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MA

GRAY

Rio de Janeiro

Dated October 18, 1939

Rec'd 4:47 p.m.

Secretary of State

Washington

370, October 18, 4 p.m.

Department's 207, October 17, 7 p.m.

The Bank of Brazil acting as fiscal agent of the Brazilian Government today confirmed to me verbally the Treasury Department's understanding of the agreement as set forth in the telegram.

The bank does not require dollar credits at present but when it does it will inform the Federal Reserve Bank and then open corresponding milreis credits here. In the meantime the Bank of Brazil will purchase gold from the Federal Reserve Bank to be credited to its gold account in New York.

The Bank of Brazil is confirming this in writing today to the Federal Reserve Bank.

NPL

CAFFERY

SECRET

CONFIDENTIAL

Answered 12/15/39
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T V SOONG ADVISED ME IN STRICT CONFIDENCE THAT GEN CHIANG KAI SHEK HAS AGREED ON REORGANIZATION OF THE CHINESE GOVERNMENT ABOUT THE MIDDLE OF NOVEMBER WHEN KUOMINTANG PARTY CONFERENCE IS TO MEET AND THAT HE WILL RETURN TO HIS OLD POSTS AS VICE-MINISTER EXECUTIVE YUAN AND MINISTER OF FINANCE WITH CHIANG HIMSELF AS THE PRESIDENT OF EXECUTIVE YUAN STOP SOONG SUGGESTED TO GEN CHIANG THAT IN VIEW OF SOONG'S INTIMATE KNOWLEDGE OF CHIANG'S PERSUASIONS AS WELL AS CHINESE MILITARY, POLITICAL, AND ECONOMIC BACKGROUND, THAT BEFORE ASSUMING THE OFFICE SOONG SHOULD MAKE A FLYING VISIT TO THE UNITED STATES IN A PRIVATE CAPACITY AS CHIANG'S OFFICIAL REPRESENTATIVE; FIRST TO DISCUSS WITH PRESIDENT ROOSEVELT THE FUTURE POLICIES IN THE FAR EAST WHICH MAY BE ESPECIALLY TIMELY IN VIEW OF THE SOVIET PACT WITH GERMANY AND TRUCE WITH JAPAN, AND POSSIBLE CHANGES IN THE ATTITUDE OF OTHER WESTERN POWERS RESULTING THEREFROM; SECOND TO DISCUSS INFORMALLY WITH YOU CHINA'S CURRENCY AND FINANCIAL PROBLEMS STOP IT WAS ORIGINALLY INTENDED TO MAKE THIS APPROACH THROUGH THE CHINESE EMBASSY BUT BOTH CHIANG AND SOONG WISH TO KEEP ^{THE} ~~THE~~ MATTER AT THIS TIME FREE FROM DIPLOMATIC PROCEDURE, HENCE BOTH THOUGHT IT BEST IN THE INTERESTS OF SAFETY AND UTMOST SECRECY TO MAKE THIS INFORMAL INQUIRY STOP UNDER THESE CIRCUMSTANCES CAN YOU SEE YOUR WAY CLEAR TO INDICATE YOUR OPINION IN THE MATTER SO THAT I MAY QUIETLY ADVISE SOONG

(SIGNED) NICHOLSON

SECRET

MEMORANDUM FOR SECRETARY MORGENTHAU:

This message was sent with the special request that it be delivered into no hands but yours. Therefore, no one has seen the message except Lieutenant McKay and only one copy, the inclosed, has been prepared.

E. S. Friedman
E. S. FRIEDMAN

Pros ^{and I will be} A delighted to see him in capacity of old friend ←

M.S. Transcript of above reply made by Lt. McKay in my presence 11:30 am Oct. 18
M.S.



TREASURY DEPARTMENT
WASHINGTON

October 18, 1939.

MEMORANDUM FOR THE SECRETARY:

Re: Quicksilver.

Captain Collins advises as follows:

He has presented to the Army and Navy Munitions Board the matter of proceeding at this time with the purchase of a quantity of quicksilver for stockpile reserve.

The Munitions Board have now informed him that they feel that the purchase of quicksilver should be deferred until additional funds are available. They point out that inasmuch as quicksilver is produced in considerable quantities in the United States, and in view of the limited funds available at this time, it has been placed in a deferred classification.

Incidentally, Captain Collins has provided me with the following listing of strategic materials according to the priority fixed by the Munitions Board:

<u>First Priority</u>	<u>Second Priority</u>	<u>Third Priority</u>
Chromium	Manila fiber	Aluminum metal
Manganese	Nickel metal	Antimony
Tin	Optical glass	Coconut shells
Tungsten	Quartz crystals	Mica
	Quinine	Quicksilver
	Rubber	Raw silk
		Wool

Under the \$10,000,000 appropriation now available, the program of the Munitions Board contemplates purchases only of the items listed under the first priority, plus Manila fiber, optical glass, quartz crystals, and quinine under the second priority.

GRAVES.

NOTE: The above information regarding quicksilver was given to the Secretary verbally this morning by Captain Collins. The Secretary phoned General Watson's secretary to the effect that it would apparently be necessary for the President to give instructions direct to the Munitions Board.

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HNG/mff

RE LATIN AMERICAN FINANCE

October 16, 1939.
3:00 p.m.

Present: Mr. Welles
Mr. Jones
Mr. Feis
Mr. Collado
Mr. White
Mr. Foley
Mr. Riefler
Mr. Cochran
Mr. Young
Mr. Cotton

H.W. Jr: I had a talk with the President and I had a talk with Mr. Hull and Mr. Welles, in which Mr. Hanes participated. I talked with Mr. Jones on the telephone this morning with the result that Mr. Welles, having been in Panama - I might say both the President and the State Department wanted something done in a financial way for some of the South American countries. It was suggested that Mr. Welles and Mr. Jones and myself act in an informal way to take up the financial needs of any country that the President and the State Department designate and a or the countries they wish us to consider.

Furthermore, if we designate a country, we will try to work out a pattern. I think the best word to use would be a reorganization of the finances of a particular country. We will submit it to the President and Mr. Hull. If he likes it, he can show it to Senator Pittman and ask if he can defend it on the Hill, and then if this was all right with the country involved and they would accept it, this would be a pattern on which we would go ahead. The thought was that Mr. Welles and Mr. Jones and myself and our assistants would sit continuously until we worked out a formula for whatever country the State Department designated they would like us to take up first. Is that stating it about correctly?

Welles: I would like to make just one qualification. When you speak about the financial reorganization of a country, I think that goes probably a good deal further than might be desirable in certain cases. I can conceive of certain cases where that would be necessary and where they would like it. In other cases, they might want limited forms of assistance without our making any suggestions as

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to their financial organization. That is the only qualification I want to make.

H.M.Jr: I used the word reorganization as an all-inclusive term, that is all. Now, are you ready to suggest a country?

Welles: I am ready to make any suggestions of any character that you think would be helpful.

Jones: I nominate Texas.

Welles: I didn't think Texas needed any help, Jesse.

Jones: Then, California.

H.M.Jr: I will say this, I asked Mr. Welles when he picked a country to pick one that would have a 75 percent chance of being successful.

Welles: My reply to the Secretary of the Treasury on that was that it seemed to me that the case of the Republic of Colombia was probably as good a test case as we might take up, because I think all of the other ones are in difficulty in that situation. I think, at the same time, the prospects for a favorable and successful solution are there.

H.M.Jr: Can somebody give us the picture of Colombia?

Welles: Certainly. May I interrupt just a moment? It is my understanding that your thought is that we would take up the question of Colombia simply for study at this moment to see what the various elements are and then at one of our next meetings, take up the various other requests that are pending before us, is that right?

H.M.Jr: Well, what I had hoped we could do, if I might modify that a little bit, is that we could take whatever country you suggest. As far as I am concerned, I would like to stick with that thing until it was finished.

Welles: There is one difficulty there. That difficulty is that the Colombian picture is somewhat involved, and in the meantime we have pending requests from

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a good many other governments, some of those being very limited or minor in scope and I think probably we would want to settle many of these other problems before you got through with the Colombian picture. Without being unduly pessimistic, it would seem to me that the Colombian picture might require anywhere from six weeks to two months in the way of time. In the meantime, if you got a small request from the Government of Costa Rica for assistance, you might want to pass on that without waiting for Colombia.

H.M.Jr: I take it that this is a bank and Mr. Welles, Jones and Morgenthau are the loan committee, is that right?

Welles: As far as you two gentlemen are concerned, it is very much all right.

H.M.Jr: Well, shall we start with Colombia? Might I say this, that I have had a talk with Mr. Welles and as far as I am concerned, I am going to keep myself very elastic on this thing and be as helpful as I can. There are no fixed rules, is that right?

Welles: Fine.

H.M.Jr: Is that all right with you, Jesse?

Jones: Yes. What does Colombia need?

Welles: I would like to make the suggestion that first of all Dr. Feis state what Colombia's representatives at Panama asked for and then either Dr. Feis or Mr. Collado give us a general picture of Colombia and what their problems are. Does that seem to you logical, Dr. Feis?

Feis: Yes. They state they want financial help for two reasons. They don't want to curtail imports if they can help it, because so many of their imports are connected with their whole program of national development. They fear they may have to curtail imports to protect their exchange situation because of the possible disturbance of their trade in the immediate future and the possible depression in the prices of coffee. Therefore, they wanted funds - they didn't say that they had quite decided if they wanted them only for the purpose of utilizing the exchanges or whether they would also like some to

strengthen their general reserve situation. They left that rather indefinite.

They dwelled upon and admitted that their long-term economic and foreign trade prospects were better than their immediate prospects. They would have liked to have secured a substantial sum right away. When told of the present position of the Bank, the idea suggested itself of a possible modest scheme of assistance in the immediate present and then more substantial assistance later on after more extensive study. They were told that we would be prepared to continue discussion with them after the chance had been presented to consider the matter up here between ourselves. I think that is about the essentials of the conversation.

H.M.Jr: Well, who are you going to talk to for Colombia?

Feis: This is not certain. We did not want to define that too definitely. They would probably send up here the same person that was talking down there.

Welles: The former Secretary of the Treasury.

Feis: Ex-Secretary of the Treasury and a very able and reasonable fellow.

H.M.Jr: There is nobody here to talk to now?

Welles: Well, the Ambassador is here but he is retiring and I think they would undoubtedly be better off if they sent up some special man just for this job, particularly a well qualified man.

H.M.Jr: Can we start before he gets here?

Welles: Well, I don't think there is any use of his coming up here until we have cleared the ground pretty extensively and if you feel that there is some reason for him to come....

H.M.Jr: What do you think, Jesse?

Jones: Have we any way of knowing what he is going to come for, what kind of money, what kind of credit, what he wants to do?

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- Welles: Certain figures were mentioned to you, Dr. Feis, as I recall it.
- Feis: They want the funds partly to assure themselves of the reserve situation and partly to continue to defray the exchange required for current imports from the United States.
- Jones: From the U. S.?
- Feis: Yes.
- Jones: How much are they talking about?
- Feis: They would have talked, I should think, up to 40 million, perhaps beyond that, if they hadn't caught an expression on somebody's face, and so I don't believe they ever mentioned a figure of over 30. Then, when informed of the present restricted situation of the Bank, it was made clear to them that anything immediate within the resources of the Bank would be somewhere in the neighborhood of five million dollars, at the most. That was left general.
- Jones: Did they want to borrow money or did they want credit for supplies?
- Feis: I think they would take it whichever way they could get it. They would want to use part of it for supplies. I think they would like to borrow the rest of it for a reserve, despite the fact they have got considerable gold reserve.
- Welles: They have about 20 million, haven't they?
- Feis: Somewhat over that.
- Jones: Their cash position is very good, is it?
- Feis: It is fair, but you see Colombia has been moving ahead rapidly. Their budget is probably now as high as it ever has been. It is going into such things as roads, municipal developments. They feel it very important not to interrupt that. They constantly were recurring to that as the central point of their problem, not to interrupt their whole program of national development, which vitally depends on imports, machinery and road equipment, et cetera.

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- Welles: There is one factor we haven't mentioned. I haven't got the figures at hand. If you are familiar with the American investment in oil properties in Colombia and as I remember those oil properties are just about becoming productive, are they not? What is the estimated value of those exports for this year?
- Collado: The Barco Pipe Line is just now beginning to function. They have just completed it and they are expecting three or four million dollars a year, the first years', and they hope that will increase to seven or more later.
- Jones: Just in new oil?
- Collado: Just in new oil developments. This year it will be quite small.
- Wife: Of course, they only get a portion of that exchange.
- Jones: Well, assuming we had all the money that we wanted, let's talk about it from that standpoint, how much we would be willing to consider toward Colombia and why. That seems to me the basis to start on.
- Welles: I should say it would be very difficult to hazard any guess until we had a clearer picture from them of exactly what they want to use it for.
- Jones: I should think we would need that, Henry, before we could get started.
- H.M.Jr: Well, I think we ought to - personally, I think we ought to have the fellow come up and take a look at him and sit down and talk with him, don't you think so, Jesse?
- Jones: I would think so. We don't know what we are talking about.
- H.M.Jr: I would send for the fellow.
- Welles: I shall do it at once.
- Jones: That is the former Secretary of the Treasury?

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Welles: That is right. He speaks English, incidentally.

Jones: Is there a meeting here of all those people down there?

Welles: I think it is possible that if we invited him to come up here for this purpose, that they then would appoint him their representative on this Inter-American Advisory Committee which will meet on November 15th.

Jones: What is that for?

Welles: That is a very short question and I will have to give you a very long answer.

Jones: All right.

Welles: Have you got a text of the resolution at hand? (Mr. Feis)

Feis: No, I haven't.

Welles: Have you (to Mr. Collado)?

Collado: I will see.

Jones: You needn't make it that long.

Welles: I am going to give you quite a long answer.

H.M.Jr: It is like one of those questions that you plant at your press conference, you hope somebody asks you.

What is the matter with the President Harding, is there anything wrong?

Jones: They rescued a lot of people and they are asking for some supplies, medical and so forth and so on.

Welles: (To Mr. Jones) You can read the answer to your question. It is in the first two pages.

H.M.Jr: While this man is in the process of coming, our people could work with your people in getting up a document for me on the economic resources. Have you got one in your top drawer?

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- Welles: I think Collado has it in pretty good shape now.
- H.M.Jr: You could talk it over with Harry White and get together and give me a paper and one for Mr. Jones, each 24 hours in advance of the fellow's arriving here. Would you want to do any other country or just let it go at Colombia and wait until the fellow gets here?
- Welles: Well, I might mention that we have these other pending requests. The Costa Rican request for short-term construction financing, which I think is very desirable. I understand that Mr. Jones has already been informed of that.
- Jones: We approved a small loan, didn't we, half a million dollars? We did approve a half a million dollars for Costa Rica.
- Cotton: That is right.
- Jones: Was there something besides that now?
- Welles: Not from Costa Rica, no. There is a general request from Peru for assistance of the same character as that made by Colombia. There are requests from various other governments. I think the best way to take this up would be for me to have proper documentation prepared in each case so far as we are concerned, the Department of State, that is, giving all of the information of the kind that you have asked for in the case of Colombia, and then at our next meeting we can take up one or two of them.
- H.M.Jr: Why don't we say when the meeting will be, because we are all pretty busy. Then we could look forward to another day. How would that be?
- Welles: Very well.
- Jones: In the meantime, we ought to have, I should think, the list of what you have got in mind, based upon our meeting at Panama, and then looking forward to this next meeting on the 15th.
- Welles: Yes. But now that meeting on the 15th, I think it will have to be dealt with in an entirely different

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way. The matters that we are discussing here now are purely bilateral questions, that is, requests from other governments to us for certain financing. The meeting on November 15th is a general continental meeting to discuss a great many major problems that affect all of the American Republics, including ours, and I think an entirely separate list of agenda will have to be prepared for that meeting, after full discussion with all of the Government departments and agencies that might be interested.

Jones: But the matter of credits won't enter into it?

Welles: Not at that meeting.

Jones: That is fine.

H.M.Jr: Anything else? It would be Tuesday, the 24th, at 3:00 o'clock. How would that be, all right?

Welles: I won't be here on Tuesday, the 24th.

H.M.Jr: Then I don't want the meeting.

Welles: No.

H.M.Jr: Will you be here Wednesday?

Welles: No, I won't be here until Monday, the 30th.

H.M.Jr: Do you want us to meet during your absence?

Welles: Just as you see fit. I think valuable time will be saved if these proposals can be put in documentary form and put before you.

Jones: May I suggest you give us the information you were going to give us and let us each study it and contact you (H.M.Jr.) for a meeting.

H.M.Jr: You're a practical fellow. Then the thing is up to Collado and Fels and White to get the stuff to Jones and me. I won't keep you waiting long. Right?

Jones: Right.

Welles: Of course, in the case of some of these where you get a general request, all you can do is get the general picture.

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H.M.Jr: But one thing we decided today is that the State Department will invite this gentleman to come up from South America.

Welles: That is right.

Jones: Are we going to do that before we study this business?

H.M.Jr: Oh, sure, they will want to do something.

Jones: The others will all follow.

Welles: Not unless they are invited.

Jones: But they will seek invitations. It seems to me that we could plough this ground just a little bit before you invite him. Give us two or three days until we can study this material you were going to give us and then see what we are going to expect from him and from others.

Welles: If you don't mind my making this suggestion, I think it would be well to do as the Secretary of the Treasury has suggested, ask him to come up. We know that we will want to do something, but we don't know the scope of it. In the case of Colombia, I think all of us feel there is something that can be done. The advantage to my standpoint will be that if he is invited, his Government will then appoint him as the Colombia member on the Inter-American Committee, and I think his presence on that committee would be advisable.

Jones: All right. Tell him not to fly.

Welles: I will tell him to take a good slow steamer, the kind I had going down there.

Jones: That will serve the purpose.

H.M.Jr: Anything else?

Jones: Nothing else.

Welles: Would it be agreeable to you if we do make Monday, the 30th, a day for meeting, even if you meet before?

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H.M.Jr: Sure. Well, Monday is always a bad day for me. Could it be Tuesday?

Welles: Yes, indeed, Tuesday, the 31st.

H.M.Jr: I hate to make a date for Monday. Tuesday, the 31st, at 3:00 o'clock.

Welles: That is right.

H.M.Jr: All right.

Jones: You will notify us?

H.M.Jr: Yes. Cotton, call up Mr. Jones' office and tell them to put it on the calendar for him, will you, Tuesday, the 31st?

Cotton: Yes.

TREASURY DEPARTMENT

17

INTER OFFICE COMMUNICATION

DATE October 18, 1939

TO Secretary Morgenthau

FROM Mr. White

Subject: Colombia

A. Debt Situation in Colombia

1. Colombia has an internal debt of 77 million pesos (\$45 million). This debt has been and is being serviced without interruption.

2. Colombia is now in complete default on her long term external debt which amounts to approximately \$160 million. Most of the debt is in dollar bonds and more than half of these are held in the United States. About \$80 million of the foreign debt consists of national government obligations and the remainder, local government obligations.

Partial default began in 1931 and complete default in 1934. The interest on her defaulted external debt has reached \$22 million.

3. She has an external short term debt of \$19 million, contracted in 1930. This debt is renewed from time to time and is being serviced in full. Lopez, ex-President of Colombia, is now in the United States in the hope of obtaining a settlement if such settlement can be made.

B. Financial Situation in Colombia

1. Colombia's financial situation is fairly sound. She has had a balanced budget for four years and business and foreign trade conditions were good before the outbreak of war. About half of Colombia's exports are coffee and Germany used to take 15 to 20 percent of that coffee. Colombia has lost that market temporarily but the increase in oil exports and gold production will soon make up for the loss of that coffee market.

Secretary Morgenthau - 2

2. Colombia has \$25 million of gold and produces about \$15 million of gold a year.

3. Colombia has offered to ^{to 3.0} begin payments on her foreign debt at the rate of $1\frac{1}{2}$ percent interest with no payments on account of principal for five years. This offer was refused by the foreign bondholders who insisted on 4 percent interest and no reduction in principal.

Mr. Welles announced to the Panama Conference that he was recommending a short-term loan of several million dollars to Colombia and Bolivia.

4. Colombian exchange has not depreciated since the beginning of the war and her exchange position on the whole is good.

5. Colombia is supposed to be the most nearly true democracy of all the Latin American countries.

6. Recently the government negotiated a settlement on a minor sterling obligations which involves the scaling down of principal roughly in half.

2. Colombia has \$25 million of gold and produces about \$15 million of gold a year.

3. Colombia has offered to begin payments on her foreign debt at the rate of 1½ to 3 percent, depending on an increase in exports. Under this plan no payments on account of principal are anticipated for seven years. This offer was refused by the foreign bondholders, who insisted on 4 percent interest and no reduction in principal.

Recently the government negotiated a settlement on a minor sterling obligation which involves the scaling down of principal roughly in half and involves a new obligation in pesos rather than in sterling. The settlement amounted to a new interest burden of 1.88 as compared with 4 percent previously.

4. Mr. Welles announced to the Panama Conference that he was recommending a short-term loan of several million dollars to Colombia and Bolivia.

5. Colombian exchange has not depreciated since the beginning of the war and her exchange position on the whole is good.

6. Colombia is supposed to be the most nearly true democracy of all the Latin American countries.

TREASURY DEPARTMENT

20

INTER OFFICE COMMUNICATION

DATE October 18, 1939

TO Secretary Morgenthau
FROM Joseph P. Cotton, Jr.

Re: Foreign Bondholders Protective
Council, Inc.

The Council, in form a private, non-profit membership corporation incorporated under the laws of Maryland, is, in fact, a semi-official, self-perpetuating body concerned with the protection of the holders of, and with the negotiation of debt settlements with respect to, obligations of foreign governments and political subdivisions thereof. Formed at the end of 1933 by certain prominent private individuals, at the request of the Secretary of State, the Secretary of the Treasury and the Chairman of the Federal Trade Commission, the Council has become recognized by bondholders and foreign governments, as well as by the authorities of the United States Government, as a permanent, semi-official agency similar to the British council upon which it is modeled; and has largely monopolized the field to the exclusion of ad hoc bondholders' protective committees which formerly prevailed.

I. Origin.

It should be noted that not only was the Council formed upon the initiative of officials of the Federal Government, but that the decision represented a deliberate choice of this method as opposed to the alternative of creating an agency of the Federal Government to do the job. At the time, Title II of the Securities Act of 1933, sponsored by Senator Hiram Johnson, had been enacted, providing for a Federal corporation with a directorate to be nominated by the Federal Trade Commission, but containing a provision that Title II should not become effective until the President finds and declares its taking effect to be in the public interest, which, to date, he has never seen fit to do. It was felt that it would be unwise for the Government, from the standpoint of the conduct of its foreign relations, to be directly concerned and, as a matter of general principle, for the Government to accept exclusive responsibility in the matter.

II. Management and financing.

The Council is ostensibly run by a self-perpetuating directorate of some 15 to 20 prominent private individuals who are largely figure heads. The effective management resides in an Executive Committee of about half that number and, in fact, largely in the hands of Francis White, President, who is also a member of, and J. Reuben Clark, Jr., who is Chairman of, the Executive Committee of the Council. Other members of the Executive Committee now are:

October 18, 1939

After the three o'clock meeting, Sumner Welles stayed behind and talked to Jones and me.

He said the President agreed that they should take up this Joint Resolution which passed one of the Houses, authorizing us to make loans to South America for the purchase of our materials, and try to get them to add \$100,000,000 to it and get it through this special session. Jones said he would be willing to go up and sound out the Congress.

I then said, "No one has asked me, but I think the President is making a great mistake." I said, "In the first place, I know Jones has at least \$40,000,000 he can scrape together for South America and Bell tells me that if anything goes up it should be a deficiency bill for the Army and Navy because he believes the President is breaking the law by not sending up the deficiency bill and I think he is making a mistake."

I suggested that Welles take the matter up again with the President and he said he would and that he felt the way I did inasmuch as Jones said here in the office that he believed he had enough money in the Export-Import Bank to last until next February.

* *

Welles stayed then alone and let me see the telegram that Bullitt sent yesterday, which he phoned me about a little before 3. In this it seems that Monnet has been in London and has negotiated an agreement for a joint purchasing thing, English and French, and they want a joint mission in this country to do the same thing, and was I willing. The President said that he was willing.

I thought the matter over and while I am not crazy to have Monnet come over here (and I understand that he is to represent them) that I suppose I get along with him as well as I can with any other Frenchman, but it does bother me (and I told this to Welles) that Monney has his own business in New York and heavens only knows what all his connections are.

October 18, 1939

FOR THE SECRETARY:

Barney Kilgore tells me that the Federal Reserve Board has hired two "special advisers" to help it prepare for the Wagner Monetary Hearings. They are Don Woodward of Moody's and Robert Warren of Case, Pomeroy. They are to whip together into final form a great mass of information which the Federal Reserve Board has accumulated for the Hearings. They have been in town for about two weeks.

ESD

TREASURY DEPARTMENT

24

INTER OFFICE COMMUNICATION

DATE October 18, 1939

TO Secretary Morgenthau

FROM Mr. Cochran

The foreign exchange market continued in the quiet trend which has been in evidence all this week. Sterling opened at 3.99-7/8; quickly receded to 3.99-3/8, and subsequently recovered to 4.00-1/4. It closed at 3.99-3/4.

The rate for belgas continued the improvement of yesterday and closed at .1686.

Reporting banks in New York and the Federal Reserve Bank reported sales totaling £375,000, from the following sources:

Commercial concerns.....	£ 319,000
Foreign banks (Europe and Far East).....	£ 56,000
Total	£ 375,000

Purchases of sterling amounted to £274,000 as indicated below:

By commercial concerns.....	£ 192,000
By foreign banks (Far East and Europe).....	£ 82,000
Total	£ 274,000

The banks also reported that the British Control purchased sterling amounting to £85,000, at the official rate of 4.02.

There were no new gold transactions consummated by this office today.

The Federal Reserve Bank of New York informed us of the following gold shipments from England:

\$ 84,000 to Chase National Bank of New York
\$ 28,000 to Chase National Bank of New York
\$ 14,000 to Johnson Mathay and Company, New York
<u>\$126,000 Total</u>

Yesterday Mr. Blaisell and Mr. Green of the Securities Exchange Commission called to discuss an inquiry received from the New York Curb Exchange. It seems that the Curb Exchange is desirous of building up an active market in Canadian securities. In order to do so, the Securities Exchange Commission would have to alter certain of their regulations. Involved in the problem is the fact that Americans have, on deposit in Canada, Canadian securities which it would be

desirable to bring to the United States so that these securities would be available for trading. Mr. Blaisell and Mr. Green conferred with Mr. Dietrich relative to their problem in connection with the present Canadian regulations for control of foreign exchange and security transactions. At the conclusion of the conference the two representatives felt that the Securities Exchange Commission should take no steps with respect to the matter discussed.

Mr. Leroy-Besulieu, Financial Counselor of the French Embassy, told me by telephone this morning that he had been instructed by his Government to put \$20,000 at the disposal of the American Government to cover expenses incurred in the representation of French interests at Berlin by the American Embassy in that city. Mr. Leroy-Besulieu did not know how to handle this payment. I told Mr. Leroy-Besulieu that he should remit the sum by check payable to the Secretary of State of the United States. He chose to deliver the check personally, and I told him the officers who would receive him were Mr. Brackinridge Long, or Mr. Hugh Wilson, both in Room 218 of the State Department.

Mr. Knoke told me by telephone at 11:15 this morning that, as of October 16, the balance of the State Bank of Russia with the Chase Bank was \$3,000,000. The balance of Amtorg with the Chase Bank on the same date was \$500,000. The only item of interest entering the above account of the Russian State Bank was a transfer of \$346,000 from Sweden. This afternoon Knoke telephoned me that as of today the Amtorg balance has been reduced to \$400,000, while the balance of the State Bank of Russia has risen to \$5,900,000, due to three payments from Sweden.

With reference to the item in my memorandum of yesterday, reporting that the Federal Reserve Bank of New York was reducing its deposit with the B.I.S., Mr. Knoke told me this morning that the B.I.S. had cabled that repayment was being effected, value October 19, of \$528,000.

Mr. Knoke referred to an informal inquiry we had made of his Bank as to the short position in sterling amounting to \$2,557,000 which the brokerage house of Abraham & Company has been carrying for several weeks, as noted from the tabulation which we receive regularly. The Federal Reserve Bank could not properly call in this firm for consultation in the premises, since it is not a member of the Federal Reserve system. Our friends happen to know, however, through the Bank with which Abraham operates, that this concern has a long position in sterling bonds against which it has been maintaining this short position in sterling. The bank with which Abraham does business had inquired on this point since it did not wish to be a party to a transaction possibly involving speculation in a foreign currency.



TREASURY DEPARTMENT

26

INTER OFFICE COMMUNICATION

DATE October 18, 1939

TO Secretary Morgenthau

FROM Mr. Cochran

Mr. Pinsent, Financial Counselor of the British Embassy, telephoned me last night that he would come by this forenoon to give us a message which he had received from his Government in regard to silver. He called at 12:15 this noon and summarized to me the message which he had received, as follows:

The British have found no satisfactory way of preventing purchases of silver against dollars by speculators and others in London.

It is proposed to prohibit the import of silver except under license. Licenses would be granted in fact for imports of silver from India or sterling countries but not for imports from Canada or the United States. Pinsent was asked to explain the British position to Secretary Morgenthau. He said his people would take no action pending word of the Secretary's reaction to this message.

In reply to my questions, Pinsent said he thought this was a proposal to take formal steps towards stopping a loophole, since he understood imports of silver had already been discouraged. He made clear that the proposed action concerns the United Kingdom. Since our discussions sometime ago about the proposal for the imposition of an embargo upon silver imports into India, he has seen no word of the carrying out of this proposal.

Mr. Pinsent will call at 2:30 on Thursday afternoon to present Mr. Osborne of the Bank of England. He would appreciate receiving an answer in regard to silver at that time, or earlier if it may be convenient for the Secretary.



STRICTLY CONFIDENTIAL

October 18, 1939
11:54 a.m.

HMJr: Hello.

Marriner
Eccles: Henry.

HMJr: Yes, Marriner.

E: You said something about a meeting at 11 o'clock tomorrow.

HMJr: That's right.

E: And it was tentative.

HMJr: Yeah.

E: Now.....

HMJr: I'm anxious to have it.

E: Well, I -- I just wanted to know because George has got to get down from New York.

HMJr: Well, I'm -- I'm anxious to have it.

E: You prefer to have it tomorrow rather than Friday?

HMJr: I -- I don't think I'll be here Friday.

E: I see. Well, it.....

HMJr: The French are pressing me very hard for an answer.

E: So the sooner the better.

HMJr: The sooner the better and what I'd like to do is, at the meeting tomorrow, I'd like to come to a decision with you and with Harrison.

E: Yeah.

HMJr: See?

E: Settle it definitely.

HMJr: Because the French are quite upset because we don't....

E: George -- George thought that he -- he'd bring Knoke down.

HRJr: That's all right.

E: He seemed to think that Knoke, as a practical operator, would be even more helpful than Logan, the lawyer.

HRJr: Well that's up to him.

E: Yeah. Now, there's another thing. This bond market as you have possibly noticed is -- has been pretty strong all week and I'm just wondering, with reference to the sale of notes -- there's been -- we've been having a little talk about whether or not we should consider letting some of the securities we've bought go in order to just hold the market from continuing to advance as fast as it is. But it would seem to me that while this market is showing the strength it is, it may be an excellent time -- we've been out of the market now for oh, what is it, over three weeks, three or four weeks. It might be a good time to -- to announce your refunding if you expect to do it in the near future.

HRJr: Well, I think you're right, but was it you or I once said back here a couple of years ago when they just -- things went up a little bit and we just began to get the taste of prosperity.

E: Well, of course this -- this -- these particular bonds now have gone about -- almost half way up to the -- to the point where they were when we started to buy, and of course we had felt that buying all the way down there that when they -- after they got up to a certain point that we -- to let them continue to go up it only means that the reaction is that much worse when they come on the down side. And it certainly wasn't -- it isn't our idea to -- certainly not mine, to -- to try to bring the market down. It's merely to stabilize it.

HRJr: Well, gosh before you do any selling would you give me a chance to talk to you?

E: Oh, sure. Oh, in.....

HMJr: But I am planning the refunding of those.....

E: Oh, we -- we wouldn't think of doing anything at all without discussing the whole thing with you.

HMJr: Well, I'm planning.....

E: And that's why I mention it now, because.....

HMJr: Well, I tell you, Marriner, I'm going to have a press conference at 10:30 tomorrow.

E: Yeah.

HMJr: And I'll drop a strong hint that we're going to do these notes next week.

E: Uh-huh.

HMJr: How's that?

E: Well, I was just wondering if there's any -- any advantage in letting the market know about it? What do you think of that?

HMJr: Well, let me think it over, Marriner.

E: I think -- I think that it may be good strategy, if this thing is strong, to just come right out and announce it without -- without giving them a chance to -- to go out and -- I've always found that the trouble with so darn many of those fellows up there, when they have this advance information they try to take some advantage of it.

HMJr: Well then, I wouldn't do anything until next Monday.

E: And -- and it would seem to me that you wouldn't do a thing, not even -- and the fewer the people we talk to about it the better.

HMJr: Well.....

E: And then -- and then if this market is good and strong, just decide it in that day that -- just announce that we're going to refund these just as a matter of routine. You see?

HMJr: Well, let me think about it and I'll talk to you again about it then tomorrow.

E: All right. Now, I've got George coming down and I'm going to ask the -- the executive committee to meet, inasmuch as he's going to be here, to discuss this whole thing.

HMJr: Good.

E: And so that we can discuss the letting of some of our stuff run off; also in connection with this -- the refunding .

HMJr: O. K., Marriner.

E: All right then, we'll see you at 11 in the morning.

HMJr: Yeah.

E: O. K.

HMJr: Thank you.

October 18, 1939
12:00 noon

George
Harrison: Henry, Knoke yesterday called Cochran about a message
that he got.....

HMJr: Yeah.

H:from the Furness Withy Company.

HMJr: Right.

H: And it was coming close to the matter about which I
said I'd keep in touch with you personally, so I
wanted to let you know what it was.

HMJr: Well, now I just got through talking with Harriner
and I've asked to see you and him tomorrow at 11
o'clock.....

H: I see.

HMJr:at my office.

H: All right.

HMJr: I.....

H: Well now on this -- on this thing, these people --
that is, the steamship company here in New York
of course expects some sort of an answer from us.

HMJr: Well, tell them you can't give them an answer until
tomorrow afternoon.

H: Uh-huh. All right.

HMJr: We'll settle the thing definitely tomorrow.

H: All right. First-rate.

HMJr: O. K.

H: Goodbye.

October 18, 1939
12:02 p.m.

HMJr: Hello.

James
Farley: This is Winchell calling.

HMJr: (Laughs) Is he a friend of yours?

F: I wouldn't say so.

HMJr: (Laughs)

F:

HMJr: I never.....

F: I thought you were going to die the way I read the papers.

HMJr: (More laughter)

F: My God! I didn't know what to think of things around here.

HMJr: Oh.....

F: What the Hell possesses a guy to do -- well, of course I'm not -- let me tell you a funny story about him. A year ago -- one night -- more - maybe it's a couple of years ago I happened to be in the library reading and listening to him and Bess was listening to him in her room and Jimmy.....

HMJr: Yeah.

F:was listening to the radio. And over -- that night over the radio he predicted that the Farley's were going to have a baby, see, the way he tells those things.

HMJr: I know.

F: So I went in to Bess and I said, "Are you holding out on me?" And when I was kidding her about it Jimmy came in and said, "Mother, what is Winchell talking about you?"

- 2 -

HMJr: (Hearty laughter) That's wonderful.

F: Very funny. Now I -- I'm merely telling you this story to show you how far-fetched -- now he doesn't care what he says without checking. See?

HMJr: I know.

F: It was very funny. You're all right, are you?

HMJr: Oh, I'm fine.

F: How's the money?

HMJr: Oh, we've got lots of it.

F: Good. Well, take it easy. I'm glad you're all right. Is everything all right in Dutchess County?

HMJr: Everything is fine. Apples a little cheap but that's all.

F: It's as democratic as ever, is it?

HMJr: Just as democratic.

F: Very good.

HMJr: We've still got the same congressmen.

F: O. K. Well that's all right.

HMJr: All right.

F: See you later.

HMJr: Goodbye.

October 18, 1939
12:05 p.m.

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HMJr: Hello.

Operator: Mr. Jones.

HMJr: Hello.

Jesse
Jones: Hello.

HMJr: Jesse?

J: Yeah.

HMJr: I'd like to talk to you for a couple of minutes if you're free.

J: All right, sir.

HMJr: Oh, back in September I got a letter from Hull and then one from Welles saying the President wanted to set up a committee to handle this South American business, see?

J: Yes.

HMJr: But saying that -- laying down the law pretty much that we couldn't do anything unless the State Department initiated it. Well then, Welles in his letter said that he'd talk about it when he came back. So I went over there and first I had a long talk with Welles and came to an understanding with him. Second, yesterday Hanes and I went over and had a long talk with Hull and Welles. Now the point that I made was, I'm busy, I've got lots of things to do and I don't want to do anything that the President or Mr. Hull doesn't want me to do.

J: Yeah.

HMJr: And if they would like me to do any negotiating with any country in South America, and they indicate the country, I'd be glad to take it on. But once I do take it on I don't want to have happen what did in Brazil, that for three weeks they put the screws on these fellows while they tried to extract some money from the private bondholders.

J: Yeah.

HMJr: And in the process ruined Dr. Arahna's reputation, his usefulness, and we lose one of the best friends America's got, which is what happened.

J: Um-hm.

HMJr: Now, the outshot of it was that I said, "Now look, if you will pick a country, and pick us a good one where we've got a 75 percent chance of being successful, I make the suggestion you pick the country and then that you let Jesse Jones, Welles and I try to work out a formula."

J: Yeah.

HMJr: "We'll submit it to the President and see if he likes it; show it to you, Cordell, and see if you like it; and then we'll show it to Key Pittman and say, 'Can you defend this on the floor of Congress?'" Now I said, "If a fellow has a fire in his store and he's burned out and there's five thousand dollars damages and he needs ten thousand dollars to rebuild and put in a little equipment he's decided he's a good risk. The banker doesn't say, 'well, I'm not interested because he already owes me twenty-five hundred dollars and I'm not going to do anything until he pays that back first.'"

J: Yeah.

HMJr: And I said, "That's what you're telling these South American countries," and I said, "Just to protect the bond committee of Hanson, White and Herbert Feis, say they won't settle for anything less than a hundred cents on a dollar."

J: Um-hm.

HMJr: And I said, "The Treasury permits a company to buy in its bonds at any price it can." I said, "Jones got through a bill almost permitting the railroads to do the same thing and I say what's happened in the last six years, we haven't made a settlement with any country." See?

J: Yeah.

HMJr: And I said, "You can't put the private debts off in one corner and at the same time turn about making a loan to them and then put the screws on these fellows."

And I said, "Look, what have you got out of Brazil? One million dollars."

J: Yeah.

HMJr: And that's all. So I don't know whether you think I'm talking horse sense or not.

J: No, I think you're talking sense.

HMJr: So I said, "Jones is doing this every day; he's got reorganizations; he understands his business and I think he'll be in sympathy." Well Hull says, "I'm in entire sympathy." I mean, I said -- he said, "If you're going to rehabilitate a fellow you can't only talk about part of this thing, you've got to talk about the whole thing."

J: That's right.

HMJr: So that was the purpose of this meeting this afternoon.

J: Yeah.

HMJr: And the idea is that you and Welles and I will carry the ball and meet frequently until we do one country, but do it differently than we've done it before; look at it from the whole -- every standpoint. See?

J: Yeah.

HMJr: Then when we've got something we'll follow the plan that we've set. Then if it's all right he's got five or six other countries to do it. See?

J: Yeah.

HMJr: But he said, "Colombia is the easiest."

J: Yeah. So.....

HMJr: What?

J: So we want to talk that one this afternoon?

HMJr: We'll talk about that one this afternoon and stick to it until we either say, "We're licked," or here's a way to refinance Colombia just as though it was a private business.

J: O. K.

HMJr: And we'll have to do something with this private -- this bondholders' protective committee which is the apple of the eye of Herbert Feis you know.

J: Um-hm.

HMJr: And -- but that's the background. Now the President's in entire sympathy; Hull's entire sympathetic to this and so is Welles.

J: All right.

HMJr: But they were going to bring in Federal Reserve. I said, "What can the Federal Reserve contribute to this?"

J: That's right.

HMJr: I said, "Nothing." I said, "If they can we'll invite them in later on." But I said, "Three people are enough." And I said, "Jones and I always get along. We've put through a lot of deals together." So how does it strike you?

J: That strikes me all right, and that's what we will discuss this afternoon.

HMJr: That's right.

J: O. K.

HMJr: All right.

J: And I'll be there at three.

HMJr: Thank you.

J: Thank you.

October 18, 1939
2:50 p.m.

HMJr: Hello.

Sumner
Welles: Hello, Henry.

HMJr: Yes, Sumner.

W: I hope you had a good lunch.

HMJr: (Chuckles) Gosh, I go to these things once a year and then I'm always -- sat down at a quarter of two and I left in the middle of it.

W: That's pretty bad.

HMJr: Yes.

W: I'm glad I didn't go. The President asked me to get in touch with you as soon as I could.

HMJr: Yes.

W: And asked me to read this telegram to you which he has just received from Bullitt.

HMJr: Right.

W: Ah -- he first of all refers to a letter that he sent to the President and then goes on to say, "I now have the text of the agreement which Monnet concluded in London for the coordination of French-British economic activities during the war covering shipping, air production and supply of raw materials and munitions, oil and food. Monnet was informed by the British government that you had indicated to Lothian that you considered a British mission preferable to a purchasing corporation. The question will be decided in Paris tonight or tomorrow. Because of the pooling of resources by the French and British governments, the British -- the French government is inclined to believe that it would be preferable to make purchases in the United States through a single joint Franco-British mission.

"My opinion is that a joint Franco-British mission would be the most efficient mechanism. Question one, do you agree. I assume from Morgenthau's

- 2 -

talk with _____ on September 13 that such a joint mission would be able to find the same sort of cooperation in Washington that was accorded last winter to Monnet.

"Question two, is this assumption correct."

That's the end of the telegram. The President.....

HMJr: Please.

W:is inclined to think as I do that the answer to both of these questions should be in the affirmative, but he wanted to be sure that you agreed before I sent the reply.

HMJr: Well now, Sumner, are you coming over here?

W: Yes.

HMJr: I'd like to talk a minute. This -- this is pretty important.

W: Yes.

HMJr: And I'm not smart enough to just.....

W: What?

HMJr: I -- I'd like to think about it for an hour and then talk a little bit with you.

W: Why certainly.

HMJr: And.....

W: Bill called me up on the telephone to ask why we hadn't sent a reply, that he needed it immediately, and that's the reason I telephoned you instead of waiting until I came over.

HMJr: Well, I -- I don't -- these important things, I can't -- Bullitt's always in a hurry.

W: That's right.

HMJr: And.....

W: All right, Henry, I'll bring it over with me and then we can talk about it and you can think it over in the meantime.

HMJr: Well, let me ask you a question. In London did he say it was Monnet or Monick?

W: Monnet.

HMJr: Oh. Well, I -- I definitely would like to talk with you a little bit. I appreciate the President giving me a chance but certainly if he -- if we decide by four o'clock, huh?

W: That's all right.

HMJr: And I'm willing, if anybody asks say I asked for an hour to think it over.

W: All right, Henry.

HMJr: That doesn't seem unreasonable.

W: I'll bring it over with me.

HMJr: Thank you, Sumner.

W: I'll be over in a minute.

HMJr: Thank you.

October 18, 1939
4:00 p.m.

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HMJr: Hello.

Operator: Mr. Bell. Go ahead.

HMJr: Hello.

Daniel Bell: Hello.

HMJr: Yes, Dan.

B: Hadley wanted to go up to New York tonight and stay two or three days - see his sister, I think. Do you have any objection? He'll be back here Monday morning.

HMJr: That's all right.

B: I think he ought to go. He has worked pretty hard.

HMJr: I think that's all right.

B: All right, I'll tell him.

HMJr: Anything else?

B: That's all. Have you talked to Eccles?

HMJr: Do you want a good laugh?

B: Yeah.

HMJr: He called me up. He thought they might sell some bonds now.

B: (Laughs) I just got through talking to him for a half hour. I asked him if he would stay out until we refunded the December. He says, "Oh yes, I had no intention of going in before you did that."

HMJr: Can you beat him?

B: But he said, "I hope you refund them right away so that if we have to go in we can go in pretty soon."

HMJr: God Almighty. Can you beat him?

B: No. Well, the world has come to an end.

HMJr: Why? Because the bond market went up?

B: No, because they're selling. He says they want to sell.

HMJr: I told him -- I said it's like when we got a little -- a recovery everybody gets worried we're going to have too much this and too much that.

B: Yeah. Say, isn't this thing that was in there this morning a starting of something else?

HMJr: Spending?

B: Yeah.

HMJr: Sure, they said so right in the memorandum.

B: Oh, did they?

HMJr: Oh, yes.

B: Oh, I just thought it was a revival of the old.....

HMJr: Well.....

B:school.

HMJr:I'd rather have it in my office than in somebody's

B: Well, I -- I thought -- God, yes. I thought you were all right on that but I just wondered if it was the same old thing.

HMJr: Sure.

B: Well that's what I suspicioned but I couldn't tell.

HMJr: Well, why not have it in my office?

B: Oh, it should be there. It's better there than any place else.

HMJr: What?

B: I agree.

HMJr: Fine.

B: - But I just wondered if you recognized the thing.

HMJr: Well, I -- he said -- he used the -- Jerome Frank used the thing -- a new spending program.

B: Oh, did he? I didn't get that.

HMJr: Yeah. He used it in his memo to the President.

B: Oh, in his memo. He didn't say that this morning?

HMJr: No.

B: Well after I got out I said, "Well, this is the old -- same old head."

HMJr: Right.

B: A different hat on it.

