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RE REGULATION OF  
GOVERNMENT EXPENDITURES

October 24, 1939.  
11:00 a.m.

Present: Mr. Currie  
Mr. Collins  
Mr. Smith  
Mr. McReynolds  
Mr. Frank  
Mr. Hanes  
Mr. Bell

Currie: Dannie has prepared the allotments by agencies, by months, for the remainder of the fiscal year. Then I picked up from the Division of Research at the Federal Reserve Board their estimates, which were prepared in my section when I was there, of the actual cash expenditures, by months, for the rest of the fiscal year and there is always a margin of error on these estimates, but they have been working out pretty well so far.

H.M.Jr: Did you see the play, "The Margin of Error"?

Currie: No.

Well, for what they are worth, it looks as though the average monthly expenditures of the second quarter of this fiscal year would be 800 million and for the third quarter of this fiscal year 830 million.

H.M.Jr: That is inclusive of salaries?

Currie: Yes, that is inclusive of everything, Government and all its agencies. That even includes U.S.H.A. That is the most important theory hinging on business activities. So, we will have some little step-up in the third quarter over the second quarter, but not very much. The margin of error will take care of that.

Now, the possibilities, in the course of our discussion in two meetings that seemed to develop of concentrating more expenditures in the third quarter relative to the second and fourth quarters, are as follows: You may change the schedule of payments under the WPA program, somewhat.

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You might change the schedule of contemplated payments under the Soil Conservation and Agriculture parity payment program, concentrate more of those in the third quarter than in the second or fourth.

There is some possibility, we think, of permitting the Government's inventories of supplies and materials to decline up to the end of this calendar year and replenish it in the third quarter, and perhaps borrow some for your requirements in the third quarter. Those inventories are mainly in the Army and Navy. The Army, as of a recent date, has about 27 million dollars left.

H.M.Jr: Left?

Currie: Of supplies and materials on hand.

Bell: Is that all?

Collins: That is all they reported.

Currie: The Navy had, as of June 30th, about 71 million. Captain Collins got those figures and he can tell us a little bit more of the breakdown.

(Mr. Hanes enters the conference)

H.M.Jr: Johnny, aren't you sitting in on this?

Hanes: You didn't tell me about it.

H.M.Jr: I thought I did.

Currie: Those are three possibilities I have mentioned so far.

Now, a fourth possibility which needs to be looked into is the possibility of taking delivery on longer term contracts, particularly for the Navy program, in advance of the normal time of delivery and storing goods, armor plate and things like that, for battleships. If we run into a slack season of steel making, I think it may be possible to take delivery on some of those things in the winter and spring rather than waiting until the end of next year,

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and of course when it comes to that part of the Navy, Maritime Commission's programs which were carried in private yards, I am not sure how that would be done. You may have to have legislative authority to reimburse them for the carrying costs of generators and armor plate, and things like that, in advance of their actual need.

The fifth suggestion was the old familiar one of expediting RFC loans for railway equipment, machine shop equipment and utility equipment.

- Frank: You mean that would be done....
- Currie: If we did it in the next two months, you would get the benefit of it for the winter.
- H.M.Jr: Is that going to be done before Mr. Roosevelt leaves town?
- Currie: Now, I think Captain Collins has some additional information on the possibility of anticipating requirements of the Navy program and also on the breakdown of the inventory of the Navy and the Army.
- Collins: For the time being, a very disturbing element, Mr. Secretary, was what I was able to get this morning in an hour's conference. I talked about the possibility of stepping up deliveries of steel, particularly, in connection with the construction program in the Navy yards. I was told that there was no information available here as to how much additional storage of steel could be taken at the yards. He said, however, he would be very happy to make a survey in each of the yards to see just how much more steel might be taken in the event of the desire to have deliveries pushed up during the third quarter. I was not able to get Admiral Robinson, Chief of Engineers, concerning the requisitions of the Bureau of Engineers or Admiral Land of the Maritime Commission, both of which were out until noon.
- H.M.Jr: Currie, have you been able to boil this thing down so we can say to the President, "You can either slow up the spending now or accelerate it," I mean in terms of dollars, how much he can control?

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- Currie: I don't think we have the information, Mr. Secretary. Would you say so, Danny?
- Bell: Not in dollars and cents.
- H.M.Jr: That is what we ought to have before we talk to him.
- Frank: All you can say is that there is something.
- Currie: These things will have to be checked back with the individual agencies and they will have to vote on what they can do. I don't think we have the information now to say what they can do, how much they can let their inventories run down, for instance.
- H.M.Jr: But there are people in the room here who can get that information, aren't there?
- Smith: I am wondering, Mr. Secretary, if about all we can do at this time is to indicate possible approaches to this problem, this coming quarter, and then study it a little more in detail. I haven't had very much time to go into it myself and I foresee some obstacles. In other words, I am not quite so optimistic about doing a great deal with it. It seems to be that way at first thought. We have got some new elements coming into the Army and Navy program that may load pretty well into the third quarter anyway. It is very difficult to break down that program. I had a couple of conferences on the question yesterday. It is difficult to see just where the major expenditures will fall. I am confident that they can't be gotten under way until at least the third quarter, and they may fall later. To translate that in terms of dollars and cents at this time is practically impossible.
- H.M.Jr: Well, I don't know whether we are talking about ten million dollars or five million dollars or a hundred million dollars.
- Currie: Oh, I think if you went through all these suggestions you could get two or three hundred million more for the third quarter than we are now contemplating. I think the President would like very well to take up this WPA. There are a lot of angles to that. Of course, Mr. Carmody and Colonel Harrington have canvassed that situation. We might take up the Soil

Conservation with Mr. Wallace and the agricultural parity payments. On the Army and Navy, I think you would have to have a special study as to the possibility of letting their inventory run down now and anticipating their requirements in the winter. We would have to report back again as a special study on that. I don't think we have the facilities of doing that.

- Smith: I don't think it is possible, even at this moment, to get it if we had the facilities. There are too many "ifs" and "ands."
- Bell: The President has given instructions to speed up the Army and Navy program. They have now got that thing accelerated and I think he is going to think a couple of times before he gives instructions to slow up in the next two months. I don't believe there is time for any agency outside of the particular ones that are concerned to go in and study that problem, but he would have to give instructions, I think, to each of the departments to slow up in the next two months and then accelerate it in January, February and March.
- Frank: Dan, would that be possible with WPA and Soil Conservation?
- Bell: WPA, of course, has a schedule of salary payments, payroll payments. I don't think that would be possible. But in their purchase of supplies, it might be. They keep quite a large volume of supplies and equipment on hand, don't they, Harry?
- Collins: Plenty large, yes.
- Bell: They might let their inventory run way down and then put their orders in the latter part of December and that would offer a stimulus in January.
- Currie: About 20 million dollars, I think, they have on hand in supplies, WPA.
- Collins: That is mostly surplus, where that is on hand, because most of their purchases are bought directly for some specific project.
- Bell: They must have at least a hundred million dollars in the mill all the time, Harry, wouldn't you say?

- Collins: They are averaging now about 19 million a month.
- Bell: Soil Conservation, I think, it is just a question of delaying payments and the type of payments that would be immediately spent by the farmers. It may be that you would get more kicks from the farmers than it would do you good to delay them.
- H.M.Jr: Couldn't you (Currie) keep this up and go a little bit further and try and get it down so we know a little bit more about it? I don't think we ought to let it drop. I think it is the sort of thing that we ought to keep current for the President anyway.
- Frank: I don't see why you couldn't have a continuing function of this.
- Currie: I would like, Mr. Secretary, to suggest that we get a report on this from WPA and from Agriculture and from the Army and Navy and let's examine that and see what they say they can do.
- H.M.Jr: Why don't you do that? I mean, if we haven't got it all today, I think we are on the right track for him. He has got the throttle and he could have 500 million dollars of Government buying that he could slow up or accelerate. With 500 million dollars he could throw either way, it might head off a slump or take care of a situation where you are getting too much in the steel mills or too much in the cotton mills or too much in some other mills. I mean, he is up on that thing. I think he ought to have that. I think he ought to have that so they can do it. I would like to see you fellows push a little further and then let's meet again in a week or so. We have got enough White House authority here to draw up the orders and letters for the President to sign.
- Smith: Mr. Secretary, I am wondering if a little more immediate action isn't needed. I think this is something that we can continue to study. Of course, it is difficult to really nail down, but it seems to me that if Mr. Currie, who has been assigned this job, could say to the President, "Here are four or five things that might be done," then the President could give orders, whatever the amounts are, to the

responsible heads of those departments and agencies, to dig into it and slow up their purchases more or less immediately. It seems to me that will have more effect than any further study to determine just how many millions of dollars are involved. My reason for suggesting that is this, that I know that there are conflicting currents in this situation at the moment that by the President asking that these things - calling them to the attention immediately of the heads of the departments will stop, perhaps, some of the conflicting currents. You get my point there?

H.M.Jr: I think so, but if McReynolds, Currie and you, who are with the President, can fix this thing up between the three of you, we ought to be able to give him what he wants. I just kind of....

Smith: We will do it the best we can.

H.M.Jr: He has written a memorandum. I think this is worth while. The fact that you haven't had all the pieces of the picture doesn't discourage me. It is a big job. I think if he had had them in different times during the last six or seven years, he could have headed off some of these slumps.

Bell: The big items here, Mr. Secretary, are the Army and Navy.

H.M.Jr: I know it, and they are mostly difficult to crack.

Bell: Under the recent Executive Order, as I understand, there are about 112 or 115 million dollars in extra appropriations this year.

Smith: They have gone to more than that now.

Bell: The informal conferences which they have had with the President, and the informal nods of the head he has given them, that is an increase now to about 375 million in the minds of the War and Navy people, so if that is in the program and has the definite approval of the President, we certainly are going to get some of that in the third quarter.

Smith: They don't have that in the program. That is being pulled down right now, but it will come, I think,

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in the third quarter, much of it. Now, just how much of it, I am unable to say, although as I say, yesterday we had two sessions with Navy people. I don't think they know.

H.M.Jr: Well, Currie, would you, within a week, give me another ring?

Currie: Well, I am wondering if before that, Mr. Secretary, we couldn't - we have gone far enough now to know approximately, with a little bit more work, what the President could ask of individual departments. I think we might push ahead on that rather than take the responsibility of getting all the pros and cons on changing the WPA program now. There are a lot of angles to it. I would like to give them an opportunity to present it and then let us look at it.

H.M.Jr: In other words, you prepare a letter for his signature?

Currie: Yes.

H.M.Jr: O. K. I don't think you can go any further than that unless Jerome, you would like to raise your problem.

Frank: That was in my memorandum. I don't think we will do anything about it here, but I wonder now whether you would care to appoint a committee out of this group or elsewhere to take care of that.

H.M.Jr: Well, it is your memorandum. Currie has been carrying this. Why don't you carry that with anybody that you want to work with?

Frank: Supposing then, I give you the suggestions.

H.M.Jr: All right, will you do that? Currie has been carrying the load on the third quarter and if you carry yours and if you call me....

Frank: I will communicate with you, then.

H.M.Jr: Give me a ring.

October 24, 1939

Secretary Morgenthau, Mr. Hanes and Jerome Frank saw the President at 4:20 today. The President read all of the attached cables and said "Fine!".

MEMORANDUM FOR THE SECRETARY OF THE TREASURY

The following is a paraphrase of a telegram received from the American Ambassador at London:

"Secretary of State,  
Washington.

2026, October 13, 4 p.m.

STRICTLY CONFIDENTIAL FOR THE PRESIDENT, THE  
SECRETARY OF STATE AND THE SECRETARY OF THE TREASURY.

I went down to the Treasury this morning at the request of Sir John Simon as he wanted to talk two things over with me: He wanted to know where in New York the British Government should, in my opinion, place their bank balances. His people in Washington had informed him of their intimation by the Secretary of the Treasury that the Federal Reserve Bank in New York would perhaps be the best repository. I, of course, could not comment as I had not heard of this from the Treasury. I told him I would come back and discuss it if he would let me ponder it for a day.

According to my impression, it would be an error for us to suggest in any way where the balances should be kept. The sole reason for their asking the advice of the Treasury or myself, since the National City Bank, Morgan's and the  
Chase

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Chase are being considered by them, is to be certain that their choice will be politically correct. This appears dangerous ground to me. Secondly, since the concerns just mentioned are reputable to all intents and purposes and are still functioning in the United States, I feel that our Government would err in suggesting that the British Government, since it is after all a customer, do not place its account with a commercial institution. I cannot help myself expressing my view although I imagine this is none of my business. I feel that sometime that there would be some question concerning the responsibility we are assuming in suggesting any action to the British and that it may turn out to be an onus which we will not want to have to bear. Sir John's second query was concerning the disposition of their American securities. I told him I would be glad to look at the question when they knew the securities they had but that I could not offer any suggestion until this information was available. Although I did not tell him, I believe we are greatly interested in how the British dispose of their securities because of the effect on the values and prices of our own. I am confident, however, that they will talk with me about this and we can then consider how we can best protect our own situation.

Sir John

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Sir John told me that he was uncertain about everything during these times but that he was sure that Italy would be on the victorious side, but not until it was certain of the victorious party. Simon added that they believe still that some answer will be forthcoming from Hitler.

KENNEDY"

PARAPHRASE OF A PART OF A TELEGRAM RECEIVED

13

FROM: American Embassy, London.

DATE: October 18, 1939, 7 p.m.

NO.: 2082

Since the Department has not answered Embassy's telegram no. 2026 of the 13th of October, 4 p.m., I do not know how I should reply to further questions. Possibly, of course, steps may have been taken in Washington by the Treasury Department to inform the British Ambassador there.

At any rate, I would like to clarify a few things. A preliminary outline I have seen of the amount of marketable securities acquired by Great Britain from its nationals gives an amount of approximately 200,000,000 pounds; nobody had any idea that the figure would be so low as that. As a listener I have sat in discussions and heard many of their arguments about the impossibility of their sending dollars to the U.S. So extensively and so acutely is this argument being used everywhere I turn that I am convinced it is really an excuse to satisfy cutting down to the lowest possible limit the normal trade which we could reasonably expect to have. ...

KENNEDY

EA:MSG

*Russell*

"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 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.

DEPARTMENT OF STATE

16

ADVISER ON  
INTERNATIONAL ECONOMIC AFFAIRS

October 21, 1939.

To: The Secretary of the Treasury.  
From: Mr. Feis.

Thank you for returning the original cable no. 2082 from London to the Department because of the nature of the code in which this cable was sent.

I am enclosing herewith a paraphrase of the sections of the cable that have to do with the matter under consideration in the Treasury.

RECEIVED

OCT 21 1939

TREASURY DEPARTMENT  
Office of the Secretary  
Technical Assistant to the Secretary

HF:MSG

## PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, London, England

DATE: October 19, 1939, 7 p.m.

NO.: 1250

The following is strictly confidential for Ambassador Kennedy:

Reference is made to your telegram of October 18, 7 p.m., No. 2082.

The question which Sir John Simon raised with you regarding the marketing of American securities by the British Government is still being turned over in our minds.

The following are our first general ideas on the subject:

It is necessary for us to avoid developing with the British Government any relationship which might be construed as unneutral. We must also avoid all risk that any branch of this Government be held responsible for market movement. However, in order to protect our interest, this Government would wish to have full knowledge of what liquidation is taking place or contemplated.

In the circumstances, we believe it should be left to the British Government to decide what procedure and method of sale should be followed. As far as it may be possible, the British Government should, however, give the Treasury and the Securities and Exchange Commission daily reports

in

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in suitable detail, and it should keep us informed of prospective plans.

It would be of some help to us if the British Government would designate one or more persons who could discuss the matter of furnishing appropriate information with us in Washington. END MESSAGE.

HULL  
(S.W.)

RECEIVED

APR 28 1950

U.S. DEPARTMENT OF STATE  
OFFICE OF THE ASSISTANT SECRETARY  
FOR PUBLIC AFFAIRS

EA:LWW

JI

GRAY

London

Dated October 20, 1939

Rec'd 9:15 p.m.

Secretary of State

Washington

2109, October 20, 8 p.m.

STRICTLY CONFIDENTIAL FOR THE PRESIDENT, THE  
SECRETARY OF STATE, AND THE SECRETARY OF THE TREASURY.

I had a long conference this morning at the Treasury with Sir Frederick Phillips, Sir Richard Hopkins and Montagu Norman. They gave me the tentative list of American securities that are readily marketable. They have in addition to this a list of so called "cats and dogs" which they do not regard as important but at any rate about which nothing can be done at the minute. The list totals about \$750,000,000 but Phillips thinks that it is better to deduct about 20% for errors and duplications, so that in the last analysis you will have about \$600,000,000 worth of American readily marketable securities. I have had a copy struck off of the list and am putting it into the pouch addressed to the Secretary of State.

Taken

-2- 2109, October 20, 8 p.m., from London

Taken as a whole, it is an excellent list of securities and rather well divided as lists like this go, but that does not mean that they are readily marketable. Such things as 400,000 shares of New York Central and 1,900,000 shares of International Nickel, as well as smaller amounts of stocks scarcely traded in, are a problem in themselves, but at any rate, I am sending you the list and you can look it over.

The immediate problem that concerns them is this: what they would first like to do is make a loan from the RFC or any other way that is legally possible on this entire group of securities and then proceed to liquidate from this loan as the occasion presents itself. This they say from the point of view of the American market, would probably be the best way out. Of course they do not know how much margin they will have to put up. The other alternative is to get some American representative to take care of their interests and see that these stocks are liquidated to the best advantage for England. In this respect my impression is that they believe their interests would be best protected by dealing through Morgan but they hesitate to make them their agents because of the  
matter

-3- 2109, October 20, 8 p.m., from London

matter discussed in my 2026 October 13, 4 p.m. Norman thought this morning that it might be possible to put their bank accounts with Canadian banks in New York but he admitted that none of them knew enough to handle the liquidation of this size transaction and that they would probably have to call in Morgan or somebody else to advise the Canadian banks how the best interests of the British would be protected. At the same time they are worried about giving their business to Morgan or the Chase or the National City Bank because of adverse criticism that not only might come from the Government but from the people of the United States. If they had not had a suggestion from Washington about the Federal Reserve Bank, they would be proceeding without much worry but they realize that the sale of these securities for the British Government should not properly come under the New York Federal Reserve Bank.

I note in your 1250, October 19, 7 p.m. that the determination of procedure and method of sale should be left to the British Government to decide and I think that is completely the right idea, as I have already said, but they have already been frightened enough so  
that

-4- 2109, October 20, 8 p.m., from London

that they hesitate to do anything they think will  
cause illwill for their country in America.

(END SECTION ONE)

KENNEDY

DDM

MJD

GRAY

LONDON

Dated October 20, 1939.

Rec'd. 2 a. m., 21st.

Secretary of State,  
Washington.

2109, October 20, 8 p. m.

I note that you say the government would wish to have full knowledge of what liquidation is taking place or contemplated in order to protect our interests. To be very frank with you I do not know what that means, because unless you are prepared to make a loan that carries with it as one of the provisos of the agreement that the British will only sell when there is a market ready to receive the securities how can you say anything to the British Government if they feel that they need the money and decide to liquidate their stocks even though the sale of the securities has a very damaging effect on our market?--not that they would do so unless they had to. Either the New York stock exchange is open to do business or its function is finished. If a man has a lot of securities and he has to sell them, he has got to go right out and get the best price he can. If they had to liquidate these securities, unless the market becomes very active, you can take my

word

MJD -2- No. 2109, October 20, 8 p. m. from LONDON

word for it that there would be plenty of trouble.

Now as to the last paragraph in your 1250, October 19, 7 p. m., about furnishing appropriate information. Do not misunderstand me; they will give you anything you want but they first have to have a method or plan of handling the securities and then after that, if they pick an agent, they will of course authorize the agent to furnish you any information you desire.

I would suggest that Under Secretary Hanes look this list over and I am quite sure he will agree with me on the possibilities of trouble in this list.

There is another situation that may cause trouble unless this thing is well organized and that is that Phillips told me this morning that the French are going to have this problem of liquidation of American securities but probably not for two months since they have not required the holdings of their nationals in American securities to be turned over at the minute. Therefore, although Phillips said that they have not talked with the French as to their probable method of procedure, it seemed to me as well as to Phillips that they will probably have to have some agreement of action; otherwise they may be competing with one another in the sale of these American securities to the serious detriment of the American holders.

MJD -3- No. 2109, October 20, 8 p. m. from LONDON

holders. Phillips agreed with this and said that just as soon as they had devised their plans they would talk to the French.

I asked Phillips how soon he would have to have the money that these securities represented. He said according to his best figuring their debit balance with us for the first year of the war would be about five hundred million dollars. I then asked him how much cash balances he thought they had in the United States and he and Norman both put it at top 100 million dollars so that it becomes fairly obvious that even if they keep within their requirements they will need most of this money in the course of the next ten months.

When I asked Phillips this morning as to this figure of 100 million dollars in cash balances in the United States, there seemed to be some hesitation on both his and Norman's part in giving me an answer. When I returned to the office Butterworth looked up the foreign banking funds figures in the latest Federal Reserve bulletin which did not tally at all, so I suggested that he call up Phillips and ask him for an explanation of this item because after all if they had substantially more than 100 million dollars the need for a rapid liquidation of these securities became less important. Hopkins just called back on the telephone and said the figure of 100 million dollars was

the

MJD -4- No. 2109, October 20, 8 p. m. from LONDON

the net sum available to the control. He stated that there were still substantial commitments to liquidate, that our figures would no doubt include necessary working dollar balances of British companies, balances of exempt American residents here and "evasion" cases which they would look into later.

I suggested that Phillips explain their problem to Lothian as quickly as possible so that you may hear from him, but I think that the nature of the inquiry again will be "where do you want us to do business?" It is almost an obsession with the British Treasury officials not to do anything that will upset their aim,

(END SECTION TWO)

KENNEDY

WVC

PARAPHRASE OF SECTION THREE, TELEGRAM NO. 2109 OF  
OCTOBER 20, 1939, FROM LONDON

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or it may be a very subtle way of passing the buck.

In this connection I would appreciate advice on two points:

(1) Whether it is possible or practical for the Government to make a loan on these securities.

(2) That I be advised at once or else the British Ambassador in Washington in case you have anything further to say about their procedure or method of sale.

This is a matter, I believe, which should be closed up as quickly as possible and the procedure decided upon. Then after that we can figure ways and means how the United States will be least affected by it.

Unless you have some further suggestions, I believe that I have done about all that I can do; I think I have the British point of view, and I believe I have gotten over your point of view as far as I know what it is. Please let me know immediately if you can think of anything further I can work on, because the British say they are terribly anxious to bring about a speedy conclusion for this deal. With regard to the longrun outlook for the market in the United States, they are all very bearish. When plans are laid out, this point will have to be given consideration.

END OF MESSAGE.

RECEIVED  
OCT 21 1939

THEATRE MANAGEMENT  
GENERAL OFFICE  
1000 BROADWAY

EA:LWW

*For Secretary's File*

RECEIVED  
OCT 23 1939 28

PARAPHRASE OF TELEGRAM SENT  
TO: American Embassy, London, England  
DATE: October 21, 1939, 3 p.m.  
NO.: 1270  
FROM SECRETARY WORGENTHAU.

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  
1299, October 21, 3 p.m.

EA:LNW

October 24, 1939

Dr. Feis

Mr. Cochran

Will you kindly send the attached strictly confidential cablegram to the American Ambassador at London, with reference to his No. 2109 dated October 20, 1939, 3 p.m.

WJ:ama

October 24, 1939

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Regraded Unclassified

Replying to your first inquiry:

We believe that there is no need to comment further, at this time, in the matter of the authority under existing law of the BEC making a loan to American institutions collateralized by British present holdings of American marketable securities, since from a policy point of view such an arrangement would not appear to have definite advantages over available methods other than borrowing, and probably is not advisable, as such a loan might well produce opposition and criticism here.

Replying to your second inquiry:

We have no objection to Norman's suggested designation of a Canadian bank in New York as liquidating agent. We assume that the designated liquidating agent will find need to call upon many American individuals and institutions for advice from time to time.

Our request that BEC and Treasury be kept fully informed was for the purpose of enabling them to discharge the duty of endeavoring to see that liquidation would not unduly disturb our markets and our economy, in which matter the British Government also has an interest.

We have noted carefully all your statements, and again suggest that we shall be happy to discuss with the liquidating agent designated by the British the <sup>proposed</sup> methods of liquidation and the appropriate information to be furnished to BEC and Treasury.

BB/EHF/JHE/EF Typed 10/24/39

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: October 24, 1939, 6 p.m.

NO.: 2571

FOR THE TREASURY DEPARTMENT.

This morning we visited Professor Charles Rist. Recently most of his time has been devoted to studying blockade problems, and to coordinating activities with the British - reference telegram No. <sup>1872</sup>~~1782~~ of September 9 from the Embassy;-he feels confident that a highly effective blockade will be worked out.

With regard to foodstuffs, Professor Rist said that of course Germany has or can get from her neighbors sufficient wheat, potatoes, and other things, but as for fats and forage, there is a real lack and the blockade can effectively cut off such supplies. Hog raising will be affected by lack of forage; added to the cutting off of supplies of coffee, cocoa and tea, the German morale may well be greatly affected.

In the raw material field, he believes that lack of certain of the rarer metals, as for example molybdenum and cobalt, will be of particular concern to the general staff and to "those in Germany who really count". A most serious problem will be the petroleum situation. Rist said that as early as March of this year the British believed Germany was worried about its reserves of oil. There does not seem to be much prospect, he said, that adequate war-time supplies

- 2 -

supplies either from Russia or from Rumania can be obtained by Germany. However, Rist is of the opinion that there is some exaggeration in the various published figures of the war-time needs of Germany.

Rist believes that by next summer Germany will be faced with a definite shortage of oil, taking into consideration decreasing Rumanian production, inadequate transportation facilities in the Danube, and Rumania's growing reluctance to sell to Germany greater quantities of petroleum in view of the Anglo-Franco-Turkish pact and the proximity of the U.S.S.R. to that area. It is his belief that there are great advantages to the Allies in the afore-mentioned pact with Turkey and in its effect on the Balkans. There is a delicate problem in Italy as a source of German supply and a blockade leakage which it would be difficult to assay. Of course, he said, Germany's consumption of raw materials would be greatly reduced if no offensive is launched by that country this winter. However, when he stopped to think about it, he could not believe that Germany could go through the winter quietly with time against her and not in her favor. He was convinced that the most likely policy for Germany would be an attack on the Western Front. There was, of course, a very considerable risk of a failure of such an offensive for the Nazis to consider, and the effect of such a failure on the morale of their people this winter.

These

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These blockade questions have kept him so busy that he has not had much time to follow economic and financial affairs outside of his own "little compartment"; he had absolutely no figures either on the internal or external commerce of France, as since the war such statistics have been nonexistent. He said that a committee on economic questions had been formed and he was its president, but that frankly not much had been done by it. The need for reviving internal trade and industry, as also exports, was discussed by everyone, but complaints of inaction were heard from every side.

Export of finished products was prevented by delays and difficulties which are faced by importers of raw material, he said. The way the war has gone was completely contrary to what they had anticipated - from the beginning they had mobilized every available man and officer, since they had thought there would be an early attack in the West and that a weak link would be the Mediterranean. The course of the war had been quite different - there still had been no bombings of transport facilities and factories, and it was safe in the Mediterranean. Therefore it would be feasible now to let a number of those called to arms go home, and those industries paralyzed by labor shortage should be aided by demobilizing two classes - reference telegram of October 17 from the Embassy, No. 2499.

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The release of the administrative and executive personnel so necessary would be of even more importance. Unquestionably some progress had been made, he said, and he did not want to be pessimistic, but he felt that before a semblance of normalcy would return it would take at least another two or three months.

Professor Rist has not been following financial questions closely, and when war-time financial measures were mentioned he smilingly shrugged his shoulders, but he did confirm that they had had highly satisfactory subscriptions both to armament bonds and Treasury bills and that for at least a year France had nothing to worry about so far as external purchases were concerned.

The demand for dollar bills has started a black market here. The official rate for dollar bills is 43.70, and on the black market they are bringing from 50 to 53 francs. The National City Bank's Paris representative, with whom we had lunch today, told us that as yet the black market is not active though it will probably become more so as the war continues. His Bank he said is delivering dollar currency to private individuals only for payment for steamship passage to the United States. In such cases they required the furnishing of evidence from the steamship company.

Daladier's office announced today that in accordance  
with

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with the plans of the Finance Minister Reynaud's budget for 1940 would be presented to the Chamber Finance Committee around the middle of November (our telegram No. 2215, September 27, 8 p.m.). Parliament will be convoked for the latter part of the month and will presumably be requested to extend the Government's full powers which are due to expire on November 30.

It is reported in the press that negotiations are under way for a Franco-British new credit to Turkey.

The statement of the National Bank of Belgium for October 19 shows a decrease in gold reserves of 179,000,000 and of foreign exchange of approximately 36,000,000. Commercial advances are up 7,000,000. Note circulation is down 168,000,000 and the Treasury account is down 3,500,000.

Gold coverage is 64.56% as against 64.57% previously.

Ozer reports the arrival in Paris after an Odyssey of several weeks through Rumania, Turkey and Syria of "seventy tons" of Polish gold.

The securities market was subject to profit-taking today but the undertone was firm. Metallurgical and coal mining issues registered advances. Most rente issues were down fractionally. Foreign exchange rates were unchanged.

Our Bank of France contact told us that (omission) is continuing to gain on balance this afternoon.

END OF MESSAGE.

BULLITT.

EA:LWW

RE BRITISH SECURITIES

October 24, 1939.  
10:00 a.m.

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

H.M.Jr: All right, gentlemen, let's have this page, the draft.

(Mr. Hanes hands copy of draft to Secretary)

(Reading) "Replying to query regarding making use of loan from RFC collateralized by British present holdings of American marketable securities, it is possible that some arrangement of this character could be made under existing laws. But such an arrangement would not appear to have definite advantages over available alternative methods other than borrowing, and probably is not advisable. Furthermore, it might well produce opposition and criticism here. We have no objection to suggestion mentioned by Norman. The selected Canadian institution could secure marketing advice in any quarter it wished."

I would say, if you don't mind - I would make those two sentences into one. "We have no objection to the suggestion mentioned by Norman that the selected Canadian institution could secure marketing advice in any quarter it wished."

Foley: I had a revision of that, Mr. Secretary. It says the same thing but changes the emphasis and it takes care of that point.

H.M.Jr: Have you got another draft?

Foley: Yes.

Hanes: Here it is.

H.M.Jr: Is this draft number two?

Hanes: It is the draft the others agreed to and Ed has changed just that one sentence, I think.

- 2 -

Foley: And there is also a change in the first sentence, too. Rather than say what we have already said to them, that as a matter of law RFC has the power to make such a loan, I thought it would be better to knock that down. "I believe there is no need to comment further at this time, in the matter of the authority under existing law of the RFC making a loan collateralized by the British present holdings of American marketable securities, since from a policy point of view such an arrangement would not appear to have definite advantages over available methods other than borrowing, and probably is not advisable."

Hanes: I think that is better.

H.M.Jr: I think it is better.

White: Much less dangerous.

H.M.Jr: In other words, we are letting them know.

Hanes: We don't want....

Foley: We don't want to raise their hopes.

Hanes: What we are saying in both of them is that we don't want to talk about this lending money on securities. That is just out, as far as I can see.

H.M.Jr: Let me just read this again.

I think that is good. Are you satisfied, John?

Hanes: Yes. It just says much clearer and much better what we were trying to say before.

H.M.Jr: Did Norman say just that?

Hanes: Here is the language. I will read it here.

"Norman thought this morning that it might be possible to put their accounts with the Canadian banks in New York, but he admitted that none of them knew enough to handle a liquidation of this size transaction and they would probably have to call in Morgan or somebody else to advise the Canadian banks how the best interests of the British Government would be protected. At the same time, they are worried about giving their business to Morgan or

- 3 -

Chase or the National City Bank because of the adverse criticism that not only might come from the Government but from the people of the United States."

H.M.Jr: Thanks.

"We have no objection to Norman's suggested designation of a Canadian bank in New York. We should appreciate being informed of any American individuals or institutions that the British Government contemplates employing to aid or assist such Canadian banks. Our request that SEC and Treasury be kept fully informed was for the purpose of enabling them to discharge the duty of endeavoring to see that liquidation would not unduly disturb our markets and our economy, in which matter the British Government also has an interest. We have noted carefully all your statements and suggest again that we shall be happy to discuss with the agent in this country, designated by the British, method of liquidation and the furnishing to us of appropriate information."

Foley: Mr. Secretary, Walter Stewart makes the suggestion that after "...a Canadian bank in New York" we insert "as liquidating agent."

H.M.Jr: Yes.

Foley: I think that is a good suggestion.

Hanes: That is right.

H.M.Jr: Well now, just a second. When you say, "Canadian bank in New York," do you mean the Bank of Canada?

Hanes: No, it means the Bank of Montreal or the Royal Bank of Canada or - what we are trying to do is to stay away from suggesting a name. We are just saying we see no objection to Montagu Norman's suggested method of handling it through their own agents here in New York. I think that inference is clear. We are suggesting to them that they do take a Canadian agent. I think it would be the best thing to do.

White: Is it your thought, possibly, what is running through your mind, that it may be desirable to have only a government agency handling a matter of such great importance?

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- H.M.Jr: Well, what I am running through my mind is this, whatever the amount that they have, I think it is sufficiently important that they send somebody over here who would be here and whom we can talk to.
- Hanes: We covered that last night.
- Foley: That is in the last paragraph.
- H.M.Jr: Just a second. I think it is unimportant what bank they choose - I mean whether it is a Canadian bank or whether it is a Stock Exchange House. I think what is important, who is the fellow over here who is going to make the hour-to-hour decisions, because that is what they have to be.
- Hanes: Yes, they undoubtedly will have. They have got plenty of people who are thoroughly capable of doing this stuff. A lot of it will be done by private negotiation, anyway.
- Foley: That is why we broke that up into two sentences. The way it is in the other draft, it says, "We have no objection to suggestion mentioned by Norman. The selected Canadian institution could secure marketing advice in any quarter it wished." I think that that implies an approval of Morgan & Company because of the way this incoming cable is phrased.
- Hanes: No, I don't. I think the reason....
- Foley: That is why I thought it ought to be rephrased.
- Hanes: I don't agree with your (Foley) suggestion there, because what we are trying to do, as I take it, is to avoid any responsibility for suggesting to whom they go for marketing advice or any other kind of advice. I say that we ought to have our skirts clear of any kind of help. We are not suggesting help here, we are just saying we have no objection and from that point on, I don't think we ought to give any advice as to where they get the advice from.
- White: Are you giving advice here or are you merely indicating here that you have an interest and that is sufficient? You are merely saying we would appreciate being informed.

- Hanes: I haven't any interest in that, that is my point. I just haven't any interest in where they go to get advice because that is assuming on our part some responsibility which I think we should avoid, if possible, and I am sure the SEC feels that same way. For instance, Jerry Frank, last night, made this suggestion, that we put in the cable to Joe Kennedy words to the effect that, "You realize, of course, that we don't want J. P. Morgan and Company to act as your agent." That, I think, looking in the light of a future investigation, when these files might be asked for by some neutrality committee on the Hill, I think we would be in a hopelessly bad position, so Jerry suggested why don't you talk to Kennedy on the telephone and just remind him of that. I think Kennedy is already mindful of the fact because he makes it so clear in his cable that there is feeling about Morgan and Company and they don't want them to act as agents, so I think it might well be said to Kennedy, over the telephone, "You realize, Joe, of course, the situation here as regards Morgan and Company and we want you to keep your skirts clear."
- H.M.Jr: The telephone is no secret today.
- Hanes: I am only thinking about the time when some Congressman on the Hill says, "Well, Mr. Morgenthau, what did you mean by that? Explain yourself." I am talking about if we say that.
- Foley: I think very definitely, John, without having any documentary evidence that could be used against us, the impression has been created that it would not be looked upon in this country as good politics for the British Government to use J. P. Morgan or one of the big institutions in New York. We don't want to destroy that impression.
- Hanes: I don't agree to that last statement: "One of the big institutions in New York." How the hell are you going to deal with this situation if you don't deal with some of the big institutions in New York? They are the only people who have got capacity to liquidate this much stuff. I don't agree with that at all. I agree there is a feeling about J. P. Morgan and Company. I don't know about the Chase and National City Bank, because I haven't talked to anybody about that.

Foley: The reason I say that, John....

H.M.Jr: Ed, please. What we are discussing is unimportant. Do you mind?

Hanes: I think so, too.

H.M.Jr: We are placing a lot of emphasis on something on which we all agree. There is no dissention that we shouldn't use Morgan. Let me just go through this thing. I think we are placing too much emphasis where it is unnecessary.

"We have no objection to Norman's suggested designation of a Canadian bank in New York as liquidating agent."

Now, that is telling them very politely the Canadian bank is O. K. and the other fellow isn't.

Hanes: I would like to enter this objection as a matter of record. I would like to say there instead of that last sentence, I would just like to insert the sentence we agreed on yesterday. "The selected Canadian institution could secure marketing advice in any quarter it wished," because then we are imposing no restrictions on them.

White: I think you are giving a tacit approval when you take that in conjunction with the sentence that they gave in their letter, which might be interpreted as sounding us out. They say they would like to use the boys. They need their advice but they are afraid the American public wouldn't like it. We come back and say, "We don't care where you get your advice."

H.M.Jr: Just a second. Stewart?

Stewart: I agree with John, because I think in the first place that the practical difficulties of indicating to them all the individuals or institutions that they might approach for information with regard to the list of securities of the kind they have are extensive. I think, from the standpoint of this Government, we ought not to show an indication of who it is we want them to advise with. It is a very large transaction. They will turn to a great many quarters and it is quite possible the Morgans would be one of the best places they could advise on certain securities that they have.

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- H.M.Jr: What I am thinking, if I may just interject myself for a minute, I go a step farther than you and John. I don't want to give approval or disapproval or even raise the question that it is up to us to say that they can or cannot seek advice of anybody. I would go further. Therefore, I wouldn't even say that the Canadian institution can seek its advice anywhere. Let them just take it for granted, by not saying anything. We can just simply say it is O. K. with us if they want to designate a Canadian bank. All we are saying is that after they have chosen who the people or group are who will advise, we would like to know so that we can keep in touch with them. Think it over.
- Stewart: My view is that that simplifies the problem.
- H.M.Jr: I am just going to make that suggestion and then I think Hanes had better get these people together again and thrash it out and I will abide by the group decision.
- White: Or you could substitute - insert the word "chiefly", it would suit his objection.
- H.M.Jr: I don't want to get down to words. Hanes has come in to show me how far he has gotten. The thing isn't finished and I am going to ask him to call the group together again. He has taken my pulse and knows how I feel and I am satisfied that a Canadian bank is all right, but I don't want to publicly or privately indicate to the British who their advisers should be.
- Hanes: It is dangerous.
- H.M.Jr: I don't want to even imply it. It isn't up to me to tell them that Bank "A" is good and Bank "B" is bad, politically and so forth and so on. Hell, they know that. The President told them last June and July how he felt about certain banks.
- Voley: That is what I thought and I thought that the other language in the first draft would erase that impression that has been created by the President.
- H.M.Jr: "The request made by us that the SEC and Treasury be kept fully informed would be in discharge of

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our duty to endeavor to see that liquidation did not unduly disturb our markets, in which matter the interest of British Government is identical.

"We have noted carefully all your statements and suggest again that we will be happy to discuss details of liquidation with agents here designated by the British to handle the liquidation."

The rest is all right. Is it agreeable to you, John, to call this group together again? I am not going to ask for an appointment to see the President until you are ready, because this might run over another day, mightn't it?

Hanes: I think it shouldn't. I think we ought to get an answer back right away.

White: What is the hurry? They are not pressed for liquidating of securities.

Hanes: The State Department is pressing us.

White: But there is no reason why the State Department should be pressing us.

Cochran: Kennedy emphasized the urgency of it.

White: He has no facts that we haven't got with respect to the urgency of this matter.

H.M.Jr: The way I am going to leave it is this, when you tell me that you are ready, I am going to ask for Frank, you and I to see the President. I am not going to ask until you are ready, but I do think we ought to do this thing as promptly as possible. I will give the benefit of the doubt for a little jitters to anybody who is in a war capital today. When you are ready, I think in a reasonable time the President will see us. I don't want to call him up and say, "No, we are not ready."

Hanes: I will get them together this morning if I can.

H.M.Jr: Is that O. K.?

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Stewart: Yes.

H.M.Jr: Is there any disagreement in your mind?

Foley: No, not at all. I don't disagree.

H.M.Jr: Merle?

Cochran: I favor it as written last night. Take Ed's first paragraph. I mean, otherwise, I think it is rather an incomplete answer to Kennedy.

H.M.Jr: And you take what, the request of the SEC?

Cochran: I would be inclined to leave that in about getting advice and....

H.M.Jr: You mean a selected Canadian institution could secure marketing advice in any quarter it wished?

Cochran: I don't see that we would hurt ourselves any on that. If you deny them the help....

H.M.Jr: Is that necessary, to say that?

Cochran: I am afraid the reply isn't complete.

H.M.Jr: Is it necessary for us to say....

Stewart: They have accepted the Federal Reserve as their banking agent. They now propose to use, possibly, a Canadian bank as their liquidating agent. They raise the point as to whether it has the technical facilities for doing it. Norman said we could use them but of course they would have to go somewhere else. We say we have no objection to your using it. Of course, you may have to go somewhere else.

H.M.Jr: I mean, the selected institution could secure marketing advice in any quarter it wished. That is what they will do anyway.

Hanes: Another thing is the practical thing beyond this thing. Walter will recognize what I am talking about. Just the two securities that they mentioned, they said they have got 400,000 shares of New York Central and 1,900,000 shares of International Nickel. Just between

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you and me, I don't think they can sell that stuff without using some of those companies.

White: John, why is it necessary to comment on that at all in view of the fact that if their telegram is not asking you whether J. P. Morgan is all right, then you don't have to answer. If they are not asking, you certainly don't have to answer.

H.M.Jr: Harry, I am not going to commit myself. Is there any doubt in your mind where I stand?

Hanes: No.

H.M.Jr: Ed, do you know where I stand?

Foley: Yes.

H.M.Jr: Do you know where I stand, Harry?

White: I think so.

Hanes: Your position is that you don't want to be giving advice on where to go.

H.M.Jr: But once they select a fellow, I am anxious that it will be somebody in this country we can talk to to find out what they are doing with their securities.

Hanes: I think it is important we get this thing back over here.

White: You don't want to indicate whether the names they indicate are all right or not all right.

H.M.Jr: No.

White: Either by implication or by statement.

H.M.Jr: Any more than I, as Henry Morgenthau, Jr., will give anybody advice on his securities, other than my wife and three children, which is most difficult, and if some friend comes to me and says, "Look, Henry, I am thinking of taking this market counsellor, what do you think of it, he is a swell guy," well then, he advises him to buy this and that and they go sour and they say, "That is a hell of a fellow who advised me." What is the difference between that and the

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Bank of England? He says, "Why did you give me that fellow? Look what he has done to me. I have sold all the wrong things and bought all the wrong things." It is no different.

You (Stewart) as the former advisor to the Bank of England, know the Federal of New York couldn't do this for them.

Cochran: No.

Stewart: I don't think so.

H.M.Jr: All right, the next move is up to you, John.

Tr

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Replying to query regarding making use of loan from R.F.C. collateralised by British present holdings of American marketable securities, it is possible that some arrangement of this character could be made under existing laws. But such an arrangement would not appear to have definite advantages over available alternative methods other than borrowing, and probably is not advisable. Furthermore, it might well produce opposition and criticism here. We have no objection to suggestion mentioned by Norman. The selected Canadian institution could secure marketing advice in any quarter it wished.

The request made by us that S.E.C. and Treasury be kept fully informed would be in discharge of our duty to endeavor to see that liquidation did not unduly disturb our markets and our economy in which matter the interest of British Government is identical.

We have noted carefully all your statements and suggest again that we will be happy to discuss details of liquidation with agent here designated by the British to handle the liquidation.

10/23/39

October 24, 1939

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Replying to your first inquiry:

I believe that there is no need to comment further, at this time, in the matter of the authority under existing law of the RFC making a loan collateralized by British present holdings of American marketable securities, since from a policy point of view such an arrangement would not appear to have definite advantages over available methods other than borrowing, and probably is not advisable. Furthermore, such a loan might well produce opposition and criticism here.

Replying to your second query:

We have no objection to Norman's suggested designation of a Canadian bank in New York, <sup>as liquidating agent</sup> We should appreciate being informed of any American individuals or institutions that the British Government contemplates employing to aid or assist such Canadian bank.

Our request that SEC and Treasury be kept fully informed was for the purpose of enabling them to discharge the duty of endeavoring to see that liquidation would not unduly disturb our markets and our economy, in which matter the British Government also has an interest.

We have noted carefully all your statements, and suggest again that we shall be happy to discuss with the agent in this country designated by the British method of liquidation and the furnishing to us of appropriate information.

October 24, 1939

Secretary Morgenthau

Messrs. White and Foley

Senator Wagner inquired by telephone as to the Department's position on Taft's amendment to the Neutrality Bill to limit the stabilization fund's holdings of the currency of any belligerent to no more than \$50,000,000 at any one time. We feel that the Department should indicate to Senator Wagner its opposition to Taft's amendment for the following reasons:

- (1) When Congress extended the stabilization powers it was fully conscious of the possibility or probability of a war in Europe. There is accordingly no need at this time for Congress to reconsider the problem and to limit the stabilization powers.
- (2) Senator Taft questioned the Secretary about the use of the stabilization fund in the event of war. The Secretary said that before he would use the stabilization fund to assist any country in prosecuting that war he would come up before the proper committee and ask for guidance. This procedure would permit greater flexibility than Taft's proposal in dealing with an emergency situation in which it might be greatly in the interests of this country to purchase the currency of a belligerent in amounts greater than \$50,000,000. By going to the congressional committees the Treasury could ascertain the views of Congress without the publicity and delay involved in getting new legislation.
- (3) If we do not indicate our opposition to Taft's amendment, there is likelihood that other amendments would be offered prohibiting the stabilization fund from purchasing any belligerent currency and in effect nullifying its use during the war.

If you agree with the foregoing, we can give these views to Senator Wagner orally,

(initialed) E.H.F.Jr.

" H.D.W.

APPROVED:

October 25, 1939  
H.M. Jr.

Timeu  
10/24/39

Original was left with Senator Wagner by White and Foley on the morning of 10/25/39

October 25, 1939

My dear Senator Pittman:

For your information, I am enclosing copy of a letter I received from Senator Vandenberg last week together with a copy of my reply which I sent to him this morning.

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

Very truly yours,

(Initials) H. Morgenthau, Jr.

Secretary of the Treasury.

Honorable Key Pittman,  
United States Senate.

Enclosures

HMFV/fm  
Typed 10/25/39

(Initialed) E. H. F., Jr.

OCT 25 1969

My dear Senator Wagner:

For your information, I am enclosing copy of a letter I received from Senator Vandenberg last week together with a copy of my reply which I sent to him this morning.

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

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Honorable Robert F. Wagner,  
United States Senate.

Enclosures

EHF:akm 10-24-69

(Initialed) E. H. F., Jr.

OCT 25 1939

My dear Senator Barkley:

For your information, I am enclosing copy of a letter I received from Senator Vandenberg last week together with a copy of my reply which I sent to him this morning.

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

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Honorable Alben W. Barkley,  
United States Senate.

Enclosures

EHF:akm 10-26-39

(Initialed) E. H. F., Jr.

Treasury Department  
Division of Monetary Research

Date.....10/26/39.....1939

To: Miss Chauncey - Room 285

From: L. Shanahan

Attached contains all desired  
initials except Mr. Stewart's, and I  
understand he will not be in the office  
today or tomorrow.

October 24, 1939.

My dear Senator:

I should like to answer in some detail the questions in your letter of October 17, so as to clarify certain aspects of problems relating to gold.

You write:

"I assume that you are continuing to purchase at \$35 an ounce, all foreign gold that is offered. In view of depreciated foreign currencies, is not this equivalent to paying considerably more than \$35 an ounce so far as the foreign seller is concerned?"

I am uncertain what you mean by this question. It is subject to several different interpretations and to make certain that you obtain the information you ask I will endeavor to answer each of them separately.

1. Does the question ask whether the foreign seller of gold receives more purchasing power over goods and services here than he did prior to depreciation? If that is the sense of your question then the answer is "No". The \$35 per ounce (less 1/4 of 1 percent) which the foreign seller of gold receives probably represents less and certainly not more purchasing power in terms of goods and services in this country than it did before the depreciation of currencies in recent months. Such purchasing power of \$35 in the United States varies, of course, with changes in prices of goods and services in the United States. Since most goods and services that can be purchased here by a resident of a foreign country have risen in price during the past two months, it follows that the foreign seller of gold probably gets less goods and services for his \$35 now than he did a few months ago.

2. Does the question ask whether the foreigner can get more units of his own currency for gold by selling it in the United States than by selling it in his own country? If this is the sense of your question, again the answer is "No". We pay no higher price for gold (allowing for commissions, handling charges, etc.) than other countries do. After a foreign

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Honorable Arthur H. Vandenberg - 2

seller of gold converts the dollars he obtains for his gold into sterling, for example, he finds that he has approximately the same amount of money as he would have had if he had sold that gold in London. (For a further explanation of this I refer you to pages 7, 8 and 9 of my letter to Senator Wagner, dated March 22, 1939, a copy of which is enclosed for your convenience.)

3. Does the question ask whether the foreign seller of gold gets more units of his local currency for his gold now than he did before the depreciation of his currency? If this is the sense of the question, the answer is clearly "Yes". That is exactly what depreciation of a currency in terms of gold means, namely, that each unit of a depreciated currency is exchangeable for less gold.

