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December 10, 1939
(Dictated December 11th)

Saturday night the Finnish Minister talked to me and asked me to talk to Jesse Jones Sunday about his loan as Jones was going to leave town Sunday night.

I spoke to Jones at noon about the Finnish loan and he said he thought he would lend them three or four millions through the Export-Import Bank and would I go along with him? I said yes. He was going to talk to the President on the telephone or see him at one o'clock. Evidently the President must have given Jones definite orders to make it \$10,000,000.

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(FE:BN:COPT)

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Air Mail

AMERICAN CONSULATE GENERAL
Hanoi, Indochina, December 10, 1939.

No. 26

Subject: Recent Reports as to Caobang Road.

The Honorable
The Secretary of State,
Washington.

Sir:

I have the honor to refer to my despatches nos. 8 and 17 of October 20 and November 25, 1938, in regard to the possible utilization of the Caobang road as a route of transportation to China. The Department will recall that the majority of observers are far from being convinced that that road will ever be of great value in the transportation scheme. Recent observations strengthen that conviction, although certain elements maintain that the road will be available for traffic in the not too distant future.

Among the various indications that the idea of using the Caobang road for heavy traffic is being abandoned is the report that Mr. S. I. Chang, connected with the Chinese Ministry of War through his employment with the Chinese Diesel Engineers and Renault, has left for Bangkok by air to examine the possibility of transferring all truck assembly activities to Burma. It is known that Mr. Chang went to Caobang with a number of trucks, in an endeavor to push through into China, and it is understood that he reported unfavorably as to this route. On the other hand, the French commanding officer at Caobang wrote recently to one of the oil representatives and stated that within a few weeks the road will be ready for traffic up to 2 to 3 tons. He added that additional ferries had been placed at Caobang, that adequate parking lots and storage dumps (including a godown) were being prepared, and that all bridges were being strengthened.

I am still unconvinced that the Caobang road will be of great and immediate value to the Chinese National Government. The road may be usable for light traffic and for carrying coolies and ponies. A maximum of 3 thousand tons a month is too small to be more than of supplementary value. Even if the French section is completed as stated, the construction of roads beyond Pingma is reputedly a matter of many months. With other commentators, I believe that road transportation to China via Indochina is practically finished unless the Chinese retake Nanning and drive the Japanese out of Kwangsi. A strong Chinese effort is reported at this time and may be successful - but whether the success will be sufficiently lasting to enable the utilization of the Dong Dang-Nanning road is open to question.

At

- 2 -

At this time there is an unconfirmed rumor that troops from Yunnan are taking part in the Chinese drive.

Respectfully yours,

CHARLES S. REED II,
American Consul

Original and 2 copies to the Department
Copies to Embassy, Chungking and Peiping
Copy to Consulate General, Hong Kong
Copy to Consulate, Saigon

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Berlin

Dated December 10, 1939

Received 6:41 P.M.

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Secretary of State,
Washington.

2293 December 10, noon.

Berlin's press features today the address given in Munich yesterday by Economics Minister Funk on the National Socialist war economy in which the most interesting disclosure was that the German Government has renounced further tax increases and will finance the budgetary increases necessitated by the war through borrowing. Funk stated that pressure of taxation should not be unduly increased since the result would be to paralyze business initiative which in spite of all the state regulations "we do not wish especially now to dispense with". He asserted that the Reich's borrowing would not be accompanied by inflation since the necessary restrictions on expenditure for consumption goods had resulted in a great volume of savings which could be utilized by the Reich and that price and wage controls would be strictly enforced in order to maintain the value of the mark.

Funk

Page 2 No 2293 Dec 10 1939 from Berlin.

Funk repeated the customary assertions as to Germany's invulnerability to British blockade measures and declared that Russia would furnish a good part of the supplies formerly obtained overseas. Referring to the recent arrangement for one million tons of feed grains he asserted that agreement had also been reached for important deliveries of Russian metals, oil, cotton, and wool, and that these quantities would be steadily increased with the passage of time. With supplies of essential imported raw materials assured and an increasing production of synthetic materials he declared that time was working for Germany and made its eventual victory certain.

Inform Treasury.

HICK

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DEC 11 1939

RECEIVED
 FEDERAL BUREAU OF INVESTIGATION
 U. S. DEPARTMENT OF JUSTICE
 WASHINGTON, D. C.

6

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 11, 1939.

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 11:20 Saturday morning, December 9, Mr. Cochran and Mr. Butterworth went to the Secretary's residence. The Secretary asked Mr. Butterworth for a memorandum reporting the interview between Messrs. Whigham and Kennedy which Mr. Butterworth attended. The memorandum which Mr. Butterworth presented covered only his own conversation with Mr. Purvis in regard to another subject. Mr. Butterworth explained that he had ^{not} understood my request, which I had made at the Secretary's instruction, for a full report of his conversations in New York, and most particularly of the above indicated interview between Ambassador Kennedy and Mr. Whigham. I had relayed the instruction to Mr. Butterworth most clearly when he came to the Treasury Saturday morning toward 10:00 o'clock. He had at that time said the interview with the Ambassador had not been very long and that he had been obliged to leave before it was concluded. I had stated that he should report it in writing, nevertheless. To the Secretary he gave orally about the same information which he had given on Saturday morning and earlier by telephone from New York. That is, that the two representatives who had come to the United States from London to arrange for disposal of British owned dollar securities were having difficulty in obtaining precise instructions, since London had evidently not made up its own mind, the Treasury preferring to hold securities, and Governor Norman of the Bank of England preferring to hold gold. The Secretary remarked that he was happy to see one occasion on which he thoroughly agreed with Governor Norman. In answer to the Secretary's question, Mr. Butterworth stated that Ambassador Kennedy had, while Mr. Butterworth was present, only brought the British up to date with respect to the situation in England. Mr. Butterworth explained that he had left the conference in order to keep an appointment with Mr. Todd in regard to tin. It will be recalled that Mr. Butterworth has been the officer on Ambassador Kennedy's staff who has worked on barter arrangements, such as that involving American cotton. The Secretary instructed Mr. Butterworth that he should tell the British Treasury upon his return that their delay on the handling of their securities had "left a bitter taste in his mouth" particularly after the two agents had come over here presumably with some authority and had been given such full cooperation by the Treasury. Furthermore, the Secretary thought that unfavorable press comment would increase as the delay goes on.

At 11:40 we were joined by three industrialists from New York: Mr. Harold Hochschild, President of American Metals Corporation, Mr. Schott (?), President of Climax Molybdenum, and Mr. Loeb (?) Metallurgist of Climax Molybdenum.

The Secretary referred to his previous talks with Mr. Hochschild, and also reported his conversation with International Nickel toward checking nickel exports to Russia and Japan, if sales of molybdenum are stopped. The visitors

reported that Kennecott and a second of the three important concerns, including Climax, exporting molybdenum, were ready to go along with Climax in such arrangement as might be made with this Government. The gentlemen desired, however, that the Administration give them a definite expression of its policy with respect to holding up exports to the above mentioned countries and also indicate what explanations should be given foreign customers for molybdenum exports.

The question arose as to what action should be expected from France and England to offset the measures taken by the metal exporters. The President of Climax expressed the view that his company did not desire to force France and other countries to build up unnecessary stocks of molybdenum, which might be embarrassing later. He preferred that the foreign Governments learn the utility of molybdenum and change their specifications in Government contracts to call for its incorporation in alloys. The hint was also broadly made that American Government contracts should favor American molybdenum rather than Canadian nickel.

The metallurgist gave some technical explanations with regard to steel alloys. He explained that manganese was required in all steel to make it forgeable. Molybdenum and nickel are used to toughen it. Both molybdenum and nickel are required in the stoutest armor plate. Tungsten is required in high speed steel used in cutting other steel. Vanadium follows as the next important metal in steel alloys. Climax Molybdenum has developed an important export trade in molybdenum to Russia which country has understood the usefulness of this metal, and its comparatively cheap price, and has utilized it more extensively than most steel manufacturing countries. The point was raised, however, that it would be of little use to stop the export of molybdenum to Russia and, via Russia, to Germany if nickel could still reach those destinations. During the World War, it is believed that Canadian exports of nickel were not controlled. Norway was in the last war an important provider of nickel to Germany, and it is believed will continue to be a supplier of Germany in the present war.

The three visitors showed the Secretary a memorandum, of which they will provide an original copy this week, and also promised to send him a second memorandum setting forth their position on the question of molybdenum exports, and possible offsets by European Governments, and possibly outlining a draft cablegram to be dispatched to Paris for consideration when Mr. Butterworth arrives there Thursday.

After the three visitors left, the Secretary talked further with Butterworth and myself. Butterworth was instructed to let Paris know the progress made here to date in our study of this question, which had originally been raised by Prof. Rist. We would endeavor to have the memorandum of the molybdenum people cabled to Paris by the time Butterworth reached that capital. The Secretary thought that this was a matter in which we might be definitely helpful, but that the whole proposition would put the British face to face with the question as to whether they were willing to sacrifice certain business interests to prevent necessary metals reaching their enemy. I had spoken to the Secretary previously in regard to British still letting rubber go to Russia. Butterworth thought that the British would not be likely to adopt economic sanctions against Russia.

TREASURY DEPARTMENT
Office of the Secretary
Technical Assistant to the Secretary

Date.....

TO:

The Secretary

Room

*Please see next
page for back-seat
driving.
M.R.*

From: MR. COCHRAN

- 3 -

It is my understanding, from the above narrated conversation and from the Secretary's talk with Mr. Purvis, that the President is definitely in favor of stopping exports of molybdenum to Germany, Russia and Japan if this can be effectively carried out, and if such steps can be so coordinated with stopping of exports of other metals that the result on Germany's economy may be such as is desired. I understand that it is the Secretary's highly confidential task to explore the possibilities of such steps with the industrial leaders who would be concerned.

It is presumed that the President will decide upon the manner in which his plan should become known to the public, provided it is carried out. This responsibility should certainly not be the Treasury's. Furthermore, it is not a matter that should be handled through the Liaison Committee of three which has recently been created to meet foreign purchasing missions. If it were a question of this Government desiring to buy up and conserve all molybdenum stocks as material necessary to our own defense, the way would be clear. To differentiate, however, between foreign purchasers of molybdenum, favoring certain belligerents (France and England) while denying exports to two countries (Russia and Japan) which are not recognized under international law as belligerents, raises some doubt as to our neutrality. It is understandable that airplane exports to Japan have been stopped by American producers on the Government's appeal to their sense of propriety of providing such equipment to Governments utilizing them in the bombing of civilian populations. Whether unmanufactured metals could be placed on the same basis, is a question for the President and his responsible cabinet officers to determine. My point is that this is a problem of Administration policy which might embarrass the Treasury if this Department is given sole responsibility therefor.

From Rist's various cablegrams on the blockade of Germany, it is apparent that he is disposed to ask a lot of us. One cable is in today on soy beans. I am not entirely convinced of his accurate understanding of German economy. With German experience in metallurgy and chemistry, they are the world's best developers of substitutes.



MM 9

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 11, 1939

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

Sunday noon the Finnish Minister, Mr. Procope, telephoned to ask if he could see me and an appointment was arranged for 1:30 P.M. He came by my hotel shortly after this hour on Sunday afternoon and talked with me while we walked for forty minutes. He stated that he was expecting to get assistance for Finland from Messrs. Jones and Pierson through a credit for the export of American nonmilitary commodities. The amount would probably be \$10,000,000. The Minister had Julius Klein, Eric Warburg and a Finn named Somelius helping him study the use that could be made of such a credit. It was to be granted to the Finnish-American Corporation, which was to be constituted with a paid-up capital of \$1,000,000, guaranteed by the Bank of Finland or the Finnish Government.

The Minister told me that the Guaranty Trust was drawing in its Scandinavian credit lines; that the National City (Rentschler) and other banks had been sympathetic in receiving him but had not offered any financial assistance. The Minister told me that he was to see Jesse Jones a little before 3 o'clock and would call me back later in the day to let me know the results of his interview.

The Minister wanted me to learn from the Secretary what arrangements should be made as to an hour for him to come here on December 15 to turn over the telegram announcing the payment of the December installment on the Finnish debt to this country.

The Minister also inquired whether the press statement of the President the other day concerns only the payment which Finland is to make on December 15, or whether there was some likelihood of earlier payments being refunded. I told him that my only knowledge concerned the December installment, and that the procedure described by the President of instructing the Secretary of the Treasury to hold this payment as a suspense item, was the only thing this Department could do now. Any further action must be Congressional. I reminded him that Secretary Morgenthau had been active in pushing this matter, as the Minister knew, with both the President and Mr. Jones. In answer to the Minister's further question as to whether Congress would be willing to approve a direct loan to Finland, I told him that it was entirely impossible to forecast Congressional action on such a matter, irrespective of such general sympathy in our country for Finland. He said that his country needed \$60,000,000, not \$10,000,000, and that if Finland had the money and munitions they could hold off Russia.

At 7:30 P.M. the Minister telephoned me at my hotel to the effect that he had seen Mr. Jones and that the latter was issuing a communique announcing a \$10,000,000 credit along the lines we had anticipated. Mr. Jones was then

-2-

leaving for Houston and the Minister was to continue arrangements with Mr. Pierson. For this purpose, the three gentlemen from New York mentioned hereinabove as helping the Minister work out details of handling the credit are to meet with the Minister at Mr. Pierson's office this afternoon at 3 o'clock. The Minister was still trying to develop some system whereby he could either sell all or part of the commodities for which export credits would be given him, and utilize the foreign exchange, since commodities to the full extent of the \$10,000,000, such as cotton and wheat, are not immediately needed and could not be transported with much speed considering actual circumstances. He hoped some arrangement could be worked out whereby American private banks would be willing to provide banking credits to Finland, now that the Export-Import Bank and E.F.C. are granting this credit, provided such private banking credits are guaranteed by Ryti's Bank of Finland. The Minister did not know, however, whether such guarantees by Ryti were possible.

While most appreciative of the action of the President, Secretary Morgenthau and Mr. Jones, in pushing this present credit, the Minister feels that it will be more of a gesture than an actual help in the immediate future, considering the restrictions tied to its use. He is anxious, therefore, to see whether Congress may give some more direct material assistance to Finland after the first of the year. In the meantime he will continue his studies as to the best method of utilizing the credit now granted, and as to possibilities for private banking credits. I let the Minister know that I had not talked with any private bankers on this subject. I was sure they would all be sympathetic, but I was pessimistic as to whether they could actually lend their banks' funds in the circumstances without proper security therefor.

In talking by telephone last night with my friend Leon Fraser, I inquired confidentially whether he knew of any negotiations in New York toward granting private banking credits to Finland. He told me that he had been present at a meeting of bankers which Mr. Procope had addressed last week in an effort to raise charitable funds for Finland. After the meeting the Minister had gotten three or four bankers to one side, including Fraser, Straus of Kuhn Loeb and Jollis of Ripley Harriman, and had raised the direct question as to banking loans to Finland. The bankers, in turn, asked whether these loans would be secured, and when being informed negatively, were obliged to give the Minister little encouragement. I told Fraser that he was the only one I could ask about such a matter, since I knew he was not in foreign lending business, and would tell me confidentially as an old friend what he knew. He definitely understood that I was not speaking as a Treasury officer soliciting for Finland.



11

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE December 11, 1939

TO Secretary Morgenthau
FROM Mr. Haas *HA*
Subject: The Business Situation,
Week ending December 9, 1939

230 per

MJ

Conclusions

(1) A continuing improvement in sensitive commodity prices, perhaps the most significant business development of the past week, reflects a growing belief that the Russian-Finnish war has extended the probable duration and activity of the European conflict, thereby foreshadowing a more active demand for commodities than had been envisaged a few weeks ago. The rise has affected principally agricultural products, some of which have been influenced by improved statistical situations and by the bullish effects of the mid-western drought.

(2) The price upturn, if continued, may provide the incentive for another upturn in new ordering. Some indication of this was seen last week in a heavy buying movement in textiles. Recent weakness in prices of certain industrial materials, however, has not been encouraging, but it may be significant that our "index of confidence" turned up slightly last week for the first time since the beginning of its extensive decline two months ago.

(3) An analysis of the make-up of the current recovery shows clearly its concentration in the steel industry, which makes it vulnerable to declines. At this juncture, one must therefore look largely to the consumer goods industries for increased activity. The basis for an expansion in the production of consumer goods is provided by a sharp increase in real incomes in recent months.

(4) Any rise in the FRB index in December above the November figure of around 125 will be almost entirely due to seasonal adjustments, and therefore misleading as a measure of actual industrial activity.

- - - - -

Secretary Morgenthau - 2

The general situation

Perhaps the most important development of the past week has been a continuation of the rise in sensitive commodity prices that began two weeks ago on the outbreak of the Russian-Finnish war. Apparent first in the futures markets and in British prices, the upturn has now extended to the spot markets in this country, as indicated by Moody's index. (See Chart 1)

The price upturn reflects a growing belief that the Russian-Finnish war has marked a change in the European war outlook toward a more prolonged and more active conflict than had earlier been envisaged, with a correspondingly greater prospective demand for commodities. The possibility of an early settlement of the war, which had contributed to uncertainty in the speculative markets, has receded to the more distant future.

For some commodities, notably wheat and certain other farm products, more bullish statistical situations have contributed to the rise in prices. The continued drought over a large section of the Middle West has become an active bullish factor for farm products as a group. Private estimates now suggest that the winter wheat crop may be 30 percent smaller than last year and the smallest since 1904, with the exception of the drought-stricken crop of 1933. The sharp upturn in wheat prices this week has also been stimulated by reduced private estimates for Argentina, due to frosts early last week, some of which suggest that the Argentine wheat crop to be harvested within the next month may be the smallest in 23 years.

Certain industrial materials lower

On the other hand, a reduced demand for industrial materials seems reflected in weakening price trends for such products as steel scrap, tin, zinc, rubber and tallow. It may be of some significance, however, that our "index of confidence", which provides some measure of current sentiment toward the outlook for industrial profits and probably reflects in some degree the attitude of industrial buyers, turned up slightly last week for the first time since the beginning of its recent extensive decline. (See Chart 2, lower section)

Secretary Morgenthau - 3

The price rise has already had some effect in stimulating industrial buying. The rise in cotton prices to new highs for the year has broken the long decline in textile orders, and print cloth sales last Friday alone are estimated to have reached 30,000,000 yards or more, exceeding a full week's production of such goods. The buying was not unexpected in the trade, since many users were known to have exhausted the stocks bought in September.

Our new orders index (see Chart 3) has not yet reflected the influence of the price upturn. A slight further decline in the combined index is shown for the first week of December, when a reduction in steel orders outweighed minor upturns in textile and other orders.

Recovery concentrated in steel industry

We have endeavored in Chart 4 to show graphically the extent to which the industrial recovery since last summer has been concentrated in the steel industry, by showing the actual number of index points which each major industrial group has contributed to the combined FRB index. Of the 28-point gain in the FRB index from a low of 92 last May to the 120 figure reached in October, 18 points were due to the steel industry components of the index (including production of iron and steel, iron ore, and coke).

This comparison suggests the vulnerability of the recovery to any influences affecting new orders for steel. Possible declines in steel activity may be partly offset by increased production in the consumers' goods industries, which so far have lagged. The automobile and textile groups, which have not yet reached their 1937 production peaks, appear to offer possibilities of taking the lead in the next phase of the recovery. Industries associated with these groups, together with those associated with the construction industry, apparently have furthest to go to reach their previous high levels. This is indicated by a comparison of the October indices with the production peaks reached in 1929 and in 1937. (See Chart 5)

Evidence of a strengthening outlook for the consumers' goods industries is indicated by a further sharp rise in the purchasing power of national income to above the 1937 level. (See Chart 6) Although the actual level of national income

Secretary Morgenthau - 4

has not yet reached that of the peak months of 1937, reduced living costs have brought a more rapid upturn in real incomes. Among the components of national income, the agricultural group (as indicated in lower section of chart) occupies a less favored position with respect to 1937 than do other groups.

The effect of the current high level of real incomes is becoming apparent in retail sales. A strong trend of new car buying this fall has been noted by the automobile industry. The adjusted index of department store sales (in dollar values) rose from 90 in October to 94 in November, the highest figure for recent years with the exception of 95 reached in February 1937. Since retail prices now are somewhat lower than in February 1937, department store sales on a physical volume basis are doubtless showing an even more favorable comparison with earlier years.