HMJr: Yeah.

B: All right. All right, thanks.

HMJr: Goodbye.

October 18, 1939
4:40 p.m.

Jesse
Jones: Kind enough to suggest to me a few times that I
rest a little more. I think -- I was a little
worried about you this afternoon. You looked
tired.

HMJr: (Chuckles) That I looked tired.

J: Yeah.

HMJr: Oh, I feel a little tired.

J: Well I think you ought to go home.

HMJr: Well.....

J: Don't worry about these damn things.

HMJr: I don't worry about them. That's right sweet of
you, Jesse.

J: Huh?

HMJr: It is very sweet of you to call me.

J: Well, I thought about it after I left there, Henry,
and.....

HMJr: Well, they come over here.....

J: These fellows from -- like.....

HMJr: God, and he had a cable in his pocket from Bill
Bullitt and he wanted an answer yes or no, and he
called me up on the phone and wanted an answer.
And I said, "Stay behind." I said, "Give a fellow
five minutes to think these things over," you know.

J: Yeah.

HMJr: But I am a little tired.

J: Well, I -- I think I'd.....

HMJr: I'm going to the theater tonight with my wife. I
hear that's a good play at the National.

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J: Um-hm. Well, go on home and rest a while.

HMJr: Thank you, Jesse.

J: Forget it.

HMJr: I will.

J: We'll wrestle with them some way.

HMJr: Thank you.

J: Goodbye.

HMJr: Goodbye.

October 18, 1939.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston



SUBJECT: Steamships PRESIDENT HARDING and ELAIREBEG

At 10:00 p.m. Tuesday the American steamship PRESIDENT HARDING reported to the Navy Commander of the Atlantic patrol that she was in a violent storm and needed assistance, particularly morphine, codeine, splints and other hospital supplies and also an additional physician. The cutter HAMILTON, the nearest vessel of the patrol, was ordered to make contact with the PRESIDENT HARDING as soon as possible. At 1:48 the PRESIDENT HARDING reported she was ~~to~~ ^{to} move to. At 2:10 she reported a list of injuries, including a skull fracture, broken limbs and other cases. The HAMILTON made contact with the PRESIDENT HARDING at 8:45 a.m. today. The sea was too rough for transferring injured persons but the medical supplies desired were put aboard the PRESIDENT HARDING. She reported she needed no further assistance and was resuming her voyage to New York where she expected to arrive Saturday.

The position of the PRESIDENT HARDING at the time of her original distress call was southeast of Cape Sable and about 1,000 miles out of New York.

At 2:55 a.m. the patrol intercepted an SOS from the British steamship ELAIREBEG, also in the vicinity of the patrol. At 3:15 the cutter DUANE was ordered to proceed at full speed to assist the ELAIREBEG, 300 miles away. At 6:44 the ELAIREBEG reported hatches intact and they were

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endeavoring to rig steering tackle. The BLAIRBEG later reported that assistance was no longer required.

Both cutters were ordered to resume their stations.

October 18, 1939

2082 from Kennedy. VERY CONFIDENTIAL. He has no answer to 2026. Thinks power of his position as Ambassador will be diminished if he can't ~~hand~~ advise the British about sale of their securities.

(This is filed with other pertinent cables as of 10/24/39, date they were shown to the President.)

approved 10-18-39

EXCERPT FROM POLITICAL REPORT FOR THE MONTH OF
SEPTEMBER, 1939, FROM AMERICAN CONSULATE AT
YUNNANFU

B. Transportation and Communications.

1. Highways.

The washout on the Burma road mentioned in last month's report has not yet been repaired. Shipments are still arriving in Yunnanfu, although in greatly reduced volume. It is reported that heavy rains during the latter part of the month extensively damaged this road.

So far as can be learned, the Yunnanfu-Kweiyang-Chungking road has suffered little damage since the rains reported in June. The Yunnanfu-Luchow-Chungking road is scheduled to be opened to traffic in mid-October, but after so many false reports concerning this route one is inclined to be skeptical.

The Kwangsi road from Dong Dang to Nanning and thence northward has been under heavy fire during the past two months. According to information available in Yunnanfu, this route is strafed daily by Japanese aircraft; casualties among both drivers and trucks are said to be many, and it is becoming more difficult to get drivers who are willing to take vehicles over this road. Traffic is still proceeding, much of it moving at night.

It is reported that a new road has been completed from Caobang, Indochina, to Kweiyang via Hochi, in Kwangsi. The connecting road from Caobang to Hanoi is said to be in poor condition, but when improved the route will

will offer a welcome alternative to the other Kwangsi route, as it lies farther to the west.

The Southwest Highway Administration (branch of the Ministry of Communications) has levied an additional maintenance tax on vehicles using the roads of southwest China (exclusive of the Burma road). The rates are: NC\$0.04 per kilometer for passenger vehicles with seven seats or less, NC\$0.08 per kilometer for passenger vehicles with more than seven seats, and NC\$0.06 per kilometer for trucks. These rates went into effect on September 1. It is reported that the Ministry of Communications is to spend NC\$13,000,000 on a road improvement program in this area.

2. Railways.

The outbreak of war between Germany and France caused a brief period of confusion and stoppage of shipments on the Yunnan-Indochina railway for a few days. Transit traffic is now permitted to go through, although shipments of goods to and from Germany are of course, prohibited.

On September 23 a north-bound passenger train was wrecked near Kaiyuan, between Mengtze, Yunnan, and Yunnanfu. There were reported to be 300 casualties (killed and injured) in this, the most serious accident on the railway since 1911, when the line was completed to Yunnanfu.

The

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The heavy rains of the last week of September have washed out the railway in several places and all traffic had ceased at the end of the month.

RE REGULATION OF GOVERNMENT PURCHASES

October 18, 1939.
10:30 a.m.

Present: Mr. Graves
Mr. Stewart
Mr. Haas
Mr. Bell
Mr. White
Mr. Duffield
Mr. Smith
Mr. Frank
Mr. McReynolds
Mr. Lubin
Mr. Currie
Capt. Collins
Mrs Klots

E.R. Jr:

This meeting, in the first place, is White House business so it is extra confidential. It is the result of two memoranda that I have received. One is from Mr. Frank to the President, to me, what are we going to do in case we should have peace, and the other one is from Mr. Currie, who feels worried about the first quarter of this coming year and is there anything we can do on Procurement. Well, I would say they both sort of come together, what are we going to do if business is bad. I thought if you didn't mind I would try to kill two birds with one stone, and it looks as though whatever we did, it might be the same answer. That is why the thing is here.

Now, to go back a little bit, when McReynolds used to work for a living and he was over in the Treasury, before he went to the White House, a couple of years ago, we did work with the help of Lubin and some other people - Mac may remember - on this idea of looking at the particular industries which had peaks and valleys. At that time we were looking at them and Government purchases, and in particular the shoe industry and the woolen industry, and trying to direct the Government purchasing so that we wouldn't do it the way the Army did that year, buy the woolen blankets for two years at the peak of the market without regard to employment. We were old-fashioned in those days. We are interested in employment now. We made all that study and there were certain industries where we found the Government was buying, both from the standpoint of employment and price, at the wrong time and a lot could have been done. We had great difficulty with the Army and Navy about getting information.

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While we wait for Lubin, I think inasmuch as Currie said that he felt that this was the most useful device that we might use - am I quoting you right?

Currie: Yes.

H.M.Jr: I wonder, Mac, if you would sketch what we worked out a couple of years ago.

McR: Well, the idea was to schedule the prices, that is, gather the information. I guess Harry did that for Procurement. Collins gathered the information from the Government service and some from the military branches too, didn't you, Harry?

Collins: Both the Army and Navy, yes, sir. That was the principal source of information.

McR: They are the ones that bought commodities.

H.M.Jr: Should I ask Harry?

McR: I think Harry could tell the story so far as the gathering in of information went. He would have a better knowledge.

Collins: You will recall, Mr. Secretary, the study at that time was principally on the subject of textiles, both woolen and cotton.

H.M.Jr: And that covers shoes too?

Collins: Yes, but the principal study still came back to textiles. Well, Procurement at that time was buying a very large quantity of cotton textiles. The Army and the Navy, after several meetings and after digging up quite a lot of information, finally simply stated that they had to make purchases to meet the requirements when the requirements arose. They used as an illustration the uniforms they had to furnish at that time for the CCC, for which they had to make those inordinately large purchases of cotton khaki. With reference to shoes, we had information concerning what quantities they were using, but it was not possible, they claimed, under their budgetary system, to defer purchases or to

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step them up, although in the spring of '38 we did, by direction of the President, make purchases - direct these people to make purchases of all the textiles and any other commodities they could, principally textiles, because it was the textile market at that time we were discussing.

Procurement, I think, has solved the problem more than either of them because that was at that time when we had a valley in the textile production. We did step in then and buy textiles, which more or less leveled it off and provided employment for the industry.

On shoes, nothing much has been done about them.

H.M.Jr:

Well, let me ask you this: Supposing the President decided that he wanted to conserve the Government cash - I have asked Harold Smith to be here; he will be here late - in case he wanted to have a shock absorber, in case of peace abroad or in case of business turning down, how could the President direct whoever he wished to direct to go about - I mean whether it is the Maritime Commission in building ships or whether it is the Army or Navy or Procurement, I mean what sort of - didn't we have a paper set up? I thought McReynolds worked on that. I mean, isn't there a set-up somewhere that could be set up over the President's signature to very quickly do this thing, because they are placing the orders every day and they are tremendous. Mac, didn't you have a set-up?

McR:

No.

H.M.Jr:

I am doing my home work in front of you gentlemen, if you don't mind.

McR:

It would be a budgetary control, of course, so far as purchases outside the Army and Navy are concerned. They could withhold, wherever it was possible, through orders issued through Procurement.

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So far as the Army and Navy are concerned, the orders would have to come - since they have no control over them, the orders would have to go from the President directly through the heads of those departments. It would be a withholding of authority, just spending money for these supplies, I suppose.

H.M.Jr: Mac, wouldn't it be very simple to draw up a piece of paper for the President to sign to get how much money is left in all - out of this year's budget? I mean, say that he would like the answer by Monday from every department head, how much money they have got left of money other than salaries.

McR: That could be provided, I imagine. Dan could answer that better than I could, but I imagine it could be provided every place except the Army.

Bell: Well, we could give you a statement by Monday as of September 30th, get those monthly statements. I haven't a lot of faith in some of them because they use a different definition for obligations, but each department and....

(Mr. Smith and Mr. Lubin enter)

H.M.Jr: Let me give you a rough idea. There are two things, one, that in the first quarter of next year business may be bad. Two, we may have peace. The trouble with these ideas is that they come every two years and go back to roost. I will just take a second to say there are two schools of thought that have approached the President. He asked me to get them out. One is the possibility of a downturn in business the first quarter. The second is the possibility of peace and what could the Administration do in either case, and Currie asked - he thought that the best device that he knew of - am I quoting you right?

Currie: One of the devices.

H.M.Jr: One was the possibility of controlling purchases. We have gone this far. You (Lubin) made that study for us of the shoe industry and woolens, and so forth. At that time we were interested in employment and still are. I have just gone this far, how could

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we get for the President and the White House people here, say by Monday, a picture which would be 90 percent correct of how much money there is available left in this year's budget other than salaries.

In your absence (Smith), I was asking Dan, former Budget fellow, how that could be done, whether we could get by Monday a picture of how much ammunition we have got left.

Smith: I would think so. I think we have got most of it built up for the summer. Wouldn't you think so, Bell?

Bell: Yes, I was just saying....

Smith: Within certain limits, possibly.

Bell: We could get by Monday a statement as of September 30th, showing the unobligated balances. In some cases, I think we might have to go back to the departments, because I haven't a lot of faith in some of their figures, but we could get that. I think we would have to consider that October is about gone, as far as obligations are concerned.

Now, as to the control over the next few months, each department is required under law, as you know, to submit to the Director of the Budget in July an apportionment of their appropriations over the year, which receive the approval of the Director. Now, if the President wanted to control that for, say, November, December and January, he could direct the departments to submit again their apportionments, sheets, for those months with the reduction of any figure that he wants to show in the obligation and 15 or 20 percent, putting that amount in a reserve to be released upon - subject to the approval of the Director.

H.M., Jr: Isn't that something as of the first of November, taking for granted that October is gone? Why isn't that O. K.?

Smith: That depends upon what you want to accomplish, or the objective. I haven't listened enough to get it all.

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- Bell: I take it what the Secretary wants is to roll up a reserve of four or five hundred million dollars that can be put into subsequent months when business curves go down. Is that right?
- H.M.Jr: Well, I am talking - the President gave me a copy of Frank's memorandum, which is on one angle, and Currie and I had a telephone conversation. I say I am doing my home work out loud. It seems to me that it is the height of stupidity to overlook a bet and not to have some kind of a cushion. If we can do it and show the President how it could be done and he likes it, he can say, "Fine, do it," but at least we can put it on his desk by Monday and say, "Now, Mr. President, you can save three to five hundred million dollars that you could release whenever you see fit. Do you want to do it?" Well then, we have done our duty on this front. That is all.
- Currie: That is right.
- H.M.Jr: Would that cover what you had in mind?
- Currie: Yes, Mr. Secretary.
- H.M.Jr: Am I talking too fast or too much?
- Currie: Not at all. What the possibilities are, without disrupting any agency's program, of pushing certain purchases over for a few months, what further possibilities there might be in the first quarter of anticipating requirements for the remainder of this year on supplies.
- H.M.Jr: That would be a little bit different.
- White: Is it so much a question of postponing purchases as also postponing orders, in view of the fact that a Government order itself is sufficient to get production started, even though they can say the funds wouldn't be forthcoming for another few weeks or a month or two?
- Currie: Yes.
- Bell: That is the reason I said control the obligations

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rather than the cash. If you controlled the obligations, you would control that.

- H.M.Jr: Well, immediately when we began to do it, certain people would begin to holler and then it comes down to the question of how serious is the holler.
- White: Then there is the further danger, which one has to take into consideration, that if that is going to be done on any substantial scale and if there should be a downturn in January, that is why the downturn will occur. One would have to weigh that possibility. They will allocate the downturn or cessation to any very large reduction in Government orders if it does amount to a very substantial amount.
- Currie: I take it....
- Frank: I take it that the problem Mr. Currie raised arises from the huge volume of orders anticipating demand that is now expanding inventories and likely will lead to a drop subsequently. I think that general notion has been percolating into the public mind. You see it is getting into the press and it is not merely governmentally-inspired sources. I think industry generally is really concerned.
- Currie: Yes.
- Frank: And therefore I think a corrective from the Government would not be resented as it might have been in some other period. I think there is a general apprehension on the subject.
- H.M.Jr: There we could get much more scientific with the help of Lubin and Lubin could show us which industries are working above a hundred percent.
- Currie: It is my recollection, Mr. Secretary, that in that week in September in which the cotton textile industry had the biggest orders in history, that we also put a big order in that week.
- Lubin: Here is the way the figures look....
- H.M.Jr: I have given Lubin 25 minutes' notice, so that is 20 minutes more than he is accustomed to.

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- Lubin: Here is the way the figures look. When print cloth was selling for 4 and 3/4ths, we bought from August 21st to 26th, 91,000. The week of August 28th to September 2nd, we bought 111,000. The week of September 16th, when prices jumped to 5.6, which was a cent increase or 20 percent, we bought 1,404,000 dollars worth the next week, then 1,005,000 dollars worth. Then print started falling about the 25th of September and we cut our orders.
- Haas: We represent the public.
- H.M.Jr: I hope that isn't all Procurement.
- Collins: No, sir, it is not.
- Lubin: It includes everything.
- H.M.Jr: Were we in on that?
- Collins: We were in on some of it, sir.
- H.M.Jr: Couldn't you, by Monday, if they were getting these figures, having three or four days to work on it, show which industries they should ease up on first? Then the criticism would be diminished and we would be doing it on a more or less intelligent basis. Just the way we did two years ago, say, "For heaven's sake, ease up on woolens or shoes."
- Lubin: Of course, your big problem, as I understand it, is that they say they have got to buy when they feel they need it.
- White: It is a question of defense versus economy with them and they say they cannot delay purchasing.
- H.M.Jr: I am satisfied that it is just baloney, just 100 percent baloney. The more contact I have with the Army and Navy - I will say that because I am in the hands of my friends here - the less respect I have for their purchasing. We are in this thing now on the strategic war materials. They are just driving us crazy. Their little ten million dollars causes us more trouble than a hundred million dollars of regular stuff. Is that right, Collins?

Collins: That is right, sir.

H.M.Jr: They don't know one day to the next what they want. It is deadly. I would like to talk to Collins and Graves and you (Currie) about that manganese, if you will stay afterwards.

Currie: Yes. But it does mean, Mr. Secretary, as Lubin suggested, that we can't do an awful lot without the Army and Navy.

H.M.Jr: You fellows over there and the Director of the Budget - I mean unless you have gone socialized or something and would like to be invited out to Ft. Meyer or something, you can direct the Budget. It is just a question of being a little tough.

Smith: It is a little difficult right now to be tough with the Army and Navy.

Bell: They are sitting on a pedestal, aren't they?

Smith: I often read the decisions in the newspapers myself.

H.M.Jr: I have had an illustration during the last week where the President was and got just what he wanted and got it within five hours, so I mean if he wants it I am sure he can get it.

Frank: He is still the Commander-in-Chief.

White: How important might the shipping program be in this connection? They are doing an awful lot of building. Couldn't they curtail their program?

Currie: I am afraid on that, Harry, that is mostly let out by contract. You mean the Maritime or Navy?

White: Maritime.

Currie: Maritime is mostly all by contract.

H.M.Jr: Mostly done, too. You (Bell) looked into that a month ago. What was the story?

Bell: I have forgotten the figures, but they have a substantial amount of contracts left between October

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and June and so does the U. S. Housing Authority have a number of contracts yet to let. The Navy does all of its work by contract, either private or at the Navy Yards, but if the contract isn't let, that is the place to stop it for a couple of months.

Frank: Even if it has been let....

Bell:and work hasn't been started, you can delay it.

Frank: Maritime could delay it, couldn't it? I would think under some of their contracts they could go to the person and arrange to slow down their purchases, that they shouldn't put in their orders for some time.

Bell: Give them an extension of time.

Frank: And ask them not to let their orders stop.

Bell: That probably could be done, yes.

H.M.Jr: Jerome, did you have some other ideas than this?

Frank: I was thinking very vaguely in terms of our situation, what we might do over at SEC in case of peace. Then I suggested that the situation seemed to be so disturbing as to the possibilities of the effect on industry of sudden peace that I thought we might be putting something in the cooler as to - I was thinking in terms of a longer range program of legislative activity, what kind of a program we might want to have ready for next session for governmental emergency spending if it happened, because - I may be wrong, but I would think that with the present inventory situation and with persons' expectations throughout all the country, which doubtless is affecting consumption buying to some extent, a sudden peace might mean a really serious recession.

Currie: That is what we are afraid of.

Frank: I think you are right.

H.M.Jr: Let's try to have something by next Monday.

Frank: This is something you can do now.

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- H.M.Jr: This is something we can do and then this legislative picture will take longer.
- White: Is there any possibility of doing anything in cooperation with the States, any of the large States?
- H.M.Jr: On roads.
- White: Possibly in our other matters. Some of those States are very big purchasers, and if you can get a half dozen of the largest States to cooperate in some measure, they might almost duplicate the Federal activities.
- Frank: Particularly those where the Governors are friendly to the Administration. I would think, for instance, New York, perhaps, say Illinois, now. I think Horner would probably respond quickly.
- Currie: This request for information, Mr. Secretary, do you think it would be advisable to have it broken down somewhat between the regular continuing expenditures, salaries and supplies?
- H.M.Jr: Yes. Well, let me ask the Director of the Budget, how would you like to do this, set up a little committee so we can have something by Monday?
- Smith: Well, it doesn't make any difference to me what is set up in the way of a committee. It seems to me that you have got in Procurement a bottleneck there that you can start to work on right away. We scrapped through this problem of setting up reserves. It is awfully difficult to go back and revise that, I mean, and get immediate action, whereas it seems to me in Procurement you might get immediate action by just refusing to do certain buying until people are brought in and....
- H.M.Jr: I thought you were a nice fellow.
- Bell: I don't think there is enough money involved, is there, Harry?
- H.M.Jr: You couldn't do that. It has to be done openly, I mean saying that you would freeze so much money.

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I haven't reached the point where I want to recommend it but I think we ought to take a look at it. I wouldn't put Harry Collins out on the end of a limb and say such and such a department wants something and just don't do it, just stall them. That wouldn't be fair to him.

Smith: What I am thinking of, we may be piling up the Procurement items between Army and Navy and those items over which you (Collins) have control and which you purchase. That would be obvious to you, probably, immediately, where it was not to others. I don't think you would get any such quick control through a readjustment of funds. That is a longer proceeding, holding back on all sorts of expenditures.

H.M.Jr: If the President wants to do this and he will tell the Secretary of War and Navy he wants to do it, I can talk with them. If he says he wants to do it, we could work out a program in 24 hours. Mac and Lubin and others went all through this thing and to do anything unofficially without the authority of the President of the United States back of it is just a headache and I haven't got the time to take on unnecessary headaches.

Smith: I wasn't suggesting that, but I think it is a very important part of the plan that the bottleneck is right in Procurement where we execute it.

H.M.Jr: Well....

Smith: Am I wrong in that? I am looking back in my State experience in a smaller organization where the purchasing agent is across the hall and we get together and we stop these things.

H.M.Jr: No, but don't mind my saying you are wrong.

Frank: Procurement doesn't have anything to do with Army and Navy purchases at all.

Smith: I understand that but I mean there might be something worked out there.

H.M.Jr: If I hadn't had this experience over two years ago - Mac, you went all through that - it is just a headache.

McR: November, '37, is when we started working on this.

H.M.Jr: That is a significant date. It will have to be put down on a piece of paper. The President will have to look at it and he will have to call in the Secretary of War and Navy and say, "I want this done," and he does. And then he will tell them to tell Mr. Smith and Mr. Jones and Army and Navy to work with whomever he designates.

Smith: Well, I don't disagree with you on that. However, I just came from a conference this morning in which we were worrying about the same thing from the other end. The Army and Navy have been given certain orders to go ahead. They have already committed themselves to an extent which worries us very greatly in the Budget office and from the practical point of view it is going to be extremely difficult to stop filling their orders at this time. I don't think you can get the terms for setting up reserves. That has been done. And when the pressure arises, the reserves are broken through and Navy, as you say, those issues have got to be sifted out rather carefully and I think to get immediate results, there would have to be, as you suggested, a very careful set of specifications without many "ifs" and "ands".

Currie: You may find, Mr. Secretary, that there have been so many commitments made, so much in the works at the moment, that the best bet may be to see what anticipatory buying we could do.

H.M.Jr: If there is so much going on, if the President moved back it would be worth while because Dan, I think, and perhaps Harold Smith, have been weeping on my neck that the President is breaking the law by not sending up a deficiency bill at this session and that was just on his own initiative. I am rather suspicious of Dan. Dan got a little cross with me because I wouldn't do something about it. No, I was just kidding.

Well, anyway, let's give the President the picture,

- 14 -

whatever it is. If they are overboard, over-expended and dragging along because they are spending money they haven't got, let's give him that picture. Has he got it?

- Smith: He has got a good part of it.
- Frank: But the other could also be canvassed, the anticipating volume in January.
- H.M.Jr: Should I appoint a committee?
- Smith: Yes.
- H.M.Jr: Well then, why don't we do this, because these are the people: Do you (Mr. Frank) want to sit in or wait until it comes back to me?
- Frank: I wouldn't have any technical knowledge.
- H.M.Jr: You can wait until it comes to me. Will you (Mr. Smith) serve?
- Smith: Yes.
- H.M.Jr: And Mr. Currie and Mr. Collins and Bell and McReynolds. How is that? And Lubin. Could you meet, say Monday, and then come back here Tuesday at 11:00 o'clock?
- Smith: I think so.
- H.M.Jr: You see, that is Smith, Currie, Lubin, Collins, Bell and McReynolds.
- White: There is another possibility....
- H.M.Jr: Just a second. Be back here Tuesday with something on paper at 11:00 o'clock.
- Currie: Something on paper.
- H.M.Jr: This is weighted pretty heavily for the White House. They ought to get something done about it. We will see what this new combination over there, the "Silent Six," can produce.

Currie: Maybe they will produce silence.

H.M.Jr: Is there anything else?

White: There is another possibility that....

H.M.Jr: This is the voice of Harry.

White: That is that....

H.M.Jr: He got it, all right.

White: I looked at Currie's face and I got it.

There is the possibility of cooperation with the British and French Governments and I am sure that a good many of their very large orders which they are giving now can be regulated without interfering with their necessary output.

H.M.Jr: May I say without explaining it that that is under complete control. I can't explain it now. The President is entirely aware of that situation. It is a good idea. He has got the picture. Any other suggestions? Well, I am not going to be disappointed, am I, on Tuesday?

McR: I think so.

Smith: I couldn't swear that you wouldn't be.

H.M.Jr: Don't disappoint me.

McR: I don't mean you will be disappointed about having a report.

H.M.Jr: I mean this is just something to put on the President's desk, does he want to do it.

McR: You want to get the significance of the facts and what could be done. As far as getting that, I think we ought to be able to give you the facts.

H.M.Jr: I think Lubin could give us a few glaring examples. There is another angle to the thing. A very bright young fellow came in here two or three weeks ago, Bob Stevens, and he is in the textile business and he says that the Navy, I think, was in the market

for 75 or 100 thousand blankets, woolen blankets, and they could only get the order filled for 25,000. He had all the figures and said that England had bought far in excess of the wool they need from Australia and South Africa and why not swap some wool for some cotton. I made the suggestion that we take this wool as we did in WPA, keep title to it, give it to the mills and pay the mills in wool for manufacturing for the Army and Navy or anybody else that wanted it. I sent him over to the Department of Agriculture and nothing happened, but the woolen picture must be something terrible on prices. The thing that we are talking about is what the so-called Stebbins Board was going to do, but they are either out of town or on the way out of town. The President will have to substitute something to take its place. Is that right, Lauch?

Lauch: I think so.

H.M.Jr: Right now it is all on you peoples' heads. This group we are talking to have got to do something for him. You can give us some good examples, can't you, Lubin?

Lubin: I think so.

H.M.Jr: The woolen situation must be terrible. Now, I don't know whether it is so or not, but they tell me that the automobile truck - Woodring made the statement that he couldn't get a delivery of a truck for the Army for six months. I don't believe it, but that is what he said.

Lubin: We can check that pretty definitely through a contact with the truck manufacturers.

H.M.Jr: I will tell a story out of school. Somebody asked the President if the war ends and you are going to have a general mobilization in a month, how was the General going to get down there. The President said, "Let him walk."

Now, Frank, are you satisfied with this for one meeting?

- 17 -

Frank: Fine, excellent.

H.M.Jr: Currie?

Currie: Yes, Mr. Secretary. I think this ties in with it. WPA has been asked to give me their schedule of anticipated expenditures for the end of the year.

H.M.Jr: We do their buying.

Currie: Not on their buying but the people they intend to carry on their monthly expenditures.

Bell: I saw in the paper that they went up the first part of October. I wondered why.

Haas: They have been going up for three weeks.

Bell: Yes.

Currie: You say they are going on a prior schedule worked out three or four months ago and perhaps there should be some revision in it in line of the new prospects we expect this year.

H.M.Jr: Currie, as long as you have raised this thing, somebody has got to carry the ball and see that the boys meet and everything else. Would you mind doing that?

Currie: I would love to.

H.M.Jr: Somebody always has to.

THE WHITE HOUSE
WASHINGTON

WHOLLY CONFIDENTIAL

October 13, 1939.

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

Will you speak to me
about this?

F. D. R.

HIGHLY CONFIDENTIAL MEMORANDUM

October 4, 1939

TO: The President

FROM: Jerome N. Frank, Chairman,
Securities and Exchange Commission

Although there may be no great likelihood of its occurrence, it would seem unwise not to be prepared for the consequences to the economy of the United States of a peace in Europe in the near future. With that in mind I am having some of the staff prepare a highly confidential memo (which I shall review and revise, if necessary before sending it to you) as to the possible effects on the security markets of such a peace (in the light of the current condition of the market) together with suggestions for measures to be adopted in such circumstances. I shall send you such a memo in the next few days.

I respectfully suggest that it might be well if someone, perhaps Secretary Morgenthau, were to call together the representatives of several government Departments and agencies to consider that general problem jointly; in such a conference, special consideration ought probably be given to the necessity of increased government spending, in the event of such a peace, in the light of the present inventory situation and the possible cessation of armament programs abroad.



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

71

October 18, 1939

MEMORANDUM FOR THE SECRETARY

Supplementing my memorandum of October 17th concerning the supply of coal in the several departments of the Government, information has just been received to the effect that of 145 Army posts 7 have no reserve supply; 24 have storage capacity approximately 25% filled; 25 approximately 50% filled; 18 approximately 75% filled; and 72 approximately 100% filled.

Of 1224 CCC camp locations, 156 have no reserve supply of coal; 352 have storage capacity approximately 25% filled; 286 approximately 50% filled; 167 approximately 75% filled; and 263 approximately 100% filled.


Director of Procurement

October 18, 1939

MEMORANDUM FOR THE SECRETARY

Supplementing my memorandum of October 17th concerning the supply of coal in the several departments of the Government, information has just been received to the effect that of 146 Army posts 7 have no reserve supply; 24 have storage capacity approximately 25% filled; 25 approximately 50% filled; 18 approximately 75% filled; and 72 approximately 100% filled.

Of 1224 CCC camp locations, 156 have no reserve supply of coal; 352 have storage capacity approximately 25% filled; 286 approximately 50% filled; 167 approximately 75% filled; and 263 approximately 100% filled.

Director of Procurement

HFC:gm

~~QUADRUPPLICATE~~

Treasury
73

AMERICAN CONSULATE

Rangoon, Burma, October 18, 1939.

STRICTLY CONFIDENTIAL

Subject: War materials for China; statistics of imports at Rangoon.

THE HONORABLE

THE SECRETARY OF STATE,

WASHINGTON.

Sir:

I have the honor to refer to telegraphic information recently furnished the Department, and to transmit herewith statistics of imports at Rangoon of war materials for China, passed for transit through Burma by the local Customs authorities during the period from August 3, 1939, to September 15, 1939, both dates inclusive.

The materials covered by the enclosed statistics were valued for Customs purposes at Rupees 1,322,654, or \$462,929 at exchange of 35 cents to one rupee. On September 15th the total value of all transit shipments to China was Rupees 74,889,628, or approximately \$26,211,369.

Transport difficulties on sections of the Yunnan-Burma highway because of damage by rains had much to do with the reduced movement of war materials to China during the six weeks under review. In the first half of August the materials shipped had a value of only Rupees 80,487 (\$28,170). The Customs authorities are now making only monthly reports of shipments, but it is stated that statistics will again be compiled fortnightly when transit shipments are increased.

Respectfully yours,

Austin C. Brady
American Consul

In quintuplicate to the Department.

2. Original
This document is
classified "Confidential"

WAR MATERIALS FOR CHINA.

Statistics of imports at Rangoon inspected and passed for transit by the Burma Customs authorities during the period August 3 to September 15, 1939.

<u>Type of Material</u>	<u>Number pkgs.</u>	<u>Description and quantity</u>	<u>Country of origin</u>	<u>Value Rupees</u>
<u>Aeroplanes parts and accessories</u>	1	No description	United Kingdom	9,098
	8	" "	United States	10,899
<u>Detonators</u>	11	For shells; 1990	Germany	10,448
<u>Tracers</u>	22	For shells; 100,000	"	60,941
<u>Machine guns</u>	1	Bren guns and equipment; 4	United Kingdom	6,572
	6	Colt guns and equipment, 50 cal.; 5	United States	9,638
	1	Colt aircraft gun and convertible parts, 50 cal.; 1	" "	3,495
	303	Madsen 7.92 mm. light guns and equipment; 300	Denmark	590,580
<u>Rifles</u>	440	Mauser 7.9 mm.; 11,000	Belgium	618,356
	3	7.9 mm. (Make not stated); 19	United Kingdom	1,206
<u>Cartridges</u>	4	For Bren machine guns; 8000 rounds	" "	1,129
	3	7.9 mm. in clips; 5000	" "	656
	1	38 caliber; 800	" "	58
Total				1,522,654

WAR MATERIALS FOR CHINA.

Imports at Rangoon inspected and passed for transit by the Burma Customs authorities during the period August 3 to September 15, 1939.

RECAPITULATIONVALUES BY COUNTRIES OF ORIGIN

<u>Country of origin</u>	<u>Value Rupees</u>	<u>Equivalent U.S. Dollars</u>
1. Belgium	618,566	216,425
2. Denmark	590,560	206,703
3. Germany	71,589	24,988
4. United States	30,202	10,571
5. United Kingdom	12,127	4,244
Total	1,322,654	462,929

VALUES BY TYPES OF MATERIAL

<u>Type of Material</u>	<u>Unit</u>	<u>Quantity</u>	<u>Value Rupees</u>	<u>Equivalent U.S. Dollars</u>
1. Rifles	No.	11,019	619,562	216,847
2. Machine guns	"	308	610,083	215,529
3. Tracers	"	100,000	60,941	21,329
4. Aeroplane parts	-	-	19,797	6,929
5. Detonators	"	1,990	10,448	3,657
6. Cartridges	"	13,800	1,823	638
Total			1,322,654	462,929

RECEIVED

NOV 21 1939

RECEIVED
 NOV 21 1939
 BURMA CUSTOMS
 RANGOON

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, London, England

DATE: October 18, 1939, 3 p.m.

NO.: 1244

FROM SECRETARY MORGENTHAU.

Re telegram No. 2004 of October 11, 6 p.m., from Butterworth.

You are provided with the following strictly confidential information, for guarded use only. It is assumed that a responsible official requested the information.

Approximately \$240,000 were held for the account of the National Bank of Czechoslovakia in New York around the fifteenth of March. The New York banks with which these balances were held for a few days after March 15 undertook voluntarily to refrain from permitting any important or unusual withdrawals from these accounts for Czechoslovakia. Since that time, the policies which the individual banks have followed have been determined independently and upon their lawyers' advice.

HULL
(HF)

RECEIVED

OCT 20 1939

EA:LWW
U.S. DEPARTMENT OF STATE
RECEIVED

MA

GRAY

77

Paris

Dated October 18, 1939

Rec'd 3:47 p.m.

Secretary of State

Washington

2513, October 18, 6 p.m.

FOR THE TREASURY.

The securities market had a firm undertone today and most issues advanced. Rentes were stronger and the 1925 and 1937 exchange guaranty issues advanced 2.10 and 1.70 respectively. The more optimistic tone prevailing on the Bourse today is attributed to the "failure" of the recent German air raids against England, on the favorable interpretation given the departure of the Turkish Foreign Minister from Moscow without signing a treaty, and on a general feeling that Hitler is uneasy and undecided.

French statistical services have suspended publication from periods since the first of September of all indices of production, cost of living, carloadings, unemployment and similar means of taking the country's economic pulse. The Director of the Statistique Generale de la France informs us that for the time being they had no data to go on and intimate that the censors' scissors might prevent publication if they had.

(END OF SECTION ONE)

BULLITT

EMB:NPL

MA

PLAIN

London

Dated October 18, 1939

Rec'd 4:57 p.m.

Secretary of State

Washington

2083, October 18, 10 p.m.

FOR TREASURY FROM BUTTERWORTH.

My 2004, October 11, 6 p.m.

KENNEDY

NPL

RECEIVED

OCT 19 1939

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

REB

GRAY

Berlin

Dated October 18, 1939

Rec'd 7:20 p. m.

Secretary of State,
Washington.

1751, October 18, 7 p. m.

The German press carries a brief announcement that following a fortnight's negotiations an agreement was signed in Belgrade on October 16th extending the German-Yugoslavian clearing arrangement for one year. No details as to the results of the trade negotiations have yet been made public beyond the statement in papers that Germany will receive "lead, antimony, and other metals". The press communiques do not state that the new arrangements will result an increase in total trade between the two countries. INFORM TREASURY.

KIRK

NPL

RECEIVED

OCT 18 1939

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

5
October 19, 1939

81

1250 cable to Kennedy replying to 2082. Question re marketing American securities by British Govt is still being turned over in our minds. Helpful if British Govt would designate one or more people to discuss this in Washington

(This is filed with other pertinent cables as of 10/24/39, date they were shown to the President.)

ADD MORGENTHAU

OCT 19 1939

WASHN - SECY MORGENTHAU SAID THE 206 000 000
DLS REFINANCING PROGRAM OF COMMODITY CREDIT
CORP HAS GONE EXTREMELY WELL

ON BASIS OF THE RESPONSE TO THAT OPERATION
MR MORGENTHAU ASSERTED THAT INDICATIONS ARE
THAT THE -EMERGENCY SITUATION- THAT AROSE UPON
DECLARATION OF WAR IN EUROPE HAS SUBSIDED -
AS -PART AND PARCEL OF THAT SITUATION- THE
SECY CONTINUED W R BURGESS TOM K SMITH AND
EARLE BAILIE WHO WERE APPOINTED TEMPORARY
SPECIAL ADVISERS TO THE TREASURY IMMEDIATELY
AFTER OUTBREAK OF THE EUROPEAN WAR ARE
RETURNING TO THEIR PRIVATE BUSINESSES - -ALL
THREE OF THEM HAVE BEEN EXTREMELY HELPFUL-
MR MORGENTHAU DECLARED - -IF ANY OTHER SITUATION
SHALL ARISE THEY WILL BE ON CALL TO COME DOWN
AGAIN-

CONTINUING HIS DISCUSSION OF THE APPARENT
SUBSIDENCE OF THE WAR FINANCIAL EMERGENCY
INSOFAR AS THIS COUNTRY IS CONCERNED MR
MORGENTHAU ASSERTED THAT PRICES OF LONG TERM
GOVERNMENT BONDS ARE NOW HIGHER THAN THEY WERE
ON SEPTEMBER 3 AND THAT THE BOND MARKET IS
APPARENTLY RETURNING TO NORMAL - AS A RESULT
HE SAID THAT THE NEXT MATTER WHICH THE
TREASURY WILL TAKE UP FROM A FINANCING POINT
OF VIEW WILL BE THE REFUNDING OF THE TREASURY-S
526 000 000 DLS NOTE MATURITY ON DEC 15

October 19, 1939

SECRETARY MORGENTHAU SAID THAT THE EMERGENCIES RESULTING FROM THE EUROPEAN WAR HAD SUBSIDED SO FAR AS THE TREASURY WAS CONCERNED.

10/19--R1052A

ADD MORGENTHAU

BECAUSE OF THIS MORGENTHAU SAID THAT HE HAD RELEASED THREE BUSINESS MEN ADVISORS TO ENABLE THEM TO RETURN TO THEIR OWN ENTERPRISES.

THEY ARE W. R. BURGESS, VICE CHAIRMAN OF THE NATIONAL CITY BANK OF NEW YORK; TOM K. SMITH, PRESIDENT OF THE BOATMEN'S NATIONAL BANK OF ST. LOUIS; AND EARLE BAILIE, CHAIRMAN OF TRI-CONTINENTAL CORP.

MORGENTHAU SAID THAT THE REFUNDING OF \$266,000,000 COMMODITY CREDIT CORPORATION NOTES "WENT OVER EXTREMELY WELL."

10/19--R1059A

ADD MORGENTHAU

"IT IS INDICATIVE THAT EMERGENCY CONDITIONS ARISING FROM THE SITUATION OVER THERE HAVE SUBSIDED," MORGENTHAU SAID.

THE BOND MARKET, HE ADDED, IS SETTLING BACK TO NORMALCY. THE PRICES OF LONG TERM GOVERNMENT BONDS ARE HIGHER THAN THEY WERE SEPT.

J.

THE NEXT ORDER OF BUSINESS, THE SECRETARY SAID, WILL BE THE REFUNDING IN ADVANCE OF A \$526,000,000 TREASURY NOTE ISSUE COMING DUE DEC.

15.

REFERRING TO HIS THREE SPECIAL ADVISORS, MORGENTHAU SAID THAT THEY HAVE BEEN EXTREMELY HELPFUL IN THE SEVEN WEEKS THEY WERE HERE.

"IF ANY OTHER SITUATION SHOULD ARISE," HE ADDED, "THEY WILL BE ON CALL TO COME DOWN AGAIN."

THREE OTHER SPECIAL ADVISORS, ALL OUTSTANDING ECONOMISTS, WILL REMAIN AT THE TREASURY, MORGENTHAU SAID, BECAUSE THERE ARE STILL MANY PROBLEMS "IN THE TREMENDOUS SHAKEUP THAT'S GOING ON IN THE WORLD TODAY" THAT WILL REQUIRE CONTINUOUS STUDY. THESE ADVISORS ARE JACOB VINER, OF CHICAGO, UNIVERSITY, AND WALTER W. STEWART AND WINFIELD W. RIEFLER, BOTH OF THE INSTITUTE FOR ADVANCED STUDY, PRINCETON, N.J.

10/19--R1107A

ADD MORGENTHAU

THE SECRETARY DISCLOSED THAT UNDER SECRETARY OF STATE SUMNER WELLES, FEDERAL LOAN ADMINISTRATOR JESSE JONES AND HE MET YESTERDAY TO DISCUSS A REPORT ON THE FINANCIAL ASPECTS ARE SCHEDULED FOR CONSIDERATION AT A MEETING HERE NOV. 15 OF THE INTER-AMERICAN ECONOMIC COMMITTEE.

10/19--R1113A

TREASURY DEPARTMENT

85

INTER OFFICE COMMUNICATION

DATE October 19, 1939

TO Secretary Morgenthau

FROM W. H. Hadley

Treasury Notes

<u>Maturity</u>	<u>Coupon</u>	<u>Yield</u>	<u>Market Price</u>	<u>Premium</u>
4 yrs. 10-1/2 mos. (Sept. 15, 1944)	1%	0.85	100.23	23/32nds
		0.90	100.15	15/32nds
	1-1/8%	0.85	101.11	1 pt. 11/32 *
		0.90	101.3	1 pt. 3/32
	1-1/4%	0.85	101.29	1 pt. 29/32
		0.90	101.22	1 pt. 22/32

* Appears to be best issue in present market although a 1% issue might go all right.



TREASURY DEPARTMENT
WASHINGTON

88

October 19, 1939.

MEMORANDUM

To: Secretary Morgenthau
From: Mr. Bell

Mr. Snow of the Farm Credit Administration called me early this morning in accordance with our arrangement ~~at~~ earlier in the week, to see if there was any objection on the part of the Treasury to selling 10-1/2 months' 3/4 per cent debentures of the Federal Intermediate Credit Banks in the amount of \$29,000,000 on a 0.55 per cent basis. These notes were being offered for the purpose of raising funds to pay off a maturity of November 1st in the same amount. I told him that the Treasury was out of the market on the Commodity Credit Corporation notes last night and that he was free to go ahead on this basis.

He called me back right after lunch, saying that the books were open only an hour and a half and they received \$75,000,000 tenders in New York City and \$50,000,000 outside of New York City, a total of approximately \$125,000,000 tenders for this issue, which is an over-subscription four times.

swB



TREASURY DEPARTMENT

87

WASHINGTON

October 19, 1939.

MEMORANDUM

To: Secretary Morgenthau

From: Mr. Bell

Governor Eccles of the Federal Reserve Board, Governor Harrison of the Federal Reserve Bank of New York, conferred with the Secretary today regarding the refunding of Treasury notes maturing December 15, 1939. Mr. Hanes and I were also present.

Governor Eccles said that they had discussed the Treasury refunding at the Board during the morning meeting and had all come to the conclusion, after a thorough canvass of the situation, that this is an admirable time to carry through this operation. On the basis of last night's market they thought the Secretary could offer in exchange a new note maturing September 15, 1944 (4 years 11 months) at 1-1/8 per cent. This, he thought, would sell at a premium of about a point or better and if the market continued to be strong, might be a little rich, but if it didn't change any from yesterday, he would still recommend this security. On the other hand, he thought the Secretary might want to consider a 1 per cent, 4 years and 5 months note (March 15, 1944).

He said that most of his people feel that the Treasury should go ahead and announce it on Monday, next, just like they did the Commodity Credit Corporation's, but he didn't think that we ought to consult anybody in the market on Friday and Saturday of this week.

Then he said that after the refunding of the December 15th notes was out of the way the Federal Reserve Open Market Committee might like to consider from time to time during periods of strong rising markets, letting some of their securities either run off or make switches or sell on the market. The only comment the Secretary made on this was that he hoped they wouldn't do any of these things when the Treasury had a refunding or financing job to put through.

SWB

For my record

10/27'39
12:30 (Noon)

The following papers were delivered to Mr. Foley upon the request of Mrs. Klotz:

Carbon copy of Secretary's letter of 10/19'39 to Senator Barkley transmitting copy of Wagner's letter to the Secretary and the Secretary's reply - both dated 10/19'39 and stated the Treasury's policy with reference to the operation of the Stabilization Fund

(Wagner's letter was a photostatic copy)

Telephone conversation on 10/25'39 at 11:15 a.m. between Senator Vandenberg and the Secretary

Initialed copy of the letter of 10/24'39 sent by the Secretary to Senator Vandenberg re Stabilization Fund and the purchase of gold.

Original incoming letter under date of 10/17'39 from Senator Vandenberg

Telephone conversation on 10/23'39 at 9:45 a.m. between Secretary and Senator Vandenberg about the reply to his letter of 10/17'39.

Chauncey

88

October 19, 1939

My dear Senators:

Since Mr. Foley talked with you the other day concerning the activities of the Stabilization Fund I have received a letter on this subject from Senator Wagner, copy of which I am enclosing, together with copy of my reply. I think this covers the point in which you were interested.

If additional information is needed I shall be happy to furnish it.

Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary.

Honorable Alben W. Barkley,
United States Senate.

Enclosures

October 19, 1939

20

My dear Senators:

I have your letter of October 19, in which you refer to recent discussions on the floor of the Senate with reference to the operations of the Stabilization Fund.

