gaston, Mr. Harris, and Mr. Foley, all information received from Coast Guard Headquarters and from the Bureau of Customs, as above provided, and Mr. Gaston will be responsible for laying it before the Secretary."

Is that 24-hour service?

Gaston: Yes, 24-hour service if you like.

H.M.Jr: Well, when you are away and they don't reach you, who reaches me?

Gaston: Frank Rose.

H.M.Jr: No.

Gaston: They can reach you direct.

H.M.Jr: Yes.

Gaston: They can reach you direct if they think it important enough.

H.M.Jr: If, for some reason, you are out, let them reach me direct.

- 4 -

Gaston: I think they have been doing that, haven't they? Have they called you at all?

H.M.Jr: No.

Gaston: They called me with quite a mass of stuff.

H.M.Jr: I get duplications continuously from you and the Customs.

Harris: That was to make sure there was no gap.

H.M.Jr: Let's make that change, will you (Graves) please?

"Office of the General Counsel

"7. The Coordinator will specially refer to the General Counsel, or his designated representative, any report or information which appears to raise a legal question, or with respect to which a legal opinion is desired."

(Mr. Irej enters the conference)

Come in, Elmer. Somebody overlooked you. I thought you Civil Service fellows stuck together.

Gaston: He had a reason for staying away, but I don't think he needs to.

Irej: I asked to be excused, but I didn't get very far with it.

Gaston: There was another point I was going to raise in connection with this thing when you get through.

H.M.Jr: (Reading) "Office of the General Counsel

"7. The Coordinator will specially refer to the General Counsel, or his designated representative, any report or information which appears to raise a legal question, or with respect to which a legal opinion is desired.

"Investigations

"8. Any special investigations considered necessary as the result of information received from field

- 5 -

officers will be handled under the direction of the Coordinator, and no such investigations will be undertaken by field officers except as he may direct. This is not intended to preclude follow-up and routine investigations by field officers of the Coast Guard and the Customs Service, nor the usual interchange of information among the field services of the Treasury Department."

Johnny, don't you want to be notified, or don't you?

Hanes: I don't know if I would be any help. I don't want to throw a monkey wrench in the machinery.

H.M.Jr: The days I am not here you will be notified, how is that?

Hanes: Yes, I think that ought to be. When you are here, I see no reason why I should.

H.M.Jr: Now, may I just ask, the part that I have read, does everybody agree? Do you, Harris?

Harris: Yes.

Duffield: Is it contemplated that any of this incoming information would ever be of a nature that would be given to the press?

H.M.Jr: I imagined you would want to know that and that is why you were invited, because you have to fight for your own rights around here.

Duffield: I realize that on the Coast Guard activity at least the most of those are under Navy supervision and we don't want to say anything about them and it seems to me that perhaps some of the activities of the other agencies might be such that....

Gaston: I think you are wrong about their being mostly under Navy supervision. They are not.

Duffield: I mean as to this particular work.

Gaston: No, only in part, just now and then.

H.M.Jr: I would say that this looks O. K. to me.

- 6 -

- Gaston: That doesn't differ from what we are doing now except that it introduces Mr. Irey into the picture. In that connection, Elmer and I have been talking for some time past about the desirability of his having his office physically in this building. He has to make several trips a day to this building. If he were in this building, he would not have to go to the Bureau of Internal Revenue because they could come to him and they could take care of the routine down there. They could easily bring up cases which are intelligence unit cases on which they wanted his opinion, to this office. It makes, it seems to me, a great deal of unnecessary travel for him, having him in the Bureau of Internal Revenue building. It wouldn't be very practicable to retain him in this capacity.
- H.M.Jr: Who is B. M. Thompson?
- Gaston: That is Commander Thompson.
- H.M.Jr: If he wants to come over here, he had better throw that staff out the window, 100 percent. Chick Schwartz is all right.
- Irey: Well, that staff isn't entirely what the chart might indicate. They simply do special jobs. They are not closely related to the office.
- H.M.Jr: You will come over with that staff over my dead body.
- Well, in the first place, I can't bring you over here without first talking to Guy Helvering.
- Gaston: Yes, we realized that.
- H.M.Jr: Supposing you (Hanes) talk to Guy and ask him how he feels about it, will you please? As long as I have stirred this whole thing up and am responsible for it, I will say this, if Guy feels he could get along without Elmer, I am willing to do it, provided that I may make suggestions as to the staff.
- Gaston: That wasn't the suggestion, that Helvering should do without him. The suggestion is he do substantially what he is doing now but work over here, because it would mean less travel back and forth for him.

- 7 -

- H.M.Jr: Well, if he is coming over here he might better let somebody else head up the Internal Revenue intelligence. He can't do both. This is a full-time job. It took all of Harold Graves' time and I am under the assumption it is going to be hot stuff.
- Gaston: Well, Mr. Secretary, I don't believe this is going to take very much of Elmer Ireys' time. There is 99 percent of this stuff which is straight Coast Guard - Customs cooperation. It doesn't involve the other agencies.
- H.M.Jr: Well, I would rather have Elmer sitting here twiddling his thumbs so that when something does happen he can go into action in a split second.
- Ireys: Of course, Mr. Secretary, so far as the intelligence unit work is concerned, it was just my thought that I would keep in touch with those important matters that you were particularly interested in, for instance, a half dozen or so cases that you and I discussed frequently. The routine, the detailed handling of the intelligence unit, would be done by Mr. Woolf, who is my assistant down there.
- H.M.Jr: That means I have got to think up some new good cases.
- Ireys: It looks like they are developing fast enough as it is.
- H.M.Jr: Let's do it this way. Early tomorrow morning I am leaving and will be back either Sunday night or Monday morning. Would you (Hanes) have a talk with Guy and see how he feels about this? When this was originally thought of, Guy just said no. That is, to coordinate things in one agency and taking away the Internal Revenue intelligence from his supervision. When I get back Monday, Elmer and I will have a heart to heart talk about this lame duck staff. How did you ever get a collection like that?
- Ireys: I gathered them together in the course of the work. Dengler is in charge of training. He has been very good in that work and I think Mr. Graves will bear me out in that. Chick Schwartz, as you say, is good. Bernie has been handling space assignments for the whole Treasury Department for a long time and he just falls into that class. Wollner was handed to me.

- 8 -

H.M.Jr: Don't let's get personal.

Irey: Well, I inherited both Wollner and Thompson.

H.M.Jr: You might say I handed Thompson and Wollner to you, which I did. I saved Bernie's life.

Irey: Dengler has really done a splendid job of training.

H.M.Jr: Dengler is all right, but I have quite different ideas for the staff. You would be open to reason, wouldn't you?

Irey: Oh yes, of course. I would like to have some suggestions and help.

H.M.Jr: I don't know how you grabbed off Chick Schwartz.

Gaston: That doesn't mean anything except that he sits in on coordination meetings to see whether there is any news that could be printed out of the meetings.

Duffield: I think on matters like this I would rather do that myself.

Irey: All these people have other jobs. They simply meet with us and discuss coordination matters.

H.M.Jr: Why not do this? Could you re-write those parts?

Graves: Yes, I have made notes of that.

H.M.Jr: Are you satisfied with that?

Harrie: Entirely.

H.M.Jr: Let's say it is in force as of now. Is that all right with you? Whether you come over here or whether you are there, the thing is in force. Take this chart with you, Graves.

Gaston: There is something else omitted there. Captain Puleston isn't mentioned.

H.M.Jr: He shouldn't be.

Gaston: His information could come in direct the way it is?

- 9 -

H.M.Jr: No, Puleston is the one man we can't work with. We just can't work with him. He isn't doing any of that stuff anyway.

Gaston: We are speaking about getting information to him. Pollio is supplying his information now. I assume he will continue to do that.

H.M.Jr: Oh. I don't know how he did it, but he made his own contact with Pollio. He is getting everything Pollio has got.

Gaston: It is quite burdensome to Pollio, but it is more than information.

H.M.Jr: Well, whatever the burden is, he will carry it.

Gaston: I am glad to hear so.

H.M.Jr: So far they have found one submarine?

Gaston: Has anybody else found more?

H.M.Jr: The President says so.

Gaston: We have found that all of his submarines are not so.

H.M.Jr: Well, anyway, whatever Puleston asks for, I want him to have.

Gaston: He can't get information out of the Navy. Our men get it from the Navy for him.

H.M.Jr: I see. Well, I think this is a good day's work and Elmer, if you will wait outside, I would like to talk to you.

Irey: All right.

JR

PLAIN

London

Dated October 11, 1939

Rec'd 1:19 p.m.

Secretary of State,
Washington.

2003, October 11, 5 p.m.

FOR TREASURY FROM BUTTERWORTH.

The official exchange rates today all moved in favor of sterling with the exception of New York, Montreal and Paris. The belga, guilder and Swiss franc which had recovered slightly on Monday after their continued weakness last week lost ground yesterday and the belga and guilder were fixed today at rates lower than any prevailing last week, while the Swiss franc was fixed only just above the low of last Friday. The rates were for the belga 23.95-24.20, the guilder 7.54-62 and the Swiss franc 17.87-18.02, (the rate on Friday last being 17.90-18.05).

The feature of today's official rates is the weakening of the Norwegian and Swedish currencies which were fixed for Oslo at 7.55-75 as compared with 7.50-70 which had prevailed since September 20th and Stockholm at 16.75-95 as compared with 16.70-90 which had prevailed since September 19th.

of

-2- #2003, October 11, 5 p.m., from London.

Of the so-called free rates Copenhagen is quoted 20 7/8 sellers today as compared with 20 5/8 yesterday and 20 3/4 on October 6, while Helsingfors is quoted today at 205 as compared with 200 at the beginning of the week.

The Argentine peso also depreciated slightly today being fixed 16.90-17.40 as compared with 16.70-17.30 the rate which has prevailed for some time; while this may indicate that part of the movement of Scandinavian and other European neutral countries is due to a general hardness of sterling, the principal cause of the weakening of these currencies is of course the international situation.

KENNEDY

CSB

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OCT 11 1938

THE TREASURY DEPARTMENT

WASHINGTON, D. C.

PAP

GRAY

PARIS

Dated October 11, 1939

Rec'd 7:05 p.m.

Secretary of State

Washington

2431, October 11, 10 p.m.

FOR THE TREASURY.

The new British Financial Counselor here, Norman Young, lunched with us today. Incidentally he was recently appointed one of the British Government directors of the Suez Canal Company. He remarked sadly in answer to our congratulations that it was only for the duration of the war and that unfortunately the generous fees pertaining to Suez directorships would in his case go to the Exchequer.

Most financial negotiations growing out of the war particularly those for the financing of the British expeditionary force, he said, are being carried out through Monick in London. He says to feel like every one else that France is in a fortunate situation financially and was enthusiastic in his praise of Reynaud and Fournier.

(END SECTION ONE).

BULLITT

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 OCT 11 1939
 DEPARTMENT OF STATE
 WASHINGTON, D. C.

PARAPHRASE OF SECTION TWO OF TELEGRAM NO. 2431 OF
OCTOBER 11, 1939, FROM THE AMERICAN EMBASSY, PARIS, FRANCE

On the subject of exchange control, he remarked that while the problem of foreign balances did not face France as it did face London, France likewise did not have the faculty of delegating authority that is possible in Great Britain because of the very fortunate close relationship between the Bank of England and the big five banks in Great Britain. In this connection, he mentioned the branch agencies of the Foreign Exchange Office (reported in telegram No. 2394 of October 7 from the Embassy); these branches, he said, while having authority to deliver foreign exchange in payment for import merchandise, do not as yet have authority covering the reverse operation for exports from France.

We had received information that Treasury bills are for the most part being bought with repatriated French capital, and our friend confirmed this. He seemed surprised that the Treasury had drawn on its authorized advance from the Bank of France to the amount of two billion francs - reference, telegram No. 2343 of October 5 from the Embassy - particularly since he understood that subscriptions to short term Treasury issues had been coming in at a rate exceeding the Treasury's expenditures, subsequent to the outbreak of the war.

END SECTION TWO.

EA:LWV

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OCT 12 1939
U.S. DEPARTMENT OF STATE

JR

GRAY

Paris

Dated October 11, 1939

Rec'd 11:06 p.m.

Secretary of State,
Washington.

2431, October 11, 10 p.m. (SECTION THREE)

He feels that some progress is being made in reorganizing non-armament industries here and that gradually the specialists most needed in those industries are being released from military service. The resumption and speeding up of railway transport facilities which have taken place in the last week plus tax exemptions and other encouragements to exporters show, he believes, that the French authorities are alive to the necessity of pushing exports as much as possible.

The French Treasury statement usually published on the 10th of the month has not yet appeared in the Journal Official. Couve de Murville says that its appearance has merely been delayed a few days and not suspended.

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HPD

OCT 11 1939

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

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 OFFICE OF THE
 SECRETARY OF STATE

GRAY

PARIS

Dated October 11, 1939

Rec'd 9:13 p.m.

Secretary of State

Washington

2431, October 11, 6 p.m. (SECTION FOUR).

There have been some complaints recently at Govern-
 ment delays in procedure covering payments for war re-
 quisitions. (For the most part these are payable one
 third in cash and two thirds in one year Treasury bills.
 It will be recalled from telegram No. 2254, September
 29, 9 p.m. that these are subject to discount facilities
 at the Bank of France.) Partly by way of offsetting such
 complaints the Ministry of Finance announced today
 that Treasury bills issued in payment of military re-
 quisitions will be accepted in payment of direct taxes.

The securities market was strong today influenced
 by Daladier's radio address last evening and the vote
 in our Senate. French industrial issues were firm and
 rentes continued their ^{recent} advance. Today's gains in the
 latter ranged from 20 centimes to 1.85 for most issues
 and almost two francs for the two exchange guaranty
 issues.

BULLITT

EMB

CORRECTED COPY

JR

GRAY

Paris

Dated October 11, 1939

Rec'd 8:47 p.m.

Secretary of State,
Washington.

2431, October 11, 10 p.m. (SECTION FIVE).

The Netherlands Bank statement of October 9 shows gold holdings unchanged at 1,104,000,000 florins for the third consecutive week. Note circulation is down 36,000,000 florins to 1,129,000,000 florins. The ratio of gold cover is 97.76 as against 94.77%. The proposed merger of the Rotterdam Ersatz Hildebrandsche and Amsterdamsche Banks has been canceled as a result of the war.

Their National Bank statement for October 7 shows a decrease in gold holdings of 115,495 Swiss francs to 2,419,000,000 francs and a decrease in foreign exchange holdings of 1,622,000 to 285,000,000 francs. Domestic bill holdings are down 21,000,000 francs and note circulation is down 48,000,000 francs.

(END OF MESSAGE).

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

War Board Ready To Buy in Canada

OTTAWA, Ont., Oct. 10 (UP).—Great Britain's war purchasing organization in Canada is now complete and, working in conjunction with the Canadian War Supply Board, is ready to open negotiations for purchase of war materials, the Canadian Government announced last night. Headquarters have been set up in offices in the House of Commons.

At present purchases will be confined to Canada. It was learned reliably, however, that if opportunity is presented by modification of the United States neutrality law, some members of the British mission will establish headquarters in New York to contract for munitions and other war supplies from American industry.

The mission is composed of fourteen members headed by Lieut.-Col. J. H. M. Gregson, as controller-general and Sir James Rae as chairman and administrative executive.

A comprehensive scheme to coordinate activities of the Canadian War Supply Board and the British body has been worked out, the announcement said. It is designed along lines permitting the Canadian organization to assume the responsibility of purchasing supplies not only for Great Britain, but also her Allies. It will also facilitate the work of the British representatives in Canada and prevent overlapping in negotiating contracts.

FS

PLAIN

London

Dated October 12, 1939

Rec'd 12:25 a.m.

Secretary of State,
Washington.

2014, October 12.

FOR STATE AND TREASURY DEPARTMENTS FROM BUTTERMONT.

The following self-explanatory note has been received from the British treasury amending the provisions of the defence (finance) regulations in their application to Americans resident in the United Kingdom. Similar notes are to be sent in the next few days to the French, Swiss, Italian, Dutch, Belgian and Scandinavian missions with the request that their nationals concerned be informed but no publication take place.

I gather that some of the other missions mentioned above have formally protested to the British treasury on grounds of international law. The only recent action taken by this Embassy has been to discuss informally with the British treasury several cases involving American citizens who have been resident in the United Kingdom more than seven years but whose "profession or business" reasons for so residing were difficult to adjudicate. (See my 1683, September 16, 2 p.m.) In this connection it was pointed

pointed

PS 2-No. 2014, October 12 from London

pointed out inter alia that American financial institutions might consider it desirable to obtain court orders before transferring to a foreign government securities belonging to an American citizen in order to avoid the possibility of suits being brought on the basis that authorization of transfer had been made by the American owner under duress and that it was an open question whether the American courts would consider the edict of a foreign government as constituting "due process of law" in depriving an American citizen of his property.

The note reads as follows:

"1. Under the defence (finance) regulations of the 25th August 1939, which is reproduced as defence (finance) regulations No. 1 of the 3rd September 1939, the treasury have issued an order that the owners of certain securities shall make a return to the Bank of England, and the treasury may, in due course, make a further order transferring to themselves securities at a price specified in the order.

"When such further orders are made exemption will be granted to securities which are shown to the satisfaction of the treasury to have belonged on the 26th August 1939 to individuals resident in the United Kingdom who are American nationals and do not possess British nationality.

"The treasury would however always be glad to consider offers

FB 3-No. 2014, October 12 from London

offers of sale from American nationals on a voluntary basis.

"American nationals, who have not yet made a return to the Bank of England, may, instead of making a return, forward in writing to the Bank of England evidence of American nationality (i.e. passport No. and, in the case of wives, husband's passport No. and date of issue and for how long valid).

2. American nationals (not possessing British nationality) who fulfil the above condition will not be required to offer foreign exchange for sale to the treasury provided that they satisfy the treasury that the foreign exchange has belonged to them continuously since the 3rd September 1939. Evidence to this effect must in all cases be furnished to a bank which has been appointed an "authorized dealer" appointed an 'authorized dealer'.

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

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

5. Enquiries must be addressed to the Bank of England or to an authorized dealer and not to the treasury or the Foreign Office.

6.

FS 4-No. 2014, October 12 from London

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

RR

KENNEDY

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OCT 18 1953

THE WHITE HOUSE
WASHINGTON
OFFICE OF THE SECRETARY
OF STATE

JR

PLAIN

London

Dated October 12, 1939

Rec'd 2:28 p.m.

Secretary of State,
Washington.

2020, October 12, 7 p.m.

FOR TREASURY FROM BUTTERNORTH.

Contrary to the expectations of many in the city there was no change in bank rates today. Meanwhile a further return of notes from circulation of pounds 3.7 million is shown in this week's Bank of England return, making the total pounds 535 million as compared with the peak of pounds 553 million on September 13th and the pre-war (August 23rd) level of pounds 508 million. The decline in the note circulation together with a decrease in public deposits of pounds 4.4 million and increases in Government and other securities in the banking department of pounds 695 thousand and pounds 653 thousand respectively were reflected in an increase in bankers' deposits which were up by pounds 10.7 million at pounds 116.7 million, the highest since the outbreak of war and some pounds 25 million above the level which prevailed in August. The abundance of credit which these figures indicate is reflected in the prevailing discount rates which have been just below 2 per cent for Treasury bills, and just over that level
for

-2- #2020, October 12, 7 p.m., from London.

for **commercial paper**, during the last few days, the rates being influenced by expectations that bank rate would be reduced.

The gilt-edged market is thawing fairly rapidly, dealings this afternoon took place in war loan at 88 1/2 - 3/4.

KENNEDY

HPD

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TELETYPE UNIT

COMMUNICATIONS SECTION

U.S. DEPARTMENT OF STATE

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: October 12, 1939, 8 p.m.

NO.: 2445

FOR THE TREASURY DEPARTMENT.

Today Couve de Murville had lunch at our house. Subscriptions to armament bonds, he said, are coming in at a very satisfactory rate, in an amount much greater than the average of 100,000,000 francs per day for subscriptions before the war. However, he sadly remarked that on the other hand Government expenditures are running at an enormous rate, so that despite the foregoing and the ready market which Treasury bills have, over three billion francs have had to be drawn from the authorized advance from the Bank of France. As for payments for military requisitions - reference telegram No. 2431 of October 11 from the Embassy - he said that of course compared to armament and munition purchases, the payments for the former are an unimportant factor.

Couve de Murville reiterated that as far as concerns payments abroad, for at least a year France will probably not need credits - references: telegrams Nos. 1923 of September 12 and 2340 of October 5 from the Embassy. It will be essential to have credits after that time in order to continue the war. He seemed to be much interested in looking into the possibility of "changes" in the United States meanwhile, which might permit the hope that at that time

- 2 -

time some facilities would be forthcoming. The semi-official vote of two days ago of course delighted him. He stated his belief that the British will be in need of credits from abroad sooner than the French will need them.

Our friend does not underestimate the enormous task of getting the wheels of commerce and industry functioning again, particularly for exports, but he was calm and not too pessimistic. Should there be no German offensive until in the Spring - and he is one of the few here who hopefully envisage that this might be so - he said it would be necessary to demobilize a substantial number of those who are under arms for that purpose now. In this regard he remarked that the British are much better off than the French since they have no general mobilization.

France has no idea of requisitioning French assets held abroad for the present, he said; if and when the time comes (and we believe that it must as the war continues and there is an increase in French purchases abroad) he promised that he would let us know well in advance what their plans are. He remembered our (omission) on this matter, as well as my conversation with Rueff - reference: telegram No. 1609 of August 26 from the Embassy - and he referred to British "agreement" with us in this regard. We were assured that they would not take any precipitate action that would be likely

likely to disturb markets in the United States. He told us also that the French Government has no present intention of requiring foreign residents "physical persons" to declare the assets which they hold abroad, mainly because of its wish not (omission) Americans - reference: telegram No. 2394 of October 9 from the Embassy.

Gold is still being gained by the fund, he said, at about the same rate as in the month of September - reference: telegram No. 2357 of October 6 from the Embassy - and our Bank of France friend, with whom we spoke later this afternoon, confirmed that the fund on balance is continuing to gain, despite heavier payments being made abroad.

The French, he said, proposed to let the Bank for International Settlements "sleep in peace" for the duration of the present war. As we had gathered from the recent statements of the BIS, the French Government has taken from the Bank all the funds it legally could. The general manager, Auboin, has been mobilized and next week returns to France. Couve de Murville understood that the German assistant manager, Hechler, will stay at Basel.

The BIS holds, in Switzerland and Holland, Czech National Bank funds amounting to about 300,000,000 French francs, but our friend believes that whenever these funds are needed, Germany will get them. It is his understanding that Germany is continuing to pay interest on investments in Germany by the BIS.

He

He said that the blockade measures are going along fine, and they are trying to restrict imports into Italy to levels before the war in order to prevent leakage to Germany. However, the situation as regards Italy is of course "more delicate" than applying the blockade to the smaller neutral countries.

Incidentally, he confirmed what other sources have told us, that Italians are more than willing to assist France and Great Britain both with manufactured exports and shipping facilities, provided only that they receive good pay for it. It is presumed that poverty-stricken Italy has its appetite for prosperity well whetted by thoughts of what the last war did for Spain. The other evening we were informed by a member of the Legation of Switzerland that the French are being really "tough" with their blockading. He told us, for example, that in order to import peanuts Switzerland must not only guarantee that it will not export the oil derived therefrom, but must also assure that exports of butter from Switzerland to Germany will not go above pre-war figures, to prevent the substituting in Swiss consumption of vegetable oils for the butter. This instance could be multiplied many times over, according to our friend from the Swiss Legation, who handles these matters there.

The October 5 statement of the Bank of France, published today, had as its main feature the increase of 1,100,000,000
francs

- 5 -

francs in advance to the State under the recent authorization of 25 billion francs. Up to the fifth of October, therefore, total advances under this account have been 3,300,000,000 francs. The statement in other respects reflects the usual movements following settlements at the end of the month. There was a reduction of 3,602,000 in commercial advances, leaving a total of 11,248,000 - which amount is 7,000,000,000 less than the total which was reported under this heading in the early part of last month. There was practically no change in open market operations, which were 4,270,000,000. There was an increase of 63,000,000 in advances against securities. There was a decrease of 115,000,000 in advances for 30 days. There was an increase in note circulation of 1,154,000,000, or roughly about the same as was advanced to the State by the Bank of France. There was a decrease of 174,000,000 in current and deposit accounts, leaving a total of 168,000,000. Gold cover ratio rose from 58.98 percent to 59.38 percent.

There was a firm undertone in the securities market, although there was some profit-taking. For the day most rentes and variable revenue securities showed moderate losses.

END OF MESSAGE.

BULLITT.

EA:LWW

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 12, 1939.

TO Secretary Morgenthau
FROM Mr. Cochran

At 12:45 today Mr. Leroy-Beaulieu came to the Treasury and I put in a call for the Secretary at Beacon. I remained with Leroy-Beaulieu while he spoke with the Secretary, who told him to get directly in touch with his General Counsel. At the termination of this conversation, I made an appointment with Mr. Foley for 2:45 P.M. At that hour I presented Mr. Leroy-Beaulieu to Messrs. Foley and Bernstein and remained with them while they discussed with the French Financial Counselor the question of opening the French Government account with the Federal Reserve Bank of New York as fiscal agent of the United States. Upon Mr. Leroy-Beaulieu's departure, the three of us talked this matter over further and Messrs. Dan Bell and Duffield also joined us for awhile. After Mr. Foley had then talked by telephone with Vice President Logan of the Federal Reserve Bank of New York, it was decided that no further information could be given Mr. Leroy-Beaulieu during the day, and I telephoned him to this effect at 5:00 o'clock this evening. It is understood that we will get in touch with him in New York ~~today~~ as soon as we can give him any definite information in the premises.





OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT
PROCUREMENT DIVISION
WASHINGTON

October 12, 1939

MEMORANDUM FOR THE SECRETARY

Captain Pierre Bénéch of the French Navy, Naval Attache at the French Embassy, called this afternoon and advised me that, in addition to the negotiations for the purchase of 100 torpedoes reported in my memorandum of October 6th, they have, after a year's negotiation, entered into a contract with the E. W. Bliss Company for the purchase of 100 air flasks and 100 fuel flasks.

J. G. Geller
Director of Procurement



PHONE VICTORY 7700



J. L. KEESHIN

PRESIDENT
KEESHIN FREIGHT LINES, INC.

CHICAGO

October 12, 1939

To: The Secretary
From: Mr. Hanes

Mr. J. L. Keeshin stopped to see you this morning, but finding you away asked to see me. I attach hereto copy of first report he has received from his men in China, original of which I returned to Mr. Keeshin at his request.

Mr. Keeshin told me confidentially that in his opinion the trucks purchased by the Chinese were not at all suitable for the job intended to be performed. He told me that he had objected to the light construction and type of the trucks which they had bought in large quantity. I think his principal objection is to the Dodge trucks which he said were not doing so well. While I could not get him to express himself clearly on the subject, I gained the distinct impression that he feels there may have been some monkey business in the purchase of this equipment.

I asked Mr. Keeshin to forward all future reports from China directly to you marked "personal and confidential." Mr. Keeshin requested me to advise you that he intends to return to Washington within a fortnight, and that he will get in touch with you at that time.

J. W. H.

(COPY)

Chungking, China.
September 17, 1939

Dear Mr. Keeshin:

Greetings from our new headquarters, a quite modern villa within a compound on the edge of the outer wall of Chungking. We are most comfortable and I can assure you everything possible for our comfort has been done. Our new home has been decorated and furnished by Mrs. Francis K. Pan, the wife of our guide and friend Dr. F. K. Pan of the Ministry of Communications. We have Simmons beds (a real luxury) and the food is excellent.

Trust you will pardon the delay of one week but it simply couldn't be helped, we have been on the go every minute since my last letter to you from Hong Kong. We flew out of Hong Kong or Kowloon at daybreak Sept. 7th via Air France. A most unusual flight. Andy and I were napping when the plane alighted at Fort Bayard, a French concession midway between Hong Kong and Hanoi. When we looked out the window, soldiers dressed in high peaked hats and sandals were running towards us and as we stepped from the plane you would have sworn there wasn't an habitation within miles, yet of a sudden people began running out with gasoline cans and we both thought of the "Last Horizon" the effect was genuine.

We landed at Hanoi in French Indo-China about 10:30 A.M., cleared customs and after a bite to eat and strong coffee, visited the local Magistrates etc., thence to Haiphong about 100 kilometers away. The natives were called Anamites and they are as thick as fleas, especially on the highway, but no difference to our bare-footed drivers who felt that any speed below 110 kilometers per hour was erroneous. Frankly, that is one trip I shall never forget. Visiting Haiphong we toured the godowns or warehouses to see just how much congestion existed. It didn't appear quite as bad as originally painted but it is bad. Most cargo is under cover but there are many loaded junks awaiting discharge. We have a complete inventory, date of arrival, map location etc. and efforts will be directed towards cleaning it up as well as getting the Foo Shing truck operation under way for tung oil out. The southern route through Dondang, Luichow and Nanning is almost impassable due to concentration of enemy planes. They are ground strafing the roads at least twice a day and numerous trucks, cargo and men have been lost. The highway at one point is pretty far gone according to advices and it has been impossible for the Provincial Government to secure funds for repairs, although I was advised today the matter has been taken care of by the National Government.

We stayed over night at Haiphong and finished up the following

day. Andy and I called upon General Dartroux, the new Military Governor of French Indo-China, merely a personal call but intend to return there soon if possible to curtail red tape incident to frequent commandeering of supplies and equipment. Right now the gasoline problem is quite acute here. Will write more on this subject at a later date.

From Hanoi we rode the "Wagone Lits" or meter gauge pullman to Lao Kay, thence "Michelin" rail car to Kunming, a 33 hour journey. All along the way and especially at Kunming we were royally entertained, banquets, wines, etc., soldiers salute for some reason and on account of my size I'm apparently exhibit A. At Kunming we visited the drivers school and as 1600 men stood at Regimental parade we passed down column after column. The three cheers customary on such occasions were given us and our interpreter told us they were for the Americans, Roosevelt and the Generalissimo. Some experiences! From Kunming we drove to Chungking. We have four new Fords and my new Buick will arrive shortly. The trip was a revelation to us. First the highways are comparable to our third grade roads. They have good rock base but no topping, they are quite rough and mud and dirt are used to iron out the washboard effect. Of course the rains wash away the mud and it must be replaced. We drove for four days about 1000 kilometers and there are no mechanical implements at any point. Sand and gravel are not to be had between the two points and the cost of asphalt makes its use prohibitive. The road has been entirely constructed by human labor even to breaking up the rock for gravel. The territory is rugged and mountainous, grades up to 20%, torturous curves and the type of road that calls for stamina of equipment. As an example of the type of country traversed, the four full days of motoring is covered in 2½ hours normal flying.

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One thing sure, if we are going to get anywhere with this

- 3 -

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The International D50 tractors should be arriving at Haipkong about Oct. 20th, at least the first group. Have not yet learned the expected arrival of the trailers but will check on this as soon as possible. It is my idea if we can put it over, to take over all except Military Operations on one through route, using Tractor Trailers where feasible and other equipment to fill in. When we get the one operation functioning, we can turn it over to others and commence another until we have the present chaotic conditions smoothed out a bit. Be assured, however, that we are carefully reviewing all angles but as promised we are paying no attention to red tape. Our aim is to get things moving quickly, stop the terrible loss of trucks and men, and of course move 3500 tons minimum of wood oil monthly.

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Kindest regards,

Maurice.

92

October 12, 1939

To: The Secretary

From: Mr. Hanes

Mr. J. L. Keeshin stepped to see you this morning, but finding you away asked to see me. I attach hereto copy of first report he has received from his men in China, original of which I returned to Mr. Keeshin at his request.

Mr. Keeshin told me confidentially that in his opinion the trucks purchased by the Chinese were not at all suitable for the job intended to be performed. He told me that he had objected to the light construction and type of the trucks which they had bought in large quantity. I think his principal objection is to the Dodge trucks which he said were not doing so well. While I could not get him to express himself clearly on the subject, I gained the distinct impression that he feels there may have been some monkey business in the purchase of this equipment.

I asked Mr. Keeshin to forward all future reports from China directly to you marked "personal and confidential." Mr. Keeshin requested me to advise you that he intends to return to Washington within a fortnight, and that he will get in touch with you at that time.

JWH:jr

(COPY)

Chungking, China.
September 17, 1939

Dear Mr. Keesling

Greetings from our new headquarters, a quite modern villa within a compound on the edge of the outer wall of Chungking. We are most comfortable and I can assure you everything possible for our comfort has been done. Our new home has been decorated and furnished by Mrs. Francis K. Pan, the wife of our guide and friend Mr. F. K. Pan of the Ministry of Communications. We have Simmons beds (a real luxury) and the food is excellent.

Trust you will pardon the delay of one week but it simply couldn't be helped, we have been on the go every minute since my last letter to you from Hong Kong. We flew out of Hong Kong or Kowloon at daybreak Sept. 7th via Air France. A most unusual flight. Andy and I were napping when the plane alighted at Fort Meyer, a French concession midway between Hong Kong and Hanoi, when we looked out the window, soldiers dressed in high peaked hats and sandals were running towards us and as we stepped from the plane you would have sworn there wasn't an habitation within miles, yet of a sudden people began running out with gasoline cans and we both thought of the "Last Horizon" the effect was genuine.

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kindest regards,

Maurice.



DEPARTMENT OF AGRICULTURE
WASHINGTON

October 13, 1933

Dear Henry:

In reply to your inquiry of September 26, the European war has changed the world market situation for cotton and wheat flour, but it has not solved our surplus problems for these commodities.

Contrary to popular belief, war does not increase the total consumption of cotton but rather tends to decrease it. The breaking out of war in 1914 caused a disruption to the market and a drastic decline in cotton prices. You will recall the "buy-a-bale" movement which resulted. For the entire four years of the World War exports averaged only about two-thirds of what they had during the four previous years and they did not recover to the prewar level until 1924. Although prices recovered gradually in 1915 they did not rise above the prewar level until general inflation got under way.

Because of the reduction in foreign mill stocks some increase in exports would have been anticipated this year without an export program if war had not broken out in Europe. With Germany and the rest of Central Europe largely, if not entirely, removed from the market we face the alternative of moving our exportable surplus into the remaining available markets or increasing our domestic stocks still further. The carryover at the beginning of this crop year was equal to a year's consumption. Even with the export payment program in operation and the stimulation to export sales and domestic prices which has resulted from it, cotton prices have not been much above the limit at which a cotton loan would become mandatory under the Agricultural Adjustment Act of 1938. In fact, the more distant futures months have been below the minimum level at which the loan was established last year. The decline in prices at country points has resulted in a strong demand for a loan program this year. To discontinue the export payment program under these conditions would almost certainly reduce export sales and prices and result in a further large accumulation of cotton under the loan. A loan program may become necessary in any event but, if so, it is hoped that with the aid of the export program it will not result in a further accumulation of loan stocks at the end of the current crop year.

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The war is not likely to increase the domestic consumption of wheat. We have an exportable surplus and our production has long been geared to an export movement. Although wheat prices advanced sharply on the outbreak of war, they have already reacted. The present world wheat situation is very different from that of 1914. World supplies are now the largest on record. World production has increased both in Europe and in the great exporting countries of Canada, Argentina, and Australia. Great Britain has apparently made arrangements to acquire necessary supplies from the Dominions. Although this may to some extent reduce the competition which our wheat will meet from Dominion supplies in neutral countries, it will curtail any additional export business because of increased war demands. Foreign countries are continuing to subsidize exports and world prices are materially below those in the United States. If domestic prices were to fall to the world level they would be much lower than the minimum loan rates, which are mandatory. Such situation would result in an excessive accumulation of wheat under loans and probably in losses to the Government as well as to farmers.