Year-end business indices misleading

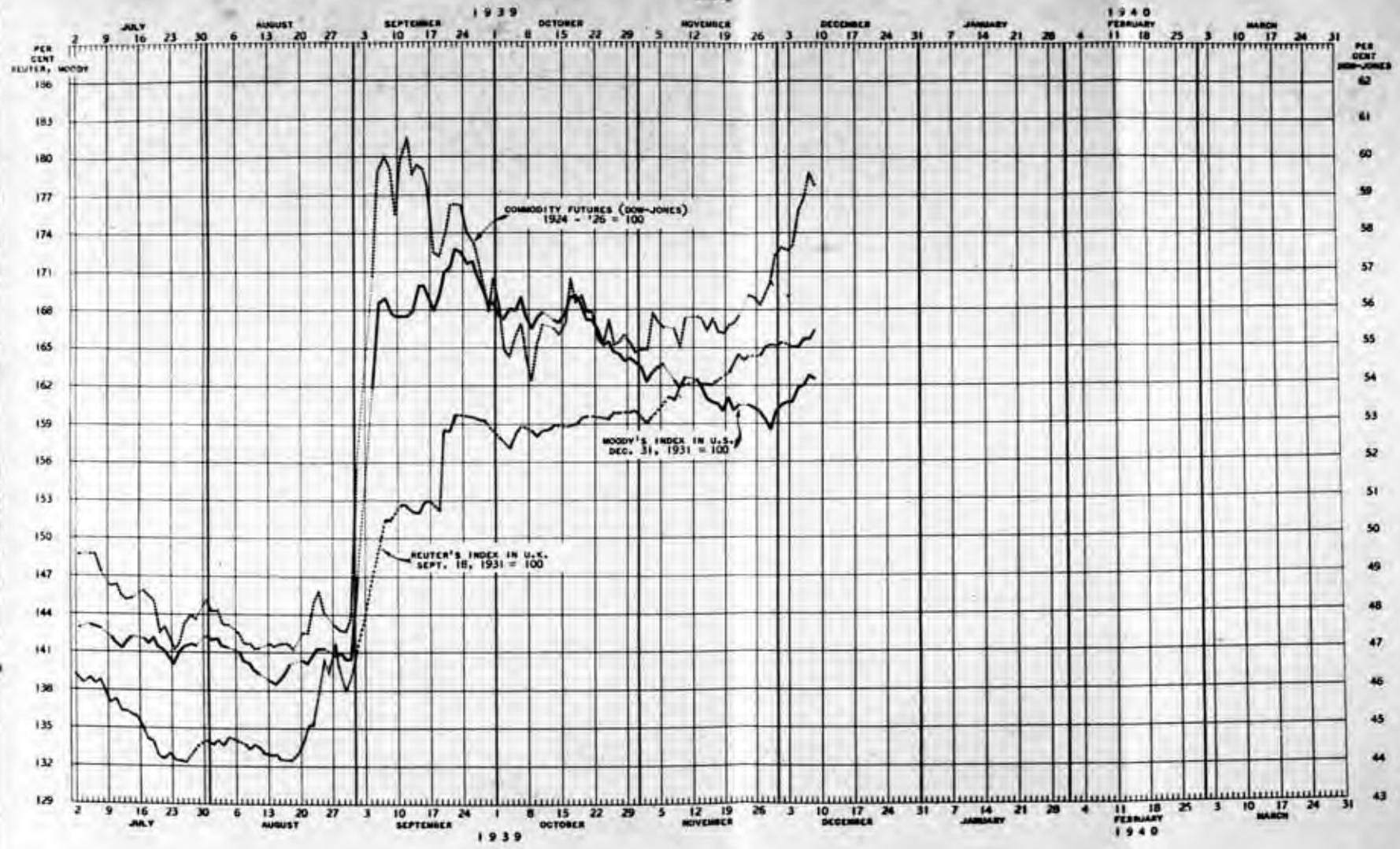
Due to the effect of seasonal adjustments, which are based on the assumption of a "normal" year with respect to unfilled orders and other factors, the various adjusted business indices are likely to be misleading as measures of the underlying business trend during the latter part of the year. The F.R.B. index has been tentatively estimated at 125 for November. Any further increase in December will probably be due largely or entirely to seasonal adjustment, which has little actual significance when operations are at a high level because of large unfilled orders, and will require a downward correction in following months. If steel output in December remains unchanged from the October level, the seasonal adjustment for this industry alone would add 3 points to the combined F.R.B. adjusted index.

For similar reasons, the trend of the adjusted New York Times business index will have less actual significance during the latter part of the year. This index for the week ended December 2 was off 0.1 point from the previous week. A large decline in the index of cotton mill production, and smaller downturns in steel and electric power production, were not quite offset by upturns in the carloadings indices and in automobile and lumber production.

Secretary Morgenthau - 5

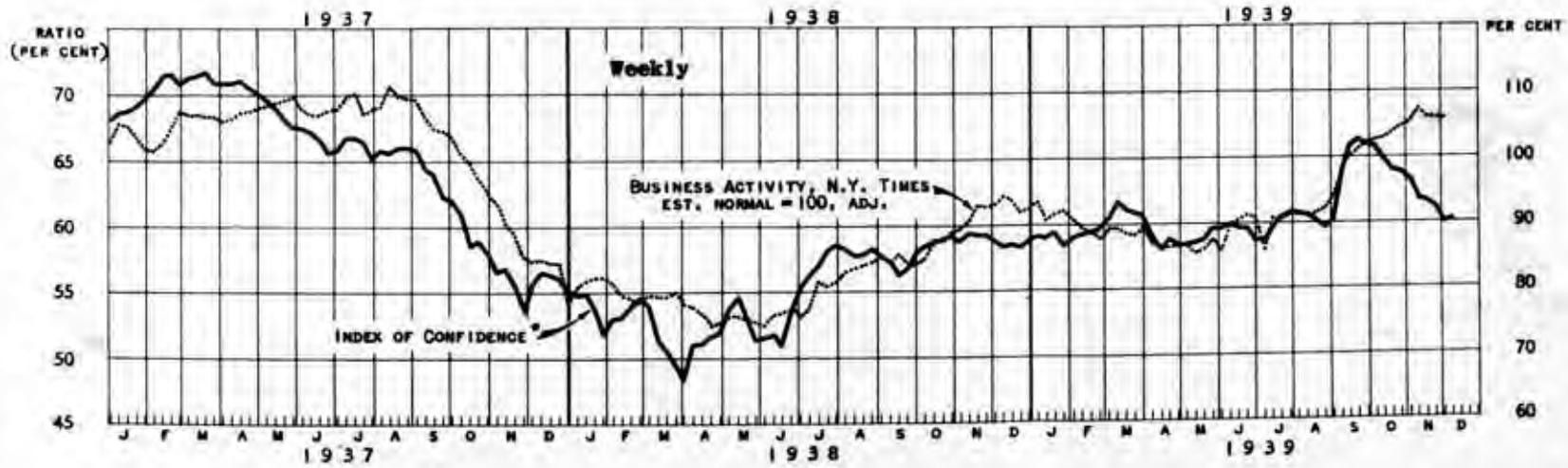
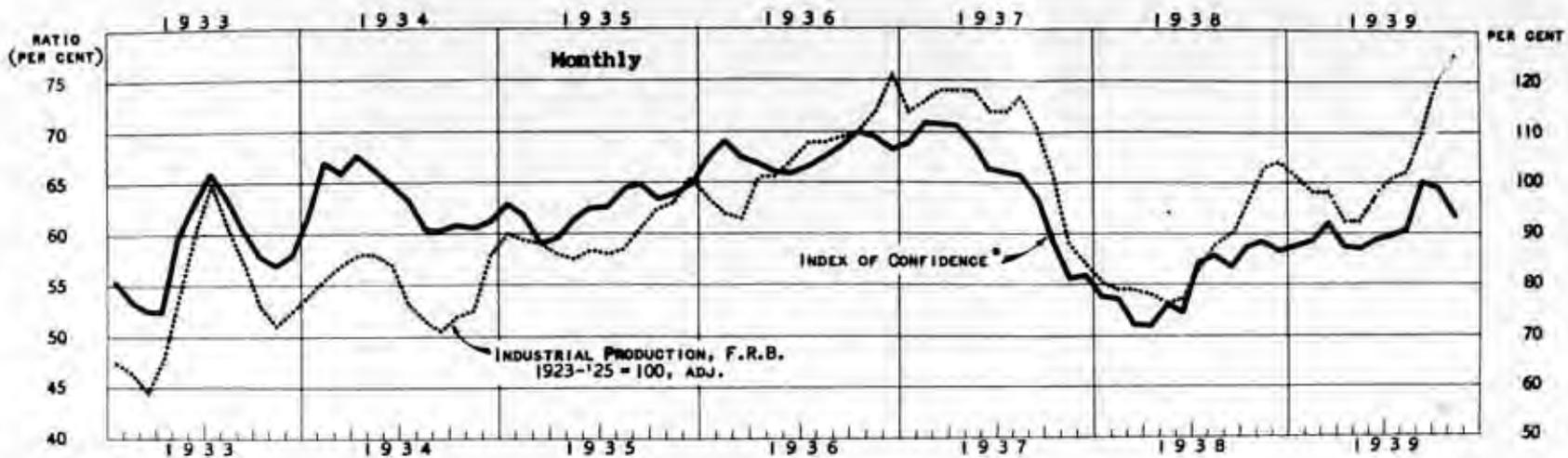
In the following week, the New York Times index will be affected by the contrasting influences of a sharp upturn in the index of automobile production, and a downturn in the steel production index. The output of automobiles last week, following the settlement of the Chrysler strike, was stepped up to a new high for the season at 115,488 units, which compares with the previous high of 93,638 units reached the week before. Steel operations, on the other hand, were reduced to 92.8 per cent of capacity from 94.4 per cent the previous week. During the current week, a further reduction in steel output to 91.2 per cent of capacity has been scheduled.

COMMODITY PRICE INDEXES IN U.S. AND U.K. Daily



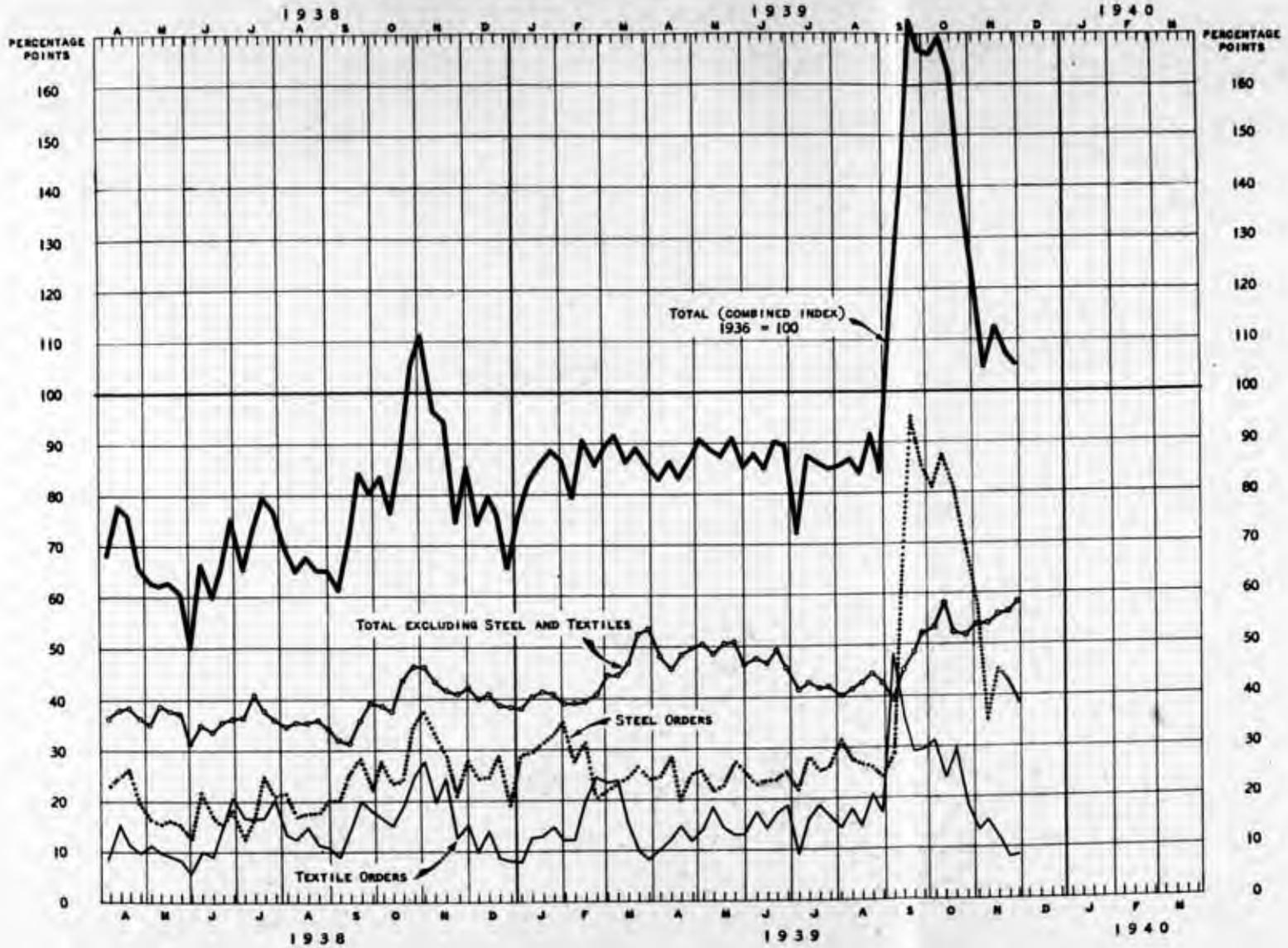
Office of the Secretary of the Treasury
Division of Research and Statistics

INDEX OF CONFIDENCE* AND BUSINESS ACTIVITY

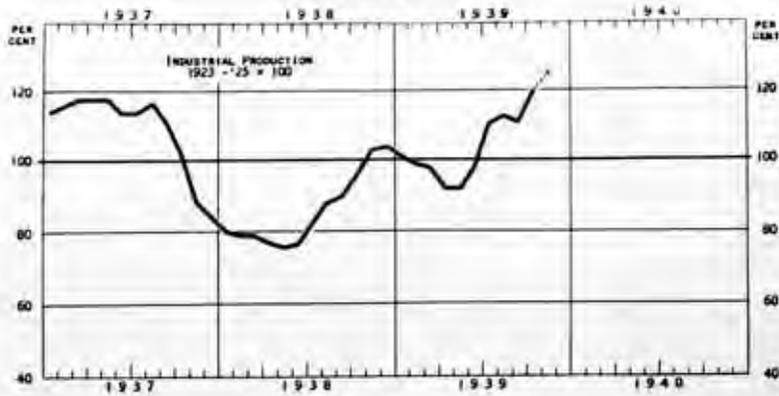


* RATIO OF YIELD ON MOODY'S AAA BONDS TO YIELD ON BAA BONDS.

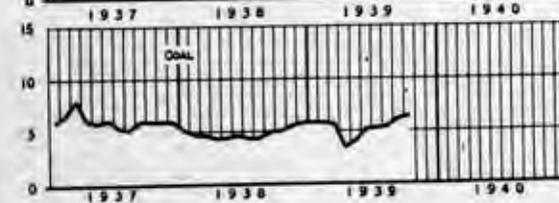
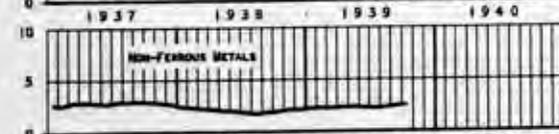
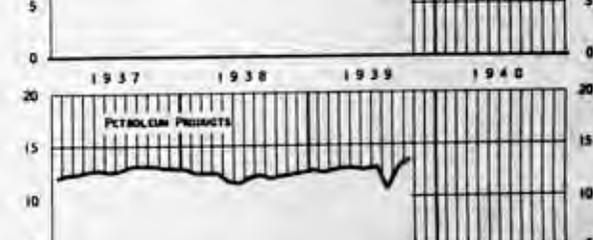
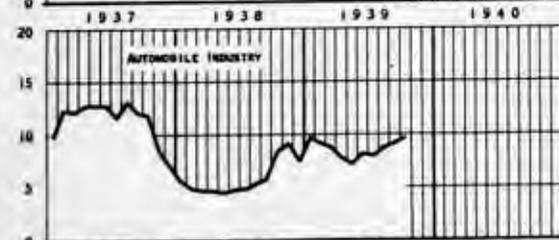
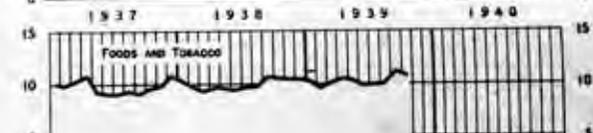
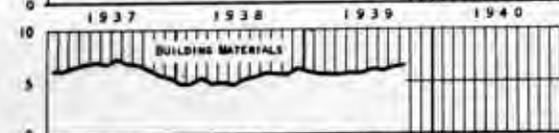
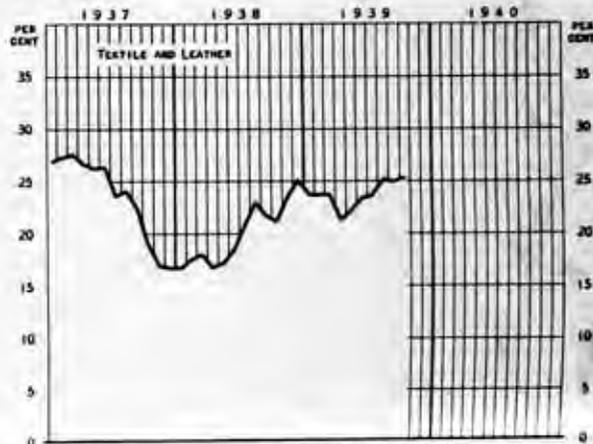
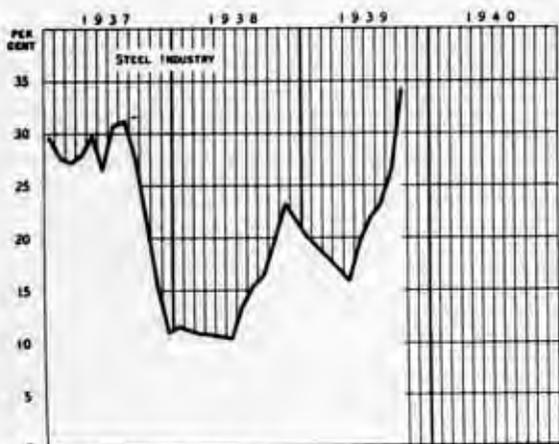
INDICES OF NEW ORDERS Combined Index of New Orders and Selected Components



FEDERAL RESERVE BOARD INDEX OF INDUSTRIAL PRODUCTION
SEASONALLY ADJUSTED

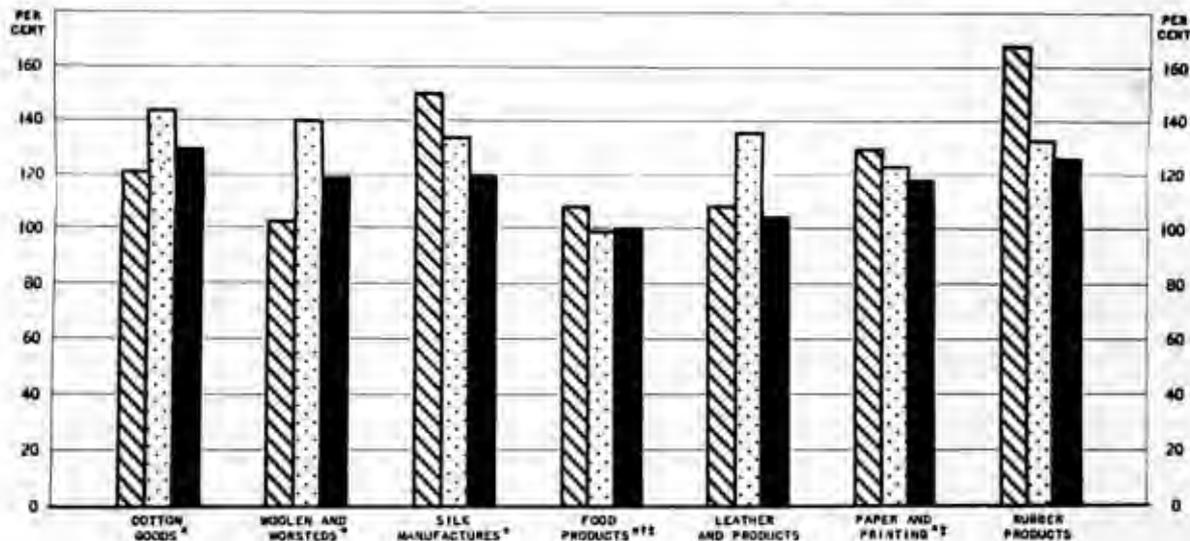
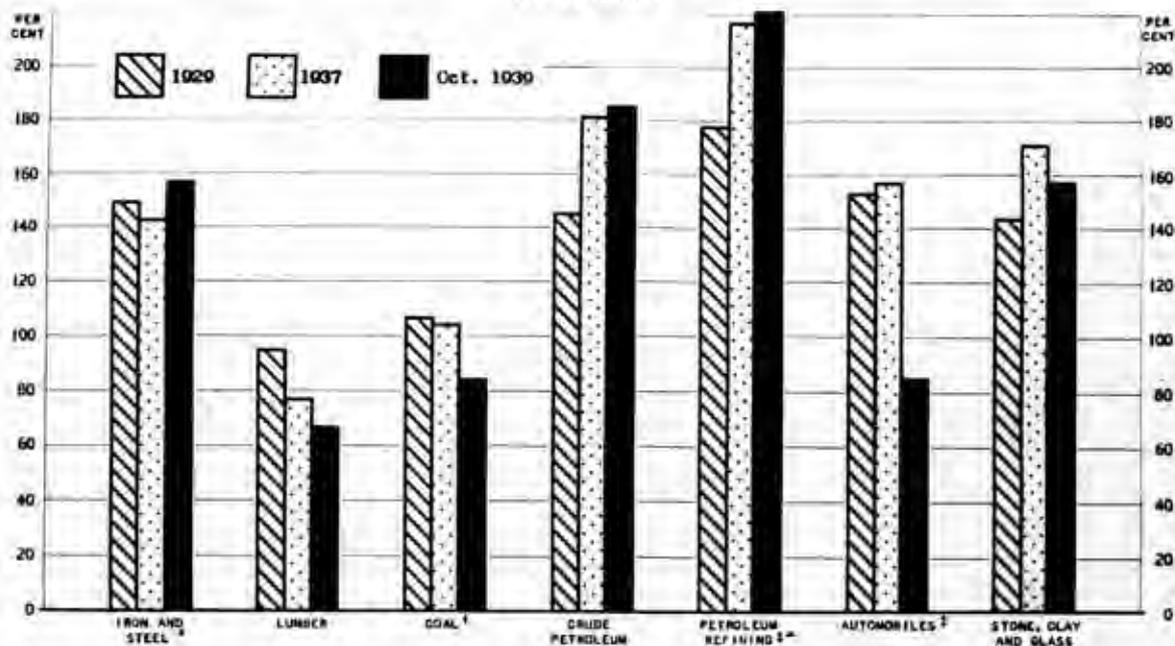


