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PARAPHRASE OF TELEGRAM SENT

TO: American Legation, Guatemala

DATE: November 17, 1939, 7 p.m.

NO.: 52

FROM TREASURY FOR GASTON.

We are told by the Department of State that so far the Washington meeting has been occupied only in preliminary formalities and the work of organizing. Financial and monetary questions are to be considered by one of the three committees that have been constituted, but the work of this committee has not yet really been started and will not reach any phase of important discussion until Monday, the 20th.

The State Department indicates, and we concur, that there is no need for your delegation to be over-anxious concerning the possibility of overlapping in study but forethought should, of course, be taken and any necessary arrangements for coordination be made.

We assume, in accordance with our talk before you left, that the conference at Guatemala will not undertake to commit governments to anything beyond further discussion and study.

WELLES
Acting

EA:FL:MSG

NOV 21 1939

TUESDAY, NOVEMBER

Reserve Bank Here Is Acting As Allies' Agent

N.Y. Herald Tribune
Roosevelt Authorized War
Purchase Payment Chan-
nel Early This Month

From the Herald Tribune Bureau

WASHINGTON, Nov. 20.—An official of the Federal Reserve Board admitted today that the Federal Reserve Bank of New York is acting as the paying agent of the British and French for their purchases in the United States.

Furthermore, the board was authorized to act in this capacity by President Roosevelt after an application had been made by a New York bank to be the paymaster of the Allies.

While the New York bank was not mentioned by name, it is recalled that, during the World War, Morgan & Co. acted not only as the fiscal but as the purchasing agents of the Allies.

The Federal Reserve Bank will have nothing to do with the purchases, but will only disburse sums of money already deposited by the central banks of England and of France on the order of their purchasing missions sent to this country. In this way, the Administration conceives that a more meticulous check can be kept on the cash clauses of the neutrality act, which forbids even ordinary commercial credits of from thirty to ninety days to be extended to belligerents.

In recent years the Bank of England and the Bank of France have kept dollar balances with the Federal Reserve system. From time to time these dollar balances are expected to be augmented with further purchases of dollars by the foreign banks, so that there will always be a balance on hand. In this way there never need be any question about credits, even for so much as an hour, being extended to belligerent governments. The records will in time be open to public perusal under the present plan.

The present system, which has already been inaugurated, has the advantage also of obviating any troubles over the conversion of gold sent over for purchases, since individuals in this country may no longer possess the yellow metal.

The New York Federal Reserve Bank has some of the functions of a central bank for this country. While, technically, it might be called upon by the German Reichsbank to pay out sums of money for wartime purchases, it has not been asked to do so.

When it arranged with Great Britain and France to pay for their purchases in the United States as their agent, it was not considered that any change had been made in policy but only in technique.

The new arrangement has been in effect since shortly after the passage of the neutrality act early in November.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 17, 1939

TO Secretary Morgenthau

FROM Mr. Cochran

At 12:55 this noon, Governor Harrison of the Federal Reserve Bank of New York told me by telephone that late this forenoon an important New York Bank had let him know that the financial editor of the A.P. is to have an article published on Sunday with respect to the implications, political and otherwise, of the Federal Reserve Bank acting as fiscal agent of foreign governments. The A. P. had telephoned to Mr. Sproul's office and had told his secretary that he would like to have any comment from Mr. Sproul upon the article, and desired to know whether Mr. Sproul wished to see it. No reply to the A.P. had yet been given by Mr. Sproul. Governor Harrison told me that he had called me after finding that Under Secretary Hanes was not in the Department.

I told Governor Harrison that I would call him back after thinking the question over, and after talking with Mr. Duffield. Mr. Duffield had left for lunch by the time this conversation was ended, and when I returned from lunch, Mr. Duffield had left his office.

Governor Harrison called me a second time at 3 P.M.. He said that a friend of his in one of the New York banks had seen the article under reference, and was going to send it to the Governor. Mr. Harrison had been told that the article was quite critical, making the point that the New York banks do not like the plan in question; that it constitutes a violation of the Neutrality Act; and that the Germans will protest against it. The Governor did not know how we could stop the publication of the article. He thought it might make the situation worse if the Federal Reserve Bank accepted an advanced copy from the A.P. and assumed any responsibility for editing it. Mr. Harrison planned to phone Governor Ransom about it as a matter of record.

Later this afternoon I spoke with Mr. Duffield. He told me that he had consistently warded off questions in regard to the special accounts with the Federal Reserve Board for purchasing commissions by stating that this was a matter simply between central banks, and that the only place in Washington from which information in regard thereto could be obtained was the Board of Governors of the Federal Reserve System. Mr. Duffield and I discussed the desirability of his talking with Mr. Elliot Thurston in regard to the coming A.P. story. It was decided, however, and after I had talked over the matter with Mrs. Klots, that no action should be taken by us in the absence of the Secretary. If the Federal Reserve Bank asks us to confer before the article appears, Mr. Duffield would see Mr. Thurston. Otherwise, the appearance of the article will be awaited.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 17, 1939

TO Secretary Morgenthau
FROM Mr. Cochran

The Secretary telephoned me from Arizona at 11:00 o'clock this morning. He instructed me to bring myself to date on cablegrams from the Netherlands and Belgium so that I can give him a summary thereof on Monday morning. After our conversation ended, I made arrangements with Mr. Stone in the Office of the Secretary of State to permit me to see cablegrams on Belgium and the Netherlands either this afternoon or Saturday morning.

The Secretary asked me when our friend from London (Mr. Whigham) was coming to Washington. I replied that Mr. Pinsent had let me know that Mr. Whigham was due here today, and that I had remarked that this was fortunate since he could get in touch with the Secretary on Monday. The Secretary asked about Butterworth. He indicated his desire to see Mr. Whigham early next week. Consequently, I telephoned Mr. Pinsent after speaking with the Secretary and, after consultation with Mrs. Klotz, fixed a tentative appointment for 11:30 Monday morning. If this hour must be changed, Mr. Whigham can be reached through Mr. Pinsent or at the Carlton Hotel.



TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE November 17, 1939

TO Secretary Morgenthau
FROM Mr. Cochran

Upon reading Cablegram #51 from Guatemala City this morning, I went to Mr. Hanes' office and learned that he would not be in until Monday. Consequently, I took the responsibility of seeing that an answer went out to the final paragraph of Mr. Gaston's cablegram.

Since no one in this Department was familiar with the developments of the Pan-American Consultative Committee Meetings in Washington, I spoke with Dr. Feis and asked that he prepare a cablegram to Guatemala, bringing our delegates to date. He dictated a message to his secretary, which mine took down, and which Dr. White and I then examined. I telephoned back a slightly revised text. It was understood that this should be sent out. If Acting Secretary Welles made any change therein, Dr. Feis agreed to telephone me before dispatching the cablegram. He also promised to send me copies of the outgoing message.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 17, 1939

TO Secretary Morgenthau
 FROM Mr. Cochran

The foreign exchange market experienced another dull day. Yesterday sterling closed in New York at 3.93-1/8. This morning it was quoted at 3.92-13/16 in Amsterdam, and later in the day at 3.92-9/16. At the opening in New York, the sterling rate was 3.91-3/4. Some selling of spot sterling by the Japanese depressed the rate to 3.89-3/8 early in the morning. After this selling was absorbed, the rate recovered to 3.90-1/4, but about noon it receded to 3.89-1/2. During the afternoon the quotation moved higher and subsequently closed at 3.90-1/4.

The Japanese were also sellers of forwards, centering their offerings on one month's sterling. Under pressure of these offerings, the discount increased to 2-3/4¢ per pound, equal to a yield of 8-7/16% per annum. One month sterling subsequently recovered to 2-1/2¢ per pound discount, equal to 7-11/16% per annum. The discount on three months' sterling increased to 6-3/8¢ per pound, equal to 6-1/2% per annum. The actual business done in forward sterling was very small.

Sales of spot sterling by the four reporting banks in New York totaled \$381,000 from the following sources:

By commercial concerns.....	\$ 70,000
By foreign banks (Far East, Europe and South America)....	\$ 311,000
Total.....	\$ 381,000

Purchases of spot sterling amounted to \$443,000, as indicated below:

By commercial concerns.....	\$ 352,000
By foreign banks (South America, Far East and Europe)....	\$ 91,000
Total.....	\$ 443,000

Of the four reporting banks, the Guaranty Trust Company was the only one that sold sterling to the British Control. It sold a total of \$ 25,000 at the official rate of 4.02. All of this sterling represented cotton bills.

The Federal Reserve Bank purchased 180,000 Danish kroner for the Bank of Latvia.

The other important currencies closed as follows:

French francs	.0221-1/8
Guilders	.5309
Swiss francs	.2245-1/2
Belgas	.1644
Canadian dollars	12-9/16% discount

CONFIDENTIAL

The discount on the Cuban peso narrowed from 14-1/2% to 13-1/2%.

We purchased the following amounts of gold from the earmarked accounts of the Banks indicated:

\$2,500,000	from the Netherlands Bank
<u>1,010,000</u>	from the National Bank of Belgium
<u>\$3,510,000</u>	Total

During the period between August 30 and November 15 the earmarked gold of the following banks at the Federal Reserve Bank of New York decreased as indicated:

Bank of France	\$ 70,000,000
Netherlands Bank	63,000,000
Bank of Sweden	43,000,000
National Bank of Switzerland	34,000,000
National Bank of Belgium	<u>31,000,000</u>
Total	<u>\$241,000,000</u>

From November 1 to November 15, the Bank of England's balance with the Federal Reserve Bank of New York decreased \$25,000,000.

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

\$ 2,241,000 from England, shipped by the Bank of England, consigned to the Federal Reserve Bank of New York, for account of the Swiss National Bank, the disposition of which is unknown to us at the present time.

507,000 from England, shipped by Kleinwort Sons & Co., consigned to Goldman Sachs & Co., New York, for sale to the U. S. Assay Office at New York.

99,000 from England, shipped by the Westminster Bank, consigned to Chase National Bank of New York, for sale to the U. S. Assay Office at New York.

766,000 from India, shipped by the Chartered Bank of India, Australia and China, consigned to the Chartered Bank of India, Australia and China, New York, for sale to the U. S. Assay Office at New York.

411,000 from India, shipped by the National Bank of India, consigned to the Chase National Bank of New York at San Francisco, for sale to the U. S. Mint at San Francisco.

407,000 from Canada, shipped by Johnson Mathey & Co., consigned to Johnson Mathey & Co., New York, for sale to the U. S. Assay Office at New York.

\$ 4,431,000 Total

The equivalent of today's London spot silver price was 41.25¢ and the forward price 41.08¢. Handy and Harman's price for foreign silver was unchanged at 34-3/4¢. The Treasury's price was also unchanged at 35¢.

In New York we made four purchases of silver totaling 275,000 ounces under the Silver Purchase Act.

CONFIDENTIAL

On November 16 the Bank of Manhattan inquired of the Federal Reserve Bank of New York if it was permissible, under the Neutrality Act, to ship to belligerent countries bank notes of such countries, the title to which is to be retained by the Bank of Manhattan until the amount of the currency is credited to its account by the bank to which the currency is shipped. This inquiry was referred to me, and I submitted it to Mr. Bernatein who stated that this question might be one for consideration by the Customs Division. This morning Mr. Bernatein called and informed me that Mr. Dwan of our Legal Department, who handles customs matters, would call the Federal Reserve Bank direct regarding the inquiry. Later in the day, Mr. Lang of the Federal Reserve Bank of New York called Mr. Dietrich and informed him that a tentative decision rendered by Mr. Dwan in this matter was that such a shipment of currency is considered an "article" under Section 2 (c) of the Neutrality Act. Mr. Dwan also informed Mr. Lang that if an official decision was desired, he would be glad to take the matter up.

Dr. Randolph Burgess telephoned me at 12:25 today. He stated that Mr. Straesse of the Credit Suisse would come to Washington Sunday night and would be in town on Monday and Tuesday. Mr. Straesse is to telephone me at 10:30 on Monday morning to inquire in regard to an appointment with the Secretary. Dr. Burgess asked me to assist Mr. Straesse to get in touch with Governor Ransom and other officials in Washington who might be interested in talking with the Swiss visitor.

I talked with Mr. Pinsent, Financial Counselor of the British Embassy, this morning by telephone. He stated that he had talked with Mr. Hackworth of the State Department two days ago after he had reported to me two questions which were up under the Neutrality Act. The first of these was that of the attempted sale by the British Consul General in New York of a draft drawn on the British Foreign Office to the Chase Bank, the latter requiring a clearance from the State Department lest this contravene the Neutrality Act. The second question arose from the doubt of the Guaranty Trust as to whether British Banks officially authorized to deal in foreign exchange do not thereby acquire an official character which makes it impossible to have private credit dealings with them under the Neutrality Act. Mr. Pinsent stated that Mr. Hackworth had promised to give him some information yesterday on these points. Having not heard from him so far, Mr. Pinsent telephoned Mr. Hackworth this forenoon, but was informed that the latter was in conference. Mr. Pinsent is particularly perturbed in regard to the question raised by the Guaranty Trust. I obtained from the State Department this morning several copies of their press release #597 providing an analysis of requirements of Section 2 of the Neutrality Act. I have sent Mr. Pinsent one copy, and have given three to our Legal Division.



CONFIDENTIAL



TREASURY DEPARTMENT
WASHINGTON

OFFICE OF
COMMISSIONER OF INTERNAL REVENUE

ADDRESS REPLY TO
COMMISSIONER OF INTERNAL REVENUE
AND REFER TO

IT:P:CA
CAA

November 17, 1939.

REPORT FOR SECRETARY MORGENTHAU:

In regard to closing agreements which have been requested, the following applies:

De Laval Steam Turbines Company

No word has been received from the Navy Department. From telephone inquiries made by a representative of the company, it appears that the company is prosecuting its request before the Navy Department for an expression of opinion.

The Midvale Company

There have been no further developments. Under the understanding had with the company it is presumed that the Navy Department is actively engaged in making its investigation preparatory to making a certificate.

New matters developed as follows:

Camden Forge Company, Camden, New Jersey

This company filed a request for a closing agreement; see report of interview of November 13, 1939.

Consolidated Aircraft Corporation, San Diego, California

This is the same concern as referred to in earlier reports as having filed a request for a closing agreement. A new request

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was filed during the week grounded upon conditions made in a bid filed with the Navy Department on October 18, 1939. This matter is receiving active consideration by the Treasury personnel.

Inquiries for information:

A request for information was made orally by a representative of Walter Kidde and Company, Incorporated, Mills Building, Washington, D. C.

J. P. Hebring
Commissioner

RECEIVED
OCT 20 1939
BUREAU OF INVESTIGATION
U. S. DEPARTMENT OF JUSTICE

FEDERAL RESERVE BANK
OF NEW YORK

H. M. Cochran

OFFICE CORRESPONDENCE

DATE November 17, 1939.TO CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.FROM L. W. Knoke

Mr. Bolton called at 1:25 p.m. He understood that difficulties had developed in getting shipments of planes already bought and paid for (Lockheed and North American contracts) cleared through the customs. Would I please find out what kind of papers were required? As far as he could make out the Custom House insisted on some form of guarantee to the effect that the shipments were not made in contravention of the Neutrality Act. They were naturally most anxious to get this thing settled in a hurry. Once they knew what was needed for clearing purposes they would, of course, wish to rearrange future contracts.

The British air attache Group Captain Perie was lending a hand in New York to try to straighten out the problem.

RECEIVED
NOV 18 1939

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin

DATE: November 17, 1939, 9 a.m.

NO.: 2069

Censorship in Germany of economic information has been extended further ~~by~~ ^{by} a confidential instruction received from the Newspaper and Periodical wholesalers' Federation, which forbids dissemination to the public of all printed matter, with the exception of current periodicals which have appeared since the first of October, containing illustrations, tables or texts pertaining to the location, sales or production figures, number of employees, capacity or stocks of public utility plants, branches of industry or individual industrial plants, from August 1, 1914 to January 1, 1919, or since the beginning of 1933; also it prohibits the loaning, selling or exhibiting of economic sketches or economic charts, city maps indicating the layout of public utilities or industrial plants, posters disclosing arrangements of industries, or maps of industries or transportation.

In addition to the military significance of this regulation, which is obvious, it would also seem to be intended for the preservation of the morale of the public in preventing them from comparing the World War economic situation with that existing during the present conflict. An order from the president of the Reich Press Chamber (an adjunct

of

-2-

of the Ministry of Propaganda) is said to be the base of this order of the Federation of Newspaper and Periodical wholesalers.

This telegram should be repeated to the Treasury Department.

KIRK

RECEIVED

NOV 28 1954

EA:MSG

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin

NO.: 2070

DATE: November 17, 1939, 10 a.m.

According to the just published statement of the German Treasury, the Reich's short-term debt increased 1,994,000,000 marks during August, which was approximately double the rate of short-term borrowing during the preceding four months of the present fiscal year. On August 31 the total short-term debt was 12,319,000,000 marks of which some 9,087,000,000 marks consisted of so-called floating debt (Treasury bills and loans from the Reichsbank) 3,124,000,000 marks of new finance plan tax certificates and 108,000,000 marks of other tax certificates. No figures for the funded debt have been published since July 31 of this year when it stood at 24,957,000,000 marks.

If we assume that there was a private issuance of some of the Government bonds to insurance and savings institutions during the month of August, the Reich's total disclosed debt, short and long term, amounted, on August 31, to between 37,000,000,000 and 38,000,000,000 Reichsmarks, presumably. To this we should add the Reich's hidden debt, estimates of which (mainly sonderwechsel) range, in Reichsmarks, from ten to eighteen billion.

Apparently the Reichsbank was the ultimate source of the greatest part of the short-term funds which were

borrowed

borrowed during August by the Reich. If we assume, however, that the August 31 short-term debt statement was correct, the Government did not borrow to quite as great an extent (contrary to what many of the financial authorities thought at first) from the Reichsbank. At first these financial observers believed that the discount of the new Government paper was largely responsible for the rise in the Reichsbank bill portfolio amounting to 1.8 billion marks; however, issuance of such paper during August, as shown by the debt statement, was only slightly more than one billion marks.

In August the Reich took increased advantage of the provision in the new Reichsbank law of June 15 removing the one hundred million mark limitation on direct government borrowing from the institution. During the month it increased government operating credit with the Reichsbank by a further 126 million marks to a new high of 680 million marks.

The amount of new finance plan tax certificates issued in August was 845 million marks the largest amount issued in any month since the adoption of the plan. If tax certificates were issued to the same extent during the last two months that this plan was in force the total amount issued when this plan was terminated on November 1 was well over 4-1/2 billion marks.

The

-3-

The following information has until now been published concerning the funds available for Reich expenditures during the first six months of the present fiscal year.

Tax revenue April 1 to September 30 11,399 million marks.

Increase in floating debt April 1 to August 31 2,552 million marks.

Tax certificates issued April 1 to August 31 3,125 million marks.

Increase in funded debt April 1 to June 30 725 million marks.

17,801 million marks is the total amount.

Figures which have not been published yet for the present 6-month period are outlined as follows: There was likely a larger increase in the floating debt during the month of September, ^{than in preceding months} due to the fact that the army was granted authority for the issuance of promissory notes and also the Reich was able to borrow from the provisional central bank (the Reichskreditkasse) which has been set up in the part of Poland which is occupied by German troops. Tax certificates,--the amount of which is another of the figures not yet published; 750 million reichsmarks was the average monthly amount issued from May to and including August. Another figure not yet published is the amount of increase in the funded debt from July through September; 725 million marks was the amount of increase for the first 3 months of this fiscal

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fiscal year.

It would appear from the data that is available, however, that the Reich's expenditures totaled more than 21 billion reichsmarks in the first 6 months of this fiscal year, which figure compares with an estimate giving total expenditures of the Central Gov't. as less than 30 billion marks during the whole fiscal year 1938-1939.

Further information has not been made public concerning the Reich's plans for the financing of its war expenditures. However, banking groups believe that in the first of next year a large government loan will be floated. The state railways loan of recent date is believed to have been oversubscribed to a substantial extent. Possibly^{it} is the wish of the Reich to make good use of the present market situation which is favorable.

This message is to be repeated to the Treasury Department.

KIRK

RECEIVED

SEP 12 1939

EA:MSG
COMMUNICATIONS SECTION
U. S. DEPARTMENT OF THE TREASURY

BSM

GRAY

London

Dated November 17, 1939

Rec'd 12:50 P. M.

Secretary of State,
Washington.

2389, November 17, 6 p. m.

FOR TREASURY.

1. In spite of the increase in the weekly Treasury bill offering to £65 million this week the rate moved only from last week's £1.3s.4.39d. to £1.3s.8.01d. This is not surprising in view of the plentiful supplies of credit which have been evident and which were reflected in the Bank of England's return reported in the third section of my 2378 of November 16, 6 p. m. Applications totalled £105,830,000 and the lowest bidders (syndicate) were allotted 49 percent of their tenders.

2. A further increase in the cost of living index of 2 1/2 percent from 165 to 169 on the 31st of October (July 1914 equals 100) compares with a rise in the first month of the war of 6 percent as reported in my 2167 of October 25. The index for food alone to the end of October was also up 2 1/2 percent standing at 154, this increase being influenced by the increase in bacon prices

and

hsm -2- No. 2389, November 17, 6 p. m., from London

and the largely seasonal increase in egg prices. The butter price was also up but it is pointed out in a Food Ministry memorandum that by the substitution of, for example, margarine for butter and fish for bacon the housewife need not necessarily have spent more on the family budget.

Meanwhile the Board of Trade's index of wholesale prices rose again from 105.2 for September to 110.7 for October (1930 equals 100) as compared with 98.1 for August. Wholesale food prices rose to 109.2 as compared with 100.7 in September and 90.4 in August. The same tendency is evident as in September when basic materials and intermediate products largely imported rose more heavily than manufactured articles while building materials rose only from 107.3 to 107.7.

Though the upward trend of prices in October was less drastic than in September the whole question of the price level continues to give rise to anxiety as to the possibility of a vicious spiral in spite of the passage of the prices of goods act under which a list of products will shortly be issued for which the charging of prices higher than are warranted by increased costs will become a punishable offense.

3. The recovery in the gilt-edged market brought the FINANCIAL TIMES index to a record war-period level yesterday, while

hsm -3- No. 2389, November 17, 5 p. m., from London

while the FINANCIAL NEWS ordinary share index is still below the peak of November 7 and has recovered less from the low of the last week in November.

The FINANCIAL NEWS index for ordinary shares (July 1, 1935 equals 100) which stood at 80 on August 15 and touched low at 66.4 in the last week of September had recovered to a war-period high of 75.4 on November 7 and subsequently declined to 73.6 on November 13, but has since shown continuous improvement to date, the index for November 16 being 74.4. The FINANCIAL TIMES index of Government securities (November 15, 1926 equals 100) which stood at 103 on August 15 and remained at the low of 99.4 during the period when the fixed minimum prices were effective, yesterday reached a high for the war period of 104.3 which is one point above the level on November 6 when it was 104.2 after which it fell by November 10 to 103.4 recovering steadily since that date.

KENNEDY

MPD

NOV 17 1941

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CJ

GRAY

PARIS

Dated November 17, 1939

Rec'd 5:47 p.m.

Secretary of State,
Washington.

2779, November 17, 6 p.m. (SECTION ONE)
FOR THE TREASURY.

The promised decree "simplifying" collection of the salaries' tax (our telegrams Nos. 1872, September 9, 1 p.m., and 2632, November 1, 7 p.m.) was published in the Journal Officiel of today. In addition to "simplifying" procedure the general rate was raised from 4% to 5% the special rate for non-mobilized men remaining at the 15% originally fixed. As indicated the previously existing 2% rate will be collected until January 1, 1940; the special 15% tax, however, starts to run from November 1 though collection is deferred until receipt of notice. There are certain specified exemptions to the 15% tax (such as for men between the ages of eighteen and forty-nine not yet called to the colors or rejected for physical reasons, fathers of six children, etc.) and it is collected only on that portion of salary or professional income in excess of 7000 francs with additional exemptions of 1000 francs for each child.

(END OF SECTION ONE)

BULLITT

EMB

CJ

GRAY

PARIS

Dated November 17, 1939

Rec'd 5:55 p.m.

Secretary of State,
Washington.

2779, November 17, 6 p.m. (SECTION TWO)

Further decrees increase the tax on owners of radio sets from 50 francs to 90 francs, domestic letter postage from 90 centimes to 6 francs, applicable after December 1 and foreign letter postage from 2.25 francs to 2.50 francs. Rates for telephone communications are increased from 85 centimes to 1 franc for local calls and from 1.70 to 2 francs for suburban calls. These increases may, however, be termed minor ones.

As scheduled (our telegram 2768, November 16, 4 p.m.) the 1940 civil budget was presented to the Chamber Finance Commission this afternoon. It is expected that the first quarter's military estimates will not be ready for presentation until about the middle of December.

BULLITT

EMB

PAP

GRAY

PARIS

Dated November 17, 1939

Rec'd 7:10 p.m.

Secretary of State

Washington

2779, November 17, 6 p.m. (SECTION THREE).

The security market was firm today and most rente issues advanced fractionally. Official exchange rates were unchanged.

Deposits in ordinary (private) savings banks during the first half of October totalled 91,500,000 francs and withdrawals 32,100,000 thus showing the expected marked improvement over the previous month. Since January 1 withdrawals from such banks exceeded deposits by approximately 480,000,000 francs.

The weekly statement of the Swiss National Bank of November 15 shows a reduction in gold reserves of 41.2 francs to 2,312,100,000. Foreign exchange holdings again advanced by 24,600,000 to 341,000,000. Note circulation shows a decrease of 26,100,000 to 1,975,400,000. Sight obligations are up 11,000,000 to 863,200,000. Gold coverage dropped from 82.46% to 81.45%.

Dutch trade statistics for the first ten months of the
year

PAP -2- 2779, November 17, 6 p.m. (SECTION THREE) from Paris
year show imports totaling 1,213,000,000 florins as against
1,119,000,000 for the same period the previous year; ex-
ports were 823 as against 865 million. Indirect tax receipts
for the first ten months of this year were 306,200,000
as against 336,700,000 the previous year.

(END OF MESSAGE),

BULLITT

EMB

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NOV 18 1933

TREASURY DEPARTMENT
Office of the Secretary
Federal Reserve to the Secretary

November 17, 1939

My dear Mr. Frank:

In the absence of Secretary Morgenthau, I am acknowledging receipt of your letter of November 16th with which you enclose answers to certain questions which were raised at the recent meeting of the Informal Committee for Economic Assistance to South America.

I shall be glad to bring this material to his attention as soon as he returns to the office.

Sincerely yours,

(Signed) H. S. Klotz

H. S. Klotz
Private Secretary

Hon. Jerome N. Frank, Chairman,
Securities and Exchange Commission,
Washington, D. C.

MEMORANDUM

November 16, 1939

TO: Informal Committee for Economic Assistance to South America.

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

SUBJECT: Answers to questions asked at recent conference with Informal Committee for Economic Assistance to South America.

1. The following is in answer to certain questions as to the statutory powers of the SEC with respect to defaulted foreign bonds:

(a) Registration of Stamped Bonds Issued in the Adjustment of Foreign Debts.

The circumstances of each case govern the necessity for registration. The stamped bond is a new security and the stamping constitutes an exchange of the outstanding bond for the stamped bond. Section 3(a)(9) of the Securities Act provides for exemption from registration, if the security is exchanged by the issuer with its existing security holders exclusively, where no commission is paid for soliciting the exchange. The examination by the Commission of registration statements covering securities issued in readjustment is directed to the adequacy of disclosure as to the new security and the position of the issuer. The Commission is not empowered to pass on the fairness or merits of readjustment plans or securities issued in connection therewith.

(b) The Registration of Certificates of Deposit issued by a committee.

Certificates of deposit of securities of a new issuer (the Protective Committee) must be registered. The information required in registration relates, generally speaking, to the Committee issuing the certificates of deposit, its deposit agreement, the trustee, the original issuer, the plan of adjustment, if one has been drawn up when the certificates of deposit are to be issued, and a new issuer, if there is to be one (as when a government issues securities in exchange for bonds of a political subdivision).

It should be noted that in the adjustment of foreign defaults, the deposit of securities and the issuance of certificates of deposit has generally not been used. A committee seeking neither deposits nor powers of attorney need not register. In some circumstances, a committee seeking powers of attorney need not register.

(c) Statutory Powers of the SEC as to Negotiations. The Commission has no power to negotiate concerning the adjustment of defaulted foreign bonds or the terms of new securities to be issued in connection therewith.

2. The facilities of the Commission for supplying your Committee with information are as follows:

(a) Information Filed in Registration Statements. The Commission has a substantial amount of information with respect to certain Central and South American governments which has been filed in registration statements under the Securities Act of 1933 and the Securities Exchange Act of 1934. There are in our files certain papers and documents which may not be generally public.

(b) Protective Committee Study. A study of Protective Committees for Holders of Defaulted Foreign Bonds was conducted by the SEC for several years, and an elaborate printed Report (of 833 pages) on the subject was published by the Commission in 1937. I am sending you with this letter, a copy thereof. There is much unpublished information collected in connection with that Report, and several of the technicians who developed the material for that Report are still on the staff.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

NO.: 2783

DATE: November 18, 1939, 1 p.m.

STRICTLY CONFIDENTIAL FOR THE ACTING SECRETARY.

It has been announced by the French and British Governments that they have appointed Jean Monnet to head the whole organization which they announced last night had been established for cooperation during the war. Monnet will have his main office in London.

There is not much more to add with reference to this subject since I have made such full reports by letters and telegrams during recent months. There is still one point which the British and French have not yet settled and that is the mechanism for making purchases in the United States.

There is now being tentatively considered (in accordance with the opinions which were expressed in your telegram no. 1378 of November 10, 6 p.m.) a plan to establish a joint British-French board which would handle synchronization between the purchasing missions of Great Britain and France and synchronization with the United States Government. The chairman of this board would be Arthur Purvis, who is Director General of Purchases of Great Britain's

mission

-2-

mission in the United States; the head of the French Mission for distribution will be the vice chairman.

It is considered by both the French and the British Governments that it is proper for a British subject to be appointed as the chairman of the organization in the United States since Monnet is going to be at the head of the entire organization in London. However, before Daladier consents to this arrangement, he is very anxious to find out whether the United States Government will consider Purvis persona grata in the highest degree. I have been asked by Daladier to determine, most confidentially and most urgently, whether the same kind of cooperation that was extended last winter to Monnet will be accorded to Purvis. (Daladier is still deeply grateful for the way in which Monnet was treated.)

Since no decision will be made with reference to the purchasing agencies in the United States until after your reply has been received, I trust that it will be possible for you to send me as soon as possible a strictly confidential answer to Daladier's inquiry.

It is Monnet's plan to go from Paris to London tomorrow for the purpose of setting up the joint organization. He probably will go to the United States in the early part of December for brief talks. (END MESSAGE)

BULLITT

EA:EB

TREASURY DEPARTMENT

29

INTER OFFICE COMMUNICATION

DATE November 18, 1939

TO Mr. White

FROM Miss Kistler

Subject: United States Exports in October

Preliminary data of our exports of United States merchandise during October show the following:

Our exports in October were the highest in two years. We exported \$323 million, which is 14 percent more than in the previous month, and 18 percent more than in October of last year.

Geographical distribution of our exports:

1. Shipments rose to all areas outside what is known as the combat area of Europe. Exports to the United Kingdom were 14 percent lower than in September 1939, and 7 percent less than in October 1938. Exports to France continue at the level of a year ago.
2. Exports to Scandinavia showed the largest increase (86 percent over October 1938 and 67 percent over September 1939).
3. A startling increase occurred in our exports to the U.S.S.R. These were three times as large as in September and one and one-half times as large as the monthly average for the first ten months of this year.
4. Shipments to Latin America also rose sharply. Exports to our seven largest Latin American customers -- Cuba, Mexico, Argentina, Brazil, Colombia, Chile and Venezuela -- totaled \$48 million in October, or \$9 million more than in the previous month, and \$15 million more than in October 1938.
5. The rise in our exports to Canada and Japan was continued. Exports to Japan have increased by almost 100 percent since August 1939 and exports of Canada by 42 percent.

Changes in exports by leading Commodities:

1. Our cotton exports in October were the largest since November 1936 and were 92 percent higher than in October of last year. The United Kingdom accounted for one-third of the cotton shipped abroad in October, and France and Japan for one-fourth.

2. Exports of leaf tobacco were 83 percent lower than a year ago and 58 percent below the September figure.
3. Coal exports continue two-thirds again as high as last year, although shipments of anthracite coal were not maintained in October at the level of the preceding month.
4. Wheat, meat products, and fresh fruits are not being shipped abroad in as large a volume as a year ago. The recently announced prohibition of imports of fresh apples and pears into the United Kingdom and France is estimated to cost our fruit growers \$15 million during the next crop year.
5. Exports of copper, lumber, and aircraft are also smaller than last year, although the decline in aircraft exports may be expected to be temporary.
6. Iron and steel products, metal working machinery, automobiles and parts, and preserved fruits are being exported in larger quantities than last year. Exports of canned fruit were only slightly lower than in September, when they reached a record high for any month in recent years.

United States Domestic Exports by Countries

(In millions of dollars)

	<u>October 1939</u>	<u>October 1938 1/</u>	<u>Percentage</u> <u>Increase</u>	<u>September 1939</u>
	323.3	274.1	18	284.0
Europe:				
United Kingdom	51.9	56.1	- 7	60.0
France	12.4	12.3	1	12.1
Sweden	15.8	8.7	82	8.1
Norway	5.9	2.3	157	4.2
U.S.S.R.	5.5	3.0	83	1.8
Denmark	3.0	2.3	30	2.5
Latin America:				
Canada	10.3	6.6	56	9.2
Brazil	8.5	5.4	57	6.0
Mexico	8.4	4.5	87	5.5
Argentina	6.9	6.0	15	4.9
Venezuela	5.6	3.4	65	5.0
Colombia	4.7	3.2	47	4.1
Netherlands West Indies	3.7	4.1	- 10	4.4
Chile	2.7	2.1	29	2.1
Canada	59.6	41.9	42	50.2
Japan	23.3	19.5	19	19.3

Bureau of Economic Analysis, Division of Monetary Research

November 18, 1939

Exports by countries include reexports.

United States Exports by Commodities

(In millions of dollars)

	<u>October 1939</u>	<u>October 1938</u>	<u>Percentage Increase</u>	<u>September 1939</u>
Cotton	46.2	24.1	92	34.9
Iron and steel scrap	5.6	3.2	75	5.0
	9.3	5.7	63	9.6
Iron and steel semi-manufactures	16.2	10.5	54	14.8
Mill manufactures	6.2	4.2	48	5.6
Canned fruits	10.8	7.7	40	6.7
Working machinery	9.6	7.8	22	10.0
Petroleum products	36.2	32.2	12	35.9
Automobile parts & accessories	18.9	17.3	9	12.5
Agricultural machinery	9.5	9.2	3	8.1
Wool	6.0	7.6	- 21	7.8
Wheat and wheat flour	3.0	4.0	- 25	3.4
Soft	3.0	4.9	- 39	8.1
Fruits	2.9	5.5	- 47	2.2
Cocoa	4.9	29.5 ^{1/}	- 83	8.4

Bureau of Economic Warfare, Division of Monetary Research

November 18, 1939

Not strictly comparable to figures given for the other two months.

HSM

PLAIN

London

Dated November 18, 1939

Rec'd 8:15 a. m.

Secretary of State,
Washington.

2395, November 18.

FOR TREASURY.

The October overseas trade returns indicate some recovery since September, a movement which was doubtless gaining momentum, especially in the second half of the month. Exports improved by 7 per cent while imports rose by 24 per cent as compared with September with a resulting increase in the surplus of imports from £24 1/2 million in September to £35.2 million. Exports of coal showed the largest increase but all the three main categories also expanded, manufactures by 4 per cent, food et cetera by 5 per cent, and raw materials, influenced by coal, by 35 per cent. A further increase in both imports and exports may be expected this month.

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NOV 18 1939

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GRAY

PARIS

Dated November 18, 1939

Rec'd 3:22 p.m.

34

Secretary of State,
Washington.

2785, November 18, 2 p.m.

FOR THE TREASURY:

The entire French press headlines the joint declaration of Daladier and Chamberlain yesterday on the allies joint economic efforts in the war and synchronization of their purchasing, transport and similar problems. Like their British counterparts, French commentators exult in pointing out that comparable measures of cooperation were not reached in the last war until three years after the opening gun and in emphasizing the wasteful competition in transportation and foreign purchasing which will thus be avoided. The declaration and the joint Anglo-French coordinating organizations set up are, of course, played up in part as an answer to German efforts to separate the two allies and recent prophetic propaganda of discord between them on foreign purchasing and the wasteful bidding against each other which would ensue - the implication being that France would receive decidedly the short end of it. The present concrete evidence of

"complete

-2- #2785, November 18, 2 p.m., from Paris

"complete solidarity" therefore is hailed as full answer to the German radio.

(END SECTION ONE)

BULLITT

CSB

Paraphrase of Sections Two, Three, Four,
Five, Six and Seven of No. 2785 from
Paris, November 18, 1939.

Today we had lunch with Arragon (of Morgans) and Rueff at the home of Arragon. Rueff made the remark that although the "Franco-British accord" mentioned above represented a "war", there are still many details which must be worked out. He stated that nothing final had been drawn up in the conversations between Reynaud and Sir John Simon when Reynaud visited London (reference is made to our telegram no. 2768 of November 16, 4 p.m.) although a general understanding was reached with reference to the manner in which British army expenditures in France would be covered in francs and it was also generally agreed that French balances of sterling in London would be used to pay for French purchases in the British Empire. (He confirmed the report that the greater part of "repatriated" French sterling capital had been allowed to remain in London.) We have been informed by other sources that it is possible that the conversations were not in all respects as cordial as was implied by Couve de Murville.

We were told by Rueff that although it had been announced by Reynaud (our telegram no. 2707 of November 9, 7 p.m.) that since the beginning of the war one billion more francs had been repatriated than had been paid out
abroad

-2-

abroad, this small gain applied only to capital which had actually been handed over to the Foreign Exchange Office. He stated that 25 billion francs was the total amount of French "repatriations" to date since the beginning of the war. Between five and six billion of this amount was in cash in foreign exchange and approximately the same amount was in the form of foreign exchange holdings in accounts in French banks, which is considered as repatriation (see our telegram number 2340 of October 5, 6 p.m., and number 2394 of October 9, 7p.m.). The remainder of the 25 billion francs was made up of foreign securities which have either been physically transferred to France or are accounts of banks in France, he said. Rueff also said that since the beginning of the war the French have made total payments in dollars of approximately ten billion francs for airlines etc. Arragon said that it seemed to him that the billion francs of foreign exchange gained by Rueff (mentioned above) was surprisingly small since 50 percent of the gain was accounted for by the half billion francs of foreign exchange over and above remittances abroad which had been turned over to the Foreign Exchange Office by Morgan alone, in spite of foreign exchange purchases for oil companies and other importers. With reference to this, Rueff remarked that it was unfortunate that the position had been taken by a number of banks

banks on behalf of some of their clients who held dollars, that it was enough if they merely delivered to the client the franc equivalent of his dollar holdings while they took advantage of the opportunity to liquidate their own sterling balances and delivered the equivalent sterling to the Foreign Exchange Office instead of delivering dollars. He stated that it was his plan to instruct the banks that this practice was a violation of the spirit of the regulations because naturally France is more anxious to obtain dollars than sterling and most of the capital which has been "repatriated" has, unfortunately, been sterling.* Rueff also said that there has been a continuation of the capital inflow since the time limit was extended for basing declarations of foreign exchange holdings to December 31 (mentioned in our telegram no. 2765 of November 15, 7 p.m.).

Confidentially, it is our understanding in this connection that an especially fast one was pulled by Lazard: Lazard gave to his French clients who held dollars or dollar securities which they wanted to repatriate the franc equivalent; then he bought Dutch florins with the dollars; then he bought French Mendelssohn loan issues at about sixty with the Dutch florins; then he was able to make a neat profit by exchanging these Mendelssohn loan issues (for which there is a very poor market) for national

* See p. 3a

-3a-

*(He was assured by Arragon that Morgan's had never engaged in that practice since they realized that it was contrary to the spirit of the regulations.)

-4-

national defense bonds at par, having previously made an agreement for this exchange with the French Treasury.

It was remarked by Rueff that he thought that next week a ruling would be issued with reference to the matter of exporters invoicing in francs and the assurance which was originally required that the francs turned over in payment are "legally transferable". (Reference is made to our telegram no. 2524 of October 19, 6 p.m. and no. 2587 of October 26, 7 p.m.) He stated that procedure would be greatly "simplified" by the new ruling.

It is our understanding that Rueff is also considering making a change in the technical requirement mentioned in our telegram no. 2587 of October 26, 7 p.m. that foreign residents in France (including Americans) must bring their entire income back to France from abroad. While so far as we know, no attempt has been made to enforce this requirement since the French authorities have been very "liberal" in their treatment of Americans, and while it appears that the French authorities are fully aware of the loss in foreign exchange which will probably result because of the departure of wealthy foreign residents (and also of the problems which will confront lawyers in advising their clients), they have not previously felt that it would be advisable to change the requirement.

(END SECTION SEVEN)

EA:EB

RFP

GRAY

41

Paris

Dated November 18, 1939

Rec'd 6:55 p.m.

Secretary of State

Washington

2785, November 18, 2 p.m. (SECTION EIGHT).

At the last moment Reynaud's budget was revised upward to include substantial outlays such as soldiers' family allowances, indemnities and maintenance cost for refugees and the railway deficit (hitherto covered by loan issues). The total is therefore some 79,000,000,000 francs and, as indicated, all purely military expenditures are excluded (as against some 68,500,000,000 francs for the ordinary budget of 1939). The additional revenue required--for this civil budget is allegedly balanced-- is expected to be derived largely from the new increase from 4% to 5% in the salaries tax (our telegram No. 2779, November 17, 6 p.m.), the 15% special salary tax on unmobilized men, retention by employers of 40% of overtime pay for the solidarity fund and excess war profits taxes.

(END SECTION EIGHT).

BULLITT

NPL

RFP

GRAY

Paris

Dated November 18, 1939

Rec'd 7 p.m.

Secretary of State

Washington

2785, November 18, 2 p.m. (SECTION NINE)

Members of the Chamber Finance Commission following Reynaud's description of his budget took occasion to voice some criticism of some of the obvious important hindrances to the country's economic revival which we have emphasized in previous telegrams: unnecessary over-requisitioning by the military, retention in active service of too many over-age reserve officers which would be more useful in civil employment, delays in furnishing raw materials to industry and delays in payment of military requisitions.

A decree published in the JOURNAL OFFICIAL today suspends until the end of the war (one) the provisions of Article Three of the Decree of November 12, 1938 (see page 3 of enclosure No. 1 to despatch 3272 of November 15, 1938) which limited the levy under the cedular tax and the general income tax to 50% of the gross revenue, and (two) the provisions of the last paragraph of Article 117 of the general code of direct technicalities limiting to 32% the effective rate of the general income tax in relation

to

RFP -2- #2785, November 18, 2 p.m. (SECTION NINE) from Paris
to net global revenue.

(END OF MESSAGE)

BULLITT

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U.S. DEPARTMENT OF JUSTICE

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

44

DATE November 18, 1939

TO Secretary Morgenthau

FROM

Mr. Haas *JA*

The Works Progress Administration has revised its statistics on the number of workers employed to those given on the attached tables and chart. The total for the week ended November 8, 1939 was 1,930,000 persons, an increase of 29,000 from the preceding week, which, in turn, was practically unchanged from the figure for October 25.

Attachments

WORKS PROGRESS ADMINISTRATION
 Number of Workers Employed - Weekly
 United States

45

Week Ending 1939	Number of Workers (In thousands)
March 1	3,032
March 8	3,009
March 15	3,015
March 22	3,009
March 29	2,980
April 5	2,906
April 12	2,761
April 19	2,752
April 26	2,751
May 3	2,736
May 10	2,660
May 17	2,623
May 24	2,609
May 31	2,600
June 7	2,593
June 14	2,590
June 21	2,578
June 28	2,551
July 5	2,388
July 12	2,289
July 19	2,250
July 26	2,200
August 2	2,082
August 9	2,054
August 16	1,977
August 23	1,898
August 30	1,842
September 6	1,662
September 13	1,696
September 20	1,735
September 27	1,790
October 4	1,903
October 11	1,875
October 18	1,898
October 25	1,902
November 1	1,901
November 8	1,930

Source: Works Progress Administration.

WORKS PROGRESS ADMINISTRATION
 Number of Workers Employed - Monthly
 United States

46

	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	2,980
April	2,751
May	2,600
June	2,551
July	2,200
August	1,842
September	1,790
October	1,902

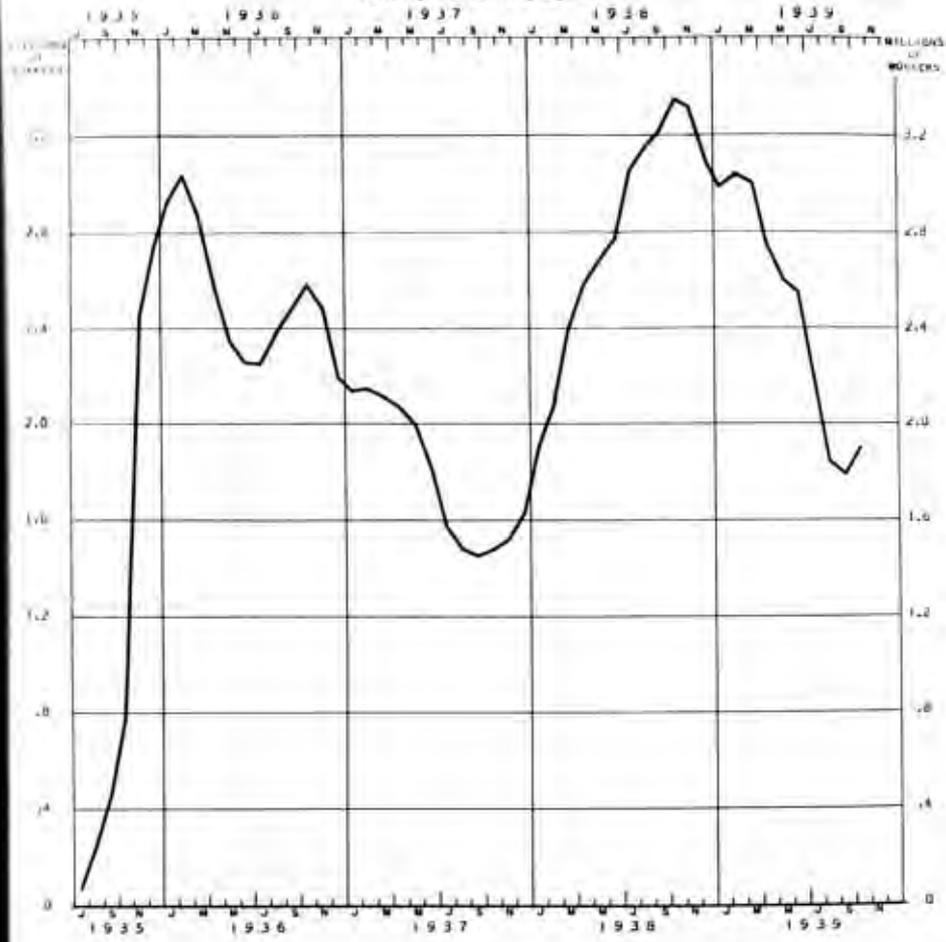
Source: Works Progress Administration.

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

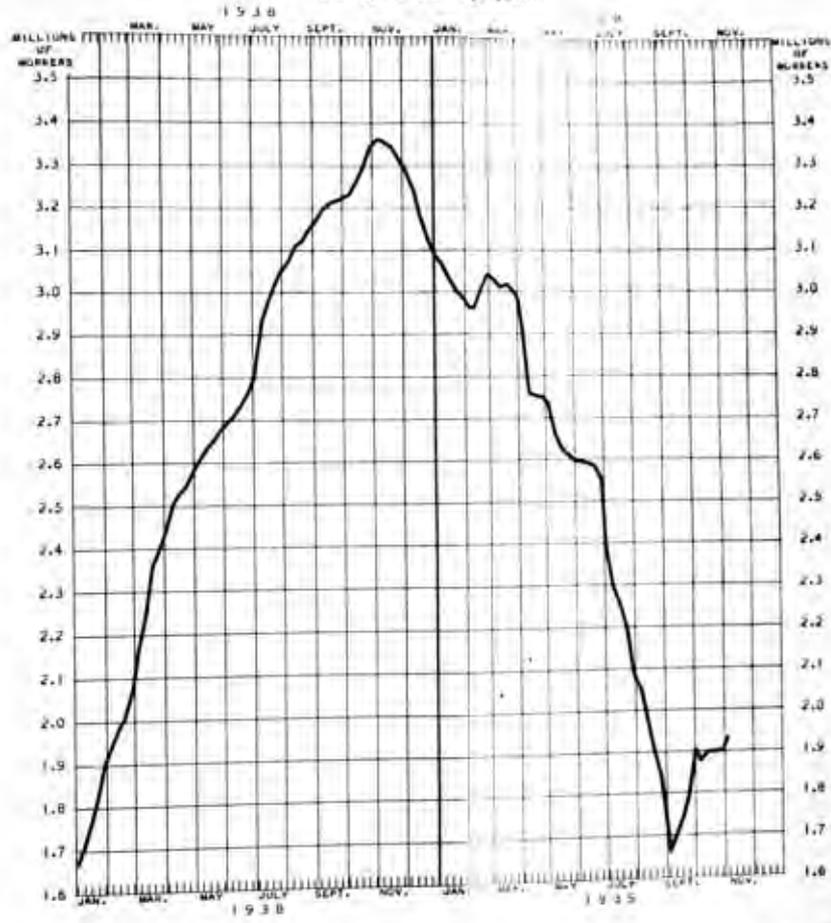
They include certified and noncertified workers.

WORKS PROGRESS ADMINISTRATION
Number of Workers Employed
United States

Monthly W.P.A. Employment



Weekly W.P.A. Employment



SOURCE: WORKS PROGRESS ADMINISTRATION

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

7-201-B

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 18, 1939.

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

In accordance with the Secretary's instructions telephoned from Arizona yesterday forenoon, I visited the Department of State this morning and examined their cablegrams from November 4 to date in regard to the Netherlands and Belgium.

These cablegrams, coming from Brussels, the Hague, Paris, Berlin and London, differed on several points. There was a pretty thorough agreement, however, that the Germans had actually planned an attack against the Netherlands, and perhaps also Belgium, for November 12. Material for pontoon bridges had been taken up to the Dutch border. As to the reasons for calling off or delaying such a move, our Ambassadors vary. One report is that the Italian and Spanish governments let Germany know that such a move would be considered unsympathetically by them, considering the close relations between Italy and Belgium, and the sentiment of Spain toward small neutral nations. There is no conviction at all that the danger is definitely removed. The hope is that Hitler may have seen how strongly world sentiment would be against a violation of Dutch and Belgian territory.

One strictly confidential cablegram intimated that the British and French themselves would not be too unhappy at seeing the Netherlands and Belgium invaded and forced into the war on their side, especially since this would give the allies a chance to fight back at Germany through the lowlands instead of having to go through the west wall. The French are reported to have taken much mobile equipment up to the Belgian frontier with the idea of transporting troops and guns across Belgium to meet the German attacks.

While some pledge between the Belgian and Dutch Governments is believed to exist, there is no knowledge of a definite pact of mutual assistance that would become operative if one of the two countries were attacked by Germany.

There was some belief that the Dutch Queen had become panic-stricken by the threat of German invasion and that she had been inclined to let the German Army pass through without military resistance. There was the other suggestion that the Germans themselves had forced the Belgian and Dutch rulers to make their peace proposal, insisting that the neutral nations, if they are to continue to enjoy their neutral liberties, must take action more definitely in the line of procuring peace for Germany.