4. Does the question ask whether the greater number of units of the depreciated currency which the foreign seller obtains for his gold can purchase more goods and services at home than could the smaller number of units he obtained for his gold before depreciation? The answer to this question is "Probably yes". Prices in the country of a depreciated currency do not usually rise as much as the currency depreciates for a considerable period of time, if at all. During that period the holder or producer of gold will get more local goods and services for an ounce of gold than he did before. But he gets more goods only if he buys goods at home; furthermore, he gets more goods for an ounce of gold not because he continues to pay \$35 an ounce for gold, but because his own country gives more units of its currency for an ounce of gold.

When taken in the context of your whole letter one further possible interpretation of your question suggests itself. You may be asking whether the recent depreciation of foreign currencies will of itself lead to an increased inflow of gold. If this is the sense of your question, the answer is "probably no". It is, of course, impossible to forestall at this time the total effect of a Europe at war upon our balance of payments. The specific effect of the recent depreciations of foreign currencies, however, would clearly seem to operate in the direction of a reduction in gold offerings. Depreciation of foreign currencies vis-a-vis the dollar means that American goods and services are less attractive to the foreigner because he must give more of his own currency in exchange for a dollar's worth of merchandise than formerly. In other words,

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Honorable Arthur H. Vandenberg - 3

the depreciation of foreign currencies is a factor which operates in the direction of reducing our exports to and increasing our imports from the countries involved. Thus the effect of the change will tend to reduce our favorable balance of trade and consequently such inflow of gold as may be attributable to our export surplus. It is true that price changes may in time offset the effect on the relative attractiveness of foreign and American goods initiated by the depreciation of foreign currencies. But even in normal times this adjustment usually does not take place for some time.

You ask the further questions:

"If we put our foreign trade with belligerents on a strict 'cash and carry' basis, will it not be likely to substantially increase this inflow of foreign gold - perhaps to so dangerous an extent that we finally shall practically monopolize the world's gold supply?"

The prohibition of credits to belligerent governments may possibly have the effect of reducing our exports to belligerent countries. This might in turn reduce the value of our total exports compared with what our exports would be were the prohibition not included in the Neutrality Act. Were the belligerent governments to purchase some of their imports from the United States on credit, a portion of the payments due us might be postponed. However, whether this postponement would result even in a temporary reduction in the inflow of gold cannot be forecast because:

(1) It is not known what proportion of the dollars used for payments would be acquired from the sale to us of gold, and what proportion would be acquired from other sources.

(2) It is not known whether an extension of credits to belligerents would result in greater purchases from the United States or whether there would simply be a substitution of some credit purchases for cash purchases. Only in the latter instance would it be possible for part of the inflow of gold to the United States to be postponed. In the former case it would mean that the gold inflow would be the same over the short period of time and would be greater at some subsequent time when credits were liquidated.

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Honorable Arthur H. Vandenberg - 4

You ask this further question with respect to gold:

"Would this [increased inflow of gold] not seriously threaten the world's subsequent return to the use of monetary gold - and thus relatively threaten the ultimate value of our own enormous gold hoard?"

This war demonstrates, if any demonstration were needed, that gold constitutes the best form in which foreign exchange resources can be held. Even under the most difficult conditions of war, belligerent governments which possess gold can buy with it anything that is for sale.

The new situation in world trade brought about by the war in Europe will, of course, introduce some changes in the distribution of gold among the nations of the world. Belligerent countries will probably lose gold, but numerous neutral countries, which now have little gold, may be put in a position to increase their holdings as a result of improvements in their trade balances. As a consequence, the war may well have the effect of causing a wider distribution of gold among the countries of the world. Such an increase in gold holdings by many countries would give more countries a stake in the continuation of gold as a medium of international payments. The gold producing countries, of course — including the British Empire, which now produces half the world's gold — will continue to have a vital interest in the use of gold as a monetary metal.

These considerations, as well as others, indicate that gold will emerge from this disturbed period with added prestige as the international medium of exchange. For further discussion of the future usefulness of gold as a monetary metal, you may wish to refer to pages 16, 17, 18 and 19 of my letter to Senator Wagner referred to above.

Your last question on gold relates to a suggested change in our monetary policy. You ask:

"Should not the purchase of foreign gold be curtailed and re-priced, at least for the period of the war?"

I am not clear whether by re-pricing gold you have in mind an increase or a decrease in the price of gold. I judge from the context of your letter, however, that you are inquiring about the effects of a reduction in the dollar price of gold.

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My views with respect to the consequences of reductions in the price of gold are fully set forth in my letter to Senator Wagner referred to above. The discussion appears on pages 13 to 16 of that letter, and I think it may be appropriately re-read in connection with your inquiry.

You raise the question of the advisability of reducing the price of gold "for the period of the war". Any substantial change in the price of gold which is known to be temporary would have seriously disrupting influences on trade and international capital flows. It would introduce a still greater risk element in business relations with foreign countries and would, moreover, increase world speculation in dollar exchange.

I now turn to the question in your letter referring to the Stabilization Fund.

You write:

"I should like to inquire - if I am entitled to the information - whether the stabilization fund is now being used in connection with the stabilization of the British pound and the French franc; and whether there is any stabilization agreement under which we continue to operate in conjunction with England and France or any other foreign countries."

When I appeared before the Senate Committee on Banking and Currency last March, Senator Taft raised the following question:

"Suppose there is a foreign war and suppose you go out and do what you can to buy \$2,000,000,000 worth of pounds; isn't the effect of that to give England the power to buy \$2,000,000,000 worth of goods in this country under the cash and carry provisions?"

I would like to reaffirm the position which I took at that time. My reply was, and still is, as follows:

"Senators, if there is a war in any foreign country, before we would use the stabilization fund or any money in the Treasury to assist any country in prosecuting that war, I would come up before the proper committee and ask for guidance."

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Honorable Arthur H. Vandenberg - 6

The stabilization fund is not acquiring any currencies of belligerent countries and is holding only a trifling amount of foreign currencies of belligerent countries acquired long before the outbreak of the war.

I trust that this furnishes you with the information you requested.

Sincerely,

Secretary of the Treasury.

Honorable Arthur H. Vandenberg,  
United States Senate.

Enclosures

HDW:rs  
HDW:HG:lrs  
10/24/39

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## United States Senate

COMMITTEE ON FINANCE

59

October 17, 1939

FELTON M. JOHNSON, CLERK

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

My dear Mr. Secretary:

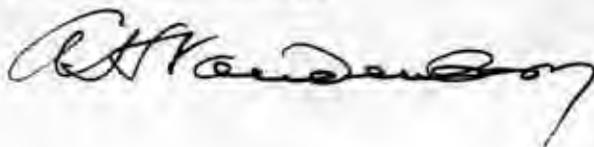
I should like to inquire - if I am entitled to the information - whether the stabilization fund is now being used in connection with the stabilization of the British pound and the French franc; and whether there is any stabilization agreement under which we continue to operate in conjunction with England and France or any other foreign countries.

I should also appreciate your viewpoint on another phase of this problem. I assume that you are continuing to purchase at \$35 an ounce, all foreign gold that is offered. In view of depreciated foreign currencies, is not this equivalent to paying considerably more than \$35 an ounce so far as the foreign seller is concerned? If we put our foreign trade with belligerents on a strict "cash and carry" basis, will it not be likely to substantially increase this inflow of foreign gold - perhaps to so dangerous an extent that we finally shall practically monopolize the world's gold supply? Would this not seriously threaten the world's subsequent return to the use of monetary gold - and thus relatively threaten the ultimate value of our own enormous gold hoard? Should not the purchase of foreign gold be curtailed and re-priced at least for the period of the war?

I am not asserting any pre-conceived judgments of my own in submitting these questions to you. I am simply seeking information from authentic sources and I shall greatly appreciate a reply within the next few days.

With warm personal regards and best wishes,

Cordially and faithfully,



PARAPHRASE OF TELEGRAM SENT

CO

TO: American Embassy, London, England

DATE: October 24, 1939, 8 p.m.

NO.: 1287

The following is for the Ambassador and is strictly confidential:

Very careful discussion has been given by the Treasury, the Securities and Exchange Commission and Mr. Jesse Jones to telegram of October 20, 8 p.m., from the Embassy, No. 2109.

With regard to the first question you ask, it is our belief that at this time there is no need to comment further on the matter of the authority under existing law of the Reconstruction Finance Corporation making a loan to American institutions collateralized by British present holdings of American marketable securities. From the point of view of policy, it would not appear that such an arrangement would have definite advantages over available methods other than borrowing, and an arrangement of this kind is probably not advisable since opposition and criticism of such a loan might well be produced in the United States.

As for your second question, we have no objection to the suggestion of Norman that a Canadian bank in New York be designated as liquidating agent. It is assumed that

- 2 -

that from time to time the designated liquidating agent will find it necessary to call upon many American institutions and individuals for advice.

The reason for our request that the Treasury and the Securities and Exchange Commission be kept fully informed was so they could discharge the duty of trying to see that our markets and our economy are not unduly disturbed by the liquidation, and the British Government also has an interest in this matter.

All of your statements have been carefully noted. We again suggest that we shall be happy to discuss the proposed method of liquidation and the appropriate information to be furnished the Treasury and the Securities and Exchange Commission with the liquidating agent designated by the British.

HULL  
(FL)

EA:LWW

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October 24, 1939

1287 in form it was actually  
sent out at 8 pm

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Cable to Kennedy replying to 2109. No need now to reply further re loan collateralized by British holdings of American marketable securities; no objection to their designating Canadian Bank in NY as liquidating agent.

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

NB In connection with the above reply to Kennedy's 2109, see meeting of Hanes, Cochran, Stewart, White and Foley in HM, Jr's office at 10 am today to discuss draft of reply

See also 2178 (10/26) + 2183 (10/27)  
from Kennedy.

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

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE October 24, 1939

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

## SUMMARY

- (1) Treasury securities rose sharply during the week ended Monday, October 23 (Chart I). All maturity classes are now higher than on September 6, the date when the short issues made their crisis lows (Chart II). The new OCC issue, offered on Tuesday morning, was well received by the market. It failed, however, to participate fully in the rise enjoyed by other Government issues, particularly during its first two days of trading (Chart III).
- (2) High-grade corporate bond prices continued to advance during the week (Chart I), and yields dropped to 3.06 percent, the lowest point since the beginning of September. The volume of new corporate issues, although still small, was the largest to reach the market in two months.
- (3) The price rise of municipal bonds during the past two weeks (Chart IV) represents the sharpest gain for a similar period in five years. Investment demand was active, resulting in a great many bids for a number of small issues.
- (4) The decline in the market value of United States securities between June 5 and September 25 caused losses ranging from 6.9 percent to 1.6 percent of the par value of the Government portfolios of twenty large national banks. These declines were equivalent to from 58.8 percent to 4.5 percent of their capital funds (Chart V). The sharp upswing in the market since September 25 has offset nearly half of these extreme losses.
- (5) British Government securities were strong last week. The 2-1/2 percent consols moved up 2-1/2 points, closing at 66-5/8 on Friday and at 66-3/4 on Monday (Chart VI). The rate on British Treasury bills has dropped to 1.71 percent -- half the rate prevailing in mid-September. French 3 percent perpetual rentes were unchanged.

I. United States Government Securities

Treasury securities experienced a sharp rise during the week ended Monday, October 23, most issues having moved up on every day but Wednesday. The average yield of all long-term Treasury bonds decreased from 2.62 percent on Monday, October 16, to 2.50 percent on Monday, October 23 (Chart I).

The relative movement of different maturities of Treasury securities during the past eight days is shown in the following table:

		Average price change	
		Week	Monday,
		ended	Oct. 23
		Oct. 21	Total

(Decimals are thirty-seconds)

Notes

1 to 3 years .....	+ .06	Unchanged	+ .06
3 to 5 years .....	+ .23	+ .01	+ .24

Bonds

Under 5 years to call .....	+ .13	Unchanged	+ .13
5 to 15 years to call .....	+ 1.11	+ .02	+ 1.13
15 years and over to call..	+ 1.31	+ .03	+ 2.02

Medium- and long-term securities, as may be observed from the table, have risen much more than have shorter securities. This tendency has been noted in previous weeks and is, of course, to be expected during a rally such as that which has been going on for the past month.

By Monday, October 23, all maturity classes of United States securities had recovered a major portion of the decline suffered as a result of the war crisis. The recovery ranged from about 55 percent in the case of the long bonds to nearly 100 percent in the case of the short notes. Chart II shows that during the week the average prices of all the longer maturity classes of Treasury securities rose to a level somewhat higher than that which had obtained on September 6, the day on which the short-term

issues reached their crisis low. Moreover, all classes except the 3-5 year notes have moved into the same positions relative to each other as on September 6. The 3-5 year notes, however, have somewhat improved their position relative to the other maturity classes.

The new CCC issue, offered on Tuesday morning, was well received by the market, but it is still slightly out of line when compared with the yield pattern established by the other guaranteed issues. The new issue had fitted nicely into the market pattern at the opening on Tuesday, but it failed to participate in the rise enjoyed by other Government issues on Tuesday afternoon. By the close on Wednesday the excess of the yield of the CCC issue over that of the RFC note maturing fifteen days earlier had grown to .095 percent (Chart III). On Thursday and Friday, the CCC note rallied and the spread narrowed. A differential of .045 percent still continued, however, on Monday, October 23.

Weekly reporting member banks kept the total amount of their Government portfolios practically unchanged during the week, but substituted \$18 millions of Treasury bills for other Government obligations. The increase in bill holdings by reporting banks was light, however, for it amounted to little more than a quarter of the week's increase in the market supply of such obligations (occasioned by the enlarged Treasury offering -- \$50 millions -- and the run-off of the Federal Reserve bank portfolio -- \$17 millions). The bill rate continued at a low level -- .027 percent this week compared with .033 percent last week.

## II. Corporate Security Markets

High-grade corporate bond prices advanced during the past week and yields dropped to the lowest point since the beginning of September. The Treasury average of the yield on high-grade corporate bonds decreased from 3.16 percent on Saturday, October 14, to 3.09 percent on Saturday, October 21. The average stood at 3.06 percent on Monday, October 23 (Chart I).

New bond offerings during the week amounted to \$11.5 millions -- the largest volume of new issues to reach the market in two months. The largest issue, the Atchison, Topeka and Santa Fe Railway 2-1/2 percent equipment trust certificates offered on Wednesday, amounted to \$8 millions; it was completely absorbed during the day at prices to yield from .40 percent to 2.40 percent for maturities ranging from 1940 to 1949.

Two small private placements were announced during the week by the Central Maine Power Company (\$1.3 millions) and the Firth Carpet Company (\$1 million). In addition, it was understood that negotiations for the private placement of \$5 millions of National Gypsum debentures were under way.

III. Municipal Securities

Municipal bond prices rose sharply last week, recovering all the ground lost since the first of September. The Dow-Jones average of the yields of twenty 20-year bonds fell 13 basis points during the week, closing at 2.96 percent on Saturday (Chart IV). The price rise last week followed a similar gain in the preceding week when the yield declined 14 basis points. Together the price advances of the past two weeks represent the sharpest gain for a similar period in five years.

The new issue market was active during the week, although the volume was low. Dealers reported a good demand for the \$5 millions of new municipal issues, which were placed on the market. The abnormally small supply of municipal bonds in dealers' hands, the low volume of corporate offerings, and the improved inquiry from investment sources were reflected in the large number of bids submitted for some of the issues offered. New Haven, Connecticut, for example, received 17 bids for \$500,000 of 1-1/2 percent public improvement bonds.

An interesting test of the strength of the short-term municipal market will take place next week when bids are submitted for \$30 millions Commonwealth of Pennsylvania 7-month 1-1/2 percent tax anticipation notes. This will be the largest municipal issue of comparable term since the beginning of the severe phase of the war crisis.

IV. Effect of Market Decline on Bank Capital

The sharp decline in the market value of United States securities between June 5 and September 25, 1939, weighed quite differently on the capital funds of individual members of the banking system -- the differences depending upon the relative amount of Governments held per dollar of capital funds and on the relative length of the maturities in the Government portfolio owned. In order to get some idea of this variability, we have estimated the effect of the decline on each of twenty large national banks. These banks were those with deposits of \$100 millions or more for which detailed data on the composition of the Government security portfolio on some date

during the first six months of 1939 were readily available. They account for about \$10.8 billions (22 percent) of the deposits and \$4.0 billions (28 percent) of the Governments held by all insured commercial banks on December 31, 1938.

Our estimates of the effect of the decline on each of the twenty banks\* and the aggregate effect on all insured commercial banks appear in Table I and Chart V. The losses shown will be reflected in the reported capital accounts, however, only to the extent that they are realized by actual sales, and have not been offset by previously unrealized appreciation in the particular securities sold. "Paper losses" will become "real losses" whenever the banks find it necessary or desirable to dispose of, replace, or exchange the particular securities in which "paper losses" were accumulated and have not been offset by subsequent increases in market value.

The declines in the market value of United States securities held by the twenty banks ranged from 6.9 percent to 1.6 percent of the par value of their entire Government portfolios. These declines were equivalent to from 58.8 percent to 4.5 percent of their capital accounts (Chart V). Banks that lost a high percentage of their capital funds were those that were either "short" of capital in relation to Governments to begin with (First National of Baltimore), or had a "long" Government portfolio (First Wisconsin National of Milwaukee), or both (Farmers and Merchants National of Los Angeles). Banks that lost a low percentage of capital funds were either "long" on capital to begin with (First National of Boston) or had a "short" Government portfolio (Chase National of New York).

Thus, Farmers and Merchants not only had a relatively large volume of United States securities per dollar of capital funds as compared with other banks in the group, but also had a relatively long portfolio -- 60 percent of the amount held maturing in more than ten years. Its 6.9 percent loss on its Governments compares with a decline of 8.8 percent suffered by the 2-7/8's of 1955-60 -- the Treasury issue showing the greatest percentage decline during the period.

Chase National, the bank with the lowest percentage loss on capital funds had a relatively short portfolio, on the other hand -- all issues held maturing by 1947. First National

\*The estimates are based on the assumption that the portfolios of these banks have remained unchanged both in amount and in composition since the date for which we have data, except for issues which have matured or have been called. This assumption is not strictly true, but it is improbable that such variation as may exist would result in a substantial error in the final results.

of Boston, the bank with the next lowest percentage loss on capital funds, had less Governments per dollar of capital than any other bank in the group.

The foregoing figures relate to the extreme loss on Governments sustained by banks between June 5 and September 25. Since the latter date, the market had experienced a sharp upswing, and nearly half of this loss has been recovered.

#### V. Foreign Markets

British money and security markets continued to improve last week, and nearly all Government securities closed at prices above their minimum levels. Two and a half percent consols moved up 2-1/2 points, closing at 66-5/8 to yield 3.77 percent. On Monday, October 23, consols closed at 66-3/4 (Chart VI). The improvement in the prices of gilt-edge securities was accompanied by a pronounced rise in stocks, Reuter's index of rails moving up 3 points during the week.

British short-term interest rates also eased further. The rate on 3-month Treasury bills dropped to 1.71 percent on Friday from 2.03 percent the week before. The bill rate has been halved in slightly more than a month, having dropped from 3.51 percent on September 15.

The market for French Government securities continued firm. A slight recession from the high levels reached on Monday, October 16, occurred during the week, but this had been largely wiped out by Monday, October 23, when the 3 percent perpetual rentes closed at 68.50, to yield 4.38 percent, the same as on the preceding Monday.

Estimated Decline in Value of Government Security Portfolios of Selected Banks  
June 5 to September 25, 1939

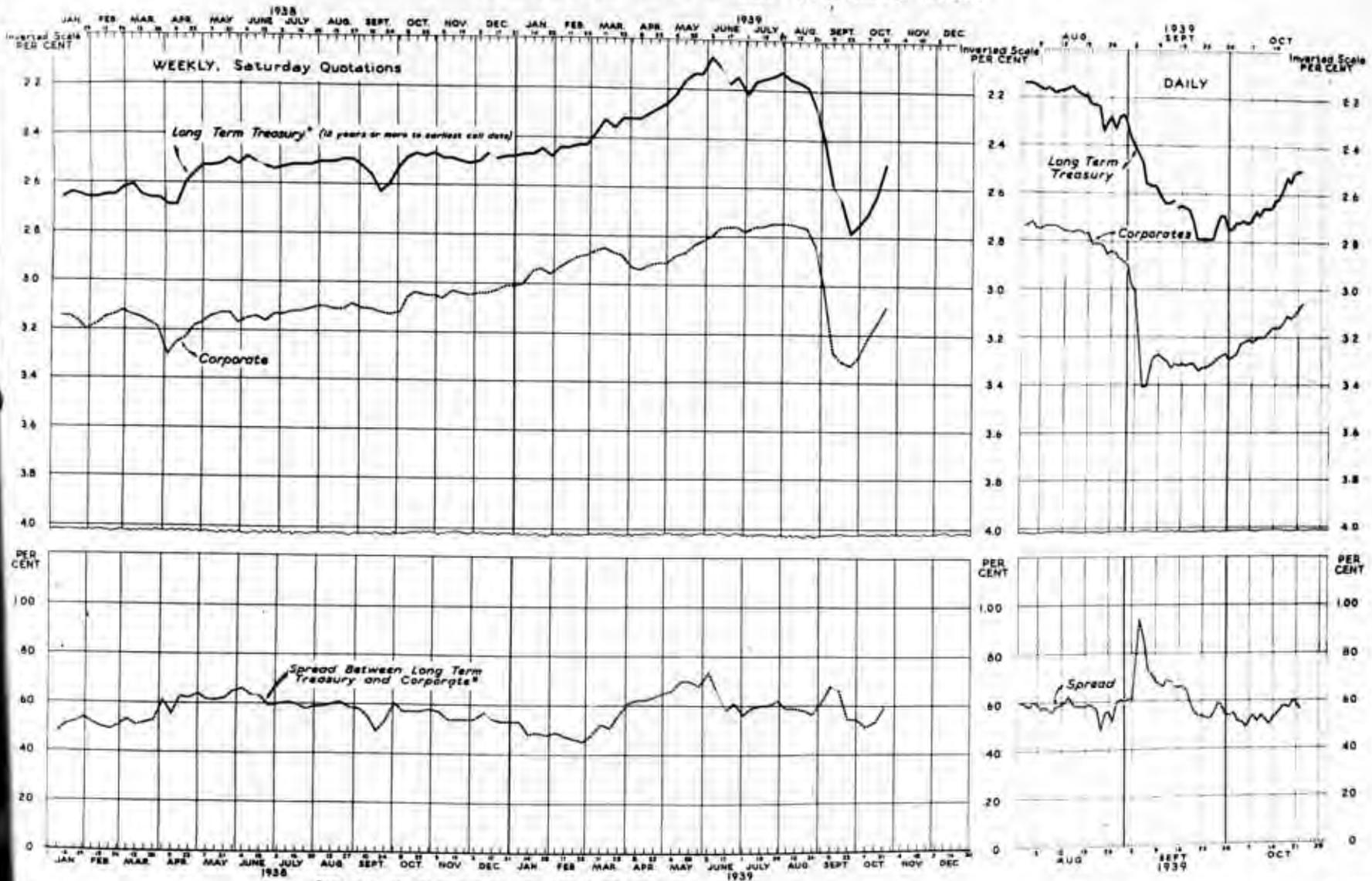
Bank	Deposits*	Capital funds*	U.S. Government securities**	U.S. securities per dollar of capital funds	Percent loss	
					On Governments	On capital funds
(In millions of dollars)						
Farmers and Merchants, Los Angeles .....	122	8	68	\$ 8.50	6.9	58.8
First National, Baltimore .....	170	12	130	10.83	3.0	32.5
First Wisconsin National, Milwaukee .....	211	20	105	5.25	5.6	29.5
National Bank of Detroit .....	392	31	204	6.58	4.3	28.4
Manufacturers National, Detroit .....	126	7	48	6.86	3.5	24.3
Continental Illinois National, Chicago ....	1,244	123	504	4.10	5.8	23.9
Whitney National, New Orleans .....	121	10	43	4.30	4.9	21.0
Crocker First National, San Francisco .....	136	14	53	3.79	5.5	20.7
First National, Chicago .....	936	68	412	6.06	3.3	20.3
Bank of America, San Francisco .....	1,431	116	360	3.10	6.0	18.6
Mellon National, Pittsburgh .....	295	43	214	4.98	3.6	18.1
National City Bank, New York .....	1,553	142	616	4.34	3.6	15.5
National City Bank, Cleveland .....	151	16	56	3.50	4.1	14.4
Anglo-California National, San Francisco ..	205	24	64	2.67	5.2	13.8
Public National, New York .....	156	17	41	2.41	5.4	12.9
ALL INSURED COMMERCIAL BANKS .....	49,779	6,435	14,507*	2.25	4.8	10.8
First National, New York .....	531	119	253	2.13	4.4	9.4
Central National, Cleveland .....	126	15	27	1.80	5.2	9.3
City National, Chicago .....	131	8	44	5.50	1.6	8.8
First National, Boston .....	594	90	108	1.20	5.6	6.7
Chase National, New York .....	2,152	251	645	2.57	1.8	4.5
Total -- 20 national banks .....	10,783	1,134	3,995	3.52	4.1	14.4

\* December 31, 1938.

\*\*Date of last examination by Comptroller of the Currency.

Chart I

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



\*Break in line indicates change in composition of Long Term Treasury average.

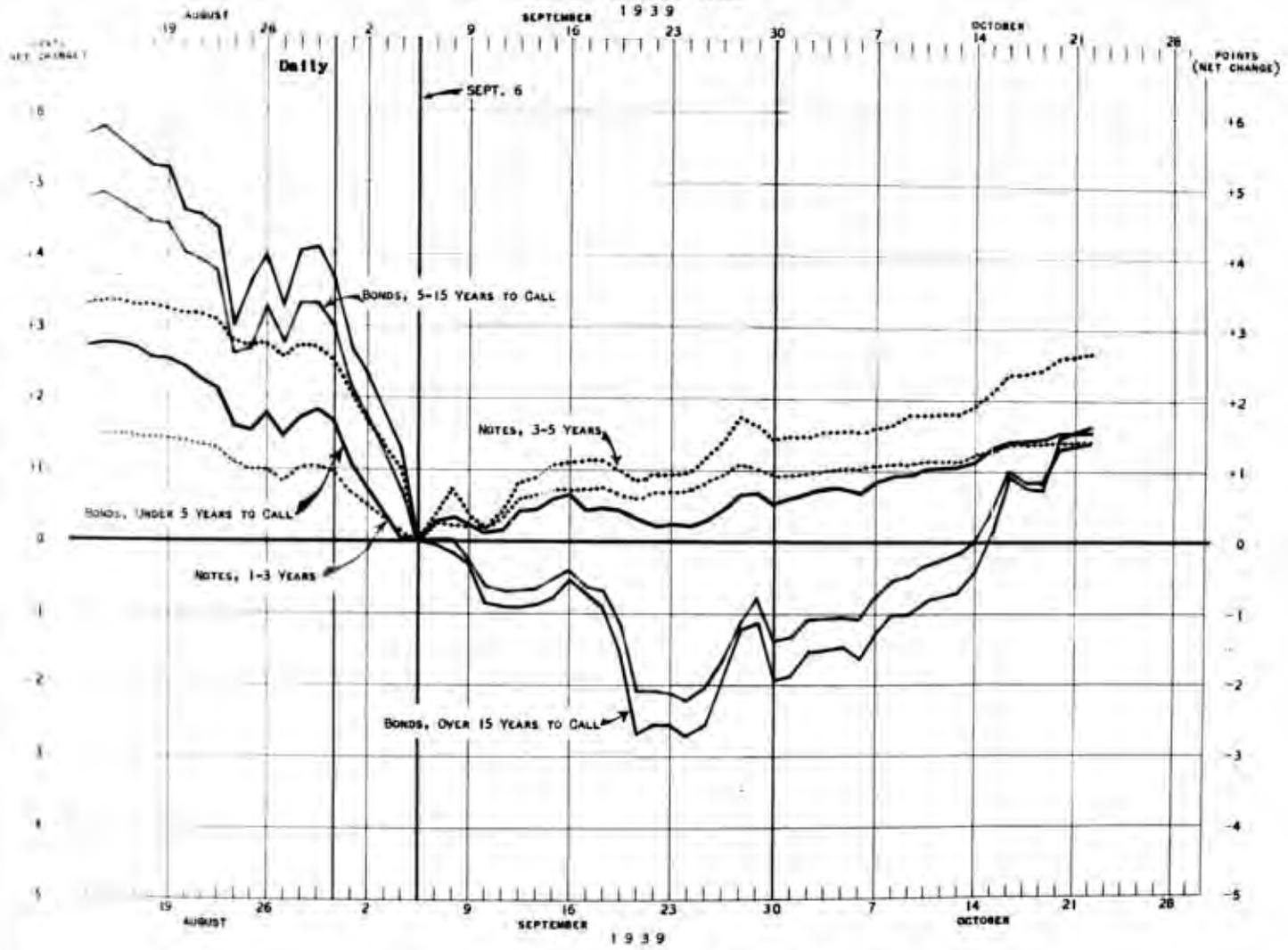
(Office of the Secretary of the Treasury)  
Bureau of Research and Statistics

1-18-41

Chart II

CHANGES IN THE PRICES OF U.S. SECURITIES BEFORE AND AFTER SEPT. 6, 1939

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

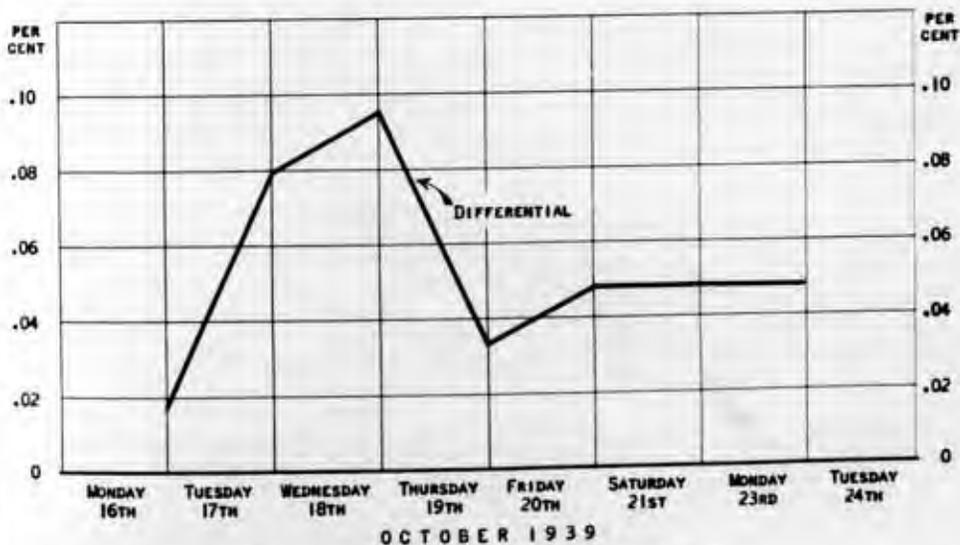
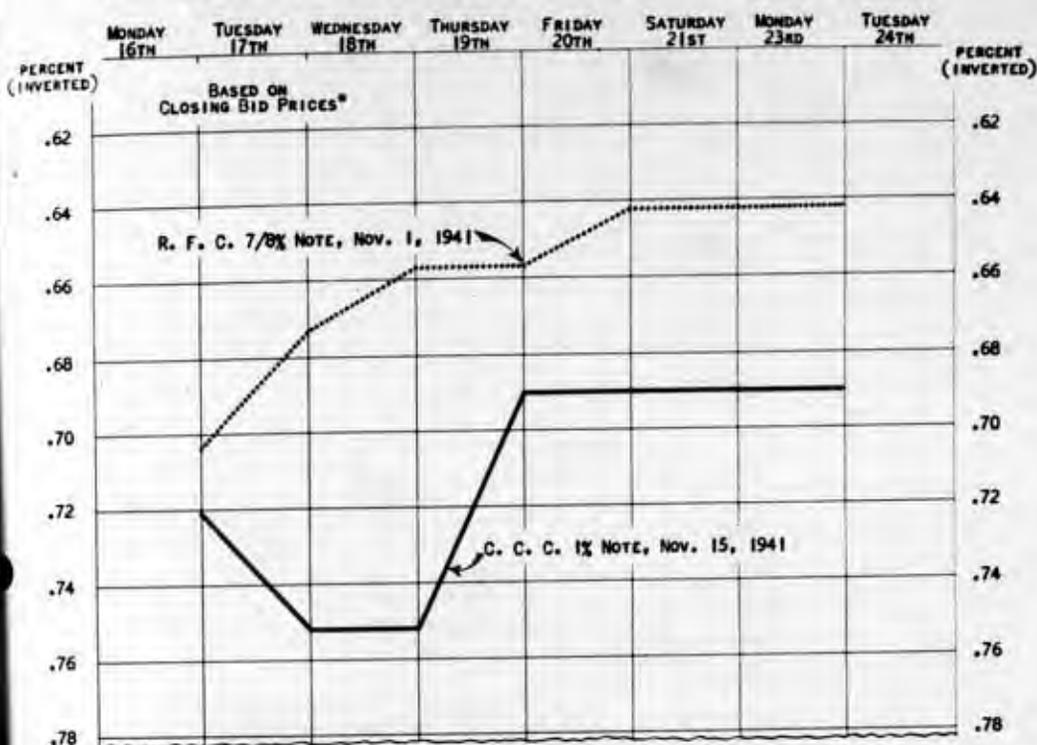


NOTE: BREAK IN LINE INDICATES CHANGE IN COMPOSITION OF A MATURITY CLASS

U.S. DEPARTMENT OF THE TREASURY  
BUREAU OF PUBLIC DEBT

Chart III

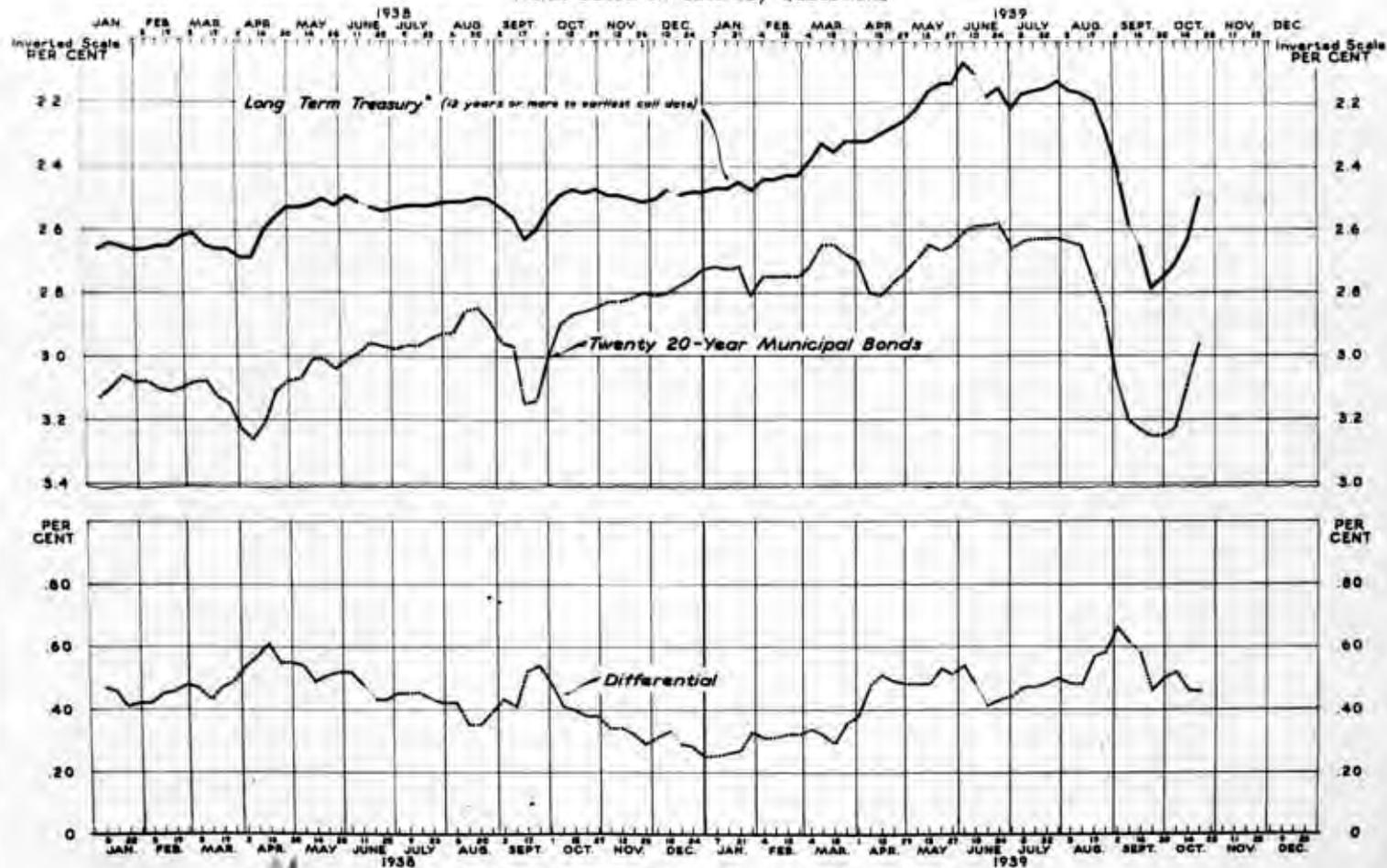
COMPARISON OF YIELD ON NEW C.C.C. NOTE OF NOV. 15, 1941 WITH R.F.C. NOTE OF NOV. 1, 1941



\* 1ST QUOTATION SHOWN IS OPENING ON TUESDAY 17TH.

# COMPARATIVE YIELDS OF AVERAGE OF ALL LONG TERM U S TREASURY AND DOW-JONES AVERAGE OF MUNICIPAL BONDS

Yields Based on Saturday Quotations



\*Break in line indicates change in composition of Long Term Treasury average.

Chart V

ESTIMATED DECLINE IN  
MARKET VALUE OF GOVERNMENT SECURITY PORTFOLIOS OF SELECTED BANKS  
June 5 to September 25, 1939

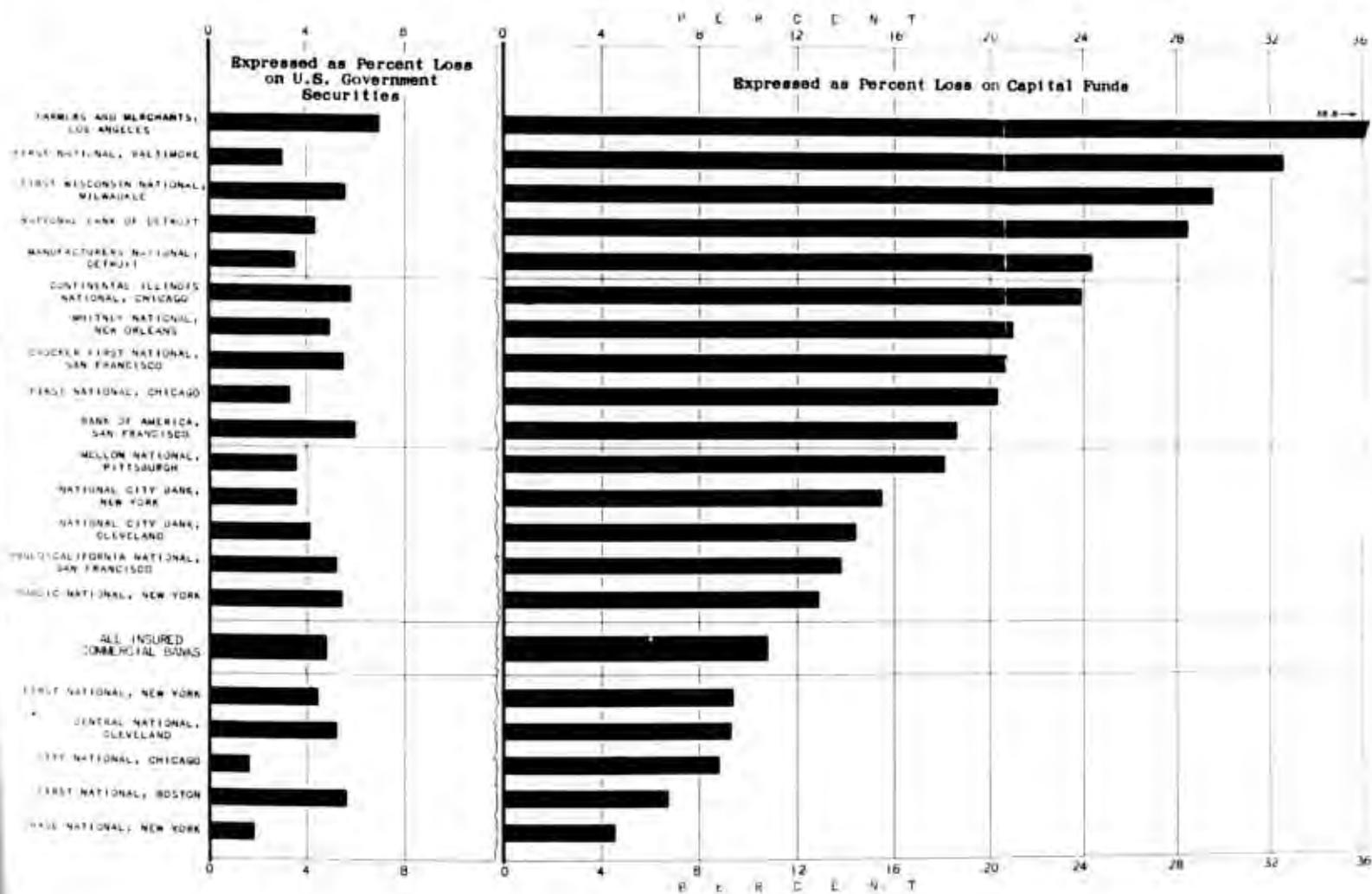
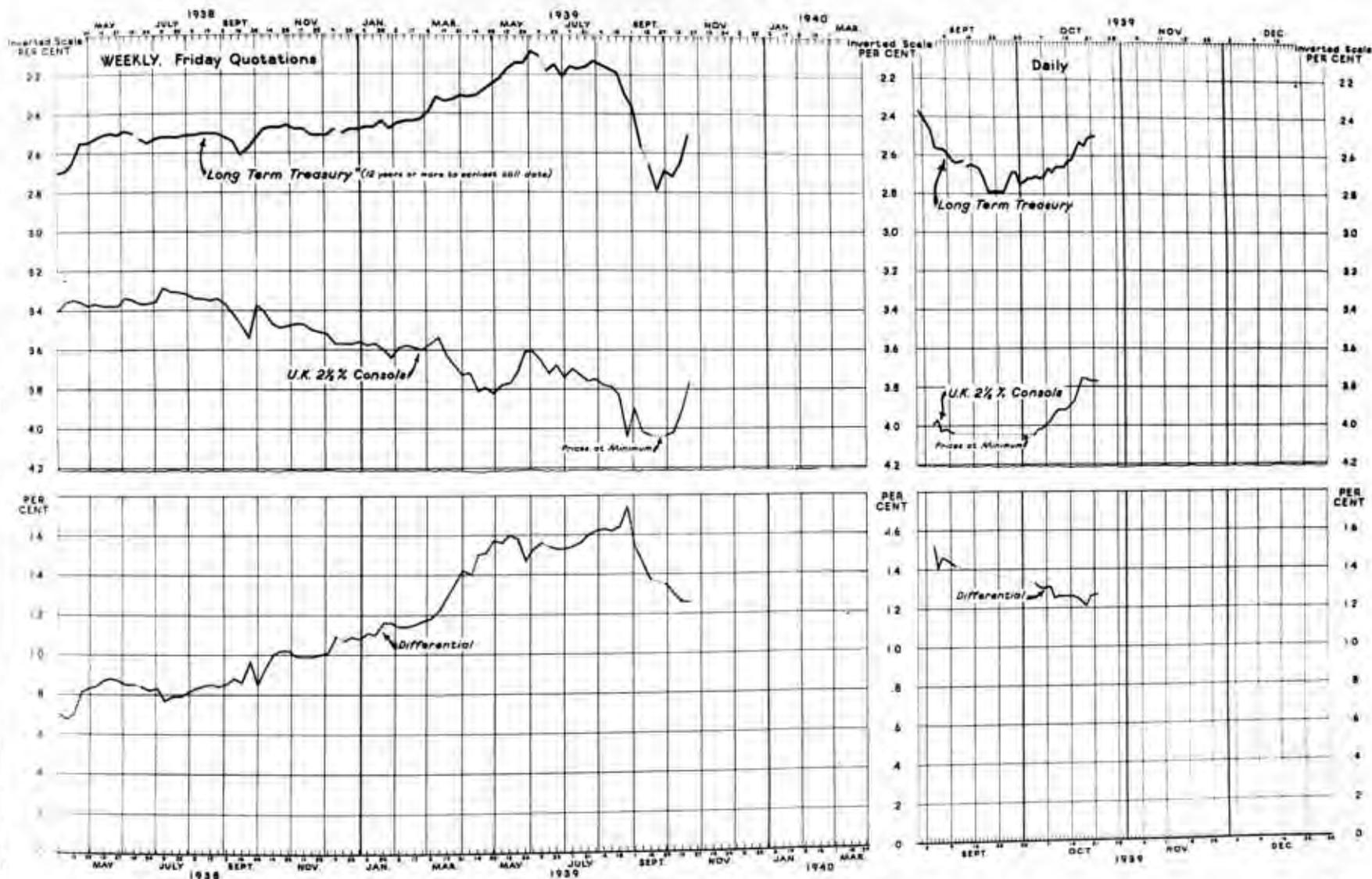


Chart VI

COMPARATIVE YIELDS OF AVERAGE OF ALL LONG TERM U S TREASURY BONDS AND U.K. 2½% CONSOLS



\*Break in line indicates change in comparison of Long Term Treasury average

TOKYO

Dated October 24, 1939

Rec'd 5:07 a.m.

Secretary of State

Washington

547, October 24, 3 p.m.

Due to anticipated intensified control of foreign exchange by Great Britain, Japanese Ministry Finance announced today decision reached to peg yen to United States dollar instead of to sterling effective October 25. The current yen dollar telegraphic transfer selling price rate was fixed at dollars 23-7/16. The announcement indicates that the shifting from sterling to the dollar does not envisage any change in foreign trade policy.

GREW

RR



JR

PLAIN

London

Dated October 24, 1939

Rec'd 1:14 p.m.

Secretary of State,  
Washington.

2145, October 24.

FOR TREASURY FROM BUTTERWORTH.

The belge is weaker again today, the official rate being 23.50-24.00. The Finnish mark has also weakened from 205 to 215 (sellers). The gilt-edged market (see the last paragraph in my 2031 of October 13, 6 p.m.) which has been strong during the past week continues upwards. Yesterday the last Government security rose above the fixed minimum price, namely a conversion 2 1/2 per cent which closed 93 3/8 or 1/8 over minimum. The size of dealings yesterday suggested institutional purchases as well as a growing demand by private investors. British Governments were again strong today, war loan being dealt in at 93 1/8, which is 4 5/8 above the minimum price from which it moved less than two weeks ago and one whole point above yesterday's closing price.

RECEIVED

KENNEDY

REC'D 1:14 p.m.  
CSB

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin, Germany

DATE: October 24, 1939, 7 p.m.

NO.: 1818

Reference is made to telegram of October 19 from the Department, No. 734.

FOR SECRETARY MORGENTHAU.

FROM HEATH.

I was at last successful in obtaining from an authoritative source confirmation of the report that Germany received from the U.S.S.R. some seventeen tons of gold. The value of the shipment was estimated by my informant to be around 70,000,000 marks, or, in dollars, about 28,000,000. It is my understanding that the Reich owns the gold. However, so far I have not been able to find out for what commodities or services Russia made this payment. Extreme secrecy has been observed as regards information on Russian gold shipments and the reported transaction was not even known to several sources who normally should have been informed about it.

I have reason for believing that my information is authoritative, but I am seeking further confirmation, particularly since in the United States it is reported that the U.S.S.R. shipped an equal amount to Netherland banks through Germany, for the purpose of financing purchases in the United States by the U.S.S.R. The rumor is being investigated by our Consulate at Amsterdam. The latter reports that an increase of only 8,000,000 guilders in gold reserves is shown in the last statement of the Netherlands Bank.

KIRK.

EA:LWW

RFP

TELEGRAM SENT

GRAY

October 24, 1939

7 p.m.

AMEMBASSY

LONDON

1285.

The Secretary of the Treasury requests Butterworth to return for consultation for about two weeks. Treasury will pay expenses, including travel by air if Butterworth so desires. Department authorizes if agreeable to you that Butterworth leave at this time. Please telegraph date departure.

HULL  
(GSM)

FA:GVL:AU PP Eu EA

RECEIVED

OCT 25 1939

U.S. DEPARTMENT OF THE TREASURY

WASHINGTON, D.C.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE October 24, 1939.

TO Secretary Morgenthau

FROM Mr. Cochran

This morning I received from Governor Rooth of the Bank of Sweden the following cablegram "Cabling Federal to sell part of our gold against dollars stop Count upon your kind collaboration stop Writing".

Just before noon the Federal Reserve Bank of New York informed us of the receipt of a cablegram from the Bank of Sweden directing them to sell \$25,000,000 in gold today.

At 2:45 this afternoon I spoke with the Secretary in regard to the question of the Stabilization Fund buying gold released from earmark by central banks other than those of countries adhering to the Tripartite Agreement. I pointed out the factors enumerated in Mr. Dietrich's memorandum. I recommended that we purchase the \$25,000,000 gold involved in this present instance. I told the Secretary that I envisaged no general letter of instructions to the Federal Reserve Bank of New York. The idea would be to have the Federal Reserve Bank notify us immediately upon the receipt of an order from a central bank to sell earmarked gold and give us the opportunity to bid therefor. The Secretary stated that he had no objection if I desired to act as above indicated, provided I obtained the agreement of Mr. Daniel Bell.

I explained to the Secretary that Governor Rooth's action had undoubtedly resulted from his reading Senator Vandenberg's letter, and fearing that the price of gold may be lowered and the value of his gold holdings correspondingly lessened. I remarked that Mr. Rooth was one of the most nervous of the central bank governors of Europe upon this point.