Components by Industrial Groups

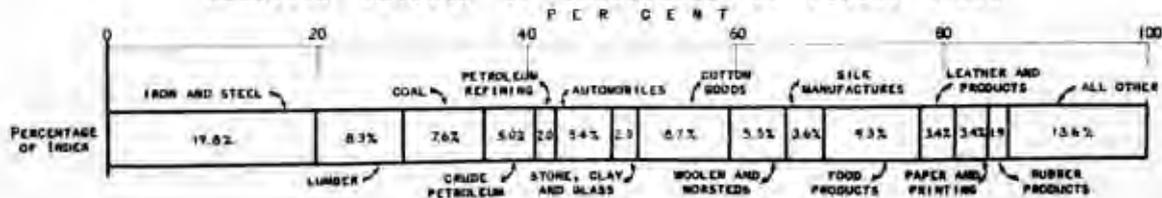


**INDUSTRIAL PRODUCTION BY INDUSTRIES,
AT SELECTED PEAK MONTHS IN 1929, 1937, AND 1939**

F.R.B. Indices



RELATIVE WEIGHTS OF INDUSTRIES IN F.R.B. INDEX



* High in 1936

† High in 1928

‡ High in September 1939

§ OCTOBER DATA NOT AVAILABLE

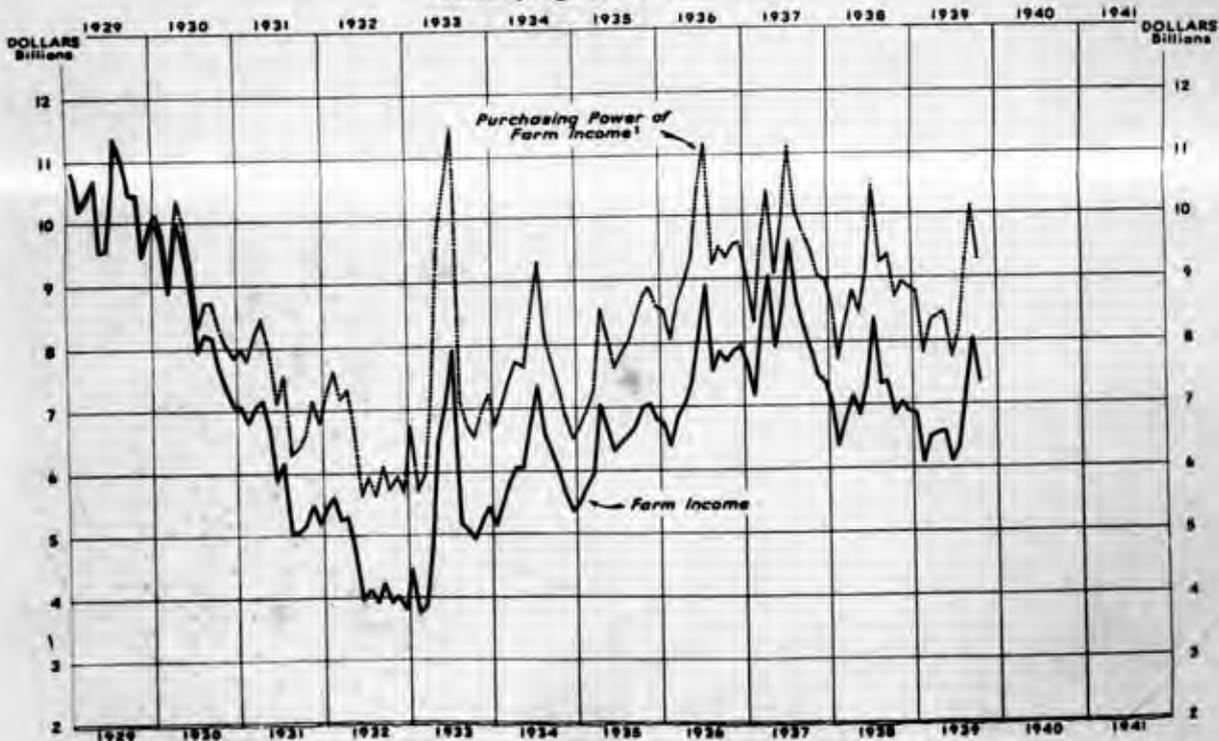
NATIONAL INCOME AND ITS EQUIVALENT PURCHASING POWER

Monthly Figures on Annual Basis*



FARM INCOME AND ITS EQUIVALENT PURCHASING POWER

Monthly Figures on Annual Basis*



*Seasonally Adjusted Monthly Figures Multiplied by Twelve
 †Based on Cost of Living Index of Nat'l Ind. Conf. Bd.
 ‡Based on Prices Paid by Farmers, 1929 = 100

December 11, 1939.
9:38 a.m.

22

H.M.Jr: Hello.

Operator: Mr. Schram.

H.M.Jr: All right.

O: Go ahead.

H.M.Jr: Hello.

Schram: Good morning Mr. Secretary.

H.M.Jr: How are you?

S: Fine, thank you sir. Say, we have an offer, a pretty good offer, we think, on another ten million of these Pennsylvania road bonds.

H.M.Jr: Yes.

S: And I was wondering if that interferes with your - anything you have over there, they'd be offered, I think, tomorrow or the next day.

H.M.Jr: Well now, just a minute, Danny Bell is here.

S: I see.

H.M.Jr: Just a minute. Did you make a public offering?

S: Yes. It'll be a public offering.

H.M.Jr: Could you make it Friday?

S: On Friday?

H.M.Jr: Yes.

S: Yes, I think we could.

H.M.Jr: Friday's O.K.

S: We could - well not earlier than Friday you mean.

H.M.Jr: No. Not earlier than Friday.

S: Not earlier than Friday, you mean.

H.M.Jr: Yes.

- 2 -

- S: Yes, I think that'll be possible. This is the 11th, that'll be the 15th.
- H.M.Jr: Yes.
- S: All right, I'll check that with them.
- H.M.Jr: That's a good day anyway. That's the day the fellows - it's a tax date.
- S: Yes. All right. Fine. I didn't want to do - I didn't want to throw out ten million.
- H.M.Jr: No, it - it - it's the principle and that - I mean we had this argument with Straus and I'd like to hold it - I mean if you tell me you're going to lose the sale, call me back.
- S: Yes, all right. Fine.
- H.M.Jr: I see you got big hearted with Finland.
- S: Yes, we're trying to work something out. I don't -
- H.M.Jr: Well isn't it done. In the papers it's all done.
- S: Oh yes, yes. I say, we've been trying for some time, several days, trying to work something out. I think this will let them buy a lot of things of course that we can finance.
- H.M.Jr: Could you tell Joe Cotton, who is the Treasury Director of Export-Import just what you have done?
- S: Yes, you bet.
- H.M.Jr: He could tell me.
- S: Yes, sure.
- H.M.Jr: Thank you.
- S: Joe Cotton, you say.
- H.M.Jr: Yes.
- S: All right, fine.
- H.M.Jr: Thank you.

S: And I'll call you back if this doesn't work out right.

H.M.Jr: If you lose your sale call me back.

S: All right, fine. Thank you.

6x225

December 11, 1939.
10:35 a.m.

25

Harry Woodring: Hello.

H.M.Jr: Yes, Harry.

W: Henry?

H.M.Jr: Yes.

W: I tried to get you Saturday morning.

H.M.Jr: Yes.

W: And then I tried to get Hanes, then I talked to Captain Collins. I think I ought to tell you what I was trying to do - have you heard anything about it?

H.M.Jr: Not a thing.

W: Well -

H.M.Jr: I was available, I don't know - I didn't get your message.

W: Well they said you were out and wouldn't be in until twelve or twelve-thirty and I had a twelve-thirty appointment and had to leave.

H.M.Jr: I see.

W: So I think that's where I missed you. Now, I mean Joe Green, at the State Department, called me up and said that Procope, the Finnish Minister was there, and talking about aeroplanes and guns and thirty-seven milometers and a hundred and five and hundred and fifties and so on, and I said, "Yes, I know about it", and he said, "Well he's here and he wants to come over and talk to you."

H.M.Jr: Yes.

W: "Well", I said, "He was over last week or week before, and I went over the whole thing with him, talked to him about it, and he said that when he got ready that he"- he was just doing some preliminary work, visiting with me on it. So I said, "I don't see any reason that I should see him" and told Joe about this new letter and he said, "Yes, we have a copy of it". But he wants to come over and I said, "Well, all right, send him over and I'll visit with him and make him -"

- 2 -

just make the gesture and then I'll have to - be enforced under this letter and I want to do this, and I want to - I'll contact him with Gibbons who's our representative and just let him see him but then I'm going to instruct Gibbons to tell him, as I'm going to tell him that he should first go to the Treasury and let this thing go through regular channels".

Now, he came over and I visited and I had, to save time, had Gibbons and our Deputy Chief of Staff in here. We talked over the whole thing and they are very much against giving him aeroplanes because our Air Corps tells us that we're short of aeroplanes according to our pilots now, and it would set us back - he wants fifty pursuit planes and some attack. If we gave him our pursuit it would set us back six months on our training. Well now, so I finally told him though - he has a new - he also had a law in which he had it all red underlined and in which he says that we can crate back pursuit ships to a company and get credit on - if they have another plane in the making on their line that's better which we could use.

H.M.Jr: The Plans.

W: Yes - no that's our statutory law.

H.M.Jr: Oh yes.

W: And it is a law.

H.M.Jr: Yes.

W: But even if it is a law why that doesn't make any difference whether we use one law or another law, the fact still remains that we're against letting them have them.

H.M.Jr: Yes.

W: I mean when it's comparable to our own interest.

H.M.Jr: Yes.

W: We're pro-Finnish. Don't misunderstand me.

H.M.Jr: Yes.

W: Now, well he said that it wouldn't do any good to

- 3 -

have - I said maybe they could make arrangements whereby if there's any production on the line now that you could get one and we'd get two or vice versa, like has been done. Oh, he said, that wouldn't do him any good because they couldn't wait that long.

H.M.Jr: No.

W: Well I said, I'm not in - I can't tell you about that decision. That is a decision of policy that'll have to be determined by this committee and you should go and, and I'm instructing Mr. Secretary, Gibbons to call Collins and tell him.

H.M.Jr: Yes.

W: That he is here, come to us and that under the regulations we're delivering him to this committee and then they can send him back to us or to the Navy or get any information that they want.

H.M.Jr: That's right.

W: Now, I - in talking - first let me go back in telling Collins. When I talked to Collins - and I told him this that he was coming over. He said, "Well send him over to Gibbons and Gibbons can get all of this information and give it to him" and I said, "No, Collins, I don't want him coming here first and turning - and getting the information, I want him to come through channels to this committee and then if you want to direct him to Gibbons why that's the way - that's the letter and the spirit of the letter".

H.M.Jr: That's right.

W: Now I come back to - so he came over and I instructed Gibbons, and Gibbons called Collins and made - and they had some kind of a deal made whereby they'd meet and meet with Procope and with this Colonel somebody of the Finnish Legation.

H.M.Jr: Yes.

W: Now I come to the office this morning and I find that, the staff comes and tells me that Saturday, right after noon, that General _____ of the Air Corps, who's acting for Arnold, was out at the golf course, and that the Assistant Secretary had called him and called him back, told him he was having a conference

- 4 -

at the direction of the President with the Finnish Minister at two o'clock, and he wanted to come back from the golf course and be there. So, - and tells me this morning that he went to it and that the Assistant Secretary tells him that Paul Watson called him and told him that the Minister had been to see the President after he had been to see me and I guess he must have told him that I wasn't very encouraging and anyhow the President told Paul to call Johnson and make an appointment for the Finnish Minister to see him about this matter and about turning old planes back for new ones.

H.M.Jr: Yes.

W: Well it seems to me like that's just - you just as well do away with this new Board if you're going to handle the old one.

H.M.Jr: That's why I was so tickled that the President set up something because it leaves me out, and under this arrangement Collins reports directly to the President.

W: Yes.

H.M.Jr: And I can attend to Treasury business.

W: Yes.

H.M.Jr: Because I can't follow this and that's why I was so delighted to see that he sent somebody up who could sit with the Army and Navy. On these matters they're leaving me completely out, because I've asked the President please to leave me out.

W: Yes.

H.M.Jr: So that's why I've refused to see these people and I won't see them any more.

W: Of course the setup, this new setup I think is all right except that it should have been the Deputy Chief Staff instead of the Quartermaster General who knows nothing about ordinance nor aeroplanes.

H.M.Jr: But I just want to explain to you that for over a whole month now or more, I just won't see any of these fellows and haven't.

- 5 -

- W: Uhuh.
- H.W.Jr: And the State Department knows it so they've stopped sending them over here.
- W: Uhuh.
- H.W.Jr: So I'm out of it entirely.
- W: Well I only wanted you to know that - that - so I called Pa Watson, no he called me this morning about another matter and so I told him and I said, "Well Pa, this is out of channels again, no use setting up this quartermaster corps - quartermaster general, paymaster and the Procurement officer at the Treasury."
- H.W.Jr: Yes.
- W: As a Board. Now, three days after you set it up, the first thing that comes along you put it back under the old munitions.
- H.W.Jr: What did Pa say?
- W: Well he said, the Minister was over there and he wanted to see about this thing and so he said, all I know the President told me to call up Johnson and - "Well," I said, "I'm not objecting to that. All I'm objecting to is that - I'm not objecting, say that you're out of bounds again".
- H.W.Jr: Well I appreciate your calling but I don't have to be over - hit over the head more than once.
- W: Well all I wanted to tell you was - and oh yes, so Pa said, I think he was the one that told me this morning, somebody told me that Johnson was having - oh yes, he's called for a study in which to tell how - although we're against it how it could be done in case it were ordered to be done and he's taking that study and having a conference with Welles and in which they are then having a conference later with the President.
- H.W.Jr: I see.
- W: I don't care, I'm not interested one way, I'm like you, it's a mess, a criticism if you try to do anything right, you get into trouble one way or the other so I don't care myself, but I did think that after our

- 6 -

conversation and having this letter and all I would like to just tell you that - what had happened in our department.

H.M.Jr: Thank you very much for calling me, I appreciate it.

W: All right Henry.

H.M.Jr: Thank you.

W: Goodbye.

December 11, 1939.
12:10 p.m.

31

J.
Cotton: This business and I wondered what -

H.M.Jr: I'm for it.

C: You're for it.

H.M.Jr: Yes.

C: I mean, you've thought about it no doubt, it may be throwing money down the drain, being too late and so on.

H.M.Jr: I was for it a month ago, I can't help it that Jones delayed so much.

C: I see, well I'll, then I'll - those are your instructions, I'm just wondering.

H.M.Jr: Really the President's instructions.

C: Yes.

H.M.Jr: Something the President wants, I'd like to go along with him.

C: Well if it comes to a vote I'll take that position, I mean -

H.M.Jr: Jones asked me yesterday about it and I told him that we were for it.

C: Right.

H.M.Jr: If you would representing the Treasury vote yes, you'd be expressing my views.

C: All right, sir. That's all I wanted. Thank you.

December 11, 1939.
2:25 p.m.

32

H.M.Jr: Hello.

Operator: Go ahead.
Jesse
Jones: Hello Henry.

H.M.Jr: Hello, Jesse.

J: How are you?

H.M.Jr: I'm all right, how are you?

J: All right. How did that Finnish thing go?

H.M.Jr: Well it was in the front page of all the papers but it was - mentioned ten million dollars.

J: Yes.

H.M.Jr: Is that what you decided?

J: Well that's what - yes, including both the bank and the RFC.

H.M.Jr: I see. I see.

J: Did it have a - did it sound all right?

H.M.Jr: Yes, it's a good story. All right.

J: Huhhuh.

H.M.Jr: Warren Pierson, he was over at that luncheon, he said, "I see I'm to be the burnt offering", and I said, "No, you're to be the hero".

J: How's that?

H.M.Jr: Warren Pierson said that he was to be sacrificed on the altar.

J: Huh-huh.

H.M.Jr: And I said, no, he was to be today's hero.

J: Why certainly, he is the hero.

H.M.Jr: Yes.

- 2 -

J: That's all right. I'm glad they handled it all right.

H.M.Jr: Now I think you'd be satisfied. I told our boys to vote for it at the meeting this afternoon.

J: That's good.

H.M.Jr: Yes.

J: Well I told our boys that you were for it and that you'd go along with it.

H.M.Jr: You bet.

J: O.K. Everything all right with you?

H.M.Jr: Yes, we're going to get out a refunding tomorrow.

J: Huh-huh.

H.M.Jr: Hope it'll go all right.

J: I'll be back about Friday and look forward to seeing you.

H.M.Jr: Thank you for calling.

J: Goodbye.

December 11, 1939.
4:26 p.m.

34

H.M.Jr: Hello.

Operator: Mr. Hochschild. Go ahead.

H.M.Jr: Hello.

Harold

Hochschild: Hello, Henry?

H.M.Jr: Yes Harold.

H: How are you?

H.M.Jr: I actually remembered and sent you by mail those figures that you gave me.

H: Oh well, thanks very much Henry. Henry, I just want to tell you that Dr. Merica, whom I know very well, came around to see me today, and he told me that they had received intimation along the same line, and that he was going to Washington tomorrow.

H.M.Jr: That's right.

H: And that he wanted to check up with me on molybdenum.

H.M.Jr: That's right.

H: So I told him that I had seen you.

H.M.Jr: Yes.

H: And that you had made that request of us.

H.M.Jr: Yes.

H: And that I told him quite frankly that we felt if it applied to molybdenum it should apply to any metals that might be substituted for that.

H.M.Jr: That's right.

H: He said he thought that was entirely fair.

H.M.Jr: Yes.

H: He is, as you had already mentioned, he takes their position/different toward Japan than it is towards Russia.

H.M.Jr: That's right.

H: And I think they were rather concerned about the Japanese end of the thing.

H.M.Jr: Yes, well I don't - that I haven't heard yet.

H: They have, as I mentioned to you, sales office in Japan and they've devoted quite a lot of effort and time to that market.

H.M.Jr: Yes.

H: Over the past few years.

H.M.Jr: Yes.

H: He also - he seemed to think that as long as the, especially as long as the Russians could get chrome and manganese and tungsten that it wasn't going to be much use excluding nickel and molybdenum. So he asked me how I felt about that. I said, that as we had told you they could make, they could go on making steel but it wouldn't be as good.

H.M.Jr: Yes.

H: As the steel if they could get nickel and molybdenum and that cutting them off, we told you quite frankly that cutting off nickel and molybdenum would be a serious handicap.

H.M.Jr: That's right.

H: I only saw him for about fifteen minutes and that was all. I did not say anything to him about the national considerations of molybdenum versus nickel or -

H.M.Jr: No.

H: Or possibilities of increasing the uses of molybdenum.

H.M.Jr: Well that wouldn't particularly interest them, would it?

H: No it wouldn't but I just didn't want to -

H.M.Jr: Well put it the other way around, I mean it's one thing for me to help United States Company increase its business, it'd be something else again -

H: Naturally.

H.M.Jr: To do something for a Canadian Company.

H: Naturally.

H.M.Jr: And - but he's coming down and I'm lunching with the President tomorrow and I'll bring him up to date at that time.

H: Yes.

H.M.Jr: But the message I got directly from Purvis was that they would not sell Russia international nickel.

H: Yes.

H.M.Jr: But the Japanese question, they'd have to take up with the British Foreign Office.

H: Yes. Well that's practically, that's virtually what he said to me.

H.M.Jr: Yes. Well -

H: And I just wanted to let you know that he had talked to me.

H.M.Jr: And then on the other - well I appreciate that. Now -

H: The other thing we're working Henry and I saw Schott today and he thought that they might have it ready by tomorrow.

H.M.Jr: How do you spell Schott?

H: S for Samuel - chott.

H.M.Jr: Oh, it's almost - I see. All right. Well thank's very much for calling Harold.

H: All right Henry, and I think you'll get that dope by Wednesday at the latest.

H.M.Jr: Righto.

H: All right, Henry.

H.M.Jr: Thank you.

H: Goodbye.

December 11, 1939.
4:33 p.m.

H.M.Jr: Herbert?
Herbert
Feis: Yes.

H.M.Jr: I don't know whether you still want to talk to me or not about that matter.

F: Oh yes, hello Henry.

H.M.Jr: What?

F: I didn't realize who it was. Of course Henry, whenever you -

H.M.Jr: Well how about ten-thirty tomorrow morning?

F: Ten-thirty is fine.

H.M.Jr: What?

F: Ten-thirty's fine.

H.M.Jr: Well that -

F: I'd like to.-

H.M.Jr: I'll have plenty of time then.

F: All right, I'll be there at ten-thirty.

H.M.Jr: Righto.

F: Thanks a lot.

December 11, 1939.
4:34 p.m.

38

Leon
Henderson: - a lot of statistical work on steel prices.

H.M.Jr: Yes.

H: And Jake Viner knows quite a bit about it.

H.M.Jr: Yes.

H: And Ted talked to me today and I said I had talked to you to see whether if he had some free time he could quietly and obscurely help our staff out, and I wouldn't want to do it if he were reluctant, or you reluctant.

H.M.Jr: Well I'm not reluctant if he has the time, how's that?

H: Well that's fine. I think it's something that he's got a technical interest in and we've got - we need all the brains we can get on the thing in order to get an adequate presentation.

H.M.Jr: Sure. I'm always willing to help out.

H: Well that's swell.

H.M.Jr: Do you want me to tell him that you called?

H: Yes, if you would and if it's O.K.

H.M.Jr: Sure.

H: And then we'll pick up from there. It's not to make him a witness or anything like that, but he can help our technical staff so that - sort of guide some parts of it.

H.M.Jr: Right.

H: All right.

H.M.Jr: Leon, are you at your office?

H: Yes.

H.M.Jr: How well do you know John L. Sullivan, the Assistant Commissioner of Internal Revenue.

H: Well I just know him socially over a long period of time. I met him in 19 -

H.M.Jr: 21.

H: 21.

H.M.Jr: He told me, but you don't know him as to his work.

H: No. I used to get up into New Hampshire and I found that everybody up there had a very high regard for him.

H.M.Jr: Yes.

H: And his - his Poppy - and he's carried on the firm tradition, had a - well an excellent standing as a substantial citizen and a very honest man and then Wynatt told me, he ran I think against Wynatt or was on the opposite side from Wynatt a couple of times, and Wynatt expressed himself as thinking he was a very fine gentleman, then I saw him in connection with some RFC cases he had down here, just casually in the evening, and I know that he worked very hard and that he did an able piece of presentation, and I know that Jim Farley thinks - thought highly of him on the matter of the way he handled things up there although he got licked.

H.M.Jr: Yes.

H: Jim felt he was a good organizer and certain there was never any scandals or anything like that. He did most of the work himself and so on ballots I'd say everything I know is good but I've not just had a chance to review it - reviewing.

H.M.Jr: Well now I tell you. He's made an outstanding success for us in battling the Army and Navy on these deprecations contracts you see.

H: Yes.

H.M.Jr: And he's made a great hit with me. And I tell you, you've always kept my confidences I - we had him at the house last night, he said he was a friend of yours - socially I mean, that he'd met you and told me about the sidecar incident and all that -

H: (laughs)

H.M.Jr: What I want to ask you I'm thinking of recommending him to the President as Assistant Secretary to watch Procurement for me, see?

H: Huhhuh.

H.M.Jr: Because there's so damned much going on these days and I just want to - when I got to look at this Navy stuff I was terribly shocked.

H: Yes.