Of course, as the Treasury Department has at all times made clear, the Stabilization Fund has never been used to support the currencies of any foreign country but has been used solely for the express purpose set out in the statute pursuant to which it was created, namely, to stabilize the exchange value of the dollar. In connection with the carrying out of such purpose it has been necessary, as was explained at the hearings last spring on the bill to extend the Stabilization Fund powers, for the Fund to acquire foreign currencies from time to time. I should like to state, however, that the Stabilization Fund is not acquiring any currencies of belligerent countries and is holding only trifling amounts of foreign currencies of belligerent countries which were acquired long before the outbreak of the war.

Sincerely,

(signed) H. Morgenthau, Jr.

Secretary.

Honorable Robert F. Wagner
Chairman of the Senate Committee on Banking and Currency
United States Senate
Washington, D. C.

UNITED STATES SENATE

Washington, D.C.

1

October 19, 1939

The Honorable
The Secretary of the Treasury
Washington, D. C.

My dear Mr. Secretary:

It appears from recent discussions on the Senate floor that some of the members are fearful that the Stabilization Fund is being used to support the currencies of England and France during this period of war in Europe.

I know that you publish quarterly information which reveals the operations of the Stabilization Fund, but as I understand it, the information concerning operations during September will not be available in the ordinary course of events until January 1, 1940. In view of the questions which are being raised at the present time as to the operations of the Stabilization Fund, I would appreciate it if you would advise me as Chairman of the Senate Committee on Banking and Currency whether the Stabilization Fund is acquiring the currencies of England and France or whether the Fund is supporting these currencies.

I appreciate the reasons why the Treasury would hesitate to make public any information concerning the scope of the activities of the Fund without the lapse of an adequate period of time but under the circumstances I hope that you will be able to make an exception in this instance.

Very sincerely yours,

(signed) Robert F. Wagner

THE FOREIGN DEPOSITS

October 19, 1939.
10:50 a.m.

Present: Mr. Hanes
Mr. Foley
Mr. White
Mr. Cochran
Mr. Stewart

H.M.Jr: All I want, as Secretary of the Treasury, and for myself and the President, is to know at any time what is this account doing. I feel that it is not necessary that the Board of Directors of the Federal Reserve Bank of New York or anybody other than the Chairman of the Federal Reserve Board in Washington to know that.

Foley: I don't think they have to. You see, Eccles is the fellow that is saying that such accounts need be no less confidential than Government accounts which might be opened by the Federal Reserve Bank, acting as fiscal agent of the United States under the plan suggested by the Treasury. Now, if Eccles can deliver Harrison on that and can agree that you will get all the information this way that you would get under the fiscal agency arrangement, then you are just supposed to go along.

Hanes: One thing that I drew from that memorandum, my own impression was that the British and the French Governments both already have accounts with the Federal Reserve. Why say anything, but use that account which has already been opened with the understanding between the French and the British that they are now acting as fiscal agents for Treasury and that Treasury wants to be kept advised by Federal Reserve, with their permission.

White: They have other accounts, John.

Hanes: Well, you can mark them "A", "B", "C" and "D".

White: I mean they have other accounts than in the Federal Reserve Bank.

Hanes: I assume they are going to keep them.

H.M.Jr: No, not on this one. They are all to be transferred. That is what they want to do. They are all to be transferred to the Federal Reserve.

- 2 -

Hanes: I thought they were just going to make this a buying account in the Federal Reserve Bank.

Foley: John, you would never know anything unless you had them all there because any transactions they didn't want you to know about, they would put through a private account.

White: It seems to me, Mr. Secretary - first, let me give you an explanation. I am wondering if you could omit the first part, that in view of the neutrality legislation, not to give those fellows the impression that you are trying to....

H.M.Jr: Supposing I just read Eccles' memorandum.

White: That would be the best way of handling it.

Foley: I would read Eccles' memorandum and then I would say that....

H.M.Jr: "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

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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."

I have talked with everybody on this but Walter Stewart. Now, would you give me....

Stewart:

I have talked with Foley. I agree as to the procedure. It seems to me what you need is to indicate to them that you want a certain thing, you want to have the result. You are going to have the final result. I didn't know it was to be inclusive. I didn't know it was to be the only depository of that nation. I think that is awfully important because otherwise you don't get what you want. I didn't know that had been arranged.

W.S.Jr:

Well, so many things happen and I always try to give you all the facts. Now, if you put me on the spot and gave me a Bible and said, "Is that the way," I am not sure that I could swear to it. I mean, there is an awful lot of things that go through the old bean every day and she's a little bit tight, but if you put me on the spot and said, "Is this so," I don't know. Let's put it this way, is that a good move, in your opinion?

Stewart:

I think it is essential if you want your information. If you want a complete prospectus of what is going on, the only way you can assure yourself of it is either to have those governments report in detail or to have a bank account through which all the transactions go, not some of the transactions.

W.S.Jr:

Now, this thing just came yesterday. It is terrifically secret. I don't know why, but it is. They want it guarded so. I am not going to tell this to anybody with the exception of this group.

As of yesterday, the English and the French came to an agreement they are going to do all their buying jointly and the President was kind enough to ask for my yes or no on it late yesterday. Well, the only answer was yes. If it is going to be joint, then it makes it all the more reason, possibly - I mean if they are going to do it jointly, let's have it all in one place.

Foley:

It makes it bigger and all the more important why it should be concentrated where you can see it.

H.M.Jr: But they want it guarded. This call from the President and Mr. Welles came over late, so I don't see what else I can say but yes, do you? It was only to be consummated in Paris last night.

White: They were contemplating that.

H.M.Jr: But it was only approved and they would sign it last night in Paris.

Hanes: It is my understanding from Lord Riverdale when he was here that they would keep us posted, wanted to keep us posted, as to what they were going to buy, because they didn't want to ruin our buying through the Procurement division or the Army and Navy, so they wanted to work out some arrangement so they could warn us, so to speak, before they went into the market.

White: They also don't want to drive up the price so the American producer wouldn't get the same advantage he would get if they were buying independently. I am wondering whether that angle of it should not be....

H.M.Jr: Could I just read this?

"Secretary Morgenthau said that the emergencies resulting from the European war had subsided so far as the Treasury was concerned. Because of this, Morgenthau said that he had released three business men advisers to enable them to return to their own enterprises.

"They are W. R. Burgess, Vice-chairman of the National City Bank of New York; Tom K. Smith, President of the Boatmen's National Bank of St. Louis; and Earle Bailie, Chairman of Tri-Continental Corporation.

"Morgenthau said that the refunding of 206 million dollars Commodity Credit Corporation notes 'went over extremely well'".

O. K., John?

Hanes: Excellent, that is fine.

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H.M.Jr: Don't you think, Walter, that is all right?

Stewart: Fine.

White: There are one or two aspects to both matters. One is with respect to the purchasing, there are some advantages and there is this disadvantage from the point of view of the American producer, and they may have some complaint. I don't think it is decisive.

H.M.Jr: Harry, let's just sidetrack that a minute.

Foley: I think, Mr. Secretary, Harrison is going to kick on making this information available to you and that is where there is going to be this disagreement, and I think if you sit off and let Harrison and Eccles fight it out and then let them come back to you and say they can do it that way, you will be in a much more strategic position.

H.M.Jr: Here is the point: I am having a very short dress rehearsal with you people. I have had none with them. I have had none with them.

Hanes: I would like to tell you a reservation that I have got.

H.M.Jr: Write it on a piece of paper and give it to me. I will have time.

(Mr. Eccles and Mr. Harrison enter)

Marriner, I don't know just how to start this meeting, but there have been discussions going on now for, I guess, several weeks as to how the Administration would like the English and French Governments to handle their accounts.

(Mr. Knoke enters the conference)

The question is up and I have got to have an answer this morning, because I am seeing Mr. Osborne at noon and I have got to give him an answer. The French have been stalling around and they want an answer. The purpose is, what is best for us to tell the English and French Governments how we

would like to have them handle their bank balance in this country. Is that the question, Marriner?

Woolley: That is the question.

H.M.Jr: And, as I understand it, there are two ways it could be done. One, to suggest to them that they deposit the money in the Federal Reserve in New York acting as fiscal agency for the Treasury, or, two, that they deposit the money in the Federal Reserve Bank of New York.

Maloy: Through their Central Bank.

Woolley: That is right, through the Bank of England and the Bank of France. They both have accounts.

H.M.Jr: Right. Now, I am willing to listen.

Woolley: Well, the discussion that we had, we came to the conclusion that there was nothing to be gained by the establishment of new accounts under the fiscal agency provision, that the accounts were already established with the Bank of England and the Bank of France and that this business could be done through those accounts, that the information could be kept just as confidential as it could be if it were done through the fiscal agency account, that it would require no action on the part of either the Board of New York Federal Reserve or action on the part of this Board here, inasmuch as those accounts are already established. But the Treasury could be fully informed with reference to the activities in those accounts, and they could get a transcript, if the French advised the New York Bank to furnish the Treasury such information. It seemed to us the advantage of doing business in that way was that the relationship had already been established. It would require no further action. It would possibly be better, because less comment and maybe less question would be raised, if you want to look at the thing from the possibilities of questions that may be raised by certain people on the Hill, that there would seem to us to be less likelihood or practically no likelihood of any question being raised about the matter if it was done through the existing accounts.

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Now, that, in a general way, is the conclusion that we came to. That doesn't mean, of course, that there is any objection on anybody's part, that is, so far as the Board is concerned, to the Treasury establishing this account under the fiscal agency provision if they choose to. There is no question at all raised in that regard. If they for some reason felt that they would prefer that, then we would have nothing at all to say about it. We have no objection to it.

- H.M.Jr: Well, this is the way I feel: If everything that can be accomplished that I mentioned to both you and Harrison, can be accomplished by doing it through the Bank of England and the Bank of France and through the Federal Reserve, if we can accomplish everything we would like to, what we want is secrecy and make it a confidential nature and the Treasury has access to the information. If we can get everything that way, I am willing to try it.
- Eccles: You would get everything that way if....
- H.M.Jr: I am willing to try it.
- Eccles: The Bank of France would instruct the New York Federal Reserve to supply the information. The New York Federal would have to, of course, have that....
- H.M.Jr: That could be done both....
- Eccles: That would have to be done in either case.
- H.M.Jr: In my conversation with the English and the French, I would simply say that this is easier but we want, as far as you are concerned - a rose by any other name smells as sweet - but we would like to have the information, whether it is Federal Reserve acting for the Bank of England or Federal Reserve acting for the U. S. Treasury. We are telling you beforehand that we would like this information. There isn't going to be the slightest trouble with them, not the slightest. They want us to have the information. They are anxious to have us have it. They are interested. The other thing, if there can be the same secrecy around the account in the Federal Reserve as there would be if it was a fiscal agency, I would like that.

Harrison: I think there is no question as to that, Mr. Secretary. In either case, it is the Federal Reserve Bank of New York that takes the deposit, as a corporation. Under the law, the Directors are responsible for running the corporation and for its conduct. Technically, I presume that they could ask for any information that is on our books, because it is their Bank and they are responsible for its running. As a matter of practice, however, they never do and never have, that I know of, asked for the details of operations of any of these accounts. We don't give it to them and they don't expect it. If there is any question about it, that could well enough be covered in advance, certainly as to the account which we will label "X", we will say, that is the account to be handled for the Government.

H.K.Jr: Supposing some member of your Board did ask.

Harrison: Well, I think that I would have to get a Board action on the request. I would recommend that we not give it to them and I am sure of a conclusion. As a matter of fact, I have this understanding with my Directors on all foreign accounts, not only on the fiscal agency's operation, that we do not disclose the information that goes through those accounts to the Directors. I have appointed a special committee of three Directors, none of whom are bankers, to whom I can go for advice or help in the event that there is a foreign question that comes up that I want to clear on account of some Director. Actually, I don't think I have consulted that committee or talked with them for a number of years. There hasn't been any occasion to.

H.K.Jr: Those three Directors - I know who they are. Would they have to see this account?

Harrison: No.

H.K.Jr: I don't think that they should.

Harrison: I agree with you. They shouldn't see it and wouldn't see it. If there is any question about it, I could well enough talk with my Directors again and get a complete understanding, though I think I have got it anyway, so that if there is to be any doubt in

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the minds of the Directors, I would advise you to handle the account in a different way, but I am sure there isn't any doubt.

McCles:

It seems to me that there is nothing to be gained by carrying the fiscal agency account, because the Directors, if they have a right in the one case, they have the right in the other under the general supervisory powers. According to George's argument here, the fact that it is carried as a fiscal agency account excludes the information from the Directors except by consent and, as a practical matter, neither does it from the Board, because we haven't general supervisory powers and our auditors and our examiners have to go into the Bank and examine the whole thing. But as a practical matter, we have not at any time asked for any information that the Treasury wanted to keep confidential and neither has the Board of the New York Bank and certainly I can't conceive of either the Board of the New York Bank or the Board here asking for any information, whether it be in the fiscal agency account or whether it be in the special account.

H.W., Jr:

Now, let me ask you this. This was the question that Leroy-Beaulieu asked both Harrison and myself. Will they be running more or less risk by having a Congressional investigation of the account if it is with the Federal Reserve than if it was in a private bank? Now, I answered them as to the fiscal agency, but how would you answer that question, assuming that this is going to be with the Federal Reserve.

Harrison:

I suppose there is no question that Congress has the right to appoint a committee to investigate anything that concerns the Government.

H.W., Jr:

Surely.

Harrison:

And that they could give that committee power to subpoena witnesses and documents and they could have equal right to investigate the Guaranty Trust or the Federal Reserve Bank, but in either case they would have to go through that procedure, so frankly, while there may be more temptation on the part of Congress to do it if it is in a semi-governmental institution, there is no less right on the part of the Congress, as I understand it, to investigate a private institution.

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Bell: You have a precedent. They did call J. P. Morgan and all his books down and went into the English transactions during the War.

(Discussion off the record)

H.K.Jr: Let me raise another question, if I may. Marriner, if we do it this way, there seems to be every disposal to try it this way, do you think that we should indicate to the British and French that gradually they should transfer all their accounts into this one? I mean that all of their balances should be with the Federal Reserve.

Eccles: Personally, I think so, to the extent that they are....

F.H.Jr: Here is what Dow-Jones says:

"On basis of the response to that operation, Mr. Morgenthau asserted that indications are that the 'emergency situation' that arose upon declaration of war in Europe has subsided as 'part and parcel of that situation.' The Secretary continued W. R. Burgess, Tom K. Smith and Earle Bails, who were appointed temporary special advisers to the Treasury immediately after outbreak of the European war, are returning to their private businesses. All three of them have been extremely helpful, Mr. Morgenthau declared. If any other situation shall arise, they will be on call to come down again.

"Continuing his discussion of the apparent subsidence of the war financial emergency in so far as this country is concerned, Mr. Morgenthau asserted that prices of long-term Government bonds are now higher than they were on September 3rd and that the bond market is apparently returning to normal. As a result, he said that the next matter that the Treasury will take up from a financing point of view will be the refunding of the Treasury's 526 million dollar note maturity on December 15th."

Excuse me, but we were on this question of....

Eccles:whether they should do all the business through this Bank. Well, it would seem to me that if this

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Commission that, as I understand it, the French - and I suppose the British - expect to set up to make their purchases in this country, are going to make payments through what we would call a special account or an "X" account for the Bank of France and the Bank of England, then certainly to make only part of their payments through that account, if they have other accounts through which some payments are made, would in no way accomplish the purpose that you want to accomplish. I would insist that if this arrangement is to be set up for the purpose of getting - keeping this Government advised and for such purposes as we may feel necessary to exercise such control over the situation as seems desirable, then to permit that business to be divided so that Morgan or Guaranty or some other institution has a part of the business, would be very unwise, in my opinion, and I would feel that I would have nothing to do with it and assume no responsibility for advising with them, take no responsibility for either approval or disapproval of the arrangement, or I would insist that the entire arrangement and the entire business be done through this account. If you want my personal opinion, that is it.

H.W.Jr: Do you want to say anything on it, George?

Harrison: I do, very much.

Hones: You are on awfully dangerous ground here.

Harrison: I take it first, Mr. Secretary, that while I agree with the laudable objective of getting all of the information, I don't think that is the way to do it anyway, to have an exclusive account in the Federal Reserve Bank. The advantage of information that you are going to get in this Government of what foreign governments are doing here will be very much minimized if you wait until the consummation of the transaction represented by the payment. You ought to have advance information of orders being placed, where they are being placed, and how they are being placed. That contemplates an agreement with those governments that through their purchasing agents you will be currently informed of all transactions, actual and on order, rather than to have to wait for the payment of a check to give you the information you want and which, in many cases, will not

be very illuminating, anyway, if you just get the check alone, so I would hope and expect, whatever you do, you will have an arrangement with those purchasing commissions to be currently informed directly by them, rather than through whatever bank or deposit they are using.

Eccles: I would have that, too, George. I certainly wasn't excluding that.

White: That would facilitate - having control over the banking account would facilitate information we have in the other.

Knoke: It is the final check.

Harrison: That is right. But there is a practical consideration too. The Federal Reserve Bank - no Federal Reserve Bank is properly geared up or equipped to handle the checking of commercial documents in the way that they ought to be handled and checked prior to a final clearance and approval of the documents. Even in the case now, where for both the French and the British we are handling payments through the Bank of England and the Bank of France on airplane contracts, the documents themselves are not checked by us. They come to us countersigned and approved but they go through commercial banks plus some foreign representative here too, don't they, Knoke?

Knoke: No, just through banks.

Harrison: Just through banks alone?

H.M.Jr: May I ask, the bank is acting for the manufacturer, isn't it, the American manufacturer?

Knoke: Yes, that is correct.

Foley: They have purchasing commissions here now, don't they, George?

Harrison: Yes.

H.M.Jr: Just a second, what I am getting at is that the American manufacturer who is going to get paid

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for whatever he produces, he clears through the bank and they send those documents over for payment.

Knoke: That is correct.

H.M.Jr: The French don't do that.

Knoke: No, it sends its documents through City Bank and City Bank sends them over to us.

H.M.Jr: That is all right. I mean, Curtis, using the National City or some other bank, sends it over to you for payment.

White: The City is operating for the Curtis and not for the French Government.

H.M.Jr: That is right. That is the way I thought it was. I have stalled on this thing and the thing we are talking about today doesn't have to be settled at this minute. My own inclination is that it ought to be given very serious consideration and I leaned toward the concentration in the Federal Reserve if this thing is going to get very big. But I haven't discussed it with my own associates.

Eccles: So does the whole Board. I mentioned this very thing because I had understood there was some contemplation of a division of the business and it seemed that the whole purpose of the thing was lost, if that is what you were going to do.

H.M.Jr: Marriner, I lean that way but I am not - I mean I haven't given the people in Treasury a chance to argue with me and I would like to do that. I may be wrong, I don't know. As of this moment, I will lean that way. I would like to get a clearance on this now. I am seeing the British representative at noon, Mr. Osborne, and can I tell Mr. Osborne this, talking for the Administration, that it will be pleasing to us if they would follow the same procedure as in the case of the British planes on all of their purchases? That is the form, isn't it? And tell the French the same thing.

Harrison: I don't want to bother you with details, but I would like to work out with the Bank of England a different procedure.

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- H.M.Jr: That doesn't interest me.
- Harrison: I want them to draw their checks on us rather than to send certifications on which we pay. I just wanted to be sure that....
- H.M.Jr: Well, follow the general procedure. Is that right, Harrison?
- Reeles: I am not familiar at all with the way these other accounts were handled, so I can't say.
- H.M.Jr: But the general procedure....
- Reeles: But as I understand what was done, it would seem to me that that would meet the requirements, that the purpose here is to have the New York Federal Reserve Bank act as the bank for the French Government and the British Government through the Bank of France and the Bank of England, and all payments for what this commission purchases would be made through that account at the Federal Reserve Bank.
- Harrison: That we, however, whatever we do, whether under fiscal agency or central bank account or a bank deposit, we are not purchasing agents, we can't be. We are not a liquidating agent and we can't be, and one step further, we are not geared up nor will we be prepared to advise any foreign commission on either of those questions.
- Reeles: I don't think there is any disagreement on that.
- H.M.Jr: Now, for the sake of the French, how fast can you fellows move now?
- Harrison: Why, all they have got to do is send us some money this afternoon and say, "Label it 'T'", and it is there.
- Woley: How about making the information available to us?
- Harrison: That, I think the way you would have to do that is say to Beaulieu that the Bank of France should instruct us to advise you of all transactions through this particular account, not their regular central bank account.

H.M.Jr: That is all right, but you don't have to get a letter from the Ambassador and a letter from all the rest, do you?

Harrison: Oh, no.

H.M.Jr: He is coming here at 4:00 to see me and I will tell him, "You go tomorrow morning at the opening of the Bank to see Mr. Harrison. He is ready to talk business." Is that right?

Harrison: Well, of course, in a formative way. We have got to talk business with the Bank of France. They are the ones that have got to ask us to open the account.

H.M.Jr: But you can go to town on it.

Harrison: That is right.

H.M.Jr: Mr. Beaulieu can go to New York instead of Mr. Smith coming to Washington.

Harrison: That is right.

H.M.Jr: Is that all right, Marriner?

Eccles: Yes.

H.M.Jr: Is that the way to do it?

Eccles: Any way is all right with me.

H.M.Jr: And this is-a trial thing and we will see how it works. If we get everything we want and the accounts are surrounded with the proper secrecy, we are satisfied.

Eccles: Somebody in the Treasury, however, no doubt through the French Embassy, would have to have the Bank of France advise New York to make available all information in this special account that is to be opened.

H.M.Jr: I am going to do that personally.

Harrison: Yes, that must come from the other way around rather than from us.

H.M.Jr: Just let me go around a minute.

Hanes?

Hanes: No, I would like to talk sometime about another phase of this thing, a completely different angle of approach, with you personally before you sign up on this thing, because I think there are two or three sides.

H.M.Jr: You don't want to go as far as telling them to open this account?

Hanes: Oh no, that is all right. It is a matter of telling them to close all other accounts, is the thing that I want to talk about.

Harrison: I haven't been asked my advice on that, either, but I hope your inclination to suggest to them that we make this an exclusive account, you might waver a little, because there are all sorts of implications in that that I think might cause trouble later.

Hanes: I am thinking chiefly of up on the Hill about that matter.

H.M.Jr: Dan?

Bell: I haven't anything.

H.M.Jr: Do you see anything?

Stewart: I agree with this procedure.

H.M.Jr: You do?

Stewart: Yes.

Cochran: Would there be any new joint account opened up or would this just be a separate account for each of the two banks?

Eccles: Each of the two governments.

Cochran: Working through the two central banks?

Eccles: I understand it would be a central account. Each bank would have....

- Cochran: Take care of its own?
- McCles: Take care of its own account.
- Harrison: You take today, we have individual ledger accounts, not all bulked in one account. Some of them are marked "A", some "B", some "T". We know, and they have advised us in the past which account was their Government account. It may well be that they won't even have to open up a new account because each one of them, I think, has got a Treasury account.
- Knoke: Yes, they will. It would require a special account.
- McCles: This would be a special account by France.
- Knoke: Bank of France, call it "X".
- Harrison: And it would be called on our books, "Bank of France, X" or "T", whatever you choose to label it.
- H.A.Jr: Anybody else?
- Hell: There might be more than one account, though, because they might say that this individual is designated to draw for airplanes and this one to draw for something else and they might want separate accounts within a group.
- McCles: It is a matter of bookkeeping entirely. I would just like to say this with reference to the establishing, doing all the business with this account, I don't mean by that that the British Government or the French Government may not continue accounts that they have had in the past through private banks. I don't know, there may be the British or French securities and Morgan may be trustee and it may be necessary to deposit funds there to meet coupons, and so forth. I don't think that this need necessarily disturb those existing arrangements, but what I was thinking of, however, is here is a new type of business. It is a type of business that is going to be done, as I understand it, through a French Commission and a British Commission. It will be government funds that will come through the Bank of France and the Bank of England. Now, I can't see why there is any justification for dividing that business up between

the Federal Reserve and private banks. It is business that hasn't existed; it is business that is now going to be set up. It may have existed in the case of the planes, I don't know, but it is business that is now going to be set up for a specific purpose and it doesn't necessarily need to disturb - and I don't know but what - I wouldn't say that it is advisable to disturb - I don't know - other relationships that may exist between private banks and foreign governments or government agencies. That is a question of knowing what all the facts are with reference to that. I can't imagine this Government, if the case were reversed, establishing connections abroad with private banks, and I can't imagine a foreign government permitting it.

H.W.Jr:

Well....

Knoke:

May I say a word?

H.W.Jr:

Please.

Knoke:

As I see it, it isn't a question of dividing business between the Federal Reserve and/or others, it is a question of having one central account at the Reserve Bank from which other accounts at commercial banks are fed. Now, if it is a question of getting information on the details of those other accounts of commercial banks, I think that can easily be arranged. The central account shows definitely what - where the money has gone, to Guaranty or to the City, or whatever it is, and I wonder whether it wouldn't be perfectly proper to arrange with the commercial banks to furnish to us, for the Treasury, transcripts of those accounts and then you have all the information you need to check up on what the purchasing agencies, commissions, should have told you beforehand. As far as the Reserve Bank is concerned, that means still keeping track of the money that is paid out here, but not being called upon to do commercial business for which the central bank is really not equipped and it eliminates these endless negotiations and discussions with manufacturers, which really the Reserve Banks should not be - it isn't advisable that the Reserve Banks should go into all these details. It might ultimately imply

assuming responsibility which isn't theirs and, politically, it might be altogether inadvisable.

Harrison:

Of course, the difficulty or the disadvantage - put it that way - of having this not an exclusive account, that is, the disadvantage of having deposits in other banks, isn't comparable now to the problem that we had in 1914 and 1917 and through the last war. The difficulty there was that private institutions were used not merely as banks of deposit but also as purchasing agents and the political criticism of the transactions in those days was not that the commercial bank had a deposit from a foreign government but that they made, supposedly, large profits on a commission basis of everything that they bought. That has been answered this time by the appointment of a commission in each case to make the purchases over here rather than to have a private institution in this country make the purchases. As I understand it, in none of the plans that have been suggested is it contemplated that any institution, commercial or federal, should be the one to make the purchases, actually. Frankly, I think the commercial banks are not going to be seeking this when they find out that it is just a matter of deposit, because they make no profit out of it and have to pay a tax to the FDIC on the deposit.

H.H.Jr:

I have got what I want. I am satisfied of what I am going to tell them and I might just say in passing, before I had this conversation, I had a chance to see the President, and this is entirely agreeable to him.

(Mr. Eccles, Mr. Harrison and Mr. Knoke leave the conference)

Let me read this cable out loud. I have got another one and they all put pistols to my head.

"Personal and strictly confidential for the Secretary and Undersecretary of State:

"I have not received any answer to my 2026, October 13th, 4:00 p.m. and therefore I don't know what

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answer I am to give if I am asked again, and of course it is possible that some steps have been taken by the Treasury to notify the British Ambassador in Washington.

"In any event I would like to make a couple of things clear. I saw preliminary outline of the amount of marketable securities that the British have acquired from their nationals and it will be around 200 million pounds - a great deal less than anybody imagined. I have sat in and listened to arguments about how they cannot send dollars to the United States. I am convinced that this argument is being used so extensively and so acutely everywhere I turn that it really is an excuse for cutting off every possible bit of normal trade that we might reasonably expect. I am thoroughly convinced that not one dollar's worth of anything will be bought in the United States unless it is absolutely essential. Realizing this and seeing their financial picture, sooner or later, if this war continues, there will be no place to turn but to the United States, and my reason for sending the wire the other day, about which I feel even more strongly now, is that we should avoid to the farthest degree any possible indication that we have made any suggestions as to where they should keep their money or how they should spend it, because I am certain that we will rue the day.

"I feel it my obligation and duty to advise you of this from the feeling I get of this situation here. I think I should also warn you that the leverage of the present American Ambassador in London is due to lessen and that probably rapidly. I believe that any really useful work I may be able to accomplish will have to be done quickly because I am convinced that, without having anything to pin it on, the boys think I am too hardboiled a nationalist.

Bell: Who is that from?

H.M.Jr: Kennedy.

Bell: He is probably going to lose prestige.

H.M.Jr: For what?

- 22 -

- Bell: Well, when we get through he isn't going to have much to say, isn't that what he means?
- White: He says Bullitt's is due to lessen.
- F.M.Jr: No, American Ambassador in London.
- Foley: Because they look upon him as too much of a patriot.
- Stewart: Nationalist, and not internationalist. We are to blame. That is all it says.
- F.M.Jr: Welles called me up. You see, the other cable which was here - and this has to be quadruple confidential - was that he didn't want me to tell them where to put the money, see. And the quadruple part is not that he didn't want me to do that but the President issued instructions that the State Department should not answer that cable, that the President would protect Kennedy against himself.
- Stewart: I think this raises the question of whether this whole question of the banking methods is adequate. The other approach, getting information from an agency from the time they first place an order, is essential. It doesn't have anything to do with money. You can check up the cash afterward. I don't see why one waits to make that decision. We need it, it is absolutely essential, it is the only way the question can be settled and a full picture obtained.
- Hanes: I think they agreed to that, Walter. I think they not only agreed to that but they asked for it. That is just what he wanted, that is exactly what he wanted.
- F.M.Jr: Now look, gentlemen, this is what I don't know. This is too much for me. John, I would like you to get this group in this afternoon and maybe get Herbert Feis over. Get hold of the other cable, bearing in mind what the President said.
- Hanes: 2026?
- F.M.Jr: Yes. Bearing in mind what the President said, inasmuch as this - I would invite Jerome Frank to come over, inasmuch as this is American securities. Welles said

- 23 -

to me, "Never mind about the deposit business." Welles is in entire sympathy and so is Mr. Hull, that we open the account this way. He said if he could tell them something about American securities - I think it would be helpful if you could answer that. I think if you could have a meeting this afternoon, get Jerome Frank or Herbert Feis over here, plus this gang here, and sit down and see if there is something we can do. What Kennedy wanted was that he should be the person to whom information should be given about American securities, is that right?

Cochran: He said he would have an opportunity to give them advice.

H.M.Jr: That is what the President definitely doesn't want and that is what the President meant, that he wanted to protect Kennedy against himself. He definitely doesn't want it. And also to guide you, the President said he wanted SEC and the Treasury to be kept informed on this side as to what the policy was of the sale of securities.

(Discussion off the record)

As to the question of the securities and sales, he (the President) would like the English to keep the SEC and ourselves informed and we have asked that they do that, and so forth and so on, see.

Hanes: Do you want to ask Feis to come in on this?

H.M.Jr: Yes, I would ask Feis and I would ask Frank.

White: Mr. Secretary, as a determination of our policy, I take it that that is not going to be discussed here, because I think that there is a desirable policy for us to pursue with respect to when, what and how they shall acquire their dollar balances and I take it that that is not going to be discussed this afternoon or in any other sources outside of Treasury, until Treasury agrees as to what they regard as the best policy.

H.M.Jr: As I remember 2026, Kennedy wanted two things. He

was offering advice to Sir John Simon that they don't deposit with the Federal Reserve, is that right?

Cochran: That is right.

H.M.Jr: That thing has been settled with the President.

Two, if I am right, he was suggesting that he be used as the method of transmitting what they were going to do on the purchase and sale of securities.

Cochran: Saying that he would like to be called on for advice.

Bell: In an earlier cable, as I remember, while you were away, Mr. Secretary, he said that he would like to be consulted before any action was taken on this American securities. Don't you remember, Johnny? When these early cables came in, he expressed that in one of them.

H.M.Jr: Johnny, I am going to ask you to come to lunch today and you will hear what he says. Will you please come at 1:00 o'clock?

Hanes: Yes.

H.M.Jr: I am going to the President tonight, so I would like this group to advise me, if possible, how I should say what position I shall take with Mr. Welles regarding this cable, just to reiterate - well, I have made clear how the President feels and how I feel. Now, after reading 2026, I think both Feis and Jerome Frank should sit in there. You saw 2026.

Hanes: Oh, yes, I gave it to you. I didn't keep a copy of it, though.

H.M.Jr: Do you (Stewart) mind sitting in on this? This is a long-term thing and what Harry was talking about is that the English sold 50 million dollars worth of securities and raised the money that way instead of selling the 50 million dollars worth of gold, which I say is swell, don't you?

Stewart: Right.

- 25 -

- H.M.Jr: And you (White) think it is swell?
- White: Yes, I think that is the thing we ought to insist on.
- H.M.Jr: You don't want to upset it?
- White: Within reasonable limits.
- H.M.Jr: But I don't think that has to be settled in answer to Kennedy, but it is the kind of thing that we can talk, not in one day or one hour, with Osborne. This is just a two-day visit or a one-day visit - a courtesy call today, as I understand, but it is something which I am relying on both my special advisers, economists, and my regular staff and it has been taking care of itself so far. I don't want Kennedy to upset it.
- John, have you any difference in opinion?
- Hanes: No, I just want this committee to know what to tell you.
- H.M.Jr: I want them to answer it for me. When I come back from Cabinet, if you come in here and say, "Henry, here is a draft, we have all agreed to this."
- Hanes: All right, fine.
- H.M.Jr: Do you have any personal difference?
- Hanes: No, I just want to know whether you want to go into the....
- H.M.Jr: Don't you think the President is right, that Joe, away from all of us and entirely by himself, shouldn't do this?
- Hanes: Oh, sure.
- White: I don't see that there is even any two sides to that question.
- H.M.Jr: You see what Joe is practically saying, "Well, if you don't do this, my usefulness is over." He is threatening to resign.

- 26 -

White: He can be a channel of information of transmission.

H.M.Jr: That is what Mr. Butterworth is for.

White: It certainly doesn't seem important who does that, but it should be done here.

H.M.Jr: I don't know how often he threatens to resign, but I don't want him to resign on my account.

Hanes: Can we take this cable?

H.M.Jr: Please. I don't want him to say, "I asked for this and Morgenthau wouldn't give it to me and I am coming home."

White: We want to raise a question about the other matter before you talk to Osborne about this question as to what you want them to do. I think we are in agreement and I don't think we agree with you. I am not sure whether we do or not.

H.M.Jr: What question, Harry?

White: As to what you are going to tell them and asking them to open up an account here.

H.M.Jr: What do you think I am going to tell them?

White: I thought you were just going to say it would be pleasing to you if they were to open up an account through which this business might be transacted.

H.M.Jr: And what would you like me to say?

White: I don't know that I would word it the same way the others would like it, but it seems to me I would word it that this Government wants them to open up that account and it wants all the information with respect to whatever orders they give in such detail as fits the occasion, not give them any choice of saying, "Well, that is very interesting," and so on, but rather indicating as you have every right to indicate that in time of war the situation requires that the Government be completely informed as to the operations of foreign belligerent governments.

- 27 -

H.M.Jr: We can't say we want this thing. I used the words, "It would be pleasing." They just will have every reason to fall all over themselves to do everything I suggest, and they will. We can do the one thing and I am certainly going to give Hanes an opportunity, and we can certainly say we want to make a start, and I might say we may subsequently suggest to them that all the funds be concentrated.

But John, if you will give me, if possible, a finished telegram, it would be most helpful.

Walter, you don't mind sitting - this is all down your alley, because you have got both sides of the water. Is it too much spot news?

Stewart: No.

H.M.Jr: Getting a little fun out of it?

Stewart: Yes.

STRICTLY CONFIDENTIAL

The following is a paraphrase of information received by cable from the American Embassy, London (No. 2095 of October 19, 1939)

In strict confidence the British Treasury has given the Embassy the following information with regard to the financial accommodation granted to Turkey by Great Britain and France.

On the coming into force of the Anglo-Franco-Turkish treaty, Turkey will receive 15,000,000 pounds gold, to be deposited in Turkey, the French share of which is 4,000,000 pounds, and Great Britain will contribute 2,000,000 pounds for use in liquidating arrears in the clearing account between Great Britain and Turkey.

Furthermore, an arms credit has recently been granted to Turkey; the French share of this is 4,000,000 pounds, and the British 11,000,000 pounds - an attempt will be made by the British to extract some part of the 11,000,000 pounds from the French. This arms credit is additional to that in the amount of 10,000,000 pounds which was granted Turkey in July of last year by Great Britain.

General Orbay is the head of the Turkish military mission which has been in England for some weeks negotiating the 4,000,000 pounds and 11,000,000 pounds credits. This mission has been obtaining further war materials under the previous credit of 10,000,000 pounds. After Poland collapsed, several shipments of airplanes and other instruments of war which had been prepared for despatch to that country, were diverted to Turkey. It may be recalled that Great

Britain

- 2 -

Britain granted to Turkey a development credit in the amount of 10,000,000 pounds and an aircraft credit in the amount of 6,000,000 pounds in May, 1938. Up to the present time Turkey has drawn on the development credit for only about 2 1/2 million pounds, and in further drawings has agreed to "go slow". The 3,000,000 credit to the Brasset Steel Plant was granted by Great Britain in 1937.

KENNEDY.

EA:LWW

RECEIVED
MAY 18 1938
THE TRADING COMPANY
WASHINGTON, D. C.

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin, Germany
DATE: October 19, 1939, 5 p.m. Rec'd 20th.
NO.: 1759

Comparison of the Reichsbank statement of October 14th with that of September 30th confirms the observation already made in recent reports that the Reichsbank itself in the last few weeks has been playing a minor role in creating credit for the Reich's war expenditures. Increased tax revenues, the tax certificates and the military notes "see my number 1542 October 2, 5 p.m." plus direct loans from the savings banks, insurance companies and social insurance organizations and short term Treasury bills have been the main instruments of war financing. The restriction on normal business and expenditure have left the banks in a liquid condition enabling them to take large amounts of short and medium term Government paper without recourse to the Reichsbank.

The bill and check portfolio of the Reichsbank on October 14 stood at 9,567 million marks, a decrease of 537 million marks in the two weeks period while loans on securities showed practically no change and miscellaneous assets reported at 1,227 million marks showed a decrease of 377 million marks. These appear to be the normal declines following the usual higher month end demands on the Reichsbank.

The Reichsbank's holdings of eligible securities increased 61 million marks probably representing chiefly

- 2 -

tax certificates, bought on the open market to a total of 1,385,000,000 marks was a negligible increase of 8 million marks in the holdings of miscellaneous securities to a total of 400 million marks. The Reichsbank's coin holdings increased by 74 million marks which probably was chiefly a result of the increase in the circulation of Renten bank notes discussed below.

Both the note circulation and call deposits showed considerable decreases during these two weeks the former declining 500 million marks to a total of 10,495 million marks and the latter by 257 million marks to a figure of 1,345 million marks. These appear to be the normal movement of these items after an end of the month maximum.

The statement of the Gold Diskont Bank of September 30 discloses no explanation concerning the source of the funds used by the Reich for war expenditures. Its portfolio of bills showed a decline of 321 million marks during the month and Treasury bills and non-interest bearing Treasury certificates a decrease of 67 million marks coupled on the liability side with a decrease of 64 million marks in deposit liabilities and a 288 million mark decrease in liabilities on account of single bills (solawechsel).

The September statement of the Renten Bank shows an increase in the issue of Renten Bank notes of 400 million marks to 809 million marks. On August 31 409 million marks

of

of these notes had been issued and the Reichsbank held 22 million marks of them. On September 30 the total issue was 809 million marks and the Reichsbank's holding was 159 million so that the net increase in the circulation of Renten Bank notes during September was 264 million marks. Between September 30 and October 14 the Reichsbank holding of Renten Bank notes increased to 179 million marks. Whether or not the Renten Bank has expanded its issue of these notes since the end of September cannot be ascertained until the next monthly statement is issued.

As for metal coinage circulation, there are still no figures available.

It is the estimate of one economic observer that at present the Government is expending about 1.5 billion marks each month for war purposes; if the conflict intensifies, he estimates that expenditures will rise possibly to a maximum of 3.5 billion marks each month. Reference my telegram of September 14, noon, No. 1235:- this same observer (above mentioned) estimates that the new war taxes will yield 5.5 billion marks a year, but a decrease of 3.5 billion marks in the yield of other taxes will offset this increase. It is stated by various sources that if the war intensifies, in January the Government is planning to again increase taxes.

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

EA:LWW

KIRK.

FS

PLAIN

London

Dated October 19, 1939

Rec'd 2:15 p.m.

Secretary of State,

Washington.

2097, October 19, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

The House of Commons yesterday devoted five and a half hours to a debate on economic coordination and the machinery outlined on October 9 by the Prime Minister and reported in my No. 1981 of October 9. A number of speakers of all parties pressed for an economic general council headed by a Minister in the War Cabinet who could devote his entire time to questions of economic coordination. Members of more than one political party also urged that the Chancellor of the Exchequer as head of the Treasury was unsuitable as the chairman of the Coordinating Committee being himself the head of an interested department, while a number of speakers also requested a statement of the British Government's economic policy. The Chancellor of the Exchequer's reply pleaded that Lord Stamp's active connection with business was a desirable feature of his appointment, that he gives the greater part of his time to his new job and that he has for eight years been the chairman of the Economic Advisory Committee of the Government and is in
close

FS 2-No. 2097, October 19, 6 p.m. from London

close touch with all the problems to be met. He also stressed the practical nature of the decision which must be made and the fact that they could not be based on purely theoretical economic grounds.

The speaker who followed Simon quoted the story of a judge who delivered judgment allowing an appeal for certain reasons, while his fellow judge disagreed stating that he would disallow the appeal for the same reasons.

HTM

KENNEDY

RECEIVED

OC 20 1950

THE ASHBY DEPARTMENT
Office in the
Department of the Secretary

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, London, England

DATE: October 19, 1939, 3 p.m.

NO.: 1249

The following is from the Secretary of the Treasury,
for Butterworth:

You are requested to send by telegram any information
which is available on the reported gold shipment from
the U.S.S.R. to Germany, in the amount of some seventeen
tons.

HULL
(HF)

SAME TO: AMERICAN EMBASSY, BERLIN, NO. 734 from the
Secretary of the Treasury, for Heath.

EA:LWW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: October 19, 1939, 6 p.m.

NO.: 2524

FOR THE TREASURY DEPARTMENT.

127

Authorities in the Foreign Exchange Office are making a careful study of the loophole problem which is presented by French exporters invoicing their exports in francs rather than foreign currencies, and the facility given here for French nationals to deposit francs to the account of foreigners without blocking - reference telegram of September 29, No. 2253, from the Embassy. The foregoing factors, and the frequent difficulty of tracing the origin of francs which are received in this way for French exports, where such francs have possibly gone through several channels, make it difficult to find out whether such exports are in fact being paid for in francs which were held before the ninth of September, or "transferable" francs. In theory, exporters are of course under obligation to turn over the foreign currency proceeds of their exports. However, the difficulty of adequately enforcing this is illustrated by the foregoing.

One solution for the problem now being considered is "to persuade" French exporters to certain countries, particularly the United States, to invoice in foreign currencies. From the British financial press we gather that a somewhat similar problem faced the British during the period of the pound

- 2 -

pound weakness in New York and that in effect British exporters are required to invoice in foreign currencies now.

The French, on the other hand, want to encourage exports as much as possible, and there is some fear that exports in certain lines might be hampered by such a requirement. Then too the authorities of course do not want to discourage exporters from making out invoices in francs to certain countries which have blocked currencies and with which clearing and payment agreements are in effect. Another fear is that if they restrict the transfer of franc balances here belonging to foreigners, they may start a dreaded double franc quotation for francs, transferable and non-transferable.

END SECTIONS ONE TO FOUR, INCLUSIVE.

BULLITT.

EDA

GRAY

PARIS

Dated October 19, 1939

Received 6:26 p.m.

Secretary of State

Washington

2534, October 19, 6 p.m. (SECTION FIVE).

Under a decree published in the JOURNAL OFFICIEL today, additional credits totalling 102,000,000 francs are authorized under the general budget and others totalling 6,631,000,000 francs under the special armament budget for the present year. The Air Ministry is likewise authorized under the special armament budget to "contract" during the current year additional expenditures totalling 27,820,000,000 francs to be charged to credits to be opened "under future budgets".

The October 14 Bank of France statement published today shows that the state had again drawn on its 25,000,000,000 franc authorization this time in the amount of 1,700,000,000 bringing the total to 5,000,000,000.

BULLITT

JRLFCFW

CJ

GRAY

PARIS

Dated October 19, 1939

Rec'd 5:08 p.m.

Secretary of State,
Washington.

2524, October 19, 6 p.m. (SECTION SIX).

Otherwise the bank statement shows further improvement: commercial advances decreased by 1,429,000,000 francs to a total of 9,820,000,000; open market operations decreased by 1,000,000 francs to a total of 4,269,000,000; advances against securities decreased by 43,000,000 francs and thirty day advances by 498,000,000 and note circulation declined by 872,000,000 francs to around 145,000,000,000. Pay to and deposit accounts decreased by 1,075,000,000 francs. The Treasury account was reduced by a further 31,000,000 francs to a total of 137,000,000.

(END SECTION SIX)

BULLITT

NPL

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RFP

GRAY

Paris

Dated October 19, 1939

Rec'd 8:15 p.m.

Secretary of State

Washington

2524, October 19, 6 p.m. (SECTION SEVEN).

The ratio of gold cover decreased slightly from 59.38 per cent to 59.33 per cent.

The securities market was strong today both French and international issues moving up. The news of Turkey's loyal attitude toward France and Great Britain and the President's telegram to the King of Sweden were very favorably commented upon. Rentes gained from 30 centimes to 3.70 with the 1925 and 1937 exchange guaranty issues advancing 3.70 and 3.50 respectively. Exchange rates were unchanged except for the belga which improved slightly (733-739 against the previous quotations of 730-736).

BULLITT

HPD

PARAPHRASE SECTION EIGHT, TELEGRAM NO. 2524
OF OCTOBER 19, 1939 FROM AMERICAN EMBASSY, PARIS.

Reference is made to telegram of September 29 from the Embassy, No. 2553 (2253?). Confidential information has come to us that Italy has obtained the rest of the dollar exchange, \$1,300,000. Therefore there will be no public default on its obligations in question at New York - although contractually October 1 was the date the \$4,000,000 was due the paying agent.