The continuation of exportations of wheat in the form of flour has several advantages. Without increasing the cost to the Government it is possible to have the additional milling done in this country. Moreover since consumers tend to be hesitant in changing brands there is a greater prospect of continued export sales after the completion of the program provided, of course, our flour can be sold at prices which make it reasonably competitive with foreign flour. Naturally, if the price differential becomes so great that foreign consumers turn to other brands it will be correspondingly difficult to reestablish American flour abroad. The exportation of flour also results in a healthy movement of wheat through domestic trade channels with a minimum of Government interference or participation. With the improvement in the market and the increase in demand immediately following the breaking out of hostilities, the rates of export payments on flour were reduced. The present lower rates of export payments and the much lower prices at which foreign mills can purchase wheat have resulted in a diminution in export sales. This suggests that perhaps the reductions which have already been made in the export payments on flour have been somewhat excessive.

Although this Department has always considered these export programs to be temporary, it has appeared inadvisable to discontinue them as yet.

Sincerely yours,

H A Wallace

Honorable Henry Morgenthau, Jr.

Secretary of Treasury.

No. 5

Hanoi, French Indochina, October 13, 1939

Subject: Conditions at Haiphong.

The Honorable
The Secretary of State,
Washington.

Sir:

I have the honor to report upon conditions at the port of Haiphong, as observed during my recent trip to that port, at which time I not only visited the various centers in which cargo is being stored but also conversed at some length with various persons, Chinese, French, and other nationalities, particularly interested in the shipment of cargo to China.

At the present time, it is estimated that there is an accumulation of freight, awaiting shipment to China, of from 150 to 350 thousand tons. It is difficult to reconcile this wide range in estimates, as the persons indicating these figures are reputedly in a position to know the facts. In my own opinion, based upon observations and giving weight to the statements of the Chief of Customs at Haiphong and of officials of the Southwestern Transportation Company, I am inclined to believe that there are somewhat over 200 thousand tons of various types of cargo awaiting shipment to China. For a port of the size of Haiphong, this is many times the normal capacity.

As far as I am aware, the French authorities and the ubiquitous "transitaires" have made little or no effort to increase storage facilities beyond what they were before Haiphong became one of the chief ports of entry into unoccupied China. In consequence, much of the above-mentioned amount of cargo is stored in the open. To be sure, Chinese governmental agencies have started the construction of a number of warehouses but, according to one observer, a foreign resident of Haiphong, not much progress has been made towards providing adequate storage facilities.

According to informants little has been done to increase and to improve actual port facilities, notwithstanding the urgent need for an increase and improvement in such facilities. I have been informed, and I am inclined to believe this statement, that the great majority of shipping companies serving Haiphong now require that shippers undertake to remove cargo at once. This undertaking is required to avoid a situation which it is said arose in the not too distant past when more than 30 ships were in port awaiting an opportunity to discharge cargo, with facilities available for the discharge of only a few at a time.

Seeking to overcome what might well be termed "sheer inertia" on the part of the French, in so far as improvement of facilities at Haiphong is concerned, a number of foreign companies have endeavored in their own behalf to remedy conditions. A British firm, Jardines, have anchored one of their largest boats in the harbor and are using it for storage. This company is contemplating bringing a second boat to Haiphong for the same purpose. Both this company and another foreign

Foreign firms are understood to have worked out and to have proposed to the French authorities a plan of lighterage to the nearest Chinese port on the gulf of Tonkin, so as to relieve highway and railway congestion, but so far only a partial success in securing the adoption of the plan is reported.

A trip through the storage centers of Haiphong is unpleasantly illuminating. Every available space appears to be piled with cases and boxes, boilers and machinery lay in utter confusion along the water front, hundreds of boxed automobiles are everywhere in evidence. I am informed that the percentage of loss through theft is not inconsiderable and that the depreciation, through exposure in a hot damp climate, is heavy. I observed a large number of cases, broken and with whole sides missing, marked precision machinery. A well-informed Chinese informed me that a good bit of this machinery had lain on the docks at Hong Kong until the New Territory border with China was closed by the Japanese forces, that the machinery was then shipped to Haiphong, where it has lain subsequently.

To the losses occasioned by theft and through exposure to the elements must be added the factor of temporary loss. One foreign source of information, interested in the shipment of certain items to Chungking, stated that he had spent a number of weeks trying to locate the whereabouts of these items and that they had finally been found under piles of boxes and cases. In this same connection I am informed that unless a shipper has an active representative on the spot to see where his cargo is stored the cargo will probably be misplaced among the piles of accumulated freight. In many instances the records of storage are rudimentary and of little actual value.

Even the representatives are unable to accomplish much towards the relief of the congestion and confusion which prevails. Practically all foreign concerns and all Chinese governmental agencies maintain representation at Haiphong. So far as I can observe these spend their time in endlessly repetitious efforts to speed up transit to China and to bring order out of confusion. The psychological reaction of these representations is generally one of hopelessness, especially among the non-Chinese. This effect is heightened by the fact that Haiphong appears to be divided into two camps - the French blame the others (principally the Chinese) for the present situation, whereas the others (not only the Chinese) accuse the French of obstructionist methods.

However, from my conversations, I am convinced that a determined effort is being made on both sides to clear up the accumulation of cargo. I may add inter alia that it is estimated that at least 6 months will be needed, even if no new cargo arrives, to effect the removal of this accumulation - and it is more than possible that it may take twice that long. The French are undoubtedly desirous of clearing the port, for almost purely political reasons, and have unquestionably made many concessions to shippers, in contrast to the unpleasant rigidity of procedure which prevailed in the days prior to the Sino-Japanese conflict. The shippers (and herein I include Chinese governmental agencies) are equally anxious to get their cargo to its destination, for practical reasons, and are bending every effort to that end. It is unfortunate, but there seems to be a lack of effective coordination.

However, elements of extreme and unusual adversity have joined to render difficult the immediate clearing away of cargo congestion. The railway to Kunning,

Kunming, at a point in China, has experienced a number of landslides and at the present time has carried no cargo for about two weeks, and will probably carry no cargo for at least three more weeks. This means a loss of from 10 to 15 thousand tons. The highway to Chungking has been subject to constant bombing, between the frontier and Nanning and traffic proceeds between these points generally only at night. This reduces the amount of cargo which might be carried by this route by at least 50 per cent.

For a time, I understand that the French would allow clearances of only from 50 to 60 trucks (all with cargo) each day. The interested owners of the trucks and automobiles at Haiphong protested that the French should allow a greater number to be cleared daily. Logically, the French had an almost unanswerable argument in their favor, as they maintained that only that number of trucks and automobiles should be cleared which could be handled on the highway between the frontier and Nanning.

There are at the present time between 2800 and 3000 trucks and automobiles within the confines of Haiphong, with more expected in the future. The great majority of these (at least 2000) are still in cases or still require extensive preparation before taking the road for China. I have talked with various persons engaged in this work of assembly and preparation and I have received the very definite impression that they are handicapped by a lack of facilities. Another condition of which they complain is the necessity of employing Indochinese in many capacities, where Chinese workmen would be cheaper and more efficient.

The French have recently adopted a more lenient attitude toward the number of trucks and automobiles which may be cleared daily from Haiphong. This change does not result from any desire to assist the Chinese in their troubles, although I believe that the French have been fairly generous in their treatment of these problems, but rather to hasten the clearing of the port. As mentioned in my telegrams of September 26, 3 p.m., and October 11, 6 p.m., the French desire to avoid the appearance that they are actively assisting the Chinese. There does not appear to be anything confidential about this desire, as it has been mentioned frequently in conversation between French officials and a considerable number of non-French persons.

Within the last few days, I have been informed that an order has been issued that all trucks and automobiles must leave Haiphong within three days after assembly and preparation, regardless whether they have been loaded or not. It has been given to understand that the order does not insist that the trucks and automobiles depart for China - on the contrary, it is said that a number of places (6 in all) have been designated outside and to the west and north of Haiphong where the trucks and automobiles may wait, for a load or for any reason. This order evidences the pressure being applied to accelerate the moving of the tremendous congestion of cargo at Haiphong. Parenthetically, the Chinese complain that the designation of these "parking" places is but an excuse to impose a "taxe de stationnement". They mention the example at Langson where such a tax is said to be imposed - 1 piastre the first day, 2 the second, 3 the third, and so on.

The

The entry of France into a war with Germany, the subsequent issue of a list of articles which may not be exported from Indochina without special permission, the problem of treatment of German goods, et cetera, have all combined to complicate Haiphong's problems.

As mentioned in my telegrams, referred to above, there has been an increasing concern as to the attitude of the French towards the goods in Indochina or arriving in Indochina which are on the list of prohibited exports. For the time being the matter seems to be settled - that export (and transit is considered as an export) to private companies in China shall cease from midnight of October 30, that exports to the Chinese Government shall cease as from a date to be announced later by the Government General, and that exports envisaged by the Sino-American loan agreement (the Universal Trading Company loan) shall continue. But there have been recurrent rumors that the French attitude will be much more strict and this had the happy effect of causing the various agencies interested in shipments to China to redouble their efforts at Haiphong. According to well-informed sources of information, more has been accomplished in the last two weeks than in the last two months. If the same tempo can be maintained, Haiphong's problems will be solved the sooner.

Especially, much has been done to move the large amounts of German goods. It was feared that there would be a complete embargo on the movement of these goods but as the matter stands these may be moved by a certain date (variously reported as October 25, October 30, and a later date) provided proof of payment for the goods prior to the declaration of war on September 3 is forthcoming. The Chinese in Indochina claim that this is an unusual hardship inasmuch as many of the receipts are in Germany and hence obtainable only at some date in the distant future, if at all. In any event these German goods, much of which I fear will be found in bad condition as a result of improper and careless storage, are being moved with all expedition. In fact, I observed that these goods are being given a certain amount of preference.

While the events of the last two weeks, as set forth in the preceding paragraphs, has caused an acceleration in the transitting of goods from Haiphong to China, other events have caused some retarding. An appreciable number of Indochinese chauffeurs and mechanics, as well as general workmen, have been mobilized, and the replacement of these by Chinese has not yet been freely permitted. It is understood that at the present time negotiations are going on with the French authorities to permit the importation of Chinese, particularly chauffeurs. Cooperation on this point will serve a useful end.

The requisition of trucks and automobiles at the onset of war had also an adverse effect, which it may be mentioned has now been entirely remedied. In this connection, the Department may be interested in the following incident. A number of trucks of the Foo Shing Company were erroneously requisitioned and were held in French service for a number of days. Representations by the Chinese secured the return of the trucks but the Chinese demanded and received a sum of money for the use of the trucks. I am informed that the French have somewhat resented the necessity of this payment, although the payment is

just

just, and a foreign observer had commented that for a small sum of money the Chinese, at least in this instance, have missed a chance to further facilitate friendly relations.

Despite a certain amount of friction between the French and those interested in shipments through Indochina to China, I believe that there is a definite improvement in conditions at Haiphong and along the road to the frontier. Both sides are endeavoring to clear up the congestion of cargo at that port and are trying to accelerate the transit to China. How far that improvement can go is, however, rather problematic. The French, feeling that the liquidation of the Sino-Japanese conflict will remove the increased commercial activity of Haiphong, are unwilling to go to the expense of increasing the facilities of the port. The Chinese, until transportation conditions beyond the frontier are greatly improved, are reportedly unable to materially increase the volume of freight leaving Haiphong for China.

It is possible that greater coordination, and even cooperation, can be brought about. The French, however, consider the situation a temporary one - to be cleaned up as soon as possible and, in view of the exigencies of the war in Europe and the situation in the Far East, one not to be repeated. The Chinese, according to most non-Chinese informants, are handicapped by too many people in authority or claiming to have authority. A centralization of effort is therefore apparently called for. I am informed that a certain amount of reorganization is under way in the Chinese agencies. In the meantime, as determined, if not efficient, effort is being made on both sides to clear up the congestion and to start the freight on its way to China.

Respectfully yours,

CHARLES S. REED, II,
American Consul

Original and 4 copies to Department
Copy to Embassy, Chungking
Copy to Embassy, Peiping
Copy to Consulate General, Hong Kong
Copy to Consulate, Saigon

#15.6
CSR/GJ

TREASURY DEPARTMENT

104

INTER OFFICE COMMUNICATION

DATE October 13, 1939.

NJE

TO Secretary Morgenthau
FROM Mr. Cochran

The foreign exchange market was quiet this morning, but in the mid-afternoon became very active, and the volume of sterling transactions for today was greatly increased over previous days.

The feature was the drop in the sterling rate. In Amsterdam sterling was quoted at 4.02-3/8, and opened here at 4.02-1/8. The rate had a soft undertone, which was probably due to some extent to the rejection of the German peace proposals by the British. About 3 p.m. several New York banks received orders from abroad to sell a total of £250,000 and 5,000,000 French francs, all to be executed at the best possible rate. The rate immediately started to decline from 4.00 and closed at 3.96, the low for the day. The French franc also declined during the same period from 2.27-1/4 to 2.24-1/2.

The Canadian dollar moved in sympathy with the pound sterling and the discount widened to 11-1/4%.

Reporting banks in New York and the Federal Reserve Bank reported sales totaling £947,000, from the following sources:

Commercial concerns	£ 393,000
Foreign banks (Europe, Far East and South America).....	£ 554,000
Total	£ 947,000

Purchases of sterling amounted to £772,000, as indicated below:

By commercial concerns	£ 520,000
By foreign banks (Far East, Europe and South America).....	£ 252,000
Total	£ 772,000

The Bank of Latvia purchased in this market 20,000 belgas and 10,000 guilders.

The National Bank of Belgium sold \$2,945,000 gold from their earmarked account.

The Federal Reserve Bank of New York informed us that they had received gold valued at \$767,000, shipped by the Bankers Trust Company, London, which they earmarked in their vaults for the account "Fiscal Agent of the United States for the Bank of Brazil."

Gold valued at \$5,640,000 was reported shipped from Japan to San Francisco.

The Bank of Sweden cabled to the Federal Reserve Bank of New York inquiring if it was interested in selling to the Swedish Mint silver bars in 5,000 or 10,000 kilo lots. The Federal Reserve Bank replied that they do not deal in silver. As requested by the Bank of Sweden, the Federal Reserve Bank advised it relative to the procedure by which the silver could be purchased.

During my Northern visit last February, the Governors of the four Scandinavian Central Banks all indicated their interest in possible purchases of silver for coinage purposes.

Dr. Arthur N. Young, formerly Economic Advisor to the Department of State, and for the past ten years Financial Advisor to the Chinese Government, called on me at 10:00 o'clock today. After a general discussion I turned him over to Messrs. White and Cotton in order that he could talk about Chinese affairs with them.

At 10:30 I received Mr. McKittrick, who has been chosen president of the BIS to succeed Dr. Beyen on January 1, 1940. Mr. McKittrick had visited Mr. Eccles yesterday and was to see Secretary Hull at 12:00 o'clock today. He desires to see Secretary Morgenthau and Undersecretary Hanes on Monday. Mr. McKittrick will go to Europe early in December and join the BIS, whether it may be situated in Basel or some other Swiss city. Mr. McKittrick realizes that there is no chance of our participating officially in the BIS at the present time. He hopes, however, to keep the BIS alive during the war and that the United States may eventually assume some responsibility toward this institution. Prior to his visit, I had learned through New York friends that it is anticipated that no BIS directors' meetings will be held at Basel during the war. It is the idea of Chairman Niemeyer of the Board that the president of the BIS should visit the various directors in their home cities to consult with them upon any matter of policy which could not be settled by the BIS resident staff itself. From a Paris cablegram it is now observed that General Manager Auboin has been mobilized and is returning to France next week. It is quite probable that the staff will be reduced by the calling to colors of several other of its members, and that only a skeleton force sufficient to carry on the reduced business and make economic surveys and records will be maintained. The bank's income is now sharply reduced through the withdrawal of central bank deposits with it, and its existence would be threatened if Germany should, during the war, default upon BIS investments in that country.

At 11:00 today I received, upon the request of Mr. Walter Gardner, of the Federal Reserve Board, Mr. V. Mammel Valdés, Secretary of the Central Reserve Bank of El Salvador. Mr. Valdés is in the United States for a three-month's visit, studying the working of our Federal Reserve system. He had talked with Mr. Collado of the State Department and with officials of the Federal Reserve in regard to the possible need of Salvador for some sort of a credit with the particular purpose of keeping the Salvadorean currency stable. It had occurred to him that the Stabilization Fund of the Treasury Department might be of some assistance. I discussed with him, along very general lines, the facilities of the Export-Import Bank as well as the Federal Reserve Bank of New York in extending credits, and also let him know that the Stabilization Fund had been of some assistance in a few cases where currencies had been purchased for resale. It was understood that this matter would be discussed further should Mr. Valdés be instructed by his people seriously to take up this matter. Incidentally I learned that his bank has \$600,000 of gold deposited with the Central

Bank of Canada. Against this gold the BIS has made certain dollar advances at one time to the Bank of El Salvador. Mr. Valdés added that his bank has approximately \$6,000,000 of gold in its own vaults, but that most of this is under the seal of the Government and could not be removed for deposit as collateral in a foreign city without expressed authorization of the Government. He may approach some private bank with the idea of getting a credit without the gold being withdrawn from El Salvador.



FEDERAL SECURITY AGENCY
WASHINGTON

OFFICE OF
THE ADMINISTRATOR

October 13, 1939

MEMORANDUM FOR MRS. KLOTZ:

Following our talks the other day on Dr. Parran's letter to the Secretary in regard to the Chinese situation, the Governor talked to Dr. Sawyer of the Rockefeller Institution.

He advised the Governor that the need for doctors in China was acute and to send quinine without doctors would be unwise. Dr. Sawyer was not specific on the gains to be had from sending a survey commission without quinine.

The Governor has confidential information, however, from Merck & Company that commercial shipments of quinine are going to China. The Governor agreed with Dr. Sawyer that in view of this fact, the Public Health Service commission would be immediately helpful in supervising the distribution of quinine. In view of this development, he is approving the plans previously made.

Please bring this to the Secretary's attention so that he will be informed.


Mary E. Switzer,
Assistant to the Administrator.

TO THE SECRETARY:

CHANGES IN COTTON HOLDINGS BY PERIODS

	Commodity Credit Corporation		Cotton Producers' Pool	
	Bales	Amount	Spot	Future
	Holdings to June 29, 1936	3,556,921	\$240,155,429	155,067
Changes July through December 1936	- 536,497	- 36,261,626	-155,067	-118,100
Changes January through June 1937	-1,315,964	- 88,648,898	-	-
Changes July through December 1937	4,068,424	181,235,152	-	-
Changes January through June 1938	1,150,553	49,363,663	-	-
1938				
July	40,838	1,817,381	-	-
August	- 2,680	2,987,196	-	-
September	13,278	647,598	-	-
October	1,789,336	91,056,546	-	-
November	1,074,126	49,621,691	-	-
December	748,914	34,527,696	-	-
1939				
January	393,805	18,084,210	-	-
February	266,116	12,664,845	-	-
March	70,281	3,193,048	-	-
April	49,338	2,389,141	-	-
May	- 20,330	- 684,359	-	-
June	3	28,579	-	-
10	- 31,753	- 1,315,184	-	-
17	- 34,639	- 1,390,545	-	-
24	- 22,834	- 810,692	-	-
July	1	47,708	-	-
8	- 27,547	- 1,168,012	-	-
15	- 39,234	- 1,681,422	-	-
22	- 34,912	- 1,458,929	-	-
29	- 26,917	- 1,126,873	-	-
August	5	17,328	-	-
12	- 7,856	- 2,954,363	-	-
19	- 7,353	- 1,224,273	-	-
26	- 6,088	- 628,539	-	-
Sept.	2	158,762	-	-
9	- 9,238	- 1,072,015	-	-
16	- 1,416	- 688,804	-	-
23	- 1,232	- 598,270	-	-
30	- 2,546	- 4,266	-	-
Holdings to September 30, 1939	10,842,981	\$558,872,669	-	-
Holdings by Commodity Credit Corp.	7,677,820	413,301,488	-	-
Holdings by banks	3,165,161	145,571,181	-	-

October 13, 1939

over B

52

Oct. 13, 1939

2026 from Kennedy VERY CONFIDENTIAL re visit
with Sir John Simon (Kennedy thinks it would
be mistake for US to suggest where British
should open an account in US; also referred
to liquidation of British securities

10/13/39

(This material is filed with other pertinent
cables, etc., as of October 24th, date they
were shown to the President.)

October 13, 1939.

MEMORANDUM

TO: Secretary Morgenthau
 FROM: Mr. Gaston
 SUBJECT: Coast Guard air pilots.

After leaving your office on Wednesday I had a long talk with Chalker and also with Admiral Waesche on Thursday on the subject of the supply of pilots for Coast Guard airplanes. I came to these conclusions:

(1) The supply of trained pilots is adequate, but no more than adequate, to man the present outfit of serviceable planes. By June, 1940, we will have a substantially increased number of aviators to man the increased number of planes which we will have available at that time.

(2) It would be extremely desirable to have a reserve of competent fliers.

(3) The bottleneck in producing fliers is the Navy training school at Pensacola. We are now limited to ten a year. The Navy has plans under way, however, to intensify the training and put the men through in six months. We shall try to induce Navy to permit us to enroll ten men, including both officers and enlisted men, in each half year course, which would double the output of Coast Guard pilots.

(4) Steps will be taken to give flying training to Coast Guard officers earlier than it is now being given.

(5) In a really serious emergency we could give temporary commissions to civilian fliers, but it is deemed inadvisable to do this unless the emergency is quite serious.

We now have a total of 48 planes theoretically in service but this number includes a good many that are not very serviceable, such as the 11 single motor Grumman Amphibians, the 4 single motor Viking flying boats, the 3 single motor Navy pursuits and the 4 single motor Fairchilds. With necessary time for repairs we can not consider that we have more than 30 planes capable of useful operation at any one time. By next June 30 we can expect 7 new Hall biplane flying boats and 4 more of the twin motor Grumman Amphibians, all of which will be

very useful. Waesche expects to be able to get in on the first Navy order for twin motor Consolidated flying boats. These seem to be a superior type of heavy long range craft and if we get in on a large Navy order they will cost us less than the Halls. His plan is to buy a single plane for trial purposes out of present funds and to buy more if we get the money in a deficiency bill. This boat came through very well in comparative tests with the Hall at San Diego. It is very much faster than any rescue planes we have had hitherto and it seems to have fully as good qualities in rough water as the Hall.

Our custom has been to give the cadets three years as ensigns on the ships before selecting them for air training. Since the average age of graduates of the Academy is probably not less than 22, this would make them 25 before they get air training, which I think is too late. I expressed this idea to Chalker with the result that an order was issued yesterday that training will be open to ensigns two years after graduation and in his talk with me yesterday Waesche said that he would later modify this to allow air training after one year at sea if conditions are such that we can get the boys into Pensacola. I suggested that it might be possible to give the boys some familiarity with aircraft while they are in the Academy. Chalker talked to Waesche about the possibility of assigning some to air stations during summers, but Waesche says that the course at the Academy is so heavy that he is inclined to think that this is not practicable.

With respect to commissioning civilian fliers as Coast Guard pilots, Waesche is very reluctant to adopt this device except in the most serious emergency. It creates a great deal of heartburning among the regular officer personnel and in the past there has been great pressure exerted on the Coast Guard to retain these temporary flying officers after the emergency is ended. Waesche thinks it extremely desirable that all Coast Guard officers in the flying service should have thorough sea training. I think this is sound if not carried to too great an extreme, but I also think that men who are to fly ought to get the chance to get the feel of an airplane while they are still young enough to acquire flying skill quickly.

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October 13, 1939.

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October 13, 1939

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To: The Secretary

From: Mr. Hanes

Cabinet meeting this afternoon was relatively short, lasting just about one hour and fifteen minutes. Present were Messrs. Hull, Hanes, Woodring, Murphy, Farley, Edison, Ickes, Wallace, Noble, Madam Perkins and the Vice President.

The President announced that he had heard that in the Russian half of Poland the ditches were filled with land owners and priests who had been murdered without ceremony and thrown there. The Vice President stated that he thought Russia was the arch criminal and the greatest enemy in existence to the rest of the world.

I reported general financial information. The President asked about the Times Index and then asked me whether I agreed with certain governmental economists that there was going to be a recession in January. I told him that I most assuredly did not agree, that I could see no basis for any such prophecy and that I did not think such prophecies did the business structure any good. The President asked the others how they felt about it. Mr. Noble said that he disagreed with me. Mr. Wallace seemed to agree with my point of view and when it was all over the President said that he also agreed with me; that buying from abroad had not begun yet; that business was pursuing a normal expansion already begun before the advent of the war, and that he was not in accord with Currie who had told him that he was looking for a recession.

The only other matter he discussed with me was whether we felt that the 90-day clause in the Neutrality Act should be fought over. I told him that, in my opinion, it was not a matter of much importance, that its removal would have very little effect upon our trade with belligerent countries. The President asked me to write him a memorandum, copy of which I attach hereto.

The only other thing that came up of any interest was a discussion of the Chrysler Automobile strike in Detroit. Miss Perkins reported that 55,000 men were out of work due to this strike, which Attorney General Murphy said was caused by the C. I. O. winning an election and then trying to force Chrysler into an agreement for a closed shop. Miss Perkins stated that she had hopes the strike could be negotiated satisfactorily in a short time.

Just before the meeting closed, the President suggested that thought be given to the problem of selling life annuities through the Post Office Department. He said it was his opinion that the Government should attempt this at the next session of Congress rather than introducing any more

- 2 -

amendments to the Social Security Act, and having the issue in an election year of including farm laborers and domestics under the benefit plan. He said that he did not want to have this issue before the Congress where there was such a wide divergence of opinion concerning benefits to be given to these groups. The President is, therefore, inclined toward the plan of suggesting to Congress some form of life annuity that may be bought by the individual at a very moderate price from the Government, thus saving the forty per cent sales commission and other expenses chargeable to the private life insurance companies.

TWH



THE SECRETARY OF THE TREASURY
WASHINGTON

October 14, 1939.

MEMORANDUM FOR THE PRESIDENT:

Re: Short-term commercial credits
to belligerents.

The present Neutrality Act contains a provision which was first enacted in February, 1936, prohibiting the extension of credit to, or the purchase of obligations of, belligerents or their agents, but authorizing the President to exempt from such prohibition ordinary short-term commercial credits. This power the President exercised by issuance of regulations on September 6, 1939, which regulations designated the Treasury to administer the provisions thereof. The Treasury has had very few inquiries from the public with respect to this matter.

The Neutrality Bill passed by the House last July limited the aforementioned Presidential power under existing law by providing that such commercial credits should be for no longer than 90 days, without renewals, and that the President was to make public every 90 days all extensions of such credits to belligerents.

The bill reported in the Senate contains the same 90-day limitation on short-term credits that was contained in the House bill; provides that the President must report to Congress every six months all the extensions of short-term credits to belligerents; and also provides that if a belligerent defaults on any such credits, no further credits may be extended to it while the default continues.

Normally the function of short-term credit in international trade is principally to finance the sale of goods while the goods are in transit from the seller to the buyer. The bank doing the financing customarily retains title to the goods while in transit and until payment is made by the foreign purchaser. If the Neutrality Act prohibits the extension of any credits, commercial or otherwise, to belligerents, and requires the transfer of title to some foreigner before the goods leave the country, sales of goods to belligerent countries having dollar funds will be executed on the basis of payment being made by the belligerent in this country to the seller before the goods leave the country. It is likely that in view of all the circumstances and for the time being the vast bulk of sales by Americans to belligerents will be conducted on precisely this basis even if short-term commercial credits were to be permitted. This is true because (a) the belligerents that are good short-term credit risks have dollar balances in this country, and (b) customarily not even short-term credit is extended in international trade unless title to the goods is retained by the party extending the credit.

If the Neutrality Act permitted short-term commercial credit, it would be possible for an American to sell his goods to a belligerent, transfer title to such goods to the belligerent before the goods left the United States, and rely exclusively on the credit of the belligerent for payment in the 90-day period. For example, an American manufacturer might be willing to sell

merchandise to Britain and transfer title to Britain before the goods left New York, and rely exclusively on the general credit of Britain for payment within the 90-day period. If this were done generally, a belligerent would be able to make purchases on short-term credit, and this credit would be a continuing one on the basis of the belligerent's over-all purchases, even though any particular credit could not be renewed. In this way a belligerent like Great Britain might be able to build up a short-term credit running into several hundred-million dollars. However, for at least some time there would be no great loss to American commercial interests if this type of transaction is forbidden because of the dollar balances available to the belligerents.

For the reasons indicated below, I believe that, although it might be of some slight value for the Neutrality Act to contain a short-term credit provision such as exists in the present law or as is proposed in the Senate bill, the provision is not of great significance and should not be fought for. Furthermore, I would recommend the elimination of the short-term credit provision if its elimination would help in the passage of the bill.

(1) The belligerents to whom such short-term credit is likely to be extended are in a position to pay cash in this country before the goods leave the United States. Accordingly, the elimination of the short-term credit provision will not decrease appreciably the amount of our trade with such belligerents.

(2) It may be charged that the extension of short-term commercial credits will result in our acquiring a financial stake in the outcome of the war since a belligerent might acquire a continual short-term credit running into several hundred-million dollars and this might ease the way for longer credits to favored belligerents.

(3) Neither the existing law nor the proposed bill affects the extension of credit to a national of a belligerent not acting on behalf of a belligerent.

John W. Hanes

October 13, 1939

To: The Secretary

From: Mr. Ranso

Cabinet meeting this afternoon was relatively short, lasting just about one hour and fifteen minutes. Present were Messrs. Hull, Ranso, Gooding, Murphy, Farley, Edison, Ickes, Wallace, Noble, Madam Perkins and the Vice President.

The President announced that he had heard that in the Russian half of Poland the ditches were filled with land owners and priests who had been murdered without ceremony and thrown there. The Vice President stated that he thought Russia was the arch criminal and the greatest enemy in existence to the rest of the world.

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Just before the meeting closed, the President suggested that thought be given to the problem of selling life annuities through the Post Office Department. He said it was his opinion that the Government should attempt this at the next session of Congress rather than introducing any more

amendments to the Social Security Act, and having the issue in an election year of including farm laborers and domestics under the benefit plan. He said that he did not want to have this issue before the Congress where there was such a wide divergence of opinion concerning benefits to be given to these groups. The President is, therefore, inclined toward the plan of suggesting to Congress some form of life annuity that may be bought by the individual at a very moderate price from the Government, thus saving the forty per cent sales commission and other expenses chargeable to the private life insurance companies.

JNH:ds;jr

TREASURY DEPARTMENT

120

INTER OFFICE COMMUNICATION

DATE October 13, 1929

3:00 P.M.

TO Secretary Morgenthau

FROM W. H. Hadley

CCC Notes

With the market for short term guaranteed issues continuing firm, a 3-year (1 year 11 months) with 1% coupon appears quite satisfactory. The following estimates show a slight improvement over those of Wednesday, October 11.

<u>Maturity</u>	<u>Coupon</u>	<u>Yield</u>	<u>Market Price</u>	<u>Premium</u>
1-1/2 yrs. (April 1941)	3/4%	0.58	100.8	8/32nds
	7/8%	0.58	100.14	14/32nds *
	1%	0.58	100.20	20/32nds
	1-1/8%	0.58	100.26	26/32nds
1 yr. 11 mos. (October 1941)	7/8%	0.76	100.7	7/32nds
	1%	0.76	100.15	15/32nds *
	1-1/8%	0.76	100.22	22/32nds
	1-1/4%	0.76	100.30	30/32nds
2-1/2 years (April 1942)	1%	0.86	100.11	11/32nds
		0.88	100.9	9/32nds
	1-1/8%	0.86	100.21	21/32nds *
		0.88	100.19	19/32nds
	1-1/4%	0.86	100.30	30/32nds
	0.88	100.29	29/32nds	

* Issues giving most satisfactory premiums.

REB

121

PLAIN

London

Dated October 13, 1939

Rec'd 2:50 p. m.

Secretary of State,
Washington.

2031, October 13, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

1. Asked in the House of Commons whether he would give an assurance that he will not permit British representatives on the Bank of International Settlements during the progress of the war to proceed to meetings of the Bank, the Chancellor of the Exchequer stated:

"The British directors will not during the war attend any meetings of the Board without agreement with the Treasury. As I have already stated they will not in any case during the war meet the German members".

2. In spite of the retention of the bank rate at 3 per cent (as reported in my No. 2020 of October 12) today's Treasury bill tender rate was down to approximately £2.0.8.2D as compared with £2.2.6.63D. last week. For the £50 million tender applications totalled £102.9 million as compared with £96.9 million last week and the discount market syndicate's allotment was 24 per cent

of

REB -2- #2031, From London, Oct.13,6p.m.

of applications as compared with 52 per cent last week. The reluctance of discount houses to sell Treasury bills to the clearing banks in recent weeks on expectations of a further reduction in the bank rate has resulted in unusually large tenders by banks for "account of clients" which may indicate in effect that banks are tendering themselves for Treasury bills contrary to their practice in recent years in order to maintain their customary ratio of bills to deposits. The "outside" demand for Treasury bills is also swollen by institutional investors doubtless preparing to take up any new government loan.

3. Meanwhile the gilt-edged market closed the week strong with war loan at 88-7/8. Industrial and other stocks also closed up, Chamberlain's speech tending to give strength to the markets.

KENNEDY

CSB

Q301
W2011

CJ

GRAY

PARIS

Dated October 13, 1939

Rec'd 5:22 p.m.

Secretary of State,
Washington.

2460, October 13, 6 p.m.

FOR THE TREASURY.

Under an arrete published in the JOURNAL OFFICIAL of today importers of merchandise originating in or coming from Poland owing at September 30, 1939 for all or part of such merchandise must if their debt is due for payment hand over the amount to the clearing officers of the Paris Chamber of Commerce. Furthermore debts not yet payable must be reported to the same organization within the next fifteen days and when due the amount of such debts must also be paid over to the clearing office in question.

The securities market was again easier today on profit taking and the approaching fortnightly liquidation. Rentes were down fractionally. Exchange rates were unchanged.

BULLITT

NPL

OCT 11 30

NA

TREASURY DEPARTMENT
Washington.

Assistant Secretary

October 13, 1939.

Dear Henry:

I am enclosing a copy of the memorandum, apparently personally dictated and signed by the President, which Admiral Stark handed to Waesche and which Waesche showed to me last night.

With regard to paragraph "C" which disturbed Waesche: I think the whole memorandum is intended as criticism of the Navy rather than the Coast Guard. It seems to me that the liaison between Navy and Coast Guard is now very good, both in the field and in Washington. Coast Guard Intelligence reports anything of any significance whatever to Navy Intelligence and Waesche tells me that Navy Intelligence doesn't withhold anything of importance from us. There is a Coast Guard liaison officer at the Navy Department and a Navy liaison officer at Coast Guard; also there is almost daily contact between Waesche and Stark and frequent contact between Navy Operations and Coast Guard Operations. When the first submarine rumors began to crop up I thought we were a little negligent in our follow-up and I told Covall, in Waesche's absence, that we must make sure that every report of this kind, no matter however improbable it might appear, was being followed up either by Navy or Coast Guard. I told you on the phone last week that we planned to get from the Navy an exact charting of all the areas which they would undertake to patrol and for which they would be completely responsible. That work was completed yesterday and I expect to have a copy of the chart for you on Monday. The Navy was kind enough to leave us the entire Gulf of Maine, which is very unpleasant water in the winter.