The cablegrams from Paris indicated an official belief that Germany will strike against France yet this year, and that the Netherlands and Belgium are simply spared for the moment. Paris does not expect actual warfare between Russia and Finland, but some sort of an amicable settlement.

Minister Gordon's talk with Queen Wilhelmina was not significant.

B. M. R.

TREASURY DEPARTMENT

29

INTER OFFICE COMMUNICATION

DATE November 15, 1939

TO Secretary Morgenthau
 FROM Mr. Cochran

The foreign exchange market was very quiet. In Amsterdam sterling opened at 3.90-3/16 and closed at 3.90-9/16. In New York the opening quotation was 3.90, and after fluctuating in a narrow range it closed at 3.89-7/8.

The discount on forward sterling continued to widen. One month sterling was quoted at 3-1/4¢ per pound discount, equivalent to 10% per annum, and three months' at 6-13/16¢ per pound, equivalent to 7% per annum.

Sales of spot sterling by the four reporting banks in New York totaled £203,000 from the following sources:

By commercial concerns.....	£ 33,000
By foreign banks (Far East and Europe).....	£170,000
	Total...£203,000

Purchases of spot sterling amounted to £60,000, as indicated below:

By commercial concerns.....	£ 41,000
By foreign banks (Europe).....	£ 19,000
	Total...£ 60,000

Of the four reporting banks, the following sold sterling to the British Control at 4.02:

£15,000 by the Guaranty Trust Company
11,000 by the National City Bank
2,000 by the Chase National Bank
<u>£31,000 Total</u>

All of this sterling represented cotton bills.

We sold to the Central Bank of Argentina \$2,000,000 in gold, to be added to their earmarked account.

We purchased from The Netherlands \$2,000,000 in gold, from their earmarked account.

CONFIDENTIAL

The Federal Reserve Bank of New York informed us that there were no shipments of gold to this country reported to it.

The B.I.S. cabled to the Federal Reserve Bank of New York to apply for a license to transfer approximately \$1,125,000 in gold from its Account #2 to its Account #4. Account #2 is the B.I.S.'s own account, and Account #4 is gold owned by the Central Bank of Turkey. This transaction represents the sale of gold by the B.I.S. to Turkey, which is, in turn, held by the B.I.S. as collateral for commercial credits granted by it to the Central Bank of Turkey.

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

CONFIDENTIAL

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Guatemala

DATE: November 18, 1939, 11 a.m.

NO.: 52

RUSH

From Gaston for the Acting Secretary of the Treasury.

A strong sentiment has been indicated by the Guatemalan Minister of Finance and others that the United States should offer to be host for the 1940 meeting, the exact date of which should be set by the country/^{which} will be the host. They argue that there would be advantage in meeting in Washington where the permanent committee is located and will have been functioning for a year, and they also mention that a meeting there would attract the Finance Ministers of all the countries. As I must make reply Monday to the Conference, I request prompt instructions.

DESPORTES

EA:FL:MSG

RECEIVED

PARAPHRASE OF TELEGRAM SENT

52

TO: American Legation, Guatemala

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

NO.: 54

For Gaston from the Treasury.

The courteous and friendly attitude prompting the suggestion reported in your 52, November 18, 11 a.m., that the Treasury Representatives' meeting in 1940 should be held in Washington is appreciated; we have every desire to be helpful and to play our full part, but we cannot accept the invitation, since we feel that it would be much more satisfactory and advisable to hold the meeting elsewhere.

For the confidential information of Gaston and Duggan. Since in all probability the Advisory Committee will continue to meet in Washington, and the United States will have the responsibility of host and of general direction of that committee, it is quite impossible for us to accept the additional task. Furthermore, if both committees meet here, there would certainly be created some sense of undue share of monopoly of their work, and this we wish to avoid.

WELLES
(Acting)

EA:FL:MSG

TELEGRAM SENT

hsm

GRAY

November 20, 1939

3 p. m.

AMERICAN LEGATION

GUATEMALA CITY

RUSH

55.

FOR GASTON FROM SECRETARY OF THE TREASURY.

We have reconsidered this matter and discussed it with the State Department. We are both agreed that for various conclusive reasons we cannot undertake to have the 1940 meeting of Treasury representatives held in Washington.

WELLES
ACTING
(HF)

EA:HF:EB

DIVISION

RECEIVED

NOV 21 1939

U.S. DEPARTMENT OF STATE

WASHINGTON, D.C.

November 20, 1939
6:10 p.m.

HMJr: Yes?

J. L.
Ralston: Mr. Secretary, this is J. L. Ralston speaking,
Minister of Finance, Canada.

HMJr: How do you do.

R: How do you do, sir. Will you excuse me for calling
you at your home?

HMJr: Quite all right.

R: a situation has come up that I wanted to have
a word with you about.

HMJr: Please.

R: I've been hoping that I could have the pleasure of
going down and just having a neighborly chat with you,....

HMJr: Right.

R:but we're still at war up here.

HMJr: Yes.

R: And we've been terribly busy. I was hoping that it
might be next week, but a certain -- this situation
has arisen that Mr. Towers, the Governor of our Bank
of Canada.....

HMJr: Yes.

R:is being -- this is very confidential, of course,
-- is being sent to represent the Government of Canada
at the conference of Dominion Ministers which is now
being held in London.

HMJr: Yes.

R: He was expecting to go on the Clipper on Saturday. It
was postponed until today and now I'm afraid it has
been postponed until Saturday.

HMJr: Yes.

- 2 -

- R: I wondered if you would receive him if he slipped down to Washington just to talk with you on the general situation.
- HMJr: Surely - I'd be glad to.
- R: I'd -- I know he's Central Bank; he's not from the -- not direct from the Department at the minute, but he's -- I want to assure you that he's representing us and represented -- represents our full views.
- HMJr: Well, that -- that endorsement is sufficient.
- R: And, as I say, we think enough of him to be sending him over to England to represent the Government there.
- HMJr: When could Mr. Towers come down?
- R: He's in New York now and I was going to telephone him tonight and ask him if he could go tonight or tomorrow to -- to see if there was any -- and I called really to find out if there was any time when you thought you might receive him.
- HMJr: Well, your Minister has an appointment at 10:30 tomorrow morning. Would that be.....
- R: Any.....
- HMJr: Would that be it?
- R: No, I don't think it -- I -- not that I know of. Excuse me just a minute, Dr. Clark, my Deputy Minister, is right here now; I'll just ask him.
- (Talking aside: Mr. Morgenthau says that Christie has an appointment tomorrow morning at 10:30. He wondered if, by any chance, that might be it.)
- No, he says not, Mr. Morgenthau.
- HMJr: Well, he could -- he could come.....
- R: We could get in touch with Christie and Christie could arrange with you.
- HMJr: Yes. I mean, why couldn't Mr. Christie bring him in at 10:30?

- 3 -

R: Well, that would be most convenient. We'll call him right away.

HMJr: I mean, there's no reason -- I mean.....

R: Oh, you know you can see him -- see him with Christie. I mean, Christie is quite the situation and.....

HMJr: Well, why wouldn't.....

R:talk with Christie then.

HMJr: Why wouldn't that be a happy idea?

R: I think that would be a very fine idea.

HMJr: Well, then I'll look forward to seeing him at 10:30, and I hope that we'll be able to meet soon.

R: Well, I -- I look forward to it very much indeed, and it's only because things are pressing here so that I haven't been able to give myself the pleasure of being down before.

HMJr: And I'm glad you felt free to call.

R: Thank you very much indeed, Mr. Morgenthau.

HMJr: Goodbye.

R: Goodbye.

TREASURY DEPARTMENT

57

INTER OFFICE COMMUNICATION

DATE November 20, 1939

TO Secretary Morgenthau
FROM Mr. Cochran

The foreign exchange market was again dull with a fairly substantial turnover in sterling transactions. In New York the opening quotation for sterling was 3.89-3/4. At that time, the reporting banks stated that they had not received any orders from abroad, either to purchase or sell sterling. About 10 o'clock some buying orders were received from Amsterdam, and the rate strengthened to 3.93-1/8. Shortly before noon it eased to 3.92-1/8. About mid-afternoon rubber interests came into the market to acquire sterling, and the rate reached the high of 3.93-1/2. It closed at 3.93-1/2 offered.

From the turnover figures given below, it will be observed that sales of sterling exceeded the purchases by £151,000 which ordinarily would depress the rate. However, the rate appreciated indicating that short positions were being covered or long positions created or extended.

Sterling forward rates showed improvement today. One month sterling was quoted at 3¢ per pound discount, equivalent to 9-3/16% per annum, and three months' was 6-1/4¢ per pound discount, equivalent to 6-3/8% per annum.

Sales of spot sterling by the four reporting banks in New York totaled \$541,000 from the following sources:

By commercial concerns.....	£ 290,000
By foreign banks (Far East).....	£ 251,000
Total.....	£ 541,000

Purchases of spot sterling amounted to £390,000, as indicated below:

By commercial concerns.....	£ 159,000
By foreign banks (Europe and Far East).....	£ 231,000
Total.....	£ 390,000

Of the four reporting banks, the National City Bank was the only one that sold sterling to the British Control. It sold cotton bills amounting to £2,000 at the official rate of 4.02.

The other important currencies closed as follows:

French francs	.0223
Guilders	.5310
Swiss francs	.2245
Belgas	.1647
Canadian dollars	13% discount

CONFIDENTIAL

We purchased \$2,500,000 in gold from the earmarked account of the Netherlands Bank.

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

\$5,000,000 from Japan, shipped by the Yokohama Specie Bank, consigned to the Yokohama Specie Bank, San Francisco, for sale to the U. S. Mint at San Francisco.
2,088,000 from South Africa, shipped by the South African Reserve Bank, consigned to the Federal Reserve Bank of New York, to be earmarked for the account of the Netherlands Bank.
1,468,000 from South Africa, shipped by the South African Reserve Bank, consigned to the Federal Reserve Bank of New York, to be earmarked for the account of the Bank of Sweden.
\$8,556,000 Total

With reference to the shipment of gold to be earmarked for the account of the Bank of Sweden, this gold was evidently purchased in the South African market by that bank, and it is the first shipment of gold from South Africa to the U. S. for account of the Swedish Central Bank.

The equivalent of today's London spot silver price was 41.22¢ and the forward price was 40.85¢. The price for foreign silver fixed by Handy and Harman was unchanged at 34-3/4¢. The Treasury's price for similar silver was also unchanged at 35¢.

In New York, we made six purchases of silver totaling 470,000 ounces under the Silver Purchase Act.

CONFIDENTIAL

November 20, 1939
10:32 a.m.

59

Operator: Mr. Hanes is on the line.

Outside
Operator: Hello, Mr. Hanes.

John
Hanes: Hello.

Outside
Operator: All right. Just a moment.

Operator: Mr. Hanes, I want to say a word to Mr. Gaston.
Do you mind?

H: No, sure. Do you want to say it first?

O: Yes.

H: All right.

Herbert
Gaston: Hello.

O: Hello, Mr. Gaston.

Outside
Operator: All right. Put your party on.

O: Mr. Hanes is on.

Outside
Operator: Thank you, operator.

Hanes: Hello.

Outside
Operator: Hello, Mr. Hanes.

H: Hello.

Outside
Operator: Go ahead, please.

Herbert
Gaston: Hello.

John
Hanes: Hello, Herbert?

G: Hello, Johnny. How are you?

H: Fine, thank you. Just a minute, the Secretary's operator wants to speak to you.

G: Yes.

Operator: Hello, Mr. Gaston.

G: Yes.

(Brief pause.)

O: Mr. Hanes, do you want to make a record on this?

H: Yes, I've got.....

O: Don't forget to turn it off.

H: I've got it.....

O: All right. Go ahead.

H: Hello, Herbert.

G: Yes, how are you?

H: Fine, thank you, and how are you?

G: Well, I'm all right. I'm a little exhausted with a lot of entertainment, but I'm really feeling fine.

H: Oh, good.

G: What I called you about, John, is this - that -- I wondered if they couldn't reconsider that matter about holding the meeting in Washington. We're a little bit on the spot. The proposition was first put up to Venezuela and they turned it down, and then they decided that they wanted it in Washington, and they asked us formally in a meeting if they couldn't hold it in Washington and I replied that of course we felt complimented that they should make that suggestion but that we would have to consult our Government.

H: Yes.

- G: And now, John, I'm afraid that the thing has gone pretty well, considering all the circumstances, but I'm afraid if there's a bad mixup about the meeting date it will sort of leave a bad taste.
- H: Yes.
- G: And it -- we could fix our own dates, you know, at our own convenience.
- H: Yes.
- G: And I think it would leave a much better atmosphere. They seem -- they seem to be pretty well agreed that they want Washington and -- they first asked Venezuela, as I said, and they -- and Venezuela couldn't have it.
- H: Yes.
- G: I'm wondering if you couldn't talk it over again and -- and see whether you could come to any other conclusion.
- H: Yes. Well now, Herbert, the Secretary is late. He's not here, and last night I talked with Herbert Feis.....
- G: Yes.
- H:and Herbert said they had considered it very carefully over at the State Department.
- G: Yes.
- H: And in view of the fact that 1940 is the year that it is-- you understand.....
- G: Yes.
- H: -- they thought it would be - that coupled with the fact that we were having this other economic conference here.....
- G: Yes.
- H: - it would just -- just mean too much for this Government to undertake at one time, and especially at the time just -- it would probably be either just before the Conventions or it would be after the Conventions and during the campaign.

G: Well, we could put it off until after election.

H: You could?

G: Oh, yes.

H: Well now, I'll make that suggestion to Herbert Feis and Sumner Welles.....

G: We could choose our own time.

H: Yes. Well, I'll make -- I'll suggest to them that you called up and that you felt that we ought to make some effort at having it here if possible, and ask them to reconsider their decision.

G: Yes. They -- they rather put us on the spot on the thing, as I say, by formally putting it up to us.

G: Yes.

G: And so I'd appreciate some word. How's everything going at the Treasury?

H: Everything is going fine here, Herbert.

G: Yeah.

H: Not a thing -- everything has been very quiet since you and the Secretary went away. We haven't had very much to alarm you.

G: Well, will you tell -- tell the Secretary that I'm doing all -- tell Henry I'm doing all right. I'm sorry I couldn't get home any sooner, but I had to stay until the thing was over here.

H: Right. When do you contemplate leaving?

G: The first plane I can grab here is -- is Thursday morning and I'll be in Washington early Friday.

H: Yes. Thursday morning?

G: I will arrive Friday.

H: You arrive here Friday?

- 5 -

G: Yes.

H: I see. All right, Herbert. Now, I -- I think I'll wait until the Secretary comes back. I'll talk to Feis right away and tell him what you've said, and then I'll wait until the Secretary comes back. He'll be here any minute now.

G: And then you'll either -- then you can either call me on the phone or -- or send a plain -- send a plain wire if you want.

H: All right.

G: Whatever is the quickest way.

H: All right, fine.

G: All right, Johnny.

H: Thank you, Herbert, and good luck to you.

G: Thanks a lot, John. Goodbye.

H: Goodbye.

TREASURY DEPARTMENT

CONFIDENTIAL

INTER OFFICE COMMUNICATION

DATE November 20, 1939

TO Secretary Morgenthau

FROM Mr. Haas *HA*

Subject: Current Developments in the High-Grade Securities Markets

SUMMARY

- (1) Sale of \$41 millions of Government bonds and notes by the Federal Reserve banks featured the market developments of the past two weeks. The Government security market rose almost uninterruptedly during the two-week period, the average yield of all long-term Treasury bonds falling by eleven basis points (Chart I). The upswing carried all but the shortest maturity class to new high levels for the recovery movement (Chart II). The Federal Reserve banks permitted their bills to run off further (Chart III). New York City banks added substantially to their Government security holdings, picking up a large volume of Treasury bills (Chart IV) and guaranteed issues, presumably the new RFC notes.
- (2) Eleven local housing authorities sold \$49,675,000 of six-month notes last week to yield just under .60 percent. The repayment provisions of these notes are such as to make them guaranteed in effect by the United States. The rate paid by the local authorities does not compare favorably with that currently paid by other borrowers of first-rate credit (Chart V).
- (3) High-grade corporate bonds rose in price during the past two weeks, and the average yield fell to 2.93 percent on November 18 (Chart I). Defeat of pension plans in Ohio and California contributed to the strength of municipal security prices. State of California warrants sold on a 3 percent basis the day after the election as compared with 4 percent previously (Chart VI).
- (4) On November 7 the British Government asked Parliament for authority to increase Government borrowing by £250 millions for war purposes. To date the war had been financed by the issuance of Treasury bills. The position of the money market at the present time is not greatly different from its position before the war. This differs sharply from the position prior to the first war loan in 1914 and is due primarily to the prompt institution of money market controls.

I. United States Securities

Liquidation of a portion of the Federal Reserve holdings of Government bonds and notes (mainly guaranteed issues) for the first time in nearly seven years featured the developments in the Government securities market for the past two weeks. All sections of the market have been strong, and prices declined on only one day, Friday, November 10, when it was reported that investors hesitated to make holiday week-end commitments owing to the possible disturbing character of foreign news. Federal's sales of \$40.6 millions -- which started on November 8, but which were concentrated on Tuesday, Wednesday, Thursday and Friday of last week (November 14-17) -- were viewed bullishly by the market. According to the press, they were taken as an indication that the Reserve authorities felt that the bond market could not only stand on its own feet, but was strong enough to absorb some increase in the market supply of Government securities.

The average yield of all long-term Treasury bonds decreased .11 percent during the past two weeks, closing at 2.43 percent on Saturday, November 18 (Chart I). The relative movement of the different maturities of Treasury securities during the past two weeks is shown in the following table:

	Average price change		
	Week ended Nov. 11	Week ended Nov. 18	Total
	(In thirty-seconds)		
<u>Notes</u>			
1 to 3 years	0	+ 3	+ 3
3 to 5 years	+ 5	+ 7	+12
<u>Bonds</u>			
Under 5 years to call	+ 3	+ 8	+11
5 to 15 years to call	+ 9	+31	+40
15 years and over to call	+10	+44	+54

The upswing of Government security prices during the past two weeks continued the recovery movement that has been in process since September. It brought all maturity classes (except the very shortest maturity class) to a new high level for the present upswing (Chart II). By Saturday long-term bonds had recovered 68 percent and medium-term bonds had recovered 79 percent of the decline suffered between August 19 and September 25. Short bonds and Treasury notes, it will be remembered, reached their lows on September 6. Eighty percent

Secretary Morgenthau - 3

of the declines from August 19 to that date has now been recovered by the shortest bonds (under five years to call), 86 percent by the 3-5 year notes, and 85 percent by 1-3 year notes.

In addition to the reduction in its Government security portfolio occasioned by the above-noted sale of notes and bonds, the Federal Reserve banks permitted their bill holdings to decline by another \$55 millions during the past two weeks. The Federal Reserve banks now own only \$105 millions of Treasury bills as compared with \$477 millions on June 21 (Chart III).

The run-offs of the Federal Reserve portfolio of Treasury bills during the last few weeks and the three additional issues of \$50 millions each offered by the Treasury in October have greatly enlarged the market supply of such securities. Since September 27, for example, the increase in the privately held marketable supply of Treasury bills has amounted to \$287 millions. The entire amount of this increase has been added to the portfolios of weekly reporting member banks in New York City.

With respect to other United States securities, New York City banks sold \$30 millions of Treasury bonds and bought a slightly greater amount of Treasury notes during the three weeks ended November 15 (Chart IV). Banks outside New York City acted in the opposite manner (data through November 8 only) however, selling a small volume of Treasury notes and acquiring about the same amount of Treasury bonds. Although we have not yet obtained data on the amount of the new RFC issue purchased by banks, it appears that that issue was popular with New York City banks at least. For the week ended November 15, those banks acquired some \$80 millions of guaranteed issues, presumably principally the new RFC notes issued during that week.

II. New Housing Authority Notes

On Tuesday, November 14, eleven local housing authorities sold \$49,675,000 of six-month wholly tax-exempt notes to a nation-wide syndicate of 52 banks at prices to yield just under .60 percent. The repayment provisions of the notes are such as to make them guaranteed in effect by the United States, for they are secured by an irrevocable agreement under which the USHA agrees to make available at the Federal Reserve banks three days prior to the maturity of these notes an amount of funds equal to the principal and interest thereon.

Unfortunately, no direct comparison is available of the rate paid by the local housing authorities with what the money would have cost if borrowed through the medium of a direct or fully guaranteed obligation of the United States, issued in the regular manner. This is because the yields on all direct and guaranteed obligations of such short maturities are dominated primarily by right values.

It seems a reasonable estimate, however, that the funds would have cost not in excess of .10 percent if borrowed through the issuance of United States Treasury bills, nor in excess of .15 percent if borrowed through the issuance of six-month USHA notes. Within the limits of the accuracy of these estimates, it would appear, therefore, that borrowing directly by the local housing authorities resulted in an interest cost of at least four to six times that which would have been incurred had an equivalent sum been borrowed directly by the United States, or through the issuance in the ordinary manner of guaranteed obligations.

It should also be noted that the rate paid by the local housing authorities does not compare very favorably with that currently being paid by other borrowers of first-rate credit (Chart V). The Federal Intermediate Credit banks, for example, whose obligations are not guaranteed by the United States, borrowed six-month money during the past week at .30 percent. A few weeks ago, the State of New York borrowed money for a seven and one-half month period at a cost of .20 percent, and the State of Pennsylvania obtained seven-month money for .44 percent.

III. Other Domestic Securities Markets

In contrast to the sharp rise in Treasury bonds, high-grade corporate bonds rose only slightly in price during the past two weeks. The Treasury average of the yields of high-grade corporate bonds declined from 2.97 percent at the close on November 4, to 2.93 percent on Saturday. The spread between the average yield on corporates and the yield on long-term Treasury bonds increased from .43 percent to .50 percent in the same period (Chart I).

Municipal securities have also been strong, rising for the seventh consecutive week. The defeat at the polls, on November 7, of pension plans in California and Ohio contributed to the improvement in municipal security averages. In California, where the vote was more decisive than that of 1958, long-term bonds of the State and of its municipalities rose sharply on the election news. State of California, 4 percent bonds, due 1985 (callable after 1950), for example, rose from

105-1/2 the day before the election to 110-3/4 on Saturday, November 18. The day after the election, the State sold \$5.7 millions of short-term warrants at 3 percent. This rate compares with a 4 percent rate immediately preceding the election (Chart VI).

New public offerings of securities of over one year maturity in the week ended November 11 were limited to the municipal field and amounted to only \$2.4 millions. In contrast, public offerings in the week ended November 18 totaled \$38.5 millions, the largest volume in any week since the outbreak of war. Included in this amount were \$30 millions of New York City one- to thirty-year serial bonds sold on Tuesday, November 14 on an interest cost basis of 2.56 percent. It was reported that about a half of the new issue was sold on the afternoon of offering, and more than two-thirds was disposed of by Friday night. In addition to the above, it was reported that the Pennsylvania Telephone Corporation placed privately with twelve insurance companies some \$5.2 millions of 3-1/4 percent refunding bonds at a price of 101-1/4.

IV. Setting for the First British War Loan

On Tuesday, November 7, Sir John Simon, the British Chancellor of the Exchequer asked Parliament for authority to increase Government borrowing by £250 millions, equivalent to about \$1 billion at current rates of exchange. Proceeds of the loan will be used to finance war purchases and to repay maturing obligations. Details of the proposed financing have not yet been made public; but the market has been expecting a war loan for several weeks.

A comparison of the setting for the proposed British war loan with the setting for the first war loan in 1914 brings into bold relief the differences in the market conditions facing the British Government then and now. These differences are due, to a great extent, it appears, to the degree of market control exercised by the authorities on the two occasions.

Official controls were slow in coming into action in 1914, for war broke out suddenly and a short conflict was anticipated. The Stock Exchange was closed from July 31 until January 4, 1915, so that prime investments were thoroughly frozen for a five-month period. The Bank Rate was held at 5 percent after the first week of war, moreover, despite the declines in the market rates of interest from the peaks reached early in August. The yield on Treasury bills remained high, and was at 3.68 percent in November 1914 at the time of the first war loan, as compared with 3.78 percent, the high following the outbreak of war, and with 2.53 percent in July 1914.

In the present instance, the situation in London is quite different. The authorities instituted controls promptly, and the British money market has by this time largely regained the ease which ruled before the outbreak of war. The Bank Rate has been reduced from 4 percent to 2 percent, and the average rate on three-month Treasury bills has dropped to 1.18 percent, as compared with 3.72 percent immediately following the outbreak of war, and with .78 percent on August 18. Comparable recoveries have occurred in other short-term money rates.

Long-term Government bonds, moreover, have recovered somewhat more than the ground lost since mid-August. The 2-1/2 percent consols closed at 68-3/8 on Friday, November 17, to yield 3.68 percent, as compared with 65-7/8 to yield 3.83 percent on August 18. Similar improvements have occurred in the prices of other British Government issues.

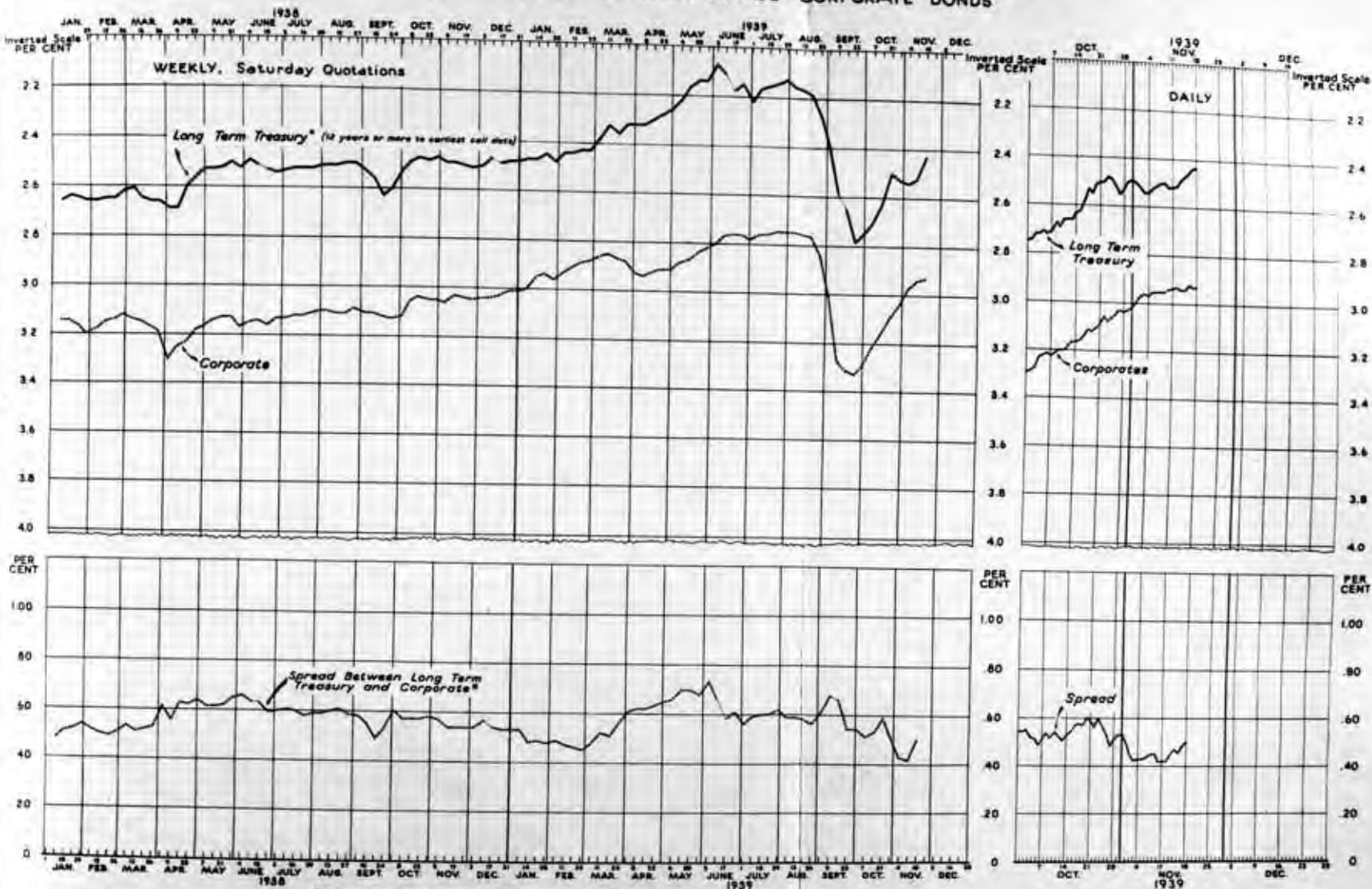
The British Treasury it appears has financed the first few months of the present war in much the same manner as it financed the first few months of the World War -- by the issuance of Treasury bills. The bill volume has increased about £250 millions since the middle of August -- an amount equal to about one-quarter of the Government's expected deficit for the entire current fiscal year.

It is interesting to note in connection with the British financial program that Mr. J. M. Keynes proposed last week, through the London Times and with that paper's approbation, that the war be financed in part by means of forced loans. His plan involves graduated contributions from all earnings of over £150, part in the form of an income tax and part in the form of the forced purchase of bonds at 2-1/2 percent, the bonds not to be salable except for urgent reasons until after the end of the war.

Attachments

Chart I

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



Office of the Secretary of the Treasury
Bureau of Economic Warfare

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

F-56-E-2

Points Plotted Represent Differences from Average Price of Each Maturity Class on June 5.

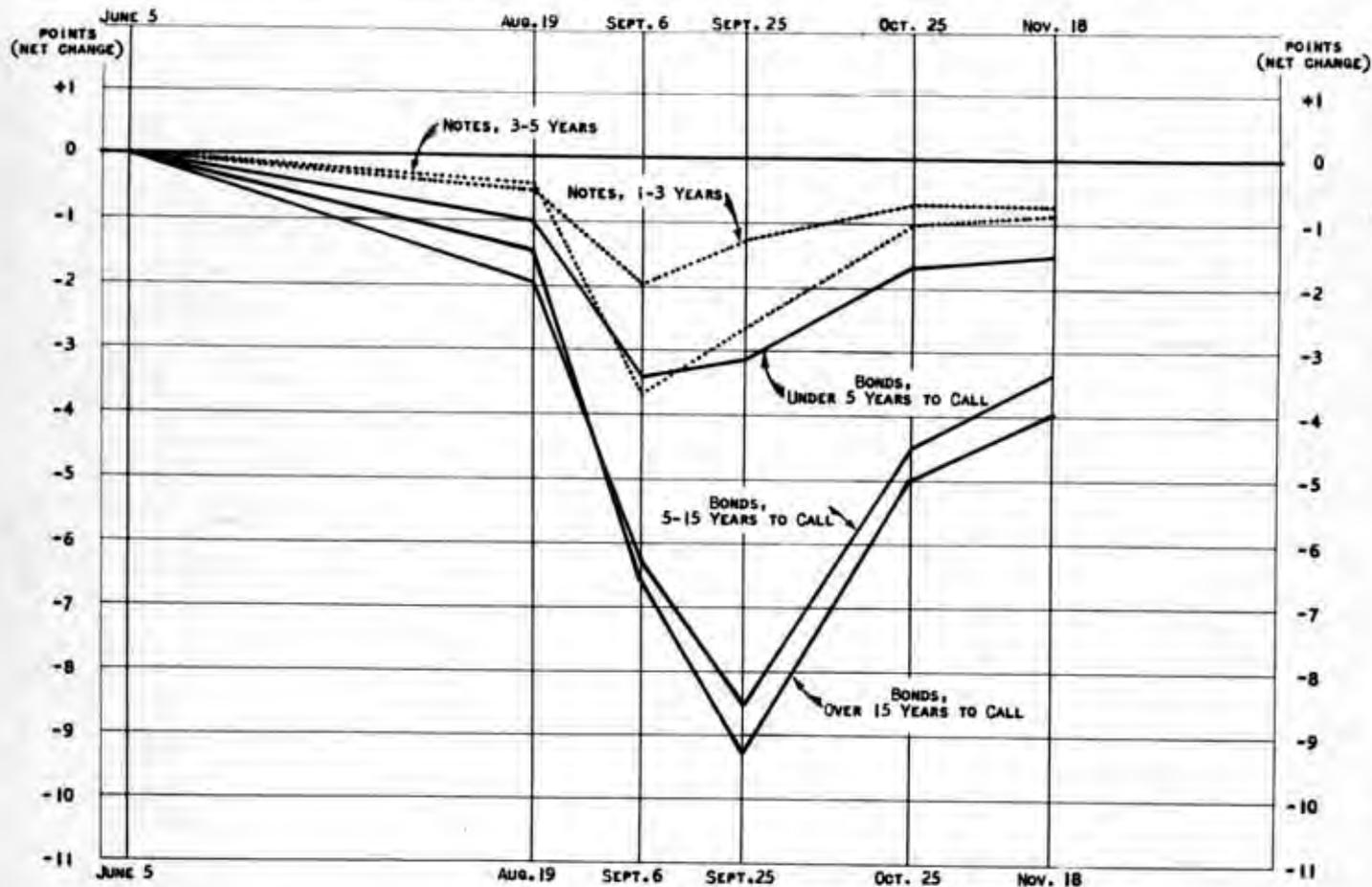
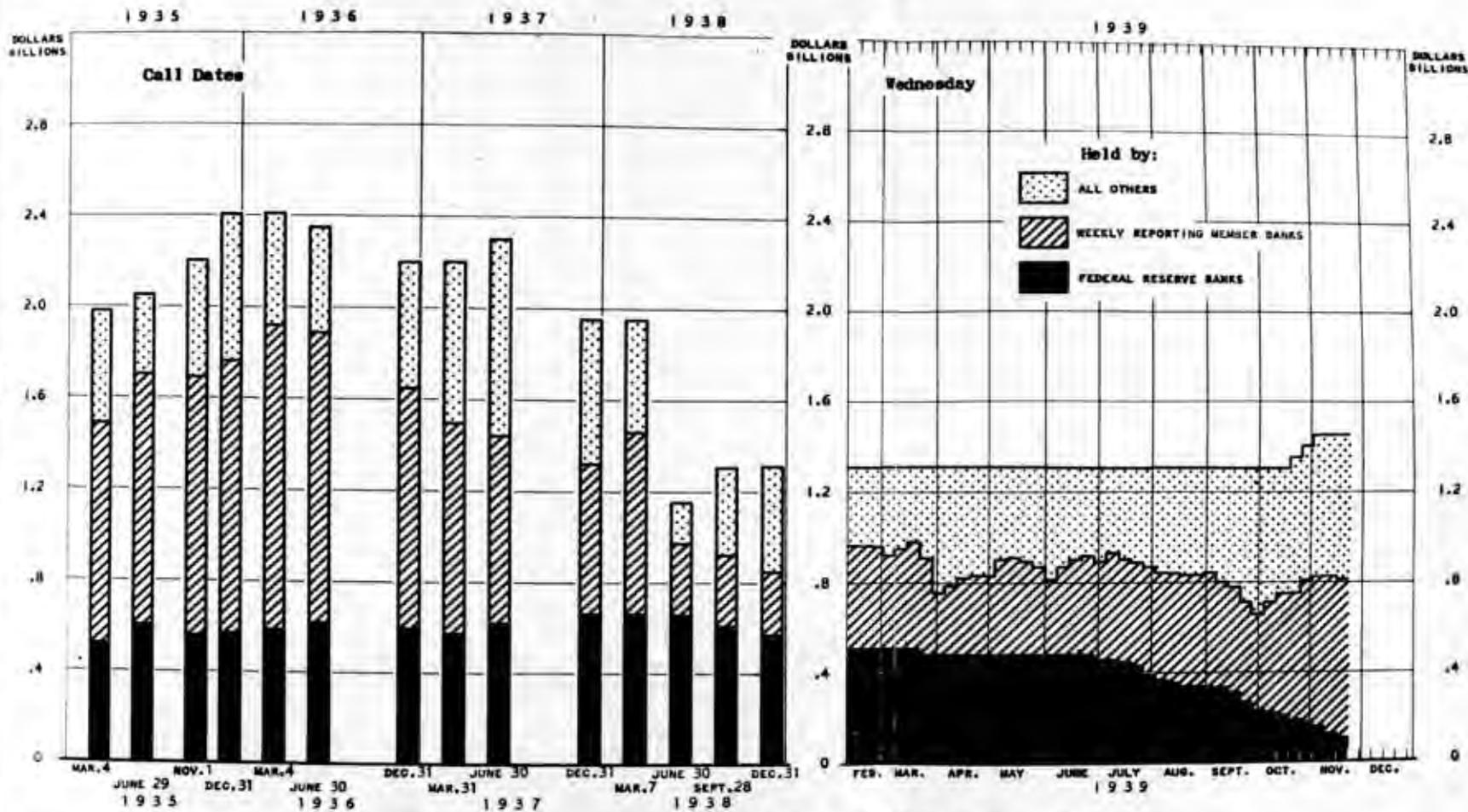


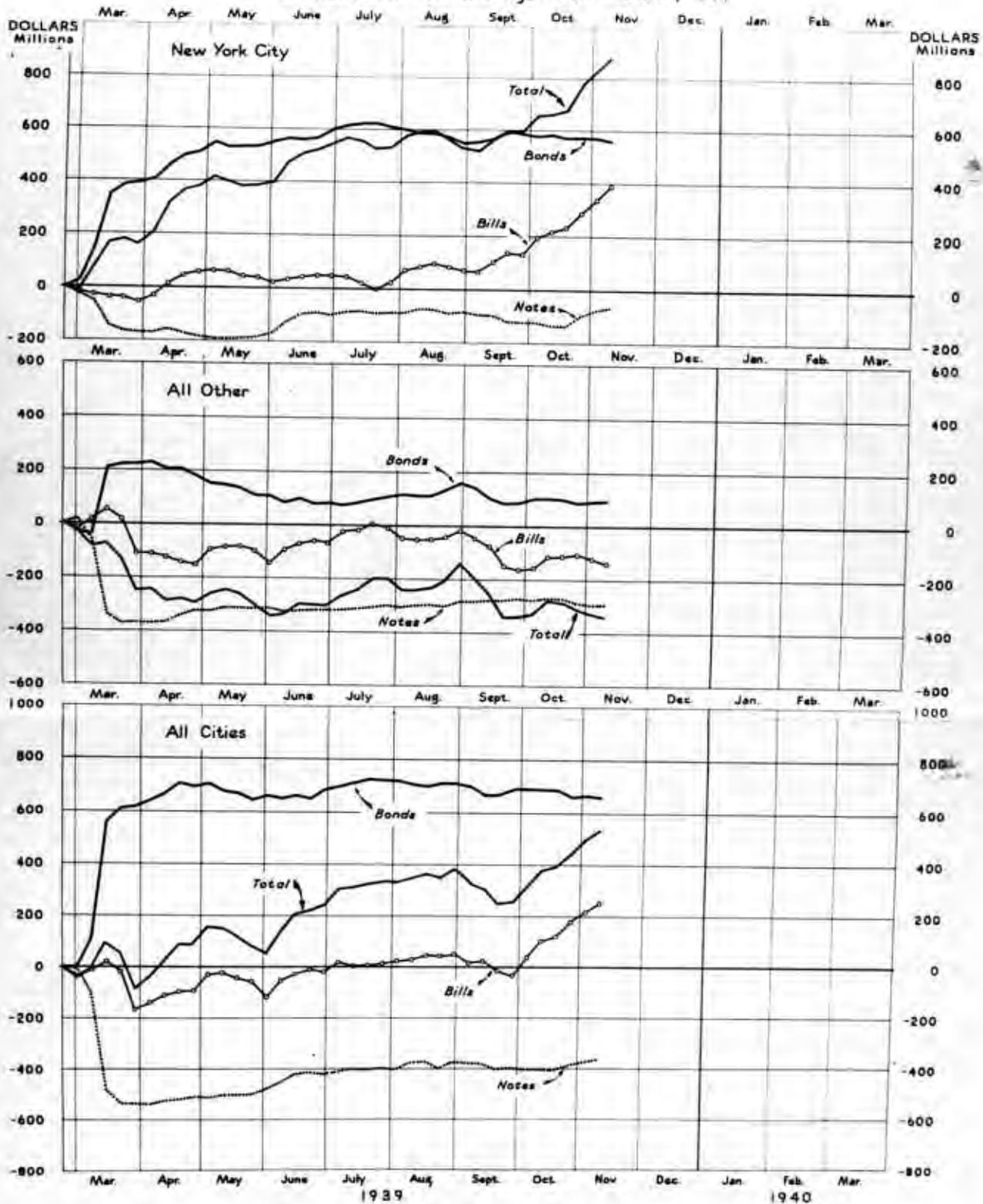
Chart III
DISTRIBUTION OF OWNERSHIP OF TREASURY BILLS



NOTE: HOLDINGS OF WEEKLY REPORTING MEMBER BANKS OUTSIDE OF N.Y. CITY AND CHICAGO ON NOV. 15, ESTIMATED.

U.S. GOVERNMENT SECURITY HOLDINGS
WEEKLY REPORTING MEMBER BANKS*

Cumulative Net Change From Feb. 21, 1939



* Direct Securities Only

INTEREST COST TO BORROWERS OF SHORT TERM MONEY

November 1939

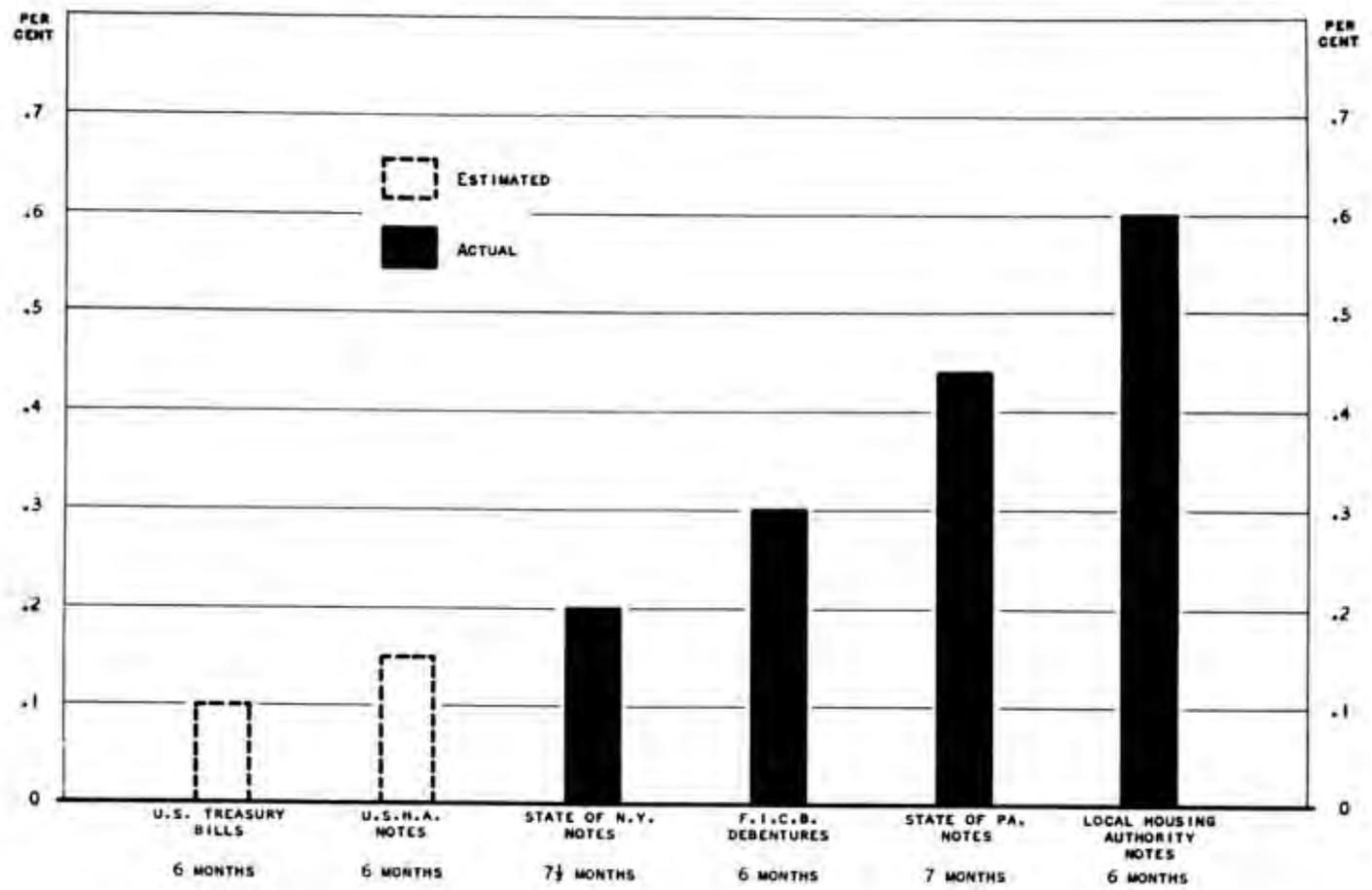
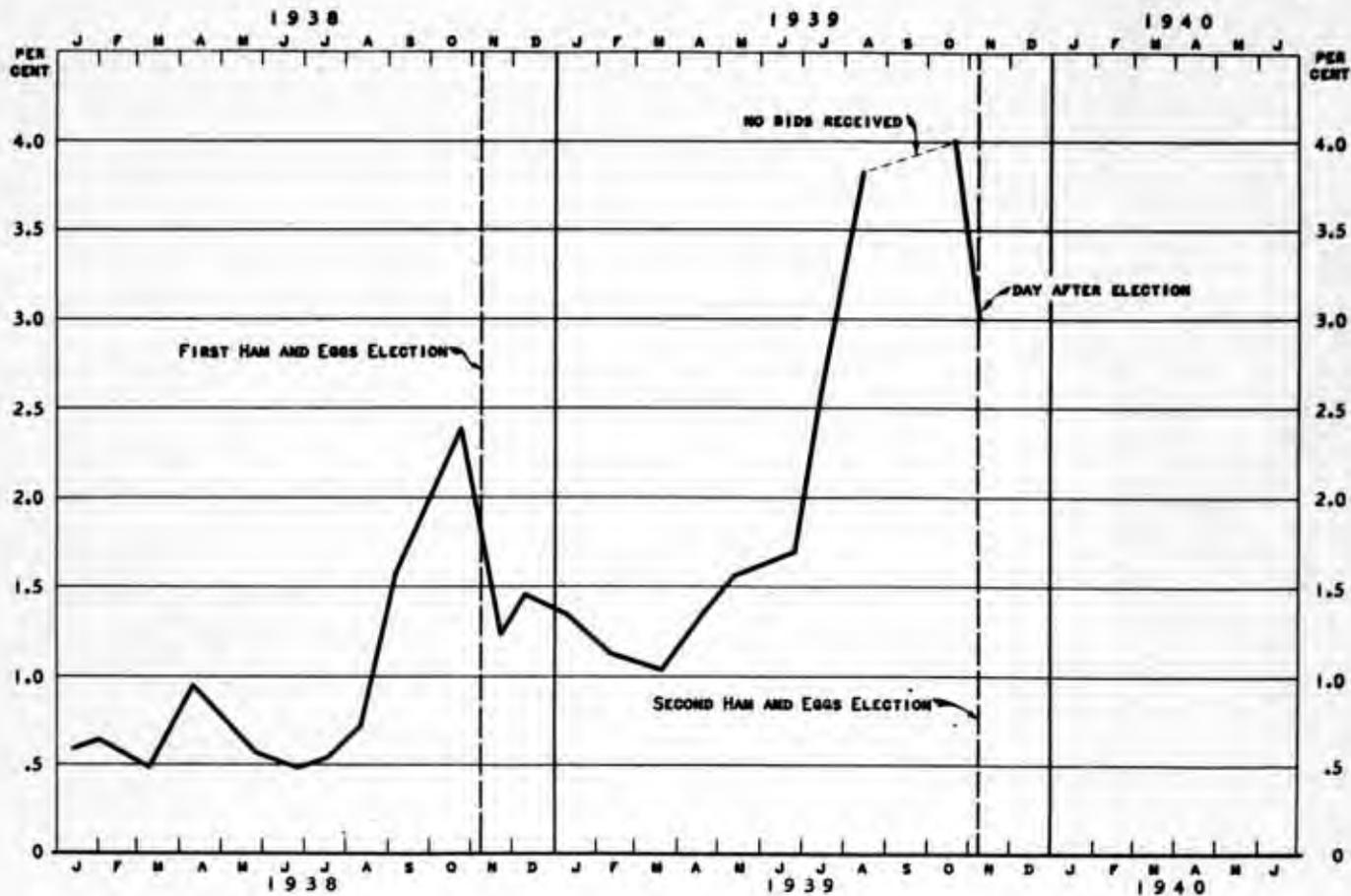


Chart VI
 INTEREST COST ON CALIFORNIA STATE SHORT - TERM WARRANTS*



* INTEREST COST OF ONE REPRESENTATIVE ISSUE PLOTTED FOR EACH MONTH; MATURITIES ARE LESS THAN 1 YEAR

November 17, 1939

My dear Mr. Frank:

In the absence of Secretary Morgenthau, I am acknowledging receipt of your letter of November 16th with which you enclose answers to certain questions which were raised at the recent meeting of the Informal Committee for Economic Assistance to South America.

I shall be glad to bring this material to his attention as soon as he returns to the office.

Sincerely yours,

(Signed) H. S. Klotz

H. S. Klotz
Private Secretary

Hon. Jerome W. Frank, Chairman,
Securities and Exchange Commission,
Washington, D. C.

Enclosure and "Report of the Study and Investigation of the Work, Activities, Personnel and Functions of Protection and Reorganization Committees" - Part V (sent to Dr. White 11-18-39)

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON

77

November 16, 1939

OFFICE OF THE CHAIRMAN

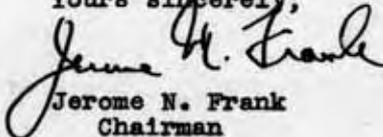
The Honorable
Henry Morgenthau, Jr.,
Secretary of the Treasury.

Dear Mr. Secretary:

I enclose a memo in answer to the questions addressed to me at the recent conference which I attended in your office with the members of the Informal Committee for Economic Assistance to South America.

I shall be glad to confer further with your Committee if you so desire.

Yours sincerely,


Jerome N. Frank
Chairman

Copies to:
Hon. Sumner Welles
Hon. Jesse Jones

NOV 17 1939

TREASURY DEPARTMENT

78

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE November 20, 1939

TO Secretary Morgenthau
FROM Mr. Haas *HA*
Subject: The Business Situation,
Week ending November 18, 1939.

Conclusions

(1) Industrial production has continued to increase on the basis of a large volume of unfilled orders, but during the past month or more widespread expectations of a business setback in early 1940 have discouraged new buying and brought a downturn in new orders. This will tend to limit the extent of any further immediate gains in industrial production.

Significant among recent developments is the fact that excessive speculative buying has been effectively discouraged, and that no maladjustments sufficient to bring about a serious business setback have yet appeared. On the contrary, various factors offering additional support to business are coming into the picture. It may well be, in fact, that the widely-expected reaction has already been partly completed, through the efforts of businessmen to discount such a reaction. Any further substantial rise in business activity, however, is contingent upon a renewed upturn in new orders.

(2) Some evidence of the lack of speculative maladjustments in this business recovery appears in two pertinent comparisons:

(a) Stock prices remain unusually low in relation to business activity and to current earnings; and the fact that brokers' loans, as well as other loans for purchasing and carrying securities, are slightly lower than before the outbreak of war, suggests that speculative stock holdings may have been reduced on balance rather than increased during this period.

(b) The price spread between high grade bonds and second grade bonds has been widening for two months, indicating a relative decline in the demand for speculative investments.

Secretary Morgenthau - 2

Serious corrective setbacks in business seldom arise from such a background. If, on the contrary, public sentiment were strongly optimistic, real grounds would exist for apprehension over the business outlook, particularly in the event of an early end to the war. Present indications suggest that the possibility of this latter development has to a large extent already been discounted.