END OF MESSAGE.

BULLITT.

RECEIVED

OCT 20 1939

THE TREASURY DEPARTMENT
Office of the Assistant Secretary
for International Finance



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

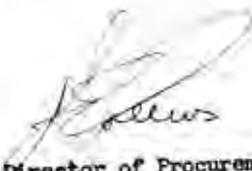
October 19, 1939

MEMORANDUM FOR THE SECRETARY

There is attached hereto statement indicating the present status of contracts reported by memorandum of October 7th.

There is also attached a statement of new contracts entered into between the French State and the contractors indicated since report of October 7th was transmitted. This report is contained on page 3 of the statement attached.

In connection with this latter report, the contract with the Curtiss Wright Corporation, Wright Aeronautical Division, for 1,440 engines amounted to \$28,679,040, which amount includes as a surcharge \$5,500,800 for plant extensions.


Director of Procurement

atts.

AIRPLANES

<u>Contractor</u>	<u>Description</u>	<u>Ordered</u>	<u>Delivered</u>	<u>Complete Delivery</u>
Curtiss-Wright Corporation	1 engine Pursuit 75-A	200	200	
Glenn L. Martin Company	2 engine Bomber 167-F	215	22	Dec. 31, 1939
Douglas Aircraft Company, Inc.	2 engine Bomber DB-7	100	0	Jan. 31, 1940
North American Aviation, Inc.	Basic Trainer	230	198	Nov. 15, 1939
United Aircraft Corporation Chance-Vought Division	Dive Bomber V-156	<u>40</u>	<u>20</u>	Nov. 30, 1939
		785	440	

ENGINES

<u>Contractor</u>	<u>Description</u>	<u>Ordered</u>	<u>Delivered</u>	<u>Complete Delivery</u>
United Aircraft Corporation Pratt & Whitney Division	P&W 1830 Twin Wasp	1,821	952	July, 1940
United Aircraft Corporation Pratt & Whitney Division	P&W 1535 Twin Wasp, Jr.	520	15	July, 1940
Curtiss-Wright Corporation	CW CR2600 Twin Cyclone	<u>42</u>	<u>4</u>	Mar. 15, 1940
		2,383	971	

SPARE ENGINES ORDERED BY NORTH AMERICAN AVIATION, INC., FOR BASIC TRAINER CONTRACT

<u>Contractor</u>	<u>Description</u>	<u>Ordered</u>	<u>Delivered</u>	<u>Complete Delivery</u>
Curtiss-Wright Corporation	CW R-975-E Single Row Whirlwind	115	50	Dec. 31, 1939

Oct. 19, 1939 (F)

AIRPLANES

<u>Contractor</u>	<u>Description</u>	<u>Ordered</u>	<u>Delivered</u>	<u>Complete Delivery</u>
Curtiss-Wright Corporation	1 engine Pursuit 75-A	530	0	Dec., 1940
	1 engine Pursuit P-40	100	0	Dec., 1940
Glenn L. Martin Company	2 engine Bomber 167-F	150	0	June, 1940

ENGINES

United Aircraft Corporation Pratt & Whitney Division	PW 1830 Twin Wasp, 2 speed	2,250	0	Dec., 1940
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OTHER EQUIPMENT

General Electric	Searchlight Equipment	128	0	Nov., 1940
	Trucks (General Motors)	640	0	Nov., 1940
	Portable Power Plants	384	0	Nov., 1940
Sperry Gyroscope Company	Searchlight Equipment	258	0	Nov., 1940
	Sound Locators	256	0	Nov., 1940

Oct. 19, 1939 (F)

AIRPLANES

<u>Contractor</u>	<u>Description</u>	<u>Ordered</u>	<u>Delivered</u>	<u>Complete Delivery</u>
North American Aviation, Inc.	Basic Trainers	*200		Aug., 1940
Douglas Aircraft Company, Inc.	2 engine Bomber DB-7	170		Aug. 31, 1940

ENGINES

<u>Contractor</u>	<u>Description</u>	<u>Ordered</u>	<u>Delivered</u>	<u>Complete Delivery</u>
Curtiss Wright Corporation Wright Aeronautical	R2600 Twin Row Cyclone	1,440		Dec. 31, 1940
United Aircraft Corporation Pratt & Whitney Division	R1535 Twin Wasp, Jr.	600		Dec., 1940
	Propellers	600		Dec., 1940

*Includes 50 spare engines and spare parts for planes

Oct. 19, 1939 (F)



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT
PROCUREMENT DIVISION
WASHINGTON

October 19, 1939

Handwritten initials

MEMORANDUM FOR THE SECRETARY

Yesterday afternoon late I was confidentially informed that the first of the Douglas Twin Bombers, while being test flown by a French pilot, crashed.

Reports indicated that the pilot was not seriously injured, but there was no information available at the moment as to the extent of damage suffered by the plane. The pilot is on his way to Washington, and on his arrival I will transmit any further information learned.

Handwritten signature: J. E. Hollen
Director of Procurement



TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

OFFICE OF THE DIRECTOR

October 25, 1939

MEMORANDUM FOR THE SECRETARY

On September 19th a proposal was issued for manganese ore in quantities ranging from 5,000 to 15,000 long tons for delivery at Ogden, Utah, or Baltimore, Maryland, covering three grades of ore. This proposal was opened on October 19th, and the following bids were received:

<u>BIDDER</u>	<u>DESTINATION</u>	<u>QUANTITY</u>	<u>PRICE PER UNIT</u>
L. J. Buck, Inc.	Baltimore	8,000 to 15,000 LT	\$.49
Domestic Manganese and Development Company	Ogden	15,000 LT	.67
Frederick W. deFriess	Ogden	5,000 LT	.5277
L. Bilmore and D. A. Kendall	Ogden	5,000 LT	.77
Greenbrier Mining Corp.	Baltimore	5,000 LT	.75
Wana Manganese Company	Ogden	15,000 LT	1.67
Wana Manganese Company	Baltimore	15,000 LT	1.61
J. E. Kramer	Ogden	5,000 LT	.40
Watson Geach & Co., Inc.	Baltimore	10,000 LT	.42

With the exception of the bid of L. J. Buck, Inc., and Watson Geach and Company, Inc., all other bidders propose furnishing domestic ore.

Of the bids indicated above it appears award may be made to Frederick W. deFriess and Greenbrier Mining Corporation and that no award may be made to the other domestic bidders indicated on account of a failure to meet specifications.

Director of Procurement

October 19, 1939

Present:

Minister Procope
Mr. Hanes

Minister: Well, I have prepared a list of commodities. Next to that another list and if there are details about the military things, I have my Military Attache.

HM,Jr: This is the military? The short one?

Minister: This item 10 is also military -- no, I mean item 11.

HM,Jr: Well, this is what I asked for and the next step is up to us.

Minister: Yes. Yes.

HM,Jr: What?

Minister: Yes. It is. But can I put some, how shall I say, routine questions. If you can give a loan upon this, how is that given; in what form?

HM,Jr: Well, I don't know, but what I am going to do, for your information only, I am going to bring this up at Cabinet at two o'clock this afternoon.

Minister: Fine!

HM,Jr: I will bring this up at Cabinet and I will ask the President for instructions.

Minister: May I say that we are badly in need of that money. Our general situation is good, but everything is going up in value terribly.

HM,Jr: I will take it up.

Minister: I have a new idea. You gave me the thought.

HM, Jr: Did I?

Minister: You spoke about this Stabilization Fund. The Stabilization Fund, that is a question you could argue about for hours. I don't know what it is worth.

HM, Jr: They told me, when I was there, \$45,000,000.

Minister: Yes, it is. Even on the books it is even more. It is \$50,000,000, a little more, but part of that, I should say 40%, is invested in the country.

HM, Jr: Are you sure of that?

Minister: Sixty percent is invested abroad according to the last information I had.

HM, Jr: Because, if you don't mind, I just raised the question, I got the impression that that money was in gold, a large proportion in Swedish exchange.

Minister: Quite right.

HM, Jr: And I got the impression that practically very little of it, if any, was not what I would call 100% liquid.

Minister: Well, I am afraid I am right, but I could

HM, Jr: Well, anyway, whatever it is, whatever part is liquid, you could use that?

Minister: Of course we can.

HM, Jr: First?

Minister: Of course we can, but we have, what we have is different currencies. We have abroad -- the Bank of Finland has some currencies abroad, although I see that they are dwindling and then private banks have also some currency abroad.

HM, Jr: We gave you an idea.

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Minister: Yes and that gave me the idea. I think it is perfectly clear that the Government is not buying all this copper or all this gasoline, but the Government can take, we can take

HM, Jr: For my purposes today, it does not make any difference today. Today it is Finland. It is Finland that needs this and what are the wishes of the President and Mr. Hull in regard to this, and I will find out.

Minister: Good!

HM, Jr: It's good you came in this morning.

Minister: Thank you. I had good luck.

HM, Jr: So you are not losing any time. I get this at 10:30 and at 2 o'clock I will show it to the President.

Minister: When do you allow me

HM, Jr: to get an answer? If I have an answer we will get word to you either this afternoon or tomorrow morning. We will try to make it this afternoon.

Minister: Thank you.

If there are some faults in the addition, you will excuse me, because I worked until 4 o'clock this morning.

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List

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of certain commodities

Finland is expected to buy
from the United States during
12 months (in some cases delivering later)

I. <u>Oil</u>			
Gasoline	100,000 metric tons		
Other fuel oil	84,000 " "		
Lubricating oil	12,000 " "		
Total value of gasoline and oil		mk 400,000,000	\$8,000,000
II. <u>Cotton</u> 14,000 metric tons " 300,000,000 \$6,000,000			
III. <u>Sugar</u> 40,000 " " " 300,000,000 \$6,000,000			
IV. <u>Metals</u>			
Pig iron	14,000 " "		
Iron wrought (figure iron) Plates & sheets	80,000 " "		
Pipes	16,000 " "		
Lead	4,000 " "		
Copper bars	7,000 " "		
V. <u>Oil cakes and seed</u> 20,000 " "			
VI. <u>Wheat</u> 40,000 " "			
VII. <u>Rubber and rubber products</u> 1,600 " "			
VIII. <u>Woolen thread</u> 500 " "			
IX. <u>Automobiles, motore for same and parts thereof</u>			
X. <u>Various chemicals</u>			
XI. <u>Sundries</u>			
Total value of groups IV - XI		mk 600,000,000	\$12,000,000

Transferred to page 2

\$32,000,000

Transferred from page 1 \$32,000,000

XII/ Machinery and sundries--

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Particular government purchases *

Tractors	\$380,000	
Binoculars	625,000	
Airplane propellers	100,000	
Pratt-Whitney airplane engines	880,000	
Machinery for mechanical factories	58,000	
Motors for speed boats	250,000	
Machinery for rolling mill	282,000	
Discs and bullet jackets	?	
Gasprotecting equipments	500,000	3,075,000

XIII. Airplanes

According to annexed schedule		\$ 28,894,000
Grand total		\$ 63,989,000

* Also the other groups in this list might include Government purchases.

Annex to list of planned Finnish purchases from the
United States.

Washington, D.C. Oct. 18, 1939.

AIR PLANES

TYPES,	NUMBER	PRICES	PRODUCERS	DELIVERY
Light Monoplanes with 1000 HPS	230	\$45,000	Bell Aircraft Corp. Brewster Aeronautical Corp. Curtis Wright Corp Douglas Aircraft Co. Inc	From 4 months
Light Monoplanes with 600-800 HPS	147	\$52,000	Guman Aircraft Eng. Lockheed Aircraft Corp. Glenn L. Martin Co. North Am. Aviation Inc. Seversky Aircraft Corp.	to 18 months
Light Monoplanes on Pontoons with 600-800 HPS	20	\$40,000	Stearman Aircraft Vought - Sikorsky Aircraft Corp. Vultee Aircraft	
Heavy Monoplanes with two Engines	77	\$150,000		

Total: \$ 28,894,000

GROUP MEETING

October 19, 1939.
9:50 a.m.

Present: Mr. Gaston
Mr. White
Mr. Foley
Mr. Hanes
Mr. Smith
Mr. Thompson
Mr. Graves
Mr. Bell
Mr. Cotton
Mr. Stewart
Mr. Viner
Mr. Cochran
Mr. Haas
Mr. Duffield
Mr. Harris
Mrs Klutz

H.M.Jr: John?

Hanes: Nothing.

H.M.Jr: At 11:00 o'clock Eccles and Harrison are coming in on this question of Governmental deposits, and if Hanes, Foley and Cochran and Walter Stewart and Harry White could be here at ten minutes of 11:00, see, you could kind of brush me up. Now, Harry, if you haven't been up on it, see Ed right after the meeting. Nothing has happened since you (Hanes) have gone.

Hanes: Well, I am up to date, I think.

H.M.Jr: Have you seen Eccles' memorandum?

Hanes: Yes.

H.M.Jr: You have had a chance, have you, Walter Stewart?

Stewart: I talked with Mr. Foley last evening.

H.M.Jr: Hanes, Foley, Cochran, Stewart and White. Did you get in on that, Dan?

Bell: I don't know.

H.M.Jr: Foreign deposits.

Bell: Oh, I went over the other day with Ed.

H.M.Jr: Be here.

All right, you have nothing, John?

Hanes: No.

H.M.Jr: And you are coming in with me on the finish.

Hanes: Is that right?

H.M.Jr: Yes. The finish is at 10:00 and this other thing is ten minutes of 11:00.

Hanes: There is one thing to be done about that meeting. I have a memorandum from Phil Young written yesterday on this Colombia, South America thing.

H.M.Jr: No....

Hanes: Are there any instructions to anybody after that meeting?

H.M.Jr: No, the only instructions are that the economic staff of the State and Treasury are going to prepare a memorandum.

Hanes: On that specific one?

H.M.Jr: On that specific one. I take it they are working on it now.

White: We have begun already.

H.M.Jr: Gene, there is a story in today's Tribune on that meeting and I would like to know whether the State Department - here it is. In view of this story, I am going to be asked - I want to call up Welles and say, "How should I answer that?"

Duffield: I didn't know the Tribune knew about it. The New York Times knew from the State Department that there was going to be a meeting over here yesterday afternoon.

H.M.Jr: Could you call up the press section fellow?

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Duffield: Yes.

H.M.Jr: And let me know, because I want to call up Welles and say, "Well, the story came out and I have got to say something. Am I saying we are studying Colombia, am I saying we are going to invite them, or are you going to give it out?"

Duffield: You could do that without my talking to the press section.

H.M.Jr: No, I would like to say to Welles that it is true that this story came from the State Department and I am on the spot.

Hanes: I saw something in the paper last night about having a meeting over here. Did it give any details? I just saw the headlines and didn't read the story.

H.M.Jr: Am I right, Gene?

Duffield: That is right. But the New York Times man, Crider, yesterday started trying to find out whether it would be worth his while to go to Guatemala. While he was over at the State Department inquiring about that he was told that the discussion of it was going to take place over here that afternoon, yesterday afternoon.

H.M.Jr: There was one thing discussed afterwards which I will tell you (Hanes) about.

Cotton: Wouldn't it be sort of unfortunate if the name of the country got out?

H.M.Jr: I don't know, but like all these things, you have to face the newspaper man and, as I say, he is kind of hard, and if they have got a piece of a story, what am I going to tell them? It is just up to Welles. Welles may like to have it out.

Duffield: The Brazilian business was announced while the negotiations were going on.

H.M.Jr: Normally, I wouldn't do it, but they have given out a piece of a story and there has been so much, as Jones said yesterday to Welles, given out about loans and he didn't feel he knew all about it,

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Jones didn't. I mean there is so much talk, Commerce, State, everybody talking, and they have got nothing to deliver. They had to go back to 1937. We will see.

Herbert?

- Gaston: When we were over at the State Department the other day, Mr. Berle gave us a copy of the Act of Panama. If you are interested - I suppose you have seen it.
- H.M.Jr: No, they gave one to Mr. Jones yesterday. I am not interested. The people who are studying this might be. I just haven't got time.
- Gaston: Do you want to say anything about that Baltimore thing at this time?
- H.M.Jr: No, other than that I think....
- Gaston: You wondered why there was not a prosecution there.
- H.M.Jr: Yes. But that is not the whole thing, why did we have a crook in the Treasury? Why is he just dismissed? Why isn't he prosecuted?
- Gaston: I will look into that. I have got to talk to Elmer some more about that.
- H.M.Jr: That is all. And I didn't think that that memorandum floating around the files was awfully pretty anyway, stating the method they used to get him. I don't see why they should put it in writing.
- Cotton: Is that the Colombian Consul out on the West Coast?
- Gaston: No, it is a tax case.
- Cochran: Nothing, sir.
- H.M.Jr: How is your cold?
- Viner: No good.
- H.M.Jr: George?
- Haas: I have nothing, but there is something in here (handing report to Secretary) that you might want to see.

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- H.H.Jr: Basil, I don't hear from you these days. Is everything O. K.?
- Harris: Yes, I have been a little busy lately.
- H.H.Jr: Just to take a minute, Basil, what happened to the ship of your former company?
- Harris: Got caught in that hurricane.
- H.H.Jr: Everything is all right now, she is in, isn't she?
- Harris: Yes. The danger of those hurricanes is, after they have floated around the West Indies for a while they come out into the North Atlantic. By the time they get out there, they are moving very fast. They may be moving, say, 60 miles an hour. Due to some freak, that storm will switch and she then goes on a right angle tangent, whereupon the velocity would be doubled. She then becomes 160 miles an hour and then you are in a storm.
- H.H.Jr: That is what happened?
- Harris: That is what happened.
- H.H.Jr: All the way over they had weather maps, clockwise and counter-clockwise, and wondering if they would pass, and so forth and so on. Viner and I got so we didn't know whether you dealt to the right or the left. Is that right?
- Viner: Didn't care.
- H.H.Jr: I have got to tell a story on myself. My second son was maliciously circulating it about this trip of ours coming back. It is absolutely malicious and there isn't a word of truth about it. The Captain was supposed to have come in to see me and I was lying in my bunk with my head hanging out. He said, "Sir, I would like to heave to." I am supposed to have answered, "Fine, I have just heaved, too."
- Harris: I have that letter of Mr. Wait's.
- H.H.Jr: He ought to have that and would you go to bat for him? The poor fellow has tried to have it and

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I think if you talk to Merle Cochran he might give you a little background, why Treasury fellows can't get diplomatic passports, recognition in France. Tell him what is the trouble and what is the best way to avoid it over across the sea.

White: That is true in England, too, Mr. Secretary.

H.M.Jr: Well, this would be for Europe, and in these times particularly.

Harris: This poor fellow is having a terrible time.

H.M.Jr: He ought to have it and who would be the fellow to see over at State, who is the right fellow to give it to him?

Cochran: It would be one of the Assistant Secretaries, but I will get in touch with the passport section first.

H.M.Jr: Would it be Messersmith?

Cochran: Yes.

H.M.Jr: Whoever it is, will you go to bat for your boys?

Harris: If you will back me up.

H.M.Jr: I will back you up.

Viner: It will take all the strength of the Treasury.

H.M.Jr: I think you can get a little background here and you (Cochran) can tell him where the opposition comes from.

Cochran: All right.

H.M.Jr: If you will ask Mrs. Klotz, I would like her to tell you several things, too.

Harris: Inside stuff?

H.M.Jr: Yes. O. K.?

Harris: Yes.

Smith: Mr. Secretary, I am going home this afternoon and if it is agreeable to you I would like to have the same arrangement I had before, that when I am needed, you will ask me to come down and then for a time, at least, I will keep the office and if anybody wants to get in touch with me, the telephone runs to St. Louis.

H.M.Jr: One way.

Smith: That is all.

H.M.Jr: Harry?

White: You may have noticed the selling of - by Britain of securities, but since the war it has been running fairly regularly and now amounts to almost 50 million dollars, and curiously, that is about equal to what we have estimated her loss of gold would have been had she used gold instead of securities, so, though it is much too early to say, it looks to begin with that she is pursuing a policy of conserving her gold and utilizing such balances as she is able to obtain from the sale of her securities, which would be very interesting if it is continued.

There is a note here about oil from the SEC. I don't know whether that came to me by accident....

H.M.Jr: What kind of oil do they produce, banana oil?

White: They do, but it isn't in this letter. This is about the TNEC hearing and oil rates and so on. Some revenue should have gone to the Treasury, probably, or might have gone if something else had been done. You asked me to speak to you about it, and possibly the letter was in error in coming to me.

H.M.Jr: No, I got this letter and I didn't have time to read it and I thought you might boil it down to half a page or a paragraph.

White: And you would like an answer prepared?

H.M.Jr: Yes. I wanted you to boil it down for me to a paragraph.

White: I spoke to Ed about it and he is having his man, O'Connell, prepare a memorandum which he couldn't prepare until he had asked the witness some more questions bearing on Treasury interests, so it should be ready any time now, and when it is, it will be sent to you with an answer.

H.M.Jr: Let it come up to me through Hanes, will you please?

White: Right. Then there is another memorandum from the Far Eastern Division to see you about China. I think if you have five or ten minutes, the Chinese situation is apparently changing pretty substantially.

H.M.Jr: I wouldn't have any time today. Is that the kind of information we want?

White: They asked you for something. They asked whether this was information merely in which he is raising the question whether the Consul ought to be stationed at Hifong or whether he can just go over from Kanoya, back and forth, the way he has been doing. I am inclined to leave that decision wholly to....

H.M.Jr: I was told that was the best they can do.

Cochran: This is the first case of information they have gotten. It is rather interesting, for they have gotten by his trip down.

H.M.Jr: Will you tell the State Department that this is good and I would like to, if I could, get that kind of thing fortnightly.

Cochran: All right. Hamilton phoned me before he sent it over.

H.M.Jr: If we could have a cable like that fortnightly, I would appreciate it.

White: Which would be an answer to the question as to how the situation should be covered.

Cochran: Yes. They say it is just experimental with them still.

H.M.Jr: What I am interested in is the Hifong-Kanoya route.

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If I could get a cable at least fortnightly, I would appreciate it. Don't you think that would be often enough, Harry?

White: Quite.

H.M.Jr: That is the first one?

Cochran: It is the first one under this new arrangement.

H.M.Jr: The boys of the State Department are kind of a little tricky with me. They gave me the impression that this is just coming along and had nothing to do with my inquiry.

White: I didn't know this was the first one.

Cochran: It is the first detailed one like that.

White: There is another outflow of capital, substantial amounts, but a large portion of that are these British selling of chiefly American securities, but there are other balances that are being reduced by many other countries, so that the net movement is an outflow of capital, small inflows of gold.

H.M.Jr: Gene?

Diffield: Nothing.

Bell: Nothing. There is a meeting this morning of our committee.

H.M.Jr: What committee?

Bell: That you appointed yesterday.

H.M.Jr: What committee is that?

Bell: Currie and the others.

H.M.Jr: I am glad you talked about that. I appointed a committee on gold statistics. What happened to that?

Banes: We met on Tuesday. Representatives of the Federal

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Reserve and the Commerce Departments and Harry and Central Statistical Board and Merle Cochran and myself. I think everybody was agreed that they should reduce it to weekly statistics, on the gold movement, instead of daily, except the one man, and that is Gardner in the Federal Reserve. He seems to think they ought to continue to give out the figures daily and I don't think we ever convinced him, Harry, that we were right and he was wrong. We left it, however, that there were four people there who all thought there should be just a weekly figure.

- H.M.Jr: By Commerce?
- White: By Commerce, with some cooperation from the Federaals.
- Hanes: We never convinced him.
- H.M.Jr: You never will.
- Hanes: We left it that we would do nothing about it further until we heard from him.
- White: It cropped up last spring, Mr. Secretary. We had a larger meeting. At that time there was a difference of opinion between the Federal Reserve Bank of New York and the Federal Reserve Board here as represented by Gardner were pretty adamant in their opinion that it should be continued. Rather than use the big stick, we thought we would let it go until something happened. Something has happened and has taken away their argument, which was that there was no excuse for changing.
- H.M.Jr: In a very polite and soft voice, let's say weekly.
- White: He may agree that is all right.
- Hanes: He said he would like to go back and consult his associates.
- Cochran: Mr. Secretary, he telephoned me yesterday afternoon on that same thing and he wanted my arguments again. I think he is weakening.
- H.M.Jr: John, give him until next Monday.

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Hanes: And then tell him we will do it weekly?

H.M.Jr: Yes. Agreed?

Hanes: Yes. I don't think his arguments are any good. I think he is just stubborn.

Foley: Mr. Secretary, that order that was in the paper this morning signed by the President yesterday prohibiting submarines from our waters was prepared here.

H.M.Jr: By whom?

Foley: Cairns.

H.M.Jr: So I understood.

White: Did you see the note in this morning's paper about the use of the stabilization fund? It was in this morning's Times. There was a part of a column on it and I assumed that they got it from somebody here.

Duffield: I haven't seen it, either, I am sorry.

White: I will give it to Gene.

H.M.Jr: Thompson?

Thompson: Nothing.

Walter Winchell On Broadway

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Our Red-Face Dep't: We announced that it would probably be denied but that Sec'y of the Treasury Morgenthau was ill. . . Not serious, we added. . . Just as we exclusively predicted, the cabinet member confirmed the first half of the senop in the following telegram: "Dear Walter: You will be glad to learn and some people 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. The telephone began to ring. Friends and press associations wished to ascertain the state of my health. I assured them that up to the time of your broadcast I had been perfectly well. My telephone is in working order. How's yours?"

It's not feeling so good—move over.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 19, 1939

TO Secretary Morgenthau
FROM Mr. Cochran

At 10 o'clock this morning I telephoned Mr. Hamilton, Chief of the Far Eastern Division of the Department of State. I told him that the Secretary had noted with interest the cablegram (#374) of October 13, 1939, from the American Consul General at Hongkong, quoting a message of October 11 from the American Consul at Hanoi. I told Mr. Hamilton further that Secretary Morgenthau would appreciate receiving similar messages at least as frequently as every fortnight. Mr. Hamilton thought it likely that reports would be coming in more often than every two weeks, but if they do not, he will issue the necessary instructions. In answer to my question as to whether this was the first cablegram transmitted upon the question of transport of goods through Indo-China since the arrangement had been set up for the Consul at Hanoi to deal with this situation, he replied that it was either the first or second. I did not recall receiving a first one, and he said he might be in error. Checking through our files, I find no other cablegram of the type of #374 received from Hanoi.



CONFIDENTIAL

PARAPHRASE

A telegram (no. 374) of October 13, 1939, from the American Consul General at Hong Kong quotes a telegram of October 11 from the American Consul at Hanoi which reads substantially as follows:

That the policy of France in connection with China is still to a great degree dependent upon political expediency is shown by information which is said to come from authoritative official sources concerning the policy which is to be followed toward the transit and export to China of goods which are not allowed to be exported from Indochina. After October 13 there will be a ban on the transit and export of such goods to private concerns in China and from a date which the Director of Customs at Hanoi will announce there will be a ban on the transit and export of these prohibited goods to the Chinese Government, according to notification given the Chinese Consul General by the Governor General of Indochina in letters dated October 3. The transit and export of goods covered by the Universal Trading Company loan will, however, be allowed as in the past. Various persons who have talked with the Director of Customs and the Governor General since the

above-mentioned letters were received by the Chinese Consul General have very definitely gotten the impression that if the overcrowded condition of freight at Haiphong is cleared up a more lenient policy will be followed than that described in the letters. More than six months will be required to clear up the congestion at Haiphong, according to information received by the American Consul. The French wish to escape giving the appearance of assisting the Chinese Government actively, according to information from foreign and Chinese persons. There is a rumor that there is an order that regardless of whether gun cars and trucks are loaded all such cars and trucks must get out of Haiphong within a period of three days. A number of the aforementioned foreign and Chinese sources state that within a week or so it is expected that certain Japanese will come to Haiphong and that every effort is being made to force a clearing up by the Chinese of the almost unbelievable overcrowding of freight. The break in the railroad to Tamsonk, which line may not be usable for the transportation of freight for a month at least; the condition of the highway beyond the frontier which within the past few days has been subjected to repeated bombings; and the lack of truck drivers are definite handicaps to the movement of cargo immediately.

It would seem, judging from conversations held a short time ago in Haiphong and Hanoi, that the Government of Indochina is inclined for the present to consider favorably the matter of shipments to the Chinese National Government, especially of goods originating in the United States. However, there does exist a strong desire to escape complications with Japan. This desire which is understandable is so strong as to justify the fear that, if and when the Japanese exert urgent pressure, restrictions may be imposed upon the transit to China of the above-mentioned goods.

893.24/600

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 19, 1939

TO Secretary Morgenthau
FROM Mr. Cochran

I discussed with the Secretary this morning the request of Mr. Brockington of the American Smelting & Refining Company that his Company be exempt from the requirement that silver bars refined by its Mexican subsidiaries and purchased from it under the Silver Purchase Act bear the stamp of American refineries. The Secretary accepted the recommendation set forth in Mr. Dietrich's memorandum of October 10 that no exception should be made in this case.

October 20, 1939

I mentioned the above matter to Mr. Knoke when he was in my office yesterday and explained to him by telephone today that the Treasury had decided against making any exception in this case and that he, Mr. Knoke, should so inform Mr. Brockington of the American Smelting & Refining Company, for whom Mr. Knoke had made the appointment with the Treasury on October 4.



CONFIDENTIAL

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE October 10, 1939

TO ^{Hand} Mr. Cochran
 FROM Mr. Dietrich

With reference to our conversation with Mr. Brockington of the American Smelting and Refining Company on October 4 regarding exemption from the condition that silver bars purchased from the American Smelting and Refining Company under the Silver Purchase Act must have the stamp of American refineries, the following is the background relative to this subject.

Early in 1936, speculators were shipping considerable amounts of silver from London to New York for sale to the Treasury. In order to discourage this practice as much as possible, it was decided, with the approval of the Secretary, that all silver bars purchased under the Silver Purchase Act, in order to be eligible for sale to the Treasury, would have to bear the stamp of an American refinery located in the United States.

The reasons for this action were as follows:

1. It lowered the export point on silver shipped from London, due to the increased cost of having the bars recast when they reached here if they did not bear the stamp of an American refinery located in the United States.

2. It gave additional work to American labor as new production silver sent to the United States from South America would be refined in American refineries.

3. It was a protective measure in case we discovered that large amounts of silver were coming in, and it would give us at least a day or two to debate a change of policy if necessary.

Mr. Brockington stated that the American Smelting and Refining Company is an American Corporation and that their Mexican subsidiaries are also in the same classification. He also stated that the bars they shipped from Mexico are good delivery bars everywhere but when sold to the Treasury, and that his Company calculates that their profit is reduced by approximately \$75,000 a year, due to the fact that the bars have to be recast at one of their refineries in the United States in order to be eligible for sale to the Treasury.

Mr. Brockington is bringing up this question at the present time because he feels that the domestic market is not in a position to absorb further amounts of silver at the higher price which has prevailed recently, Handy and Harmon's price being at times as high as $\frac{1}{4}$ above the Treasury's price. As and when Handy and Harmon's price again goes under the Treasury's price the American

Smelting and Refining Company will probably offer their silver to the Treasury, hence the request that they would like to have the requirement that bars bear the stamp of an American refinery located in the United States rescinded.

In considering this request the following matters should receive consideration:

1. If we make an exception in the case of the American Smelting and Refining Company and accept their Mexican bars without recasting we could be accused of favoritism. It would be but a matter of a short time before we would have to make a similar exception to all sellers of silver.
2. The removal of this requirement would deprive American refineries of a certain amount of work which they now receive.
3. If we remove this requirement it means that we are increasing the profits of the various mining companies as well as speculators when silver shipped to this country is sold to the Treasury.
4. By the removal of this requirement, it encourages larger amounts of silver to be shipped to the United States for sale to the Treasury.
5. As recently as July of this year one of the conditions for the purchase of forward silver, that is, the length of time on forward contracts, was changed from 6 months delivery to 5 months delivery, which includes the current month. This change took one month off the time for forward deliveries and tends to reduce the amount of silver offered to the Treasury.

In view of the agitation for the repeal of the Silver Purchase Act, and the fact that as late as July of this year we changed one of our conditions for the purchase of silver, as mentioned above, my recommendation would be that the requirement of the stamp of American refineries on silver bars purchased by us be retained.



TREASURY DEPARTMENT

158

INTER OFFICE COMMUNICATION

TO

Mr. Cochran

DATE: October 18, 1939

FROM

Mr. Dietrich

*Noted
M. Cochran*

With reference to the question of silver in London which we discussed, the probable effect would be to increase sales to the Treasury under the Silver Purchase Act.

Below are some further restrictions which we could place on our purchases:

1. Discontinue purchasing speculative silver, silver which is the product of secondary materials, or scrap, or any type of silver that could come under that classification.
 2. Confine our purchases to only newly produced silver.
 3. Reduce further the time and delivery on future contracts.
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TREASURY DEPARTMENT

159

INTER OFFICE COMMUNICATION

DATE October 19, 1939

TO Secretary Morgenthau
FROM Mr. Cochran

The foreign exchange market was slightly more active today, with increased volume in sterling transactions. The opening quotation for sterling was 3.99-3/4, and by early afternoon it had advanced to 4.00-1/2. In mid afternoon, one of the New York banks received an order from abroad to purchase £35,000, and after this order appeared in the market the rate rose to 4.01-1/4, the high for the day. It closed at 4.01.

The French franc opened at .0226-5/8, and closed at .0227-5/8. The belga receded from yesterday's close of .1686 to .1680. Guilders and Swiss francs were about unchanged and closed at .5309 and .2243, respectively.

Reporting banks in New York and the Federal Reserve Bank reported sales totaling £645,000, from the following sources:

Commercial concerns.....	£ 305,000
Foreign banks (Europe and Far East).....	£ 240,000
Federal Reserve Bank (For Denmark).....	£ 100,000
Total	£ 645,000

Purchases of sterling amounted to £790,000 as indicated below:

By commercial concerns.....	£ 415,000
By foreign banks (Far East and Europe).....	£ 107,000
Federal Reserve Bank (For Turkey).....	£ 268,000
Total	£ 790,000

The banks also reported that the British Control purchased sterling amounting to £69,000, at the official rate of 4.02.

With reference to the purchase of £268,000 by the Federal Reserve Bank for Turkey, this payment is being made to the Bank of England for the account of the B.I.S. In view of the fact that the sterling is to be paid for the account of the B.I.S., I think that it represents payment of a loan made by that institution to Turkey.

There were no new gold transactions consummated by this office today.

The Federal Reserve Bank of New York informed us that they had not received any reports of gold shipments to this country.

I discussed with the Secretary this morning the request of Mr. Brockington of the American Smelting and Refining Company that his Company be exempt from the requirement that silver bars refined by its Mexican subsidiaries and purchased from it under the Silver Purchase Act bear the stamp of American refineries. The Secretary accepted the recommendation set forth in Mr. Dietrich's memorandum of October 10 that no exception should be made in this case.

B. M. S.

TO:

Miss Klotz

O.K.

A handwritten signature, likely "Gaston", enclosed in a large, loopy oval.

From: Mr. GASTON

October 19, 1939
9:58 a.m.

HMJr: Hello.

James A.
Farley: I think I'll bring Carmody around today.

HMJr: (Chuckles) Can't you control him, that soft-spoken gentleman?

F: Can anybody?

HMJr: I don't know.

F: (Laughs) It's amusing, really.

HMJr: Yeah.

F: I'll tell you what I called you about. When Steve was over there with you, Henry, and people would come in to us and wanted information and wanted help or advice, different things like that that we didn't know anything about, of course we'd send them over to Steve and Steve would take care of them if he could; if he couldn't he'd tell them, and so forth and so on.

HMJr: Yes.

F: You know, we'd just pass them on.....

HMJr: I know.

F:and he'd do what he could. If he couldn't it was all right.

HMJr: Yes.

F: Now -- well, now that he's gone, who is there over there for us to send anybody to with problems and things affecting.....

HMJr: How would Herbert Gaston be?

F: Oh, it'll be perfectly all right if he's the fellow. I don't.....

HMJr: Well I hadn't -- I'll ask him.

F: You ought to have someone over there because we get people who want to find things and we don't know.....

HMJr: Well.....

F: It ought to be -- I don't care who it is.

HMJr: Well, Herbert would be the only fellow I've got.

F: Well that's all right.

HMJr: Is he all right with you?

F: Yeah, he will be perfectly all right as long as we have someone that we can send people to. Now I don't want them to do anything they shouldn't, as you know, but we have to send them to someone to talk with. They come in, a lot of -- sometimes the requests are crazy requests and Steve would dismiss them in a minute and say, "Well, nothing can be done on that."

HMJr: Well.....

F: But he would at least see them, you see.

HMJr: Well, if you don't -- I'll get word to him and between now and Cabinet I'll ask him if it's all right.

F: Well that's all right. As long as it's someone so that when the people come in here Bray will call up and say, "Well, so-and-so is coming over and just see him and do as you can." If you can't it's all right.

HMJr: O. K.

F: Thanks a lot. Goodbye.

October 19, 1939
10:24 a.m.

Sumner
Welles:

Henry, how are you?

HMJr:

I'm all right. How are you?

W:

I'm fine thanks.

HMJr:

I guess we both would -- doing a little lying, but that's all right.

W:

(Laughs) I have here before me a further telegram from Joe Kennedy which has not been sent over to you and which I am sending to you personally immediately.

HMJr:

Right.

W:

In view of our talk the other day no reply, of course, will be sent to him with regard to the question of depositories or agencies.

HMJr:

No.

W:

On the other hand he raises the other second point, which I think it would be helpful for him to have a reply upon if you agree, and that is the question of the handling of the British marketable securities in this country.

HMJr:

I see.

W:

So I'm sending over the telegram to you and if you agreed perhaps you'd be kind enough to indicate the reply that you want made, if any.

HMJr:

O. K. Now.....

W:

Yeah.

HMJr:

.....don't hang up on me.

W:

No.

HMJr:

Are you through?

W:

Yes.

HMJr: Now, I don't know whether you saw the story in the Tribune quite in detail about our meeting yesterday.

W: No, I haven't read the Tribune yet.

HMJr: Well, they had quite a story on it and I believe they got it from your Department. I'm not sure, I think so. Now -- which is unimportant -- but I'm seeing the press -- my -- I have press twice a week and I'm seeing them at 10:30 and I wanted some guidance from you as to what, if anything, I should say that we were meeting about yesterday.

W: Well point number one, I will call in immediately the two people who were with me and find out if they have discussed in any sense what we met for yesterday with any newspaper correspondent.

HMJr: Yeah.

W: I will let you know.

HMJr: Yeah.

W: My very strong impression is that neither one of the men with me have talked to any correspondent.

HMJr: Yeah.

W: If they have, there'll be trouble.

HMJr: Yeah.

W: Point number two, I rather wonder if it might not be well, if you feel that you have to say something, to say that it was merely a preliminary exchange of views as the result of the Panama meeting in view of the November 15th scheduled meeting of the Inter-American Advisory Committee and let it go at that.

HMJr: That's all right with me. That's -- I'll say just that.

W: If you think that's advisable.

HMJr: Yes, I think that's fine.

W: All right, Henry.

HMJr: I think that's fine. Yeah, well, I'll wait for that Kennedy cable.

W: Thank you very much.

HMJr: Thank you.

W: Goodbye.

October 19, 1939
5:05 p.m.

HMJr: Hello.

Operator: Mr. Welles. Go ahead.

HMJr: Hello.

Sumner
Welles: Hello, Henry.

HMJr: Sumner.....

W: Yeah.

HMJr: Johnny is sitting here with me.

W: Yes.

HMJr: At Cabinet I took up this list of purchases that the Finnish Minister wanted to make.

W: Oh, yes.

HMJr: Now, I didn't get very much enthusiasm from the President or from Mr. Hull, but they said to kind of go ahead and see whether, first whether he couldn't do it and be financed through private banks and if not do something. But we haven't got much money left, but on the other hand a fellow -- I figured this way, the President has gone this far and I don't want to leave the fellow high and dry.

W: Yeah.

HMJr: So -- well, I said, "How about having Mr. Welles, Jones and myself take up this matter and see what we can do?" And they said, "Fine." But I know you're going away tomorrow and so am I and I thought that Hanes might do something Friday or Saturday if you would designate who could act in your place.

W: Well, I'm not going away until tomorrow night.

HMJr: Well, do you want to do it tomorrow?

W: Well, I'll be glad to.

HMJr: Well, would you call a meeting?

W: No, I think it's much better to have it over there and let me come over at some time that's.....

HMJr: Well then.....

W:convenient.

HMJr: Hanes will call you and make an appointment for you and Jesse and -- for tomorrow?

W: Yeah. Could you wait just a second, Henry?

HMJr: I'll wait.....

W:

HMJr: All right. Right now.

W: And.....

HMJr: Just a second.

W: Make it some time that's convenient.

HMJr: Well, do you want to give say two different times, one in the morning and one in the afternoon or.....

W: The best time for me would be three because my morning is filled, but anytime in the afternoon would be all right.

HMJr: Hanes -- Hanes will -- will call you back.

W: All right. Henry.....

HMJr: Yeah.....

W: About the telegram I sent you.

HMJr: Yes.

W: Have you.....

HMJr: Yes, I've just O.K.'d it and it'll be over to your place within twenty minutes.

W: Oh, fine.

HMJr: It's O.K.'d and it's a collaboration with Jerome Frank, Herbert Feis and the Treasury gang.

W: Grand.

HMJr: And everybody's in accord - at least enough in accord that I've O.K.'d it.

W: Thank you very much indeed.

HMJr: And this is a very polite slap on the wrist.

W: Um-hm.

HMJr: It's so polite I never could have written it myself.

W: (Laughter)

HMJr: How's that?

W: (More laughter) I shall read it with interest.

HMJr: (Laughter)

W: All right, Henry. Then I'll wait until Johnny calls me in the morning.

HMJr: Yeah, and this thing will be over to you -- to your office direct within twenty -- they've got to recopy it. It oughtn't to take more than twenty minutes.

W: All right.

HMJr: It'll come right to your office.

W: Thanks.

HMJr: Goodbye.

W: Goodbye.

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October 19, 1939

FOR THE SECRETARY:

In line with the note I sent you yesterday about the Federal Reserve hiring a special staff to prepare for the Wagner monetary investigation, I am considerably concerned lest the Treasury be at a disadvantage because preparations are not completed when the hearing begins.

Accordingly, I should like to make a suggestion which you and Mr. Hanes, to whom you delegated the preparatory work, might consider.

Mr. Hanes, Mr. White, Mr. Eass, Mr. Delano and other members of your staff who are interested in this work have other duties which absorb their time and push the work on this less immediate problem temporarily into the background. Therefore, to get the work started I suggest that a group of "junior" officials be set up to collect information and sketch an outline of presentation for the Treasury's case. I think the members of this group should be freed from a part of their routine work. Anything they did, of course, would be subject to review and change by Mr. Hanes and any group of higher officials he wished to have sit with him.

Someone should head up this "junior" group and ride herd on it. You couldn't ask for a better man than Walter Stewart, if he would undertake it. Phil Young is another good bet. If no one else would do it, I would be glad to try, but I couldn't begin to do the job that Mr. Stewart could do.

ESD

TREASURY DEPARTMENT
Washington

6-19-39

~~17~~
~~17~~

The State Department Press Section (Mr. McDermott) said that they had not talked about yesterday's meeting to anyone. He had not seen the Herald-Tribune story.

Gregory of the Herald Tribune tells me he got the story merely by seeing Mr. Welles, etc. in the Treasury halls. He says he tried later to get in touch with both Welles and Jones but failed.

However, Crider of the Times, who wrote no story, talked with Feis before the meeting. Feis told him it was going to take place and that it might clarify the Guatemala meeting. This letter is confidential.

Gene

Parley Studies Latin America Fiscal Plan

Morgenthau, Welles and
Jones Act on Financial,
Economic Problems

American Version
Of B. I. S. Weighed

Establishing of Such an
Institution Held Part
of Protective System

From the Herald Tribune Bureau

WASHINGTON, Oct. 18.—Henry Morgenthau jr., Secretary of the Treasury, conferred today on Latin American problems with Jesse H. Jones, Federal Loan Administrator, and Sumner Welles, Under Secretary of State, and American delegates to the Inter-American conference of American republics, held at Panama recently.

The conference, it is understood, discussed the coming meeting of the Inter-American financial and economic committee which will be held in Washington Nov. 15. The committee will canvass ways and means of assuring closer economic co-operation among the twenty-one republics adopted in a resolution at Panama.

One of the proposals to be taken up is the creation of an Inter-American institution to insure permanent and financial co-operation between the treasuries of the republics. It may take the form of an institution, jointly sponsored by the republics, similar to the Bank for International Settlements, which has operated in Europe for a number of years.

No Mechanism at Present

At present there is no existing mechanism for exchange of information between the Treasury and the treasuries of the Latin American republics. The Treasury was benefited by the co-operation existing between France and England under the tri-partite agreement. These problems will also be discussed by treasury representatives of the republics, meeting at Guatemala City next month.

The question of setting up an Inter-American financial institution is part of the general scheme to protect the economic and financial structures of the republics. They will also consider problems of monetary relationships, foreign exchange management, and balance of international payments.

The Inter-American Financial and Economic Advisory Committee consists of one expert in economic questions from each of the twenty-one American republics. The organization of the group was entrusted to the Pan American Union under the terms of the resolution adopted at Panama, and the meetings of the committee will be held at the Union.

Three Departments Studying Plans

The State, Treasury and Commerce Departments are at present engaged in various studies affecting United States and Latin American trade, monetary relations and ways and means of financing Latin American trade. Last week President Roosevelt at a press conference mentioned the possibility that the United States might extend gold credits to a number of countries.

However, it is doubtful if gold loans will be extended to any of the Latin American countries for currency stabilization purposes without Congressional approval. What may be done is the extension of credits for purchase of equipment and manufactured goods by the republics. Another medium may be the extension of the special reciprocal arrangement which the Treasury has with Brazil making dollar exchange available to that country.

Meanwhile, the question of gold was magnified today with the publication of the daily Treasury statement showing that gold holdings are now at \$16,995,006,372. Treasury officials believe that the \$17,000,000,000 mark will be passed before the week is about. On Sept. 30 the Treasury's gold holdings totaled \$16,931,515,000.