With regard to paragraph 4 of the President's orders: This is directly contrary to the course we have been following and Stark told Waesche that he didn't intend to do this, that is to report in plain English the spotting of submarines and suspicious merchant ships. This same question came up in connection with your suggestion that we get the light vessels to radio reports of suspicious ships. We didn't do this for the reason, among others, that the light vessels are not equipped to transmit in code and we thought it would be a plain violation of neutrality to report in plain English. I suggested to Waesche that we arrange for our patrol planes to report in a special code that could be varied from day to day and could be masked by fairly frequent position reports, and that is being done. Since the President's order is only permissive and since it comes from Stark, who says they will not take advantage of the permission granted, we intend to handle these messages in code and transmit them confidentially to the Navy until we get positive orders to do otherwise.

- 2 -

Illustrating the manner in which reports are being followed up, I just now got a report from Commander Hirschfield on the Italian cargo steamer MONBALDO, which was one of the two ships seen in the Straits of Florida a few miles to the westward of the submarine sighted by our Amphibian V-116 (Lieutenant Scheibel) on Sunday. Contrary to Nick Gregory's story today these ships were not seen to contact the submarine but were looked over by the plane after the submarine had submerged. The MONBALDO arrived at New Orleans at 3:15 today from Tampa. She left Venice on September 11th and according to the Master, mates and members of the crew, who were interviewed at New Orleans today, she proceeded without stop to Tampa where she loaded 2500 tons of phosphate rock. At New Orleans she is taking bunker supplies for a round trip to Italy and will wait for other cargo to be loaded about October 25th. The crew reported that the only submarine they sighted in the entire voyage was a French sub near Gibraltar. We had a report yesterday on the other of the two ships, which was the Norwegian tanker ITALIA. The Norwegian members of the crew, as well as the officers, were interviewed by Boatswain Benson of the Shore Station near Fort Arthur, who speaks Norwegian. They also denied having seen any submarine in the Straits. My guess as to this particular submarine, which is I think the only one known to be operating in our waters, is that she is French or British and that she has been lying in the Florida Straits to plug that gap against any German ships breaking away from Mexican ports. We had a report yesterday from the first officer of a motor ship of the Ford Motor Company that he had seen the periscope and wake of a submarine some thirty miles from Fryingpan Shoals Light. One of our planes put out immediately from Charleston and cruised the air thoroughly. They saw no submarine but did see a Coast and Geodetic Survey observation buoy, which might well be mistaken for the periscope and top of the conning tower of a submarine.

The orders with respect to coordination of information through Irey have been distributed. I think they will result in our getting more information from Customs headquarters here. So far as I have been able to learn there has been no lack of adequate contact in the field. Johnny talked to Guy Helvering this morning, after calling me in. Guy is entirely willing to have Elmer move over here if he maintains contact and instructs Woolf adequately.

Waesche told me that several tankers with Panama flag and American crews are being assembled in the St. Lawrence for convoy passage to England. These are undoubtedly the Standard Oil of New Jersey tankers from which German crews were removed just before outbreak of the war.

Sincerely yours,

The Honorable Henry Morgenthau, Jr.,
c/o Mr. Robert Guex,
P.O. Box 164,
Fishkill, New York.



C O P Y

THE WHITE HOUSE

Washington, October 9, 1939.

MEMORANDUM FOR THE ACTING SECRETARY OF THE NAVY

I have been disturbed by:

- (a) The slowness of getting the East Coast, Caribbean and Gulf patrol under way.
- (b) The lag between the making of contacts and the follow-up of the contact.
- (c) The weakness of liaison between Navy, Coast Guard and State Department.

It is, therefore, necessary to make the following orders clear:

(1) The patrol operations will be rushed to completion by the use of the 18 East Coast and 22 West Coast Priority #1 destroyers and by completing the aircraft patrol planes.

(2) When any aircraft or surface ship sights a submarine a report thereof will be rushed to the Navy Department for immediate action. The plane or surface ship sighting a submarine will remain in contact as long as possible. On the disappearance of the submarine, immediate steps will be taken by the Force Commander (in the absence of special orders from the Department) to try to pick up the submarine again at dawn next day and during the night to endeavor to patrol such area as the submarine might use for a refueling operation from a tanker.

(3) On establishing contact with any suspicious surface craft of any nationality which might conceivably be carrying oil or supplies for a submarine, such surface craft will be followed day and night until such surface craft has proceeded to her port of destination or sufficiently far out to sea as to preclude any possibility of her return to patrol area waters.

(4) Planes or Navy or Coast Guard ships may report the sighting of any submarine or suspicious surface ship in Plain English to Force Commander or Department.

In this whole patrol business time is of the essence and loss of contact with surface ships cannot be tolerated.

(s) F.D.R.

65217

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TREASURY DEPARTMENT
PROCUREMENT DIVISION
WASHINGTON

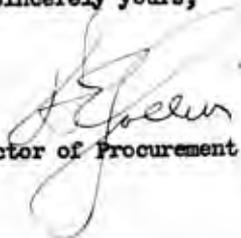
OFFICE OF THE DIRECTOR

October 13, 1939

Dear Mrs. Klotz:

The attached is the memorandum concerning the hemp situation which the Secretary asked me to have in his hands before Monday.

Sincerely yours,


Director of Procurement

Mrs. H. S. Klotz
Private Secretary to the Secretary
Treasury Department
Washington, D.C.



TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

October 11, 1939

MEMORANDUM FOR THE SECRETARY

On September 21st the Procurement Division, in connection with the critical and strategic material program, issued a proposal covering the purchase of four classes of manila hemp, the first class (Philippine Grade E) in quantities varying from 500 to 2,000 bales; the second class (Philippine Grade F) in quantities varying from 500 to 2,000 bales; the third class (Philippine Grade I Davao) in quantities varying from 1,000 to 10,000 bales; and the fourth class (Philippine Grade JI Davao) in quantities varying from 1,000 to 7,000 bales.

On Friday afternoon, September 22nd, Mr. J. F. MacDaniel, Chairman of the Cordage Institute (a trade association of cordage manufacturers and dealers) called and stated that the New York Times had indicated a purchase of 21,000 bales of manila fiber, the effect of which would be a material increase in the market price of this commodity. He requested that the proposal be promptly withdrawn, that the widest publicity be given to such withdrawal, and that arrangements be made to purchase this material from stocks presently available in the United States. He further stated that, in addition to stocks on hand, during the month of September 50,000 bales of hemp would be contracted for by United States manufacturers, that there was at present afloat 51,272 bales, and that fiber purchased but not yet shipped from the Philippine Islands totalled 106,038 bales. In a letter confirming this information he stated that the average number of bales purchased during the first eight months of the year was approximately 21,000 bales per month.

Mr. MacDaniel was definitely informed that the proposals as issued constituted no firm offer to buy the 21,000 bales mentioned by him which were the aggregate quantities that could have been purchased under this proposal of the four grades of hemp on which prices were asked. A statement of hemp market conditions since the first of June indicates an increase of approximately 40% in the price of hemp. Unquestionably, a large proportion of this rise in price is due to a sharp increase in freight rates, as well as the possible consumption incident to the beginning of the European war.

On Tuesday, September 26th, Admiral Spear, Paymaster General of the Navy, phoned me requesting information concerning this proposed purchase and stated that he had been asked by Secretary Edison as to the effect this purchase would have on the market. Admiral Spear was informed of the presence in the Procurement Division of statistical information concerning price ranges of hemp during the past three months and told that it was believed that the increase in price was not solely due to the proposals issued by the Procurement Division but to the causes heretofore mentioned.

On Saturday, September 30th, Mr. Barada, attached to the office of the Philippine Commissioner, phoned and stated that it had come to his attention that the proposal for the purchase of hemp was to be withdrawn and that the Philippine Commissioner saw no reason why a purchase such as was covered by the Procurement Division proposal should not be consummated and that it was not believed that such purchase would have any material effect on the price of hemp.

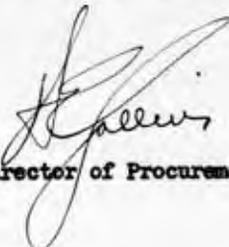
On Wednesday afternoon, October 4th, Commander Anderson in the Office of Operations, Navy Department, phoned me and asked what action would be taken by the Procurement Division in the event a letter was received from the Secretary of the Navy requesting the cancellation of Procurement's proposal of September 21. It was explained to Commander Anderson of the visit that had been made to this office by Mr. MacDaniel and the reasons why, as heretofore stated, no action would be taken by this Division to withdraw the proposal.

The following day, however, a joint letter was received from the Assistant Secretary of War and the Acting Secretary of the Navy requesting that, as the price of manila fiber had risen considerably since the issuance of the Procurement Division proposal and since this increased price would cause a marked increase in the price of manila fiber that would shortly be procured by the Navy Department under their program for current procurement, that the Procurement Division proposal be withdrawn. Accordingly, on October 5th, notices were sent to those who were furnished with proposals to the effect that such proposals had been cancelled.

On the same day a letter was written to the Assistant Secretary of War and the Acting Secretary of the Navy advising them of this action, and in this letter it was stated that statistics indicate that the price of hemp had increased 40% between June 1st and September 21st, the date on which proposals were issued by the Procurement Division, and that it had been stated, both orally and in writing, by the Chairman of the Cordage Institute that the United States manufacturers' purchases have averaged 21,000 bales per month during the last eight months; that the United States manufacturers contracted for approximately 50,000 bales during September and that, undoubtedly, world conditions had resulted in a large purchase for use in Australia and Japan; that at the time the Procurement Division proposals were issued 51,272 bales were in transit from the Philippines to the United States, and furthermore, purchases of fiber not yet shipped from the Philippine Islands to the United States amounted to 106,038 bales. In these letters it was also stated that the rise in price could in no small part be attributed to a sharp increase in freight rates and the possible reluctance of Philippine producers to make offerings, as well as the increased consumption at the beginning of the European war.

This morning Mr. W. E. Worth, President of McLeod and Company, a subsidiary of the International Harvester Company, Inc., handling hemp, accompanied by Mr. E. O. Cogan, the Manila representative of the International Harvester Company, Inc., called concerning the bids that had been issued and withdrawn by this Division for manila fiber.

Mr. Worth stated that McLeod and Company were not members of the Cordage Institute. After discussing at length the production and supply of hemp, Mr. Cogan confirmed the opinions expressed by this Division as to the reasons for the recent increase in price. He stated further that, even had the Procurement Division purchased the total quantity of 21,000 bales, the fact that deliveries were to be made over a period of six months would have had no effect whatever on the price and that this information should have been known by Mr. MacDaniel at the time of his visit to this office.


Director of Procurement

ORCHARD SUMMARY FOR 1959 CROP TO DATE

<u>VARIETY</u>	<u>Total Number Picked</u>	<u>Number Bu. Sold</u>	<u>No. Bu. Left in Storage</u>	<u>Average Price Per Bushel- 1959</u>	<u>Average Price Per Bushel - 1958</u>	<u>Total Money Re- ceived</u>
McIntosh	12,305	4,120	8,185	\$ 1.06	\$ 1.43	\$ 3,902.80
McIntosh Drop	2,186	2,186	-	.32	.47	716.75
Baldwin	2,167	-	2,167	-	.98	-
Baldwin Drop	374	72 + 302	-	.16	-	11.90
Cortland	2,949	4	2,945	.60	1.20	2.40
Cortland Drop	429	419 & 10	-	.17	.44	68.70
Delicious	524	-	524	-	.98	-
Duchess	173	173	-	.42	.62	72.85
Greening	1,681	-	1,681	-	1.00	-
Greening Drop	42	42	-	.29	-	12.30
Kendall	3	-	3	-	-	-
King	6	- & 6	-	-	-	-
Maiden Blush	7	7	-	.35	.44	2.45
Opalescent	1,668	1,652 & 1	15	.70	.82	1,164.85
Opalescent Drop	123 1/2	123 1/2	-	.15	-	18.50
Spy	1,251	-	1,251	-	1.36	-
Spy Drop	35 1/2	12 & 23 1/2	-	.20	-	2.40
Twenty Ounce Pippin	9	9	-	.50	-	4.50
Wealthy	318	316	2	.56	.48	193.20
Wolf River	21	21	-	.60	.53	12.75
Stark	17	- & 17	-	-	-	-
<i>Mountain Pippin</i>	<u>782</u>	-	<u>782</u>	-	-	-
<i>Ben Hur</i>	<u>350</u>	-	<u>350</u>	-	-	-
<i>Ben Hur</i>	<u>27</u>	-	<u>27</u>	-	-	-
Fredonia Grapes	<u>27449</u>	<u>9,156 1/2</u>	<u>359 1/2</u>	<u>17,932</u>	-	621.15
Concord Grapes						275.60
Peaches	965-1/2 bu.					756.35
	590-bu.					
Squash	207				\$90. &	16.76
Pumpkins						.75
						<u>\$ 1,670.59</u>

Total Apples & Misc. \$ 7,856.94 Regraded Unclassified

Heup took the original white House

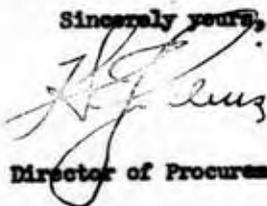
132

October 13, 1939

Dear Mrs. Klots:

The attached is the memorandum concerning the heap situation which the Secretary asked me to have in his hands before Monday.

Sincerely yours,



Director of Procurement

Mrs. H. S. Klots
Private Secretary to the Secretary
Treasury Department
Washington, D.C.

October 11, 1939

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The following day, however, a joint letter was received from the Assistant Secretary of War and the Acting Secretary of the Navy requesting that, as the price of manilla fiber had risen considerably since the issuance of the Procurement Division proposal and since this increased price would cause a marked increase in the price of manilla fiber that would shortly be procured by the Navy Department under their program for current procurement, that the Procurement Division proposal be withdrawn. Accordingly, on October 5th, notices were sent to those who were furnished with proposals to the effect that such proposals had been cancelled.

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Director of Procurement

HJC:ga



THE SECRETARY OF THE TREASURY
WASHINGTON

October 14, 1939.

MEMORANDUM FOR THE PRESIDENT:

Re: Short-term commercial credits
to belligerents.

The present Neutrality Act contains a provision which was first enacted in February, 1936, prohibiting the extension of credit to, or the purchase of obligations of, belligerents or their agents, but authorizing the President to exempt from such prohibition ordinary short-term commercial credits. This power the President exercised by issuance of regulations on September 6, 1939, which regulations designated the Treasury to administer the provisions thereof. The Treasury has had very few inquiries from the public with respect to this matter.

The Neutrality Bill passed by the House last July limited the aforementioned Presidential power under existing law by providing that such commercial credits should be for no longer than 90 days, without renewals, and that the President was to make public every 90 days all extensions of such credits to belligerents.

The bill reported in the Senate contains the same 90-day limitation on short-term credits that was contained in the House bill; provides that the President must report to Congress every six months all the extensions of short-term credits to belligerents; and also provides that if a belligerent defaults on any such credits, no further credits may be extended to it while the default continues.

Normally the function of short-term credit in international trade is principally to finance the sale of goods while the goods are in transit from the seller to the buyer. The bank doing the financing customarily retains title to the goods while in transit and until payment is made by the foreign purchaser. If the Neutrality Act prohibits the extension of any credits, commercial or otherwise, to belligerents, and requires the transfer of title to some foreigner before the goods leave the country, sales of goods to belligerent countries having dollar funds will be executed on the basis of payment being made by the belligerent in this country to the seller before the goods leave the country. It is likely that in view of all the circumstances and for the time being the vast bulk of sales by Americans to belligerents will be conducted on precisely this basis even if short-term commercial credits were to be permitted. This is true because (a) the belligerents that are good short-term credit risks have dollar balances in this country, and (b) customarily not even short-term credit is extended in international trade unless title to the goods is retained by the party extending the credit.

If the Neutrality Act permitted short-term commercial credit, it would be possible for an American to sell his goods to a belligerent, transfer title to such goods to the belligerent before the goods left the United States, and rely exclusively on the credit of the belligerent for payment in the 90-day period. For example, an American manufacturer might be willing to sell

merchandise to Britain and transfer title to Britain before the goods left New York, and rely exclusively on the general credit of Britain for payment within the 90-day period. If this were done generally, a belligerent would be able to make purchases on short-term credit, and this credit would be a continuing one on the basis of the belligerent's over-all purchases, even though any particular credit could not be renewed. In this way a belligerent like Great Britain might be able to build up a short-term credit running into several hundred-million dollars. However, for at least some time there would be no great loss to American commercial interests if this type of transaction is forbidden because of the dollar balances available to the belligerents.

For the reasons indicated below, I believe that, although it might be of some slight value for the Neutrality Act to contain a short-term credit provision such as exists in the present law or as is proposed in the Senate bill, the provision is not of great significance and should not be fought for. Furthermore, I would recommend the elimination of the short-term credit provision if its elimination would help in the passage of the bill.

(1) The belligerents to whom such short-term credit is likely to be extended are in a position to pay cash in this country before the goods leave the United States. Accordingly, the elimination of the short-term credit provision will not decrease appreciably the amount of our trade with such belligerents.

(2) It may be charged that the extension of short-term commercial credits will result in our acquiring a financial stake in the outcome of the war since a belligerent might acquire a continual short-term credit running into several hundred-million dollars and this might ease the way for longer credits to favored belligerents.

(3) Neither the existing law nor the proposed bill affects the extension of credit to a national of a belligerent not acting on behalf of a belligerent.

John W. Haines

司 公 業 商 興 復
FOO SHING TRADING CORPORATION
Sun Sun Gardens, Chungking.

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14th October 1939.

Secretary Henry Morgenthau, Jr.,
Treasury Department,
Washington, D.C.
U.S.A.

Dear Mr. Morgenthau,

Yesterday Minister Wong Jen-hao of the Ministry of Economic Affairs came to see me to discuss especially the matter of using Americans in the Chinese Government. He feels that this is very necessary at the present time, especially in the field of agriculture, engineering and business organization. He favors an industrial and agricultural mission of Americans experienced in different branches of industry and agriculture coming to China to ascertain the possibilities of developing certain lines of industry and to work out methods of bringing about such development. Most of these men should have had broad experience. It would be desirable if some of these men were prepared to remain for a year or two to begin actual work in projects in which work could be initiated immediately. This is especially true in the case of agricultural extension specialists desired in the more important branches of agriculture. One or two men in business organization are also greatly needed to assist in certain governmental and business reorganization.

Dr. Wong stated that he would take this matter up with Dr. Kung as a preliminary step looking toward the definite invitation for such Americans to come to China. I shall write you again upon hearing of further developments in this direction. Dr. Wong emphasized the necessity to China of having such assistance at this time, and from my understanding of the situation, I believe that he is entirely correct. It is an opportunity to assist and bring about closer relations between China and America of ultimate benefit to both countries.

With best personal regards,

I am,

Sincerely yours,

J. Lossing Buck
J. Lossing Buck.

MAILED 78
FBI'S CORRESPONDENCE DIVISION

JLB:MC

J. Lossing Buck

司公業商興復

FOO SHING TUNG CORPORATION

Sun Sun Gardens, Chungking.

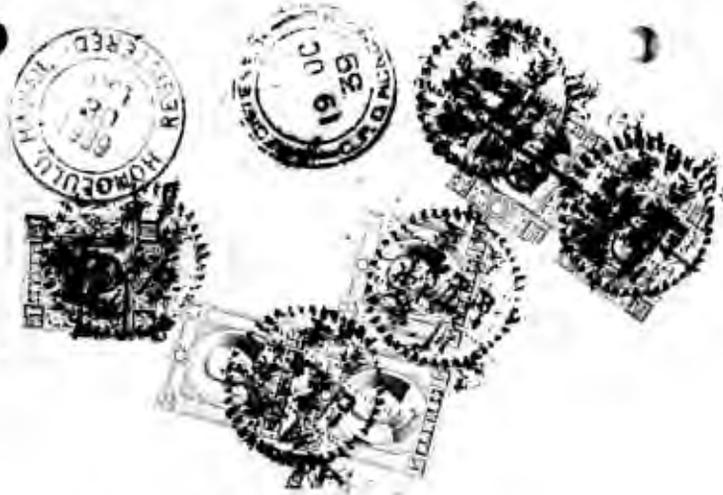
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No. 1205

Secretary Henry Morgenthau, Jr.,
Treasury Department,
Washington, D.C.
U.S.A.

REGISTERED

AIRMAIL REGISTERED
VIA CLIPPER



IT:P:CA
CAA

October 14, 1939.

REPORT FOR SECRETARY MORGENTHAU:

During the week ended October 13, 1939, no new requests for 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

Further consideration during the week was given to the tentative draft of the proposed agreement resulting in approval thereof and signature of the letter transmitting the draft to the contractor; the papers were delivered to S. J. Teller, Attorney for the Contractor, by Appel on Friday, October 13, 1939, through Relling.

Consolidated Aircraft Corporation

The formal copy of the certificate from the Navy Department was received. A tentative draft has been made of an agreement; this has been reviewed and initialled by various Bureau of Internal Revenue personnel and the draft was delivered to Mr. Wenchel's office where it is now under his personal consideration.

A hearing before Mr. Wenchel was held in his office Friday afternoon attended by the interested Treasury personnel and changes in the draft were authorized.

New matters developed, as follows:

Godfrey Manufacturing Corporation,
New Brunswick, New Jersey.

On October 12, 1939, Messrs. Kenneth Perry, Secretary and Attorney, and Paul Myers, Attorney, called on Appel for the purpose of asking information in regard to the scope of Press Release 18-79. They explained that the contractor expects to enter into an Army contract for the manufacture and delivery of one twenty-cylinder Diesel engine and special facilities will be required. There was no discussion of the details of the facilities. The general operation of the Press Release was explained

- 2 -

and the contractor was advised to consult the War Department in regard to the necessary certification and, if a closing agreement was desired, to file a letter addressed to the Commissioner of Internal Revenue, stating all of the material facts and making the request.

Boeing Airplane Company,
Seattle, Washington.

John Yeasting dropped in on October 13, 1939 to ask about Press Release 18-79 and stated the contractor may desire to file a request for a closing agreement. He left to visit the Air Corps, War Department, in this regard.

There were no other transactions in regard to closing agreements under the Vinson-Trammell Act.

Nothing has been heard from the Bethlehem Steel Corporation in this regard (a contractor mentioned in report dated September 30, 1939).


Commissioner.

IT:PaCA
CAA

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Godfrey Manufacturing Corporation,
New Brunswick, New Jersey.

On October 12, 1939, Messrs. Kenneth Perry, Secretary and Attorney, and Paul Myers, Attorney, called on Appel for the purpose of asking information in regard to the scope of Press Release 18-79. They explained that the contractor expects to enter into an Army contract for the manufacture and delivery of one twenty-cylinder Diesel engine and special facilities will be required. There was no discussion of the details of the facilities. The general operation of the Press Release was explained

- 2 -

and the contractor was advised to consult the War Department in regard to the necessary certification and, if a closing agreement was desired, to file a letter addressed to the Commissioner of Internal Revenue, stating all of the material facts and making the request.

Boeing Airplane Company,
Seattle, Washington.

John Yeasting dropped in on October 13, 1939 to ask about Press Release 18-79 and stated the contractor may desire to file a request for a closing agreement. He left to visit the Air Corps, War Department, in this regard.

There were no other transactions in regard to closing agreements under the Vinson-Trammell Act.

Nothing has been heard from the Bethlehem Steel Corporation in this regard (a contractor mentioned in report dated September 30, 1939).

(Signed) Guy T. Helvering

Commissioner.

for Commissioner
GAA/ETS

October 14, 1939.

MEMORANDUM

TO: The Secretary.

FROM: Mr. Gaston

Subject: Airplane Escort for S.S. IROQUOIS.

The S.S. IROQUOIS, owned by the U. S. Maritime Commission and chartered to the United States Lines, arrived in New York harbor from Cobh, Ireland, Wednesday, October 11th, docking at about 8:45 p. m. The IROQUOIS departed from Cobh Tuesday, October 3d, at about 6:45 p.m.

The IROQUOIS was met at sea at 7:40 a.m. October 11th by an escort squadron of Navy planes, consisting of one seaplane and four land planes, which had departed from New York at sunrise. These planes accompanied the IROQUOIS into the lower harbor.

Coast Guard seaplane V-166 (Lt. Burton) left Floyd Bennett Field at 12:10 p.m., and reached the IROQUOIS at 3:15 p.m., at position 40.11 north, 71.45 west, about 200 miles out. The V-166 carried on a zig-zag patrol, going out and returning to the harbor entrance on the course of the IROQUOIS.

Instructions to the Navy to carry out the patrol had either come from Washington, or had been initiated by the Navy Commander of the New York District. Coast Guard did not suggest it. The Commander, New York District Coast Guard, on learning of the Navy plan to provide an air escort, offered to cooperate, but was told that a Coast Guard plane would not be needed. However, Commander Smith, in charge of Naval Air Force in New York, told Lt. Burton that if the Coast Guard seaplane was to be on patrol he would like to know it in case any of their land planes should need assistance. When this was reported to the Coast Guard Commander, he told Lt. Burton to make patrol but not to interfere with the Navy patrol.

10/14/39

Memo. for The Secretary

Re: Airplane Escort for S.S. IROQUOIS.

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- 2 -

The Commander, New York District, also sent Lt. Gray with two speed boats of the Harbor Patrol from Sandy Hook to meet the IROQUOIS and trail her into quarantine, where they were relieved by harbor tugs and 75 foot patrol boats which convoyed the IROQUOIS to her dock. Lt. Gray later assisted Customs and other officials, including four F. B. I. men, in searching around the ship and in the vicinity of the docks.

WSS

145

THE WHITE HOUSE
WASHINGTON

October 14, 1939

MEMORANDUM FOR H. M. Jr.

I suggest a Budget Summation
be prepared as of November first. Things
will be clearer by then.

F. D. R.

COPY TO THE DIRECTOR OF THE BUDGET

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 14, 1939

TO Secretary Morgenthau

FROM Mr. Cochran

The foreign exchange market was fairly quiet today, although the volume of sterling transactions was greater than average for a Saturday session.

Sterling recovered somewhat from the low of 3.96 established at yesterday's close. In Amsterdam sterling was quoted at 3.98-1/8 and opened here at 3.97-3/8 bid. After receding to 3.96-1/2, the rate advanced toward the close to 3.97-1/8 at which level the market readily absorbed £100,000 which the National Bank of Denmark had instructed the Federal Reserve Bank to sell for them. The French franc and Canadian dollar moved in sympathy with sterling and all other currencies were steady.

Reporting banks in New York and the Federal Reserve Bank reported sales totaling £440,000, from the following sources:

Commercial concerns.....	£ 71,000
Foreign banks (Europe and Far East).....	£ 269,000
Fed. Res. Bk. (For Denmark).....	£ 100,000
Total	£ 440,000

Purchases of sterling amounted to £458,000 as indicated below:

By commercial concerns.....	£ 178,000
By foreign banks (Europe and Far East).....	£ 280,000
Total	£ 458,000

The banks also reported that the British Control purchased sterling amounting to £12,000 at the official rate.

The National Bank of Belgium and the Netherlands Bank sold gold to us valued at \$775,000 and \$1,000,000 respectively, which came from their earmarked accounts.

The Federal Reserve Bank informed us that yesterday the Bank of England's dollar account was credited with \$11,000,000 representing a payment from the British American Tobacco Company. Although the reason for this transaction is not apparent, it may relate to an alteration in the British tobacco purchasing program. (The New York Times of October 11 (page 41) reported that leading British tobacco companies, which had withheld their own purchases of American tobacco for nearly a month, were now buying tobacco as purchasing agents for the Commodity Credit Corporation. The latter was giving these companies an option until July 1941

CONFIDENTIAL

on all such purchases. It is possible that the British companies, no longer needing dollars for immediate use, are turning their New York balances over to the British Government.)

There were no engagements of gold for shipment to this country reported today.

Vice President Allan Sproul of the Federal Reserve Bank of New York telephoned me at 3 o'clock Friday afternoon. He stated that for some time past his bank had been giving out gold engagements abroad as reported by New York banks. This information was given to the press as a news item and did not cover central bank shipments to the Federal Reserve Bank. Lest the giving out of this information might possibly lead to some embarrassment through permitting the identification of vessels that would be carrying this gold, the Federal Reserve Bank of New York has decided to announce on Monday next that such data will no longer be given out by them. Mr. Sproul thought this would be in the spirit of the times. I asked Mr. Sproul, in this connection, if he had also considered the question of whether the practice should be continued of giving out information with respect to gold arriving in New York, since the publication of ships' manifests has now been stopped. He said that it was their practice to give out this information, covering all gold imports, at 3:30 each day, and then to summarize once a week. He pointed out that the information which is released in this fashion does not include the name of the ship nor the consignee. He stated that this material is released by the Department of Commerce, with a lag of about one week, and is also published by the Federal Reserve Board. He confirmed my opinion that his releases were the first ones after the shipments arrived. I have given the foregoing information to Messrs. Foley, White and Bernstein. We have discussed briefly the general question of the release of gold statistics.



CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 14, 1939

TO Secretary Morgenthau
FROM Mr. Cochran

Cablegram #622, dated August 17, 1939, and addressed to the American Embassy in Paris, in regard to the opening by the Societe Generale of a branch in New York, arrived in Paris while I was there this summer. When I called at the Societe Generale to say goodbye, Mr. Ardant, the General Manager, and Mr. Chadenet, the Manager in charge of foreign business, told me of their plans with respect to establishing a New York branch. It was planned at that time to have Mr. Chadenet sail for the United States on September 20 to attend to the necessary formalities. I endeavored to correct their understanding of the formalities incident to the creation of their branch. I let them know that we would welcome their representatives whenever they might call in Washington and would be glad to put them in touch with the other agencies of the Government which might be interested in knowing of their banking activities in this country. The present cablegram perhaps confirms the report which I received some days ago that Chadenet would not be able to leave France at this time, and conveys the information which Chadenet presumably would have given to us if he had called personally. It is my understanding that no action is necessary in the premises.



TELEGRAM SENT

CJ

GRAY

August 17, 1939

6 p.m.

AMEMBESSY

PARIS (FRANCE)

622.

FROM THE TREASURY

Your 1504, August 17, 2 p.m.

The Treasury does not desire to make any comment on the proposal of Societe Generale. In similar cases representatives of proposed bank have called upon the Treasury, the Securities Exchange Commission and other agencies as a matter of courtesy.

WEILES
Acting
(HF)

EA:FL:EB

Paris 1216 PM 12 1939

Rochrane Treasury Department

Permit me to inform you that we are placing before Superintendent New York with approval French authorities request which will be examined 19 instant by Banking Board in order to obtain authorization to create an agency of our company in New York. This demand opening agency New York to permit to finance and facilitate all commercial operations with United States, to open credits correspondents, to assure the best possible execution French purchases in America, to follow closely American economic situation, to advise on this subject commercial and capitalist clientele and to normalize capital movements. Hope favorable reception New York authorities. Best and very faithful regards.

ardant General Director Societe Generale

Translated by D. N. Wheeler,
Division of Monetary Research,
October 13, 1939.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 16, 1939.

TO Secretary Morgenthau

FROM Mr. Haas *BA*

WPA employment increased by 45,000 persons, or from 1,788,000 employes during the week ended September 27, 1939 to 1,833,000 employes during the week ended October 4, 1939, as is shown on the attached tables and chart.

Attachments.

WORKS PROGRESS ADMINISTRATION
 Number of Workers Employed - Weekly
 United States

152

Week ending 1939	Number of Workers (In thousands)
February 4	2,966
February 11	2,966
February 18	3,011
February 25	3,043
March 4	3,032
March 11	3,009
March 18	3,015
March 25	3,009
April 1	2,980
April 5	2,906
April 12	2,761
April 19	2,752
April 26	2,751
May 3	2,734
May 10	2,660
May 17	2,622
May 24	2,609
May 31	2,598
June 7	2,594
June 14	2,590
June 21	2,578
June 28	2,551
July 5	2,388
July 12	2,290
July 19	2,250
July 26	2,200
August 2	2,081
August 9	2,053
August 16	1,976
August 23	1,896
August 30	1,841
September 6	1,661
September 13	1,694
September 20	1,733
September 27	1,788
October 4	1,833

Source: Works Progress Administration.

WORKS PROGRESS ADMINISTRATION
 Number of Workers Employed - Monthly
 United States

153

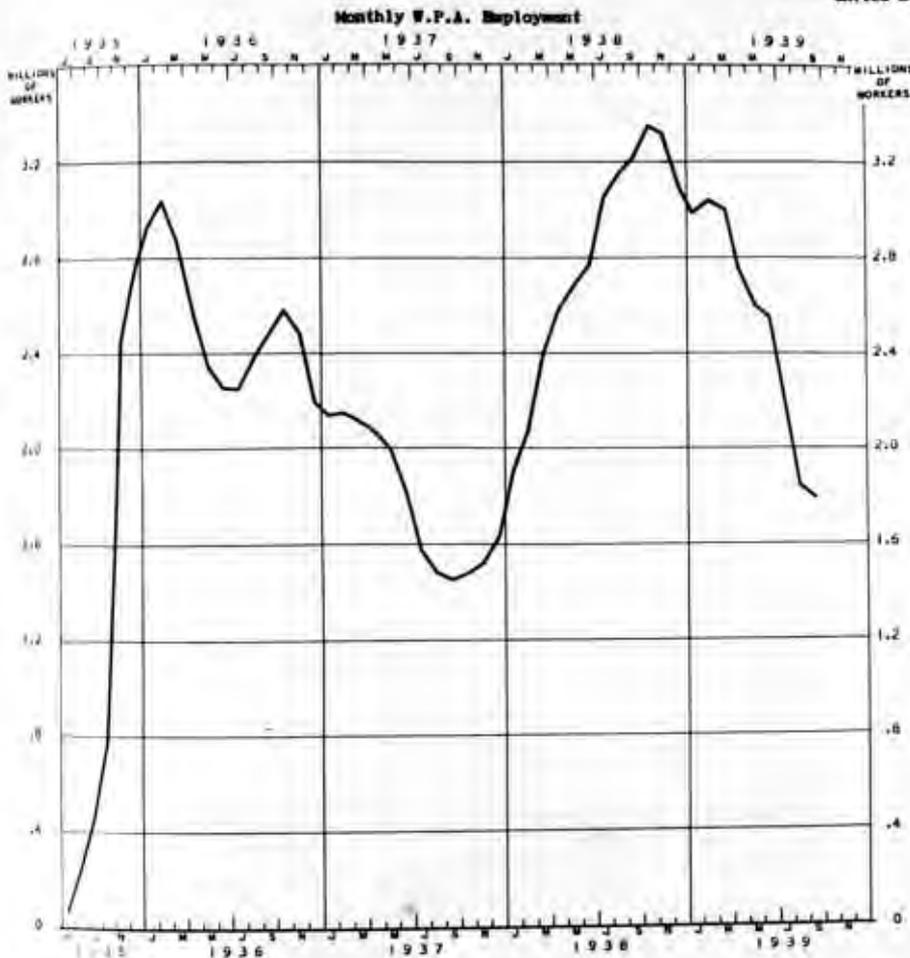
	Number of Workers (In thousands)
1936	
June	2,256
July	2,249
August	2,377
September	2,482
October	2,581
November	2,483
December	2,192
1937	
January	2,138
February	2,146
March	2,115
April	2,070
May	1,999
June	1,821
July	1,569
August	1,480
September	1,451
October	1,476
November	1,520
December	1,629
1938	
January	1,901
February	2,075
March	2,395
April	2,582
May	2,678
June	2,767
July	3,053
August	3,153
September	3,219
October	3,346
November	3,319
December	3,094
1939	
January	2,986
February	3,043
March	3,009
April	2,751
May	2,598
June	2,551
July	2,200
August	1,841
September	1,788

Source: Works Progress Administration.