(3) The business outlook is favored by a rising trend of consumer incomes at a time when the outstanding volume of installment sales is apparently at a conservative figure. The offtake of manufactured goods has not yet risen to its normal level in relation to national income.

- - - - -

The general situation

Industrial production during the first half of November has apparently exceeded its 1936-37 high and closely approximated the all-time high reached in the spring of 1929.

The rise continues, however, under a cloud of widespread skepticism among businessmen and the public generally, who recall their unfortunate experiences with inventories in the 1936-37 recovery and believe this recovery to be of the same type. A business setback is therefore widely expected during the early part of 1940, particularly if large-scale warfare should fail to develop; and this expectation has served as an effective damper on speculative buying.

The cautious attitude of businessmen has been reflected in a considerable decline in new orders, particularly for steel and textiles. (See Chart 1) The sharp drop in early November has been exaggerated by the Armistice Day and Election holidays, and by the failure of steel manufacturers to clarify the price situation by announcing prices for first quarter delivery.

If the present peak in production were being established against a background of high public optimism and reckless speculative buying, as in the spring of 1937, the decline in new orders would provide grounds for concern over the business outlook. The fact that a coming reaction in business has been widely publicized, however, and that industry during the past month or more has proceeded with caution, minimizes the significance of the present falling off in orders.

It may be that instead of a business setback next spring, as expected in many quarters, an almost unnoticed correction is now being made by businessmen themselves in their attempts to discount such a setback. In a somewhat similar manner, the unfavorable effects of war were fully discounted last summer by the efforts of businessmen to anticipate them.

Conservative buying trends

Evidence that buying in all fields has apparently been restrained by the tenor of business sentiment in recent months -- except during the period of war-inspired buying early in September -- appears in several directions:

(1) Stock prices have made no further gains in two months, the Dow-Jones industrial index having reached its high during the second week of September. The lack of speculative interest is indicated by the fact that loans to brokers and dealers during the week ended November 8, as reported by all Federal Reserve member banks, totalled only \$594 millions, as compared with \$608 millions during the week preceding the war outbreak. Loans "to others for purchasing and carrying securities" likewise declined during this period from \$519 millions to \$500 millions.

This decline in speculative interest, together with selling from Europe and other factors, has held stock prices at lower levels in relation to industrial production than in any other comparable period in recent years. (See Chart 2) Nevertheless, corporation earnings during the last quarter of 1939, as estimated by Standard Statistics, will show an unusually sharp rise (see lower section of chart) though lagging somewhat behind the rise in production.

(2) A tendency to refrain from speculative commitments during the present period of war and business uncertainty is also revealed by a relatively smaller rise in prices of second grade bonds than in prices of high grade bonds. (See Chart 3, lower section) Used as a measure of general confidence, this indicates that a substantial corrective movement has been under way since early September.

(3) A gradual decline in prices of sensitive industrial materials during the past month or more, contrary to the rising trend of business activity, (see Chart 4) reflects a reduced speculative demand for commodities since the period of heavy buying early in September. The decline has itself been an effective deterrent to speculative buying.

Sources of further business improvement

Apart from the fact that no evidences of overproduction have yet appeared, the trend of business shows various indications of inherent strength from which support may be derived in 1940:

(1) The recent upturn has been based largely on an improved domestic situation, and only to a limited extent on prospective war orders.

(2) A strong increase in capital goods expenditures, as various industries find themselves handicapped by capacity limitations, suggests that we may be entering a long-delayed period of industrial expansion.

(3) Stock prices show evidence of underlying strength which, if released, would provide an incentive for new capital financing.

(4) War orders already placed or in prospect, together with increasing orders from South American and other neutral countries, promise additional support to business in 1940.

(5) The buying power of domestic consumers is being increased by a continued rise in national income.

Increased consumer buying in prospect

An expansion in consumer buying, financed in part by an increasing volume of installment sales, seems in prospect in coming months. The trend of national income has been steadily upward since the summer of 1938, but retail sales and other evidences of the movement of goods into consumption have lagged behind national income, probably in part because of the liquidation of installment debts previously contracted.

In Chart 5 we compare our index of sales (in dollar values), representing the offtake of manufactured goods, with an index of the "sales equivalent" of monthly national income payments, which is based on the normal relationship between the two indices over a period of years.

Secretary Morgenthau - 5

It will be noted that in 1935, 1936, and 1937, the sales index continued somewhat above normal in terms of national income, apparently because of an expanding volume of sales on deferred payments. In 1938, a considerable part of consumer incomes was used to meet payments on previous installment purchases, and current purchases dropped sharply below normal in relation to incomes.

The sales index expanded rapidly during August and September, but has not yet reached its normal position in relation to national income. An expansion in installment sales in connection with the 1940 automobile season may again carry the sales index above the national income level.

Current business news

The New York Times index (shown in Chart 4) rose 1.9 points to 107.2 during the week ended November 11, the highest since the week of September 4, 1937, despite a sharp decline in the adjusted index of automobile production caused by a complete stoppage at the Chrysler plants.

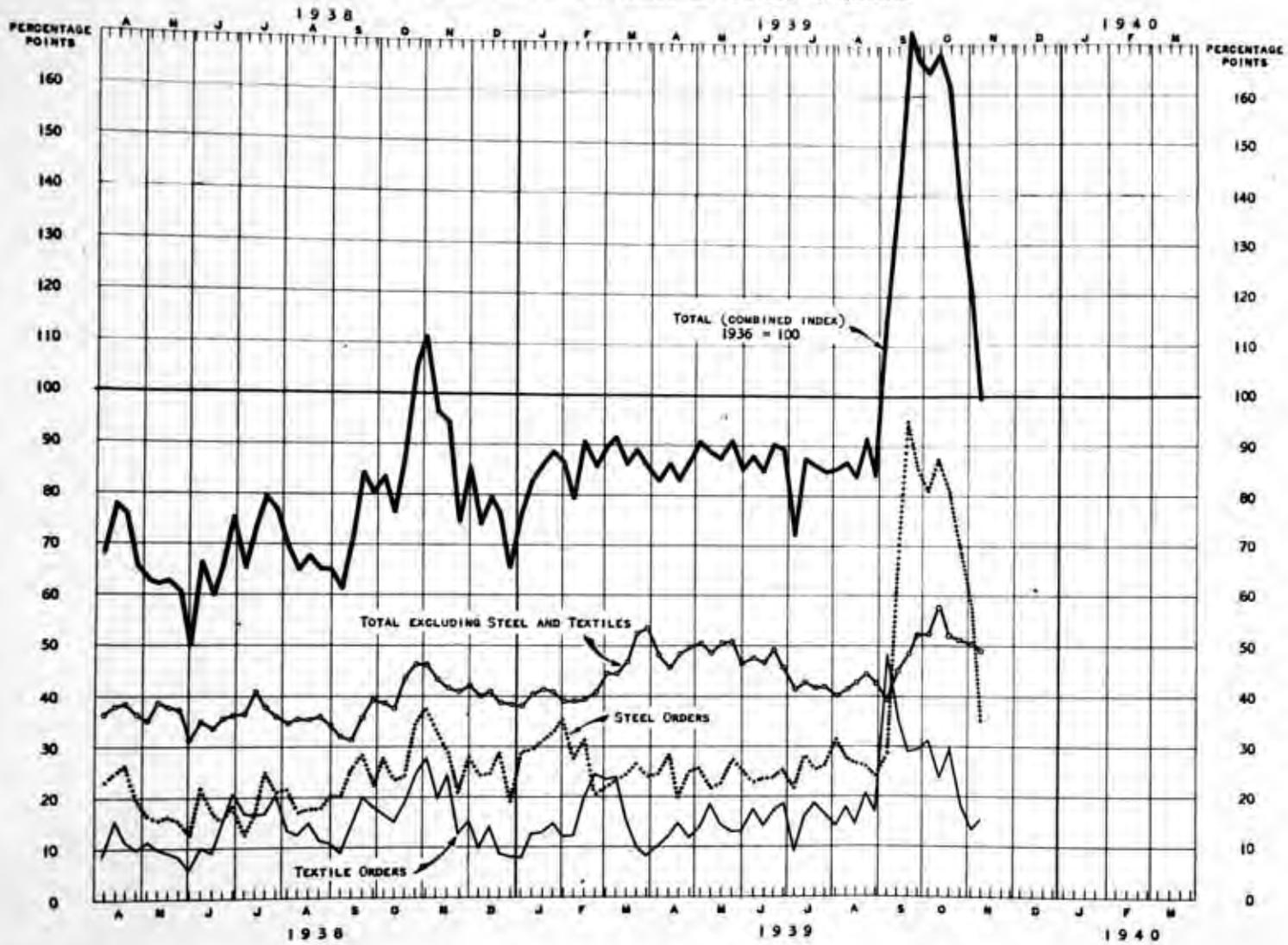
Sensitive commodity price indices have shown divergent trends in recent weeks. Moody's index of spot prices has gradually declined, while the Dow-Jones futures index has remained steady. Reuters' index of British prices shows a gradual uptrend.

Steel scrap prices have shown a substantial recession from their early October peak, the Iron Age composite quotation now standing at \$19.83, as compared with a peak of \$22.50. This and other developments in the steel industry have led to a general belief that little or no increase in steel prices will be made next quarter. Meanwhile, the soundness of the present situation in the steel industry is indicated by the Iron Age statement that: "pressure from steel consumers for delivery provides strong evidence this week that much of the production of the steel industry.....is quickly passing into finished products, and that inventories of most consumers are still at far below normal."

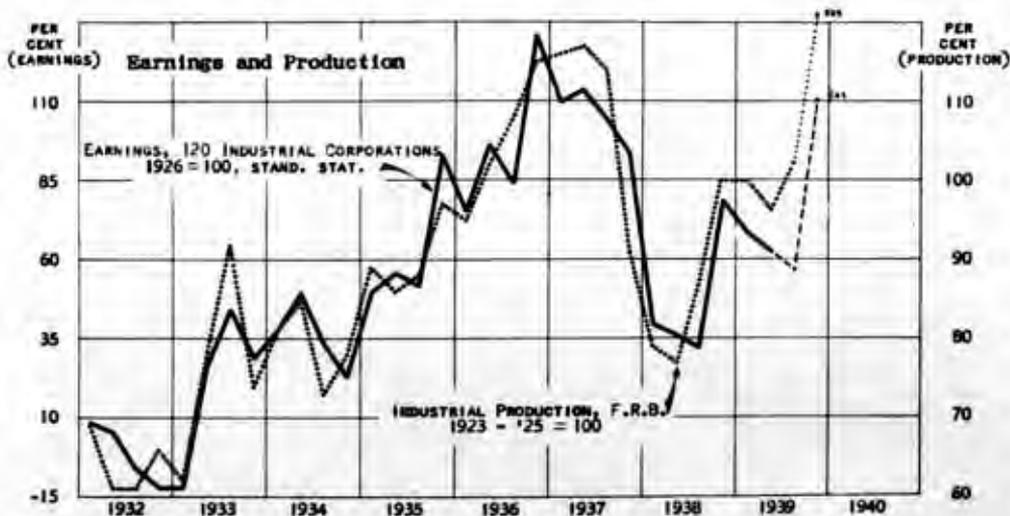
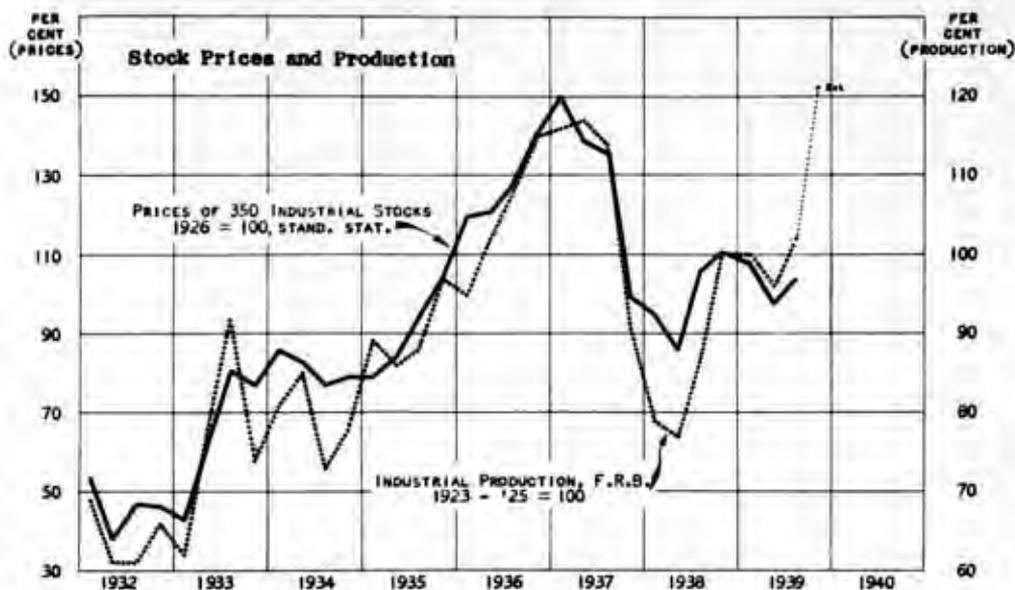
Private construction awards during October were but slightly under the September total, (see Chart 6) while public awards declined to the lowest figure since early 1938. Heavy construction awards during the week ended November 14, as reported by the Engineering News Record, rose sharply to the highest figure, with one exception, since June 22, 1937.

INDICES OF NEW ORDERS

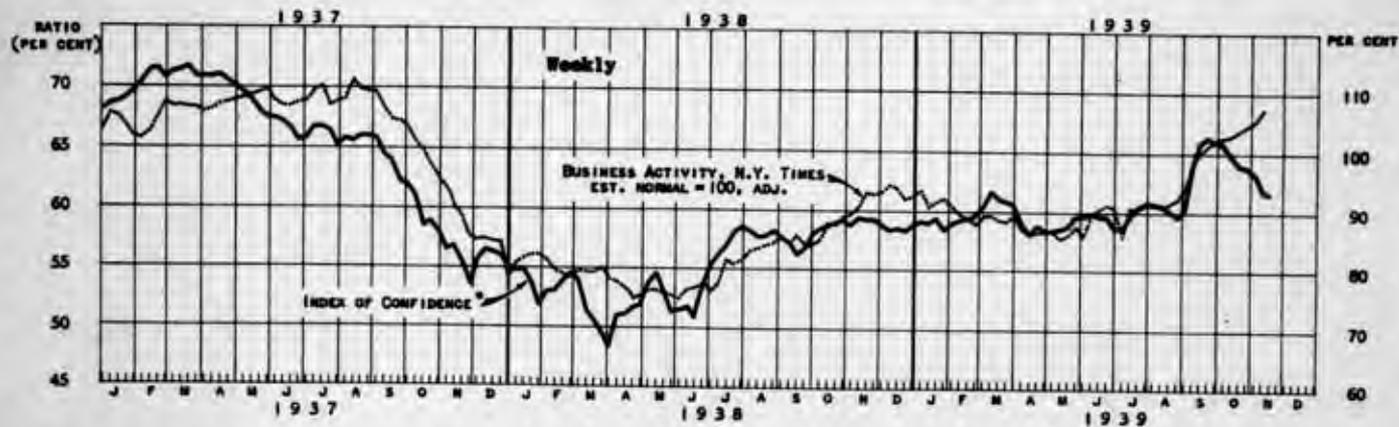
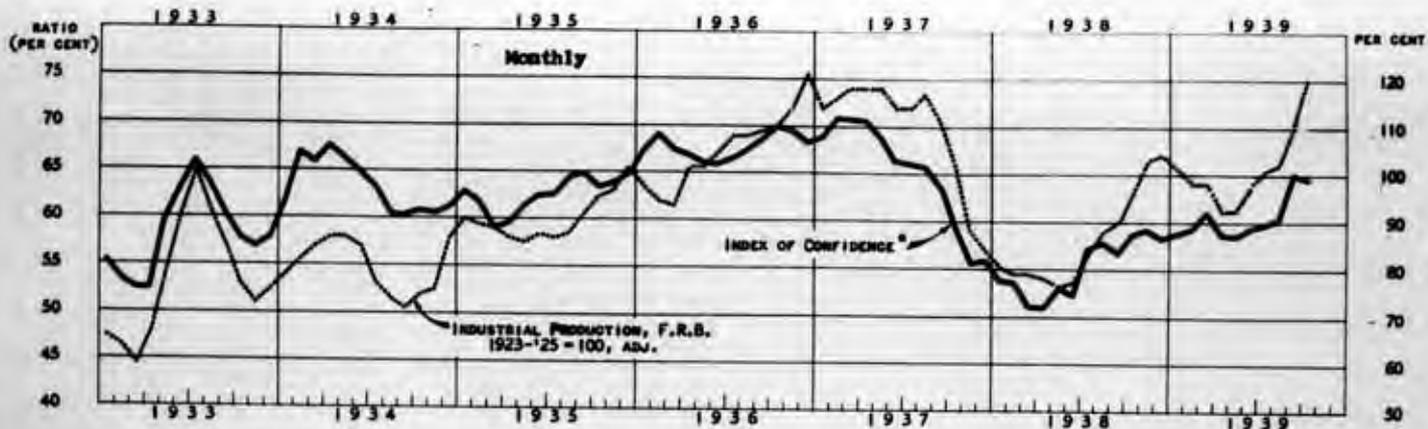
Combined Index of New Orders and Selected Components



**INDUSTRIAL STOCK PRICES AND CORPORATE EARNINGS
COMPARED WITH INDUSTRIAL PRODUCTION**
Quarterly, 1932 to Date



INDEX OF CONFIDENCE* AND BUSINESS ACTIVITY



* RATIO OF YIELD ON MOODY'S AAA BONDS TO YIELD ON BAA BONDS.

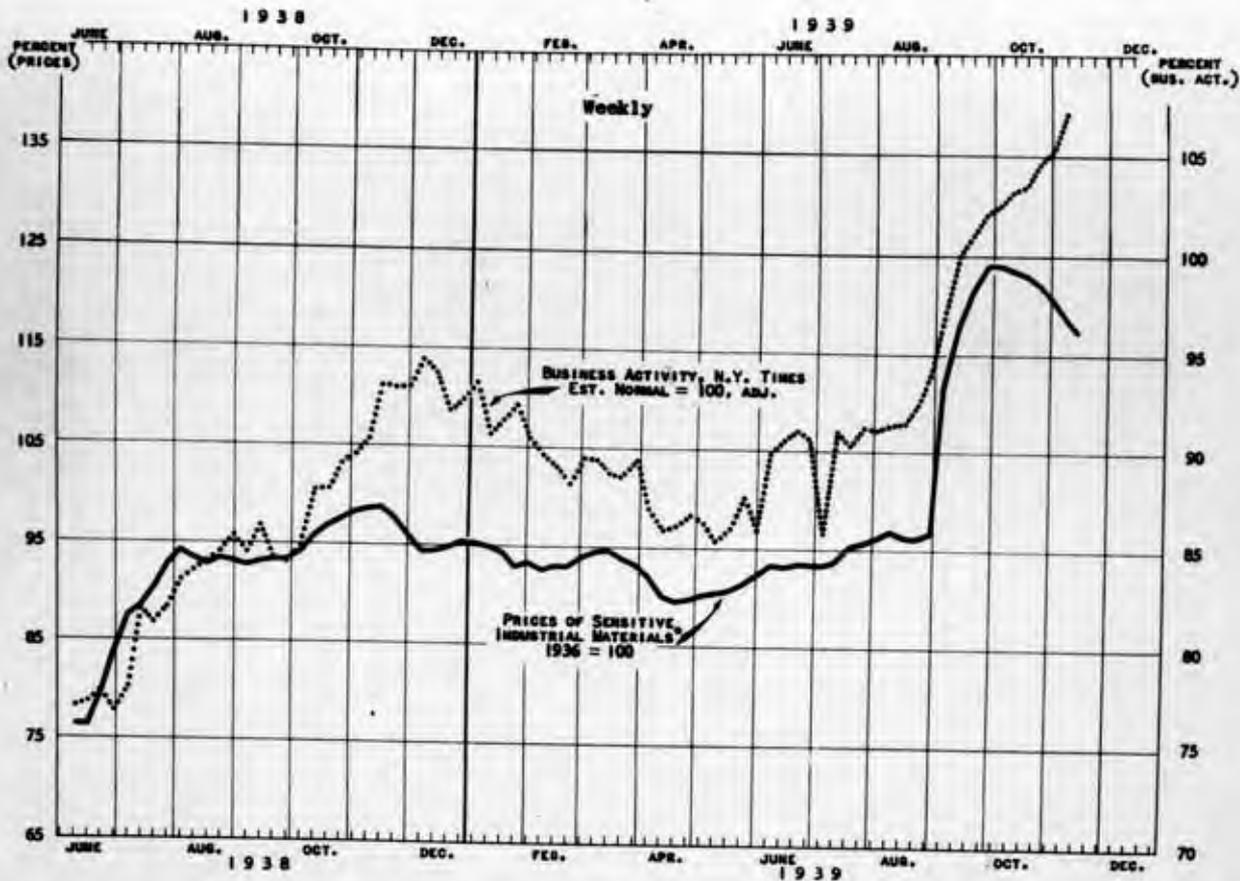
Office of the Secretary of the Treasury
Bureau of Economic and Statistics

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CS

Chart 3
CONFIDENTIAL

BUSINESS ACTIVITY AND PRICES OF SENSITIVE INDUSTRIAL MATERIALS*



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

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

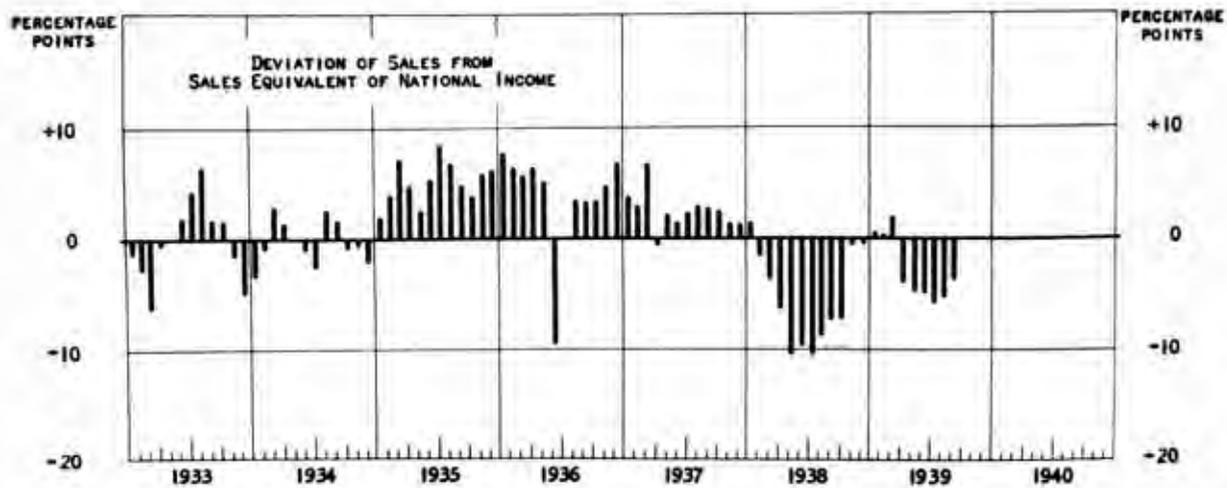
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Chart 4
CONFIDENTIAL
CB

Regraded Unclassified

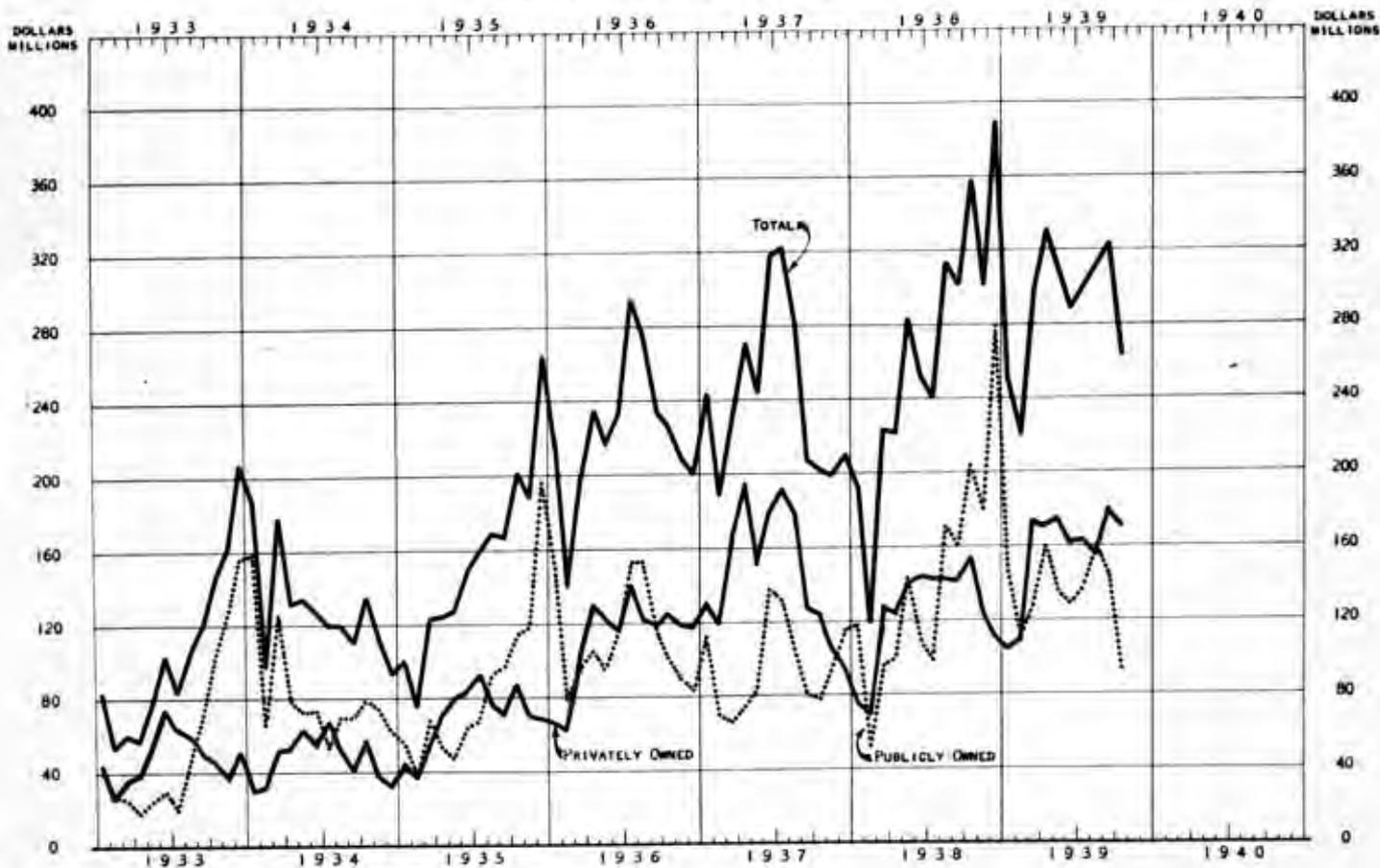
INDICES OF SALES AND SALES EQUIVALENT OF NATIONAL INCOME

1936 = 100



* REPRESENTS OFFTAKE OF MANUFACTURED GOODS

CONSTRUCTION CONTRACT AWARDS CLASSIFIED BY OWNERSHIP OF PROJECTS
 Monthly Totals, F. W. Dodge Corporation



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 20, 1939

TO Secretary Morgenthau

FROM Mr. Cochran

Mr. Straessle of the Credit Suisse, Zurich, and Mr. Lindsay, of the Swiss American Corporation in New York, called on me at 10:15 this morning. They desire an appointment with the Secretary and will call back at 3:30 this afternoon.

They had no particular business to take up. Mr. Straessle, who left Switzerland on October 12, gave me certain information with respect to economic conditions in that country following the outbreak of the war. All securities and valuables, except the currency necessary for the day's business, have been transferred from Basle to interior points. Banking operations continue normally at Basle. The banks in Zurich have not evacuated their holdings, but are prepared to do so on six hours notice. The Credit Suisse has leased the Hotel Savoy at Interlaken and has built vaults in the basement of this building to house its valuables. Basle is strongly fortified, and most of the downtown streets are barricaded with sandbags. Train service suffered much the first two weeks of the war, due principally to mobilization, but service is now perhaps 90% of normal, except that the trains move slower than formerly. Switzerland has built up an important reserve of coal for use in case the Germans should put the hydro-electric plants, which now furnish most of the power for Swiss railways, out of commission. The allies are permitting Switzerland to have only sufficient raw materials for her domestic needs and this consequently hampers the export industry.

There is no need for exchange control and Mr. Straessle looks for the franc to hold steady. He remarked that the note circulation had increased to two billion, as compared with a normal circulation of seven hundred million Swiss francs. He said this hoarding took place principally in Switzerland, but that there were considerable amounts of notes held in France and Germany. He looks for some of those hoarded in France to be returned to Switzerland as the French regulations in regard to holdings of francs in foreign exchange become effective. The effort is being made to encourage Swiss holders to give up their notes against securities offering increased interest rates.

Mr. Straessle has not been in Germany since the war broke out, but has talked with many people from Germany. While the economic situation is not good, he said that the country was so well disciplined that no breakdown can be expected in the near future. He, in fact, thought that the earliest possible date that any upset in the German internal situation could come about would be a year from this winter. He expects a war of one and one-half to two years duration. He is worried about the Bolshevik threat if the German army should be defeated.

[Handwritten signature]

TREASURY DEPARTMENT
Office of the Secretary
Secret Service Division

103A

MEMORANDUM
November 20, 1939

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To: Mrs. Klotz
From: Chief Wilson

We attach for your information copy
of the President's itinerary to Warm
Springs, Georgia, and return.

THE PRESIDENT OF THE UNITED STATES
 Hon. Franklin D. Roosevelt and Party
 Washington, D. C.
 Warm Springs, Ga.
 Asheville, N. C.
 Washington, D. C.

Tuesday - November 21st:

Lv. Washington, D. C.	Southern Railway	3:00 PM ET
Ar. Weyburn, Va.	" "	5:15 PM ET
Water and Coal		
Lv. Weyburn, Va.	" "	5:20 PM ET
Ar. Charlottesville, Va.	" "	5:50 PM ET
Stop to allow Mrs. Roosevelt to board train.		
Lv. Charlottesville, Va.	Southern Railway	5:51 PM ET
Ar. Monroe, Va.	" "	7:30 PM ET
Water - Change crews		
Lv. Monroe, Va.	Southern Railway	7:55 PM ET
Ar. Greensboro, N. C.	" "	10:50 PM ET
Water		
Lv. Greensboro, N. C.	" "	10:55 PM ET

Wednesday - November 22nd:

Ar. Spencer, N. C.	" "	12:10 AM ET
Change Engines and Crews.		
Lv. Spencer, N. C.	" "	12:15 AM ET
Ar. Hayne, S. C.	" "	3:10 AM ET
Water and Coal		
Lv. Hayne, S. C.	" "	3:15 AM ET
Ar. Greenville, S. C.	" "	4:00 AM ET
Water - Change Engine Crews		
Lv. Greenville, S. C.	" "	4:05 AM ET
Ar. Gainesville, Ga.	" "	6:30 AM ET
Water		
Lv. Gainesville, Ga.	" "	6:35 AM ET
Ar. Atlanta, Ga.	" "	8:00 AM ET
Change Engines and Crews		
Lv. Atlanta, Ga.	" "	7:10 AM OT
Ar. Williamson, Ga.	" "	8:50 AM OT
Water		
Lv. Williamson, Ga.	" "	8:55 AM OT
Ar. Warm Springs, Ga.	" "	10:00 AM OT
Destination		

RETURNING:

Tuesday, November 28th:

Lv. Warm Springs, Ga.	Southern Railway	8:00 AM OT
Ar. Williamson, Ga.	" "	9:00 AM OT
Water		
Lv. Williamson, Ga.	" "	9:05 AM OT
Ar. Atlanta, Ga.	" "	10:45 AM OT
Change Engines and Crews.		
Lv. Atlanta, Ga.	" "	11:50 AM ET
Ar. Gainesville, Ga.	" "	1:00 PM ET
Water		

RETURNING (CONT'D)

Lv. Gainesville, Ga.	Southern Railway	1:05 PM ET
Ar. Greenville, S. C.	" "	3:00 PM ET
Water - Change Engine Crews		
Lv. Greenville, S. C.	" "	3:05 PM ET
Ar. Hayne, S. C.	" "	3:50 PM ET
Change Engines and Crews		
Lv. Hayne, S. C.	" "	3:55 PM ET
Ar. Melrose, N. C.	" "	4:45 PM ET
Water - Get Helper.		
Lv. Melrose, N. C.	" "	4:50 PM ET
Ar. Saluda, N. C.	" "	5:02 PM ET
Out off Helper		
Lv. Saluda, N. C.	" "	5:04 PM ET
Ar. Biltmore, N. C.	" "	6:10 PM ET
Turn Train - Change Engines and Crews.		
Lv. Biltmore, N. C.	Southern Railway	7:30 PM ET
Ar. Old Fort, N. C.	" "	8:30 PM ET
Water		
Lv. Old Fort, N. C.	" "	8:35 PM ET
Ar. Statesville, N. C.	" "	10:45 PM ET
Water.		
Lv. Statesville, N. C.	" "	10:50 PM ET
Ar. Spencer, N. C.	" "	11:45 PM ET
Change Engines and Crews.		
Lv. Spencer, N. C.	" "	11:50 PM ET
<u>Wednesday - November 29th:</u>		
Ar. Danville, Va.	" "	2:10 AM ET
Water.		
Lv. Danville, Va.	" "	2:15 AM ET
Ar. Monroe, Va.	" "	4:30 AM ET
Coal and Water - Change Train and Engine Crews.		
Lv. Monroe, Va.	Southern Railway	4:35 AM ET
Ar. Weyburn, Va.	" "	6:35 AM ET
Coal and Water.		
Lv. Weyburn, Va.	" "	6:40 AM ET
Ar. Washington, D. C.	" "	9:00 AM ET
Destination.		

TREASURY DEPARTMENT

93

INTER OFFICE COMMUNICATION

DATE November 20, 1939.

TO Secretary Morgenthau

FROM Mr. Cochran

By appointment, Messrs. Whigham and Gifford, who are to represent the British Government in the matter of disposing of British owned dollar securities on the American market, accompanied by Mr. Pinsent, Financial Counselor of the British Embassy, were received today at 2:45 p.m. by Secretary Morgenthau, with Mr. Jerome Frank, Chairman of the Securities and Exchange Commission, by his side. Mrs. Klutz and Messrs. Cochran and Butterworth were present. Mr. Whigham is the representative who has been mentioned in our cablegrams. He is a partner in the banking firm of Robert Fleming and Company, and a member of the Council of the Bank of England. Carlyle Gifford is the head of a number of Scotch investment trusts.

After cordially greeting the visitors, the Secretary stated that he would be glad to hear what they had to say. Mr. Whigham spoke very directly. He stated that his Government desired to make purchases on this market and wished to have the cash available to pay therefor. The Secretary complimented such an honorable proposition. Mr. Whigham said that the British estimate was that their dollar requirements for the next twelve months would be approximately £100,000,000, or \$400,000,000. It is their desire to take early steps to arrange for at least three months' requirements through liquidating holdings of dollar securities. He stated that British holders had of their own initiative, and without supervision other than that involved in obtaining permits, been disposing of such securities since the war began, due partly to the rise in quotations on the American market and partly to the gain by exchange with sterling depreciating. He said that the returns to the British authorities were not sufficient to show the exact magnitude of these transactions, since numbers of shares were reported, but not the value thereof. It was their estimate, however, that these private sales had been around \$1,000,000 per day, and had perhaps increased slightly the past few days. Mr. Frank confirmed that this was approximately his figure. Mr. Whigham pointed out that such sales for a 300-day year would provide \$300,000,000 or £75,000,000.

Mr. Whigham said that the question arose as to how the British should use the securities, whether to borrow against them or to have them vested in the Government and then proceed to dispose of them.

The Secretary very politely, but definitely, explained to the visitors that it was the position of this Government that neither the Government nor any of its agencies should make loans against the British dollar securities. Mr. Frank added that it would take a very brave government to envisage any different position. Both Mr. Whigham and Mr. Gifford were quite frank in stating that after reading the Neutrality Act, which was only on the wire when they left Europe, they were necessarily and decidedly of the opinion that the

legislation forbade any loan by our Government against the securities. Consequently, the idea of a loan was discarded.

Mr. Whigham said the question then was whether or not his Government should proceed to vest itself with the ownership of the securities which have been registered, or a part thereof. Since a loan cannot be made against them, he insists that the securities be actually in the United States before he sells them. It was the opinion of the two British banking representatives that they should recommend to their Government that within the next few days, possibly a week from this coming Sunday, the Government take title to a portion of the registered securities which should be ample to meet British dollar requirements for three months, or a little over. Mr. Whigham explained that over 750,000 returns had been made to the British Government, registering over 3,000 different types of securities. It would be their recommendation, however, that only 53 different securities be taken over as the initial step. Most of these would be securities which could be readily disposed of without weakening the market. Throughout the conversation, the visitors stressed their desire to cooperate with the Treasury and the Securities and Exchange Commission as completely as possible to guarantee an orderly market and to insure the most profitable liquidation of the British holdings.

In answer to the Secretary's inquiry as to just what the first step in taking title to the securities involved, Mr. Whigham explained that the Treasury would simply announce that certain classes of securities would be taken over entirely, and not pro rata. It was their understanding, however, that if they desired they could call up certain amounts or blocks of any desired security without taking over everything registered of this one issue. For instance, they will hesitate to take over at one time all of the shares of one international mining stock since for the British Government to acquire all of the shares thereof registered with them would give the Government a secondary controlling interest in this particular security, which would come under the regulations of Mr. Frank's Commission. Furthermore, for it to be known that the British Government held such an important part of the shares might react unfavorably on the market. Mr. Whigham explained that when the vesting takes place, it will be necessary for the Government to announce the names, but not the numbers, of the shares that are taken over and the per security price in sterling paid therefor. The alternative would be for the British Government to ask for a voluntary turning in of securities which are now registered. It is the opinion of the British experts that this step should not be risked, since there is no assurance that ample shares would be surrendered or that the types most readily salable would be received.

One highly technical market transaction, involving the British putting up their check against future purchases of the shares which they intend to liquidate, was mentioned, but Mr. Frank thought this would meet with many difficulties on our market. The visitors agreed that this idea should be discarded. This measure was not fully described in the meeting, but had been discussed earlier by Mr. Butterworth with Messrs. Frank, Purcell and Bernstein.

The Secretary appreciated the attitude which his visitors were taking and reassured them of his desire and that of Mr. Frank to be as helpful as possible.

He told them that whenever they were ready to submit concrete proposals which we could discuss with them, he and Mr. Frank would be ready to go ahead, and he was sure that little time would be lost. Mr. Whigham stated that he was ready at the moment to go ahead. He said that he had come here for the sole purpose of looking after this security business and was quite prepared to go into details with Mr. Frank and with anyone the Secretary nominated. The Secretary told him that he would be represented by Mr. Walter Stewart. (It was later decided, at Mr. Stewart's request, that his role be that of Advisor, and that Mr. Cochran be the Secretary's representative.) It was arranged that Mr. Whigham and Mr. Gifford should meet tomorrow morning with Messrs. Frank and Cochran. Mr. Butterworth will meet with the group as long as he is in this city. The matter was left therefore at that point. That is, the British group will recommend to their Government that the Government vest ownership of fifty-three types of securities in itself as early as possible and that the means for their disposal on this market be discussed with the American authorities. Secretary Morgenthau let them know that it was entirely agreeable to the President and himself that the Bank of Montreal act as agent in this matter. Mr. Whigham said this was quite convenient, since some of the securities to be disposed of already lodged with the Bank of Montreal.

Before the meeting broke up, Mr. Frank raised the question of publicity. He stated that his Commission had been pressed for information in regard to security sales, particularly from abroad, and that an open letter had been addressed to him implying criticism for his alleged failure to keep the public informed of security sales from abroad, while he was seeking so much information with respect to domestic market transactions. He thought a statement to the press before the British began operations might be advisable, and placed his press service at the visitors' disposal. Mr. Whigham had never talked to the press and did not like to begin now, but would look into the matter. The Secretary thought something might be gained by a clear statement of purpose which would avoid speculation and the publishing of erroneous information. The visitors were a little concerned, however, lest information might be released which would complicate their undertaking.

It is understood that Mr. Pinsent will also meet with the British representatives when they consult with the American officials, and that he will probably carry on here as their representative when the banking experts are in New York or elsewhere.

At one point in the conversation the visitors mentioned the estimate which they had seen in the press of British sales of dollar securities representing 5 1/2% of the market trading at New York. Neither Mr. Frank nor Mr. Cochran could confirm this, and both denied that their respective organizations had given out such an estimate.

The meeting was very cordial in tone and the two British banking experts gave a favorable impression, both for their knowledge of their field and their honest approach to the problem.

It should be added that during the conversation Secretary Morgenthau inquired as to whether the British representatives present were limited to handling the liquidation of indirect investments, or whether they were also authorized to

work with the disposal of indirect British investments. The British visitors replied that they were dealing only with securities and had no instructions with respect to liquidation of direct investments in this country.

H. M. S.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

97

DATE November 20, 1939

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

At 12:00 noon yesterday, Sunday, Mr. Livesey telephoned me from the State Department the substance of Mr. Gaston's cablegram #52 of November 18 sent from Guatemala, seeking instructions as to whether the United States desiring to act as host for the meeting of Ministers of Finance in 1940. It was noted that Mr. Gaston was obliged to give a reply to the conference on Monday. After a further conversation with Mr. Livesey, who had passed the cablegram on to Dr. Feis and Acting Secretary Welles, we agreed upon a tentative draft of a negative reply to Mr. Gaston. It was understood that this message would not be sent until I had talked with the Secretary.

At approximately 2:15 yesterday afternoon, I reached the Secretary by telephone in Arizona. I told him of the tentative reply which had been drawn up. I thought this would be satisfactory unless the United States Treasury had a definite program which it wished to advance with the Latin-American countries. If we had such a program, I thought it would be to our advantage to have the next conference in Washington. The Secretary stated that there was no such program. He reminded me of his lack of faith in conferences; and approved the reply in a negative sense. I accordingly telephoned Mr. Livesey and the reply went out in the form of cablegram #54 dated November 19, 3:00 P.M.

S. M. R.

November 20, 1939

To: The Secretary

From: Mr. Hanes

Herbert Feis is extremely anxious to see you before noon today in regard to an important cable from Ambassador Bullitt concerning the head of the Anglo-French purchasing agency to be designated in this country.

We also have to make a decision and give Herbert Gaston an answer in Guatemala before this afternoon.

It would be very helpful if you could see Feis before lunch.

J. W. H.

TREASURY DEPARTMENT

99

INTER OFFICE COMMUNICATION

DATE November 20, 1939

TO Secretary Morgenthau

FROM Mr. White

Subject: Utilization of our gold holdings

1. A plan for providing cash to lend abroad and to invest in United States governments, rather crudely outlined in the appended draft of a bill, is submitted as a suggestion of a possible means to accomplish the following:

(a) provide ample funds to carry out our Latin American program, to make a loan to China, and to participate in reconstruction loans elsewhere after hostilities cease -- all without additional appropriation of funds by Congress.

(b) make possible the use of our gold holdings, silver seignorage and part of our Stabilization Fund without increasing the volume of excess reserves.

(c) convert some of our gold holdings into interest bearing assets, thereby reducing our tax burden.

(d) strengthen the financial position of the Treasury and promote continuation of low interest rates.

(e) buy America back without endangering the stability of our security markets.

(f) dissipate some of the criticism against Treasury gold policy, and enhance the prestige of gold.

2. I suspect you will not care much for the plan, yet it may suggest some related or alternate method of accomplishing the above-mentioned objectives. The essentials of the plan could be accomplished through simpler devices (outlined in an alternate bill, appended) which you may deem less unattractive, but I feel the idea needs to be given a gilt covering if it is to be at all palatable to Congress and the public.

3. The plan presupposes that:

(a) Within the next couple of years our gold holdings will have passed the \$20 billion mark.

(b) There is very little prospect of a net outflow of gold of large dimensions within the foreseeable future.

(c) A sum of \$8 billion is more than adequate as a metallic base for our domestic monetary needs under present statutory requirements -- provided, of course, we have ample amounts to meet any possible sustained adverse balance of payments we are likely to experience in our international account.

(d) That portion of our gold holdings -- at least over \$8 billion -- which serves no useful monetary purpose may be justly regarded as a frozen asset though it may be rightly assumed to have potential international purchasing power.

(If you are interested, the advantages and disadvantages of the measures proposed can be submitted for discussion.)

The Gold Investment Act of 1940

Purposes of the Bill:

- (a) To increase the earning capacity and usefulness of our gold holdings;
- (b) To help correct the maldistribution of the world's gold and to strengthen the monetary systems of the rest of the world without weakening our own;
- (c) To promote foreign trade recovery and a higher national income at home, and increased productivity abroad;
- (d) To help stabilize foreign exchange rates and reduce artificial barriers to the free movement of goods and capital among the nations of the world;
- (e) To help promote peace among nations and to facilitate post-war reconstruction programs, and other purposes;
- (f) To protect our domestic security market;
- (g) To reduce the possibility of inflation.

1. There shall be created a special committee to be known as the "Gold Investment Committee", consisting of the following members: (1) the Secretary of the Treasury, who shall act as chairman of the committee; (2) the Chairman of the Board of Governors of the Federal Reserve System; (3) the Director of the Budget; (4) the Chairman of the Securities and Exchange Commission; (5) the Chairman of the National Resources Committee; (6) Administration of the leading agencies.

The duties of the committee shall be to advise the Secretary of the Treasury in the performance of his duties pertinent to the bill, to initiate and execute such investigation and studies as are necessary to properly carry out the purposes of the bill, and to prepare reports for the President on matters dealt with by the committee.

2. The Secretary of the Treasury shall be authorized to issue, with the approval of the President and of the "Gold Investment Committee" Gold Notes against the following collateral in such amounts and at such times as he deems in the public interest, provided the amount issued shall at the time of issue not exceed the purchase price of the collateral, and provided further that the total issue shall not exceed \$20 billion:

- (a) Gold at monetary value, which shall constitute at least 40 percent of the face value of Gold Notes outstanding;
 - (b) Interest-bearing bonds of foreign governments which are not in default to the United States Government, and which are not prohibited from borrowing in the United States under terms of the Neutrality Act; securities of American corporations held by residents of foreign countries or by foreign corporations or by foreign governments, provided the securities are listed on the New York Stock or Curb Exchange, and provided further that the purchase price shall not be in excess of 5 percent less than the quoted market price;
 - (c) Interest-bearing bonds of the United States Government having maturity in excess of five years from the date of purchase.
3. The Gold Notes issued under the authority of this Act shall have the attributes now possessed by gold certificates with respect to the constitution of reserves against Federal Reserve Notes and deposits, and convertibility into gold bullion. Any restrictions upon the holding and use of gold certificates shall apply also to Gold Notes.
4. The Secretary of the Treasury shall be authorized, with the approval of the Committee and of the President of the United States, to exchange Gold Notes for gold certificates (or certificate credits) outstanding, provided however, that the amount of gold certificates (or gold certificate credits) outstanding shall not be reduced below \$8 billion. Gold bullion held against gold certificates so exchanged shall be covered into a gold note fund, to be held as collateral against Gold Notes.
5. The Secretary of the Treasury shall be authorized to purchase with the approval of the President and the Gold Investment Committee the interest bearing bonds eligible as collateral for Gold Notes in such amounts, at such times, and at such rates as he deems to be in the public interest, and to pay for such bonds out of any funds in the Treasury not otherwise appropriated, provided however, that the amounts purchased shall not exceed the amount of Gold Notes which may be issued against them as collateral.
6. The bonds acquired by the Gold Investment Committee shall be carried in a Gold Note Fund at their purchase price.
7. The Secretary of the Treasury shall be authorized to empower a committee set up for that purpose by the Securities and Exchange Commission to liquidate American stocks and bonds as have been acquired under the authority of this Act, except U. S. government bonds, as the Secretary of the Treasury with the approval of the Gold Investment Committee shall deem in the public interest, provided the special committee entrusted with the sale of the securities shall be given a period of 10 years within which to sell the securities.

8. The Secretary of the Treasury shall be authorized to make such regulations as are necessary to prohibit the acquisition by foreigners of any securities identical with those held by the Gold Investment Committee except from the Committee via their selected broker and only at the market price.

9. The interest received on any investments shall be permitted to accumulate a fund to be known as the Gold Investment Fund until it has reached the sum of \$200 million. Any losses on investments that will be sustained shall be deducted from this fund at the end of each year in which the losses are actually sustained. Any gains that shall accrue shall be added to this fund. Interest and/or gains received in excess of \$100 million shall be covered into the General Fund of the Treasury as a miscellaneous receipt.

10. The Secretary of the Treasury as Chairman of the Gold Investment Committee shall have published monthly a statement showing operations undertaken during the prior month and a statement of the account of the Gold Investment Fund. Once a year there shall be published a record of the meetings held by the Gold Investment Committee, which shall include all decisions made and any minority held by members of the Committee.

11. Congress shall appropriate \$100,000 for the expenses of the Committee the first year and shall authorize the expenditure thereafter from the income of the fund of an annual fund not in excess of \$100,000 a year to carry out the purposes of this bill.

12. The Federal Reserve Board shall have the power, at their discretion but with the approval of the Secretary of the Treasury, to increase the proportion of reserves against deposits required to be maintained with the Federal Reserve banks by members of the Federal Reserve System by percentages sufficient to offset the sum of Gold Notes, gold certificates, and silver certificates outstanding in excess of a combined total of \$18 billion.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 20, 1939

TO Secretary Morgenthau

FROM Mr. White

Subject: Gold and Capital Movements in the First Ten Weeks of War 1/

1. There has been a net outflow of capital from the United States of \$25 million since the declaration of war. In the month of September there was a net inflow of \$93 million but in October the movement was reversed and a net outflow of \$91 million occurred. In the first week in November there was a further outflow of \$27 million.

Net Capital Inflow
(Net outflow appears as (-))

	<u>September</u>	<u>October</u>	<u>1st Week in November</u>	<u>Total</u>
	<u>(In millions)</u>			
Short-term banking funds <u>2</u> /	\$ 75.5	\$- 63.2	\$- 21.0	\$ 8.7
Domestic security transactions	- 1.3	- 40.5	- 7.9	- 49.7
Foreign security transactions	<u>19.1</u>	<u>11.5</u>	<u>1.8</u>	<u>32.4</u>
Total	\$ 93.3	\$- 90.9	\$- 27.1	\$- 24.7

2. Dollar balances of belligerent countries with the exception of United Kingdom declined \$92 million -- United Kingdom balances rose \$12 million. Dollar balances of non-belligerent countries with the exception of Latin American countries increased \$63 million.

1/ Prepared by J. S. Hooker.

2/ Including brokerage balances.

Secretary Morgenthau - 2

The important changes by countries were as follows:

	Official Balances (In millions of dollars)	Private Balances	Total Balances
Belligerent countries:			
United Kingdom	+ 141	- 129	+ 12
France	- 18	- 40	- 58
Canada	+ 10	- 42	- 32
Germany	0	- 2	- 2
Non-Belligerent Countries:			
Italy	0	+ 19	+ 19
Netherlands	+ 2	+ 24	+ 26
Switzerland	+ 21	+ 14	+ 35
Other Europe	+ 67	- 31	+ 36
Latin America	- 5	- 32	- 37
Far East	+ 4	+ 19	+ 23
All other	0	- 1	- 1

3. Foreign net sales of domestic securities have totalled \$50 million since the war started. The net sales for British account since August 30 have amounted to \$79 million and for Canadian account \$11 million. Dutch and Swiss accounts have purchased over \$25 million of domestic securities.