After speaking with the Secretary, I talked by telephone with Mr. Bell. I pointed out to him, as I had to the Secretary, the fact that purchasing of the Swedish gold by the Stabilization Fund would prevent this big item from appearing in the Treasury's statement as of today. It was understood, however, that the Fund would be obliged to sell \$10,000,000 of gold this evening to take care of this transaction. Mr. Bell agreed to the plan. Mr. Dietrich accordingly telephoned the necessary instructions to New York.

Offers of earmarked gold by central banks other than those of the Tripartite countries will in the future be handled along the above-indicated lines, unless contrary instructions are received.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 24, 1939

TO Mr. Cochran  
FROM Mr. Dietrich

On October 18 the Federal Reserve Bank held under earmark gold valued at \$1,110,000,000, as follows:

Tripartite Countries	\$ 902,000,000
Other Europe	117,000,000
Central and South America	78,000,000
Asia	13,000,000
Total	<u>\$1,110,000,000</u>

If and when the gold of the Tripartite Countries is released it will be purchased through the Stabilization Fund and the handling charge will accrue to the earnings of the Fund.

With respect to the remaining \$208,000,000, under the present set up, when this gold is released for sale it would be sold direct to the Treasury and the Assay Office in New York would credit the handling charges to "Miscellaneous Receipts".

The only exceptions where the Fund has purchased gold from other than Tripartite Countries is when on a Saturday a non-Tripartite country wishes to sell gold and the Assay Office is closed the Fund will make the purchase, or when the Federal receives the instructions too late in the day to make the delivery to the Assay Office the Fund would purchase the gold.

It has occurred to me that perhaps we could recommend to the Secretary that all gold released from earmark in New York was to be purchased by the Fund and the handling charges would then go to the Fund irrespective of what country sold the gold.

I should like to point out that in connection with the sale of gold all sales are made from the Fund irrespective of whether the purchasing country is a member of the Tripartite Agreement or not.

October 24, 1939

To: The Secretary

From: Mr. Hanes

I have had a further talk with Win Riefler. He wants to go to Guatemala but does not think he can accept unless the State Department sends someone to represent their side of the Government.

Mr. Riefler makes the following recommendations, in which Walter Stewart concurs:

- (1) That the Guatemala conference be postponed.
- (2) That the economic conference between the 21 Republics here in Washington be postponed.
- (3) In case neither of the above can be accomplished he will consider favorably going to Guatemala to represent the Treasury, provided State Department will send either Feis or Duggan.

Herbert Feis advised me that Sumner Welles will be back in his Maryland home Wednesday evening, and while he is not coming to the office immediately may be reached by telephone.

JWH

October 24, 1939

*AM*

To: The Secretary  
From: Mr. Hanes

The Hungarian Minister, Mr. Pelenyi, and his financial counselor, Mr. Havas, called upon me Monday afternoon, October 23rd. The Minister stated that his visit was entirely informal; that he came to pay his respects to the Treasury Department, and to say that his Government wanted to pay its December installment as contemplated.

I did not understand exactly why he was telling me this so I asked him whether he expected any reply from us. He said that he did not unless the Secretary of the Treasury wished to see him about some specific matter, and would not bring this matter to our attention again but would let it take its normal course.

*JWH*

October 24, 1939

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To: The Secretary

From: Mr. Hanes

In accordance with your instructions, I had a meeting on Friday with Sumner Welles and Jesse Jones at which time we discussed the list of articles given to you by the Finnish Minister, Mr. Procope. It was the unanimous opinion of the three of us that there was one possibility of doing something for the Finns, and that lay with the RFC, with the proviso that none of the money which the RFC might be willing to advance against purchases in this country should be used for war materials.

I made an appointment with Mr. Procope for Saturday morning, and talked with him at length concerning this problem, and explained to him that there was only one agency of the Government with whom he could deal at this time and that was the RFC. I told him further that Mr. Jones had agreed to see him on Monday, October 23rd.

I learned from Mr. Jones that he had discussed this situation with the Finnish Minister very thoroughly and had explained to him that, in his opinion, the most he would be willing to recommend as a loan against the purchase of non-war materials in this country was \$10 million. Mr. Jones has requested Mr. Procope to furnish him with certain information concerning Finland such as terms of repayment, etc., and that when he has made final decision he will notify us as a matter of interest.

I am sure the Finnish Minister feels that we have treated him with consideration.

J. W. H.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 24, 1939.

TO Secretary Morgenthau

FROM Mr. Cochran

When I saw the Secretary early this morning it was agreed that I should bring up at the 9:30 meeting the question of releases by the Federal Reserve Bank at New York of information in regard to gold, particularly gold arrivals in this country. I had brought to the Secretary's attention the Dow Jones ticker story of last Saturday morning which gave such full details in regard to three consignments of gold from South Africa to New York. This item had come on the ticker just a little distance apart from an item which definitely appeared to be a release of the Federal Reserve Bank of New York concerning gold arrivals.

At the 9:30 meeting the Secretary let us know that he was definitely determined to stop publicity on the part of the Federal Reserve Bank with respect to gold, and to limit weekly statements to those given out by the Department of Commerce. He stated also that the President himself was becoming annoyed at so much publicity being given to gold shipments. The Secretary instructed Mr. Hanes to adjust this matter today.

At Mr. Hanes' request, I telephoned Mr. Gardner of the Federal Reserve Board shortly before noon. I reminded him of his promise to let me know if the Federal Reserve Board would not agree with our position that the daily gold statistics above mentioned should be discontinued. I told Mr. Gardner that we were quite unhappy because the South African gold shipments had become public through some channel. I read the Dow Jones announcement to Mr. Gardner, who was quite surprised at the fulness of the information as well as the correctness of the technical details. I did not for a moment insinuate that this information had been given out by the Federal Reserve Bank of New York or by any other official. I told Mr. Gardner, however, that Mr. Hanes and I were instructed to settle this matter today. I reminded him that we had preferred to take the question up through consultation rather than simply giving instructions concerning statistics available from Customs sources. I told him that now we would appreciate the Federal Reserve Bank recognizing the position which we are taking. Gardner told me that he thought this South African gold shipment disclosure quite significant. Since he had submitted a memorandum to his Board, on the same subject under discussion, he would have to consult with them before giving me a definite answer. He thought Mr. Sproul had been in touch with Mr. Hanes on this subject yesterday.

I called Mr. Gardner back this afternoon, urging a decision. At 3:15 Dr. Goldenweiser, who had gone with Mr. Gardner to submit the matter to Chairman Eccles, telephoned me. He stated that the Chairman thought this was really a small matter which should not be the subject of controversy and that

October 24, 1939.

- 2 -

a conversation had been held with Allen Sproul in this sense. Consequently, it had been agreed that the Federal Reserve Bank of New York would discontinue giving out the gold data. Dr. Goldenweiser said that Mr. Sproul was writing us a letter tonight to this effect and that Mr. Sproul would appreciate it if we telephoned him back on the receipt of the letter, stating that we desired the discontinuance of the giving out of the figures in question. This would give Mr. Sproul a definite request which he could record with Governor Harrison. I thanked Dr. Goldenweiser for his intervention, and assured him, as I have Mr. Gardner, that it never occurred to us that the Bank at New York had given out the South African gold story. Dr. Goldenweiser thanked me for taking the matter up through the Board and hoped that the Treasury would continue to submit matters of this sort, even though of little importance on the surface, to them rather than deal directly with the Federal Reserve Bank at New York, disregarding the Board. Dr. Goldenweiser was most cordial and gave me the assurance of his people that they desired to cooperate with us in every possible manner.

October 25, 1939.

After receiving the attached letter from Mr. Sproul this forenoon, I telephoned him at 11:55.

I confirmed that it was the Treasury's desire that the Federal Reserve Bank of New York discontinue its releases regarding gold arrivals. Mr. Sproul agreed to this, and promised to give out a statement at his press conference this afternoon to the effect that his bank will not hereafter give out such information; that this gold news service will be concentrated in the Department of Commerce, etc.

At 4:15 this afternoon the following item appeared upon the Dow Jones ticker: "Gold Movement. Federal Reserve Bank of New York announced this afternoon that effective today daily and weekly publication of gold import figures by the bank will be discontinued. In making this decision it is understood that the bank felt that it was desirable for all reports on gold imports to come from one central source. Thus, all gold figures in the future will come from the Department of Commerce which publishes weekly statistics on Friday covering the week ending the previous Friday."



FEDERAL RESERVE BANK  
OF NEW YORK

October 24, 1939.

Dear Cochran:

Enclosed is a clipping from the New York Journal of Commerce which appeared in the issue of Monday morning, October 23, and which discusses shipments of gold to this country from South Africa. I do not know where the paper obtained this information, whether in this country or abroad, but it certainly did not obtain it from us. As you know, we never did give out information on official gold engagements, nor as to the vessels on which gold was being shipped, and we recently discontinued giving out information on reported commercial gold engagements.

This article emphasizes what I pointed out with respect to similar information which appeared a week or so ago concerning gold shipments from Italy, namely, that a blackout in this area of publicity is going to be difficult. The newspapers apparently are able to get at least partial information from other than official sources, either here or abroad.

I have heard from Walter Gardner of the staff of the Board of Governors that there was a meeting at the Treasury last week to discuss gold movement reports. I am sorry that someone from this bank could not have been there, particularly since the reports of this bank were specifically under discussion, and since we did sit in on a similar meeting last spring, when Mr. Harold V. Roelse, Assistant Vice President in charge of our Research Department, represented us. I understand that it was the consensus that this bank's daily and weekly releases on gold imports ought probably to be discontinued. We think that they should be continued, but, of course, releasing such figures is not one of our primary functions and we are not going to try to insist on their continuance if the Treasury feels otherwise about them. We do believe, however, that if the figures are going to be published at all - say a week or ten days late by the Department of Commerce - there is no good reason why they should not be promptly released here. Knowledge of a movement from a certain country or countries, and some idea of its pattern, can be obtained from tardy releases as well as from prompt releases of actual imports. We also believe that too much emphasis on secrecy concerning physical shipments of gold will attract an undue amount of attention to them, and will result in continued publicity for whatever information can be obtained by the press in any way.

Yours faithfully,

(S) Allan Sprul,  
First Vice President.

Enc.

Mr. E. Merle Cochran,  
Treasury Department,  
Washington, D. C.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE October 24, 1939

TO Secretary Morgenthau  
 FROM Mr. Cochran

The foreign exchange market experienced another quiet day. Sterling opened at 4.01-5/8 and shortly thereafter went to 4.01-3/4. The rate remained there until early afternoon when an order to purchase £40,000 appeared in the market and the rate immediately rose to 4.02 and subsequently reached the high of the day of 4.02-1/4. It closed at 4.01-7/8.

The other European currencies were about unchanged with the exception of the belga, which receded from last night's close of .1677 to .1673.

The Dow Jones Ticker carried an item today that the Japanese Government has decided that the yen, which was formerly linked with sterling, shall be linked to the U. S. dollar beginning tomorrow. It is reported that the pegged selling rate for the dollar will be .23-7/16 and the buying rate .23-15/32. It was also reported in the same news item that Manchukuo had followed the Japanese course by linking its currency to the dollar.

Reporting banks in New York and the Federal Reserve Bank reported sales totaling £473,000, from the following sources:

Commercial concerns.....	£ 208,000
Foreign banks (Far East, Europe, Near East and South America)....	£ 265,000
Total	£ 473,000

Purchases of sterling amounted to £462,000 as indicated below:

By commercial concerns.....	£ 145,000
By foreign banks (Far East and Europe).....	£ 307,000
By Fed.Res.Bk. (For Yugoslavia).....	£ 10,000
Total	£ 462,000

We received, through the Federal Reserve Bank of New York, a request from the Central Bank of Argentina to purchase \$1,500,000 in gold to be added to their earmarked account, which request was approved.

The Bank of Sweden sold \$25,000,000 gold from their earmarked account with the Federal Reserve Bank of New York. The Central Bank instructed that the dollar proceeds be credited to their account with the Federal. It also

instructed the Federal to make payments of \$3,000,000 to the National City Bank and \$2,000,000 to the Guaranty Trust Company, both payments for account of the Bank of Sweden. As the Bank of Sweden maintains a large dollar balance, and in view of the magnitude of the amount of gold sold, this sale may be due to the public announcement relative to Senator Vandenberg's inquiry as to reducing the price of gold to its former level of \$20.67 for the duration of the war. The Swedish Bank is presumably selling part of its gold holdings on the assumption that if a reduction in the price of gold occurs, the value of their gold holdings will be correspondingly reduced. If the foregoing is true, this transaction may be the beginning of similar gold liquidating operations.

The Central Bank of the Republic, Colombia, sold \$701,000 gold from its earmarked gold account.

The Federal Reserve Bank reported to us the following gold shipments:

- 5,000,000 from Japan, consigned to the Yokohama Specie Bank for sale to the United States Mint at San Francisco
  - 2,087,000 from South Africa, consigned to the Federal Reserve Bank of New York to be earmarked for account of the Netherlands Bank
  - 2,982,000 from England, consigned to the Federal Reserve Bank of New York for the account of the Netherlands Bank, the disposition of which is not known at the present time
  - 1,680,000 from Italy, consigned to the Federal Reserve Bank of New York for the account of the National Bank of Switzerland, the disposition of which is not known at the present time
- 
- \$11,749,000 Total

On the report of October 20 from the Federal Reserve Bank of New York entitled "Japanese Balances" it was noted that the Far Eastern deposits with the Yokohama Specie Bank Agency rose in one week from an overdraft of \$27,916,000 to a deposit of \$56,375,000, the latter bearing a notation than an overdraft of \$82,929,000 was involved. I asked Mr. Knoke on Saturday last to look into this matter and let me know the significance, if any, of these figures. Mr. Knoke gave me some information in the premises yesterday, and called me back again today. He stated that the Yokohama Specie Bank in New York had explained that it had been making advances to the head office in Japan against securities "held abroad". It is Mr. Knoke's belief that the securities are actually held in New York. (It has been the Treasury's understanding for some time that the securities put up as collateral for the overdraft of around \$27,000,000 were United States Government bonds). Mr. Knoke explained that the difference in the figures this past week resulted from the Yokohama Specie Bank following the new instructions of the Federal to change from the former system of reporting only the difference between assets and liabilities; that is, to show assets and liabilities separately. It will be noted that the difference between the deposit and the overdraft as of

October 20 is practically equivalent to the overdraft of October 14. Mr. Knoks said that when the bank examiners next inspect the Yokohama Specie Bank they will endeavor to ascertain more information with respect to this bank's operations.

Canada sold to us 400,000 ounces of silver under the Silver Purchase Act. This makes a total of 520,000 ounces purchased during October under our monthly agreement with that country to purchase up to 1,200,000 ounces of silver.

A handwritten signature in dark ink, appearing to be 'H. W. F.', is centered on the page below the typed text.

## GROUP MEETING

October 24, 1939.  
9:30 a.m.

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

H.M.Jr: Herbert?

Gaston: Admiral Waesche and I are seeing, this morning and this afternoon, the Bureau of Navigation, Fisheries and Territories and Island Possessions. Those were the agencies you mentioned, weren't they?

H.M.Jr: Does anybody else have boats?

Gaston: Of course, Geodetic Survey have quite a large number of boats. They are also in Commerce. They operate quite independently. They have quite a considerable number of boats of their own. It might be a good idea to talk to them, too.

H.M.Jr: Anybody who has boats.

Gaston: All right, we will take them all, then. People who want boats might be included.

H.M.Jr: What else have you got?

Gaston: Mr. Glasser, of Chicago, and his lawyer and a man from Sabath's office were the gentlemen referred to me yesterday. He thinks that the alcohol tax in Chicago was outrageously persecuting him. He has been indicted, you know. This is Dan Glasser, who was Assistant District Attorney.

H.M.Jr: It is Tom Glasser, I know, who worked for White.

- 2 -

Gaston: Well, this fellow is quite a fellow.

H.M.Jr: Harry didn't get that. If you don't pay attention, I will get off a couple of good ones.

Hanes: You have got to defend yourself, Harry.

H.M.Jr: You watch all the Glassers.  
Anything else?

Gaston: Nothing else.

H.M.Jr: John?

Hanes: No, I haven't anything.

H.M.Jr: You are coming in at 10:30, aren't you?

Hanes: 10:00 o'clock, first. That is what you set for....

H.M.Jr: At 10:30, that is right, and 10:00 o'clock.  
Anything else?

Hanes: No.

H.M.Jr: Ed?

Foley: We won the British-American tobacco case yesterday in the Supreme Court. That is the action against the Federal Reserve Bank in New York where the gold bullion was paid for 20.67 and they wanted \$35.00. There was about four and a half million dollars involved, so now our action that is before the Court of Claims, we ought to be able to dispose of.

H.M.Jr: I see.

Harris: No dividends this year.

H.M.Jr: Well, virtue has its own reward.

Foley: They had some representatives at the Bank in that suit.

H.M.Jr: What else?

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- Foley: I have a list of the papers in our files regarding war preparations (handing list to Secretary). I don't think that we ought to make public use of that at the present time because some of those things have never been actually consummated. A lot of them are in the plan stage.
- H.M.Jr: Would you (Mrs. Klotz) talk with me about that? A. A. Berle talked to me about it. He is all hot and bothered about it. They have been around to see him. He has been designated to talk to them. I think Kintner and Alsop were told by Steve Early that they could write up what steps the Administration had taken for the war, so I had a survey made of what was in the General Counsel's office and what was in mine and they wanted to know whether they could see Hanes and Gaston while I was gone, and I said, "Sure, but I am just not..." I would like to check this with the President once more, because it is awfully recent stuff.
- Hanes: I thought that was a bad thing to do. I don't see how we can tell them very much without going into such detail.
- Foley: Most of the things we enumerate in that memorandum, Mr. Secretary, unexplained, would cause a great deal of trouble.
- H.M.Jr: Berle is very much bothered about it. He is to handle it for the State Department. Did I say I would do it?
- Duffield: No.
- H.M.Jr: Well, I think before I do it I will talk with the President. Have they talked to you?
- Hanes: No, I think somebody told me. Gene Duffield, I think, told me that you had said I could talk to them.
- H.M.Jr: Sure, they said, "Can we talk to Hanes?" I said, "Sure, talk to Hanes and Gaston."
- Hanes: I don't see how you can tell them that stuff.
- H.M.Jr: I don't either. I will talk with the President. I hope to see him today, anyway, with you and Jerry.

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I have asked to see him this afternoon when we get this cleaned up.

All right? .

Foley: Yes.

Duffield: I see in the newspaper this morning that Senator Wagner has a letter and supposedly Senator Barkley, too, on the stabilization fund, which they gave out. If they do read those things into the Record, we are immediately going to get requests down here for copies of those things. Can we supply them?

H.M.Jr: Well, there is a gentleman sitting on one side of you and another on the sofa. You can ask both of them.

Foley: Barney Flynn was talking to Wagner when we went down there yesterday and he asked us for copies of the letters, and Wagner told him we would supply them, and I told him we couldn't give them to him. If he wanted them, he would have to get them from Wagner.

Duffield: Senators never make any provision for widespread distribution of this thing. If you want the letter to be distributed, we are going to have to do it, with their consent.

H.M.Jr: Well, you know now where it is. All right?

Duffield: It is, provided we haven't got anything in the letter we shouldn't have.

H.M.Jr: Take a look at it.

Cochran: There was a story on the Dow-Jones ticker that the Japanese Government has decided that the yen should be linked with the dollar beginning tomorrow. The only other item I have is a notice - Saturday, there was quite a story about six million dollars of gold being en route from South Africa to New York. That brings up that question as to whether these figures should be given out in New York.

H.M.Jr: There is a grand one to hang this thing on. Let's kill that today, Johnny. Six million dollars in

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gold on the way from South Africa, in transit, and the Federal gives that out. Kill that for all time, today.

Cochran: It isn't given out definitely as coming from the Fed. It came out a few minutes from the Fed announcement of arrivals.

H.M.Jr: Use it, anyway. It comes from the Fed, doesn't it?

Cochran: It doesn't say, but I don't know who else would have all of the information.

H.M.Jr: No more gold statistics except from Commerce. I spoke to the President about it yesterday and he is getting a little fed up.

Hanes: You mean a weekly report?

H.M.Jr: Yes, beginning tonight.

Hanes: Have we heard anything from Gardner, Harry? He said he was going to come back to us as soon as he checked with the Federal Reserve.

H.M.Jr: Let's kill it, because it is getting under the President's skin, every day another gold shipment, and it is the same shipment.

Cochran: That is all I have.

H.M.Jr: Are you going to sit in on the 10:30, Mr. Stewart?

Stewart: Yes.

H.M.Jr: Riefler?

Riefler: Yes.

H.M.Jr: I hope you have talked to your partner about his eye.

Stewart: It is the first thing I inquired about.

H.M.Jr: Are you satisfied with his explanation?

Stewart: No. It happened in a sleeper.

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White: Those things happen in sleepers.

H.M.Jr: It just shows what happens when you leave him for one day.

Mr. White?

White: The first draft of the Vandenberg letter is - the answer to the Vandenberg letter is ready. Who would you like to see it besides the legal department and the publicity department?

H.M.Jr: Well, I would like Mr. Hanes to see it. I would like to have that part of the three "E's" that are here see it. If it is at all polished, I think I ought to sign it this afternoon.

White: The more time we have, the better it will be.

H.M.Jr: I will give you until tomorrow, then.

White: That will be better.

H.M.Jr: O. K. Let's say tomorrow. What else?

White: Senator Wagner said that he would very much like to have the answer to Vandenberg's letter as soon as it was ready and Ed and I said that is something he would have to take up with Vandenberg.

Woley: No, with the Secretary.

H.M.Jr: That is all right. What I would do with that - send him the Vandenberg letter and send a copy simultaneously to Barkley and Wagner.

White: The outflow of funds are continuing, that is, the central banks are drawing down their balances but private funds are increasing slightly.

H.M.Jr: That checks with what you told me about Sweden.

Cochran: Yes, sir. Switzerland sold us 10 million dollars yesterday, also.

H.M.Jr: But it goes into their private accounts?

Cochran: It does for Sweden, yes, sir.

White: And they are continuing to sell American securities on balance.

H.M.Jr: What else, Harry?

White: That is all. I would like to see you for a minute after the meeting.

Haas: I have nothing this morning.

Harris: I have been discussing with the State Department the question of diplomatic status for the Treasury men in France. They virtually told me to go jump in the river, or words to that effect, and they haven't the slightest interest and they are even worse than that, I mean they are distinctly bordering on being rude about it. I can't get any further with them at all.

H.M.Jr: All right, you get out an order today discontinuing our giving them any help in Berlin from the Treasury attaches. We are not interested, see. Just send out an order. You take it over, if you want to. I will do it, see. No cooperation both ways, this goes both ways.

White: Have they been helping?

H.M.Jr: Yes.

Who did you see over there?

Harris: Messersmith.

H.M.Jr: I will tell Messersmith myself. You can hear what I say. I am sick and tired of it. How many men have we got in Berlin helping him?

Harris: I don't know now. All we are talking about is about six men, ourselves.

Hanes: My recollection is you signed the order.

Klotz: I think, if I am not mistaken, that some of them were sent back here.

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H.M.Jr: Whatever it is, it is the Treasury staff. If they won't cooperate, the cooperation goes both ways.

Hanes: We did it in one day when you asked us.

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

October 24, 1939  
9:45 a.m.

HMJr: Hello.

Operator: Mr. Messersmith.

HMJr: Hello.

George  
Messersmith: Good morning, sir.

HMJr: Hello, Mr. Messersmith.

M: How are you?

HMJr: I'm all right, but I'm a little angry.

M: What for?

HMJr: Well, we've got half a dozen people in Paris, France - Treasury agents trying to do their job and in order to get around in these times they need diplomatic credentials and I understand Mr. Harris is over and.....

M: He spoke to me over the telephone about it.

HMJr: Yeah, he got nowhere.

M: Look, Mr. Morgenthau, the -- under the rules we can't grant diplomatic passports except to those persons who, under international law and practice you know, have a certain status.

HMJr: Well.....

M: And if we give diplomatic passports to Treasury agents and certain other representatives of our government -- officers of our government, why we'd have to recognize diplomatic passports from similar agents and all kinds of people from other governments which would put us in a very embarrassing position.

HMJr: Well.....

M: Now.....

HMJr: .....in order to save you embarrassment the people that we've loaned you, the Treasury people in Berlin. I don't want to embarrass you, you see?

M: Yeah.

HMJr: So we'll send out a cable today telling them to discontinue embarrassing you by assisting you.

M: Why, Mr. Morgenthau, don't do anything.....

HMJr: Yes, I am. I'm sick and tired of this -- all of this diplomatic language and this thing and that thing. I mean, we've got people working under war times there -- in France, and we asked that they be given a -- some sort of a certificate so that they can travel around.

M: Well, I mean, being perfectly -- I told Mr. Harris that we were perfectly prepared to do everything we could to facilitate their travel and I'm sure that we can do it.

HMJr: Well, what are you going to do?

M: Well, I wish you would let me come over and talk to you about it, because.....

HMJr: Well I'm not -- I'm not going to trade on this thing because this thing has been -- George, you fixed up the Agriculture people.

M: There's not a question of trading.

HMJr: You fixed up the Agriculture; you fixed up the Department of Commerce.

M: Well, but that was an entirely different matter, Mr. Morgenthau.....

HMJr: Well, let's make this an entirely different matter.

M: Ah.....

HMJr: But I don't want to embarrass you with -- with Treasury agents in Berlin. I -- I mean, I.....

M: I don't think the question has even arisen with regard to the Treasury agents in Berlin.

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HMJr: No, but there's a whole staff -- I don't know -- working for you.

M: Well.....

HMJr: I -- I gave you that on a split second and I didn't stop on diplomatic usage.

M: Why no, but it just seemed to be the natural thing to do as they couldn't perform their ordinary functions.

HMJr: Well, we can take them out of there and bring them -- bring them home.

M: Yes, you can do that.

HMJr: Sure.

M: Well, I -- I -- there's a long story behind this.

HMJr: I know there is. I -- I know there is and I want to crack it one way or the other.

M: Well, I'm not sure that always -- you remember sometimes we're not always given all of the facts. Now there was a Treasury agent over here the other day who came to see me whom I tried to talk with in a reasonable way, and he really behaved very badly, Mr. Morgenthau.

HMJr: Who was that?

M: He -- a man by the name of -- he was the assistant -- what's his name? Butler, his name was.

HMJr: Yes.

M: He really made himself very objectionable.

HMJr: Well, there's no reason for that.

M: Well, I mean, that there was -- it was perfectly absurd.

HMJr: If you want to come over Mr. Harris and I will be delighted to sit down, because my people can't function over there the way they are.

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M: Well, I -- I would really love to do that because I think you would want to go into it.

HMJr: All right.

M: And.....

HMJr: How about four o'clock today?

M: What's that?

HMJr: Four o'clock today?

M: That suits me.

HMJr: Harris and I will be delighted to see you, but I -- but I -- I really -- I've got to look after my people.

M: Right. Well, I'll -- I'll only be too happy to come over.

HMJr: All right.

M: All right.

HMJr: Thank you.

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- Harris: I will give you a copy of the reported conversation between Butler and Messersmith in which Butler says that he has never been so insulted and treated so badly by anybody as Messersmith.
- Klotz: He knows how to do it.
- H.M.Jr: Sometime ask me to tell you the story about the narcotic agent when Messersmith was Minister in Austria.
- Harris: It is not a background which I know and I can't seem to find out about it.
- H.M.Jr: If we don't have what we want tonight, the boys will get orders to leave Berlin.
- Harris: We have a specific case now where we want to make an investigation on Swiss watches. We are trying to get a fellow to go down to Switzerland and the last fellow we sent down, they held him up for ten days and then they only let him in for something like four or five minutes, and said he had to get out.
- H.M.Jr: They can ask us to wait until Papa Ciano goes to his father-in-law's funeral and hold up a case for ten days, that is all right. Phillips couldn't get in to see Ciano. The excuse was he had to go to his father-in-law's funeral. This thing has been going on for I don't know how long. I am fed up on it. I told you to fight.
- Harris: I fought hard enough so they will hardly speak to me. I don't know how much further you want to go.
- H.M.Jr: Why not make it complete?
- Harris: You got a slight impression of how he feels there.
- H.M.Jr: That is all right, if we don't get what we want tonight, these boys leave Berlin. They are asking favors every day and we are letting them do one thing after another. It would be just too bad if they found out about that airplane in the State Department, letting that come over. One a day, until we get what we want. It would be just tough luck, wouldn't it?

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Harris: Yes, it would be too bad.

H.M.Jr: All right.

Harris: Just before you get off the narcotics, one of the difficulties is, you see, that that fellow Butler has been mixed up in unearthing narcotics deals and without the diplomatic status, they can put him on the stand, which is the one thing they don't want to do. With his status, he can stay off the stand in France, which he is very anxious to do.

H.M.Jr: It is just the most childish piece of performance I have ever seen. Get somebody to tell you how they recently - maybe you (Cochran) know how they handled the Agriculture and Commerce people. They fixed that up. They gave them a diplomatic status and then assigned them back to their department, isn't that what they do?

Haas: They did it before, Mr. Secretary.

Cochran: No, this is new legislation.

Haas: But they had diplomatic status.

Cochran: Our Treasury man can get it if he is called the Treasury attache.

H.M.Jr: Am I not right that within the last three months these Commerce fellows have been taken over by our foreign service and then reassigned back to the Department of Commerce?

Cochran: Yes, as of July 1.

H.M.Jr: Am I right?

Cochran: Yes.

H.M.Jr: Let him (Cochran) post you on this.

Harris: Yes.

H.M.Jr: All right?

Harris: Yes.

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- H.M.Jr: He doesn't want to lose those fellows.  
Dan?
- Bell: Apparently some of the dealers were a little disappointed at the rate.
- H.M.Jr: Good, that shows you were right.
- Bell: They said it would go very well. I think the boys thought the rights were a little higher than one point.
- H.M.Jr: That served them right.
- Bell: Yes. Under the Gold Reserve Act that was amended in the last session of Congress, you have to make a report to Congress at this time of the stabilization fund. I certainly don't think we ought to send the audit report. It seems to me what we ought to do is write a summary of that and send that up.
- H.M.Jr: Is there a law like that?
- Bell: Yes, sir.
- H.M.Jr: Say that again. I am not familiar with it.
- Bell: At the last session of Congress, which extended the Gold Reserve or Stabilization Fund for another two-year period, another provision was also put in that you have to make a report to the Congress in addition to the one to the President, and we have always given the President the audit report, which is in detail and quite a large book, as you recall. I don't think we ought to send that to Congress. It gives the day-to-day transactions in detail. We ought to write out some sort of a report followed by a summary table.
- H.M.Jr: What is the out-off date?
- Bell: June 30th.
- H.M.Jr: You do the way you think is right.
- Bell: I would like to have Mr. White help me.

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H.M.Jr: All right.

Bell: We will have the audit report in the next ten days or two weeks.

H.M.Jr: I will leave it to you and White. What else?

Bell: We are beginning to get requests for new, uncirculated coins, mostly silver dollars, for Christmas. Heretofore, we have refused to send out any new, uncirculated silver dollars because right after Christmas they come back into the Federal Reserve Banks and then they want the space and we have to pay the transportation charges. Would you like for us to continue that or should we grant some of those?

White: I think they ought to be distributed.

H.M.Jr: Unhesitatingly.

Bell: And we'd confine it to the Christmas....

H.M.Jr: Let them have all they want.

Bell: Mr. Secretary, every big department store in the country tries to get new, uncirculated silver dollars to go right through the cashier's office and right back into the Federal Reserve. Do it?

H.M.Jr: Sure.

Bell: Then we will have to ask for a deficiency.

H.M.Jr: Do it with your fund. I don't want any deficiency.

Bell: We are quite limited as to funds.

H.M.Jr: Do it as far as the funds are available.

Bell: All right. That is all I have got.

Thompson: Frank Wilson is well impressed with that man that Jere Cooper spoke to you about. He is coming in Monday morning. He has a vacancy here. The man was in several days ago.

H.M.Jr: And he will take him on?

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Thompson: Yes.

H.M.Jr: Fine. What is that fellow's name?

Thompson: Ingraham.

H.M.Jr: And we take him on permanently?

Thompson: No, it is an emergency appointment.

H.M.Jr: He is all right, is he?

Thompson: That is what he says.

Gaston: What is the man's name?

Thompson: Rice A. Ingraham. He was formerly a Postmaster or Assistant Postmaster. He ought to be a good man.

H.M.Jr: Fine. O. K. We go right into another one at 10:00, don't we?

Cotton: This is the 10:30 meeting on German economics? I think the consensus of the group you sent it to was that it might be a good idea to prepare something and then discuss it a little later. We will probably waste your time to talk about it at 10:30.

White: The decision has been made as to how to proceed and there would be nothing to decide until the first report is ready.

H.M.Jr: You know how you want to proceed?

White: Yes.

H.M.Jr: How?

White: Well, there will be a preliminary report prepared, such as, I take it, you are interested in and....

H.M.Jr: I would like to take five minutes at 10:30 to talk about it.

October 24, 1939  
10:05 a.m.

HMJr: Hello.

Lauchlin  
Currie: Hello, Mr. Secretary.

HMJr: Hello, Lauch.

C: I just want to make one or two suggestions about procedure to you this morning.

HMJr: O. K.

C: We had a meeting of that group last week and we met yesterday afternoon.....

HMJr: Swell.

C: .....on material that Danny Bell is getting together, and I can tell you -- to be perfectly frank with you, I can't make much of it. It's all in terms of allotments by programs by months.....

HMJr: Yes.

C: .....and I don't think for this purpose allotments mean much.

HMJr: Yeah.

C: So what's happened is after the meeting I sat down and began thinking up ways and means which we could do this thing and I have five or six suggestions.....

HMJr: Yes.

C: .....we might explore.

HMJr: Yes.

C: Now, if it's all right with you I'd rather not -- I'm not really -- feel in a position of submitting a report from this committee.

HMJr: You mean you want a postponer?

C: No. I think that if it's O.K. with you I'll make a verbal statement that various things emerged from our discussions and we'll have some discussion there -

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how the people control the

HMJr: I see.

C: And then perhaps if you and I could get together later.

HMJr: I get you.

C: And we'll submit something to the President then. But I'd -- I'd rather not do it through this large group, you see?

HMJr: I get you.

C: If that's all right?

HMJr: Sure.

C: Fine.

HMJr: Sure.

C: All right then, I'll be over at eleven.

HMJr: Thank you.

C: Fine, thanks.

October 24, 1939  
11:39 a.m.

HMJr: Hello.

Operator: Mr. Harrison is not in the office. I have Mr. Sproul.

HMJr: Hello.

Allan Sproul: Hello.

HMJr: Allan Sproul.

S: Yes, sir.

HMJr: How are you?

S: Fine.

HMJr: How's she going?

S: She's going all right. There was some selling at the opening. They found their rights had been priced a little too optimistically and the prices got down to par 25-6 and 7, but that selling seems to have been pretty well cleaned up; they are now quoted about par 29 31 which makes it look pretty good, I think.

HMJr: Well I should think so.

S: Yeah.

HMJr: Well I think about noon we'll announce then, if you think well of it, that we're going to close them tomorrow night.

S: I think it would be a good idea.

HMJr: And you boys go -- begin to figure now on a 275 million R.F.C. three-year note.

S: 275 R.F.C. three-year.

HMJr: Yeah.

S: Right.

HMJr: I -- I'd like to offer it Friday.

S: Friday?

HMJr: Uh-huh.

S: That seems to me to be rushing it a bit.

HMJr: O. K. I want to get it between bombings.

S: (Laughs)

HMJr: Think about it.

S: All right, we'll do that.

HMJr: That gives them -- well, think about it.

S: Yeah.

HMJr: Do you think it's rushing them a bit?

S: Yes, I do, and if you offer it Friday, unless you close it Saturday you'd have to have it open over a weekend which I think would be bad.

HMJr: I'd only leave it open for one day.

S: For -- just for Friday alone.

HMJr: Yes, new money.

S: Yeah. Well, I think it's rushing it a bit. I'd prefer to see it next Monday or Tuesday.

HMJr: I see. Well, that's what I'm asking you.

S: Yeah. Well, that's the way I feel about it.

HMJr: Well, think some -- now let me just see - what is next Monday or Tuesday?

S: 30th and 31st.

HMJr: Yeah. Could you -- you could date it the first of November.

S: You could date it very well the first of November and give a little time because there'll probably be some secondary distribution on this exchange offering after it's closed.

HMJr: On this one?

S: Yeah.

HMJr: I see. I see. That gives them a chance.

S: I think that would be better myself.

HMJr: All right. Well, think about it. I'll talk to you about it again.

S: All right.

HMJr: But to close this tomorrow night is all right, isn't it?

S: I think it's a good idea.

HMJr: All right. Thank you.

S: Very good. Thank you.

October 24, 1939  
2:50 p.m.

HMJr: Hello.

Operator: Senator Vandenberg.

HMJr: All right.

O: Go ahead.

HMJr: Hello, Arthur.

Arthur  
Vandenberg: Yes, Henry.

HMJr: I have not been stalling on this letter. It has not yet come to my desk.

V: Yeah.

HMJr: When I got your message I called up the boys and said they had to finish it tonight.

V: Yeah.

HMJr: And it'll be on your desk not later than 9:30 tomorrow morning.

V: Thank you very much, Henry.

HMJr: But I -- you'll have to take my word that it hasn't reached me and I told the boys in the economics section for heavens sakes to hurry.

V: I'd take your word for anything you'd give it to me on.

HMJr: Well, I -- it'll be there on your desk not later than 9:30 tomorrow morning.

V: All right, Henry. Thank you very much.

HMJr: Thank you.

October 25, 1939  
11:15 a.m.

Operator: Go ahead.

HMJr: Hello.

Arthur  
Vandenberg: Henry.

HMJr: Yes, Arthur.

V: Much obliged for your letter.

HMJr: Well, I'm sorry that it was -- got delayed, but I had to keep changing it because it's an important letter and a very difficult letter.

V: That's right, and.....

HMJr: And I wanted it to be as.....

V: I think it's very adroitly done.

HMJr: Are you satisfied?

V: I want to ask you one question which you neglected to comment on and which you probably could tell me over the phone yes or no.

HMJr: Go ahead.

V: Whether there is any stabilization agreement under which we continue to operate in conjunction with England and France, or any other foreign countries.

HMJr: Do you mind just holding the wire a minute?

V: Yes.

(Brief pause.)

HMJr: Just a minute. I have somebody in here now -- let me have that again, Arthur.

V: Whether there is any stabilization agreement under which we continue to operate in conjunction with England and France, or any other foreign countries.

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- HMJr: Well, I -- let me put it this way - I -- I have no agreement with anybody to operate - how shall I say - except on a day to day basis. Now, does that answer -- I want to be very sure to answer you.
- V: Well, I want to be very sure that I -- I understand it correctly. Does that mean that there still is an agreement with England and France on a day to day basis?
- HMJr: Well, we have this sort of an agreement with them and Holland, Switzerland, Belgium, and if they should buy or sell any currency in this country that they will settle with us at the end of the day with gold. That is, in other words, if they send us a cable, "Please buy or sell for our account," pounds, or francs, or anything else, then at the end of the day they have to settle. That's the only agreement that we have.
- V: That's an agreement with what countries?
- HMJr: Well, I mean it's a Tripartite Agreement with England and France, Holland, Switzerland and Belgium.
- V: Yeah.
- HMJr: All five of them. In other words, if they send an order over to the Federal Reserve to buy or sell for their account.....
- V: Yeah.
- HMJr: .....the understanding is that at the end of the day that they -- that they settle it. We just -- we just act for them.....
- V: I see.
- HMJr: .....for one day.
- V: I see.
- HMJr: But it's just from day to day. Now, we haven't had any such orders since the war has broken out.
- V: Yeah.

HMJr: We have none, but if they should send over a cable tomorrow, "Buy or sell for our account" the understanding is that before the sun sets they pay it.

V: Yeah.

HMJr: So we -- we never extend it more than during that one day.

V: Yeah.

HMJr: But it's always for their account and not for us.

V: Yeah.

HMJr: Does that answer you?

V: Completely.

HMJr: What?

V: Completely.

HMJr: Now, let me just give this to you. I have, long before there was a war and will continue to lean over backwards, but I'm not a cat's paw for any country. See?

V: Yeah.

HMJr: And I have more, if it's possible, lived up to the spirit of the Johnson Act.

V: Yeah.

HMJr: And there has been -- last four or five years -- all kinds of proposals and I've outjumped Johnson, if that's possible.

V: Yes.

HMJr: Now, if you're not completely satisfied, ask me anything that you want.

V: Well, what would be the objection, Henry, to have an amendment such as Taft is proposing to limit the amount of investment that the Stabilization Fund can have in the currency of belligerent countries?

HMJr: Well, it's just this thing, that we went through this whole fight on the Stabilization Fund and Congress did me the great honor of extending this thing for two years without trying to limit me other than that I should make this report to Congress, which I am delighted to do. And I don't see that anything good can -- purpose can be served. After all we -- I was on the witness stand for over three months, I think, off and on, and I think I satisfied everybody; and I just don't see what good purpose should be started, I mean any more than they first talked about limiting it to 200 million dollars, the Stabilization Fund.

V: Yeah.

HMJr: And they had ample time to satisfy -- look me over, turn me over, inside out. I think I answered all the questions.

V: Well, you've got plenty friends up here.

HMJr: And I can assure you that there are no secret chambers or anything that anybody -- that the daylight can't be turned on at any time.

V: Yeah.

HMJr: And I have no disposition to use the fund to help them finance one nickel and won't without -- if it's ever a proposal or it's ever even considered I'll march up on the Hill and consult first. But I think I'd have to be dragged up.

V: (Laughter) All right, Henry. Much obliged.

HMJr: Thank you.

V: Goodbye.

TQ:

5/13'40

Miss Chauncey

---

This material was assembled  
when the Secretary was getting ready  
to see Alsop and Kintner before they  
wrote an article on how the Gov't  
was prepared for the war.

I have on the file copy this notation

"This material was assembled at the request  
of Mrs. Klotz. Cairns, Cox and Bernstein  
contributed to its assemblage.  
Mr. Foley carried it to 9:30 group meeting  
10/24'39."

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*fmcb*

MR. FOLEY

MEMORANDUM TO THE FILES

Action of the Treasury Department taken prior to September 1, 1939, looking to the outbreak of a European War:

- ✓ I. Action pursuant to Title 50, section 191 relating to anchorage, movement, etc., of vessels.

With respect to this matter, the following papers were prepared:

1. Papers to be used without a proclamation under the Neutrality Act:
  - (a) Proclamation by the President;
  - (b) T.D. \_\_\_\_\_ anchorage regulations;
  - (c) Telegram to Collectors of Customs;
  - (d) Telegram to District Supervisors of Patrol Districts;
  - (e) Telegram to Supervising Customs Agents; and
  - (f) Telegram to Coast Guard Officers.
  
2. Papers to be used after a proclamation under the Neutrality Act:
  - (a) Proclamation by the President;
  - (b) T.D. \_\_\_\_\_ anchorage regulations;
  - (c) Telegram to Collectors of Customs;
  - (d) Telegram to District Supervisors of Patrol Districts;
  - (e) Telegram to Supervising Customs Agents; and
  - (f) Telegram to Coast Guard Officers.

II. Action to enforce Article 178 of the Customs Regulations relating to shipment of arms, etc.:

1. Papers to be used before a proclamation under the Neutrality Act:
  - (a) Telegram to Collectors of Customs directing them to study Article 178; and
  - (b) Similar telegram to Coast Guard Officers.
2. Papers to be used after proclamation under the Neutrality Act:
  - (a) Telegram to Collectors of Customs directing enforcement of Article 78; and
  - (b) Similar telegram to Coast Guard Officers.

III. General Coast Guard Action:

General instructions were prepared referring to Title 50, section 191, Article 178 of the Customs Regulations and other relevant matter.

IV. The certificate of incorporation, by-laws and green release of the American Stabilization Corporation were drafted.

The purpose of this corporation was to assure the orderly marketing of American securities owned by belligerents and nationals thereof. It was planned to secure its resources from the Reconstruction Finance Corporation.

V. The question of the legal authority of the Reconstruction Finance Corporation to make secured loans to belligerents was considered and determined.

An opinion of the Attorney General was secured approving the plan.

VI. A memorandum was prepared on the nationalization or control of holdings abroad of currency, corporate securities, etc., by American nationals.

VII. From time to time various plans of action were devised for foreign exchange control and reports of foreign owned assets in this country, including controlling and reporting of Czech balances, German and Italian balances, French and British balances and all foreign owned assets.

In August, on the 28th, these plans were re-canvassed and were submitted to the President listing a series of steps to be taken with respect to foreign exchange control. This was agreed upon by the Treasury in consultation with other interested departments.

VIII. State Department and the Treasury Department studied measures to prevent draft payments to Italy and Germany such as remittances by immigrant families to Italy and Germany.

Drafted legislation and an executive order to accomplish this purpose.

9 - IX. Negotiated with Britain as to methods to be followed in the orderly liquidation of securities and assets in this country owned by Britain and nationals thereof. Material furnished by Great Britain last spring relative contemplated steps in the handling of foreign exchange control and liquidation of foreign exchange assets. Conferred with British representative regarding this matter.

Negotiated with other tripartite members and Canadian representative relative to the orderly liquidation of American assets owned abroad. Memorandum was prepared re proposed course of action for tripartite countries.

X. A proposed executive order was prepared regulating transactions in foreign exchange, transfers of credits, payments, and the export of coin, bullion and currency, and requiring reporting of all foreign owned property situated in the United States. Regulations, forms and instructions to carry the order into effect were also prepared.

This order was approved by the Attorney General.

- 4 -

XI. A memorandum on the authority to close banks and security exchanges in the event of an outbreak of a war abroad was prepared.

XII. A memorandum was prepared on non-legislative action which the Government could take in the case of a European War in which the United States was a neutral.

This memorandum related to moneys, fiscal control, control of prices and supplies of commodities, and Customs and Coast Guard controls.

XIII. A draft of legislation was prepared with respect to combatting discriminatory control by foreign countries of payments to Americans.

XIV. A memorandum was prepared with respect to the President's control over exports and shipping during the first World War.

XV. A memorandum was prepared dealing with the authority of the Government with respect to the operation by it of railroads in time of war.

XVI. Means of controlling commodity prices without new legislation in the event of an outbreak of a European War were outlined.

XVII. A check-list of war legislation and proclamations - 1914-1918 - were prepared.

XVIII. A memorandum was prepared on the ambiguities and loopholes in the existing Neutrality Act.

XIX. A memorandum of action to be taken by the Treasury Department and all its branches in the event of a European War was prepared.

XX. A memorandum of war statutes affecting the Treasury Department was prepared.

XXI. Consideration was given to an amendment to the Neutrality Act permitting the President to discriminate among belligerents in order to carry out the purposes of treaties to which the United States is a party.

- XXI.** Arrangements supplementing the Tripartite Accord guaranteeing Great Britain and France freedom to export and import gold and fixed gold price.

10/25/39

The California congressional delegation called on the Secretary and presented to him the attached letter they had written to the President protesting against Treasury's customs regulation affecting tourists to Tia Juana.

# Congress of the United States

## House of Representatives

Washington, D. C.

October 19th, 1939.

124

The President,  
The White House,  
Washington, D. C.

Dear Mr. President:

On July 28th the Treasury Department promulgated a regulation to become effective October 27th, 1939, limiting the \$100 tourist customs exemption at San Diego, California, to tourists who remain in Mexico for more than twenty-four hours. This regulation applies to the San Diego customs district only; the rest of the Mexican border is left unaffected.

This regulation seems to be unconstitutional discrimination against this section of California.

Article I, Section 8 of the Constitution requires specifically that all "duties, imposts, and excises shall be uniform throughout the United States." This regulation would require payment of a duty at San Diego on goods which, if brought in by the same traveler on the same day at any customs district in Arizona, New Mexico or Texas would be exempt.

It imposes a test which cannot be complied with by any bona fide tourist. Of the many thousands of people who crossed the line at San Diego last year, probably not one hundred stayed over night at Tia Juana. There is no place to stay.

This regulation defeats its own end by protecting the professional evader while harrassing the bona fide tourist. As long as the law allows the professional border crosser will be willing to stay overnight at Tia Juana in some questionable place at least once a month to evade the law while the casual tourist and his family cannot because of the lack of proper hotel facilities.

Mexican retaliation, such as withdrawing their own 50 peso per week exemption, would ruin a balance of trade highly favorable to our merchants. Every Mexican border town is substantially a suburb of an American city, buying everything on our side of the line that is necessary.

The Mexican competition with our merchants is negligible. A large proportion of the tourists claiming the exemption are from outside California, and their purchases in Mexico would not have been made in California in any event. San Diego is apparently singled out because Tia Juana is a "free zone." But prices are reported to be higher than at Juarez.

This regulation has been protested by the statewide hotel, business men's, automobile, restaurant, apartment house and auto dealers associations and transportation companies. In fact, by virtually every organization dealing with tourists and over two thousand individual retailers. It is opposed by Governor Olson and the state administration.

As to their own states, Senators Sheppard, Connally, Hatch, Chavez, Ashurst, Hayden and Downey, opposed it.

We, the undersigned members of the California delegation, ask that the regulation be rescinded, and that this discrimination is not permitted to exist. If that is done we will be pleased to cooperate if the Treasury Department desires to effect legislation to end abuse of the exemption by limiting its use to once a year or once each six months. If the Treasury Department insists on a time limitation, let it be one corresponding to the normal tourist's usual visit, which probably does not exceed four hours.

We would deeply appreciate your personal consideration to this subject.

Yours most cordially,

*Sam R. Howard*  
*Frank H. Buck*  
*W. Elliott*  
*Burkhalter*  
*R. H. ...*  
*Richard ...*  
*John H. ...*  
*Sam ...*  
*Joe ...*

*Wm. J. ...*  
*Robert ...*  
*Chas. ...*  
*John ...*  
*Frank ...*  
*Robert ...*

*Henry ...*

AM  
House  
October 25, 1939 126

Conversation with W. R. Johnson in Los Angeles, California,  
(Office of the Collector of Customs) at 5:35 p.m. today

F. Bill, about eighteen or twenty Congressmen from California came into see Basil Harris today and refused to leave until they could see the Secretary on that twenty-four hour regulation that goes into effect on Friday.