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

They include certified and noncertified workers.

WORKS PROGRESS ADMINISTRATION
Number of Workers Employed
United States



SOURCE: WORKS PROGRESS ADMINISTRATION

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE October 16, 1939

TO Secretary Morgenthau
FROM Mr. Haas *HA*
Subject: The Business Situation,
Week ending October 14, 1939.

Summary

(1) The change in war news last week, pointing toward a continued and intensified war rather than a movement in the direction of peace, while superficially bullish, has had little effect on stock and commodity markets. This suggests that caution and skepticism are replacing the earlier war-prosperity optimism, probably in part because of increasing concern over the possibility of an inventory congestion, and because of reduced faith in heavy war orders.

(2) A decline in the price trend of sensitive commodities has been under way for a month, following the sharp upturn in early September. Individual commodities show widely divergent trends. Industrial materials, except tin, have been well sustained by a strong industrial demand. The severe drought in the mid-West remains a potential bullish factor for agricultural prices.

(3) An unusually sharp upturn in machine tool orders in September, on top of a high volume in earlier months, has found the capacity of the industry inadequate. This may provide some restraint on industrial expansion.

(4) Our new orders index last week was supported by a rising trend of miscellaneous orders, offsetting a slight further decline in steel orders. Department store sales have increased sharply during the past two weeks, apparently reflecting increased payrolls. Heavy private construction awards have gained markedly.

The general situation

The news from Europe at the end of last week appeared to turn in the direction of continued and intensified war. On the surface, this would seem a bullish development. The response of the markets to the news, however, was very slight.

indicating rather clearly that an attitude of skepticism and caution has replaced the former buoyant optimism. A weakening of commodity prices recently, and the failure of stock prices to respond to the strongly rising business trend since mid-September, have contributed to more cautious buying policies in the speculative markets as well as in trade and industry.

Some concern over the inventory situation has also been a factor. Various business commentators have called attention recently to the danger of an inventory congestion resulting from war-scare buying, and to the improbability of any nearby heavy increase in war orders from Europe, even though the embargo is removed, unless hostilities should become much more intense. These have doubtless affected in some degree the current trend of business thinking.

The American Metal Market, for example, calls attention editorially to the fact that steel buyers are disregarding the warnings of industrial leaders and financial houses, and are piling up inventories. "How they will dispose of them in the face of the increasing rate of production remains to be seen," says the editor of this publication.

An accumulation of forward orders is noted by the Iron Age in its current chart of buying trends among metal-working firms in Detroit, which is based on a broad series of data supplied by the Purchasing Agents Association of that city. The chart indicates that about 35 per cent of the buying during September covered requirements 6 months in advance. This compares with an average over the past year of about 6 per cent, and with a peak of about 20 per cent reached in December 1936. Buying for 3 months in advance increased to about 35 per cent of the total, which compares with an average of about 20 per cent during the earlier months of the year.

Moody's Investors Service concludes from an analysis of war-order prospects that repeal of the arms embargo is not likely to produce any large and early export opportunities for American manufacturers of war materials now embargoed, except for airplanes. Airplanes, however, being highly fabricated products, require relatively small quantities of basic materials, and their production would therefore have relatively little effect in raising the general level of industrial production.

The steel situation

The rate of steel activity last week rose less rapidly, increasing 1.1 points to 88.6 per cent of capacity. While this was a smaller increase than many had expected, the last few points in capacity as the industry approaches its practical limit are always hardest to achieve. Some entire districts are now operating at or near 100 per cent. The Detroit district is at full capacity, the Buffalo district at 96 per cent, and the Youngstown district at 93 per cent. Some units in the tin plate industry are producing above their theoretical capacity, to meet the heaviest tin plate demand probably ever experienced at this season.

A congestion seems to be developing in the machine tool industry, which may offer some restraint to industrial expansion. Orders for machine tools in recent months (see Chart 1) have been much above their usual level in relation to industrial production, and not much below their 1937 peak. During the first two weeks of September (not shown on the chart) domestic orders for machine tools are reported to have been double the volume for the entire month of August, and a recent survey indicates that for September as a whole, the total will exceed that of any other month on record.

The heavy increase in orders has intensified a growing strain on the capacity of the industry. It is reported that deliveries on large precision instruments, for example, which earlier in the year could be obtained within five or six months, cannot now be secured before 12 months as a rule. Foreign orders, chiefly from England and France, have increased materially in the past month, but this business has been largely sidetracked in favor of domestic customers. Orders from the Army and Navy, and the aircraft industry, have been heavy. Other manufacturers have become alarmed over the delivery situation and have hastened to place their orders, thus intensifying the congestion.

Increasing railroad earnings

The large volume of freight car orders recently placed by the railroads has not been due solely to a suddenly-threatened shortage, but reflects an improving trend of car loadings and railroad earnings over a period of several months. Gross operating revenues and net operating income of 141

Class 1 railroads in August (see Chart 2) were the highest, with one exception, since October 1937. August marked the tenth consecutive month that these figures have exceeded those of the corresponding month in the previous year. Railroad earnings during the summer and fall have risen more rapidly than the usual seasonal upturn, and data now becoming available indicate that earnings in September showed an extraordinary rate of increase.

Sensitive price trends

While sensitive commodity prices in general have declined gradually since the highs reached in September, the price trends for individual commodities during this period have been strongly divergent. In Chart 3 we show, for selected commodities traded in the futures markets, (1) the percentage gains from August 31 to the high reached in September, (2) the percentage declines from the September highs to the quotations on October 11, and (3) the over-all gains from August 31 through October 11.

The decline in various agricultural prices, despite items of bullish news which include a severe drought over most of the Mississippi and Ohio valleys and a half-million bale reduction in the cotton crop, represents a reaction from the over-discounting of war news early in September. In the longer term outlook the drought threat remains a potential bullish factor. The drought in 1936, which raised prices of agricultural commodities sharply during the second half of that year, was a contributing factor to the speculative price upturn in early 1937.

The attached map from the Department of Agriculture, showing pasture conditions throughout the United States on October 1, provides the best available picture of the location of the "extreme drought" areas, and of the widespread "severe drought" areas:

Prices of industrial raw materials have been generally well sustained in recent weeks, owing to the continued heavy industrial demand. A notable exception has been tin, which is the only commodity in Chart 3 that was lower on October 11 than on August 31. The decline is explained by four successive increases in export quotas for the third quarter recently made by the International Tin Committee, and by the fact that tin prices at New York had previously risen to an excessive disparity above the officially-regulated price in London.

Our index of spot prices of sensitive industrial materials (see Chart 4) has flattened out over the past three weeks, but the continued high level of industrial demand has prevented any appreciable decline. In the fall of 1938 and in the first half of 1939, likewise, the high level of industrial activity strongly sustained prices of industrial materials while the BLS all-commodities index declined steadily to new lows.

Pressure to raise prices of finished goods

The increased costs of industrial raw materials are expected shortly to force further increases in the prices of various finished goods, despite announced efforts of industrial leaders to hold down prices of their products and rely on increased volume for profits. Resistance to price advances on finished goods has been based partly on fear of subsequent demands for wage increases, leading to a rising spiral of costs, and partly on fear of Government opposition. In the steel industry, pressure is most marked for a general price advance, with the U. S. Steel Corporation reported to have been holding out for a continuance of the old price level despite various increases made by independents on prices of individual products.

An inflation spiral may develop, as during the World War, if increased raw material prices lead to increased prices for finished goods and to increased wages, which in turn would result in an increased demand for commodities and another cycle of increased prices. In 1937, such a cycle was brought to a halt when the prices of manufactured goods were raised so far (due to the speculative price boom and excessive wage demands) that the "offtake" by consumers was curtailed. This likewise was an important factor in halting the World War inflation.

Current business news

The New York Times index for the week ended October 7 showed a slight further gain of .6 point to 102.7, the highest since the week of October 2, 1937. Principal gains recorded were in automobile and steel production and cotton mill activity. Lumber production, electric power production, and "all other" carloadings were down slightly.

The adjusted index of automobile production will show a substantial decline during the week ended October 14, owing to a drop in output due to labor trouble, at a time when the

Secretary Morgenthau - 6

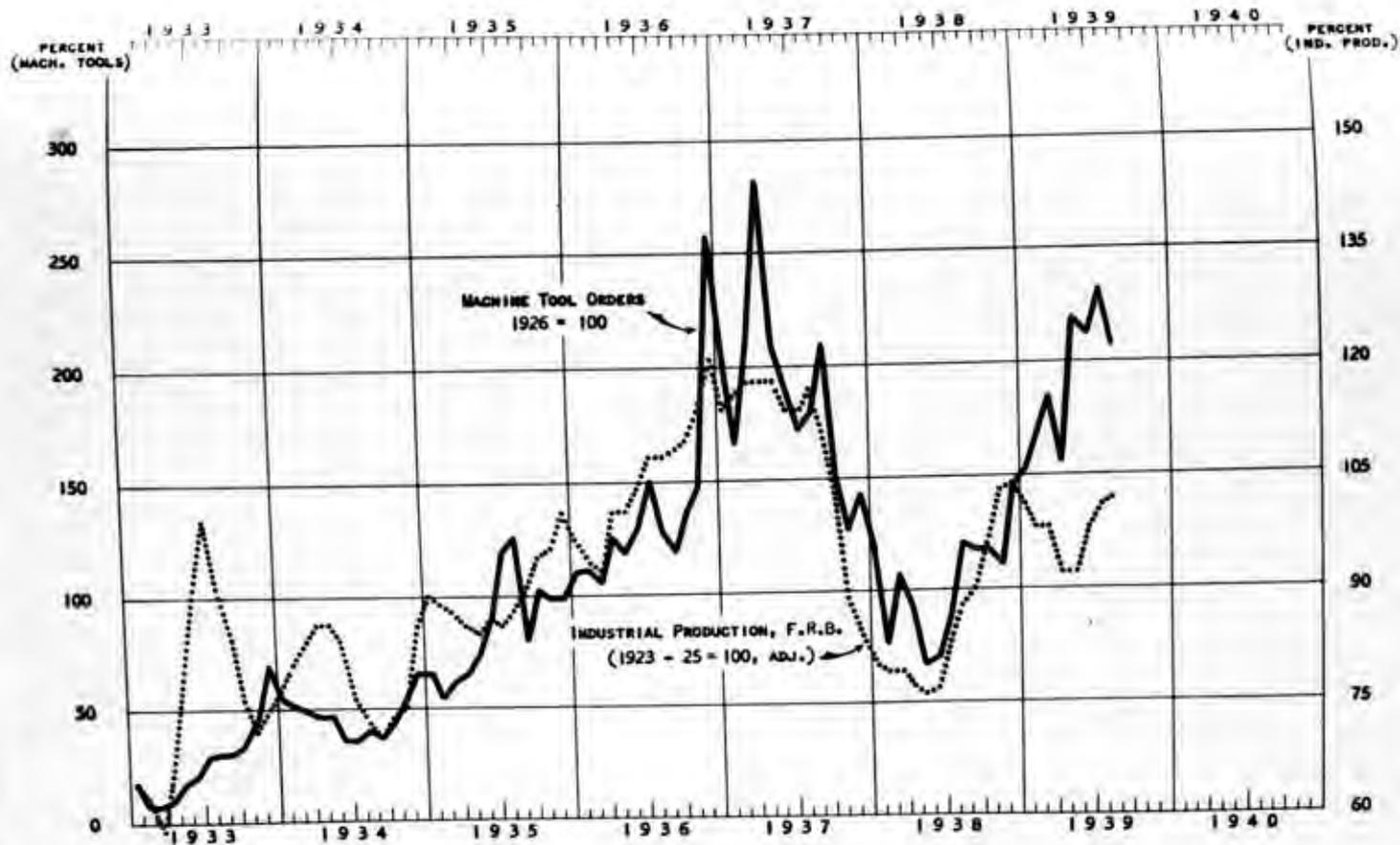
seasonal trend is strongly upward. This has reduced the Chrysler output for the week to 10,025 units, versus the previous 24,925 units, while production at the plants of other major producers continued to advance.

Our weekly index of new orders (see Chart 5) has recently been supported by a rising volume of orders for products other than steel and textiles, which has prevented any appreciable further decline in the index despite a falling off in steel orders.

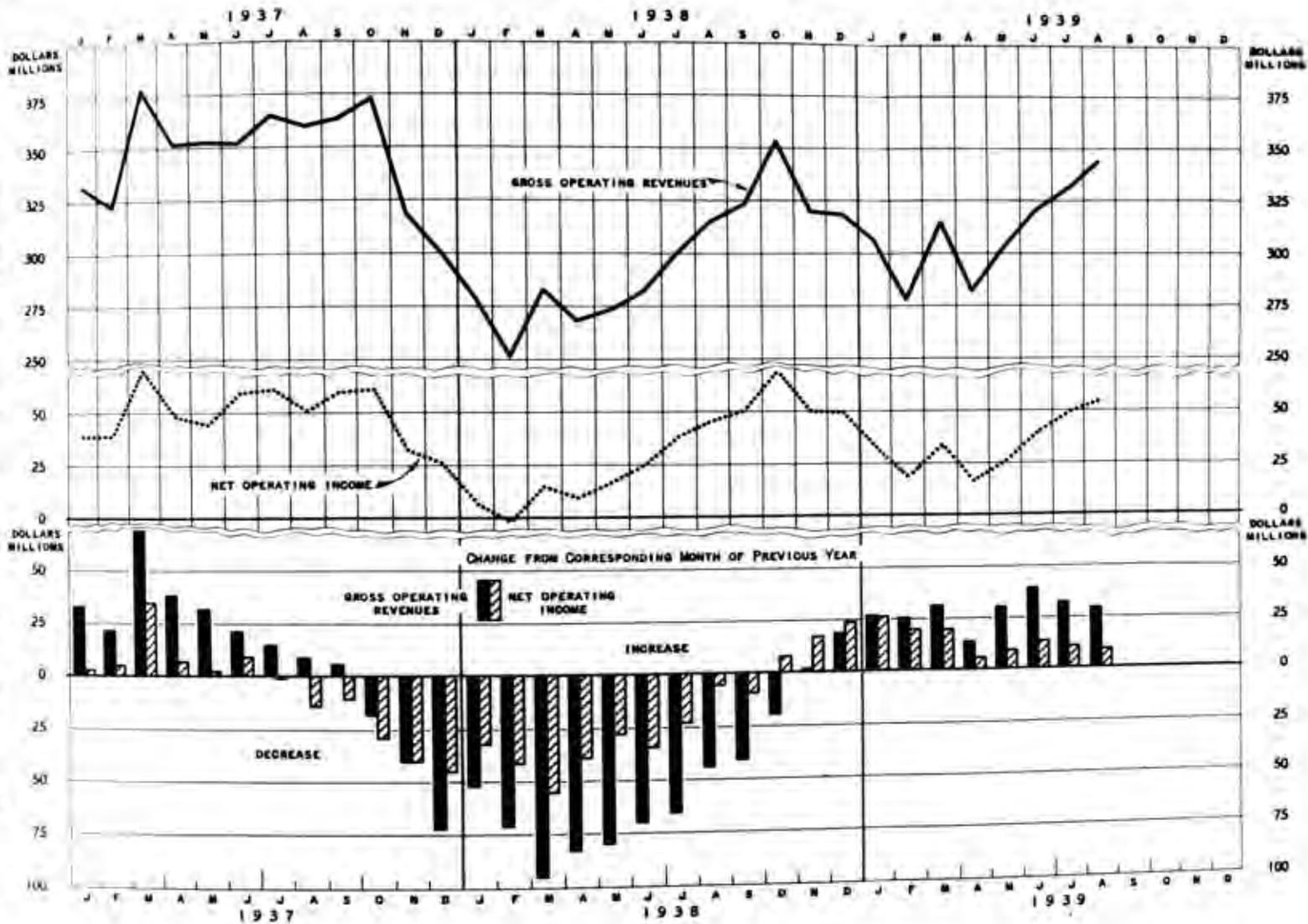
Department store sales rose sharply during the last week of September and first week of October, apparently reflecting a rising trend of payrolls. Data from reporting stores in early September showed no appreciable effect of "war scare" buying, such as was reflected in heavy sales of staple food products by grocery stores.

The general improvement in business activity has brought a sharp increase in private heavy construction awards. Private awards reported by the Engineering News Record for the week ended October 12 exceeded public awards for the first time since April 14, 1938, due to an increased volume of industrial and commercial building, and the \$38,541,000 value was 168 per cent higher than in the same week of the previous year. Total awards, at \$70,643,000, were 44 per cent higher than in 1938.

MACHINE TOOL ORDERS AND INDUSTRIAL PRODUCTION

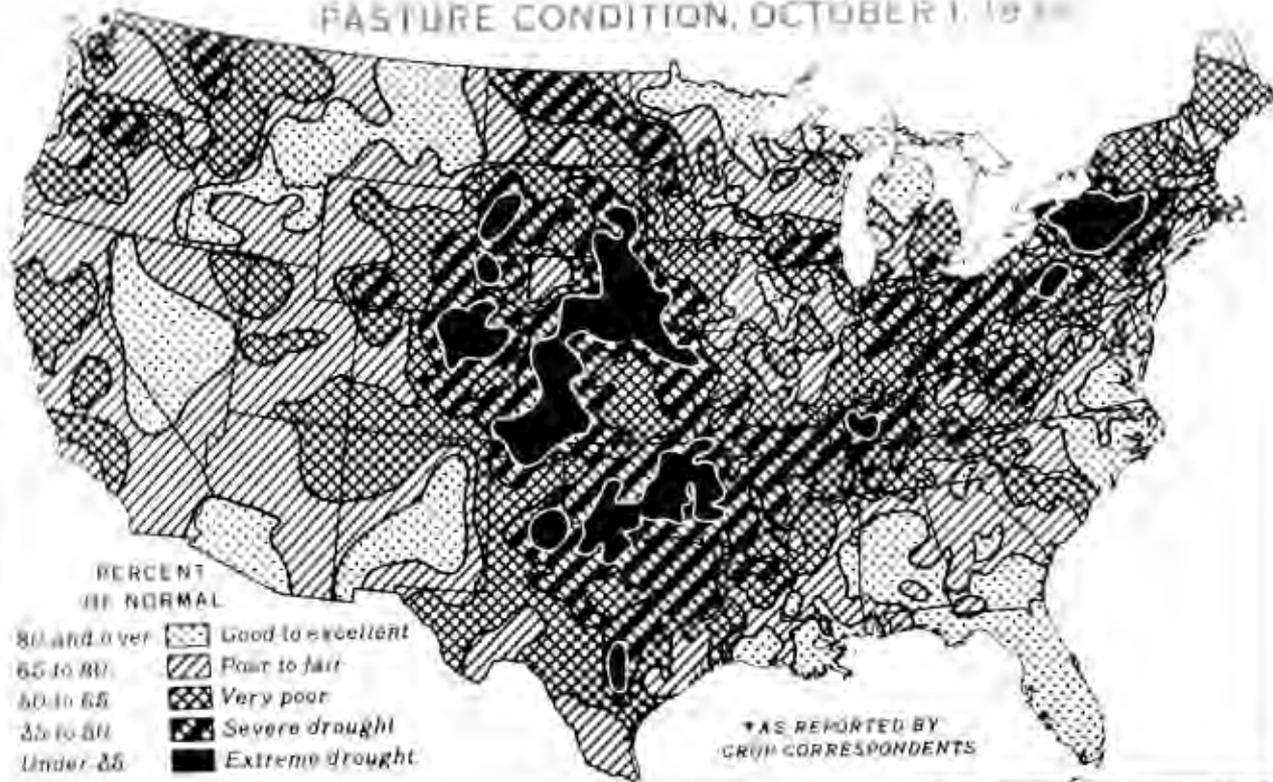


MONTHLY RAILROAD EARNINGS*



*141 CLASS I STEAM RAILROADS

PASTURE CONDITION, OCTOBER 1, 1951



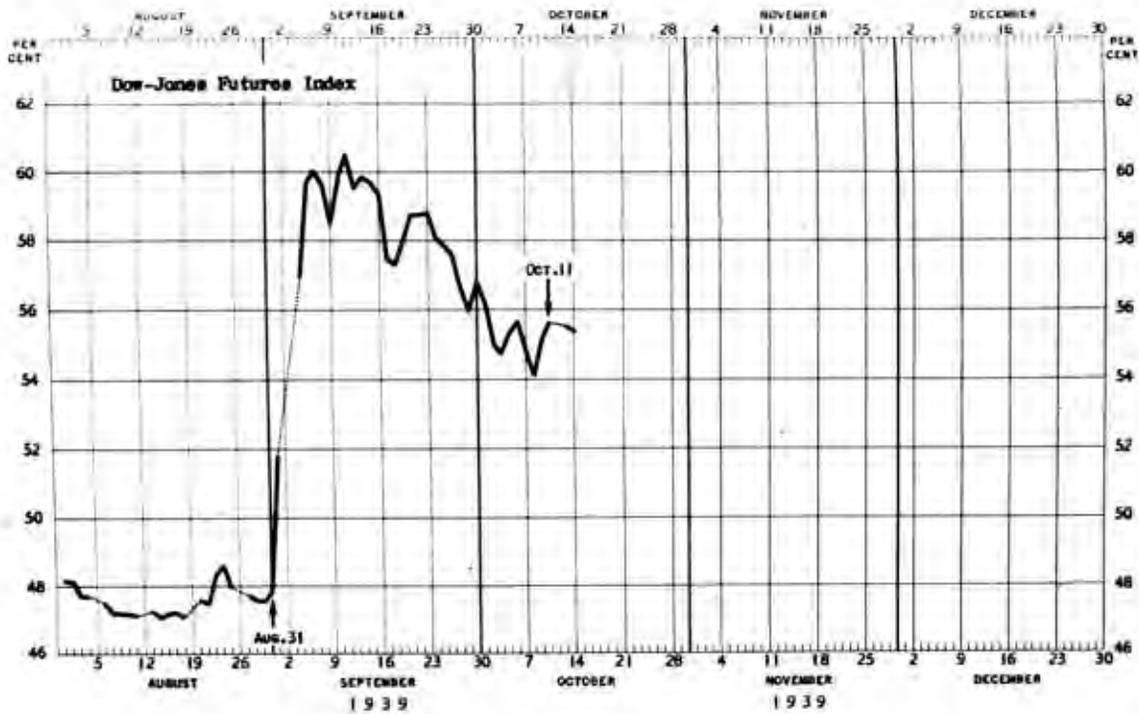
PERCENT
OF NORMAL

- | | | |
|-------------|--|-------------------|
| 80 and over | | Good to excellent |
| 65 to 80 | | Poor to fair |
| 50 to 65 | | Very poor |
| 35 to 50 | | Severe drought |
| Under 35 | | Extreme drought |

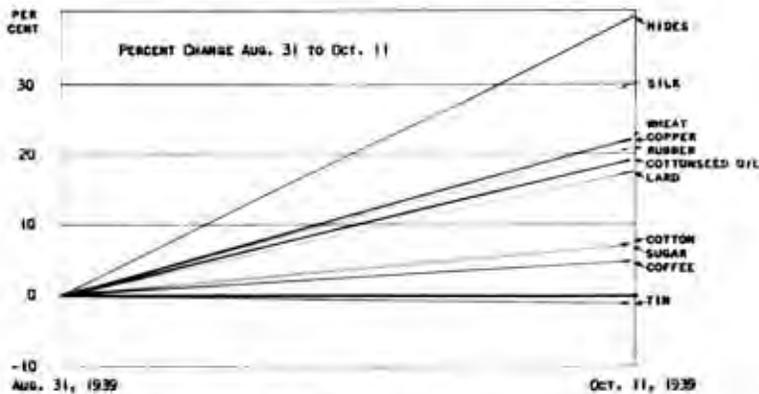
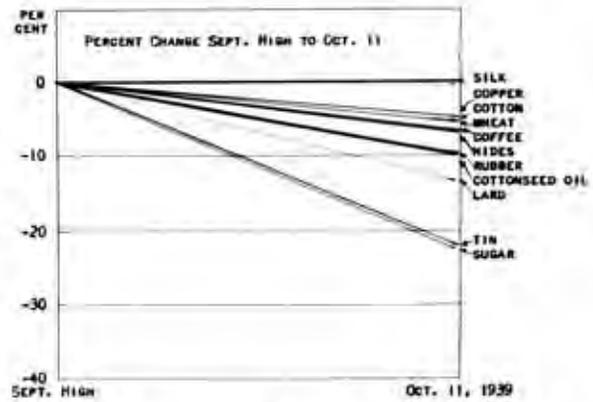
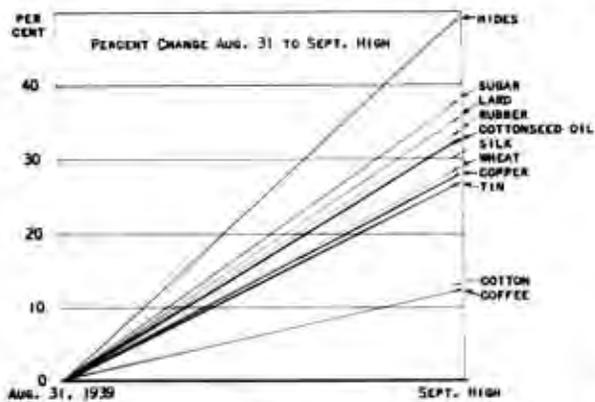
* AS REPORTED BY
GRASS CORRESPONDENTS

MOVEMENT OF PRICES OF COMMODITY FUTURES

August 1939 to date

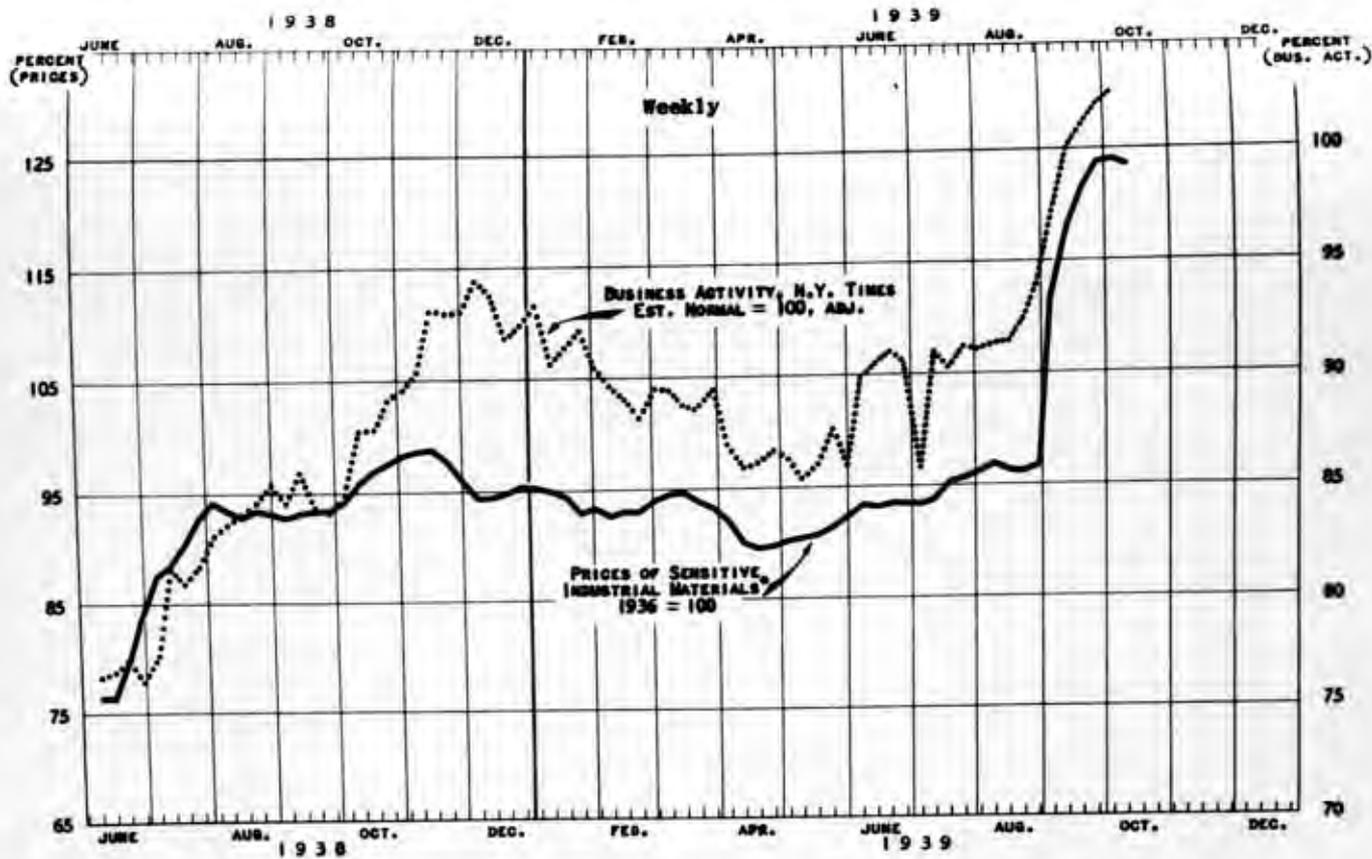


Percent Change in Selected Commodity Futures*



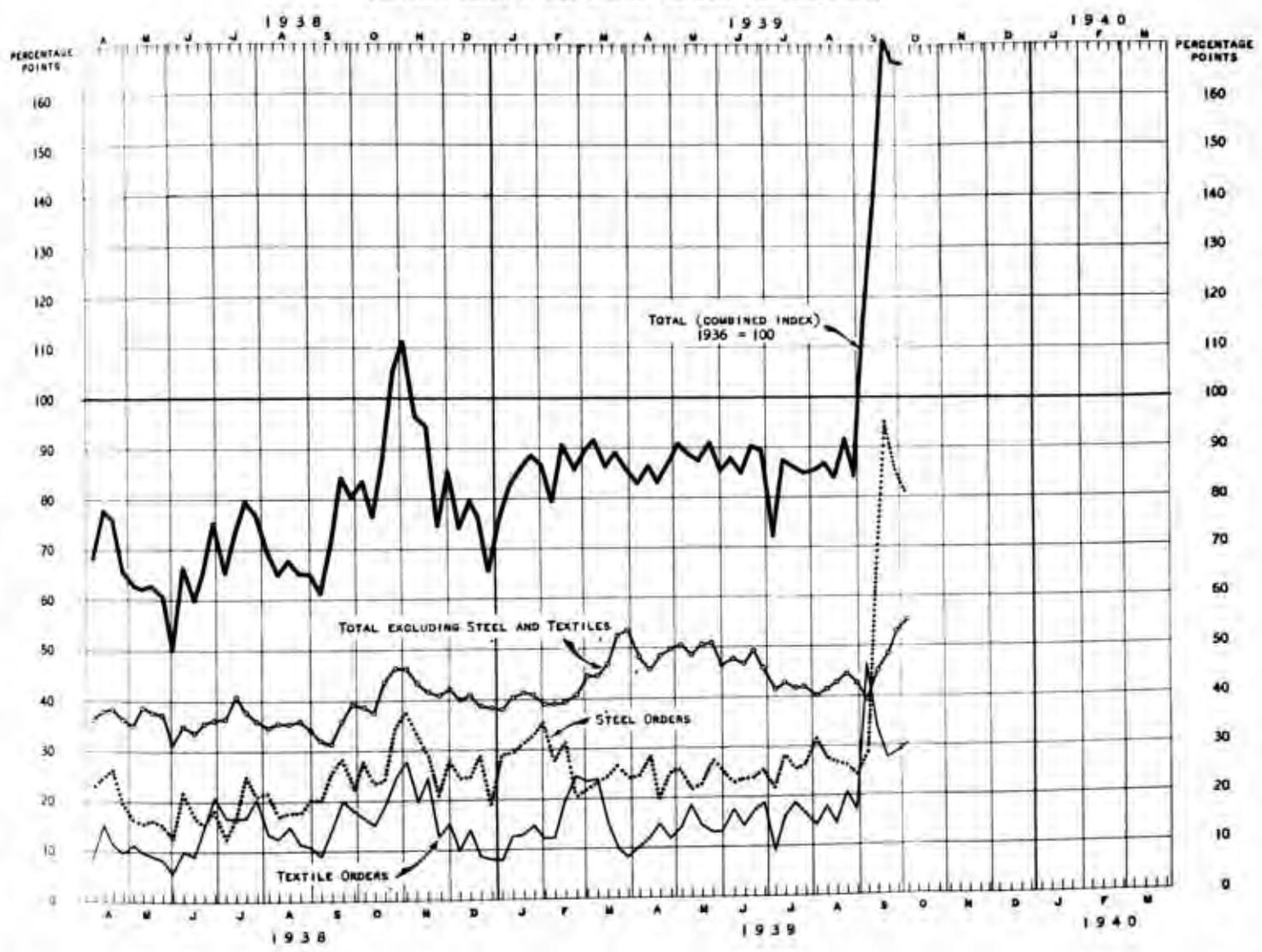
*DECEMBER FUTURES EXCEPT SUGAR, WHICH IS JANUARY FUTURE.

BUSINESS ACTIVITY AND PRICES OF SENSITIVE INDUSTRIAL MATERIALS*



*INDEX INCLUDES SPOT PRICES OF STEEL SCRAP, TIN, COPPER, LEAD, ZINC, WOOL, PRINT CLOTH, RUBBER AND HIDES.

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



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

111
11 187

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 16, 1939

TO Secretary Morgenthau
FROM Mr. Cochran

The following is a brief summary of the arrangement with Brazil which is now operating.

Under date of July 15, 1937, the Secretary of the Treasury agreed with the Minister of Finance of Brazil:

- (1) For the United States to sell gold to Brazil at such times and in such amounts as the Brazilian Government may request, up to a total of \$60,000,000, on or before July 15, 1942. (On October 5, 1939, the Treasury sold \$3,000,000 of gold, the first under this agreement, to be held under earmark with the Federal Reserve Bank of New York, as fiscal agent of the United States, for the Bank of Brazil, as fiscal agent of the Government of Brazil).
- (2) For the United States to make dollar exchange available to the Government of Brazil for the purpose of promoting exchange equilibrium. With this in mind, the Secretary of the Treasury has undertaken to make dollars available to Brazil against the purchase of milreis by the Treasury, the milreis to be deposited with the Bank of Brazil, in the name of the Federal Reserve Bank of New York as fiscal agent of the United States. The contract provides that such milreis as are sold to the Treasury under this arrangement shall be repurchased by the Bank of Brazil, acting for the Government of Brazil, at the same rate at which they are sold to the Treasury. As collateral for the carrying out of this transaction, sufficient gold is taken from the earmarked account with the Federal Reserve Bank at New York and segregated. The Brazilians are charged interest upon the dollar amount involved in the purchase of milreis at a rate per annum $1/2$ of 1% above the average of the Federal Reserve Bank of New York's rediscount rate during the month immediately preceding. The Brazilians have not yet availed themselves of this privilege of selling the Treasury milreis.

Under date of September 2, 1938, we agreed to an amendment of the above described agreement, whereby the Federal Reserve Bank as fiscal agent of the United States is prepared to receive gold sent to it from abroad by Brazil and to hold the same under earmark and deal therewith as provided in the arrange-

ment of July 15, 1937. Under this supplemental arrangement, the Federal Reserve Bank on October 13 received and earmarked \$767,000 of gold which Brasil had shipped from England.

B. M. S.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION



169

DATE October 16, 1939.

TO Secretary Morgenthau
FROM Mr. Cochran

The foreign exchange market was quiet with greatly reduced volume as compared to the last full day session on Friday.