H.M.Jr: I want to make sure there's nothing like that going on in the Treasury.

H: Yes. Well I think - I think you certainly need a man on that job.

H.M.Jr: Yes.

H: Some of the things that we're hearing about from time to time just in TNEC.

H.M.Jr: - next day or two or three you could have on some excuse and have him sort of talk and see how good a Roosevelt man he is, see?

H: Yes. I'll - I'll do that.

H.M.Jr: Will you?

H: I'll give you a report on it.

H.M.Jr: Will you do it, because he's made an awful good impression with us here. Ed Foley knows what I've got in mind and it was Ed that really first brought him to my attention, but the fact that I'm asking you to do this I'd like to keep between you and me, but - I want you to know Ed knows I'm offering him this position.

H: Yes.

H.M.Jr: And I - I first offered it to Ed and Ed didn't want it, so I mean I want you to know it's no reflection on Ed.

H: Well I'll arrange to get in touch with him.

H.M.Jr: I mean I offered it first to Ed and Ed said no he'd rather be General Counsel, so that's the situation.

H: O.K. Well I'll move in on him.

H.M.Jr: Will you do that?

H: Yes.

H.M.Jr: Because he's made a great impression on me - he made such a fight against this consolidated that nine o'clock that night this fellow Fleet called him up and tried to hire him.

H: (laughs)

H.M.Jr: And we - on the electric boat business where they wanted a six hundred thousand dollar right off on their plant, we turned them down here in the office and the next day they signed a contract and decided to build a building of their own, but he seems to be a real guy and that's what we need around here.

H: Certainly do, and I think you'd make a good move.

H.M.Jr: Righto. I'll tell Jake Viner right away.

H: All right Henry.

H.M.Jr: Righto.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 11, 1939

TO Secretary Morgenthau
FROM Mr. Haas *HA*

The attached tables and chart show an increase in Works Progress Administration employment of 37,000 persons, from 1,987,000 for the week ended November 22, 1939, to 2,024,000 for the week ended November 29, 1939. The increase over the figure for the end of October was 122,000 employes.

Attachments

WORKS PROGRESS ADMINISTRATION
Number of Workers Employed - Monthly
United States

43

	Number of Workers (In thousands)
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
November	2,024

Source: Works Progress Administration.

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

They include certified and noncertified workers.

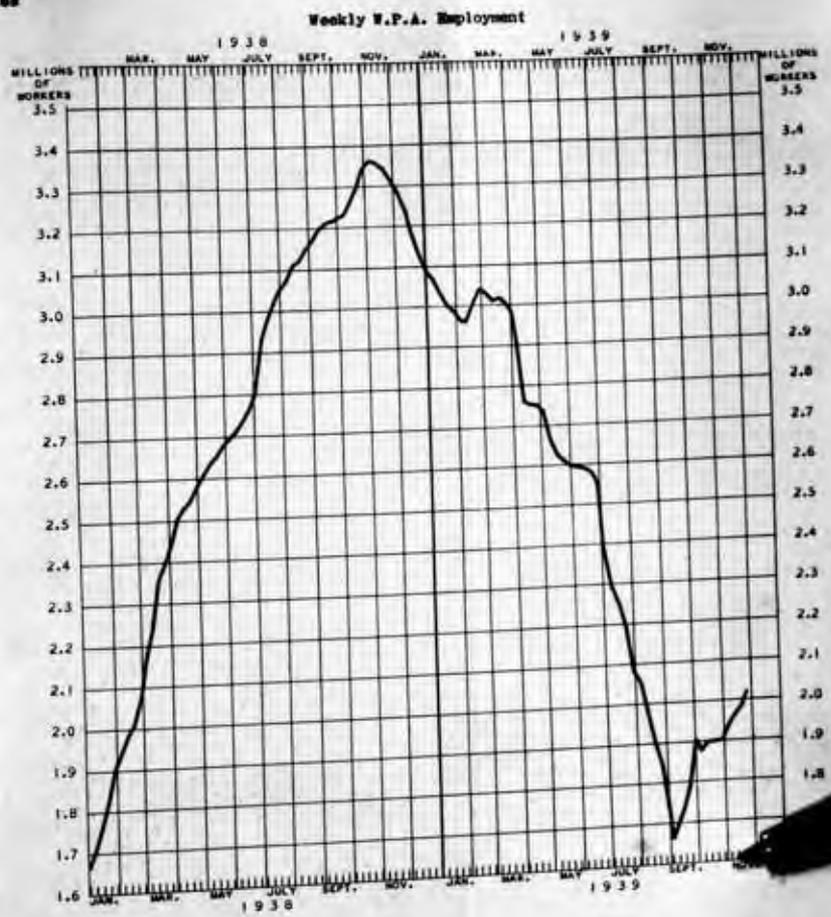
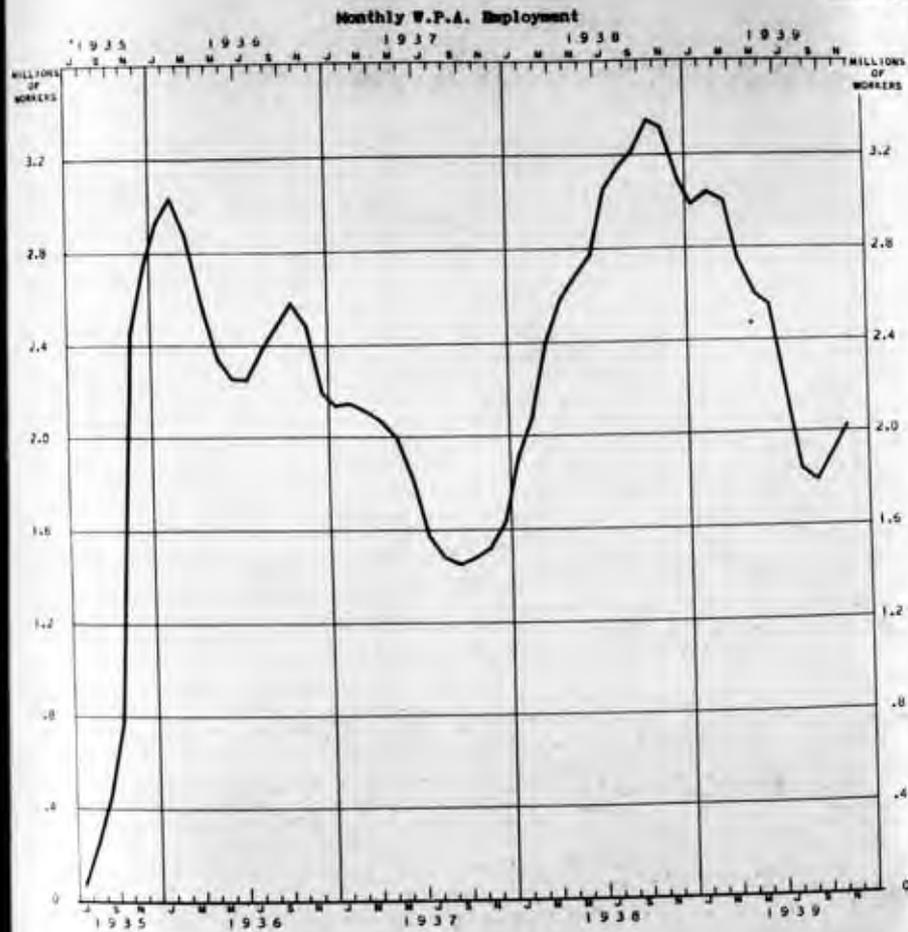
WORKS PROGRESS ADMINISTRATION
Number of Workers Employed - Weekly
United States

44

Week Ending 1939	Number of Workers (In thousands)
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
November 15	1,962
November 22	1,987
November 29	2,024

Source: Works Progress Administration.

WORKS PROGRESS ADMINISTRATION Number of Workers Employed United States



SOURCES: WORKS PROGRESS ADMINISTRATION

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

2 - 221 - B

December 11, 1939

MEMORANDUM FOR MRS. KLOTZ:

Major Fleet, President of the Consolidated Aircraft Corporation, San Diego, California, called to see the Secretary. The Secretary said that while the discussion is going on between his company and the Bureau of Internal Revenue he would rather not see Major Fleet, but just as soon as they have come to an agreement he will be very glad to see him.

The Secretary also requested Mr. Sullivan, Assistant Commissioner of Internal Revenue, be informed of the above incident. Mr. Sullivan was not in his office this afternoon but his secretary has been advised and she will tell Mr. Sullivan either tonight or first thing in the morning.

L. Henricks

December 11, 1939.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston



The newspapers yesterday and today have stories of the arrest in Bend, Oregon, Saturday of Nick Dosenberg, Communist and reputed OGPU agent, on the charge of passport fraud. Most of the stories say that the arrest was made by F.B.I. agents. The fact is that Secret Service had been trailing Dosenberg for several days at the request of Bannerman of the State Department and located him in Bend, Oregon, where he was operating a general store under the name of Dallant. William McSwain, Secret Service Agent in Charge at Portland, drove over to Bend, which is about two hundred miles, on Saturday, arrested Dosenberg and confiscated a lot of records, said to be important. Fitch of Bannerman's office of investigation in the State Department flew out to Portland and met McSwain there Sunday and McSwain turned the prisoner over to him. Dosenberg had been living under another alias at the Alban Towers Apartment, Wisconsin and Massachusetts Avenues, for some months off and on but recently left there. Secret Service traced him through Bell and Howell, Chicago movie camera manufacturers, for whom he had formerly worked as a salesman. Presumably Secret Service was called in by the State Department because F.B.I. had not produced results. It took our men less than a week to nail him. I know this because it was early last week that Frank Wilson asked my permission to take on the case.

12-11-39
48

You might want to consider
a 2 $\frac{7}{8}$ % bond for 13 to 14
yrs. Will probably sell
around $101\frac{1}{4}$ to $101\frac{1}{2}$

12-11-39

Secretary

49

The March fifteenth
maturity has a coupon
of 178%

Dw Bell

12-11-39

REFUNDING \$1,378,000,000 MARCH 15, 1940
MATURITY

50

1. Treasury Notes -

- (a) New 5-year note 1-1/8% and possibly 1% (*1 1/8% will sell at 101 1/4*)
- (b) Reopen March 15, 1944 1% at par (now selling at 101)

2. Intermediate Bond -

- (a) New bond at 2-1/4% for 11 or 12 years. This area already crowded.
- (b) Reopen 2% 1948-50 at 100-1/4 to 100-1/2 (now selling at 101-21/32)

3. Long Bonds -

- (a) New bond at 2-1/2% for 17 to 18 years (would probably sell for about 101-1/2)

In refunding March maturities, it may be advisable to make a three-way offering in view of its size.

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: December 11, 1939, 4 p.m.

NO.: 2951

FOR THE TREASURY.

RUSH.

Reference is made to telegram No. 2924 of December 7 from the Embassy.

The Embassy has continued to press for information about the financial agreement between Great Britain and France, and obtained the text thereof, in strict confidence, from Couve de Murville this afternoon. When he handed it to us he said that Minister Reynaud desired that it be communicated to the Secretary of the Treasury as an indication that the spirit of the Tripartite is still in full force.

The Financial Agreement has been signed, and it is not (repeat not) to be published; however, in London and in Paris announcement that it has been reached, and a resume thereof, are to be given out at three o'clock tomorrow afternoon. We are told that it will be discussed in Parliament by the Chancellor of the Exchequer on Wednesday.

Apparently the last question on which there was a difference of opinion was that of the proportionate shares of the two Allies in extending foreign credits to allied or guaranteed countries; the two countries finally reached agreement thereon on the basis of 40 percent for France and 60 percent for Great Britain. We give below the text of the agreement, in

- 2 -

translation from the French; the agreement is backdated to
December 4.

END SECTION ONE.

BULLITT.

EA:LNW

JT

GRAY

PARIS

Dated December 11, 1939

Rec'd 9 p.m.

Secretary of State,
Washington.

RUSH

2951, December 11, 4 p.m. (SECTION TWO)

"Franco-British Financial Accord."

The undersigned duly authorized by their respective governments have agreed as follows:

Article I. The Government of the French Republic and the Government of the United Kingdom consider that it is in their common interest to avoid modifications in the official parities between the franc and the pound.

No modifications of this nature will take place without prior agreement between the two governments.

Article II. Each stabilization fund shall continue to be solely responsible for the quotations of its money on the markets of third countries. In any event the monetary authorities of the two countries will consult on the policy to be followed in this respect and with respect to any intervention which may appear necessary.

Article III. The British equalization fund and the

French

-2- #2951, Dec. 11 (SEC TWO) from Paris

French stabilization fund shall continue reciprocally to exchange their own currencies at the official rates.

If the British fund needs francs (either for government expenditures, such as the costs of the British expeditionary forces in France or for any other reason) these francs will be sold by the French fund against pounds at the official rate. If the French fund has for any reason whatsoever need of pounds these pounds will be sold by the British fund against francs at the official rate.

Article IV. No limit shall be placed on the purchases of exchange stipulated in the previous article.

If the French fund holds at any time parts in pounds in excess of 50,000,000 pounds, the excess will be utilized for the purchase of British Treasury notes (bons due tresor) expressed in francs with a pound equivalent established as prescribed in the following article. These notes shall bear interest at 3% and shall be repayable one year after the end of the war. They shall be renewable at the option of either of the two governments for two successive supplementary periods of a year each.

The same rule shall be followed by the British fund for the investment of sums in francs which it may acquire in excess of 9,000,000,000 francs. It will be given French

Treasury

-3- #2951, Dec. 11 (SEC TWO) from Paris

Treasury notes (bons du tresor) expressed in pounds with a franc equivalent.

The Treasury notes (bons due tresor) envisaged in the two preceding paragraphs must be repurchased by the British Treasury or by the French Treasury at any rate if the total of pounds or of francs held by one of the two funds becomes less than 50,000,000 pounds or 9,000,000,000 francs.

The pounds and the francs acquired by the two funds shall be up to 50,000,000 pounds and 9,000,000,000 francs invested (plains) by each central bank with the approval and through the intermediary of the other central bank.

BULLITT

NPL:EWB

JT

GRAY

PARIS

Dated December 11, 1939

Rec'd 5:47 p.m.

Secretary of State,
Washington.

RUSE

2951, December 11, 4 p.m. (SECTION THREE)

Article V. No gold guaranty nor material security shall be requested for all the foreign exchange acquired, under the conditions and above, by the two stabilization funds. The conversion into gold of this foreign exchange shall likewise not be requested.

If the two governments should agree to change the official francs-sterling parity the total francs to be reimbursed by the British fund for pounds held by the French fund shall be calculated at the rate in effect on the date of acquisition of these pounds. The same rule shall be followed with respect to francs held by the British fund.

The equivalent in francs or in pounds of the Treasury notes (bons du tresor) mentioned in the preceding article shall be similarly calculated.

Article VI. The pounds held by the French fund may be utilized to pay all expenditures in pounds in the sterling

AREA

-2- #2951, December 11, 4 p.m., Sec. Three from Paris

area that is to say in the British Empire (excluding Canada, Newfoundland, and Hong Kong) in Egypt in the Soudan and in Iraq. The francs held by the British fund may be utilized to pay all expenditures in francs in French territory and in the French Empire..

Payments in other countries in pounds or in francs shall be carried out in agreement between the two governments, it being understood that the facilities for utilization of pounds or of francs by these countries shall be equitably divided.

BULLITT

NPL

JT

GRAY

PARIS

Dated December 11, 1939

Rec'd 6:12 p.m.

Secretary of State,
Washington.

RUSH

2951, December 11, 4 p.m. (SECTION FOUR)

Article VII. For all payments in the sterling area and in the French Empire the exchange stabilization funds shall furnish if necessary against sterling or against francs the local currency which the other fund needs.

Article VIII. The two Treasuries shall examine and shall follow constantly all questions relative to the equitable division of charges in dollars or in gold borne by each allied nation and made necessary by the conduct of the war.

Article IX. The Treasuries shall periodically examine at least once every three months the amount of and causes for movements of gold or foreign exchange and shall suggest measures of any (*) conducive to maintaining the conditions of a durable monetary equilibrium.

Article X. In case raw materials and products necessary for the conduct of hostilities found in the sterling area

and

-2- #2951, Dec. 11, 4 p.m. (SEC FOUR) from Paris

and in the French Empire cannot be materially distributed pro rata for the respective needs of the two countries, & compensation in gold or in foreign exchange will be paid by the other to the country which does not receive its proportionate share.

Article XI. In their relations with third countries the two governments will keep each other mutually informed will cooperate and will come to an agreement before taking any measure of a financial or monetary order likely to affect directly or indirectly the interests of the other country.

(END SECTION FOUR)

BULLITT

JRL

JT

GRAY

PARIS

Dated December 11, 1939

Rec'd 6:35 p.m.

Secretary of State,
Washington.

RUSH

2951, December 11, 4 p.m. (SECTION FIVE)

Article XII. The two governments shall consult especially in the circumstances envisaged in the preceding article:

One. With a view to fixing the currency of settlement for imports originating in third countries. The payments should be effected as far as possible in francs or in pounds, or in the currency of the exporting country. The two governments shall lend each other any necessary assistance in the negotiation of payment agreements with third countries;

Two. With a view to obtaining as often as possible in third countries agreements for settlement by means of blocked exchange.

Article XIII. The two governments shall consult in the circumstances envisaged in Article XII here above before proceeding to the mobilization, on the market of a third country,

-2- #2951, Dec. 11 4 p.m. (SEC FIVE) from Paris

country, of all or of part of their holdings of foreign securities.

Neither of the two governments shall sell securities expressed in the currency of the other country without prior agreement of the other government.

Article XIV. The two governments agree not to issue a loan on the market of a third country without prior mutual agreement. They shall endeavor to float joint loans.

Article XV. The two governments shall not lay down any restriction on the commercial interchange between their two countries with a view to protecting their national industries or for reasons of a monetary nature. They shall endeavor to create the same solidarity between their two empires.

(END SECTION FIVE)

BULLITT

JRL:NPL

JT

GRAY

PARIS

Dated December 11, 1939

Rec'd 8:05 p.m.

Secretary of State,
Washington.

RUSH

2951, December 11, 4 p.m. (SECTION SIX)

Article XVI. The two governments shall consult on all questions relative to price policy with a view to avoiding disparities which would be of a nature to weaken the monetary solidarity established by the present agreement.

Any difficulties which may arise in this respect shall be examined by the two treasuries.

Article XVII. The two governments agree to share the burden of all loans to which they shall in common grant to neutral or allied powers in the proportion of two for France to three for the United Kingdom.

If the development of the war should involve extraordinary expenditures in third countries for the common cause which should weigh excessively on one of the two countries, the foregoing ratio shall be applied to these expenditures for sums which shall be fixed by agreement between the two governments.

Article

-2- #2951, December 11, 4 p.m. (SEC 31X) from Paris

Article XVIII. The basis of division established in the preceding article shall be adopted for the expenditures of the Polish and Czechoslovak armies fighting for the common cause.

Article XIX. The basis of division established in Article XVII shall be followed with a view to distributing the losses resulting from blockade purchases.

(There?)
These shall be considered as blockade purchases those purchases effected by one of the two governments on the basis of a commodities decision from a neutral country and at quotations considerably above world prices.

Article XX. The present agreement shall remain in effect for the whole period of the war and for a period of six months after the signing of the treaty of peace.

Done in duplicate in French and in English, both texts authentic. Paris December, 4, 1939.

For the Government of the United Kingdom of Great Britain and Northern Ireland, John Simon.

For the Government of the French Republic, Paul
 Reynaud

(END OF MESSAGE)

BULLITT

NPL:EMB

DEC 11 1939

My dear Mr. Attorney General:

Receipt is acknowledged of your letter of December 4, 1939, in which you concur in the conclusion reached by the General Counsel of this Department in his opinion on the question whether Treasury Department officers may, without violation of sections 55(f)(1) and 4047(a)(1) of the Internal Revenue Code, issue a press release setting forth certain matters contained in a closing agreement concluded, under section 3760 of the Internal Revenue Code, with the Colt's Patent Firearms Manufacturing Company in connection with a War Department contract. We appreciate the expeditious handling of this matter.

Very truly yours,

(Signed) H. Morgenthau, Jr.
Secretary of the Treasury.

The Honorable

The Attorney General of the United States.

ORIGINAL FORWARDED TO ADDRESSEE
FROM OFFICE OF THE SECRETARY

HMF/avp
Typed: 12/7/39.

By Messenger
12/11/39 3:50 P.M.

File to Mr. Thompson

TREASURY DEPARTMENT

65

INTER OFFICE COMMUNICATION

DATE December 11, 1939

TO Secretary Morgenthau

FROM W. H. Hadley

2% TREASURY BONDS

<u>Coupon</u>	<u>Terms</u>	<u>Yield</u>	<u>Offering Price</u>	<u>Market Price</u>	<u>Premium</u>
2%	9 $\frac{1}{2}$ -11 $\frac{1}{2}$ yrs. (3/15/49-51)	1.81	100	101.25 ¹⁹	1 pt. 25/32 ^{9/32}
		1.82	100	101.22 ¹⁶	1 pt. 22/32 ^{16/32}
	9 $\frac{1}{2}$ -11 $\frac{1}{2}$ yrs. (6/15/49-51)	1.84	100	101.13	1 pt. 18/32 ✓
		1.85	100	101.10	1 pt. 10/32
	9 $\frac{3}{4}$ -11 $\frac{3}{4}$ yrs. (9/15/49-51)	1.87	100	101.5	1 pt. 5/32
		1.88	100	101.2	1 pt. 2/32

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 11, 1939.

TO Secretary Morgenthau

FROM Mr. Haas *HA*

Subject: Report of Secretary Morgenthau's interviews, held in his office on Monday morning, December 11, 1939, with regard to the method of refunding the 1 5/8 percent Treasury notes maturing March 15, 1944.

The following people were interviewed separately:

Discount Corporation

Mr. Repp
Mr. Mills

C. J. Devine and Company, Inc.

Mr. Devine

First Boston Corporation

Col. Pope

National City Bank of New York

Mr. Burgess

Present during the interviews:

Mr. Rouse, Vice President,
Federal Reserve Bank of New York

Mr. Bell
Mr. Haas

Mr. Repp and Mr. Mills

Mr. Repp opened his discussion by saying the problem of refunding the March notes was relatively simple. He outlined his proposal, as follows: (1) He would reopen the old March note of 1944. This, he indicated, would provide the safety measure and protection against decline in the market. He would save the September 1944 date for a note offered for cash. (2) He would also offer an intermediate bond. He pointed out that the market would like more of the 2 percents of 1948-50, and suggested that these bonds be opened at a one-half point premium. Refunding, he thought, could be done with the use of these two issues.