J. - Yes?

F. - and they were pretty much of ~~the same opinion~~ the uniform opinion that the regulation should not go into effect. The Secretary said he would have to talk to Thomas Ford on this. He would have him come in tomorrow and would let them know his decision - what he can do, if anything. I thought that you being out there on the ground you might talk to the Collector of Customs at San Diego and Los Angeles and you could give me your first-hand report.

J. - I can give you the report right now.

F. - Just a minute, I want to make certain that there is someone taking this down. Hello!

S. - Hello, I'm on and am taking it.

J. - Hello, Florence. How are you?

S. - I'm fine. Thanks.

J. - The situation down there is this - There are two or three large stores down there. One of them is operated by Milnor (spelled it out). First, Milnor has a store just across the line a large retail establishment in Tijuana. Secondly, he has the agency for the distribution of the principal French perfumes in that area of Mexico so he has a cut from the sale of all other stores. He is quite a local figure in politics, etc., and is a particular friend of McAdoo and his crowd.

Another large retail establishment is operated by a Mexican, Rodriguez (spelled it out), and there are several other smaller establishments. Those are the interests back of this move plus the fact that they have a lot of local interest in San Diego among the people who are accustomed to regular shopping in Tijuana. The price of meat is much lower in Mexico than in the United States. The Navy Crowd and a lot of other people go regularly to Tijuana to buy their meat.

F. - They make purchase of less than \$5?

J. - They make all kinds of purchases.

F. - Do they get an exemption of \$5.00 once every thirty days - -

J. - I'll take care of those \$5 exemptions later on in the report.

F. - All right, I'll not interrupt any more.

J. - This local interest has been actively consolidated by Milnor and some of the other crowd so they can have the benefit of purchases in Mexico, and they are opposed to any change of that \$100 exemption ruling. This ruling is greatly misunderstood by the local people who do their purchasing regularly in Tia Juana. They do not know anything about this \$5 exemption. The Collector of Customs and the Assistant Collector of Customs were under some misapprehension about it. The plan, when I landed there, was to allow \$5 exemption not oftener than once in 30 days, but to allow \$1 exemption indiscriminately but not more than once every day.

F. - Do they make any records of those?

J. - They are making card record of the \$5 exemptions, but not of the \$1 exemptions. I told the Collector of Customs and the Assistant Collector of Customs for the present to forget about the 30-day feature insofar as \$5 exemptions are concerned but go ahead and allow \$5 exemptions and keep a card record to see if they abuse the privilege. Keep no card of the exemptions up to \$1. The result is that that will largely take care of the typical tourist traffic. It will hurt Milnor and Rodriguez very much.

I went into Milnor's store and he had on display Dunhill pipes, Burberry (?) coats, English woollens, English socks. They have French and English merchandise.

Rodriguez is very much like that except that he also has cheaper line of goods.

The smaller stores are not going to suffer. They have pictures, carved canes and the usual souvenir stuff which the tourists will buy and bring back. But these tourists are not making purchases at Milnor's and Rodriguez incidentally to their trip. The local people go their and take a friend and make purchases which they say were incidentally to the trip even though they would have a slip in their pockets with a list of the things they were going to buy. It is hard for the boys to question every purchaser. I went out to see and they have a difficult situation there. There were cars lined up in five lines deep and extended for half a mile long. That means we have to work fast. We can not check into these stories and let them get home before midnight. This means that the boys have to take their word for their purchases.

F. - How large a town is Tia Juana?

J. \* It is very hard to tell about the size of these Mexican towns. I should say that the population is about eight thousand or twenty thousand. On this side of the line in San \_\_\_\_\_ about four thousand.

F. - What is the dividing line? Is there a river, or is there just a line?

J. - There is a woven wire fence about 8' high.

F. - Frank Dow says there is no place to stay over night on the Mexican side? There's no place to stay?

J. - There is a very fine hotel "Agua Caliente, about three miles out of town. It is owned and operated by that man, Milnor. The Mexican Government stopped gambling, and if the administration down there should change and gambling should come in, it will be a going hotel.

F. - By the very nature of the place, it isn't one where people would stay - Tia Juana?

J. - It isn't on the way to any place and not many going through - -

F. - There are much better hotel accommodations this side of the line any way.

Johnson's

(I didn't hear ~~Johnson's~~ reply.)

F. - I believe Milnor was in that crowd today that saw the Secretary. There were some department store people from Tia Juana in, and a lawyer by the name of Northcutt Ely.

J. - Northcutt Ely is the local lawyer in Washington for that region - Milnor - Rodriguez and a "Work" Bowman. Bowman use to be interested but has dropped out and is now located at Flagstaff Arizona. Until recently he was interested with Milnor in the Hotel Agua Caliente. Now that the gambling has stopped - -

F. - Bill, if the Secretary finds he should have to do something (make a compromise) He might say to Ford,

"We have a new Collector of Customs who has not had a chance to orient himself. We got a lot of complaints and it is hard to get the whole picture here, and we are going to suspend the effective date for 30 days."

J. - You can not do it, Ed. The statute reads (I'm not just sure how it goes) 90 days after the publication of the regulations

Secretary would have to cancel the order and issue a new one and it would be effective 90 days after issuance. I am opposed to any retraction on this position.

F. - On the merits?

J. - On the merits. On the merits we are entirely right. This was kicked around in the department for a whole year. The whole border was upset about what we were going to do. You know the whole border was going to be included. There were several interested in El Paso.

The thing was settled you will recall 12-12 with one in the balance. You know that Ford has already had his say and expressed his opinion (very definitely). I am very doubtful that he is going to be in a compromising mood. I do not blame him much.

I have already talked to the Collector here, very old man, but an able chap, and to the Assistant Collector, and I have arranged to eliminate this once in 30 days. They want the stores here to be able to state definitely what the people will be allowed in this exemption. I told the Collector and the Assistant in any locality it would be difficult to definitely state that for a given locality. That must stay discriminatory if we are not to get into too much trouble if we make a definite order.

F. - What would be the effect - on the administration of the order - if we limit it to say six or eight hours?

impractical

J. - In the first place, it is ~~impossible~~ to enforce anything less than twenty-four hours.

F. - Overnight arrangement has its conveniences?

J. - Yes

F. - I see your point. If there are no places to stay overnight---

J. - When you make it less than one day - twenty-four hours you make it absolutely impossible to enforce. The order, the time of the order, should not be disturbed. I want to say that you can discount my opposition, because I thought the regulations should hold for the whole border. However, Tia Juana is different than any ~~ix~~ place on the border - a free port of entry and less than 17 miles from San Diego which has fifty to sixty thousand people, and the Mexican town is just right against the line.

F. - Did we hold a public hearing on this twenty-four hour <sup>rule</sup> straight across <sup>of the line there were</sup>?

J. - Very few people there. Northcutt Ely was the only representative of the California interests - several Congressmen, and a man by the name of Simons from El Paso were there. Dempsey was there. Chavez's secretary; Tom Connally's secretary and Congressman West were there. I have forgotten who else, but they were each interested in his own particular region.

F. - The best argument these people have is that California, San Diego, is being discriminated against. They would like to be treated like the rest.

J. - But they can't be treated like the rest for Tia Juana is a free port entry and they become accustomed to the privilege - you know you can bring in whiskey without paying either Mexican or U.S. tax - no by reason of a California State law you have to pay tax, but there is no Federal objection to bringing into California, less than a gallon - in your exemption - tax free.

F. - I don't understand this one thing. Why are the people in ?

California owning stores in San Diego or Los Angeles, and smaller merchants more than larger stores, not back of this order?

J. - For this definite reason. One of the large department stores in San Diego, operated by a man by the name of Minor or some such name (I just don't remember the exact ~~name~~ name) came out in the newspaper as opposed to this free sort of entry and in favor of the twenty-four limitation. They received letters from their customers saying that this was a time honored privilege to which they were entitled and that they were going to close their accounts with this store, and the store lost business. It developed that those in favor of the twenty-four hour limitation say nothing, and this one store is the only one that came out in favor of the regulation can't sell any Burberry coat or any other top coat.

F. - What would be the effect if when Ford came in and the Secretary told him of the complaints and Ford said that the situation is different than it was 90 days ago and he was willing to release the Secretary in view of all the complaints, ~~the Secretary~~ the Secretary said that in view of the fact that there was only one who wanted the ~~the~~ order and all the rest were opposed and ~~the~~ wanted to get along with them and he succumbed to the political pressure and rescinded the order - what would that mean?

J. - It would mean two things:

1. Would be some injury to the local boys

F. - They never got any protection before - -

J. - 2. We have not been enforcing the law on the \$100 exemption. We just can do it because we have not the time to make the ~~search~~ search and it is pretty difficult to determine whether it ~~was~~ purchase was incidentally ~~to~~ on the trip. The people there know the requirements and lie about it. If we are going to enforce the law as it was written the ~~the~~ twenty-four hour limitation is particularly ~~impossible~~ impossible. If we don't want to enforce the law as written no one will say anything about it it will just be on our conscience. It is impossible to enforce the law as it is written. It is necessary to have the twenty-four limitation for a practical enforcement of the requirement in the statute.

Foley - Where are you going to be tomorrow?

J. - I am going to make one stop at a small town by the name of Avila (spelled out) California. In the evening, I will be in San Francisco.

F. - Where?

J. - (After some hesitation) The Commodore Hotel. I'll be at the Commodore, San Francisco in the evening.

F. - Okay! Are you hvaing a good time?

J. - I am getting a liberal education.

F. - When are you coming #back?

J. - I plan to leave here so that I'll be back about the 4th of November.

Department of State  
Communication of

For Office of the Secretary

*W. R. Morrison*  
U. S. TREASURY ATTACHE  
SHANGHAI, CHINA

Shanghai, October 25, 1939.

WANG CHING-WEI DISCUSSES VITAL ISSUES WITH GENERAL

ITAGAKI

RECEIVED

17 1939

U. S. DEPT. OF COMMERCE  
WASHINGTON, D. C.

According to information secured from Wang Ching-wei's headquarters, Gen. Itagaki, Chief of Staff of the Japanese Expeditionary Forces in China held an important conference with Mr. Wang concerning the question of foreign relations. It is reported that on October 21st at about 7:30 p.m. Gen. Itagaki (板垣) shortly after his arrival from Nanking accompanied by seven high military officials called on Mr. Wang Ching-wei at his Yuyuen Road quarters to exchange opinions concerning diplomatic issues. Gen. Itagaki reported to Mr. Wang that a high German official, identified as head of the Bureau of Political Police of Germany, was sent via air by Herr Hitler to Tokyo to convey the wishes of the German Chancellor regarding Japan's part in the German-Japan relations. Germany strongly urged Japan to call off the war in China immediately leaving all peace terms for future negotiation and at the same time send her navy to occupy the various British possessions in the Far East especially Hongkong and Singapore so as to draw away a certain part of British strength from Europe thus giving Germany an easier task. Mr. Wang then asked Gen. Itagaki "What steps you are likely to take to help Germany at this most critical time?" In reply, Gen. Itagaki said that only two weeks ago, Japan clarified her stand in the Far East to Great Britain and secured the latter's full sympathy and understanding. As a result of this rapprochement, Great Britain sent her Ambassador to Chungking to sound out the opinion of Chinese leaders concerning peace with Japan and also to present a peace plan, and it was expected that the present trip taken by the British Ambassador, Sir Archibald Clark Kerr, to Chungking would pave the way for peace between Japan and China. But unexpectedly, the British

again played a dirty game against them this time, as according to reliable intelligence reports just received, the British Ambassador instead of working for peace as requested, did everything in the opposite direction. He urged Chungking to fight on by promising further help to Gen. Chiang Kai-shek. Great Britain is working against peace between China and Japan, because she has fully realized that once war in China is stopped, Japan will be free to work against her and possibly take Hongkong and Singapore. But as long as Japan is engaged in the China war, she will not be in the position to entangle herself with Great Britain. At the same time, France and Soviet Russia are cooperating with Great Britain to obstructing peace between China and Japan, Gen. Itagaki stated.

Mr. Wang then asked "Is it Tokyo's contemplation to send an envoy to Chungking to talk peace with the National Government directly in view of the hopeless situation for Japan to secure peace with China through the medium of any third power?" Gen. Itagaki admitted that such a step had been under the consideration of the foreign office in Tokyo, but no decision could be made until the British Ambassador's return from Chungking, but now that the real purpose of the British Ambassador's trip to Chungking is clear, the despatch of a peace envoy to Chungking will be of no use and is therefore not being contemplated.

Mr. Wang complained to Gen. Itagaki that to his knowledge, the various ministries of the Reformed Government of Nanking have recently established offices in Shanghai at the Japanese Central China Railway Company (華中鐵道會社) Building in the North Station and their action is reported to have the approval of Japan authorities and in view of the early inauguration of his proposed "Central Government", Mr. Wang wished to know the meaning of this. Gen. Itagaki told Mr. Wang that on account of the menacing situation along the Nanking-Shanghai railway line, the Reformed Government authorities are maintaining offices in Shanghai principally for the safe-keeping of their important files and documents.

Gen. Itagaki asked Mr. Wang what results he is getting from the work he is doing among guerilla, mobile and other Chinese war units in

this part of China. Mr. Wang told the general that he has despatched suitable representatives to approach these Chinese irregulars in the Kiangsu, Chekiang and Anhwei provinces and the work is progressing smoothly. But owing to the lack of necessary funds, no definite arrangements have yet been made. He further assured Gen. Itagaki that his men are handling the situation with great care so as to avoid any possible deflection in the future. He hoped that by the end of this month, he could ask the general to send representatives to review these prospective troops.

October 25, 1939  
4:05 p.m.

Sheridan  
Downey: Yes, Mr. Secretary.

HMJr: How are you?

D: Very well, thank you.

HMJr: Senator, I just had about 19 Congressmen down here from your state on this ruling of ours which goes into effect Friday which makes it necessary for a United States citizen to stay in Mexico 24 hours.....

D: Yes.

HMJr: .....if he wants to bring in a hundred dollars' worth of merchandise.

D: I'm familiar with that, Mr. Morgenthau.

HMJr: And I wondered how you felt about it.

D: Well, I -- I think it's unfortunate that California has been discriminated against.

HMJr: I see.

D: I -- I think that we ought to have the same rule they have elsewhere on the border and I was of the opinion the rule might be unconstitutional because there was an exemption as far as California was concerned.

HMJr: Uh-huh.

D: What -- what position did the Congressmen take, Mr. Secretary?

HMJr: Well, they -- they want me to rescind this ruling.

D: I see.

HMJr: And I told them that I -- I'd sleep on it for 24 hours.

D: Well I -- I feel the same way, Mr. Secretary, and I might say this.....

HMJr: Yeah.

- 2 -

- D: .....I believe outside of a few of the large manufacturers -- or department stores, and a few other people, that the people in southern California. That is, the garage people and the hotel people and the tourist people.
- HMJr: You mean that -- that they want.....
- D: They want the same rule applied in California as elsewhere on the border.
- HMJr: Well, before I did anything I wanted to know how you felt.
- D: I appreciate your calling me very much.
- HMJr: Thank you so much.

October 25, 1939  
4:13 p.m.

HMJr: Hello.

Hull's  
Secretary: He's coming right on, Mr. Secretary.

HMJr: Thank you. Hello.

Cordell  
Hull: Hello, Henry. How are you?

HMJr: Oh, pretty good for an old man.

H: Well, you'll feel a whole lot older in another six months.

HMJr: (Laughs)

H: This -- this Guatemalan thing - can't you get Riefler to go down there and save our fellows? I -- I've been so busy on this fight over at the Capitol.....

HMJr: Yeah.

H: .....and also about the FLINT and other damn things that pop up.

HMJr: Yeah.

H: I hadn't followed that closely but I find that -- that Sumner and others thinking Riefler was going have told several other governments that we were going.

HMJr: Yeah.

H: And I was just wondering if we couldn't get Riefler to go down and if he wanted somebody to go along with him from over here in a subordinate manner -- advisory capacity, so-called, we could  
some fellow that might be helpful to him.

HMJr: I see.

H: And they might put on -- they might get up a real line of ideas down there that might be helpful up here.

HMJr: Uh-huh. Well, Cordell, I'll talk with Riefler. I understood that -- I don't know whether he has heard yet from his Foundation whether he can go or not, you see?

H: Yeah.

HMJr: But I under -- the way I understood it from Hanes was, who is handling it, that Riefler would like to go provided that somebody like Feis or Duggan was going to go.

H: Yeah.

HMJr: See?

H: Well Feis, I think, would need to be here.

HMJr: What about Duggan?

H: Well, Duggan -- I haven't talked to him.

HMJr: Yeah.

H: And the other fellow -- I don't know whether you'd know him very well or not.

HMJr: Well I know he -- he helps in the department. I know you call on him. I don't -- I hardly know him. I know who he is.

H: Yeah. Well, he's -- he got up a memorandum on this thing some time ago and I think Hanes read it. Hanes can tell you what sort of.....

HMJr: Well I'll look right into it and.....

H: We could get him a -- I don't know whether he would want to go or not, but we could get him some high-class fellow like that.

HMJr: I see. Well he -- well, I'll be glad, and Hanes will be back in the morning and I'll see if we can't clean it up.

H: All right. Fine.

HMJr: Thank you.

H: Goodbye.

TREASURY DEPARTMENT

139

INTER OFFICE COMMUNICATION

DATE October 25, 1939

TO Secretary Morgenthau  
FROM Mr. Cochran

The foreign exchange market continued to be small. The rate for sterling moved in an erratic manner, opening at 4.01-7/8, and about mid-morning was quoted at 4.01-1/2. At that time a Japanese order to sell £40,000 appeared in the market and the rate moved down to 4.00-3/4. It subsequently recovered to 4.01-1/4, and closed at 4.01-1/8 bid.

The Guaranty Trust Company reported that they had received from abroad an order to sell £70,000 at 4.01-1/2 or better, and that they had returned the order because they were unable to execute it.

The other important currencies had only nominal changes during the day and closed as follows:

French francs	.0227-1/2
Guilders	.5309
Swiss francs	.2243
Belgas	.1671
Canada	10-1/2% discount

The Chinese yuan eased today to close at .08 as compared to yesterday's close of .08-5/16.

Reporting banks in New York and the Federal Reserve Bank reported sales totaling £181,000, from the following sources:

Commercial concerns.....	£106,000
Foreign banks (Far East).....	£ 75,000
	Total £181,000

Purchases of sterling amounted to £369,000 as indicated below:

By commercial concerns.....	£273,000
By foreign banks (Europe, Far East and South America).....	£ 96,000
	Total £369,000

The banks also reported that the British Control purchased sterling amounting to £47,000 at the official rate of 4.02.

The Federal Reserve Bank of New York informed us that gold valued at \$874,000 was being shipped by the National Bank of Switzerland, upon instructions of the National Bank of Hungary, to the Federal Reserve Bank of New York, for account of the Bank for International Settlements. The disposition of this shipment is unknown at the present time.

On the report of August 23 received from the Federal Reserve Bank of New York, giving the foreign exchange positions of banks and bankers in its district, the total position of all currencies was short the equivalent of \$34,255,000. This report was compiled prior to the imposition of exchange control by England on August 25. On the report of October 18, the short position shows a total of \$18,423,000, a reduction of \$15,832,000 during the period from August 23. The net changes in positions are as follows:

COUNTRY	SHORT POSITION AUGUST 23	SHORT POSITION OCTOBER 18	REDUCTION IN SHORT POSITION
England	\$14,424,000	\$ 6,624,000	\$ 7,800,000
Other Europe	10,146,000	7,482,000	2,664,000
Canada	3,226,000	273,000	2,953,000
Latin America	507,000	364,000	143,000
Far East	5,965,000	3,607,000	2,358,000
All Other	13,000 (Long)	73,000	86,000 (Increase)
Total	\$34,255,000	\$18,423,000	\$15,832,000

A news item appeared on the Dow Jones Ticker today from London, stating that the Board of Trade had announced an order prohibiting the importation of silver bullion and foreign silver coins except under license. This action would increase the offerings of silver in New York which becomes the only free silver market. The Treasury today continued its price for silver, under the Silver Purchase Act, at 35¢. Handy and Harman's price was fixed at 36-1/4¢, off 1/4¢ from yesterday.

Mr. Knoke telephoned me this afternoon that as of today Russian balances with the Chase National Bank were as follows:

State Bank of Russia .....	\$3,200,000
Antorg .....	1,100,000

There had been no significant transactions in either account since the last report.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 25, 1939.

TO Secretary Morgenthau  
FROM Mr. Cochran

In accordance with the Secretary's instructions, I asked Mr. Pinsent to come to the Treasury this morning, and informed him as to the character of the message which we sent on October 24 to Ambassador Kennedy at London, to help the latter in answering the questions of the British officials with respect to the liquidation of their American securities.

Mr. Pinsent stated that after he and Mr. Osborne had lunch with the Secretary last week, and had talked with Messrs. Harrison and Stewart thereafter, they had cabled certain recommendations to their government, including the idea that some British or Scotch expert in handling securities should come over to the United States to take charge of or supervise the disposition of the British held securities on this market. Mr. Pinsent thought this message had probably not reached London prior to the meeting which Ambassador Kennedy reported in his cablegram of October 20, to which our message of last night was a reply. I told Mr. Pinsent that I thought the sending of such an individual would be a wise move, even if the decision should be taken to have a Canadian bank in New York as liquidating agent. I stressed the desirability of having someone on this side who could speak freely to us in regard to their proposed methods of liquidation. Mr. Pinsent promised to let me know of any instructions which he might receive in the premises.

*J. M. F.*

## GROUP MEETING

October 25, 1939.  
9:30 a.m.

Present: Mr. Graves  
Mr. Gaston  
Mr. Riefler  
Mr. Duffield  
Mr. Cotton  
Mr. Haas  
Mr. Bell  
Mr. Cochran  
Mr. Stewart  
Mr. Harris  
Mr. Foley  
Mr. Thompson  
Mrs Klotz

H.M.Jr: What have you got, Herbert?

Gaston: Nothing of importance. The Admiral and I talked yesterday to the Bureau of Navigation and Dr. Gruening of Interior, and we are going to talk to the Bureau of Fisheries this morning on the matter of cutters. Dr. Gruening is planning to request that we send some taxation experts up to Alaska when he goes up there to help him revise the territorial system of taxation. He maintains that Alaska is a friendly nation and that we ought to give them some cooperation.

H.M.Jr: Refer it to Mr. Hanes. Maybe he would like to go up there, himself, next summer.

Gaston: They would like an administrative man and they would like a tax policy man to reorganize their taxation system.

H.M.Jr: Is that all?

Gaston: That is all.

H.M.Jr: Gene?

Duffield: Nothing.

H.M.Jr: Ed?

Foley: I spoke to Senator Barkley and he has no suggestions and I told him that we would have the letter down there by 11:00 o'clock.

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- H.M.Jr: I think you boys better walk that letter up, you and Harry, and not let Gene do anything down here until you call him back. You and Harry better walk it up. You can take the Vandenberg letter in your pocket and - or would you send it up by messenger, let it go the regular way? I think so. And then you fellows could go at the same time.
- Olney: All right, then we can go over it with Wagner.
- H.M.Jr: You had better cable that to Dutterworth.
- Cochran: Yes sir, I will do that.
- (Mr. Haas handed report to Secretary)
- H.M.Jr: Those people who are interested in financing, Bell came down with me this morning and what we are thinking about now is nothing more this week. It rushes the thing a little bit too much, but Tuesday, 250 million for RFC and 100 million for U. S. Housing. Then we can tell Mr. Eccles if he still has the itch he can sell all he wants to. Also, the budget summation will come out on November 1st. Then we will stop Riefler's bills after that.
- George?
- Haas: That new note is a little out of line, but the rest of the note markets will probably move up in line a little later. The CCC note is the same thing, somewhat similar.
- H.M.Jr: What is it that you gave me here?
- Haas: That is something I thought might be an easy way of refreshing your memory on that situation.
- H.M.Jr: What situation?
- Haas: On what went on in the World War.
- H.M.Jr: Who did this?
- Haas: Several of the people.
- H.M.Jr: Pretty, pretty.

- 3 -

- Hans: Quite pretty, I think. It is a very easy way to go through that situation. I designed that thing to facilitate review.
- H. S. Jr: Very pretty. What is the red through the middle?
- Hans: Each sheet applies to a particular year and the chart shows a year on each side and the red ones, the year which is being spoken about, and then the large chart puts it all together.
- H. S. Jr: Pretty nice merchandise. What do you call this?
- Hans: Index of confidence.
- H. S. Jr: Yes.
- Hans: It is similar to the one in Time.
- H. S. Jr: No, but they both go off.
- Hans: That is Skinner's line. I know approximately what that is.
- H. S. Jr: Could you stay a minute after?
- Morris: Yes.
- H. S. Jr: Harold? Harold, I want you to do something for me and I know it is going to be difficult, but for reasons that I don't know and don't care, the President of the United States wants Mrs. Aldrich to have this gold medal and the Bureau of the Mint for some reason or other - that has been kicking around here for I don't know how long.
- Thompson: They just got the appropriation on July 1st.
- H. S. Jr: What do you mean, they just got it on July 1st? Today is November 1st. Now look, Monday morning I get the design. I have a finished design in here Monday. Then I give them one week to cast the thing. They can have a design in here Monday and it can be cast and finished in one week. It is perfectly asinine that the President of the United States should ride me about a thing like this. They have had the thing since the first of July. They can take any old sketch they want to. I would rather give her a medal - every time I go over there,

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it is, "Where is that medal, why can't you get that medal?" It is just holding up my appointments with the President. Are you going to let Mrs. Aldrich die on your hands before you give it to her? Woodring and all of them are in it and I want to get it out of the way.

Thompson: Of course, Congress settles up a whole year on the money.

H.M.Jr: Had it since July! July, August, September, October, four months. I am not riding you, but it is inexcusable. Let's get it out of the way. A medal, it doesn't make any difference if it is gold, make it look nice. I am in dead earnest. A design Monday morning, cast in a week.

Graves: Yes.

H.M.Jr: Bell?

Bell: I have nothing.

Thompson: I understood it would take at least six weeks to cast it.

H.M.Jr: Listen, Danny Bell gets out an issue from Monday at 12:00 o'clock and it is out and off the next day, and it used to take ten days to do it. Right?

Bell: That is right. The machinery has improved.

Wetz: These people are artists.

H.M.Jr: Well, we have settled the medal question. It is one of these nuisance things.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 25, 1939,

TO Secretary Morgenthau

FROM Mr. Hase

Subject: Wheat export sales and other market data from the Federal Surplus Commodities Corporation.

Oct. 14: It was reported that Denmark bought about 3,000 tons of Canadian wheat. Clearances of Argentine wheat last week were reported at 2,700,000 bushels.

Oct. 16: Sales of about 500,000 bushels of Canadian wheat reported but this could not be confirmed. It was reported that Germany and Italy had made large purchases of wheat and barley from Hungary. Greece is reported to have bought 1,850,000 bushels from Hungary.

Oct. 17: Two cargoes of Manitobas sold overnight to the Continent. British buying of Canadian wheat will be resumed as a result of a new understanding between the British Cereal Authority and the Canadian Wheat Board, and between the two governments, it was reported today.

A sale of 250,000 bushels of corn reported sold to Europe with prospects of a much larger business.

Oct. 18: There is good reason to believe that the Canadian Wheat Board has sought to mollify the British buying agency. The belief is that the British buyer complained that whenever he entered the market offering dried up and prices immediately advanced. It is learned on good authority that the British Agency is maintaining complete freedom of action and that no new contract has been made between the British buyer and the Canadian Wheat Board.

Oct. 19: Export sales of North American wheat estimated at around 800,000 bushels. Two cargoes sold to the United Kingdom and 200,000 bushels to Norway, and a half cargo of United States wheat to Europe. It is thought that England has bought about 2,000,000 bushels of Canadian wheat this week.

Purchases of corn for export reported at about 375,000 bushels. This included a cargo to England and a half cargo from Montreal to Europe.

Secretary Morgenthau - 2

Oct. 20: It is estimated that total sales of Canadian wheat to the British Government this week will run more than 6,000,000 bushels.

Oct. 25/39

11:15 am.

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Conversation with  
Arthur Vandenberg given  
to H.S.K. today 10/27/39

October 25, 1939  
11:22 a.m.

HMJr: Hello.

Ed  
Foley: Yes, Mr. Secretary.

HMJr: I just had a call from Arthur Vandenberg.

F: Yeah.

HMJr: He said he got my letter; he considered it very adroit, and he asked me the question, just the one that Harry or you thought he would, namely, have we any agreement -- is Harry with you there?

F: Yes, he is. We're in Senator Wagner's hide-out.

HMJr: Oh.

F: He's right here. Do you want to talk to him?

HMJr: No, you listen, then you can repeat. Now wait -- did we have any agreement with England and France to buy any currency.

F: Yeah.

HMJr: So I said the only agreement we had was the same that we had with Holland and Belgium and Switzerland, namely, that if they send over a cable that we should buy or sell any of their currency during the day, we'd do it for their account but before the sun sets they pay for it.

F: Yeah.

HMJr: So I say it's a one-day operation, that we only operate for them.

F: Yeah.

HMJr: That's correct isn't it?

F: I think so. Just a minute, I'll ask Harry.

(Brief pause.)

- 2 -

HMJr: Hello.  
Harry White: Hello.  
HMJr: Yes.  
W: Ed put me on. I was thinking that the appropriate answer to that might be that there are no agreements outside of the accord.....  
HMJr: Well.....  
W: .....and outside of the.....  
HMJr: Well, Harry, never mind what it was. What I said is all right, isn't it?  
W: Oh  
HMJr: What?  
W: It -- what you said is perfectly all right.  
HMJr: And I said that -- that we'd had no such orders since the World War broke out.  
W: We've had no such what?  
HMJr: We've had no such orders.  
W: Orders?  
HMJr: Yes. We've had no business.  
W: Oh, no business.  
HMJr: We've done no business for them on that basis.  
W: No. Well that's -- I think that statement is perfectly all right.  
HMJr: And the other.....  
W: There have been -- there has been one transaction.  
HMJr: Oh well, hell, that doesn't make any difference.

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- W: One small transaction, which I understood was -- but.....
- EMJr: Well, I said -- I -- .....
- W: But that's all right, so.....
- EMJr: Then -- then the other thing. He said, "Well, what's the objection to Taft's 50 million dollar limitation?"
- W: Yeah.
- EMJr: And I said just this, I said, "Congress did me the great honor after three months of debate and cross-examination to extend the Stabilization Fund." I said, "You people cross-examined me for three months and you decided to do it," and I said, "it's the same objection to that as there is -- why not make the Stabilization Fund 200 million dollars?"
- W: Yeah.
- EMJr: I said, "We went all through that," and I said, "I -- I can't see any good purpose will be served."
- W: Yes.
- EMJr: So I said, "I just wanted to tell him that there hasn't been one dollar and won't be one dollar used for any surreptitious purpose for any credit to any country as long as I'm here."
- W: That's all right.
- EMJr: And.....
- W: You used the word "surreptitious"?
- EMJr: I did not, no, but -- that was the thing and that -- I said, "As far as I'm concerned as long as I've been here," I said, "I've outjumped Senator Johnson as far as lending money to foreign countries are concerned."
- W: Sure.

- HMJr: He laughed and he said, "Well, you've got a lot of friends up here." He said, "You've got nothing to worry about."
- W: Oh, he did.
- HMJr: What?
- W: Then you feel that he was -- wasn't displeased?
- HMJr: No, he said -- he ended up -- he said, "You've got a lot of friends up here, Henry." He said, "You've got nothing to worry about."
- W: Uh-huh. Well I think that's all right. Now, if that question comes up again on the floor of the House.....
- HMJr: Yeah.
- W: .....what we'll do in the meantime, we'll draft a statement of the reply and if it comes up we'll call you up about it.
- HMJr: Sure, the -- as I say, I used the thing -- I said, "It's just the same. Why not limit the fund to 200 million," and I said, "put on any other limitations." I said, "I went all through that. Congress" I said, "gave me the great compliment of extending the thing and showing that they had that confidence in me," and I said, "I think we thrashed that out earlier this year."
- W: Yes. I think that was the appropriate position to take.....
- HMJr: Yeah.
- W: .....on that, but if they raise -- he raises, or anybody else raises the question again on the floor of the House that the letter doesn't -- that they still -- the question remains unanswered that you may have some other secret agreements and so on.
- HMJr: No, I -- I think I satis -- I said, "Well," -- I said to him -- I said, "Arthur there's -- there are no secret agreements; there are no indirect agreements, and," I said, "there's nothing but what the daylight could be turned on and you'll find nothing but what I'm telling you." He said, "I -- I believe you."

W: Oh well then, that's all right. Then I don't imagine he will raise it.

HMJr: I said -- I said, "There are no secret agreements; there are no understandings," and I said, "that as long as I'm here, " I said, "I won't do one thing to help these fellows through the Stabilization Fund."

W: Yes. Well I think that that -- I don't see how he could want a more straightforward statement.

HMJr: And I said, "Are you entirely satisfied as to what I'm telling you?" He said, "Entirely."

W: Well that's all right then.

HMJr: So.....

W: Anything -- anything else on?

HMJr: No.

W: Do you want to speak to Ed?

HMJr: No.

W: O. K.

HMJr: Well, what happened up there? Has -- has the thing been released?

W: I don't know. We've been talking to Senator Wagner and Senator Barkley got a copy and said he was entirely pleased with it. And they know we're available here.

HMJr: O. K. Ed want anything?

W: .....touch with us if anything comes up. There are a couple of new amendments which were put in the bill yesterday which we're just going to have our attention called to, proposed amendments.....

HMJr: Yes.

W: .....to limit gold, but I don't know how important it is or whether it will be followed.

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HMJr: Well, I don't know whether you can serve your country any better than staying up there.

W: Well, we'll be available here. They -- they're all -- we've spoken to the men you've suggested and they know we are available and they said they'd call on us if anything comes up.

HMJr: O. K.

W: Goodbye.

HMJr: Goodbye.

October 25, 1939  
12:38 p.m.

HMJr: Hello.

Operator: Mr. Messersmith.

HMJr: Hello.

George  
Messersmith: Yes?

HMJr: Henry Morgenthau.

M: Good morning.

HMJr: I just -- good morning to you. I wanted to tell you that nothing I said yesterday in any way was personal.

M: Oh well, I'm sure of that, Mr. Secretary.

HMJr: And -- and I appreciate having worked with you on so many things and I realize that you have your responsibilities over there and I'm just trying to get.....

M: Yeah.

HMJr: .....the tools for which -- my men to work.

M: I think that Basil and I'll try to work out and see what we can do, Mr. Secretary.

HMJr: Well whatever the two of you work out I'm sure will be all right, but please remember that you're doing most likely what you feel you have to and I'm just anxious in these difficult times to try and give all -- everything that I can to the fellows who are on the firing line.

M: Yes. Well you can -- you can take it from me, Mr. Morgenthau, that you know I'm not departmental in attitude and I'll do my best to try to work out something.

HMJr: And you've been so cooperative in the past and I just want to let you know I appreciate it.

M: Well, that's awfully nice of you.  
HMJr: Right.  
M: Goodbye.  
HMJr: Thank you.  
M: All right. Goodbye.

JR

PLAIN

London

Dated October 25, 1939

Rec'd 1:25 p.m.

Secretary of State,  
Washington.

2165, October 25.

FOR TREASURY FROM BUTTERWORTH.

1. The Belgian, Dutch and Swiss currencies are officially fixed at slightly depreciated levels today, the belga weakening again to 23.90-24.10. The guilder and Swiss franc both unchanged since October 16 were fixed 7.52-58 and 17.80-95 respectively. The Danish krone was quoted 20 5/8 sellers. The yen was unchanged at 18.2D. London press carries report from Tokyo of pegging of yen to the dollar.

2. The gilt-edged market continues strong with more institutional buying, war loan being quoted ex-dividend today at 92 1/4 and other governments showing further gains. Incidentally the payment of half yearly dividends on war loan automatically revised the minimum price from 88 1/2 to 86 3/4 so that todays price is 5 1/2 points above minimum price.

KENNEDY

RR

22 Oct 25 1939

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: October 25, 1939, 7 p.m.

NO.: 2577

FOR THE TREASURY.

There is steady, though slow improvement in the administration of exchange control measures; there are still a number of lacunae and a number of inconsistencies but the foreign exchange office is gradually building up a sort of informal jurisprudence. This is not being embodied even in written circulars or instructions to the "approved intermediaries" - it is merely a form of slowly evolving precedents. Apparently no consideration is being given just now to any new decrees or arretes on exchange control.

It seemed to be the preference of the authorities to proceed by a flexible and surprisingly liberal rule-of-thumb to permit "reasonable" transactions even when the strict letter of the law did not permit it. For example, as regards remittance of dollars to the United States in conversion of rentes coupons which nonresident "foreigners" (that is, non-French) presented to banks in the United States, the authorities at first were inclined to insist that those who handled the matter in France must demand some proof or assurances from the United States banks where the coupons were presented that the real owners of the (omission) were not Frenchmen. Under existing exchange control measures, such evidence is required for converting into foreign currencies. However, it was pointed

- 2 -

pointed out that in the United States such requirement might give rise to some misunderstanding and difficulty, and perhaps even start unfortunate erroneous rumors of French rentes defaults, and there was ready agreement on the part of the authorities that the requirement would be waived.

We called on Couve de Murville this morning. Neither he nor the other authorities appear to be at all concerned over a possible "black market" just now, or over the existing value of such transactions.

We saw Rist, who asked us if we had available any information we could give him about the quantity and nature of German assets and investments in the United States, whether bank deposits, security holdings or investments in American industries; he said it would be of great use to him if he could get such information. We made mention of reports in the press recently to the effect that after the termination of the stand-still agreement, American creditors attached certain German funds in the United States.

It is our understanding, and you probably are aware of it, that at present a group of private French industrialists are negotiating for a purchase of about \$4,000,000 worth of copper in the United States, on the basis of irrevocable credits ranging up to six months negotiated by French banks.

We had lunch today with the manager of the Westminster Bank, and asked him why British banks here had not been  
publicly

- 3 -

publicly declared "approved intermediaries" for transactions in exchange. He said that the British had insisted on being given the same treatment as American banks, when they learned of the appointment of the American banks in such capacity - reference, telegram of September 14 from the Embassy, No. 1958. They did this even though in London French banks are not given corresponding facilities. The private "approval" of British banks in Paris as intermediaries was agreed on by the foreign exchange office, and such approval was given in a letter to each one; however, it was explained that the office did not want to publish that fact in the JOURNAL OFFICIEL as it had mistakenly done regarding American banks, for fear similar treatment would be demanded by all foreign banks in France.

END SECTIONS ONE TO SIX INCLUSIVE.

BULLITT.

EA:LWW

CJ

GRAY

PARIS

Dated October 25, 1939

Rec'd 3:47 p.m.

Secretary of State,  
Washington.

2577, October 25, 7 p.m. (SECTION SEVEN)

With reference to last paragraph our telegram No. 2485, October 16, 7 p.m. Julien Chadenet, a director of the Societe Generale sails for New York on the REX from Genoa on November 1st to conclude the arrangements for the establishment of the company's New York agency. He called us today and expressed his intention of visiting you soon after his arrival.

The securities market today was firm and active and moderate gains are recorded in most variable revenue securities. Suez Canal was the outstanding feature gaining 665 francs. Most rentes made slight advances.

The Netherlands National Bank statement for the week ending October 23 shows gold reserves unchanged, total liabilities up 3 million florins to 1424 millions and gold cover at 78.08 per cent as against 78.07 per cent.

(END MESSAGE)

958 89 77

1  
BULLITT

LMS:RMB

TELEGRAM SENT

162

NC

PLAIN

October 26, 1939

AMEMBASSY

LONDON

1292.

Twenty-fifth.

FOR BUTTERWORTH FROM TREASURY.

The following text of a letter dated October 24, 1939 addressed by the Secretary of the Treasury to the Honorable Arthur H. Vandenberg, United States Senate, is for your information and that of the British Treasury and for transmission by you by mail to the American Diplomatic Missions in France, Belgium, the Netherlands, Switzerland, Sweden, Norway, Denmark and Finland, for communication by them to the respective Ministers of Finance in those countries. (You should attach copies of the Wagner letter under reference):

QUOTE

October 24, 1939

My dear Senator:

I should like to answer in some detail the questions in your letter of October 17, so as to clarify certain aspects of problems relating to gold.

You write:

"I assume that you are continuing to purchase at \$35 an ounce, all foreign gold that is offered. In view of depreciated foreign currencies, is not this equivalent to paying considerably more than \$35 an ounce so far as the foreign seller is concerned?"

I

I am uncertain what you mean by this question. It is subject to several different interpretations and to make certain that you obtain the information you ask I will endeavor to answer each of them separately.

1. Does the question ask whether the foreign seller of gold receives more purchasing power over goods and services here than he did prior to depreciation? If that is the sense of your question then the answer is "No". The \$35 per ounce (less 1/4 of 1 percent) which the foreign seller of gold receives probably represents less and certainly not more purchasing power in terms of goods and services in this country than it did before the depreciation of currencies in recent months. Such purchasing power of \$35 in the United States varies, of course, with changes in prices of goods and services in the United States. Since most goods and services that can be purchased here by a resident of a foreign country have risen in price during the past two months, it follows that the foreign seller of gold probably gets less goods and services for his \$35 now than he did a few months ago.

2. Does the question ask whether the foreigner can get more units of his own currency for gold by selling it in the United States than by selling it in his own country? If this is the sense of your question, again the answer is "No". We pay no higher price for gold (allowing for commissions, handling charges, etc) than other countries do. After a foreign seller of gold converts the dollars he obtains for his gold into sterling, for example, he finds that he has approximately the same amount of money as he would have had if he had sold that gold in London. (For a further explanation of this I refer you to pages 7, 8 and 9 of my letter to Senator Wagner, dated March 22, 1939, a copy of which is enclosed for your convenience.)

3. Does the question ask whether the foreign seller of gold gets more units of his local currency for his gold now than he did before the depreciation of his currency? If this is the

SENSE

strict of the question, the answer is clearly "Yes". That is exactly what depreciation of a currency in terms of gold means, namely, that each unit of a depreciated currency is exchangeable for less gold.

4. Does the question ask whether the greater number of units of the depreciated currency which the foreign seller obtains for his gold can purchase more goods and services at home than could the smaller number of units he obtained for his gold before depreciation? The answer to this question is "Probably yes". Prices in the country of a depreciated currency do not usually rise as much as the currency depreciates for a considerable period of time, if at all. During that period the holder or producer of gold will get more local goods and services for an ounce of gold than he did before. But he gets more goods only if he buys goods at home; furthermore, he gets more goods for an ounce of gold not because we continue to pay \$35 an ounce for gold, but because his own country gives more units of its currency for an ounce of gold.

When taken in the context of your whole letter one further possible interpretation of your question suggests itself. You may be asking whether the recent depreciation of foreign currencies will of itself lead to an increased inflow of gold. If this is the sense of your question, the answer is "Probably no". It is, of course, impossible to foretell at this time the total effect of a Europe at war upon our balance of payments. The specific effect of the recent depreciations of foreign currencies, however, would clearly seem to operate in the direction of a reduction in gold offerings. Depreciation of foreign currencies vis-a-vis the dollar means that American goods and services are less attractive to the foreigner because he must give more of his own currency in exchange for a dollar's worth of merchandise than formerly. In other words, the depreciation of foreign currencies is a factor which operates in the direction of reducing our exports to and increasing our imports from the countries involved. Thus the effect of the change will tend to

reduce

reduce our favorable balance of trade and consequently such inflow of gold as may be attributable to our export surplus. It is true that price changes may in time offset the effect on the relative attractiveness of foreign and American goods initiated by the depreciation of foreign currencies. But even in normal times this adjustment usually does not take place for some time.

You ask the further questions:

"If we put our foreign trade with belligerents on a strict 'cash and carry' basis, will it not be likely to substantially increase this inflow of foreign gold - perhaps to so dangerous an extent that we finally shall practically monopolize the world's gold supply?"

The prohibition of credits to belligerent governments may possibly have the effect of reducing our exports to belligerent countries. This might in turn reduce the value of our total exports compared with what our exports would be were the prohibition not included in the Neutrality Act. Were the belligerent governments to purchase some of their imports from the United States on credit, a portion of the payments due us might be postponed. However, whether this postponement would result even in a temporary reduction in the inflow of gold cannot be forecast because:

(1) It is not known what proportion of the dollars used for payments would be acquired from the sale to us of gold, and what proportion would be acquired from other sources.

(2) It is not known whether an extension of credits to belligerents would result in greater purchases from the United States or whether there would simply be a substitution of some credit purchases for cash purchases. Only in the latter instance would it be possible for part of the inflow of gold to the United States to be postponed. In the former case it would mean the gold inflow would be the same over the short period of time and would be greater at some subsequent time when credits were liquidated.

You

You ask this further question with respect to gold:

"Would this (increased inflow of gold) not seriously threaten the world's subsequent return to the use of monetary gold - and thus relatively threaten the ultimate value of our own enormous gold hoard?"

This war demonstrates, if any demonstration were needed, that gold constitutes the best form in which foreign exchange resources can be held. Even under the most difficult conditions of war, belligerent governments which possess gold can buy with it anything that is for sale.

The new situation in world trade brought about by the war in Europe will, of course, introduce some changes in the distribution of gold among the nations of the world. Belligerent countries will probably lose gold, but numerous neutral countries, which now have little gold, may be put in a position to increase their holdings as a result of improvements in their trade balances. As a consequence, the war may well have the effect of causing a wider distribution of gold among the countries of the world. Such an increase in gold holdings by many countries would give more countries a stake in the continuation of gold as a medium of international payments. The gold producing countries, of course -- including the British Empire, which now produces half the world's gold -- will continue to have a vital interest in the use of gold as a monetary metal.

These considerations, as well as others, indicate that gold will emerge from this disturbed period with added prestige as the international medium of exchange. For further discussion of the future usefulness of gold as a monetary metal, you may wish to refer to pages 16, 17, 18 and 19 of my letter to Senator Wagner referred to above.

Your last question on gold relates to a suggested change in our monetary policy. You ask:

"Should

WC -6- #1292 Telegram to American Embassy, London,  
October 25, 1939

"Should not the purchase of foreign gold be curtailed and re-priced at least for the period of the war?"

I am not clear whether by re-pricing gold you have in mind an increase or a decrease in the price of gold. I judge from the context of your letter, however, that you are inquiring about the effects of a reduction in the dollar price of gold.

My views with respect to the consequences of reductions in the price of gold are fully set forth in my letter to Senator Wagner referred to above. The discussion appears on pages 13 to 16 of that letter, and I think it may be appropriately re-read in connection with your inquiry.

You raise the question of the advisability of reducing the price of gold "for the period of the war". Any substantial change in the price of gold which is known to be temporary would have seriously disrupting influences on trade and international capital flows. It would introduce a still greater risk element in business relations with foreign countries and would, moreover, increase world speculation in dollar exchange.

I now turn to the question in your letter referring to the Stabilization Fund.

You write:

"I should like to inquire - if I am entitled to the information - whether the stabilization fund is now being used in connection with the stabilization of the British pound and the French franc; and whether there is any stabilization agreement under which we continue to operate in conjunction with England and France or any other foreign countries."

When I appeared before the Senate Committee on Banking and Currency last March, Senator Taft raised the following question:

"Suppose there is a foreign war and suppose you  
go

PAP -7- 1292 Telegram to American Embassy, London,  
October 25, 1939

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go out and do what you can to buy \$2,000,000,000 worth of pounds; Isn't the effect of that to give England the power to buy \$2,000,000,000 worth of goods in this country under the cash and carry provisions?"

I would like to reaffirm the position which I took at that time. My reply was, and still is, as follows:

"Senators, if there is a war in any foreign country, before we would use the stabilization fund or any money in the Treasury to assist any country in prosecuting that war, I would come up before the proper committee and ask for guidance."

The stabilization fund is not acquiring any currencies of belligerent countries and is holding only a trifling amount of foreign currencies of belligerent countries acquired long before the outbreak of the war.

I trust that this furnishes you with the information you requested.

Sincerely,

(Signed) HENRY WORGENTHAU, JR.,  
Secretary of the Treasury.

Hon. Arthur H. Vandenberg,  
United States Senate."

HULL  
(HF)

69 EA:FL:INW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consul General, Amsterdam, Netherlands

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

NO.: 39

CONFIDENTIAL.

The Netherlands Bank has informed me that, notwithstanding reports in the press and otherwise to the contrary, (mentioned in my despatch of October 18, No. 407) the gold shipment recently consigned to the Bank in the amount of florins 18,000,000 was received from Russia in payment to the Netherlands for certain dredges and shipping material, and Germany acted only as a medium of transit.

At the Bank they say they do not know anything definite about the alleged shipment of gold bullion to Germany from Russia, said to be 17 1/2 tons. However, the Bank states that since Russia has also just paid to Switzerland an amount similar to that paid to the Netherlands, they presume that these are parts of the total amount mentioned above, Germany being the medium of transit for shipment of other parts going to other countries.

Furthermore, the Bank stated that the Russian payment is not connected with the Bank's gold shipment reported in the Consulate General's telegram of October 21 via London. They said this consignment was for the purpose of replenishing Netherlands gold holdings in the United States after wheat was purchased by the Government, and that they expected to send other small payments of a similar nature.

EA:LWW

LEE

EG

PLAIN

London

Dated October 25, 1939

Rec'd 3:40 p.m.

Secretary of State,  
Washington.

2167, October 25.

FOR TREASURY FROM BUTTERWORTH.

With reference to my 1647 of September 14th which outlined the probable price policy of the British Government during the war the course of prices during the month of September may be of interest.