The sterling rate recovered to 3.99-3/4 in Amsterdam from the close here on Saturday of 3.97. In the New York market the rate opened at 4.00-1/4, and in the early morning further strengthened to the highest rate of the day at 4.01-1/4. The New York banks reported that the market did not show any particular interest in sterling this morning, and that they had not received any orders for execution in that currency. In endeavoring to determine the reason for the higher quotation in Amsterdam and New York, it could be concluded that on Friday the rate had been marked down drastically, due to selling orders in the late afternoon, and that the recovery was attributable not to any particular buying abroad, but merely to the absence of additional selling orders. The sterling rate eased off after the early morning high and declined steadily during the day to close at 3.99-1/4.

The French franc also recovered from 2.25-1/4 at the close on Saturday to 2.26-3/4.

The remaining important continental currencies were steady.

Reporting banks in New York and the Federal Reserve Bank reported sales totaling £355,000, from the following sources:

Commercial concerns.....	£ 119,000
Foreign banks (Europe, Far East and South America).....	£ 236,000
Total	£ 355,000

Purchases of sterling amounted to £409,000 as indicated below:

By commercial concerns.....	£ 125,000
By foreign banks (Europe and Far East).....	£ 284,000
Total	£ 409,000

The banks also reported that the British Control purchased sterling amounting to £95,000 at the official rate.

The National Bank of Belgium and the Netherlands Bank sold gold to us valued at \$1,035,000 and \$1,500,000, respectively, released from their earmarked accounts.

CONFIDENTIAL

The following gold shipments were reported from England:

\$714,000 to Banque Belge pour l'Etranger
\$ 30,000 to Bankers Trust Company
\$744,000

Mr. Zuberbuhler, who is substituting for the Financial Counselor of the Argentine Embassy, called today. Under instructions from his Government, he is studying raw material prices, and particularly futures. I introduced him to Mr. Haas.

Mr. Pinsent, Financial Counselor of the British Embassy, came in at 4 o'clock. He told me that his people were interested in Russian purchases in the United States, particularly those that might conceivably be for German account, such as an order which he understands has recently been placed for one million pounds of molybdenum. He is investigating this. He expects Mr. Osborne, of the Bank of England, to arrive here from Canada next Wednesday.

Mr. McKittrick, who takes office as President of the BIS on January 1, 1940, called today and was presented to the Secretary.



CONFIDENTIAL

October 16, 1939

Cochran's memo of this date is filed in general diary as it reports a meeting in the Secretary's office with Mr. McKittrick, BIS, and is not one of Cochran's daily reports.

Oct. 16, 1937

CLOSING QUOTATIONS

By

Henry Longworth Perlmeter and Omar Khayyam Klein

From border to border and coast to coast,
Winchell searches for Morgenthau's ghost.

Call out the coast guard, call the marines!
A denial, says Walter, ain't what it seems.

Hunt over Fishkill. Look at Hyde park.
Don't let that ectoplasm hide in the dark.

Flash! Quotes Morgenthau; Walter's quite rash.
He's starting too early to cook up my hash.

The pound is still falling, London is calling.
I haven't much time for dear Walter's bawling.

I'm hale. I'm hearty. You can tell that smarty;
That it's gold we're burying; not this party.

-0-

October 16, 1939.

French purchases in the United States.

Since October 9, the French Air Commission 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:

North American: 200 planes Model BT9, same as pre-war order, and 40 spare engines.....	\$ 5,501,473.20
Douglas: 170 planes DB7 and spare parts.....	15,838,305.00
United Aircraft: 600 engines and 600 propellers... (option lifted on a previous contract)	7,591,000.00
Indian Motorcycle Co.: 5000 motorcycles.....	2,409,750.00

2). Contracts to be signed:

Douglas: 100 planes ^{DB7 with Wright engine} A-26, subject to decision of U.S. Army.....	Price not yet settled.
Wright: 455 motors double speed.....	"

October 16, 1939
11:30 a.m.

HMJr: Hello.

Operator: Chairman Eccles. Go ahead.

HMJr: Hello, Marriner.

Marriner
Eccles: Good morning, Henry.

HMJr: How are you?

E: I'm fine. I -- that matter you talked to me about last Wednesday, you remember?

HMJr: Oh, New York account?

E: That's right.

HMJr: Yeah.

E: I told you that I'd be prepared to discuss the matter with you and -- I hope in a day or so.

HMJr: Yeah.

E: Now I -- I am all prepared; I can do it in a very few minutes. I'd like to do it personally at your convenience. It.....

HMJr: Well, are you coming -- are you coming over here any time? I mean, I've got.....

E: Well I will -- I will -- I can come over any time.

HMJr: Well, here's the point. How about -- how about three o'clock Tuesday? Is that a good time?

E: Tuesday?

HMJr: Three o'clock.

E: Well that's fine. I was just wondering if you wouldn't like to get it off of the -- off your calendar today,

HMJr: Well, the trouble is I can't.

E: I see.

HMJr: I'm all -- I'm all sewed up.

E: I see. Well, O.K. Anytime that.....

HMJr: I'm all sewed up and I -- I haven't had a chance to find out what's gone on here.

E: Well, this -- I don't think it would make any difference what's happened there because what I've got here, it won't upset anything you want to do in any case.

HMJr: Well, I -- what -- what.....

E: It.....

HMJr: What time do you go to the office in the morning?

E: I can go anytime that's necessary. I.....

HMJr: Well.....

E: It just depends on -- when the market was open I got down here at 8:30 for a while, but I don't usually do that.

HMJr: What I'm getting at - I have staff at 9:30; would you care to drop in at 9:15 tomorrow?

E: I -- fine. I'll do that; be glad to.

HMJr: How's that?

E: I think that's a little bit better because I -- I'd like to give you this and I can do it in a very few minutes.

HMJr: Right.

E: And it isn't anything that would upset any arrangement you want to make.

HMJr: All right. Well, let's say at 9:15 tomorrow morning.

E: Yeah. O. K., fine. I'll -- I'll see you at that time.

HMJr: Now, I'm calling you at 2:30.....

E: Dan called me and said that you -- that that's just prior to the announcement.

HMJr: That's right.

E: Now, do -- have you made up your mind on that or is it a question of -- of.....

HMJr: Well, I'm recommending it to the President to go ahead.

E: On -- on the basis of the one -- one percent.

HMJr: One percent for twenty-four and a half months.

E: There's only -- the only question I had at all was whether it ought to be seven-eighths. I mean, that's -- it's just a question of whether you.....

HMJr: It's -- it's too close.

E: It's -- well, it's close, I'll admit.

HMJr: I can't -- I can't take the chances with -- I just got through with the State Department; they were kind enough to send someone over here for half an hour.

E: Uh-huh.

HMJr: And there are too many things can happen in the next two days.

E: Yeah. Yeah.

HMJr: I mean, for it to drop off eight thirty-seconds or ten thirty-seconds. So we've got to play a small -- it shouldn't.....

E: Well, it isn't -- it isn't really very important; it's -- it's pretty small, and I told Dan as far as I was concerned it looked O.K. to me and there's only.....

HMJr: No.

E: -- the other was -- the question of rate was the only thing at all and I certainly wouldn't want to make a.....

HMJr: Well, I don't know what one-eighth is on two years - two hundred million, but I -- I'm going to take out that war insurance.

E: Well, one percent is pretty cheap money anyway. The trouble is we're spoiled on the question of rates.

HMJr: Well, the thing ^{that's} maturing is a three-quarter note of eighteen months.

E: Yeah.

HMJr: That's what's maturing.

E: Yeah -- well, so you're practically getting it at about the same rate then,.....

HMJr: Exactly.

E:in proportion.

HMJr: This was sold eighteen months ago at three-quarters of a percent.

E: Um-hm. Um-hm.

HMJr: I think one-eighth war insurance isn't bad.

E: No, I guess a lot of them would like to be able to get it for that rate.

HMJr: O. K.

E: (Laughs) All right, Henry. I'll see you in the morning then.

HMJr: Yes, and I'll talk to you at two-thirty.

E: Fine.

HMJr: Goodbye.

E: Goodbye.

October 16, 1939
11:35 a.m.

HMJr: Hello.

Operator: Mr. Welles. Go ahead.

HMJr: Hello.

Sumner
Welles: Hello, Henry. How are you?

HMJr: I'm fine. How are you?

W: I'm fine, thanks.

HMJr: Welcome back to the United States.

W: Thank you. Thank you again for your message which I appreciated very, very deeply.

HMJr: You're coming over this afternoon?

W: I'll be over in your office at a quarter before three, if that's agreeable to you.

HMJr: Entirely. Are you going to give me an agenda?

W: (Laughs) I don't think that we need an agenda. This is more or less, I thought, a preliminary survey and discussion of how we might best reach an agenda.

HMJr: I see.

W: There were three things, really, that I wanted to talk over.

HMJr: Uh-huh.

W: One was the preparation of the agenda for this meeting of the permanent committee in Washington.

HMJr: Yes.

W: The second, to try and get organized and functioning this four agency committee that we agreed upon just before I left.

HMJr: Yeah.

- 2 -

W: And third, to talk over with you the Guatemala meeting.

HMJr: On that four agency thing, you know, I asked to see Mr. Hull and you, and I'm due over there tomorrow at ten thirty in his office.

W: I see.

HMJr: And that's what I wanted to talk to him and you about.

W: I see.

HMJr: So if you'd just as leave.....

W: You'd rather I'd put it off.

HMJr: On that, yea, because -- well, what I want to say I -- I -- I only would like to say to the two of you.

W: Yes.

HMJr: And about the Guatemala thing, has Hanes talked to you?

W: Not yet.

HMJr: Well, I asked him to.

W: Well, I suggested that we put it off until this afternoon so that.....

HMJr: Because.....

W:we could talk with you about it.

HMJr:both he and I are rather upset over that telegram we got, you see - from you, in which you said that whoever went down there shouldn't make any arrangements and shouldn't even bother to cable any reports they might write, you see?

W: Uh-huh.

HMJr: So the question naturally comes up, why send so valuable a person as Hanes down.

W: Well, let me talk that aspect over with you.

HMJr: See?

W: I wanted to.

HMJr: Did you see that telegram about the Guatemala thing?

W: I'll have to check up. I don't know whether I did or not.

HMJr: Take a look at it.

W: I don't remember it.

HMJr: Yeah. So I -- I want to, what I'd like to do is to come to an understanding with Mr. Hull and you, just where is the Treasury in all of this. Once we have an understanding why.....

W: You bet.

HMJr:it will be easy to go forward, but right now I don't know where we're at.

W: All right, Henry.

HMJr: And that's why I asked for this meeting.

W: Well, I can tell you as a preliminary impression that my own judgment is that where you are is the fact that you ought to be managing the -- that particular side of it.

HMJr: Yeah. Well, if you'll reread those two letters -- I mean, it leaves a great deal of doubt. Now another message I asked Hanes to get to you about inviting Commerce here this afternoon. Did you get that message?

W: I got that message and I asked that it not be done until I had a chance to talk with you.

HMJr: Well.....

W: I'm seeing Ed Noble tomorrow; he's coming over with some of his people here, and I thought it might be better to hold off.

HMJr: Well, I was doing you a kindness when I made that suggestion in view of what happened while you were gone.

- 4 -

W: I see.

HMJr: It can wait.

W: Well is it all right then -- perhaps I can stay over -- well, let me come ten minutes early. Perhaps that would be the best plan. I can talk to you about that aspect of it.

HMJr: All right. Now, did you invite anybody from the Fed.?

W: I left that entirely to your office. I don't know who's been invited or who hasn't.

HMJr: But I didn't know why the Fed. should be checked. I think the message was that -- that you people would do the inviting.

W: My understanding was that it would be done by your office.

HMJr: No, I don't think it was. I -- I got the message -- I was away, but I'll check.....

W: Well, if they haven't been invited let's leave them out and let's just concentrate on you and myself and Jesse, if he's coming, and the Bank people, if they're coming, and -- and let it go at that this afternoon.

HMJr: Well, I'm going to make another point. If they haven't been advised, I think you'd make time if just you and I met.

W: All right. So much the better.

HMJr: I mean, if they haven't been invited, the message I got you would do the inviting, and if they haven't I really think if you and I could have a half an hour together we'd make a lot of time.

W: All right, Henry. I'll check on that immediately.

HMJr: Well.....

W: And if they have not been invited from here.....

HMJr: Yes.

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W:then they will only have been invited through your office.

HMJr: And I'll check from here.

W: All right.

HMJr: But I think if you and I could sit down together and come to an understanding it -- we'd save a lot of time.

W: All right. So much the better.

HMJr: Right.

W: I'll be over at 2:45.

HMJr: Well now -- after -- I'll check and if -- I'll have Mrs. Klotz call your secretary and let you know whether they've been invited.

W: All right, Henry.

HMJr: Thank you.

W: Thank you. Goodbye.

October 16, 1939
3:51 p.m.

102

EMJr: Hello.

Operator: Chairman Eccles.

EMJr: Hello.

Marriner
Eccles: Hello.

EMJr: Marriner.....

E: Yes, Henry.

EMJr: The President was entirely agreeable that we go ahead
with Commodity Credit.

E: Yeah.

EMJr: And -- you have no objections of any kind, have you?

E: No, I haven't. I'd like to report to you conferences
that I had with some of the other members of the
committee here, because after you talked to me this
morning, you know.

EMJr: Yeah.

E: I didn't have a chance before that, so I thought I
would get in touch with Fiser, who is our government
bond man here, and call in the other members of the
board and have them discuss it. And I -- I just
thought I'd give you their reaction.....

EMJr: Yeah.

E:, to it.

EMJr: Please.

E: It was Fiser's view that the market didn't expect
more than seven-eighths; that the rights were selling
at six thirty-seconds above par, whereas seven-eighths
would be nine thirty-seconds above par, showing that
the market had -- that was three thirty-seconds higher
-- that is the seven-eighths would -- would figure
three -- three thirty-seconds higher than the market
was this morning; that he felt that the seven-eighths

would be -- would -- would be just as sure as a one percent; that -- Ransom was somewhat of the same opinion with reference to the seven-eighths and the one. He thought that if -- that if one was a guaran -- a guarantee, the other was. That the difference would not -- would not insure one very much more than it would the other in -- in any un- toward great emergency.

The -- the difference figures five hundred thousand dollars.

HMJr: That's right.

E: Davis said, "I think the Commodity Credit need that five hundred thousand if the market can -- if it -- if this can be financed and we can save five hundred."

HMJr: Well, tell Chester Davis, Christ I had to go to Congress and get a hundred and twenty-nine million dollars.....

E: Yes, I -- He.....

HMJr:to make up the deficit.

E: -- he knows that.

HMJr: Well, what's he talking about?

E: Well what I -- what I meant was that -- that he pointed out that the five hundred thousand are the one-eighth. That's what it figures.

HMJr: Yeah. Exactly.

E: That if the market would take this stuff at seven-eighths, you see?

HMJr: Yeah.

E: Instead of at one percent, it would save one-eighth.

HMJr: Five hundred thousand.

E: Five hundred thousand dollars for the Commodity Credit.

HMJr: That's right.

- 3 -

- E: Whereas they've dropped that rate. I think the -- the mistake Commodity Credit made was dropping that rate from four to three percent.
- HMJr: Well, they did that without asking how much they could refund.
- E: Well, I.....
- HMJr: They never asked me, Marriner.
- E: Well I think that was a hell of a mistake because the -- the -- the borrowers were all satisfied at four. We.....
- HMJr: Marriner, they just called me up and told me after it was already out.
- E: Well.....
- HMJr: They never said, "How much can we re-borrow this money at."
- E: Well now you see they've -- they've got three percent; that leaves them a two percent spread today and -- and when you take the great amount of work and the cost, -- I don't know how much banks will take of this stuff now, do you?
- HMJr: I don't know. But, Marriner, old man,.....
- E: Yeah.
- HMJr:with my eyes open, wide open, I'm going to pay a half a million dollar bonus.
- E: Well, I -- I'm not -- I'm not talking to you for the purpose of changing your mind. All I'm -- all I'm giving you is just the -- the other aspects of it and no doubt there isn't a single thing that -- that we have thought of and discussed that you haven't also thought of and discussed.
- HMJr: We figured it out and with my eyes open -- this is the first one since the war broke out.....
- E: Yeah.

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HMJr:Commodity Credit is not very popular with the investors - it's the least popular of all - and.....

E: I think that's right. It's the least known.

HMJr: It's the least known, and the least popular.

E: Yeah.

HMJr: And this is the first seller, and I'm going to pay a half a million dollar bonus, and -- it went up three or four thirty-seconds today; it might go down. I'm going to do it with my eyes open.

E: Well I'm -- I don't want to give you the impression that there was any very -- that there was any -- any particular feeling - you know.

HMJr: I know.

E: You can -- you can just discuss these things back and forth and -- and I'm -- I'm just giving you.....

HMJr: I appreciate it.

E:just directly what I would want to get if I were in your position.

HMJr: Well.....

E: And -- and there isn't anybody that -- that has any strong feeling one way or the other about it as I told you this morning, that the difference is not enough to -- to really make -- to amount to much.

HMJr: Well.....

E: And -- and so if you go ahead at one percent, as far as I'm concerned, and I'm sure I speak for the other members over here, nobody is going to feel critical about it and nobody is going to -- and everybody is going to be willing to support a hundred percent any decision that's made.

HMJr: Well I appreciate that and certainly if luck will hold with me another week, we'll more than make it up on the five hundred million, - refunding.

E: Oh, yes. You mean on the.....
HMJr: On the -- on the government.....
E: On the other ones.
HMJr: We'll make it up several times.
E: Yeah. Well I'll see you in the morning.
HMJr: Righto.
E: All right.
HMJr: Thank you.
E: Goodbye.

TREASURY DEPARTMENT

187

INTER OFFICE COMMUNICATION

DATE October 16, 1939

TO Secretary Morgenthau

FROM Mr. Cochran

I awaited Mr. Knoke's return to New York yesterday before taking up with the Federal Reserve Bank of New York the question of a reply to Cablegram 2004 of October 11 from the Embassy at London.

Mr. Knoke telephoned me back yesterday afternoon. From memoranda which he had made of conversations, principally over the telephone with New York banks, he estimated the total balances of the National Bank of Czechoslovakia in New York on about March 15 at \$240,000. This figure included \$21,000 held with the Federal Reserve Bank itself. The remaining \$220,000 included the following balances: National City \$137,000, Chase \$68,000, Guaranty Trust \$10,000, Brown Brothers \$3,000, Irving Trust \$1,000, Manufacturers Trust less than \$1,000.

Knoke recalled that Secretary Morgenthau telephoned Governor Harrison on the afternoon of March 16. He desired that the Federal Reserve Bank call up the New York banks, make the observation that the Czechoslovakian situation was quite cloudy and that in this upset condition the Federal Reserve should suggest to the banks that they voluntarily refrain from making any important or unusual withdrawals from Czechoslovakian accounts. It was understood that this arrangement covered the remainder of the week, comprising three days. All of the banks with which the Federal Reserve spoke agreed to this arrangement. On March 21 the Bank of Manhattan inquired of the Federal Reserve as to what should be the policy from that date. Governor Harrison telephoned Secretary Morgenthau. The latter consulted the State Department and then let Governor Harrison know that he did not want to suggest what the banks' further action should be. He advised them to use their own judgment and consult their lawyers. Secretary Morgenthau was not in the position to give the indemnity guarantee such as the British were able to provide.

When I showed Secretary Morgenthau the cablegram from Buttersworth this morning, he thought that no reply should be given.

B.M.S.

CONFIDENTIAL

NEW YORK MIRROR
DAILY AND SUNDAY

188

235 EAST 45TH STREET
MURRAY HILL 2-1000

October 16, 1939

Dear Mr. Morgenthau:

I'm sorry I caused you such bother, but I was told you would say everything that was in your telegram. I understand you recently got over a jaundice attack--or what they thought was jaundice--and are much better, but still ill. However, I'm glad to know I was wrong. You say that your phone is working--meaning, apparently, that I should have called you. When a man is ill I never call him.

However, I regret worrying your friends. Let's look at it this way. The very fact that so many of your friends called to inquire about you must make you feel very swell--knowing that so many people care.

Do you want me to print your wire or make any mention of it, or would you rather I didn't?

Good health, good wishes and all the other goodies the world has to offer.

Walter Winchell
Walter Winchell

1939 OCT 16 11 11 AM '39
MURRAY HILL 2-1000

TELEGRAM—Day Letter

(Contingent Expenses)

October 16, 1939.

Mr. Walter Winchell
Daily Mirror
235 East 45th Street
New York, New York

Dear Walter:

You will be glad to learn—and some people whom you and I both know will not be so pleased—that Sunday morning I enjoyed a two-hour horseback ride. Sunday afternoon Mrs. Morgenthau and I took a long cross-country walk. Everything was perfect until nine o'clock when I turned on my radio to listen to my favorite Sunday night commentator. From then on I wasn't sure which of us was sick. You caused a number of my friends considerable worry. The telephone began to ring and the press associations through personal contact wished to ascertain the state of my health. I assured them that up to the time of your broadcast I had been perfectly well. As they used to say when I was in Constantinople I hope you are not trying to put the evil eye on me. My telephone is in working order. How's yours?

H. Morgenthau, Jr.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: October 16, 1939, 7 p.m.

NO.: 2485

Handwritten initials

FOR THE TREASURY DEPARTMENT.

Today we had lunch with the senior active Morgan partner here, Dean Jay. We had a chance to check his opinions with some of the recent relatively optimistic statements our French friends had voiced to us.

Jay said he is in agreement with the opinion expressed to us by Masson and by Reynaud Couve de Murville - references: telegrams from the Embassy Nos. 1923, September 12; 2340, October 5; 2445, October 12. This was that as nearly as one can estimate it will be possible for France to comfortably finance her needs for purchases abroad for at least a year without obtaining credits from abroad. It also seems to be his feeling that the British will run into financial difficulties probably before France does, which was the opinion expressed by Couve de Murville.

From the experience of the Morgan bank, Jay said, repatriation of French funds is continuing on a substantial scale, which repatriation is encouraged by the fiscal amnesty provisions of the pertinent measures. For instance, there is a report in the Financial Press for today, coming from London, that British banks continue to note important demands

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demands for francs against sterling in view of the fact that repatriation of French holdings is continuing.

Numerous French clients of the Morgan bank likewise are requesting the Bank to carry their foreign holdings on their accounts with the Paris branch, since by so doing they are counted as holdings in France and are not subject to the requirement that holdings abroad be declared. Reference: telegram of October 5 from the Embassy, No. 2430.

Jay was not particularly au courant of the French Government's present financial condition, but he was inclined to feel that for the rest of the current year it would not be necessary to have recourse to a long term loan. The local manager of the Guaranty Trust on the other hand thinks that before the current year is out the French Government will have to float a long term war loan.

Today's financial press reports the official announcement of the suspension of the BIS monthly meetings "until further notice" (our telegram No. 2445, October 12, 8 p.m.). It is reported that study is being given to the question of how in the future these sessions of the board of directors can be held in view of the fact that "the English directors as well as the French directors have absolutely refused to meet the representatives of the Reich."

BULLITT.

END SECTIONS ONE, TWO AND THREE.

EA:LWW

JR

GRAY

Paris

Dated October 16, 1939

Rec'd 7:15 p.m.

Secretary of State,
Washington.

2485, October 16, 7 p.m. (SECTION FOUR)

L'Agence Economique et Financiere adds: "On the other hand as is evident from the last monthly balance of the BIS the assets of central banks (with the BIS) are continuing to diminish regularly and it is a question how the bank is going to maintain in spite of drastic retrenchment even relative activity during hostilities." The Swiss press which is naturally anxious to see the bank continue as a going concern has likewise recently discussed the question with some anxiety. One Basel paper stresses "the unanimity of all interested circles as regards the desirability of maintaining central bank relations despite the war, in order to contribute to the solution of the manifold financial and economic problems resulting from the hostilities."

BULLITT

RR:DDM

REB

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GRAY

Paris

Dated October 16, 1939

Rec'd 6:53 p. m.

Secretary of State,
Washington.

2485, October 16, 7 p. m. (SECTION FIVE)

In contrast, however, in its editorial comment the AGENCE ECONOMIQUE says: "It is pointed out from Basel that relations of the B. I. S., the manager of which is French, have been completely broken with Berlin which in spite of the war attempted still to play a role in that international establishment the functioning of which at the present time seems to be at least an anomaly". The French press likewise reports Mander's further request of the Chancellor of the Exchequer for an explanation as to why the British Government cannot demand from the B.I.S. repayment of its annuity trust account. (END SECTION FIVE)

NPL

BULLITT

FS

GRAY

Paris

Dated October 16, 1939

Rec'd 7:22 p.m.

Secretary of State,
Washington.

2485, October 16, 7 p.m. (SECTION SIX).

It is added that Sir John Simon has assured the house that for the duration of the war the British directors of the B.I.S. would attend no board meeting of that bank without the consent of the Treasury and "in no case he declared would they meet with the German members of the board".

A firm tendency prevailed on the securities market today. The mid-monthly settlement passed off satisfactorily. The abundance of available funds and the reduced volume of speculative accounts permitted the authorities to fix the extremely low rate of $\frac{1}{8}\%$ for the carry-over, compared with $\frac{3}{4}\%$ of the previous carry-over and the one-half and three-quarters per cent at September 15 (our telegram No. 2284, October 2, 7 p.m.).

WVC

BULLITT

JR

GRAY

Paris

Dated October 16, 1939

Rec'd 8:40 p.m.

Secretary of State,
Washington.

2485, October 16, 7 p.m. (SECTION SEVEN)

Rentes registered moderate gains and most variable revenue securities moved upwards. The market was favorably impressed by the attitude adopted by the Scandinavian countries, coming on top of the message of our President to the Soviet Government. There were no changes in foreign exchange rates.

We understand that business is being increased gradually in the money market largely for day to day money between banks at one and three-quarters per cent and one seven-eighths per cent. This activity, however, is confined to very short term transactions.

The Belgian wholesale price index just published for September shows a very substantial increase from five hundred ninety-four for August to seven hundred six.

BULLITT

DDM:RR

RECEIVED

196

JR

RECEIVED
DEPARTMENT OF STATE
WASHINGTON, D. C.
OCTOBER 17 1939

GRAY

Paris

Dated October 16, 1939

Rec'd 8:25 p.m.

Secretary of State,
Washington.

2485, October 16, 7 p.m. (SECTION EIGHT)

The foodstuffs index rose from 502 to 553, the metallurgical index from 691 to 779, the index of chemical products from 534 to 615, the textile industry from 534 to 672, and petroleum and its derivatives from 915 to 1115.

With reference to the Embassy's telegram No. 1403, July 28, 6 p.m., and our telegram No. 1609, August 26, 6 p.m., last paragraph, we received today a letter from Ardent, the Director General of the Societe Generale, inclosing a copy of that institutions memorandum prepared "for the meeting of the Banking Board of October 19 next" at New York for transmission to the banking superintendent. The memorandum sets forth data concerning the organization, personnel, balances, et cetera, of the Societe Generale and the purposes of the agency which it wishes to establish in New York.

(END OF MESSAGE).

BULLITT

KLP

TREASURY DEPARTMENT

197

INTER OFFICE COMMUNICATION

DATE October 16, 1939

10:00 A.M.

TO Secretary Morgenthau

FROM W. H. Hadley

GOC Notes

<u>Maturity</u>	<u>Coupon</u>	<u>Yield</u>	<u>Market Price</u>	<u>Premium</u>
1-1/2 yrs. (April 1941)	3/4%	0.58	100.8	8/32nds
	7/8%	0.58	100.14	14/32nds *
	1%	0.58	100.20	20/32nds
	1-1/8%	0.58	100.26	26/32nds
✓ 1 yr. 11 mos. (October 1941)	7/8%	0.73	100.8	8/32nds
	1%	0.73	100.16	16/32nds *
	1-1/8%	0.73	100.24	24/32nds
	1-1/4%	0.73	100.31	31/32nds
✓ 2 years (November 1941)	7/8%	0.74	100.8	8/32nds
	1%	0.74	100.16	16/32nds *
	1-1/8%	0.74	100.24	24/32nds
	1-1/4%	0.74	101.	1 point
✓ 2 years 1 mo. (December 1941)	7/8%	0.76	100.8	8/32nds
	1%	0.76	100.16	16/32nds *
	1-1/8%	0.76	100.24	24/32nds
	1-1/4%	0.76	101.	1 point
3-1/2 years (April 1942)	1%	0.83	100.13	13/32nds
		0.86	100.11	11/32nds
	1-1/8%	0.83	100.23	23/32nds
		0.86	100.21	21/32nds
	1-1/4%	0.83	101.	1 point
		0.86	100.30	30/32nds

* Issues giving most satisfactory premiums.

October 16, 1939.
10:45 a.m.

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

Bell: Those three, Mr. Secretary, there isn't much difference between New York, Haas and Hadley. You notice that the 7/8ths percent there on the 1 year 11 months, 8/32nds, is a little thin.

H.M.Jr: What I don't understand is the 1 year 11 months and the 2 years and 1 month are the same thing.

Hadley: There is such a slight difference between those three issues that you would have to split up a 32nd to make the actual thing.

Bell: Two months makes no difference.

Burgess: Makes no difference in the quotes. It would make a little difference in the reception, but practically you can just make them the same.

H.M.Jr: Well, have you had a chance, Randolph?

Burgess: Yes, we have talked it over together. I think we are all agreed, first, that the market is in good shape and that you can do it very nicely, making your announcement tomorrow morning or Wednesday morning either way. My own leaning is to go ahead and do it, because the decks seem clear and you can't tell what will happen as you go on. It looks like a pretty good spell here. There is going to be a meeting in a day or two of Hitler and Russia and it will take a little while to make up their minds. Second, any one of those three maturities you mentioned, the 23, 24 or 25 months, will be satisfactory to the market, that on the coupon it is a choice between 7/8ths and 1, and that you can figure that either way, 7/8ths you can probably get by with but it is a little thin. One is all right. It would go nicely.

H.M.Jr: What is this note that is coming due now?

Duffield: 7/8ths, two and a half.

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Burgess: Three-quarters. That was sold for a year, wasn't it?

H.M.Jr: What is the note which is maturing?

Bell: Three-quarters percent.

H.M.Jr: I know, but how long did it run?

Bell: That was a two-year note.

H.M.Jr: What was it?

Duffield: Mr. Kilby told me on Saturday it was May 2, 1938. That would make it a year and a half.

H.M.Jr: I thought it was eighteen months.

Duffield: That is right.

Bell: I thought it was the same as the RFC.

H.M.Jr: The reason I am saying it is that the President naturally would say to me, "Well, what is the maturity," and I think we can say, "Well, we are converting a three-quarter to eighteen months and a one-year to two years. It sounds pretty good. I don't understand what is coming due in two years, '41.

Bell: 298 million of RFC notes.

H.M.Jr: Two hundred what?

Bell: 298 million of RFC notes, November 1st.

H.M.Jr: That is very delicate (speaking of paper handed Secretary by Mr. Burgess).

Burgess: It happens to be one of the best sheets. We don't print anything ourselves, see.

H.M.Jr: You leave that to Moe Annenberg, do you?

Burgess: Yes.

H.M.Jr: Well, what would be the matter with the two years - I mean two years and one month? Would that squeeze the boys a little bit? Have you got anything then?

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Bell: No sir, that is just within 15 days of the Treasury issue.

Burgess: That is O. K. The other, October 1st, comes near the September issue.

Bell: You could make it October 15th.

H.M.Jr: Isn't 16/32nds a little bit sweeter than we have been giving them?

Hadley: 12 to 13 on the last two CCC issues.

H.M.Jr: Would they think two years and one month would crowd them a little bit?

Burgess: It would go very nicely.

Bell: New York says any one of those will go. They prefer, a little, the one year 11 months, but they wouldn't quarrel about the two years and one month.

H.M.Jr: Coming down on the plane I got that 21 months idea. I thought we might as well grab off two more months.

Bell: I think it will go.

H.M.Jr: I don't think there is much argument about the coupon, one percent. Supposing we start around, everybody write down what they think about it.

Hanes: I don't think it makes any difference.
(Ballots were collected).

H.M.Jr: Haas is 25 months. Oh gosh, Henry, now honest, 23½ months, H. C. Murphy. That is splitting it.

Murphy: That would be October 15th. I wouldn't feel at all strongly one way or the other.

H.M.Jr: Whose handwriting is this?

Burgess: That is mine. I don't feel very strongly.

H.M.Jr: Hadley, two years and a month. Two years and a month, D. W. Bell. I have got two years and a month. Well,

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there is four. Anybody want to make it $24\frac{1}{2}$ months? It wouldn't be so bad, at that.

Burgess: That would be all right.

H.M.Jr: Where would that fall?

Bell: November 15th.

Burgess: November 15th.

Haas: It wouldn't be quite so close to your December.

H.M.Jr: That is a good time. I mean that is a month ahead.

Hadley: Two weeks after the RFC issue.

Burgess: But it is a month ahead of your Treasuries, which is more important.

H.M.Jr: Yes, it would give us two weeks. I kind of like that, November 15th. What do you think, Dan?

Bell: It is O. K.

H.M.Jr: I think it is silly to have a December just ahead of our own.

Hanes: I do too.

H.M.Jr: I think this makes sense. We didn't want to come within a month of our own, if anybody asks why November 15th.

Johnny?

Hanes: Yes, I like that.

H.M.Jr: Let's make it November 15th. I upped you one month.

Murphy: Well, I made the half, anyway.

H.M.Jr: That is very good.

All right, now I will tell you what we will do. Supposing we meet again at a quarter of 12:00, or isn't that necessary?

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Hadley: I don't think the market will change any on those issues.

H.M.Jr: Well, immediately on my return from the White House, shall we have a definite time? Shall we say 2:30?

Burgess: That is a good time.

H.M.Jr: I haven't talked with Eccles.

Burgess: Did you talk to him on Friday?

Bell: I told him that there might be - I didn't tell Eccles....

H.M.Jr: Would you call him up and tell him that we will talk about it and on my return from the White House at 2:30, I will call him?

Bell: Yes.

H.M.Jr: And I think that is all. I would do it tomorrow morning. I asked Eugene, when does Dow-Jones come out?

Duffield: 4:30, our time, both here and New York.

H.M.Jr: My thought was at 4:00 o'clock I would announce this in a release, which would give these fellows a chance to get their own wires out, see.

Burgess: Good.

H.M.Jr: I mean at the 4:00 o'clock press conference, get it on the ticker at 4:30 and they can send out their own market.

Burgess: Shall we tell them the books will close on Wednesday night? I think that is a pretty good idea. It is the same as we had planned with the note.

H.M.Jr: Do you have to call them up when the notice goes out?

Bell: We should tell them tomorrow, at noon tomorrow.

H.M.Jr: Yes, let's gain 24 hours.

Bell: I see no harm in saying that the books will be open two days when you announce it this evening.

H.M.Jr: No.

Burgess: The advantage is that you sometimes give them three days for trading purposes and the regular delivery, I mean trading one day and delivering the next day, and so if they know when the books are open and they have only got two days, they do all their trading the first day and get it done with.

H.M.Jr: Tomorrow we can announce the books are closed Wednesday. This thing is very closely held, isn't it?

Burgess: I think so. I think it is large chunks, mostly.

Bell: Some of the southern banks have some. New Orleans had three million seven of them.

H.M.Jr: Everybody happy on that?

Hanes: I am.

Burgess: Now, the sooner you can get your wires to the Reserve Banks, the better they will be about reaching all the banks with the mailing.

Bell: We could send a wire now and ask them to get into print form, so that all they have to do is put in the slug.