The net purchases or sales (-) by countries were as follows:

Belligerent Countries		Other Countries	
(In millions)			
United Kingdom	\$- 78.6	Italy	\$+ .3
France	+ 2.2	Netherlands	+ 8.1
Canada	- 10.5	Switzerland	+ 17.4
Germany	- .6	Other Europe	+ 3.1
		Latin America	+ 2.7
		Far East	+ 9.0
		All Other	- 2.8

Secretary Morgenthau - 3

4. Gold held under earmark in the United States has declined \$82 million since the outbreak of war. The important changes by countries were as follows:

<u>Belligerent countries</u>	<u>Other countries</u>
France - \$-45 million	Belgium \$ -20 million
United Kingdom, Germany and Canada had no gold under earmark during this period.	Netherlands -27 "
	Sweden -23 "
	Switzerland -26 "
	Argentina +34 "
	Brazil + 7 "
	Thailand + 9 "
	All other + 9 "

5. Net gold imports into the United States adjusted for earmarking amounted to \$331 million in September, \$139 million in October and \$34 million in the first week in November, a total of \$504 million since the outbreak of hostilities.

Net gold imports (adjusted for earmarking) by countries were as follows: (Net exports appear as (-))

(In millions of dollars)

	<u>September</u>	<u>October</u>	<u>1st Week in November</u>	<u>Total</u>
<u>Belligerent countries</u>				
United Kingdom	\$ 170	\$ 11	\$ 3	\$184
France	-	35	10	45
Canada	121	9	0	130
Australia	5	5	8	18
<u>Other countries</u>				
Belgium	1	17	2	20
Netherlands	28	5	0	33
Switzerland	13	10	10	33
Italy	0	6	0	6
Sweden	- 2	25	0	23
Japan	13	13	5	31
Argentina	-25	- 6	- 2	- 33
Other	<u>7</u>	<u>9</u>	<u>- 2</u>	<u>14</u>
Total	\$331	\$139	\$34	\$504

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin
NO.: 2087
DATE: November 20, 1939, 9 a.m.

My 2004, November 9, 5 p.m.

The bill portfolio of the Reichsbank increased 261,000,000 marks during the second week of November to a total of 9,886,000,000 marks. Holdings of eligible securities on the other hand declined from 1,218,000,000 marks on November 7 to 1,127,000,000 on November 15. Miscellaneous assets declined by 395,000,000 marks to 1,233,000,000 marks representing a total decrease of 641,000,000 marks since the previous ultimo which corresponds quite closely to the rise of 616,000,000 marks in the last week of November.

Reichsbank notes in circulation declined from 10,583,000,000 marks on November 7 to 10,345,000,000 marks on November 15. Coincidentally with the appearance of the Reichsbank mid-month statement the Rentenbank, a Reichsbank subsidiary, published its October report which showed a further issuance of 116,000,000 marks of Rentenbank notes during the month. The total circulation of Rentenbank currency on October 31 was 970,000,000 marks of which, however, 168,000,000 marks were held by the Reichsbank.

During the second week of November there was again an increase in the Reichsbank's holding of silver coin, from 345,000,000 marks to 373,000,000 marks. Besides the action of the Reichsbank in partially retiring silver currency from circulation and replacing it by Rentenbank notes of small denomination, it has been announced by the Reich Treasury that after January 1, 1940 the "old style" two-mark silver pieces which were issued mostly prior to 1933 would no longer be legal tender. The new issues have a slightly smaller silver content than the old issue coins. It is stated in the announcement of the Reich Treasury, however, that the majority of the two-mark pieces which are still in circulation is made up of issues which will still be legal tender.

Repeat to Treasury.

KIRK

EA:EB

63473728
OFFICE OF THE
TREASURY
WASHINGTON, D. C.
RECEIVED

CJ

GRAY

PARIS

Dated November 20, 1939

Rec'd 3:50 p.m.

Secretary of State,
Washington.

2793, November 20, 6 p.m.

FOR THE TREASURY.

Under a convention between the state and the amortization fund dated November 15 which will be approved by Article XVII of the Finance Law (1940 budget) it is provided that in addition to the amortization charges on the public debt already assumed by the amortization fund (which as you are aware is the recipient of revenues derived from the match and tobacco monopolies and inheritance taxes) the latter will assume certain additional amortization charges. Those carried for the current year totalled 4,750,000,000 francs (page 6, despatch No. 3631, January 10, 1939): the amortization fund will now assume amortization charges on the 5% forty year loan issued last May (10,685,000,000 francs outstanding), the 4% thirty year conversion loan issued in Switzerland and Holland in January (3,583,000,000 francs outstanding), and the 3 3/4% six year loan issued in Holland and Switzerland last May (2,030,000,000 francs outstanding). (END SECTION ONE)

BULLITT

NPL:EMB

CJ

GRAY

PARIS

Dated November 20, 1939

Rec'd 5:23 p.m.

Secretary of State,
Washington.

2793, November 20, 6 p.m. (SECTION TWO).

With reference to Paragraph Two of our telegram 2499, October 17, 10 p.m., this morning's JOURNAL OFFICIEL carries the appointment of M. (?) "Comptroller General First Class of the Army" to approve payments in the United States.

This morning's AGENCE ECONOMIQUE ET FINANCIERE quotes with pleasure a recent financial news article reporting that the B.I.S. has decided not to transfer gold valued at £600,000 belonging to the Czechoslovak National Bank in spite of the Reichsbank's request. The article states that a "high official" of the Czech Bank who succeeded in leaving Prague for Basel has protested against such transfer energetically in the name of that bank and that the B.I.S. is consequently taking cognizance of his protest.

The securities market after opening firm declined on profit taking and most rente issues and variable revenue shares closed with moderate losses. Official foreign exchange rates were unchanged. (END OF MESSAGE)

BULLITT

EMB:NPL

PARAPHRASE OF TELEGRAM SENT**TO: American Embassy, Paris****NO.: 1417****DATE: November 20, 1939, 6 p.m.****STRICTLY CONFIDENTIAL FOR THE AMBASSADOR**

Refer to Department's no. 2783 of November 18, 1939.

Purvis' appointment would be agreeable to U. S;
Daladier may be assured of that.

He can count certainly on every branch of the U.S.
Government to cooperate with him in every proper and
feasible way. Exactly what kind of cooperation should
be feasible or necessary will be quite impossible to
determine until specific matters are presented for
consideration, as you will understand.

WELLES
Acting

EA:MSG:EB

FEDERAL RESERVE BANK
OF NEW YORK

Noted

B. W. Cochran

112

OFFICE CORRESPONDENCE

DATE November 20, 1939.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

L. W. Knoke

I called Mr. Bolton at 10:20 today to give him my reply to the questions asked last Friday in connection with the clearing of planes bought by the British Air Ministry and paid for, which are now ready for shipment. I told him that we had gotten in touch with the Custom House and enumerated to Bolton the papers necessary. I added that copies of them are now on the way to London by this morning's clipper. I explained that according to what we had been able to find out at the Custom House, there seemed to be no delay in shipment of any such planes and that at any rate the requirements were simple and could undoubtedly be complied with without a hitch once the shipper knew what was expected of him and had been able to set up the necessary machinery.

I asked Bolton what Mr. Watson's address was in Buenos Aires and explained why we needed the information. Bolton will cable us.

I mentioned that the post office had notified us that hereafter all mail for Great Britain will go on what they call "confidential sailings" which meant that we would no longer know by what boat a certain letter had gone forward and could not, therefore, trace it in the future unless the mail was forwarded by clipper. Would the Bank of England be willing to choose that route at their expense? Bolton will let us know.

FEDERAL RESERVE BANK
OF NEW YORK

113

OFFICE CORRESPONDENCE

DATE November 20, 1939.CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITHL. W. KnobeBANK OF ENGLAND.

2

There was little news from Europe, Belton said. People in England, he thought, were expecting the worst to happen in Holland and Belgium; the decision to invade had only been deferred by Hitler and something was sure to break out there sooner or later.

LWK:KW

11-20-39

file

114

THE NATIONAL
BOND
AG COMPANY



S U M M A R Y

<u>Classification of Materials & Supplies</u>	<u>Price</u>
I. Automotive Equipment	\$ 16,748,000
II. Gasoline and Lubricants	11,452,300
III. Ferrous and Non-Ferrous Metals	24,683,300
IV. Electrical Equipment	5,600,000
V. Medical Supplies	3,600,000
VI. Textile Materials	3,440,000
VII. General Machinery	2,151,000
VIII. Railway Equipment	4,000,000
IX. Machinery for Tin Mining	3,000,000
	<hr/>
	<u>\$ 74,674,600</u>

TENTATIVE LIST OF ARTICLES TO BE PURCHASED
BY UNIVERSAL TRADING CORPORATION

I. Automotive Equipment

	<u>No. of Units</u>	<u>Unit Price</u>	<u>Total Price</u>
1. Trucks, including chassis, bodies, tires and parts.	9,500	average \$1,600.00	\$15,200,000
2. Repair Shops	10	\$40,000.00	\$ 400,000
3. Mobile Machine Shops	100	\$ 5,880.00	\$ 588,000
4. Motorcycles, including tires and parts	800	\$. 730.00	\$ 560,000
			<hr/>
			\$16,748,000

II. Gasoline and Lubricants

	<u>No. of Units</u>	<u>Unit Price</u>	<u>Total Price</u>
1. Aviation Gasoline	3,000,000 gal.	@ .25/g.	\$ 750,000
2. Automobile Gasoline (for the supply of 9500 trucks for 6 to 7 months)	40,000,000 gal.	@ .20/g.	\$8,000,000
3. Motor Oil	1,750,000 gal.	@ .43/g.	\$ 752,500
4. Gear Oil	200,000 gal.	@ .47/g.	\$ 94,000
5. Marine Engine Oil	300,000 gal.	@ .37/g.	\$ 111,000
6. Engine Oil	500,000 gal.	@ .48/g.	\$ 240,000
7. Cylinder Oil	200,000 gal.	@ .34/g.	\$ 68,000
8. Diesel Oil light	15,000 tons	@ \$53/T	\$ 795,000
9. Diesel Oil heavy	5,000 tons	@ \$45/T	\$ 225,000
10. Kerosene	100,000 gal.	@ .18/g.	\$ 18,000
11. Brake Oils	20,000 gal.	@ .50/g.	\$ 10,000
12. Grease	500,000 lb.	@ .73	\$ 365,000
13. Brake Fluid	14,000 gal.	@ 1.70	\$ 23,800
			<hr/> \$11,452,300

III. Ferrous and Non-Ferrous Metals.

<u>Kind</u>	<u>Quantity</u>	<u>Value</u>
Steel	28,090 tons	\$ 3,007,800
Copper	11,500 "	4,500,000
Lead	6,000 "	720,000
Zinc	3,000 "	600,000
Brass	7,490 "	2,621,500
Steel Tubes	2,400 "	384,000
Pig Iron	31,000 "	930,000
High Speed Tool Steel	2,500 "	2,500,000
Alumigan	200 "	140,000
Materials for Steel Plant	43,000 "	5,090,000
Chemicals	2,500 "	500,000
Finplate Steel Sheets	2,300 "	375,000
Working Tools	3,000 "	360,000
Rubber Sheets	150 "	75,000
Refractories, Ferro-alloys, etc	3,000 "	1,600,000
Replacements for Machinery Parts		1,020,000
Miscellaneous		300,000
		<hr/>
		\$24,683,300

IV. Electric Equipment

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<u>Radio Equipment and Materials.</u>	<u>No. of Units</u>	<u>Unit Price</u>	<u>Total Price</u>
1. 1 KW Short Wave and Medium Wave Radio Telephone and Telegraph Mobile Stations	100	\$5,150.00	\$515,000.00
2. 15 W Short Wave Radio Telephone and Telegraph Portable Sets.	500	725.00	362,500.00
3. 10 W Ultra Short Wave Radio Telephone Portable Sets.	1,000	575.00	575,000.00
4. Radio Communication System for centralized control of truck traffic along Highways.			100,000.00
5. Component Parts, vacuum tubes, resistances, condensers, transformers, meters, instruments, wires, etc.			200,000.00
6. Power Supplies, dry cells, storage batteries, dynamotors, engine-generators, etc.			145,000.00
7. Materials, insulators, fibre, metals, etc.			90,000.00
8. Tools			12,500.00
			<u>2,000,000.00</u>

<u>Telephone Equipment</u>	<u>No. of Units</u>	<u>Unit Price</u>	<u>Total Price</u>
1. Magneto Desk Telephones	20,000 Set	\$ 18.00	\$360,000.00
2. Magneto Field Telephones	30,000 Set	26.00	780,000.00
3. Magneto Indoor Switchboards	2,500 Set	100.00	250,000.00
4. Magneto Field Switchboards	2,500 Set	120.00	300,000.00
5. Field Cable	350,000, 000 Ft.	3.00 per thousand feet.	1,050,000.00
6. Galvanized Iron Wires	7,000,000 Lb.	4.00 per hundred lbs.	280,000.00
7. Copper Wires	1,400,000 lb.	16.00 per hundred lbs.	224,000.00
8. Accessories			<u>356,000.00</u>
			<u>\$ 3,600,000.00</u>
		TOTAL	\$ 5,600,000.00

V. Medical Supplies

	<u>No. of Units</u>	<u>Unit Price</u>	<u>Total Price</u>
Pharmaceutical Products, including			
Chemicals	310,000 Kg.		
Tablets	180,000 tins	varies according to	
Aethyl Chloride	1,000,000 c.s.	different	
Neocarsphenamina	60,000 tubes	products.	\$1,600,000
Parraffinum Mollis	800 Barrels		
Surgical Instruments and Supplies, including			
Adhesive Plaster and Tapes	2,070,000 rolls		
Catgut (1/2 mm)	4,000 doz.		
Scalpels	"		
Scissors	6,000 doz.		
Forceps	"		
Amputating & Resetting sets	400 sets		
X-Ray Machines	40 sets	"	\$2,000,000
Power Plants	40 sets		
Microscopes	100 sets		
Autoclaves	20 sets		
Syringes & Needles	12,000 sets		
Dressing Instruments	9,000 sets		
Compression Tubes	4,000 pcs.		
Rubber Gloves	20,000 pcs.		
Rubber Tubing	1800 lbs.		
Thermostat	1,000 doz.		
Medical Chests	14 sets		
		Total	\$3,600,000

VI. Textile Materials.

	<u>No. of Units</u>	<u>Unit Price</u>	<u>Total Price</u>
1. Khaki Cloth	6,000,000 yards	\$.148	\$ 900,000
2. Blankets	4,000,000 pieces	\$.63	\$ 2,540,000
			<u>\$3,440,000</u>

VII. General Machinery

	<u>No. of Units</u>	<u>Unit Price</u>	<u>Total Price</u>
General Machinery and Material including drills, saws, wood-working machinery, Diesel engines, misc. mechanics tools, forging material, oil can tin, mule carts and tires.		Prices vary according to different items.	\$ 380,000
Highways Construction Machinery, including Pumps & Parts	40	\$300	\$ 12,000
Drill Rods	1000 tons	4¢/lb.	\$ 100,000
Striking Hammers	46,700	\$.60	\$ 28,000
Transits	20	\$750	\$ 15,000
Reinforcing Bar	3,500 tons	\$.03/lb	\$ 240,000
Rock Drill Machines	40	\$8,150	\$ 326,000
Road Building Machines, such as roller, shovels, scrapers	50	average \$16,000	\$ 800,000
			<u>\$1,901,000</u>
Absolute Alcohol Plants (for fuel use)	2	\$125,000	250,000
			<u>\$2,151,000</u>

VIII. RAILWAY EQUIPMENT

	<u>No. of Units</u>	<u>Unit Price</u>	<u>Total Price</u>
1. 12 Kg. narrow gauge rails with steel sleepers and accessories	500 miles	\$2,000/mile	\$1,000,000
2. a. Diesel Locomotives, 75 H.P.	100	\$7,000	700,000
b. Diesel Locomotives, 40 H.P.	200	\$4,000	800,000
3. Cars, 7 Tons	11,000	\$ 200	200,000
4. Signals			200,000
5. Railroad shop equipment and accessories			200,000
6. Bridges			900,000
			<hr/> \$4,000,000

II. Equipment for Tin Mining.

	<u>Total Price</u>
Mining Equipment and Machinery for the improvement of the existing tin mines estimated at	\$ 3,000,000

TSINGHAI

KANSU

HONAN

KIANGSU

SHENSI

ANHWEI

SIKANG

HUPEH

SZECHWAN

CHEKIANG

HUNAN

KWEICHOW

KIANGSI

FUKIEN

BURMA

YUNNAN

KWANGSI

KWANGTUNG

MANDALAY

INDO-CHINA

HANAN

MAP OF HIGHWAYS AND RAILROADS IN SOUTH-WESTERN CHINA

LEGEND:

- HIGHWAY COMPLETED
- RAILROAD COMPLETED
- INTERNATIONAL
- NATIONAL
- PROVINCIAL BOUNDARY
- CITY

SCALE: 1:114,000,000

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Dr. Harry D. White
FROM E. H. Foley, Jr.

NOV 20 1939

You have asked whether the Reconstruction Finance Corporation would have authority to make loans to an American corporation for the purpose of purchasing Chinese tin and reselling such tin in the American market.

Section 5(d) of the Reconstruction Finance Corporation Act authorizes the Corporation "to purchase the securities and obligations of, and to make loans to, any business enterprise when capital or credit, at prevailing rates for the character of loan applied for, is not otherwise available: Provided, That all such purchases of such securities and obligations and all such loans shall be, in the opinion of the Board of Directors of such sound value, or so secured as reasonably to assure retirement or repayment; may be made or effected either directly or in cooperation with banks or other lending institutions through agreements to participate or by the purchase of participations, or otherwise; shall be made only when, in the opinion of the Board of Directors, the business enterprise is solvent; and shall be made under such terms, conditions, and restrictions as the Corporation may determine: * * * ."

Under the broad authorization conferred by this section but subject to the provisos contained therein, the Reconstruction Finance Corporation would have authority to make loans to an American corporation for the purposes indicated in your request.

E. H. F.

11-20-39

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MEMORANDUM

November 20, 1939

Repeated inquiries have been received in the past few weeks from China regarding the progress of the proposed loan against tin. On the China side, plans have been completed to make shipments by available steamers regularly to the United States and the first shipment of 500 tons has already commenced its journey from Yunnan. In the meantime, due to the war situation in Europe, several European countries have approached China with the object of securing this tin and, naturally, these negotiations are being held up until a decision is arrived at on this side.

China is the only important producer of tin which has not participated in the international tin agreement. Without being subject to export quota control, China is free to increase her production and export in order to meet the increasing needs of the United States. Annual consumption of tin by various industries in the United States varied from 48,860 long tons in 1938 to 87,000 tons in 1929. Although the proposed shipment of Chinese tin of 10,000 tons a year only fulfills a small portion of the United States requirement, it is important to have such an independent source of supply in view of the war situation and control of the international tin agreement.

Recent developments in the Far East due to the landing of Japanese forces near Pakhoi threaten to interfere with some of China's few remaining means of communication with the outside world. As to how serious this threat is depends on further developments. The mere landing of enemy

troops near Pakhoi creates no serious situation as this has been anticipated for some time and communications with that part of the sea-coast were cut off by the Chinese authorities long ago. The Japanese, in landing troops near Pakhoi, may have two objectives in view. They may advance north-westward and attempt to cut the Kwangsi motor road connection with Indo-China near the international border. According to the opinion of some military experts, accomplishment will be most difficult as the mountainous terrain (known as "10,000 Huge Mountains") is right in the path and it will take at least 120,000 troops to undertake the expedition. So, if movement is along this direction the objective may be to occupy enough territory in order to safely establish an air field from which land planes may be dispatched to do damage to trucks and roads in the Provinces of Kwangsi, Kweichow and Yunnan. The second objective may be to move north-eastward and advance to Huen-sien, Tatang and Liuchow to cut off the interprovincial motor roads and to threaten the rear of the Chinese military base at Hengyang. This move will be more significant in a military sense but besides the difficult mountainous terrain near the Kwangtung-Kwangsi border, Chinese fortifications along this route are more formidable. Such a move will necessitate a tremendous military force and will take many months to operate. It is, therefore, safe to say that while the Pakhoi landing does add another threat to South-western transportation, actual danger is not yet at hand.

China's determination to resist to the last man will not be affected by this landing. There are twenty arsenals located in safe localities turning out munitions and light arms every day, but materials for their manufacture must be imported in sufficient quantities without

interruption, and heavy arms and munitions needed for replenishments must be supplied from time to time. Heavy field guns and aeroplane bombers in sufficient numbers, which are absolutely essential in driving the enemy off the occupied soil and which China is so sadly lacking, must be supplied in some way.

Besides, numerous materials and supplies which are essential for the continuation of China's national existence must be continuously supplied. The loan of \$25,000,000.00 against tung oil has been allocated and practically used up. Purchases made have been of diversified lines and widely distributed among various industries and among many states. Tung oil importation and distribution by the Universal Trading Corporation has proven to be of real benefit to the paint, varnish and other wood oil using industries as openly recognized by the National Paint, Varnish and Lacquer Association of the United States.

A new loan on tin to be concluded at this time will not only supply the urgently needed new funds for the continuation of purchases of necessary materials to the mutual benefit of United States manufacturers, producers and China, but may serve as encouragement of immeasurable value in helping the morale of the Chinese people at a time when it would appear that other democratic countries are too busy or indifferent to China's struggle against aggression.

November 21, 1939
10:30 a.m.

Conference in Secretary's Office, attended by: Secretary Morgenthau, the Canadian Minister to the United States, Sir Herbert Marler, Mr. Towers of the Bank of Canada, Mr. Viner, and Mr. White.

The Canadian Minister said he had nothing special to talk about except to report that the man coming from England had been delayed and would come later.

Mr. Towers stated he was leaving for England in a few days by Clipper.

The Secretary suggested that if Mr. Towers had time he could confer with Mr. Viner and Mr. White on Canadian-dollar exchange matters and that if after the discussion there were some questions they wished to raise with the Secretary he would be glad to see them the next morning. Mr. Towers indicated he would be glad to do so.

Subsequently a conference was held in Mr. Viner's office, with Mr. Towers and Mr. White present, and numerous points of detail were cleared up. It was agreed at the meeting that it would not be necessary to see the Secretary again at that time.

HFW

Conference in Secretary's Office, November 21, 1939

Present: Secretary Morgenthau, Mr. Straessle of Switzerland,
and Mr. White

Mr. Straessle said that the burden of mobilization in Switzerland was very heavy. Switzerland had a half million men under arms, which in a country with a population of four million was obviously very high; that the mobilization was costing the Swiss Government about 5 million Swiss francs a day.

Mr. Straessle stated: That Switzerland was greatly strengthening its defenses against a possible German attack and felt that in the event Germany did attack, Switzerland could delay the German advance for a week or ten days but so long as Italy remained neutral they felt reasonably safe. He also said that air attacks against Switzerland were very hazardous because of the mountainous character of the country.

He stated that exports to France and England were continuing without difficulty and that the Swiss watch manufacturers were making timing instruments for shells for the Allies instead of watches; that the Allies were watching very carefully the raw materials entering Switzerland to make certain that none of the exports to Germany would contain imported raw materials.

He said there was considerable hoarding of Swiss franc notes and some hoarding of United States currency. He also expressed the view that before long England would have to depreciate her currency much more in order to acquire foreign exchange unless the United States extended sufficient credits to make that unnecessary.

The Secretary asked him if he would confer with Captain Puleston, who was called in, and relay to him his views on the military situation in Switzerland. Mr. Straessle said he would be glad to do so and he went with Captain Puleston to the latter's office.

HW

November 21, 1939.

My dear Mr. Secretary:

The receipt is acknowledged of your letter dated November 14, 1939, (Cc), in which you inform me of your proposal that a meeting of the National Munitions Control Board be held at 2:30 p.m. on Tuesday, November 28, 1939, in room 360, Department of State Building, for the purpose of adopting rules of procedure to govern the issuance of licenses for the exportation of tin-plate scrap during the calendar year 1940.

In accordance with your request that I designate someone to act as my representative at this meeting, I have had pleasure in selecting Mr. Basil Harris, Assistant to the Secretary and Commissioner of Customs. I have communicated this information by telephone to Mr. Joseph C. Green of your Department.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable
Sumner Welles,
Acting Secretary of State.

HME/rmm
11/21/39

By hand

November 21, 1939.

Dear Mr. Harris:

I hereby designate you to act in my name and stead at the meeting of the National Munitions Control Board to be held on November 26, 1939.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. Basil Harris,
Assistant to the Secretary,
Treasury Department.

File to Mr. Thompson

HMG/rmm
11/21/39

*Given to MMB. to be given
to Mr. Harris in person*



DEPARTMENT OF STATE
WASHINGTON

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In reply refer to
Co

November 18, 1939

My dear Mr. Secretary:

I propose that a meeting of the National Munitions Control Board be held at 2:30 p.m. on Tuesday, November 28, 1939, in room 360, Department of State Building, for the purpose of adopting rules of procedure to govern the issuance of licenses for the exportation of tin-plate scrap during the calendar year 1940. It is my intention to recommend, for approval at this meeting, the adoption of rules of procedure for 1940 similar to those now in effect. A draft of the proposed rules is enclosed for your consideration.

I intend to designate Mr. Joseph C. Green, Executive Secretary of the Board, to act in my name and stead at this meeting. I should appreciate it if you would communicate informally to Mr. Green the name of the person whom you will designate to act as your representative.

Similar

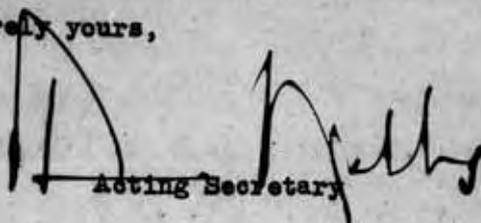
The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

Similar letters have been addressed to the other members of the National Munitions Control Board.

Sincerely yours,



Acting Secretary

Enclosure:
Draft of proposed rules
of procedure

DRAFT OF PROPOSED RULES OF PROCEDURE TO GOVERN
THE ISSUANCE OF LICENSES FOR THE EXPORTATION OF
TIN-PLATE SCRAP DURING THE CALENDAR YEAR 1940

In furtherance of the purposes of the Act of Congress approved February 15, 1936, which, as stated therein, are:

"to protect, preserve, and develop domestic sources of tin, to restrain the depletion of domestic reserves of tin-bearing materials, and to lessen the present costly and dangerously dependent position of the United States with respect to resources of tin,"

and in order to assure in the public interest the fair and equitable consideration referred to in Section 2 of the Act which reads as follows:

"There shall not be exported from the United States after the expiration of sixty days from the enactment of this Act any tin-plate scrap, except upon license issued by the President of the United States. The President is authorized to grant licenses upon such conditions and regulations as he may find necessary to assure in the public interest fair and equitable consideration to all producers of this commodity."

The Secretary of State, acting under and by virtue of the authority vested in him by Executive Order No. 7297 of February 16, 1936, hereby prescribes, by and with the advice and consent of the National Munitions Control Board, the following rules of procedure to govern the issuance of licenses for the exportation of tin-plate scrap during the calendar year 1940 under the regulations governing the export of that commodity prescribed on December 7, 1936:

- (1) REQUESTS FOR ALLOTMENTS.- Each producer of tin-plate scrap who desires to export that commodity during the calendar year 1940, as well as every producer whose scrap is sold to and ultimately exported by third parties, should submit to the Secretary of State not later than December 20, 1939, a request for an allotment, specifying in long tons the quantity of tin-plate scrap which he desires to export or to sell for export between January 1 and December 31, 1940.

-2-

- (2) ORIGINAL ALLOTMENTS.- Allotments will be granted to producers of tin-plate scrap only and will be assigned to producers whose applications have been submitted in accordance with the provisions of paragraph (1). Allotments will be based on the individual producer's request therefor with the provision that no allotment of more than 25 long tons shall exceed in amount 20 percent of the quantity of tin-plate scrap produced by him during the calendar year 1938. Requests for allotments of 25 long tons or less may be granted in full, without reference to the quantity of tin-plate scrap produced during the calendar year 1938, provided the producer concerned presents convincing evidence, in the form of a sworn statement, establishing that he will, so far as can be foreseen, during the calendar year 1940, produce at least the equivalent of the allotment which he requests. No allotment assigned under the provisions of this paragraph to any one producer, including his affiliated or associated companies, shall exceed 2,000 long tons.
- (3) SWORN STATEMENT OF 1938 PRODUCTION.- No producer shall be eligible to receive an allotment under the provisions of paragraph (2) until the Secretary of State has received from him a sworn statement setting forth the quantity of tin-plate scrap, in long tons, produced by him during the calendar year 1938. Sworn statements submitted under the provisions of this paragraph shall include the name and address of the producer, the name and location of each factory, and the quantity of tin-plate scrap produced at each factory.
- (4) APPORTIONMENT OF TOTAL ALLOTMENTS.- In the event that it shall be necessary, in order that the quantity of tin-plate scrap to be exported during the calendar year 1940 shall not exceed the total figure to be agreed upon by the National Munitions Control Board, such total shall be apportioned among the applicants for allotments on the basis of 1938 production, with the provision that no allotment shall exceed the quantity specified in the individual producer's request therefor. If an apportionment is unnecessary, allotments will be granted in the order of the receipt of requests therefor until the total figure referred to has been exhausted.
- (5) ADDITIONAL ALLOTMENTS. - In the event that conditions then existing shall warrant such action, additional allotments may be granted after July 1, 1940, upon such conditions as may be agreed upon by the National Munitions Control Board and announced by the Secretary of State.

(6)

- (6) FAIR AND EQUITABLE CONSIDERATION.- An allotment may be granted at any time during the calendar year 1940, without regard to previous assignments of allotments, to any producer of tin-plate scrap who presents to the National Munitions Control Board, through the Secretary of State, convincing evidence that he is not receiving the fair and equitable consideration referred to in Section 2 of the Act approved February 15, 1936. Allotments assigned under the provisions of this paragraph shall be granted in such quantities as will assure in the public interest fair and equitable consideration to the producer concerned. All applications for allotments under the provisions of this paragraph shall be accompanied by sworn statements, in quintuplicate, setting forth complete and detailed information in support thereof.
- (7) LICENSES.- No tin-plate scrap may be exported unless a license authorizing such export shall have been issued by the Secretary of State. Licenses may be issued to any producer who has been assigned an allotment or to any other person or persons authorized by such producer to export tin-plate scrap under his allotment, provided that licenses will not be issued during the first six months of the calendar year for the exportation of tin-plate scrap in quantities in excess of 50 percent of any allotment of 50 long tons or more.
- (8) LICENSES ISSUED TO PERSONS OTHER THAN PRODUCERS OF TIN-PLATE SCRAP.- Any producer who has received an allotment may, if he so desires, authorize any other person or persons to apply for license to export under his allotment tin-plate scrap produced at his factory or factories. The Department of State should be informed promptly of such authorizations when made. Persons other than producers should, in submitting applications for license, assure themselves that an allotment has been assigned covering the particular tin-plate scrap which they desire to export and they should include in the application a statement setting forth the name and address of the factory or factories at which the tin-plate scrap was produced and the quantity produced at each factory.
- (9) GENERAL STATEMENT.- As stated in paragraph (3) of the regulations governing the exportation of tin-plate scrap, the Secretary of State will issue export licenses to cover proposed shipments of tin-plate scrap when, in the opinion of the National Munitions Control Board, the issuance of such licenses may be consistent with the purposes of the Act approved February 15, 1936. The

National Munitions Control Board may revoke, cancel, or modify at any time allotments or licenses granted under the rules of procedure herein announced and may modify these rules of procedure whenever, in its opinion, such action is required in order to carry out the purposes of the Act.

The allotments under the above-mentioned rules of procedure and those hereinafter authorized will be assigned under the conditions set forth below, which conditions are to remain confidential unless circumstances shall warrant the publication by the Secretary of State of pertinent provisions thereof:

The National Munitions Control Board agrees that the total allotments assigned under the provisions of paragraphs (2), (4), and (5) of the rules of procedure set forth above for the exportation of tin-plate scrap during the calendar year 1940 shall not exceed 15,000 long tons. If, on July 1, 1940, there shall remain an unassigned balance of this maximum tonnage, the Secretary of State is hereby authorized to assign, under the provisions of paragraph (5) of the rules of procedure, additional allotments until such maximum tonnage shall have been reached, subject to the following conditions:

- (1) These additional allotments shall be granted to producers of tin-plate scrap only and shall be assigned on or after July 1, 1940, in the order of the receipt of requests therefor, provided that, in the event that it shall be necessary in order that the quantity of tin-plate scrap to be exported during the calendar year 1940 shall not exceed the total figure agreed upon by the National Munitions Control Board, the available balance of such total shall be apportioned among the applicants on the basis of their production during the first six months of 1940. Allotments will be based on the individual producer's request therefor with the provision that no allotment of more than 25 long tons shall exceed in amount 20 percent of the quantity of tin-plate scrap produced by him during the first six months of the calendar year 1940. No allotment assigned under the provisions of this paragraph to any one producer, including his affiliated or associated companies, shall exceed 1,000 long tons. Requests for allotments of 25 long tons or less may be granted in full, subject to the qualifications set forth under paragraph (2) below.

(2)

- (2) No producer shall be eligible to receive an allotment under the provisions of paragraph (5) of the rules of procedure until the Secretary of State has received from him a sworn statement setting forth the quantity of tin-plate scrap, in long tons, produced by him during the first six months of the calendar year 1940, provided that requests for 25 long tons or less may be granted in full, without reference to the quantity of tin-plate scrap produced during the first six months of 1940, if the producer concerned presents convincing evidence, in the form of a sworn statement, establishing that he will, so far as can be foreseen, produce during the calendar year 1940 at least the equivalent of the allotment requested by him in excess of the total of any allotments previously assigned to him for export during the calendar year 1940. Sworn statements submitted under the provisions of this paragraph shall include the name and address of the producer, the name and location of each factory, and the quantity of tin-plate scrap produced at each factory.

HSM

PLAIN

London

Dated November 21, 1939

Rec'd 12:48 p. m.

Secretary of State,
Washington.

2414, November 21.

FOR TREASURY.

With further reference to my 2305 of November 8, Sir John Simon, in reply to a question in the House of Commons, announced today that the time has not arrived for the issuance of a loan on the open market but that two securities will be on sale as from tomorrow morning designed to enable all citizens even of small means to make their contribution to the war effort.

The first will be a new issue of national savings certificates to replace the current issue. The purchase price of the new certificates will be unchanged at 15s., but the interest will be slightly increased so that the certificates will accumulate to 17s.6d. after five years and to 20s.6d. after the full period of ten years. (The price of the current issue on sale since March 1935 has been 15s. maturing at 10 years at 20s. The price quoted in telegram No. 2305 of November 8 was that of the 1922 issue.)

The

hsm -2- No. 2414, November 21, from London

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The second security will be known as a defence bond and will be purchasable in units of £5. It will be on sale tomorrow and until further notice and issued at par to bear interest at 3 per cent per annum. It will be repayable seven years from the date of purchase at a premium of £1 per cent if not cashed before. In view of the special privileges attached to these bonds no individual will be allowed to hold more than £1000 but he may purchase up to £1000 worth of the bonds in addition to holding the maximum of 500 savings certificates.

KENNEDY

RR

RECEIVED

PARAPHRASE OF TELEGRAM RECEIVED

144

FROM: American Embassy, Berlin

NO.: 2102

DATE: November 21, 1939, 4 p.m.

Reference is made to my telegram no. 1740 of October 18, 2 p.m.

There will soon be brought to a close, according to officials of the Reich, the first stage of the trade negotiations between Germany and Russia, which have been going on since September 28 when notes were exchanged between the two countries' Foreign Ministers making provision for the elaboration of a German-Russian economic program. It is the hope of the German Government, however, that following this first stage there will be standing consultation and cooperation with a view toward improving transportation and exchanges between Germany and Russia.

So far, according to one of the German delegates, the Russian negotiators have demonstrated a willingness to accommodate. The German delegation was agreeably surprised by this attitude since they had expected that the negotiations would be difficult and that there would be a great deal of haggling over quantities and prices. A member of the Embassy staff was told by Ambassador Ritter, who is in charge of the German delegation, that he had not expected such great results and that so far it had been agreed by
the

the Russians that "several million marks" worth of raw materials, including foodstuffs, would be supplied by them.

The German press has announced that so far the U.S.S.R. has agreed to deliver one million tons of feed grain (principally barley) to Germany. (Reference is made to my telegram no. 1870 of October 28, 12 M.) A member of the Embassy staff was informed by Wiehl, who is in the Foreign Office and is nominally the head of the trade negotiations although it seems that with reference to some matters he is now subordinate to Ritter who was his predecessor, that it had also been agreed that Russia was to furnish one million tons of petroleum products. Wiehl stated that this was a preliminary amount which would be increased later. It is also known that Germany gained another advantage in the Russian Government's agreement to accord German exports to and imports from Iran, Afghanistan and the Far East free transit over the territory of the U.S.S.R. It has been announced by Ostwirtschaft, which is a semi-official publication having to do with the eastern trade of Germany, that the Russian trade representative in Berlin will issue special licenses for transit to and from these countries.

We are also informed that it had been agreed by the
Soviet

Soviet Trade Commission that during the next year it would furnish 100,000 tons of cotton to Germany. Obviously it is necessary to confirm this report because normally Soviet exports of cotton are several times smaller than this figure.

Although, according to German officials' statements, the Russian trade negotiations have been more successful than the German authorities had anticipated, it is stated by sources in touch with these negotiations that Germany does not have reliable indications or assurances that the Soviet has adopted as a permanent policy the expansion of trade with the Reich. It is stated by these sources that although at the present time Russia finds that economically it is advantageous or necessary to buy certain equipment from Germany (principally machinery but also armor plate strips, artillery, and submarine naval equipment, according to some reports), obviously the real reasons for the new willingness on the part of Russia to trade with Germany are political and that it is therefore highly uncertain whether the present situation will continue.

Please inform Treasury.

KIRK

EA:EB 27 02 VON



TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

November 21, 1939

MEMORANDUM FOR THE SECRETARY

On November 13th Secretary Welles of the State Department phoned me concerning orders of duralumin placed by the French with the Aluminum Company of America.

He told me that the President had directed him to contact me with a view to seeing whether deliveries of duralumin to the French Government could not be expedited.

That same day I talked with Mr. Wilber of the Aluminum Company of America, and without disclosing the purpose of my visit, learned from him that the indicated requirements of American manufacturers for the next year would permit of an appreciable tonnage of duralumin being made available for other uses.

The result of my visit to Mr. Wilber was reported orally to Secretary Welles, and he subsequently informed me that the President desired that the Quartermaster General of the Army, the Paymaster General of the Navy, and the Director of Procurement confer with a view to seeing what, if anything, might be done to assist the French.

This conference was held yesterday and developed the fact that the presently indicated requirements through 1940, when compared with the total output of the Aluminum Company of America, would permit of that company's furnishing an appreciable tonnage of duralumin to the French Government. I talked with Secretary Welles by phone, told him the result of the conversation and suggested to him that I further contact Mr. Wilber to discuss the question of speeding up deliveries to the French. Mr. Welles told me that he thought that before I did this the matter should be cleared with the President, and I yesterday afternoon so informed General Watson.

Last evening the President called me by phone and told me to get in touch with Mr. Wilber to see what, if anything, could be done to help the French.

This morning I spent over two hours with Mr. Wilber, and during the course of our conference he talked at length with Pittsburgh concerning the possible speeding up of French deliveries. After this conversation he informed me that they are entirely sympathetic with the French wants, that everything possible would be done to make deliveries at the earliest possible date to the French Government, but that the Aluminum Company of America did not feel that their inventories should be reduced to a point where they could not make emergency

deliveries when called upon by the aviation industry of this country; that they were putting an additional plant of theirs into operation and that after the first of January it was believed that deliveries to the French could be appreciably stepped up, but that it was not possible at this time to state in what quantities deliveries could be made. He further advised me that, in the event there is any change in the situation, he would so inform me.



Director of Procurement

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

NO.: 2801

DATE: November 21, 1939, 6 p.m.

SECTIONS ONE, TWO, THREE AND FOUR
FOR TREASURY.

This morning we had a call from Royal Tyler, who was on his way to spend a few days in England. He said that he had just come back from Geneva and stated that although the passage of time has inevitably resulted in a lessening of tension, the Swiss (and especially the military authorities) are still very fearful that their country will be invaded by Germany. However, it is reported by the Swiss that Germany has made no unusual troop concentrations near the Swiss frontier, and it is their belief (which we believe to be an optimistic view on their part) that the Germans would need approximately twenty divisions in order to go through Switzerland. There is no doubt about the fact that if invaded, the Swiss would fight. Tyler states that it is not too late for invasion of the area in the north concerned, from the standpoint of the season of the year.

With reference to the Balkans Tyler said it is his belief that in return for better treatment of the Hungarian minority

minority

minority in Transylvania, Hungary would "accept" her present Rumanian frontier (partly because of the appearance of Russia as a new neighbor). (Of course Tyler is most familiar with Hungary since he spent fourteen years in the capacity of financial adviser for the so-called League of Nations reconstruction loan.) This acceptance on the part of Hungary would facilitate efforts which are being made to form a more or less compact neutral bloc in the Balkans. However, in view of increasing Russian influence in Bulgaria as a result of Stalin's recent "triumphs", Tyler is not sure of the attitude of that country toward such efforts.

It is Tyler's belief that it will be found necessary by the French exchange control authorities as time goes on to subject the franc accounts of foreigners in France to a rather strict control or supervision. An increasing number of people, he said, will find that the complete liberty of action which now exists to deposit francs to accounts of foreigners provides a loophole, and more and more people will take advantage of that loophole. With reference to this point we are inclined to agree with Tyler, but as yet there is little evidence that this practice has been indulged in to any great extent, although this particular loophole was discovered some
time

-5-

time ago (our telegram no. 2253 of September 29, 7 p.m., for example). Tyler also said that in Hungary an "escape value" had been found in applying exchange control. This "escape value" was the fact that there were no restrictions on the importation of pengos into the country. It prevented the black market from running away, and he had found it particularly helpful.

We remarked that up to now, at least technically, France does not restrict the importation of francs, although as with all other currencies and means of payment, francs must be declared when they are brought into France. (It is presumed that some investigation would be made of the source if any one person brought in a quantity of French banknotes which seemed excessive.)

It was pointed out by Tyler that a comparable flexibility does not exist in Germany, Italy, Spain and other countries where control systems exist. He thought it was an example of the intelligent manner in which exchange control is being administered by the French.

(END SECTION FOUR)

BULLITT

EA:EB

CJ

GRAY

PARIS

152

Dated November 21, 1939

Rec'd 7:07 p.m.

Secretary of State,
Washington.

2801, November 21, 6 p.m. (SECTION FIVE)

After a weak opening the securities market firmed today and most variable revenue securities registered small gains. Rente issues advanced fractionally on the improved firmness of the franc in New York. The two exchange guaranty issues of 1925 and 1937 also continued their advance moving up 2.95 and 2 francs respectively. The market indices of the AGENCE ECONOMIQUE (based on the end of December, 1930) show French rentes on November 20 at 81.3 as against 79.7 on September 4; the exchange guaranty issues at 139.7 as against 114.2. The general stock exchange market index is 104.1 as against 89.7 on September 4.

BULLITT

EMB

REB

GRAY

153

Paris

Dated November 21, 1939

Rec'd 7:17 p. m.

Secretary of State,
Washington.

2801, November 21, 6 p. m. (SECTION SIX)

The Belgian National Bank statement for the week ending November 18 shows gold holdings at 18,037,000,000 up 7.5 million; foreign exchange holdings down 323.5 million to 3,602,000,000; domestic commercial advances up 403,000,000 to 3,699,000,000, and commercial advances abroad down 224,000 to 18,313,000. Advances on public funds are up 315.5 million to 1,076,000,000. Note circulation increased 363,000,000 to 27,558,000,000. The Treasury account is down 1.3 million to 5.9 million. Gold coverage is 63.40 as against 64.20 the previous week.

It is reported that Belgian Treasury notes in the amount of 35,000,000 florins issued in the Netherlands will be renewed for a further three months period from February 2. The maximum term of the issue is one year which expires on May 1, 1940.

(END OF MESSAGE)

BULLITT

NPL

TREASURY DEPARTMENT
Office of the Secretary
Secret Service Division

103A

MEMORANDUM

November 21, 1939

154

To: Mrs. Klotz
From: Chief Wilson

For your information we attach
schedule of the President's trip to
Warm Springs, Georgia, on Tuesday,
November 21, and Wednesday, November
22.

Inventory
355

Trip of the President
-to-
Warm Springs, Georgia.

Tuesday, November 21, 1939.

Lv. Washington..(Southern Railroad).....3:00 p.m.

Wednesday, November 22, 1939.

Ar. Atlanta, Ga.....8:00 a.m.e.t.

Lv. Atlanta, Ga.(Southern Railroad).....7:10 a.m.c.t.

Ar. Warm Springs, Ga.....10:00 a.m.

Members of the party:

The President.
Mrs. Roosevelt.

General E. M. Watson.
Admiral Ross T. McIntire.
Captain D. J. Callaghan.
Miss M. A. LeHand.
Mr. William D. Hassett.
Miss Grace Tully.
Mr. H. M. Kannee.
Miss Roberta Barrows.
Miss Toinette Bachelder.
Miss Louise Hachmeister.
Mr. George A. Fox.
Mr. Dewey E. Long.
Mr. Leo A. de Waard.
Secret Service Agents.

Newspaper men:

Mr. George E. Durno,
Mr. Douglas B. Cornell,
Mr. Thomas F. Reynolds,
Mr. Felix Belair,
Mr. Walter Trohan,
Mr. Wm. C. Murphy,
Mr. Coleman Jones,
Mr. Fred Pasley,

International News Service.
The Associated Press.
The United Press.
The New York Times.
The Chicago Tribune.
The Philadelphia Inquirer.
The New York Herald Tribune.
The New York Daily News.

Picture men:

Mr. George Shadding.
Mr. F. I. Thompson,
Mr. John Tondra,
Mr. E. M. Williams,

Associated Press Photos.
International News Photos.
Fox Movietone News.
Fox Movietone News.
Paramount News.

Broadcasting representatives:

Mr. Carleton Smith,
Mr. A. E. Johnson,
Mr. Granville Klinck,

National Broadcasting Co.
National Broadcasting Co.
Columbia Broadcasting System.

Telegraph representatives:

Mr. C. S. Linkins,
Mr. J. N. Willis,

Western Union Telegraph Co.
Western Union Telegraph Co.
Peetal Telegraph Company.

Mr. W. C. Spencer, D.P.A.,
Southern Railroad,
In charge of Transportation.

RE BRITISH SECURITIES

November 21, 1939.
3:40 p.m.

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

H.M.Jr: Mr. Frank wanted to tell me what happened this morning.

Frank: Supposing I briefly indicate it. We met two British representatives this morning. They repeated substantially what they said yesterday as to their intentions. They widened their list to 62, as I recall it now, selected stocks.

Stewart: Sixty-seven.

Frank: Sixty-seven, on either the close of the market on Saturday night or Sunday....

H.M.Jr: Of this week?

Frank:of this week. They advanced it a week. They are proposing - recommending that the British Government, pursuant to their statutory announcement, take over those securities at a price to be named but the amount of the securities will not be disclosed so that the publication will simply say the following stocks were taken over. Then as to the securities they do not take over, the British nationals will continue to have the right to sell on permit. They propose to sell these securities that they are taking over now at the rate of, as near as they can keep it up, a million three a day. It has been about a million a day and they are going to step it up slightly, but they will subtract from that amount the amount that is procured by British nationals selling from the securities not taken over. They will try to make it about a million three if the market can stand it.

Foley: Would that be in addition to the ordinary turnover?

Frank: No, they are stepping it up about three hundred thousand. What they are taking over will be more than enough - it will be about 200 million, as I recall, their first takeover, and that will be more than enough to run them for a four-months

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period. They wanted to widen the list a little.

Hanes: Did I understand you to say they are going to pay a given price and state the price?

Frank: That has to be named.

Hanes: It is an actual purchase?

Frank: Yes, they take title. They are going to try to avoid - they were warned that they should not have it transferred to the name of the British Government or anybody who could be identified because it would be a little easier to trace it in the market. They stress the fact that their desire to have publicity as to the amount they have got and how much they are selling avoided, because as the war progresses they are fearful that if Germany knows they are getting to the bottom of their barrel, that will just encourage the Germans, so they have enjoined us to do everything we could to avoid any publicity.

Our suggestion, I should say, or at least as a result of our comments, they are recommending that there be released in London at the same time as this formal statutory announcement a short press release from the British Treasury which will say that they are taking these over. That is pursuant to the policy heretofore announced. The statement would say that it is to the interest of ordinary marketing and that it is not anticipated that the volume of sales will be substantially greater than heretofore.

They have fussed around a lot about the release. After you (Stewart) left, they read us the proposed cable and they said something to the effect that they had shown us the statement they are cabling and we had no objection. They wanted to put in that we approved, and I said, "For heaven's sake don't do that," but I okayed, "We have no objection."

Several questions were raised. One is, you (H.M.Jr.) will recall that you cabled the Ambassador suggesting among other things that arrangements be made so that the Treasury and SEC would receive daily reports from them of their activities. That is correct, isn't it, Mr. Cochran?

Cochran: Yes. And they were surprised to hear that; they said they hadn't heard of that. So we informed them of it and they are cabling for permission to do that. The cable, as it went, was broader than I had recognized. It said not only that we wanted to get reports of what they had done, daily, but what they intended to do. I am not so sure we need that latter or that we want it.

H.M.Jr: I don't even remember it.

Frank: I am not sure we even want to know what they are going to do, but we need to know what they have done, daily, because they might have knocked our market off and we would want to know what was happening to the market. If we knew it in advance, we might fix it up, but that is an awful responsibility to take.

H.M.Jr: I would rather not have it.

Stewart: Their cable said their plans. We do not want to know exactly what they are going to do, but we do want to know if it is their intention over a period of time to raise a certain sum of money.

Frank: But we don't want to know from day to day what they want to do.

H.M.Jr: Did you tell them that?

Frank: No, I didn't.

H.M.Jr: They are coming in at 4:30.

Frank: If you agree with me that we don't want to know in advance their day to day sales but we do want to know if at the end of the day or the close of the market - there is one thing we didn't discuss that occurred to me afterward. I don't know what you can do about this, but in line with the policy of having the British Government turn in funds into the Federal Reserve so no bank can take advantage of it, it seems to me there is the danger, doesn't it to you, John, that if they don't handle their sales very carefully some particular houses in New York are going to have an awful inside track here. It occurred to me afterward that maybe we

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could help them on shuffling their cards around so that nobody would know it. I think it can be done but it will have to be done very carefully because otherwise some one or two houses down there may know from day to day what the British will do and tip that off to their customers and if it ever came out it would be a scandal and it couldn't do anything but hurt the British Government from their own point of view that they ought not to get in that position. I think some warning and assistance on the mechanics is indicated.

Then they did say something while I wasn't there - they said it to Purcell - they recognized that the Government couldn't make them a loan and they recognized - before you gentlemen came in we discussed that - that no private agency or bank or person could make them a loan, but they did ask whether the Bank of Montreal couldn't make them a loan and the Bank of Montreal - and it was implied in that apparently that the Bank of Montreal in turn would be a borrower. Well, certainly if the Bank of Montreal were borrowing on those British securities, I would think that would violate everything, wouldn't it, Ed? In other words, if those securities are owned by the British Government and the Bank of Montreal is a depository, no matter what hokus pokus you use, it is the British Government borrowing and I would think they would violate the Johnson Act and the Neutrality Act.