Mr. Repp went on to say that a long bond would go quite well, but if priced attractively it would be taken up and resold, leaving the market with a good deal of secondary distribution. The real long term demand, he indicated, comes mostly from the insurance

companies. He would be inclined to leave the long term demand that is now in the market to support the now outstanding long term issues.

Mr. Repp concluded his discussion by saying that either a two-way or three-way offering would go in this market.

Mr. Mills opened his discussion by stating that the new offering must include a note. He gave the following three reasons for believing this: safety, economy, and the tax exemption feature. He estimated that \$200 to \$500 millions of the rights were held by tax exemption holders.

Mr. Mills suggested reopening the 1 percent note of March 1944. The Secretary asked, why use the old note? Mr. Mills said that if a new note were offered it might result in a very small issue outstanding. Otherwise, he said, it did not make any difference. The Secretary pointed out that the note was utilized mainly as a safety provision, and that if the market were adversely affected during the refunding period \$1 billion might be turned in on the note which would make the outstanding issue \$1.5 billions. Mr. Mills said, all right, use the September 1944 note and add to it later. Mr. Repp commented that with the present market very little may be turned in on the new note which would result in a very small new note issue.

Mr. Mills continued, stating that in addition to a note he would also reopen the 2 percent 1948-50 bonds at about one-half point premium. He expressed the view that the majority of the turn-in would be into this issue.

The Secretary said he did not like to reopen issues when he did not have to. He pointed out that when an issue is reopened the premium offered is readily seen and a point may be made of it by unfriendly politicians.

The Secretary then said he would like to get Mr. Mills' reaction to a proposition he had been thinking about. The Secretary suggested a 2 1/4 percent bond of 1951-53 and a new 1 percent note. Mr. Mills said he thought that would go well. Mr. Repp said he thought it would solve the problem nicely and would "straddle" both markets - the banks and the insurance companies.

In response to a question from the Secretary, Mr. Repp expressed his belief that the banks would take a twelve year bond, particularly with 1/4 percent more added to the coupon.

Secretary Morgenthau - 3

On second thought, Mr. Mills felt that the market would be surprised and that the Treasury might get a lot of notes. The Secretary said he thought this could be handled by a good balancing in the pricing.

In response to a question from the Secretary, Mr. Repp said he thought the market now was discounting the financing and is in a position to move ahead.

The Secretary then asked Mr. Mills and Mr. Repp if they thought the banks would take the 2 1/4 percent bond. Mr. Mills expressed some apprehension, indicating that he had some honest doubts and felt that it was pushing the banks a little. He pointed out that you must rely on the banks for subscriptions and that if the bond offered is not acceptable the notes will be taken. Mr. Repp said he did not share Mr. Mills' apprehension. Mr. Mills then countered by saying he did not oppose the proposal but he would approach it with caution. Mr. Repp repeated again that he was not worried.

After Mr. Mills and Mr. Repp left, Mr. Rouse told the Secretary that the 2 1/4 percent bond would be his second choice, and thought the Secretary might consider a new 2 percent bond pushed out about six months longer than the present 2's of 1948-50.

Mr. Devine

Mr. Devine said his suggestion was the same as last Friday and he had not changed his mind. He suggested a 2 1/4 percent 1951-54 bond.

Mr. Devine went on to discuss the general market situation, emphasizing that the strength in the market was in the intermediate area. To illustrate, he said that since the 2 percent bond was offered that he had sold \$185 millions of the 1948-51 bond group as compared with \$54 millions in the 2 7/8 percent long term bonds. This, he said, indicated that there was three times as much demand in the intermediate group. He added further that the long term demand was largely an insurance company demand and that since the 2 percent bonds were offered insurance companies had purchased \$85 millions of Government bonds and that they are not in the market now. The \$85 millions, he said, were purchased largely by three companies - The Mutual, The New York Life, and The Metropolitan. He said that he had made a survey of thirty

Secretary Morgenthau - 4

insurance companies and that the thirty companies held only \$60 millions of the March note rights.

The Secretary said that he was also considering offering a note. Mr. Devine then suggested the 7/8 percent five year note. The Secretary asked him what he would think of the note and a new 2 percent bond. Mr. Devine said that would bring the bond nearer the point of heavy demand in the market and would fit the market demand more closely. He pointed out that his suggestion of a 2 1/4 percent bond was what he felt was the furthest the bond could be extended and be within the range of the large volume demand in the market.

Mr. Bell then asked Mr. Devine if he would give the Secretary his explanation of how the market was held up by the favorable reception given the new 2 percent bond. Mr. Devine pointed out that in the last ten days, out of a total of \$185 millions in bonds which he sold, \$93 millions were the new 2 percent bonds.

Col. Pope

Col. Pope opened his discussion by calling the Secretary's attention to the wide daily fluctuations in the market. He showed the Secretary a chart on which the fluctuations had been plotted. He said that the present market was "thin". In view of this, he felt that a substantial premium should be placed on the new issues offered. He felt that this was not a time to cut too much.

Col. Pope proposed a three-way offering, consisting of a note, an intermediate bond, and a long bond. He would reopen the March 1944 note, giving as his argument that if there were only a small conversion into the note the Treasury would not be left with a small issue outstanding. The second issue would be the 2 percent 1948-50 bond reopened. He pointed out that the strong market was in this area. He then went on to say that there was a market for a long bond. This market consists of the insurance company demand and the banks, he thought, were now about evenly divided in their desire for a long bond. He advised making the premium on the long bond and the intermediate bond the same, so as not to favor the long bond which, he indicated, would merely result in secondary distribution. As a long bond, he suggested a 2 1/2 percent 19 to 22 years bond. He pointed out that he suggested the three year call option rather than a five year call option because more people were now considering maturity of the bond rather than the first option date on low coupon bonds.

Secretary Morgenthau - 5

The Secretary then said he would like to get Col. Pope's reaction to an alternative plan in which none of the outstanding bonds would be reopened - a two-way proposition rather than a three-way deal. The Secretary asked him what he thought of offering a note of September 1944 and a 2 1/4 percent 1951-53 bond. Col. Pope said there was some possibility of getting a small subscription into the note, and repeated that he does not hold the same view as some do, that the market would not be receptive to a long term bond. Considering the proposal further, Col. Pope said he did not think it dangerous and that he thought it would go well, but that he liked the three-way proposition the best.

The Secretary then asked him for his preference as between a new 2 percent bond and a new 2 1/4 percent bond. Col. Pope said that the banks do not want to go over ten years, and that many boards of directors have disapproved going over ten years. He would prefer meeting this situation by offering a ten year proposition and a longer term issue. He said, however, that the 2 1/4 percent bond would probably go but the public would be better served, he thought, by offering the three-way proposition.

The Secretary asked Col. Pope what he thought of the tone of the bond market. Col. Pope said the market on Friday was pretty good, there were enough orders in it to keep it up, and there was no pessimistic note.

Mr. Burgess

Mr. Burgess opened his discussion by saying you can do anything you please, but suggested a three-way proposition. He proposed: (1) reopening the March 1944 notes; (2) reopening the 2 percent bonds of 1948-50 - he said that the market was expecting this; (3) provide an issue for insurance companies who want a long bond. He would suggest reopening the 2 3/4 percent bonds of 1958-63 or 1956-59. Mr. Burgess said he thought it inadvisable to put out long bonds with low coupons, as a break in the market would result in their going below par.

The Secretary said that his suggestions did not appeal to him, as he did not like to reopen old issues.

The Secretary then said he was considering a new note of September 1944 and either a new 2 percent bond or a 2 1/4 percent bond with a two year spread. Mr. Burgess said there was no question that such a proposal would go.

The Secretary then asked him what was his preference as between a 2 percent bond and a 2 1/4 percent bond. Mr. Burgess said he would favor the 2 1/4 percent bond, as he did not think much of the idea of dropping a new 2 percent bond along side the 2's which have just been issued. Mr. Burgess said he also thought the 1 percent note of September 1944 was good. He went on to say a 2 1/4 percent 1951-53 bond would be vulnerable in a market decline, pointing out when the market goes below par it becomes a 1953 bond rather than a 1951 bond. He also gave another reason for his preference for the 2 1/4 percent rather than the 2 percent bond, i.e., it would put the bond out in a less congested area.

The Secretary then asked him if the banks would accept the 2 1/4 percent bond which was somewhat outside the ten year area. Mr. Burgess said with the 1/4 percent more interest the banks would go twelve years and said that his bank's limit was 1951-54 and that the 2 1/4 percent bond fell within that range.

Mr. Burgess then went on to say that he felt there was no question about the 2 1/4 percent bond going well, but he was fearful of it going "sour" in a market break, as he felt that the old issues with higher premiums would wear better in adverse markets.

Repp's
discount.

72

Repp -
Repp's March 44 - note
reffer 48-50 -
long Bond go well

Took my suggestion well
Mills has same doubt
Repp says might shorten it
3 months.

Leemie
March 51-54 - $\frac{1}{4}$

$\frac{7}{8}$ note Sep. -

..

(over)

Ch. Pope

3-way
 refer market KY-
 refer 2% 48-50-
 2 1/2% 5 optional #19-22

(over)

Burgers

3-way ✓
reopen all ^{old} issues

December 11, 1939

FOR THE SECRETARY:

After talking with Mr. Gaston about the Pearson and Allen column, I called Mr. Mulcahy at the Justice Department and told him that we very much wanted to be cleared of the implication that we had failed to do something which the Justice Department had asked us to do. I told him that we were particularly disturbed about the statement since the facts were quite the contrary. Mr. Mulcahy said of course he did not know where the information originated and asked me what suggestion I had. I replied that I thought the Justice Department ought to clear the Treasury of any responsibility for having let the trawlers escape at a time when the Treasury was under contrary instructions from the Justice Department. I suggested that he issue a statement setting this matter straight. He replied that he thought this could be done and that he would discuss it with the Attorney General.

ESD

MEMORANDUM

December 11, 1939.

TO: Secretary Korgenthan
FROM: Mr. Duffield

A Mr. Williams in the Attorney General's office called me and said that the Attorney General regarded the matter in the Pearson and Allen column as pieceyinish and best ignored. Therefore, there would be no statement from them.

He made some further rather vague remarks indicating that he thought the Attorney General had given you an oral opinion before the trawlers had left our territorial waters, but when he questioned me on this point, he admitted that he could not be sure. I told him that we did not believe a statement saying that we had failed in our duty was pieceyinish, but that since the Attorney General had taken this position, all I could do was report to you.

ESD

December 11, 1939.

Following sent to Dr. Viner in Room 194 $\frac{1}{2}$ per Secretary's request:

1. Molybdenum, by Alice V. Petan, published by U. S. Department of Commerce, Bureau of Mines.
2. Reports on Tungsten and Molybdenum, by Mineral Advisory Committee, Army and Navy Munitions Board.
3. Procurement Study for Molybdenum, by Commodities Division, O.A.S.W. to Army and Navy Munitions Board.
4. Molybdenum in Steel, Climax Molybdenum Co. (leather-bound book).
5. Molybdenum in Cast Iron, Climax Molybdenum Co. (leather-bound book).

Jacob Viner

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OPEN MARKET COMMITTEE

December 11, 1939.
11:15 a.m.

Present: Mr. Eccles
Mr. Harrison
Mr. Haas
Mr. Goldenweiser
Mr. Rouse
Mr. Leach
Mr. Murphy
Mr. Hadley
Mr. Piser
Mr. Bell
Mr. Draper

H.M. Jr: Mr. Eccles, we are facing the refunding of these March one and five-eighths notes, and we asked you yesterday to meet with us to get the benefit of your advice.

Eccles: We have been discussing it a little this morning about half or three-quarters of an hour before we came over and I don't know that we came to any definite agreement. We didn't make an effort to do that so much as to discuss it. It seems that the problem is a comparatively easy one, at least we feel it is, being a refunding, and the situation of the money market is such that we feel that the Treasury can do just about what it wants, as far as the Treasury is concerned. It is a question of whether they want to satisfy the market or - whatever they want to do, I think they can do. I think the amount of excess reserves, as well as investment funds in excess of the opportunity for investment - that corporations and banks are going to be glad to take almost whatever is offered the bond market. The Government market, generally, as well as the high-grade market, I think, has a good deal of underlying strength to it.

Personally, I would favor as a first choice an option of a note opening up the March '44 notes, the one percent notes, and opening up the '48-'50 bonds.

I know there has been some discussion of a three-way offer and possibly there is some argument for it, looking at it from the standpoint of the

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Treasury. It is my feeling that the two-way offering would be successful. It would be easier to price a two-way offering so as to avoid a secondary market, possibly, than it would if a very long bond were put out. I would like to see it confined to the existing issues, rather than open up some new issue at this time. I would also like to see the securities priced so that a premium will be kept down, as far as possible.

Harrison: Will be kept down?

Eccles: What I meant - I see you misunderstood me.

Harrison: Excuse me.

Eccles: I misstated what I meant to state, George. I would like to see them priced so that a premium would be put sufficiently high so that they are not over-priced. I think that in the past in some of the issues there has possibly been maybe a little more profit than was necessary. I think a premium here, or a profit of from three quarters, not to exceed one point on it, to assure a successful operation on this refunding issue.

Now that, in general, is my feeling about it, Mr. Secretary.

H.M.Jr: Shall we kind of go around the room? George?

Harrison: I agree substantially with the Chairman. I agree first that you can do pretty nearly anything that you want to do on a reasonable basis. I first thought that with the size of the issue involved there might be some advantage in doing what you have done before, that is, the three-way offering. I think the real difficulty with that is probably the question of pricing, and I would succumb to the argument for a two-way issue largely on the ground that you could price it better and perhaps more successfully arrange for a lower profit to the subscriber than you would have to give if you had the three-way.

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I agree with the Chairman to this extent, that I have had a feeling for some while - and I think the volume of subscriptions support this - that the offerings have been a little too rich and possibly with a two-way offering you could afford - that is, with a note and an intermediate bond - you could afford to give a smaller profit than you would probably have to give if you wanted to put out the long bond, too.

I am just wondering whether the volume of subscriptions on recent offerings, offered direct on guaranteed applications, isn't an indication somewhat that perhaps you may have been a little too liberal in the light of present circumstances. Or, put it the other way around, I am not mentioning that as a criticism but rather as a suggestion that you could consider being a little less liberal than you have felt wise to be in the past. I would personally, too, favor opening up existing issues if you can find the right ones. If you had a three-way issue, I certainly would not make more than one new issue. If you had a two-way issue, I think it would be preferable to have two existing ones if you can find the right ones.

H.M.Jr:

How about Richmond?

Leach:

From the standpoint of what the market wants, or rather what investors want, I think they want the three-way option, an additional issue of the 1944 notes and an additional issue of the three percent bonds which they expect to pay a premium for and a long-term bond. I think the banks wouldn't object particularly to a premium of around a half or a little bit more, but they tell me they don't care for the premium of above a point, because a good many banks write it down for par and they wouldn't have to write it down very much at that time. I think the banks would rather pay a reasonable premium on that '40 and '50 bond than to have it a little longer without a premium, though there is some difference of opinion on that. Some don't like anything that sells at a premium. I think a three-way option would give a lot of people a chance to fit in something that they need in their portfolio without having to

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take something that they didn't want, and then selling it afterwards, so altogether I would be in favor of a three-way issue, though it wouldn't worry me much if you made it two-way.

H.M.Jr: Mr. Draper?

Draper: I prefer the two-way issue, Mr. Secretary, the March 1944 notes and the '48-'50 bond. It is more generous than the present issue of all notes and also it avoids the issuance of long bonds, which seemed to cause so much trouble in the last crisis market. You will remember the difficulty that we had in trying to stabilize the market, practically centered in the long-term bonds, and finally the Treasury will save some money by that.

H.M.Jr: Did you say three ways?

Draper: No, two ways.

Szymczak: From the standpoint of the Treasury getting out as far as possible, of course a three-way offering would be best and also provide some security for the insurance companies. There is also a possibility the banks, buying some of these long bonds and then turning them over as quickly as possible the second day on the market - it would be preferable to have a two-way issue in notes and bonds opening up those that are now in existence, March notes.

H.M.Jr: Dr. Goldenweiser?

Golden'r: I am in agreement with that in general, that it seems to me that a two-way issue is all you need, and a note and an intermediate bond. We have increased the amount of long-term bonds by two and a half billions within recent time, and it seems to me unnecessary to have a long bond, and since you can issue almost anything, I think that that would probably meet the situation as well as anything.

Harrison: Mr. Secretary, may I say one more - in explanation of my own change of mind from the three-way issue to perhaps a preference for the two-way. I felt

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that the long bond was the wise thing to put out, first generally from the point of view of the Treasury and second because I thought that the insurance investors would much prefer that and that they ought to be given an opportunity to be taken, that when I find that the estimates are that the insurance companies only own about five percent of the rights, I don't know that that is enough to influence you to put out an issue that otherwise might not be the most desirable.

H.M.Jr: Mr. Piser, have you been around?

Piser: I would be in favor of the two-way offering for the reasons that have been mentioned. As far as what banks would prefer is concerned, I think the bulk of them like the '48-'50 bond which was recently put out and would like to get more of that particular issue, whereas the note issue would be especially for the individuals who, I understand, hold a substantial amount of this particular issue. I think the one percent note with the '48-'50 bond would be the best offering.

Eccles: This note is an unusually large amount of - a lot of it is held by individuals, due to the fact that it was a refunding of a totally tax-exempt bond.

Piser: That is right.

H.M.Jr: Mr. Rouse?

Rouse: It might be worth while to review the market a little bit from the meeting held here two weeks ago today. The '48-'50s were priced as nearly as could be gauged, I think, right in line with the market to yield about a premium of 101 and a quarter to three-eighths. It turned out to be exactly what the market wanted and it was heavily over-subscribed. The market moved up on buying in long bonds and intermediate bonds and notes at the time. Another half point above that. It seemed very strong. The Russian-Finnish War developed on Thursday following the Tuesday offering and I think the new twos, the '48-'50,

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held and stimulated the market in the interim. Long bonds dropped off three-quarters of a point from their high that we had preceding the war. That whole thing seems to have been absorbed. I think this is a general feeling throughout the country today that there is very little likelihood of our becoming embroiled in the European war, that the market both fundamentally and technically is quite strong. This will complete the problem of the Treasury that it has been facing for the past three months, of the refunding of the December notes. Money was needed and obtained through the RFCs and the cash offering two weeks ago. This refunding, if there is any blanket due to the requirements of the Treasury, this will remove it. As far as one can "X" out European developments, the market seemed in a strong position to receive any offering the Treasury chooses to make, either two-way or three-way. I think there has been more demand in the last three or four days for longer bonds and a greater indication to exchange for long bonds than was apparent a week or ten days ago, which I think is a natural development.

H.W.Jr:

Well, we have seen some of the people this morning and I don't look at it just the way these people in the street do or the way you gentlemen do. We will have no argument on the two ways. I would like to do a note and a bond. The note is a hedge in case the news should be unsatisfactory, that is what we have always done, but I can't overcome my prejudices against reopening old issues, which you know I have very strongly. In order to put the thing on the table, what I would like to bring to your attention is this, that we are thinking seriously of a September '44 one percent note and a 2½ percent bond running '51-'53.

Draper:

That is practically the same. We said '48-'50 and you say '51-'53.

Eccles:

Doesn't that give a pretty good - what would the premium be on that figure, Piser? What would be the profit?

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Piser: I'm afraid I will have to do a little figuring on that.

H.M.Jr: Here, Marriner, this sheet will help you. That is the bond and the one below is the notes. We have checked that with New York. Is that right?

Hadley: Yes.

H.M.Jr: We are in agreement, aren't we?

Hadley: Yes, we are fairly close to those estimates.

H.M.Jr: When I say New York, I mean the Federal Reserve of New York.

Draper: It is hard to get up any argument on that, Mr. Secretary.

H.M.Jr: Well, I like the new issues, always have, against the old ones, except when times are hard we have got to fall back on some of the old ones. But you have got this note that we are talking about, the March '44, and we have a little over 500 million of that outstanding. If the note is ahead and they shouldn't take the bond, you might get a billion dollars worth of notes and then a billion and a half of one issue. That wouldn't be any nicer than what we have got right now with the one and five-eighths, and I personally think 500 million of one note issue is just about the right size.

Draper: Yes.

H.M.Jr: The premium between this note and the bond would be just a little bit better for the bond than the note, because it would give a nice balance.

Eccles: You say '51 and '53 on the bond?

H.M.Jr: Yes.

Eccles: Yes, that figures....

Szymczak:three and a quarter.

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- Eccles: The premium on that is a little better than one percent. It would be 101 and 5/32nds, wouldn't it?
- Hadley: Possibly twelve.
- Eccles: That is September. They are talking about December on the bond.
- H.M.Jr: The one with the asterisk in front of it.
- Eccles: From five to twelve, is that right?
- Hadley: Yes.
- Eccles: Now, on the note you have got one to eight, one to five. What is the objection on the note to making it December 15 on account of the maturities?
- H.M.Jr: There is a big maturity, four percent, isn't there?
- Crouse: '54 and '44?
- H.M.Jr: With a four percent coupon?
- Fiser: Yes, sir.
- Harrison: But I thought that was the one you were talking about. Didn't you say a five-year note? Didn't you suggest a five-year note?
- H.M.Jr: Dated September, to avoid that four percent issue.
- Eccles: Six months longer than the proposed one. If you opened up the present one you would either have to give them too much profit or you would have to sell at a premium.
- H.M.Jr: Yes.
- Eccles: So we had thought of a premium. Of course, on a note I think I agree with you, that it is possibly better to put out a new note issue than opening up an existing note issue. With a bond, I think it is maybe a little different.
- H.M.Jr: Well....