The rise in the Ministry of Labour's cost of living index during September by 6%, in the index for retail food prices by 9%, in the Board of Trade index of wholesale prices by 7%, and of wholesale food and tobacco prices by 11%, have naturally received wide comment in view of the Government's avowed policy and many measures to restrict the rise in prices.

Meanwhile sterling has depreciated by 14% and the increased costs of freight and of the compulsory war risk insurance of commodities were both felt with their full impact in the first month of war and will doubtless remain relatively stable, rather than abruptly rising costs. The importance of the exchange and sea-borne freight factors

-2- #2167, October 25 from London

is indicated by the fact that whereas food prices rose by 11% prices of goods more predominantly home produced rose by much smaller percentages, e.g. fuel 1%, building materials 3%, manufactured articles generally 2%, while basic and intermediate industrial materials, more largely imported, rose by 7 and 9% respectively.

Except for the exchange factor therefore the increase is apparently not due to monetary causes and inflationary processes cannot yet be held responsible for the rising cost of living. Nevertheless wage agreements which provide for increases on sliding scales based on the cost of living index form the basis of wage agreements affecting an estimated million and a half workers whose pay thus automatically increases. Already wage increases have been announced for workers in the cotton, wool dyeing and finishing, electrical and mining industries and for railway staffs. These increases must in time increase general costs and therefore provide an impulse to the rising spiral of costs and prices. They also increase the purchasing power of a class of workers largely untouched by direct taxation and less given to providing savings which the Government can borrow. These sliding-scale wage agreements are a heritage from the last war which was financed to a high degree by inflation and they are therefore

definite

-3- #2167, October 25 from London

definite misfits in the present financial policy. They are, however, too firmly established to be thrown over now without grave social difficulties. Furthermore, although the workers covered by such agreements constitute only about 9% of the employed population their automatic wage increases will act as a stimulus to wage increases in other trades. Some wages are also regulated by sliding scales based on the prices of the industry's products - e.g. in the steel industry, where approximately 170,000 workers will be affected next month when steel prices will be increased.

Thus the first heavy increase in the cost of living is likely to be followed by a further/<sup>upward</sup> trend in spite of the carefully drafted anti-profitsharing bill now before Parliament, Government price fixing and control of most essential foodstuffs and raw materials; the rationing of gasoline, coal and certain foodstuffs; and the Government's avowed policy of preventing unnecessary price increases and inflationary trends. The upward trend will probably be at a slower rate than in the first month but there seems no reason to expect that it will not occur.

The whole question of prices is now receiving consideration by a special committee recently appointed on which the Treasury is heavily represented. It is realized that

-4- #2167, October 25 from London

that some increases in the prices of essential foodstuffs and other products entering into the cost of living are inevitable in spite of the various measures taken to keep these prices as stable as possible. I gather that the policy now envisaged is to keep the essentials of life at the lowest and steadiest level possible by broad Government control, including absorption of some of the increased cost, bulk purchasing and rationing, while allowing prices of other products to find their own level within the limits of the anti-profitsteering bill. This committee realizes the danger (pointed out in the last paragraph of my 1926 of October 14) that the maintenance of low stable prices for essentials may tend to free purchasing power for indiscriminate expenditure on other classes of goods which may well stimulate production of and speculation in non-essentials unless the surplus purchasing power is persuaded or forced into savings on which the Government can lay its hands. Consideration is being given to methods of stimulating savings, and other means of dealing with this danger.

There are also broader questions in the British Government's price policy which I have endeavored from time to time informally to suggest to officials in the British Treasury. It seems to me that there is a danger that the British Government will use its dominating purchasing

power

-5- #2167, October 25 from London.

power in world markets not only to effect economies arising from efficiency and the cutting out of scarcity profits but also in such a way as to have a deflationary effect in the important world markets which may well in the long run be detrimental to British interests as well as to the interests of Empire and neutral raw material producers. The outlook of many of the business men who have been chosen to carry out the purchasing of the British Government's requirements is commercial and they naturally tend to buy at the cheapest price obtainable unaware of the long-term implications of such a policy.

KENNEDY

CSB

100-111-18  
100-111-18  
100-111-18



THE SECRETARY OF THE TREASURY  
WASHINGTON

75

*don't read*  
*10-2-19*

MEMORANDUM FOR THE PRESIDENT:

At our conference in your office on Tuesday, October 24th, you asked for information regarding certain Canadian banking institutions having branches or agencies in New York City.

I am attaching hereto (1) memorandum giving the name, home office, and agency address in New York of those Canadian institutions now doing business in New York; and (2) copy of Section 27 of the New York Banking Law which is the pertinent section to granting licenses to foreign corporations.

The Superintendent of Banks in New York tries to satisfy himself that agency applications from foreign banks come from sound institutions. He gets a statement from the head office and he checks with New York banks to determine this. Each agency is examined once a year to determine the amount and character of its liabilities. Agencies of foreign banks do not accept deposits but they do acquire debts arising out of commercial transactions which in some cases are almost indistinguishable from deposits. There have been recent problems in connection with Polish and Czech banks and the examination and supervision is going to be tightened up.

*Wm. Guthrie Jr.*

October 26, 1939

FOR THE PRESIDENT

New York agencies of Canadian banking institutions and their addresses as given in the latest annual report of the Superintendent of Banks for the State of New York are as follows:

NAME	LOCATION	ADDRESS OF AGENCY
Bank of Montreal	Montreal, P. Q.	64 Wall St. New York
Bank of Nova Scotia	Halifax, N. S.	49 Wall St. New York
Canadian Bank of Commerce	Toronto, Canada	Exchange Place and Hanover St. New York
Dominion Bank, The	Toronto, Canada	49 Wall St. New York
Royal Bank of Canada	Montreal, P. Q.	68 William St. New York

The pertinent section of the New York Banking Law is Section 27, a copy of which is attached.

#### Licenses to foreign corporations; renewal

Upon receipt by the superintendent from any foreign corporation of an application in proper form for leave to do business in this state under the provisions of this chapter, he shall, by such investigation as he may deem necessary, satisfy himself whether the applicant may safely be permitted to do business in this state. If from such investigation he shall be satisfied that it is safe and expedient to grant such application and it shall have been shown to his satisfaction that such applicant may be authorized to engage in business in this state pursuant to the provisions of this chapter and has complied with all the requirements of this chapter, he shall issue a license under his hand and the official seal of the department authorizing such applicant to carry on such business at the place designated in the license and, if such license is for a limited time, specifying the date upon which it shall expire. Such license shall be executed in triplicate and the superintendent shall transmit one copy to the applicant, file another in the office of the department and file the third in the office of the clerk of the county in which is located the place designated in such license. Whenever any such license is issued for one year or less, the superintendent may, at the expiration thereof, renew such license for one year.

October 26, 1939.

Dear Mr. Messersmith:

Reference is made to the subject discussed between our two Departments the past few days, namely, the status of Treasury Representatives abroad, particularly those making headquarters in France.

As you are aware, Mr. Wait is the only officer in the Treasury organization in France who at present enjoys diplomatic status, and is the bearer of a diplomatic passport.

The work of the Treasury Department requires that various members of the staff in France travel outside the limits of that country. These men have been experiencing serious difficulties in making such travel because of their lack of credentials entitling them to diplomatic privileges. They have experienced particular delays in traveling to, and working in, Switzerland.

In order that the work of this Department may go on with the least possible embarrassment, it is my recommendation that at least three representatives of the Treasury, in addition to Mr. Wait, be given the status of Assistant Treasury Attache, and be so recognized by the French Government. This would, I understand, involve our State Department and Embassy announcing these individuals to the French Foreign Office, and also would entitle these men to bear diplomatic passports which, in turn, would receive diplomatic visas from foreign countries.

Once this question is decided, and I again urge that it be given early and favorable consideration, I will inform you of the men whom the Treasury desires to designate. I am now examining the question of personnel resulting from the curtailed status of the several Treasury offices abroad.

Assuring you that it is my genuine desire to cooperate with the Department of State and its Foreign Service while endeavoring to facilitate the task of my own officers outside the United States in carrying on the common work of our Government, I am

Sincerely yours,

(Signed) \_\_\_\_\_

Hon. George S. Messersmith,  
Assistant Secretary of State,  
Washington, D. C.

Mr. Cochran  
HJi/hkb

*By hand*

October 26, 1939.

MEMORANDUM

TO: Secretary Morgenthau

FROM: Mr. Gaston



Navy notified us today that they are withdrawing their destroyers from the Grand Banks patrol and yielding command over this enterprise to Coast Guard. We have had four cutters assigned to the patrol under Navy direction - CAMPBELL, BISS, HAMILTON and DEANE - maintaining two ships on assigned patrol area at all times. The patrol area extended from approximately 300 miles east of Cape Cod to approximately 700 miles east, each ship being assigned a rectangle 100 miles east to west and 200 miles north to south. Our cutters have been on the outermost stations, that is, 500 to 600 and 600 to 700 miles out. Although discretion as to the patrol is left entirely to us, Admiral Stark gave it as his opinion that it would not be necessary for us to assign additional cutters to the project, since aside from the CITY OF FLINT escort and the IROQUOIS *and Harding* incident little of moment has occurred. In addition we need the other two large cutters in the Atlantic - the INGRAM and SPENCER - rather badly for inshore patrol.

Hence, it is proposed tentatively to maintain patrols over nearly the same area as before with the four cutters alone, probably widening the patrol area assigned to each cutter. It can be assumed that the regular coastal patrol will take care of the area up to 300 miles out.

Immediate direction of the cutters on station will be by the senior commanding officer under the Boston district command. The destroyers on station are starting back today.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE October 26, 1939

TO Secretary Morgenthau

FROM W. H. Hadley

HFC Financing

<u>Maturity</u>	<u>Coupon</u>	<u>Yield</u>	<u>Offering Price</u>	<u>Market Price</u>	<u>Premium</u>	
2 yrs. 6 mos. (May 1, 1942)	7/8%	0.73	100	100.11	11/32nds	
		0.76	100	100.8	8/32nds	
	1%	0.73	100	100.21	21/32nds	
		0.76	100	100.19	19/32nds	
			0.73	100 1/8	100.21	17/32nds
			0.76	100 1/8	100.19	15/32nds
2 yrs. 9 mos. (Aug. 1, 1942)	7/8%	0.80	100	100.7	7/32nds	
		0.85	100	100.2	2/32nds	
	1%	0.80	100	100.17	17/32nds	
		0.85	100	100.13	13/32nds	
3 years (Nov. 1, 1942)	1%	0.85	100	100.14	14/32nds	
		0.90	100	100.10	10/32nds	
			0.85	99 7/8	100.14	18/32nds
			0.90	99 7/8	100.10	14/32nds
	1-1/8%	0.85	100	100.26	26/32nds	
		0.90	100	100.21	21/32nds	
			0.85	100 1/8	100.26	22/32nds
			0.90	100 1/8	100.21	17/32nds
		0.85	100 1/4	100.26	18/32nds	
		0.90	100 1/4	100.21	13/32nds	

Note: Premiums on the day of offering of the last three HFC issues range from 13/32nds to 16/32nds.



TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

October 26, 1939

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OFFICE OF THE DIRECTOR

MEMORANDUM FOR THE SECRETARY

On October 20th bids were opened for the supplying of tungsten ore in quantities ranging from 100 to 425 short tons for delivery F.O.B. cars U. S. Army General Depot, Columbus, Ohio. The following bids were received:

<u>BIDDER</u>	<u>(Domestic)</u>	<u>QUANTITY</u>	<u>PRICE PER UNIT OF CONTAINED TUNGSTEN DIOXIDE</u>
Metal & Ore Corp.		425 Short Tons	\$ 25.00
Wah Chang Trading Corp.		150 " "	24.50
	<u>(Foreign)</u>		
Pan American Tungsten Corp.		175 " "	18.00 (Ex-duty)
	(Cuban Ore)		
Wah Chang Trading Corp.		425 " "	15.82 " "
	(Chinese ore)		

The analyses of domestic ores offered by the Metal & Ore Corp. and Wah Chang Trading Corp. do not comply with the specifications.

The bid of the Pan American Tungsten Corp. with duty of \$6.34 per unit added to the offered price equals \$24.34 per unit of contained tungsten against the low bid of Wah Chang Trading Corporation on Chinese ore of \$15.82 per unit plus duty of \$7.93, or \$23.75 per unit.

It is expected that a recommendation will be made for the award of 425 short tons of Chinese tungsten ore of approximately 27,000 units of contained tungsten at \$15.82 per unit, ex-duty, amounting to approximately \$427,140.

The duty on 27,000 units of contained tungsten (Chinese) will amount to \$214,110. On the proviso that the U. S. Army Depot at Columbus can be designated as a bonded storage area and this ore brought in ex-duty, it will be possible to obtain the full quantity of 27,000 units, or 425 short tons.

Prompt action will be necessary on these awards, as the prices offered expire on October 30th.

  
Director of Procurement

October 26, 1939

## MEMORANDUM FOR THE SECRETARY

On October 20th bids were opened for the supplying of tungsten ore in quantities ranging from 100 to 425 short tons for delivery F.O.B. care U. S. Army General Depot, Columbus, Ohio. The following bids were received:

BIDDER	(Domestic)	QUANTITY	PRICE PER UNIT OF CONTAINED TUNGSTEN DIOXIDE
Metal & Ore Corp.		425 Short Tons	\$ 25.00
Mah Chang Trading Corp.		150 " "	24.90
	(Foreign)		
Fan American Tungsten Corp.		175 " "	18.00 (Ex-duty)
	(Cuban Ore)		
Mah Chang Trading Corp.		425 " "	15.82 " "
	(Chinese ore)		

The analyses of domestic ores offered by the Metal & Ore Corp. and Mah Chang Trading Corp. do not comply with the specifications.

The bid of the Fan American Tungsten Corp. with duty of \$6.34 per unit added to the offered price equals \$24.34 per unit of contained tungsten against the low bid of Mah Chang Trading Corporation on Chinese ore of \$15.82 per unit plus duty of \$7.93, or \$23.75 per unit.

It is expected that a recommendation will be made for the award of 425 short tons of Chinese tungsten ore of approximately 27,000 units of contained tungsten at \$15.82 per unit, ex-duty, amounting to approximately \$427,140.

The duty on 27,000 units of contained tungsten (Chinese) will amount to \$214,110. On the proviso that the U. S. Army Depot at Columbus can be designated as a bonded storage area and this ore brought in ex-duty, it will be possible to obtain the full quantity of 27,000 units, or 425 short tons.

Prompt action will be necessary on these awards, as the prices offered expire on October 30th.

Director of Procurement

Dictated by Mr. Lochhead over the Telephone

The Wachang Trading Corporation, with headquarters at the Woolworth Building in New York, is practically a one-man organization with K. C. Li as its President. The firm for quite a few years has been engaged in bringing over products from China and in selling goods to China.

K. C. Li is a very smart individual; quite a well known man in Chinese circles in New York and is understood to have pretty good connections back in China. He has pretty good contacts, more or less on a personal basis, and does not have the strong backing of Universal. Mr. Li has a good name in the trade and one thing is when he did Chinese business before he had his fingers in it pretty deep and probably made a good thing of it.

When Universal Trading Corporation was started, I know that he was probably quite jealous that the business was given to Universal instead of the money being turned over to his company. That was probably perfectly natural because he thought he had more or less of a monopoly on that type of business, because, to be honest, he has been very active for the Chinese. He still is doing some odd pieces of that kind, being registered with the State Department as a firm licensed to export war materials. He has a long established business which was cut down considerably by the Universal.

I know some of the people in New York do not feel 100% about dealings with him. In other words, he comes from, you might say, the old regime. His connections are sometimes considered to be close with the old regime or the way business was done under the old regime.

As far as importing tungsten, he has been doing some of that business at various times. When I was in Department of Commerce they brought up his name in the same connection -- that he is one of the ones who brings in Chinese tungsten.

When the new Chinese Ambassador came over here, K. C. Li met him and welcomed him and when he was sick he made arrangements to put him in a hospital. When Warren Pierson went over to China for the Export-Import Bank, K. C. Li went over there, went around with him and entertained him. He also used to import wood oil, so in that connection we come in direct relation because he is one of the recognized importers so Universal has some dealings with him because we put some wood oil out through him.

STRICTLY CONFIDENTIAL

PARAPHRASE OF TELEGRAM RECEIVED

184

FROM: American Embassy, London, England

DATE: October 26, 1939, 8 p.m.

NO.: 2178

FOR THE SECRETARY OF THE TREASURY.

I have had talks with Norman and with Simon.

The bank account of the British will be opened in the New York Federal Reserve Bank. One of the Canadian banks will be appointed the British agent for the liquidation of securities, and this agent will of course confer with you. Consideration is being given to sending Walter K. Whigham of Robert Fleming and Company to America, possibly next week, for the purpose of making all the arrangements and to discuss with you this whole matter. The only thing that may hold up Whigham's appointment and sailing is that Whigham's wife is not very well. After my talk with Norman one point that occurs to me is that the British are likely to ask you something like this - in case they needed some of the money that might be realizable from the American securities at once, and forcing liquidation of these securities is not thought expedient for the good of the market or for American economy, could they be given a loan necessary to take care of their drafts until they had time to get the matter in hand. It is my opinion that this will be a very important question to the British, and I am passing it on to you so that you can

- 2 -

can be thinking about the reply. In the list of securities there are a great many that are readily salable, of course, and it may be that they will take care of British needs, but I felt you might want to be thinking about it, so that you would not be confronted too suddenly with the question.

When I talked with Norman I also intimated to him that I would like to have him relate to me a list of all the problems that occur to them in the handling of their bank account and the securities liquidation, and that would probably be asked by Whigham when he comes to the United States. I will let you know at once if I can get this from Norman, so that you can be ready when Whigham arrives there.

KENNEDY.

EA:LWW

PARAPHRASE OF A TELEGRAM RECEIVED

FROM: American Embassy, Berlin

DATE; October 26, 1939, 9 a.m.

NO.: 1836

Refer to Embassy's no. 1235 of the sixth, ultimo, 10 a.m. The issuance of tax credit certificates will terminate after the first of November, as was forecast by Reinhardt, the State Secretary of Finance, in a speech recently. A 3rd administrative decree of the new finance plan of October 22nd contains this decision. Such tax certificates as have already been issued will continue to be used as limited legal tender by commercial and industrial firms which are entitled to use them to pay for forty percent of bills for merchandise and services, with the exception of those goods that are exempted from partial payment in these certificates under the new finance plan's original decree and administrative regulations. Under this decree the list of goods for which tax certificates cannot be used as legal tender has been extended slightly to include domestic oil seeds, hops, and potato products; additional write-off privileges cannot be extended to the war surtaxes under this new decree.

An experiment in government financing which was hailed as a wasteful national socialist invention is thus brought to an end. This experiment was hailed as superior to prior procedures in the Schacht era, but when put into practice it proved to be not only costly, in its application to German business

business, but complicated and unequal.

On the assumption of their being retained for an indefinite period of time because of the additional write-off privileges which were attached to their possession, instead of their being utilized for tax payments after 6 months, tax certificates of the first type were necessarily long-term paper; the second type was medium-term paper. The effective rate of interest of both the first and second type considerably exceeded the interest rate of previous issues of the Treasury. Only advantage of these tax certificates/<sup>was</sup> that they facilitated, at the expense of consumers goods industries, the expansion of production for government purposes, by reducing the liquidity of the firms compelled to accept tax certificates. In this way the firms were prevented from improving or extending their plants or from bidding up the real wages of labor by increasing labor facilities for welfare and recreation, thus evading the fixed wage law. Such ends were promoted indirectly by/<sup>the</sup> tax certificates procedure. Now they are achieved in a direct way by means of the tightened control of wages and prices and also by the war time regulations containing measures rationing raw material and labor. In this regard refer to Embassy's no. 1200 of September 12, 1939, 9 a.m., which was repeated to the Treasury Department.

KIRK

082-12

EA:MSG



## TREASURY DEPARTMENT

WASHINGTON

October 26, 1939.

MEMORANDUM FOR MR. GASTON.

At the direction of the Secretary, recent confidential inquiries were made by Mr. Murphy, Assistant Chief of the Secret Service, and myself with respect to the bank accounts of the German Embassy in the Riggs National Bank at Washington and the German Consul General in the Chase National Bank at New York City. These inquiries indicated considerable activity during the period since September 1st last, and in the case of the Chase National Bank it was shown that a number of checks were drawn to "Bearer" by the German Consul General in sums as large as \$150,000 and cashed by him, payment being made in \$1,000 bills. In accordance with their usual practice, the bank listed the numbers of the bills and have furnished us with the numbers. Additional inquiries are being made from time to time concerning these accounts, and inquiries are also being made into the accounts of the German Consuls General in Boston, Chicago, San Francisco, and New Orleans.

In accordance with the instructions of the Secretary, communicated through you, it is planned to continue an intensive examination of these accounts and similar accounts which may come to our attention. Mr. Wilson, Mr. Murphy and I have considered at length the best methods to be pursued in this effort. We feel that we should endeavor to determine the purpose of large financial transactions and the use made of the currency received through these "Bearer" checks, both in the past and as information of this character may come to us in the future. In addition, we are planning to have the Federal Reserve banks and the U. S. Treasurer's office set aside certain amounts and blocks of currency in denominations of \$5 to \$1,000 to be furnished to specific banks to honor withdrawals by accounts under suspicion. This will enable us to obtain the assistance of financial institutions in tracing the currency so withdrawn and notifying our agents regarding its source when it appears in the daily receipts of the banks. This course, and other means of investigation with respect to financial transactions of suspected persons which may from time to time be deemed advisable, will be followed.

It is felt that the Treasury Agency services, especially the Secret Service Division and the Intelligence Unit, are particularly well qualified to pursue these inquiries because of their very friendly relations with banking institutions throughout the country and their experience in accounting and financial transactions. These agents are in close and daily contact with the U. S. Treasurer's

offices, Federal Reserve Banks and other financial institutions having continuous business with the Treasury Department and are in a position to enlist the wholehearted support of their officials, in order to obtain valuable information relating to suspected neutrality violations, sabotage, espionage, etc.

However, it is not our understanding that the Treasury Agency services should conduct general field investigations necessitated by the receipt of information obtained through this means, such as keeping individuals under surveillance; rather, it is our thought that we should limit our endeavors to obtaining the cooperation of financial institutions, tracing the suspicious financial transactions through the aid of the U. S. Treasurer's office, the Federal Reserve Banks and other sources closely allied with the Treasury Department, and reporting for appropriate attention the information thus obtained to other investigative agencies, or to a central office responsible for disseminating the information to other departments.



OK. W.M.H.



TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

October 26, 1939

MEMORANDUM FOR THE SECRETARY

On October 20th bids were opened for the supplying of tungsten ore in quantities ranging from 100 to 425 short tons for delivery F.O.B. cars U.S. Army General Depot, Columbus, Ohio. The following bids were received:

<u>BIDDER</u>	<u>QUANTITY</u>	<u>PRICE PER UNIT OF CONTAINED TUNGSTEN DIOXIDE</u>
Metal & Ore Corporation (Domestic)	425 Short Tons	\$ 25.00
Wah Chang Trading Corp. (Foreign)	150 " "	24.50
Pan American Tungsten Corp. (Cuban ore)	175 " "	18.00 (Ex-duty)
Wah Chang Trading Corp. (Chinese ore)	425 " "	15.82 " "

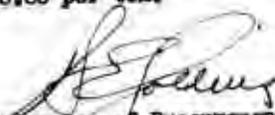
The analyses of domestic ores offered by the Metal & Ore Corporation and Wah Chang Trading Corporation do not comply with the specifications.

The bid of the Pan American Tungsten Corporation, with duty of \$6.34 per unit added to the offered price, equals \$24.34 per unit of contained tungsten against the low bid of Wah Chang Trading Corporation on Chinese ore of \$15.82 per unit, plus duty of \$7.93, or \$23.75 per unit.

An award has, therefore, been made today to the lowest bidder, Wah Chang Trading Corporation, for 425 short tons of Chinese ore, or approximately 27,000 units of contained tungsten, at \$15.82 per unit, delivered to the U.S. Army General Depot at Columbus, Ohio, where it will be stored in bond.

In a recent purchase of tungsten made by the Navy Department for delivery at New York they received a bid for \$23.68 per unit which included duty, as compared to \$23.75 including duty offered to the Procurement Division.

However, the bid of \$23.75 to the Procurement Division includes freight from New York to Columbus at the rate of \$ 8.80 per ton.

  
Director of Procurement

October 26, 1939

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Director of Procurement

JR

PLAIN

London

Dated October 26, 1939

Rec'd 2:51 p.m.

Secretary of State,  
Washington.

2179, October 26.

FOR TREASURY FROM BUTTERWORTH.

1. A board of Trade order issued today prohibits the importation, except under licence, of silver bullion and foreign silver coin. This step, according to the financial column of the TIMES, "has presumably been prompted by the knowledge that the large margin recently shown by the London forward price over the New York price combined with ability to obtain exchange in the free market of New York at near the official rate, have led to the arrangement of some moderate shipments to London from New York. Applications to the authorities here for foreign exchange for dollars to pay for silver imports have not been favorably received while the arrangement of exchange facilities in the free market in New York has clearly constituted a source of leakage in the exchange control.

2. The city having long expected a reduction in the bank rate was hardly surprised when it was moved to 2 per cent today with little effect on gilt-edged prices, war

loan

-2- #2179, October 26, from London.

loan closing at 92 the heavy demand for Treasury bills and the expectation of a bank rate reduction had depressed Treasury bill rates to 1 5/8 per cent for January maturities and 1 1/2 per cent for late December maturities by yesterday so that rates were even further out of line with bank rate than at last weeks tender when the average rate was pounds 1. 14. 3.39D. Tomorrows tender is for pounds 55 million which is pounds 5 million more than for the previous week and if allotments are in full the tender issue will increase by pounds 19 million.

3. The Bank of England return reveals yet another decrease in the note circulation of pounds 3.2 million, a slight increase in public deposits by pounds 564,000 to pounds 12,573,000 combined with a small drop in Government securities in the banking department by pounds 1.5 million to pounds 106 million left bankers deposits practically unchanged at pounds 116.7 million as compared with pounds 116.3 million a week ago.

KENNEDY

HTM

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Oct 26, 1939

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Annotations to Accompany the Chart on  
SELECTED ECONOMIC INDICES  
IN THE UNITED STATES  
DURING THE WORLD WAR PERIOD

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Significant Dates

June 28	Assassination at Sarajevo.
July 28 - August 4	Outbreak of war. American proclamation of neutrality.
September 5 - 12	Battle of the Marne.

Business and Prices

The outbreak of war deepened the already existing depression. A pronounced business revival commenced in December. Exports fell sharply in August, but increased rapidly thereafter.

Commodity prices were at low levels throughout the year except for a brief speculative rise in August and September.

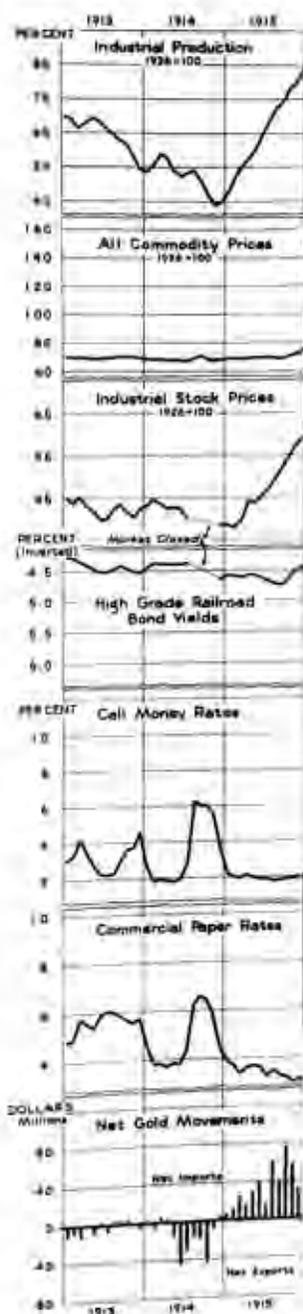
Securities

The war crisis closed the principal stock exchanges of the world. In the U. S. high-grade bonds held up better than stocks in the first days of the war crisis. On July 31, the N. Y. Stock Exchange suspended business, under pressure of wholesale liquidation of securities on foreign account. Trading was resumed on a restricted basis in bonds on November 23, and in stocks on December 12. On December 14, all major restrictions except minimum prices were removed. Following the reopening, there was no extensive liquidation of foreign securities as had been feared.

Money

On the outbreak of war, foreign withdrawals of funds from the U. S. caused a violent increase in exchange rates (sterling reached a peak of \$7 on August 1) and a large outflow of gold, seriously reducing bank reserves. Call money and commercial paper rates shot up. Emergency currency was issued under the Aldrich-Vreeland Act and a gold pool was formed by leading banks. A moratorium on bills of exchange proclaimed by Great Britain as of August 4, lasted three months.

At the end of October, foreign exchange rates returned to normal; in November the gold outflow ceased, and by the year-end short-term money rates had returned almost to pre-crisis levels. The newly established Federal Reserve banks began operations on November 16, 1914. The Act lowered member bank reserve requirements, contributing towards easier credit conditions.



1915

Significant Dates

May 7 Lusitania sunk; followed by a long series of diplomatic notes with Germany.

May 23 Italy enters war.

June 8 Bryan resigns as Secretary of State in disagreement with Wilson's policy towards the strict maintenance of neutrality.

Business and Prices

Business underwent a tremendous expansion, confined, however, to war industries until the last third of the year. The dollar value of exports in 1915 was 43 percent larger than in 1913 (the pre-war high).

Commodity prices began to rise in the last quarter.

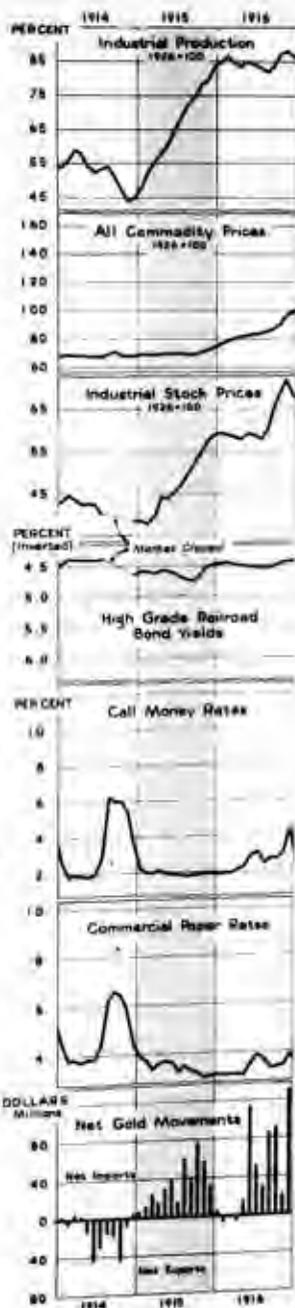
Securities

The London Stock Exchange reopened on January 4. In the U. S., high-grade bond prices, after a mild decline, made a good recovery towards the year-end. Minimum prices for stocks, still in effect at the year opening, were repeatedly lowered in the early months to maintain trading as prices declined. A pronounced revival in March led to the removal of all restrictions on April 1. Thereafter stock values experienced a tremendous upswing.

In September, the Anglo-French loan of \$500 millions, representing the largest sum ever asked of American investors in a single offering, was floated in N. Y.

Money

The credit stringency of 1914 was replaced by markedly easy money conditions as gold inflows increased, creating ample excess reserves. Money rates were low throughout the year. Sterling was weak, declining to \$4.50 in September.



1916

Significant Dates

February 21	Beginning of German offensive at Verdun.
May 31	Battle of Jutland.
July 1	Beginning of Allied offensive at the Somme.
November 7	Wilson reelected — principal issue. "He kept us out of war."
December 21	Secretary of State Lansing warns United States near to war.

Business and Prices

Industry boomed. Corporate net income was larger than in any previous year, and larger than in any subsequent years except 1917, 1928 and 1929. The dollar value of exports increased 54 percent over the preceding year. Unlike 1915, a large part of the increase in 1916 was due to higher prices.

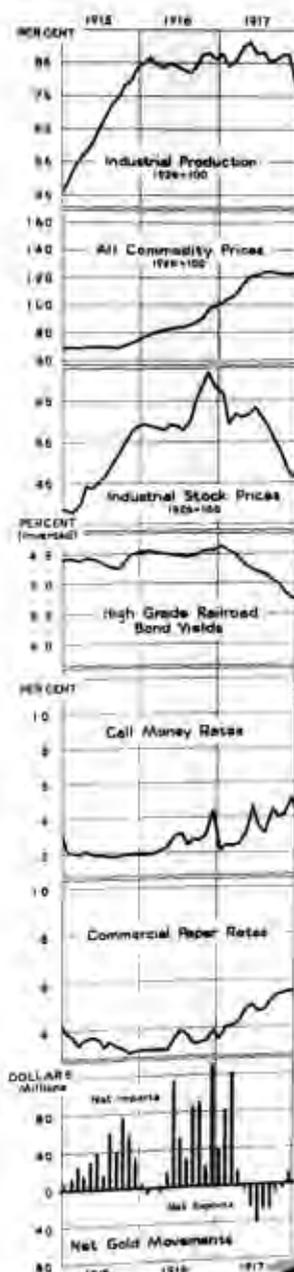
Commodity prices rose faster than in any other year of the war or post-war period.

Securities

In the first half-year all classes of securities, while remaining at high levels, showed some weakness, apparently due both to peace rumors and to indications that the U. S. might enter the war. In the last half-year bond prices strengthened. An upward surge of stock prices beginning August was reversed in December by peace talk and by Lansing's warning that the U. S. was near war. Extensive foreign lending marked the year.

Money

Bank loans expanded, money rates stiffened and excess reserves declined, despite further large gold inflows. The Federal Reserve Board made proposals for concentrating gold in the Reserve banks, in order to acquire better control over credit. In November a Reserve Board statement to member banks cautioning them against tying up their resources in foreign loans led to the withdrawal of an issue of British and French short-term treasury notes from the N. Y. market. Pegging of Sterling exchange began in March.



1917

Significant Dates

- February 3 U.S. severs relations with Germany, following German announcement of unrestricted submarine warfare.
- March 15 Russian Czar abdicates.
- April 6 U. S. enters war.
- October 3 War Revenue Act approved.
- November 8 Bolsheviks gain control in Russia.

Business and Prices

High war activity prevailed. Fuel shortage and freight congestion became acute toward the year-end, severely curtailing industrial output.

Commodity prices leveled off in the second half of the year, after Government price-fixing was adopted in August.

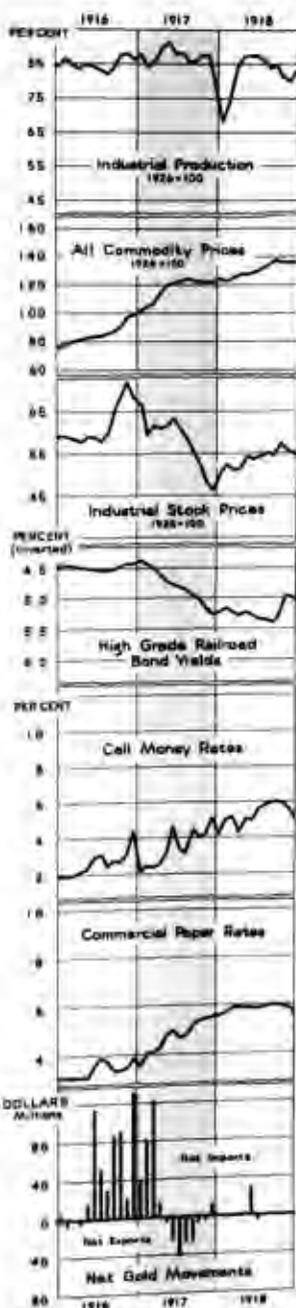
Securities

High-grade bonds, which at the beginning of 1917 stood as high as in July 1914, turned down after January and lost ground steadily throughout the year. After June, stock prices declined at a rapid pace until the year-end. Possible factors in the decline of all security prices were: Increased costs, Government price-fixing, excess-profits taxes, and Government borrowing. The taking over of the railroads on December 27, accompanied by a Government guarantee of income, led to an upward spurt in stock prices.

U. S. Government bond issues were as follows: First Liberty Loan Campaign, May 14 - June 15, \$2.0 billions at 3-1/2 percent (wholly tax-exempt); Second Liberty Loan, October 1 - 27, \$3.8 billions at 4 percent (partially tax-exempt).

Money

Money rates rose and excess reserves declined as a result of further credit expansion and gold outflows. A gold export embargo was imposed on September 10. Amendments to the Federal Reserve Act, June 21, concentrated gold reserves in Reserve banks and further reduced member bank reserve requirements.



1918

Significant Dates

March 2	Russo-German Treaty of Brest-Litovsk.
March 21	Germans begin final drive on western front.
July 18	Beginning of final Allied drive.
November 11	Armistice.

Business and Prices

After recovering to 1917 levels, industrial activity underwent some decline.

Commodity prices continued upwards.

Securities

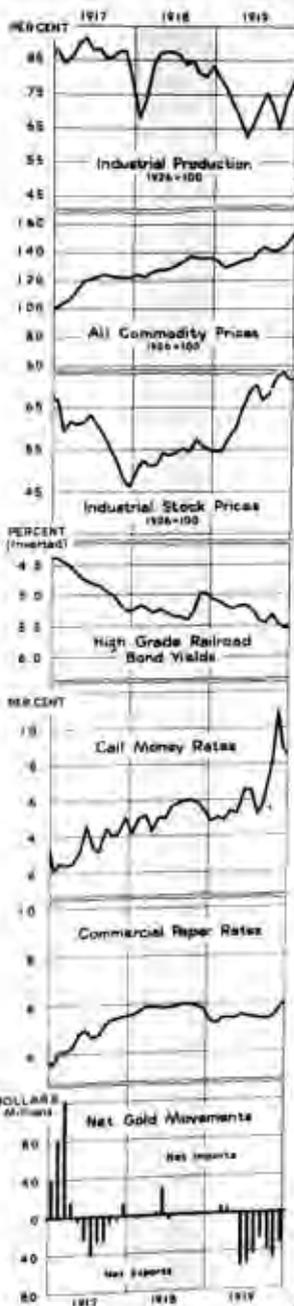
Bond prices continued downward until the Armistice, when a brief sharp rally occurred. Heavy liquidation of Liberty bonds occurred during December.

In the stock market the violent liquidation of 1917 appeared to have run its course. The price trend was upward till the Armistice. The small total of transactions was in marked contrast to the enormous volume of 1916 and 1917.

U. S. Government bond issues were as follows:  
 Third Liberty Loan Campaign, April 6 - May 4, \$4.2 billions at 4-1/4 percent (partially tax-exempt);  
 Fourth Liberty Loan Campaign, September 28 - October 19, \$7.0 billions at 4-1/4 percent (partially tax-exempt).

Money

Call money and commercial paper rates rose to high levels. National bank loans on Government war paper showed their greatest increase in the last quarter of 1918. Rediscounts of the Federal Reserve banks showed a phenomenal rise throughout the year and discount rates were raised. On July 8, the Federal Reserve Board issued a statement to banks calling for the gradual reduction of non-essential loans. The reserve of the Federal Reserve banks against their combined notes and deposits declined from 85 percent on April 7, 1917, to 50 percent on November 29, 1918.



Significant Dates

June 28 Versailles Peace Treaty signed.  
 November 19 Peace treaty rejected by Senate.

Business and Prices

The year began with a slackening of industrial activity, as wartime orders were cancelled but trends were reversed in the second quarter. Price fixing measures were abandoned in March, except in the cases of wheat and sugar. 1919 was a year of strikes, which grew to serious proportions with the steel strikes in September, and the bituminous coal strike in November.

Commodity prices rose.

Securities

High-grade bonds continued to decline.

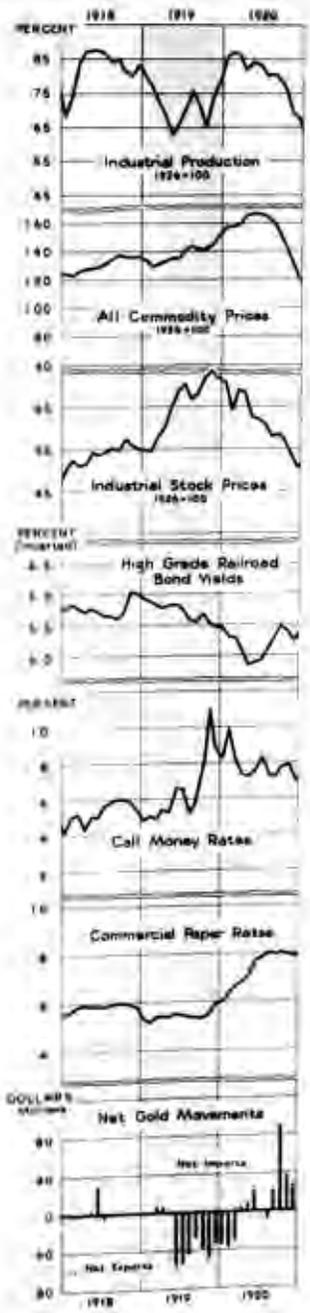
The post-war boom in the stock market gathered momentum. Money restrictions in the New York Stock Exchange were removed January 24. In August Great Britain revoked the prohibition of imports of foreign securities. Stock prices reached a cyclical peak in November and then broke sharply.

The Victory Loan Campaign, April 21-May 10, concluded formal war borrowing. This issue consisted of 3-4 year notes, at 4-3/4 percent, partially tax-exempt, interconvertible with 3-4 year notes, at 3-3/4 percent, wholly tax-exempt, aggregating \$4.5 billions.

Money

The gold export embargo was removed June 9, and gold exports were large for the next ten months. Call money rates reached a peak of 30 percent on November 12. The Federal Reserve Board issued warnings against speculative use of reserve funds. On November 3, first steps were taken toward abolishing preferential rates on advances to member banks secured by Government bonds; and on December 30, a uniform rate of 4-3/4 percent was established by the New York Bank for advances on all classes of paper and for all maturities, except 3-6 month agricultural paper on which the rate was 5 percent.

Pegging operations in sterling were terminated March 20. The pound declined steadily to a low for the year of \$3.66 in December. The Bank of England advanced its rate from 5 percent to 6 percent on November 1.



1920

Significant Dates

November 2 Election of Harding and Coolidge.

Business and Prices

Production declined from a two-year high reached in the first quarter. The railroads were returned to private operation, March 1. Freight rate increases authorized by the I. O. C. in July, which had been expected to cover increased expenses, including wage increases retroactive to May 1, were largely nullified by declining tonnage.

Commodity prices continued upward to the middle of the year, then fell precipitously.

Securities

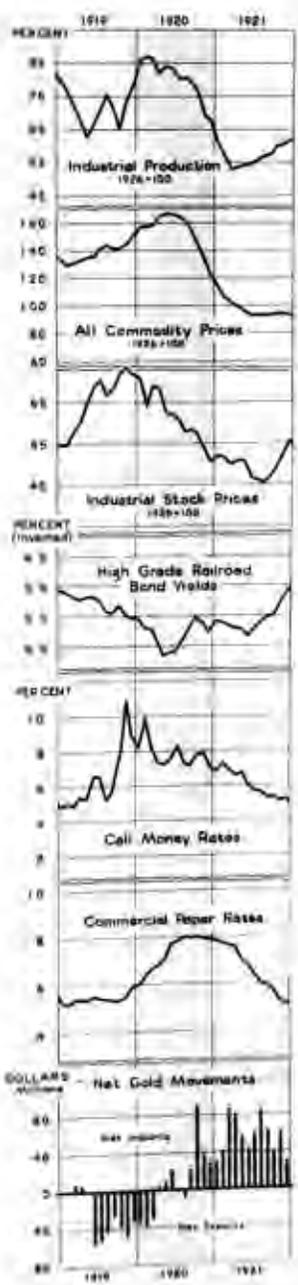
Bonds reached the lowest point of the war and post-war period in May and then recovered a large part of the ground lost during the year. Government securities participated in the general decline. The average yield on Liberty Bonds reached a peak (5.67 percent) in August. Current financing became increasingly expensive. One-year certificates of indebtedness (partially tax-exempt) issued in June, August and September bore interest at the peak rate of 6 percent.

The stock market, which commenced to fall notably at the end of 1919, continued its downward course, except for a brief revival in March.

Money

The first half of the year was marked by attempts to curb growing inflation, which threatened to become world-wide. Warnings were issued by the Federal Reserve Board in January against speculative credit expansion and non-essential loans. Rediscount rates were advanced in all Federal Reserve districts beginning in January, as reserves fell to and even below legal minimums. The peak of 7 percent was reached in the New York Federal Reserve District on June 1, and the rate remained at this level for eleven months.

Sterling reached \$3.22 in February, the low for the war and post-war period (1914-1925) of detachment from the gold standard. For the remainder of the year it fluctuated irregularly. The Bank of France discount rate was advanced from 5 percent to 6 percent on April 8, and on the 15th the Bank of England raised its rate from 6 percent to 7 percent.



1921

### Significant Dates

March 4 Harding and Coolidge inaugurated.  
August 25 U. S. signs separate Peace Treaty with Germany.

### Business

Industrial activity reached bottom early in the year and thereafter made a slight recovery. Unemployment was estimated in excess of 5 millions. Wage cuts became frequent.

Commodity prices remained low.

### Securities

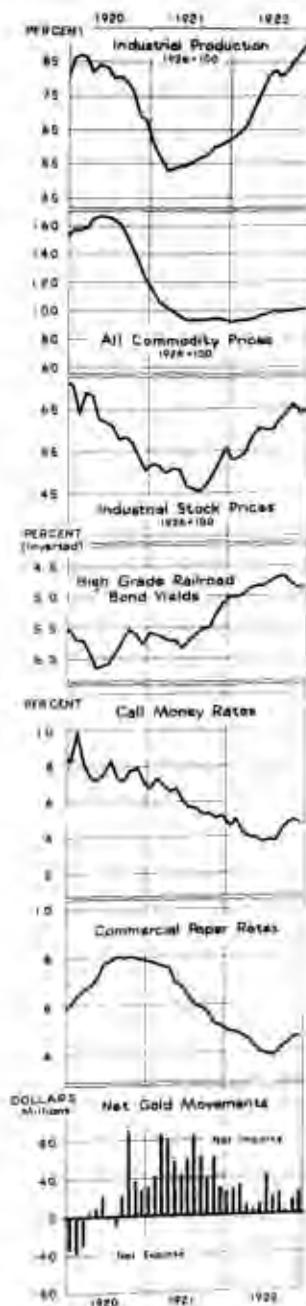
Bond prices fell moderately in the first half year and in the second half regained approximately the ground lost since the middle of 1919. The improvement in the last quarter was particularly notable. New corporate issues were large. The issuance of Treasury notes was commenced June 15, the first being a three-year, 5-3/4 percent issue (partially tax-exempt).

Stock prices declined further, but less sharply than in 1920, and staged a recovery in the second half year. Dividend reductions were numerous.

### Money

Money rates declined on renewed large gold inflows. The Federal Reserve banks lowered their discount rates by successive small steps, beginning in May. The rate of the New York Reserve Bank was reduced from 7 percent to 6-1/2 percent on May 5, and by subsequent reductions was brought to 4-1/2 percent on November 3.

The Bank of England, on April 28, lowered its rate from 7 percent, where it had stood for over 12 months, to 6-1/2 percent. Three further reductions brought the rate to 5 percent on November 3.



## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin

NO.: 1847

DATE: October 26, 1939, 5 p.m.

CONFIDENTIAL FOR SECRETARY OF THE TREASURY FROM HEATH.

Reference is made to the Department's telegram no. 734 of October 19, 1939, 3 p.m.

Today I saw Puhl, who is the active head of the Reichsbank. He confirmed the information that shipments of gold from Russia had been received and he indicated that the total amount received was in the neighborhood of 17 tons. However, he denied that the German Government is the owner of the gold. This gold is merely being handled for Russia by the Reichsbank; prior to the present regime the Reichsbank performed a similar service for Russia. Most of this gold, I was given to understand, was sent to the Netherlands and some of it was sent to Switzerland, and it will be used to pay for Russian Government purchases either in those countries or in other countries. From a banking standpoint, it was stated by Puhl, the Reichsbank is glad to again take up the role which it formerly played of intermediary banker for the U.S.S.R. Puhl said he hoped that although no payments in gold have been made so far by the Russian Government to Germany, reimbursement in gold rather

rather than in commodities would be made for the balance of the German credits of 1935 which falls due at the end of 1939 and in 1940, which it is my understanding amounts to about 150,000,000 reichsmarks. He stated that the fact remained that gold was acceptable everywhere in payment, whatever the theoretical objections might be to it as a currency base.

Puhl said in this connection that it is not certain yet whether the Reichsbank will prevail in its desire to have Russia make part of its payments in gold. I was informed at the Economics Ministry that Germany would rather receive commodities than gold from Russia.

Reference was made by Puhl to the successful renewal which had been consummated of the standstill agreement with the Dutch, Swiss and Belgian creditors at a somewhat lower interest rate. He said he hoped that the negotiations which he is conducting by telegraph with Mr. Harvey D. Gibson, who is representing the American group, would be successful. In view of the stringency of exchange at the present time, he said, Germany would have a temporary advantage if she stopped payment here of American short-term credits, because Germany was unable because of the blockade to use the credit lines which the American banks are offering under the former agreement. A net loss of  
foreign

foreign exchange would result to Germany from the renewal of this agreement, but he stated that Reichsbank President Funk and the Economics Minister had accepted his belief that it was better that some sacrifice be made by Germany now with the hope that peace would occur, when Germany could again use its American credit lines.

KIRK

EA:EB

Excerpt from Secretary Morgenthau's press conference,  
October 26, 1939.

- Q. Mr. Secretary, have you decided what you are going to tell that California delegation about the 24-hour shopping ruling?
- A. Postponed until the 1st of December, pending additional investigation as to the facts.
- Q. Mr. Secretary, on that matter, some of the members who saw you yesterday said that you put the blame on Tom Ford for that. You said that Tom Ford was the principal reason why the ruling was adopted. Is that correct?
- A. Oh, I don't want to comment.
- Q. Well, would you give me an explanation as to why the ruling was applied down there?
- A. No, it is, well, I mean the reason that we were considering putting it on is that Tia Juana is a so-called free port and the people would go over there and buy a lot of merchandise and bring in a hundred dollars worth without paying any duty. Now we felt that that was taking advantage of American merchants who paid American laborers the full wage, paid duty on the goods they imported—it was unfair competition.