Now, if the Bank of Montreal borrows on open account, on its own credit, whether that would violate the Neutrality Act, I wouldn't know, or whether that would be an agency for the British Government.

- Stewart: Did the two men say that or did Pinsent say that? It doesn't sound like the two.
- Frank: Maybe it was Pinsent. I liked them. They went right to the point and they knew what their rights were. I didn't hear it. It sounds more like Pinsent.
- Hanes: That was suggested one time before, Jerry, and I think we all agreed that that would be doing by

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indirection what they can't do by direction.

Foley: Who would they borrow from?

Hanes: What they had in mind was this, that they would deposit the securities in the Bank of Montreal and a loan would be made to the British Government against those securities and in turn the Bank of Montreal would re-hypothecate those securities in New York.

Frank: I think if they start monkeying with any of that sort of thing....

Hanes: We said that was just out.

Frank: Well now, it does leave us with - we are going to have a hot potato, there isn't any question, on the question of publicity. I mean we are going to get crowded. I don't think I spoke to you about this, John. I spoke to the Secretary about it the other day. You saw Leslie Gould's letter, didn't you?

Hanes: I heard about, I didn't see it.

Frank: Leslie Gould called on us to give out the figures. Somebody - I don't believe it was over here and I am afraid it was some leak in our place and I can't find out where - gave out a figure two days later that their average had been $8\frac{1}{2}$ percent of the total volume and that has caused all kinds of discussion, you may have noticed.

Hanes: I was thinking about the time when we appeared before the Weights, Coinage and Measures Committee, when they asked us what percentage of American transactions were involved in the foreign field and Harry White said not more than 10 percent at any time and it averaged between 5 and 10 percent. It may be they picked that out of there and said $8\frac{1}{2}$.

Frank: No, because $8\frac{1}{2}$ is darn near right.

Hanes: I don't think we did it.

Cochran: No, I checked up with all that crowd.

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- Frank: I don't know who did it, but it has caused all kinds of talk in the papers and has increased the pressure because they say, "Well, $8\frac{1}{2}$ percent on the selling side," and when and why and so forth. I know we are going to be subjected to pressure for release of those figures. We will have to stand up and take it, I think.
- Hanas: Jerry, it hasn't been as much as $8\frac{1}{2}$ on the selling side, has it?
- Frank: No, $8\frac{1}{2}$ percent of the total. But then the New York Times came out and said, " $8\frac{1}{2}$ percent of what, on the buying or the selling, or how is it divided," and so on.
- Stewart: But you are in a position, so far as they are concerned, aren't you, to give them assurance that the figures they give you will not be made public?
- Frank: We will have to, but then the pressure will be on us to put them out.
- Stewart: The only way in which they appear is in the Treasury bulletin three months later. I don't think we have quite finished our staff work on this. I would like to talk with Purcell, for example, about it. I rather warned these men. They raised the question with you. I thought we wanted to do some more work on that.
- H.M.Jr: Cochran, Stewart and John, will you three gentlemen be here? They are coming in at 4:30. The only thing I have to say is, "I talked it over with Mr. Frank and he has authorized me to say, for the both of us, that we don't want what they are going to do, only what they have done."
- Frank: And we would like that daily.
- Cochran: But you don't want the securities described, just the total in dollars?
- Frank: It might be advisable to have it divided into stocks and bonds. Are they taking any bonds?
- Cochran: Yes.

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Frank: Don't you think they should divide it that way?
Hanes: I think so.
Cochran: But not identify the specific issue.
Frank: No.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 21, 1939.

TO Secretary Morgenthau

FROM Mr. Cochran

As arranged yesterday afternoon, there was a meeting held in Mr. Frank's office this morning at 10:00 o'clock, which lasted until 1:00 o'clock. Those present were Messrs. Frank, Loughbridge and Purcell of the Securities and Exchange Commission, Messrs. Whigham and Gifford from London, Mr. Pinsent from the British Embassy and Messrs. Stewart, Cochran and Butterworth of the Treasury.

Mr. Whigham summarized for the benefit of those who were not present at yesterday's meeting the conversation that took place and the points that were decided upon at that time. In brief, the British representatives were of the opinion that they should discard other possible alternatives, and cable a recommendation to the Government that it take title to a certain number of British owned dollar securities and proceed with the ordinary liquidation of the securities once they are received in America. Since yesterday's meeting, the British had decided to add fourteen securities to the list of fifty-three, making a total of sixty-seven to which title should be acquired through the initial operation. It was the idea that better maneuvering could be accomplished with a larger selection and lot of securities, and that it might be well to call up a second lot before this first is entirely disposed of.

It was explained that fifteen days notice would have to be given the holders for turning over and receiving payment from the Government for the securities. Since not more than 50% of the first lot of securities are actually in the United States, the arrival of the portion from London would have to be awaited before the plan for their disposal could be fully implemented.

The British representatives were drafting a cable to their Government carrying the above recommendation and advising that the securities should be taken over this week-end, with the formal announcement thereof published by Monday morning. The question of giving out an accompanying statement in explanation of the procedure was also considered and the British planned to communicate their ideas on this point to the British Government by cable. It was understood that there would be no statement by American authorities, but that the statement made available in England should also be released simultaneously in the United States, presumably through the British official representatives.

It was explained that the British representatives would like to be liquidating dollar securities on an average of \$1,300,000 per day, as compared with the average of approximately \$1,000,000 per day at which rate private holders have been selling their dollar securities, under official permit, since the opening of the war. The securities which will be taken over, will be taken over entirely, so that there will be no further sales in these specific issues by private parties. No effort will be made to check private liquidation of securities, but

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simply an effort to ration total sales, both official and private, at around \$1,300,000 per day. The speed of liquidation would vary, of course, with the condition of the market. The British naturally do not want to depress the market.

The estimate of Mr. Whigham of the total dollar securities registered with the Bank of England was \$1,000,000,000. He has two lists comprising the important part of such holdings. A third list, containing the least marketable securities, many of which are in small lots, is now enroute to this country. It is the plan to dispose of the securities in normal trading practice, at least the readily salable ones on the first list. Where exceedingly large blocks are held, taking title thereto will be postponed, and they may be taken over in installments when the time comes, so that the British Government will not at any time have a controlling interest in any security. It is envisaged that with the securities more difficult to sell there may be some direct arrangement made between the sellers and the companies whose securities are for sale. Similarly, special purchasers may be found for exceptional blocks or odd lots of securities without their being offered on the regular market.

Messrs. Frank and Purcell laid considerable stress upon the question of publicity, arguing that they might be pressed to divulge figures with respect to sales of foreign owned dollar securities. The British were disturbed lest this might involve giving out information of value to the enemy. It was decided to go further into this point.

Mr. Stewart undertook to consult with the representatives further as to the procedure that should be followed by the British in transferring proceeds of security sales from the Bank of Montreal to the Federal Reserve Bank of New York.

In reply to our question, the British representatives stated that decision as to whether sales of gold from the British official reserves should be interspersed with sales of dollar securities rested with the British authorities in London. This was a matter of high policy to be determined by the British Government. It was obviously the opinion of Messrs. Whigham and Gifford that the sale of dollar securities should now be pushed, if the market proved at all receptive, and that the gold reserve should be held.

The British are anxious to get the sale of their securities under way before the French Government starts disposing officially of French owned dollar securities. We gave to the British the latest word as to the delay on the part of the French Government in requisitioning such securities. They cannot now be taken over by the French Government before the middle of January.

At 4:30 this afternoon, Messrs. Whigham, Gifford and Pincet were received by the Secretary, after he had had a preliminary talk with Mr. Frank. Messrs. Hanes, Stewart and Cochran also were present. Mr. Whigham summarized to the Secretary the developments of this forenoon and seemed gratified at the rapid progress which had been made. Mr. Pincet, through Mr. Stewart, raised the question of publicity, and indicated British concern lest information might be released which would let the Germans know when the British were approaching the

end of their resources. The Secretary replied that he could speak for the Administration in promising that no information given by the British Treasury to the American Treasury in confidence would be disclosed in any manner that was not first approved of by the British. This met satisfactorily the position of the British.

The Secretary informed his visitors that, in agreement with Mr. Frank, he was not disposed to ask the British to keep us informed of their plans, but did desire to receive a daily statement of transactions, including the total sales, segregating bonds from shares, and giving the net dollar value and number of each, without describing the securities themselves. The British were cabling for approval of this system. Mr. Stewart offered the suggestion that the British representatives give such information to Mr. Pinsent, who would pass it on to Mr. Cochran, who, in turn, would transmit it to some named officer in the Securities and Exchange Commission.

The Secretary reiterated his desire to cooperate with the British representatives, indicating his hope that they call on him at least once each week, particularly during the first few weeks the plan is being developed and put into operation.

November 22, 1939.

Mr. Frank talked with the Secretary alone this morning. The Secretary definitely objected to Mr. Frank's suggestion that a big investment trust take over the British dollar securities. Mr. Frank also reiterated his worry about being pressed to give out figures on foreign sales. The Secretary maintained the position that security sales figures should only be given out with the customary lag which the Treasury has established. The Secretary yielded to Mr. Frank's suggestion that he, Mr. Frank, if necessary, let some friendly newspaper man know that it is a matter of Treasury policy that the lag be preserved.



TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE November 21, 1939

TO Secretary Morgenthau

FROM Mr. Cochran

The foreign exchange market was extremely quiet although the volume of sterling transactions was substantial. Sterling opened at 3.93-1/2 and shortly after noon, it strengthened to 3.94-1/2. The rate remained fairly steady for the balance of the day and closed at 3.94-1/8.

Sales of spot sterling by the four reporting banks and the Federal Reserve Bank of New York totaled £797,000, from the following sources:

By commercial concerns.....	£ 174,000
By foreign banks (Far East, Europe and South America).....	£ 573,000
By Federal Reserve Bank of New York (for Norway).....	£ 50,000
Total.....	£ 797,000

Purchases of spot sterling amounted to £564,000, as indicated below:

By commercial concerns.....	£ 327,000
By foreign banks (Far East, Europe and South America).....	£ 237,000
Total.....	£ 564,000

The Guaranty Trust Company sold cotton bills amounting to \$9,000 to the British Control at the official rate of 4.02.

The belga was strong today. It closed at .1647 in New York yesterday and was quoted at .1654-1/4 in Amsterdam this morning. After the opening in New York, the rate continued to improve to .1660 and it subsequently closed at .1661. It was reported that the improvement in the rate was due to the purchasing of spot belgas by Amsterdam in order to provide cover for contracts maturing at the end of this month.

The rates for the other important currencies were fairly steady.

No purchases or sales of gold were consummated by us today.

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

\$3,134,000	from the Netherlands, shipped by the Netherlands Bank, consigned to the Federal Reserve Bank of New York, to be earmarked for the account of the Netherlands Bank.
1,438,000	from England, shipped by Kleinwort, Sons & Co., consigned to Goldman Sachs & Co., New York, for sale to the U. S. Assay Office at New York.
896,000	from India, shipped by the Comptoir National d'Escompte, consigned to the French American Banking Corporation, New York, for sale to the U. S. Assay Office at New York.
<u>5,468,000</u>	Total

CONFIDENTIAL

We received a cable from the American Consul at Hong Kong that the following shipments of gold were made on the SS President Coolidge leaving Hong Kong on November 18:

\$186,000 shipped by the Chase Bank, consigned to Chase National Bank, San Francisco.
 116,000 shipped by the National City Bank of New York, consigned to the American Trust Company, San Francisco.
 36,000 shipped by the Chartered Bank of India, Australia and China, consigned to Bank of California N.A., San Francisco.
 20,000 shipped by Banque Belge pour l'Étranger, consigned to Bank of America, N. T. & S. B., San Francisco.
\$358,000 Total

All of this gold will be sold to the U. S. Mint at San Francisco.

On the report of November 15 received from the Federal Reserve Bank of New York, giving the foreign exchange position of banks and bankers in its district, the total position of all currencies was short the equivalent of \$18,029,000, an increase of \$1,095,000 in the short position for the week. The net changes in position are as follows:

COUNTRY	SHORT POSITION NOVEMBER 8	SHORT POSITION NOVEMBER 15	INCREASE IN SHORT POSITION
England	\$ 4,190,000	\$ 5,754,000	\$1,564,000
Europe	8,898,000	9,487,000	589,000
Canada	515,000	419,000 (Long)	934,000 (Decrease)
Latin America	363,000	408,000	45,000
Far East	2,937,000	2,760,000	177,000 (Decrease)
All Others	31,000	-39,000	8,000
Total	\$16,934,000	\$18,029,000	\$1,095,000

The equivalent of today's London spot silver price was 41.61¢ and the forward price, 41.25¢. The price fixed by Handy and Harman for foreign silver was unchanged at 34-3/4¢. The Treasury's price was also unchanged at 35¢.

In New York, we made three purchases of silver totaling 275,000 ounces under the Silver Purchase Act. We also purchased from Canada 390,000 ounces of silver under our regular monthly agreement. This makes a total of 885,000 ounces purchased from Canada during November.

5/14/19

CONFIDENTIAL

November 21, 1939

10:30 am

Present:

Mr. Loring C. Christie,
Canadian Minister to US
Mr. Graham Towers, Governor
of Bank of Canada
Mr. Hanes
Dr. Viner
Dr. White

HM, Jr: I took it for granted that you did not mind my combining these two visits.

Mr. Christie: From our point of view, that was the understanding. I thought I would report I had a telephone conversation with Colonel Ralston around 7 o'clock and he told me of his conversation with you and I told him it would be agreeable to you that Mr. Towers would come in for the same appointment, and the position is a little different than when I asked you for the appointment. I asked you for the appointment for the purpose of ascertaining when and how it might be convenient for Colonel Ralston to come down and then Mr. Towers' trip occurred and Colonel Ralston thought that for the moment it would be suitable if Mr. Towers would come in and explain to you that Mr. Towers was going to London as the representative of the Canadian Government for certain conversations that are to go on there, so that the appointment is slightly different than when I first asked you.

HM, Jr: And Mr. Ralston has changed his mind and does not want to come?

Mr. Christie: Not that. He could not come immediately and he also is keeping in mind the idea of coming himself as soon as he can and I would like, in the next few days, to talk to you about that. So at the moment I have nothing more than to introduce Mr. Towers.

HM, Jr: How do you do!

Mr. Towers: Ralston is still on a seven-night week, but he's going to mend his ways very, very quickly.

HM, Jr: I see.

Mr. Towers: And then he has in mind he would like very much to come here.

HM, Jr: Any time, with a day or two notice.

Mr. Towers: He has fallen heir to a lot of things since he started to work in Ottawa a couple of months ago.

HM, Jr: Yes. We all do in the Treasuries. Some we like and some we don't, that we fall heir to.

What about this trip of yours?

Mr. Towers: I came to New York to catch the Clipper and, perhaps fortunately for me, the Clipper has been delayed. I think she sails now next Saturday, and I will be on board provided the mail is not too heavy.

HM, Jr: I see.

Mr. Towers: If it is too heavy, I suppose I will have to hang over until Monday.

HM, Jr: Can't they put you in a mail sack?

Mr. Towers: I will investigate that. I might get posted from here.

HM, Jr: Well, your people must have -- the Government -- you must have just as much, how shall I say, influence as we have.

Mr. Christie: She is sailing from a United States port, United States mail.

HM, Jr: But she lands at Great Britain.

Mr. Towers: Lisbon, and then have to go by rail.

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HM, Jr: Are you really having trouble getting on?

Mr. Towers: I am a passenger, but because of the delays, they have missed various sailings you see, and that means the mail has accumulated. The last I heard they thought there would still be room for a few passengers and that I would be on board, but they could not be sure.

Mr. Christie: As a matter of fact, I was going to take this occasion to ask you, if there was any difficulty, who might be approached if we needed any official intervention?

HM, Jr: John, you know Mr. Tripp.

Mr. Hanes: We know him very well.

Mr. Christie: Might be some difficulty between the Post Office. I understand you are fifth on the list. If the mails fill up the boat, nobody goes on.

Mr. Towers: Yes, that's right.

HM, Jr: If he has trouble, if you will let Mr. Hanes know.

Mr. Hanes: I will be glad to do it.

Mr. Towers: That would be very helpful because Mr. _____, one of the Ministers on the other side, has been for some weeks talking to the people over there and I know they are very anxious to get ahead with it. Hence my hurried trip.

Mr. Hanes: You let me know if I can help and I will be glad to do it.

Mr. Towers: Thank you very much.

Since we had our last conversation, in April, we have had to embark on exchange control and I really had in mind a wonder as to whether there are any aspects of that which are of interest to the States, to the Treasury here; whether there are any questions I could

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answer, either yourself or whether you would care to turn me over to some of the others and have them raise any inquiries that are in their minds.

HM, Jr: I am a little cold on it. See? What I would like you to do is talk to Viner and White.

Mr. Towers: Yes.

HM, Jr: This morning.

Mr. Towers: Yes.

HM, Jr: And then if out of that -- I don't know how much time Mr. Christie wants to give to this -- but Viner and White are available, and talk to them, and this afternoon if there are questions out of your conference you would like to talk to me about, I would be available this afternoon or, better still, tomorrow morning.

Mr. Towers: Yes.

HM, Jr: But if you two gentlemen -- when Cochran comes back bring him in, please, because he's over now on another mission -- and then I think if you would go with these people

Mr. Towers: Yes.

HM, Jr: I am, frankly, cold on it. And then after that, out of that will undoubtedly come questions, then you could see Mr. Hanes and myself either this afternoon or tomorrow morning. Awfully crowded this afternoon.

Mr. Towers: I will be here tomorrow.

HM, Jr: Let's say tentatively 11 o'clock. I will make a "reservation" for you, because the days go by so fast. And I think the thing to do is take Mr. Towers and, if you ask me now I just don't know because the only thing I know about the Canadian dollar is a fellow out on the ranch, last year he did not like the way things were going in Washington so he took \$50,000 and bought Canadian dollars and he wanted to know what he could do with it now and I said "You are out of luck. You are

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in for the duration of the war." Is that right?

Mr. Towers: It's first cousin to being right.

HM, Jr: That's my only contact with the Canadian dollar.

Mr. Towers: Well, I will go along with Viner and White now.

oOo-oOo

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE November 21, 1939

TO Secretary Morgenthau

FROM Mr. White

Subject: Foreign Exchange Resources of England and France

Summary

The total foreign exchange resources of the British and French Empires which can be liquidated within the next two years are more than \$15 billion.

Of this \$15 billion approximately a third can be liquidated very easily, an additional third only with permanent losses to the economic power of Great Britain. The last third would be liquidated only if England were desperate and only at a serious permanent economic cost to the British Empire.

1. The United Kingdom alone has almost \$5 billion of foreign exchange assets, the bulk of which could be easily liquidated in the United States.

	<u>Face Value</u>	<u>Amount which could be realized on in 2 years</u>
Official balances held in the Federal Reserve Bank in N.Y.	\$ 200	\$ 200
Dollar balances of British residents	375	225
Gold holdings of British Government	1,900	1,900
British gold holdings in the United Kingdom	700	500
Holdings of United States securities	1,000	700
British direct investments in the United States	<u>700</u>	<u>350</u>
Total	\$4,875	\$3,875

In addition, British investments in neutral countries other than the United States could probably be sold in the United States to yield at least \$2 billion within the next two years.

If pressed still further, the British could raise at least \$2 billion more through the sale of her properties located in British Empire countries which Americans might be willing to buy if the course of the military operations did not jeopardize the value of the investments to Americans.

2. The readily available foreign exchange assets of the British Dominions, most of which will doubtless be placed at the disposal of England in the prosecution of the war should it become necessary to do so, amount to more than \$3 billion.

(a)	Gold holdings	\$1,800 million
(b)	Dollar balances	325 "
(c)	U.S. security holdings and direct investments in the U.S.	<u>1,000</u> "
	Total	\$3,125 "

3. France has almost \$4 billion of foreign exchange which may be regarded as part of the pool of resources available to the Allies.

(a)	Gold	\$3,200 million
(b)	Dollar balances	250 "
(c)	U.S. securities and direct investments	<u>300</u> "
	Total	\$3,750 "

TREASURY DEPARTMENT

75

INTER OFFICE COMMUNICATION

DATE November 20, 1939

TO Mr. White
FROM Mr. Glasser

Subject: Foreign exchange resources of England and France

1. The foreign exchange assets available to England and France to finance the war should be estimated to include the foreign exchange assets of the entire British and French Empires. It would be an error to assume that the foreign exchange assets of the various countries of the Empires do not, in effect, constitute a common pool from which England and France will draw when and if the need arises, for it is inconceivable that either England or France would jeopardize the effectiveness of their military operations because of the scarcity of foreign exchange assets while any portion of the Empire has substantial sums of foreign exchange left. Doubtless each country and each dominion will regard its gold security holdings, dollar balances, etc., as part of its own foreign exchange assets; and it may possibly become true that there will be some unwillingness to contribute to the general pool and that such an unwillingness might well constitute an important factor with respect to the conduct of the war. However, such a contingency could hardly arise until a very advanced stage in a prolonged and costly war.

The allocation of foreign exchange by the dominions and colonies will probably take the form of supplying raw materials and commodities to the Mother countries and the arrangements will doubtless be matters for continuous negotiation and modification, but these are essentially matters of bookkeeping. In the beginning stages the policy seems to be that of permitting the maximum amount of autonomy in colonial and dominion operations with a maximum amount of voluntary cooperation, but as the need becomes more acute, joint efforts will doubtless be more closely interlocked.

Therefore, while it is both significant and interesting to note the foreign exchange assets of each country separately, it would, I believe, be an error to assume, in the discussions with England, that England's foreign exchange assets are to be regarded independently from those of her Empire in estimating the total resources at the disposal of the Allies.

2. The foreign exchange assets of France, England, and the dominions are estimated below. The assets are listed in approximately the order of their liquidity, although there has been no attempt to estimate the order in which they are likely to be disposed of.

United Kingdom -- Foreign exchange assets

	Face value	Amount which could be realized on within two years
	(In millions)	
(a) Official balances held with the Federal Reserve Bank in New York	\$200	\$200
(b) Dollar balances of British residents	375	225

Since a certain amount of dollar deposits must be kept as working funds for commercial purposes, it is difficult to conjecture how much could be used without interfering with commercial relations. The minimum amount needed should be much less than the amounts which were kept on balance during peace time, in view of the centralization of control over imports invested in the Ministry of Supply and the Exchange Control authorities. It would seem reasonable to estimate that \$150 million would be adequate balances to maintain in this country, although further study would be necessary before reliance could be placed in this estimate.

(c) Gold holdings of the British Government	1,900	1,900
(d) Private gold hoards in the United Kingdom	700	500

In March 1939, Phillips stated to Butterworth that the private gold hoards in England were estimated to be \$850 million. There probably was some reduction in private hoards between March and September of this year.

(e) Holdings of United States securities	1,000	700
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Our statistics of foreign investments in the United States indicate that the British have about \$1 billion of American securities. The British have said that some \$700 million of American securities have already been registered with the Bank of England, although the registry is not complete.

The British holdings may not equal the \$1 billion that our figures show since a part of what we have recorded as British-owned securities may actually be owned by continentals who have utilized British names to mask the real ownership. On the other hand, British residents may have acquired American securities by operating through Dutch, Swiss, and French brokers, although the amounts of the latter are probably not as large as of the former, and only a portion of the latter may be registered with the British authorities.

The liquidation value of the British holdings of American securities will depend upon the level of stock and bond prices in the United States, upon the urgency with which the funds are needed and upon the character of the securities. The level of prices in the United States will probably be relatively high if war purchases in the United States are on the scale that is likely were the British forced to liquidate an important part of her foreign exchange assets. To the extent that they hold a large proportion of the stock of any particular corporation they may have considerable difficulty in liquidating those securities at satisfactory prices.

It is quite understandable that England should be reluctant to resort to this source of foreign exchange because, in the first place, she would like to interfere as little as possible with private property rights over foreign investments; secondly, disposing of these securities would permanently cut down a source of future foreign exchange revenue; thirdly, the possession of these securities provides England with an asset which might be used as collateral for borrowing from the United States; fourthly, foreign investments of American stocks and bonds represent an indispensable field of investment for British insurance companies and investment trusts.

(f) British direct investments
in the United States

700

350

The Department of Commerce reported that indirect investments, consisting of branch plants, real estate holdings, etc., were valued at \$700 million. These investments are, of course, less liquid than the bulk of the security holdings, and the British Government would doubtless be even more reluctant to force the sale of these assets. If the need became great enough, however, the United Kingdom would be able to realize about a half billion dollars from this source within a few years.

(g) British investments in neutral countries other than the United States	7,000	2,000
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British foreign investments in areas of the world outside the British and French Empires have a face value of \$7-8 billion. In Latin America alone their investments have a face value of almost \$5 billion.

The liquidation value of investments in neutral countries is a matter of sheer conjecture. A large part of British holdings in Latin America are in default, but, on the other hand, some of the most valuable properties in Latin America are owned by the British. British holdings in Argentina's railways, for instance, which are valued at more than \$1 billion, are a good investment from any point of view and could no doubt be liquidated in the United States at close to their face value and a portion may be used to settle an unfavorable balance of payments with Argentina during the war. British investments in China, which have been estimated as having been worth as much as \$1 billion, prior to the outbreak of hostilities, are probably still worth substantial sums even though the bulk of these investments are in Japanese occupied areas.

On the whole, the liquidation value of these holdings might conservatively be estimated at \$2 billion.

(h) British investments in her Empire outside the United Kingdom	10,000	2,000
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The face value of these investments have been estimated at about \$10 billion. The ability of the British to sell these investments for foreign exchange depends in large part upon the prospects of the outcome of the war. British investments in Canada, South Africa,

Australia and India will have a liquidation value that will be affected by exchange risks, dangers of military and political control by uncooperative countries, and the economic position of the countries themselves. Furthermore, a part of these investments will be available for liquidation directly by the British since steps have already been taken to sell some of these investments to the dominions themselves as the means for settling the balance of payments between England and the dominions.

Some of these properties represent items that would be extremely attractive to American investors and to the United States Government, provided England does not appear to be losing the war. For if she were Americans would be most reluctant -- as a neutral -- to purchase properties that may involve questions of clear title with a victorious Germany. England could no doubt raise large sums by selling her ownership in enterprises located in her Empire if the fortunes of war were not going against her. The best examples, of course, would be British shares in the gold mines in South Africa, copper mines in Rhodesia, tin mines in Malaya, rubber and tea plantations in the South Pacific.

Obviously, setting any sum as a liquidation value would be sheer conjecture in view of the uncertainty as to the eventual outcome of hostilities; but it appears that \$2 billion would be a minimum sum which the British may raise by selling shares in these assets provided, of course, that she was not in a desperate military plight. Americans would be willing to buy since American economy is, to a large extent, directly dependent upon the continued operation of these enterprises.

(g) Total foreign exchange re-
sources of the United
Kingdom

\$21,875

\$7,900

3. The foreign exchange assets of the British dominions.

The foreign exchange assets of the British dominions will probably be used by England indirectly, and England herself may play no part in the liquidation of these assets. Judging from the arrangements now being discussed between England and Canada, England will probably follow the policy of borrowing from her dominions and liquidating British holdings of

dominion securities to settle balances between England and the dominions. The dominions, in turn, will utilize their foreign exchange assets for meeting the unfavorable balance of payments with foreign countries that will develop as a result of exporting goods and services to England.

The ability of the dominions to export capital to England will depend upon the volume of their own holdings of foreign exchange assets to meet the unfavorable balance of payments with foreign countries. In this indirect manner, the foreign exchange assets of the dominions will be at the disposal of England in the prosecution of the war. In later phases of the war the British may utilize the foreign exchange assets of the dominions more directly but that point would only be reached at a very late stage in a prolonged war.

The British dominions have the following assets:

(a) Gold holdings	\$1,800 million
(b) Dollar balances	325 "
(c) United States security holdings and direct investments in the United States	1,000 "
Total	\$3,125 "

The bulk of the foreign exchange assets of the British dominions is, of course, in Canada. The monetary metal hoards of India may be beyond the control of England. In fact, England may be forced to settle her balance of payments with India by selling to her silver and gold, as she did in the past war. The political relations between England and India are so uncertain and precarious at this time that England probably cannot rely upon using India's gold and silver reserves for purposes of conducting the war.

South Africa and the British colonies have large current earnings in foreign exchange, but this income is normally passed on to the British in servicing British investments.

4. France has roughly \$4 billion of foreign exchange, as follows:

(a) Gold	\$3,200 million
(b) Dollar balances	250 "
(c) American securities and direct investments in the United States	300 "
Total	\$3,750 "

French residents probably own more than the stated amount of American securities but it is doubtful that the French

Government would be able to obtain more than the specified amount. The French Empire outside of France has very little foreign exchange resources.

5. The total foreign exchange resources of the British and French Empires which can be liquidated within the next two years is thus more than \$15 billion.

These assets represent the economic power of the empires, the bulk of the earning power of England, and the resources which are vital to both England and France if they are to control and to participate in the peace and reconstruction which will follow the conclusion of the war. The economic and social structure of England is based upon a favorable balance of payments on service account of more than \$2,000 millions annually; and England as now constituted must depend upon her foreign investments to supply a large part of this current foreign exchange income.

To carry this analysis to its logical conclusion, the British Empire's foreign exchange resources are inexhaustible, and the only limit to the amount of foreign exchange which she can acquire is the ability and willingness of foreign countries to purchase the assets in exchange for the commodities which England wishes to buy. The British Empire can offer for sale to Americans (and to other foreign countries able to supply commodities or foreign exchange) the economic enterprises in the dominions and colonies which are owned by the citizens of those countries. The British can offer for sale the business enterprises in England itself, if there is a market value for them in the light of the military situation. Further, the British may offer to sell some of her colonies in the Western Hemisphere to the United States Government, and there may be a sales value attached to other colonies in Africa, Asia and the Southern Pacific.

But the British would be willing to raise funds in this manner only if she were in the last extremity and only if the short-run dangers were so overwhelming that the long-run considerations were without significance.

Every effort will be made to prevent any losses of foreign exchange, for the war will be followed by peace, and in the peace to come the economic resources may be the decisive factor in maintaining the position and cohesion of the empires. In fact, it should not occasion surprise if England actually added to her foreign exchange reserves, especially during the early stages of this war.

England and France will liquidate their foreign exchange reserves with the greatest reluctance, and only when the alternative courses of action are more unpleasant to their short- and long-run interests. In any circumstances, for England and France to go beyond the sale of \$10 billion would be extremely disastrous to the long-run interests of the Empires, and before they would do so, the immediate military situation would need to be very desperate indeed.

RE COLOMBIAN FINANCE

November 21, 1939.
3:15 p.m.

Present: Mr. Hanes
Mr. Foley
Mr. Bernstein
Mr. Riefler
Mr. Cochran
Mr. White
Mr. Frank
Mr. Lincoln

H.M.Jr: We are having this meeting tomorrow. Who is going to be teacher now for this homework? Harry, have you got this at your fingertips?

White: I can outline it very briefly.

H.M.Jr: You have seen me now in the raw or lack of the raw, whatever you want to call it.

White: Colombia had about 160 million dollars of outstanding debts, most of which was held here.

Frank: Including local as well as national?

White: Local as well as federal, which they are undertaking to handle together, I understand. They have repurchased some of their bonds from the market, how much we do not know. They have risen - the bonds have risen about a third in the last month, last month and a half.

H.M.Jr: Good.

White: They were around 23 or 24. I think they are now 34 or 35. I haven't seen what they are today. They may have gone up today. The reason for the rise, I take it, is the expectation that they were going to make a good offer. The offer that we understand from Mr. Welles that they are about to make is three percent on their debt and to step that up to four sometime within - whether it is four or ten years is not clear because the information differs from two sources and no scaling down of the principal, so from the point of view of the bondholders, that would seem to be an excellent offer.

Frank: Anything for back interest?

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White: There is no indication whether that includes payment on the arrears. There is about 55 million dollars arrears, I think.

H.M.Jr: How much?

White: I think it is 55.

Frank: That is about right, isn't it?

Lincoln: That is about right.

Frank: It is since 1930.

Lincoln: '31 and '34.

White: Nothing was stated of the arrears. It may exclude it. It seems like a very good offer from the bondholders' point of view.

From Colombia's point of view, however, it is an offer which they can well take in their stride, so there doesn't seem to be any immediate prospect of their defaulting. In other words, they are not offering more than either their budget or their balance of payments can reasonably stand, so that there is reasonable expectation that they will meet their obligations if they are accepted.

They are going to ask, as I understand, for a 10½ million dollar loan, with the hope later of getting some more, possibly up to 25 million. It is not clear to us whether that 10½ million is to be used wholly for short-term purposes, that is, whether they will set it aside in order to meet what they may feel to be special demands occasioned by their loss of the German market for coffee or whether they hope to use part of it to keep some of the public works programs which they have started and which they have felt is in jeopardy, so that the question is to the use of the funds and the specific amount is something, I take it, we will hear tomorrow, but in both communications there is no clear indication of either of those points. They had hoped several months ago to ask for a larger sum to be used for expansion of their transportation system, improvement of their agricultural system and for the short-term balance of payments needs but that information dates from a communication of

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a couple of months ago from the State Department and we haven't heard anything about it since.

- H.M.Jr: Well now, we are talking here kind of in the family and - does anybody know what this so-called Bondholders Protective Committee - did they have any tentative agreement with these people before we got into the picture?
- Frank: Do you know, Mr. Lincoln?
- Lincoln: I don't think they have ever been able to get them to make an agreement.
- H.M.Jr: What I am getting at is, I wonder if we have any way to sort of feel out this Bondholders Protective Committee and say, "Now, what would you consider would be a good deal," and sort of get them to commit themselves, you see. What would you consider a fair deal?
- Lincoln: I think this is a fair deal. I wasn't clear as to what they were going to do with their department and city debt.
- White: My understanding was that this was to be on their total debt which takes over also the local and the state debt and they indicated no additions for amortization or sinking fund, but Mr. Jones in talking it over with their representative indicated that he thought that a payment of \$600,000 for amortization could be easily paid over. Now, certainly they could very easily include that in this sum but it wouldn't amortize the debt, obviously. It would be a help.
- Riefler: If they have been buying back any quantity of their bonds at these low prices, they would be able to put those in for the amortization payments and substitute those for amortization and simply escape that charge completely. I think it is quite important to find out how much they have bought back.
- Lincoln: It is known that Colombia holds 8 million of the national government bonds in their treasury. I think it is 5,997,000.
- Riefler: Do we know the state and local, what they have bought back?

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- Lincoln: I don't think anyone has any figures on that.
- Riefler: What is the face value of the national?
- White: The national debt is 160 less 80, in other words, about half. 82 million is the local government obligation. There is about 12 million in sterling and I take it that question hasn't arisen. I take it that any settlement they would make with dollars, they would make with sterling. There is only 12 million outstanding. They may have got some of that back, so that if they have bought back some of the federal debt, then they might have as low as 60 or 50 million.
- Lincoln: I think the outstanding federal is probably well under 50 now, aside from what they have bought back.
- White: Our most recent figures are that they had about 76 outstanding federal public debt and from that sum we know that they have purchased some back.
- Lincoln: That includes, I guess, the guaranteed bonds of some of their banks.
- White: Yes.
- Lincoln: That would bring it below that figure.
- White: That is right. But it appears that they have an excellent basis for a reasonable settlement there. Wouldn't Mr. Feis know, Mr. Secretary, about that?
- H.M.Jr: I don't know.
- White: I am sure he would, because he is supposed to be on all those committee meetings.
- H.M.Jr: What contact have you people got with the Bondholders Protective Committee?
- Frank: There is a Board of Visitors consisting of - it is functioning through Bill Douglas and Mr. Feis. Mr. Lincoln really did the work.

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- Lincoln: I know those people, have talked to them over the telephone, and I think they would give us any information they have.
- H.M.Jr: I wonder if you would consider it an SEC matter to call them up and simply say, "What would you consider a fair settlement?"
- Frank: Would that be out of line with your previous work?
- Lincoln: I have never asked them that much before, but I don't....
- Frank: I see no objection to it.
- H.M.Jr: I would rather do it, if you don't mind, this way than to do it through the other way.
- Frank: I suppose we - ought we not to consult Herbert before we do that?
- H.M.Jr: That is up to you.
- Frank: Don't you think so, Harry?
- White: I do. I think it would be less trouble that way.
- H.M.Jr: Does he represent them any more than the SEC?
- Frank: Yes, probably, because our function is really - the Board of Visitors' official function was to scrutinize their accounts and the conduct of their affairs rather than to pass on the wisdom of any settlements they make. Is that correct?
- Lincoln: Yes.
- H.M.Jr: Could I throw this in your lap, to ask you if, through whatever means you feel proper and ethical, you would find out from the Bondholders Protective Committee what they would consider a fair settlement.
- Frank: Before tomorrow's meeting?
- H.M.Jr: If possible. Would you take that up, Jerome?
- Frank: Yes. You wouldn't mind if I asked Herbert?

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- H.N.Jr: I will leave that to you.
- Frank: I think it would be unwise not to ask Herbert.
- H.N.Jr: What I mean, it is perfectly obvious you are the first one. If we could get as good or better than what we wanted, why then the chances of their - they can't criticize us.
- Lincoln: I should doubt very much if they ever had any hope of getting more than 4 percent.
- Frank: This is probably better than they ever were.
- White: My understanding was that their response to an earlier offer of 1 $\frac{1}{2}$ to 3 percent was a statement that they wanted 4. Now, whether they would at that time have accepted 3, I suspect they would have.
- H.N.Jr: I think if we could know that by tomorrow it would be helpful.
- White: Is it clear that the offer is 3?
- Lincoln: Yes. I wasn't clear that in the national government - from what I have on it - I think that memo of yours - I think that the national government intended to have the offer applied to the departments. The national government has always veered away from that subject.
- White: I am not perfectly clear on that either. It may be in the letter that you received from Mr. Welles.
- Riefler: Aren't there a considerable number of things to be found out, whether it applies to the arrears and how many they have bought back? I should think that would be quite important.
- Frank: This letter says it includes the arrears. This is from Mr. Jones.
- "I had a very pleasant hour and a half with Mr. E. Jaramillo, discussing with him the situation with reference to the Colombian national debt held in this country, and the possibility of some additional credits for Colombia by the Export-Import Bank.

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"I stated to Mr. Jaramillo that, in my view, the five years of over-due interest should be refunded at 3 percent instead of the coupon rate of 6 percent; that the bonds should be extended at 3 percent for 10 years and 4 percent thereafter; that a sinking fund of not less than \$600,000 a year should be set up with which to buy bonds annually on tender; that it would be desirable to have some such arrangement as would permit individual bondholders to convert their bonds into milreis that could be used in Colombia for the purchase of things to export, having in mind that this would result in increasing Colombian exports.

"I told Mr. Jaramillo that I would make this report to you and to Mr. Welles."

- H.M.Jr: I think that last part is - there is too much in it.
- White: And it is too easy to substitute that type of export for the other type.
- H.M.Jr: It is making it too damn uncomfortable.
- Lincoln: There is much to be said against that proposition.
- H.M.Jr: Too complicated.
- Lincoln: Yes, and it sets up an automatic system by which you repatriate and pretty soon you don't pay your interest and you use your money to repatriate.
- Frank: It sounds as if they are working on it.
- Lincoln: Yes.
- White: That is Jones' suggestion as to what they might do. They gave no indication. Do you have Mr. Welles' letter?
- H.M.Jr: Yes, but that is ahead of that.
- White: I thought that Mr. Welles' letter contained the specific offer they made.
- H.M.Jr: This is it:
- "Personal and Confidential.

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"With reference to your consideration of the Colombian financial problem, you will be interested to know that we have just had a despatch from our Ambassador to Colombia reporting a conversation with Doctor Jaramillo who, as you have been informed, has been designated by the Colombian Government as its representative in the conversations we have suggested and who is due to arrive from Colombia in New York today.

"Dr. Jaramillo told Ambassador Braden that promptly after his arrival in Washington he would endeavor to reach a settlement of Colombia's foreign debt held in the United States on the basis of three percent interest payments with the provision that such payments are to be increased over a period of years to four percent. If an agreement can be reached on these terms, he will endeavor to obtain a loan of \$10,500,000 from the Export-Import Bank or from other sources, with the hope that if these arrangements prove satisfactory, further credits can be obtained in the United States in the future up to a total of \$25,000,000.

"The American Ambassador has confirmed my own belief that any arrangements entered into in Washington by Dr. Jaramillo will be approved by the Colombian Congress and by Colombian public opinion because of Dr. Jaramillo's personal prestige in his own country."

- White: You notice he said Colombia's foreign debt, and I take it that includes state and local.
- R.W.Jr: Could Harry and Win - could you fellows get together with Herbert Fels tonight and say some of the things which are bothering us and then fix a little agenda up for tomorrow and have these things cleared up?
- Giefler: What is happening tomorrow? Are the gentlemen going to be here?
- R.W.Jr: No, just Welles. I asked for the meeting and I want to talk about this and the reason I did this this afternoon was just to see what would come up and Harry is only a pretty good teacher, he doesn't know all the answers himself, and so I think if between now and 10:00 o'clock tomorrow you can

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find out the whole story and then get us up a little agenda, with Feis, then we would have the thing, and what they would agree to and what they wouldn't, and just where we are.

- Riefler: I think finding out about the foreign bondholders is very important because this apparently is well within their capacity to pay. It isn't going to strain them terribly. It is pretty reasonable.
- Lincoln: I think the more you study Colombia the surer you get that it will pay.
- Riefler: What do they expect to get from their new oil?
- H.M.Jr: Would Mr. Lincoln be available to sit with our people?
- Lincoln: Yes.
- Frank: If you are going to contact Herbert, why don't you find out what Herbert thinks about contacting....
- Riefler: We could do that, yes.
- H.M.Jr: Could you stay on with these fellows and fix up a little agenda for us?
- Lincoln: Yes.
- H.M.Jr: What do you think, Johnny?
- Hanes: I think it is all right.
- H.M.Jr: Yes.
- Poley: Bernie could sit in with them.
- H.M.Jr: Right.
- I think that is that. Have you got something else on your mind?
- Frank: Have you got a minute about what happened this morning?
- Cochran: May I ask one question, Mr. Secretary? Is there

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any plan to have anyone here from the bondholders association before you go?

B.S.Jr: Well, this was sort of taken in lieu of it.

Cochran: You might get a lot you wanted out of them if you had them come down here.

Siebler: Technically, would we have to consult them before it went through? Wouldn't they have to ratify it?

Cochran: They are the ones who represent the bondholders, after all. I thought you might get something worth while from them before you got into these conversations.

Frank: You know they have no deposits.

B.S.Jr: That is just the question I am going to ask. How many dollars of deposits do they have?

Lincoln: They don't go through the mechanics of deposits.

Frank: Don't they negotiate, then go out and see the bondholders? They don't have powers of attorney for the bondholders, do they?

Lincoln: No.

Frank: Really no real status at all.

Lincoln: Their status solely arises from the fact that they grew out of the meetings called by the Treasury and the State Departments and were given, you might say, official blessing as the proper voice for bondholders in 1933. Their technique in arranging resumption of interest payments has been to haggle out the best terms they could get out of the foreign governments, and when it was announced, say, "We have approved this as the best that could be expected," or else they will, as in the case of Chile, say, "This is bad."

Frank: They have no real legal status, either by way of deposits or power of attorney or anything else. I think you would have to take this into account. If they were to severely criticize it, it would be bad public relations. Other than that, I don't think they have any legal status of any kind.

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- Lincoln: It would all be sweet and lovely to have them say afterwards, "We approve this."
- H.M.Jr: That is the thing I had in mind, that I personally didn't feel that we should go much further than that, to call them up and ask them what they had in mind, what they think is a good settlement.
- Frank: Do you think there is any danger in that?
- Lincoln: I don't think so. I think Fox knows right now what they consider a good settlement.
- H.M.Jr: I am sure he does.
- Riefler: It would be smart to get them in before the end.
- H.M.Jr: As far as I am concerned, I wouldn't like to go any farther tonight than to ask them the question, through any means that you want, what they consider would be a fair settlement, how they feel.
- Frank: Yes.
- H.M.Jr: I wouldn't want to go any further than that tonight, would you, John?
- Hanes: No, I don't think so.
- (Discussion off the record)
- Foley: Who is counsel for the committee, Jerry?
- Frank: They have no lawyer.
- Lincoln: They have no counsel.
- H.M.Jr: Let's think that over. I am willing for these gentlemen to work up something tonight with the State Department and have something ready and if Mr. Lincoln could stay behind, I think that would be nice.
- Frank: Certainly.

GROUP MEETING

November 21, 1939.
9:30 a.m.

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

H.M.Jr: Gene, do you have anything?

Duffield: No.

Foley: Bill Campbell and Sam Klaus came in this morning.
I thought maybe you might want to shake hands with them.

H.M.Jr: Definitely, more than that. I would like to kiss them on both cheeks.

Thompson: Who?

H.M.Jr: Sam Klaus and Bill Campbell.

Did you (Mrs. Klotz) say you wanted to do that, too?
I can't hear you.

Klotz: Is my face red!

H.M.Jr: Well, anyway, before I do that I want to ask Summer Welles whether he wants to meet on South America.
Mrs. Klotz and I will see the others.

Incidentally, did you (Foley) say something about ducks to me?

Foley: Yes, sir.

H.M.Jr: When can I get delivery on those?

Foley: Today.

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H.M.Jr: I told Mrs. Morgenthau last night we were going to have some legal ducks.

Foley: That is right.

H.M.Jr: Is that for tonight?

Foley: That is for tonight.

H.M.Jr: Would it be embarrassing to ask how many there are? Are there two?

Foley: Four.

H.M.Jr: I mentioned it to her and she said, "How do I know what to order," and I said, "Well, I will find out."

White: Would it be embarrassing to ask whether you (Foley) shot them?

Bell: Did you get them, Ed?

Foley: Yes, I got them. There are some better ones but they won't be ready until next week.

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

November 21, 1939
9:36 a.m.

Sumner Welles: Hello, Henry. Welcome back.

HMJr: Thank you. How are you?

W: I'm fine. I hope you had some rest.

HMJr: Oh, wonderful! I had a complete -- I recommend it to anybody who wants to have a.....

W: Well, I'm delighted that you got the chance.

HMJr: Sumner, Thanksgiving is Thursday, I believe.

W: Yes.

HMJr: I wondered whether you and Jones and I wouldn't want to get together today, or tomorrow, on Colombia,

W: I'll be very glad to. Has Jesse brought you up to date?

HMJr: He wrote me a letter.....

W: I see.

HMJr:on the matter, yes.

W: Um-hm.

HMJr: So I -- I think I'm up to date.

W: I'll be glad to. I'm afraid I'll have to make it tomorrow, Henry. I've got every minute today.

HMJr: All right. How about 10:30 or 11:00.

W: (Aside: My desk book for tomorrow.) Will you wait just a second?

HMJr: Surely.

W: (Brief pause.) Would it be equally convenient for you to make it early in the afternoon?

HMJr: Tomorrow?

W: Yeah.

HMJr: Not as good, no.

W: Well, would it be possible then to make it before 10:30, because I have appointments from 11:00 until 1:00?

HMJr: Yes, do you want to make it 10:00 o'clock?

W: 10:00 o'clock will be fine.

HMJr: And I'll let Jones know.

W: All right thanks, Henry. I'll be in your office at 10:00.

HMJr: Righto.

W: Thanks. Goodbye.

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H.M.Jr: Which of the three "E's" are here?

Stewart: We are all here.

H.M.Jr: Which of the three "E's" are going to concentrate on helping on this Colombia thing, or South America?

Stewart: Mr. Riefler.

H.M.Jr: Is that it?

Riefler: Yes.

H.M.Jr: Well, let's say this - will you (Foley) tell Campbell and Klaus 3:00 o'clock?

Foley: All right.

H.M.Jr: And then let's say at 3:15 we have a dress rehearsal on Colombia. I don't know who all is interested. The legal section is. And you (Stewart) at 3:00 o'clock and Campbell and Klaus. Harry, will you round up the people for 3:15, please?

Just so we know, on the question of sales of British securities, Merle Cochran will be the Treasury staff representative with Mr. Walter Stewart acting as consultant to me on it. Right?

Stewart: Right.

H.M.Jr: They are going to have a meeting at....

Stewart:10:00 o'clock.

H.M.Jr:10:00 o'clock. Have you got fixed up about Campbell and the ducks?

Foley: I have this letter on the movie cases. Do you want me to send that to Eddie Greenbaum and Knollenberg?

H.M.Jr: Very much. And that letter can be ready for me Monday?

Foley: Sure.

H.M.Jr: Before I see it, I would like it to be initialed by Helvering....

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Foley: It will be initialed by those people before it goes out.

H.M.Jr: And then when it comes back to be initialed by Hanes and me - but let's go up to the top - and then it comes back Monday and Hanes and I see it Monday, is that right?

Hanes: Yes.

Foley: This is in reply to a letter that was sent to Phil Wenchel by Sam Klaus, and I prepared it for my signature. Is that all right? It is a legal letter to the Assistant Attorney General. Now, it could be prepared, it seems to me, for the Commissioner, Phil Wenchel or myself.

H.M.Jr: In writing these two gentlemen, why don't you ask them who they think should sign it, or do you think you ought to sign it?

Foley: I think we ought to sign it.

H.M.Jr: It is a legal letter?

Foley: Yes. I think I should sign it, but if you would rather have it for the Commissioner's signature, that is all right with me. I think it might carry a little more weight if I sign it. That is the only reason I did it that way.

H.M.Jr: Then leave it that way. Is that all right with you?

Hanes: That is all right.

H.M.Jr: I would like to read it Monday.

Foley: All right, sir, I will have it for you.

H.M.Jr: Anything else?

Foley: No.

H.M.Jr: Walter?

Stewart: Nothing.

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Cochran: Here is a memorandum of my conversation with Mr. Straessle yesterday.

H.M.Jr: Oh yes.
Have you seen Straessle?

White: No.

H.M.Jr: Supposing you are here at 11:00.
Anything else?

Cochran: No, sir.

H.M.Jr: George?

Haas: I have nothing this morning.

H.M.Jr: Jake?

Viner: Nothing.

Riefler: Nothing.

H.M.Jr: My wife had tea with your wife, Sunday. She sent you her love.

Viner: In Chicago?

H.M.Jr: In Chicago.
Jake, I am dividing you fellows up. If you don't like it, you can all say so at any time as long as you be good today. I would like you here today at 10:30. The Canadian Minister is coming in and Ralston called me on the phone last night, asking if I would see Tower, because he is going to London to represent the Canadian Government.

Viner: 10:30 tomorrow morning?

H.M.Jr: Today. Viner can be here on this Canadian thing, and Riefler can concentrate on Colombia, and Mr. Stewart on British securities. I am dividing you fellows up and if you don't like it....

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Viner: All Gaul.

White: That makes you Caesar.

H.M.Jr: I don't know how you spell Gaul, but....

White: In this case, it would be right in either spelling.
Is that meeting going to be in connection with the correspondence?

H.M.Jr: No. You are invited, too.

White: If it were - I mean you....

H.M.Jr: No.

White: Because there was supposed to be an agenda.

H.M.Jr: I couldn't get it very close, but I gather that the meeting was on the British Empire and he seems to represent Canada on finance.

White: And not the letter that he had sent you?

H.M.Jr: No, this is something special. So, if Cochran and Viner and White will be here at - oh, you can't, Cochran?

Cochran: I can't.

H.M.Jr: Then White, will you keep minutes and let Cochran have a copy? Viner doesn't know how to spell.
Basil?

Harris: No, I have nothing.

H.M.Jr: Harry?

White: I have a review of the gold and capital movements since the war began, if you want to look at it, and then a proposal of how to utilize your gold holdings that I think you ought to glance over. We have a memorandum on the foreign exchange resources of England and France and it is different in conclusion with the apparent prevailing opinion at the British Treasury, as indicated by some cables that we....

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H.M.Jr: If you will give those to Mrs. Klotz to be marked for Thanksgiving day on the farm.

White: Right.