- Szymczak: It just gives you that many more issues.
- Eccles: By putting a new one out you can price it so as to get away from selling it at a premium.
- H.M.Jr: That is the thing, and I don't like it.
- Eccles: The market doesn't either.
- H.M.Jr: Whatever you price it at, I don't know - it is hard to explain from the Government's standpoint.
- Eccles: Well, you would put out a two and a quarter then. Where would a two percent one go if it was priced....
- H.M.Jr: Here you are (handing paper to Mr. Eccles).
- Piser: Couldn't that issue be stretched out a little further into about June '52, which would cut the premium down some and also would get a little further away from your existing maturities?
- Hadley: It would be considerably under a point in premium if you went out that far, probably somewhere from a half to three-quarters, and then it wouldn't be adequate.
- H.M.Jr: In discussing this with Mr. Rouse, he made a point which I thought was - a technical point which was good, that if we price the note and the bond almost the same, there is less churning afterward, because the people won't buy the bond at a big profit and sell it and then buy the note because it is cheap.
- Eccles: There is too much profit on that.
- H.M.Jr: Then these other fellows said, "If you get within six months, it is crowding the other thing and that '48-'50 is awfully crowded."
- Eccles: In other words, you haven't got anything except in this range in maturity and when you go into that range you have got to go into a little higher rate.
- H.M.Jr: And that '48-'50 range is pretty well crowded now.

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Let's say the thing was priced attractively for the market. You might get a billion dollars and then you would have another billion in that particular area which is pretty well crowded now.

- Rouse: I think they also expressed the opinion that the market would regard going from the two, '48-'50, to a two and a quarter, '51-'53, as the logical progression in this period from September on.
- Eccles: What about two and an eighth, where would that come?
- Draper: That is shaving them pretty fine.
- Eccles: You have got some eighths, haven't you? You have got some three-eighths and bonds, showing that you have gone into the eighths.
- Hadley: On the '50-'52 issues, they already have one of those.
- Eccles: The 2 $\frac{1}{2}$ s.
- H.M.Jr: All of these fellows agree that their Board of Directors, who said they couldn't buy more than ten years, they could stretch it again to do this one. The Board of Directors would be willing to stretch it.
- Eccles: I think that is a good - I wouldn't have any strong feeling against that.
- H.M.Jr: It certainly isn't priced too rich, Marriner, is it?
- Eccles: Well, it is on the note but I don't know what you can do about it. For the bond, it isn't so bad, but for a little four and three-quarter year note, a little better than a one point underwriting is, of course, pretty sweet, but I don't know what else you can do unless you give less on the bond. I think you really - this thing would go over, seeing it is a re-funding, if it was not more than about three-quarters. I would like to see about a three-quarters on the note profit and about seven-eighths on the bond. I think the sooner we get

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to the point where we get these - get away from the speculation on rights - but just as long as we are giving a point or more premium there, it is going to make these rights pretty desirable.

Piser: I think if the maturity could be stretched out three or six months to cut that premium down to around a point or a point and an eighth, it might be desirable.

H.M.Jr: On the bond?

Piser: Yes.

Eccles: What are you going to do on the note, then, Piser? You would let them both be in line, then?

Piser: The note is about a point premium, isn't it? That would give them exactly the same premium.

Bell: I think we are all desirous of cutting down the right values but I don't think we want to do it on the refunding where the values have already been established in the market. If you are going to cut down the rights, I think it ought to be down on a cash issue. Then you can fix your own rights. These rights are now established and to cut them off at a quarter of a point - I think you are going to get more kick on that than putting out something you don't - do you agree with that, Bob?

Rouse: On a small issue or refunding.

Eccles: They will kick if they are not getting very much profit, as much as they expected. But if they did - if they weren't getting the profit they expected, in the future I think they would be more cautious or more careful in buying rights, wouldn't they?

Bell: If they could be sure of the Treasury policy, sure, that is true. We cut down the rights last spring but something happened right after that, we had a war. We had to go back to being a little generous.

H.M.Jr: I don't think that is priced out of line.

Bell: I don't think so either.

H.M.Jr: A billion four is still a lot of money.

Eccles: This is less premium than we have ever given.

H.M.Jr: It is definitely cutting down.

Bell: A little less on the long bonds.

Eccles: You have had as much as one and a half, even three-quarters, haven't you?

H.M.Jr: Yes.

What do you two gentlemen think?

Draper: As far as I am concerned, I agree with your suggestion.

H.M.Jr: How about you?

Szymczak: I think we have got to go along on that suggestion of yours.

Leach: I think it is all right.

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

Harrison: I think it will go over all right. I go back to my original statement, which is fundamentally a different approach from your own, and that is about the reopening of existing issues.

H.M.Jr: I know.

Harrison: I am sorry that you have got to have two new issues. I wish that you could have only one, somehow.

H.M.Jr: That doesn't bother me at all, a couple of more issues. I never could agree - we are picking them up pretty fast.

Harrison: The reason I favored - as I said at the outset, I favored a three-way and I have switched because

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I was afraid you would end up with a very small long-term issue and you would have just another issue with a small - maybe 200 or 250 millions....

H.M.Jr: Supposing we do it the way we are just talking now.

Harrison: I should think you would have a pretty good division. You would have enough of the notes.

H.M.Jr: It is balanced?

Harrison: Yes.

Eccles: I bet you get more of the bonds than you do the notes. You will have eight or nine hundred million or maybe a billion of bonds.

Leach: You are stretching a little what the banks want, but they will take it.

H.M.Jr: There is one fellow - gosh, he said this, "This is no present from heaven." I said, "Well, that makes me think maybe we are on the right track."

Draper: Ought to make you feel good.

Harrison: I must say I like the fact that the premium or the profit is cut down somewhat on this offering, from what I was afraid you might have to do if you had a three-way. I mean it runs down to one point five to eight, doesn't it, approximately?

Bell: In that range.

Hadley: The rights are selling for 1 and 1/13th now, which is about 1 point 12/32nds premium.

Rouse: It has been in that range of a point and a quarter to three-eighths this past few weeks.

H.M.Jr: The market isn't going to like this first crack.

Rouse: It is going to take a little thinking over. I was just going to add, I think there is a little

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forcing of the market in the sense of this ten-year demand but it will come up to it. They will take it and be glad to get it.

- Harrison: What would be the maturity of a fixed $2\frac{1}{4}$, no callable feature?
- H.M.Jr: We haven't figured that, and I don't see why we should. They won't give us the two year spread.
- Piser: It would probably be about the December '53 date.
- Harrison: I have always argued for the callable feature on the ground it gives you a chance to open up again a little later.
- H.M.Jr: We have opened up issues when times got bad.
- Piser: I have been doing a little rough figuring on this issue. It seems to me it might sell at about a point and a half rather than a point and three-eighths, as has been suggested, which would lead me to think that you might be able to stretch it out another three months and cut that premium down.
- Rouse: You get into another year then; it is called a '52 instead of a '51. You may well be right about the price, because I think there is a real possibility that the whole market may move with the removal of the blanket.
- Eccles: Yes.
- H.M.Jr: Well, gentlemen, unless somebody is really displeased with this, I would kind of like to do it this way.
- Eccles: What would you think of giving the extra three months?
- H.M.Jr: I think it is an unnecessary risk.
- Eccles: It would reduce the premium or the profit. How much would it reduce the profit, Piser?

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- Piser: I will have to do a little figuring on it there.
- H.M.Jr: We figured this and we checked it with the Fed in New York. We figured it would sell between 101 and 5/32nds and 12/32nds. They have checked that with New York.
- Eccles: This morning's market?
- Hadley: Yes.
- H.M.Jr: I don't think that....
- Eccles: Piser was talking about 16/32nds.
- H.M.Jr: I don't know how he gets that way.
- Bell: You are figuring on the market going up a little, aren't you?
- Piser: What I was figuring on particularly was the fact that it has a shorter call period than either of the 51 issues that we are comparing it with and in addition that it would be at a lower price, which would attract some buying, so I think it would sell a little out of line, having a slightly lower yield than you would get from merely using the line that you draw through those issues.
- Hadley: We have made our estimates on that basis already.
- Bell: I think there is a possibility, as Mr. Rouse says, that this market may go up a little and you might get better than one.
- H.M.Jr: I have a press conference at 4:00 o'clock on Mondays. I don't think we would release this until tomorrow morning.
- Bell: I was going to ask you whether you wanted to do that this afternoon or tomorrow morning.
- H.M.Jr: I think for tomorrow morning, and then Bell has asked us - thought we ought to leave this open three days this time on account of such a wide distribution.

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- Bell: We think there is a pretty wide distribution in view of the fact it was a refunding of the Liberty 3½, and maybe you'd better leave open that extra day to get them in.
- Eccles: What objection could there be to leaving it open?
- Bell: Just the period of uncertainty, and the big bondholders won't turn them in until the last day, that is the only objection.
- Hadley: Would an announcement tonight - give them two days from that?
- H.M.Jr: We have been letting it out every afternoon.
- Rouse: A little variation doesn't do any harm.
- H.M.Jr: No, and this is a refunding. The others are always just cash, which is one day.
- Rouse: Figuring three days, I think tomorrow morning is all right.
- H.M.Jr: The other thing Bell mentioned, we would like to put in a hundred million dollars for our trust fund.
- Eccles: We have got - have we got 160?
- H.M.Jr: Trust funds.
- Eccles: Open market?
- H.M.Jr: No. Last time we took 50 million for trust funds at par. This time we thought on the 2½ we would say between now and the fifteenth of March the Treasury may absorb a hundred million dollars of these - its trust funds.
- Eccles: In other words,....
- H.M.Jr: Give us three months.
- Eccles: Instead of putting the - borrowing the funds like you have in the past, you will sell the funds, the bonds?

- 17 -

- H.M.Jr: Yes. We still have over 200 million special twos and we have all of these funds needing money and instead of having them go to the market, we can take any amount up to a hundred. It doesn't necessarily mean we will take a hundred but anything up to that.
- Eccles: You are giving them a security that is ready for the market in case they want to sell them, whereas your special twos are not ready for them.
- Bell: That is right. We have to refund those.
- H.M.Jr: And it keeps these special funds out of the market. I mean they don't have to go on the market.
- Eccles: It is a good thing for the funds to have the type of security, too, that is ready for the market.
- H.M.Jr: That is right.
- Eccles: Whereas if they have got to space the twos, they are not....
- H.M.Jr: Take F.D.I.C., they have a special two and if they should need some money they could sell it in the market instead of selling it to us, so it gives them that additional flexibility.
- Eccles: That, of course, doesn't mean any new money at all, all that means is merely a transfer of - I mean it means giving this form of security instead of the form of security that you have given them in the past.
- Harrison: Giving them more interest.
- H.M.Jr: With the possible exception that - the last time we canceled twos for the new issue. In this case, if the Government Life or some teachers' fund or something like that comes in and wants to invest money anytime during the next three months, instead of going to the market, we will just give them some of this, or Home Owners Loan. We have got so many requests from

- 18 -

Government agencies that want to buy and they get rather cranky with us when we won't let them go to the market.

Harrison: You sell it to them at par?

H.M.Jr: Yes.

Harrison: That is a nice little present.

Bell: We are selling them to the market at par.

Harrison: That is different.

Eccles: George, I am just the opposite. I think you are least justified in selling to the market. I think you are less justified than you are to the fund.

H.M.Jr: If it was any argument. Now, one other thing we would like to - sometime after the first of January, the Treasury would like to meet at some Federal Reserve Bank and ask the Federal Reserve to bring in the people who have to do with the policing, because we feel that there is not uniformity between Federal Reserve districts as to how they police, and if a meeting could be held at some one place....

Bell: Where it is warm.

H.M.Jr: Dallas.

Szymczak: You want those people policing all of the Federal Reserve banks to come in at once?

H.M.Jr: And have a meeting and have everybody come in at some one place and let Bell and whoever he wants go there and meet with them and have a two or three day session and go into this whole question.

Eccles: The operating people?

H.M.Jr: Yes.

Bell: I would like to make that a one year proposition, do it every year.

- 19 -

- Eccles: The bank presidents will be here tomorrow. We are having a conference of the bank presidents, so that if there is anything that wants to be taken up with them - I don't suppose there is, in connection with this.
- Szymczak: Dan can come over and make a statement to them and later on they will have an idea of what he wants. How about that, George? He can make a statement to the presidents tomorrow as to what he has in mind, just generally, and then whenever the meeting is called, they will already have that information beforehand.
- Harrison: All right.
- Bell: I will be glad to come over.
- Eccles: They may have some suggestions to make. Maybe they would like you to go to each one of them.
- Bell: That is what I would like to do, over a period of years, because I think we ought to get acquainted.
- Eccles: Why over a period of years? It looks to me like if you are going to....
- Szymczak: What Dan has in mind is to meet with all these fellows at the Federal Reserve banks at different times.
- Bell: Yes. In other words, you would have a conference in some district every year but not the same district.
- Leach: We would like to see that, because we are not at all satisfied with the way we are handling it. The banks in Baltimore complain that corporations and individuals get advantages over them.
- Eccles: As long as there is a good profit on this, you will get complaints.
- Bell: In many of these fiscal problems, naturally we have to leave discretion in the Federal Reserve banks and you are so far apart you just can't get together on those discretions, and we think it would be a fine thing if we could just get

- 20 -

around a table, have an agenda and discuss the various phases of all these fiscal problems.

Harrison: We already have it on our program for the President's conference tomorrow, and if it is agreeable to you we will get you to come over.

H.M.Jr: Is there anything you have on your mind, Marriner?

Eccles: No, I haven't anything else.

H.M.Jr: Anybody got any afterthoughts?

Thank you all very much.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin, Germany

DATE: December 11, 1939, 3 p.m.

NO.: 2304

On the twenty-sixth of November Polish currency in denominations greater than one zloty ceased to be legal tender in those districts of former Poland which are now a part of Germany. Until further notice, Polish coin of one zloty, fifty, twenty, ten, and five groschens remain legal tender at the rate of 50 reichpfennigs to one zloty.

In that section of German-occupied Poland comprised in the so-called general government whose capital is now at Krakow, the zloty remains legal tender. There is being carried on gradual retirement of the Reichskreditkasse marks, issued in the early days of the occupation by the Reichskreditkasse, which performs the function of a central bank for the general government. This institution is now maintaining all its accounts in zlotys. So far as we know, there have been no new issues of zloty currency by the Reichskreditkasse, which is using the currency remaining in the area and the zlotys which are being withdrawn from circulation in districts which have now been definitely incorporated in Greater Germany.

It is requested that this information be transmitted to the Treasury Department.

KIRK.

Translation from Chinese

*sent to President
12-14 (All 2nd
of transmitted
of that date)*

December 11, 1939

98

Cablegram received from Dr. H. H. Kung, Chungking, China

To Mr. K. P. Chen, Washington, D. C.

Telegram December 8th received. Based on present mining and transportation conditions, total production of tungsten is estimated at minimum 10,000 tons for next year. This may possibly reach 12,000 tons if conditions are favorable.

Sometime ago the National Resources Commission appointed the Peking Syndicate, a British firm in China, as selling agents of tungsten abroad. Sales were to be limited to the amount not needed by the Government. Any amount may be reserved by the Government for its disposal.

Next year about 5,500 tons will be required for barter purposes for delivery to Russia; 500 tons earmarked for Great Britain under the British credit arrangement; and 1,000 tons contracted to sell to France for cash. This leaves an estimated balance of about 3,000 tons. All the available balance, if any, may be shipped to the United States for sale.

At present the principal port of shipment is Haiphong. Small quantities can also be shipped from the ports of Kwantung and Chekiang Provinces.

Total annual production of tin is about 10,000 tons, and has been entirely turned over to the Central Government. Inasmuch as Kwoh-Chiu, the producing center of Chinese tin, lies close to the Yunnan- Indo-China Railway, transportation is convenient and regular delivery of tin is assured.

Please convey this information to Secretary Morgenthau.

Translation from Chinese

*sent to President
12-14 (see ltr
to transmitter
of that date)*

December 11, 1939

38

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Please convey this information to Secretary Morgenthau.

TSINGHAI

KANSU

HONAN

SHENSI

KIANGSU

ANHWEI

SIKANG

HUPEH

SZECHWAN

CHEKIANG

HUNAN

KWEICHOW

KIANGSI

FUKIEN

YUNNAN

KWANHSI

KWANGTUNG

BURMA

INDO-CHINA

HANAN

MAP OF HIGHWAYS AND RAILROADS IN SOUTH-WESTERN CHINA

LEGEND:

- HIGHWAY COMPLETED
- RAILROAD COMPLETED
- INTERNATIONAL RAILROAD
- PROVINCIAL RAILROAD

APRIL 7, 1932

SCALE: 1:11,000,000

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: December 11, 1939, 6 p.m.

NO.: 2953

FOR THE TREASURY DEPARTMENT.

This morning we again received a visit from Professor Rist. He told us, as an indication that Germany is suffering a shortage of molybdenum, that information was in the hands of the French Blockade Ministry that Germany had proposed to sell a substantial amount of vanadium, which in German smelters is recovered from pig iron, to an Italian firm in exchange for such quantities of ferro-nickel and ferro-molybdenum as could be obtained by Italy.

END SECTION ONE.

BULLITT.

EA:LWW

AC

GRAY

Paris

Dated December 11, 1939

Rec'd 9:15 p.m.

Secretary of State

Washington

2953, December 11, 6 p.m. (Section Two).

Under a decree published in the Journal Officiel of December 9, procedure is outlined under which declarations must be made by those who possess, administer or hold in deposit stocks of raw metals and alloys for smelting; metals and alloys in ingots, bars, et cetera, metallic carbides; abrasive raw material; crude rubber; chemicals utilized for the manufacture of glass ceramic and paint and old metals.

Under an arrete published in the same Journal Officiel the Minister of Armament is authorized to set up a fund for the purpose of equalizing the import and domestic price of certain metallurgical products such as steel bars, rails, girders, et cetera (see despatch No. 4304 of November 17, 1939).

The full powers law approved by Parliament on December 1 (telegram No. 2887, December 2, 5 p.m.) promulgated in the Journal Officiel of December 10.

The

- 2 - #2953, December 11, 5 p.m. (Section Two) from Paris

The further decree published in the same Journal Officiel provides that during the period of the war foreign merchandise liable to the general tangible tariff may upon the request of the pertinent Minister and after approval by the Ministers of Finance and Commerce be exceptionally admitted under the minimum tariff when indispensable for the economic life of the nation or for the supply or equipment of manufacturers working for national defense.

BULLITT

HTM:RR

AC

GRAY

Paris

Dated December 11, 1939

Rec'd 9:05 p.m.

Secretary of State

Washington

2953, December 11, 6 p.m. (SECTION THREE).

A further decree provides that after December 15 next fresh, frozen or conserved meat may not be sold on Fridays nor may restaurants serve meat on that day.

Under two decrees published in the Journal Officiel of December 11 declarations must be made to the authorities by those who possess, detain or hold on deposit more than 100 kilograms of old paper or paper containers of all kind, chiffons and waste of textile products. The preamble to these decrees stresses the urgent necessity for the Government to reduce imports of such material to the lowest possible amount on account of the cost as well as tonnage required for transport.

Normal and permanent budgetary revenue for October 1939 totaled 500,048,000,000 francs which is 1,259,000,000,000 more than for September but 362,349,000 francs less than for the corresponding month

- 2 - #2453, December 11, 6 p.m. (SECTION THREE) from Paris
month of 1938. Revenue from indirect taxation,
monopolies and domain is 797,000,000 less than budgetary
estimates (the only category of revenue which can be
immediately compared with estimates). Combined August
and September revenue was reported in telegram No.
2882 of December 19, 6 p.m.

BULLITT

RR

J T

GRAY

PARIS

Dated December 11, 1939

Rec'd 7:20 p.m.

Secretary of State,
Washington.

2953, December 11, 6 p.m. (SECTION FOUR)

The Swiss national bank statement for December 7 shows gold holdings down 2,300,000 to 2,807,500,000. Foreign exchange holdings were down 7,300,000 to 334,500,000. Note circulation was down 21,100,000 to 1,990,500,000, and sight obligations were up 5,800,000 to 833,600,000. Gold covers at 81.70 as against 81.74.

The financial press carries reports that Holland is about to float a twenty year loan of 300,000,000 florins with an interest rate of 4% and an issue price of 99.

The Paris securities market was strong today and rente issues were particularly in demand. The dollar exchange guaranty issue advanced 5.10 francs and the 1925 exchange guaranty issue 1.40 francs. Other issues rose from 50 centimes to 2.50 francs. Official exchange rates were unchanged.

(END OF MESSAGE)

BULLITT

EMB

TELEGRAM SENT

CK

GRAY

December 11, 1939

8 p.m.

EMBASSY

LONDON

1588.

From the Secretary of the Treasury for your information and to be repeated to Paris and Berlin.

The Secretary of the Treasury will announce offering tomorrow December 12 of 12-14 year 2- $\frac{1}{8}$ percent Treasury Bonds of 1951-53, and of 1 percent 4 year and 9 month Treasury Notes of Series C-1944, both in exchange for 1-5/8 percent Treasury Notes of Series A-1940, maturing March 15, 1940. The amount of each offering to the public will be limited to the amount of maturing notes tendered and accepted in exchange therefor, and in addition up to \$100,000,000 of the bonds may be sold to Government Investment Accounts for cash during the next three months, at par and accrued interest. Both issues will be dated December 22, 1939, and will bear interest from that date.

The new Treasury bonds and notes will be accorded the same exemptions from taxation as are accorded other issues of Treasury bonds and Treasury notes now outstanding.

1-5/8 percent Treasury Notes of Series A-1940, maturing March 15, 1940, are now outstanding in the amount of \$1,378,364,200. The present offering will be the only opportunity afforded the holders of these maturing notes to exchange them for other interest-bearing obligations of the United States. Any maturing notes not so exchanged at this time will be paid in cash when they mature.

HUFL
(HF)

E.:HF:MEG

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: December 11, 1939, 10 a.m.

NO.: 2944

FOR THE TREASURY DEPARTMENT.

It is stated in a December 8 press despatch from Washington that the Federal Reserve Board has "issued an unprecedented compilation here today showing the disposable financial resources of Great Britain, France, Germany and several neutral nations including Russia"; it would be of help to the Embassy if you could cable us a breakdown of this "compilation", especially with regard to Great Britain and France.

BULLITT.

EA:LWW

TELEGRAM SENT

AA
108

PLAIN

JT

December 11, 1939

AMERICAN EMBASSY

PARIS

1507, eleventh.

From Treasury Department.

In reply to your 2944 December 11, 10 a.m.