H.M.Jr: I will do that. What slug?

Bell: The interest rate and the....

H.M.Jr: You can put that in.

Bell: Can we put that in?

H.M.Jr: Sure.

Burgess: Tell them not to mail until....

H.M.Jr: We will get a telegram off, but they can print the thing up now. The President has never and never will say anything about this.

Bell: Of course, you know he doesn't have to approve this.

H.M.Jr: I know. He might know something that I don't know, and most likely does.

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Duffield: Could I ask, for my information,

H.M.Jr: I guess this is better than anything we could have gotten since September 25th, and I am just hoping that my luck will stay with me. We used to say in Constantinople, "I hope you don't put the evil eye on me."

Somebody announced that I was desperately sick. Did you know that?

Hanes: Gaston called up and said he had heard that and I said, "He is here now and I think that is a little bit exaggerated."

Bell: He announced that last night on the radio.

H.M.Jr: Yes.

Duffield: May I ask, for my information, is this a straight exchange or is it set up like that RFC business?

H.M.Jr: He (Mr. Bell) has got a little wrinkle in that that he can sell for cash.

Bell: Well, it had to be set up exactly like the RFC. The lawyers claim that you can't write in the word "exchange." We have got to offer the 200 million and then take in payment the three-year purchase, but I think the less said about it, probably, the better.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE October 16, 1939

TO Secretary Morgenthau

FROM Mr. Cochran

Mr. McKittrick called at 11:45 and I presented him to the Secretary. Mr. Hanes was present during part of our visit. Mr. McKittrick told the Secretary that since he is proceeding to Europe in November, to assume the presidency of the BIS on January 1, 1940, he desired to call to pay his respects and become acquainted with the Secretary. He is anxious to be of any possible service to our Government in his new post.

The Secretary mentioned to Mr. McKittrick his interest, particularly in view of the large amounts of gold earmarked in this country, in seeing gold protected in every manner as the medium for settling international balances. Consequently, he was concerned over the experience some months ago involved in the turning over to Germany of gold of the National Bank of Czechoslovakia held with the Bank of England in the name of the BIS. The Secretary thought this story as understood here had reacted against the BIS and had raised some question as to the wisdom of holding reserves in gold. Mr. McKittrick stated that he was not familiar with all of the details of this case, but understood that the BIS had suffered through this transaction, and volunteered to send us an accurate story of the affair. The Secretary told Mr. McKittrick that he would be glad to be of any proper assistance, and mentioned that he might send me to visit the BIS one of these days.

After Mr. McKittrick called on the Secretary, he remained with me for some time and sought information as to my experience with the BIS. I made it clear that he had no responsibility for reporting to us and should not risk embarrassing his own position in communicating with us. At the same time, I let him know that we would appreciate any information which might appropriately be transmitted.



TREASURY DEPARTMENT

Washington

Immediately
FOR RELEASE, ~~URGENT MEMORANDUM~~
~~Tuesday, October 29, 1939.~~
10/16/39.

Press Service
No. 19-5

The Secretary of the Treasury, on behalf of the Commodity Credit Corporation, today announced the plan for refinancing the outstanding notes of Series C of the Corporation, maturing November 2, 1939, through offering for subscription, at par, through the Federal Reserve banks, notes of the Commodity Credit Corporation, designated one percent notes of Series E, open to the holders of the maturing notes who tender such notes for payment with the proceeds to be applied to the new notes. The amount of the present offering of notes of Series E will be limited to an amount equal to the amount of Series C notes of the Corporation maturing November 2, 1939, so tendered. Cash subscriptions will not be received, but to the extent the maturing notes are not tendered for payment with the proceeds to be applied in payment for the new notes, an additional amount of the new notes may subsequently be offered for cash.

The notes of Series E will be dated November 2, 1939, and will bear interest from that date at the rate of one percent per annum payable semi-annually, on May 15 and November 15, with the first coupon covering a period slightly more than six months. The notes will mature November 15, 1941, and will not be subject to call for redemption prior to maturity.

The notes will be fully and unconditionally guaranteed both as to interest and principal by the United States. They will be exempt both as to principal and interest from all Federal, State, municipal, and local

- 2 -

taxation (except surtaxes, estate, inheritance, and gift taxes).

The notes will be issued only in bearer form with coupons attached, in denominations of \$1,000, \$5,000, \$10,000 and \$100,000.

Subscriptions will be received at the Federal Reserve banks and branches, and at the Treasury Department, Washington. Subscriptions will not be received at the Commodity Credit Corporation. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve banks and the Treasury Department are authorized to act as official agencies. Subscriptions should be accompanied by notes of Series C tendered for payment, to an amount equal to that of notes of Series E subscribed for, the principal proceeds of the maturing notes tendered to be applied to the payment for Series E notes.

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

About 206,000,000 Series C notes of the Commodity Credit Corporation will mature November 2, 1939. The present offering affords the holders of these notes an opportunity to acquire other notes of the Corporation. Any notes of Series C not tendered for payment with the proceeds to be applied to the new notes of Series E, will be paid in cash when they mature.

The text of the official circular follows:

COMMODITY CREDIT CORPORATION

1 PERCENT NOTES OF SERIES E, DUE NOVEMBER 15, 1941

Dated and bearing interest from November 2, 1939

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

Exempt both as to principal and interest from all Federal, State, municipal, and local taxation (except surtaxes, estate, inheritance, and gift taxes)

1939
Department Circular No. 620

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, October 17, 1939.

Public Debt Service

I. OFFERING OF NOTES

1. The Secretary of the Treasury, on behalf of the Commodity Credit Corporation, invites subscriptions, at par, from the people of the United States for notes of the Commodity Credit Corporation, designated 1 percent notes of Series E, the amount of the offering under this circular to be limited to an amount equal to the amount of Series C notes of the Corporation, maturing November 2, 1939, tendered for payment in accordance with Sections III and IV of this circular.

2. The right is reserved to offer for cash subscription, upon such terms and conditions as may be prescribed by the Commodity Credit Corporation with the approval of the Secretary of the Treasury, an additional amount of notes of Series E approximately equal to the amount of notes of Series C not tendered for payment in accordance with the provisions of this circular.

II. DESCRIPTION OF NOTES

1. The notes will be dated November 2, 1939, and will bear interest from that date at the rate of 1 percent per annum, payable on a semiannual

basis on May 15 and November 15 in each year until the principal amount becomes payable, the first coupon being dated May 15, 1940. They will mature November 15, 1941, and will not be subject to call for redemption prior to maturity.

2. These notes are issued under the authority of the act approved March 6, 1938, (Public No. 442-75th Congress) as amended, which provides that these notes shall be fully and unconditionally guaranteed both as to interest and principal by the United States; that they shall be deemed and held to be instrumentalities of the Government of the United States, and as such they and the income derived therefrom shall be exempt from Federal, State, municipal, and local taxation (except surtaxes, estate, inheritance, and gift taxes); and that the notes shall be lawful investments and may be accepted as security for all fiduciary, trust, and public funds the investment or deposit of which shall be under the authority or control of the United States or any officer or officers thereof.

3. The authorizing act further provides that in the event the Commodity Credit Corporation shall be unable to pay upon demand, when due, the principal of, or interest on, such obligations, the Secretary of the Treasury shall pay to the holder the amount thereof which is authorized to be appropriated, out of any money in the Treasury not otherwise appropriated, and thereupon to the extent of the amount so paid the Secretary of the Treasury shall succeed to all the rights of the holders of such obligations.

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

III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve banks and branches and at the Treasury Department, Washington, and should be accompanied

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

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

IV. PAYMENT

1. Payment at par for notes subscribed for hereunder must be made on or before November 2, 1939, or on later allotment, and may be made only through application of the proceeds of payment of a like par amount of notes of Series C, maturing November 2, 1939, tendered hereunder.

V. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve banks are authorized and requested to receive subscriptions, to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve banks of the respective districts, to issue allotment notices,

- 4 -

to receive payment for notes allotted, to make delivery of notes on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive notes.

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

HENRY MORGENTHAU, JR.,
Secretary of the Treasury.

-000-

HM

PLAIN

London

Dated October 16, 1939

Rec'd 1:15 p.m.

Secretary of State,
Washington.

2060, October 16, 7 p.m.

FOR TREASURY FROM BUTTERWORTH.

Two Treasury orders under the defence regulations are announced today in connection with the Canadian loan operation announced Friday evening in Canada involving the issue of dollars 200 million of two year 2 percent Canadian Treasury notes to the Canadian chartered banks. It now appears that the major portion of the proceeds will be used to repay sterling 28 million sterling bonds now outstanding. The first British Treasury order requires residents in the United Kingdom to make returns of their holdings of Dominion of Canada 3 1/2 percent stock 1930/50 to the Bank of England not later than October 29. Meanwhile the sale of such holdings is restricted. The second order vests in the British Treasury these holdings at the price of sterling 100. 13s. 5d, percent (dealings in this stock on Friday were at 1/8 above the minimum price of 99). This stock represents

-2- #2060, October 16, 7 p.m. from London

213

represents by far the largest of the six Canadian loans quoted in London and is now redeemable on six months' notice.

These orders have nothing to do with the earlier Treasury order requiring registration of certain securities payable in American and Canadian dollars and other currencies, the loan in question being a sterling loan, but it represents an interesting and important instance of Dominion cooperation in the mobilization of British overseas assets giving the British Treasury some sterling 28 million of Canadian exchange available for the purchase of war requirements. The sterling funds which will accrue to holders in Great Britain will tend to swell the fund of capital awaiting investment and thus improve conditions for the floating of a British war loan.

I venture to suggest that the fiscal problem which such capital repatriations will create for Canada is a matter well worth our attention.

KENNEDY

HPD

RECEIVED

OCT 16 1939

THE TREASURY DEPARTMENT
OFFICE OF THE ASSISTANT
SECRETARY FOR FINANCIAL AFFAIRS

JR

PLAIN

London

Dated October 16, 1939

Rec 'd 1:20 p.m.

Secretary of State,
Washington.

2059, October 16, 7 p.m.

FOR TREASURY FROM BUTTERWORTH.

The weakness of the belga, guilder and Swiss franc in terms of sterling which was reported in my 2003 of October 11, 5 p.m., was checked on Thursday while the Norwegian and Swedish Krone again depreciated on Thursday, the former to 17.60-80 and the latter to 16.80-17.00. All the official rates were unchanged on Friday and on Saturday the official rates for the five European neutrals all improved slightly which they did again today. The rates today are: belga 23.86-24.06, guilder 7.50-57, Swiss franc 17.78-93, Oslo 17.50-70, Stockholm 16.70-90, these all being back practically to last Monday's level. The reversal in the movement of these currencies however is regarded more as a reflection of sterling's weakness in New York on Friday and Saturday than as reflecting any improvement in the international situation as affecting European neutral countries. The Helsinki quotation depreciated

-2- #2059, October 16, 7 p.m., from London.

depreciated from 200 on Friday to 205 on Saturday, where it remains today, while Copenhagen was quoted 20 1/4 - 21 1/4 on Thursday and Friday and 20 1/2 - 21 on Saturday and today.

Forward rates have remained unchanged so far throughout October.

KENNEDY

HPD

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OCT 16 1959

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FEDERAL RESERVE BANK
WASHINGTON, D. C.

RE FINANCING

October 16, 1939.
2:30 p.m.

Present: Mr. Duffield
Mr. Bell
Mr. Hanes
Mr. Burgess
Mr. Haas
Mr. Murphy

H.M.Jr: A couple of you mathematicians, $1/8$ th of a percent on 206 million for two years, how much is that?

Bell: About 500,000, isn't it?

Murphy: 250,000, isn't it?

Bell: No, it is 250,000 a year on 206 million.

H.M.Jr: How much?

Bell: 500,000.

H.M.Jr: For....

Bell:two years.

H.M.Jr: The reason I asked was, Eccles was arguing that they thought we ought to do it at $7/8$ ths and so I said that I thought that a $1/8$ th insurance policy against risks of active warfare was cheap and he agreed it was and said he wished he could get the same insurance policy for the same rate.

Otherwise, if I am correct, it brings it down to 10.36.

Bell: They are up $2/32$ nds.

H.M.Jr: You don't want to make it January 1st?

Bell: No, for mechanical reasons.

H.M.Jr: The hell with your mechanical reasons.

Burgess: Well, the Christmas week is not a good week.

H.M.Jr: All right, make it after January 1st.

Burgess: That is $2\frac{1}{2}$ months, $26\frac{1}{2}$ months.

- 2 -

Hadley: It figures about 16/32nds.

H.M.Jr: A month?

Hadley: No, not a month.

Burgess: Is there anything about the length of time that the corporation's existence runs with respect to the financing.

Bell: No, that is straightened out now.

H.M.Jr: Well, here they have got two years and 2½ months, one percent.

Hadley: Yes. That is January 15th.

H.M.Jr: There you have got it right there. Two years, 2½ months, 16/32nds.

Hanes: What was that figure?

H.M.Jr: It is right at the bottom here, two years, 2½ months. He has got it right there; 16/32nds. There is a Farm Credit mortgage which is due January 15th, '42, for 236 million.

H.M.Jr: How long does it run?

Burgess: Well, it is a '42-'47. That is three percent.

H.M.Jr: I kind of think I would be criticized a little bit on 18/32nds. Kind of rich, isn't it, Johnny?

Hanes: Yes, I think so.

Hadley: Of course, you have those last two 32nds today and you might lose them tomorrow.

H.M.Jr: Supposing we did?

(On phone) Hello. (Telephone conversation with Allan Sproul):

October 16, 1939
2:36 p.m.

HMJr: Hello.

Operator: Mr. Sproul.

HMJr: Hello.

Allan
Sproul: Hello, Mr. Secretary.

HMJr: How are you?

S: Fine.

HMJr: Look, our boys tell me now that this two-year and
December 15, 1941 G.C.C. is up to eighteen thirty-
seconds premium.

S: That's on a one percent coupon.

HMJr: Yeah.

S: Yeah, we would check with that.

HMJr: So we're now thinking about January 15, making it two
years two and a half months, one percent.

S: Yeah.

HMJr: What would you figure that as a coupon?

S: Two years two and a half months. Well, I haven't the
exact figures here, but it would be, I should think,
about a thirty-second a month, along there.

HMJr: Yeah well, that's what we figure.

S: Yeah.

HMJr: Sixteen thirty-seconds.

S: Yeah. I think that would go all right.

HMJr: Go all right.

S: Yeah.

HMJr: I'm a little bit of -- afraid of criticism on eighteen thirty-seconds.

S: Well, I don't think you'd get it in these days. You're buying a little insurance and.....

HMJr: Well.....

S:you don't know what the news is going to be even though your books are only open for a couple of days.

HMJr: I know.

S: So I don't think you could be justly criticized, although you might get some.

HMJr: Well, you're never justly criticized.

S: (Laughs)

HMJr: (Laughs) Not in Washington anyway.

S: No. (More laughter)

HMJr: It may be all right in New York.

S: Well I think it's insurance. I think the other would go all right though.

HMJr: Well, would you have the slightest doubts about two years two and a half?

S: No, I wouldn't.

HMJr: One percent?

S: No, I wouldn't.

HMJr: Not the slightest doubt.

S: No.

HMJr: Well, now let -- can you hold -- do you want to talk to your people a minute and I'll talk to mine a minute?

S: All right.

HMJr: Have you got anybody there?

S: Yes, I have -- Bob Rouse has just come in; I'll talk to him.

HMJr: (Following is conversation between Treasury men in the Secretary's office and HM, Jr:)

Burgess: Here is another of these damned issues. R.F.C., seven-eighths note, which matures on that date.

HMJr: On the 15th?

Burgess: On the 15th of January, '42, yes. 310 million.

HMJr: Make it January 1st.

Murphy: That would call for refunding during Christmas week.

Burgess: Make it February 1st.

Reas: Why not February 1st?

HMJr: That is all right.

Burgess: That is better.

Nadley: That would be two and one-fourth years.

HMJr: February 1st?

Burgess: Two years and three months. That is an even quarter.

HMJr: That is better. What do you think, Henry?

Murphy: Well, that would bring the figure down to about 13. You see, we didn't get up from 16 to 18 on our figures at the 1:00 o'clock prices. We were still holding 16. If it moves a 32nd a month and you get it down from, say, 16 to 14 for January 15th, it probably is all right.

HMJr: What do you think, George?

Reas: I think it is all right.

HMJr: You?

- Wadley: Yes.
- HMJr: Dan?
- Bell: I think it would go, I have no doubt about it.
- HMJr: Any qualms, Randolph?
- Burgess: No, it is all right.
- HMJr: (On phone) Hello.
- Allan
Sproull: Hello.
- HMJr: They say that there is an R.F.C. thing coming on the 15th of January so they say make it two years and three months - or, in other words, two and a quarter years, February 1.
- S: Well, I've been telling it around here and our feeling is when you stretch C.C.C.'s out over two years you begin to strike some resistance, and this first place of financing you want to be sure and have it welcomed in the market enthusiastically and we would prefer not to stretch it out and to run the risk of the premium being a little high. You're getting into a new year and while it's only a month or two's difference, it is getting it out into a new year. I think your -- I think your people are right. I'm not conflicting with the -- the R.F.C.'s on January, '42 that it shouldn't be on the same date.
- HMJr: But you make it December 15th and it's too damn much.
- S: Well, I don't think that that's too rich. That's -- today's figures are eighteen thirty-seconds.
- HMJr: I know, but if it goes up another couple tomorrow, it makes me look kind of silly.
- S: Well, if it goes down a couple, it will make you look all right. That.....
- HMJr: In other words, I'd look natural.
- S: (Hearty laughter) I -- I think that short market is very firm and steady and it would take quite a bit to shake it down. That's.....

- 5 -

- HMJr: All right. Well now, let's go to seven-eighths. What can you do seven-eighths and stretch it as far as possible?
- S: Well, I think if you get anything out beyond -- beyond six months on.....
- HMJr: Oh.
- S:seven-eighths you're spreading it too thin.
- HMJr: I don't know. I should think two years and three months ought to be all right.
- S: Well, I think it would go but I don't think it has the insurance carry that the other would have. But I think it would go.
- HMJr: You mean -- you mean another year -- you mean, you're getting into '42. Huh?
- S: Yeah.
- HMJr: Uh-huh.
- S: And the C.C.C.'s have been considered -- there's some liking for keeping them within two years.
- HMJr: Uh-huh. Is that the way Rouse feels?
- S: Yeah.
- HMJr: Uh-huh. Well, hold on another minute.
(Talking aside to men in his office:)
I wouldn't take any chances on that first one.
- Murphy: Could I raise again, Mr. Secretary, the question of going out for the longest C.C.C. maturity you have ever put out at a time when the commodity price security has become susceptible to fluctuation.
- HMJr: Have you talked to the president of Commodity Credit?
- Bell: Yes. They probably have their meeting on now to draw up resolutions on the basis of the rate decided this morning.

Reas: What if they are sweet?

Burgess: I don't think 18 is going to bother you. After all, you are putting another load on the market. If it goes to a half, it is probably a nearer guess.

HMJr: It is the first thing we have done now since the war. Let's make it good.

Hanes: All right.

Murphy: You are thinking of November 15th?

HMJr: No, I am definitely for December 15th -- no, November 15th.

Hadley: I think it would be a good idea to say inside the bank statement that if the.....

HMJr: November 15th?

Murphy: The way we had it this morning.

HMJr: Yes.

Burgess: I think that is right.

HMJr: (On phone again:) Hello.

Allan Sprout: Hello.

HMJr: You have won my whole crowd over.

S: I can't believe it!

HMJr: Twenty-four and a half months.

S: Twenty-four and a half months at one percent.

HMJr: Yeah.

S: All right. We'll go ahead on that basis and I think that makes a good issue.

HMJr: Sold!

S: Fine.

- 7 -

MMJr: Goodbye.

S: And on the closing of the books, have you decided that? We feel that two days is plenty here and it's a good idea to have a short period.

MMJr: Well, it'll be time enough tomorrow to look at the war news. We don't have to tell them tonight, do we?

S: Oh, no.

MMJr: No.....

S: But I -- I was thinking in our own minds that to close tomorrow night looks like the best sort of ticket, and these people will hang back until the last minute in these days whenever you close

MMJr: Close tomorrow? You don't mean tomorrow.

S: No, I mean Wednesday.

MMJr: Well, that's -- that's what I want to do, barring some unforeseen.....

S: Yeah.

MMJr: Yeah, we're together.

S: All right.

MMJr: Right.

S: Fine.

MMJr: Goodbye.

S: Goodbye.

- 3 -

H.M.Jr: Let's make it good, Johnny.

Hanes: All right.

TREASURY DEPARTMENT

126

INTER OFFICE COMMUNICATION

DATE October 16, 1939

2:30 PM

TO Secretary Morgenthau

FROM W. H. Hadley

CCC Notes

<u>Maturity</u>	<u>Coupon</u>	<u>Yield</u>	<u>Market Prices</u>	<u>Premium</u>
1-1/2 yrs. (April 1941)	3/4%	0.56	100.9	9/32nds
	7/8%	0.56	100.15	15/32nds *
	1%	0.56	100.21	21/32nds
	1-1/8%	0.56	100.27	27/32nds
1 yr. 11 mos. (October 1941)	7/8%	0.70	100.10	10/32nds
	1%	0.70	100.18	18/32nds *
	1-1/8%	0.70	100.26	26/32nds
	1-1/4%	0.70	101.1	1 pt. 1/32nd
2 years (November 1941)	7/8%	0.71	100.10	10/32nds
	1%	0.71	100.18	18/32nds *
	1-1/8%	0.71	100.26	26/32nds
	1-1/4%	0.71	101.2	1 pt. 2/32nds
2 yrs. 1 mo. (December 1941)	7/8%	0.74	100.10	10/32nds
	1%	0.74	100.18	18/32nds *
	1-1/8%	0.74	100.26	26/32nds
	1-1/4%	0.74	101.2	1 pt. 2/32nds
3-1/2 years (April 1942)	1%	0.83	100.13	13/32nds
		0.86	100.11	11/32nds
	1-1/8%	0.83	100.23	23/32nds
		0.86	100.21	21/32nds
	1-1/4%	0.83	101.	1 point
		0.86	100.30	30/32nds

* Issues giving most satisfactory premiums.

Notes:

2 yr. 2-1/2 mos. (January 1942)	1%	0.78	100.16	16/32nds
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OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

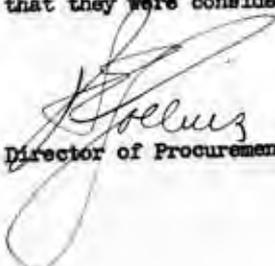
October 17, 1939

MEMORANDUM FOR THE SECRETARY

Colonel Raymond Jean, Chief Military Engineer, French Ordnance Department, informed me by letter which I received last evening that he is now preparing contracts for the purchase of 2500 White trucks and 2500 Studebaker trucks having capacity of 5 metric tons.

With his letter was transmitted prices that would be offered by both proposed contractors, with the request that he be advised if they were considered reasonable.

The prices were checked in the Procurement Division and Colonel Jean was informed that they were considered reasonable by this office.



Director of Procurement

October 17, 1939

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Director of Procurement

HRC:gm

Oct 17. 1939 ²²⁶⁰

65 in September

100 in Nov.

430 in November, a month.

800. 900. - British

1100 - German.

German fighting first line 6,000.

French + British 4,500.

JR

GRAY

(Warsaw)
Paris

Dated October 17, 1939

Rec'd 10:15 a.m.

Secretary of State,
Washington.

10, October 17, 1 p.m.

Colonel Koc, Polish Minister of Finance, has requested me to have following telegram delivered by the Department of State if possible to New York banks listed below.

One. (a) Irving Trust Company with reference to the accounts of the Polish Ministry of Finance, Warsaw, Poland, and of the Polish Ministry of Finance special account number 4 Warsaw Poland;

(b) Chase National Bank with reference to the account of the Ministry of Finance Warsaw Poland.

(c) City Bank Farmers Trust Company with reference to the custodian account Ministry of Finance Republic of Poland.

You are now hereby authorized to be guided by instructions of and to pay out these funds as directed by Mr. Janusz Zoltowski, Financial Counsellor of the Polish Embassy.

1939 OCT 17 11 33 AM
I am forwarding by pouch Minister Koc's signed instructions to the banks.

BIDDLE

KLP

EG

GRAY

229

Paris

Dated October 17, 1939

Rec'd 3:49 p.m.

Secretary of State,
Washington.

2499, October 17, 6 p.m.

FOR THE TREASURY.

As a preliminary and urgently advocated move toward facilitating a more nearly normal rhythm of the country's industry and commerce and one the importance of which Couve de Murville stressed to us in conversation (our telegram 2445, October 12, 8 p.m.) it was announced this afternoon from Daladier's office that a number of men would be released from military service for the time being. Those to be released from October 20 include noncommissioned officers and men of the class of 1909 and subsequently those of the class of 1910. In addition a large number of reserve officers whose presence was required during the difficult and complicated process of general mobilization are likewise (*) to the demobilization. They will of course be subject to recall to the colors at any time.

(END SECTION ONE)

BULLITT

HPD

(*) Apparent omission.

ML

GRAY

Paris

Dated October 17, 1939

Rec'd 4 p.m.

Secretary of State

Washington

2499, October 17, 6 p.m. (SECTION TWO)

A decree published in the JOURNAL OFFICIEL today provides that in countries to be designated by arrêté of the Minister of Finance expenditures of the French Government will be contracted for and approved by an official specially appointed for the purpose by the Prime Minister. In the same countries the post of General Disbursing Officer will be created for the cashing of orders for payment issued by the aforesaid official.

The AGENCE ECONOMIQUE reports from Geneva that "negotiations have begun" for the issue of Treasury notes to the value of 200,000,000 Swiss francs to be taken up by the banks to defray mobilization costs and that a medium or long term loan will be issued when the situation of the money market has become clearer. It is added that the amount of hoarded capital in Switzerland still remains substantial.

(END SECTION TWO)

BULLITT

NPL

REB

GRAY

Paris

Dated October 17, 1939

Rec'd 4:32 p. m.

Secretary of State,
Washington.

2499, October 17, 6 p. m. (SECTION THREE)

The statement of the Swiss National Bank dated October 14 shows an increase of 16,000,000 Swiss francs in gold holdings to a total of 2,426,000,000. Holdings of foreign currencies increased by 3.3 million francs. The note circulation decreased further by 29,000,000 francs to total of 2,014,000,000. Ratio of gold cover to demand liabilities 38.93%.

The securities market developed a weaker tendency today apparently influenced in some measure by indications that the German army is about to undertake extensive offensive operations in the west and by recent German submarine successes. Rentes went down about one franc and most variable revenue securities showed moderate losses.

(END OF MESSAGE)

BULLITT

EMB

PARAPHRASE OF TELEGRAM SENT

231

TO: American Embassy, London, England

DATE: October 17, 1939, 9 p.m.

NO.: 1239

The following is for Butterworth's information from the Secretary of the Treasury, and it is requested that he repeat to the American Embassies at Paris and at Berlin by mail.

On behalf of the Commodity Credit Corporation, the Secretary of the Treasury announced on October 16 a plan for refinancing outstanding 206 million dollars of notes Series C of the Corporation, which mature on November 2, 1939. This refinancing will be done by offering for subscription at par notes which will be designated "one percent notes of Series E".

Subscriptions in cash will not be received. However, an additional amount of the new notes may later on be offered for cash, to the extent that the maturing notes are not offered for payment with the proceeds to be applied in payment for the new notes.

November 2, 1939 will be the date of the notes of Series E. They will bear interest from that date at the rate of one percent per annum payable semi-annually, on the fifteenth of May and the fifteenth of November. The first coupon on these notes will cover a period of slightly more than

- 2 -

than a half year. November 15, 1941 is the maturity date for the notes. Prior to maturity they will not be subject to call for redemption.

The United States will fully and unconditionally guarantee the notes both as to interest and principal. Both as to principal and interest the notes will be exempt from all taxation - Federal, State, municipal, and local - with the exception of surtaxes, gift taxes, inheritance and estate taxes.

Announcement was made today by the Secretary of the Treasury that at the close of business on Wednesday, October 18, the subscription books for the above offering will close.

HULL
(FL)

EA:LWW

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

733
TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE October 17, 1939

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

SUMMARY

- (1) All maturities of Treasury securities gained last week. The average yield of all long-term Treasury bonds decreased from 2.67 percent on October 9 to 2.62 percent on Monday, October 16 (Chart I). Chart II shows the net price changes, by maturity classes, since June 5, when long-term Government securities established their record high. All maturities are now considerably higher in price than their war crisis lows, but no maturities have recovered in full.
- (2) High-grade corporate bonds continued to advance. The Treasury average of high-grade corporate bond yields stood at 3.16 percent on Monday, October 16, as compared with 3.21 percent on October 9 (Chart I). New corporate financing during the week was confined to one small issue.
- (3) Municipal bond prices last week experienced the sharpest rise in several months.
- (4) Analysis of the recent statements of nine of the largest New York City banks shows striking differences in the way their funds were invested (Charts III and IV). Of the nine banks, three held more than 50 cents in cash per dollar of deposits. Cash and Government securities combined ranged from 69 cents to 88 cents per dollar of deposits.
- (5) British consols closed at $64\frac{3}{4}$ on Monday, October 16, as compared with 63 a week previously. The spread between the yield of consols and the average yield of long-term United States Government bonds is now back to the level of last March (Chart V). French 3 percent rentes reached their highest price since September 8, closing Monday at 68.50, equivalent to a yield of 4.38 percent. Canada's first war loan, \$200,000,000 of 2-year 2 percent notes, was announced on Friday.

I. United States Government Securities

All maturities of Treasury securities gained last week and on Monday, October 16. Long-term securities showed relatively more strength than short-term issues. The average yield of all long-term Treasury bonds decreased from 2.67 percent on Monday, October 9, to 2.62 percent on Monday, October 16 (Chart I).

All maturities of United States Government securities are now considerably higher in price than the war crisis lows reached in September, but no maturities have recovered the full losses sustained since the war crisis began. Chart II shows the net price changes of Government securities by maturity (or call) classes* between selected dates: June 5, the day on which long-term Government securities established their record high; August 19, the last day before the severe phase of the war crisis began; September 6, the day on which short-term securities reached their lowest level for the war crisis; September 25, when long-term securities established their lowest level; and October 16.

Between June 5 and August 19, there was a slow downward movement in all maturity classes. Between August 19 and September 6, there were precipitous declines running up to more than five points for bonds callable after 15 years. Short-term securities fell by far smaller amounts than longer issues, but nevertheless suffered declines which were large in terms of the relatively narrow range of fluctuation characteristic of short-term issues. Between September 6 and September 25, short-term securities staged some recovery, while long-term issues continued their decline, although at a slower rate. From September 25 to October 16, all maturity classes gained. The two longer-term classes increased more than the shorter maturities, but by no more than might normally be expected.

The net price changes of different maturities during the entire period from June 5 to Monday, October 16, are shown in the following table:

*The grouping of securities into the various classes has been done as of September 1, 1939 in order to avoid changes which would otherwise have occurred in the composition of the two note classes. The note classes are, therefore, not exactly comparable with those used in previous memoranda, although the differences are very slight.

(Decimals are 32nds)

Notes:

1-3 years	- .27
3-5 years	- 1.17

Bonds:

Under 5 years to call	- 2.02
5 to 15 years to call	- 5.27
15 years and over to call..	- 6.17

The rate on this week's increased offering of Treasury bills was .033 percent, as compared with .022 percent last week. Total applications amounted to \$495 millions. Weekly reporting member banks increased their holdings of Treasury bills by \$61 millions in the week ended October 11, while the Federal Reserve holdings declined by a further \$20 millions. The increase by weekly reporting member banks was approximately evenly divided between banks in New York, Chicago and in the remaining 99 cities.

II. Corporate Securities

High-grade corporate bond prices continued the rise of the preceding two weeks. The Treasury average of high-grade corporate bond yields fell from 3.21 percent on October 9 to 3.16 percent on Monday, October 16. The spread between long-term Treasury and high-grade corporate bonds remained at .54 percent, unchanged from the preceding Monday, but it had been as low as .50 percent on Friday, October 13 (Chart I).

The only corporate offering during the past week consisted of one stock issue — 200,000 shares of 6 percent cumulative preferred stock of National Automotive Fibres, Inc., offered on October 10 at \$11. The proceeds are to be used to retire debts incurred in the company's expansion program of recent years, including the balance of \$1.3 millions of an RFC loan made a year ago to refund the company's bank loans. The issue was reported on the day of offering to be moving slowly and more than half unsold.

The problem of private placing of corporate securities was brought to the forefront again, when press dispatches indicated that the Securities and Exchange Commission is considering suggesting to Congress that the 20-day waiting period for new issues be reduced. It is understood that the Commission has not yet taken a position on this point, but it is highly significant, if these dispatches are correct, that consideration is being given to making any change. It should

be recognized, however, that the short-run effect of the present proposal will very likely be to reduce the amount of new issues (which might otherwise be made), in anticipation of less rigorous requirements in the future.

III. Municipal Securities

Municipal bond prices last week experienced the sharpest rise in several months. The Dow-Jones average of the yields of twenty 20-year bonds fell 14 basis points to 3.09 percent, regaining nearly all the ground lost since the first week in September. Low dealer inventories and the scarcity of new offerings in the municipal and other fields are held to be the principal features in this rise, according to press comment.

New municipal issues during the past week totaled \$10.2 millions, including \$1.5 millions of 2 percent public works bonds of the City of Hartford, Connecticut, maturing 1940-1959, and offered to yield .35 percent to 2.05 percent; and \$2.3 millions of 2-3/4 percent relief bonds of the City of Providence, Rhode Island, maturing 1940-1959, and priced to yield .50 percent to 2.80 percent. An active demand was reported for the two issues named and both were completely disposed of on the day of offering.

IV. Composition of Assets of New York City Banks

Analysis of the September 30 statements of the large New York City banks shows striking differences in the way their funds were invested. Chart III shows total deposits and principal assets as of September 30 for each of eight of the largest weekly reporting member banks in New York City and for J. P. Morgan and Company*. The assets shown are cash, United States Government securities, other securities, and loans. The chart also shows, for purposes of comparison, the same data for all weekly reporting member banks in New York City. Chart IV shows the relationship of each of the categories of assets to deposits for each of the banks and for all weekly reporting banks in New York City. The relationship is expressed as the number of cents per dollar of deposits which each asset represents.

Cash per dollar of deposits ranged from 32 cents, in the case of Manufacturers Trust Company, to 59 cents in the case of the Irving Trust Company. Of the nine banks

*Including Drexel and Company.

shown separately in the charts, three -- Guaranty Trust, Central Hanover, and Irving Trust -- held more than 50 cents in cash per dollar of deposits.

Government obligations per dollar of deposits ranged from 23 cents in the case of Irving Trust Company, to 54 cents in the case of J. P. Morgan and Company. Irving, therefore, was the highest relative holder of cash, and the lowest relative holder of Government securities. It is interesting to note that Morgan had the highest relative holdings of Governments, notwithstanding the fact (noted last week) that this firm showed the largest decrease, both absolutely and relatively, of Government security holdings of any of the nine banks between June and September.

For cash and Government securities combined, the variations are less striking, the range being from 69 cents to 58 cents per dollar of deposits. The lower figure pertains to Manufacturers Trust Company, and the higher to Morgan and Company. The main explanation for this difference is that Manufacturers Trust Company had the largest amount of loans relatively (31 cents), and Morgan the smallest amount relatively (6 cents). With the exception of the First National Bank, all of the member banks shown on the charts had loans of at least 16 cents per dollar of deposits. First National, with 7 cents, had almost as few loans relatively as Morgan. On the other hand, First National had the largest relative amount of "other securities", 25 cents, as compared with an average of 10 cents for all reporting banks in New York City.