Then there is a memo on China. I don't know whether you want to take that up today or not.

H.M.Jr: No. I will take that with me to the farm.

White: The figures on the October trade are in. They are rather interesting because they show very large increases, almost double, of exports to Scandinavia and a very large increase to Russia and a drop to the belligerent countries and an increase to Latin America. The net result is an increase.

Then there are some cables here that I think you ought to read.

H.M.Jr: Put it all - mark all of it for the farm, because I won't get a chance between now and then.

White: There is nothing here that needs to be gone over right now.

H.M.Jr: Anything else?

White: No.

H.M.Jr: Dan?

Bell: Will you want an Open Market meeting for this Tuesday thing?

H.M.Jr: I don't think so.

Bell: I don't think you need it, but we have always had them.

H.M.Jr: Well, I want to talk with the President - perhaps I will make this for lunch today.

White: Did you want the SEC in on this Colombia meeting? I should think so.

H.M.Jr: You mean the one this afternoon?

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White: Yes.

H.M.Jr: Yes. Would Jones come - no, this is just a dress rehearsal for tomorrow. Do you want the SEC here?

White: They either ought to be here or be informed as to what is up.

H.M.Jr: Well, they will be here tomorrow.

White: Do they receive the letters you receive both from Welles and Jones?

H.M.Jr: No, call them up and say if they would like to attend the dress rehearsal they can come this afternoon.

White: O. K.

H.M.Jr: If they come this afternoon they wouldn't have to come tomorrow morning, would they?

White: Well, I imagine if you were going to continue what you have started they would have to be here tomorrow. Possibly to avoid any subsequent difficulties, I can merely inform them as to what the situation is so they won't be in on the Treasury dress rehearsal.

H.M.Jr: I will be glad to have them at the dress rehearsal.

White: O. K.

H.M.Jr: What else?

White: That is all.

H.M.Jr: Dan?

Bell: The Fed sold four million one hundred thousand yesterday.

H.M.Jr: You want to sell a little, don't you?

Bell: Yes.

H.M.Jr: You are going to finance Tuesday and you want to sell....

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Bell: I think it is getting a little close now. I think the first few days of this week would have been all right.

H.M.Jr: Do you want to sell a little today?

Bell: I don't think it would hurt anything, since we have got some of those long ones in the Postal Savings that we could let go at a little profit.

H.M.Jr: How many two percent notes are we supposed to have gotten?

Bell: One hundred and twenty, I think.

H.M.Jr: Don't let's sell. I don't like to sell the Postal Savings. How many?

Bell: 120 million.

H.M.Jr: Especially not the long ones.

Bell: I like to sell at the top and pick them up at the bottom.

H.M.Jr: So do I.

Bell: We have got two to three dollars profit doing that.

H.M.Jr: I have seen men go broke trying to do that.

Bell: That is three percent return for three years.
I suppose you have seen in the paper all this trouble about the food stamp plan in Rochester.

H.M.Jr: I saw this cartoon in the Washington Herald this morning.

White: Are you going to see Milo Perkins? You said you were after you came back.

H.M.Jr: Why don't you (Bell) post me?
Not today (to Mr. White).

Bell: I will just give you a little background. He sent a telegram that they were going to withdraw this

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food stamp plan from Rochester if the banks put on this service charge. I am afraid it will develop just like the social security trouble did on the unemployment compensation payments. They will get the whole community and all the banks so mad they won't even speak to a Government official and then they will call the Treasury in to straighten it out.

White: Except in this case the Treasury is with the grocers and with agriculture and not with the banks.

Bell: Nevertheless, I think it could be worked amicably without all this trouble.

H.M.Jr: What is your suggestion?

Bell: This is strictly a banking problem and I think if the Treasury could get in it we could work it out like we did the agriculture problem.

H.M.Jr: Will you call up Milo Perkins?

Bell: All right.

H.M.Jr: Why don't you tell him what you did for social security.

Bell: The same bank that is in this trouble also was in the social security, and for ten thousand dollars deposit they are doing a million dollars worth of business and perfectly satisfied.

H.M.Jr: Will you call him up right away?

Bell: Yes.

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

Bell: O. K.

Thompson: I wonder if you could see Mr. Harris and me for about two minutes?

H.M.Jr: Harris?

Thompson: Yes.

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H.M.Jr: 2:45?

Thompson: Yes.

H.M.Jr: Let me just go over what we have got today to see if I have skipped anybody who wants to come. At 10:30 I am seeing the Canadian Minister. At 11:00 o'clock I am seeing Straessle. At 11:30 Preston Delano and the others report on the comings and goings of one Giannini. At 1:00 I am lunching with the President. At 2:45, Harris and Thompson. 3:00 o'clock, Campbell, Klaus and Klotz. At 3:15 Colombia, and so to bed.

I will say right after this Colombia thing at 4:00 o'clock. How is that?

Duffield: Fine.

H.M.Jr: Is everybody happy? Have I left you out of anything, Dan, that you want to come in on?

Bell: No.

November 21, 1939
2:19 p.m.

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HMJr: Hello.

Captain
Collins: Yes, Mr. Secretary.

HMJr: Collins, I've read your memorandum. I had no opportunity to discuss it with the President.

C: Yes, sir.

HMJr: I didn't gather what you said to me just before I left. You want to send a copy of this to Welles?

C: Oh, no. No, I have a separate one for him which is much briefer. That's the whole story of the case. One is going to Welles -- has gone, as a matter of fact, is practically what is contained in the last two or three paragraphs of the memorandum you have, sir.

HMJr: That's all right.

C: Because he has been kept informed by -- by all messages.....

HMJr: That's right.

C:ever since this transaction started.

HMJr: Well just -- anything else like this, just keep me informed in the same way.

C: Oh, I certainly shall, sir.

HMJr: That's all right.

C: All right, sir.

HMJr: Thank you.

C: Goodbye.

November 21, 1939
2:40 p.m.

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Operator: Go ahead.

Guy
Helvering: Hello.

HMJr: Hello, Guy?

H: Yes.

HMJr: The President of the United States tells me you have
summoned a Collector Hinkley from Utah.

H: Yes. He's here now.

HMJr: Oh.

H: We're in Mr. Hanes' office.

HMJr: He's in Hanes' office now.

H: Yes.

HMJr: Oh, you're giving him a hearing?

H: Yes.

HMJr: I see.

H: The report showed certain things about that -- I
thought he ought to be given a chance to -- I had
it up to Mr. Hanes last week.

HMJr: Well, when you get through - you've made up your
mind what you're going to do, let me know.

H: Yes. All right.

HMJr: Be good.

H: You bet.

November 21, 1939
4:58 p.m.

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Captain
Collins: Mr. Secretary.....

HMJr: Yes, Captain.

C: I had a phone call from Louis Johnson just about ten minutes ago.

HMJr: Yeah.

C: And there's to be a meeting over in the War Department tomorrow morning.

HMJr: Yes.

C: And I will go to it at eleven o'clock.

HMJr: Yes.

C: And Mr. Wilbur of Aluminum is also to be there, as well as the chief of the Aeronautics of the Navy.

HMJr: Yeah.

C: This plant that I spoke of in the memorandum, why they are going to try to put some pressure on to try to get some of this plate released.

HMJr: Right.

C: So I'll be in touch with you after that meeting, sir.

HMJr: O. K.

C: All right, sir. Goodbye.

November 21, 1939

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Hanes told HM, Jr that he did not show this memorandum to the President and that the matter was dropped. HM, Jr told him that he was "all wet" about it.

MEMORANDUM FOR THE PRESIDENT:

Sections 3 and 8 of the Gold Reserve Act of 1934 provide in part as follows:

"The Secretary of the Treasury shall, by regulations issued hereunder, with the approval of the President, prescribe the conditions under which gold may be acquired and held, transported, melted or treated, imported, exported, or earmarked * * *." (Underscoring added.)

"With the approval of the President, the Secretary of the Treasury may purchase gold in any amounts, at home or abroad, with any direct obligations, coin, or currency of the United States, authorized by law, or with any funds in the Treasury not otherwise appropriated, at such rates and upon such terms and conditions as he may deem most advantageous to the public interest * * *." (Underscoring added.)

On January 31 and February 1, 1934, the Secretary of the Treasury, with the approval of the President, announced that the United States would buy imported gold at the \$35 price subject to the regulations issued under the Gold Reserve Act. At the same time the Secretary of the Treasury, with the approval of the President, issued regulations prescribing, among other things, the conditions under which gold might be imported and under which gold would be purchased by the United States.

The Secretary of the Treasury, with the approval of the President, has the legal authority to revoke or modify the existing procedure and regulations relative to the importation of gold and the purchase by the United States of imported gold and to impose any terms and conditions on the sale of imported gold to the United States. There is nothing in the Neutrality Act which would limit the legal power of the President or the Secretary of the Treasury. However, any regulations relating to the importation of gold, or the sale of imported gold to the United States, which constituted a discrimination against a belligerent might raise a question under the international law of neutrality. Any legal obligation to purchase gold under the Tripartite Accord may be terminated on twenty-four hours' notice.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 23, 1939

TO Secretary Morgenthau

FROM Mr. White

Subject: "Tin Loan" to China

1. China needs additional funds to purchase more equipment. The \$35 million five-year Export-Import Bank credit to the Universal Trading Corporation is almost exhausted and the Universal Trading Corporation has a tentative list of goods to be purchased approximating \$75 million. Though these items are not vital to China's continuation of the war they would substantially strengthen her staying power against Japan, and decrease her dependence upon Russian assistance.
2. A credit could be extended to China with future tin shipments to the United States as security against the loan. The Export-Import Bank has very little left uncommitted, but funds possibly could be made available by some shifts in loans between the Export-Import Bank and the R.F.C.; or the R.F.C. may be able to lend an American corporation (The Universal Trading Corporation) the funds with which to buy future shipments of tin. (See appended memo from the Legal Division on that point.)
3. We have been importing about 3,000 tons of Chinese tin annually. This tin is of inferior quality (sometimes referred to as Grade C), which is used for specific purposes suitable to a lower grade product. We do not know how much the use of this inferior tin can be expanded in the United States; nor do we know how long it would take and how much capital would be necessary for China to improve the quality of the tin that she exports so as to compete with high grade tin coming from the Straits Settlements. (Our Procurement Division has undertaken to test Chinese tin for possible uses by the United States Government.) These are matters which should be discussed with some of the large domestic tin users. We have contacted our government tin experts in Washington but get varied opinions. The Bureau of Mines is beginning a survey for possible uses of Chinese tin but the survey will not be finished for some months to come. In view of the fact that Grade C tin sells for only a few cents less per pound than does the better grade, it appears that the possible uses are adequate to consume at least 10,000 tons a year without any significant reduction in price.

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4. The Central Government claims it now has control over an output of 13,000 tons of tin, almost entirely Grade C, (10,000 tons in Yunnan province and 3,000 in Kwangsi). This tin is smelted near the mines by the Chinese but is refined in Hong Kong by British refineries. Whether those refineries will continue to operate on Chinese tin for export to the United States is a matter which requires further investigation.

So long as the French Indo-China route is open the tin coming from Yunnan can be delivered. Should it close the Central Government will be able to ship very little tin to the United States.

Exports by the Central Government of the 3,000 tons of tin produced in Kwangsi will probably soon be blocked. The Japanese have just initiated a campaign against Pakhoi area in order to cut the line of communications from Kwangsi to the port of shipment. Though they may not be able to advance very far into the mountainous territory they will probably be able to cut the line of communication so that receipts of tin from Kwangsi are uncertain during the duration of the war.

The average price of Grade A tin in New York for the past five years has been about \$960 a ton (it has had a low of \$740 in May, 1938 to a high of \$1,180, August 1937). Grade A tin is now selling about \$1,020 a short ton. Grade C tin sells for about \$50 a ton under the price of Grade A.

We import more than 50,000 ton a year. Great Britain, France, the Netherlands control almost two-thirds of the world's output and through the International Tin Cartel control more than 90 percent of the world's sale of Grade A tin. In view of the fact that British interests virtually control the Tin Cartel our tin consumers would be greatly interested in insuring supplies outside of the Cartel control.

5. A loan could be arranged patented after the tung oil loan. The Universal Trading Corporation will contract with the Chinese Government to import 10,000 tons during the next ten years -- beginning possibly with 5,000 tons for the coming year and stepping it up rapidly to reach an average of 10,000 tons over a ten year period. This tin would be sold to the American consumers, possibly at a slight discount from the market price. Fifty percent of the dollar proceeds could then be employed to pay interest and amortization of the debt. That would not leave the Chinese Government very much foreign exchange on their tin sales currently because of the high foreign exchange

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cost of shipping, refining, etc.

If China can export 100,000 tons of tin to the United States over a ten year period, its total value should be in the neighborhood of \$75 million as it is not unreasonable to anticipate an average price of \$750 a ton for Grade C tin during the next ten years. A loan of \$35 million might be feasible on that basis.

6. The risks of financial loss to the Export-Import Bank (or R.F.C.) are not great despite the war in China. Repayment would be jeopardized only if Japan destroys the Central Government. If peace be made either directly by the Central Government or with a puppet government which involves the tin area any government of China will be reluctant to discontinue servicing either the tin oil or the tung oil loans because of their desire to obtain further economic assistance from the United States during the inevitable period of reconstruction.

The greatest risk involved is the possibility of the cessations of payment for the duration of the war should the Japanese completely block Chinese outlets to the outside world. A further risk is that the Communists would obtain control over the whole of south China and would not meet the commitments of the Chungking Government.

Political considerations in this loan are, of course, paramount and that the State Department will doubtless have definite views on the political desirability of making the loan at this time.

7. The next steps in the consideration of the loan might be the following if you approve:

(a) Discussions by somebody in the Treasury with large tin consumers with a view to ascertaining the possibilities of uses for 10,000 tons of Grade C tin, and any serious technical problems that may arise in the contemplated arrangements.

(b) Obtain more definite information with respect to the possibilities of (1) continued shipments of tin into Hong Kong; (2) the feasibility of constructing refineries on Chinese territory, and (3) whether the British will continue to refine Chinese tin for export to the United States.

Strictly Confidential

Approx 11/22/39

CONF

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Statement on the prospects of peace overruled but not signed by Chinese Ambassador; original given to Secy. Hull

During the months of July, August and early September, Chinese leaders were greatly disturbed by the threatening and rapidly changing situation in Europe. They were apprehensive of certain possible contingencies: (1) that Great Britain and France might be forced to enter into some understanding with Japan which might be detrimental to China's war of resistance; (2) that these democratic powers might give up their Settlements and Concessions which had been the few islands of refuge for Chinese population and interests in the occupied areas; and (3) that they might even be compelled by Japan to close the Indo-China and Burma Routes to Chinese goods and munitions.

After the publication of the Soviet-German Pact of August 23, Chinese fears were enhanced by the additional possibility of the U.S.S.R. coming to some agreement with Japan, and discontinuing her material aid to China. First reports of the Soviet-Japanese truce on the border war almost substantiated these fears.

It was natural that, during those hectic months, Chinese leaders should cherish the hope that an early ending of the Sino-Japanese conflict might be brought about through the mediation of the President of the United States before the situation deteriorated too far to the disadvantage of China.

In an interview with the United Press on September 27, Dr. Wang Chung-hui, Minister for Foreign Affairs, went so far as to state that the United States was in a favorable position to act as mediator and bring the undeclared Chinese-Japanese war to an early end.

Two days after the above interview (September 29), the Japanese "Embassy" spokesman, in a written statement, said:

"As is well known, the Japanese Government considers the dispute between China and Japan purely a two-party conflict, not to be settled by the intervention or mediation of a third party."

In the same statement, the Japanese spokesman characterized Minister Wang's interview as China "imploring America" to mediate, and expressed the hope that the United States might not "be thus tricked by China".

In the meantime, certain larger aspects of the international situation seemed to become more clarified. (1) The Soviet-Reich Pact has apparently left a deep and lasting wound on Japan, whose pride has been hurt and who has now declared the Anti-Comintern Pact dead. (2) This feeling of desertion and betrayal by her own ally has led Japan to hesitate - at least at the present moment, - in using force to oust the British and French from China. The Japanese military pressure on Shanghai and Hongkong has been temporarily eased. (3) While there has been some announced restriction (changing almost every week) of transportation of Chinese war materials through Indo-China, so far the French route, as well as the Burma route, has remained open to Chinese traffic. (4) The Soviet-Japanese truce has turned out to be no more than a local truce, and there has been so far no attempt to negotiate a non-aggression pact between the U.S.S.R. and Japan.

And then, during the first week of October, the Chinese armies defending Changsha, Hunnan, scored a number of victories.

repulsed the Japanese armies, and broke down the Japanese offensive. The victories of Changsha were celebrated throughout China: and they greatly elevated Chinese morale.

Thus, 40 days after the outbreak of the European War, China is gradually recovering from her earlier apprehensions and is regaining her courage and calm. If she can be assured of the right of way through French Indo-China and British Burma and if she can from time to time secure more financial and material aid from her friends abroad, she will be able to fight on for a fairly long time to come.

II

This does not mean that China desires no early peace. If a peace can be obtained which shall meet the sense of justice of the American Government and the American people, and which shall not violate the principles of the Nine-Power Treaty, - such a peace will be most eagerly accepted by China. If such a peace can be obtained through mediation by the United States, China will not hesitate to seek such mediation.

No one desires such American mediation more devoutly than I. For more than two years, I have been speculating about its possibilities and difficulties. There are at least these almost unsurmountable obstacles to mediation by the U. S. Government in the Sino-Japanese Conflict.

(1) Japan, however eager she may be for such mediation, will not be willing to officially ask for it. Like Hitler, she may fear that such a request may be interpreted as a confession of weakness. (2) What the U. S. Government and people consider

as "just peace" can not be acceptable to Japan now. Japan is seriously planning to liquidate the war by making peace with a new "central" Chinese Government of her own making.

(3) A peace acceptable to Japan now will in all probability be condemned by the liberal and radical press of China and America as a "Far Eastern Munich", which will surely bring about unpopularity and even strong opposition to whosoever sponsors such a peace.

(4) It is very difficult to imagine a peace which is acceptable to Japan and which at the same time will not violate the spirit of the Nine-Power Treaty or the American doctrine of non-recognition of situations created by force in violation of existing international treaty obligations.

(5) Japan probably will reject all such compromise devices as recommended by the League of Nations Commission of Inquiry with regard to Manchuria.

(6) A recent and most reasonable procedure of joint use and joint government in a disputed territory was worked out last year between the American and British Governments with regard to the Canton and the Enderbury Islands in the Pacific Ocean. But such an amicable method, while working satisfactorily between two powers of traditional friendship and mutual understanding, may not be applicable to two countries of too great inequality in military strength and too deep-rooted mutual suspicion and hatred.

(7) Recent history of the European peace efforts of September, 1938, shows that it is not enough to make the weaker party to the dispute agree to substantial concessions and sacrifices. It is absolutely necessary for the mediator (or

mediators) to be prepared to use the power at his command to bring the stronger party to its senses and reasonableness.

(8) The same recent history further shows that even a peace solemnly signed by the heads of four great European Powers was worthless in preserving the independent existence of Czechoslovakia after she had made all the great territorial sacrifices six months previously. Can a mediated peace in the Far East provide for better and more effective guarantees and sanctions?

These difficulties are enumerated here in the sincere hope that a frank recognition of these implications may be useful in any comprehensive consideration of the question of American mediation in the Far Eastern Conflict.

October 16, 1939.

Prepared by: H. C. Murphy
Wesley Lindow



TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE November 22, 1939.

TO Secretary Morgenthau
FROM Mr. Haas *HA*
Subject: The New Financing Plan Inaugurated by the USHA

I. Summary and Conclusions

The new USHA plan involves the public issuance by local housing authorities of six-month notes guaranteed in effect by the USHA. The effects of the plan may be summarized as follows:

- (1) Local authorities will pay lower rates of interest than if they borrowed from the USHA.
- (2) The savings are only possible, however, because the borrowing is done for short periods. There is a grave question whether such short-term financing is justified.
- (3) The net interest cost to the USHA and the local authorities combined will be considerably higher than if USHA borrowed for the same period and relented to local authorities. In other words, the indirect use of USHA credit is more expensive than the direct use.
- (4) Private capital will be tapped to no further extent under the new plan than at present.

A further weakness of the new plan lies in the fact that additional fully tax-exempt securities are created. This is not important so long as the securities are for short terms, but if the plan is extended to include long-term issues, this would be a serious weakness.

II. Description of the New Plan

The new USHA plan involves the public issuance by local public housing authorities of temporary loan notes, which will mature in six months and be noncallable. They will, in effect, be guaranteed by the USHA through a pledge to loan the local authority the amount of the notes and interest thereon three days prior to maturity. The USHA "agrees to cease the proceeds" of its loan to be deposited at the bank at which the temporary loan notes are payable.

The notes will be offered to bidders who will have the option of designating the interest rate, the denominations of the notes, and the bank at which they will be paid. The notes will be wholly exempt from Federal income taxes, and in most cases from State income taxes.

The new plan is expected to result in substantial interest savings to the local authorities. The saving would represent the difference between the market rate of interest on the new notes and the lending rate of the USHA (currently 3-1/4 percent).

It is not clear whether the new plan contemplates the temporary notes actually being paid off at maturity from the proceeds of USHA advances, or whether it is hoped to refund the notes publicly. A press release of the Authority explaining the plan states that the notes ".... will be redeemed from the loan advances of the USHA, as they are deposited at the later date." On the other hand, Mr. Straus was quoted as saying that:

"This temporary small-scale financing will proceed inevitably to permanent large-scale financing of public housing projects with private funds, thus tapping huge reservoirs of idle capital.

"There is every reason to believe that, within a year or two, most of the hundreds of millions of dollars invested in constructing public housing projects will flow through the normal channels of the private investment market, relieving the Treasury of this operation and limiting Federal participation to the subsidies necessary for low-rents.

"Then, indeed, the alliance of business and Government in economic revival through housing will be cemented."

III. Critical Analysis of the Plan

There appear to be two main reasons for the adoption of the new plan: first, reduction in interest costs to the local authorities, and second, the tapping of "private" capital for housing projects. The remainder of this memorandum will consider how well these objectives will be achieved by the plan.

Under the United States Housing Act, loans to local authorities bear interest at the same rate regardless of maturity. It is contemplated that the loans will run for a long term, and the interest rate is accordingly set on a long-term basis. More specifically, the rate is set at not less than the rate specified in the last Federal Government bond issue with a maturity of ten years or more, plus $1/2$ of 1 percent. On the first offerings of the new notes, made a few days ago by eleven local authorities to the amount of \$50 millions, the interest cost averaged slightly less than .60 percent. Compared with the current $3-1/4$ percent lending rate of the USHA, the new plan would thus provide savings of 2.65 percent in the interest costs of the local authorities.

This saving arises because the local authorities are able to borrow directly in the market for short periods at rates cheaper than the USHA is required by law to charge on its loans. Presumably, the USHA would be willing to make such short-term loans, but the statute does not permit reduced interest rates for shorter maturities. The use of USHA credit indirectly, instead of directly, gets around this difficulty.

The question naturally arises as to why short-term loans should be resorted to in the financing of projects which will ultimately be amortized over periods as long as sixty years. The answer seems to lie in the establishment of two financing periods, one covering the period of construction, and the other covering the period of use. The new notes are presumably to be used as a vehicle for financing during the construction period.

This separation for financing purposes of the period of construction from the period of use is open to grave logical objection. Waiving this question, however, it should be noted that local authorities have to pay a relatively high interest rate, even with a USHA guarantee. This is easily seen by reference to the interest rate on other issues of similar maturity. Early in November, New York State sold an issue of seven and one-half month notes at a rate of .20 percent, and the State of Pennsylvania sold seven-month notes at a rate of .44 percent. A few days ago, the Federal Intermediate Credit banks sold an issue of six-month notes at a rate of .30 percent.

Secretary Morgenthau - 4

Moreover, the rate on the last issue of three-month Treasury bills was only .02 percent, and certainly would have been under .10 percent if the term had been six months.

On the basis of these issues, it is clear that the USHA could sell six-month securities at a far more favorable rate than the .60 percent paid by local authorities (notwithstanding the difference in the degree of tax exemption accorded, which is a relatively minor matter in the case of short-term loans). As a matter of fact, we estimate that a six-month USHA issue could be sold at a rate of about .15 percent. Obviously, the use of USHA credit through the medium of a guarantee is not as efficient as it would be if used directly.

Consequently, it would be far more efficient if the USHA borrowed the money and loaned it to local authorities. This is true, irrespective of whether the money is to be borrowed for a short or long term, and irrespective of the rate to be charged to the local authorities by the USHA. Logically, the lowest possible rate should be obtained from the market for the period for which the money is borrowed. The question of how the benefits of this rate should be distributed between Federal taxpayers, local taxpayers, and tenants of the local housing projects is one of broad public policy beyond the scope of this memorandum.

The alleged advantage of the new plan in tapping private capital is without foundation. The fact that the USHA, in effect, guarantees the loans of local authorities means that the issues are attractive to about the same classes of investors as USHA securities themselves. It is interesting to note, in this connection, that the \$50 millions of local authority notes sold a few days ago were taken up entirely by a banking syndicate.

An additional weakness in the new plan arises because the new notes will increase the supply of fully tax-exempt securities, whereas securities of the USHA would be only partially exempt from Federal income taxes. This is not important so long as only short-term obligations are issued, but in the case of long-term obligations it would be a very serious weakness. At a time when the Administration is endeavoring to eliminate tax exemption from future issues of public securities, it seems unfortunate, to say the least, for the USHA to encourage an increase in the amount of fully tax-exempt securities outstanding.

November 22, 1939

To: The Secretary

From: Mr. Hanes

During your absence the Secretary of Labor called a meeting of the Committee on Economic Security. I was unable to attend so asked Mr. D. W. Bell to go for us. The attached memorandum gives you the result of this meeting.

JWH



TREASURY DEPARTMENT
WASHINGTON

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November 16, 1939.

MR. HANES:

As requested by you, I attended a meeting of the Committee on Economic Security held this morning in the office of the Secretary of Labor. Those present were: The Secretary of Labor, Secretary of Agriculture, Mr. Altmeyer, Mr. Littell, representing the Attorney General, and myself.

The Secretary of Labor referred to the letter of August 31, 1939 from the President which, in effect, continued the life of the Committee created in 1934, and the President in addition wrote letters to the Secretary of Labor, the Secretary of the Treasury, the Attorney General, the Secretary of Agriculture, the Secretary of Commerce and Mr. Altmeyer of the Social Security Board, asking them to serve on this committee.

Miss Perkins stated that she was desirous of studying several matters which were before the Board, some of which were there by reason of its original study of the social security problem and others were there by reason of the President's reference. She said that the President had asked this committee to study the many old age and health schemes which had been presented. She said that the President had also reconstituted the Inter-departmental Committee on Health and Welfare, headed by Miss Josephine Roche, and asked that that committee coordinate its work through the Committee on

Economic Security. She said that no doubt in the course of the next few months this Inter-departmental Committee would submit plans for the consideration of the Economic Security Committee.

She then said that the President had asked the Treasury, the Post Office and the Labor Departments to study the question of the sale of annuities by the Federal Government. Miss Perkins asked me if I had made any study of the question of the sale of annuities and I told her that I had been studying this subject for the past two weeks. I also explained what was done in 1934 when the matter of selling Government annuities was under consideration by the Congress when it had before it the original Social Security bill, but before the bill got through the two Houses the provision for the sale of Government annuities was eliminated.

Miss Perkins then said that she would like to know the status of the Old-Age Reserve Account and just what happened to the money that the Treasury was collecting under the provisions of the Social Security Act. I explained to the Committee just what had been done with the money that we had collected up-to-date and would continue to collect up to December 31, 1939; that beginning January 1, 1940 the plan was changed some by the amendments of August 10, 1939 but that the method of investment might continue on about the same basis as it had in the past except that instead of bearing an interest rate of three per cent, the obligations would carry an interest rate more comparable to the average rate of interest on the public debt.

She then asked Mr. Altmeyer to go over the many details that he had been studying for the past few months and which this Committee should consider within the months to come. He stated that one of the questions before this Committee would be the amount of Federal grants to states for old-age assistance and children's benefits. He also said that the reserve now being built up under the Unemployment Compensation Act would have to be considered as well as the amount which a participant could draw during the period specified in the law. He agreed to prepare a memorandum on all of these points and circulate it to members of the Committee.

Miss Perkins then said that she hoped the members of the Committee would be prepared to meet again early in December and possibly early in January to formulate these various programs.

sub B

1. Making present program more effective

- (a) Extending present benefits to more people
 - (1) Agricultural and domestic employees
- (b) Making benefits more adequate
 - (1) Variable grants to states
 - (2) Unemployment compensation benefits

2. Creating new types of benefits

- (a) Various forms of public assistance
 - (1) General assistance
 - (2) Disability assistance
 - (3) Medical assistance
- (b) Permanent disability insurance
- (c) Temporary disability insurance
- (d) Health insurance

3. More effective administration

- (a) State or Federal administration
- (b) Coordination of existing administrative arrangements

~~Please take to me~~
 File
 November 22, 1939.

To: Secretary Morgenthau
 From: Mr. Hanes

1. On December 10, 1938, the President, in connection with his consideration of a harbor improvement project, directed the Secretary of War to have a study made in cooperation with the Commerce and Treasury Departments to see if tax plans could be drawn up to collect from the users of rivers, harbors and canals one-half the present cost to the Federal Government of operating and maintaining waterway improvements and aids to navigation. This would mean additional taxes on such users of about \$23,000,000 annually.

2. Pursuant to this letter the Secretary of War asked the Treasury Department to appoint representatives to an inter-departmental committee. I appointed Roy Blough and Philip Young to serve on this committee.

3. The Committee has held several meetings and is expecting to agree today on the wording of its report. The report is to be signed by the Committee members and transmitted to the President by the Secretary of War before December 1, 1939.

4. The report of the Committee will probably describe two alternative plans for imposing annual taxes measured by the tonnage (length or horsepower in some cases) of vessels engaged in any form of water transportation, together with fees for the passage of locks. Preference will be expressed by the Committee for one of the plans.

5. The sentiment of the Committee is against the imposition of special shipping taxes of the size under consideration. However, no recommendation will be made regarding their desirability, as it is deemed that the President's letter precludes a recommendation against such taxation.

6. A copy of the proposed report will be available in a day or two. Mr. Blough and Mr. Young would like to have your approval for them to sign the report or your instructions for other action.

J. W. H.

C O P Y

THE WHITE HOUSE
WASHINGTON

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December 10, 1938.

Dear Mr. Secretary:-

I have your letter enclosing report on Northeast Harbor, Maine.

Admittedly Northeast Harbor is used almost entirely for Summer anchorage for the pleasure craft of Summer visitors and for visiting pleasure craft during the Summer season.

On two previous occasions I have tried to enlist the aid of the Board of Engineers for Rivers and Harbors and the Chief of Engineers in an effort to reduce the annual maintenance appropriations for our rivers and harbors by finding a formula of taxation which would return at least a part of the annual cost.

As I remember it, the annual maintenance cost is between sixty and seventy million dollars — a direct charge against the Treasury.

I still think that we ought to get returned to us at least half that amount, and I suggest a study of two possible ways of revenue.

The first would be a very small annual tonnage tax for coastwise shipping and a somewhat larger tonnage or over-all length tax for pleasure craft which are propelled either by sail or engines.

This tax should be small enough not to be in any way burdensome or to retard coastal commerce.

The second tax could be copied from the British method. As I understand it, they have in every harbor of England which has buoys and anchorages, a special port tax for pleasure craft. In cruising along the British coast in a sailing yacht or cabin cruiser, the harbor master rows out to your boat as soon as you anchor and collects a small port charge — as low, I think, as sixpence for very small boats and running up to ten shillings or a pound for larger yachts. In these two ways Trinity House collects enough money to maintain the dredged channels, the buoys and other aids for navigation throughout their jurisdiction.

In regard to the idea that our Coasts constitute great water parks and that the boating public should be treated like the automobile public in our National Parks is a beautiful theory worthy of a great Nation which can provide everything free for its citizens.

In regard to the National Parks, I have always been of the opinion that there should be a small entrance fee. For example, if the 500,000 people who visited the Yellowstone National Park in 1937 had paid twenty-five cents apiece, the Park service would have received \$125,000 -- probably \$100,000 of this being net, and this would have gone at least part way to meet the very heavy expenses of maintaining Yellowstone.

I wish you would have the whole subject re-studied in conjunction with the Department of Commerce and the Treasury Department and see if some plan can be evolved whereby we could get revenue of twenty-five or thirty million dollars a year toward the maintenance cost of our channels and harbor work.

In the matter of Northeast Harbor, Maine, I am approving this particular project, with the request, however, that the Chief of Engineers try to work out with the local authorities the removal of all sewage dumping into Northeast Harbor.

Furthermore, I wish the Corps of Engineers would study a change of policy in two respects -- first, declining to approve projects for yacht anchorages unless these yacht anchorages are in fact a part of commercial harbors and included in the work of providing anchorage for commercial vessels.

Second, a restudy of those projects which call for dredging and maintenance of short channels leading from main channels up to a single factory, lumber wharf, etc., etc. It seems to me that no private company should have the right to demand through its Member of Congress that the Government dredge a channel for what is essentially only for its own use. If a single plant is deliberately located up a creek, it ought to pay for its own access to the main channel.

Very sincerely yours,

(signed)

Franklin D. Roosevelt.

The Honorable
The Secretary of War
Washington, D.C.

November 23, 1939.

Dear Bill:

Thank you for your letter of November 18th in regard to the Farm Credit - Department of Agriculture situation. I appreciated your writing me about it.

We had a perfectly delightful time in Arizona, and the trip proved successful in every way. Now I am trying to clear up my desk to get off to the farm for Thanksgiving. I hope that your own holiday is a happy one.

With all good wishes,

Sincerely,

Henry

Dr. William I. Myers,
Department of Agricultural Economics
and Farm Management,
Cornell University,
Ithaca, New York.

GEF/dbs

NEW YORK STATE COLLEGE OF AGRICULTURE
AGRICULTURAL EXPERIMENT STATION
CORNELL UNIVERSITY
ITHACA, NEW YORK

DEPARTMENT OF AGRICULTURAL ECONOMICS AND FARM MANAGEMENT

November 18, 1939

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Personal

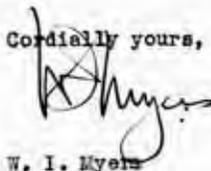
The Honorable Henry Morgenthau Jr.
Secretary of the Treasury
Washington, D. C.

Dear Henry:

After you have time to get straightened around, McReynolds or Hill can tell you of the exciting developments of the past week in the relations between the Farm Credit Administration and the Department of Agriculture. A very serious mistake has been averted at least temporarily, and the decision of their future relationships has been left to a committee of which, I understand, you are a member. I sincerely hope that McReynolds may be included because he combines a broad over-all knowledge of government administration with experience in the practical operation of government departments.

I hope that you and Mrs. Morgenthau enjoyed Arizona as much as we did and that you have returned in the best of condition.

Cordially yours,



W. I. Myers

WIN:EA

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 22, 1939

TO Secretary Morgenthau
FROM Mr. Haas *HAAS*
Subject: Wheat export sales and other market data from the Federal Surplus Commodities Corporation.

Oct. 31: Export business in Manitoba wheat was the best in several days and estimated sales were about 1,000,000 bushels, for shipment to the United Kingdom, Copenhagen, Norway and the Continent. Sydney, Australia, cables indicated that about 17,000,000 bushels of the 1938-39 wheat crop had been acquired by the Australian government, and of this amount 10,000,000 bushels have been sold to the English government at about 48 cents F.O.B.

Since the war started in Europe, Argentine exporters have cleared wheat as follows: to the United Kingdom 4,340,000 bushels, to the Continent 8,535,000 bushels, others 11,784,000, or a total of 24,659,000 bushels for eight weeks.

Nov. 2: A good demand was reported for Canadian cash wheat with estimated amounts of from 700,000 to 1,000,000 bushels having been sold for export. Large orders were said to have been received from the United Kingdom.

It is thought that Canada will make a major decision within the next two months on its war-time wheat policy. The government will decide if it is to continue the present open trading in wheat or suspend futures trading on the Winnipeg Grain Exchange and conduct all trading through a central agency. Farmers organizations favor closing the Winnipeg Exchange and dealing with the British buyer through a central agency.

Nov. 3: Sales of Canadian wheat to Europe the last two days are estimated at between 4,000,000 and 5,000,000 bushels. Late today it was reported that England had bought 7,500,000 bushels of wheat from Argentina at 44½ cents F.O.B. boat.

Secretary Morgenthau - 2

Nov. 6: Export sales of Canadian wheat are estimated at 400,000 bushels, mostly to the United Kingdom. The Greek steamer Nicholas M. Embricos, sunk in the English channel, carried 256,000 bushels of American wheat.

About 300,000 bushels of United States corn was sold for export from Montreal.

Nov. 7: Norway is reported having a steamer en route to Albany, New York, due to arrive November 9, to take 200,000 bushels of No. 3 Manitobas and No. 2 Canadian western rye to home ports. Export sales of Canadian wheat reported at about 400,000 bushels.

The ability of England to secure large quantities of wheat from Australia and Argentina at very low prices is considered in Canada to have placed the Canadian government at a big disadvantage in dealing with the British buying agency.

Nov. 8: A large business was done in Manitoba wheats with the English government buying approximately 3,000,000 bushels. Since November 1, Great Britain, it is estimated, has taken more than 8,000,000 bushels of Canadian wheat. The Continent bought about 300,000 bushels of Canadian wheat, some in store and some for later shipment.

Export flour sales from the United States have been very light the past few weeks.

Nov. 13: Over the week-end it was reported that the United Kingdom had taken three cargoes of about 750,000 bushels of Manitoba wheat.

Press reports intimated that Brazil may buy wheat supplies in the United States because of unfavorable exchange conditions between Brazil and the Argentine. It is estimated that the Brazilian requirements are about 30,000,000 bushels annually.

Secretary Morgenthau - 3

Nov. 14: No sales of Canadian wheat reported today.

Sales of 280,000 bushels of corn were reported made for shipment from the Gulf to the Netherlands. It was also reported that a fair amount of South African corn is being received in Antwerp.

Nov. 15: The Northwestern Miller reports that Southwest mills booked orders equal to 28 per cent of milling capacity as against bookings the previous week of 59 per cent of capacity.

Nov. 16: Argentina reported that Britain had recently purchased several cargoes of Argentine wheat. Export sales of Canadian wheat today are estimated at about 500,000 bushels. Some good flour sales were also reported, but the amount was not made known.

Nov. 17: About 115,000 bushels of No. 3 Manitoba wheat were sold to Norway from Vancouver, B. C., and a ship was chartered to take 300,000 bushels of grain from Albany to Scandinavia. The cargo will consist of Canadian wheat and rye and some United States corn. It is now reported that approximately 2,000,000 bushels of wheat and flour had been taken by the United Kingdom at Winnipeg on Thursday.

After the close today it was reported that a cargo of American corn had been worked from Atlantic ports to Scandinavia. Lately Switzerland has bought large amounts of Argentine corn, and the corn will be shipped through Genoa, Italy.

Nov. 18: It is thought that purchases by the United Kingdom of Canadian wheat have averaged about 1,500,000 bushels per day during the past two weeks, and it is understood that they expect to keep buying on this basis for some time.

Export inquiry for United States corn continued, and sales over Friday were reported at about 250,000 bushels which included a small cargo worked from the Gulf to Holland and some additional business from Albany, destined for Scandinavia.



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT
PROCUREMENT DIVISION
WASHINGTON

BK 223

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November 22, 1939.

MEMORANDUM FOR THE SECRETARY

A conference was held in the War Department, at which were present: General Arnold, Chief of the Army Air Corp; Colonel Byrnes, from the Assistant Secretary's Office; two representatives from the Navy Air Corp; Mr. Wilber of the Aluminum Company of America, and the Director of Procurement.

As a result of a discussion of the probable requirements of the French Government, it was agreed that a report would be made to Assistant Secretary Johnson, suggesting that the French Ambassador indicate some representative of the French Government who could speak with authority as to the quantity of aluminum plate that would be required.

It is anticipated that a meeting for a discussion of this representative will be held the early part of next week.


Director of Procurement.

OPEN MARKET MEETING

November 22, 1939.
2:15 p.m.

Present: Mr. Harrison
Mr. Bell
Mr. Haas
Mr. Murphy
Mr. Hadley
Mr. Hanes

H.M.Jr: Well, Mr. Bell, what does it look like?

Bell: Well, I don't know whether you want to go over the balances again, Mr. Secretary. You remember last time we discussed this problem we had in the picture 250 million dollars for RFC and 450 million dollars for the Treasury bills, beginning late in October and extending through the first two weeks in December.

H.M.Jr: Yes.

Bell: We got out of that picture 150 million dollars in bills. Now, if we raise 500 million additional cash in December, that would be 175 million dollars since we got 25 million RFC, so we have about 200 additional money than they contemplated on our last estimate. We would go into December with about a billion four, and go out of December with about a billion 660 million.

H.M.Jr: How much?

Bell: A billion 660 million. That would carry us into March, taking out the United States Housing Authority, about a billion 350, a good balance.

Now, you could leave this at 500, you could cut it to 400, or you might cut the March. We contemplate 600 million in March.

H.M.Jr: 600 in March?

Bell: Yes, we contemplated 600 million in March. 500 will give you a healthy balance, but not any healthier than we have had in the past.

H.M.Jr: What do we do on the 15th of December?

Bell: That is one question I wanted to ask you.

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- H.M.Jr: Does that bother you?
- Harrison: In the past we haven't liked it very much.
(Discussion off the record)
- H.M.Jr: I kind of like to keep the thing on the 15th, quarterly dates, if we could.
- Bell: The date really isn't important from the standpoint of the security, Mr. Secretary, because....
- H.M.Jr: It would be silly to have something on December first.
- Murphy: The maturity wouldn't have to be on December first. You could have an odd first coupon and after that have it come along regularly.
- Bell: Make it mature on the quarter date, that is what we would want to do.
- Harrison: We have been working in the market so long to stop these issued quotations, anyway, and are making some progress. I think if you had two weeks between the date of the issue and the effective date, it would invite necessarily a good deal of trading.
- H.M.Jr: How would you like to have it?
- Harrison: I don't know whether it would be too difficult, but it seems to me you could issue it on December first and then have it mature on the quarter date. It would be better.
- Bell: I think it would be better to have it issued on December 15th than December first because you are doing this on November 28th. It only gives you two days.
- H.M.Jr: December ten would give me five days to the 15th.
- Bell: We have always allowed seven or eight days after the notice to the issuing date.
- H.M.Jr: December 10th is a Sunday, anyway. It would have to be December 11th.

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Harrison: Couldn't you do it, Mr. Secretary, as of the 15th, only use your basis without - just postponing your announcement? Why do you have to do it now?

H.M.Jr: Oh, I want to get it out of the way.

George, I don't know how you feel, but things are quiet and the Government bond market is booming and nothing in the offing and I just never know - I don't know, I thought to myself I was sitting on a keg of dynamite. I don't know what is going to happen.

Harrison: I am a week off, really.

H.M.Jr: I have another reason. I don't want to do approximately two billion dollars at one time and that is the more important reason.

Harrison: I see.

H.M.Jr: That is the real reason and that is why I am going to do this, and I thought maybe around the 4th or the 11th or the 5th or the 12th we might do the refunding and then we are through until the 15th of March.

Harrison: I think that is a good program. My only point was the long period of sales on an issued basis.

H.M.Jr: Bell will work with your office. I don't give a damn whether it is the 11th or the 15th. I will leave that to you fellows.

Bell: Yes, we will thrash that out.

H.M.Jr: How is that?

Harrison: That is fine. I would prefer to do that, anyway, because the others know more about the technical problems than I do.

H.M.Jr: O. K.?

Harrison: Suits me.

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- Bell: In talking with Hadley and Bob Rouse and a few other people, apparently the market is thinking of a security some place within the eight to the twelve-year period, and of course their purpose is for a definite maturity. I think there are three of those out, but they are always prepared, I think, to take one with a call period, which I think from our standpoint would be better if you think you might like to reopen it on the refunding of the March maturity.
- H.M.Jr: I don't want that.
- Bell: You don't?
- H.M.Jr: No, I don't think it is exactly fair to these fellows to sell them and then to figure out a maturity and then a week or ten days later you come along and increase it by another 500 million. That security will go down.
- Harrison: I think that is a sound objection.
- H.M.Jr: It is all right if you do it six months from now when the thing is well seasoned, or a year from now, but when you just have it out and it is in season and add another 500 million, it is too close.
- Bell: Well, would you want to fix it so that you might reopen it, say, in March? You ought to have a call date if you ever contemplate reopening it, because if you put 500 million in one day you wouldn't want to increase it more than 200 million at the most.
- H.M.Jr: Let me tell you without having talked to anybody, what I had in mind, and you can shoot me if you want to. I had in mind selling something over five years, see, with a fixed maturity and then coming along on the March refunding and offering them a fairly long issue bond with an alternative for a five-year note. Then if the note doesn't go very big, subsequently, we can add to it, but we don't put - it gives them a choice of two things.
- Bell: I think you have got to give them a choice on the March maturity; it is too big, otherwise.

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- H.M.Jr: Some of you sharpshooters shoot at that.
- Haas: You want it long enough, Mr. Secretary, don't you, so that you wouldn't cut the coupon under two?
- H.M.Jr: On the long one?
- Bell: The 500 million.
- H.M.Jr: I am just studying.
- Hanes: When you say something over five years, what did you have in mind, how much over five years, depending upon the rate?
- H.M.Jr: This is the first time I have thought about it, John, just now. You could go....
- Bell:go eleven, probably, eleven years three months to three percent. That would be March, 1951.
- H.M.Jr: Which comes at a fairly good time, doesn't it? It isn't so crowded.
- Bell: There isn't anything occurring on March 15th, 1951. A call period is in there but that is - December 15th is a blank date.
- Harrison: On the basis of the present year, where does that put the premium?
- Bell: Around 101.7 to 13. Probably, as Hadley says, it will be on the up side because generally we have had an under-priced security with a definite maturity date, haven't we?
- Hadley: That is right.
- Bell: It is a little more popular than we figure when we issue.
- Harrison: For some while I have been favoring in my own mind a reduction from the premiums that you were giving on the new issues. I think it has been pretty rich, frankly.
- Bell: I think that is true.

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- Harrison: I don't know whether this is the right time to begin a reduction after the stock we have had at the market and the fact that while there has been a recovery, it hasn't yet settled down very well.
- Bell: This recovery has been better than a point within what, two weeks?
- Hadley: Ten days ago these issues would have been around par, ten days ago, same issue that is around 101.7.
- Haas: It is the first cash, too, since the war.
- Harrison: I don't think you could cut that premium now, I think it would not be wise to try.
- H.M.Jr: Supposing we struck two percent, eleven years and three months. You could make it eleven years and six months or eleven years - I mean, in that range - and then a couple of weeks later came along, let's say, a five-year note and then a 2½ percent long bond.
- Harrison: Well, we don't have to cross that bridge, anyway.
- H.M.Jr: No, but I am trying to think out loud and let you know what I have got in my mind. What do you think of that, Dan?
- Bell: I have no objection to that program. I always lean toward a callable bond, because it gives the Treasury more flexibility but I realize the market wants that maturity.
- H.M.Jr: I mean the next one, a two and a half year, went just as long as it could comfortably with a five-year call date. Have we sold a long bond this year?
- Murphy: Not for cash, but we had a refunding in March. The two and three quarters. '60-'65.
- H.M.Jr: We haven't done anything since March?
- Murphy: No.

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H.M.Jr: Would two long issues a year be too much?

Murphy: I shouldn't say so.

H.M.Jr: And it keeps the thing nicely balanced.

Harrison: I think it is fair to say that as a result of the experience we have gone through in September, the banks as a whole are a little skittish about overloading themselves. Contrarywise, you have a greater area of investors who are looking for that long maturity and who really are counting for a very sharp rise of some five points in the longest maturity in the last few weeks, so if you give the banks the choice of the five-year note or the long bonds and don't make the premium too great....

H.M.Jr: On the five-year note?

Harrison: Yes. You might then satisfy the situation without pushing the bank to take the bond.

H.M.Jr: I wouldn't want to - they don't have to take the five-year note and you and I know that the - then they are going to try to sell it and make a little money out of it. But at least our conscience is clear.

Harrison: Yes, you have given them their choice.

H.M.Jr: Haven't forced them. How does it sound to you, John?

Hanes: All right.

H.M.Jr: This is all preliminary. It was just a lucky break for me that George Harrison was in town, so I invited him over.

Bell: The attitude of the banks has changed a little, hasn't it, Governor, in the last six months, toward the short maturities and the long? For instance, they are considering anything up to three years, their primary reserve, and they are sticking pretty well to that. It doesn't yield them anything and

- 8 -

then they are going to be on the six and seven year period for earnings. Isn't that pretty definite?

Harrison: Yes, I think anything up to ten or twelve years. I question whether they want twenty or twenty-five years.

Bell: But they are going beyond that period. That is the reason I think our $4\frac{1}{2}$ -year note was a little unpopular. It didn't just quite fit into that recent development and their attitude toward different types of securities.

H.M.Jr: All the notes are above par, aren't they?

Hadley: The three-quarter percent note hit par just before it came to me.

Harrison: I think Mr. Eccles feels - and I am saying this not because I am agreeing with him but because he so bluntly said to me before he went away - that first the question of whether it is necessary for the Treasury to raise any money at all comes up.

H.M.Jr: I know why. I assumed that on account of the attitude that the President took with me.

Harrison: And second, that as a permanent policy, not merely a temporary one, you shouldn't borrow on time at all.

Hanes: Shouldn't what?

Harrison: Shouldn't borrow on long time. And you may remember the Board members filed a memorandum with Mr. Hanes while you were absent to that effect.

H.M.Jr: Within the last week?

Hanes: Oh, no. You mean three months ago?

Harrison: In August.

H.M.Jr: Well, you don't expect any comment on that?

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- Harrison: Oh, no. I am just saying it. As long as I am in the same committee with him it wouldn't be fair....
- Hanes: He would favor more bills?
- Harrison: If you think you need cash.
- Hanes: If necessary.
- Harrison: That is right.
- Hanes: But in the absence of necessity, let the cash run down?
- Harrison: That is right. He thinks the cash is pretty high anyway.
- H.M., Jr: Well, I cleared this. Before I made any statement as to what we were going to do, the day I left I cleared it with the President first and then I cleared it with him yesterday.
- Harrison: I am in favor of your taking cash, personally, now, and I think you have got a good time to do it and the market is strong. They are expecting it. I think it would be a helpful influence because it will tend to dampen it a little bit and after all, as you say, you are in a very difficult era of world affairs and you don't know when you may need cash, and I think it is wise not to let your balances run too low.
- H.M., Jr: If the balances bother Mr. Eccles so much we will just let our bills run up. If it bothers him so, let our bills run off.
- Hanes: You could always take them back and we would be permanently prepared in our finances if any emergency does arise or we get into severe difficulties.
- George, don't you think it would be a good healthy thing for the market generally if the Secretary was out of the way and had this stuff all behind him? Don't you think next year would be a lot better off to have that all behind it, without this chance hanging over the market?

- 10 -

Harrison: I think it would be very wise fiscal policy to be out of the way because we don't know when we may have another Munich or another Poland or another Netherlands and you may possibly strike a period when it would be very unwise for the Treasury to try to float anything, although we all admit you could float anything at any time, but where it would be unwise policy in doing it, and I would clear the decks the best I could with the world as it is today.

H.M.Jr: If some of the money theorists are bothered because we have too big balances....

Harrison: I don't want you to act on the suggestion I made about Mr. Eccles. I don't think I would - I know he doesn't want you to let the bills run off and I think he merely thought that the balances were not too big but rather that they did not require you to borrow on the bond issue to raise new cash, which is very different from saying your balances are too big.