Information released by Federal Reserve Board relates to gold reserves of foreign countries, dollar balances and investments of foreign countries in the United States. It summarizes already published information. The figures released in millions of dollars as of end of August 1939 are as follows: United Kingdom, gold two thousand, dollar balances five hundred and ninety-five, holdings of American securities seven hundred and thirty-five, direct and other investments in the United States nine hundred. France, gold three thousand, dollar balances three hundred and fifteen, holdings of American securities one hundred and eighty-five, direct and other investments in the United States eighty. Total British and French Empires, gold five thousand seven hundred and fifty-five, dollar balances one thousand two hundred and sixty-five, holdings of American securities one thousand

-2- #1507, December 11, to Paris

thousand four hundred and twenty, direct and other investments in the United States one thousand five hundred and forty. Germany, gold one hundred and fifty, dollar balances ten, no other figures are shown. U.S.S.R., gold one thousand, no other figures are shown. Total neutral countries, gold five thousand seven hundred and seventy-five, dollar balances one thousand six hundred and thirty, holdings of American securities one thousand three hundred and ninety-five, direct and other investments eight hundred and sixty. Total all foreign countries, gold eleven thousand six hundred and eighty, dollar balances two thousand nine hundred and five, holdings of American securities two thousand eight hundred and fifteen, direct and other investments in the United States two thousand four hundred.

HULL
(MF)

EA:MF:PEG

TELEGRAM SENT

JT

PLAIN

December 11, 1939

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-2- #1507, December.11, to Paris

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HULL
(TF)

EA:TF:MEG

THE WHITE HOUSE
WASHINGTON

December 11, 1939

CONFIDENTIAL MEMORANDUM

FOR H. M., Jr.

To speak to me about.

F. D. R.

Enclosure

DOMESTIC ECONOMIC DEVELOPMENTS

ESTIMATED BALANCE OF PAYMENTS of the United States for the first three quarters of 1939 with comparative figures for the corresponding period of 1938 is attached.

ITEMS OF SIGNIFICANCE:

1. The net gain of \$2,382,000,000 of gold from foreign sources to our gold stocks during the first nine months of 1939 is of unprecedented proportions after almost continuous gold imports of high magnitude since 1934. It represents in large part the flight of capital from Europe to the United States prior to and since the outbreak of war, although the substantial excess of merchandise exports was also a factor.
2. The merchandise export balance for the first nine months was almost \$300,000,000 less than during the same period in 1938 (the change in the balance on current account was of approximately the same size). This was about in line with what should be expected when domestic business is expanding relative to the movement throughout the rest of the world. In such a period imports tend to move up more sharply than exports. As a matter of fact, exports for the first nine months of this year were below the corresponding period of 1938 primarily as a result of reduced shipments of grains, cotton, tobacco, and crude petroleum. Exports of sealmanufactures and finished products generally were higher this year than last.
3. The usual seasonal expansion of the export balance during the fourth quarter will probably raise the merchandise balance for the year as a whole to something in excess of three quarters of a billion dollars. Such a figure on trade account, together with the likelihood of continued release of earmarked gold and the possibility of further gold shipments on foreign (particularly British) account will bring the net gold additions from foreign sources close to 3 billion dollars by the end of the year.

It can not be assumed that the British will continue to use only security sales as a source of funds, especially in view of present indications of increasing gold shipments to this country on British account. We understand that there is at present some disagreement between the British Treasury and the Bank of England upon the type of assets that should be used to meet the continued demand for dollars. The Treasury is for using gold while the Bank is for using securities. It should be noted that this is a controversy within our sphere of interest and that continued gold shipments would be a less satisfactory solution from our point of view than security transfers.

BRITISH DOLLAR BALANCES have been built up for some months through the net liquidation of American securities. This movement was in progress for some months prior to the Defence (Finance) Regulations which came into operation soon after the outbreak of war and required all residents of the United Kingdom to offer to the government their holdings of gold and of certain specified currency assets, the same to be paid for in sterling at the prevailing exchange rates. While this liquidation has not been of a magnitude to affect the general level of stock prices to the degree suggested in the daily press, it does perhaps offer some evidence that the British contemplate a need for the enlarged dollar balances to pay for imports from us of war materials.

FRENCH DOLLAR BALANCES have been less well maintained, presumably because of the fact that the decree of mid-September allows French holders of foreign assets until December 1 to declare their holdings. During September when the British were engaging in net liquidation of American securities, the French were buying on balance and apparently have not yet engaged in any net liquidation. It may be noted in this connection that the French balances in the United States constitute a much higher percentage of total dollar assets than do those of any other country.

SUMMARY OF VIEWS on business prospects expressed at a meeting in New York on Tuesday of about forty business analysts—mainly representatives of financial houses and statistical services but including a few from industrial and mercantile corporations (United States Steel Corporation, General Electric, etc.).

Some decline in business activity expected during early months of 1940 but extensive recession is not anticipated. The group may be said to have been reasonably optimistic but they did not support their appraisal of the situation very convincingly. In general, they did not seem optimistic about prospects for capital expenditures or exports and when pressed, were inclined to rely on prospects in the consumers' goods field which would generate some investment activity.

Estimates for the Federal Reserve index for 1940 - Shaw (Standard Statistics) 112; Ragnar-Naess (Tricontinental) 105-110. These estimates compare with the 1939 average of 106 and the current rate of above 125.

The group agreed that inventories were accumulating but no one had data relating to the magnitude of this movement (they were much interested in hearing that the Department was attempting to get information on this score). Most optimistic guess of rate at which steel was being consumed at present was 80-85 percent of capacity compared with the production rate of 94 percent.

JR

PLAIN

London

Dated December 11, 1939

Rec'd 1:43 p.m.

Secretary of State,
Washington.

2584, December 11.

FOR TREASURY.

1. Please substitute the following quotation for that contained in the third paragraph of No. 2570 of December 8: "I can only say on behalf of myself . . . and all my colleagues concerned with economic affairs, that should the Prime Minister decide to appoint such a Minister to coordinate our efforts we should work with him loyally, helpfully and in the most friendly spirit.", but such an appointment "would not be in substitution for the system of committees but in addition to it."

2. Please substitute for last sentence of No. 2570: "next week's tender for pounds 65 million will be only pounds 10 million in excess of maturities and, if fully allotted, will bring the tender issue to pounds 750 million in the following week."

3. The November clearing bank returns show a rise of pounds 17.3 million in deposits bringing the figure to pounds 2,344.6 million, an all-time high. The increase

increase

-2- #2584, December 11, from London.

Increase compares, however, with one of pounds 49.2 million in October and suggests that inflationary tendencies are being kept under some control. A rise of pounds 64.3 million in bill portfolios compares with a four weeks rise between October 26 and November 25 of pounds 104 million in the outstanding tender issue of treasury bills, while call money was pounds 17.3 million down on October, indicating that the balance of tender bills was not carried by the discount market. This suggests that a substantial portion of the increase in the tender issue was absorbed by Government departments and for the exchange equalization account. Meanwhile the tap issue declined from pounds 701.8 million on October 28 to pounds 679.5 million on November 25. The figures of the component parts of the floating debt thus become less revealing of the authorities methods of managing the money market. A decline in advances of pounds 17.9 million to pounds 995.2 million is regarded as surprising since it was expected that the reduction in the demand for loans for financing commodity positions placed under government control, special needs during evacuation, etc., would be offset by now by increased demand for accommodation for financing

-3- #2584, December 11, from London.

financing armament production. The shrinkage in advances tended to force banks to increase their investments which rose by pounds 5.7 million to pounds 610.8 million. Cash declined by pounds 10.3 million to pounds 245.2 million which, with the increase in deposits, brought down the cash ratio to 10.46 per cent as compared with 10.98 per cent in October. However, the combined ratio of cash, call money and bills to deposits was 31.57 per cent as compared with 30.23 per cent in October.

4. With reference to the first section of No. 2570 of December 8, the weekend and this morning's press still reflect dissatisfaction with Stanley's description of government measures to push exports, emphasis being placed on the fact that the Leith-Ross committee's efforts are evidently confined to economic warfare measures while no coordinated drive seems to be made to increase ordinary export trade to acquire foreign exchange.

5. The Swedish and Norwegian exchange rates were both fixed five points weaker today being 16.75-95 and 17.55-75 respectively. Other official rates remain unchanged since my No. 2551 of December 6 (paragraph 5). The Finnish mark holds at 215 buyers with practically no business.

JOHNSON

CSE

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, December 12, 1939.
12/11/39.

Press Service
No. 19-59

Secretary of the Treasury Morgenthau announced today the offering, through the Federal Reserve Banks, of 12-14 year 2-1/4 percent Treasury Bonds of 1951-53, and of 1 percent 4 year and 9 month Treasury Notes of Series C-1944, both in exchange for 1-5/8 percent Treasury Notes of Series A-1940, maturing March 15, 1940. The amount of each offering to the public will be limited to the amount of maturing notes tendered and accepted in exchange therefor, and in addition up to \$100,000,000 of the bonds may be sold to Government Investment Accounts for cash during the next three months, at par and accrued interest.

The Treasury Bonds of 1951-53, now offered in exchange for Treasury notes maturing March 15, 1940, will be dated December 22, 1939, and will bear interest from that date at the rate of 2-1/4 percent per annum, payable semi-annually on June 15 and December 15, with the first coupon, however, covering a period slightly less than six months. The bonds will mature December 15, 1953, but may be redeemed at the option of the United States on and after December 15, 1951. They will be issued in two forms; bearer bonds with interest coupons attached, and bonds registered both as to principal and interest. Both forms will be issued in the denominations of \$50, \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000.

The Treasury Notes of Series C-1944, now offered in exchange for Treasury notes maturing March 15, 1940, will be dated December 22, 1939, and will bear interest from that date at the rate of 1 percent per annum, payable semiannually

- 2 -

on March 15 and September 15, with the first coupon, however, covering the fractional period from December 22, 1939, to March 15, 1940. The notes will mature September 15, 1944, and will not be subject to call for redemption before that date. They will be issued only in bearer form with coupons attached, in denominations of \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000.

The new Treasury bonds and notes will be accorded the same exemptions from taxation as are accorded other issues of Treasury bonds and Treasury notes now outstanding. These provisions are specifically set forth in the official circulars released today.

Subscriptions will be received at the Federal Reserve banks and branches, and at the Treasury Department, and should be accompanied by a like face amount of 1-5/8 percent Treasury Notes of Series A-1940, maturing March 15, 1940, with final coupon due March 15, 1940, attached. The maturing notes will be accepted at par, and accrued interest on such notes from September 15 to December 22, 1939, ($\$4.375$ per \$1,000 face amount) will be paid following their acceptance.

The right is reserved to close the books as to any or all subscriptions at any time without notice, and, subject to the reservations set forth in the official circulars, all subscriptions will be allotted in full.

1-5/8 percent Treasury Notes of Series A-1940, maturing March 15, 1940, are now outstanding in the amount of \$1,378,364,200. The present offering will be the only opportunity afforded the holders of these maturing notes to exchange them for other interest-bearing obligations of the United States. Any maturing notes not so exchanged at this time will be paid in cash when they mature.

The texts of the official circulars follow:

UNITED STATES OF AMERICA

117

2-1/4 PERCENT TREASURY BONDS OF 1951-53

Dated and bearing interest from December 22, 1939

Due December 15, 1953

REDEEMABLE AT THE OPTION OF THE UNITED STATES AT PAR AND ACCRUED INTEREST ON AND AFTER DECEMBER 15, 1951

Interest payable June 15 and December 15

1939
Department Circular No. 627

Public Debt Service

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, December 12, 1939.

I. OFFERING OF BONDS

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, approved September 24, 1917, as amended, invites subscriptions, at par, from the people of the United States for 2-1/4 percent bonds of the United States, designated Treasury Bonds of 1951-53. The amount of the public offering under this circular will be limited to the amount of Treasury Notes of Series A-1940, maturing March 15, 1940, tendered in payment and accepted, in addition to which \$100,000,000, or thereabouts, of these bonds may be allotted to Government investment accounts against cash payment.

II. DESCRIPTION OF BONDS

1. The bonds will be dated December 22, 1939, and will bear interest from that date at the rate of 2-1/4 percent per annum, payable on a semiannual basis on June 15 and December 15 in each year until the principal amount becomes payable. They will mature December 15, 1953, but may be redeemed at the option of the United States on and after December 15, 1951, in whole or in part, at par and accrued interest, on any interest day or days, on 4 months' notice of redemption given in such manner as the Secretary of the Treasury shall prescribe. In case of partial redemption the bonds to be redeemed will be determined by such method as may be prescribed by the Secretary of the Treasury. From the date of redemption designated in any such notice, interest on the bonds called for redemption shall cease.

2. The bonds shall be exempt, both as to principal and interest, from all taxation now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority, except (a) estate or inheritance taxes, or gift taxes, and (b) graduated additional income taxes, commonly known as surtaxes, and excess-profits and war-profits taxes, now or hereafter imposed by the United States, upon the income or profits of individuals, partnerships, associations, or corporations. The interest on an amount of bonds authorized by the Second Liberty Bond Act, approved September 24, 1917, as amended, the principal of which does not exceed in the aggregate \$5,000, owned by any individual, partnership, association, or corporation, shall be exempt from the taxes provided for in clause (b) above.

3. The bonds will be acceptable to secure deposits of public moneys, but will not bear the circulation privilege and will not be entitled to any privilege of conversion.

4. Bearer bonds with interest coupons attached, and bonds registered as to principal and interest, will be issued in denominations of \$50, \$100, \$500, \$1,000, \$5,000, \$10,000, and \$100,000. Provision will be made for the interchange of bonds of different denominations and of coupon and registered bonds, and for the transfer of registered bonds, under rules and regulations prescribed by the Secretary of the Treasury.

5. The bonds will be subject to the general regulations of the Treasury Department, now or hereafter prescribed, governing United States bonds.

III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve banks and branches and at the Treasury Department, Washington. Banking institutions generally may submit subscriptions for account of customers, but only the

Federal Reserve banks and the Treasury Department are authorized to act as official agencies. The Secretary of the Treasury reserves the right to close the books as to any or all subscriptions or classes of subscriptions at any time without notice.

2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of bonds applied for, to make allotments in full upon applications for smaller amounts and to make reduced allotments upon, or to reject, applications for larger amounts, or to adopt any or all of said methods or such other methods of allotment and classification of allotments as shall be deemed by him to be in the public interest; and his action in any or all of these respects shall be final. Subject to these reservations, all subscriptions will be allotted in full. Allotment notices will be sent out promptly upon allotment.

IV. PAYMENT

1. Payment at par for bonds allotted to the public hereunder must be made or completed on or before December 22, 1939, or on later allotment, and may be made only in Treasury Notes of Series A-1940, maturing March 15, 1940, which will be accepted at par, and should accompany the subscription. Coupons dated March 15, 1940, must be attached to the notes when surrendered, and accrued interest from September 15, 1939, to December 22, 1939 (\$4.375 per \$1,000), will be paid following acceptance of the notes.

V. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve banks are authorized and requested to receive subscriptions, to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve banks of the respective districts, to issue allotment notices,

- 4 -

to receive payment for bonds allotted, to make delivery of bonds on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive bonds.

2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve banks.

HENRY MORGENTHAU, JR.,
Secretary of the Treasury.

UNITED STATES OF AMERICA

1 PERCENT TREASURY NOTES OF SERIES C-1944

Dated and bearing interest from December 22, 1939

Due September 15, 1944

Interest payable March 15 and September 15

1939
Department Circular No. 628
Public Debt Service

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, December 12, 1939.

I. OFFERING OF NOTES

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, approved September 24, 1917, as amended, invites subscriptions, at par, from the people of the United States for 1 percent notes of the United States, designated Treasury Notes of Series C-1944, in payment of which only Treasury Notes of Series A-1940, maturing March 15, 1940, may be tendered. The amount of the offering under this circular will be limited to the amount of Treasury Notes of Series A-1940 tendered and accepted.

II. DESCRIPTION OF NOTES

1. The notes will be dated December 22, 1939, and will bear interest from that date at the rate of 1 percent per annum, payable on a semiannual basis on March 15 and September 15 in each year until the principal amount becomes payable. They will mature September 15, 1944, and will not be subject to call for redemption prior to maturity.

2. The notes shall be exempt, both as to principal and interest, from all taxation (except estate or inheritance taxes, or gift taxes) now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority.

3. The notes will be accepted at par during such time and under such rules

- 2 -

and regulations as shall be prescribed or approved by the Secretary of the Treasury in payment of income and profits taxes payable at the maturity of the notes.

4. The notes will be acceptable to secure deposits of public moneys, but will not bear the circulation privilege.

5. Bearer notes with interest coupons attached will be issued in denominations of \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000. The notes will not be issued in registered form.

6. The notes will be subject to the general regulations of the Treasury Department, now or hereafter prescribed, governing United States notes.

III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve banks and branches and at the Treasury Department, Washington. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve banks and the Treasury Department are authorized to act as official agencies. The Secretary of the Treasury reserves the right to close the books as to any or all subscriptions or classes of subscriptions at any time without notice.

2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of notes applied for, to make allotments in full upon applications for smaller amounts and to make reduced allotments upon, or to reject, applications for larger amounts, or to adopt any or all of said methods or such other methods of allotment and classification of allotments as shall be deemed by him to be in the public interest; and his action in any or all of these respects shall be final. Subject to these reservations, all subscriptions will be allotted in full. Allotment notices will be sent out promptly upon allotment.

- 3 -

IV. PAYMENT

1. Payment at par for notes allotted hereunder must be made or completed on or before December 22, 1939, or on later allotment, and may be made only in Treasury Notes of Series A-1940, maturing March 15, 1940, which will be accepted at par, and should accompany the subscription. Coupons dated March 15, 1940, must be attached to the notes when surrendered, and accrued interest from September 15, 1939, to December 22, 1939, (\$4.375 per \$1,000), will be paid following acceptance of the notes.

V. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve banks are authorized and requested to receive subscriptions, to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve banks of the respective districts, to issue allotment notices, to receive payment for notes allotted, to make delivery of notes on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive notes.

2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve banks.

HENRY HUGHETTES, JR.
Secretary of the Treasury.

TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE,
Tuesday, December 12, 1939.

Press Service
No. 19-65

Secretary of the Treasury Morgenthau announced today that the subscription books for the current offering of 2-1/4 percent Treasury Bonds of 1951-53 and of 1 percent Treasury Notes of Series C-1944 will close at the close of business Wednesday, December 13, 1939. This offering is open only to the holders of Treasury Notes of Series A-1940, maturing March 15, 1940.

Subscriptions addressed to a Federal Reserve bank or branch or to the Treasury Department and placed in the mail before 12 o'clock midnight, Wednesday, December 13, will be considered as having been entered before the close of the subscription books.

Announcement of the amount of subscriptions and their division among the several Federal Reserve districts will be made later.

—oOo—

December 12, 1939

10:45 am

Dr. Feis was just here and he wanted me to do something about this fight over setting up the new Collins Board. I told him I would not do anything. It seems that Joe Green in the State Department is in on this thing and that Woodring told Joe Green that he, Woodring, thought that the President's new Board was a mistake (which, of course, is just the opposite of what Woodring told me).

Feis said that the State Department, through Welles, had finally sold the Collins Board idea to the President and that they were not going to recede, but couldn't they use the Munitions Board which had a fine set-up, and so forth and so on.

As soon as I heard Joe Green's name I decided whatever Joe Green wants, I am against.

Then Feis stayed behind and gave me what I think is a very good idea and I told him to see Viner, namely, that without going into the whole question of the gold discussion and looking forward to the possibility that after we have got most of the gold that England and France might not want any more, that under the Tripartite Agreement we now ask the English and French to agree that they will put no import quotas on gold and no special taxes and I think that is a very good idea.

oOo-oOo

December 12, 1939

HM, Jr showed this to the President at lunch today and the President read it.

December 8, 1939

FOR THE SECRETARY'S DIARY

In a telephone conversation with me on December 6, Mr. Berle stated that the philosophy of the American people towards the war was as follows: When war broke out the American people did not like either side, but their sympathies were all one way. With the development of the Finnish situation and the Balkan situation, which would come to a head within the next few weeks or, certainly, by spring, the attitude of the American people would change. They would recognize the vital interests of the United States at stake in the European struggle, and anyone who had followed a policy of non-involvement would be abolished. It would be recognized that, by his past acts with respect to non-involvement, he had so committed himself that he would be unable to adapt himself to the new policy. He stated that this was not his own personal view but merely his estimate of the trend.

My secretary, Mrs. Pools, listened to this conversation and has initialed the copy to indicate that it is in accordance with her recollection.

Huntington Cairns

TREASURY DEPARTMENT

128

INTER OFFICE COMMUNICATION

DATE December 12, 1939

TO Secretary Morgenthau
FROM W. H. Hadley

Price of New Issue Relative to
Outstanding Issues

The following table shows the changes in price of outstanding issues from 2:00 P. M. Monday, December 11 to the opening on Tuesday, December 12. Our estimate of 101.12 on the new 2-1/4% bond was based on prices prevailing at 2:00 P. M. on Monday. The market until that time was unchanged from the close on Friday, December 8th. As can be seen from the table, the opening price of 101.22 was in line with outstanding issues taking into account the gains in the market from 2:00 o'clock on Monday.

<u>Issues</u>	<u>Market Prices</u> <u>2:00 PM Dec. 11</u>	<u>Opening Prices</u> <u>10:00 AM Dec. 12</u>	<u>Change</u> <u>in Price</u>
2-3/4s 1951-54	106.13	106.18	+ 5/32
2-3/4s 1951-55	109.12	109.19	+ 7/32
2-1/4s 1951-53 (<u>New</u>)	101.12 *	101.22	+ 10/32
2-3/4s 1956-59	105.11	105.24	+ 13/32
2-3/4s 1960-65	105.5	105.19	+ 14/32

* Estimated price based on market at 2:00 P.M.

Treasury Department
Division of Monetary Research

Date 12/12/39.....19

To: Miss Chauncey

From: H. D. White

The Secretary requested this
information for today.

BK 228
129

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 12, 1939

TO Secretary Morgenthau
FROM Mr. White
Subject: Tungsten

Conclusion:

Tungsten is probably not a military or economic problem to any major country of the world.

- (a) England and France have adequate sources of supply in the Empire and in Portugal.
- (b) Germany and Russia have accumulated large stocks of tungsten. In addition, China has pledged 5,500 tons out of her annual production of 10,000 tons to Russia in a barter arrangement. (China has also pledged 500 tons to England.)
- (c) Japan produces 2,000 tons of tungsten per year which is probably enough for her needs. (Japan has not imported tungsten in recent years.)
- (d) The United States produces a large proportion of her domestic needs and the balance can be obtained from Bolivia. The United States also produces over 90 percent of the world's production of molybdenum which is reported to be a substitute for tungsten for most purposes.