MEMORANDUM

October 19, 1939.

TO: Secretary Morgenthau

FROM: Mr. Duffield

The Colombia story seems to be leaking very badly. Fred Shelton of the Kiplinger Service called me at 11:30 to say that Colombia was coming up to arrange a loan, that Mr. Wells was smoothing the way and had even urged the Colombian representative to fly up at once. I knew nothing about the situation of course.

ESD

October 19, 1939.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

SUBJECT: Gambino-Lapadura alcohol conspiracy.

We do not yet have a full report on this case, referred to in the attached clipping from the New York Times of October 17th. Cahill's publicity was somewhat premature, since not all arrests have been made, but possibly was forced by the garage raid, in which New York City police cooperated. It would be difficult to cover up this sort of thing. Alcohol Tax expects to arrest a total of approximately 90 persons, 20 of whom are principals and financially interested in the syndicate. The Gambino-Lapadura gang is apparently a reorganization of the Stahl-Pelligrino gang, 74 members of which were convicted on May 26th of this year. Joseph (Black Lefty) Lapadura, arrested Monday, is a relative of Angelo Lapadura, sentenced to 22 months' imprisonment in May. The Lapaduras originally represented a group of New Jersey racketeers who attempted to control distribution of illicit alcohol in the metropolitan area. At the time of the spring and arrests the combination had seven alcohol drops in the city and handled in excess of 5,000 gallons weekly.

In the current investigation five alcohol drops have been located and 60 vehicles identified as being used by the gang. Radio equipped cars performed effective service in the investigation.



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OCT 17 1939

HUGE BOOTLEG RING SMASHED IN RAIDS

Government Agents and Police
Hold 51 Said to Be Operating
in Metropolitan Area

The breaking up of the "largest bootleg ring since prohibition" was announced yesterday by United States Attorney John T. Cahill. The ring, fifty-one of whose members already have been arrested, operated five or six stills in New York and New Jersey, and distributed 2,000 gallons of grain alcohol a day to druggists and bootleggers in the metropolitan area and even in Massachusetts, it was alleged.

Mr. Cahill's announcement was made after agents of the Alcohol Tax Unit of the Treasury Department, cooperating with city police, had raided the Mercer-Houston Garage at 165 Mercer Street. There they arrested ten men, of whom the most important was Joseph (Black Lefty) Lapadura of 128 Elizabeth Street. Lapadura was described as the commander-in-chief of the outfit. The others taken included Jacob Frankel of 217 Haven Avenue, the proprietor, and eight employees of the place, according to the announcement.

Drive Long Under Way

The drive was not disclosed until after Lapadura's arrest. During the last few weeks forty-one others had been picked up and held under routine charges. Many were released on bail, and no indication of the significance of the arrests was given until late yesterday.

While Mr. Cahill declined to indicate how many more prisoners were still to be taken, or how great the amount of taxes evaded by the group might be, his statement that the group was the "largest since prohibition" appeared to indicate that more than 100 arrests might be made, and several million dollars in Federal and State taxes involved.

The Pellegrino-Polatsnick ring, broken up in the Summer of 1938, involved the arrest of 108 persons, and Federal taxes evaded were estimated at \$1,800,000. At present tax rates, the volume of illicit alcohol described by Mr. Cahill would cost the Federal and State Governments \$11,540 a day.

Seize Trucks and Automobiles

The garage raided yesterday was an old-fashioned, five-story building, close to East Houston Street. On the ground and upper floors private automobiles and trucks were stored, but the basement was given over entirely to the activities of the ring, it was said. Two trucks and several automobiles were seized. All had been used for the delivery of alcohol, according to the Federal authorities.

The trucks were large, ordinary-looking vehicles, ostensibly used by a grocery house. The hurlap sacks and paper cartons they contained, however, actually were camouflage for the five-gallon tins used invariably in the illicit alcohol trade.

None of the ten prisoners taken yesterday were arraigned on formal charges. They probably will be charged today by John K. Carroll, assistant United States attorney.

111-200-10-11

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 19, 1939.

TO Secretary Morgenthau

FROM Mr. Cochran

At 1 o'clock the Secretary received Mr. Pinsent, Financial Counselor of the British Embassy, and Mr. Osborne, of the Bank of England, who were his guests for lunch in the Secretary's diningroom. Mr. Cochran also was present.

The Secretary explained to his guests that the question has been pending for sometime as to the manner in which the banking deposits of the British and French Governments should be handled in connection with their purchases in this country. The Secretary told Mr. Osborne that he had seized upon the latter's visit here as a reason for insisting upon a decision in the premises this forenoon. At a meeting held in the Treasury this morning, and attended by Chairman Eccles of the Board of Governors of the Federal Reserve System and President Harrison of the Federal Reserve Bank of New York and members of the Secretary's staff, the question had been discussed and a decision taken. The Secretary stated frankly that the idea which had been talked about for some time of opening accounts for these Governments with the Federal Reserve Bank of New York as Fiscal Agent of the Treasury might conceivably lead to some political question, which would be highly undesirable at the present time. The Secretary had consulted freely with Messrs. Eccles and Harrison and had decided that the best policy would be to modify slightly the original idea so as to meet the full approval of these two gentlemen. The proposal which has now been decided upon has the approval of the President.

The Secretary let his visitors know that the Treasury would be pleased to see their Governments' accounts for war purchases handled in the same manner as those which are now in operation for airplane purchases. That is, an account, or accounts, could be carried with the Federal Reserve Bank of New York by the Central Banks of the two foreign countries, into which funds of their respective Treasuries would be placed. These would be deposit accounts upon which the official purchasing representatives in this country would draw. The Secretary stated that he had the assurance of Governor Eccles, backed by the unanimous agreement of his Board, and of Mr. Harrison, that accounts so opened would be given fully as much secrecy as accounts opened with the Federal Reserve Bank of New York as Fiscal Agent of the Treasury. Mr. Harrison even gave the assurance that the members of the Committee of his Board which he consults when necessary upon foreign business would have no knowledge of the transactions passing through these accounts. The Secretary made it clear, however, that our Government desired to be kept fully informed of the purchasing operations of these two

CONFIDENTIAL

Governments in the United States and that when the account of the British Government is opened through the Bank of England, the Bank of England should instruct the Federal Reserve Bank of New York to the effect that the Treasury is entitled to such information as it may require with respect to the operations concerned in this account. The Secretary said that some of his own advisers, as well as members of the Federal Reserve Board, had suggested the desirability of the foreign Governments centering all of their deposits for purchases in one place, that is, with the Federal Reserve Bank of New York, although there might be several accounts with this same Bank. The Secretary said he was considering this and might take up the point later. In the meantime, the British were quite free to approach Mr. Harrison with the view to immediate operations under the above described plan if they saw fit. It was explained by the Secretary that the above described arrangement with respect to Government accounts is an experiment. The desire is to be mutually helpful, and either side is free to recommend changes.

This plan struck both Osborne and Pinsent quite favorably. They thought it had certain advantages over the idea of a Fiscal Agency account. Pinsent said that they had received no instructions from the British Treasury upon the question of a Fiscal Agency account. They undertook to submit this revised plan by cable to their Government. The question as to whether some member of their Purchasing Commission would be given authority to draw upon the Treasury money in the Bank of England Account with the Federal Reserve Bank of New York occurred to them, but it was agreed that this was a technical detail which they could probably work out. The visitors explained to the Secretary that the present plan is for the setting up of a British Control Commission for North America which would supervise the operations of a Purchasing Commission in Canada and a Purchasing Commission in the United States. It was intimated that Mr. Osborne would be a member of the Control Commission and would remain on this Continent so long as the British Treasury requires his presence. The two British officials had no word of the decision which was expected by our Ambassador in Paris to be taken in London last night toward consolidating British and French purchasing operations on this market, but they favored the idea. They appeared confident that their Government would desire to acquaint our Government with their purchasing operations, seeing the mutual advantages of such a practice.

The visitors raised the question as to disposition of British held securities on the American market. The Secretary stated that he had not planned to bring up this topic. He explained that Ambassador Kennedy had raised this point in a cablegram received this morning and that a reply will be drafted this afternoon. The Secretary let his visitors know that it was the desire of the President and of himself that consultations upon this subject should be held upon this side of the Atlantic and that the Treasury and the S.E.C. would be prepared to discuss this problem with such representatives of the British Government as might be indicated.

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The visitors referred to an amendment to the Neutrality Bill reported as discussed yesterday in a Senate Committee which would prohibit credits to private concerns in belligerent countries. They thought this more serious than any ninety day proviso, particularly if it might stop credits to American branch concerns in Canada. The Secretary asked me to consult Mr. Foley on this point, which I did after lunch. Mr. Foley thought the idea was to extend the ban on credits to belligerent Governments to include nationals of belligerent countries, covering munitions of war, airplanes and such other articles as are now embargoed.

Mr. Pinsent's question in regard to the Treasury's attitude toward the British plan for prohibiting silver imports into the United Kingdom except under license (and refusing licenses to imports from the United States and Canada while approving them for imports from India and sterling countries) was raised. The Secretary said his answer was the same as in the case of India. (In this case he stated that he appreciated the action of the British Government in consulting him; that he did not desire to express any opinion as to this policy; but that he did not raise any objection thereto.)

The British officials did not understand the Furness-Withey inquiry of yesterday about opening a British Ministry of Food account with the Federal Reserve Bank of New York. They knew nothing of this.

The Secretary mentioned American needs for Australian wool. Later in the afternoon Mr. Pinsent telephoned me that Mr. Chalkey of his Embassy had this question under discussion with Mr. Hanes.

The British expected 25,000 air pilots, British as well as Canadian, to be trained in Canada.

Mr. Osborne conveyed to the Secretary the best wishes of Governor Towers of the Bank of Canada. Secretary Morgenthau reciprocated these good wishes. He also asked Mr. Osborne to let the Minister of Finance of Canada know that he would be very welcome here any time he might choose to come to Washington. The Secretary has nothing to take up on his part, but wants the Minister to feel free to come at any time, without standing on formality.

At 4 o'clock the Secretary received Mr. Leroy-Beaulieu, Financial Counselor of the French Embassy, with Mr. Cochran present.

The Secretary explained the revised proposal for handling French Government purchasing accounts in the United States, in the same terms as used with the British, and hereinabove described.

Leroy-Beaulieu set forth the difficulties which had been experienced in passing the French Treasury funds for airplane purchases through a Bank of France account with the Federal Reserve Bank of New York. These arose principally from the refusal of the Bank of France to permit Leroy-Beaulieu to sign for withdrawals from the account, and the consequent necessity of

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of cabling the French Treasury to give the necessary instructions to the Bank of France, to pass on to the Federal Reserve Bank of New York, whenever payments were to be made. Leroy-Beaulieu was also dubious as to the readiness of the Bank of France to agree to the account being accessible to inspection by us. He said, however, that he would report the matter to his Government and give the Secretary any information that he may have when he comes to Washington again on Monday afternoon.

Upon leaving, Leroy-Beaulieu telephoned Pinsent from my office, arranging to consult tonight on their common problems.

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

CONFIDENTIAL

PAGES 180-192 PLACED IN
BOOK 191, PAGES 214A-M -
5/23/39

CHINESE EMBASSY
WASHINGTON

1939

October 19, 1939

My dear Mr. Secretary:

Referring to previous correspondence in regard to the American Government's kind participation and assistance in the campaign of survey and control of malignant malaria in the southwestern Provinces of China, I wish to thank you and through you the United States Government for the most welcome information which you were kind enough to convey to me in your note of October 12 to the effect that the Surgeon General of the Public Health Service would send a Mission consisting of Senior Surgeon L. L. Williams, Jr., Surgeon Hiram J. Bush, and Special Expert Bruce Wayne to southwestern China and Burma to survey for a period of three months the epidemic diseases in areas traversed by the new

China-Burma

Honorable Cordell Hull,
Secretary of State

China-Burma Highway, to determine the nature of the diseases, to make available to the Chinese Health authorities the results of their survey and study, and to advise these authorities as to methods and measures for suppression and control of the diseases; and that all three Surgeons would depart from San Francisco, October 20, 1939, and expect to arrive in Rangoon about December 1.

Upon the receipt of your kind note, I immediately cabled a summary of it to my Government. It gives me great pleasure to transmit to you the following message, under date of October 18, signed by His Excellency, Dr. Wang Chung-hui, the Minister of Foreign Affairs:

"Please convey the following message to the State Department:

'Chinese Government deeply appreciate kindness of Public Health Service in sending technical mission to Southwestern China and Burma for survey epidemic diseases. Their collaboration with Chinese authorities and experts will yield immense benefit not only to local inhabitants but to humanity in general. Mission may rest assured that all due protection and possible facilities will be extended to them during their travel and performance of their work.'

/s/ Wang Chung-hui"

Will you

Will you be kind enough to transmit a copy of the above message to the Administrator of the Federal Securities Agency and through him to the Surgeon General of the Public Health Service.

May I add that a copy of the above cable message is being telegraphed to Doctors Williams, Bush and Wayne on the S.S. President Coolidge.

I am, my dear Mr. Secretary,

Sincerely yours,

HU SHIH

RECEIVED

OCT 24 1933

TREASURY DEPARTMENT
Office of the Secretary
General and of National Insurance

KEESHIN FREIGHT LINES, INC.

*Please
receipt*

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J. L. KEESHIN
PRESIDENT

221 WEST ROOSEVELT ROAD
CHICAGO

October 19, 1939

The Honorable Henry J. Morgenthau,
Secretary of the Treasury,
Treasury Building,
Washington, D.C.

My dear Secretary:

I am enclosing herewith true
copies of original reports from Messrs. Sheahan,
Bassi and Van Patter which are sent to you for
your information.

With kindest personal regards,

Very sincerely yours,

J. L. Keeshin
J. L. Keeshin

JLK:LR

Enc. (3)

Det. of Trans
10-19

Chungking, China
Sunday October 1, 1939

197

Dear Mr. Keeshin:

This note is merely to report progress. We have tackled the basic problems of more utilization of equipment and roads in the following manner:

- (1) Drivers - We have attempted to secure a more rational approach to the problem of drivers shortage by enhancing the position, both in the minds of the drivers and their superiors. In other words, through leadership and not force. Severe penalties for rule infractions etc., have been eliminated and useless red tape severed in regards to Government regulations.
- (2) Mechanics - Similar to drivers, we believe the problem to be, treatment as a class below standard. We favor more humane treatment. Competent mechanics and drivers turn to other fields at the first opportunity, under the present system.
- (3) Operations - Less than one-third of the total number of trucks are available for operations and those confined in the main to daylight hours, limiting utilization of roads to less than 50 percent. We are striving in every way to effect consolidation of 14 Governmental operating units, as well as Foo Shing. The latter company while guaranteeing 1000 truck operation, has less than 50 actually operating. Over a million dollars (Chinese Currency) worth of spare parts are here but useless as they are non-essentials. Each Government Operation orders blindly more than necessary and overlook essentials. There being no Chinese characters for the various parts and no catalogs in the shops, they draw pictures which are frequently misinterpreted - result - 1/3 of the equipment is under repair and 1/3 awaiting parts constantly. The consolidation into one Government owned corporation will eliminate 15 different shops at each point, and with Andy as General Manager, should function smoothly and cannot help but reflect improvement over existing conditions. By splitting runs, and re-allocating equipment to given territories, the drivers will become familiar with their restricted runs and we can push night operations. This last will be a big job in China as no one prefers to sleep at night and have fear of venturing beyond the city walls of a walled city. It will also involve constructing roads around these walled cities as the city gates are usually locked at, or shortly after dusk.

Mr. J. L. Keeshin

- 2 -

Chungking, China,
October 1, 1939

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We have already started a new drivers license and personnel card with photos and fingerprints to prevent corruption and illicit traffic in both passengers and freight. We have under way a national license with the name of the province issuing the license on each, one-fourth of the annual fee to be collected by the province issuing the plates, the next one-fourth etc., to be collected by the province in which the truck or bus is located, on the due date. Full reciprocity will result and as all funds collected will be used for highway construction and maintenance, there will be an incentive for each province to provide the best and have the greatest number of vehicles in operation on due dates.

The highways are not nearly as bad as I expected. We had far worse on the West Coast within the past twenty years. True they are rough, rocky and tough on equipment, with sharp curves and grades to twenty percent but evolution and time will straighten them out as was our own case. There are many long stretches that would permit of tractor-trailer operation, and this we are planning. Other stretches are impossible of operation with any other than small equipment but more sturdy and with larger engines than at present. We are also looking into the possibility of aerial tramways to bridge streams, leaving both trucks and buses to operate their respective sides of the river and transferring only cargo and passengers.

Plan to have Van Patter take over all maintenance commencing at Kwieyang October 3, Andy will proceed to Hanoi and Haiphong in French Indo-China the same date to break that bottle-neck, and if possible get the French Railway to commence night operations to Kuming. I will leave about the same date for Rangoon, Burma and attempt to get things started. One bridge is out near the Burma border and they are tied up now so don't know what progress to expect but will do my best. Workmen are scarce on the Burma route owing to the sparse population, black water fever and malaria. Apparently twenty thousand lives was the cost of the road, such as it is. Maintenance and improvement are taking a similar toll. The heat in that territory is high and humid but will be able to advise more fully at an early date.

Mr. J. L. Keeshin

- 3 -

Chungking, China,
October 1, 1939

Have gone into the recent purchase of five hundred light Dodges and in discussions with the Premier and Minister of War amongst others, believe steps will be taken to stop the order; more on this subject Monday and Tuesday. Personally, it makes little difference as to the make of truck, just so it is substantial, honestly built and assembled, and parts are available. The Chevolets are also entirely too light, especially front ends. The Fords stand up well but use too much gas and oil, and require more engine adjustment. If we only had some more sturdy and higher powered equipment? Frankly the blame appears to be with our own Government, insisting on the competitive bid idea and buying the cheapest but not the best.

Writing a letter is quite a task here and I trust you will excuse me if this appears disjointed. We have been interrupted so frequently by air raids - in fact, this is being written at 12 noon, October 2, and the foregoing paragraph last evening at 10 P.M. The major portion of the time between then and now has been spent in blackout periods, dugouts or out in the hills. It is our sixth raid in four consecutive days.

Will write more fully regarding the Dodges but perhaps a day or two late as these raids disrupt all arrangements.

As ever

(Signed) Maurice

Sept. 24, 1939

Dear Jack:

One week on the job and not blown up yet. This is certainly the dirtiest place I've ever been and does it seem a long way off until next Fourth of July.

As Maurice wrote you, we have been on the run since we left Hong Kong, reviewed the confusion at Haiphong, saw all of the "titles" in Hanoi including the Governor and rode the "Sonic Railroad" to Kuming thru the jungle and then the most beautiful gorges and mountains I've ever seen.

The railroad is a joke insofar as a "life line" is concerned. Meter gauge, ten ton cars and little pony locomotives. Then came the road trip, believe me when I say that they have done a heroic job with stone and mud. They have no sand or small crushed pure lime stone. The native stone is lime bonded but of sedimentary origin and when it disintegrates its just slippery slimy clay and this is the stuff they used for water bonding the Macadam type of paving.

We knew before we left that there were mountains here but we didn't realize that its practically all mountains, mountains everlastingly. You torture a car up one and there in front of you is another. We have tried to figure a tractor trailer operation in the Kuming, Chunking section but it looks like about a total distance of possibly not more than two hundred or so miles. The southeast we have not surveyed as yet.

During our trip I regret to say that we witnessed the result of twelve accidents the first day. The second day we saw six including one that just occurred resulting in the death of one man and the serious injury of two others. The third day out we saw only two turned over down the mountainside. The fourth and fifth I just quit counting. With the exception of a few "over the end" on the switchbacks they were caused by front end failures, by this I mean either the breakage of the front spring on the right side or the breaking off of the wheel spindle also on the right side. This situation is very serious and all of the shops have just an unbelievable number of units waiting for spindles, bodies and springs. The cause for all of this is the terrific inertia loading; (on a left hand turn) of the right front corner. The traffic as you know is left hand as in Europe. Therefore the turn to the left (and believe me they are short and even hairpins) being of so short a radius, it throws a strain upon the spring and spindle that certain makes of units are not built for and any further purchase of this light equipment is to invite death to the driver and destruction of valuable property.

The Dodge unit while performing quite well otherwise is too weak on the forward axle and the front springs are just so much matchwood. This company must do something and do it quickly or their loss of face is inevitable. The Chevrolets of course are out of question, they do not fit in any sense of the word. The Whites have done a beautiful job and are proportionately longer in service than any other truck. Their front ends are heavy enough "to stand the gaff" and while they are having a terrible time getting pistons, pins and rings for these units, there is little else to take them out of service and they run them until they just pump out all of their oil. The mechanical setup is quite terrible, administration is all right, in a sense, but the mechanics are just awful.

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We have been meeting every day in conference with the Minister of Communication and all of the Vice Ministers and Directors and are formulating a new plan of operation. We probably have guessed have been royally treated and feted nearly every night so that any time to write letters has been quite out of the question except on Sunday last night today. However, today we had Tiffen with our Ambassador and his retinue. We have a wonderful home, that is for Chungking, which also contains our offices and clerical force, two compounds from the Minister's home where we hold our conferences daily. Our "hangout" is located a short distance away in the compound of the Vice Minister of Economics. It is one of the best in Chungking, I understand.

Our host and hostess, Mr. and Mrs. Frances Pan have done everything to make us comfortable and we are quite happy as things go, so far away from home.

China, Jack, is simply awful. You cannot in your wildest dreams imagine the filth, the dirt, the smells, the poor devils that sleep in the mud of the gutter, the labor they do with their bodies you would not inflict on a horse. In fact they don't treat horses like they do men because a horse represents an investment and life is so cheap here. The mere thought of leaving the compound is one of dread and when you return you want to sterilize everything you have on. The meticulous care you take with everything you touch or eat soon becomes a habit and even cold water is something to suspect.

The upper classes of which not many remain in Chungking are nearly all in government work and seriously do their level best to bring this war to a victorious conclusion. The difficulty in getting action is because too much conference is required to settle any matter.

We hope to steamroller the first part of our program thru in the next three or four days and then make a dash to the northwest territory to look that over. Then return for another week of conferences on that division. Then comes the Burma highway and operation, now closed by a washout, with some four hundred new trucks the other side of the wash waiting to get thru.

Those trucks are Fooshing's, which is another worry for poor Mr. Chen. There are so many things to mention, but other than to tell you of the locally built (Haifong) bodies and cabs I must pass the others on until next Sunday.

The bodies and cabs built at Haifong are atrocities. You never saw such junk in your life. Built of green wood by little boys who plaster mud in the cracks to cover up splits and who pound the metal work out of tin cans. When the trucks arrive at Kwiyang or Chungking they must be rebuilt before they can be used. I don't believe without looking into the cost of export cabs, that they save a cent in this way.

In closing this ramble I wish to remind you that a protest against unsuitable trucks and bodies would be a favor to the people of China and especially to those who must operate them, which might be our commission, who knows? Call Ray Wible and tell him I'll write as soon as we get a chance to catch a second breath.

Yours sincerely,

(signed) Andrew Hess

September 20, 1939

Dear Mr. Keeshin:

We arrived in Chungking on Sept. 16 in spite of one day delay on Wake, seven days on Guam and four days in Manila. We were met in Hongkong by Mr. Francois Fan of the Ministry of Communication and Mr. E. M. Fan who manages the China travel service. Our treatment has been of royal nature in every respect. Our stops were made pleasant and our travel very comfortable. We flew from Hong Kong to Hanoi; took a train from that city to Kuming and on to Chungking by car. While at Hanoi we drove at Lalshong, a port of entry for supplies and made an inspection of their body and assembly shop as well as checking on the amount of supplies stored waiting for transportation. We met several Chinese government employees who are trying to keep things on the move. At that time the French had every thing tied up by an embargo caused by the war in Europe. Mr. Sheahan called on the Governor who promised action on removing the embargo. I understand that supplies and trucks are now moving into China from that port.

Since our arrival in Chungking the Minister of Communication, Mr. Chang Kia Aun and his staff have had us at daily conferences to lay the groundwork for a better transportation system. Only between forty and fifty percent of their equipment is on the road. Shortage of parts is one big factor as well as poor maintenance along with many accidents. Steps are being taken to setup a central stores for supplying parts to the various shops and garages, which I am sure will be the answer to this problem after it starts to function. It will take some time due to the fact that practically all parts have to come from either United States, Russia or France. Part of their shop equipment purchased in the States have arrived and is being used to some extent in Kuming, Kweiyang, Chungking and Sanchow as the present major points, due to frequent bombings in these cities with the exception of Lanchow. Its not practical to have too large a shop with all their equipment in one place. A shop and the light plant in Kweiyang was bombed a short time before our arrival. However, in spite of these handicaps I know that we are going to be able to help them improve conditions in all of their truck transportation departments. Its obvious that they have been using hit and miss maintenance methods and are very much in need of improved supervision in their shops and garages. I might add that the supervision is handicapped by not having trained and experienced mechanics but in due time I am sure much improvement will be shown.

They have been having a lot of trouble with the right front spindles breaking on the Dodges and I understand that quite a few serious accidents have been caused by this defect. Also many broken front springs and bent front axles. We have been unable to find out how many are tied up for this reason but I am sure its quite a large number, basing my ideas on the amount that was done in their shops, between Kuming and Chungking, the only road we have covered. The front end on these Dodges are too light for the severe conditions they have to operate under. The road has hundreds of hairpin turns with grades as much as twenty percent. To give you an idea of these turns, a truck with more than 165 inch wheelbase would have to back up and maneuver around many of them. Even the shortest semi and tractor could not operate over about one half of the highways between here and Kuming until such a time that the turns are lengthened to a reasonable degree. The mountain ranges this particular highway runs through are worse than our Eastern ranges in Pennsylvania and New York.

The Chevrolet is too light in every respect for this operation. In fact many are tied up with broken frames, cylinder heads and other mechanical failures. I will mention here that the Dodge radiators and grills are another noticeable failure.

The 704 Whites seem to be operating more efficiently, but of course they are a heavier unit with more cubic inch piston displacement, making them a more practical unit to operate. Where we have been, very few International trucks are being used, which in my opinion is a mistake based on the fact that the International is easier to maintain, especially with inexperienced mechanics such as they have. Any model smaller than the D-40 would be too light. They have a GMC at Kweiyang that's never been used. The motor is too small. They claim to have tried it a few times but could not get it up the mountains without help. I noted it was built with an Oldsmobile type motor.

A short time before and since our arrival the days and nights have been very cloudy, which is the best kind of weather due to the fact that when it is clear the Japs drop bombs daily on some part of the city. We have a nice solid dugout at our convenience so are looking forward to the first clear day or night. The city is protected with an alarm system so that everyone has plenty of time to get under cover. Their air defense is improving also, making it much safer here than one might think it would be.

I hope my future writings will give you a better picture of the conditions and problems that confront us here in China.

I also hope everything is well with you and yours.

Sincerely,

(Signed) C. W. Van Fatter

October 30, 1939.

Dear Mr. Keeshin:

Thank you for your letter of October 19th,
and for the copies of reports which it enclosed.
I appreciate your getting this information to me.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. J. L. Keeshin,
President, Keeshin Freight Lines, Inc.,
221 West Roosevelt Road,
Chicago, Illinois.

GEF/dbs

October 30, 1939.

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GKF/abs

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President, Keeshin Freight Lines, Inc.,
221 West Roosevelt Road,
Chicago, Illinois.

GXF/dbs



HEADQUARTERS

SECRET

FOR THE PERSONAL
ATTENTION OF THE
SECRETARY

TREASURY DEPARTMENT

UNITED STATES COAST GUARD

WASHINGTON

October 20, 1939.

From: Spagent, Shanghai, China.
To : Secretary of the Treasury.

Message from Mr. Nicholson.

T. V. Soong presents his compliments to
President Roosevelt and Secretary Morgenthau and ap-
preciates and thanks them for their friendly message
of October 18th.

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Rio de Janeiro, Brazil

DATE: October 20, 1939, noon

No.: 208

Your telegram No. 370 of October 18 has been received.

You are requested to refer to our telegram to you dated October 17, No. 207; kindly obtain confirmation from the Brazilian Government and advise us.

HULL
(HF)

EA:LWW

October 20, 1939

To: The Secretary

From: Mr. Hanes

I had asked Tom Morgan to come to see you, and since he arrived this morning during your absence I talked with him at length concerning the Chinese aviation manufacturing situation. The Intercontinent Company was formed about 10 years ago by the North American Aviation Company, which owned it at that time, for the purpose of extending American aviation transportation in foreign countries. The Intercontinent Company obtained a franchise from the Chinese Government, working at that time through T. V. Soong and his group. When the North American Aviation Company was dissolved, due to the cancellation of air mail contracts several years ago, the Intercontinent Company passed from control of that company to the Sperry Gyroscope Company, and the stock of Sperry was distributed to the stockholders of North American Aviation Company.

A short while ago the Sperry Gyroscope Company sold the Intercontinent Company to a group headed by a man named Pawley. Mr. Pawley is now operating the Intercontinent Company, and carrying on with the Chinese company which is entirely owned by the Chinese Government. The Intercontinent Company has been largely a sales and management enterprise, getting 5% commission on all purchases made on behalf of the Chinese company. Intercontinent has a sales agency for the Curtiss-Wright, Douglas and Vultee planes, and I understand from Mr. Morgan that up-to-date they have sold about \$20 million worth of equipment in China.

The factory, first built near Shanghai, was later moved to Hankow, and when the Japs got busy with bombs was finally moved to the Burma border. The Douglas Company has now sold out its interest in Intercontinent, leaving Curtiss-Wright the only aviation company holding a stock interest in it. The present working arrangement between Intercontinent and the Chinese Government is that all materials going into the factory must be American made; all plane designs must be American; Americans will furnish all the personnel (to be paid for by the Chinese.) The factory, including machinery and tools, is entirely under American management, and title is vested with Americans until the Chinese have paid for it. The time limit for this payment is five years.

The plane now being built in the factory is a training ship. However, they do assemble some planes, (which Mr. Morgan thinks are mostly Vultees) from parts built in this country and shipped abroad. They do all the repair work on planes now in China. Mr. Morgan thinks they have capacity to produce about 50 planes per year.

Mr. Morgan will be back in Washington next week, at which time he will be available if you want further information.

J. W. H.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE October 20, 1939

TO Secretary Morgenthau
 FROM Mr. Cochran

The foreign exchange market resumed its quiet trend today. Sterling fluctuated between 4.00-1/2 and 4.00-3/4 up to the early afternoon, when some commercial demand appeared in the market. The rate then advanced to 4.01, and remained there for the balance of the day.

With respect to sterling, the banks reported this morning that they had not received any orders to operate in that currency. The available supply of sterling coming into the market is diminishing, and there are two probable reasons for this situation: (1) the efforts of the British to build up their inter-Empire trade, which results in the settlement of transactions in sterling, and therefore does not require foreign exchange operations, and (2) the fact that the British are endeavoring to have their exporters invoice their shipments in currencies other than sterling.

Reporting banks in New York and the Federal Reserve Bank reported sales totaling £304,000, from the following sources:

Commercial concerns.....	£ 104,000
Foreign banks (Europe).....	£ 200,000
Total	£ 304,000

Purchases of sterling amounted to £335,000 as indicated below:

By commercial concerns.....	£ 278,000
By foreign banks (Europe).....	£ 57,000
Total	£ 335,000

The banks also reported that the British Control purchased sterling amounting to £19,000, at the official rate of 4.02.

The Federal Reserve Bank sold 2,000,000 Swiss francs in the market for the account of the National Bank of Rumania. This sale was consummated at .2242 and at the time, it had a slight depressing effect on the rate for Swiss francs.

There were only nominal changes in the rates for the other European currencies.

Gold valued at \$10,000,000 and \$16,000 was sold by the Bank of France and the Bank of the Republic, Colombia, respectively, from their earmarked gold accounts.

The Federal Reserve Bank informed us that they had not received any reports of gold shipments to this country.

Having noticed from our statistics that the dollar balances of the Bank of Sweden with the Federal Reserve Bank of New York have declined by \$30,000,000 the past five weeks, I inquired into this matter when talking with Mr. Knoke by telephone this afternoon. He said that these withdrawals had not been made for the purpose of investments through other banks in New York on the part of the Bank of Sweden. In previous reports I have informed the Secretary of the desire of Governor Booth to get a little return from his holdings on this market because of the heavy expense he has incurred in shipping gold to the United States and in keeping so large a part of his reserves in unproductive dollars. Mr. Knoke ascertained from New York banks that the recent withdrawals in question have been to provide funds with commercial banks in New York for private and commercial Swedish banks, which formerly had important sterling credits and now prefer to establish dollar credits. Thus the funds which are withdrawn from the Bank of Sweden account with the Federal do not appear in its name with the New York banks to which they are moved, but are actually transferred to the accounts of the Swedish private and commercial banks. The New York banks have been pleased to have this intervention by the Bank of Sweden. This is the first evidence of transfer of foreign banking business from the London to the New York market which has come to our attention, and may prove to be the forerunner of an increased amount of such business.



Please answer

CHINESE EMBASSY
WASHINGTON
October 20, 1939

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My dear Mr. Secretary:

It gives me great pleasure to inform you that the Surgeon General of the Public Health Service has decided to send a Mission consisting of Senior Surgeon L. L. Williams, Jr., Surgeon Hiram J. Bush, and Special Expert Bruce Mayne to Southwestern China and Burma to survey for a period of three months the epidemic diseases in areas traversed by the new China-Burma Highway, to determine the nature of the diseases, to make available to the Chinese Health authorities the results of their survey and study and to advise these authorities as to methods and measures for suppression and control of the diseases; and that all three Surgeons would depart from San Francisco, October 20, 1939, and expect to arrive in Rangoon about December 1.

I cannot adequately thank you for your deep interest in this matter, which is culminated in the despatch of the Williams' Mission to China.

I take

Honorable Henry Morgenthau, Jr.,
Secretary of the Treasury

I take this opportunity to transmit to you the following message under date of October 18th signed by the Minister of Foreign Affairs:

"Chinese Government deeply appreciate kindness of Public Health Service in sending technical mission to Southwestern China and Burma for survey epidemic diseases. Their collaboration with Chinese authorities and experts will yield immense benefit not only to local inhabitants but to humanity in general. Mission may rest assured that all due protection and possible facilities will be extended to them during their travel and performance of their work."

I have already sent a copy of the above cable message to Doctors Williams, Bush and Mayne on the s/s/ President Coolidge.

A copy of a note from the Secretary of State dated October 12th is enclosed for your perusal.

I am, my dear Mr. Secretary,

Sincerely yours,



Enclosure:
Copy of note from
Secretary of State.

Department of State
Washington

October 12, 1939

Excellency:

With further reference to your note of August 16 and to the Department's reply of August 21 in regard to the hope of the Chinese Government that the American Government may be prepared to participate and to assist in a campaign of survey and control of "Malignant Malaria" in the Provinces of Yunnan, Kwangai and Kweichow, I take pleasure in informing you of the receipt of a communication under date October 9 from the Administrator of the Federal Security Agency which reads in part as follows:

"I desire to inform you that the Surgeon General of the Public Health Service will send a mission, consisting of Senior Surgeon L. L. Williams, Jr., Surgeon Hiram J. Bush, and Special Expert Bruce Mayne, to southwestern China and to Burma to survey epidemic diseases in areas traversed by the new China-Burma highway, with special reference to the possibility of their transmission by way of this new highway to areas where they will become a menace to the United States. The commission is especially selected to authoritatively determine whether the disease presently reported as epidemic in these areas is in fact malignant malaria and whether other dangerous epidemic diseases exist therein.

"While on this mission, it is expected that

His Excellency

these

Dr. Hu Shih,

Chinese Ambassador.

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these officers will work in close cooperation with Chinese health authorities and that the Chinese Government will make available facilities at their command in the regions in which the study will be conducted, including laboratory facilities where they exist, and also that the Chinese Government will make available in China interpreters familiar both with English and with locally spoken languages and dialects.

"While working in cooperation with Chinese health authorities, the officers of this mission will make available to them the results of their survey and any other information relative to the disease conditions they may study which might be of value. They will also advise as to methods and measures for suppression and control of these diseases.

"All three officers will depart from San Francisco October 20, 1939, and expect to arrive in Rangoon about December 1st. Their orders are predicated upon a period of three months devoted to actual survey."

On the assumption that the proposed activities of this mission are in conformity with the desires of the Chinese Government, I would request on behalf of the members of the mission the extension to them by the Chinese authorities not only of the facilities specifically mentioned above but also such other assistance and protection as may further their investigations and adequately provide for their safety and well-being.

In this

-3-

In this connection I may add that copies of your note of September 30 and of the enclosures thereto in regard to The Five-Year Program of Anti-Malaria Work in Yunnan Province have been transmitted to the United States Public Health Service.

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

/s/ Cordell Hull

October 31, 1939.

My dear Mr. Ambassador:

Thank you very much for your letter of October 30th.

I am delighted to know that the Mission sent by the Surgeon General of the Public Health Service is now on its way to China, and I hope that the Doctors in question may be able to be of real service in this connection.

I also was glad to have a copy of the cable sent by the Minister of Foreign Affairs, and the letter written you by the Secretary of State.

With cordial regards,

Sincerely,

(Signed) H. Morgenthau, Jr.

Honorable Ha Shih,
Chinese Ambassador,
Chinese Embassy,
3001 Nineteenth Street,
Washington, D. C.

GHT/dbs

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Sincerely,

(Signed) H. Morgenthau, Jr.

Honorable Hu Shih,
Chinese Ambassador,
Chinese Embassy,
2001 Nineteenth Street,
Washington, D. C.

HW/abu

October 20, 1939

2109 from Kennedy. Long talk with Philips, etc., and got tentative list of American securities readily saleable. British believe their best interests would be served by dealing thru Morgan. Asks specific questions (1) Possible to make loan on these securities? (2) wants to be advised if you have anything further to say about their procedure or method of sale.

(This is filed with other pertinent cables as of 10/24/39, date they were shown to President.)



TREASURY DEPARTMENT
WASHINGTON

21

OFFICE OF
COMMISSIONER OF INTERNAL REVENUE

ADDRESS SHOULD BE
COMMISSIONER OF INTERNAL REVENUE
WASHINGTON, D. C.

October 20, 1939.

IT:P:CA
CAA

REPORT FOR SECRETARY MORGENTHAU:

During the week ended October 20, 1939, no new requests for agreements under the Vinson-Trammell Act were received.

In regard to closing agreements which have been requested, the following applies:

Colt's Patent Fire Arms Manufacturing Company

Mr. Teller, attorney, telephoned from Hartford, Connecticut, that they have some minor differences which they desire to propose and discuss, for incorporation in the proposed closing agreement and a conference was arranged for 10 o'clock A. M., Monday, October 23, 1939.

Consolidated Aircraft Corporation

On the afternoon of Monday, October 16, 1939, Mr. Hanes discussed the case with Messrs. Folsy, Wenchel, Sullivan, Appel and Kades.

The tentative draft of proposed agreement was delivered to the contractor's local representative, Mr. Wehmiller, on the late afternoon of Monday, October 16, 1939. In the forenoon of the next day, Wehmiller came down and Relling went over the proposed agreement with him explaining the proposition. Nothing further has been heard from this case.

New matters developed as follows:

Leland-Gifford Company, Worcester, Massachusetts.

Stanley B. Dowd, sales manager, called seeking information relative to Press Release 18-79 with a view to filing a request

-2-

for a closing agreement respecting special facilities required for the performance of expected subcontracts for the grinding of crank shafts for airplane engines. He is to contact the War Department in regard to certification. No promises were made as to the Treasury's action.

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


Commissioner.

October 20, 1939.

IT:P:CA
CAA

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In regard to closing agreements which have been requested, the following applies:

Colt's Patent Fire Arms Manufacturing Company

Mr. Teller, attorney, telephoned from Hartford, Connecticut, that they have some minor differences which they desire to propose and discuss, for incorporation in the proposed closing agreement and a conference was arranged for 10 o'clock A. M., Monday, October 23, 1939.

Consolidated Aircraft Corporation

On the afternoon of Monday, October 16, 1939, Mr. Hanes discussed the case with Messrs. Foley, Wenschel, Sullivan, Appel and Kades.

The tentative draft of proposed agreement was delivered to the contractor's local representative, Mr. Wehmiller, on the late afternoon of Monday, October 16, 1939. In the forenoon of the next day, Wehmiller came down and Helling went over the proposed agreement with him explaining the proposition. Nothing further has been heard from this case.

New matters developed as follows:

Leland-Gifford Company, Worcester, Massachusetts.

Stanley B. Dowd, sales manager, called seeking information relative to Press Release 18-79 with a view to filing a request

~~Copy for Commissioner.~~

-2-

for a closing agreement respecting special facilities required for the performance of expected subcontracts for the grinding of crank shafts for airplane engines. He is to contact the War Department in regard to certification. No promises were made as to the Treasury's action.

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

(Signed) Guy T. Hevering

Commissioner.

THE TREASURY DEPARTMENT

1933 OCT 31 AM 11 12

SECRETARY OF THE TREASURY
OFFICE

CAA/NEA

COPY

225

AMERICAN CONSULATE

Yunnanfu, China, October 20, 1939.

Subject: Transportation of War Materials.

The Honorable
The Secretary of State,
Washington.

Sir:

I have the honor to state that for the past month very little in the way of military supplies has entered China through Yunnan. Heavy rains in the latter part of September reduced traffic on the Burma road to a very slight amount and caused such serious landslides on the Yunnanfu-Indochina Railway that goods traffic has entirely stopped. A wreck on the railway on September 25 also contributed to the disruption of traffic. Even passenger traffic on the railway is stopped at the present time but will commence on a reduced scale on October 22. It may be a month before goods traffic on the railway can be resumed. Both passenger and goods traffic on the Burma highway have been resumed as far as Sialwan from Yunnanfu, and through traffic to Burma will be resumed within a day or two. Stocks of war materials at Yunnanfu are believed to be very low. Traffic from Yunnanfu to Kweichow was not interrupted by the rains so accumulated stocks were readily moved. Information obtained from a recent traveler over the highway between Indochina and Chungking via Kwangai and Kweichow is to the effect that traffic is moving despite the daily raids on the highway by Japanese planes. However regulations imposed by both the Chinese French authorities obstruct the flow of traffic and reduce the quantity of war materials that could be carried over this road.

I expect to have more detailed information in a few days as to the condition of the Burma highway and the quantity of war materials available for transportation over it from Burma.

Respectfully yours,

PAUL W. MEYER,
American Consul.

In quintuplicate, Original by air mail.
Copy to Embassy at Peiping.
Copy to Embassy at Chungking.
Copy to Consulate at Saigon.
Copy to Consulate at Rangoon.
EOC
PWN:Spy

CJ

GRAY

PARIS

Dated October 20, 1939

Rec'd 5:10 p.m.

Secretary of State,
Washington.

2536, October 20, 7 p.m.

FOR THE TREASURY.

With reference to my telegram 2524, October 19, 6 p.m., we estimate that total appropriations for armament purposes from January 1, 1939 to date are as follows: under the ordinary budget for 1939 a total of 31,929,000,000 francs; under the special armament and public works budget for 1939 a total of 72,575,000,000 francs; under the finance law of December 31, 1938 chargeable to 1940 and subsequent budgets a total of 81,228,000,000 francs. The total of the foregoing thus is 185,732,000,000 francs of which about 81,000,000,000 francs are to be charged to the future.

The undertone of the securities market was firm today and profit-taking was easily absorbed. Most rentes issues were down fractionally after yesterday's substantial advance but a number of French bank utility and industrial issues registered advances. The signature of the Anglo-Franco-Turkish accord yesterday was an important bullish factor.

BULLITT

EMB

AMERICAN CONSULATE

Hanoi, October 20, 1939

SUBJECT: Transportation to China by the Caobang Road.

THE HONORABLE
THE SECRETARY OF STATE,
WASHINGTON.

SIR:

I have the honor to report that I have recently obtained some information as to the present condition of the highway between Langson and Caobang (in French Indochina), of the highway between Caobang and the frontier (between French Indochina and Kwangsi), and of the highway from the frontier to Pingma (in Kwangsi). The interesting point of this information is the possibility of utilizing this highway for the transport of supplies to China and to the Chinese National Government.

According to the sources upon whom I place reliance, an American connected with the Foo Shing Company and a British subject engaged in the oil business, the Chinese section of the highway is vastly superior to the Indo-chinese section. It is stated that the Chinese section is at present roughly equal in traffic capacity to the highway from Dong Dang to Nanning. This section is approximately 270 kilometers in length. In contrast, these informants remark that the Indo-china section, although tolerably well engineered, is narrow with an insufficient number of turnouts. It is also stated that the great majority of bridges, particularly in the section from Caobang to the frontier, are relatively flimsy wooden structures and have a capacity of but one ton. This section, from Caobang to the frontier, is said to be approximately 88 kilometers in length.

However, information obtained from French sources is to the effect that the Chinese section is in bad condition and that it will need a great deal of work before it can be utilized by the same type of traffic now using the Dong Dang-Nanning highway. These same sources claim that the Indochina section is in excellent condition and will be ready for heavy traffic well before the Chinese section. At the present time, however, the Indochina authorities are apparently loath to grant permission to use the highway between Caobang and the frontier which may or may not be essential that the highway is not in as good condition as claimed. The American informant mentioned above is of the opinion that this is the case.

There is some question as to where the highway goes beyond Pingma. But it is understood that the main extension will be to Hochi by way of Tunchow and Wenkok, about 220 kilometers in length. It is stated by several sources that work is progressing on this section and one Chinese informant professes to know that this section will be ready for traffic within a few months.

Still another Chinese source of information states that an alternate route from Pingma is contemplated but, as he is rather vague as to details, this information must be accepted as subject to confirmation. The alternate route is a highway between Pingma and Anshun by way of Tunchow, Poseh and Lohli, said to

-2-

be a matter of approximately 350 kilometers. The advantages of this route are of course the increased distance from Japanese air bases and the decreased distance to Kuning. The apparently most obvious disadvantage is the difficulty of terrain.