V. Foreign Markets

The improvement in the market for gilt-edge securities in London is now in its second week. British 2-1/2 percent consols continued to rise during the past week from the minimum price of 62 which had obtained for nearly a month, and closed Monday at 64-3/4, equivalent to a yield of 3.86 percent. The spread between the yield on consols and the average yield on long-term Treasury bonds has been reduced from last summer's peak to the level of last March (Chart V).

Short-term money rates continued to soften. The average rate on Treasury bills was 2.03 percent on Friday, October 13, as compared with 2.13 percent a week earlier.

Improvement characterized the Paris Bourse also. Perpetual 3 percent rentes closed on Monday of this week at 68.50, the highest price since September 8. This was equivalent to a yield of 4.38 percent, as compared with 4.40 percent the previous Monday.

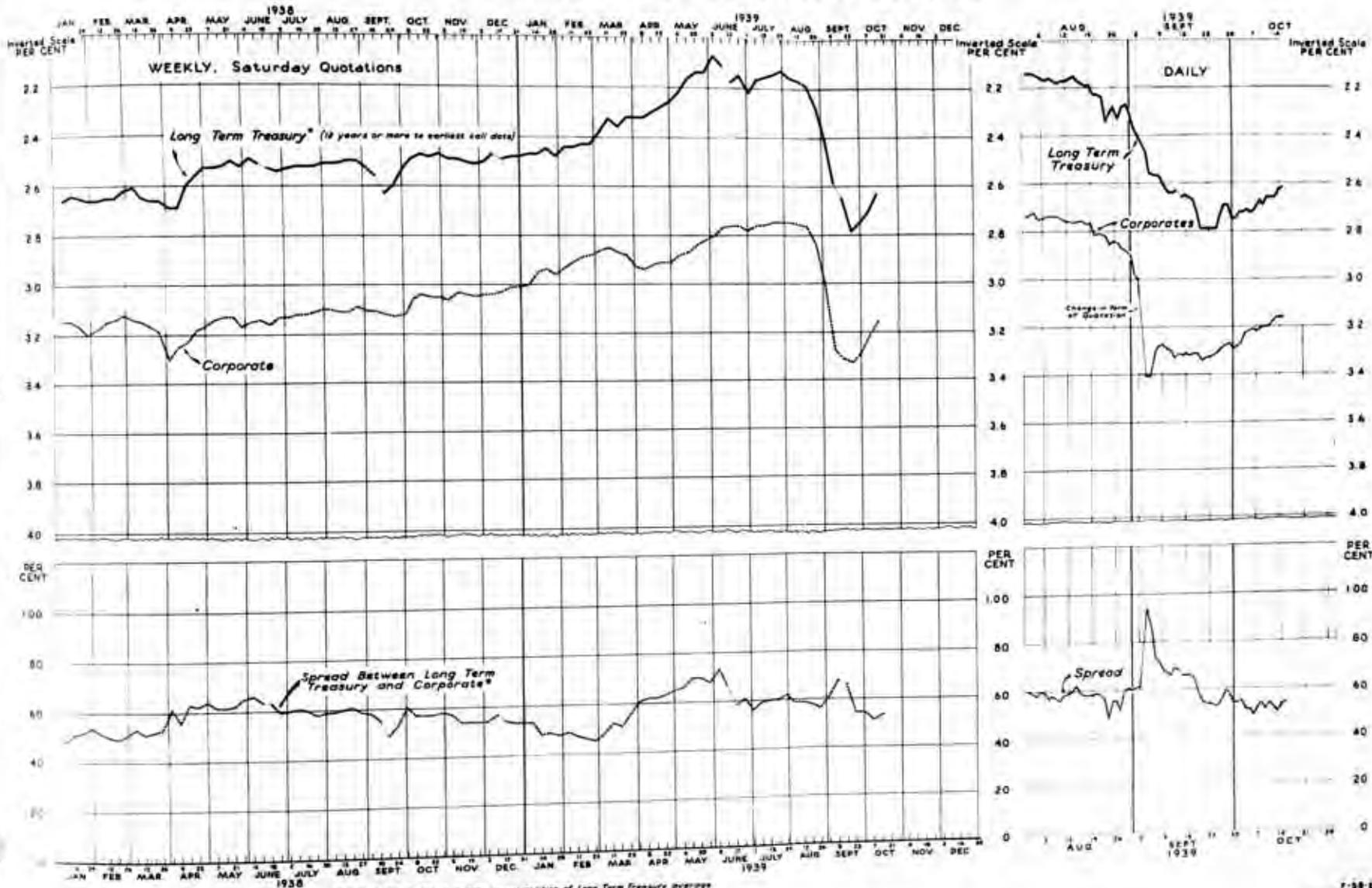
The Finance Minister of Canada has announced the first war loan, consisting of \$200 millions of 2-year 2 percent notes sold at par to Canadian banks. It is interesting to note that the notes are callable in one year, although maturing in only two years. The major portion of the proceeds will be used for refunding several issues, including one held in the United Kingdom. The ultimate effect of this operation will be that about \$90 millions of Canadian exchange will be made available to the United Kingdom for the purchase of Canadian products. An order has been issued in London requiring residents of the United Kingdom to make returns of their holdings of the called Canadian issue to the Bank of England, and all such holdings are to be surrendered to the Treasury at a fixed price.

The magnitude of this financing operation is also interesting. On a per capita basis, this loan is equivalent to about \$2.4 billions in a country with a population as large as that of the United States. Similar observations might be made of the purchases of government securities by the Canadian central bank ("open market operations"), which have amounted to about \$70 millions since August, equivalent to about \$840 millions in the United States.

Attachments

Chart I

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



*Break in line indicates change in composition of Long Term Treasury average

CHANGES IN THE PRICES OF U.S. SECURITIES SINCE JUNE 5, 1939

Points Plotted Represent Differences from Average Price of Each Maturity Class on June 5.

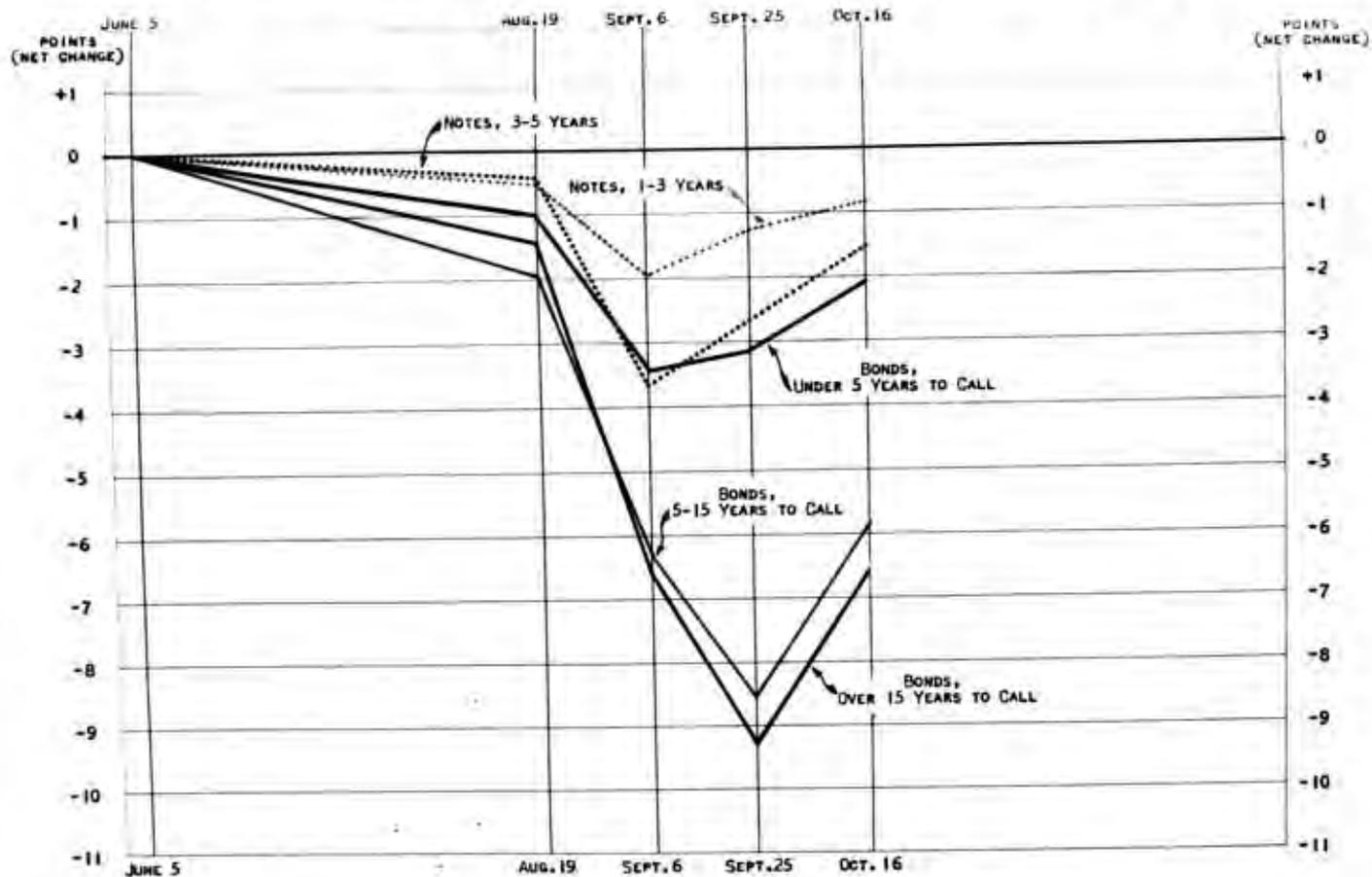
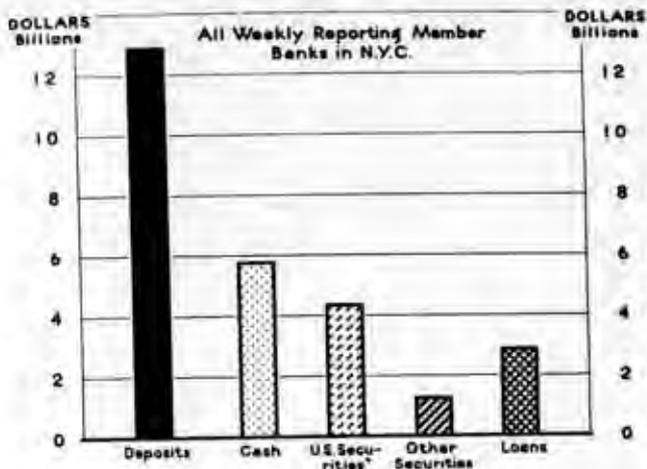


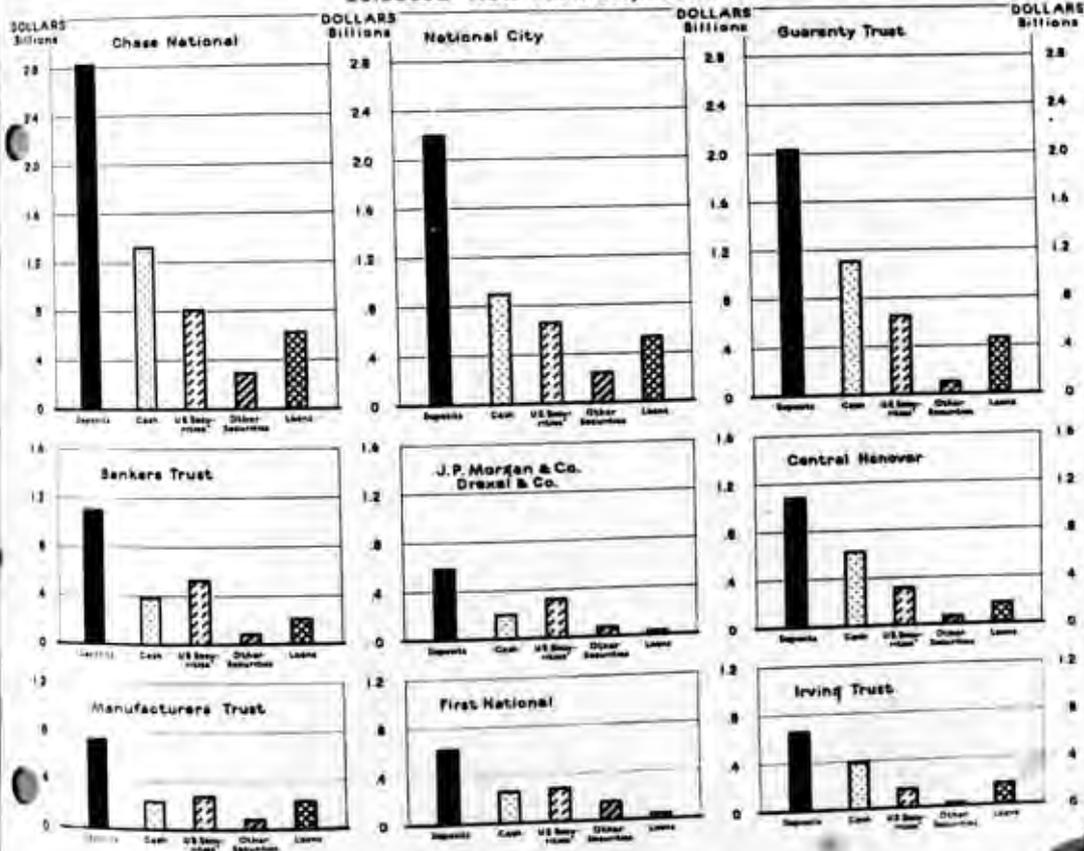
Chart III

DEPOSITS AND PRINCIPAL ASSETS OF NEW YORK CITY BANKS
SEPTEMBER 30, 1939

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Selected New York City Banks

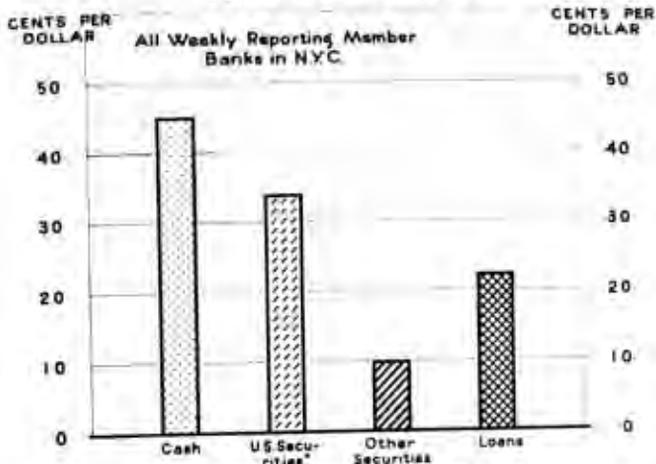


* Including Guaranteed

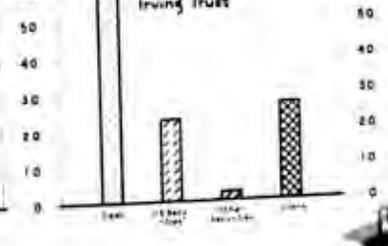
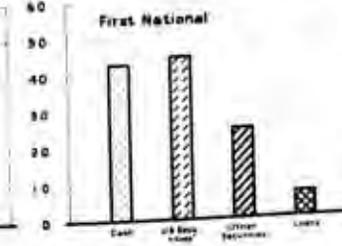
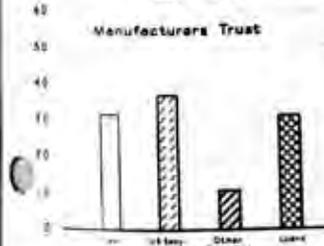
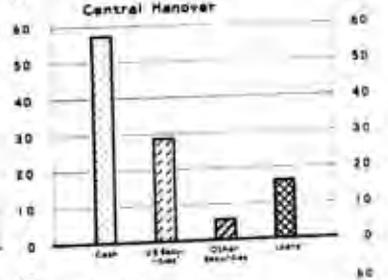
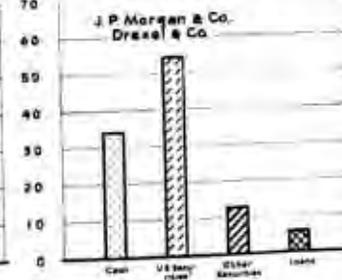
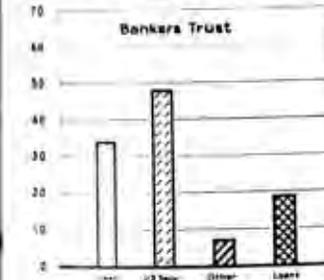
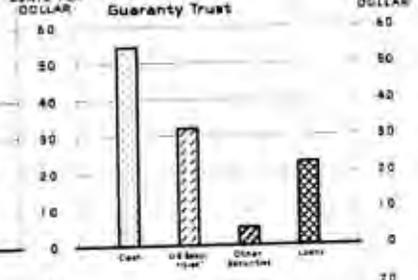
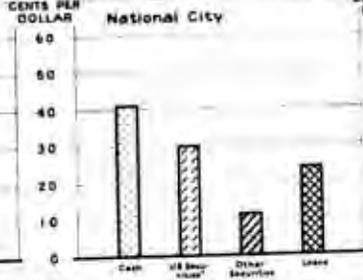
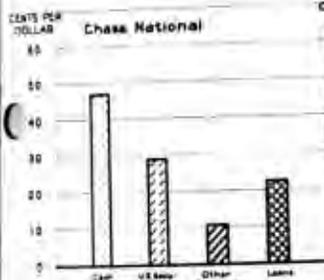
Chart IV

PRINCIPAL ASSETS OF NEW YORK CITY BANKS
Expressed in Cents Per Dollar of Deposits
SEPTEMBER 30, 1939

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Selected New York City Banks

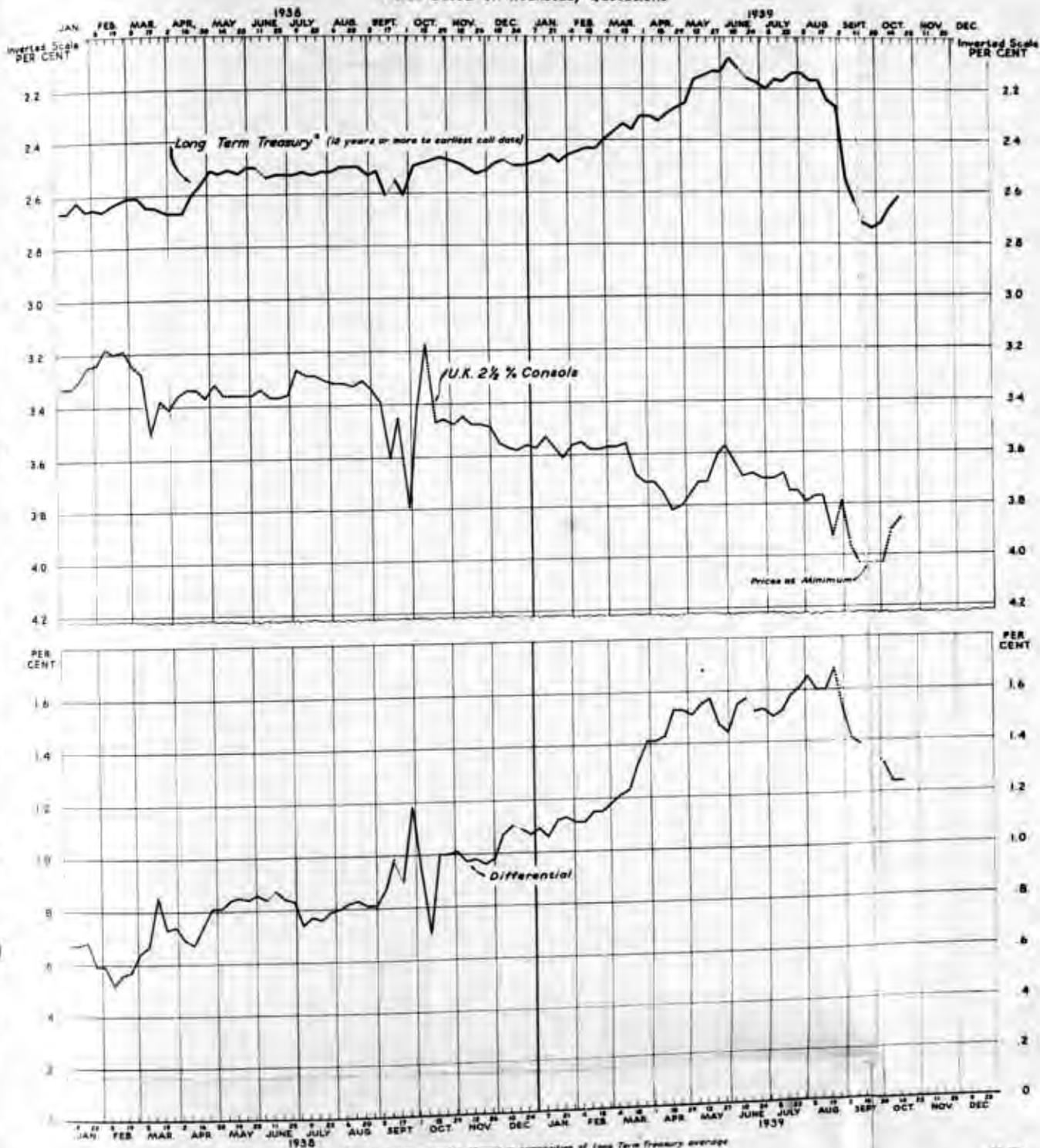


* Including Governmental

Chart V

COMPARATIVE YIELDS OF AVERAGE OF ALL LONG TERM U.S. TREASURY BONDS AND U.K. 2½% CONSOLS

Yields Based on Wednesday Quotations



*Break in line indicates change in composition of Long Term Treasury average. Note: latest figures shown are for Dec 16.

JR

PLAIN

London

Dated October 17, 1939

Rec'd 1:37 p.m.

244

Secretary of State,
Washington.

2068, October 17, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

The clearing bank figures, publication of which was suspended on the outbreak of war, have now been issued for August and September. Though these two months' figures are not strictly comparable since September's are for one day in the month and constitute the first of the war series which are to replace the customary weekly averages nevertheless they afford an interesting indication of the trend of banking in the first month of the war. The principal features are an increase of pounds 26.3 million in advances to pounds 1,011 million (the highest since July 1929) due no doubt to the accommodation required during the early period of war conditions and to the fact that the gilt-edged market was frozen. Deposits rose to pounds 2,278 million as compared with pounds 2,245 million in August, while cash was up to pounds 267 million in September the August figure being pounds 233 million. There was a sharp reduction in

bill

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bill holdings from pounds 279 million in August to pounds 236 million in September, while investments were pounds 603 million in September and pounds 599 million in August.

With the banks' ratio of bills to deposits at 10.4 per cent as compared with 12.4 per cent in July and August, the absorption capacity for Treasury bills is high, the scarcity so far as banks are concerned being due to (a) their larger deposits, (b) discount houses' reluctance to sell bills to the banks because of their expectation of lower bank rate, (c) keen outside bidding at Treasury bill tenders on the part of Stock Exchange operators and institutions, (d) the fact that the total figure of tender bills outstanding even now is only pounds 533 million as compared with some pounds 583 million at the end of June 1938, the tap issue being over pounds 700 million as compared with pounds 306 million in June 1938, and pounds 570 million just before the outbreak of war and, (e) the reduction in the amount of trade bills.

The fact that only pounds 30 million of tender bills were issued weekly in August means that if about pounds 50 million to pounds 55 million are allotted weekly until the end of November (as has been done since September B) maturities will fall short of new tenders by pounds 20 million to pounds 25 million weekly. If the Government's weekly deficit

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deficit runs therefore at about pounds 25 million to pounds 30 million (see the statist of October 7 page 385, which estimates an average of pounds 25 million per week for the half year September 1 to March 31 next) the tender Treasury bill could easily furnish the required funds during the next six weeks on weekly tenders of from pounds 50 million to pounds 60 million. By the first of December the increase in the tender issue outstanding would run to something between pounds 150 million and pounds 180 million bringing the total tender issue to around pounds 680 million to pounds 710 million. After December 1 tenders of pounds 80 million to pounds 85 million would be necessary to meet a weekly deficit of pounds 25 million.

As pointed out in my 998, July 14, 6 p.m., Simon mentioned in July that pounds 150 million of the then contemplated borrowing program could be met from Treasury bill expansion and that the tender issue was then pounds 490 million. He evidently regarded pounds 640 million as a reasonable limit to the tender issue in peace-time. In this connection reference should also be made to my 239 of February 16, 6 p.m., and to page 16 of the memorandum of June 10, 1938 on "the British financial outlook" which mentioned the tradition that the Treasury bill issue (excluding tap bills) should not go beyond pounds 1000 million

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million but pointed out that there is in fact no reason why it should not exceed this figure. It is impossible to say what limit is now regarded as prudent for the Treasury bill issue given the Government's predilection for orthodoxy. It seems likely that somewhere around pounds 700 million might be regarded as the limit for the present (repeat present) and that potential expansion by another pounds 300 million, still within the bounds of orthodoxy, might be held in reserve for future contingencies. An important influence will also be the banks' ratios of cash and other liquid assets to their deposits, a proper balance of these items being necessary to maintain the smooth working of the money market. The further factor of the variation in the tap issue which will take place as the result of the activities of the exchange equalization account and other Government departments will also have an important bearing on the actual size of the tender issue.

The present is the Indian summer for the financing of the war--given the small maturities of the August bill tenders, the expanding tap issue, and the fact that expenditure has not yet reached the volume which must be expected as the war proceeds. Expansion in the Treasury bill issue required to meet the current deficits can therefore be comfortably absorbed by the market at least until

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until December. Thereafter the Indian summer will begin to draw in with the pounds 50 million to pounds 55 million September tenders maturing. Though these will be partly offset by the seasonal heavy receipts for income tax etc., weekly expenditure will also be increasing. Unless after December 1 weekly tenders in the neighborhood of pounds 80 million to pounds 85 million or more are allotted and the total tender issue pushed up to close on the pounds 1000 million level before the year-end, or the tap issue increases even more rapidly than in past weeks, the announcement of a war loan is to be expected around the middle of November to provide a flow of subscriptions in December.

The whole question of the merits of short as opposed to long term borrowing to finance the war has received little attention. That Britain may tend to use the short term method more than in 1914-18 is possible since there would be certain technical advantages with the managed monetary system which is now in operation. (In this connection it is noteworthy that Germany now intends to issue no war loans). But for the time being there are certainly large accumulations of capital awaiting long term investment, as well as abundant supplies of short term funds. The mobilization of overseas assets will tend to feed

-6- #2068, October 17, 5 p.m., from London.

feed this fund of investment capital. Furthermore the British like to feel that they are contributing to the war effort by putting their savings into war loans and it would be foolish to waste this method of expressing the individual's patriotism. Nevertheless if, as time goes on, the various checks on profiteering and inflationary price rises (insofar as they are effective), combined with the heavier taxation and the probably cheaper rates at which long-term loans will at first be floated, result in a slower and more limited accumulation of savings, a proportionately greater resort than in the last war may well be made to short term borrowing in one form or another.

However the days when credit and capital supplies may be scarce are some distance ahead, so that the more drastic measures for forced saving, on the one hand, and special measures to gather in available short term funds for the Government's use, on the other, need not be expected for some time. For example, the special deposits in the Bank of England which were a feature of the last war were designed originally to encourage neutral balances to remain in London. The Bank of England paid interest on these deposits at a higher rate than the market rate which

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which was considered too low to achieve this end. Exchange control could now render such a device superfluous so far as foreign balances are concerned. Interest was also paid by the Bank of England on special deposits of the clearing banks at a later stage in the last war as a means of absorbing the banks' surplus cash. These special deposits formed the basis of a large part of the ways and means advances made by the Bank of England to the Government, and were considered less inflationary than ordinary ways and means advances, though in their final effect they were inflationary since the banks usually included their special deposits in the Bank of England in their cash balances. Resort to some such device may well be expected either when the Treasury bill issue should be deemed to be approaching the limit of expediency or when the market becomes saturated with this particular form of liquid asset. The banks' loans to trade and industry could also be directly restricted and their surplus cash tapped in one form or another. The methods by which these moves could be implemented were suggested in the letter suggested in the banker's letter to the MANCHESTER GUARDIAN quoted in the fourth paragraph of my No. 1526 of October 4th.

Whatever

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Whatever the devices, the management of the money market will prove easier for the time being than any form of forced saving, since in the matter of war loan subscriptions the British public would find compulsion distasteful. But at some point it may prove necessary in order to cut consumption to the level of bare necessities. In any case war finance in the modern world is merely camouflaged requisitioning.

KENNEDY

HPD

RECEIVED
OCT 17 1946
U. S. DEPARTMENT OF THE ARMY
WASHINGTON, D. C.

October 17, 1939
11:20 a.m.

HMJr: Hello.

Operator: Mr. Sproul.

HMJr: Hello.

Allan
Sproul: Hello, Mr. Secretary.

HMJr: Hello. Hello.

S: Hello.

HMJr: Good morning, Allan.

S: Good morning.

HMJr: How's the thing going?

S: Going very well. The market in the light of things and other places thinks you were generous as you anticipated they would if everything went all right. But it's going very well.

HMJr: Yeah. Well.....

S: They quoted eighteen twenty now.

HMJr: That's all right. I think I'll tell Bell to get out a notice at noon announcing the closing as of tomorrow night.

S: I think that would be taken very well in the market too.

HMJr: Good. Well, I think I'll do that then.

S: I think it would go very well.

HMJr: Right. Well then, after that's over we'll talk about the next one.

S: Right.

HMJr: All right.

S: I think we've got a good start for it with this one.

HMJr: Well, I notice that all of our bonds now are selling above the September 6th price.

S: That's right.

HMJr: Which is something.

S: Yes, it is.

HMJr: And certainly -- well, I haven't had time but I imagine that you won't be so frightened of a five-year note now for the government.

S: No, I don't think I will, although I think when you were considering it before, three was better than five.

HMJr: How do you feel about five today?

S: Oh, I think it's gotten to the point where five is a marketable obligation.

HMJr: Right. Well, we -- we can take a look at it Monday.

S: Yeah.

HMJr: Take a look at it Monday.

S: Yeah.

HMJr: All right. I'm not bothered. The Fed. board was -- thought we were a little generous and I said, "Well, that's all right."

S: No, I think it was the time to be a little generous.

HMJr: I think so. Righto. Thank you.

S: All right.

HMJr: Goodbye.

S: Goodbye.

October 17, 1939
11:22 a.m.

Operator: Mr. Bell.

HMJr: Hello.

Daniel
Bell: Yes.

HMJr: Dan.....

B: Yes, sir.

HMJr: At twelve o'clock have it fixed up that Gene Duffield
release this announcement that we're going to close
Commodity Credit tomorrow night.

B: Yeah. Well, I'm getting everything and I understood
be in your office at five minutes of twelve.

HMJr: Is that when I -- do I have to sign it?

B: Yeah.

HMJr: All right.

B: Sign telegrams and sign the -- initial the press
release.

HMJr: Five minutes.....

B: It'll be ready at that time if that's all right with
you.

HMJr: That's right. Tell Gene to be here.....

B: Yeah.

HMJr: -- be here also at five minutes to twelve.

B: Yeah. Could I tell you this while you're on the
phone?

HMJr: Why not?

B: The intermediate credit banks have 29 million coming
due on the end of the month.

HMJr: Yeah.

B: And of course the market is excellent this morning and Ben calls up and wants to sell them today. Ten months obligation on a fifty-five basis.

HMJr: No, I don't want him to do it.

B: And Burgess and I think that they ought to wait at least until tomorrow and maybe Thursday.

HMJr: Tell them Thursday.

B: Thursday?

HMJr: And please sometime see if we can't get this other -- what do you call it, Dunn organization on a basis that they're not in the market so often.

B: Well they're in the market every month for this organization.

HMJr: Well, they can -- I -- I positively don't want them to do it before Thursday.

B: O. K.

HMJr: Who the hell is making the market - Dunn, or I?

B: Well, he takes advantage of it. (Laughs) When you make one.

HMJr: That's all right. Let him do it on Thursday.

B: Well I told him I thought we might object him being in there while we were in there, even though this was a small amount.

HMJr: I object strenuously.

B: O. K. Thanks a lot.

October 17, 1939
11:32 a.m.

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HMJr: Hello.

Operator: Mr. Currie. Go ahead.

HMJr: Hello.

Lauchlin
Currie: Hello, Mr. Secretary.

HMJr: How are you?

C: Fine, thank you. I called you - oh, something
arose in the conversation with the Boss the other
day and that is the possibility which was being
stressed around quite a bit of some recession
occurring in the first quarter of the year.

HMJr: Yes.

C: You know - you've heard...

HMJr: He brought that up at Cabinet...

C: Yeah.

HMJr: ...Friday, I understand...

C: Yeah.

HMJr: ...although I wasn't there.

C: Well I just - reporting to him on Friday morning
that I was getting pretty alarming stories from
Commerce and Federal Reserve and Agriculture and
what not.

HMJr: Yes.

C: And suggested to him that we might very quietly
be examining some of the possibilities in the
Government for cushioning a shock if it should
arise.

HMJr: Yes.

C: And he thought it was a good idea.

HMJr: Yes.

C: And I mentioned our old favorite Procurement again...

HMJr: Yes.

C: And he thought that might be looked into.

HMJr: Yes.

C: And I was wondering if he might^{help} start a little study on the possibility, if there is any, of postponing some of the purchasing of what could be put in the first quarter of the year...

HMJr: Well, we had that all set up once, you know. We.....

C: I remember, yeah.

HMJr: And-with Lubin and I'd love to do it. Just give the old bean -- give me a chance to think how to do it, will you?

C: Yeah.

HMJr: I'll put it down and what we'll try to do -- we'll get ahold -- now, McReynolds, you ought to talk to him about that.

C: McReynolds?

HMJr: Yeah, he set up a sort of a group on that for me. He worked on this for about two years.

C: Yeah.

HMJr: And if I do anything I -- I'll want him to come in on it.

C: Fine. I can talk it over with him then.

HMJr: He's associated with you I understand.

C: Yeah. He's right in the next office.

HMJr: Well, Mac knows all about this; he set this thing up. And -- of course, it will be much easier to do it with you fellows sitting in because I -- we need to use the purchasing power of the Army and Navy to get anywhere on this.

C: Yeah, I understand they handle 50 percent of the supplies now.

HMJr: Yes. Now, talk to Mac and if you, and Mac, and Lubin, and I, and maybe one or two people from the Treasury could get together, I think we could do a job.

C: Fine. Mac would know what material your Procurement people have on hand. I mean.....

HMJr: He knows the whole thing. He spent about two years on it.

C: Oh, fine.

HMJr: Yeah.

C: I'll talk to him.

HMJr: Yeah, and I'll get around to -- I'll -- just -- in a day or so.

C: Fine.

HMJr: I'll be delighted to.

C: All right, Mr. Secretary.

HMJr: All right.

C: Bye-bye.

October 17, 1939
3:12 p.m.

HMJr: Earle?

Earle
Baillie: Yeah.

HMJr: Hello.

B: Baillie speaking.

Operator: Oh, I don't believe that's the right Mr. Baillie,
Mr. Morgenthau.

HMJr: No, I don't either.

O: Just a minute.

3:15 p.m.

HMJr: Hello.

Earle
Baillie: Hello, Henry. How are you?

HMJr: I'm all right. How are you?

B: Well I'm fine. I -- reading Walter Winchell's column
I got worried about you.

HMJr: No, it was grossly exaggerated.