- Q. You mean that they could take anything they wanted to over from Tia Juana without paying duty? What does "free port" mean?
- A. The way it is now you live in San Diego; you get in your car and go across to Tia Juana and buy a hundred dollars worth of goods in the city of Tia Juana, a free port, and don't pay any duty to Mexico and bring it to the United States and don't pay any duty to the United States. Now they have got a lot of imported merchandise and you go to a store in San Diego or Los Angeles and either it is of American manufacture and they pay the American scale of wages or you get up against imported merchandise and they have paid the duties and we thought this was unfair competition, so we put on the ruling that if you want across you had to go over and stay 24 hours in order to get the advantage of the \$100 exemption although you could bring in \$5.00 worth every day. Eighteen Congressmen signed this petition to the President and if eighteen Congressmen from California don't want it I am only the hired man and I will re-examine it for the facts, and see if there are some new facts which we have not found. As a matter of fact we have got Mr. Johnson

on the ground right now as Deputy Commissioner and we will give them a chance to show us whether we are right or wrong and we will take thirty days to re-examine it, but they tell me they are lined up five deep buying there, but what we thought we were doing was to the benefit of the people of Southern California.

- Q. Milnor's had a big going-out-of-business sign in the last three weeks.
- A. I know. Evidently he wants to stay in business.
- Q. Apparently he has reconsidered.
- A. We can too. Off the record, he seems to have an awful lot of influence. But when eighteen out of twenty Congressmen say we are wrong, plus Senator Downey, at least I, as an administrative officer, should re-examine it.
- Q. You wouldn't want to contradict Senator Downey?
- A. If he was wrong, yes. But that's all and they are satisfied and Mr. Tom Ford is satisfied that this thing—we will re-examine this thing, but your friend Mr. Milnor has quite a business.
- Q. Don't blame him on me.
- A. No, but we are like the four-weeks-old kitten: our eyes are open.
- Q. Mr. Secretary, your first remark implied that there

had been some complaints from various business interests in San Diego and Los Angeles; is that correct?

- A. The original thing that was brought in is this committee said United States citizens would go over and buy duty-free merchandise and bring it in up to \$100 worth without paying any duty, and they say it is just unfair to American merchants and laborers.
- Q. I see; did you have some squawks about it?
- A. Originally? Oh, yes. It was on that basis we put in this ruling. I think we are right but 15 out of 20 Congressmen, plus one United States Senator, say 'You are wrong,' and I say 'All right, we will re-examine it.' That's democracy, isn't it? We say we will re-examine it but I still think we are right.
- Q. Does that mean you are likely to change your present set-up at El Paso?
- A. I am not sure that the same thing applies because I don't think that there is any other free port on the Mexican border except Tia Juana.
- Q. That is right, but they can still buy \$100 worth of merchandise and bring it in duty-free.
- A. They tell me you go into this store and buy the finest English merchandise and all that stuff which is entirely duty-free and you go into Los Angeles

and buy exactly the same thing. They paid our duty or if it is American manufactured they paid our wage scale, and it is a peculiar thing which I don't think exists anywhere but at Tia Juana.

Q. No intention of changing El Paso?

A. No, we haven't gotten any complaints from the American merchants on our side. I think we are right but O.K. we will take a look at it. Nobody is going to be hurt by postponing it for thirty days.

Q. You won't lose a great deal of revenue?

A. No, and I am on the side of being fair.

Q. You have suspended the effectiveness of this regulation until December 1? I presume that gives you time to look at this thing.

A. Johnson is out there now looking at it.

Q. W. R. Johnson?

A. He is out there now.

PAP

PLAIN

BERLIN

Dated October 26, 1939

Rec'd 10:02 p.m.

Secretary of State  
Washington

1949, October 26, 6 p.m.

FOR TREASURY.

The Reichsbank statement of October 23 continues to indicate the same trend as the last two weekly statements - increasing liquidity of the money market. The Reichsbank's holdings of bills and checks decreased by 381,000,000 marks to 9,186,000,000 marks making a total decrease of 918,000,000 marks since the September 30 statement and 1,406,000,000 marks since the maximum reached in the statement of September 7. The present holdings of bills and checks are thus only approximately 1,000,000,000 above those of August 23 the last week before the beginning of the huge increase accompanying the outbreak of war.

The Reichsbank's holdings of eligible securities increased further by 46,000,000 marks to 1,431,000,000 marks. Miscellaneous securities increased by 5,000,000 marks to 405,000,000; miscellaneous assets increased by 31,000,000 to 1,248,000,000 in contrast to the rather substantial decreases of the past two weeks.

Coin

PAP -2- 1949, October 26, 6 p.m. from Berlin

Coin holdings increased by 45,000,000 marks and the holdings of Rentenbank notes by 18,000,000 marks. Figures for the circulation of metal coinage are still not available and current figures for the issuance of Rentenbank notes during October will not be available until the October Rentenbank statement is issued, so that conclusions drawn from these items cannot be considered adequately based. However, it is probable that the relatively large holdings of metal coinage and Rentenbank notes indicate that the need for the expansion of the Rentenbank note issue has largely subsided and may have been overestimated to begin with.

Note circulation decreased by 292,000,000 marks during this past week and call deposits increased slightly.

KIRK

NPL

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: October 26, 1939, 7 p.m.

NO.: 2587

FOR THE TREASURY DEPARTMENT.

Today Rueff delivered an address before the American Club on the subject of exchange control.

At lunch we sat next to Rueff, and he said that the way things were going was quite satisfactory. He had just got back from a visit to Lyon, and he was impressed that at last industry in the provinces was beginning to move. He said that as for the financial field, another billion francs gold has been gained by the fund since September, despite the very heavy payments being made by France for machine tools, raw materials, and so on, from the United States. For the present, he expects continuation of the satisfying repatriation of French capital - but we are sure that Rueff knows the Government would have much of this made available to it eventually, even though it were not brought back to France. Rueff again emphatically denied that they intend to requisition holdings abroad. Personally, we think that while it is almost inevitable that such a move will take place eventually, for some months to come there is really no likelihood or need for such action. The "unofficial" franc quotations did not worry him, he said; he felt that an opportunity for "testing" the market was given thereby.

As previously indicated in telegram No. 2577 of October 25 from the Embassy, Rueff again told us that exchange control is operating increasingly smoothly. He feels quite satisfied with the measures prepared many months ago by himself and Couve de Murville. He believed that they would have to make one change, viz., it is not the intention of the Foreign Exchange Office to require French exporters to invoice in francs; they will on the other hand waive the requirement that assurances be given that francs delivered in payment for exports are legally "transferable" in fact. Reference: telegram No. 2524 of October 19 from the Embassy. This requirement was difficult to enforce, he said, and trade was hindered thereby. They want to afford most liberal treatment to American interests, we were assured; Rueff asked us to call on him personally if any problems whatsoever came up. One phase of the exchange control seemed to be causing American interests and individuals some concern, we said, although the question had not been formally presented to us. This was the turning over to the Bank of France of all income which foreign residents/received abroad - including French nationals, of course. References: Numbered paragraph two of Article I of decree transmitted as enclosure No. 2 to despatch No. 5105 of September 18, and paragraph (b), Section Two of telegram No. 1894 of September 10, 4 p.m., from the Embassy.

The

The aforementioned provision, we mentioned, affected a number of Americans resident in France, who expend here substantial portions of their dollar incomes; it also affected American employees of American concerns which have branches in France who receive a portion of their salaries in dollars deposited directly in the United States. Rueff would not give any indication that a change in the regulations was contemplated, but he said that where good reasons existed for leaving the money in the United States, or for payments being made there, a liberal attitude would be taken in Paris - that is, either they would grant authority for remitting dollars or some other arrangement would be made, in effect, retention of the income abroad would be authorized. Rueff suggested that any American who wanted to could discuss his individual case with M. Sedillot of the Foreign Exchange Office or with Rueff himself.

Such American individuals in the provinces might consult their (omission) of the Bank of France branches directly.

We gathered the impression, in short, that while Rueff was not inclined to change the law itself, the exchange authorities did not intend to enforce the abovementioned provision strictly with regard to Americans for the time being.

END SECTIONS ONE TO FIVE, INCLUSIVE.

BULLITT,

EA:LWW

PAP

GRAY

PARIS

Dated October 26, 1939

Rec'd 8:52 p.m.

Secretary of State

Washington

2587, October 26, 7 p.m. (SECTION SIX).

In his speech Rueff reiterated his opposition to exchange control in normal times and explained the obvious reasons why such control is necessary in time of war (preservation and mobilization of gold reserves, direction and limitation of purchases abroad, facilitation of the government's internal borrowing, etc.) and outlined the functioning of a "closed capital circuit", graphically citing as analogous to the latter the well known "Canard Marseillais". He took pride in the fact that the exchange control measures which were prepared many months ago for "use in case of war" and shipped in carefully sealed packages to the Bank of France branches and customs authorities throughout France with instructions only to open where authorized had constituted one of the few really guarded secrets in France.

BULLITT

ROW:NPL

PAP

GRAY

115

PARIS

Dated October 26, 1939

Rec'd 8:45 p.m.

Secretary of State

Washington

2587, October 26, 7 p.m. (SECTION SEVEN).

He emphasized that the French control system is an "honest" one designed freely to permit payment of all prior contracted debts. He was confident that it would in no way affect the credit of France. In conclusion he reiterated that he was just as opposed to exchange control as a peace <sup>time</sup> ~~period~~ system as he had ever been and said that after the war France would once more be faced with important decisions. Once victory is attained, he said the choice will again have to be made whether France will follow the closed economy system "which inevitably lead to totalitarian communism" or will return to the liberal economy on which French civilization has been built. On that decision not only by France but by other countries will depend the future of human civilization.

(END SECTION SEVEN).

BULLITT

ROW:NPL

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris  
NO.: 2587, Section Eight  
DATE: October 26, 1939, 7 p.m.

We had a few minutes' chat with Professor Rist. He talked again about his problems caused by the blockade and stated that preventing Germany so far as possible from exporting commodities which would furnish her with the means of purchasing essential supplies from those countries which are still open to her was a corollary to preventing essential supplies from reaching Germany. He stated that he had particular reference to the Balkan countries, and he said that he was very much in hopes that it would be possible for the United States to take an increased part in those markets, particularly in competing with products which Germany now supplies.

BULLITT

EA:EB

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris  
NO.: 2587, Section Nine  
DATE: October 26, 1939, 7 p.m.

He made specific mention of machinery, electrical and telephone equipment and radios and said that France, unfortunately, was not able herself to furnish these articles under existing conditions. It was therefore his hope that although he had been informed that United States prices were too high unfortunately, we would be able to sell in that market. He wondered if the information with reference to prices was true. He again inquired as to whether we had available any information with regard to German holdings in the United States (second paragraph of our no. 2577 of October 25, 7 p.m.).

The press story referred to in our telegram no. 2571 of October 24, 8 p.m. that seventy tons of Polish gold are at the present time "somewhere in France" (not in Paris, however) has been confirmed to us by Couve de Murville. He criticized the Polish Government somewhat because it had delayed so long before it moved its gold out of Warsaw.

BULLITT

EDA

GRAY

PARIS

Dated October 26, 1939

Received 8:57 p.m.

Secretary of State

Washington

2587, October 26, 7 p.m. (SECTION TEN)

A further improvement is revealed in the statement of the Bank of France for the week ending October 19 published today. During that period the Treasury did not draw further on its advance account at the bank. Commercial advances were reduced by 136 million francs to a total of 8,783 millions (compared with a total of 18,247 millions at September 7). The "open market" item increased by 309 millions to a total of 4,577 millions. Advances against securities decreased 77 millions. Thirty day advances were practically unchanged. Note circulation decreased 605 million francs to a total of 144,239 millions. Current and deposit accounts decreased by 668 million francs.

BULLITT

RR

EDA

GRAY

P/RIS

Dated October 26, 1939

Received 9:40 p.m.

Secretary of State

Washington

2587, October 26, 7 p.m. (SECTION ELEVEN)

The Treasury account increased by 112 million francs to a total of 249 millions. Gold cover increased from 59.33% to 59.80%.

The securities market continued to advance on rising volume. The news of the decrease in the Bank of England discount rate from 3 to 2% received favorable comment and the market was also encouraged by the prospect of an early favorable vote on our Neutrality Act. Most rents and variable revenue securities made moderate advances in today's trading. The Young loan movement up 30 francs to 106.

The Swiss National Bank statement for the week ending October 23 shows a reduction in gold reserves of 32 million Swiss francs to 2,395 millions and an increase in foreign exchange holdings of 32 millions to 313 millions. Note circulation is 1,992 million as compared to 2,014 the previous week. Gold cover is 83.03% as against the previous 83.93%.

(END OF MESSAGE).

BULLITT

RR

October 26, 1939

To: The Secretary

From: Mr. Hanes

I just talked with Mr. Pelley. He advised me that last month they loaded 461,192 cars. This is 45.2 percent above last May.

You will remember in Messrs. Gray and Willard's report they advised you that they could carry 25 percent more freight with present car equipment, and by repairing certain cars could carry without difficulty 45 percent more freight. You will note that the fact that they loaded 45.2 percent more cars last month than they did in May would seem to confirm their earlier report.

J. W. H.

TREASURY DEPARTMENT

221

INTER OFFICE COMMUNICATION

DATE October 26, 1939

TO Secretary Morgenthau

FROM Mr. Cochran

The foreign exchange market was again dull today although sterling transactions increased. At the opening sterling was quoted at 4.01, and shortly thereafter touched the high for the day of 4.01-1/8. The rate subsequently eased to 4.00-3/8 and thereafter remained fairly steady to close at 4.00-3/8. It was reported that the General Motors Corp. sold £150,000 for delivery in three months.

In yesterday's report, the sale of £40,000 by a Japanese Bank was mentioned, and it was stated that when this order appeared in the market the rate moved off substantially. In checking our sources of information, we find that when sterling is offered by Japanese banks the rate has a definite tendency to soften, not because of the fact that the sterling is offered, but due to the hesitancy of the banks to accept contracts with Japanese names.

Reporting banks in New York and the Federal Reserve Bank reported sales totaling £377,000, from the following sources:

Commercial concerns.....	£136,000
Foreign banks (South America and Far East).....	£241,000
Total	£377,000

Purchases of sterling amounted to £382,000 as indicated below:

By commercial concerns.....	£162,000
By foreign banks (Europe and Far East).....	£200,000
Total	£382,000

The banks also reported that the British Control purchased sterling amounting to £17,000 at the official rate of 4.02.

The other important currencies were steady with only small changes in the quotations. The Chinese yuan regained its loss of yesterday, improving from .08 to .08-5/16 today.

The Federal Reserve Bank sold 3,000,000 Swiss francs in the market for the account of the National Bank of Rumania. This sale was consummated at .2241, and at the time it had a slightly depressing effect on the rate for Swiss francs.

CONFIDENTIAL

The Netherlands Bank sold us gold valued at \$1,300,000 from its earmarked account.

The Federal Reserve Bank of New York reported to us the shipment of gold valued at \$1,466,000 from Bombay, India, consigned to the National City Bank of New York, for sale to the U.S. Assay Office at New York.

With respect to the announcement yesterday by the Board of Trade in London prohibiting the importation of silver bullion and foreign silver coins except under license, the first repercussion of this order was felt in New York today when Handy and Harman reduced their price for foreign silver from  $36\frac{1}{4}$ ¢ to 35¢, which was the same as the price fixed by the Treasury today. This action on the part of Handy and Harman was evidently designed to prevent large amounts of silver from being offered to them, which they in turn could not readily dispose of.

We purchased 50,000 ounces of silver in the New York market under the Silver Purchase Act.



CONFIDENTIAL



TREASURY DEPARTMENT

WASHINGTON

OFFICE OF THE  
DIRECTOR OF THE MINT  
IN REPLY TO ENCL. NO. 1

October 26, 1939.

The Honorable,  
The Secretary of the Treasury:

Dear Mr. Secretary:

I submit for your approval the first of three plaques being cast for you by the Roman Bronze Works Company; Mr. Thorn of the office of the Supervising Architect having returned it to this office today, with the statement that it meets with his approval. If this is satisfactory to you, I shall instruct the Roman Bronze Works Company to proceed with the finishing of the other two plaques.

Director of the Mint.

OK  
11/1/39

October 26, 1939

24

Dr. Ludwik Rajchman, General Adviser of the Chinese Government, called on the Secretary today at 10:30 a.m.

DR LUDWIK RAJCHMAN

October 26, 1939  
9:22 a.m.

HMJr: Hello. Hello.  
Operator: He was on there.  
HMJr: Hello.  
O: I'll call you back when we get him back.  
HMJr: Thanks.

9:23 a.m.

O: Mr. Butterworth.  
HMJr: Hello.  
Walton  
Butterworth: Hello, sir.  
HMJr: How are you?  
B: Very well, thank you. I've been gladdened by the news.  
HMJr: Pardon me?  
B:  
HMJr: Hello?  
B: Hello.  
HMJr: The reason I'm calling you was to give you a chance on a personal basis to tell me if it would be inconvenient for you to come at this time.  
B: No, it won't, sir.  
HMJr: It will not be?  
B: No, sir.  
HMJr: Would you like to come?  
B: Yes, I think I would.

HMJr: Well, if you would like to come I think that there's so much happened that I think that you ought to sort of freshen up on what's going on in the Treasury.

B: Yes.

HMJr: And also bring us up to date on what's going on in England.

B: Right, sir.

HMJr: When do you think you'll come?

B: Well, I thought that -- I'm going to Scotland tonight to see my wife and have a little talk with her.

HMJr: I see.

B: And the first boat doesn't sail until November 5th.

HMJr: Yes.

B: And so I thought I would take the Clipper from Lisbon.

HMJr: Yes.

B: I would leave here on November 5th, take the Clipper which leaves the 8th and arrive on the 9th.

HMJr: Fine.

B: If that's convenient to you.

HMJr: That's all right. Now -- then that'll give you a chance to talk with the people in Paris.

B: Yes.

HMJr: Is that right?

B: Yes, that's what I thought I'd do.

HMJr: Yes. And -- I mean -- would it be -- see the Ambassador and other people there.

B: Yes, sir.

HMJr: And bring yourself up-to-date.  
B: Right, sir.  
HMJr: Well then we'll -- we'll be glad to see you here.  
B: Good. Thank you so much, sir.  
HMJr: Nothing -- well, I won't talk over the phone.  
B: No.  
HMJr: But I wanted to give you a chance to say you.....  
B: Well I -- I appreciate that very much, sir.  
HMJr: All right. Give my regards to the Ambassador.  
B: Thank you; I will.  
HMJr: Goodbye.  
B: Goodbye.

October 26, 1939  
9:52 a.m.

28

Operator: Go ahead.

HMJr: Hello.

Charles  
Kramer: Hello. Mr. Secretary.....

HMJr: Talking.

X: I thought I'd bring to your attention one thing  
that came to me through Steve.

HMJr: Yes.

X: It seems that Tom Ford had sold him the idea that  
there were over 6 million dollars' worth of  
Japanese merchandise that was brought into the  
United States through that border.

HMJr: Yes.

X: Well there is no such a thing -- there're no ships  
going into the -- in the Mexican border at all.

HMJr: I see.

X: And he gave the impression, Steve, that there was  
just a whole lot of stuff coming in through that  
entry there which Now there's  
a -- there's a -- what do they call it.....

HMJr: Hello?

X: Yeah.

HMJr: Well.....

X: There's -- there's.....

HMJr: We'll look into that.

X: There's nothing of that kind happening down there at  
all.

HMJr: O. K.

X: It's just been an over-exaggeration on his part.

EMJr: Well thanks, Congressman, very much.

K: All right.

EMJr: Thanks for the tip. Goodbye.

October 26, 1939  
10:02 a.m.

230

HMJr: Hello.

Operator: Congressman Lea.

HMJr: Hello.

O: Go ahead.

HMJr: Hello.

Clarence F.  
Lea: Mr. Secretary?

HMJr: Yeah. Morgenthau.

L: Yes.

HMJr: Is this Mr. Lea?

L: Yes.

HMJr: Mr. Lea, we've decided to extend this order to 30 days, until December 1.

L: I see.

HMJr: And we'll make a very careful investigation as to what the facts are.

L: I see. It will give you time to decide whether it's the right thing to do.

HMJr: Yeah.

L: All right. Thank you very much.

HMJr: Is that -- is that all right with you?

L: Yes, indeed. I thought about suggesting that yesterday but then I concluded to say nothing about it at that time.

HMJr: But that -- we may -- between now and December 1 we'll re-examine the picture and make a very careful examination on the grounds.

L: Yes. So the idea would be suspend this order for 30 days.

HMJr: Well, until December 1.

L: Yes.

HMJr: And between this time we'll have a very careful examination made as to just what it's all about.

L: All right. I think that's fine.

HMJr: You're satisfied?

L: A good way to deal with it.

HMJr: Righto.

L: All right, thank you.

HMJr: Well you tell your delegation, will you?

L: Yes, I will.

HMJr: And Congressman Ford left here and he's agreed to this also.

L: I see.

HMJr: He's agreed to it.

L: Yes. Well, that's good too.

HMJr: So that ought to make the California delegation unanimous.

L: Yes, that's all right. That's fair enough.

HMJr: Thank you.

L: All right.

HMJr: Goodbye.

L: Goodbye.

October 26, 1939  
3:15 p.m.

232

James A.  
Farley:

Any truth to the report that the Beacon Searchlight carries an interview with you on the third -- third term?

WJF:

(Laughs) Believe me, they slapped poor Henry Wallace down today.

F:

Well, Henry.....

WJF:

What?

F:

Henry, he's silly -- I mean -- at this time, with this vote up here, it's just -- a fellow should have his head examined saying anything on anything for anybody on -- anytime -- you know.

WJF:

Well, when I saw it I just blinked and got out my extra strong glasses and read it again. I just....

F:

Of course I know he felt that way. I've talked with him; I know exactly -- I've talked with him.

WJF:

But you.....

F:

He has talked to our friend. I know that, but it's too silly for words doing a thing like that.

WJF:

Well, I -- I just couldn't believe it.

F:

Well, he just evidently -- here's the only thing that -- the only reaction -- the reaction that I had to it was this -- he had visions of grandeur himself, which he's probably -- have been dissipated.

WJF:

Yes.

F:

And he probably figured that he was doing a little protecting of himself and maybe he could find a niche at second place or something. That's the only thought I had.

WJF:

I see.

F:

Now that's the only -- that was my reaction, because there was no necessity now for him doing that out there.....

HMJr: Yes.

F: .....while this thing is up here.

HMJr: Right.

F: Christ, everybody's been keeping their mouth shut to get this bill by.

HMJr: Right, and how!

F: Well, there it is.

HMJr: Do you want to lunch with me tomorrow?

F: No, I -- I think I'm going to lunch with our President.

HMJr: I see.

F: At least so I've been told, unless something happens.

HMJr: I see.

F: If I don't lunch with him I'll be delighted to lunch with you, sir.

HMJr: (Chuckles) Always glad to be in the second money.

F: Thank you very much. I never -- by the way, I'll tell you a good one.

HMJr: Yes.

F: I went over to the races yesterday, the first I've been to in a year. I went over with Steve and George Allen and I we -- we get into the last race absolutely even.

HMJr: Yes.

F: So I bet ten across the boards on New Deal.

HMJr: Yeah.

F: I thought I'd finish strong, and New Deal is still running.

HMJr: (Hearty laughter)

F: That's a true story but even up  
until that one.

HMJr: I wrote your friend, the senator from Rhode Island,  
a very nice letter today.

F: Oh, that's fine. I don't know a thing. All I --  
my -- you know my interest.....

HMJr: Well....

F: .....was to try to.....

HMJr: I know. I think he's all wet.

F: .....straighten out.....

HMJr: But we'll hold his hand just the same.

F: O. K. Thanks.

HMJr: Goodbye.

F: Well, if you have anything special report, why take  
it up with me.

HMJr: After Cabinet.

F: O. K. What have you done with Carmody?

HMJr: (Laughs) He's still running too.

F: (Laughs) Goodbye.

HMJr: Goodbye.



TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

October 27, 1939

MEMORANDUM FOR THE SECRETARY

OFFICE OF THE DIRECTOR

Supplementing my memorandum of October 9th, the following contracts have been made by the French purchasing missions presently in New York:

<u>CONTRACTOR</u>	<u>ITEMS</u>	<u>PRICES</u>
Indian Motorcycle Company Springfield, Massachusetts	5,000 motorcycles	\$ 2,375,950.00
National Acme Company Cleveland, Ohio	75 Gridley lathes	910,515.00
Brown & Sharpe Manufacturing Co. Providence, Rhode Island	620 Automatic lathes	2,572,735.00
Cincinnati Milling Machine & Cincinnati Grinders, Inc. Cincinnati, Ohio	8 rectifiers	61,760.00
Cincinnati Milling Machine & Cincinnati Grinders, Inc. Cincinnati, Ohio	48 rectifiers	312,720.00
E. W. Bliss Company Brooklyn, New York	100 torpedoes	1,800,000.00
E. W. Bliss Company Brooklyn, New York	3 presses	112,000.00
Studebaker Corporation South Bend, Indiana	2,000 motor trucks \$100,000 spare parts	3,540,600.00
White Motor Company Cleveland, Ohio	1,500 Motor trucks \$100,000 spare parts	3,113,470.00

*H. Gallus*  
Director of Procurement

(COPY:EE:HJN)

No. 10

Original by Air Mail

AMERICAN CONSULATE

Hanoi, French Indochina, October 27, 1939

Subject: French Attitude Towards Exports to China.  
At Present no Restriction on Exports or Transit.

The Honorable  
The Secretary of State,  
Washington.

Sir:

I have the honor to refer to my telegrams of September 26, 3 p.m., October 11, 6 p.m., and October 26, 6 p.m., 1939, relating in part to the attitude of the French towards the transit across Indochina and the export to China of those commodities which are prohibited export from Indochina by the Governor General's decree of September 3, 1939. Among the commodities enumerated in this decree, which was promulgated on September 6, 1939, automobiles and trucks, gasoline and oils, tires, metals, et cetera, are of paramount interest to the Chinese National Government.

As may be inferred from those telegrams the various communications of the Government General, communications made orally and in writing, have fostered a feeling of apprehension that a ban would be placed on the transit across Indochina and the export to China of these much needed commodities. The apprehension has been heightened by the apparently conflicting statements of the officials of the Government General - at one time it being stated that no ban would be imposed, at another that a ban would be imposed, and at yet another that a ban would be imposed on certain classes of exports.

On October 11, the date of my second telegram in regard to this subject, and on October 13, the date of my despatch No. 5, the situation was substantially as follows: that the transit across Indochina and the export to China of the prohibited commodities would be banned from midnight October 30, 1939, but only in so far as the traffic concerned private persons (private firms, et cetera); that the transit and the export of these commodities to the Chinese National Government would be banned as from a date to be fixed later by the Director of Customs; and that the transit and the export of these commodities to the Chinese National Government, as envisaged under the Universal Trading Company loan, would be permitted up to the expiration of that loan agreement.

The

The substance of the above, together with additional regulations as to the treatment to be accorded German goods and as to the possible re-imposition of transit taxes on commodities destined for the Chinese National Government, was given in letters dated October 3, 1939 to the Chinese Consul General at Hanoi. Despite rumors that the French did not intend to enforce the above-mentioned restrictions, it was widely accepted by shippers and "transitaires" that some sort of restriction on the transit across Indochina and the export to China of the prohibited commodities would be enforced. In fact the Chinese Chamber of Commerce at Haiphong is said to have posted a notice to the effect that such transit and export would be banned.

As may be imagined the question whether or not the Government General would enforce the ban became almost the sole topic of conversation in those circles interested in China and in shipping to China. Apprehension that the Government General intended to enforce the ban became articulate, particularly in Chinese circles. Extreme pessimism was expressed as to China's ability to carry on if the transit of automobiles, trucks, gasoline, oils and metals were banned. It was queried whether France (with the knowledge and assent of Great Britain) was protecting her Far Eastern interests at the expense of China.

On or about October 16th, it began to be rumored that the Government General had decided definitely not to enforce the ban. But there were no official pronouncements to this effect of weight equal to the Government General's letter of October 3, that which announced the ban. However, on October 18th, Mr. Peck was informed by Mr. Ginestoux, Director of Customs of the Government General, that there was no question of a ban and that traffic to and from China would continue as heretofore, at least for the time being.

Under date of October 23, 1939, the Chinese Consul General at Hanoi was informed that insofar as non-German goods are concerned, whether stocked in Indochina or arriving in the future, whether destined for private persons (private firms, et cetera) or for the Chinese National Government, the transit across Indochina and the export of these commodities to China is authorized without time limit. The Chinese Consul General was requested to use his authority to put an end to the current adverse propaganda. The letter stated "I should

like

like to believe that, as a result of this decision, the pessimistic rumors in regard to this matter, which have been circulating with characteristic insistence in the Chinese colony, will cease."

Accordingly, and as stated in my telegram of October 26th, there are at the present time, nor are there envisaged for the future, no restrictions on the transit across Indochina and the export to China of any of the commodities enumerated in the Governor General's decree of September 3, 1939. As a result the shippers and "transitaires" are in a better frame of mind, the uncertainty as to the future has been somewhat removed, and the major job of clearing the enormous accumulation of cargo at Haiphong is proceeding.

Undoubtedly, one fact is outstanding. Whether the French ever intended to enforce the ban is perhaps a debatable point, but the French did use the threatened ban to force the Chinese to speed up clearing the congestion of cargo at Haiphong. Other considerations are more speculative - whether the French were acutely apprehensive of increased Japanese pressure in this region, and took steps to convince the Japanese that France was not actively aiding the Chinese National Government, is of course a matter of conjecture. I have every reason to believe, however, that the Government General is consciously aware of the potential danger from Japan and will not hesitate to take any step, of "political expediency", to remove such danger. Officials in Indochina have stated this in no understandable words.

The Department may be interested to know that in certain circles, particularly Chinese, the present action of the Government General in doing away with the threatened ban is attributed to (1) recent reported Chinese victories, (2) rumors that Russo-Japanese relations have taken a turn for the worse - as contrasted with the truce, and (3) the conviction that the American neutrality law will be amended to permit the shipment of arms and munitions to France and Great Britain.

Respectfully yours,

CHARLES S. REED, II.  
American Consul

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

(Draft of this despatch received at this Consulate November 6, 1939. Mailed November 7, 1939.)

800  
CSR/GJ

(Copy)

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro

NO.: 378

DATE: October 27, 1939

Reference is made to the Department's no. 208 of October 20, 12 m.

Confirmation in writing was made by the Brazilian Government today. We are forwarding copies of letters via air mail.

GAFFERY

EA:EB

RECEIVED

OCT 29 1939

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

ASSISTANT TO THE SECRETARY OF THE TREASURY

DATE 10-27-39  
1939

The Secretary:

239

Just as a matter  
of interest.

B.H.

MR. HARRIS

October 27, 1939.

MEMORANDUM FOR MR. HARRY WHITE:

The following figures give the passenger movement on the North Atlantic, to and from European ports, including the Mediterranean. These figures do not include passenger carryings to and from Canada:

Year	<u>EAST</u>			
	<u>Cabin and First Class</u>	<u>Tourist</u>	<u>Third</u>	<u>Total</u>
1937	85,299	107,455	126,038	318,792
1938	62,347	85,251	115,802	263,400
*1939	41,506	56,357	77,973	175,836

Year	<u>WEST</u>			
	<u>Cabin and First Class</u>	<u>Tourist</u>	<u>Third</u>	<u>Total</u>
1937	88,477	122,202	140,660	351,339
1938	70,902	108,995	131,111	311,008
*1939	54,657	77,124	87,005	218,786

\* Through October 26th.

BH/hkb/hm



TREASURY DEPARTMENT  
WASHINGTON

241

OFFICE OF  
COMMISSIONER OF INTERNAL REVENUE

ADDRESS REPLY TO  
COMMISSIONER OF INTERNAL REVENUE  
AND RETURN TO

IT:P:CA  
CAA

October 27, 1939.

REPORT FOR SECRETARY MORGENTHAU:

In regard to closing agreements which have been requested, the following applies:

Colt's Patent Fire Arms Manufacturing Company:

Another conference was held with the contractor on Monday, October 23, 1939, for the purpose of considering slight changes desired by the contractor in the closing agreement. An understanding was arrived at. A revised agreement duly signed and attested has been received from the contractor and the case is now in the status of final review in the hands of the reviewing officers.

Consolidated Aircraft Corporation:

Mr. Reiling states that Major Fleet, president of the corporation, telephoned him that the agreement, as drafted, would not be availed of, but that the corporation was the only bidder and it had filed an alternate bid proposing that the Navy Department allow as a deduction of cost against the contract 60% of the cost of the proposed special facilities. Nothing has been heard from the Navy Department.

New matters developed as follows:

De Laval Steam Turbine Company:

A letter was received from this contractor requesting that a cost estimated at \$18,000.00 of a special design profile tool

-2-

be allowed as a deduction against a proposed subcontract to be undertaken by De Laval for the construction of the main propelling unit and certain auxiliary equipment for a new design of submarine chaser, the Defoe Boat and Motor Works being the prime contractor. The representative of the De Laval company has been requested to furnish some additional information.

  
Commissioner.

RECEIVED MAY 10 1916

U.S. DEPARTMENT OF THE INTERIOR  
BUREAU OF MINES

ITTC:CA  
CAA

October 27, 1939.

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Copy for Commissioner.

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(Signed) Guy T. Haverling

Commissioner.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, London

No.: 2183

DATE: October 27, 1939, 2 p.m.

FOR THE SECRETARY OF THE TREASURY.

This morning Mr. Whigham was brought in to see me by Montague Norman. As was mentioned in my no. 2178 of October 26, 8 p.m., Whigham is to be their American representative. It was made clear by Norman that he is advising the Treasury that unless they have the money in hand they should not obligate themselves for purchases. It is for that reason, therefore, that it may become necessary that a large share of these securities be liquidated quickly.

Besides the Class A list, which I forwarded to you by pouch, there is a Class B list of securities which are not so readily marketable. I think I shall have this list by Monday and as soon as I receive it, I shall send it to you.

I was told this morning by Norman that arrangements are being made by them with the sterling countries, that is, the Dominions with the exception of Canada, Argentina and the Scandinavian countries, for the continuation of their trading on a sterling basis, with the provision that

if

if there is a balance in favor of these countries at the end of a period which will be decided upon later--perhaps six months, a year or two years--this will be worked out by the British Government. They do not advance any well-thought-out plan when they say "this will be worked out". For instance, with reference to Argentina he said "we would use the large quantity of Argentine bonds which we own"; with reference to the Scandinavian countries he said, "we would probably pay the final adjustment in gold, although we do not commit ourselves to do so." What this does mean, however, is that it would permit trade to be maintained on a sterling basis with a promise, not too definite, that at a later time adjustment will be made. There is an entirely different problem with respect to Canada. Norman says that Canada is raising a loan, the greater part of which they will make available to the British. However, he says, the British feel that since Canada is practically on a dollar basis, in the last analysis whatever orders are placed with them will have to be paid for in American dollars. It is their feeling that the Canadian securities which they hold are practically frozen and are not of much use to them; <sup>a very substantial amount of Canadian bonds</sup> included in these Canadian securities.

I will keep you informed.

KENNEDY

EA:EB

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: October 27, 1939, 10 a.m.

NO.: 2588

The following is personal for the Secretary of the Treasury:

Reference is made to your telegram of October <sup>27</sup>~~26~~, 3 p.m., No. 1289.

We have received indications from both Rueff, Under-Governor of the Bank of France, and Couve de Murville, the Acting Director of the Mouvement General des Fonds, that they can see no obstacle to following the lines indicated in your telegram. Governor Fournier of the Bank of France is absent from Paris, but is due back briefly next week; the delay in setting up the suggested machinery has been due to his absence.

BULLITT.

EA:LWW



DEPARTMENT OF STATE  
WASHINGTON

Noted

E. M. Cochran

248

October 27, 1939.

My dear Mr. Secretary:

I enclose a copy of paraphrase of a telegram  
just received from Ambassador Bullitt, transmitting  
a personal message for you.

Sincerely yours,

*Herbert Feis*

Herbert Feis,  
Adviser on International  
Economic Affairs.

Enclosure:

Paraphrase, No. 2588  
of October 27 from Paris

The Honorable

Henry Morgenthau, Jr.,  
Secretary of the Treasury.

RPF

PLAIN

LONDON

Dated October 27, 1939

Rec'd 12:30 p.m.

Secretary of State

Washington

2189, October 27.

FOR TREASURY.

1. Following yesterday's reduction in the bank rate the clearing banks announced a reduction in their deposit rate to  $\frac{1}{2}$  per cent but for day-to-day loans against bills they fixed their rate at 1 per cent and for loans against bonds  $1\frac{1}{2}$  per cent, these rates comparing with pre-war levels of  $\frac{1}{2}$  and 1 per cent respectively.

2. Contrary to custom the stock exchange did not lower the minimum price of war loan when it became ex-dividend yesterday the reason being probably the large foreign holding of this security and the danger that a reduction in the minimum price might cause misunderstanding. Gilt-edged securities were dull today on profit taking, war loan closing 91  $\frac{3}{4}$ .

3. Following the Board of Trade order reported in my 2179 of October 26, the price of silver rose yesterday to 23  $\frac{3}{8}$ d. per ounce spot and 23  $\frac{1}{2}$ d. per ounce forward. The expectation that licenses will not be granted

for

RFP -2- #2189, October 27 from London

for silver imports from foreign countries caused this rise which was however limited by the expectation that imports from certain Empire countries will be permitted. The silver price today was unchanged for spot, the forward price being 22 7/8d.

4. The Treasury bill rate for today's tender averaged about £1. 4s. 4½d. Applications totalled £99,890,000 and all applications at the lowest rate were allotted 31 per cent of their tenders. Next week's tender is to be for £55 million.

KENNEDY

RR

W 11 10 1954  
1954 10 28  
1954 10 28

# FCC Revives the Black Chamber

By Frank C. Waldrop

HAS SET UP BUREAU  
TO DECODE DIPLOMATIC  
AND BUSINESS CABLES

DO you use the telephone, the telegraph and the cables? Do you send radio messages?

If so, and particularly if you do business abroad, bear in mind that the Government of the United States is checking up on what you say.

Especially if you are the envoy or agent of a foreign power or a banker or a businessman or a news agency manager.

Yes, sir. These may be technically peaceful days in the United States, but you'd never know it to observe the warlike maneuvers behind the curtain of official Washington's civilian cloak. There are people here invading private rights just as if the war were already on and Liberty cabbage were taking the place of sauerkraut.

There happens to be a Federal Government organization at work in New York going over every cable, telegraph, telephone and radio message coming in or going out of that city.

This agency, on special authority from President Roosevelt is commanded by Chairman Fly of the Federal Communications Commission and it has assumed very broad powers on behalf of FCC engineers and lawyers, officers and civilians of the Military and Naval Intelligence Bureaus, State Department officials under direction of Assistant Secretary George Messersmith, and agents of the Federal Bureau of Investigation of the Department of Justice.

More than 50 experts on codes have been assembled in Manhattan with Chairman Fly, FCC General Counsel William Dempsey and FCC Engineer G. G. ... directing the analysis of ... The Western Union,

Postal Telegraph, American Telephone and Telegraph Company, Radio Corporation of America, and all the subsidiary cable and other companies, have to check in to these people every day with reports on what business they have done.

NOT merely diplomatic correspondence but commercial and private messages are being decoded and checked on to see—well, whatever it is the Government wants to see, and the heck with constitutional privacy of private business.

Bankers and manufacturers who had thought their cables of recent date were confidential are in for some surprises.

FOR this is the American Black Chamber revived, enlarged and snorting away



Frank Waldrop  
American Black Chamber.

Back in World War days a clerk in the State Department by the name of Herbert Yardley was found to have an aptitude for decoding. He was

given a quiet corner, some studious assistants, and lots of coded messages to play with, so that he became one of the world's greatest authorities on cryptography of all kinds, and on governmental secrets.

AFTER the war, the State Department kept him around to do special work, such as tapping the wires of the Japanese when they came here in 1933 to the Naval Disarmament Conference.

And once it had started that sort of thing, the Government found it mighty hard to quit, so Mr. Yardley and his forty men hung on until Henry L. Stimson became Secretary of State.

Mr. Stimson is one of those high-minded statesmen, so one of his first acts was to fire Mr. Yardley.

AND one of Mr. Yardley's last acts after being fired was to write a book entitled "The American Black Chamber." He told all—and then some.

It did not endear him with the State Department, but the Japanese loved it.

They never had understood how we were a jump ahead of them in the Disarmament Conference.

After Mr. Yardley's literary endeavors, Black Chamber operations were put entirely out of mind by our Government, and not until a few weeks ago was the revival undertaken.

JUST how Chairman Fly intended to run such a cumbersome society of private company file snatchers and rival governmental espionage organizations as he has devised without anybody knowing about it is difficult to say.

But he has his eye and ear on you, just the same.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 27, 1939

TO Secretary Morgenthau

5:00 P.M.

FROM W. H. Hadley

EFC Financing

<u>Maturity</u>	<u>Coupon</u>	<u>Yield</u>	<u>Offering Price</u>	<u>Market Price</u>	<u>Premium</u>
2 yrs. 6 mos. (May 1, 1942)	7/8%	0.75	100	100.10	10/32nds
		0.80	100	100.6	6/32nds
	1%	0.75	100	100.20	20/32nds
		0.80	100	100.16	16/32nds
		0.75	100 1/8	100.20	16/32nds
		0.80	100 1/8	100.16	12/32nds
2 yrs. 9 mos. (Aug. 1, 1942)	7/8%	0.80	100	100.7	7/32nds
		0.85	100	100.2	2/32nds
	1%	0.80	100	100.17	17/32nds
		0.85	100	100.13	13/32nds
3 years (Nov. 1, 1942)	1%	0.85	100	100.14	14/32nds
		0.90	100	100.10	10/32nds
		0.85	99 7/8	100.14	18/32nds
		0.90	99 7/8	100.10	14/32nds
	1-1/8%	0.85	100	100.26	26/32nds
		0.90	100	100.21	21/32nds
		0.85	100 1/8	100.26	22/32nds
		0.90	100 1/8	100.21	17/32nds
		0.85	100 1/4	100.26	18/32nds
		0.90	100 1/4	100.21	13/32nds

Note: Premiums on the day of offering of the last three EFC issues range from 13/32nds to 16/32nds.

MEMORANDUM FOR THE PRESIDENT:

At our conference in your office on Tuesday, October 24th, you asked for information regarding certain Canadian banking institutions having branches or agencies in New York City.

I am attaching hereto (1) memorandum giving the name, home office, and agency address in New York of those Canadian institutions now doing business in New York; and (2) copy of Section 27 of the New York Banking Law which is the pertinent section to granting licenses to foreign corporations.

The Superintendent of Banks in New York tries to satisfy himself that agency applications from foreign banks come from sound institutions. He gets a statement from the head office and he checks with New York banks to determine this. Each agency is examined once a year to determine the amount and character of its liabilities. Agencies of foreign banks do not accept deposits but they do acquire debts arising out of commercial transactions which in some cases are almost indistinguishable from deposits. There have been recent problems in connection with Polish and Czech banks and the examination and supervision is going to be tightened up.

JWB:cs

October 26, 1939

FOR THE PRESIDENT

New York agencies of Canadian banking institutions and their addresses as given in the latest annual report of the Superintendent of Banks for the State of New York are as follows:

NAME	LOCATION	ADDRESS OF AGENCY
Bank of Montreal	Montreal, P. Q.	64 Wall St. New York
Bank of Nova Scotia	Halifax, N. S.	49 Wall St. New York
Canadian Bank of Commerce	Toronto, Canada	Exchange Place and Hanover St. New York
Dominion Bank, The	Toronto, Canada	49 Wall St. New York
Royal Bank of Canada	Montreal, P. Q.	68 William St. New York

The pertinent section of the New York Banking Law is Section 27, a copy of which is attached.

#### Licenses to foreign corporations; renewal

Upon receipt by the superintendent from any foreign corporation of an application in proper form for leave to do business in this state under the provisions of this chapter, he shall, by such investigation as he may deem necessary, satisfy himself whether the applicant may safely be permitted to do business in this state. If from such investigation he shall be satisfied that it is safe and expedient to grant such application and it shall have been shown to his satisfaction that such applicant may be authorized to engage in business in this state pursuant to the provisions of this chapter and has complied with all the requirements of this chapter, he shall issue a license under his hand and the official seal of the department authorizing such applicant to carry on such business at the place designated in the license and, if such license is for a limited time, specifying the date upon which it shall expire. Such license shall be executed in triplicate and the superintendent shall transmit one copy to the applicant, file another in the office of the department and file the third in the office of the clerk of the county in which is located the place designated in such license. Whenever any such license is issued for one year or less, the superintendent may, at the expiration thereof, renew such license for one year.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 27, 1939.

TO Secretary Morgenthau  
FROM Mr. Cochran

Reference is made to my memorandum dated October 23 in regard to the handling of purchases of the Bristol Aeroplane Company.

Mr. Knoke telephoned me at 4:00 o'clock on October 25 to the effect that the operation was a little different from that which he had originally described to me. He said that Governor Harrison had subsequently received a letter from Mr. Osborne which described the situation, and that this was being forwarded to me. A copy of the letter in question was received yesterday and is attached hereto. Mr. Knoke talked with me after the letter had arrived. He also let me know yesterday of a conversation which he had just had with Mr. Bolton of the Bank of England with respect to authorizing Mr. Osborne to give instructions to the Federal Reserve Bank at New York as to when the latter should make payments, up to a limit of \$1,000,000, to banks for the order of concerns or individuals which were exporting war materials purchased by the British officials in this country. Knoke promised to send me a transcript of the telephone conversation with Mr. Bolton.

The transcript arrived this morning, and a copy is attached. I summarized this arrangement to the Secretary this morning, and told Mr. Knoke at 10:15 that it appeared entirely satisfactory to us. I asked him to confirm, however, my understanding of one sentence in the transcript of the conversation. This sentence reads "If in order, they would ask us to place \$1,000,000 at his disposal". I asked Knoke to make it clear that the \$1,000,000 in question would come from the Bank of England funds actually on deposit with the Federal, and that no credit was involved. This he confirmed.



October 23, 1939

Secretary Morgenthau

Mr. Cocks

This afternoon Mr. Knake 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. Knake that this plan was agreeable to us.

(init.) H. M. G.

HMG:ank  
10.23.39**CONFIDENTIAL**

MISC. 128 25M 8-39  
FEDERAL RESERVE BANK  
OF NEW YORK

INTEROFFICE  
ROUTE SLIP

TO \_\_\_\_\_ TIME \_\_\_\_\_ A. M. \_\_\_\_\_ DATE \_\_\_\_\_  
P. M. \_\_\_\_\_  
REMARKS \_\_\_\_\_  
FROM **L. W. Kneke** DEPARTMENT \_\_\_\_\_  
DIVISION \_\_\_\_\_  
SECTION \_\_\_\_\_

N. B. USE THIS FORM INSTEAD OF OFFICE ENVELOPE WHEN POSSIBLE.  
TO INSURE PROMPT AND ACCURATE DELIVERY ALL COMMUNICATIONS SHOULD BE DISTINCTLY  
LABELED.

C O P Y

BRITISH PURCHASING MISSION IN CANADA

House of Commons,  
Ottawa,

23rd October, 1939.

Dear Mr. President,

I spoke over the telephone to Knocke this morning about the following matter:

Two agents of the Bristol Aeroplane Company, Mr. F. Whitehead and Mr. A. J. Hunt, came to Ottawa last week at the request of the United Kingdom Air Ministry to obtain advice and assistance in connection with purchases\* which they wish to make of machine tools, jigs and inspection equipment in the U.S.A. - They told me that they might be spending \$5 million or more and that of this sum anything up to \$1 million would probably be required in the next six or eight weeks.

I accordingly asked Knocke whether you could furnish them with dollars against their certificate on receiving suitable instructions from the United Kingdom Treasury; and as he said he thought this could be arranged subject to the consent of your Treasury, I have cabled to the United Kingdom Treasury asking for their approval and action through the Bank of England. Meanwhile, I enclose specimens of the signatures of Mr. Whitehead and Mr. Hunt produced in my presence.

Yours faithfully,

(signed) J. A. C. Osborne

\* None of this, of course, subject to the embargo.

OC 30 1939

The President,  
Federal Reserve Bank of New York,  
33 Liberty Street,  
New York, N. Y.  
U.S.A.

RECEIVED

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE October 28, 1929

CONFIDENTIAL FILES

SUBJECT TELEPHONE CONVERSATION WITH  
BANK OF ENGLAND.TO  
FROM L. W. Knoke

Mr. Bolton called at 12:45 today. He asked had Mr. Osborne been in touch with us recently. I replied that Mr. Harrison and I had met him in Washington a week ago and that Mr. Harrison had received a letter yesterday speaking of certain purchases of the Bristol Aeroplane Company. That was exactly what he wanted to inquire about, Bolton said. Would it be all right if they sent us a cable asking us to make payments on his instructions? He knew more about the business than they did in London and, therefore, they would like to take advantage of Osborne's presence on this side of the Atlantic. They wondered, however, whether we could act on his instructions without any breach of our laws. If in order, they would ask us to place \$1,000,000 at his disposal. I replied that I would discuss the matter with our lawyers and would cable him later on. If it was too difficult to arrange it that way, Bolton continued, they would instruct us to make payments against documents such the same as in the past.

Bolton then stated that they wanted to send somebody to the Argentine and they were wondering whether it would not be simpler for that person to go to New York first and then on the Pan American Airline. How did that service run nowadays? I replied that I would look into the matter and cable him tonight details, such as the schedule, the chance of reserving accommodations etc.