Although it is understood that the Langson-Caobang-Pingma-Hochi highway possesses some disadvantages, notably the mountainous character of the country around Caobang and to the frontier, the possibility remains that this may become one of the main arteries for the transportation of supplies to China, especially if the Dong Dang-Hanning continues to be the subject of daily Japanese air raids. The new highway would of course be the target of Japanese attacks but it would serve an extremely useful purpose in providing an additional means of supply for unoccupied China.

Respectfully yours,

CHARLES S. REED, II,

American Consul

Original and 2 copies to the Department
Copy to Embassy, Chungking
Copy to Embassy, Peiping
Copy to Consulate, Saigon

815.4
CSR/CJ

(Draft of this despatch was received at Saigon November 6, 1939, Mailed November 7, 1939).

(Copy)

PARAPHRASE OF TELEGRAM RECEIVED

229

FROM: American Embassy, London, England

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

NO.: 2108

FOR SECRETARY MORGENTHAU.

FROM BUTTERWORTH.

Reference is made to your telegram of October 19,
No. 1249.

There just appeared in the TIMES, in an article from its correspondent at Riga, the report of the passage through Lithuania of a consignment of 17 1/2 tons of gold from Moscow to Berlin.

In confidence we learn from the British Treasury that the Foreign Office has received telegrams indicating that the correspondent of the TIMES obtained his information from a reliable source, and a "very reliable source" confirmed it. The Treasury states that although the published report gave the figure as 17 1/2 tons of gold, actually the capacity of the railroad car was 17 1/2 tons, and the car contained 107 cases of 7613.3 kilograms gross weight. It is expected that a further carload will be sent.

The frank admission of the British Treasury is that it does not know what conclusions to draw as to the character, extent or significance of the foregoing; it indicated that it would appreciate obtaining any information which could be supplied reciprocally by us.

END SECTION ONE.

KENNEDY.

EA:LWW

FAP

PLAIN

LONDON

Dated October 20, 1939

Rec'd 5:12 p.m.

Secretary of State
Washington

2108, October 20, 7 p.m. (SECTION TWO).

Yesterdays TIMES contains the following article from its Amsterdam correspondent:

"The weekly report of the Nederlandsche Bank shows a gold stock of 1,112,200,000 florins an increase of 8,000,000 gold florins or 10,000,000 devaluated florins. The increase cannot be accounted for by the usual transactions of the equalization fund, the exchange rate not being such as to warrant the purchase of gold. In banking circles it is thought that the transfer of gold came 'from the east'; one supposition is that it represents part of the recent Russian transfer to Germany which is being used to create German balances in neutral countries. Although this explanation has not been confirmed or denied officially it is widely accepted and the transfer is held to be an indication of the peaceful intentions of Germany towards Holland. On the other hand, it is possible that the transfer is Russian gold intended to serve for payment of Russian orders for ships and dredgers."

Today's

FAP -2- 2108, October 20, 7 p.m. (SECTION TWO) from
London

Today's FINANCIAL NEWS contains the following article:

"There is no reason to suppose that the transfer represents a loan to Germany to ease her difficulties in obtaining raw materials from neutral countries. It is well known that the Reich's inability to pay in free exchange has raised difficulties in the trade talks with Bulgaria and other states. But it is probable that the Soviet gold has been merely moved to Berlin for subsequent transfer to Holland and other neutral states to enable Russia to supplement her own foreign exchange reserves. Thus it is believed that the recent increase in the Netherlands bank gold holding was due to an arrival of Russian gold. It should be remembered that for some years past the Russian Government has regularly sold her gold production to acquire free exchange. For a time the gold travelled through Berlin but during the past few years most of it has come to London. Shipments this year have been much below normal - only £7,200,000 in the first eight months, against £22,100,000 in 1938 and £46,400,000 in 1939 - and it is therefore reasonable to suppose that the Russian Government might be attempting to liquidate further quantities of metal without delay. It therefore seems likely that the gold now in Berlin is merely awaiting transfer to various continental centres and is not in any way available for use by the German Government." (END OF MESSAGE).

KENNEDY

NK:EMB

October 21, 1939

1270 to Kennedy. British financial counselor in DC has been advised that Treas would be pleased to see British Govt handle its war purchase accounts along lines it is following for airplane purchases in US, that is open acct with FRBK of NY.

(This is filed with other pertinent cables as of 10/24/39, date they were shown to the President.)

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, London, England

DATE: October 21, 1939, 3 p.m.

NO.: 1270

FROM SECRETARY MORGENTHAU.

The following is for your information and guidance, and is strictly confidential:

The Financial Counselor of the British Embassy in Washington has been informed as of this week that, as a matter of administration policy, the Treasury would be pleased to see the British Government handle its war purchase accounts in this country along the lines it is now following for its airplane purchases in the United States; i.e., funds of the British Government would be deposited in an account, or accounts, which would be opened and carried with the Federal Reserve Bank of New York by and in the name of the Bank of England. Official payments would be made from this account, which would be used exclusively for purchasing war supplies.

Discussion has been given to the desirability of having some British official in the United States (perhaps a member of the British Purchasing Commission) designated to draw checks against the accounts for war materials.

HULL (FL)

SAME repeated mutatis mutandis to PARIS, as Department's
1289, October 21, 3 p.m.

EA:LWW

TREASURY DEPARTMENT

234

INTER OFFICE COMMUNICATION

DATE October 21, 1939

TO Secretary Morgenthau
FROM Mr. Cochran

The foreign exchange market was very quiet today. Sterling fluctuated within a narrow range and closed at 4.01.

The other important European currencies were fairly steady.

Reporting banks in New York and the Federal Reserve Bank reported sales totaling £219,000, from the following sources:

Commercial concerns.....	£ 44,000
Foreign banks (Europe).....	£ 175,000
Total	£ 219,000

Purchases of sterling amounted to £170,000 as indicated below:

By commercial concerns.....	£ 94,000
By foreign banks (Far East and Europe).....	£ 76,000
Total	£ 170,000

The banks also reported that the British Control purchased sterling amounting to £24,000 at the official rate of 4.02.

The Bank of Latvia bought in this market 200,000 French francs, 50,000 Swiss francs, and 30,000 guilders.

The B.I.S. sold \$3,500,000 gold from their earmarked account.

The Federal Reserve Bank informed us that they had not received any reports of gold shipments to this country.

Thank you. Thank him.

KEESHIN FREIGHT LINES, INC.

235

J. L. KEESHIN
PRESIDENT

221 WEST ROOSEVELT ROAD
CHICAGO

Just you read this yourself.

October 21, 1939

The Honorable Henry J. Morgenthau,
Secretary of the Treasury,
Treasury Building,
Washington, D. C.

My dear Mr. Secretary:

With further reference to my letter
of October 19 I am enclosing herewith additional copies
of reports received from Messrs. Sheahan and Bassi
which are sent you for your information.

With kindest personal regards,

*not need get
filed - was*

Very sincerely yours,

J. L. Keeshin
J. L. Keeshin

JLK:CFB

Enc: (2)

18-10-39

October 28, 1939.

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Dear Mr. Keeshin:

The Secretary read with a great deal of interest the reports that were enclosed with your letter of October 21st. He asked me to thank you very much for the information that you sent him.

Sincerely yours,

(Signed) H. S. Klotz

H. S. Klotz,
Private Secretary.

✓
Mr. J. L. Keeshin,
President, Keeshin Freight Lines, Inc.,
221 West Roosevelt Road,
Chicago, Illinois.

Copy to Mrs. Farrell

GEF/dbs

COPY

October 7, 1939
Hanoi, China

Dear Jack:

I arrived here yesterday and got my first night's sleep for one week. The Japs have been raiding every night since the mid harvest festival and they send over wave after wave until daylight. The damage is of no consequence as the pursuit planes keep them off of the city itself and I don't think they want to get tangled up in anti-aircraft fire, but just the same the city "black-outs" and everyone runs for his dugout.

We have all worked quite hard on this and especially M. E. S. and it has been an uphill fight all the way. Brother, we have learned a lot about China and especially the Chinese.

I'm down here to get hold of any and all automobile parts and machine tools that I can lay a hand on. The situation is quite critical as to prospects of entry of material. The Burma road is closed, several bridges and a total of 10 miles of road washed out. The worst rain in forty years.

The Chemin De Fer from Hanoi to Kuming had several land slides and is out of service for any freight for at least two weeks. The rumor has it that Yunnan will be closed to China by the French in another ten days, which all adds up to the finish? Jack, you don't want any "Kaeshin Oriental lines" if you don't believe me I suggest you come over for a little look yourself.

I suppose Maurice told you of the contemplated combination of Ministry and other governmental civil agencies, being thrown into a corporate structure including Foo Shing and operated along functional lines instead of divisional. He certainly fought them to a standstill. Shall I say action because "standstill" is really what they always want to do.

After the organization of the Administrative body there is going to be a tough job for the General Manager who dares to assume the responsibility of running this thing. We still don't have a satisfactory explanation on who is responsible for the Dodge order and there has been a lot of hell raised up and down the line. Maybe by this time M. E. S. has the answer.

More intrigue and undercover stuff going on at all times, mostly for the purpose of cutting themselves in on a piece of cake in the form of a soft job with a lot of authority and then do nothing about getting the job done.

We talked about a freight and or bus transportation system over here remember? Well China is for Chinese and nobody but Chinese can get even a square foot of China. Some of the old corporations like Socony and Asiatic Petroleum have in the old days obtained property and concessions, but we will see the day of expropriation in our life time. I am not pessimistic but there is no reason to harbor any illusions so I'm going to do the best I can for one year (dating of course from August 15, 1939) and then we shall see. Van Patter has gone down to Kweiyang to get a Central Shop pulled together with what they have on hand and I will see him about the 16th of the month.

That's about all I know and I will let you hear from me how I make out on this trip.

Don't let the Mrs. in on the "air raid" stuff.

Sincerely,

(Signed) Andrew Bassi

Chungking, China,
October 9, 1939

Dear Mr. Keesling

Our plans at the moment include the organization of a National Corporation to be known as China Transport Corporation. Into this one company we are in general agreement should be included the many and diverse operations presently conducted by the various branches of the National Government including the Postal Service. I hope to establish an Express Company or division and of course freight and passenger transport will be the first consideration. I have recommended to Mr. K. F. Chen over the protestations of a few of the local officials the inclusion in the new company of the Foo Shing operations. With Foo Shing included there will be a total of approximately 3600 units. Of course only about 40% will be capable of operation, an estimated 30% is under repair and 30% awaiting essential repair parts or in some instances reclamation.

Mr. Van Patter is now in Kwelyang laying the ground work for the centralized shops. Am also attempting to inaugurate a central store to avoid the present duplication of facilities and purchases that has resulted in over C. N. \$1,000,000.00 surplus of spare parts that are not usable. Expect Van Patter will be away for at least two weeks as he must secure inventories of available shop equipment, etc., as well as needed machines and spare parts. Mr. Bassi is presently in Haiphong securing similar inventories of available machines and spare parts at that port awaiting shipment. When they return we can concentrate on moving the essential parts from Haiphong and get started.

I plan to leave Chungking by plane tomorrow morning for Kuming, thence to Lashio in Burma. From Lashio we go by train to Mandalay and Bangoon to inspect cargo at that point as well as facilities. Expect to return to Lashio by rail, thence by car over the Burma route to Kuming and by air to Chungking. This trip will take approximately two weeks. During this interim I am hopeful all necessary Executive action will have been taken by the National Government authorities to set up the new corporation. There is also under way the adoption of our recommendations relating to licensing of drivers and equipment; The establishment of Highway Traffic Police; the drivers relay plan of operation and the inauguration of night driving or 24 hour service. The crying need for transportation compels a longer period of operation as well as repair of existing trucks.

From what we have seen, am certain there is plenty of equipment here in China if we can only get it running. My plan is, of course, to recommend heavier equipment for replacement purposes. Our projected Corporation will include only the Southwestern Provinces and operations via French Indo-China and Burma in the beginning. However, upon my return from Burma it is my intent to travel to the Northwest, perhaps to the Russian border or beyond. Am not at all familiar with the possibilities of China's foreign trade with Russia and believe such a study is of importance in view of present European hostilities. The Northwest is now operated with Russian trucks but I am given to understand the scarcity of gasoline and other essentials to the conduct of highway operation are as bad a state as is the case in the Southwest.

I endeavored almost every night to write to you but these continual air raids are most tiring. During an eight day stretch we were raided every night and some times twice during a night. The enemy planes come up from Hankow in batches of 18 to 37 planes and we have had as many as 5 batches in one night. It is not at all comforting to realize the enemy is using American planes, American bombs and most

fortunate of all American methods of operation. They hold to a rigid formation at altitude of 12,00 feet and proceed to raise hell with the whole countryside. The Chinese have a wonderful system of protection. The enemy planes are hardly clear of the Lanow airfield before word is flashed to all possible objectives. The course of the planes is closely watched and reports come in regularly of the progress of the different batches. When the planes are within an hour of Chungking, the first alarm is sounded. When 15 to 20 minutes away the urgent alarm is sounded and within two minutes there is a complete blackout, all electric current is cut off and even the flicker of a light might bring a shot from the Gendarmes. We usually stand outside our dugout until the enemy planes are distinctly heard then we dive for safety. The sound and shock of bombs falling in the distance is all we have heard so far as the enemy is not bombed Chungking proper for some time now. Nevertheless it is a distinctly unpleasant feeling to sit and wonder when they will release bombs over Chungking again. The suburbs from two to fifteen miles around seem to be the objective at this time though we are promised more action shortly. Such promises are made by Radio from the enemy broadcasting stations. When the city is completely blacked out the Chinese pursuit snips can be heard circling the city much in the manner of the American Indian war tactics, single file. They can be plainly heard and not infrequently we hear them over diving to the attack. We have watched severe bombing from a safe distance and the sight is one to remember. The entire sky is illuminated by the bombs. One night we decided to drive out into the country and attempt to see what was going on. We left the city at about 9:30PM and reached our vantage point in the hills within an hour and before the urgent alarm. At times there seemed to be literally a hundred planes overhead, but of course there were far less. The noise of the motors is so amplified when you are in the mountains. There was action most of the time until 4:30AM when the all clear signal was given and we started back to the city for some much needed sleep.

Chungking is perhaps one of the best protected cities from air raids. The dugout accommodations are ample for over 250,000 people. Invitations to social functions usually carry the line "Dugout facilities available to our guests". The entire population is indeed dugout conscious. We occupy dugout with the higher Government officials and are in constant communication with all that is going on. When the time between speeches permits, we usually have coffee or brandy.

About the recent replacement of an order for 500 Dodges. I find that this particular order for the Ministry of War was placed on Sept. 1 before we arrived in Hong Kong. Pressure was brought on Mr. Chen by the Government officials here in Chungking and the Manufacturers insisted they might not be able to fill the order if any further delays were encountered due to the grave possibilities of European war, increased prices, freight rates, etc. Am still endeavoring to have stronger front ends on this order but am afraid it is too late. None the less I have frankly discussed the matter with most of the Government officials, his Excellency Dr. H. H. Kung the Premier, the Minister of War, and all others in any way interested. I told them quite frankly that the present light equipment was unsatisfactory and unless heavier and more power equipment was made available there was little that could be accomplished in my opinion.

It has been suggested and you will shortly be approached on the subject of prolonging my stay in China. Frankly would like to aid in starting the new organization but I am fearful that red tape will slow their efforts if we are not watchful. One of the principal reasons for suggesting the Corporate form is to escape Governmental redtape. This is quite a job and delays experienced in flying the Pacific badly delayed us. It therefore seems essential that we do all we can to make our venture a success. I also feel that with the changed status in Europe and the increased business for our company that you will find it quite difficult to come here yourself. In any event please give the matter your serious consideration when and if it is brought to your attention. I feel that our reputation is at stake and we are by no means in a position to leave now and don't think I will be until near the end of the year.

Meanwhile we are all well and doing our best. Remember us kindly to all
and believe me it would be a pleasure to hear from you also. So drop a line to me
at Chungking and let me know our September results.

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Sincerely,

(Signed) Maurice E. Sheahan

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

~~XXXX~~ 242

DATE October 21, 1939

TO Secretary Morgenthau
FROM Mr. Haas *HAAS*

Employment under the Works Progress Administration increased to 1,874,000 persons during the week ended October 11, 1939 from 1,833,000 for the previous week, a gain of 41,000 persons, as is shown on the attached tables and chart.

Attachments

WORKS PROGRESS ADMINISTRATION
 Number of Workers Employed - Weekly
 United States

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Week Ending	Number of Workers (In thousands)
1939	
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
October 11	1,874

Source: Works Progress Administration.

WORKS PROGRESS ADMINISTRATION
 Number of Workers Employed - Monthly
 United States

244

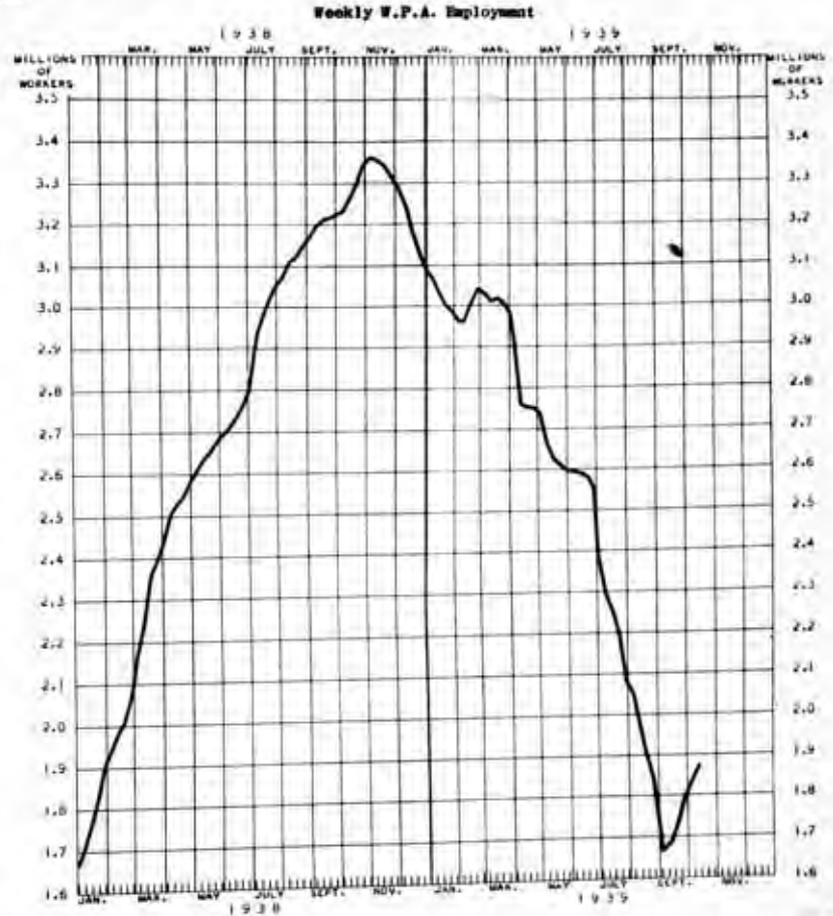
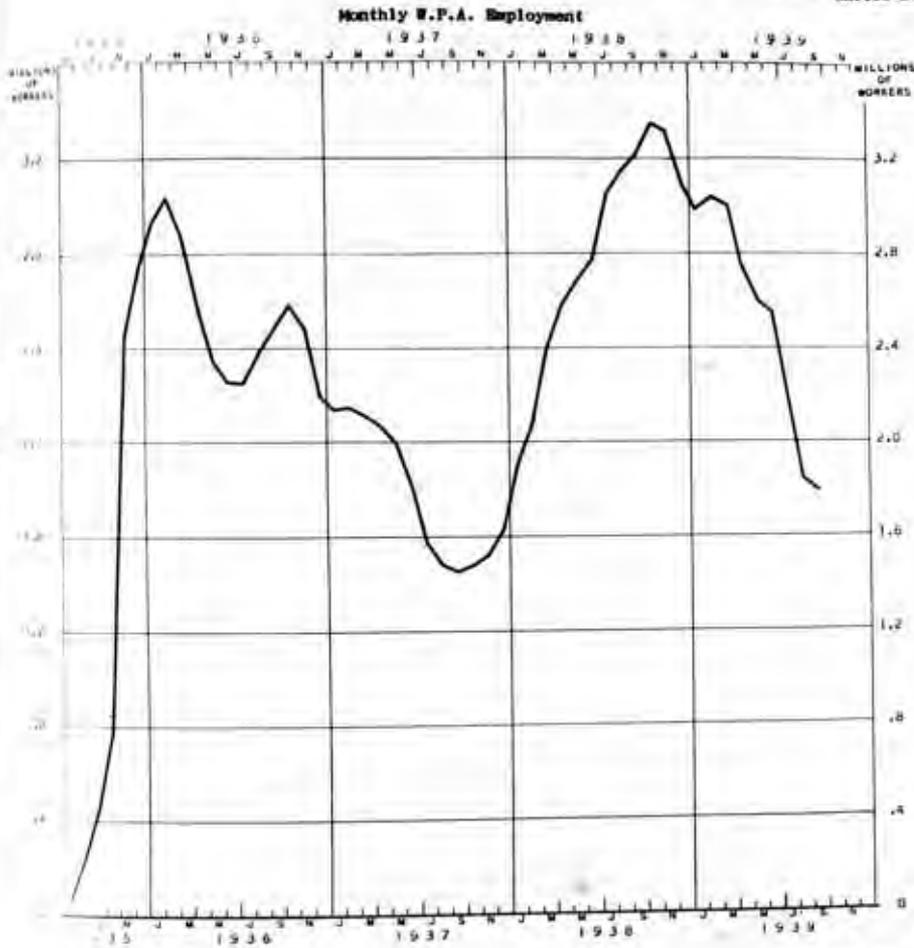
	Number of Workers (In thousands)
1936	
June	2,256
July	2,249
August	2,377
September	2,482
October	2,581
November	2,483
December	2,192
1937	
January	2,138
February	2,146
March	2,115
April	2,070
May	1,999
June	1,821
July	1,569
August	1,480
September	1,451
October	1,476
November	1,520
December	1,629
1938	
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

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

(COPT:FE:HJH)

Original by Air Mail

245

No. 9

AMERICAN CONSULATE

AIR MAIL

Hanoi, French Indochina, October 22, 1939

Subject: Examples of Mismanagement at Haiphong Contributing to Congestion of Cargo.

The Honorable
The Secretary of State,
Washington.

Sir:

not read

I have the honor to refer to my despatch No. 5 of October 15, 1939, outlining the general situation at Haiphong and mentioning the confusion and disorder which has prevailed at that port. As of possible interest to the Department and in elaboration of the implication that the Chinese are themselves partially responsible for the conditions at that port the following is a summary of a confidential conversation with an American engineer, now in the employ of the Foo Shing Company.

The informant stated that when he first visited the assembly plant of the Foo Shing Company at Haiphong, where the trucks purchased under the Universal Trading Company loan are being assembled, he was appalled by the lack of order and general inefficiency. There was seemingly no attempt to keep track of the large amounts of accessories and spare parts, in consequence of which much had been lost or mislaid. One notable example was the mislaying of 400 steel cab bodies, which were only found after some weeks of searching.

The informant then took over direction of the assembly plant and in two weeks he was able to assemble and prepare 60 trucks, as against approximately 120 trucks assembled and transitted to China in the preceding two months.

During this period the informant made a survey of conditions prevailing in the various assembly plants at Haiphong and he found that the incident mentioned above, the mislaying of 400 steel cab bodies, was quite symptomatic of conditions at Haiphong. For example, he found in the Foo Shing assembly plant all the truck side racks belonging to the Ministry of Communications, he found in the establishment of one of the other Chinese ministries all the truck side boards belonging to the Foo Shing Company. The informant attributed much of this confusion to an absolute lack of cooperation and coordination between the various Chinese agencies, stating that there had not been a general meeting of these agencies, to discuss their several and individual problems, for at least three months.

The informant mentioned inter alia the fire which destroyed some 1,000 tires at Haiphong on October 16, 1939 (my despatch No. 7 of October 15, 1939). He said that he had observed these tires some days before the fire and at the time wondered why they had been ordered, as they did not seem to be standard equipment for any of the trucks used by the Chinese National Government. He said that he had heard the rumor subsequent to the fire that certain Chinese were responsible for the fire, thus covering up a not inconsiderable mistake by some Chinese agency. He hastened to reiterate that this was only a rumor, but one which sprang from a prevailing belief in Chinese inefficiency, at least insofar as conditions in Haiphong are concerned.

The informant said that in his experience, and from what he had heard from non-biased sources, the French were cooperating to a much greater extent than conceded by the Chinese. As a matter of fact, he believed that the plea of lack of cooperation from the Indochina authorities was in some instances an attempt to excuse inefficiency. He cited the claim by the former Chinese manager of the Foo Shing plant that the dearth of chauffeurs was a factor militating against speeding up the assembly of trucks and he added that this was only partially true.

However, the informant concluded, these are the glaring example of the blunderings which have caused the unprecedented confusion and disorder at Haiphong. To the contrary, the Chinese are working hard to ameliorate the situation and are succeeding to a certain extent.

On the whole I am in agreement with the opinion of my informant. There are striking examples of inefficiency and mismanagement. There is a proneness to blame the French for delays and non-cooperation. But the prospect is far from pessimistic and there is at present a tendency toward coordination and efficiency which should prove of inestimable value to the Chinese National Government insofar as the obtention of supplies through Indochina is concerned. At this time the acceleration in the transitting of supplies across Indochina is strikingly noticeable.

Respectfully yours,

CHARLES S. REED, II,
American Consul

Original and 2 copies to the Department
Copy to Embassy, Chungking
Copy to Embassy, Peiping
Copy to Consulate, Saigon

CSR/CJ
815.6

(Draft of this despatch received at Saigon
November 6, 1939; mailed November 7, 1939).

GROUP MEETING

October 23, 1939.
9:30 a.m.

Present: Mr. Graves
Mr. Thompson
Mr. Foley
Mr. Riefler
Mr. Gaston
Mr. Cochran
Mr. Cotton
Mr. Duffield
Mr. Hanes
Mr. Haas
Mr. White
Miss Chauncey
Mr. Bell

H.M.Jr: Herbert?

Gaston: I don't believe I know anything. There was a false rumor of a submarine, Friday. That is all I know of.

H.M.Jr: Stay behind a minute, please.

Foley?

Foley: Nothing.

Duffield: Nothing.

Cochran: I just had that cable that I showed you.

H.M.Jr: Are you here on a lone watch?

Riefler: For the morning.

H.M.Jr: Would you like to sit in at 10:00 when we discuss financing?

Riefler: Yes.

H.M.Jr: I would like to have you.

Cotton: There was a change of signals on the country to be taken up on this South American business over the week-end.

H.M.Jr: My God, I spent the whole week-end studying Colombia.

Cotton: It is now Peru, not Colombia.

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H.M.Jr: Now, just remember this, I don't know who changed the signals but I told Sumner Welles the first country had to have a 75 percent chance of winning. Peru! If I am not mistaken, their chief export is guano.

White: No, no longer.

H.K.Jr: I think somebody is giving me the bird. Who called you?

Cotton: Well, Collado was sent over to tell us that Peru was considered more pressing.

H.M.Jr: Well, if I am going to discuss financing - I was going to discuss financing all day. You boys can do a paper on Peru and we will take a look at it. I am still going to insist on a 75 percent chance. Do you think they have a 75 percent chance?

Cotton: No, it is very bad.

H.M.Jr: My understanding with Sumner Welles was, the first one at 75 percent chance, isn't that right?

Hanes: Yes, sir. That is what you said.

H.M.Jr: Got any other good news?

Harry, you might take a look at Peru.

White: We already have.

H.K.Jr: Am I about right?

White: You are wrong on the guano, but you are right on the conclusion. Oil and cotton are their main exports.

H.M.Jr: What country is it we get guano from?

White: Chile.

H.M.Jr: George, you be ready at 10:00 o'clock, you and Henry Murphy. I also want to take a look at the RFG.

Hass: I am working on it (handing report to Secretary).

W.S.Jr: I don't know who is doing the job, but while I am right in that neck of the woods, I would like to pin on somebody the job of taking everything that comes in on Germany of economic value and evaluating it. Is anybody doing that?

White: Taking what?

W.S.Jr: Evaluating all the economic news that comes out of Germany. I mean, for instance, I saw in the paper today some German economist makes the statement in Chicago as to fats, how long people like that will get them, et cetera.

Haas: There is an article in the "Iron Age" on the same thing. Are you fellows doing anything?

Riefler: We are following it the way anybody else is, but not analyzing it.

W.S.Jr: Well, I tell you....

White: We are analyzing....

W.S.Jr: Harry, if you and George and Riefler could talk together sometime today, see, and bring Puleston into the meeting too, will you, and Cotton. You can have a meeting sometime today and talk about it. Merle Cochran, too. Let's see if we can't - as far as the Treasury goes - and then I would like to put it on some one fellow. That will be White, Haas, Cotton, Riefler, Merle Cochran and Puleston. Maybe sometime tomorrow we will get together. I had better give you an appointment now. I would like to control everything and have it flow to Hanes and me. I mean just as to the set-up, you see. I will put down 10:30 tomorrow morning, how is that for you John?

Hanes: O. K.

W.S.Jr: 10:30 tomorrow morning. Have a talk during the day and sort of get it organized.

Anything else, George?

Haas: I have nothing else.

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- W.S.Jr: Harold?
- Graves: This is a memorandum (handing memorandum to Secretary) of the automobile situation you asked me about Thursday.
- W.S.Jr: Oh, yes. The President asked me about this manganese, this other stuff. Could you have a thumbnail thing for me a little before 12:00?
- Graves: You spoke of tungsten Friday and manganese Thursday.
- W.S.Jr: Let's have a page on each one.
- Graves: Very well. You said specially on Thursday you wanted to go over these tungsten bids.
- W.S.Jr: You and Collins come in at a quarter of 12:00 and give me a page on each.
- Graves: Very well. You asked me to prepare for you today a memorandum for the President on the Navy contract for tungsten.
- W.S.Jr: Bring it all in at 11:30.
- Graves: I was talking to Collins on the telephone before we came in and he had some kind of a meeting with the State Department. I am not sure that that 11:30 won't conflict.
- W.S.Jr: He ought to have a deputy to go to those things.
- Graves: It may be too late to get him because he was just on his way.
- W.S.Jr: Go find out.
- Dan Bell?
- Bell: The librarian seems to think we ought to take some action on the Hegeman property, the Cosmos Club.
- W.S.Jr: Who thinks so?
- Bell: The librarian. He would like to have a meeting either Monday or Tuesday of next week. Mrs. Meyers won't be back in town until Sunday, but she will be available Monday and Tuesday.

H.M.Jr: Next week?

Bell: Yes.

H.M.Jr: That is a long way off.

Bell: Well, he wanted to give you plenty of time.

H.M.Jr: Well, Tuesday at 10:30?

Bell: That is all right.

H.M.Jr: Let me tell you something which is very much in the room. Somebody has been going to see Mrs. Roosevelt and telling her that this librarian was crooked. I told her we had nothing to do with it, but if he was crooked - I don't believe he was - is there anything he could do to these funds?

Bell: No.

H.M.Jr: Would he have any access to those funds?

Bell: No. His disbursing officer disburses the income of these investments.

H.M.Jr: Who audits that?

Bell: The Comptroller General audits the disbursing officer's accounts.

H.M.Jr: Are we fourth or fifth removed?

Bell: You have nothing to do with it at all. After the funds are invested, the income goes into the fund. It is just like any other appropriation.

H.M.Jr: Is there any other possible way he can put his hands on them? Think about it.

Bell: He could, through collusion with other employees. He couldn't do it by himself.

H.M.Jr: That is what she meant.

Bell: It would have to go through somebody else first. He is not a disbursing officer and he never gets his hands on a dollar.

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H.M.Jr: Think about it.

Call: Unless it goes through some third party.

H.M.Jr: Do we audit?

Call: No, we don't audit it. The Comptroller General does that.

H.M.Jr: Could you ask the Comptroller General if there is any question about that? How recently was it audited, that is more important.

Call: Well, he probably hasn't audited any accounts, the disbursing officer, since this fellow came in.

H.M.Jr: Then I am going to ask for an audit up to the time this fellow left. When was that, October 1st?

Call: Well, sometime around there. It might have been September 1st, I don't know which.

H.M.Jr: There are two questions: When was that fund audited last, and I would like to have it audited up to date.

When we were in Farm Credit we found there were accounts which hadn't been audited in a long time and I made them audit everything for me. Everything was audited up to date. Different accusations would come in and they were settled. Will you do that? Would that be a good way to do it? I might say in passing that this woman who came in is a mystic, who made the complaint. I don't happen to belong to that cult. That would be a good way to do it. Mrs. Roosevelt has it very much in her mind. I would like to be sure - you know, it is like being a director and trustee. "Why didn't you see it was audited," and all that sort of thing.

Harold?

Graves: He will be here at 11:30 with those two memoranda.

H.M.Jr: Wasn't there something....

Graves: As it turned out, his engagement with the State Department had been postponed until 3:00.

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- H.M.Jr: Oh, sure, Dan postponed it until 3:00 because he has got to hold my hand all morning.
- Thompson: Senator Vandenberg made a remark Saturday about gold purchases. He expresses the hope that a reply will be received before the neutrality debate is completed.
- H.M.Jr: Say that again.
- Thompson: He expresses the hope that a reply will be received before the neutrality debate is completed.
- H.M.Jr: Say it again.
- Thompson: He expresses the hope that a reply will be received before the neutrality debate is completed.
- H.M.Jr: That goes for Vandenberg and me both.
- White: I will get busy on it today.
- Duffield: The newspaper men, Mr. Secretary, will have the....
- H.M.Jr: It was very funny, Harry was day-dreaming. It is a good place to rest in here in the morning.
- White: It is, after a busy week-end.
- Duffield: The newspaper men are saying since the Senator was so impolite as to read his letter before he got an answer or you had had a chance to see it, how about them seeing your reply.
- H.M.Jr: The answer is, the Senators can afford to be impolite and I can't. Vandenberg called me. What shall I tell him?
- White: Well, I will have something ready today.
- H.M.Jr: Well, I saw him at the theater Wednesday night and he was kidding me about it, so I will kid him when I call him up. I said I thought we could get it out by Christmas.
- White: Tell him he shouldn't ask such tough questions and it wouldn't take so long to answer.

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Thompson: We were given three weeks on that new car of yours instead of four weeks.

H.M.Jr: We will launch it with a bottle of coca cola. Anything else?

Thompson: That is all.

H.M.Jr: Has Mr. Irely moved over?

Thompson: He is already here.

H.M.Jr: That fellow had a lobbying machine which is par excellence.

Hanes: We ought to get out some sort of an answer today on that other thing.

H.M.Jr: Have you talked to Riefler?

Hanes: No, I haven't said anything to anyone.

H.M.Jr: I thought Welles left town.

Hanes: He did. He is coming back on Thursday and is anxious for us to come in with Herbert Feis just as soon as we have made a decision.

H.M.Jr: (On phone) Hello. (Telephone conversation with Senator Vandenberg follows:)

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White: He won't be so cocky when he reads the answer, because he lays himself pretty wide open.

W. W. Jr: What he said was this, that if there is nothing to it the country is entitled to know it and the sooner the better. I wish all opponents would be as square as he is.

You (Hanes) have a talk with Win, will you, this morning?

Harry, if you will sit down outside, I want to see you in a couple of minutes.

October 23, 1939
9:45 a.m.

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HMJr: Hello.

Arthur
Vandenburg: Good morning, Henry.

HMJr: Hello, Arthur.

V: How are you?

HMJr: Oh, I'm wonderful!

V: Well that -- that's just the way to be on Monday morning.

HMJr: Thanks for the publicity on Saturday.

V: Well, I thought it was about time.

HMJr: Yeah. Now listen, if you could put me in touch with the fellow that writes your letters, I'll put you in touch with the fellow that prepares my answers to you. You see?

V: Well, I write my own.

HMJr: Oh, do you?

V: Yeah.

HMJr: Well, then -- then.....

V: I just have these brain-storms. I wake up on bright mornings with them and I let them go.

HMJr: Well, far be it from me to question it, but I get help.

V: Well, I don't blame you. You need help to answer that letter.

HMJr: Yeah. Yeah.

V: (Laughs) Well anyway.....

HMJr: Well, anyway it'll be along shortly. If you can tell me when you'll kill off that debate, I'll have my letter ready for you.

V: Well you mean I don't get the letter until after the debate?

HMJr: No, you'll get it before.

V: Well I'd like it very much before, Henry, because I -- I do think that there's an awful -- if there's nothing to it the country ought to know it because there are an awful lot of people worrying about it.

HMJr: I'll try to get it up to you tomorrow.

V: Fine!

HMJr: How's that?

V: Bully.

HMJr: And that will be in time, the debate will still be on, won't it?

V: Oh, yes.

HMJr: What?

V: Yes.

HMJr: All right, Arthur.

V: Much obliged, Henry.

HMJr: Goodbye.

V: Goodbye.

TREASURY DEPARTMENT

154

INTER OFFICE COMMUNICATION

DATE October 23, 1939

TO Secretary Morgenthau

FROM Mr. Cochran

The Secretary telephoned me at 9:45 Saturday morning, October 21, from the farm. He asked me to obtain from Mr. Welles a copy of the cablegram from Ambassador Bullitt in regard to joint French and British war purchases, along the plan of Monnet, which message Mr. Welles had brought over on Wednesday.

The Secretary also wanted me to be sure that we had at least a paraphrased copy of the two Kennedy messages of last week on the manner in which the British should handle their bank deposits and dispose of their securities in this country.

The Secretary instructed me to prepare cablegrams to the Embassies in Paris and London, letting them know what our discussions this past week had been with their financial representatives in this country in regard to handling payments for war materials.

Furthermore, the Secretary asked me to obtain certain data from Mr. Haas with respect to the price, at Saturday's closing, at which 4-year 11-month Notes would sell, carrying 1% and 1-1/8%. The Secretary said he would call me back at 12:30 noon.

Before preparing a draft of the cablegrams, I talked by telephone with Mr. Knoke at 11 o'clock to confirm that the present airplane purchases are taken care of with funds placed in the general accounts of the Bank of England and the Bank of France with the Federal Reserve Bank of New York. Mr. Knoke and I agreed on our understanding that the new account or accounts should be exclusively for the purchase of war materials. Mr. Knoke stressed the desirability of someone on the Purchasing Commission having authority to draw against these new accounts. He also emphasized that our inspection of these accounts would not give us all of the information which we may desire. Consequently, we should make arrangements with the Purchasing Commission to keep us informed of their orders, contracts, etc.

When the Secretary called at 12:15 I gave him the preliminary figures which Mr. Haas had submitted to me.

I read to the Secretary the draft cablegrams which I had prepared for London and Paris. He O.K.'d them as read, and agreed that they should be for the confidential information and guidance of the Ambassadors, with no reference being made therein to Messrs. Butterworth and Matthews.

CONFIDENTIAL

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In closing, I let the Secretary know that Mr. Livesey had telephoned me at 12:15 from the State Department and had summarized to me the reply from Ambassador Kennedy in regard to the plan for the disposition of British held American securities on the American market. I gave the Secretary the high points of this cablegram, as I had received them over the telephone from Mr. Livesey. The Secretary told me that this matter would be taken up on Monday morning.

**CONFIDENTIAL**

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE October 23, 1939

TO Secretary Morgenthau
 FROM Mr. Cochran

The foreign exchange market resumed the quiet condition which prevailed last week. The sterling rate fluctuated within a narrow range, and closed at 4.01-1/4.

In New York, the banks again reported an absence of any substantial orders from abroad. The only transaction of interest was the purchase by the Guaranty Trust Company of £60,000 cable transfer for 90 days delivery from Anderson Clayton and Company. Ordinarily the banks would not purchase a contract for delivery as far ahead as 90 days, but in this case the Guaranty Trust Company evidently did not object to making the contract on that basis. This transaction was put through at a discount of 3¢ per pound for 90 days.

The other important currencies closed at the following rates:

French francs	.0227-1/8
Guilders	.5309
Swiss francs	.2243
Belgas	.1677
Canada	10-1/2¢ Discount

The Chinese yuan has shown some improvement during the past week, advancing from .07-3/16 on October 16, to .08-3/16 today.

Reporting banks in New York and the Federal Reserve Bank reported sales totaling £238,000, from the following sources:

Commercial concerns.....	£ 213,000
Foreign banks (Europe).....	£ 25,000
Total	£ 238,000

Purchases of sterling amounted to £348,000 as indicated below:

By commercial concerns.....	£ 242,000
By foreign banks (Far East, South America and Europe).....	£ 106,000
Total	£ 348,000

The banks also reported that the British Control purchased sterling amounting to £10,000 at the official rate of 4.02.

The Swiss National Bank sold \$10,000,000 gold from their earmarked account. The Bank advised the Federal Reserve Bank that this sale of gold was necessitated by its operations in the foreign exchange market in support of the Swiss franc.

The Federal Reserve Bank informed us that they had not received any reports of gold shipments to this country.

B. M. F.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 23, 1939

TO Secretary Morgenthau
FROM Mr. Cochran

This afternoon Mr. Knoke told me by telephone that Mr. Osborne of the Bank of England, at present in Canada, with the British Purchasing Commission, called him from Ottawa. Mr. Osborne stated that the Commission was placing a \$10,000,000 order for machine tools with the Bristol Airplane Company. This calls for delivery over 14 months. \$1,000,000 would have to be paid on account over the next six or eight weeks. Unless Washington raised some opposition to the plan, the British would like to ~~continue~~ to handle these payments through a continuation of their arrangement with the Federal Reserve Bank of New York, debiting the Bank of England account with that institution. This plan would be followed pending a consummation of the arrangement which was discussed with us last week. I told Mr. Knoke that this plan was agreeable to us.

B. M. R.

CONFIDENTIAL

October 23, 1939
8:55 a.m.

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HMJr: Hello.

Jesse Jones: Hello, Henry.

HMJr: Jesse?

J: Yeah.

HMJr: How are you?

J: Pretty good. How are you?

HMJr: I'm about -- pretty good would describe me.

J: Are you back?

HMJr: I'm at the Treasury.

J: Yes, sir.

HMJr: Jesse, do you remember about ten days ago I asked you if we wanted to borrow some money from you could you use more than 250 or is 250 your price?

J: That's about our price, Henry, but can I call you back?

HMJr: Yes.

J: I'll call you back within an hour.

HMJr: Right. Will you, because I may want to do you next.

J: All right. I'll call you back within an hour, Henry.

HMJr: Thank you.

J: Goodbye.

October 23, 1939
9:06 a.m.

Operator: Yes, sir.

HMJr: Hello.

Jesse
Jones: Henry.....

HMJr: Yes, Jesse.

J: Would this afternoon do to tell you?

HMJr: Oh, yes.

J: Ah -- Mulligan is out of town this morning, will be
back at noon.

HMJr: Oh, yes.

J: I don't think there's going to be any difference.

HMJr: No, no. This afternoon would be fine.

J: In all events it would not be over 300.

HMJr: That's all right, I'm just looking -- trying to look
a little -- a couple of days ahead.

J: Yeah.

HMJr: This afternoon will be perfect.

J: Well then I'll call you.

HMJr: Thank you.

J: Goodbye.

10/23/39

carbon copy given to Mr.
Shompson per McHugh's
instructions. J.H.

10:20 am

October 23, 1939
10:03 a.m.

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HMJr: Hello.

Operator: Go ahead.

Jere
Cooper: Hello.

HMJr: Good morning.

C: Hello, Henry. How are you feeling?

HMJr: I'm fine, how are you?

C: Well, I picked up a cold over the weekend. Feeling kind of tough today but otherwise all right.

HMJr: Yeah.

C: I hope you had a nice trip up in the country.

HMJr: Very nice.

C: Well, that's fine. Henry, I want to call on you for a little favor.

HMJr: Go ahead.

C: I have an awfully good friend, Rice A. Ingram -- I-n-g-r-a-m.....

HMJr: Yeah.

C: He has applied to your man Wilson down there for a place with the special agents or secret service -- whatever it is, the proper designation there.

HMJr: Yeah.

C: And he's from my district, an exceptionally fine high type fellow.....

HMJr: Uh-huh.

C:and I'm mighty anxious to help him every way I can and if you can give me a lift on that I'll certainly appreciate it.

HMJr: Well, I'll -- I'll look into it right away.

C: I brought him up here in 1931 or '32 I guess it was and he was superintendent of the postoffice here in the House office building, and then later, about three or four years ago I guess it was, why he got a place as investigator with the coal commission and did some fine work with them there; but of course that's about folded up now you know.

HMJr: Well, Jere, I'll have the boys take a look at it and -- and I'll look into it right away.

C: Well, thank you very much. I sure appreciate your kindness. I'm sorry to bother you but.....

HMJr: No bother.

C:it's a matter of sufficient importance to me that I wanted to ask you to help me with it.

HMJr: O. K., Jere. I'll be glad to look into it.

C: Thank you so much.

HMJr: Goodbye.

C: Goodbye.

October 23, 1939
11:40 a.m.

Operator: Operator.

HMJr: George Harrison.

H: Right.

(Brief pause)

HMJr: Hello.

H: Mr. Harrison.

HMJr: Hello.

George
Harrison: Hello, Henry.

HMJr: I tried to get you before Eccles. I won. Hello?

H: Yes.

HMJr: I say, I've won. I called you back before Eccles
could.

H: Oh, you won. Yes.

HMJr: Yeah. George, let me ask you a question. You
fellows who are in touch in the market - which
issue has the better under-pinning, March '44 or
September '44?

H: March.

HMJr: March.

H: That's the area of the best demand right now.

HMJr: Right.

H: And that was another reason we favored that over
the September.

HMJr: Uh-huh.

H: We think that it will go better anyway. Not that
you won't have -- not that you'll have any trouble
with the September '44, Henry, you won't.

EMJr: No.

H: That'll go all right. In fact, it may go a little too well at that price. That's the reason we felt the premium was high. The March one seems to be just the right price; it hits the value of the rights right on the head.