H.M.Jr: Well, I have been terribly lucky. I have been able about twice a year to sell note issues and about twice a year long bond issues. That way I got a nice balance on the thing and I have kept my ammunition and my powder dry on the bills so that if and when - say if we had to go through a period like September for six months - I have always got the bills. I have to keep reiterating that to them because somebody gets in and tells them something else. My memory isn't so short-lived that I can't remember the heartaches that I have had sitting here trying to finance.

Harrison: Frankly, I fear that if the Treasury is going to refund with a long bond, 2 $\frac{1}{2}$ or 3 or 4 or whatever you fix it, and the banks take a large part for profit or for credit, that if we have another month like September we ought to have some more common understanding between the Open Market Committee and the Treasury as to how we would handle another set-back, because I, personally, even though I might vote for your putting out your long issue, would argue against our supporting the market as vigorously as we did last time or spending the money doing so.

- 11 -

H.M.Jr: George, there is no difference between Treasury and you on that.

Harrison: No, but though I think you might be wise in putting out long ones, I wouldn't want the implication that in the event of another stock, we would have to go in like we did last time.

H.M.Jr: You won't go in unless the people on the Federal Reserve force you?

Harrison: That is right.

H.M.Jr: I am glad to know that you still feel the way you did - I mean you are going to do your praying in the marble halls.

Bell: I don't believe they will do the next one as big as that. I think they have learned something.

Hanes: Do you know how many bonds have been sold?

Harrison: About 45 million.

H.M.Jr: The boys know to a dollar.

Hanes: That is not very many.

Haas:- About 41, I thought.

Bell: They have sold since your report.

H.M.Jr: 40 or 45 million.

Harrison: I know that when I left the bank yesterday, we had only 5 million leeway on a 50 million amount.

Bell: Out of the 400 million, the Treasury bills that have run off and what they have sold, they have got a net increase of about 200 million since September - August 23rd - so they have let over 200 million go off, plus the sales.

Hanes: That is after we take out - whatever we took out.

Bell: This is the Federal Reserve portfolio alone.

- 12 -

Harrison: We took out about 75 million.

H.M.Jr: George, would you talk to your boys? I will be on the farm Friday and Saturday and it may be Rouse might like to come up there or even bring somebody up with him.

Harrison: This week?

H.M.Jr: Yes.

Bell: One thing I wanted to ask you was whether you wanted him to talk with any of the market boys on Friday, not say it was going to be Tuesday, but what would we do if the Treasury wanted to do something this week.

H.M.Jr: And if they want to talk to me on the farm Saturday, it would be nice. Do you want to go up to New York Friday?

Bell: I will if you want me to. I will be glad to.

H.M.Jr: You could go up with them and then you and Rouse might want to run up to see me.

Bell: Yes.

H.M.Jr: How would that be?

Harrison: Fine.

Bell: I could go up Thursday night and be there Friday.

H.M.Jr: George, how does that sound to you?

Haas: I think it sounds very well. Only one thing occurs to me that hasn't been mentioned here in connection with the fixed maturity of a call, a bond with a call provision. Ordinarily, I would strongly favor one with the optional call date, even longer call dates than we have been putting out, but there is one consideration that may weigh heavily here in favor of the fixed maturity and that is this, that if you have another disturbance, fixed maturity will hold up much better than the one with a call because you will get a shuffling back of people

- 13 -

who start figuring on the maturity date and the fact that this is the first cash offering. You might want that to hold up as well as it could and the fixed maturity will hold up better, I am positive, than the optional call date.

H.M.Jr: And I don't see - we have only got - no, three - '45, '47, '48.

Murphy: There is a '41.

H.M.Jr: Well, that is four.

Bell: That is a note, Henry.

H.M.Jr: '41, '45, '47, '48, and this would drop somewhere along in '51. That is not bad.

Harrison: I would favor the fixed maturity. I think this is good enough for the first talk and then I think if you fellows know how I feel - did you ask them for an Open Market meeting at 11:00 o'clock?

Bell: 11:00 o'clock Monday.

H.M.Jr: Why don't you tell Peysner what we were talking about then?

Bell: I have told him that we were considering Tuesday as the date and he is thinking about the problem.

H.M.Jr: Well, tell him how we were talking today.

Bell: O. K. There are one or two questions I would like to ask. I want to send out some material over the week-end.

H.M.Jr: Yes.

Bell: We have discussed in the past putting in a provision in the next bond issue for trust funds, government trust funds. Remember, we started in June to put one in and then we decided to issue a note instead of a bond. Now if we are going to issue a bond, I wondered if you wanted to reserve, say, 50 million dollars additional for a government trust fund.

- 14 -

H.M.Jr: Oh, yes.

Bell: Put in that provision?

H.M.Jr: Yes.

Bell: This is the thing I would like to talk to the New York fellows about, give the small fellow a break, and every time we have tried it there have been a lot of free riders padding in the lower limits. I am wondering if you would like to experiment on this one by putting out a \$5,000 limit giving preferential allotment up to \$5,000, provided the subscribers take registered bonds with the understanding that they will not have their registration released for a period of 30 days. That keeps them off the market and makes the fellow put up the cash.

H.M.Jr: My first reaction is, I don't think these are - 30 days is nearly long enough.

Bell: That is pretty well after the secondary distribution.

H.M.Jr: I would make it six months.

Bell: That is something I would like to talk to the New York boys about before we do it.

H.M.Jr: If you were going to do it, I would make it six months. If a fellow wants it bad enough then let him keep it.

Tames: That would take care of the church.

Bell: That is right.

H.M.Jr: He would have to keep it for six months. How long do you have to keep a baby bond?

Bell: Sixty days.

Madley: You don't get a return for the first year.

Murphy: It is redeemable in 30 days from the first day of the month on which you bought it. If you buy it on the first of the month, you have to wait

- 15 -

two months. If you bought it at the end of the month, thirty days.

- H.M.Jr: I would make it six months for the Hyde Park Church.
- Bell: Well, that will take care of the small investors.
- H.M.Jr: Can't sell it for six months.
- Bell: Now, the other thing, Ransom called me and said that you had asked him to attend a conference at 10:00 o'clock on Monday and he wondered if the 11:00 o'clock wasn't the....
- H.M.Jr: He wanted to know what time he would have to be back. I said I thought if he were back by 10:00 it would be time enough.
- Bell: What are we going to do about getting the President's approval?
- H.M.Jr: When we decide, we will send a plane down.
- Bell: All right.
- H.M.Jr: There is nothing settled, but I just wanted to talk with you.

DEPARTMENT OF STATE

Washington

November 22, 1939.

My dear Mr. Secretary:

I enclose, for your information, a map of the world which has been made up by the Geographical Division of this Department, showing the effect of the Neutrality Act of 1939 and proclamations and regulations issued thereunder.

It should be noted that on this map Syria and Palestine do not appear as belligerent areas. This is because they are mandated areas and a mandatory power apparently does not have the legal right to put them into a state of war. It should be understood, however, that the de facto operations of the mandatory power may change the factual status of the country, exactly as the de facto operations of Germany, which are recognized by this government, have caused the protectorates of Bohemia and Moravia and Slovakia to assume the status of belligerent countries.

Very truly yours,

(Signed) A. A. BEBLE, JR.

Enclosure:

Map

The Honorable

Henry Morgenthau, Jr.,
Secretary of the Treasury.



(REPRODUCED SUBJECT TO RESTRICTIONS)

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 22, 1939

TO Secretary Morgenthau

2:00 P.M.

FROM W. H. Hadley

NON-CALLABLE BONDS

<u>Maturity</u>	<u>Coupon</u>	<u>Yield</u>	<u>Offering Price</u>	<u>Market Price</u>	<u>Premium</u>
8-1/2 years (6/15/48)	1-3/4%	1.58 1.60	100 100	101.11 101.6	1 pt. 11/32 1 pt. 6/32
9 years (12/15/48)	1-7/8%	1.65 1.67	100 100	101.30 101.22	1 pt. 30/32 1 pt. 22/32
9 years 3 mos. (3/15/49)	1-7/8%	1.67 1.70	100 100	101.23 101.15	1 pt. 23/32 1 pt. 15/32
9-1/2 years (6/15/49)	1-7/8%	1.69 1.72	100 100	101.20 101.11	1 pt. 20/32 1 pt. 11/32
9 years 9 mos. (9/15/49)	1-7/8%	1.72 1.75	100 100	101.11 101.3	1 pt. 11/32 1 pt. 3/32
10 years 3 mos. (3/15/50)	1-7/8%	1.76 1.79	100 100	101.2 100.25	1 pt. 2/32 25/32nds
10 years 6 mos. (6/15/50)	2%	1.78 1.81	100 100	102.3 101.29	2 pts. 3/32 1 pt. 29/32
11 years (12/15/50)	2%	1.84 1.86	100 100	101.20 101.14	1 pt. 20/32 1 pt. 14/32
11 yrs. 3 mos. (3/15/51)	2%	1.86 1.88	100 100	101.13 101.7	1 pt. 13/32 1 pt. 7/32

CALLABLE BONDS

<u>Maturity</u>	<u>Coupon</u>	<u>Yield</u>	<u>Offering Price</u>	<u>Market Price</u>	<u>Premium</u>
8 - 10 yrs. (12/15/47-49)	2%	1.75	100	101.28	1 pt. 28/32
		1.78	100	101.20	1 pt. 20/32
	1-7/8%	1.75	100	100.30	30/32nds
		1.78	100	100.22	22/32nds
8½ - 10½ yrs. (6/15/48-50)	2%	1.81	100	101.17	1 pt. 17/32
		1.83	100	101.11	1 pt. 11/32
9 - 11 yrs. (12/15/48-50)	2-1/8%	1.86	100	102.5	2 pts. 5/32
		1.88	100	102.	2 points
	2%	1.86	100	101.5	1 pt. 5/32
		1.88	100	101.	1 point
9½ - 11½ yrs. (6/15/49-51)	2-1/8%	1.90	100	101.30	1 pt. 30/32
		1.93	100	101.22	1 pt. 22/32
9¾ - 11¾ yrs. (9/15/49-51)	2-1/8%	1.92	100	101.26	1 pt. 26/32
		1.95	100	101.17	1 pt. 17/32
10¼ - 12¼ yrs. (3/15/50-52)	2-1/8%	1.97	100	101.15	1 pt. 15/32
		2.00	100	101.5	1 pt. 5/32
10½ - 13½ yrs. (3/15/50-53)	2-1/8%	2.00	100	101.5	1 pt. 5/32
		2.02	100	100.29	29/32nds
10¾ - 12¾ yrs. (6/15/50-52)	2-1/8%	1.99	100	101.9	1 pt. 9/32
		2.01	100	101.3	1 pt. 3/32
10¾ - 13¾ yrs. (6/15/50-53)	2-1/4%	2.02	100	102.6	2 pts. 6/32
		2.05	100	101.28	1 pt. 28/32
		2.02	100-3/4	102.6	1 pt. 14/32
		2.05	100-3/4	101.28	1 pt. 4/32
11 - 14 yrs. (12/15/50-53)	2-1/4%	2.08	100	101.30	1 pt. 30/32
		2.10	100	101.14	1 pt. 14/32
12¼ - 17¼ yrs. (3/15/52-57)	2-3/8%	2.18	100	102.	2 points
		2.21	100	101.23	1 pt. 23/32
13 - 18 yrs. (12/15/52-57)	2-3/8%	2.22	100	101.20	1 pt. 20/32
		2.25	100	101.13	1 pt. 13/32

TREASURY NOTES

<u>Maturity</u>	<u>Coupon</u>	<u>Yield</u>	<u>Offering Price</u>	<u>Market Price</u>	<u>Premium</u>
4 yrs. 9 mos. (9/15/44)	1%	0.82	100	100.26	26/32nds
		0.87	100	100.19	19/32nds
	1-1/8%	0.82	100	101.13	1 pt. 13/32
		0.87	100	101.6	1 pt. 6/32
5 years (12/15/44)	1%	0.85	100	100.24	24/32nds
		0.90	100	100.16	16/32nds
	1-1/8%	0.85	100	101.11	1 pt. 11/32
		0.90	100	101.3	1 pt. 3/32

HM

PLAIN

London

Dated November 22, 1939

Rec'd 2:40 p.m.

Secretary of State,
Washington.

*Extracted by Carlson
rec'd 11-24.*

2431, November 22.

FOR TREASURY.

Further details regarding the savings certificates and baby bonds, the issue of which was announced yesterday and reported in No. 2414 of November 21 are now available.

Press commentators consider the most important feature of both these securities to be the safety against capital depreciation which is of greater importance to the small investor than the rate of interest. The defence bonds are, according to the Chancellor of the Exchequer, designed for those who have already acquired the maximum 500 of saving certificates allowed to be held by any one individual. The saving certificates are cashable at any time but the defence bonds are not cashable ^(6 months notice being required) except in the case of "private emergency". A feature suggested by Keynes in his forced saving scheme.

The yield

The yield of the savings certificates over the full ten year period is £3. 3s. 5d. or just under 3 1/6 percent as compared with £2. 18s. 4d. or just over 2 1/5 percent which was the yield of the savings certificates issue on sale between 1935 and yesterday. The yield of the new certificates is equal to £4. 17s. 6d. subject to tax at 7s. in the pound or £5. 1s. 6d. less tax at 7s. 6d. in the pound. The cost to the Government however is little above the £3. 3s. 5d. percent because the majority of potential subscribers are not subject to income tax.

The defence bonds are subject to income tax so that their yield of £3. 2s. 10d. or 3 1/7 percent is less than that of the savings certificates but more than the yield of the nearest Stock Exchange gilt-edged securities, (e.g. conversion 2 1/2 percent 1944/49 at 95 1/2 yielding £3. 1s. 3d. to redemption and national defence 2 1/2 percent bonds at 98 1/8 yielding £2. 17s. 9d. percent). The new bonds may divert a certain amount of money from existing securities but though transferable they will not be dealt in on the stock exchange and it is expected that they will have no adverse effect on gilt-edged prices. The reaction to the announcement

-8- #2431, November 22, from London

announcement of these issues on the Stock Exchange today was favorable, British securities being firm and $1/8$ to $1/4$ up on the day, war loan closing $1/8$ up at 92 $3/8$.

The yields of the new securities compare with 2 $1/2$ percent interest on Post Office savings accounts and $1/2$ percent on ordinary bank deposits.

The press unanimously welcomes the early introduction of securities for the small investor to whom no appeal was made in the last war until 1916 and urges the small investor to respond in his own interest so that he may at the same time help to win the war and to keep prices steady.

Asked in the House of Commons last night whether the Government had given consideration to the Keynes plan for compulsory savings the Chancellor of the Exchequer said that he had no statement to make on the subject. Nevertheless the wide publicity given to Keynes' plan would seem to have been not untimely since the mere suggestion that compulsory saving might be desirable can but lend strength to the appeal for voluntary saving which is to be launched by tonight's broadcast by the Chancellor of the Exchequer.

In contrast to the early months of the last war the machinery for a national savings campaign is in existence
with a

-4- #2431, November 22, from London

with a 23 years' continuous experience and organization. There is a National Savings Committee of which Sir Robert Kindersley is Chairman, twelve commissioners, 50 assistant commissioners, 1200 local committees, 120,000 voluntary workers, and 30,000 local savings groups and the organization can be rapidly increased.

Incidentally the yield for the ten year period of £3. 3s. 5d. compares with the yield of the first war savings certificates issued between 1916 and 1922 of £5. 6s. 2d. This yield was gradually reduced in the subsequent issues until in the fourth issue which ran from August 2, 1932 until May 1933 the yield was reduced to £3. 7s. 1d. Two subsequent reductions brought the yield to £2. 18s. 4d. in March 1935.

2. With reference to the fourth paragraph of No. 2305 of November 8, the revenue returns for the week ended November 18 reveal a second reduction in the tap Treasury bill total from £706.6 million on November 4 to £695.6 on November 11 and £687.5 on November 18. Meanwhile the tender issue increased from £580 million to £605 million and £630 million respectively and will reach £665 million if this week's total £65 million tender is allotted on Friday. Government expenditure
for the

-5- #2431, November 22, from London

for the week ended November 18 was £36 million as compared with/ ^{£32.9} million and £34.4 million in the weeks ending November 11 and 4 respectively. Revenue was £19.6 million for the week ended November 18, £20.9 million for the previous week and £20.3 million for the week ended November 4.

3. Since November 16 the only changes in official exchange rates have been in the belga which has now appreciated to 24.05-30.

KENNEDY

HPD

RECEIVED

NOV 24 1950

U.S. DEPARTMENT OF THE TREASURY
 OFFICE OF THE ASSISTANT SECRETARY
 FOR INTERNATIONAL AFFAIRS

PARTIEL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

NO.: 2811

DATE: November 22, 1939, 8 p.m.

SECTIONS ONE TO FIVE, INCLUSIVE
FOR TREASURY

We had lunch today with Mr. Barrett of the Guaranty Trust. He told us that in spite of the extension of the time limit for declaring holdings abroad (refer to our no. 2765 of November 15, 7 p.m.), the return flow of capital had stopped completely since the 15th of November as far as his bank was concerned. However, he added, that this might ^{not} be typical of the general situation since the majority of his clients are either French commercial firms or private American citizens. There are signs, he indicated that already some informal supervision over franc accounts of foreigners is beginning to be exercised by the exchange control authorities. (Please refer to our no. 2801 of November 21, 6 p.m.) The banks, in fact, have been asked confidentially to scrutinize all such accounts carefully and to find out if possible whether deposits made to these accounts represent francs which are legitimately "transferable". However, he inclines toward the view (as do we) that to date this outstanding loophole

in

-2-

in the foreign exchange regulations has not occasioned excessive leakage.

The impression we have gained from French sources to the effect that in view of the small volume involved the existing black market has as yet caused little or no concern, was confirmed by Barrett. However, he stated that a certain number of small peddlers are selling dollar currency to peasants and other hoarders in the rural districts at approximately 80 francs to the dollar. He said that if this goes on, the morale of the country, particularly in the rural districts, is bound to be affected by the activities of these unpatriotic operators and the fears which they are deliberately sowing regarding the future of the franc. It is our understanding that American dollar currency is not sold by any responsible bank here except to persons who are bona fide travelers.

It was added by Barrett that bringing French dollar bonds over from the United States (which, of course, is permitted) and selling them in Paris is a legitimate and rather profitable operation which is popular now. This arbitrage operation is made worth while by the spread in price.

Barrett says that the bank's normal credit operations ^{here} have been stopped by the recent neutrality law since it has
been

-3-

been held by the head office that title has not been entirely divested of goods if the bank's branch here instead of the importer holds the shipping documents for products afloat. He said that unless the documents were in its own hands, the bank would care to assume the risks with reference to few, if any, importers, in view of the amount of money involved in most transactions. Therefore the Guaranty's "French competitors" are receiving most of this business.

He said, on the other hand, that the Paris branch had been authorized by the head office to go on holding French Treasury bills which bear dates previous to November 3. Decision regarding the purchase of later bills has not yet been reached.

He made the remark incidentally that word had been received from Havre following the announcement by the French and British of a joint purchasing organization, that for the time being orders for American cotton would be held up. He thinks that this is due to a pending
centralization

centralization through a joint organization in London of all cotton buying.

A delegation called on Reynaud today to express their anxiety over the present handicaps to trade and industry. Reynaud received them sympathetically and announced that he has worked out a solution of the problem of the heavy "patente" taxes which will conciliate "legitimate interests of business with the exigencies of budgetary equilibrium of the local entities". He also said that a decree limiting profits for enterprises other than those working on national defense quotas would appear in the near future and would authorize the heads of such enterprises to count the normal wage scale in determining the profits subject to limitation. He emphasized "the liberal character of this forthcoming measure and the appreciable advantage which would result therefrom for all the heads of small or medium sized concerns."

(END SECTION FIVE)

EA:EB

BJS

GRAY

PARIS

Dated November 22, 1939

Rec'd 11:30 p. m.

Secretary of State,
Washington

2811, November 22, 8 p. m. (Section Six)

A Communique issued today by the amortization fund, which administers the tobacco and match monopolies, explains that the recent decision (see telegram 2753 November 14, 7 p. m.) to increase the price of tobacco by 28 % was not made with a view to increasing the profits of the monopoly but to check consumption and reduce imports of tobacco from abroad (notably from the Far East and from America) as a measure to conserve to the greatest possible extent France's gold and foreign currency reserves.

This morning's PARIS HERALD under the headline "Federal Reserve is buying agent of allies in unit" carries a despatch from the Washington bureau of the New York Herald TRIBUNE, the pertinent portions of which read as follows "an official of the Federal Reserve Board admitted today that the Federal Reserve Bank of New York is acting as the paying agent for Franco-British purchases in the United States.

BULLITT

WWC

MP

GRAY

Paris

Dated November 22, 1939

Rec'd 11:41 p.m.

Secretary of State,

Washington.

2811, November 22, 8 p.m., (SECTION SEVEN)

He declared that President Roosevelt had authorized the move after an unidentified New York bank, presumably the Morgan bank, acting as an agent for Great Britain completed the largest single transaction of its kind in history when it bought 750,000 tons of scrap iron for more than \$15,000,000. Observers speculated on the sale's possible effect on the country's currently high steel production, since scrap iron is vital to the Republic if production is continued at its present rate". This article is reprinted in the AGENCE ECONOMIQUE ET FINANCIERE and in this evening's LE TEMPS.

This morning's Journal Official carries a decree providing that henceforth no category of scrap iron may be held, utilized or sold without the authorization of the Minister of Armament.

BULLITT

WVC

BJS

GRAY

PARIS

Dated November 22, 1939

Rec'd 11:45 p. m.

Secretary of State,
Washington

2811 November 22, 8 p. m.

(SECTION EIGHT)

It is further provided that the latter may set up an inter-professional organization empowered to give such authorization and that holders and producers of scrap iron must make declaration of such holdings. The form which such declarations are to take will be published in an arrete later.

The securities market was active and fairly strong today and French rentes continued to gain on the franc's firmness in New York. The exchange guaranty issues were up 1.95 and 2.30 francs respectively and other issues gain major fractions. The curb market was less firm.

BULLITT

WWC

MP

GRAY

Paris

Dated November 22, 1939

Rec'd 12:45, 23rd

Secretary of State,
Washington.

2311, November 22, 8 p.m.

(SECTION NINE).

The Netherlands Bank statement for the week ending November 20 shows a reduction in gold reserves from 1059 million florins to 1039 millions. Total liabilities are 1367 millions as against 1357 millions. Gold coverage dropped from 78.05 to 76 per cent. The statement likewise shows that the Dutch Government has placed 20 million florins of treasury bills directly with the bank of issue. Press reports from Bern indicate that the new Swiss budget law in order to cover mobilization costs of 5 million francs per day will include a number of new sources of revenue and especially a capital levy designed to produce between 500 and 700 million francs. A general business tax is expected to yield 150 millions and 250 millions will be derived from devaluation profits of the National Bank. A large mobilization loan to care for the treasury's needs pending application of the foregoing measures is expected to replace present short term treasury paper carried by the banks.

(End of Message).

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GRAY

271

PARIS

Dated November 22, 1939

Rec'd 5:31 p.m.

Secretary of State,
Washington.

2810, November 22, 7 p.m. (SECTION ONE)
FOR THE TREASURY.

The well-known authority Frederic Jenny published in last evening's LE TEMPS a leading article entitled "Prices". While it does not contain a great deal that is new in view of the authority of the author and the able way in which he has summarized France's internal war finance problem we give below a full summary.

"The financing of the war depends strictly on the problem of prices. It has often been said that war can be waged only with the aid of three procedures: taxation, borrowing or inflation. The dangers of the last named are obvious and we have chosen the former two; and our Minister of Finance is endeavoring reasonably to combine them. But this will not be successful unless certain conditions are fulfilled. A more substantial portion of revenue produced by the national economy must become available to the Treasury more than in peace time.

BULLITT

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MJD

GRAY

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PARIS

Dated November 22, 1939.

Rec'd. 5:28 p. m.

Secretary of State,
Washington.

2810, November 22, 7 p. m. (SECTION TWO)

A circuit must be established: the state of putting money in circulation by its expenditures and recovering them in the form of taxes and loans, et cetera. This presupposes in the first place that the expenditures of private individuals must be less than their income tax and thus savings accrue which is automatically provided in part, thanks to taxes. The repatriation of capital and the issue of banknotes--incidentally very small--which took place at the beginning have increased the volume which enters into the circuit since the war. The latter must continue without too much leakage but on one condition that the sums which revolve therein are not absorbed by an increase in prices. It is clear that a too rapid price rise would both diminish the possibility of savings and increase public expenditures. The Treasury would then be led to cover its deficit and that of individuals by inflation, that is to say by the manufacture of artificial and illusory wealth.

(END SECTION TWO)

BULLITT

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EMB

MJD

GRAY

PARIS

Dated November 22, 1939.

Rec'd. 5:40 p. m.

Secretary of State,
Washington.

2810, November 22, 7 p. m. (SECTION THREE)

The healthy methods which we have chosen compel us to oppose any rise in prices. The Government has decided to stabilize wages (our telegram No. 2768, November 16, 4 p. m.) in order to block the principal internal cause of a rise in prices. But there are others, one is of foreign origin and is already being felt namely the increased cost of imported products. This may be due to an increase in foreign prices or to exchange rates or to both.

If we let the franc depreciate our imports will become more and more costly. It would be more to our interest to raise the level of the franc if possible. Our exports can still endure a margin of price increase but the exchange rate is not only a cause; it is also an effect. If the excessive cost of imports should upset our balance of payments we could not really maintain our exchange rate except at the expense of our gold reserves.

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PARIS

Dated November 22, 1939.

Rec'd. 6:02 p. m.

Secretary of State,
Washington.

2810, November 22, 7 p. m. (SECTION FOUR)

We are not without means of defense in this connection. The control of foreign commerce has for its objective the restriction or exclusion of superfluous imports. We can also act on foreign prices thanks to a skillful purchasing policy coordinated between the Allies so as to avoid wastage and competitive bidding on the markets. The Allies have a similar interest in reaching an understanding as concerns their mutual interchange and especially for the sale and resale of products from their colonies and dominions. The decisions taken by the Franco-British Supreme Council cannot but have fortunate results.

The other causes of a rise in prices against which we must struggle are of an internal order: wastage in personnel and material, over-expensive contracts, and in general a shortage of products and disequilibrium between supply and demand. If the supply of products should diminish in ratio to demand it would be useless to apply taxation, controls and regulations, as restraints could only delay the rise while aggravating its cause.

(END SECTION FOUR)

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275

PARIS

Dated November 22, 1939.

Rec'd. 6:30 p. m.

Secretary of State,
Washington.

2810, November 22, 7 p. m. (SECTION FIVE)

It would in effect discourage production and commerce by destroying the hope of profit and would thus contribute towards depleting supplies. Experience has shown this a hundred times. Doubtless by contracting wages and other income a rise in prices would be limited since purchases could not exceed gains but the appearance would be almost the same as that of a rise in prices; burdensome restrictions and a decrease in the possibilities of savings and consequently of the resources of which the Treasury has need.

There is only one sure way to prevent a rise in prices: to produce. To increase the quantity of commodities and to facilitate their circulation. For that, first, man power is needed. Equilibrium must be found between the number of productive workmen and that of persons maintaining the combatant and administrative units. The man power of the armies and the administrations depends on production and the finances of the country.

(END SECTION FIVE)

BULLITT

JRL
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GRAY

PARIS

Dated November 22, 1939.

Rec'd. 6:40 p. m.

Secretary of State,
Washington.

2810, November 22, 7 p. m. (SECTION SIX)

If we must make a long war and a war of materials we are all the more compelled to make a war of production thus to give ourselves the means of carrying it on. Total war is not a mass levy of man power.

This is, moreover, just a simple problem of the quantity of the forces of labor. Private initiative must be stimulated, a profitable competition must come into play. Useless controls, purposeless red tape, regulations which unnecessarily hold up transactions and make life difficult, all that weakens the national economy, is harmful to our national defense. With abundant production and easy commerce prices will not rise to a dangerous extent. The French will then bear heavy taxes without too much hardship; and they will save and bring their savings to the State in order that the war may be carried on to victory."

(END SECTION SIX)

BULLITT

NPL
EMB

PARAPHRASE OF SECTIONS SEVEN AND EIGHT OF
TELEGRAM NO. 2810 FROM PARIS, NOVEMBER 22,
1939, 7 p.m.

With reference to the foregoing, Professor Rist remarked, when he made a call on us this morning, that it was his belief that the maintenance of a stable exchange rate was the most important need in order to prevent an undue increase in prices. He says that this will be possible if the Bank of France will agree to release gold; however, he is not completely certain that the Bank will be willing to do this in case of necessity.

Rist again deplored the fact that there were no statistics and he criticized the military authorities for not being willing to allow the publication of any figures about anything (the notable exception being the Bank of France's weekly statement). An effort is being made, he said, to get them to allow the publication of some kind of export and import statistics and perhaps some on production and so forth. He was convinced that export figures up to date would make very sad reading.

We inquired whether any reasonably reliable estimate with reference to the average daily cost of the war was available to him. He replied that he had been told that including foreign purchases, the amount totaled between 700,000,000 and 800,000,000 francs, but he was not sure that this figure was accurate.

We

We referred to the recent sinking of ships due to mines and remarked that at last the Allies had been furnished with the alibi they had been seeking for blockading German exports. (First paragraph of our no. 2736 of November 13, p.m.) He smiled and said that this was true and that the French and British had been trying for more than a month to find some reason for initiating such a practice which would not elicit too much protest from the neutrals; he recognized frankly that this practice was not generally sanctioned under international law. He said that the loss of so many lives had indeed been unfortunate but the desired reason--reprisal--had been furnished the Allies by the German Mines. (It has just been announced, as was expected, that a similar policy will be adopted by the French blockade authorities.)

(END OF MESSAGE)

BULLITT

EA:EB

November 22, 1939

To: The Secretary

From: Mr. Hanes

I attach hereto: (1) original draft of the Press Club speech which was sent to the President on Monday night, (2) the President's memorandum to General Watson, (3) a copy of the speech corrected exactly in accordance with the President's suggestions.

T. W. H.

President HACHTEN, distinguished guests, members of the Press Club.

I am not going to read you a long drawn-out document filled with generalities and high sounding phrases designed to confuse the mind and evade the issue. I appreciate too much your invitation to come here and talk with you off the record to ask you to sit through such an ordeal.

I am, therefore, going to state my opinions on the tax question frankly and honestly. (~~These opinions are my own. I ask no one to share them, and, at the outset, I absolve the Secretary of the Treasury, my great and good friend, from any responsibility for anything I may say.~~)

I have said many times that I do not believe it necessary that we all think alike - but I do consider it necessary that we all think. For your earnest consideration, therefore, I submit some of the fundamental thoughts which have guided me in my work in the Treasury and before the Committees of Congress.

First, I have consistently stated and restated the basic problem confronting our country is, and will continue to be, economic recovery. Every move I have made during my two years in Washington has been designed

- 2 -

to aid business. That may seem to you to be an approach founded upon selfishness. It is -- that is a selfish desire to maintain the type of government that we know and love. Without that economic recovery which will put to work our ~~army of~~ unemployed at decent wages this system as we know it must break down. With economic recovery and reemployment of the major portion ^{of the} ~~of ten million~~ unemployed in productive labor, we are home - and our problems in the Treasury are largely solved.

Essentially I believe the budget must be balanced. There are three ways by which it might be accomplished: (1) new taxes, (2) by reducing expenses, (3) a combination of those two plus a broad economic recovery.

With these preliminary remarks I submit to you my philosophy on taxation, part general, part specific.

Certain general principles are so familiar that it is hardly necessary to state them, and so elementary that they require no detailed elaboration.

They are the principles which govern the point of view of the ~~government~~ ^{chief fiscal} ~~of the gov't.~~ He has no axe to grind, no special favors to confer, nor special burdens to impose upon special classes, no mission to use taxation to effect

- 3 -

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social change. The ~~Government's~~ task is to find revenue for the Government, and, so far as he is able, to resist the efforts of those who have some other objective, avowed or concealed, than that of enabling the Government to pay its bills with the minimum distortion and disturbance to the economy of the country.

Such generalizations are elementary and almost self-evident. Yet they may perhaps be useful by way of preface to make clear the point of view from which the following more specific comments are made.

In general, taxation ought to be devised (1) to produce the most revenue, (2) with the least injury to the taxpayers and to the country's economy and (3) with the least expense and trouble to the taxpayers and the Treasury.

Contrary to the general impression, the tax problem (without the injection of too many lawyers) is not such a complex or complicated subject. I refer you to the chart on the wall. Simply stated, we have only 5 sources of revenue - (1) customs, (2) estate and gift tax, (3) individual income, (4) corporate income and privilege, (5) the sales taxes (viz: all others).

You will note that I leave out one very important item, namely ^{or Social Security} the payroll taxes. That is not a source of revenue. It is a trust fund which is paid into the Treasury for safekeeping. The Treasury has been borrowing these funds for current purposes, paying therefor interest at the rate of 3 percent per annum. This has served to keep down the amount you see in the block entitled "borrowings and Balances," which would have totaled \$2,298 million in 1938 but for these payroll taxes.

In the fiscal year 1938, we collected the largest revenue ever known in the history of this Government. I have chosen that year, therefore, as the subject for discussion. The system produced in that year a total income from all sources of \$6,240 million. We spent in that same fiscal year \$7,691 million.

Let us take ^{up} the five sources of revenue ^{the} in order mentioned.

1. Customs - You will see by the chart that we collected \$359 million from that source in 1938. Due to the war we estimate a real shrinkage from this level next year. In any event, the only way

that tax can be increased is through more travel and more purchases abroad by our citizens. That means peace and prosperity (or economic recovery again) here at home.

2. Estate and gift taxes - To a considerable extent the Government of the United States (and of some of the states) are spending capital for their current outgo. Estate and inheritance taxes are capital taxes. Gift taxes on large gifts are capital taxes. The capital of estates of decedents and living donors is being ~~used~~ spent by government for current operating expenses. ~~Once taken and spent for current purposes this capital cannot produce future income.~~ It involves the dissipation of savings; and until new savings are formed there is that much less capital available for constructive purposes, recovery, and reemployment. Knowing these facts I still favor a tax on inheritances. Since it is a subtraction from the Treasury's income-producing assets, it should be used ^{so far as possible} only for the purpose of reducing the national debt. It is sound finance to reduce a capital liability

with each reduction of a capital asset. This statement of course would only be applicable when we had ceased increasing the national debt and the budget balanced. Otherwise it becomes

a bookkeeping item and thus an academic question.

There is no greater illusion than that, because there have been times when savings outbalanced consumer spending power, that therefore we can safely abolish all incentive to save, and finance recovery by spending capital instead of saving it. As well argue because some folks overeate people would be better without any food at all.

3. Individual or personal income taxes - Taxes which are destructive of the incentive to save are destructive of future income, and therefore of the source of future revenues to the government. Such taxes include not only the direct taxes on capital already mentioned, viz: ^(high)estate and inheritance taxes and high taxes on large gifts, but also taxes nominally on incomes but at rates so high as to leave the taxpayer no margin for reinvestment, or even to make it necessary for the taxpayer to infringe on capital. Taxes which lead the taxpayer to retire from enterprise and seek shelter in tax-exempt securities, or even in safe and riskless securities, tend to prolong the depression and unemployment, increase the burden of relief expenditures by the Government and dry up sources of income and future revenues of the Government. I do not mean to imply that the upper bracket taxpayers are the only source of new investment in enterprise. They may not even form a major portion of the source of new investment.

Normal taxes ought to be higher and exemptions ought to be lower. In the middle brackets the surtax ought to be higher and in the higher brackets the surtax ought to be lower. This is necessary both to increase the revenue of the Government and to encourage venture capital. This is not politics. But it is public finance. Until these elementary principles in regard to the income tax are recognized we shall have an unbalanced budget and the Treasury will be burning the candle at both ends. There will be a shortage of revenue because the rich are not rich enough and there are not enough of them to finance the Government. If we should take all of the income (100% of it) of every citizen in the United States having income of \$100,000 and over, we would get only enough revenue to run the Federal Government less than 45 days. Excessively high rates will deprive our economy of the impetus of venture capital which can only be provided by the well-to-do; and it is venture capital which will provide reemployment. Safety first capital will never do that. Savings banks, insurance companies, government bonds, and post office savings, etc., provide a sanctuary for the savings of the poor and moderately well-to-do. They cannot and should not be asked or even allowed to *provide* *venture capital.*

provide venture capital.

4. Corporation income tax

(It would be highly desirable if

~~The corporation income tax~~

could eventually

made
 equal to but not greater than the normal personal income tax (which
 should be higher as above stated) - (this is not an argument for reducing
 revenues), and corporation dividends if the corporation pays an income
 tax should be exempt from personal normal income tax in the hands of the
 stockholders, but not exempt from surtax. Double taxation of corporate
 income, (or triple taxation in the case of intercorporate dividends), or
 taxation of corporate income at a higher rate than the personal normal
 income tax, penalizes venture capital and tends towards the discouragement
 of enterprise and towards the overcapitalization in bonds and under-
 capitalization in stocks or equities of our corporate undertakings. A
 stockholder has a share in the company, in its risks, and in its profits.
 When the company pays its income tax it pays for the accounts of its

Page 8 and 9 taken out at Pres' suggestion -

Take out

stockholders. When it has so paid for his account he ought not to be taxed again on its income. Interest on corporate debt is a proper deduction from corporate income in determining the corporation's income taxes. The corporation bondholder pays an income tax on the income, but he has not previously had it paid by the corporation on the same income. There is no reason why a corporation stockholder should have to pay normal income tax twice on the income he receives from the corporation, (once from the corporation itself and again when he receives it); while the corporation bondholder properly pays only once. And there is no *sound economic* reason why he should have to pay normal tax at a higher rate through the corporation in which he owns shares than on his other income. This discrimination against the corporation stockholder is a bad thing for the national economy, and *effort should be made eventually to eliminate it.*

5. Excise or sales taxes - These taxes are easily collected, and if the rate of taxation is kept low in proportion to the value of the thing or service taxed, they do not then unduly burden business and industry and do not dry up the sources of revenue. It should be borne

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~~is mind, however, that excise taxes in effect tax income, and that the proportion of income of people of small means taxed through excises taxes tends to be much greater than the proportion of income so taxed of people of large means. The poor have to spend a greater proportion of their incomes on consumption goods and services than the rich. Thus, excise tax tends to burden taxpayers in inverse proportion to their wealth. This is precisely the opposite of the income tax itself which burdens disproportionately the people of large wealth. If it were thought politically possible to have an ideal income tax in the United States and to tax adequately small incomes, as they do in England for instance, then there would be a good deal to be said for dispensing with excise taxes altogether and throwing the whole burden on the income tax. But as long as it is thought to be politically inexpedient to tax small incomes directly, except at nominal rates, it will be financially necessary, to collect a considerable part of the revenue through excise taxes.~~

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So much for the tax situation in general. Perhaps the question which is uppermost in your minds at the moment is, "just what is the situation as of today". I will go back and recite the history of the past few months in chronological order so that you may have a clearer picture of the answer to that question.

(1) As one of the last acts of the first session of the 76th Congress the House of Representatives passed a resolution authorizing its Ways and Means Committee to make a thorough study of the tax situation and report to the Congress.

(2) The Ways and Means Committee met and directed its Subcommittee to comply with that resolution.

(3) As a result, Chairman ^{of sub-comm.} Jere Cooper, in the last two weeks of that Congress, conducted a series of meetings with the staff of the Treasury and the staff of the Joint Committee ^{on Internal Revenue Taxation} ~~of the Ways and Means and of the Senate Finance Committee.~~

(4) As a result of these meetings, the Subcommittee instructed the Joint Committee staff, and the staff of the Treasury, ^{themselves} to devote itself to study and preparation of data upon many phases of the revenue law.

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(5) At the same time, the Treasury was instructed to conduct on behalf of the Subcommittee of the Ways and Means Committee informal hearings with taxpayers and the public generally with a view of getting from all groups interested as much information as possible on the practical approach to improving the revenue structure.

(6) Following these instructions, we sent out letters to approximately 1,500 people representing labor, agriculture, industry, ^{educational institutions} the professions and the general public.

The response to this appeal was instantaneous, and the good-will developed thereby has become increasingly apparent. More than 300 individuals have appeared in person at a series of informal conferences conducted here in the Treasury, and we have collected a mass of very valuable data which, I hope, will form the nucleus for a permanent record for the future.

It has been a long, tedious task but I believe has definitely created the impression throughout the entire country that we are trying to do a sincere and earnest job.

We are busily engaged at this moment digesting this data. I am

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hopeful that, prior to January 1st, we will be ready to submit our final report on this phase of the work to the Congress.

So far as the Treasury is concerned, it has no tax program to submit at this time. We are still devoting ourselves to a thorough-going study of every phase of the problem so that if, as and when we are called upon we shall not be unprepared.

THE WHITE HOUSE
WASHINGTON

293

November 21, 1939.

MEMORANDUM FOR GENERAL WATSON:

Here are some thoughts on Johnny Hanes' speech:

Page 1: He cannot segregate his own opinions on taxes from those of the Treasury and the Administration -- nor can he in paragraph three express his own personal fundamental thoughts if he says that they have guided him in his appearances before committees of the Congress. Tell Johnny that when so working or so appearing, he is necessarily representing the government.

Page 2: No one knows whether there are ten million unemployed or not. There are thousands of unemployed who will only take a special job of their own choosing. There are thousands of others who refer to work only part time. My own guess is that there are not more than five million unemployed who are wholly willing, at any time, to take a job.

Page 5: I do not think the analysis of estate and gift taxes is sound. The statement that "once taken and spent for current purposes this capital cannot produce future income" is saying, in effect, that no government expenditure produces future income. That is a complete fallacy. The further statement that estate and gift taxes should be used only for reducing national debt may be theoretically sound but does not hold water if the government is increasing national debt and becomes a bookkeeping quibble.

Page 6: This sounds too much like the old idea that the upper bracket tax payers form a major portion of the reinvestment or new investment total as a nation.

Page 8: This is a plea for removal of taxes on incorporate dividends and wholly contrary to the policy of the Administration and if this whole paragraph were put into effect, the government would lose a great part of its personal and corporate tax revenue.

F.D.R.

President Hachten, distinguished guests,
members of the Press Club -

I am not going to read you a long drawn-out document filled with generalities and high sounding phrases designed to confuse the mind and evade the issue. I appreciate too much your invitation to come here and talk with you off the record to ask you to sit through such an ordeal.

I am, therefore, going to state my opinions on the tax question frankly and honestly.

I have said many times that I do not believe it necessary that we all think alike - but I do consider it necessary that we all think. For your earnest consideration, therefore, I submit a few thoughts which occur to me at the moment to be necessary for any discussion of the tax question.

First, I have consistently stated and restated the basic problem confronting our country is, and will continue to be, economic recovery. Every move I have made during my two years in Washington has been designed to aid business. That may seem to you to be an approach founded upon selfishness. It is - that is a selfish desire to maintain the type of government that we know and love.

Without ^{that} ~~the~~ economic recovery which will put to work our unemployed at decent wages this system as we know it must break down. With economic recovery and reemployment of the major portion of the unemployed in productive labor, we are home - and our problems in the Treasury are largely solved.

Eventually, I believe, the budget must be balanced. There are three ways by which it might be accomplished: (1) new taxes, (2) by reducing expenses, (3) a combination of those two plus a broad economic recovery.

With these preliminary remarks I submit to you my philosophy on taxation, part general, part specific.

Certain general principles are so familiar that it is hardly necessary to state them, and so elementary that they require no detailed elaboration. They are the principles which govern the point of view of the chief fiscal officer of the government. He has no axe to grind, no special favors to confer, nor special burdens to impose upon special classes, no mission to use taxation to effect social change. The Secretary of the Treasury's task is to find revenue for the Government, and, so far as he is able, to resist the efforts of those who have some other objective,

avowed or concealed, than that of enabling the Government to pay its bills with the minimum distortion and disturbance to the economy of the country.

Such generalizations are elementary and almost self-evident. Yet they may perhaps be useful by way of preface to make clear the point of view from which the following more specific comments are made.

In general, taxation ought to be devised (1) to produce the most revenue, (2) with the least injury to the taxpayers and to the country's economy, and (3) with the least expense and trouble to the taxpayers and the Treasury.

Contrary to the general impression, the tax problem (without the injection of too many lawyers) is not such a complex or complicated subject. I refer you to the chart on the wall. Simply stated, we have only 5 sources of revenue - (1) customs, (2) estate and gift tax, (3) individual income, (4) corporate income and privilege, (5) the sales taxes (viz: all others).

You will note that I leave out one very important item, namely the payroll or social security taxes. That is not a source of revenue. It is a trust fund which is paid into the Treasury for safekeeping. The Treasury has been borrowing these funds for current purposes, paying therefor interest at the rate of 3 percent per annum.

This has served to keep down the amount you see in the block entitled "Borrowings and Balances," which would have totaled \$2,298 million in 1938 but for these payroll taxes.

In the fiscal year 1938, we collected the largest revenue ever known in the history of this Government. I have chosen that year, therefore, as the subject for discussion. The system produced in that year a total income from all sources of \$6,240 million. We spent in that same fiscal year \$7,691 million.

Let us take up the five sources of revenue in the order mentioned.

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2. Estate and gift taxes - To a considerable extent the Government of the United States (and of some of the states) are spending capital for their current outgo. Estate and inheritance taxes are capital taxes. Gift taxes on large gifts are capital taxes. The capital of estates of decedents and living donors is being spent by government for current operating expenses.

It involves the dissipation of savings; and until new savings are formed there is that much less capital available for constructive purposes, recovery, and reemployment. Knowing these facts I still favor a tax on inheritances. Since it is a subtraction from the Treasury's income-producing assets, it should be used so far as possible only for the purpose of reducing the national debt. It is sound finance to reduce a capital liability with each reduction of a capital asset. This statement of course would only be applicable when we had ceased increasing the national debt and the budget balanced. Otherwise it becomes a bookkeeping item and thus an academic question.

There is no greater illusion than that, because there have been times when savings outbalanced consumer spending power, that, therefore, we can safely abolish all incentive to save, and finance recovery by spending capital instead of saving it. As well argue because some folks overeate people would be better without any food at all.

3. Individual ^{or} ~~and~~ personal income taxes -

Taxes which are destructive of the incentive to save are destructive of future income, and therefore of the source of future revenues to the Government. Such taxes include not only the direct taxes on capital already mentioned, viz: high estate and inheritance taxes and high taxes on large gifts,

but also taxes nominally on incomes but at rates so high as to leave the taxpayer no margin for reinvestment, or even to make it necessary for the taxpayer to infringe on capital. Taxes which lead the taxpayer to retire from enterprise and seek shelter in tax-exempt securities, or even in safe and riskless securities, tend to prolong the depression and unemployment, increase the burden of relief expenditures by the Government and dry up sources of income and future revenues of the Government. I do not mean to imply that the upper bracket taxpayers are the only source of new investment in enterprise. They may not even form a major portion of the source of new investment.

Normal taxes ought to be higher and exemptions ought to be lower. In the middle brackets the surtax ought to be higher and in the higher brackets the surtax ought to be lower. This is necessary both to increase the revenue of the Government and to encourage venture capital. This is not politics. But it is public finance. Until these elementary principles in regard to the income tax are recognized we shall have an unbalanced budget and the Treasury will be burning the candle at both ends. There will be a shortage of revenue because the rich are not rich enough and there are not enough of them to finance the Government. If we should take all of the income (100% of it) of every citizen in the United States having

income of \$100,000 and over, we would get only enough revenue to run the Federal Government less than 45 days. Excessively high rates will deprive our economy of the impetus of venture capital which can only be provided by the well-to-do; and it is venture capital which will provide reemployment. Safety first capital will never do that. Savings banks, insurance companies, government bonds, and post office savings, etc., provide a sanctuary for the savings of the poor and moderately well-to-do. They cannot and should not be asked or even allowed to provide a venture capital.

4. Corporation income tax - The corporation income tax is now at the highest level in our history, namely 18 percent. It is at this source

of revenue which we must aim in pleading for complete economic recovery. During the year 1929 the net profit base upon which tax was levied reached the total of \$11 billion. The taxable base upon which we have been working during the past few years has shrunk to a little more than one-half of this figure. I feel that the rate upon corporations is about as high as it should be allowed to go. Under an ideal tax system it would be highly desirable if the corporation income tax could be made equal to, but not greater than, the normal personal income tax which, as I have said before, should be higher. One specific weakness in the corporate tax structure is the fact that interest on corporate debt is allowed as a

deduction from corporate income in determining the corporation's income tax. This same deduction is not allowed in the case of dividends on preferred stock. The tendency of the present law is to encourage, ~~therefore~~ therefore, corporate financing by first or second mortgage bonds, rather than with equity securities. In the long run this encourages heavy overcapitalizations by corporations with bonded indebtedness and creates an unsound financial condition causing many unnecessary and expensive reorganizations. This is a matter which has been referred to many times by Chairman Jerome Frank of the Securities and Exchange Commission.

5. Excise or sales taxes - These taxes are easily collected, and if the rate of taxation is kept low in proportion to the value of the thing or service taxed, they do not then unduly burden business and industry and do not dry up the sources of revenue. It should be borne in mind, however, that excise taxes in effect tax income, and that the proportion of income of people of small means taxed through excise taxes tends to be much greater than the proportion of income so taxed of people of large means. The poor have to spend a greater proportion of their incomes ~~on~~ on consumption goods and services than the rich. Thus, excise tax tends to burden taxpayers in inverse proportion to their wealth. This is precisely the opposite of the income tax itself which burdens

disproportionately the people of large wealth. If it were thought politically possible to have an ideal income tax in the United States and to tax adequately small incomes, as they do in England for instance, then there would be a good deal to be said for dispensing with excise taxes altogether and throwing the whole burden on the income tax. But as long as it is thought to be politically inexpedient to tax small incomes directly, except at nominal rates, it will be financially necessary, to collect a considerable part of the revenue through excise taxes.

So much for the tax situation in general. Perhaps the question which is uppermost in your minds at the moment is, "just what is the situation

as of today." I will go back and recite the history of the past few months in chronological order so that you may have a clearer picture of the answer to that question.

(1) As one of the last acts of the first session of the 76th Congress the House of Representatives passed a resolution authorizing its Ways and Means Committee to make a thorough study of the tax situation and report to the Congress.

(2) The Ways and Means Committee met and directed its Subcommittee to comply with that resolution.

(3) As a result, Chairman of the Subcommittee, Jere ~~Campbell~~ Cooper, in the last two weeks of that Congress, conducted a series of meetings with the staff of the Treasury and the staff of the

Joint Committee on Internal Revenue Taxation.

(4) As a result of these meetings, the Subcommittee instructed the Joint Committee staff, and the staff of the Treasury, to devote themselves to study and preparation of data upon many phases of the revenue law.

(5) At the same time, the Treasury was instructed to conduct on behalf of the Subcommittee of the Ways and Means Committee informal hearings with taxpayers and the public generally with a view of getting from all groups interested as much information as possible on the practical approach to improving the revenue structure.

(6) Following these instructions, we sent out letters to approximately 1,500 people representing labor, agriculture, industry, educational institutions, the professions and the general public.

The response to this appeal was instantaneous, and the good-will developed thereby has become increasingly apparent. More than 300 individuals have appeared in person at a series of informal conferences conducted here in the Treasury, and we have collected a mass of very valuable data which, I hope, will form the nucleus for a permanent record for the future.

It has been a long, tedious task but I believe has definitely created the impression throughout the entire country that we are trying to do a sincere and earnest job.

We are ~~xxxxix~~ busily engaged at this moment digesting this data. I am hopeful that, ~~ix~~ prior to January 1st, we will be ready to submit our final report on this phase of the work to the Congress.

So far as the Treasury is concerned, it has no tax program to submit at this time. We are still devoting ourselves to a thorough-going study of every phase of the problem so that if, as, and when we are called upon we shall not be unprepared.

GROUP MEETING

November 22, 1939.
9:30 a.m.