LWK:KW

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

259  


DATE October 27, 1939

TO Secretary Morgenthau  
 FROM Mr. Cochran

The foreign exchange market continued in the quiet trend of the past few days, although some interest was shown in the guilder and the belga. The opening quotation for sterling was 4.00-1/2. Shortly thereafter the Guaranty Trust Company received a Japanese order to sell £70,000 and, upon the appearance of this order in the market, the rate began to recede. Before the Guaranty could execute the order, they received another order to purchase £65,000. It then withdrew the £70,000 offer to the market and matched it with the buy order. At about the time this offer was withdrawn, the Chemical Bank and Trust Company was reported as selling sterling in small amounts, and just before noon the rate reached the low of the day at 3.99-3/8. During the afternoon, the rate recovered part of the decline and closed at 3.99-7/8. The Shanghai branch of the National City Bank reported that the Japanese were sellers of sterling in the Shanghai market today.

Reporting banks in New York and the Federal Reserve Bank reported sales totaling £308,000, from the following sources:

Commercial concerns.....	£132,000
Foreign banks (Far East and South America).....	£176,000
Total.....	£308,000

Purchases of sterling amounted to £460,000 as indicated below:

By commercial concerns.....	£324,000
By foreign banks (Far East, Europe and South America).....	£136,000
Total.....	£460,000

The banks also reported that the British Control purchased sterling amounting to £76,000 at the official rate of 4.02.

The other important currencies experienced some fluctuations in the rates and closed as follows:

French francs	.0226-5/8
Guilders	.5308-1/2
Swiss francs	.2242
Belgas	.1665
Canada	10-1/2% discount

The Netherlands Bank and the National Bank of Belgium sold us gold valued at \$750,000 and \$1,515,000, respectively, from their earmarked accounts.

**CONFIDENTIAL**

- 2 -

The Federal Reserve Bank reported the following gold shipments:

\$ 190,000 from England, consigned to the Banque Belge pour l'Étranger for sale to the Assay Office at New York.  
2,086,000 from South Africa, consigned to the Federal Reserve Bank of New York to be earmarked for the account of the Netherlands Bank.  
2,997,000 from the Netherlands consigned to the Federal Reserve Bank of New York to be earmarked for the account of the Netherlands Bank.  
\$5,273,000 Total.

During the period from September 20 to October 25, the balances of the Bank of England at the Federal Reserve Bank of New York were reduced by \$48,000,000.

The Treasury's price for foreign silver today was fixed unchanged at 35¢. Handy and Harman's price was fixed at 34-7/8¢, off 1/8¢, which is the first time since October 2 that Handy and Harman's price was fixed under that of the Treasury. The equivalent of the London price for spot silver was 42.13¢ and for forward delivery, 41.07¢.

Canada sold to us 100,000 ounces of silver under the Silver Purchase Act. This makes a total of 620,000 ounces purchased during October under our agreement with that country to purchase up to 1,200,000 ounces of silver monthly. There were no purchases of silver in the New York market under the Silver Purchase Act.

Mr. Knoke told me by telephone this morning that as of today the Russian State Bank holds \$4,300,000 with the Chase National Bank and that the Amtorg balance with that bank is \$1,100,000. The Amtorg balance is the same as that reported on October 25. There has been an increase, however, from the figure of \$3,200,000 held by the Russian State Bank as of October 25. This gain resulted principally from a credit from Stockholm's Enskilda Bank for \$2,000,000. Of this sum, \$1,000,000 was deposited to the account of the Russian State Bank; and \$1,000,000 had been paid out, including \$700,000 to Amtorg and \$100,000 to Skoda. The last mentioned item is of interest, possibly covering a munitions sale from the former Czech concern to Russia.

I telephoned Mr. Penfield of the Far Eastern Division of the State Department this morning to let him know the Secretary's appreciation of despatches #222 and 223 from Rangoon, dealing, respectively, with conditions at Haiphong, and transportation of materials over the Yunnan-Burma Highway. In answer to my inquiry, Mr. Penfield told me that special instructions had been given to Consul Brady at Rangoon to report all available material upon the above-mentioned subjects. Mr. Penfield promised to send over all such reports promptly as received.

  
**CONFIDENTIAL**

October 27, 1939

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To: The Secretary  
From: Mr. Hanes

Chronological order of events in the so-called "movie cases."

1. On May 31, 1939, we recommended to the Department of Justice prosecution of the Twentieth Century-Fox cases. These cases involve Wehenck, Mayer, and Zanuck.

2. Department of Justice then held extensive conferences with these taxpayers and their representatives.

3. On August 2, 1939, the Attorney General notified us that all members of his staff were of the opinion that prosecution was not warranted.

4. He stated that the case of Bioff had been turned over to Mr. Carr of the Department of Justice who had proceeded to the West Coast to present the case to the Grand Jury, and that Mr. Carr would utilize the Grand Jury for the purpose of getting additional evidence on the above reorganization case mentioned as it related to the possible bribery of Internal Revenue Agent Harry Kadis.

5. On September 27, 1939, the Department of Justice addressed to the Chief Counsel of the Bureau a letter containing excerpts from the transcript of testimony of certain witnesses examined by Mr. Carr.

6. On October 12, 1939, the Chief Counsel addressed a letter to Justice stating that results accomplished by Mr. Carr in his appearance before the Grand Jury were disappointing to the Treasury. Prior to mailing this letter Chief Counsel of the Bureau had told Clark of Justice that the Bureau was not satisfied with Carr's conduct of the case before the Grand Jury.

7. On October 21, 1939, a conference was held at the Department of Justice and the Bureau was represented by Wanchel and Special Agent Oftedal. The Department of Justice was represented by Clark, Kemp, Sewell Key, and Carr. There was considerable discussion between the two departments about the manner in which the proceedings should be conducted from this point on. The Department of Justice stated that the Attorney General had decided that criminal prosecution should not be undertaken but asked us to furnish them a list of the persons we thought should be called to testify. That seemed to confine their effort entirely to the bribery case of our former employee.

There is one phase of the situation which interests us and that is that Mr. Carr, the man to whom these cases were assigned by the Attorney General, was formerly an assistant of Mr. Pierson Hall, District Attorney in Los Angeles. After the cases were assigned to Carr, Mr. Hall was employed as counsel at a retainer, which Mr. Wenchel advises me amounted to \$10,000.

We are sending certain information back to Assistant Attorney General Clark about the witnesses to be called and reiterating for the fourth time the statement that this Department has not changed its mind about the criminal phase of the cases and suggesting that the cases be handled in a manner similar to that *persecuted* in the case of Annenberg.

J W H

October 27, 1939

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6. On October 12, 1939, the Chief Counsel addressed a letter to Justice stating that results accomplished by Mr. Carr in his appearance before the Grand Jury were disappointing to the Treasury. Prior to mailing this letter Chief Counsel of the Bureau had told Clark of Justice that the Bureau was not satisfied with Carr's conduct of the case before the Grand Jury.
7. On October 21, 1939, a conference was held at the Department of Justice and the Bureau was represented by Wanchel and Special Agent Oftedal. The Department of Justice was represented by Clark, Kemp, Sewell Key, and Carr. There was considerable discussion between the two departments about the manner in which the proceedings should be conducted from this point on. The Department of Justice stated that the Attorney General had decided that criminal prosecution should not be undertaken but asked us to furnish them a list of the persons we thought should be called to testify. That seemed to confine their effort entirely to the bribery case of our former employee.

There is one phase of the situation which interests us and that is that Mr. Carr, the man to whom these cases were assigned by the Attorney General, was formerly an assistant of Mr. Pierson Hall, District Attorney in Los Angeles. After the cases were assigned to Carr, Mr. Hall was employed as counsel at a retainer, which Mr. Wenchel advises me amounted to \$10,000.

We are sending certain information back to Assistant Attorney General Clark about the witnesses to be called and reiterating for the fourth time the statement that this Department has not changed its mind about the criminal phase of the cases and suggesting that the cases be handled in a manner similar to that prosecuted in the case of A menberg.

(Enclosure 1, 2, 3, 4)

JH H took in 9:30 meeting  
10-27-39

OCT 27 1939

Dear Mr. Secretary:

With further reference to a Treasury representative going to Guatemala, I am pleased to advise that I have discussed with Mr. Riefler the possibility of his going as my representative. It has been necessary for Mr. Riefler to clear this matter with his associates at Princeton, which he has now done, and provided the State Department will send Mr. Duggan and Mr. Collado with him, he is prepared to make the journey. We will, of course, send experts from the Treasury to assist him but he is desirous of having the above mentioned representatives from the State Department because of their experience and background, and also because of his personal acquaintance with them.

I assume, of course, that other representatives will go besides the two mentioned.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

The Honorable

The Secretary of State.

JWH:ce

*By hand*

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE October 27, 1939.

TO: Secretary Morgenthau  
FROM: Mr. White

Confidential 

1. Note page 4 for reference to creation of new Subcommittee.
2. At the meeting it was stated definitely that the Subcommittee was to make its report to the Executive Committee on Commercial Policy.
3. The Subcommittee was constituted to study and prepare a report on the problems involved and does not have any authority to confer or to participate in negotiations.
4. When the report of the Subcommittee is made available to the Executive Committee on Commercial Policy it will become available to the Treasury for criticism, and the Treasury has one vote out of eight to approve or disapprove (in the Committee).

It appears to me that this Subcommittee is four or five steps removed from actual operation of policy: (1) the Subcommittee reports to the Executive Committee on Commercial Policy; (2) the Executive Committee on Commercial Policy, after accepting the report, presumably passes it on to the Secretary of State; (3) the Secretary of State presumably passes it on to the President (or the informal committee consisting of Welles, Jones and yourself); (4) that subcommittee passes it on to the American delegate on the Inter-American Committee.

It is possible that the Executive Committee on Commercial Policy might short circuit the formal routing, but it is not clear to me on what authority the Executive Committee on Commercial Policy could give instructions or recommendations to the American delegate directly rather than through the President or his appointed committee.

STRICTLY CONFIDENTIAL

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MINUTES

MEETING OF THE EXECUTIVE COMMITTEE ON COMMERCIAL POLICY  
HELD OCTOBER 20, 1939

PRESENT:

State:	Mr. Grady, Chairman Mr. Feis Mr. Hawkins Mr. Deimel Mr. Saugstad Mr. Alger Hiss Mr. Carr
Treasury:	Mr. Glasser
Agriculture:	Mr. Wheeler
Commerce:	Mr. Rawls Mr. Domeratsky Mr. Wood
Labor:	Mr. Lubin
Tariff Commission:	Mr. Stevens Mr. Ryder Mr. Smith
Maritime Commission:	Mr. Truitt
Army and Navy Munitions Board:	Major Sadler Lieutenant Lowrie

1. The minutes of the meeting of October 13, 1939 were approved.

2. Silver fox furs.

It was reported orally that the Committee on Trade Agreements had considered the question of silver fox furs referred

-2-

referred to it by the Executive Committee on Commercial Policy and had decided that the Canadian Government should be approached at once with a view to ascertaining what its attitude might be toward action in this matter if action should be found to be desirable, that the Canadians had therefore been approached in this connection, and that a reply was expected shortly. It was further reported, however, that the Committee on Trade Agreements had not been able to reach any decision as to what course of action should be taken in the event that a limitation on imports of silver fox furs should be found to be warranted although consideration had been given to the following possibilities:

- 1) Supplementary trade agreement with Canada, providing for a limitation on imports.
- 2) Voluntary agreement on the part of foreign suppliers to limit exports to the United States.
- 3) An agricultural marketing program in connection with which a limitation on imports could be imposed under the terms of the Canadian trade agreement.
- 4) Legislation providing general executive authority for the limitation of imports under certain conditions related to the war.

It was pointed out that only the first and second alternatives offered prospects for early action but that neither of them precluded action later under one or the other of the last two alternatives.

After

After considerable discussion, the Committee, voting by Departments, decided to recommend that "action be taken looking toward a supplementary trade agreement with Canada in which limitation will be imposed upon imports of silver fox furs".

The Departments of Commerce and Agriculture, the Tariff Commission, and the Maritime Commission voted in favor of the motion. The Departments of State and Labor were opposed. The Treasury reserved its vote. The Army and Navy Board preferred not to vote.

5. Subcommittee on Inter-American Economic Problems.

The attention of the Committee was called to the fact that, in view of the effect of war conditions on international economic relations, the recent conference of Foreign Ministers at Panama had created an Inter-American Financial and Economic Advisory Committee to consider inter-American problems pertaining to finance, trade, transportation, credit and related matters, and that this Committee, in which each of the twenty-one American republics, including the United States, will be represented, will hold its first meeting at Washington on November 15, 1939. It was pointed out that many of the problems to be dealt with by the Inter-American Financial and Economic Advisory Committee would involve matters

matters of interest to the Executive Committee on Commercial Policy and would come before it for consideration. It was proposed, therefore, that the Committee set up an inter-departmental subcommittee, with the Chairman of the Executive Committee on Commercial Policy as the subcommittee chairman, to function with reference to the Government's participation in the work of the Inter-American Financial and Economic Advisory Committee. This proposal was acted upon favorably by the Committee and the new subcommittee was requested to

- 1) Make an early preliminary report concerning the problems involved in the United States' economic relations with Latin America and to include therein suggestions for an agenda which the United States representative might submit to the Inter-American Financial and Economic Advisory Committee at its first meeting on November 15, and
- 2) Prepare, afterwards, a comprehensive study of the United States' relations with Latin America with particular reference to the effect thereon of the present conflict in Europe.

The Chairman stated that he would take up at once with members of the Committee or with the heads of interested Departments and Agencies the matter of representation on the subcommittee.

4. Wool.

With reference to the telegram recently sent to London at the instance of the Committee and with the approval of the President, requesting certain information from the British regarding the sale of wool in the American market, the Chairman reported that a reply had been received to the effect that, although the British were not yet able to furnish definitely the information requested, it was their intention to make adequate provision for American wool requirements at reasonable prices.

With reference to the meeting on wool recently held in the Department of Commerce, it was reported that all of the various wool interests had been represented and that the consensus of opinion in the trade was that no action on the part of the Government at the present time was required to insure adequate supplies of wool.

5. Iron and Steel Scrap.

The Chairman reported that the Committee's report on iron and steel scrap had been approved by the President.

OCT 27 1939

My dear Mr. McFutt:

I have your letter of October 6, 1939 and enclosures, requesting information in regard to the "retirement compensation warrants" contemplated by the proposed California Retirement Life Payments Act and the probable treatment which would be accorded such warrants by the Treasury Department under certain sections of the Social Security Act and the Internal Revenue Code of 1939.

These questions are, of course, hypothetical inasmuch as the California legislation has not been enacted. To answer them adequately would require consideration of many factors not now at hand. Furthermore, it has been a consistent policy of this Department not to express an opinion on legal problems which might arise if pending local legislation should be enacted. Accordingly, I regret that I am unable to comply with your request at this time.

Very truly yours,

(Signed) W. McComb, Jr.  
Secretary of the Treasury.

Hon. Paul V. McFutt,  
Administrator,  
Federal Security Agency,  
Washington, D. C.

ORIGINAL FORWARDED TO ADDRESSEE  
FROM OFFICE OF THE SECRETARY

File to Mr. Thompson

NOT:vlq - 10/26/39

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

273



DATE

October 27, 1939

TO Secretary Morgenthau

FROM E. H. Foley, Jr.

I am attaching copies of two letters which Mr. Wenchel has sent to Mr. Clark, at Mr. Clark's request.

*E. H. F. L.*

Attachments

CC:P:IVC  
328904

October 12, 1939

Hon. Samuel O. Clark, Jr.,  
Assistant Attorney General,  
Department of Justice,  
Washington, D. C.

In re: Joseph M. Schenck, et al.,  
Los Angeles, California.

Dear Sir:

Receipt is acknowledged of your letter of September 27, 1939, in which you quoted part of a report made to you by Mr. Carr with respect to the proceedings before the grand jury in Los Angeles in connection with the above-mentioned cases and transmitting a transcript of the proceedings before the grand jury on September 20, 1939.

In his report Mr. Carr expressed the opinion that the facts in these cases do not warrant criminal prosecution and that the matter should be referred to the Treasury Department for consideration as to the civil liability. You stated that your office is inclined to agree with the views expressed by Mr. Carr and invited the comments of this office with respect to the bribery phase of the cases and the advisability of conducting a further investigation of that phase of the cases before the present grand jury.

In the proceedings before the grand jury on September 20, 1939, Mr. Carr examined Mr. William Goetz and Mrs. Frances Webb. Before he commenced such examinations he was furnished a memorandum by Special Agent Oftedal of the facts in these cases which were known to be within the knowledge of Goetz and Mrs. Webb. The transcript of the proceedings indicates that Mr. Carr examined Mr. Goetz and Mrs. Webb as to the matters covered by Agent Oftedal's memorandum. However, the entire examination of both of the witnesses was completed in one hour and twenty minutes and both witnesses denied any knowledge of the bribery of the revenue agent. This office understood that the purpose of the grand jury

Hon. Samuel O. Clark, Jr.,  
In re: Joseph M. Schenck, et al.

proceeding was to elicit from Goetz and Mrs. Webb the true facts in the case but the results accomplished were disappointing. It is noted that Mr. Carr was not aggressive in his questioning of these two witnesses and the questions propounded by him generally invited negative answers with the result that Mr. Goetz and Mrs. Webb both denied knowledge of facts which this office has every reason to believe are within their knowledge.

It is noted that Mr. Goetz was permitted to communicate with Mrs. Webb after the conclusion of his testimony and previous to the commencement of hers which is considered unfortunate in that it may have given him an opportunity to inform her as to the results of his examination.

The following paragraph from Mr. Carr's report was quoted in your letter:

"It took only a short time before the grand jury with Goetz for the writer to determine that the Government was on a hopeless fishing trip. It was apparent, however, that Goetz made no effort to tell the truth concerning the matters about which he was questioned."

This statement is confusing to this office because it was understood that the purpose of the grand jury proceedings was to elicit the truth from Mr. Goetz and Mrs. Webb. If Mr. Carr reached the determination that the proceedings were "hopeless" before he had finished the examination of Goetz and before he had examined Mrs. Webb it would appear that he misconceived the nature and purpose of his assignment to conduct the grand jury proceedings.

It would seem that you incline to the view that, on the basis of evidence thus far gathered by Treasury agents, no criminal tax case is or can be made out against Schenck, et al., and no bribery case against Schenck or Kadis. It would seem that you are of the opinion that the facts with regard to the reorganization transactions of Twentieth Century and Fox and the individuals associated with the reorganization, so far as presented, do not give rise to any liability in the cognizance of your Department. If such is your opinion, this office, if you so request, will reconsider the reports heretofore sent to you. However, with regard to the Kadis bribery, this office is strongly of the opinion that a broader, more comprehensive and thorough grand jury presentation and investigation of all the relevant facts by a vigorous and diligent prosecutor should be undertaken, and, if undertaken, should lead to an indictment

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Hon. Samuel O. Clark, Jr.,  
In re: Joseph M. Schenck, et al.

against the person giving and the person receiving the bribe.

In connection with such presentation, it is suggested that Mr. Goetz and Mrs. Webb be again called before the grand jury and examined at length and in detail; that a great deal more time be devoted to their examination than was devoted to their examination on September 20; that Dover be called before the grand jury and similarly examined; that Moe Lesser, Joseph Moskowitz, J. B. Codd, Bertram Mayfack, and A. C. Michaels, who are believed to have knowledge of important facts in the cases, be called before the grand jury; that Joseph M. Schenck and Darryl F. Zanuck be called before the grand jury; that all persons called before the grand jury be kept separated during the course of their examinations and not permitted to communicate with each other; that every effort be made to so conduct the proceedings before the grand jury as to secure the maximum effect of the secrecy attendant on grand jury proceedings; and that every effort be made to induce the witnesses before the grand jury to divulge the matters within their knowledge.

This office is, of course, especially interested in the bribery phase of the case and there is a necessity for immediate and quick action in view of the fact that the Statute of Limitations will have run against any prosecution next month.

In such an investigation this office is prepared to give every kind of assistance in its power. The suggestion is made for your consideration that the investigation be separate from the Bioff investigation, that it be referred to the United States Attorney, and that as respects assistance from Washington it be handled substantially as was the Annenberg case.

This office will be pleased to receive advice as to the final disposition of this matter by your office.

Very truly yours,

(Signed) J. P. Wenchel

J. P. Wenchel,  
Chief Counsel.

October 27, 1939

Hon. Samuel O. Clark, Jr.,  
Assistant Attorney General,  
Department of Justice,  
Washington, D. C.

In re: Joseph M. Schenck, et al.,  
Los Angeles, California.

Dear Sir:

Pursuant to an understanding reached at a conference held in your office on October 21, 1939, there follows a list of persons who it is believed should be called before a grand jury, together with a statement as to each of them of the testimony it is expected can be elicited if they will testify truthfully and fully:

1. Mos Lesser. This man was regularly employed as tax adviser for Darryl F. Zanuck and William B. Dover, and he was present in New York at the time Kadis and Dover were having conferences concerning the income taxes of Zanuck, Schenck and Goetz. Despite the fact that he was the regularly employed income tax adviser of Zanuck, he was not permitted to participate in the conferences at which the disproportionate distribution of Twentieth-Century Fox Film stock was discussed.

2. Joseph H. Moskowitz. This man is the personal accountant and Eastern representative for Joseph M. Schenck and he should be familiar with the circumstances surrounding the conferences between Dover and Kadis in New York in 1936. The telephone call which Kadis made to Dover in 1938, when the case had been reassigned to Kadis, was made from the New York office of the Twentieth-Century Fox Film Corporation, and it may have been made from the office of Moskowitz. He probably could be profitably examined with respect to his knowledge of this telephone call.

3. J. E. Codd. This man is employed by the Twentieth-Century Fox Film Corporation, and he also has charge of Schenck's personal accounts on the West Coast. He may have knowledge as to funds secured by Schenck for payment to Kadis or of entries respecting such funds. He should also be examined as to any financial transactions he may have had with William B. Dover as intermediary for Schenck in the payment of money to Kadis.

Hon. Samuel O. Clark, Jr.

In re: Joseph M. Schenck, et al.

4. Bertram Nayfack. This man is a nephew by marriage of Schenck and acted as his attorney in certain phases of the income tax case. He should be examined as to why he secured an opinion from Dr. Klein in September 1936, with respect to the taxability of the reorganization transaction. He secured this opinion about the time that Kadis and Dover were having their conferences in New York City.

5. John Michaelis. This man is the comptroller of Twentieth-Century Fox Films Corporation in New York, and the telephone call from Kadis to Dover may have been made in his office. He possibly has knowledge of funds secured by Schenck to be paid to Kadis or Dover as an intermediary for payment to Kadis. He was referred to in the cablegram which Dover sent to Zanuck at the time he arranged for the conference in New York with Kadis, and it is probable that he was consulted with respect to such conference.

6. William B. Dover. This man was the confidential employee of Darryl Zanuck and handled all of his financial transactions. Information available indicates that he acted as an intermediary in the payment of a large bribe to Kadis; that he collected the money for this bribe from Zanuck, Schenck and Goetz; and that a part of the bribe was handed to him by Goetz in the presence of Mrs. Webb at the time Kadis was waiting in an anteroom. It is understood that he has refused to sign a waiver of immunity and, as a consequence, was not called before the grand jury. It is felt that he should be called before the grand jury even if by doing so he is granted immunity from prosecution. This suggestion is made despite what is said to be the attitude of the District Court at Los Angeles to the effect that the calling of a person before a grand jury immunizes such person from criminal prosecution. This office feels that this attitude of the District court is not in accordance with well settled law, and in the event the court should so hold, it is believed a reversal could be secured in the Circuit Court of Appeals.

7. William Goetz and Mrs. Frances Webb. If these two persons are recalled before the grand jury they should be examined as to the matters set forth in a memorandum of Special Agent Ottedal to Mr. Carr, dated September 11, 1939, a copy of which is available in your office.

Hon. Samuel O. Clark, Jr.  
In re: Joseph M. Schenck, et al.

8. Joseph M. Schenck and Darryl F. Zanuck. It is the belief of this office that these individuals should be called before the grand jury and questioned with respect to the payment of the bribe to Kadis. It is understood that Schenck was told that he might be called before the grand jury and that he very definitely stated that he would not sign a waiver of immunity under any circumstances. It is believed that he should be called before the grand jury and if it is his intention to stand upon his constitutional immunity, he should be forced to openly declare such an intention. While Zanuck's attitude has not been definitely ascertained, it is probable that he will take the same position as Schenck and what has been said with respect to Schenck applies as well to him.

This office renews the suggestion made in its letter of October 12, 1939, that these cases be handled in the same manner as was the case of Moses L. Annenberg. The same sort of assistance as was furnished in the Annenberg case will be furnished in these cases if you so desire. This office also will be pleased to make available to you any and all of the facilities of the Bureau of Internal Revenue for this purpose. Accordingly, it will be appreciated if you will advise this office of your views in this matter in order that the necessary arrangements may be made should this suggestion be adopted.

Very truly yours,

(Signed) J. P. Wenchel

J. P. WENCHEL  
Chief Counsel.

## GROUP MEETING

October 27, 1939.  
9:30 a.m.

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

H.M.Jr: Thompson, what have you got?

Thompson: I have got nothing this morning unless you wanted the information you had asked me for. It seems to have died out.

H.M.Jr: I would let that thing just die out. Ray Clapper covered the thing last night, I think, as adequately as anybody. Does anybody differ?

Gaston: No.

H.M.Jr: That is this thing of the list the Dies Committee published. I said I would just let it die.

Dan?

Bell: The U. S. Housing Authority has this program, which seems to me to fit in with us more or less. They want to advertise the fund on November 8th and some of the State laws require as much as five days advertising, so on that basis they would open bids on the 14th, make awards on the 14th, and payment would be within a week after the 14th. That seems to me all right if you have no objection.

H.M.Jr: It is all right with me. What the 7th of November will be like, I don't know.

Foley: What do they do, Dan, buy bonds of the local authorities?

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- Well: No, the local authorities are going to offer them for sale, something over which we have no control except that they try to cooperate and see that it doesn't interfere with any Treasury operations.
- Woley: Is it an offering on the part of a number of authorities?
- Well: About six cities, about 50 million dollars in the aggregate. It is that old plan that you heard so much about a year ago. The other thing is in connection with the Federal Reserve talk of the sale of securities. The Mixed Claims Commission, I understand, is meeting on Monday, the 30th, to enter awards in favor of the so-called sabotage claims. That will amount to some 30 million dollars, of which we may have to pay as much as 20 million.
- W.M.Jr: Which war is this?
- Well: That is the last war. So we will have to sell somewhere in the neighborhood of 20 to 25 million securities, ranging from '61-'65s up to '80-'85s. We will have some time. We will have three or four weeks, because we will have to send out applications. I don't know whether you are familiar with that whole program over there or not, but it is most unusual and it involves some rather complicated questions, and as soon as the awards hit the Treasury, there is going to be at least one suit that I know of. I should think that it is a question you might want to discuss at the White House regarding Treasury policy, because the Germans have sent in a letter of protest.
- W.M.Jr: Well, if you give me a memorandum and if the President has me for lunch and if I have a chance, I will be glad to give it to him.
- Well: I don't know how much attention the legal section has given to it, but it seems to me it is their subject.
- W.M.Jr: They are so busy reading the Congressional Record, I don't know whether they have any time for it or not. Do you know anything about this?
- Woley: No.
- W.M.Jr: Will you find out?

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Foley: Yes.

Well: You know that the German Commissioner withdrew?

W.M.Jr: I know nothing about it.

Well: Then they considered it as a so-called "rump" commission, just composed of the American Commissioner and the American Arbitrator.

W.M.Jr: I am just a student on the claims. I never got beyond the Crimean War. Have we settled those?

Well: I don't know.

W.M.Jr: Well, look into it, will you?

Foley: Yes.

W.M.Jr: Where did that come from?

Well: That comes from the State Department.

W.M.Jr: How did it come to you?

Well: They all come to me and then they are distributed around to various people.

W.M.Jr: State Department sends this?

Well: They have since 1918.

White: It is an old Spanish custom.

Well: They send us all foreign dispatches that come through. They were originally on foreign loans and foreign exchange and they came through Accounts and Deposits and then were distributed.

W.M.Jr: Not all, because if I get a hundred, ninety-nine of them come from....

White: These are the Consular dispatches, which come not by cable but by mail.

W.M.Jr: Well, how did I get this one from the Consul General at Rangoon, two letters last night?

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White: That was a special one.

Bell: These come through without any covering letters. They put them in an envelope and send them over to the....

White: They used to keep them on file there.

H.M.Jr: Don't you want everything to clear through Merle Cochran?

Bell: They do go to him. They can send them direct, I don't care. I just sort of keep up with them.

H.M.Jr: Is it an advantage to have them go through you?

Bell: No, I don't think so. Just something that I have been following for twenty years, and if it is discontinued I would just as soon get rid of it.

H.M.Jr: Is there any reason why it has been done for twenty years?

Bell: No, no reason.

H.M.Jr: It seems to me the thing ought to be sent in to Merle Cochran.

Bell: I have just been following some of the national policies.

H.M.Jr: How long do they lay on your desk?

Bell: Oh, they don't lay on my desk a day.

White: They used to, a couple of years ago.

H.M.Jr: I tell you what you do, Bell and White and Merle Cochran talk it over and whatever the three of you decide is agreeable to me.

Bell: I would just as soon get rid of it.

Cochran: Let's talk it over.

H.M.Jr: How is that, a board of three? It doesn't have to

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be unanimous. That is the first one you have given me in seven years.

Bell: Yes, sir. That was just a personal interest. Now, let these other boys....

White: He knows what we think.

H.M.Jr: What did they say about seven lean years?

Bell: That was the first one.

White: Seven lean years, followed by a purge.

H.M.Jr: Got any other up-to-the-minute news?

White: What is the date on that?

Bell: That is two months old. But I assure you, it just came to my desk.

H.M.Jr: September 12th.

White: And you will notice there an interesting fact, Mr. Secretary. Those are cut from a cable. I don't know whether that one is, but most of them are. There is certain information which we must see and the rest of it shouldn't be seen.

H.M.Jr: I don't know whether my nervous system could stand this spot news. Personally, I prefer the National Geographic. Anything else?

Bell: No.

H.M.Jr: Harry?

White: The letter that was received from the Canadian Minister of Finance following up the request of several months ago for a conference drafted an answer - there are two things they are leaving uncertain: One is the date and the second is the agenda. We have drafted a tentative agenda and sent it on to Foley to see if his staff wants to add anything, then I think we ought to contact the SEC to see whether they would want to add anything to the agenda, and after we get that and you O. K. it, the question remains as to the

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date. Do you have any special time?

H.M.Jr: No, but let it come up through Hanes.

White: But I don't know....

H.M.Jr: I told Osborne to tell the Canadian Minister verbally for me that I had nothing special, but if he had anything or I had anything, not to be formal and let's get together. Have you seen the second letter that came in last week?

White: That is the one, I take it, the long letter in which he asks, among other things, for a day and for an agenda. Then it is all right to contact the SEC?

E.V.Jr: Sure.

White: The report on....

H.M.Jr: Excuse me a minute. Did you (Hanes) see the story today about SEC and South America and all that? Remember, I was talking to you about it last night, the suggestion I had of using Jerome Frank.

Hanes: Yes.

H.M.Jr: The Times this morning has quite a story about SEC making a study of South American policy and all that. Read it.

Hanes: I would like to see it.

H.M.Jr: It is in the New York Times.

Hanes: Have they been sitting in on any of those conferences in Commerce?

H.M.Jr: White and Cochran went to one, didn't you? Didn't you go to one luncheon with SEC at the Department of Commerce?

White: I don't think so, but they have got interest in it aside from any general interest, which I don't know about, through the American foreign bondholders, and they had a rather important case up before them.

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They sent a man over and we gave them a lot of information explaining about exchanges and let him read a memorandum which we prepared especially for them on the way the exchanges were going and they said they would like to use it for evidence and I said that they couldn't unless they sent a letter from the Commission to the Secretary and then we would prepare one for that purpose, but they at that time were interested in many of the Latin American countries and this may be an outgrowth of that. This was several weeks ago.

H.M.Jr: Mrs. Morgenthau tells me that your pupil up on the Hill got a little mixed up yesterday. She said he almost passed out and Maloney came to the rescue.

White: Yes, and he....

H.M.Jr: I thought you gave him an hour, you and Ed Foley.

White: One hour doesn't seem to carry over for six hours. He remembered almost everything.

H.M.Jr: What is the matter? Mrs. Morgenthau said she almost walked out on the floor. She said she could have helped him. Where were you fellows?

Foley: We were in the galleries.

H.M.Jr: You couldn't do anything up there.

Foley: Couldn't do anything any place else.

White: We cried up there.

H.M.Jr: Who got word to Maloney?

Foley: He straightened himself out.

H.M.Jr: He actually did it himself?

Foley: Sure.

White: I don't think Congress knew it except for one slip, but the Record will make awfully funny reading if....

Foley: No, the Record is all right.

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H.M.Jr: Did you take care of that?

Foley: Yes.

H.M.Jr: As I get the story - see if I am right - Senator Wagner got up and said the Secretary of the Treasury just telephoned him. Is that right?

Foley: Here is what he said exactly: "Not only are they not purchasing any currencies of belligerents now, but during the existence of the war they will not purchase any, and the Secretary has authorized me so to state."

White: He said more than that. They must have cut it out.

H.M.Jr: I thought he said he had just talked to me on the telephone.

White: He certainly gave the impression that he had just had a conversation with you.

H.M.Jr: Then, as I understand it, that statement scared Taft so he offered to withdraw his amendment.

White: On the contrary, he said he was going to withdraw his amendment until he heard that statement.

Foley: No, until Maloney straightened him out.

H.M.Jr: Well, anyway, it all ended well.

White: Oh, yes. When Senator Wagner thought he was slipping and he felt he was getting way over his head, he himself couldn't see why the thing didn't jibe. Two and two were making seven in his mind, so he launched forth on a defensive of the Treasury that was a model. He was on familiar territory then and he went the full length. Then Vandenberg said since he was the man who started the explosion - and then Wagner calmed right down and said it wasn't an explosion, he just wanted to be emphatic.

H.M.Jr: Mrs. Morgenthau said she got the feeling Vandenberg didn't really help Taft at all.

White: I don't think he did. Taft is a shrewd fellow.

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- Foley: Here is what Taft said: "I was almost prepared to withdraw the amendment when the Senator stated that the Secretary authorized him to promise that he would not buy any pounds or francs during the war period. He has now modified that statement and he says it is not the intention of the Secretary to do so. Am I correct in that statement? I think the Record will show that there is a substantial difference between the two statements." The first statement was that you weren't going to do it and the second statement was that you didn't have any present intentions of it.
- White: As I say, he was going to withdraw it until he heard that statement of Wagner's and he said, "Now I am going to go through with it."
- Foley: He said, "I think the Secretary would be perfectly justified in using the fund for that purpose, because he thinks - and so stated - that if we permit the pound to depreciate, it means a reduction in the price of cotton and the price of wheat and other prices in this country, in a way which will unfavorably affect our economy. The Secretary thinks that condition may exist. It is even more likely to occur in the present circumstances than when he testified. I was almost prepared to withdraw the amendment when the Senator stated that the Secretary authorized him to promise that he would not buy any pounds or francs during the war period."
- W.H.Jr: You had better stick to Housing.
- White: Of the four of them, I would say you came out best.
- W.H.Jr: Which four?
- White: Wagner, Taft, Vandenberg and....
- Foley: When he got out in the hall he said you were a fine fellow.
- White: Vandenberg agreed.
- W.H.Jr: Well, that is one way to cover up. It must have been fun, after it was over.

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White: Yes.

H.H.Jr: All right, Harry?

White: The figures of gold which we have just added up, compiled and compared them with our Treasury balance, the capital items show a very interesting phenomenon. Our gold inflow is about 700 million dollars greater than could be accounted for on either our trade or our capital items, which is very much greater than we have ever had before in the last - many years. It is just one of several things, either the figures of the Department of Commerce, their balance of payment is very much out, or there is some kind of surreptitious movements going on that we haven't got track of, but we are watching it closely and seeing what we can find out about it.

The third possibility is that there has been a much greater payment of interest to us - tourists may have been spending a great deal less abroad than anybody has estimated, by several hundred million. We don't know yet.

H.H.Jr: Mr. Harris might be able to throw some light on it. What is the tourist trade, was it very bad?

White: Very bad.

H.H.Jr: By several hundred millions?

Harris: I would think, easily.

White: That might be an important factor.

H.H.Jr: Do the steamship companies keep any rough estimates on the percentage? Could you get a figure for us of the percentage of the fall-off in tourist trade.

Harris: Oh, certainly, they have that right up to month by month.

H.H.Jr: Could we have that?

Harris: Yes. Of course, it doesn't give you what they spend abroad.

H.H.Jr: Just the percentage.

Harris: Yes.

H.M.Jr: He could apply the percentage and that might help.

Harris: Yes.

Hanes: They have stopped publishing the daily figures, haven't they, Harry?

White: Yes, I noticed that.

H.M.Jr: All right?

White: One other thing. Senator Wagner did say that in view of the interest in gold that the appropriate place to examine the dangers and what could be done about it would be in his committee, and Senator Vandenberg responded that he was very happy to know that that committee was going to consider so important a matter soon.

H.M.Jr: I ought to call up Barkley, Wagner and Maloney?

White: Barkley didn't do anything.

H.M.Jr: It can't do any harm.

Foley: That is right, he did a little. He didn't know, you see, but what you might have just called Wagner. That is why he couldn't help so much.

H.M.Jr: All right, Harry?

White: Yes.

H.M.Jr: Harold?

Graves: Nothing.

H.M.Jr: You know you (Graves) haven't asked me to change the date to December 1st yet.

Graves: Yes, I was thinking about that.

H.M.Jr: It is December 1st with me.

Graves: You changed it to January 1st.

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H.M.Jr: Just between the two of us.

Graves: Captain Collins was here.

H.M.Jr: Did I?

Graves: We are trying....

H.M.Jr: I am soft-hearted.

Graves: Yes, you changed it definitely. That was your compromise with Captain Collins, as I recall it. We are working on the thing on the basis of a revised budget for 1941, and we are now in - having discussions with the Bureau of the Budget about methods of payment and that sort of thing. I am not certain that I won't have to come to you about that date, because I haven't given up hope yet.

H.M.Jr: You mean the Department of Agriculture resisted us?

Graves: We have never heard a word from them.

H.M.Jr: They broke down?

Graves: They haven't responded to your suggestion.

H.M.Jr: Anything else?

Graves: That is all.

H.M.Jr: Would you (Graves) stay a minute behind and I will read this letter and see if it is all right.

Harris: I went up and saw the Vice President this morning on that matter I spoke to you about and he received me very cordially and approved it in full.

H.M.Jr: Incidentally, I did just what you and Foley told me to do yesterday. I said I thought we were right but we looked into the matter on this Tijuana business.

Harris: I thought you handled it very well.

H.M.Jr: Foley and I feel that we can't pass on that thing intelligently without going out there and looking at the store.

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Harris: There has been a serious complaint on the part of the Mexican Government which will complicate it a bit more now.

H.M.Jr: Foley and I, between now and the first of December, are going to look at the store.

Foley: May have to go to Mexico City, now.

H.M.Jr: Really? Are you (Harris) busy? Are you going to be busy in November?

Harris: No, I think I can make it.

White: Do you think Foley is the right man? He isn't married and that is a bad place to go. Johnny Hanes might....

H.M.Jr: Will you (Mr. Hanes) swap this for Guatemala?

Hanes: I surely would.

H.M.Jr: George?

Hanes: I have nothing this morning.

H.M.Jr: How is Walter Stewart?

Riefler: He will be in before noon. He is a little better this morning.

H.M.Jr: Tell him to drop in and say hello. I see you had your wish on the bond market yesterday.

Riefler: It wasn't a wish, it was a fear.

H.M.Jr: All right?

Riefler: Yes.

Cochran: I told Mr. Penfield of the Far Eastern Division of the State Department this morning that you appreciated those two reports from Rangoon on traffic to China. He said they had given special instructions over there to keep up on that.

H.M.Jr: Then he will give us the Rangoon and Mandalay....

Cochran: Yes, and Burma.

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W.M.Jr: And Lashio, that is the thing. And the other fellow will give us the Haiphong and Hancy?

Cochran: That is right.

Duffield: Do you have time to tell us about Kintner and Alsop?

H.M.Jr: Yes. If you and Gaston and Hanes will stay right after this for a few minutes, with Mr. Harris, I will tell you what happened.

Foley?

Foley: We had a letter from Mr. McNutt, forwarding a letter from the Director of the Old Age Unemployment Retirement Fund for California, asking how these retirement compensations ought to be treated if this constitutional amendment goes through on the 7th of November. I prepared a reply here that is a complete treatment of the question and I think it is much better to do that.

H.M.Jr: Is that what the newspaper men facetiously referred to yesterday as "ham and egg warrants"?

Foley: Yes, they wanted to know whether the contributions into the fund with these warrants would be entitled to credits.

H.M.Jr: Well, I can't do that now. Mr. Gaston is a sort of an expert on "ham and egg warrants".

Gaston: Under cover.

H.M.Jr: Not too much under cover. Somebody lifted the cover up.

Gaston: I didn't know about it.

H.M.Jr: Oh, yes, they took a peek underneath and saw Herbert Gaston.

Gaston: I will have to look into that.

H.M.Jr: I will try to get to that thing today. I don't know whether I can.

Duffield: We have one just like the one from Mr. McNutt from the Association of Manufacturers out there and the

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reply to that is somewhere in the works between Roy Blough's shop and Ed's office now.

W.S.Jr: Let's get out a stereotyped boiler plant answer.

Gerfield: They look like they were.

W.S.Jr: Does it have to be done this morning?

Osley: No.

Gaston: A gentleman named Spencer Tracy is going to be here next week. Perhaps you would like to see him.

W.S.Jr: The actor?

Osley: Yes.

W.S.Jr: I am crazy about it. I know him and I know his wife and I know his child. His child is a deaf mute, or something.

Gaston: His manager is going to call me up when he gets to town. He is particularly anxious to see the Bureau of Engraving and Printing and he would also like to see you.

W.S.Jr: I know him and I know his wife and child. I met them in Hawaii.

Gaston: I also wrote about the Grand Banks Patrol. Winter is coming on....

W.S.Jr: What was that picture he did?

W.S.: Captains Courageous, wasn't it?

Klotz: Yes.

Gaston: I wrote you a little note about the Grand Banks. Winter is coming on and the Navy is withdrawing its destroyers and we are taking over the deep sea patrol.

W.S.Jr: Just a bunch of sissies, are they?

Gaston: Just a bunch of fair weather sailors. You may have seen something....

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H.M.Jr: I read your memorandum.

Gaston: You may have seen something in the paper about fears of sabotage on the Normandie and the Queen Mary. I think that arose out of conferences in New York, with the result that they put in a large guard on the pier and two police launches and the Coast Guard furnishes a 75-foot patrol for both, which is watching the two boats jointly so as to save us from any criticism if anything should happen.

H.M.Jr: What happened to the other New York conference which was supposed to have started last Monday, communications?

Gaston: Nothing. The way it was left between Gerald Gross, of the Communications Commission, and Captain Farley of the Coast Guard was that Gross would let Farley know when he wanted our man and he hasn't let him know, so it looks as if the thing has just quietly expired.

H.M.Jr: I will pin a medal on myself for that one.

Gaston: Good. Our boys, the Customs and Coast Guard, for the last two weeks have been watching an auxiliary cruiser in Baltimore. She went down the Bay yesterday and tried to put out to sea and the Coast Guard put her back. She has nine people aboard, all Germans, none of whom can speak English. Three of them are officers off the Standard Oil tankers. They are very heavily provisioned, have a lot of supplies. Their first intention, they said, was to cruise to the West Indies, but they thought now - their present intention was only to make a short cruise. Anyway, we have called in the Department of Justice and it is primarily their responsibility and I don't think they will let the boat sail.

H.M.Jr: Anything else?

Gaston: I think that is all. There was something in the papers yesterday about a dispatch from London about a so-called agreement between the United States Government and England by which outward manifests would be furnished. The State Department stated that no such agreement has been reached.

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Colonel Monroe Johnson called me up from Commerce to apologize for a story that appeared Tuesday in the Journal of Commerce, given out by the Bureau of Foreign and Domestic Commerce, which contained a long statement by the British as to what American shippers could do and he said he would see that nothing of the kind happened again. There has been no agreement, although apparently some of the shippers and lines are furnishing manifests to the British.

A.S.Jr: Our Coast Guard fellow is a very suspicious one. When I got in from the theater last night I called up for the latest news on the City of Flint. About five minutes later they called back, which I thought was unnecessary, to make sure it was me. They got poor Helen out of bed at 12:00 o'clock in the morning. The boy downstairs knows my voice. I called on District 2626.

Gaston: Yes, I should think they could find out if this was the Treasury operator talking to them.

H.S.Jr: The night operator knows me. I was calling on District 2626. It seemed a little bit unnecessary.

Gaston: I will speak to them about it.

Hanes: Do you want me to stay for a minute now?

H.S.Jr: Yes.

Pls file as of

10/27/39.

10/28/39

M. Chauncey -

The original of this was sent to the  
Secretary last night at his house.

s

Secretary Morgenthau

October 27, 1939

E. H. Foley, Jr.

I am attaching copies of two letters which Mr. Wenschel has sent to Mr. Clark, at Mr. Clark's request.

(Initialed) E. H. F., Jr.

Attachments

EHF:s Typed 10/27/39

October 12, 1939

Hon. Samuel O. Clark, Jr.,  
Assistant Attorney General,  
Department of Justice,  
Washington, D. C.

In re: Joseph M. Schenck, et al.,  
Los Angeles, California.

Dear Sirs:

Receipt is acknowledged of your letter of September 27, 1939, in which you quoted part of a report made to you by Mr. Carr with respect to the proceedings before the grand jury in Los Angeles in connection with the above-mentioned cases and transmitting a transcript of the proceedings before the grand jury on September 20, 1939.

In his report Mr. Carr expressed the opinion that the facts in these cases do not warrant criminal prosecution and that the matter should be referred to the Treasury Department for consideration as to the civil liability. You stated that your office is inclined to agree with the views expressed by Mr. Carr and invited the comments of this office with respect to the bribery phase of the cases and the advisability of conducting a further investigation of that phase of the cases before the present grand jury.

In the proceedings before the grand jury on September 20, 1939, Mr. Carr examined Mr. William Goetz and Mrs. Frances Webb. Before he commenced such examinations he was furnished a memorandum by Special Agent Oftedal of the facts in these cases which were known to be within the knowledge of Goetz and Mrs. Webb. The transcript of the proceedings indicates that Mr. Carr examined Mr. Goetz and Mrs. Webb as to the matters covered by Agent Oftedal's memorandum. However, the entire examination of both of the witnesses was completed in one hour and twenty minutes and both witnesses denied any knowledge of the bribery of the revenue agent. This office understood that the purpose of the grand jury

Hon. Samuel O. Clark, Jr.,  
In re: Joseph M. Schenck, et al.

proceeding was to elicit from Goetz and Mrs. Webb the true facts in the cases but the results accomplished were disappointing. It is noted that Mr. Carr was not aggressive in his questioning of these two witnesses and the questions propounded by him generally invited negative answers with the result that Mr. Goetz and Mrs. Webb both denied knowledge of facts which this office has every reason to believe are within their knowledge.

It is noted that Mr. Goetz was permitted to communicate with Mrs. Webb after the conclusion of his testimony and previous to the commencement of hers which is considered unfortunate in that it may have given him an opportunity to inform her as to the results of his examination.

The following paragraph from Mr. Carr's report was quoted in your letter:

"It took only a short time before the grand jury with Goetz for the writer to determine that the Government was on a hopeless fishing trip. It was apparent, however, that Goetz made no effort to tell the truth concerning the matters about which he was questioned."

This statement is confusing to this office because it was understood that the purpose of the grand jury proceedings was to elicit the truth from Mr. Goetz and Mrs. Webb. If Mr. Carr reached the determination that the proceedings were "hopeless" before he had finished the examination of Goetz and before he had examined Mrs. Webb it would appear that he misconceived the nature and purpose of his assignment to conduct the grand jury proceedings.

It would seem that you incline to the view that, on the basis of evidence thus far gathered by Treasury agents, no criminal tax case is or can be made out against Schenck, et al., and no bribery case against Schenck or Kadis. It would seem that you are of the opinion that the facts with regard to the reorganization transactions of Twentieth Century and Fox and the individuals associated with the reorganization, so far as presented, do not give rise to any liability in the cognizance of your Department. If such is your opinion, this office, if you so request, will reconsider the reports heretofore sent to you. However, with regard to the Kadis bribery, this office is strongly of the opinion that a broader, more comprehensive and thorough grand jury presentation and investigation of all the relevant facts by a vigorous and diligent prosecutor should be undertaken, and, if undertaken, should lead to an indictment

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against the person giving and the person receiving the bribe.

In connection with such presentation, it is suggested that Mr. Goets and Mrs. Webb be again called before the grand jury and examined at length and in detail; that a great deal more time be devoted to their examination than was devoted to their examination on September 20; that Dover be called before the grand jury and similarly examined; that Mos Lesser, Joseph Moskowitz, J. B. Codd, Bertram Mayfack, and A. C. Michaels, who are believed to have knowledge of important facts in the cases, be called before the grand jury; that Joseph M. Schenck and Darryl F. Manuck be called before the grand jury; that all persons called before the grand jury be kept separated during the course of their examinations and not permitted to communicate with each other; that every effort be made to so conduct the proceedings before the grand jury as to secure the maximum effect of the secrecy attendant on grand jury proceedings; and that every effort be made to induce the witnesses before the grand jury to divulge the matters within their knowledge.

This office is, of course, especially interested in the bribery phase of the case and there is a necessity for immediate and quick action in view of the fact that the Statute of Limitations will have run against any prosecution next month.

In such an investigation this office is prepared to give every kind of assistance in its power. The suggestion is made for your consideration that the investigation be separate from the Bioff investigation, that it be referred to the United States Attorney, and that as respects assistance from Washington it be handled substantially as was the Annenberg case.