EMJr: Does it?

H: Isn't that -- just about. The rights are about -- just the same.

EMJr: Well, I tell you, George -- excuse me; did you want to say something else?

H: It's just -- it's just slightly a little lower than the value of the rights.

EMJr: That's all right.

H: But it's near enough to the value of the rights.

EMJr: Well, you like that. You'd rather have it under than over.

H: Yes.

EMJr: Well you did me a real favor, George, by bringing this to my attention.

H: Well, I -- we felt it quite strongly so I wanted to let you know right away.

EMJr: And if you don't hear from us by twelve o'clock, we'll take your advice.

H: All right.

EMJr: Very, very much obliged.

H: All right. Good work.

EMJr: Thank you.

H: Goodbye.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE: October 23, 1939

TO: Secretary Morgenthau
FROM: Mr. Haas
Subject: The Business Situation,
Week ending October 21, 1939

Summary

(1) The business prospect for early 1940 is being strengthened by: (a) a new wave of steel buying for delivery after January 1, stimulated by the belief that any increase in steel prices at that time will be moderate; (b) a rising volume of orders in "secondary" industries; (c) definite orders being placed in this country by belligerents and by South American countries; and (d) automobile strikes, and a recent moderation of the speculative buying movement, which are tending somewhat to restrain productive maladjustments this fall.

(2) Steady liquidation of American securities by Great Britain since early September, which shows evidence of organized selling, has been a factor in causing a levelling-out of the stock price trend in recent weeks.

(3) The trend of business activity continues to rise; car-loadings have increased to a new nine-year high under an increased movement of export freight to the seaboard; electric power production continues to establish all-time high records; and the actual production of steel is apparently greater than at the 1937 peak.

The general outlook

While the business prospect continues to indicate some slackening in the first half of 1940 following expected further gains during the last quarter of 1939, this slackening will be moderated by several strengthening influences.

An important development has been a new wave of inquiries and orders for steel products for delivery during the first quarter of 1940 at whatever prices may be in effect at that time. The impulse to order now has arisen partly from a fear that production of steel for the first quarter may be sold out shortly after the books are opened at the new prices, and partly from a growing belief that any increases in price will be moderate.

Most important among the products in demand for early 1940 are railroad steel, automobile steel, and tin plate. Automobile assembly plants are reported to be ordering for 1940 delivery based on the expectation that this will be a 4,500,000 to 5,000,000 car season, versus 3,470,000 cars (including trucks) in the 1939 season.

Opinion is gaining ground in the steel industry that any first-quarter increase in steel prices will be held to a moderate \$2 to \$3 a ton, which steel makers say will not cover increased costs. While major steel companies favor a policy of restraint on price increases, some of the smaller companies are already asking and getting increased prices for delivery in 1939.

There is some feeling in the industry that raw material prices may work lower after current shortages have been corrected by increased supplies, thus reducing steel costs. Steel scrap has declined \$1.50 a ton, according to the Iron Age averages, after reaching a top at \$22.50 during the week of October 3.

Demand spreading to "secondary" industries

A second factor tending to strengthen the business outlook for early 1940 is an increasing volume of orders now going to "secondary" industries, which make materials and equipment for the companies producing finished products. The filling of these orders will continue to offer support to the steel industry and various other industries after new orders for finished products have fallen off.

In addition to expanding orders for semi-finished products, and for such products as automobile parts and railway car parts, there has also been an increasing volume of orders for business machines, heavy trucks, electrical equipment, and agricultural implements, derived from the rising trend of business.

An illustration of the lag between primary and secondary industrial orders was given last week by the comptroller of the American Steel Foundries Company, makers of railway equipment, whom I called by telephone to inquire about their orders in September, which were lower than in August despite the marked increase in new freight car orders in that month. He explained the discrepancy by saying that after the railroads had placed orders with the freight car

builders, the car builders would place orders with his company for necessary couplings, wheels, etc., but that these were not entered as orders until after they had passed through the engineering department and were approved for production.

The lag in getting production of "secondary" materials under way tends to cause a temporary shortage of such materials during the early part of a rapid business rise, which is probably one reason why prices of semi-finished goods recently have risen more rapidly than prices of finished goods or raw materials.

Foreign orders increasing

The first large war order to be placed in this country since the outbreak of the war, or at least the first to receive publicity, appeared last week with the news that the French Government had signed a \$3,500,000 contract for 2,000 trucks, to be delivered early in 1940.

Other large truck orders by that Government are reported to have been placed or in prospect, but details are not yet available. The company with which the 2,000 truck order has been placed is reported to be making inquiries from parts suppliers for parts to make an additional 2,500 trucks. A news item last week mentioned that the allied governments are considering the purchase of airplanes totalling \$350,000,000 in this country upon repeal of the embargo. Since these war orders will obviously be pressed for early delivery, they will tend to support business activity early next year.

A recent survey of various industries in the 12 Federal Reserve districts, summarized by the Federal Reserve Board in a confidential report on October 14, mentions other inquiries and orders from belligerent nations as well as from South American countries.

Reports from companies in the New York district mention that recent inquiries from European countries for electrical equipment have now been translated to a large extent into actual orders. In the Chicago district, sizable orders for power equipment are being negotiated by South America, acceptance being dependent upon the availability of dollars.

In the farm equipment industry, the Chicago district reports that the British and French Governments have asked for bids on crawler type tractors, light trucks, and other equipment for delivery before November 15. Substantial orders have come from Canada, and an increasing volume of inquiries is being received from all world points formerly supplied by Germany and the other belligerents.

Overproduction threat moderated

The threatened development of serious overproduction this fall in various industries, due to inventory accumulation, has been moderated somewhat by the more conservative attitude taken by many buyers recently, since prices in the stock and commodity markets have failed to show continued improvement. There has even been some discussion in trade papers of the possibility of hedging accumulated stocks of goods in the commodity markets. As a consequence, the business foundation for the first part of 1940 appears somewhat improved over earlier indications.

The automobile strikes which have reduced automobile output two weeks in succession, at a time when the seasonal tendency is strongly upward, will also tend to restrain too rapid a business rise this fall and strengthen the later outlook.

Carloadings reach 9-year peak

Freight car loadings last week reached the highest level in 9 years (see Chart 1) as an increased freight movement to seaboard points added its influence to an already high level of domestic traffic.

Exports of goods to Canada and South America -- largely coal and manufactured products such as farm machinery, steel products, and chemicals -- appear to be expanding rather rapidly. This movement, reflecting the reduced export sales of belligerent European countries in the Western Hemisphere, is becoming a factor of some importance in the demand for available freight cars.

Stock market activity increases

A sharp upturn in stock prices early last week, accompanied by a general improvement in commodity prices, gave some indication of an increasing optimism in this country over the potential effect of more intensive war operations on our business outlook.

Secretary Morgenthau - 5

The stock market upturn, however, met considerable resistance, and stock prices sagged during the rest of the week. The resistance was due in part to an increased volume of stock sales by Great Britain, which has appeared on all upturns in the market since early September. Instead of general public selling, which would tend to be heavier on declines, this selling gives the appearance of an organized liquidation of American securities held in Great Britain, since the volume is consistently reduced whenever the market declines and increased when it rises, with the net always on the selling side. Transactions of no other foreign countries show this tendency. This is clearly evident in Chart 2, in which the daily and weekly movements of industrial stock prices are compared with the net volume of transactions in American securities by the principal foreign countries.

Despite the fact that stock price averages have made no further gain since their early-September rise, in part because of the resistance mentioned above, the foundation of the market has been strengthened by:

- (1) the continued improvement in business activity, and consequently in the outlook for corporation earnings;
- (2) a relatively small volume of margin speculation, as indicated by the fact that brokers' loans have been declining steadily during the year, and at the end of September reached the lowest figure since the spring of 1933;
- (3) a large volume of capital available for investment, with excess reserves up to new record highs.

On the other hand, our index of confidence (see Chart 3), which represents an evaluation of the outlook for corporate earnings as measured by the relation between prices of second grade bonds and prices of high grade bonds, has tended downward in recent weeks (lower section of chart), after gaining sharply in September. This represents an apparent trend toward investment in high grade bonds (for safety) rather than in second grade bonds (for profits), and therefore is assumed to indicate some loss of faith in the profits outlook.

Further evidence of recent inventory accumulation, an unfavorable business and market factor, appears in a continued rise in commercial loans. (See Chart 4). In the past two years, as shown on the chart, commercial loans have gone through a cycle of expansion and contraction, associated with speculation on price movements through expansion and contraction of inventories.

The price situation

Commodity prices, as measured by the BLS all-commodities index, dropped slightly the second week in October, a movement followed by most of the subgroups. Textile and metal products were among the few exceptions.

Silk prices provide the primary explanation for an increase in prices of textile products. Advances in prices of raw silk have been very considerable recently, reaching the highest level in almost ten years on the expectation of a gain in raw silk consumption in the United States in October, combined with a continued small margin of surplus silk available in Japan for near-term delivery.

Cotton textiles also contributed somewhat to the increase in textile prices. Present orders in the industry are reported as sufficient to maintain production of cotton print mills on an 80-hour, two-shift basis for the rest of this year. Mills are hesitating about adding a third shift, since they recall that it was overproduction resulting from the use of a third shift which precipitated the difficulties of 1937.

A second exception to the general sluggishness in commodity markets is copper. Though the domestic price continues at 12.50 cents, to which it was recently raised, there is an upward tendency in futures and export prices. The amount of copper for 1939 delivery is definitely limited, and some of the export inquiries are for large amounts which may be difficult to provide. Japan is prominent as a potential buyer; some reports say inquiries from this source last week were as large as 5,000 to 7,000 tons. Estimates put Japanese purchases in this country in October as high as 20,000 tons. Exports of copper to England are now out of the question because of a wide discrepancy between the officially fixed price of approximately 9 cents per pound in England and the price of 12.50 for export from the United States.

Meanwhile domestic copper producers are rapidly increasing their output, rationing sales for the present on a daily basis. September sales of 184,000 tons established a record, but according to commentators only 75,000 tons were for immediate use.

Secretary Morgenthau - 7

Current business news

The New York Times index for the week ended October 14 gained an additional .8 point, reaching 103.2, which was the highest since the week of October 2, 1937. The indices of automobile production and lumber production showed rather sharp declines, miscellaneous carloadings were off slightly, while all other components showed improvement.

Electric power production continues to establish new all-time high records (see Chart 5), influenced by an expanding use of electric power in steel plants and other industries.

The rate of steel output last week climbed 1.7 points to 90.3 per cent of industry capacity, which compares with a 1937 high of 92.3 per cent reached during the spring seasonal rise in April of that year. Because of a recent increase in capacity, the industry is actually turning out more steel tonnage than at any time since 1929. The main bottleneck in preventing an increase to full capacity is a lack of sufficient pig iron, but this is being gradually overcome as more furnaces are blown in. Lack of coke for making pig iron is being remedied by pressing into service large numbers of long-idle beehive ovens, of which 4,000 are now in operation, and by importing coke from Canada for the first time on record.

Our weekly index of new orders (see Chart 6) has declined slightly, despite an upturn in steel orders, because of a further decline in textile orders and a slight downturn in orders for products other than steel and textiles.

FREIGHT CAR LOADINGS

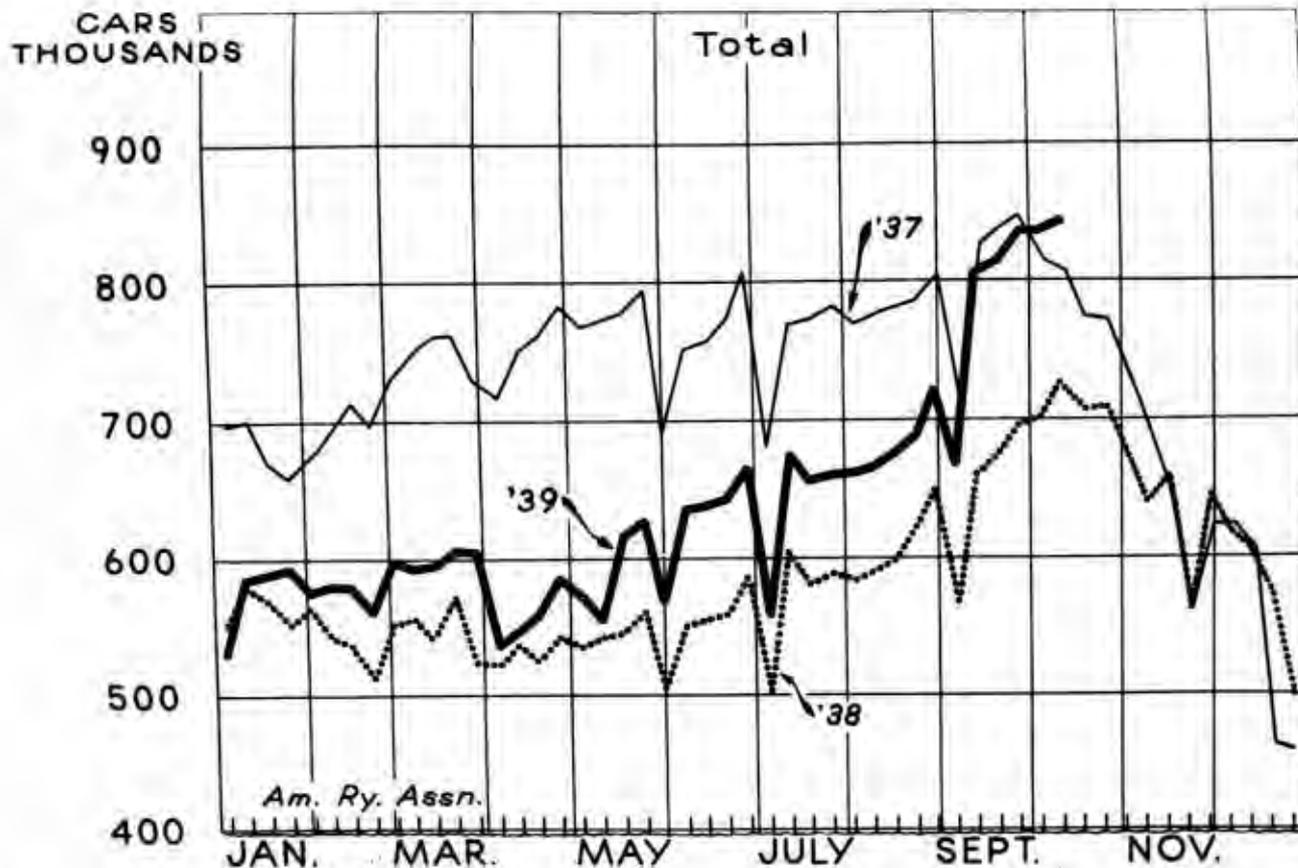


Chart 1
277

NET FOREIGN TRANSACTIONS AND STOCK PRICES

Net Purchases (+), Net Sales (-)
Daily Average by Weeks

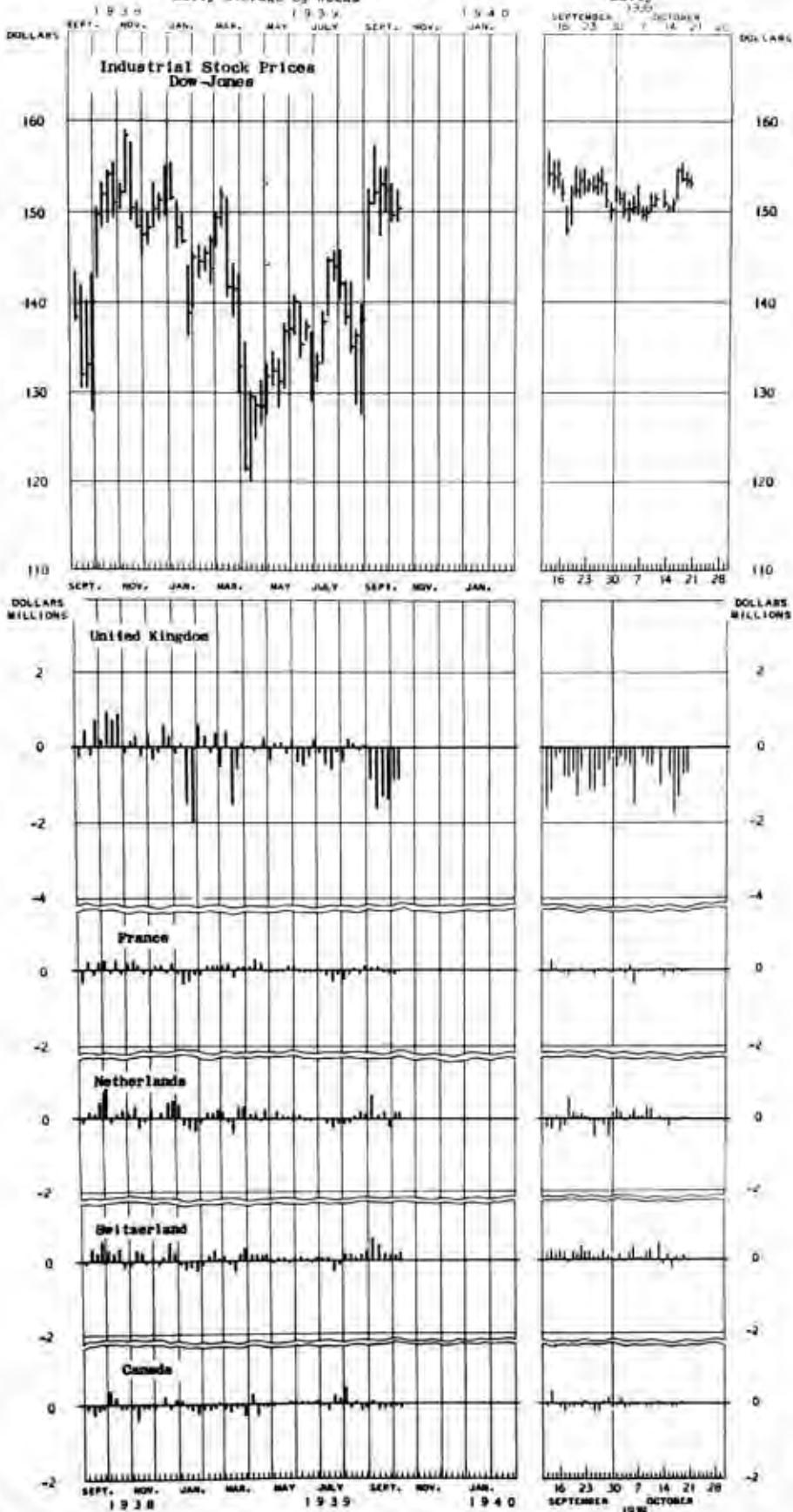
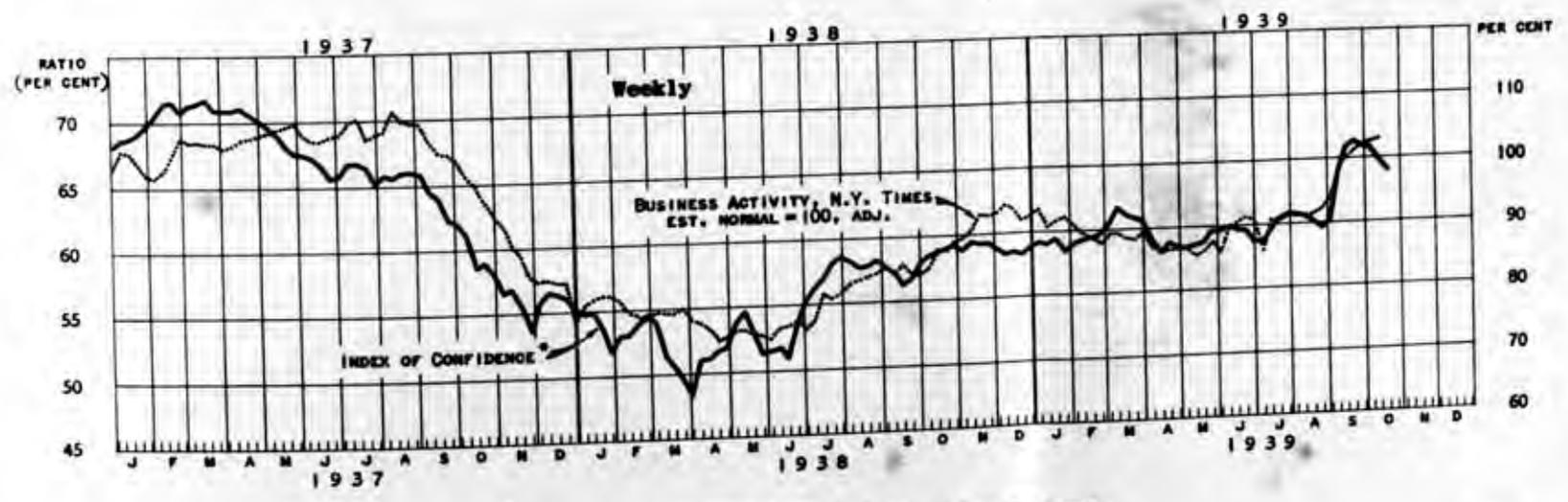
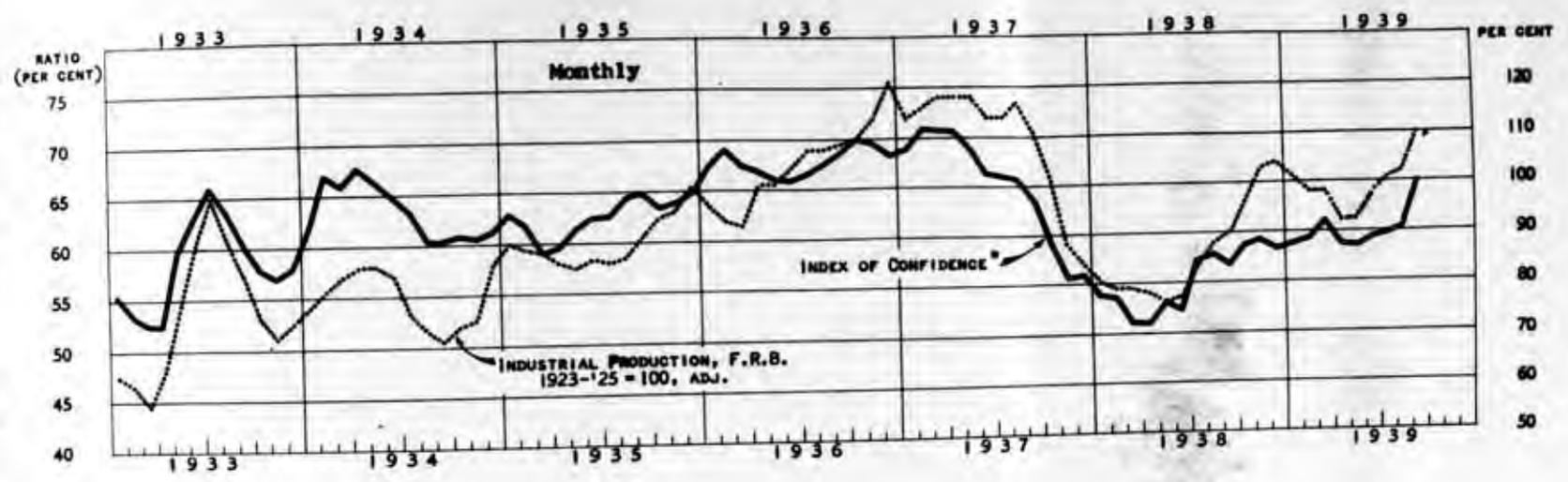


Chart 2
CONFIDENTIAL

Regraded Unclassified

INDEX OF CONFIDENCE* AND BUSINESS ACTIVITY

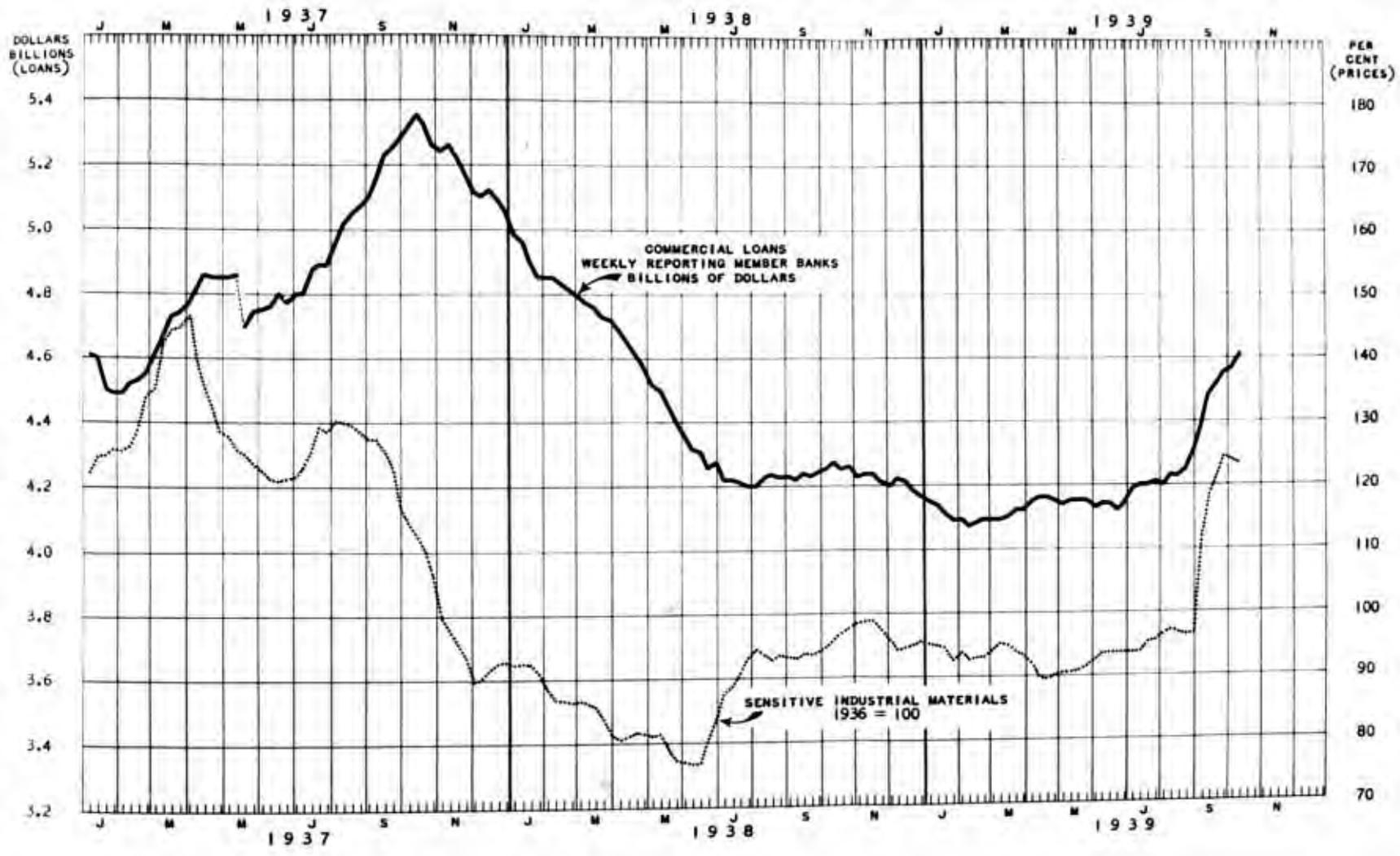


* RATIO OF YIELD ON MOODY'S AAA BONDS TO YIELD ON BAA BONDS.

281

Chart 4
CONFIDENTIAL

COMMERCIAL LOANS AND SENSITIVE INDUSTRIAL MATERIALS PRICES



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

C - 283

ELECTRIC POWER PRODUCTION

KW. HRS.
BILLIONS

2.4

2.3

2.2

2.1

2.0

1.9

1.8

1.7

Edison Elec. Inst.

JAN.

MAR.

MAY

JULY

SEPT.

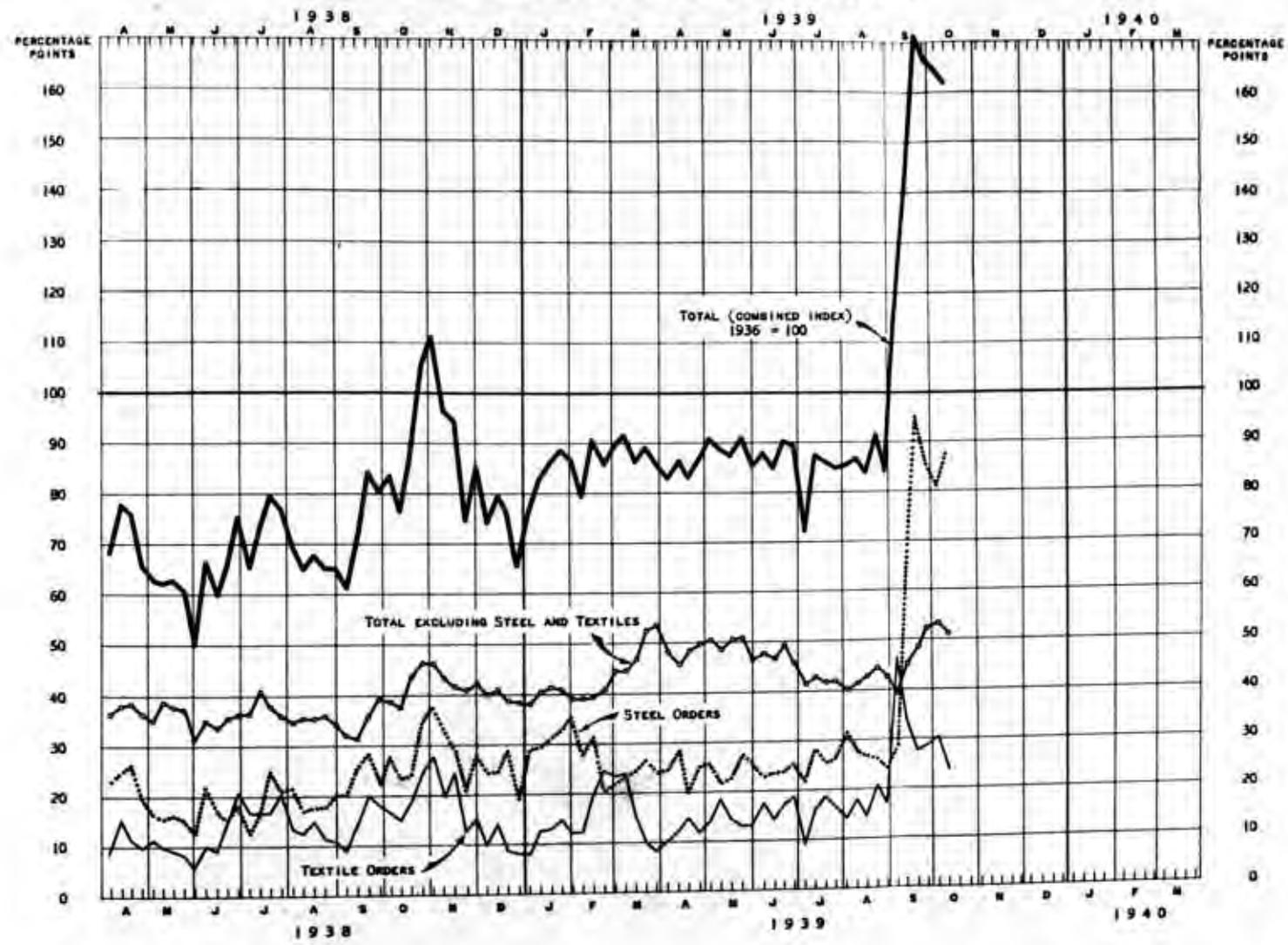
NOV.

'39

'37

'38

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



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

1 - 85 - B

October 23, 1939.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

I think you may be interested in glancing over the attached photostats and explanatory letter to Captain Nixon of Naval Intelligence. As a result of our conversation with Captain Nixon we relinquished this particular investigation to him.

Elmer Irey and Chief Wilson are anxious to know whether they should go further with the other investigation you committed to them. Wilson has some ideas. The report from Boston is a blank and they have not heard from Chicago.



October 23, 1939.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

I think you may be interested in glancing over the attached photostats and explanatory letter to Captain Nixon of Naval Intelligence. As a result of our conversation with Captain Nixon we relinquished this particular investigation to him.

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HEG/mah

October 23, 1939.

French purchases in the United States.

Since October 16, the French missions have placed to date the following orders, subject to a contingent clause in case the arms embargo should not be lifted.

I. CONTRACTS SIGNED.

- 1.- NATIONAL ACME CO., Cleveland, Ohio.
75 automatic turning lathes, Gridley..... 910,515.00
- 2.- BROWN & SHARPE MFG.CO., Providence R.I.
620 machine tools..... 2,572,735.00
- 3.- CINCINNATI MILLING MACHINE & CINCINNATI GRINDERS INC.,
Cincinnati, Ohio.
56 machine tools..... 374,480.00
- 4.- R.V. BLISS & CO., Brooklyn, N.Y.
100 torpedoes..... 1,800,000.00
- 5.- STUDEBAKER CORPORATION, South Bend, Indiana.
2,000 trucks and spare parts..... 3,540,600.00
- 6.- WRIGHT AERONAUTICAL CORPORATION.
450 motors, double speed..... 4,829,300.00
- 7.- UNITED AIRCRAFT CORPORATION.
Pratt & Whitney Propellers..... 5,890,703.35

II. CONTRACTS TO BE SIGNED.

DOUGLAS : 100 motors DB7, motor Wright.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

285

DATE October 23, 1939.

TO Secretary Morgenthau
FROM Mr. Haas *BA*

At the meeting Mr. Murphy gave you an "off-the-cuff" estimate of 100 $28/32$ as the probable selling price of a 1 percent Treasury note due March 15, 1944. Upon a more careful examination we think that this figure is probably too conservative and feel that the estimate should be revised to 101 $1/32$.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 23, 1939

TO Secretary Morgenthau

FROM W. H. Hadley

TREASURY NOTES

<u>Maturity</u>	<u>Coupon</u>	<u>Yield</u>	<u>Market Price</u>	<u>Premium</u>
3 yrs. 10-1/2 mos. (Sept. 15, 1943)	7/8%	0.65	100.26	25/32nds
	1%	0.65	101.11	1 pt. 11/32
	1-1/8%	0.65	101.25	1 pt. 25/32
4 yrs. 5 mos. (March 15, 1944)	7/8%	0.75	100.17	17/32nds
	1%	0.75	101.	1 point
	1-1/8%	0.75	101.20	1 pt. 20/32
* 4 yrs. 10-1/2 mos. (Sept. 15, 1944)	1%	0.85	100.23	23/32nds
		0.90	100.15	15/32nds
	1-1/8%	0.85	101.11	1 pt. 11/32
		0.90	101.3	1 pt. 3/32
	1-1/4%	0.85	101.29	1 pt. 29/32
		0.90	101.22	1 pt. 22/32

* Note:

An interest adjustment on a 1% note would add only 3/64ths to the "rights" value on an exchange.

Double interest, i. e. giving both 1% and 1-3/8% through December 15 would add about 5/32nds to the "rights" value.

TREASURY DEPARTMENT

287

INTER OFFICE COMMUNICATION

DATE October 23, 1939

TO Mr. White

FROM Mr. Hesse

Subject: Percentage change in exchange rates, August 24 to October 21, 1939

	Percentage Change		Percentage Change
<u>British Empire:</u>		<u>Other Countries (Cont'd.):</u>	
United Kingdom	- 14.3	Sweden	- .6
Union of South Africa	- 14.5	Switzerland	- .5
Australia	- 14.4	Poland	*
Crown Colonies	- 14.3	Germany	*
		Yugoslavia	-
New Zealand	- 14.3		
British India	- 13.4	Guatemala	-
Hong Kong	- 11.9	Venezuela	-
Ceylon	- 10.4	Chile, Official	+ .03
		Chile, Export	-
		Colombia	+ .1
<u>Other Countries:</u>			
Greece	- 15.6	Brazil, Official	-
Bolivia	- 14.3	Brazil, Free	+ .8
Portugal	- 14.4	Argentina, Free	+ 1.1
France	- 14.1	Peru	+ 1.3
Japan	- 13.7	Rumania	+ 2.1
Hungary	- 8.9	Cuba	+ 2.5
Finland	- 8.2	China	+ 7.4
Denmark	- 7.7	Uruguay, Controlled	*
Spain	- 7.5	Uruguay, Uncontrolled	+ 9.3
Italy	- 4.1	Mexico	+ 18.7
Ecuador	- 3.6		
Norway	- 3.5		
Bulgaria	- 2.0		
Netherlands	- 1.3		
Belgium	- .9		

(*) - No rate quoted.

(-) - Indicates no change.

Source: Noon buying rates of New York Federal Reserve Bank, when available. Otherwise closing rates quoted in Journal of Commerce are used.

PAP

GRAY

PARIS

Dated October 23, 1939

Rec'd 8 p.m.

Secretary of State
Washington

2550, October 23, 5 p.m.

FOR THE TREASURY.

The securities market was strong today with industrial shares advancing from 2% to 5%. Rentes were up from 70 centimes to 1.30.

The Journal Official publishes private saving banks withdrawals during the period September 16 - 30 at 735,000,000 francs with deposits at 92,000,000. This represents a slight improvement over the preceding fortnight (Our telegram No. 2291, October 3, 5 p.m.) and the Paris deposit and withdrawal figures for the period ending October 14 as reported in our telegram No. 2513, October 18, 6 p.m. indicate a more serious trend for the current month.

It is reported that as forecast Swiss banks have taken firm (?) Treasury notes of one, two, and three year maturity in the amount of 200,000,000 Swiss francs at par bearing interest rates of 2½%, 3½% and 3½% respectively. As indicated in our telegram No. 2499, October 17, 6 p.m. the proceeds

are

PAP -2- 2550, October 23, 5 p.m. from Paris

are to cover the general mobilization costs for the coming months.

The French Treasury statement for September has still not appeared in the Journal Officiel and Couve de Murville tells us that its publication will be delayed "a few days" more.

BULLITT

EMB:NPL

RECEIVED

OCT 24 1950

AC

GRAY

London

Dated October 23, 1939

Rec'd 2:56 p.m.

Secretary of State

Washington

2130, October 23, 7 p.m.

FOR TREASURY FROM BUTTERWORTH.

1. The confidential information supplied in your 1244 of October 18 was for a responsible official of the Ministry of Economic Warfare who in turn states in confidence that his computations to date indicate that Germany possesses about 175 million dollars of gold and about 75 million dollars made up of scattered foreign balances and some readily marketable securities. The above are admittedly estimates but have been checked as carefully as possible. An attempt is being made to ascertain the available direct investments.

Today's FINANCIAL NEWS contains the purported text of the German-Estonian agreement for the repatriation of the German minority and Einzig draws the conclusion that this constitutes a method of Germany securing foreign exchange and that between 10 million pounds and 20 million pounds will be obtained from Estonia and that if the same policy is applied to the other

Baltic

- 2 - #2130, October 23, 7 p.m. from London

Baltic states between 80 million pounds and 100 million could be acquired. "If the German Government was successful in persuading Italy, Denmark, Hungary, Rumania and Yugoslavia to agree to similar measures the total assets controlled by the various German trusts would reach something of the order of one hundred (*) pound sterling provided all German minorities were resettled." This is, of course, nonsense but no doubt the kind of nonsense that will be republished - because there is no possibility of the requisite net increase in production and exports from these countries within a measurable length of time. In the case of Italy, a reliable but unofficial source states that some 80 thousand persons will probably be moved from Italy to Germany in accordance with the recent German-Italian agreement and that the debit item created in the (?) will be between 500 and 1000 million lira, that this will in the main be a book-keeping item which Italy will set off against the sums due her nationals arising out of the German acquisition of Austria, Czechoslovakia and Poland.

2. All the officially fixed exchange rates have remained unchanged throughout the past week with the exception of the belga which was quoted 23.80-24 on Wednesday, 23.65-90 on Thursday and returned on Friday
to

- 3 - #2130, October 23, 7 p.m. from London

to its Wednesday quotation where it remained on Saturday;
today's rate is 23.75-90.

KENNEDY

KLP

(*) Apparent Omission

RECEIVED

OCT 24 1958

FEDERAL RESERVE BANK

THE FINANCING

October 23, 1939.
10:00 a.m.

Present: Mr. Haas
Mr. Murphy
Mr. Riefler
Mr. Hanes
Mr. Bell
Mr. Hadley

H.M.Jr: Dan, what is the money picture? I see our balance is one million one hundred sixteen.

Bell: That is right.

(Discussion off the record)

H.M.Jr: Well now, Dan, if tomorrow I should refund 526 million dollars worth of December notes and if I should next sell 250 million dollars of RFC notes, and I would like to do it Thursday or Friday of this week, and then if the following week I should raise 100 million dollars for U. S. Housing, and if we should sell 500 million dollars worth of notes on the 15th of December to raise our cash, where would that leave us? How would we be sitting from now until the 15th of March?

Bell: Where would you start the bills?

H.M.Jr: Let's say we'd sell 200 million in stock.

Bell: I have got into this picture 450 million dollars in bills, 250 million dollars in RFC and 100 million dollars in Housing, with no other cash up to the end of the year, I mean no Treasury cash.

H.M.Jr: Well, let's say we'd sell 200 million dollars worth of bills and stop.

Bell: Yes.

H.M.Jr: And raise 500 million dollars of new cash, five-year money, on the 15th of December. Do a little adding and subtracting. Where would we be on the 15th of....

Bell: December?

H.M.Jr:of March. Well, December....

Bell: We would go into March....

- 2 -

H.M.Jr: Ahead of tax receipts. Don't figure the tax receipts.

Bell: We would go into March with a little less than a million and a half dollars. I'd figured a million and 230 and you add 250 million extra money into it.

H.M.Jr: Only 200 million worth of bills.

Bell: No, I got 450 and 200 million - I am adding 500, see?

H.M.Jr: But we don't figure 450.

Bell: I am taking 250 out of this picture and adding 500 back.

H.M.Jr: And you figure between now and the 15th of March these 200 million dollars worth of bills would run off?

Bell: Well, then your balance would come back down to about a billion and a quarter.

Hanes: Is that including the 500 million?

Bell: Yes, sir.

H.M.Jr: But I mean, if we keep on a 100 million a week from now until the 15th of March, let the 200 million extra run off, we would have....

Bell:about a billion and a quarter going into March.

H.M.Jr: That would be very nice.

Bell: Now, in that picture I have got another 150 million dollars for U. S. Housing in February.

H.M.Jr: Yes.

Bell: That is about the time you want to sell.

H.M.Jr: What is the matter with that picture?

Bell: It is all right.

Riefler: Why not keep up the bills?

- 3 -

- Mr. [unclear]: That would come under the head of politic. I would say it would be not politic for me to have more than a billion and a quarter balance.
- Mr. [unclear]: Let the 500 go in December.
- Mr. [unclear]: I would like to sell 500 million if we could get it on a five-year basis, then go back to a hundred million and when we raise five or six hundred million by bills again - we are always going under the assumption we can sell a five-year note on the 15th of December. If we let the bills run off again, we are back again to a hundred million and as time comes and we have got to raise several hundred million in bills, we can do it. We are not making any commitments today of any kind. Today, I announce we will sell another 50 million dollars worth of bills next Monday, so everybody has got - well, we have got today and Tuesday and maybe Wednesday to think about whether we are going to sell Thursday or Friday that RFD issue, but I am thinking out loud so that everybody can think and I just wanted to see where we would be if we did it by "Plan A."
- Mr. [unclear]: Where does the March refunding fit into that, after the first of the year?
- Mr. [unclear]: We would do it just the first time we got a chance to sell ten or twelve-year bonds. That is the way I feel today. Just as soon as the thing looks as though the bond thing had leveled off and the market would take a ten or fifteen-year bond at a reasonable rate, I would let her go. Then they would come out and say with the exception of 500 million cash in December, the Treasury is out of the market until the 15th of March, with the exception of this Housing issue. That ought to be good news.
- Mr. [unclear]: We have a little issue here, Mr. Secretary, for PVA. That could be kept out of the picture almost indefinitely. It is only 60 million. I have left it out of here.
- Mr. [unclear]: Henry, will you share your wisdom with me?
- Mr. [unclear]: I have no dissent.

- 4 -

H.M.Jr: George?

Haas: I have none. I agree with you.

H.M.Jr: Hadley?

Hadley: Sounds satisfactory.

H.M.Jr: Dan?

Bell: I think it is a good program. I question a little rushing the market this week on RFC.

Haas: It isn't firm, I mean he is just thinking.

H.M.Jr: Oh no, I am just mapping it out. It doesn't rush me any to do it Friday.

Hanes: You can change as late as Thursday if it doesn't look good at that time. It looks pretty good to me right now.

Bell: Well, if we did it Thursday it might be a good thing for the market.

Hanes: Yes.

H.M.Jr: Well, this is all tentative. I want to get it in my 'noodle' - I have got it there now. If that is all right, then let's talk about tomorrow, what we are going to do tomorrow. Right, Johnny?

Hanes: Right.

H.M.Jr: I don't kick myself. It looks lovely today, but these storms come up so quickly.

What do you say, Dan, what should we do on this 526 million? Has Mr. Hanes got a copy of this?

Hadley: They are making up some more copies.

H.M.Jr: I will give him mine in a minute.

(Mr. Haas hands copy of memo to Mr. Hanes)

Is there agreement amongst us that one and an eighth will have a market price between 11/32nds and 3/32nds?