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

H.M.Jr: Anything on your mind?

Hanes: Nothing except this letter from K. P. Chen that you were anxious to get that information on. I acknowledged that.

H.M.Jr: Good. I might as well read it now and give it back to you.

Hanes: I thought you might want to keep it.

H.M.Jr: O. K.

Foley: Sam Klaus says there is a very important development in the Annenberg case and wants to talk about it.

H.M.Jr: O. K.

Foley: Would you be free sometime to see Campbell and Clark?

H.M.Jr: No, I don't think so. I can't just stop everything. I have got an impossible day. It is just impossible.

Foley: It isn't something that has to be done.

H.M.Jr: I could have done it yesterday but he couldn't.

Foley: I assume he was talking with the Attorney General about the thing they wanted to talk to us about.

H.M.Jr: He will be here again.

Foley: Yes.

H.M.Jr: What else?

Foley: Nothing.

Cochran: Just had this letter for Mr. Harris on that tin proposition.

H.M.Jr: I have this letter from Welles, a most peculiar document, in which he asked me to designate somebody to represent me on the Munitions Board. Inasmuch as it is mostly in and out stuff - last time I had Huntington Cairns but this time I will have Basil Harris represent me on the Munitions Board. It is all stuff to do with shipping. Will you be willing?

Harris: Yes.

H.M.Jr: And I think if you could - somebody could post you on this stuff.

Foley: He can talk to Huntington. Whenever he can't go, Huntington can go for him.

H.M.Jr: Have you got those memos ready?

Cochran: Yes. The one is completely finished and the other is being typed now. They will both be ready this morning.

H.M.Jr: Will you see that I get them?

Cochran: Yes, absolutely.

H.M.Jr: I think the President ought to know about it. Does anybody know when Butterworth is going back?

Cochran: I asked him yesterday and he seemed to think this is the center of interest right now.

Harris: He told me within two weeks.

Cochran: He hasn't fixed any definite date.

H.M.Jr: I don't blame him.

Cochran: I don't either.

H.M.Jr: You are still doing some staff work on that stuff?

Stewart: Yes.

H.M.Jr: George?

Where is Bell?

Haas: You haven't seen these for a little while (handing report to Secretary).

I have something I would like to show you, Mr. Secretary. It will take about five minutes.

H.M.Jr: You are out of luck, George. Not this week.

(Mr. Bell enters the conference)

Have you got a written excuse? Where is it?

Duffield: Did you write it in there?

Bell: I have got the evidence. See that swelling (indicating face).

White: Take the gum out of your mouth.

H.M.Jr: Anything else, George?

Haas: No.

Riefler: Colombia at 10:00 o'clock?

H.M.Jr: Yes. All right?

Riefler: Yes. Yesterday we found in talking to Feis that there is quite a bit of background on this that we weren't too well posted on. I think it would be a good thing to have Welles bring him. He didn't know anything about the meeting at all.

H.M.Jr: Well, I don't like to....

White: He said Welles knew everything that he knew.

Riefler: He said he had told Welles everything that he knew.

H.M.Jr: I don't like to call up Welles and tell him - do you fellows know it now?

White: We know what he told us, yes.

Riefler: It was background that we didn't have.

H.M.Jr: How am I going to get that between now and 10:00 o'clock?

Riefler: You can get it then easily enough.

H.M.Jr: O. K.

Riefler: I think he ought to be here. I hope Welles brings him.

H.M.Jr: Have you got an agenda?

White: Yes. Well, it is very simple. The first point of the agenda is to find out just what is going on, which apparently we were slightly misinformed on or not told the whole story.

H.M.Jr: Take a minute and tell us now.

White: Simply that according to Feis there has been no definite offer nor is there any certainty of any definite offer, so that our presumption that they are going to offer three percent, move up to four, may or may not be the situation. I gathered - my impression from Feis' statement was that he would be much surprised if there had been a definite offer made.

Riefler: Those terms were terms which he had suggested to them which they had thought Columbia might approve and we are hearing them, but there is no indication at all that they are prepared to make them.

H.M.Jr: Well, I think the thing that we....

White: He is somewhat annoyed at the way the thing is being handled.

H.M.Jr: Who?

White: Feis. He thinks too many people have got their fingers in this pie.

H.M.Jr: By that, does he mean the Treasury?

White: I don't know who he means.

H.M.Jr: Well, I think the thing to do is - I had this in mind anyway, but this just strengthens my opinion - that we ask Mr. Welles that if we are going to continue that I have a chance to see the credit representative of Colombia and talk to him myself. It seems to me that that is the easy way to do it.

White: I should think it would be essential.

Riefler: Oh, yes.

Cochran: I just have one little reservation. If you are going to speak with the bondholders association at all - I don't know whether it is advisable - I would do it before that.

H.M.Jr: Before what?

Cochran: Before seeing Jaramillo.

H.M.Jr: Why?

Cochran: I think they have a lot of background that we probably haven't here. After all, they are the ones who go on representing the bondholders, trying to get agreements and I think it would help them quite a bit if we at least consult with them or get their views, whether you take them or not.

H.M.Jr: What did you fellows do last night about it?

White: We talked about what the specific procedure might be. Feis was asked specifically how he would handle the situation. I don't know if it is legitimate to give his reply. Do you think he would object to that?

Riefler: I don't know.

White: After that preamble, I suppose I had better give it.

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He felt that the way to handle the situation now would be for him to get in touch with this representative and see whether he cannot get a definite offer from him that would be acceptable and let everybody else for the moment step out of the picture until he has obtained a definite offer from them, and then, I take it, he would confer with the bondholders to induce them to accept it if it were reasonable. Then after that....

- M.M.Jr: What has been going on for the last two and a half weeks?
- White: I don't know, sir. The only thing we know are those two letters which you received. He feels that the bondholders in this instance have so far done a very good job and that those who are criticizing are not aware of all the facts.
- Riefler: What came out of our meeting mostly was the fact that it seemed to us that this meeting this morning, each person should first of all give a complete report of everything he knows about it. It is obvious that different departments have been making moves and that the others aren't completely informed and it is terribly important that at this meeting this morning we simply try to get the whole picture on the table or else somebody is going to slip up. That is why I brought up the question of his coming here.
- M.M.Jr: Well, I am back - yesterday we had one meeting and today we are having another. I can't move any faster. I think the staff work on it is - shall I say lousy? Compare with that what we did in two days for these other people. They were here two days. I took the responsibility. We got them cleared up in two days and they are gone. I could do the same thing in Colombia in three days if these people would let me. In two days the thing is cleaned up and they go home. They could sail tomorrow night if they wanted to. But the State Department won't let me do it. There's no use kidding ourselves. If it was my responsibility, I could clean up Colombia in a week.
- White: I think a lot of the misunderstanding will be cleared up at this meeting, in response to specific questions.

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H.M.Jr: On the other thing, the SEC was simply swell and we went through these things and got fixed up and there was about a thousand times as much money involved. Right?

Riefler: The problem here is that there is so much background.

H.M.Jr: That is up to you gentlemen to get it and if you don't mind my saying it, the Treasury didn't have the background last night in the dress rehearsal.

White: There is only source of information we can have on private negotiations going on between the State Department and the Pan-American countries and that is the State Department and if they don't tell us, why, we could ask for it if you want us to push it. If that is what you want, I will either get the information or get them to say that they won't tell us; that is easy enough.

H.M.Jr: I asked you gentlemen to do that before you left.

White: That is why we got Feis down and got some information.

H.M.Jr: You got him down after you came out of my dress rehearsal and we didn't know it.

White: I was under the impression, Mr. Secretary, that that letter I was permitted to look at was highly confidential and for you only. I didn't even know whether I could tell the State Department that I had seen it.

H.M.Jr: Let's go on from here. White and Riefler and Cochran, I am pushing this thing, and either push your way through until you get it or come to me and say you can't get it.

White: If we have your permission to do that, I am sure that we....

H.M.Jr: You can. I just can't always have to be the self-starter on this thing.

Cochran: Could we have your permission - I haven't talked to Harry to see whether he agrees or not - to

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get one of the bondholders' men here, the association's - I mean if Harry and Riefler agree with me on that?

- H.M.Jr: Let's announce today that we will. I would like to meet one of those fellows myself. I don't know who - could you get that book?
- White: I have it in my desk.
- H.M.Jr: Send for it now and let's take a look at it. One fellow there I know is a mighty nice fellow.
- Stewart: You couldn't get a better man on there.
- H.M.Jr: I was thinking about having Traphagen come up in the country this week-end to talk to me.
- Harris: They have the Swiss Minister in there now on this watch movement and it is going along. I don't know what is going to come out of it. You may want to lay it before the State Department. It is very involved. I am trying to carry out your wishes on it.
- H.M.Jr: O. K.
- Harold?
- Graves: Nothing.
- H.M.Jr: Bell, I have changed my mind. Last night about a quarter of seven the Acting Chairman of the Federal Reserve called me on the phone and said that he had heard that there was going to be a financing.
- Bell: Ransom?
- H.M.Jr: Yes. Did you tell him?
- Bell: I told him we probably would not have an Open Market meeting but there might be some financing this week.
- H.M.Jr: I think we had better have one so we will mark it 11:00 o'clock Monday. Sometime today or tomorrow I have got to see you and George and I am awfully cold on this thing.

- Bell: Well, I would like to see you sometime today on this program.
- H.M.Jr: Let's see how long this darn meeting on Colombia lasts. I will tell you now. I will see you and George and anybody else that comes in on it at 2:15 and have a preliminary talk on financing. That is today. O. K.?
- Bell: That is all right.
- H.M.Jr: But I would like an Open Market - is Viner bringing in Towers?
- White: We had a long talk with Towers and then Viner talked with him after that and he decided after we got through that there was no special reason for him to talk with you, that we got whatever he had on it. Our man that we had down there in Venezuela has returned. He is here. Mr. Fox of the Tariff Commission, who is in charge of the Commission, has asked to borrow him until they get through writing their final report, which may be....
- H.M.Jr: Let's see who are the Directors of the Bondholders Protective Committee.
- White: There is a much longer list of Directors than I have.
- H.M.Jr: Traphagen - he would be as good a man as any, wouldn't he?
- Cochran: Yes. Francis White is an active member in the negotiations but Traphagen, I think, is good. Francis White, I don't know.

RE COLOMBIAN FINANCE

November 22, 1939.
10:00 a.m.

Present: Mr. Hanes
Mr. Welles
Mr. Frank
Mr. Lincoln
Mr. Foley
Mr. White
Mr. Riefler
Mr. Cochran

H.M.Jr: Gentlemen, I have this letter from Mr. Jones, which I am sure you are familiar with, and also the letter from you (Welles) and I don't know whether there is anything between us up to date as to what is the relation of our Government with Colombia, other than these letters.

Welles: There is nothing that I know of other than that.

H.M.Jr: Well, we had a little meeting last night. I haven't seen this. Supposing I read this out loud.

"1. What offer is the Colombian Government making with respect to -

"(a) servicing the federal debt?

"(b) servicing the local government obligation?

"(c) servicing of the arrears of interest payments?"

Do you know what the answers are?

Welles: Unless it is contained in Jesse's letter.

H.M.Jr: No. This is information that we don't have.

Welles: I am afraid I can't give you that.

H.M.Jr: You haven't got another copy, have you?

White: Yes.

H.M.Jr: Will you give Mr. Welles one and also Mr. Frank.

Welles: This is contained in Jesse's letter to you.

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H.M.Jr: Well, what is the answer to that?

White: To which question?

H.M.Jr: This point 1. Does Mr. Jones answer "a", "b" and "c"?

White: No, I don't think he answered it. He gave the representative of Colombia his ideas of what a settlement would be, but I thought there was some indication in Mr. Welles' letter that they might be prepared to make a specific offer. It didn't go into detail.

Welles: From what the Colombian representative has said to me, what they have in mind is the immediate resumption of interest payments at three percent. His ideas, I think, coincide with the ideas expressed by Mr. Jones here, that is, a ten-year period at three percent and four percent thereafter.

Frank: Is the interest to be funded?

Welles: That is to be handled, I believe, in another way. What the Colombians have in mind is one percent on the default. Jesse expressed the idea to me that that should be handled in a different way. I don't know what he means here: (Reading) "It would be desirable to have some such arrangement as would permit the individual bondholders to convert their bonds into milreis." He is confused, I imagine, with Brazil there. I think the situation really is this: The Colombian Government's idea is more or less along the idea of what Jesse considers fair and reasonable. The Colombian representative, however, has written by airmail to the President of Colombia, communicating to him the impressions that he got from Jesse Jones, and is now waiting until he hears further. I don't think there is any material divergency between what Jesse indicates here and what they feel about the matter.

H.M.Jr: In the Treasury, we think it just complicates the matter by adding that it would be desirable to have some such arrangement to permit individual bondholders to convert their bonds into milreis to be

used in Colombia to purchase things for export. We think that is just superfluous.

Welles: I don't see any particular reason for it.

H.M.Jr: SEC - Mr. Lincoln's office - might find a method of juggling their payments.

Lincoln: In default it works out very badly. You set up an automatic system for repatriation and you keep your exchange exhausted so that it is all the more difficult to make interest payments.

Welles: That, I may say, was not an idea expressed, at least not to me, by the Colombian representative. I think it may be Jesse's own idea.

H.M.Jr: As far as we are concerned - I don't know if I can speak for the SEC - we would just as lief see that part dropped.

Lincoln: I think in that line there would be something to be said for having the bonds already bought back in Colombia; have a Colombian domicile, you might say, converted in milreis and get them out of the picture. I think that is something that should well be considered because there is commonly supposed to be - there are known to be 10 million - I mean 6 million of the national government bonds back. How much more, no one knows, but it seems there might easily be 8 or 10 million more. That is just a guess in the dark because there is no light on the subject. But it would be something to have those back out of our picture.

Watts: There is another serious disadvantage to the suggestion of Mr. Jones on economic grounds. I don't know whether you want to take it up here. It may provide for a large supply of milreis on the part of those who want to take advantage of that clause, who in turn will attempt to sell it on the market for whatever they could get and would tend to depress the rate or create another rate and upset their own exchange. I wonder whether they have thought the thing through or whether it appears to be the thing indicated on the surface, but if it is the latter I am doubtful whether in their own interests it would be desirable unless they blocked those balances and didn't permit their use except under very careful conditions.

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- Welles: That in itself would be a new complication.
- White: Yes, I should think so.
- H.M.Jr: As I understand the situation now, the Colombian Ambassador has written back and is waiting to hear from them, is that right?
- Welles: That is right.
- H.M.Jr: And just as soon as he hears, could you, Jones and I sit down with him and....
- Welles: Well, I think that is one point that ought to be determined because apparently Jesse has made certain very definite proposals which he regards as authoritative proposals. I see the Treasury Department has, I think, a very reasonable objection to it. I think it is unnecessary.
- H.M.Jr: In the Administration family, can I ask - I mean did Jones see this man with the approval of the State Department?
- Welles: Jesse said he would like very much to see him before he went for his holiday and I arranged it myself, but my understanding was that he was going to listen to what Colombia was going to propose and not make proposals himself.
- H.M.Jr: Well, in order that the Administration have a united front, I don't know when Jones gets back but there is nobody there who can talk for him?
- Welles: No one.
- H.M.Jr: But aren't you anxious to clean this up?
- Welles: I am not only anxious but I am terribly anxious to clean it up.
- H.M.Jr: I am ready, beginning with next Tuesday, to sit on this thing until we do clear it up.
- Welles: Well now, if he has a reply by that time - do you want to wait until Jesse gets back or do you want to wait until then?

- H.M.Jr: What we ought to do is get busy on the phone and then you and I sit with this gentleman until we do get it.
- Welles: All right.
- H.M.Jr: And I am willing to get Jones on the phone and tell him that this is what we are going to do and he could advise by phone. He calls up his office two or three times a day anyway.
- Welles: All right.
- H.M.Jr: I will tell them to let me know if he calls up his office today. He is usually on the phone several times a day. How does that strike you?
- Welles: I think that is a very good idea. Did you say that you would be back here on Tuesday?
- H.M.Jr: I will be back here Sunday night.
- Welles: I think it might be well to clean up some of these things before we start talking business.
- H.M.Jr: I will do financing Monday. That is the reason I say Tuesday.
- Welles: If you will see him for a short period Monday afternoon, I will arrange the meeting.
- H.M.Jr: All right.
- Welles: He speaks English very well.
- H.M.Jr: Knowing that you have this, I would just like to sit continuously and in two or three days we ought to be able to clean it up. He could use the phone, couldn't he, down there?
- Welles: I think so.
- H.M.Jr: Would it be helpful to have Traphagen here?
- Welles: Not in the least. I don't see any reason. There is too much that he has to do down there. I don't see anything in particular that he could contribute.

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- H.M.Jr: The thing that bothers me, I would like to have some way to bring in this Bondholders Protective Committee so that we can sort of get them to commit themselves by saying they are satisfied. Before you came in, Mr. Frank said that if somebody could come down here Friday from the Bondholders Committee he would like to sit down with them and talk with them and get them to say how they feel about it.
- Welles: Your thought is to how the men on that feel about it?
- H.M.Jr: Yes, try to get the benefit of whatever they have and then when we do make this deal we will have the hope that they will say they are satisfied.
- Welles: My only thought was that probably the better way to handle it would be for us to determine here what we thought fair and equitable. Then if the Colombian Government is willing to make an offer that we consider fair to the bondholders, the offer would then be made on their own initiative without any intervention on the part of this Government through the Protective Council of the bondholders.
- H.M.Jr: Well, do you want to talk on this? You are one of the people pushing me, saying that you feel you ought to see them before you make the deal.
- Riefler: I agree with Mr. Welles as far as the correctness of the official procedure. I think it would be dangerous if we got between them in any official way - I mean after all, they represent the bondholders and we don't want to get the honors for a settlement that they will criticize because there will be a lot of criticism which can arise on these things.
- On the other hand, it seems to me terribly important not to leave them with the appearance of holding the bag, that we could see them beforehand and get some sort of understanding and it would go through much smoother.
- Welles: I agree with you, if you could get it. Have you any reason to believe that you will?

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- Hefler: I don't know the Council at all. That is why I think that part has to be very carefully explored. I know that there is a chance here for terrific criticism. I happened to participate in a local session up at Princeton the other day and there can be a lot of nasty criticism come out unless that is carefully worked through beforehand.
- Frank: Your suggestion, Mr. Welles, it might be dangerous to get them in too soon because then they could begin their criticism that much sooner, is that it?
- Welles: That is my fear. As I see it, the only way that this Government should get in the picture is in this way. The Colombian Government wants facilitation of credit immediately amounting to about 10 million dollars. We or Jesse Jones should announce that he is prepared to advance those credits on whatever basis may be agreed upon and that this Government is taking this step because of its knowledge that the Colombian Government has made, through the bondholders, a fair and reasonable offer. That is where our opinion as to the fairness and reasonableness of the offer legitimately comes in. I think you (H.M.Jr.) and I have agreed from the beginning that we should not act as a debt collector or negotiator.
- H.M.Jr: I still feel this: I have never met any of them. I have damned them unfairly but I have never met any of them. Mr. Frank isn't acquainted with them and the thought was that if we got these people down here and talked with them and treated them like human beings and, as somebody suggested here yesterday, if Francis White is impossible, say to give us somebody who we think is reasonable and can be satisfied, maybe we can get somebody. Isn't that what you had in mind?
- Frank: That is right.
- H.M.Jr: And as I gather, Mr. Frank, you are willing to take the time on Friday and just sit down and get acquainted with these fellows.

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- Frank: If that is what everybody thinks is desirable.
- H.M.Jr: If they are going to be the organization who finally have to announce that this is an agreement, I think to just get acquainted, meeting with them now, would be helpful, rather than to do everything and say, "Here is an agreement, you take it and like it."
- Frank: If you gave it to them abruptly that way and they wouldn't accept it, then it would spoil the whole situation. On the other hand, there is the danger Mr. Welles points out that if you put it out too early you enable them to build up their arguments against it. It seems that the latter is the lesser evil.
- White: Couldn't the latter be somewhat avoided by merely meeting them to get their views without in any way indicating what the Colombian Government has offered or stating that they have offered anything, and let them state their views and let us get some notion of what they are thinking about. Apparently they already know there is some offer in the wind because of the way the bonds are acting. The market seems to be very hopeful so that I take it they have some familiarity with what is going on, yet some conversation with them might give us a line as to what is running in their minds.
- Welles: I think the idea that Dr. White suggests is exceedingly desirable. What I was afraid of was that if you gave them any indication of what we considered fair and reasonable along the lines of Jesse's letter, that they would immediately build up to the New York Herald Tribune and certain other papers a wild attack and get the bondholders persuaded at the outset that we were sponsoring something unfair and make it so that probably the bondholders wouldn't accept it.
- Riefler: I am afraid of the former one. After all, this settlement, even though it means a big resumption for the bondholders, is a heavy cut in their contractual obligations and I am afraid they would go out and say we couldn't do any more because the United States Government said this, and put the whole onus on us for giving away the bondholders'

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money. That is why they have got to approve it. They have to say that it is a fair settlement and a good one.

- White: I don't think they would get much publicity for saying that going up that much is a serious scaling down of their rights.
- H.R.Jr: But you are not doing anything on the back interest.
- Welles: The Colombian Government is prepared to deal with that.
- H.R.Jr: My own feeling is this: If the SEC are willing to sit down and just get acquainted with them, having somebody from the Treasury and somebody from the State Department and sit down and sort of have a get-acquainted meeting, I think it would be very good.
- Frank: Mr. Lincoln does know the Council. He is optimistic about getting their currents because, as he puts it, they are on the spot and they have got to show some accomplishment. To reject an offer such as this and have nothing by way of an alternative would be very difficult. After all, their record of accomplishment hasn't been very great.
- Lincoln: I feel very optimistic.
- Welles: I am glad that you feel that way. I think that out of the President's statement at the White House there was a conflicting interpretation taking on a political reflection, as we all know, and I hope you are right.
- Lincoln: Based on the past, I should feel that it wouldn't be impossible to deal with them.
- Welles: I am satisfied if Mr. Frank is willing to invite them to come down.
- Frank: I think the thing to do would be to invite them down. I will meet with them and anybody else that wants to. We will just chat, get their ideas, let Mr. Lincoln who knows them bring out their views, smoke them out.

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- Hanes: Do you think it would be advisable to keep it down as small as you could? I don't know how this committee functions but there is one man on that committee that you can talk with who I know is a fine fellow and that is Trepfagen. If we get one man down there and tell him what the problem is....
- Frank: If you know him, why don't you call him up and just say that this is an informal talk and why not come down; it is not official.
- Hanes: That is my idea. Get him working for us on that committee and say, "Hell, we have got to do something, what are we going to do? Maybe we can get some better deal here."
- Frank: John....
- Welles: If you are talking about personalities, I am afraid you cannot persuade him to take the point of view of that other thing. I think he is the most violent member of that committee.
- Hanes: Maybe I can't, but I have known him for 20 years and I have never had any trouble with him. He may have the Republican viewpoint. I will take a shot at it, anyway.
- H.M.Jr: Is it the idea that you see whether you could get him to come down Friday?
- Hanes: My thought was, Mr. Secretary, that we not make a big meeting out of it because at a big meeting we are just not going to get him to say anything.
- H.M.Jr: Are you going to be here Friday?
- Hanes: Yes, sir.
- H.M.Jr: Could I make this suggestion, that you invite him to have lunch with you and Mr. Frank and Mr. Welles.
- Hanes: I think that is too big a meeting.
- Welles: Leave me out.
- Hanes: I....

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H.M.Jr: Can't you see him alone?

Hanes: Sometime Jerry could do it or Jerry and myself or....

Welles: Leave me out.

Hanes: You don't like him?

Welles: I think it would be much easier for you to handle it.

Frank: Why don't you ask him to come down and ask Mr. Lincoln to come over as a technician.

Hanes: Swell. Mind you, I don't want to inject myself into this thing. I just think it would be helpful - you can certainly get the fellow to talk by himself and you cannot get him to talk before a bunch of Government officials. He just won't do it. He just closes up like a clam.

H.M.Jr: Supposing you do it your way.

Hanes: Don't call it my way, let's call it our way.

H.M.Jr: But let's do it Friday.

Hanes: O. K.

H.M.Jr: And then you can let us all know what happens.

Frank: And if you want Mr. Lincoln to come over, he will be glad to come.

Hanes: I am setting out on something I know absolutely nothing about, but I will try to settle this if somebody will tell me what the bill of goods is.

Welles: Do you think he knows anything about what the details of these negotiations are?

Hanes: I don't think he does. I would rather he didn't, for that matter.

Welles: I thought the basic idea Mr. Frank had was to try to find out what they themselves were thinking about as a basis for....

- Hanes: And my suggestion was that we just get one member of that committee to work in that committee for us to tell us what they are thinking about.
- Frank: Just soften them up a little.
- Hanes: I would just say, "Here, we are not going out here and make some proposition to these people and have you fellows come around and kick us in the backsides about it. What we want you to do is tell us now and tell us what kind of a deal you are going to agree to. Maybe we are barking up the wrong tree, maybe you don't want to make any deal. If that is the case, tell us now."
- Welles: I think that is something, of course. So far as the information is concerned, we have the information as to what the Council has stated they consider a fair deal.
- H.M.Jr: What is that?
- Welles: I haven't got the figures before me. My impression is that it is $5\frac{1}{2}$ percent interest immediately and full payment on the defaulted coupons.
- Hanes: Did they suggest a full payment of the defaulted coupon in cash or was it in a new security?
- Welles: I think it was in a new security, a refunding operation bearing the same interest.
- Hanes: And resumption at $5\frac{1}{2}$ percent?
- Welles: Yes. For the first time they have now stated definitely that they would begin at 3 and go to 4.
- Hanes: They are not so far apart, if you could get them to give some kind of new security for their back interest.
- Frank: You suggested one percent on the back interest.
- Welles: I didn't suggest it, that was what they were talking about.
- Frank: Yes, one percent on the back interest, as funded at some lower rate of interest than the principal.

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- W.H.Jr: That is about 50 million dollars apart, roughly figuring, from what Jones writes us.
- Lincoln: This back interest would only deal with the federal government. They are not talking about the local governments.
- Welles: That is right, the national debt.
- Lincoln: Roughly, four years at 6 percent and there are more than 40 million outstanding in this country if you take out the bonds that have been taken back into Colombia.
- W.H.Jr: Those arrears in interest have accrued at a nominal rate. If there is to be a scaling down of interest, there ought to be a scaling down of arrears.
- Frank: Sounds like a Wall Street banker.
- W.H.Jr: I am more convinced than ever that if we are going to follow the formula laid down by Mr. Welles, eventually this is going to be announced by the Bondholders Protective Committee. The sooner we get in touch with them, the better. Certainly I think it is terribly important if we are going to use that mechanism, because what is the use of my meeting with this fellow Tweedy and then say, we all have a nice meal, and then we say, "Here it is and you can announce it."
- Welles: I think the Protective Council is the determining factor. I don't think there is a bondholder in this country that wouldn't gladly accept some point like that.
- W.H.Jr: We may not need to use them. I would like to cross that bridge before we go any farther.
- W.H.Jr: At least we can get them to hold off and not fight you or boil a fire under you. Don't you think so, Sumner?
- Welles: I think that is true and I think it is very desirable to avoid any situation of that kind, but I have reached the decision unless the Protective Council is radically overhauled - and I hope Mr. Frank agrees with me - that it is not going to be able to serve the position for which it was created.

- Hanes: Is the chairman of that committee - is he the fellow that is completely out of step? Who is he?
- Welles: Francis White is the president of it.
(Discussion off the record)
- Riefler: As far as this particular Colombian negotiation is concerned, we have got to work with the assistant counsel.
- Welles: Mr. White actually runs the Council. I think he has the complete support of the executive committee and he himself undertakes the negotiations that are held in this country.
- Hanes: Maybe we had better talk to him first. It looks to me like....
- Welles: Perhaps you could get a much better idea.
- H.M.Jr: This is the first time I have ever seen a full directory. It looks to me like a bunch of fellows all sitting home doing nothing.
- Frank: That is right.
- Lincoln: That is my impression. I have never known who the personalities were on the committee and what force they exert.
- Welles: I think they O. K. everything that White says.
- Lincoln: They O. K. what White says?
- Welles: Yes.
- Hanes: Some of them?
- Welles: Every one of them.
- Cochran: I was at a luncheon one day with Mr. Clark, when they had me down to the India House, and they had a meeting on Latin America while I was there and permitted me to stay on and there was a very lively debate and one debate on Colombia - I have

forgotten the point now, it was a year ago - so that they didn't just "rubber-stamp" White's position at that time.

H.M.Jr: If Johnny Hanes is willing to assume the responsibility for the Administration at this stage, to sort of get acquainted with them and find out how they feel, and so forth and so on, I would be tickled to death to have him do it.

Hanes: I will try. I will do the best I can. The first thing I think I will do is call Traphagen on the phone and find out first of all just how active he is and how familiar he is with it and ask him the perfectly frank question, would he like to come down here and sit down and talk with us about this Colombian situation which is going to come up, not telling him any of the details. Would that be satisfactory?

Frank: Yes. Wouldn't it be a good idea in the quite near future that the Board of Visitors will call on the Council shortly? I think that might have a good effect; not immediately, but after you have seen Traphagen.

H.M.Jr: And you (Welles) will bring the Colombian Ambassador around sometime Monday afternoon?

Welles: Not the Ambassador, the man who is acting for the Colombian Government. If you don't mind, I won't bring him myself.

H.M.Jr: I don't think we can do much more today.

Welles: I think as soon as he gets a reply from his Government, he then will want to sit down with you. In the meantime, Johnny will be trying to get the Protective Council into line.

H.M.Jr: O. K.?

Hanes: That is a big order.

10. A.M.

Nov. 22, 1939

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We need further information from the Colombians with respect to:

1. The exact amount of their Federal and local bonds held outside of Colombia;
2. What has happened to her foreign trade since the war began?
3. How much gold and foreign exchange does she now have?
4. Does she contemplate placing any restrictions on any of her imports? If so, which imports?
5. How much revenue and how much foreign exchange is Colombia going to obtain from the newly opened oil fields?

Agenda for Conference on Loan to Colombia, November 22, 1939

1. What offer is the Colombian Government making with respect to
 - (a) Servicing the Federal debt?
 - (b) Servicing the local government obligations?
 - (c) Servicing of the arrears of interest payments?
2. Will the Council of Foreign Bondholders be likely to approve the offer?
3. What kind of loan is Colombia seeking to obtain?
 - (a) Specifically what use is to be made of the proceeds?
 - (1) The dollar proceeds;
 - (2) The local currency proceeds obtained from the sale of the dollar?
 - (b) What agency is to make the loan?
4. What procedure is to be followed with respect to obtaining the views ~~of~~ cooperation with the Council of Foreign Bondholders?

FEDERAL LOAN AGENCY WASHINGTON

noted by Dr. White

JESSE H. JONES
FEDERAL LOAN ADMINISTRATOR

November 16, 1939.

Dear Mr. Secretary:

I had a very pleasant hour and a half with Mr. E. Jaramillo, discussing with him the situation with reference to the Colombian national debt held in this country, and the possibility of some additional credits for Colombia by the Export-Import Bank.

I stated to Mr. Jaramillo that, in my view, the five years of overdue interest should be refunded at $\frac{3}{8}\%$ instead of the coupon rate of 6%; that the bonds should be extended at $\frac{3}{8}\%$ for ten years and $\frac{1}{8}\%$ thereafter; that a sinking fund of not less than \$600,000 a year should be set up with which to buy bonds annually on tender; that it would be desirable to have some such arrangement as would permit individual bondholders to convert their bonds into milreis that could be used in Colombia for the purchase of things to export, having in mind that this would result in increasing Colombian exports.

I told Mr. Jaramillo that I would make this report to you and to Mr. Welles.

Sincerely yours,

Jesse H. Jones
Administrator

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

Dr. White kept a copy of
this to prepare material
for the Secretary.

original to Mr. Hanes to
read 11/14/39

November 14, 1939

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My dear Mr. Welles:

Your letter of November 13th, in regard to the Colombian financial problem, arrived during Secretary Morgenthau's absence from Washington.

He expects to return from the West the early part of next week and I shall be pleased to bring your letter to his attention at that time.

Sincerely yours,

H. S. Klets
Private Secretary

Hon. Sumner Welles,
Under-Secretary of State,
Department of State.



DEPARTMENT OF STATE
WASHINGTON

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November 13, 1939

Personal and
Confidential

Dear Henry:

With reference to your consideration of the Colombian financial problem, you will be interested to know that we have just had a despatch from our Ambassador to Colombia reporting a conversation with Dr. Jaramillo who, as you have been informed, has been designated by the Colombian Government as its representative in the conversations we have suggested and who is due to arrive from Colombia in New York today.

Dr. Jaramillo told Ambassador Braden that promptly after his arrival in Washington he would endeavor to reach a settlement of Colombia's foreign debt held in the United States on the basis of three percent interest payments with the provision that such payments are to be increased over a period of years to four percent. If an agreement can be reached on these terms, he will endeavor to obtain a loan

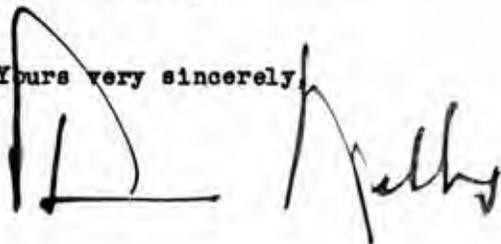
The Honorable
Henry Morgenthau, Jr.,
Secretary of the Treasury.

of \$10,500,000 from the Export-Import Bank or from other sources, with the hope that if these arrangements prove satisfactory further credits can be obtained in the United States in the future up to a total of \$25,000,000.

The American Ambassador has confirmed my own belief that any arrangements entered into in Washington by Dr. Jaramillo will be approved by the Colombian Congress and by Colombian public opinion because of Dr. Jaramillo's personal prestige in his own country.

Believe me

Yours very sincerely,

A handwritten signature in black ink, appearing to read "A. Welby". The signature is written in a cursive style with a large initial "A" and a long horizontal stroke extending to the right.

November 22, 1939
11:14 a.m.

Dean
Landis: Hello.

HMJr: Henry Morgenthau, Jr.

L: Yes.

HMJr: How are you?

L: Fine, thank you.

HMJr: I would like to have some more help next week, if I could, on this Bank of America thing, see?

L: Yeah.

HMJr: And what I'd like to do would be to sit down with you myself, see?

L: Yeah.

HMJr: And go into the thing -- well, and definitely make up our mind next week what we were going to do.

L: Yeah.

HMJr: And I wondered whether you'd be available next week.

L: Yes, I could come down -- let me see, just let me check on next week. (Brief pause.) Tuesday or Friday.

HMJr: Tuesday would be perfect.

L: Tuesday would be all right?

HMJr: Yes.

L: All right.

HMJr: Now let me ask you this - do you know and work well with Dean Lloyd Garrison?

L: Oh, yes.

HMJr: What?

L: Yes.

HMJr: You do?

L: Yes.

HMJr: Because -- of Wisconsin.

L: Yes.

HMJr: It's Lloyd Garrison, isn't it?

L: Yes, it's Lloyd Garrison.

HMJr: I was going to ask him if he'd come down too.

L: Uh-huh.

HMJr: This thing is getting so hot (chuckling) I want to impress the President.....

L: Yeah.

HMJr:as much as possible.

L: Yeah.

HMJr: And I thought I'd ask Mr. Garrison, who I don't know, whether he could come down on - I haven't called him.

L: Yeah.

HMJr: See?

L: Yeah.

HMJr: Because I want to prepare a statement to make up our mind, with the help of you gentlemen, and then prepare -- submit it to the President.

L: Yeah.

HMJr: I don't know whether you saw the statement the Attorney General made on this thing.

L: No, I didn't.

HMJr: That was more on Transamerica.

L: Well, the statement -- the one statement that he made earlier that there were no -- there was nothing criminal here.

HMJr: Yeah.

L: You saw that?

HMJr: Yes. Well, could we leave it this way - if you don't hear from me again I expect you Tuesday?

L: All right, fine.

HMJr: I'll be ever so much obliged.

L: Fine.

HMJr: Do you -- do you want -- there's nothing new we have to submit but I just want to spend a whole day on it myself.

L: Yeah, yeah. Well, I turn up then.....

HMJr:Tuesday.

L: I'll be available around nine or ninethirty.

HMJr: Fine.

L: Uh-huh.

HMJr: Fine.

L: All right, sir.

HMJr: Thank you.

L: You're welcome.

HMJr: Goodbye.

November 22, 1939
11:20 a.m.

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HMJr: Hello.

Operator: Dean Garrison has a class now and he'll be through at 12 o'clock our time.

HMJr: I'd like to talk to him then.

O: All right.

HMJr: And that's that.

O: All right.

11:57 a.m.

O: Go ahead.

Lloyd
Garrison: Hello.

HMJr: Henry Morgenthau, Jr.

G: Yes. Hello.

HMJr: Is this Dean Garrison?

G: Yeah.

HMJr: The reason I'm calling you up is this - I want a favor from you. I have got a very difficult case in the Treasury and I'd like some outside advice.

G: Yeah.

HMJr: And I'm asking you and Dean Landis to come down, if you would, and spend a day or two with us going over it to advise me personally on it.

G: Yeah.

HMJr: It's a case -- for your information, it's the case of Treasury in connection with the Bank of America.

G: Yes.

HMJr: And we've got to make up our minds whether or not we are going to bring charges against the management

before the Federal Reserve, who under the law act as judges, so to speak.

G: Yeah.

HMJr: Now it's -- the whole thing is it's a matter of judgment and a question of whether or not we have a good case, and I'm very anxious, if you could give me a day or two, to advise me personally.

G: Yes. Well -- well now, let me ask you a few things about it.

HMJr: Please.

G: How -- how urgent is this?

HMJr: Well, I.....

G: The time.

HMJr: Yes. It's -- it's quite urgent because we've gotten to a point now where we've just got to make up our mind we're either going to go ahead or not, and we have a bill of particulars which we sent them on October 3rd which would be available to you.

G: Yeah.

HMJr: And I -- I told the President that I was going to ask you and Mr. Landis to go over it. Mr. Landis has been down once before on this last week. And that with the help of you two gentlemen I wanted to draw up a sort of a brief to submit to him.

G: Yes.

HMJr: Because it's one of the most difficult and one of the most important decisions I've ever had to make since I've been here.

G: Yes. Well now, would there be -- I'm just -- I'm just thinking of the.....

HMJr: Pardon me?

G: I'm just thinking of the time element involved. That's the only thing that -- I'd need to do some adjusting on here.

HMJr: Yes.

G: How much -- how much could you send me in the way of material before I came down?

HMJr: I think I could send you all that's necessary and I could even send one of these lawyers with it if you wanted me to, who has been working on it.

G: Yeah.

HMJr: To give you an idea, I asked Landis whether he could come down next Tuesday, and he said he could come for one day.

G: Yes.

HMJr: And he said he could come Tuesday.

G: Yeah.

HMJr: I don't know what your schedule is.

G: Well now, I'm going to be down on Saturday and Sunday on the Attorney General's committee on administrative procedure.

HMJr: I see.

G: And I'm afraid I just couldn't -- you see, I -- the difficulty is I -- I've got classes here.....

HMJr: Yeah.

G:every day in the week. I've got an unusually heavy schedule this semester and I just -- I just can't do justice to my job and do too much cutting.

HMJr: Yes.

G: I've been under some -- some local criticism during the past year for being away too much.

HMJr: I see.

G: It's not serious, but it's -- it's one of those things that I have to take some account of here. And I'm afraid that that would -- that would mean that I wouldn't get back here really until Thursday

and it would mean practically - with the -- with the classes I'm going to miss in connection with going down this weekend - it would mean really a week out, and I just couldn't do that. I was wondering if there would be any possibility of -- of getting this stuff to me before I leave on Friday.....

HMJr: Oh, yes. It.....

G: I could read it on the train going down and perhaps see you over the weekend.

HMJr: Well I -- well here's -- here's my schedule. You see, in New York State we celebrate Thanksgiving this Thursday.

G: Yeah.

HMJr: And I was going home to get back here Sunday night.

G: Yes.

HMJr: And -- and Monday we have a big financing, that's why I made it Tuesday.

G: Yes.

HMJr: But I could get all of this material to you tonight and if you were here Saturday and Sunday why Ed Foley would be available.

G: Well now, why wouldn't that -- why wouldn't that be at least -- at least a start on the thing.

HMJr: And then possibly you could -- if you would, maybe you could dictate some memorandum before you left Sunday.

G: Yes.

HMJr: How would that be?

G: Well, that would be O.K. Now, I think probably the -- what I had better do is if you -- the point is to get this material to me just as fast as you can.

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

G: I can start digging into it.

HMJr: Well, we can send it to you airmail right away.

G: Yes. Well, that would be swell.

HMJr: You'll have it by morning.

G: Yeah.

HMJr: What address should we use?

G: Well, I -- you can send it to the University of Wisconsin Law School.....

HMJr: Right.

G:Madison, and then when I get to town -- get to Washington Saturday morning I'll call Foley up and make a date to see him either that day or Sunday.

HMJr: Fine.

G: And it may be that the thing will be so clear one way or the other that you -- you won't feel that you.....

HMJr: Well.....

G: -- me personally any further.

HMJr: It's not that clear, unfortunately.

G: No, I -- I just.....

HMJr: It's -- it's a matter of - not only the law, it's a matter of judgment.

G: Yeah, yeah.

HMJr: And if it was that clear I wouldn't have to be asking your help.

G: Yeah, of course. I.....

HMJr: But we'll give you everything we've got and I don't know whether you have followed it -- I mean, there's a political pressure on this thing and it's the worst I've ever had since I've been here.

G: Well, where does it come from?

HMJr: From the Gianninis. You see, they're using every possible avenue that they can, and it's been going on for two years and I just want to -- I either want to make up my mind that they are fit to run the bank or they are not.

G: Yes.

HMJr: And if they are not, then we should start proceedings to remove them, and if they are why then we've got to make up our mind we've got to live with them.

G: Yes.

HMJr: But within the next week or ten days I want to make up -- that decision.

G: Yes.

HMJr: And of course we've got their record now for six years.

G: Yeah. Now, Mr. Secretary, I don't know the first thing about the law on this subject.

HMJr: Yes.

G: It's an entirely new field for me, and if there are any -- any memoranda or anything else that has been prepared that would be helpful to sort of bring me up to date fast on it, I wish you would include those with what you have.

HMJr: I -- I'll see that they do that.

G: Good.

HMJr: We'll get the whole thing off early this afternoon.

G: All right, fine.

HMJr: I'm ever so much obliged to you.

G: Goodbye.

HMJr: Goodbye.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE November 22, 1939

TO: Secretary Morgenthau
 FROM: Mr. Cochran

The foreign exchange market was thin with pressure on the sterling rate. In New York sterling opened at 3.93-1/8 and shortly thereafter moved up to 3.93-5/8. About noon some scattered selling appeared and the rate declined to 3.92-1/4. During the early part of the afternoon, Japanese selling came into the market, at a time when there was no demand for sterling, and under their repeated offerings, the rate declined by stages to, and closed at, 3.89.

Sales of spot sterling by the four reporting banks totaled £534,000, from the following sources:

By commercial concerns.....	£ 196,000
By foreign banks (Far East and Europe).....	£ 338,000
Total.....	£ 534,000

Purchases of spot sterling amounted to £424,000, as indicated below:

By commercial concerns.....	£ 321,000
By foreign banks (Far East and Europe).....	£ 103,000
Total.....	£ 424,000

Of the four reporting banks, the following sold cotton bills totaling £162,000 to the British Control at the official rate of 4.02:

£119,000 by the Guaranty Trust Company
£ 22,000 by the National City Bank
£ 21,000 by the Chase National Bank
<u>£162,000 Total</u>

Shortly after noon it was reported that orders were received from a San Francisco Bank to buy between £250,000 and £300,000 for spot delivery, against which it wanted to sell the same amount of forward sterling for any date obtainable. This transaction appears to be one where either the sterling was needed immediately to cover commercial commitments, or it was being done to extend a forward short position which the purchaser of the spot sterling did not wish to liquidate at the present time. It is understood that a very small amount of this swap was completed. The discount on sterling for 30 days widened to 3-3/4¢ per pound, equivalent to 11-7/16% per annum and for 90 days, 7-5/16¢ per pound, equivalent to 7-7/16% per annum.

CONFIDENTIAL

The rate for the belga did not maintain the improvement of yesterday and receded today to .1652. The discount for the Canadian dollar widened to 13-7/8% discount, due to commercial offerings of that currency.

The other important currencies closed as follows:

French francs	.0221
Guilders	.5709
Swiss francs	.2244

The Cuban peso improved to 12% discount, as compared to yesterday's quotation of 13-1/8% discount.

We purchased the following amounts of gold from the banks indicated:

\$10,000,000	from the Bank of France
365,000	from the National Bank of Belgium
340,000	from the Bank of the Republic, Colombia
66,000	from the National Bank of Nicaragua
<u>\$10,771,000</u>	Total

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

- \$2,971,000 from England, shipped by the Bank of England, consigned to the Federal Reserve Bank of New York, to be earmarked for the account of the Netherlands Bank.
- 2,087,000 from South Africa, consigned to the Federal Reserve Bank of New York, to be earmarked for the account of the Netherlands Bank.
- 516,000 from Chile, shipped by the Central Bank of Chile, consigned to the Federal Reserve Bank of New York, to be earmarked for the account of the Central Bank of Chile.
- \$5,574,000 Total

Yesterday the Federal Reserve Bank of New York applied for a license to permit the B.I.S. to transfer gold valued at approximately \$1,690,000 from its Account #4 to the earmarked account of the Central Bank of Turkey at the Federal Reserve Bank of New York. This gold was originally sold by the B.I.S. to the Turkish bank and then pledged with the B.I.S. as collateral to secure commercial credits obtained from that bank by the Central Bank of Turkey. Permission to make the transfer was granted. Previously, the Central Bank of Turkey cabled to the Federal Reserve Bank of New York to inquire if it would make an advance against this gold. After obtaining the approval of both its Board of Directors and the Board of Governors of the Federal Reserve System, the Federal Reserve Bank of New York cabled to the Turkish central bank that it was prepared to make an advance up to \$1,520,000 for three months against the gold. Yesterday the Federal received from the Central Bank of Turkey a request for the advance mentioned above, stating that it was for the purpose of meeting their temporary requirements of foreign exchange. At the close of business tonight, the Federal Reserve Bank of New York's outstanding advances to the Central Bank of Turkey total \$4,829,000, secured by \$5,367,000 in gold, earmarked at the Federal Reserve Bank of New York in the name of the Central Bank of Turkey.

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The equivalent of today's London spot silver price was 41.61¢ and the forward price 41.36¢. Handy and Harman's price for foreign silver was unchanged at 34-3/4¢. The Treasury's price was also unchanged at 35¢.

In New York we made three purchases of silver totaling 250,000 ounces under the Silver Purchase Act.

B. M. R.

CONFIDENTIAL

November 22, 1939
3:06 p.m.

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HMJr: Hello.

Eddie
Greenbaum: Hello, Henry. How was the trip?

HMJr: Oh, fine.

G: It was, eh?

HMJr: I never saw your friends, they never showed up.

G: Well, they were over around - north of Phoenix.

HMJr: Oh.

G: You looked wonderful in the ten-gallon hat.

HMJr: Yeah, good publicity.

G: Did Ellie have as bad a time as she had expected?

HMJr: No.

G: She really liked it?

HMJr: Yeah.

G: That's fine.

HMJr: Yeah. Eddie, I'm calling you up on this on -- I'd like you to help out the Treasury on another difficult case.

G:

G: Yeah.

HMJr: And this time the Bank of America.

G: Oh, I thought you had

HMJr: Well, we've got Dean Landis and I've also asked Dean Lloyd Garrison.

G: Yeah.

HMJr: And he's going to be down Saturday and Sunday to study it. Now, Landis is coming Tuesday. Hello?

G: Yes.

HMJr: And we all would like to have you sit in on it.

G: When, next Tuesday?

HMJr: Yeah. I'm going to devote all day to it.

G: I see.

HMJr: At least, and if you could do it why I'd like to have Ed Foley send the stuff up to you today so that you could be spending Thanksgiving on it, you see?

G: That's a pleasure!

HMJr: Isn't that wonderful?

G: How long would it be?

HMJr: Well, Landis can only stay Tuesday.

G: Well, when is Jim Landis coming, Tuesday?

HMJr: On Tuesday.

G: Yeah.

HMJr: Yeah.

G: Well, I 'm not in my office now and I'll try to rearrange things so I can do it.

HMJr: Well.....

G: Get Foley to send the stuff up to my house special delivery.....

HMJr: I'll do that.

G:so I can have a good Thanksgiving.

HMJr: I'd appreciate it because -- well, I think this is even more difficult than the other one.

G: Well, I thought Landis was -- he was down before, wasn't he?

HMJr: He was, and now I -- what I want is, I want to prepare a brief. Well, in the first place, I want to have you fellows advise me what we should do. My mind is still open.

G: Well, what about Lloyd Garrison? Is he -- will he be there Tuesday?

HMJr: No. No, he can't come but he's going to -- he's coming down on another matter Saturday and Sunday and he said he would confer with Foley at that time and leave a memorandum behind.

G: I got you.

HMJr: See?

G: Yeah.

HMJr: And then I thought that we could sit down with you and Landis on Tuesday and try to decide what we're going to do because I told the President by the time he got back I'd have a suggestion for him how we should handle the thing in writing.

G: Well, isn't he going to keep two Thanksgivings?

HMJr: Well.....

G: (Laughs)

HMJr: Yes, I think so. Yeah.

G: All right. Well, I'll -- you can expect me then unless I phone to you to the contrary.....

HMJr: Wonderful.

G:tomorrow.

HMJr: O. K. And I'll tell Ed Foley to send the stuff up to you to your house.

G: Yeah, to the house. All right, Henry.

HMJr: Thank you so much.

G: O. K.

November 22, 1939
3:10 p.m.

380

HMJr: Hello.

Sumner
Welles: Henry.....

HMJr: Yes.

W: You are a very quick worker.

HMJr: Why?

W: I've never known anybody in this administration work with the extraordinary rapidity and effectiveness that you do.

HMJr: Are you being sarcastic?

W: I'm being absolutely sincere.

HMJr: Why, what happened?

W: The President called me up just a minute ago.....

HMJr: Yes.

W:and referred to that meeting in the Department of Commerce yesterday.

HMJr: Yes.

W: And said that he was sending a telegram immediately to Ed Noble.....

HMJr: Yes.

W:which was going to be very blunt and in which he was to be instructed to talk to you and to myself about anything that he was discussing over there.

HMJr: Well, I -- I didn't talk to the President, if you're giving me this credit.

W: You did not?

HMJr: No.

W: Well, who else could have?

HMJr: I didn't. I don't deserve this.

W: Why, that's amazing.

HMJr: No.

W: I thought, of course, you had been talking with him.

HMJr: No, I don't -- thanks for the kind words and the bouquet, but I don't deserve it.

W: You deserve all the -- all the bouquets that I'm capable of offering you.

HMJr: Well, that's.....

W: I thought in this case you had.

HMJr: No, I -- I'm.....

W: Well, at any rate, he's gotten ahold of it from some other source than.

HMJr: Well, I -- no, I haven't -- from the minute you left the room I haven't talked to anybody about it.

W: I see.

HMJr: No.

W: I thought, of course, that he had been speaking with you.

HMJr: Thanks.....

W: Well, at any rate, he's gotten ahold of it and he's sending off this telegram at once.

HMJr: Well, thanks for 'them' kind words.

W: (Laughs) They are maintained just the same. So I suppose that Ed will be calling you/myself in the near future. and

HMJr: Well, I'll be up stuffing stuffed turkey into me.

W: (Laughs) All right, Henry.

HMJr: O. K.

W: Goodbye.

HMJr: Thank you.