This office will be pleased to receive advice as to the final disposition of this matter by your office.

Very truly yours,

(Signed) J. P. Wenschel

J. P. Wenschel,  
Chief Counsel.

October 27, 1939

Hon. Samuel O. Clark, Jr.,  
Assistant Attorney General,  
Department of Justice,  
Washington, D. C.

In re: Joseph A. Schenck, et al.,  
Los Angeles, California.

Dear Sirs:

Pursuant to an understanding reached at a conference held in your office on October 21, 1939, there follows a list of persons who it is believed should be called before a grand jury, together with a statement as to each of them of the testimony it is expected can be elicited if they will testify truthfully and fully:

1. Max Lesser. This man was regularly employed as tax adviser for Darryl F. Zanuck and William B. Dover, and he was present in New York at the time Kadis and Dover were having conferences concerning the income taxes of Zanuck, Schenck and Geets. Despite the fact that he was the regularly employed income tax adviser of Zanuck, he was not permitted to participate in the conferences at which the disproportionate distribution of Twentieth-Century Fox Film stock was discussed.

2. Joseph H. Moskowitz. This man is the personal accountant and Eastern representative for Joseph M. Schenck and he should be familiar with the circumstances surrounding the conferences between Dover and Kadis in New York in 1936. The telephone call which Kadis made to Dover in 1938, when the case had been reassigned to Kadis, was made from the New York office of the Twentieth-Century Fox Film Corporation, and it may have been made from the office of Moskowitz. He probably could be profitably examined with respect to his knowledge of this telephone call.

3. J. E. Codd. This man is employed by the Twentieth-Century Fox Film Corporation, and he also has charge of Schenck's personal accounts on the West Coast. He may have knowledge as to funds secured by Schenck for payment to Kadis or of entries respecting such funds. He should also be examined as to any financial transactions he may have had with William B. Dover as intermediary for Schenck in the payment of money to Kadis.

Hon. Samuel O. Clark, Jr.  
In re: Joseph M. Schenck, et al.

4. Bertram Nayfack. This man is a nephew by marriage of Schenck and acted as his attorney in certain phases of the income tax case. He should be examined as to why he secured an opinion from Dr. Klein in September 1936, with respect to the taxability of the reorganization transaction. He secured this opinion about the time that Kadis and Dover were having their conferences in New York City.

5. John Michaelis. This man is the comptroller of Twentieth-Century Fox Films Corporation in New York, and the telephone call from Kadis to Dover may have been made in his office. He possibly has knowledge of funds secured by Schenck to be paid to Kadis or Dover as an intermediary for payment to Kadis. He was referred to in the cablegram which Dover sent to Zanuck at the time he arranged for the conference in New York with Kadis, and it is probable that he was consulted with respect to such conference.

6. William B. Dover. This man was the confidential employee of Darryl Zanuck and handled all of his financial transactions. Information available indicates that he acted as an intermediary in the payment of a large bribe to Kadis; that he collected the money for this bribe from Zanuck, Schenck and Goetz; and that a part of the bribe was handed to him by Goetz in the presence of Mrs. Webb at the time Kadis was waiting in an anteroom. It is understood that he has refused to sign a waiver of immunity and, as a consequence, was not called before the grand jury. It is felt that he should be called before the grand jury even if by doing so he is granted immunity from prosecution. This suggestion is made despite what is said to be the attitude of the District Court at Los Angeles to the effect that the calling of a person before a grand jury immunizes such person from criminal prosecution. This office feels that this attitude of the District court is not in accordance with well settled law, and in the event the court should so hold, it is believed a reversal could be secured in the Circuit Court of Appeals.

7. William Goetz and Mrs. Frances Webb. If these two persons are recalled before the grand jury they should be examined as to the matters set forth in a memorandum of Special Agent O'Connell to Mr. Carr, dated September 11, 1939, a copy of which is available in your office.

Hon. Samuel O. Clark, Jr.  
In re: Joseph M. Schenck, et al.

S. Joseph M. Schenck and Derryl F. Zanuck. It is the belief of this office that these individuals should be called before the grand jury and questioned with respect to the payment of the bribe to Kadis. It is understood that Schenck was told that he might be called before the grand jury and that he very definitely stated that he would not sign a waiver of immunity under any circumstances. It is believed that he should be called before the grand jury and if it is his intention to stand upon his constitutional immunity, he should be forced to openly declare such an intention. While Zanuck's attitude has not been definitely ascertained, it is probable that he will take the same position as Schenck and what has been said with respect to Schenck applies as well to him.

This office renews the suggestion made in its letter of October 12, 1939, that these cases be handled in the same manner as was the case of Moses L. Annenberg. The same sort of assistance as was furnished in the Annenberg case will be furnished in these cases if you so desire. This office also will be pleased to make available to you any and all of the facilities of the Bureau of Internal Revenue for this purpose. Accordingly, it will be appreciated if you will advise this office of your views in this matter in order that the necessary arrangements may be made should this suggestion be adopted.

Very truly yours,

(Signed) J. P. Wenchel

J. P. WENCHEL  
Chief Counsel.

October 27, 1939  
11:01 a.m.

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Operator: Go ahead.

HMJr: Hello.

Jesse  
Jones: Hello, Henry.

HMJr: Hello, Jesse.

J: How are you?

HMJr: Oh, pretty well.

J: One or two people asked me yesterday afternoon  
something about the bonds - about the time.....

HMJr: Yes.

J: .....and the rate. Of course I told them I did  
not know.

HMJr: Yeah.

J: That would -- you would determine that.

HMJr: Yes.

J: But I thought the time would be somewhere around  
three years.

HMJr: Yes.

J: That was my answer.

HMJr: That's right.

J: It seemed that the market went off a little bit yes-  
terday. What did it do today?

HMJr: I haven't seen it, Jesse, I've been busy -- but I  
understood that mar -- it turned a little bit for  
the better last night.

J: Yeah.

HMJr: But I haven't seen it. But what we thought we'd do -  
we'd sit tight until Monday.

J: And then announce it.

HMJr: And -- well, and.....

J: Or -- or not.

HMJr: Well, or not.

J: I see.

HMJr: But we'll be in touch with you during the day Monday.

J: Yes.

HMJr: But we will or won't do it depending upon how the whole market acts.

J: Yes.

HMJr: And then we'll begin to give you a rate and so forth and so on, but I don't think that -- I don't know today whether it would be 7/8ths or one percent. I haven't talked to the boys.

J: Um-hm.

HMJr: I don't know how much.....

J: Well I had in -- my thought about it was, for whatever you might consider it worth.....

HMJr: Please.

J: .....I'd give a one and I might make it a few months short of three years.

HMJr: Well, that sounds like sense.

J: And then I think they'll reach for it. And I think that would be helpful from your standpoint.

HMJr: Fine. Well Jesse, as -- as the thing looks clearer to me or less clear I'll keep in touch with you personally and I'd like your advice.

J: O. K., thanks.

HMJr: Thank you very much.

J: All right, goodbye.

October 27, 1939  
11:19 a.m.

HMJr: Hello.

Operator: Senator Barkley is on the floor and he's going to call you back.

HMJr: Yeah.

O: Senator Wagner is out of the office and they're going to have him call back and Senator Maloney's line is busy; I'm still waiting for him.

October 27, 1939  
11:23 a.m.

HMJr: Hello.

Robert  
Wagner: Hello.

HMJr: Bob?

W: Yeah.

HMJr: I want to thank you for the noble defense you made  
of the.....

W: Ah -- we got a little bit bawled up there for a  
moment, you know, but I understand Ed Foley got  
excited about it and all that sort of thing. I  
thought it went all right. What the hell!

HMJr: Sure, we won.

W: Yeah.

HMJr: I say, we won.

W: Yes, we've won and I think what I said was all right.  
I mean, I -- you know, talk as you like there was an  
intimation in that that after you said that you  
wouldn't do it the fellow says, "Well I don't be-  
lieve him because I want to limit him."

HMJr: Yeah.

W: So that got me a little warmed up, that's all.

HMJr: Well.....

W: And I'm with you a hundred percent, and the committee  
is and everybody is, and so.....

HMJr: Well - all those nice things you said about me, I.....

W: Well, everybody -- Henry, that's not me - everybody  
would say that.

HMJr: I'm all.....

W: The only thing is I don't -- I didn't -- I don't like Taft . He left -- I shouldn't say that -- I mean I -- I don't think he meant it at all but it looked like that - say, well, maybe he says so but I -- I'd rather -- I'd rather limit him, or something.

HMJr: Well.....

W: But even that -- there's no -- I tell you there's -- Henry, you know we have these -- I've been in the game so long -- you have these little clashes that don't amount to a darn but it gives a fellow -- it gives a fellow a chance to say something. But everybody respects you and everybody regards you as a -- a real great Secretary of the Treasury. I'm not kidding you about that. I -- I mean that.

HMJr: Well, that's fine.

W: And so does everybody else, so these little things don't mean anything particularly except that we've won. That's the main.....

HMJr: That's the main thing.

W: Yeah.

HMJr: Well, I'm ever so much obliged.

W: Oh, don't mention it, Henry.

HMJr: Ever so much obliged.

W: All right.

HMJr: Goodbye.

October 27, 1939  
11:24 a.m.

HMJr: Hello.

Francis T.  
Maloney: Hello, Mr. Secretary.

HMJr: Hello. Senator, I wanted to call up and thank you for coming to our rescue yesterday.

M: Well, I thought that the Senator got a little overboard.

HMJr: I'm afraid he did.

M: Yeah.

HMJr: And if it hadn't been for you it might not have been so good.

M: Well, I thought that might be the case and I'm glad I was around to be helpful.

HMJr: I'm ever so much obliged.

M: Thank you -- thank you for calling me, Mr. Secretary.

HMJr: We appreciate it very much.

M: Thank you, sir. Goodbye.

HMJr: Goodbye.

October 27, 1939  
4:32 p.m.

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Operator: Ready.

HMJr: Hello.

Hull's  
Secretary: Just a moment please, sir.

Cordell  
Hull: Henry?

HMJr: Yes, Cordell.

H: I've been -- I've been bothered a whole lot on this  
damned Guatemalan thing.

HMJr: (Laughs) You don't mind my laughing, do you?

H: What?

HMJr: You don't mind my laughing a little bit.

H: No, not a bit.

HMJr: Because Win Riefler has just been in here crying on  
both my shoulders and I had to get out a bath  
towel to dry them.

H: Well now, the truth is, he would find that a thoroughly  
interesting meeting.

HMJr: Yeah.

H: And it doesn't require agreements on anything. It's --  
as I said, it's more like a protracted session of the  
B.I.S. directors over in Switzerland.

HMJr: Yeah.

H: They would meet and exchange information on all the  
vital phases and suggestions and ideas and they  
would go back to their respective governments. And  
in this case this would come back to the -- not only  
to our government but we could utilize anything there  
in this meeting that will not get really well under  
way.....

HMJr: Yes.

H: .....before -- before they get back.

HMJr: Yeah.

H: Especially if they fly back.

HMJr: Yeah.

H: Now there's really no -- of course we -- this thing -- Welles told a lot of these people that this was -- being a Treasury matter you would be sending an important man and they speak about Duggan - of course Duggan can go but Duggan is not a monetary man at all. We've got a mighty good man in Duggan's division there who came over here from the Federal Reserve organization in New York; one of the best posted men there is. And there's no occasion for any considerable number of people to go to this. The main thing is just a -- a high-up man like this fellow and one or two -- somebody from over there, and one person maybe from here. Then we'll have -- we'll have -- we can have to drop in there some of our best Ministers or Consuls in that area who would do all the running about for him that he'd want done. Keep him -- keep him informed about everything.

HMJr: Well, here's the situation. He just left my office, see?

H: Yeah.

HMJr: And he -- he was trying his best to get me to release him.

H: Yeah.

HMJr: And I said, no, now wait a minute -- I said, "This forenoon I sent Mr. Hull a letter saying that you'd go provided that Mr. Duggan would go and that was what you asked." I'm talking to Riefler, you see?

H: Yeah.

HMJr: And I said, "I just left Mr. Hull 15 minutes ago and he asked me about it and I told him just -- that you were ready to go and I'm not going to call up Mr. Hull....."

H: Yeah.

HMJr: ".....and tell him that I change every 15 minutes."

H: Yes.

HMJr: And so if Duggan doesn't go.....

H: Well, Duggan will go if it's necessary to get him to go.

HMJr: Well, that -- that's the situation, Cordell. If Duggan doesn't go, then Riefler will say, "All right, then I'm released."

H: Well, Duggan will fly down there and make the trip. He.....

HMJr: Well, that's the whole situation.

H: I'm sure that -- of course, he can't be of much use but he'll be glad to go.

HMJr: Well, he knows South America and Riefler doesn't; that's the answer.

H: Well, of course, we'll have -- as I said, we could have two or three of our Ministers.....

HMJr: Well, I don't know, they've been talking together and they've talking with Feis, and if Duggan didn't go then Riefler says -- well he told me -- he's just been in here for 15 minutes crying.

H: Yeah.

HMJr: And he'd say, "Well, that lets me out."

H: Well, he'll find that -- that there's -- that he won't have any trouble in handling our end of it.

HMJr: Yeah.

H: And he oughtn't to be too much afraid about it.

HMJr: Well of course, the trouble is the two meetings, you see, and they think they're all a little bit prima donna and they think that Guatemala is a second show and they don't want to go. That's the thing.

H: Yes. Well this -- anyhow we'll -- we'll just let your letter stand.

HMJr: Well, I -- I just had a -- really a very difficult time with Riefler and I -- I refused to call you up.

H: All right, we'll just let your letter stand then.

HMJr: Thank you so much.

H: Thank you.

HMJr: Goodbye.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

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AA

DATE October 23, 1939

TO Secretary Morgenthau  
FROM Mr. Cochran

The foreign exchange market was exceedingly dull today. Sterling opened at 3.99-7/8, unchanged from last night's close, and shortly thereafter some small Japanese selling appeared in the market. The National City Bank received an order from Siam to sell £200,000. Of this amount £150,000 was purchased by the Bank, and £50,000 was sold in the market. The rate gradually eased to 3.99-1/2, and closed there.

Reporting banks in New York and the Federal Reserve Bank reported sales of sterling totaling £236,000, from the following sources:

Commercial concerns.....	£ 36,000
Foreign banks (Siam).....	£200,000
Total.....	£236,000

Purchases of sterling amounted to £101,000 as indicated below:

By commercial concerns.....	£ 76,000
By foreign banks (Far East).....	£ 25,000
Total.....	£101,000

The banks also reported that the British Control purchased sterling amounting to £117,000 at the official rate of 4.02. Of this amount £90,000 represented cotton bills.

The other important currencies were steady.

The Chinese yuan strengthened to .08-9/16, but subsequently lost some of its gain, and was quoted at .08-7/16. The higher rate for the yuan is probably due to the sale of sterling in Shanghai by the Japanese, and it was reported that the Chinese Control was purchasing sterling today.

The National Bank of Belgium sold to us \$585,000 in gold from their earmarked account.

The Federal Reserve Bank did not receive any reports of shipments of gold to this country.

The Dow Jones Ticker carried a Reuters dispatch from New Delhi, India, that the Government of India has banned the import, by sea or land, of silver bullion,

silver sheets and silver plates which have undergone no manufacturing process subsequent to rolling. An exception to this rule was made in cases where a license has been granted by the Reserve Bank of India. The ban does not apply to imports of silver from Burma.

*J. M. R.*

TREASURY DEPARTMENT

316

INTER OFFICE COMMUNICATION

DATE October 28, 1939

TO Secretary Mergenthau

FROM Mr. Haas

The Works Progress Administration reports show an increase of 24,000 in the number of employes, from 1,874,000 persons for the week ended October 11, 1939, to 1,898,000 for the week ended October 18, 1939.

Attachments

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WORKS PROGRESS ADMINISTRATION  
Number of Workers Employed - Weekly  
United States

Week Ending 1939	Number of Workers (In thousands)
February 4	2,966
February 11	2,966
February 18	3,011
February 25	3,043
March 4	3,032
March 11	3,009
March 18	3,015
March 25	3,009
April 1	2,980
April 5	2,906
April 12	2,761
April 19	2,752
April 26	2,751
May 3	2,734
May 10	2,660
May 17	2,622
May 24	2,609
May 31	2,598
June 7	2,594
June 14	2,590
June 21	2,578
June 28	2,551
July 5	2,388
July 12	2,290
July 19	2,250
July 26	2,200
August 2	2,081
August 9	2,053
August 16	1,976
August 23	1,896
August 30	1,841
September 6	1,661
September 13	1,694
September 20	1,733
September 27	1,788
October 4	1,833
October 11	1,874
October 18	1,898

Source: Works Progress Administration.

WORKS PROGRESS ADMINISTRATION  
 Number of Workers Employed - Monthly  
 United States

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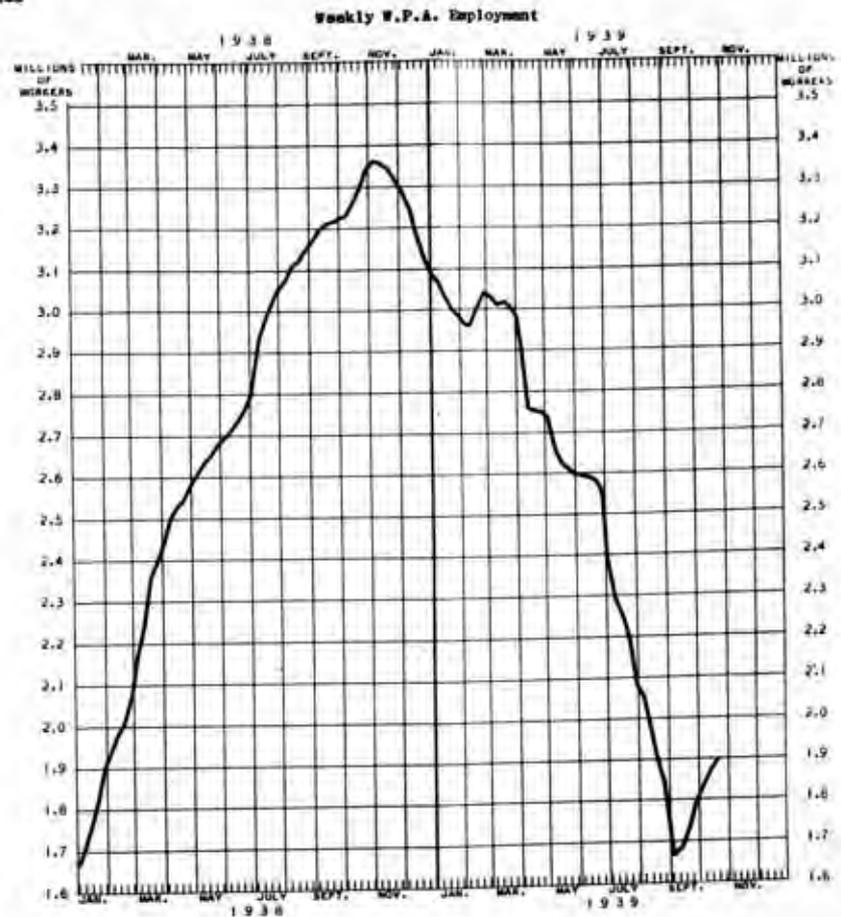
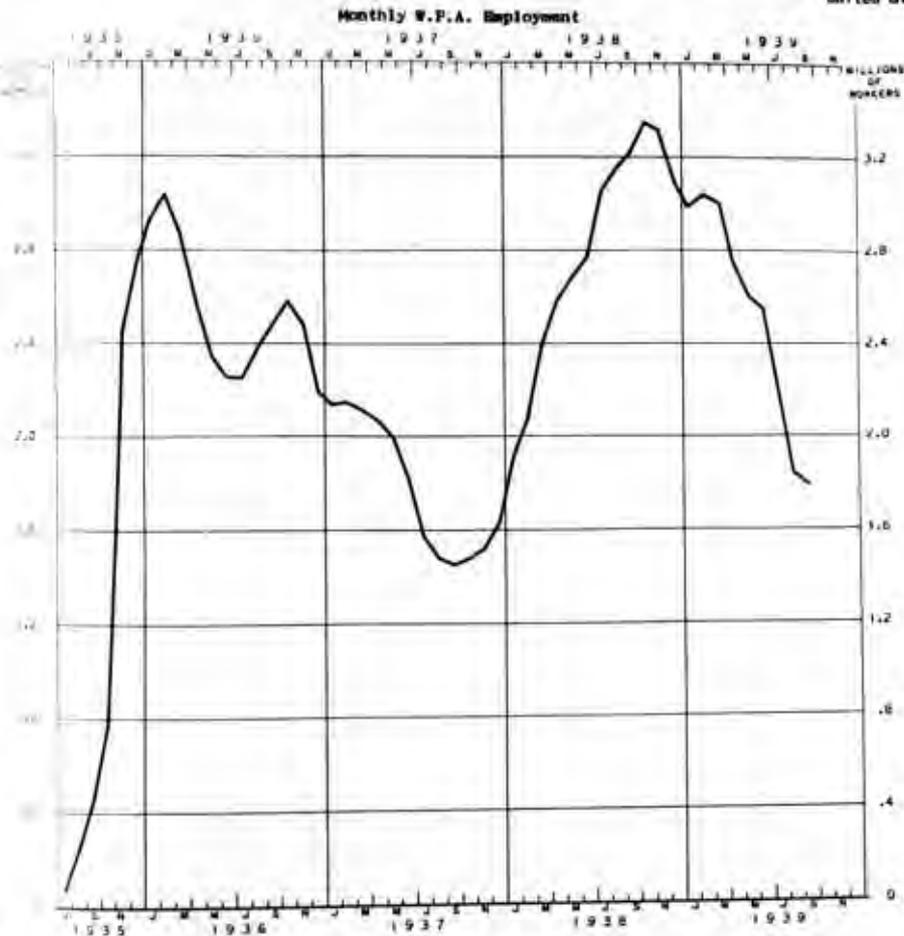
	Number of Workers (In thousands)
1936	
June	2,256
July	2,249
August	2,377
September	2,482
October	2,581
November	2,483
December	2,192
1937	
January	2,138
February	2,146
March	2,115
April	2,070
May	1,999
June	1,821
July	1,569
August	1,480
September	1,451
October	1,476
November	1,520
December	1,629
1938	
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

MEMORANDUM

GC:P:IWC  
328904

October 28, 1939.

In re: Grand jury investigation of income tax cases of Joseph M. Schenck, William Goetz, Darryl F. Zanuck and William B. Dover, et al.

The grand jury proceedings conducted in this case are considered inadequate and ineffective for the following reasons:

1. Only two witnesses, William Goetz and Mrs. Frances Webb were called before the grand jury. Several other persons had been suggested as witnesses, including William B. Dover. The Bureau has every reason to believe that Dover acted as the intermediary in the payment of the bribe to Kadis, and there seems to be no proper basis for not calling him.

2. The examination of Goetz and Mrs. Webb was most perfunctory, and most of the questions were framed in such a manner as to elicit negative replies. For example, on page 31 of the transcript, the following appears:

"Q. (Mr. Carr) Now do you keep a little book of your own, like most secretaries do, for your own protection.

A. (Mrs. Webb) What kind of a little book?

Q. To keep items and transactions in?

A. No, I don't.

Q. Have you ever kept one?

A. No, I haven't. I have one little memorandum book at the moment, just a little pad of petty cash.

Q. I see. Well, you don't keep a little private black book that is sort of a double check on your employer?

A. No, I have no black books, or any checks on my employer."

On page 8 appears:

- "Q. (Mr. Carr) Do you ever remember Mr. Dover being present at your office when Mr. Kadis was present?
- A. (Mr. Goetz) No, I don't.
- Q. Do you ever remember Mr. Kadis and Mr. Dover and Mrs. Webb being present at any time when you gave a sum of money to Mr. Dover?
- A. I do not.
- Q. You don't recall any time that any sum of money was given to Mr. Dover for any purpose when Mr. Kadis was in your office?
- A. No, I do not."

Other similarly ineffective questions were asked and they appear on pages 7, 11, 22, 26 and 29 of the transcript.

3. The transcript shows that when Mr. Carr completed his examination of Goetz he asked Goetz to invite Mrs. Webb into the grand jury room. This gave Goetz an opportunity, if he so desired, to communicate with Mrs. Webb and advise her as to the results of his examination. Ordinary prudence would have dictated that they should not be allowed to communicate with each other.

4. In his report to the Department of Justice, Mr. Carr stated: "It took only a short time before the grand jury with Goetz for the writer to determine that the Government was on a hopeless fishing trip". Goetz was examined before Mrs. Webb and it would appear that Mr. Carr reached the conclusion that the matter was hopeless before he had completed his examination of Goetz and before he had asked Mrs. Webb any questions.

5. In this same report, Mr. Carr also said: "It was apparent, however, that Goetz made no effort to tell the truth concerning the matters about which he was questioned." The purpose of the grand jury proceedings was to elicit the truth from Goetz and the other witnesses, and it was Mr. Carr's assignment to secure truthful testimony from them. A comparison of the transcript of these proceedings with a transcript of the proceedings in the Annenberg case will disclose the difference in results obtained. In the Annenberg case, by skillful and forceful examinations, recalcitrant witnesses were forced to tell the truth, and the same sort of examinations in this case might well be productive of the desired results.

6. Throughout the interrogation of the witnesses, Mr. Carr exhibited a tendency not to press the witnesses, and a reading of the transcript of the testimony indicates that he was not making a determined effort to force them to testify truthfully.

  
Commissioner.

hlc

October 28, 1939

To: The Secretary

From: Mr. Hanes

I attach hereto a letter from Tom Morgan with further information about the aircraft factory in China.

JWH

October 28, 1939

To: The Secretary

From: Mr. Hansa

I attach hereto a letter from Tom Morgan with further information about the aircraft factory in China.

JWH;jr

THE SPERRY CORPORATION

30 ROCKEFELLER PLAZA  
NEW YORK

25

October 27, 1939.

The Honorable John W. Hans,  
Under Secretary of the Treasury,  
Department of the Treasury,  
Washington, D. C.

Dear John:

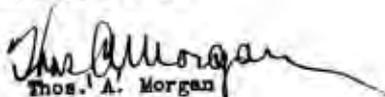
Referring to my conversation with you the other day in regard to the aircraft factory in China, I am enclosing in brief, an outline giving the story in more complete form. You can give this to the Secretary and if he desires any additional information on the subject, please let me know and I will be glad to furnish it.

As I told you the other day, The Sperry Corporation owned The Intercontinent Corporation until last year when it was sold to Mr. W. D. Pawley who is now in China.

With kindest regards, I am

tam:s  
Enclosure

Sincerely yours,

  
Thos. A. Morgan

BRIEF HISTORY OF CENTRAL AIRCRAFT MANUFACTURING CO., FED., INC., U.S.A.  
(A China Trade Act Corporation)

The Central Aircraft Manufacturing Company was formed under a contract with the Military Council of the National Government of the Republic of China, dated December 8, 1933. The objective was to train Chinese personnel in the building, repairing and maintenance of airplanes of Chinese manufacture.

The factory was built at a cost of \$206,892.41, out of funds advanced by the Curtiss-Wright Corporation and another company. The interest of the latter company was later purchased by Intercontinent Corporation.

The Chinese Government has repaid over a five year period the investment made by Intercontinent and Curtiss-Wright in the original factory.

The original factory contract was to run for a period of five years. When the Japanese invaded China, Curtiss-Wright and Intercontinent agreed to an amendment to their contract with the Military Council of the National Government of the Republic of China whereby permission was given to move the factory to a location better suited to the interests of the Government.

The factory was later moved to Hankow and after the abandonment of Hankow, plans were made to build a new factory at Kuming. This location has been changed to Loiving near the Burmese border.

From the inception of the contract the factory has been a valuable factor in the Chinese Military aviation program.

In July, 1938, the original agreement was extended to September 30, 1942 and Curtiss-Wright and Intercontinent Corporation jointly agreed to advance \$330,000. for the erection of the new factory at Loiving to have a capacity of between 250 and 300 planes per annum. These funds are to be repaid over a period of three years.

Under the original agreement the Chinese government agreed to have the factory purchase 75% of Curtiss-Wright motors and 50% of Curtiss-Wright or Douglas planes. The agreement also provided for the Intercontinent Corporation to be the sole purchasing agent for the factory with a guarantee to purchase a minimum of \$500,000 per year. The new agreement provides for 66-2/3% Wright motors and 50% Curtiss-Wright planes with a guarantee to purchase a minimum of \$1,000,000 per annum. Intercontinent is also the purchasing agent under this new agreement.

In addition to the financing of the factory at Loiving, Mr. F. D. Pawley, President of the Intercontinent Corporation has advanced over \$150,000. to finance purchases of factory equipment. A portion of this has been repaid and there is now outstanding of this about \$100,000.

Both agreements provided for the furnishing of American supervisory personnel in the factory with the Chinese making up the remainder of the personnel.

These Chinese factories have served to train the Chinese in the manufacture and assembly of planes and have been of great value in the servicing

and repairing of planes used in the conflict with Japan.

Recently Curtiss-Wright and The Intercontinent Corporation negotiated an agreement with the Chinese licensing them to manufacture Wright engines in China and it is believed that the government will shortly enter into the manufacture and assembly of engines in China.

Many of the purchases made by the Chinese factories have been of sets of materials "for the manufacture and assembly in China of Curtiss-Wright and Vultee airplanes", and thereby a very substantial saving in cost has been effected to the Chinese government.

KEESHIN FREIGHT LINES, INC.

28

J. L. KEESHIN  
PRESIDENT

221 WEST ROOSEVELT ROAD  
CHICAGO

October 28, 1939

*Thank you*

The Honorable Henry J. Morgenthau,  
Secretary of the Treasury,  
Treasury Building,  
Washington, D.C.

My dear Mr. Secretary:

I am enclosing herewith a  
true copy of another original report received from  
Mr. Van Patter, dated October 10, 1939, which is  
being sent to you for your information.

Very truly yours,

*J. L. Keeshin*  
J. L. Keeshin

JLK:LR

Enc. (1)

October 10, 1939  
Kweiyang, China

Dear Mr. Keeshin:

I have been here in Kweiyang for the last five days and have been very busy holding meetings with the maintenance supervisors, along with looking over the present shops and equipment. They have one new shop started which is going to be all right for inspection and general repairs. A few changes in their original plans will have to be made to make it more adaptable for general maintenance. These changes can still be made without spending additional money. The machine shop is to be erected in another locality in order to help eliminate the danger of bombs. On account of a city law, their present machine shop has to be moved outside of the city limits. This law was passed since the Japs started bombing the Chinese towns and cities. Only twenty percent of the shop equipment purchased in America has arrived in China. I believe part of it is in Hyphong. Mr. Bassi went to this part last week so he will investigate for parts and shop equipment. He went there for the purpose of speeding up the loading and dispatching. He is also going to Dongdang which is the end of the French Railroad. This point is also quite congested and needs some attention.

The Chinese reaction to our ideas has been very good and they seem to be very willing to carry out our suggestions. I have in my company a Chinese engineer who is a graduate of Illinois University. He interprets for me when necessary and looks after my general welfare. They also furnished a car and a driver so that I can get around quickly. The car has come in handy the last three days due to air raid alarms. When the alarm is sounded, everyone leaves the city any way they can get out. Most of them have to walk. The planes did not come here either day; they bombed elsewhere. The alarm is sounded in plenty of time so it is quite safe.

I believe you will be interested in knowing that they have found more than thirty Dodge camshafts with soft rollers that lift the fuel pump arms. The arms wear into the camshaft as much as 1/16th of an inch. They have had a lot of fuel pump trouble on these Dodges and, no doubt, the camshaft is the cause for

October 10, 1939

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for most of it. A cam shaft should never wear at this point so they must be made of inferior metal. No doubt, this condition exists in lots of motors that have not been taken apart. I checked one of these with a file and found this part of the cam shaft much softer than the rest of it. They have been reboring the blocks every twelve to fifteen thousand miles. However, this may not be all the fault of the Dodge. No one is sure. I have put into effect a program that will eliminate any unnecessary reboring and then we can tell more about it. Either way, it has been an awful waste of pistons, labor, etc. No one in the maintenance department is sure whether they are doing right or not in lots of ways. They have been doing quite well in spite of not knowing for sure.

I am going to spend some time in the machine shop this coming week and see if I can get them going on a more efficient basis. I hope that the shop that is now being erected will be finished within a couple of weeks so that we can get them started on a program to help eliminate some of these accidents and road failures.

The Government has started a small manufacturing shop here at Kweiyang for the manufacturing of springs and other parts. It is very well set up and seems to be run very efficiently. It is netting around ten thousand dollars (Chinese Dollars) a month profit. This shop is run by the maintenance department superintendent. I think he understands manufacturing better than maintenance of motor trucks.

I am supposed to return to Chungking in two more weeks and after that I expect to go to Changsa for a time, then, no doubt, I will be in Kuming or Kweiyang for quite some time. Mr. Sheehan is making a trip to Rangoon. He will fly to Lashio, and take a train from there. On return trip I think he plans to drive from Lashio to Kuming over the Burma highway.

The Chinese have made quite a few gains against the Japs here lately. However, I doubt if peace will come within this coming year. There isn't any doubt in my mind but what the Chinese will win out in the end. They are much better prepared than a year ago and I believe their morale is rising, especially since a few battles have been won near Hankow.

Mr. Keeshin

- 3 -

October 10, 1939

I hope this letter finds you in the best of health, and I wish to remain

Sincerely yours,

(Signed)

Van

November 1, 1939.

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Dear Mr. Keeshin:

On behalf of the Secretary I want to thank you for your letter of October 26th, which enclosed a copy of another report you had received from Mr. Van Patter, dated October 10th. This has been brought together with earlier reports, and your courtesy is much appreciated.

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.

GKF/dbs

lw

PLAIN

London

Dated October 28, 1939

Rec'd 6:45 a.m.

Secretary of State  
Washington

2196, October 28, noon.

Embassy's 2014, October 12 and 1683, September 16,

2 p.m.

FOR STATE AND TREASURY DEPARTMENTS.

Following signed note dated October 26, received  
this morning from the Foreign Office:

"I have the honour to state that His Majesty's  
Government have upon consideration agreed to grant  
further concessions to foreign nationals in respect  
of exemptions from the defence (finance) regulations.

2. His Majesty's Treasury have no objection to  
a foreign national (not possessing British nationality)  
selling securities in respect of which he has obtained  
exemption from the defence (finance) regulations and  
reinvesting in other securities. If the securities are  
held abroad no difficulty need arise, but the owner  
would have to obtain permission in the usual way to  
export securities held in this country and in applying  
for

lw -2- No. 2196, October 28, noon from London

for permission to export would, no doubt, have to satisfy his bank that he had been exempted under the arrangement with which Mr. Walsey has unofficially already acquainted Your Excellency.

3. His Majesty's Treasury are also prepared to agree that foreign nationals resident in the United Kingdom who do not also possess British nationality will not be called upon to surrender income accruing to them by way of interest or dividends on exempted securities nor, in consequence, upon securities which they purchase instead of their original holding.

4. It will be appreciated that this does not cover, for example, foreign currency income other than that arising as in the cases above. Thus it would not cover proceeds of exports made from this country by those persons to whom this note applies or to foreign currency coming into their possession in similar ways.

KENNEDY

10/28/48

10/28/48

10/28/48

JR

GRAY

335

Berlin

Dated October 28, 1939

Rec'd 2 p.m.

Secretary of State,  
Washington.

1870, October 28, noon.

The German press announces as a great achievement of the German Soviet trade negotiations and improved relations between the two countries the conclusion of a contract for the sale by the Soviet Government of one million tons of feed grains to the Reich. According to the press the delivery will take place during the next two months. It has not been possible so far to obtain confirmation or details of the reported contract. If it is true Russia is agreeing to sell to one country, Germany, more feed grains than she exported in 1938. For the first eleven months of 1938 Russia exported the following tonnage of feed grains (including rye as such) rye 321,000; barley 406,000; oats 2,800; corn 14,000. German statistics show no imports of feed grains from Russia in 1938. Germany's average imports of these feed grains for the period 1933-1938 were only 1,145,000,000 tons but during the last two years it has been in excess of 2,000,000 metric tons (in 1938, 2,624,000 tons). Of Germany's total  
feed

-2- #1870, October 28, noon, from Berlin.

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feed grains imports in 1938 some 1,895,000 tons was  
corn derived mainly (1,688,000 tons) from America and  
Argentina. The reported transaction with Russia would  
not fill the gap left by the disappearance of Argentine,  
Canadian and American grain as a result of the blockade.  
Repeat to Treasury.

KIRK

CSB ..

TREASURY DEPARTMENT

337

INTER OFFICE COMMUNICATION

DATE October 28, 1939

TO Secretary Morgenthau  
FROM W. H. Hadley

Close

RFC Financing

<u>Maturity</u>	<u>Coupon</u>	<u>Yield</u>	<u>Offering Price</u>	<u>Market Price</u>	<u>Premium</u>	
2 yrs. 6 mos. (May 1, 1942)	7/8%	0.75	100	100.10	10/32nds	
		0.80	100	100.6	6/32nds	
	1%	0.75	100	100.20	20/32nds	
			0.80	100	100.16	16/32nds
		0.75	100 1/8	100.20	16/32nds	
			100 1/8	100.16	12/32nds	
2 yrs. 9 mos. (Aug. 1, 1942)	7/8%	0.80	100	100.7	7/32nds	
		0.85	100	100.2	2/32nds	
	1%	0.80	100	100.17	17/32nds	
			100	100.13	13/32nds	
		0.85	100	100.14	14/32nds	
			100	100.10	10/32nds	
3 years (Nov. 1, 1942)	1%	0.85	100	100.14	14/32nds	
			100	100.10	10/32nds	
		0.85	99 7/8	100.14	18/32nds	
			99 7/8	100.10	14/32nds	
		1-1/8%	0.85	100	100.26	26/32nds
				100	100.21	21/32nds
	0.85		100 1/8	100.25	22/32nds	
			100 1/8	100.21	17/32nds	
	0.85	100 1/4	100.26	18/32nds		
			100.21	13/32nds		
		0.90	100 1/4	100.26	18/32nds	
			100 1/4	100.21	13/32nds	

Note: Premiums on the day of offering of the last three RFC issues range from 13/32nds to 16/32nds.

Market for outstanding RFC issues firm and unchanged today.

Secretary Morgenthau

W. H. Hadley

October 29, 1939

Mass

RFC Financing

<u>Maturity</u>	<u>Coupon</u>	<u>Yield</u>	<u>Offering Price</u>	<u>Market Price</u>	<u>Premium</u>
2 yrs. 6 mos. (May 1, 1942)	7/8%	0.75	100	100.10	10/32nds
		0.80	100	100.6	6/32nds
	1%	0.75	100	100.30	20/32nds
		0.80	100	100.16	16/32nds
		0.75	100 1/8	100.30	16/32nds
		0.80	100 1/8	100.16	12/32nds
2 yrs. 9 mos. (Aug. 1, 1942)	7/8%	0.80	100	100.7	7/32nds
		0.85	100	100.2	2/32nds
	1%	0.80	100	100.17	17/32nds
		0.85	100	100.13	13/32nds
3 years (Nov. 1, 1942)	1%	0.85	100	100.14	14/32nds
		0.90	100	100.10	10/32nds
		0.85	99 7/8	100.14	18/32nds
		0.90	99 7/8	100.10	14/32nds
	1-1/8%	0.85	100	100.26	26/32nds
			100	100.21	21/32nds
		0.85	100 1/8	100.26	22/32nds
			100 1/8	100.21	17/32nds
		0.85	100 1/4	100.26	18/32nds
			100 1/4	100.21	13/32nds

Note: Premiums on the day of offering of the last three RFC issues range from 13/32nds to 16/32nds.

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DRAFT REPLY FOR DEPARTMENT OF COMMERCE

(Sent by Mr. Waley to Mr. Battersworth. Oct. 28th.)

"Both Ministry of Food and private importers are allowed to pay for goods imported from the U.S.A. either in dollars or in sterling. Treasury on the whole prefer payment to be made in dollars where this does not upset trade customs, but have not laid down any fixed rule.

There is no question of asking American exporters to accept payment in blocked sterling. Dollars at the official rate are granted for all goods which have been or will be actually imported. If goods are on the import restriction list, the American exporter should satisfy himself that an import license has been or will be granted. No such enquiry is of course necessary in the case of goods not on the import restriction list, and in the case of goods purchased by or on behalf of Government Departments.

It is not the policy of the United Kingdom Government to make purchases on condition that the exporter can arrange to accept payment in goods or in sterling which will not be remitted and any suggestions for purchases on these terms were made owing to a misunderstanding. Treasury would be glad to be informed of any such suggestions made in order that they may explain to those concerned that such suggestions are not desirable.

Rangoon, Burma, October 28, 1939.

CONFIDENTIAL

SUBJECT: China's motor-transport problem; centralized control advocated as solution by M. E. Sheahan, Vice President-Treasurer of Keeshin Freight Lines, Chicago; inclusion of trucks of Foo Shing Trading Corporation opposed because of contract provisions in connection with Export-Import Bank credit.

THE HONORABLE

THE SECRETARY OF STATE

WASHINGTON, D. C.

SIR:

*not read*

I have the honor to report that, in the opinion of Mr. Maurice E. Sheahan, Vice President-Treasurer of the Keeshin Freight Lines, Incorporated, of Chicago, the solution of the motor-transport problem in China is centralized control under the Ministry of Communications of all important civil services, including that of the Foo Shing Trading Corporation.

Mr. Sheahan, who has been investigating motor-transport conditions and services in China for the purpose of advising the Ministry of Communications in regard to possible improvements, was in Rangoon from October 14th to 18th. He left here on October 18th to travel by car over the Yunnan-Burma highway from Lashio to Yunnanfu. In coming to Rangoon Mr. Sheahan traveled by airplane from Yunnanfu to Lashio, and by train from Lashio to this city. He was accompanied on the journey by Dr. Francis K. Pan, chief of the section of General Affairs in the Ministry of Communications.

Mr. Sheahan's opinion concerning the solution of China's motor-transport problem was expressed in telegrams he sent on September 30th and October 5th to Mr. E. P. Chen, Director of the Universal Trading Corporation of New York City, and of the Foo Shing Trading Corporation of China, and copies of these telegrams

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were shown to me, together with a copy of a telegram sent by the Minister of Communications to Mr. Chen on September 30th, and copies of telegrams received from Mr. Chen under dates of October 8th and 10th.

It is thought probable that the Treasury Department has the information contained in the telegrams exchanged between Mr. Sheahan and Mr. Chen, and between the Minister of Communications and Mr. Chen.

Questions of Operation of Foo Shing Trucks.

The Minister of Communications proposed to Mr. Chen that the Foo Shing Trading Corporation turn over its 1,000 motor trucks to the Southwest Transportation Company for administration, retaining ownership, but in his telegram to Mr. Chen on the same date Mr. Sheahan "strongly and urgently" recommended the operation of the Foo Shing trucks under the Ministry of Communications, for the indicated purpose of "eliminating unhealthy competition and expensive duplication", the identity of the trucks to be preserved and the fulfillment of "Article 9 of the Export-Import contract" to be insured. In his telegram of October 5th Mr. Sheahan told Mr. Chen that his opinion of the "best solution" was a central government corporation under the Ministry of Communications; that this would definitely segregate civil and military transportation; that no attempt would be made to include the Southwest Transportation Company (a semi-military organization) at this time, and that Foo Shing would preserve ownership of its trucks and have adequate representation in the new corporation, "assuring compliance guarantee".

The "Article 9" referred to is that of the contract between the Universal Trading Corporation and the Foo Shing Trading Corporation, which provides that the latter shall at all times maintain a fleet of not less than 1,000 American motor trucks for use "continuously and exclusively" in the transportation of

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tung oil for export to the United States under the agreement between the Export-Import Bank of Washington and the Universal Trading Corporation.

Foo Shing Participation Opposed.

Mr. Chen's reaction to Mr. Sheahan's recommendation for the inclusion of Foo Shing trucks in the fleet to be operated by a central organization was unfavorable, and the latter was informed by telegraph on October 8th that "due to contract commitments and repeated assurances to oil consumers, action at present may cause most undesirable misapprehension". Mr. Chen stated that he considered it necessary to postpone action until the completion of Mr. Sheahan's investigations and return to Washington, and he repeated this in a telegram to Mr. Sheahan on October 10th. In the later telegram he said that "request to alter contract condition requires careful procedure and Washington must be assured absolute certainty of success". He ended the telegram with the statement: "We shall personally present your plan to secure Washington approval".

In his telegrams Mr. Chen assured Mr. Sheahan that he approved of the latter's proposal in principle, that he was anxious to see his mission successful, and that he hoped the "temporary nonparticipation" by Foo Shing would not affect the formation of a central government corporation with other major transportation concerns.

Merger Without Foo Shing Held Unlikely.

There was no further telegraphic communication between Mr. Sheahan and Mr. Chen up to the time of the former's departure from Rangoon. Before leaving here Mr. Sheahan expressed the belief that centralized control of civil motor-transport services in China would not be possible without the participation of the Foo Shing Trading Corporation, as under such circumstances, in his opinion, ruinous competition for drivers and mechanics and transport advantages would continue, and other operating

units would consequently not be willing to merge their interests in a central corporation.

Mr. Sheahan said that he hoped to inspect China's Northwest road into Russia following his inspection of the Yunnan-Burma highway, and that after these inspections he would probably return to the United States. He indicated that Mr. Andrew B. Bassi and Mr. C. W. Van Patter, also of the Keeshin Freight Lines, who accompanied him to China in August, might remain in China, pending developments.

Mr. Sheahan had with him a file of the minutes of conferences held with the Minister of Communications and other Chinese officials in Chungking; copies of summaries and recommendations presented by him to the Minister of Communications, and a copy of a report on the Yunnan-Burma highway and on general highway maintenance and operation in China, prepared for the personal information of Dr. H. H. Kung, Premier of China, and Minister of Finance, by Mr. D. F. Myers, an American mechanical engineer who has been an advisor on the staff of the Ministry of Finance. These I saw, and the Myers report is being made the subject of a separate despatch.

Difficulties and Proposed Solutions.

In summarizing difficulties in connection with motor transport in China Mr. Sheahan listed scarcity of skilled personnel and properly trained supervisors, rapid deterioration of equipment due to the condition of roads and inexperienced driving, shortage of essential parts and supplies, and continued use of antiquated methods and equipment. He told the Ministry that the duplication of facilities and stocks of materials and supplies by the various transport agencies of the Central Government, the evils of intergovernmental bidding for employees and sites, and the ad-

vantages gained by unscrupulous commercial enterprises through the sale of spare parts, were all matters calling for consideration. His recommendations included the licensing of drivers, and at the same time the adoption of a more sympathetic attitude toward them; the organization of highway police; centralized purchase and distribution of supplies; and the establishment of a central shop, at Kweiyang, and repair-servicing shops at suitable locations where needed. In recommending the merging of all civil government operations under the Ministry of Communications, he said:

"It is patently evident that co-ordination of Civil Government Agencies is essential if duplication of effort is to be eliminated and a more economical operation result. The major portion of presently operated equipment is of comparatively recent origin and therefore in need of preventive maintenance to avoid costly replacement. We understand that approximately 30% of available equipment is presently under repair; and an additional 30% awaiting spare parts; at this time it is admitted that the Szechuen-Kwangai Transport Administration alone is over-stocked with parts to the value of over a million (Chinese) dollars."

The number of trucks in China capable of being operated, exclusive of military units, is 13,200, according to figures furnished him by the Chinese authorities, Mr. Sheahan reported.

#### Corrupt Practices Among Drivers.

The American transport expert found that Chinese truck drivers have a Guild, which is apparently better organized than operating agencies of the Government, and that this Guild takes care of them if unemployed in return for dues paid. He informed the Ministry that he understood that corrupt practices were so widespread among drivers that salary was of secondary importance, as they were able to realize "tenfold" their pay through illicit means, such as unauthorized carrying of cargo and passengers, and the sale of gasoline and spare parts. Loss of employment meant nothing to them, as because of the scarcity of drivers they were

always able to get new jobs, and they were not deterred by sentences of penal servitude. He urged the cultivation of better relations between the Government and the drivers.

Foo Shing Control of Supplies Proposed.

Mr. Sheahan's views in regard to the Foo Shing Trading Corporation were presented to the Ministry in the following terms:

"The Foo Shing Trading Corporation, chartered in November 1938 and dealing with the import and export trade of China, particularly barter trade with the United States, and affiliated with the Universal Trading Corporation of New York, appears to be an ideal corporate structure to undertake centralized supply, storage and distribution of materials and supplies. We understand the Foo Shing Trading Corporation has contracted to maintain at all times 1,000 trucks to be engaged in the principal work of exporting tung or wood oil. Transfer of the operations of the fleet to the Ministry of Communications would not violate our understanding of the agreement. On the contrary, such a transfer appears desirable in that the responsibility of fulfilling China's obligations in connection with barter trade with the United States would become the responsibility of the National Government, through the Ministry of Communications, and a fleet of trucks in excess of 1,000 would be available for the purpose. There is the further fact to consider in this connection, that Foo Shing is not yet in operation on a major scale and the present is therefore perhaps the best time to effect the necessary co-ordination."

Heavier Types of Trucks Favored.

Mr. Sheahan holds the opinion, as expressed while here, that some of the lighter American trucks purchased by the Chinese Government are not structurally suitable for operation under present transport conditions in China. He referred particularly to front springs, declaring that they were not strong enough, and he said that he had personally witnessed one fatal accident due to this defect. He stated that the lighter trucks were types used for "pick up" services in the United States, and that they were not used there for long hauls even under the excellent road conditions existing. Strengthening of front springs and auxiliary parts would help, he reported, but he favored the use of heavier and sturdier types of trucks. It appeared,

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Mr. Sheahan said, that in purchasing light vehicles the Chinese considered only the financial investment, calculating that the loss would be smaller in the event of trucks being bombed or wrecked in accidents.

Respectfully yours,

Austin C. Brady  
American Consul

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