- 5 -

- Hadley: That ties in - New York has exactly the same answer; 1.3 to 11.
- H.M.Jr: How is the Haas Division?
- Haas: I don't know whether we agree with that or not. On the close of Saturday on one percent we figured par 19.
- Bell: Is that a minimum or a maximum?
- Haas: Well, I don't think you can - I think it is misleading....
- Bell: That is all right, that is between what Hadley had, 15 to 23.
- Murphy: It is the most probable figure.
- Haas: That is all right.
- H.M.Jr: What have you got on one and an eighth?
- Hadley: We had 101.9.
- H.M.Jr: He has got from 3 to 11.
- Haas: All right, we can't quarrel with that.
- H.M.Jr: He would have a mean at 7.
- Bell: That is all right.
- H.M.Jr: Does anybody here think they ought to do a one percent?
- Bell: That is just a little thin.
- Haas: The rights are over....
- H.M.Jr: Don't cloud the issue, George. I hate to hear - seriously, forget what the rights are. I don't want to make the market. If you tell them, whisper it to me.
- Haas: I thought you knew. I know approximately what they are.
- Hadley: I think that a one percent is a little thin on the basis, not only of the price but the fact that we

- 6 -

just put out a two-year issue for one percent and here we are adding three years on at the same coupon, even though it is a different type of issue. The fact that we make it one and an eighth would, aside from the price, decrease the attractiveness. I believe it is a little thin.

- H.M.Jr: You don't want to tell us, Dan, what the instructions were that went out? It would guide me in my thinking. I don't get all through and Dan says, "Well, that is what I wired last Saturday."
- Bell: No, to tell you the truth these instructions have been out since we first considered this matter of a five-year note. September 15th, 1944.
- H.M.Jr: What were they?
- Bell: We didn't put out any rate in it. We will just have to amend that form.
- H.M.Jr: This is about a quarter better, isn't it?
- Bell: Yes.
- H.M.Jr: Supposing I call up Professor Eccles and see what he thinks.
- Bell: If you gave double interest, Mr. Secretary, you would add 5/32nds to the holders. That wouldn't make any difference in the price of your new issues.
- H.M.Jr: (On phone) Hello. (Telephone conversation with Ronald Ransom follows:)

October 23, 1939
10:19 a.m.

HMJr: Good morning.

Ronald
Ransom: Hello, Mr. Secretary. How are you today?

HMJr: I'm fine. How are you?

R: I'm fine. I hope you are really feeling better these days.

HMJr: Yes, I am.

R: That's good.

HMJr: Ronald, we are just in the midst of making a price on this refunding for tomorrow.

R: Yes.

HMJr: Have you fellows given it any thought?

R: I've thought -- we discussed it pretty fully the other day before George and Harriner went over to see you.

HMJr: Yeah.

R: Did they -- did they discuss price with you?

HMJr: Yes, they did.

R: Yes.

HMJr: And they -- we were talking about a September 15th
44.....

R: Yes.

HMJr:and they at that time said 1 1/8.

R: That's right. That's -- that's my recollection of what our technicians told us would be the price which they thought had a margin of safety

HMJr: Well, the feeling here is mutual.

R: Well, of course, Marriner being a true Scotch and always wanting to get things as cheaply as possible, he thought maybe that price could be shaded a little bit, but I got the impression from listening to our own technicians that they thought it took about that to give it that assurance that you -- you would of course want it to have.

HMJr: Well.....

R: Speaking for myself alone I'm not, as you know, serving on the executive committee when Marriner is in town. I just give you my own opinion for what it might be worth. I should think that price would be just about right.

HMJr: Well, he isn't in that's why I've asked for you.

R: Yes. That's my own opinion about it and while I think there was a little feeling that -- on the part of my associates over here that it might be done a little cheaper, I don't think that it was impressive enough to influence my own thinking about it, and relying on what the technical people told me it would seem to me that that was about right.

HMJr: Well, Ronald, let's be.....

R: Isn't that about your feeling?

HMJr: Yeah. Yeah.

R: And I hope you do get -- get it behind you this week.

HMJr: Well, we're planning to do it tomorrow morning.

R: Fine.

HMJr: And then, if everything goes well, Thursday or Friday we may --we're thinking now of selling 250 or 300 million dollars' worth of three-year notes for the R.F.C.

R: Yes.

HMJr: So you boys will have to be good all week.

R: We'll have to sharpen up our pencils and behave ourselves.

HMJr: That's the idea.

R: Now, I'd like to tell you if you've got just a moment, what my own feeling is about our own position regarding any sales which we might make.

HMJr: Yeah.

R: I think our own position would be strengthened and the market would be strengthened.....

HMJr: Yeah.

R:if the public interested in the government bond market thought that we did sell when the opportunity presented itself.

HMJr: Yeah.

R: Now we've abandoned completely the idea of a fixed portfolio.

HMJr: Yeah.

R: It might have had some advantages at times and I had thought it did have. I think perhaps there you and I might have had a slight difference of opinion.

HMJr: Well I never was for a fixed portfolio.

R: No, it -- it had some merit but it -- merit over the dam and that's all right. Now, unless we operate both ways there will be a growing impression that it's fixed on the up side but -- the policy is fixed on the up side but there's a complete rigidity on the down side, which I think would be very bad psychologically for the market. But of course, we can't be stepping in and doing something when you boys are selling over there unless the situation was very peculiar and you would suggest to us that you thought it would be helpful. Such a situation might arise but I don't think it exists right now.

HMJr: No.

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R: But I do hope we will find an opportunity to sell some of the securities we've bought because we may very well find ourselves later on in a position where we want to buy a lot more.

HMJr: Yeah. Well.....

R: So much for that.

HMJr: I understand.

R: (Laughs) All right.

HMJr: I just want to say, let's leave it this way - if I don't hear from the Federal Reserve Board, or rather Danny Bell.....

R: Yes.

HMJr:between now and twelve o'clock.....

R: Yes.

HMJr:we'll take it that you fellows are in sympathy with our offering tomorrow, a September 15th, 44 at one and an eighth.

R: All right, sir. You'll hear from us by twelve if I develop any difference of opinion.

HMJr: And if the thing continues the way it is for the rest of the week, why we are seriously thinking on Friday -- Friday or Thursday -- Thursday or Friday of offering 250 to 300 million of R.F.C. three-year notes.

R: Yes. You hadn't started figuring on a price yet.

HMJr: Well, the boys have done a little preliminary and it would -- it looks like -- it looks like about -- oh, let me see, one and -- I'd say somewhere between one and one and an eighth.

R: I see. One and one and an eighth. Thanks very much.

HMJr: Between one and one and an eighth. Somewhere in that neighborhood.

R: All right. I'll check up with my associates right away.

HMJr: Now if we don't hear -- Dan doesn't hear from you by noon.....

R: Yes.

HMJr:we -- we take it that everything is lovely.

R: All right. Thanks, Mr. Secretary.

HMJr: Thank you.

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Bell: Are you going to talk to New York?

H.M.Jr: Yes. I think we are all right on this. I haven't had a chance to say anything to the President, but I think you could get out....

Bell:a letter for him before you go to lunch?

H.M.Jr: And I think you could send a telegram to tell them to put in one and an eighth. We will give them a release on it right after lunch. Don't you think so, John?

Hanes: Right.

Bell: We ought to charge a little premium on this. It is a little rich.

H.M.Jr: No.

Bell: Twenty-five cents wouldn't hurt them.

H.M.Jr: Are you serious?

Bell: I thought we might bring it down a quarter of a point, down to par or a little lower.

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

October 23, 1939
10:27 a.m.

HMJr: Hello.

Operator: Mr. Harrison. Go ahead.

George Harrison: Hello.

HMJr: George.....

H: Good morning, Henry.

HMJr: Good morning. We're sitting here - you're on the loudspeaker and serious conclave on tomorrow's refunding, and I just wanted to know whether you had changed any since Eccles told me how you and he felt.

H: No, I haven't changed at all, Henry.

HMJr: Yeah.

H: I haven't talked with Sproul or Rouse this morning though .

HMJr: Yeah.

H: And I'd rather have a last-minute session with them before I say anything so formal at the loudspeaker.

HMJr: Right. Well, after you've had your conclave with them, let's leave it this way -- if -- if we don't hear from you between now and twelve o'clock.....

H: Yes.

HMJr:we take it that you fellows feel one and an eighth for September 15th ⁴⁴.

H: That's right.

HMJr: And if you do feel differently would you call Dan Bell, please?

H: I shall be glad to do so.

HMJr: Now.....

R: And I hope you'll be able to do it, but I see no reason why you shouldn't.

EMJr: Ah -- Danny thought we might even charge the fellows twenty-five cents or a cent and a quarter; -- too rich.

R: (Laughs) What's he going to do? Is he going to get sharp now?

EMJr: I don't know. He just said that just a second before I picked up the.....

R: I see.

EMJr: -- the receiver.

R: Well let me talk to the boys here who have no doubt seen the dealers this morning whom I haven't seen.

EMJr: Well now, the other thing is this, we're seriously considering Thursday or Friday offering either 250 or 300 million of three-year R.F.C. notes.

R: Yes.

EMJr: Think that one over.

R: Three-year R.F.C. on Thursday or Friday.

EMJr: Yeah.

R: That isn't too close?

EMJr: Oh, I don't think so. You fellows have got to adjust yourselves to what's going on abroad.

R: (Laughs)

EMJr: (Laughs)

R: I get the point. It's not fair to throw an argument -- my own argument back in my face.

EMJr: Well you know I -- you've got some that I haven't.

R: Yeah, well, I think that this.....

EMJr: Oh, yes, I know. But we like to get it between bombings.

H: Yeah. Well I think it's entirely possible because they are two different kinds of issue anyway.

HMJr: Yeah.

H: One's a new.

HMJr: That's right.

H: Really.

HMJr: Yeah.

H: And we had thought that you would wait probably a week between the two.

HMJr: Oh, no.

H: But I'll -- I'll chat that over with Sproul and Rouse too.

HMJr: Well, we would -- that I don't have to have an answer by twelve o'clock.

H: No, I understand.

HMJr: I can talk to you about that again tomorrow.

H: All right, well if you hear nothing from me within the next hour, it will mean definitely that we feel the same.

HMJr: Wait a minute. (Brief pause while HJr talks to one of men in his office.)
Bell spoke to them about an idea I raised Saturday - just raised the question about selling extra notes to raise cash on this same note, but that's out.

H: Well, I hope it is.

HMJr: That's out.

H: Yes.

HMJr: That's out.

H: First-rate.

HMJr: O. K.

H: Goodbye.

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- H.M.Jr: Now, what you do is put in one and an eighth. At five minutes of 1:00, be here with a letter for me to give the President to sign and then I will come back.
- Sell: At 2:30, we can give them the final one.
- H.M.Jr: Yes, and then following your plan which was so successful last week, I will tell them at 4:15.
- Sell: We will make this a release.
- H.M.Jr: But tell the men we will release it as of 4:30, Eastern Standard Time. It gives the men in the Street a little chance to get it out. I thought it went over all right last week. It gives the fellows a chance to write a letter to their customers and makes them feel good. The market is closed. It just gives them a chance to get them together. I think it is a kind of courteous thing to do.
- Hanes: The mechanics are all settled. All you have got to do is just amend to get the rate.
- H.M.Jr: Yes, but I mean in the Street and the Government bond business, it gives them a chance to write a letter to their customers, which they will get in the mail the next morning.

RE FINANCING

October 23, 1939.
11:15 a.m.

Present: Mr. Haas ✓
Mr. Murphy ✓
Mr. Bell ✓
Mr. Hanes ✓
Mr. Hadley ✓
Mr. Riefler ✓

"TO THE SECRETARY:

"Governor Harrison just called me and gave me their estimates of what the proposed 1-1/8% September, 1944, note would sell for in the market. His prices agreed with Hadley's. He said he thought it was too rich and that a 1% was entirely too thin. He is not in favor of a premium on the 1-1/8% but feels that a 1% March, 1944, would be just about right for this market.

"They are not opposed to your issuing the 1-1/8% September, 1944, note, but want you to know that the New York Bank feels it is entirely too rich.

/s/ DWB"

H.M.Jr:

I think George is right. March 15th is four years and five months. How does that figure out for the Government if we did it in four years and five months at one percent as against four years and ten and a half months at 1 and 1/8th? What is the difference in the cost to the Government, covering both periods, I mean? How much interest would we have to pay, four years, ten and a half months at 1 and 1/8th? I would like to know how much interest, how much interest we would pay at four years and five months at one percent. Take your time and get it right, boys.

Bell:

You are paying a difference of \$650,000 a year.

H.M.Jr:

For the full period. You have got to multiply it out. Between four years and five months at one percent and the other is four years, ten and a half at 1 and 1/8th.

Hadley:

I get a little over 23 million on the four year, five months at one percent. That is the total interest payment for the issue, and the other is

about 26 million or 27 million, about three million and three difference.

E.W.Jr: Counting that you have to pay interest on that monthly basis?

Meffler: What would be the difference for the four years, five and a half months between the two?

Pell: About \$2,400,000 for the four years, five and a half months, saving in interest. You could use that two million 400 thousand.

Meffler: That is the saving you could refund in March, 1944, at 1 and 1/8th?

Murphy: Comparing the four and a half and the five year bond and assuming that you have to pay an eighth more over the whole period, I get two and a quarter as the rate you would have to pay during the term on a six months period in order to break even, ignoring compound interest.

E.W.Jr: What do you fellows think?

Meffler: It would probably be a real saving.

E.W.Jr: Which, the one percent?

Meffler: Yes.

Hadley: I think the March, '44, is a good date and gives you a nice coupon, but it might be a date to have open for the billion four that you have coming due in March.

E.W.Jr: I wouldn't swap a billion three and a billion four in at one date.

Hadley: But you might want that date open.

E.W.Jr: But you are faced with a picture which Harrison, being a good friend, points out. You have got this peculiar situation.

What is your reaction? Do you want to listen to the other fellows talk?

October 23, 1939
11:25 a.m.

HMJr: Hello.

Operator: Mr. Harrison.

HMJr: Hello.

O: Go ahead.

HMJr: Hello.

George Harrison: Hello, Henry.

HMJr: Well I appreciate your note and your message very much, George.

H: Yes.

HMJr: The only thing is I've let all my charts go so I'm absolutely sunk.

H: You've let all what go?

HMJr: All my charts.

H: (Laughs) Well, I tell you, Henry, I wanted to check on the prices and did so as soon as I talked with you.

HMJr: Yeah.

H: And found that the premium on the four-year $10\frac{1}{2}$ at $1\frac{1}{8}$ was raised from 1 and $2/32$ nds to $11/32$ nds. It appeared to me to be a little rich. One per cent on that same issue would be too thin.....

HMJr: Yeah.

H:for these times. And the only issue that we could find that we could price decently, and the next longest one, would be the four-year $4\frac{1}{2}$ at one.

HMJr: Yeah.

H: Which would go from 1 and $2/32$ nds to $27/32$ nds, which seems about right.

HMJr: Yeah.

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H: And I didn't see enough advantage in the extra six months to warrant your giving up the opportunity to getting one that you could price well.

WJr: That's right.

H: That's about the way we both felt here.

WJr: I see. Well, I'm impressed - one percent for four -- what is it, four and a half years?

H: It would be four years and $4\frac{1}{2}$ months.

WJr: Yes. It's awful good.

H: I think it makes a lot of sense, really.

WJr: I think it does. I'm impressed.

H: Yes.

WJr: That's why I'm calling. Well I'll tell you what I'll do, George.

H: Yes.

WJr: Stand by, will you, and I'll call up Chairman Eccles and listen.

H: Yes.

WJr: I'm listening -- I mean, I'm calling up Chairman Eccles.

H: Yes.

WJr: And after I've listened to him I'll call you back.

H: All right. First-rate.

WJr: Thank you.

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Hanes: Yes, I would like to.

H.M.Jr: Shall we put George on here?

Hanes: Yes.

H.M.Jr: It kind of shook me.

Hanes: It is upsetting.

Bell: They are in conference also at the Board. Eccles just called me and wanted to know if you had decided to eliminate the cash about which I talked to him on Saturday and he said he would call me back in a few minutes.

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

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- Hanes: It makes a lot of sense. Has a good deal of this happened in the last two days?
- Well: It hasn't changed since Friday, the market hasn't.
- Madley: There has been more change in the area that covers that market than there has in the September one.
- H.M.Jr: The March isn't....
- Madley: I don't think so, because they have been trying to buy into that area.
- H.M.Jr: I checked these things. I just had Mr. Moffett here. We are just sitting on a volcano. Nobody knows. Everything right now looks lovely but I just want to go on record that we are sitting on a volcano and we just never know what that crazy man Hitler is going to do next. I just wanted to make sure. I would rather be criticized than have it go. I want everybody to be a thousand percent sure that this March, '44, is enough cushioning. Have you any doubts?
- Murphy: I haven't made any attempt to measure the cushioning, Mr. Secretary, I just took Mr. Harrison's word for it.
- H.M.Jr: Get busy. Don't take anybody's word for it. That is what you are here for.
- Waffler: Because the market is expecting the other maturity that they built up a price here which gives a cushion, it wouldn't be there if you put it in.
- Madley: I think there is a better cushion on this one because there wouldn't be outstanding issues.
- Murphy: We would get about par 28.
- Well: That is pretty close.
- H.M.Jr: What, Henry?
- Murphy: About par 28.
- H.M.Jr: You could always sweeten it a little and give these boys their interest, $3/8$ ths at the end, if you wanted to.

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- Hadley: Your interest adjustment would only make a 64th.
- Bell: You would have to double up on it to make any difference.
- E.M.Jr: I wouldn't be afraid of that, would you?
- Hanes: No, I wouldn't be afraid of that. As you said before, I think you have got to bear in mind that you are liable to run afoul of black spells here any minute. Personally, I don't think you are going to until the neutrality fight is over, but that is guesswork.
- H.M.Jr: Would you be afraid of - the bottom is 28/32nds?
- Hanes: That is the least premium.
- Murphy: That is just about probable, I would say.
- H.M.Jr: George Harrison is all right, he always tells you a few things.
- Hanes: What was your statement as to the saving in interest?
- Murphy: The most significant figure that I have been able to derive on the saving of interest is this, if by shortening our maturity six months we save an eighth in coupon over the whole book, that is equivalent to 2½ percent interest during the six months we shorten out. In other words, we do ourselves well if when we put out the shorter note, it matures and we have broken even.
- H.M.Jr: (On phone) Hello. (Telephone conversation with Mr. Eccles follows:)

October 23, 1939
11:34 a.m.

HMJr: Hello.

Operator: Chairman Eccles.

HMJr: Hello.

O: Go ahead.

HMJr: Hello.

Marriner
Eccles: Hello.

HMJr: Good morning, Marriner.

E: Good morning, Henry.

HMJr: Marriner, we've been doing a little figuring here and the wind has shifted a little bit and we thought -- pulling in our sails a little bit and we're talking about March '44 at one percent.

E: Well, that's -- that's -- I'm tickled to death. I -- that's what I was going to recommend anyway. I -- we've just been discussing it here and I've taken -- I've taken -- personally I've just been telling how much we're going to pay for this extra six months and it figures about 2 million 800 thousand dollars premium.....

HMJr: That's right.

E:that you're going to pay.

HMJr: That's right.

E: And there's just any justification -- it means that -- for that six months' period you're -- you're going to pay about six percent interest.

HMJr: No, the boys said we could afford to pay two and a half percent.

E: Well I think if -- I don't know, but I think that extra.....

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MEMJr: Well, they said if we'd take the savings and had to pay two and a half percent on that six months.....

E: Yeah, which.....

MEMJr: -- two and a quarter.

E: -- which is hardly conceivable.

MEMJr: Two and a quarter Henry Murphy says.

E: For six months. Well, I.....

MEMJr: That if we pay two and a quarter on those six months we'd break even.

E: Yeah. Well I'm glad you've -- you're coming to that conclusion because I -- I told Dan on Saturday in talking to him that personally I -- I felt that we should change to a one percent and save that money. I hadn't had a chance to talk to the other members of the committee because they weren't -- this was Saturday morning, but I've been -- in fact, I'm with them now. We were just going over this thing and we hadn't taken a vote on it, but we were discussing the advantage of the one percent and the one and 1/8th.
now

MEMJr: Well, I think my crowd here is leaning/towards the one percent and 1/4.

E: Just a minute, do you want me to find out just how everybody feels here?

MEMJr: Yeah, please.

E: Just a minute.

(Brief pause.)

MEMJr: Hello.

E: Everybody feels that way -- Szymozak indicated that he'd just as soon see the extra six months -- the one and 1/8th. He thought possibly he preferred that. All the rest are in favor of the one. John McKee feels that this would be a good time to get a little new money. I don't think anybody else feels that way.

EMJr: Well, Ronald Ransom told you what we're thinking about doing on the R.F.C. the end of the week.

E: Yes, that's right; on Thursday. You think in lieu of the R.F.C. financing Thursday that it would be inadvisable to increase the note issue at this time.

EMJr: Yes, because it's -- it wouldn't.....

E: Well I feel that way about it. I -- I feel.....

EMJr: Yes.

E:personally that it would be a mistake to get -- to get any new money but -- but John McKee and Matt Szymczak both think that some new money -- this would be a good time to get some new money and.....

EMJr: Well.....

E:test the market out. I don't think it would be a test of the market.

EMJr: Well, we could test the market with the R.F.C.

E: Yes.

EMJr: You see, the R.F.C. owes us a little over two hundred and fifty million dollars.

E: And you're going to have to do that anyway soon, aren't you?

EMJr: Yeah.

E: Well, we -- you've got our view we -- we.....

EMJr: Well, if you don't hear from me again by twelve o'clock you can put it down on your docket that it will be one percent.

E: That's the view of the Board here. Of course, George Harrison isn't down here and.....

EMJr: I talked to George; he likes the one percent.

E: He likes the one?

EMJr: Yeah.

E: And what does he think about new money?
HMJr: Well, he -- well, I don't want to talk for him; I don't know.
E: Oh, you didn't -- you didn't put that up to him?
HMJr: I don't think so. I -- I wouldn't want to say.
E: Yes.
HMJr: I may -- I think I told him we were considering R.F.C.
E: Yes, and did he express himself on that?
HMJr: No.
E: He didn't?
HMJr: No expression.
E: Yes. Well all right then, Henry. Thank you.
HMJr: Yeah. Thank you.
E: Goodbye.

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H.M.Jr: Who isn't happy if we make it one percent?

Hanes: It is all right.

H.M.Jr: I think it is all right. Are you happy about it?

Hanes: Yes, I think it is all right.

H.M.Jr: All right?

Hanes: O. K.

H.M.Jr: George?

Fans: Yes, I think so.

Hadley: It is all right.

Bell: Yes.

Hanes: Danny, you like that a little better, don't you? That seemed a little rich to you before.

Bell: I like it a little better because it is under the rights. It is a little more of the rights, I think, than we indicated. It is about six, isn't it?

Hadley: It is anywhere from five to eight.

Bell: But that isn't hitting what you call the right values too much.

H.M.Jr: The thing that sort of nailed it for me, your saying it and Harrison confirming it, the underpinning on the March, '44, is better than it is on the....

Hadley: It is in the tested area.

H.M.Jr: That is what Hanes, I think, had in mind when he asked how long had they been at that price.

Hanes: That is right, exactly.

H.M.Jr: Do you concur that the underpinning is better on this?

Murphy: We haven't these direct sources of information, but I believe so.

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- Haas: You can explain the underpinning anyway. That price - on this other one, you have to use a projection.
- H.M.Jr: That is still true.
- Bell: Your June, '44's, are selling at a discount.
- Hadley: They are at three-quarter percent now. It hasn't quite reached par yet.
- H.M.Jr: But you are not doing any projecting on your estimates.
- Hadley: No, you always have to project on a five-year note because it is adding on to the list.
- H.M.Jr: Well, you can call me up in fifteen minutes and somebody can say, "Sell 7/8ths."

TREASURY DEPARTMENT

WASHINGTON

October 23, 1939

TO THE SECRETARY:

Governor Harrison just called me and gave me their estimates of what the proposed 1-1/8% September, 1944, note would sell for in the market. His prices agreed with Hadley's. He said he thought it was too rich and that a 1% was entirely too thin. He is not in favor of a premium on the 1-1/8% but feels that a 1% March, 1944, would be just about right for this market.

They are not opposed to your issuing the 1-1/8% September, 1944, note, but want you to know that the New York Bank feels it is entirely too rich.

SWB



THE SECRETARY OF THE TREASURY
WASHINGTON

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October 23, 1939.

MEMORANDUM FOR THE PRESIDENT:

Consideration has been given to the memorandums of Mr. Currie and Admiral Spear, which accompanied your note of October 13, regarding the award recently made by the Navy Department to the Metal and Ore Corporation for tungsten ore.

As suggested in Admiral Spear's memorandum, the competing bid of the Wah Chang Trading Company must be adjusted, for purposes of comparison, by the addition of duty. After this adjustment the bids were:

From the Metal and Ore Corporation, for ore of domestic origin, \$25 per unit.

From the Wah Chang Trading Corporation, for ore of foreign origin, \$23.68 per unit.

The award to the Metal and Ore Corporation, for domestic ore, notwithstanding the lower bid from the Wah Chang Company on foreign ore, appears to have been regular and proper in the light of the provisions of the so-called "Buy-American" Act.

The Metal and Ore Corporation is a substantial firm of good standing and reputation. It is understood to be the exclusive sales agent for the Nevada-Massachusetts Company referred to in Mr. Currie's memorandum, but there is no evidence of any improper connection.

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BNW/mrc

TREASURY DEPARTMENT

Washington

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FOR IMMEDIATE RELEASE,
Monday, October 23, 1939.

Press Service
No. 19-15

Secretary of the Treasury Morgenthau announced today the offering through the Federal Reserve banks, of 1 percent Treasury Notes of Series B-1944, in exchange for 1-3/8 percent Treasury Notes of Series B-1939, maturing December 15, 1939. Exchanges will be made par for par, and accrued interest on the notes exchanged will be paid to November 1, 1939. The offering of the new notes will be limited to the amount of maturing notes tendered and accepted in exchange therefor. Cash subscriptions will not be received.

The Treasury Notes of Series B-1944, now offered only in exchange for Treasury notes maturing December 15, 1939, will be dated November 1, 1939, and will bear interest from that date at the rate of 1 percent per annum payable March 15 and September 15. The notes will mature March 15, 1944, and will not be subject to call for redemption before that date. They will be issued only in bearer form with coupons attached, in the denominations of \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000. The first coupon will be for the fractional period from November 1, 1939, to March 15, 1940, and subsequent coupons will each cover one-half year's interest.

The Treasury notes will be accorded the same exemptions from taxation as are accorded other issues of Treasury notes now outstanding. These provisions are specifically set forth in the official circular released today.

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Subscriptions will be received at the Federal Reserve banks and branches, and at the Treasury Department, Washington, and should be accompanied by a like face amount of 1-3/8 percent Treasury Notes of Series B-1939, maturing December 15, 1939, with final coupon due December 15 attached. The notes will be accepted at par, and accrued interest on such notes from June 15 to November 1, 1939, (about \$5.22 per 1,000 face amount) will be paid following their acceptance.

The right is reserved to close the books as to any or all subscriptions at any time without notice, and, subject to the reservations set forth in the official circular, all subscriptions will be allotted in full.

Treasury Notes of Series B-1939, maturing December 15, 1939, are now outstanding in the amount of 526,232,500. The present offering will be the only opportunity afforded the holders of these maturing notes to exchange them for other interest-bearing obligations of the United States. Any maturing notes not so exchanged at this time will be paid in cash when they mature.

The text of the official circular follows:

UNITED STATES OF AMERICA

1 PERCENT TREASURY NOTES OF SERIES B-1944

Dated and bearing interest from November 1, 1939

Due March 15, 1944

Interest payable March 15 and September 15

1939
Department Circular No. 623

Public Debt Service

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, October 24, 1939.

I. OFFERING OF NOTES

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, approved September 24, 1917, as amended, invites subscriptions, at par, from the people of the United States for 1 percent notes of the United States, designated Treasury Notes of Series B-1944, in payment of which only Treasury Notes of Series B-1939, maturing December 15, 1939, may be tendered. The amount of the offering under this circular will be limited to the amount of Treasury Notes of Series B-1939 tendered and accepted.

II. DESCRIPTION OF NOTES

1. The notes will be dated November 1, 1939, and will bear interest from that date at the rate of 1 percent per annum, payable on a semiannual basis on March 15 and September 15 in each year until the principal amount becomes payable. They will mature March 15, 1944, and will not be subject to call for redemption prior to maturity.

2. The notes shall be exempt, both as to principal and interest, from all taxation (except estate or inheritance taxes, or gift taxes) now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority.

3. The notes will be accepted at par during such time and under such rules and regulations as shall be prescribed or approved by the Secretary of the Treasury in payment of income and profits taxes payable at the maturity of the notes,

4. The notes will be acceptable to secure deposits of public moneys, but will not bear the circulation privilege.

5. Bearer notes with interest coupons attached will be issued in denominations of \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000. The notes will not be issued in registered form.

6. The notes will be subject to the general regulations of the Treasury Department, now or hereafter prescribed, governing United States notes.

III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve banks and branches and at the Treasury Department, Washington. 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 allotted hereunder must be made or completed on or before November 1, 1939, or on later allotment, and may be made only in Treasury Notes of Series B-1939, maturing December 15, 1939, which will be accepted at par, and should accompany the subscription. Coupons dated December 15, 1939, must be attached to the notes when surrendered, and accrued interest from June 15, 1939, to November 1, 1939, (\$5.221995 per \$1,000) will be paid following acceptance of the notes.

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, 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.

TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE,
Tuesday, October 24, 1939.

Press Service
No. 19-17

Secretary of the Treasury Morgenthau announced today that the subscription books for the current offering of 1 percent Treasury Notes of Series B-1944 will close at the close of business Wednesday, October 25, 1939. This offering is open only to the holders of Treasury Notes of Series B-1939, maturing December 15, 1939.

Subscriptions addressed to a Federal Reserve bank or branch or to the Treasury Department and placed in the mail before 12 o'clock midnight, Wednesday, October 25, will be considered as having been entered before the close of the subscription books.

Announcement of the amount of subscriptions and their division among the several Federal Reserve districts will be made later.

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TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Monday, October 30, 1939.
 10/28/39.

Press Service
 No. 19-19

Secretary of the Treasury Morgenthau today announced that reports from the Federal Reserve banks indicate that \$515,210,900 of Treasury Notes of Series B-1939, maturing December 15, 1939, have been exchanged for 1 percent Treasury Notes of Series B-1944.

Subscriptions and allotments were divided among the several Federal Reserve districts and the Treasury as follows:

<u>Federal Reserve District</u>	<u>Total Subscriptions Received and Allotted</u>
Boston	\$ 10,532,500
New York	353,709,300
Philadelphia	6,759,300
Cleveland	11,661,700
Richmond	10,669,800
Atlanta	4,693,900
Chicago	74,933,600
St. Louis	11,452,200
Minneapolis	5,137,000
Kansas City	2,390,300
Dallas	3,628,300
San Francisco	18,718,000
Treasury	<u>925,000</u>
Total	\$515,210,900

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THE WHITE HOUSE
WASHINGTON

CONFIDENTIAL

October 13, 1939.

MEMORANDUM FOR
THE SECRETARY OF THE TREASURY

Will you speak to me
about this?

F. D. R.

THE WHITE HOUSE
WASHINGTON

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October 5, 1939.

MEMORANDUM FOR CAPTAIN CALLAGHAN:

Dear Dan:

The President asked if you
would look this up for him and report
on it Monday morning.

Sincerely,



E.M.W.

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THE WHITE HOUSE
WASHINGTON

October 5, 1939.

MEMORANDUM FOR THE PRESIDENT:

Re: Navy purchases of tungsten

I have been informed that on Bureau of Accounts and Supplies Bid Schedule 7066, opened September 14, an award was made to the Metal and Ore Corporation of \$438,000 for tungsten, at \$25 per unit. At the same time a bid of the Wah Chang Trading Company of \$15.75 per unit in bond was rejected. In other words, it appears that in a case of acquiring strategic materials, purchase was made of stocks already in the country at a considerably higher price than would have had to be paid for imported tungsten.

I am also informed that the Metal and Ore Corporation is tied up in some way with the Nevada-Massachusetts Company (who owned the tungsten).

I understand further that there will be a full story on this in the October issue of the Engineering and Mining Journal, implying some connection between the Nevada-Massachusetts Company and Representative Scrugham, Chairman of the House Sub-Committee on Navy Appropriations.

Lauchlin Currie
Lauchlin Currie

NAVY DEPARTMENT
BUREAU OF SUPPLIES AND ACCOUNTS
WASHINGTON, D. C.

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7 October 1939

MEMORANDUM FOR CAPTAIN CALLAGHAN

1. Contract NOs-68968 was made with the Metal and Ore Corporation on 25 September 1939 on their bid on Schedule 7066, opened September 14th, for 17,520 units (about 245 tons) of tungsten ore at \$25.00 per unit of 20 pounds contained W03, having an aggregate value of \$438,000.00.

2. The only other bid received in response to this advertisement was one made by Wah Chang Trading Corporation, which bid was limited to approximately 200 tons of imported tungsten ore at a price of \$15.75 per W03 unit, duty free, with the duty for the account of the buyer. The import duty would equal \$7.93 per W03 unit, which would result in a delivered price of \$23.68 per unit on imported ore against the price of \$25.00 per unit for domestic ore.

3. This purchase is being made from the fund of \$500,000.00 made available by the Naval Appropriation Act for 1940, "for the procurement and transportation of strategic and critical materials."

4. The policy of the Congress in appropriating funds for the procurement of strategic and critical materials started with the appropriation of \$3,500,000.00 in the Naval Appropriation Act for the fiscal year 1938. The sum of \$500,000.00 was appropriated in the Naval Appropriation Act for the fiscal year 1939, and a like sum in the Naval Appropriation Act for the fiscal year 1940.

5. The appropriation acts are silent as to the source or origin of the strategic and critical materials which may be procured with the moneys appropriated for this purpose, notwithstanding the free discussion of this phase of the matter in the Committee hearings on the proposed appropriation.

6. The report of the Naval Subcommittee of the Committee on Appropriations indicates that it was the purpose of the appropriation originally proposed in the Naval Appropriation Act for 1938 to encourage private enterprise in the development and operation of domestic sources of supply for strategic and critical war materials. The bill in the House of Representatives provided \$5,000,000.00 to be available for the "purchase of a reserve supply of prepared and processed strategic materials of domestic production." The Senate eliminated

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this item entirely. Subsequently, after a conference, the appropriation bill for 1938 included "for the procurement and transportation of strategic and critical material, \$3,500,000.00 to remain available until expended." The bill as finally passed, therefore, imposed no restriction on the origin of the material procurable under that appropriation and, consequently, it became necessary to look to other laws in the consideration of bids on foreign material in competition with domestic materials.

7. That the appropriation was viewed by many as a means of encouraging the development of domestic sources of supply is evidenced by the many comments on this phase of the matter when certain bids were under consideration by the Navy Department. Excerpts from a number of the communications received on this subject are quoted, as follows:

Senator Patrick McCarran:

"The Navy Department Appropriation bill of 1938 carries an item of \$3,500,000 for the purchase of strategic and critical minerals. As a member of the Appropriations Committee of the Senate I most emphatically protest the purchase of ferromanganese purchased from foreign ores. It is the intent of Congress that this money should be devoted to the purchase of the domestic product and to the encouragement of the American industry.

"The testimony and proceedings held before the Appropriations Committee of the House of Representatives and the whole spirit of the Congress in making the appropriation is to encourage domestic industry."

Senator James E. Murray:

"I am very much interested in this matter and will appreciate it very much if you will furnish me with full information as to what your policy will be when you make these new purchases. I believe it is quite important to use the American produced manganese and I sincerely hope that you will give this matter your very careful attention."

Senator Tasker L. Oddie:

"Will you kindly send me data on the policy of the Navy in the purchase of the strategic metals and minerals mined in this country, together with prices the Navy pays for these metals and minerals.

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"I am under the impression that some legislation has recently been passed providing for the encouragement of mining these products in our country."

Senator Carl Hayden:

"I am enclosing herewith a letter I have received from Mr. J. Carson Adkerson, President of the American Manganese Producers Association, National Press Building, Washington, D. C., together with a copy of a communication addressed to you on March 12 by that organization protesting against purchase for stockpile purposes of any ferromanganese manufactured from foreign manganese ores.

"I shall appreciate your giving careful attention to the statements made by Mr. Adkerson and advising me fully with respect to the proposal of the Navy Department in this instance."

Representative Abe Murdock:

"I have been a member of Congress for a period of five years. During that time, representatives interested in developing the mining resources of the United States were successful in having \$3,500,000 appropriated for the purchase of strategic and critical minerals. Everything in connection with this item indicates that the intention of Congress was to buy these strategic metals wherever possible in the United States, and, by so purchasing, to develop the deposits of these metals within our own country.

* * * * *

"I am writing this letter for the specific purpose of respectfully requesting that you, as Secretary of the Navy, see that the intention of Congress in this particular matter is carried out in good faith."

Representative James F. O'Connor:

"I am writing to state that there are several manganese mines which are being operated in my State, and I therefore believe that purchases of manganese for stockpile purposes should be made from the domestic supply exclusively if it is possible to do so."

Representative Francis Case:

"I am thoroughly in favor of our adopting defensive measures with respect to manganese, but may I suggest that

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our best defense on manganese is to encourage domestic production.

* * * * *

"When the bids are restricted to ferro-manganese, it means using foreign produced manganese, which does not do a thing in developing our natural resources, except to retard them."

Representative Compton I. White:

"I have been furnished with copy of the statement addressed to you under date of March 12 by Mr. J. Carson Adkerson, President of the American Manganese Producers Association, protesting against the purchase of ferro-manganese manufactured from foreign ores. I am in thorough accord with the statements made by President Adkerson and desire to support the protest of President Adkerson."

Representative M. C. Tarver:

"It is inconceivable that monies provided by Congress for the purchase of strategic materials 'exclusively of American production' should be used for the purchase of foreign ores or of ferromanganese manufactured therefrom."

Representative Martin F. Smith:

"I am advised that funds have been provided, and that additional funds will be provided, to enable you to acquire an emergency reserve of strategic and critical materials, the intention of Congress being to make it possible for you to search out and develop materials of domestic production with a view to becoming independent of foreign sources of supply."

8. The purchase of strategic and critical materials of domestic production was emphasized again in the hearings on the Naval Appropriation Bill for 1939. Extracts from these hearings are quoted, as follows:

"Mr. Scrugham. Admiral, on page 8-5 of the justification, headed 'Strategic and Critical Materials, Navy,' it reads:

This item is for the procurement of strategic and critical materials not produced in the United States.

"I am certain that is entirely in error. The object of Congress was that there might be materials not largely

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produced in the United States but as far as practicable it was distinctly intended we should buy American, it was distinctly intended that the 'Buy American' Act should apply, and the objective was to encourage the production of such materials in this country. Is that understood by the Navy officials.?

"Admiral Conard. Yes. That statement as it appears here has appeared in other parts of the report, and I have personally corrected it. I simply overlooked its appearance here in that form. It should be 'materials procurable in the United States if available.'

* * * * *

"Mr. Scrugham. My only object in pursuing this line of inquiry is to emphasize the desirability of paying special attention to the possibility of the development of local supplies, and by that I mean supplies produced in this country, and I think, just or not, there is a feeling among local producers that the specifications were not so drawn. I have a number of letters - 8 or 10 - complaining, from persons who have written or have come in person to see me, that the specifications as originally put out, especially for manganese ore, were of such a character that they would preclude, no matter whoever they may be or what they may be, that it would preclude them from bidding under the specifications, and my understanding is that your answer is that the specifications are now being recast. Is that correct?

"Admiral Conard. That is correct.

"Mr. Scrugham. And that these redrawn specifications are designed to be more liberal in their construction so as to permit a supply of suitable ore by domestic producers. In my understanding correct?

"Admiral Conard. It is to produce suitable ore, and leaves the domestic producer in the position of stating his ability to furnish that ore or not, as the case may be.

"Mr. Scrugham. Well, that is entirely satisfactory."

9. Notwithstanding the views so freely expressed that these appropriations were intended to encourage private enterprise in the development and operation of domestic sources of supply for strategic and critical war materials, the acts appropriating the funds left to other legislation the control of this phase in the procurement of these materials. It seems fair to assume that the funds were appropriated for the primary purpose of the accumulation of a stock pile

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of strategic and critical materials. This purpose was well expressed by Representative Scrugham in the hearings before the Subcommittee of the Committee on Naval Appropriations in the 75th Congress, as follows:

Mr. Scrugham. "Captain, the outstanding feature of the report of your Board, if I understand its phraseology, is that certain classes of strategic raw material should properly be accumulated and stored against the time of military need."

10. The controlling legislation in the procurement of foreign materials in competition with domestic materials is that contained in Title III, Section 2 of the Buy-American Act, approved 3 March 1933 (Public No. 428, 47 Stat. 1520), reading as follows:

"Notwithstanding any other provision of law, and unless the head of the department or independent establishment concerned shall determine it to be inconsistent with the public interest, or the cost to be unreasonable, only such unmanufactured articles, materials, and supplies as have been mined or produced in the United States, and only such manufactured articles, materials, and supplies as have been manufactured in the United States substantially all from articles, materials, or supplies mined, produced, or manufactured, as the case may be, in the United States, shall be acquired for public use. This section shall not apply with respect to articles, materials, or supplies for use outside the United States, or if articles, materials, or supplies of the class or kind to be used or the articles, materials, or supplies from which they are manufactured are not mined, produced, or manufactured, as the case may be, in the United States in sufficient and reasonably available commercial quantities and of a satisfactory quality."

11. Acting under the authority of the Executive Order authorizing the Procurement Division to promulgate procurement regulations, the Director of Procurement set a price differential of 25 per cent as a reasonable differential in determining the reasonableness of the price of domestic products.

12. The price differential between the bid of Wah Chang Trading Corporation on foreign ore at \$23.68, delivered including the duty, and the bid of the Metal and Ore Corporation on domestic ore at \$25.00 delivered, is much under the allowable 25 per cent. Following the general rule laid down by the Procurement Division, the award of Schedule 7066 was made to the Metal and Ore Corporation on their bid of \$25.00 per unit delivered, which price, when compared with the bid of Wah Chang Trading Corporation, is not considered unreasonable.

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13. The Metal and Ore Corporation offers tungsten ore from the following sources:

Nevada-Massachusetts Company, Mill City, Nevada
Rare Metals Corporation, Lovelock, Nevada
Molybdenum Corporation of America, Yucca, Arizona

There is no information of record to indicate that the Metal and Ore Corporation is connected in any way, financially, or otherwise, with the Nevada-Massachusetts Company. The records indicate that the Metal and Ores Corporation is a New York corporation engaged in the business of exporting and importing metals and ores.

RAY SEARBY





TREASURY DEPARTMENT

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PROCUREMENT DIVISION

OFFICE OF THE DIRECTOR

WASHINGTON

October 23, 1939

MEMORANDUM FOR THE SECRETARY

On September 20th proposals were issued for the purchase of 100 to 425 short tons of tungsten ore in increments of 25 tons. These proposals were opened on October 20th, and the following bids were received. The prices cover the cost of units of contained tungsten.

DOMESTIC

Metal and Ore Corporation	425 tons	\$25.00 per unit
Wah Chang Trading Corp.	150 tons (approx.)	24.50 " "

FOREIGN

Pan American Tungsten Corp.	175 tons	18.00 " "
Wah Chang Trading Corp.	425 tons (approx.)	15.82 " "

The above bids are at present under consideration, and no awards will be made until qualifications in specifications of some of the bidders have been discussed with representatives of the Bureau of Mines and the Army and Navy Munitions Board.


Director of Procurement

October 23, 1939

MEMORANDUM FOR THE SECRETARY

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The above bids are at present under consideration, and no awards will be made until qualifications in specifications of some of the bidders have been discussed with representatives of the Bureau of Mines and the Army and Navy Munitions Board.

Director of Procurement

HEC:gm



OFFICE OF THE DIRECTOR

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TREASURY DEPARTMENT
PROCUREMENT DIVISION
WASHINGTON

October 25, 1959

MEMORANDUM FOR THE SECRETARY

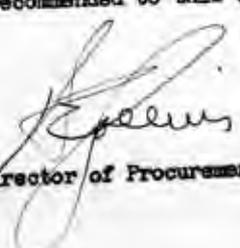
On September 19th a proposal was issued for manganese ore in quantities ranging from 5,000 to 110,000 long tons of three grades of ore for delivery at Baltimore. This proposal was opened on October 19th, and the following bids were received:

<u>BIDDER</u>	<u>DESTINATION</u>	<u>QUANTITY</u>	<u>PRICE PER UNIT</u>
L. J. Buck, Inc.	Baltimore	40,000 LT	\$.49
Cuban American Manganese Corp.	Baltimore	25,000 LT	.612
H. S. Davis Company	Baltimore	25,000 to 80,000 LT	.435
Debevoise-Anderson Co., Inc	Baltimore	3,000 LT	.50
Derivatives, Inc.	Baltimore	3,400 LT	.598
William H. Mueller & Company	Baltimore	5,000 to 10,000 LT	.5098
Oliver and Company, Inc.	Baltimore	10,000 LT	.70
Oliver and Company, Inc.	Baltimore	15,000 LT	.78

The bids of Oliver and Company, Inc., are on domestic ore. All other bids indicated above are on foreign ore.

It is expected that a recommendation will be made for the award of 10,000 long tons under the bid of Oliver and Company, Inc.

The unit prices indicated above on foreign ores do not include duty, war risk insurance or freight. On the basis that imported ores will be bonded and that duty will not be paid until such time as issues are made, it is indicated that the H. S. Davis Company is the low bidder and award will probably be recommended to this company for 80,000 long tons.


Director of Procurement

October 25, 1939

MEMORANDUM FOR THE SECRETARY

On September 19th a proposal was issued for manganese ore in quantities ranging from 5,000 to 110,000 long tons of three grades of ore for delivery at Baltimore. This proposal was opened on October 18th, and the following bids were received:

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L. J. Buck, Inc.	Baltimore	40,000 LT	.49
Cuban American Manganese Corp.	Baltimore	25,000 LT	.612
H. S. Davis Company	Baltimore	25,000 to 30,000 LT	.455
Debevoise-Anderson Co., Inc	Baltimore	3,000 LT	.50
Derivatives, Inc.	Baltimore	3,400 LT	.596
William H. Mueller & Company	Baltimore	5,000 to 10,000 LT	.5098
Oliver and Company, Inc.	Baltimore	10,000 LT	.70
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Director of Procurement