B: (Laughs) You're really all right.

HMJr: Yeah. Now your friend and my friend Randolph Burgess
is sitting here. Nobody else is in the room.

B: Yes.

HMJr: And if you don't object I'm going to let him listen.

B: Yes.

HMJr: Is that all -- is that -- are you where you can talk?

B: Yes, I'm all by myself.

WJr: Well, I've just been talking with him, you see.

E: Yes.

WJr: And last night I had a talk with Johnny.

E: Yeah.

WJr: And Johnny felt that at the very earliest -- first opportunity at a regular press conference, without any notes or any statement, I ought to say something about the emergency having been passed and that certain people be on a consultant basis and on call and that you've done a very fine job and the very fact that our Commodity Credit has gone and gone so well is an indication that the emergency has passed.

E: Exactly.

WJr: Now Randolph is sitting here, he can talk for himself, but I believe that he's in complete accord on this idea.

E: Well I think that's -- I think that's about right, Henry.

WJr: You do?

E: Yeah.

WJr: And that would be -- you see, next Thursday morning would be my next regular press conference. I -- I may miff it; I may not do it very well, but I'd do it the best I knew how.

E: Of course you would.

WJr: And, as I say, I'd simply make it very casual; I'd have no piece of paper in front of me, and say that we have some longtime planning; I expect you people to come down when I need you; that you've done very valuable service; helped us set up an organization; we're functioning, et cetera, et cetera.

E: Yes, it seems to me that the -- the two points from your point of view, and I'm thinking about this, I think, from your point of view rather than from mine.

WJr: Yeah.

B: Or from Randolph's is this: That you want to be in a position where you can call on us or people like us in the future; and second.....

HMJr: You said -- I didn't -- you say I can or cannot call.

B: So that you can.

HMJr: Can, yes. Definitely.

B: That's the first thing that you have to safeguard in this -- in this comment, and the second thing is, so as to make it seem what it is, a normal development.

HMJr: That's right.

B: Because it seems to me that -- what people will try to read -- read into it is what you could short-cut by calling in Stettinius.

HMJr: Yeah.

B: And that's the thing that has to be avoided.

HMJr: Well, if I do it in a very casual way and a sincere way, I don't think that that'll come up. Although, as I say, I may muff it or they may twist what I'm saying.

B: Well they're bound to twist.

HMJr: Yeah.

B: But I think putting it as you do there's as little opportunity for that as possible.

HMJr: And it would be done in a perfectly normal way after a successful financing.

B: Well now, Henry, let me ask you this.

HMJr: Yeah.

B: In light of that do you think that I should come down for two days next week as we've been planning?

HMJr: Ah -- let me think a minute. Let me ask Randolph first what he thinks. (Brief pause.)
Randolph thinks yes.

B: Well, it seems so to me. I have a -- between a half a dozen and nine or ten.....

HMJr: Yes.

B:things; none of them what you'd call say today.

HMJr: Yeah.

B: For instance, I've got certain things worked out with -- with Ed Foley.....

HMJr: Yeah.

B:about powers that we'd have in certain cases to buy -- buy bonds with our general fund.

HMJr: Yeah.

B: I want to tell you about that.

HMJr: Yeah.

B: There are a half a dozen other things that I've been stimulating Joe Cotton.....

HMJr: Yeah.

B:to get going on.

HMJr: Yeah.

B: I'd like to talk them over with him.

HMJr: Yeah.

B: So that it would be perfectly normal for me to do it, along the lines that you're talking about.

HMJr: Right.

B: And therefore it would be one of those things that you could casually mention in your -- in your press conference.

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WMJr: Yeah.

B: Say, for example, "Burgess has been down here two days this week finishing this financing up. Bailie is reporting on a couple of jobs next week which he is finishing up."

WMJr: Yeah.

B: To make it look spaced.....

WMJr: Yes.

B:is what I have in mind.

WMJr: Right.

B: And if that -- if that seems right to you then what I'll do is I'll come down and get to the Treasury next Tuesday morning sometime well after the half past nine meeting so that question won't come up.

WMJr: Yeah.

B: And then I'll hope that Mrs. Klots will have some time arranged for me with you in the morning.

WMJr: Right.

B: So that I can know just what has happened before I see anybody else.

WMJr: Right.

B: Are you really O.K., Henry?

WMJr: Oh, yes. I -- there's nothing the matter with me. I -- I don't know where Walter Winchell got the thing from. No, I -- I'm.....

B: Well I was sort of worried by the combination of your -- knowing that you were feeling rotten last week and then hearing this story, I decided that maybe you really were sick.

WMJr: No, no, no, there's -- no, I'm -- I'm all right. I'm going to put you down next Tuesday, the 24th, for 10:30.

B: That's slick.

HMJr: See?

B: Well I won't arrive in at the Treasury much before
a quarter past ten.

HMJr: Fine.

B: All right, old fellow, I'll see you then, and thank
you very much.

HMJr: Righto. Thank you.

B: Goodbye.

HMJr: Goodbye.

TREASURY DEPARTMENT
Washington

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October 17, 1939

FOR THE SECRETARY:

This is the announcement on the
Anti-Malaria Commission which Public
Health finally issued after consultation
with the State Department.

ESL

Federal Security Agency
U. S. PUBLIC HEALTH SERVICE
Washington

266

FOR IMMEDIATE RELEASE
Tuesday, October 17, 1939

In accord with its policy of maintaining close touch with outbreaks and spread of disease in all parts of the world in order to prevent possible introduction of pestilences into the United States, the Public Health Service has, at the invitation of the Chinese Government, dispatched a group of three officers to Southwestern China for the purpose of studying reported occurrence of a malignant disease near the Burma border and determining the menace to the United States incident to its possible spread to Oriental sea-ports.

The officers assigned to this detail are Senior Surgeon L. L. Williams, Jr., Special Expert Bruce Mayne, and Surgeon Hiram J. Bush. Two of these officers are already familiar with Far Eastern areas: Doctor Williams, as a member of the Malaria Committee of the Health Section of the League of Nations, spent several months in India a few years ago, while Dr. Bruce Mayne was for three years attached to the Indian Medical Service. Both of these officers have traveled through Burma so that the present trip will enable them to directly continue their studies into Southwestern China.

Doctor Williams and his assistants will work in cooperation with the Chinese Health Service. In addition to determining the nature and extent of the disease or diseases prevalent in the areas they visit, they will inform the Chinese health authorities as to the results of their survey and advise as to control methods and measures.

TREASURY DEPARTMENT

267

INTER OFFICE COMMUNICATION

DATE October 17, 1939

TO Secretary Morgenthau

FROM Mr. Cochran

After coming out from the Secretary's Office this afternoon, Mr. Leroy-Beaulieu, Financial Counselor of the French Embassy, asked to see me. He told me that in his conversation with the Secretary the latter had not raised the question of the French Government opening an account with the Federal Reserve Bank of New York as fiscal agent of the Treasury. Mr. Leroy-Beaulieu had not mentioned this subject, he explained to me, since he thought that, following his last conversation with the Secretary and his talk with Mr. Foley, this matter had now been cleared with the Secretary and required only agreement between the lawyers and the working out of technical details by the Secretary's assistants and the Federal Reserve Bank of New York. I telephoned Mr. Foley, and confirmed my understanding that this matter was still under discussion by the attorneys, and informed Leroy-Beaulieu to this effect. He seemed quite disappointed and told me that this delay was embarrassing him, since he had reported to the French Treasury that the facility was available, and he had been instructed some days ago to accept it. He states that he has this week been obliged to have \$3,000,000 deposited with the French American Banking Corporation in New York to enable him to make certain payments for the French Purchasing Commission falling due. The French already had an account with this Bank, as they have with six other banks in New York. Leroy-Beaulieu arranged for Cloeson to sign checks on the French American Banking Corporation account (Cloeson is a young Frenchman from the Ministry of Finance in Paris for whom I procured a Rockefeller Foundation fellowship in this country, and who has now been called to assist Leroy-Beaulieu). It will be recalled that the French American Banking Corporation is owned jointly by the Guaranty Trust, the First National Bank of Boston, and the Comptoir d'Escompte of Paris.

Leroy-Beaulieu urgently requested that I give him any information as to the Federal Reserve account as soon as possible.


CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

268

DATE October 17, 1939

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Knoks mentioned to me in a telephone conversation at 4:30 this afternoon that Messrs. Furness and Withey (the shipping people) had received a cable from their London office: "Ministry of Food desires you open special account Federal Reserve Bank of New York their name". In reply to Mr. Knoks's inquiry, I stated that I knew of no negotiations for the opening of an account with the Federal Reserve Bank of New York in the name of the British Ministry of Food. I wonder if there may have been some leak in London which has led to the sending of this cablegram.

B. M. S.

GROUP MEETING

October 17, 1939.
9:45 a.m.

- Present: Mr. Hanes
- Mr. Gaston
- Mr. Burgess
- Mr. Smith
- Mr. Thompson
- Mr. Haas
- Mr. Bell
- Mr. Viner
- Mr. Graves
- Mr. Harris
- Mr. Cotton
- Mr. Stewart
- Mr. Riefler
- Mr. Cochran
- Mr. Duffield
- Mr. Foley
- Mr. White
- Mrs Klotz

Smith: My underwriters haven't paid me.

Burgess: I have offered to pay.

Smith: You know I had underwriters in this.

H.M.Jr: I know you did. I can't remember whether I shared this (indicating coin) with anybody or not.

Smith: No, you are a speculator.

H.M.Jr: Well, I am glad to know that the A.B.A. holds interest for its members. I will next expect them to send a memorandum telling us we are not charging enough on Postal Savings accounts.

Smith: You are not what?

H.M.Jr: I will next expect a memorandum from A.B.A., American Bankers Association, that the Treasury should increase the amount of interest it pays to Postal Savings accounts.

Burgess: Well, there is a little 'shenanigan' about this. The approval of the A.B.A. - their method was to get one fellow standing in a corner.

- 2 -

Smith: A beautiful job was done, however. I didn't intend to tell you that.

H.M.Jr: Well, I appreciate the quarter.

I am sorry, but I had Mr. Eccles over at 9:15 and that is why I am a little bit late all around. I think we will go fairly fast this morning.

Thompson?

Thompson: There was a little item in the Congressional Record yesterday. It was the news that everyone knows, I see, that Senator Pittman has presented an amendment to the Neutrality Bill.

H.M.Jr: Yes.

Thompson: I have three or four little things here for your signature.

(Discussion off the record)

H.M.Jr: Dan?

Bell: This is the letter to the Secretary of Agriculture approving the issue of those Commodity Credit notes.

H.M.Jr: Will you come in here about five minutes to 12:00?

Bell: Yes, sir.

They had a very good reception last night. It was quoted at 16 to 20.

H.M.Jr: Mercury was quoting at what?

Haas: Sixteen.

H.M.Jr: I thought you were below that.

Haas: No, when you start collecting it, that is what it was.

Bell: It is right on the dot. The total bids yesterday for Treasury bills, 495 million, approaching a high in September, 150 million.

- 3 -

H.M.Jr: What is the Fed going to do?

Bell: I don't know, they haven't told us yet. They will probably tell you this afternoon.

H.M.Jr: Anything else?

Bell: That is all.

H.M.Jr: Harold?

Graves: Nothing.

H.M.Jr: Cotton?

Cotton: You were right about the Foreign Bondholders' Protective Council. There was no federal legislation. It was formed at the invitation of the Secretary of State and Secretary of Treasury and Chairman of the Federal Trade Commission.

H.M.Jr: Could you give me a little history on it?

Cotton: Yes.

H.M.Jr: How much money they have got, who they represent, et cetera. Could I have it tomorrow morning?

Cotton: Yes, sir.

H.M.Jr: Harry?

White: You may have noticed the first trade returns for the first month of the war. They are published. They show an increase over last month of 15 percent and an increase over the comparable month of last year of 15 percent.

H.M.Jr: What month?

White: September over August.

H.M.Jr: Exports?

White: Exports alone. The import figures aren't in yet. The exports were very heavy during the last ten days, which more than made up the loss during the first part of the month. The exports to Canada and the United Kingdom were substantially greater.

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France had only half and Germany and Poland, and so on, had nothing.

H.M.Jr: Hasn't that surprised everybody?

White: I don't know. They expected the first month's business to drop off and it did drop off during the first twenty days. Whether the last ten days is indicative of something special, such as cotton, we don't know yet. We don't know whether the cotton was the consequence of that deal or whether it was regular cotton, but more cotton left in the last ten days. You can't tell yet whether it is part of that barter deal.

H.M.Jr: Anything else?

White: That is all.

Hanes: May I ask, Harry, are those figures that we get from Noble, do they come every day or are they weekly, monthly, or what are they?

White: They come every day, partial figures. Every ten days we get more nearly complete figures. Very close after the close of the month, within a few days, we get almost complete figures.

Hanes: They are not published because....

White: No, not at all.

Hanes: Noble seemed very anxious that they be kept confidential.

White: They just like to get out the first news on it, naturally.

Hanes: I didn't know but what it might be some other reason.

H.M.Jr: Basil?

Harris: Just in confirmation of what White said, I was over to the docks Saturday afternoon with Cairns. We went over to make a study on the - what some of the Customs practices were there and I never saw ships as packed as at this time with cargo in my life, none of which was, of course, war material, and for the first time in history,

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apples were shipped on deck, which I have just never heard of being done before. Thousands of barrels on deck.

H.M.Jr: What country were they going to?

Harris: They were going to England. I don't know what they will be like when they get there.

Gaston: Duchesse County apples?

Harris: Probably Virginia, I think.

Viner: They are using them instead of sandbags.

White: I was very curious that they should permit the purchase of apples unless they were contracted for ahead of time, because the apples aren't vitally necessary for war.

E.M.Jr: Says who?

White: All except Baldwins, anyway.

Hanes: Harry, one a day is necessary.

H.M.Jr: These prejudices that float around here. No wonder Harry Byrd and I are flat on our backs.

Got any other news? George?

(Mr. Haas hands report to Secretary)

You fellows (Viner, Riefler and Burgess)?

Burgess, do you want to come and see me at 3:00?

Burgess: Well, I was thinking of getting an early afternoon train.

H.M.Jr: Well, it is really the first time I can see you.

Burgess: 3:00 is all right.

H.M.Jr: Isn't the 4:00 o'clock the best train?

Burgess: That is all right.

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- H.M.Jr: You could count on the 4:00 o'clock.
- Burgess: Very good.
- H.M.Jr: It is really the first time. I thought if Tom Smith would come in at 3:30 and the three "E's" could have what was left at 4:00.
- Cochran: The Federal Reserve Bank of New York yesterday announced that they would no longer give out word of gold engagements abroad. Allan Sproul telephoned me to this effect on Friday and I raised the question then as to whether they are going to continue to give out word as to gold arrivals, and from the press story it was indicated that they are going to give those out.
- H.M.Jr: Well, the point I raised, we went into that, Harry once before, and I don't see why we just don't take up the question with the Federal Reserve of New York that they just drop the thing entirely and rely on the Department of Commerce to announce it once a week.
- Cochran: I think it would be the ideal time now, now that the ship's manifests are not being made public.
- H.M.Jr: I think the three "E's" would be willing to think that over for 24 hours.
- White: We did. We thought we concluded that.
- Cochran: Well, the Secretary saw the memo this morning.
- H.M.Jr: My thought is I don't see why the Federal of New York should give out any statistics and just let the news come from the Department of Commerce.
- White: That was our decision.
- H.M.Jr: Well, let the three "E's" take a look at it and if it is all right, let's ask them formally, and I think if we decide to do it, I would tell the Federal Reserve Board of Washington to get their reaction. We feel that the less publicity now the better. Why not just let the Department of Commerce do it? They do it once a week, don't they?

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Cochran: Yes, sir.

H.M.Jr: That is enough. Why all this multiplicity? You read in the paper about three times the same shipment of gold. People think, "My God, look at all the gold that is coming in."

White: The simple way of handling it would be to get another meeting of that same group this afternoon. I am sure that would be the decision. Then it would be easier to ask them to do it.

H.M.Jr: Who is on the group?

White: Federal Reserve Board and Department of Commerce were at a meeting. We can get the same men down here and with the added impetus of the war situation....

H.M.Jr: John, would you get that group for me?

Hanes: Yes.

H.M.Jr: You will?

Hanes: This afternoon.

H.M.Jr: It isn't a matter of minutes, today or tomorrow. Are you going up tomorrow?

Hanes: Yes, I am going tonight.

H.M.Jr: You can do it today.

Hanes: Yes, sure. Harry, you make the appointment.

H.M.Jr: I can't see any reason to announce three times the same shipment of gold.

Cochran: That is what it amounts to.

H.M.Jr: Anything else?

Cochran: No, sir.

H.M.Jr: Ed?

Foley: No.

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H.M.Jr: If you and Hanes will stay a minute after this, I want to talk to you two.

Duffield: Can you give Kintner a date anywhere in the near future?

H.M.Jr: Not today. Incidentally, did he (Mr. Gregory) break faith or didn't he break faith?

Duffield: He called me up and told me that he had confirmation, so that as far as the record goes, he didn't break faith, but I have got some mental reservations. The New York Times was quite hot under the collar about it last night at midnight. They claimed he had broken faith.

H.M.Jr: Well, he put it on the Federal of New York.

Duffield: That is right. He called me and said that the New York....

H.M.Jr: (To Mr. Hanes) Brazilian gold.

Duffield: He said his New York office had been able to confirm it through the Federal Reserve Bank of New York.

H.M.Jr: You see, it was an off-the-record story and he broke it correctly. That is the one I told you about (to Mr. Hanes), Basil Harris' pal, Clarence Linz, getting so nasty yesterday about the President and everything.

Harris: I don't know him.

Hanes: He knows you.

H.M.Jr: Well, that is between the Tribune and the Times.

Duffield: That is right.

H.M.Jr: Anything else?

Duffield: That is all.

H.M.Jr: Any repercussions on Bell's idea to give that out as spot news?

Duffield: I think he got one telegram.

Bell: Before I got my telegram we marked ours confidential and the memorandum in Kansas City, that is in the street. They had the complete details before the circular had even been mailed and they wanted to know how come. Our wires got crossed.

H.M.Jr: I wanted to give it out as spot news and Bell had it set up for this morning's release, but I thought everything being so short and so on, we would get it out on the Dow-Jones ticker and then everybody in New York could advise their customers, and it gave them just an over-night service, that is all. I thought it was a good idea.

Burgess: I know it was a good idea.

H.M.Jr: It just gave the fellows in New York a chance to notify their customers the night before, that is all.

Bell: That was all right.

H.M.Jr: And if we beat the Federal Reserve to the gun by ten minutes....

Bell: We cautioned them so carefully to keep it secret and confidential and they had done that and taken great care, and then it was all over Kansas City.

H.M.Jr: You tell them there are lots of troubles that the Secretary of the Treasury just can't hold down.

Bell: That is what I told them..

H.M.Jr: Herbert, sometime, maybe tomorrow, do you want to find out about this huge bootleg ring and let me know? I would like to know if there are one or two people who had the brains to do it, and you can call them in and thank them.

Caston: I will do that. I noticed the story yesterday afternoon.

White: I am going to raise a personal privilege. I received a copy from the State Department of a press

- 10 -

interview that was given me in Brazil. The only reason I am calling it to anybody's attention is because this has been initialed by Mr. Bailie, Mr. Stewart, and others, as having read it. This is a Brazilian reporter's notion of what a Brazilian interpreter who speaks poor English - I don't know how good it is in Portuguese - of what I said on some rather complicated economic matters. The economics is terrible. The politics is all right.

Smith: Reporting, or what you said, Harry?

White: Through three removes, yes.

Smith: What is bad?

White: The economics is bad.

H.M.Jr: I know just how you feel. When I was in Finland, the next day the papers ran that I had 250,000 acres of apples and I was just furious. Their politics were good. I know just how you feel, Harry.

White: The number of interviews which I get makes me very sensitive. If I get another one it will make two, you see.

Daston: Harry gets them, he doesn't give them.

H.M.Jr: You might tell - gosh, I almost forgot this. I asked the President how he felt about Coast Guard and he said they were doing a swell job and he was very much pleased with Waesche. I said, "Now, Mr. President, you have found three different opportunities to say no, why I shouldn't have more cutters." He said yes and he didn't want to go into next year unless he knew what I would like. So he said get the Fisheries together, Interior, Commerce - he said Interior most likely ought to have a boat more or less all of the year to look after these islands, manned by the Coast Guard, Fisheries, the same, and Commerce, the same and, using as a basic design the 320-foot cutter, see whether we can get something which would please everybody provided it is cheap and also that it could be turned out in units, you see, faster. He said we might build three or four next year.

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- Gaston: In addition to what the Coast Guard needs, six or seven?
- H.M.Jr: He said three or four altogether, but get your committee together, see, and if you have something next week, I will see him.
- Gaston: That brings up another question. Commerce, the Bureau of Navigation, will probably renew their request to build a fleet for the Bureau of Navigation if they want a military service, sort of paralleling Coast Guard, for ship inspection. What we need to do is take over the Bureau of Navigation. Would it be possible to raise that question again this year?
- H.M.Jr: Sure.
- Gaston: It is very urgent because they realize their outfit is no good if they want to build up a new outfit paralleling Coast Guard.
- H.M.Jr: Well, do something on this. Incidentally, thanks to Bell for prodding me, the President is going to get out an issue on my recommendation on November 1st. Bell kept making my life miserable and I did the same for the President and in combination we got it.
- All right, Herbert?
- Gaston: We are going to hold a meeting about that matter Fry spoke about in his office at 3:00 o'clock this afternoon. I have that chart of the Atlantic Coast patrols any time you want to see it.
- H.M.Jr: Not today.
- Gaston: You may have noticed the ticker this morning. The Germans announced that the Royal Oak was sunk within the Scapa Flow by a submarine which penetrated the mine fields and the nets.
- H.M.Jr: Well, we will wait for the British statement.
- Hanes?
- Hanes: Herbert and I talked with Guy Helvering about

- 12 -

Irey's moving over here. You remember you asked me about that. It is perfectly agreeable with Guy. I understand that Norman has got a space available for him and he is ready to move whenever we are ready to say the word.

H.M.Jr:

Well, I have got to think about it a little bit and if you will remind me (to Mrs. Klotz), I want to talk to Thompson.

Secret Copy

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PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: October 17, 1939, 10 a.m.

NO.: 2487

RUSH.

The following is personal and secret for the President:

I refer to the first enclosure to my letter dated October 4, 1939. I now have the text of the agreement which was concluded by Monnet in London for coordinating British and French economic activities during the war. The agreement covers shipping, air production and supply raw materials and munitions, food and oil.

The British Government informed Monnet that you had indicated to Lord Lothian that you believed a British mission was preferable to a purchasing corporation; this question is to be decided tonight or tomorrow in Paris. Since agreement was achieved by the pooling of resources by the British and French Governments, it is the feeling of the French Government that it might be preferable to employ a single joint Franco-British mission to make purchases in the United States.

It is my own opinion that the most efficient mechanism would be to have a joint Franco-British mission.

In this connection I would ask two questions:

First, are you in agreement? From Secretary Morgenthau's

talk

-2-

talk with St. Quentin on the thirteenth of September, I assume that such a joint mission would be able to find the same sort of cooperation in Washington that Monnet received on his visit last winter.

Second, am I correct in this assumption?

BULLITT.

EA:LWW

(Copy)

10 24/17 7/15
Left with Secretary Morgenthau by Governor
Eccles when he called on HM, Jr at 9:15 Oct. 17, 1939.

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Referring to the talks that you have had with me regarding a proposal that the Federal Reserve Bank of New York, as fiscal agent of the United States, open accounts with the Government of Great Britain and the Government of France, I have discussed this matter with the other members of the Board of Governors. While the law provides that the Federal Reserve Bank, when required by the Secretary of the Treasury, shall act as Fiscal Agent of the United States, it was the opinion of the Board that there would be some advantage in handling the matter in another way. It might be wiser, instead of requesting the New York Bank as fiscal agent of the United States to open governmental accounts under the plan suggested, if an arrangement were made under which the Bank of England and the Bank of France, which now have accounts on the books of the Federal Reserve Bank of New York, would utilize such accounts for such special deposits and withdrawals as in the circumstances might be necessary. This procedure has the advantage of conforming to existing practice. You indicated some question as to the confidential nature of such accounts. Such accounts need be no less confidential than governmental accounts which might be opened by the Federal Reserve Bank acting as fiscal agent of the United States under the plan suggested. Furthermore, there is no reason why you could not be as fully and continuously advised as to governmental transactions handled through the central bank accounts as you would be as to transactions in the accounts proposed to be carried on the books of the New York Bank acting as fiscal agent, provided the respective governments instructed the central banks to authorize the New York Bank to give you the desired information. I appreciate your discussing the matter with me and will be glad to be advised currently as to any further developments in connection with this or any other important matter affecting the fiscal agency relations.

October 17, 1939.

HOWARDSTEIN FOR THE BIDDING:

201 Navy Contract for Tungsten

Navy Department action in awarding the contract to the Metal and Ore Corporation at 25 per cent, against the Wah Chang Corporation bid of \$27.68 (as adjusted for duty), appears to have been proper.

The tungsten offered by the Metal and Ore Company was of domestic origin.

The Wah Chang bid was upon tungsten of foreign origin.

This purchase was subject to the provisions of the so-called "Buy-American" Act, approved March 3, 1933, which, with certain exceptions, requires the purchase of materials of domestic origin when such materials are in competition with materials of foreign origin, unless the cost of the domestic materials is unreasonable.

Procurement Division

On September 30, the Procurement Division advertised for from 100 to 425 tons of tungsten ore, under the provisions of the Act approved June 7, 1939, authorizing the acquisition of stocks of strategic and critical materials. The advertisement specified that the tungsten offered must be either (1) new importations from foreign sources, or (2) materials available from domestic mines. Ores now in the United States under bond will not be considered. The time limit of delivery is six months. Bids are to be opened Friday, October 30.

The action to be taken by the Procurement Division on these bids is, by express terms of the Act of June 7, 1939, likewise subject to the provisions of the "Buy-American" Act. In other words, the award will be made to the low bidder meeting the specifications with ore of domestic production, notwithstanding that lower bids may be received on foreign ore, unless the bid price for the domestic ore is considered unreasonable.

As a measure of what is unreasonable in such cases, the Procurement Division has fixed a differential of 25 per cent in favor of materials of domestic origin.

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Expressed Intent of the Act of June 7, 1939

The foregoing appears to be in strict accord with the expressed intent of the Act of June 7, 1939, as follows:

(1) To provide for the acquisition of stocks of strategic and critical materials; and

(2) To encourage the development of mines and deposits of these materials within the United States, and thereby decrease and prevent wherever possible a dangerous and costly dependence of the United States upon foreign nations for supplies of these materials in times of national emergency.

The papers which you handed me are returned herewith.

GRAVES.

HNG/mff

13-17-39



THE SECRETARY OF THE TREASURY
WASHINGTON

File

286

MEMORANDUM FOR THE PRESIDENT:

You will recall that I have discussed with you from time to time the possibility of opening accounts on behalf of belligerent governments with the Federal Reserve Bank of New York as fiscal agent of the United States.

Attached is a copy of a proposed letter to the Federal Reserve Bank of New York authorizing such Bank, as fiscal agent of the United States, to open accounts for the French Government and a proposed informal statement to the press. Also attached is a copy of a proposed letter from the French Ambassador to be sent to me through the State Department.

If you approve I shall proceed along these lines.

Secretary of the Treasury.

APPROVED:

The White House,
October , 1939.

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Draft of letter to the Secretary of the
Treasury from the French Ambassador

Reference is made to the conversations which the Financial Attache of the French Embassy has had with the Treasury Department with respect to the opening and maintenance of accounts for the French Government, or agencies designated by it, by the Federal Reserve Bank of New York, as fiscal agent of the United States.

I have been authorized and instructed by my Government to take all the necessary steps and make all the arrangements for the opening and maintenance of such accounts and I would appreciate it if appropriate steps were taken in order that the Federal Reserve Bank of New York may open and maintain such accounts for my Government.

I am prepared to take up with the Federal Reserve Bank of New York, as fiscal agent of the United States, all detailed matters respecting such accounts and to designate the persons who are authorized by the French Government to make payments or withdrawals from and otherwise to deal with such accounts and to indicate the extent of the authority of such persons to act on behalf of the French Government in connection with such accounts.



THE SECRETARY OF THE TREASURY
WASHINGTON

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Dear Mr. Harrison:

Enclosed herewith is a copy of a letter dated October , 1939 from the French Ambassador, forwarded to this Department through the Secretary of State.

The Federal Reserve Bank of New York, as fiscal agent of the United States, is hereby authorized and directed to open and maintain accounts for and in the name of the French Government. You should take any necessary further steps and make the necessary detailed arrangements with the French Ambassador in Washington, or any representative designated by him, respecting such accounts and the Ambassador will inform you of the names of the persons authorized by and in behalf of the French Government to make payments or withdrawals from, and otherwise to deal with such accounts.

You should keep this Department advised of the details of such arrangements and from time to time furnish this Department with such other information respecting such accounts as this Department may request.

Very truly yours,

Secretary of the Treasury.

Mr. George L. Harrison,
President, Federal Reserve Bank of New York,
New York, New York.

Enclosure

On the record

The Treasury today instructed the Federal Reserve Bank of New York, as fiscal agent of the Treasury, to receive funds which the French Government will deposit with the Bank. These instructions were sent after the Treasury had received through the Department of State a letter from the French Ambassador saying that his Government had authorized the opening of the account with the Reserve Bank. Similar arrangements may be made with other belligerent governments carrying balances in this country.

The funds are the property of the French Government, and the arrangement in no way contemplates any extension of credit.

Background

The initiative for this action came from the American Government. The feeling here is that funds which belligerent governments have on deposit in this country as a part of their war purchasing program should be in an institution where scrutiny by this Government is possible should the need arise. The arrangement, which is to be applicable to all belligerents, does not, of course, give this Government any control over the funds of other governments, but it does assure this Government information it may wish to have.

TREASURY DEPARTMENT

1811

INTER OFFICE COMMUNICATION

DATE October 17, 1939

TO: Secretary Morgenthau

FROM Mr. Cochran

The foreign exchange market was again quiet with sterling fluctuating between 4.00-1/8 and 3.99-1/2. It closed at 3.99-5/8.

The rate for belgas improved from .1672 at yesterday's close, to .1675 today. This improvement is probably due to the fact that the fear of a German offensive through Belgium has been temporarily allayed as the Germans have taken the offensive on the French border.

Reporting banks in New York and the Federal Reserve Bank reported sales totaling £316,000, from the following sources:

Commercial concerns.....	£	83,000
Foreign banks (Europe).....	£	138,000
Federal Reserve Bank (For Sweden).....	£	50,000
Federal Reserve Bank (For its own Account).....	£	45,000
Total	£	316,000

Purchases of sterling amounted to £363,000 as indicated below:

By commercial concerns.....	£	247,000
By foreign banks (Europe and South America).....	£	116,000
Total	£	363,000

The banks also reported that the British Control purchased sterling amounting to £62,000, at the official rate.

With reference to the sale of £45,000 by the Federal Reserve Bank of New York, for its own account, in my report of October 10th, I mentioned that Knoke had inquired if the Treasury had any objection to the Bank reducing its balance with the Bank of England. They have proceeded along the lines mentioned and reduced their balance to £5,000.

The Bank of Latvia purchased 20,000 guilders.

We received, through the Federal Reserve Bank of New York, a request from the Central Bank of Argentine to purchase \$2,500,000 in gold to be added to their sermarked account, which request was approved.

The Federal Reserve Bank of New York informed us that they had received no reports of engagements of gold for shipment to this country.

Canada sold to us 120,000 ounces of silver under the Silver Purchase Act. This purchase was made in accordance with our monthly agreement with that country to purchase up to 1,200,000 ounces of silver.

Mr. Knoke telephoned me at 12:30 today to let us know that the Federal Reserve Bank of New York last night sent a cablegram to the B.I.S. giving notice of reduction of its balance with the Basel institution from \$500,000 to \$25,000. Part of the Federal's funds with the B.I.S. has been a sight deposit and part has been for investment. This action is in line with that of European Central Banks, including those having Directors on the Bank at Basel, in reducing sharply their short term funds with the B.I.S.

H. M. S.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Oct. 17, 1939

52

TO Secretary Morgenthau

FROM Mr. Haas

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

Oct. 4: The discount of 10 to 11 per cent on sterling is said to be diverting demand for North American wheat to Canada. Sales of 400,000 bushels of Manitoba wheat were reported to the continent.

Europe is expected to need about 448,000,000 bushels of foreign wheat or flour this season and has taken 60,000,000 bushels in the last two months. Increased buying may develop at any time. Argentine wheat is cheap but that is a long and dangerous haul.

Oct. 5: Wheat export business from the United States was very dull but Winnipeg indicated that a fair business had been done, estimated at about 300,000 bushels.

Argentine wheat shipments, estimated at 2,204,000 bushels for the week, compared with 2,931,000 a week ago and 839,000 a year ago.

England is reported to have bought 3,700,000 bushels of wheat from Roumania for immediate shipment which will keep this much wheat away from Germany.

Export flour bookings this week are reported as very light.

A full cargo of American corn was reported worked for export late Wednesday to the United Kingdom.

Oct. 6: Sales of Canadian wheat for export were estimated at about 100,000 bushels. No export sales of United States wheat were reported today but inquiries are in for several cargoes and there is a possibility that some business will be done soon if freight space can be booked.

- Oct. 6: Shipments of 420,000 bushels of corn were made from Chicago Thursday via the lakes to Canadian ports.
- Oct. 7: Export demand for wheat was extremely slow. A small amount of Canadian wheat was worked last week for shipment to Europe. This Canadian wheat is moving in British ships and reports indicate that it is sold c.i.f. United Kingdom at a price below what is quoted for December delivery.

Harvest will start in Australia next month and it is thought that the exportable surplus will be over 100,000,000 bushels. It is figured that foreign countries will increase their acreage of wheat for 1940 because of the war and high ocean freight rates.

- Oct. 9: Over the weekend it was reported that the United Kingdom bought two cargoes of United States corn, amounting to about 500,000 bushels. This corn, which is moving in British ships, is selling at a big discount under Argentine corn that is shipped in neutral ships. This, of course, will divert the demand to the United States.
- Oct. 10: It was reported that England had bought 10,000,000 bushels of wheat and flour from Australia and about 7,000,000 bushels of wheat from Uruguay.
- Oct. 12: Total exports of United States grains for the week ended October 7 were 1,307,000 bushels. Wheat exports declined from 572,000 bushels to 266,000 bushels; corn shipments were up from 915,000 to 1,035,000 bushels.

Flour exports in August were 706,509 barrels, the largest for that month in nine years. The total a year ago for August was 379,000 barrels.

October 17, 1939

Secretary Hull's letter of September 8th and Mr. Welles' letter of September 15th were both returned to Secretary Hull at the meeting HM, Jr attended in Mr. Hull's office this morning.

Note: We did not keep copies of these letters; however.

PAP

TELEGRAM SENT

755

ORLY

October 17, 1939

7 p.m.

EMBASSY

RIO DE JANEIRO

207.

FROM TREASURY.

Your 348, October 3, and letter of same date.

Please inform the Brazilian Government that the United States Treasury appreciates the confirmation received from the Brazilian Government, and the Treasury assumes that this confirmation of course includes the authority of Banco do Brazil, acting as fiscal agent of the Brazilian Government, to enter into the arrangement contemplated by the letter of July 15, 1937 from the Secretary of the United States Treasury to the Minister of Finance of Brazil, as supplemented and modified. Kindly obtain confirmation promptly and advise.

BULL
(HF)

E.:MSC