1. Tungsten -- used principally in the manufacture of high-speed tools, filaments for electric lights, radio tubes, in preparing various chemicals, in tanning white leather, and in alloys. In recent years molybdenum has been used increasingly as a substitute for tungsten.

2. World Production

World production of tungsten has increased very rapidly during the past five years.

<u>World Production of Tungsten</u>			
1933	12,000 tons	1936	25,000 tons
1934	16,000 tons	1937	38,000 tons
1935	22,000 tons	1938	32,000 tons (est.)

China exports one-third to one-half of the world's consumption. The only other countries that produce tungsten on any large scale are Burma, 5,000 tons; United States, 3,000 tons; Bolivia, 2,000 tons; Japan, 2,000 tons; and Portugal, 3,000 tons.

Tungsten is produced in parts of China which are still under Chinese control in Hunan, Kiangsi and Kwangtung provinces. Prior to the outbreak of hostilities in July 1937 tungsten ore was exported through Shanghai. With the closing of Shanghai the outlets moved southward until the last path left for export was through Indo-China.

3. United States Imports and Production

The United States produced about 2,000 tons of tungsten from 1934 to 1936 and about 3,000 tons in 1937 and 1938.

Our imports were less than 1,000 tons in 1934 and 1935, 4,000 tons in 1936, and 5,500 tons in 1937. In 1938 and during the first nine months of 1939, our imports were very small, 162 tons in 1938 and 422 tons in 1939.

4. Prices of Tungsten in Recent Years

The price of tungsten ore of specified grade was slightly more than \$10.00 a ton during the period from 1927 until 1934. From 1934 to the beginning of 1937 the price was at the higher level of \$14.00 to \$16.00 per ton, due, in part, to the accumulation of stock piles by Russia and Germany. Germany was acquiring tungsten from China on barter arrangements while Russia was supposedly buying tungsten in the open market.

The price of tungsten rose sharply early in 1937, after the British announced their rearmament program. In January 1937 the price was \$15.00 per ton; it rose in March to \$19.00 and in April to \$22.00. The price rose again to more than \$25.00 a ton in the Fall of 1937 when the Chinese tungsten supplies were cut off temporarily through the closing of Shanghai. In 1938 the price declined from January to June to a low of \$17.50. In the last half of 1938 the price rose to \$20.00 and stayed at this level or slightly below throughout the first eight months of 1939. With the outbreak of war in September of this year the price rose to \$23.00.

5. Do Germany and Russia need Tungsten?

Germany and Russia have probably accumulated large stock piles of tungsten. Whether Russia produces tungsten is not known but in 1937 she imported 2,000 tons. The War Department has reported that Germany has stock pile which is equivalent to 60 percent of the world's stock of tungsten ore.

December 12, 1939

Walked down with Henry Wallace.

We talked about the so-called Certificate Plan. Wallace said that he had told the President he was going out in the West and try to sell it to the country as each year the President asked Congress to find a means of financing the processing taxes and that the President had made no comment when he told him he was going out to do this selling job.

I told Wallace that this year with the Budget entirely out of the Treasury, my interest was solely in the raising of taxes; that I felt that this was entirely a Treasury matter and that I would fight to keep the control of the taxing power within the Treasury. He said he was sorry to hear that. I said, however, I wasn't going to get into a personal row with him over this; that it was very nice for the President to drop the two of us into a pit like a couple of cocks and say whoever comes out alive he will support.

Then, to my amazement, Wallace said, of course the President had led him to believe that he was interested in the certificate plan because it would be outside of the Budget and the President thought that was all right. I said, "I don't." He said, "I know you don't and I don't blame you because, after all, it's dishonest." On second thought, he said, "Well, maybe I wouldn't put it as dishonest, but it is misleading the public." I said, "It is not only misleading the public, but it is circumventing the Supreme Court," and he made no answer to that.

He said at a discussion at Cabinet between himself and Hanes he had asked to come before this advisory group and he had received no such invitation and I said that I would arrange it and I found the group he had in mind was the Fiscal and Monetary group.

I also asked him to let us have a detailed plan of the Certificate Plan and to my surprise he said it had not been worked out in detail, but only as to principle. So I said, well, let us have as much as you

-2-

have got. He said, "Shall I send it to Harry White?" and I said, "No, send it to me direct."

We then got on Berle and I told him that I would show him Berle's memorandum on neutrality and I said, "You can have your Berles and your Tugwells and your Moleys. They are all the same." And I said, "You can add Taussig too." He said, "Did you know whenever you talked to Sumner Welles it's the same as talking to Taussig?" He said, "It is." He said, "Taussig, who is interested in sugar, more or less seems to control Sumner Welles' thinking along these lines."

He then said that Farley told Wallace that Berle tried to sell the idea to Farley that LaGuardia should run as Vice President with either Hull or Garner. It was Berle who told this to Wallace who told it to me.

I said, "You know, Berle belongs to the Labor Party in New York; that he really is much more of a Labor Party man than he is a Democrat." And I said, "You know Berle is also very close to the La Follettes."

oOo-oOo

JR

PLAIN

London

Dated December 12, 1939

Rec'd 2 p.m.

Secretary of State,
Washington.

2599, December 12, 6 p.m.

Please send copy to Treasury.

1. With reference to the fourth paragraph of No. 2378 of November 16, 6 p.m., Einzig's Lombard Street column in the FINANCIAL NEWS today states that the gold not yet actually delivered to Germany by the B.I.S. which is now withheld as a result of the protest by Malik, Foreign manager of the Czechoslovak National Bank, is now learned to be over pounds 1,600,000 of which some pounds 700,000 is in Amsterdam and over pounds 900,000 in Bern.

2. The Prime Minister's refusal to appoint a Minister for Economic Questions urged last night by a deputation from the federation of British industries has caused disappointment, only mitigated by his intimation that under war conditions no decisions could be regarded as fixed and final. The FINANCIAL NEWS hints in an editorial that

-2- 12599, December 12, 6 p.m., from London.

that certain phrases used by Stanley in his speech reported in No. 2579 of December 8th and 2584 of December 11th indicate that he would not be unwilling to see such a step taken. Perhaps the fact that Stanley is to consult with the federation to discuss improvements in existing machinery by the appointment of an advisory panel is significant in view of the federation's proposal that such a panel should be available to advise the proposed Minister for Economic Questions in efforts to expand normal export trade.

3. Financial writers in this morning's press are unanimous in pointing out the foreign exchange advantage in the decontrol of the tin price, except that the DAILY HERALD condemns the profiteering involved and asserts that the British Government should have taken over the entire output at the control price and resold the tin at the world market price thus acquiring the dollar exchange and the profit too. There is also unanimity on the advantage of retaining output control machinery against the day when restocking is completed and a price slump likely, the importance of the long-term foreign exchange advantage being implied.

4. The Chancellor of the Exchequer in the House of Commons today stated that the Government had decided, subject to parliamentary approval, that the unexpended balance

-3- #2599, December 12, 6 p.m., from London.

balance of the free gift to Czechoslovakia should be paid over as and when required to the trustees of the Czech refugee fund, and that the unexpended balance of the advance to Czechoslovakia should be used for the payment of coupons of the external debt and for payments in respect of cash debts. He stated that a detailed scheme would be prepared and the necessary legislation introduced soon after the recess of Parliament.

5. In reply to a parliamentary question Simon stated that in the applications of the principle of monetary solidarity between Great Britain and France it had been agreed that "it is in our common interest to avoid during the war alterations in the existing rate of exchange between the pound and the franc. We have further made mutual arrangements which will enable each country to cover its requirements for the currency of the other country and to utilize such currency freely as agreed between us without any question between ourselves of having to find gold." Neither Government will raise a foreign loan or credit except in agreement with or jointly with the other Government, or impose restrictions on the imports from the other country during the war for protective purposes or for exchange reasons. The two

Governments

-4- #2599, December 12, 6 p.m., from London.

Governments will also share certain items of expenditure such as financial assistance to other countries and the cost of the armed forces of their Polish ally, "in proportion which have been worked out between us". The two treasuries are to hold frequent consultations on technical questions and to examine such problems as price policy in the two countries, and the position as regards gold and foreign exchange resources, the whole arrangement is to remain in force until six months after the signature of the peace treaty.

JOHNSON

CSB

RECEIVED

DEC 13 1918

TREASURY DEPARTMENT
RECEIVED AT THE DEPARTMENT OF THE TREASURY
DEC 13 1918

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: December 12, 1939, 6 p.m.

NO.: 2963

FOR THE TREASURY.

Our telegram No. 2951, December 11, 4 p.m.

Reynaud received the press this afternoon and issued the following statement concerning the Franco-British financial agreement:

"The agreement in question was concluded on December 4 between Sir John Simon and myself during the stay at Paris of the Chancellor of the Exchequer. (In a sense this is correct; however, it was yesterday before several points at issue were finally agreed upon.)

This agreement is without precedent in the course of history.

It is vast in time because it covers the whole period of the war and (entered into an agreement?) six months after the signature of the treaty of peace. It is vast in space because it covers the British Empire and the French Empire entirely.

Distrust and disagreements have often characterized alliances in the past. All this has been rendered impossible by this agreement which represents a unity for victory.

END SECTION ONE.

BULLITT.

EA:LWW

JT

GRAY

PARIS

Dated December 12, 1939

Rec'd 4:52 p.m.

Secretary of State,
Washington.

2963, December 12, 6 p.m. (SECTION TWO)

If it was necessary to furnish proof of the common determination of the Allies to carry on the fight until the end and to devote thereto all their resources of adaptation and of organization we would find the proof in this agreement. This financial and economic agreement is inspired by the same spirit as that which inspired the decision of unity of command.

It is the pooling of common energies of the two peoples and to the greatest extent possible of all their resources for the final victory.

TEXT OF THE COMMUNIQUE.

Accepting the invitation addressed to him by Monsieur Paul Reynaud during the recent meeting of the two ministers at London Sir John Simon Chancellor of the Exchequer came to Paris on December 4 to confer with the French Minister of Finance.

During the conversations which took place Sir John

Simon

-2- #2963, Dec. 12, 6 p.m. (SEC TWO) from Paris

Simon and Monsieur Paul Reynaud reached complete agreement upon the establishment of monetary solidarity between the two countries, the principle of which had been raised at the time of their first meeting at London.

BULLITT

NPL

JT

GRAY

PARIS

Dated December 12, 1939

Rec'd 5:40 p.m.

Secretary of State,
Washington.

2965, December 12, 6 p.m. (SECTION THREE)

The two ministers have passed in review all the special arrangements necessary to give full effect to this principle of monetary solidarity.

It was agreed that it was to the common interests of the two countries to avoid during the whole period of hostilities modifications of the parity actually existing between the franc and sterling. Each of the two countries will have all facilities for supplying themselves with the currencies of the other country and to utilize them freely within the framework of the agreement concluded.

The two ministers have fixed, in a spirit of unreserved cooperation, the proportion in which certain common charges of the war will be distributed between France and Great Britain.

The Chancellor of the Exchequer indicated to M. Paul Reynaud derogations which the British Government had granted to French export trade in England.

Finally,

-2- #2963, DECEMBER 12, 6 p.m. (SEC THREE) from Paris

Finally, it was agreed that the two treasuries would continue to maintain close contact and that frequent meetings would take place for the settlement of technical questions as well as for the examination of more general problems such as price policy in the two countries.

BULLITT

NPL:EMB

JI

GRAY

Paris

Dated December 12, 1939

Rec'd 4:45 p.m.

Secretary of State

Washington

2963, December 12, 6 p.m. (SECTION FOUR)

ANALYSIS OF THE AGREEMENT.

The two Government's have agreed that it is in the interest of the two countries to avoid modifications in the official rates of exchange in force between the franc and the pound.

The francs which the United Kingdom requires (including the requirements of the British expeditionary forces) will be furnished against pounds and the pounds required by the French (including those for purchases of raw materials in the British Empire) will be furnished against francs. During the period of the war the two countries will be in a position to cover their total requirements in the currency of the other by furnishing their own currency and without having to deliver gold.

The pounds held by the French monetary authorities will

-2-2963, December 12, 6 p.m. (SECTION FOUR) from Paris
will be employable for all expenditures in the sterling
area and francs held by the monetary authorities of
the United Kingdom will be employable for all expendi-
tures in the French Empire."

BULLITT

NPL

PARAPHRASE OF SECTION FIVE, TELEGRAM NO. 2963 OF DECEMBER 12, 1939, FROM PARIS.

Today we lunched with our friend at the Bank of France. He again mentioned the heavy French expenditures in the United States, and said that for airplane purchases he had just this morning paid out \$20,000,000.

Efforts of the Allies to conserve dollar exchange which we have stressed, and which was one of the main purposes of the Anglo-French economic (?) (references, telegrams No. 2852 of November 28 and 2896 of December 4 from the Embassy) are taking stronger shape gradually. With reference to the Goodrich case mentioned in the latter telegram, we have learned today that Swift and Company in addition have obtained an import authorization for packing house products of considerable size only to have the Foreign Exchange Office decline to put up the dollar exchange necessary for the transaction. The Foreign Exchange Office told Swift and Company that the transaction would be approved if they would accept payment in other currency than dollars - the Foreign Exchange Office would, curiously enough, agree to using Swiss francs in payment.

END SECTION FIVE.

BULLITT.

EA:LWW

JI

GRAY

Paris

Dated December 12, 1939

Rec'd 6 p.m.

Secretary of State

Washington

2963, December 12, 6 p.m. (SECTION SIX)

WE have emphasized to you in the past the semi-paralyzed state of French industry and commerce as a result of war conditions and the mobilization of 5,000,000 men. Owing to the censor there has been little opportunity for public criticism of the governmental restrictions in this connection, but the same restraint does not apply to deputies. According to yesterday's JOURNAL OFFICIEL during the hearings on the budget of the Ministry of Commerce, the vital necessity to revive export trade was again emphasized and the administration of state control over wartime trade and industry was bitterly criticized. Deputy Marescaux (Democratic Left) quoted from a circular issued by one of the national groups of producers set up under the law of July 11, 1938 (organization of the nation in wartime) in which the statement

-2-2963, December 12, 6 p.m. (SECTION SIX) from Paris statement appeared that (concerns which do not ally themselves with the national groups of producers or distributors will be abandoned, deprived of orders, of raw material and personnel, as well as means of transport, and they will therefore be forced to close."

BULLITT

NPL

JI

GRAY

Paris

Dated December 12, 1939

Rec'd 7:30 p.m.

Secretary of State
Washington

2963, December 12, 6 p.m. (SECTION SEVEN)
Deputy Bedin, Socialist, told the Chamber that investigation revealed that French concerns had been forced in many instances to abandon foreign orders because of the length of time required to secure export and import authorization, difficulties with the foreign exchange office, lack of raw material and labor and in general too "dictatorial" control by the ministries concerned. Further there were complaints of delay in payment by the Government for requisitions of material and of property of difficulties experienced by exporters in securing the necessary assurances covering shipments to Holland and to the Scandinavian countries and of foreign debtors unable to fulfill their contracts on account of war (export credit facilities provided under law of May 22, 1936). Briefly stated the critics contented that

-2-2963, December 12, 6 p.m. (SECTION SEVEN) from Paris
that the machinery set up by the Government while
fine in theory had fallen down in application.

Minister of Commerce Gentin explained some of
the difficulties which faced the Government and gave
somewhat timid and vague assurances that it would do
all it could to ameliorate conditions. Henceforth,
he said, import and export licenses would in general
be made available in less than three days. In spite
of what had been claimed he insisted that exporters
were receiving the benefit of the law regarding export
credits but it was necessary for the Government to
exercise caution in according guarantees for payment
of merchandise shipped to certain countries.

BULLITT

EMB

CORRECTED COPY

HSM

GRAY

Paris

Dated December 12, 1939

Rec'd 7 p. m.

Secretary of State,
Washington.

2963, December 12, 6 p. m. (SECTION EIGHT)

With reference to statements on unemployment Labor Minister Pomaret declared that "out of 325,000 registered unemployed about 60% were unemployables and 20% were more than 65 years old".

The Belgian National Bank statement for the week ended December 7 shows gold holdings at 17,951.8 millions up 5.1 millions; foreign exchange holdings at 3,317 millions down 65 millions; domestic commercial advances are up 457 millions to 4,545 millions. Advances on public funds are down 27.45 millions to 954 millions. Note circulation again increased by 139 millions to 27,839 millions. The Treasury account was reduced by 884,000 to 6.3 millions. Gold coverage is 62.55 as against 63.10 the previous week.

The Paris securities market was again strong and rente issues repeated their substantial advances of yesterday. Most issues were up from 85 centimes to 1.20 francs

hsm -2- No. 2963, December 12, 6 p.m. (Section 8) from Paris
francs and the dollar exchange guaranty issue advanced
a further two francs. Official exchange rates were
unchanged. (END OF MESSAGE).

150

BULLITT

NFL

RECEIVED

DEC 12 1943

U.S. DEPARTMENT OF JUSTICE
FEDERAL BUREAU OF INVESTIGATION
WASHINGTON, D. C.

December 12, 1939.
12:15 p.m.

151

H.M.Jr: Hello.

Bob Rouse: Good morning, sir.

H.M.Jr: Hello Rouse.

R: Yes, sir.

H.M.Jr: It looks like a good day doesn't it?

R: It looks like a fine day, all the way along the line even the two and a half, the fifty fifty two, the fifty-one fours and the fifty-one fives are back to about even on last night.

H.M.Jr: I see.

R: The rest of the market is up to eight thirty-seconds. The volume of trading has been quite substantial and the reaction I've had from all around the country is that everybody likes it.

H.M.Jr: I see.

R: There is some feeling again, the same thing was expressed to you yesterday that it caused a little straining on the part of some of the ten year people, but they're glad to have it.

H.M.Jr: Well it's good for them to be strained isn't it?

R: It doesn't hurt them any.

H.M.Jr: No.

R: Not a bit.

H.M.Jr: I don't know - when they used to put them on the rack in the old days and stretch them whether they went back to normalcy or not afterwards.

R: (laughs) Well I'm glad you're pleased with it.

H.M.Jr: Oh yes, now what's going through my head, I don't see why we should leave this open more than two days.

R: Nor do I Mr. Secretary.

H.M.Jr: What?

R: Nor do I Mr. Secretary.

H.W.Jr: I think if we announce tomorrow morning we close it on Wednesday night that that's enough.

R: Well you see, no, that's - you'd have to announce tonight that you close tomorrow night.

H.W.Jr: That's right.

R: Yes.

H.W.Jr: I think so.

R: I think so. I think most of the small holders of the old three and a halves and the first liberty loan must have been pretty well taken care of at the time of the last exchange.

H.W.Jr: Yes.

R: I'd be inclined to do that.

H.W.Jr: O.K. I'll give Bell that instructions now.

R: Fine.

H.W.Jr: Thank you.

R: Thank you sir.

H.W.Jr: Thanks for the help.

R: I'm glad to be a help, I hope it was.

H.W.Jr: Yes you were very helpful.

R: That's fine.

H.W.Jr: Yes.

R: Thank you sir.

H.W.Jr: Goodbye.

December 12, 1939.
12:18 p.m.

153

H.M.Jr: Hello.

Operator: Mr. Bell. Go ahead.
Daniel
Bell: Yes.

H.M.Jr: Dan?

B: Yes, sir.

H.M.Jr: This thing is going so beautifully, I just spoke to Rouse. Is that Bob Rouse?

B: Yes.

H.M.Jr: And I said, "How would you feel if we announced tonight we're going to close this thing Wednesday night".

B: Huhhuh.

H.M.Jr: He said O.K.

B: Really.

H.M.Jr: Yes. Yes. Just spoke to him.

B: Huhhuh. Then you want to close it?

H.M.Jr: Yes.

B: Well I suppose that's all right. I just don't know where these things are, that's what worries me a little.

H.M.Jr: Well -

B: Whether they're in the hands of individuals in trust that have to have meetings and -

H.M.Jr: Don't let's fly in the face of fate.

B: Well, I'll have to admit that I'd like to get them in.

H.M.Jr: Well, that's all right.

B: All right. We close it tomorrow night.

H.M.Jr: Ralph said O.K.

- 2 -

B: Huhhuh. That's announced immediately this
afternoon.

H.M.Jr: Yes.

B: That you'll close at twelve o'clock tomorrow night.

H.M.Jr: O.K.

B: All right. Thanks.

December 12, 1939.
3:05 p.m.

155

H.M.Jr: Hello.

Operator: Mr. Berle

A.
Berle: Hello.

H.M.Jr: Hello.

B: Oh, Mr. Secretary?

H.M.Jr: Yes.

B: I wanted to bother you about the one matter.

H.M.Jr: Please.

B: The - this - sub-committee is meeting again tomorrow.

H.M.Jr: Yes.

B: Your men were courteous enough to get up a questionnaire which we are transmitting to the various Governments.

H.M.Jr: Did you like that?

B: It's a first rate job. There is however one question which now comes up and the purpose of calling you is to ask whether you have any objection to one of your men coming down and sitting with the committee.

H.M.Jr: Which one?

B: Well I - whoever you suggest, I should suppose Mr. White for choice, because he's been acting more or less as informal spokesman.

H.M.Jr: I'd be delighted to have White come over to -

B: I thought if you didn't object likewise I - it might not be a bad idea to have the Federal Reserve man, I guess Walter Gardiner down there, although that's not, by any means necessary. Really what they propose to do was to go over some of the questions and try to separate out the questions of fact from the questions of opinion and try to get the various hypothesis that they have in mind. I have a design likewise of getting them to know each other so that gradually as this works along, if it does, they have some personal acquaintances and more of less appraise for themselves what these people have in mind, but I didn't want to ask that until I had asked you.

- H.M.Jr: Sure, and by all means have the Federal Reserve.
- B: Well what do you think of it as an idea, has it - well I merely thought that in case they -
- H.M.Jr: It can't do any harm.
- B: Well that's what I thought to.
- H.M.Jr: And it might make them feel happy, it might take them - give them something else to worry about.
- B: Aside from and something may be said for that.
- H.M.Jr: As long as you're talking to me if, I think the head of their Economic Section should be asked even though he didn't come.
- B: Goldenweiser?
- H.M.Jr: Yes.
- B: I'll do it that way then.
- H.M.Jr: I think you'd get better support and less - you wouldn't have Goldenweiser working against you.
- B: No. Goldenweiser and I happen to be old friends, so we certainly ought to agree about things, makes it very simple. While I have you on the wire, if I may say, the Department, about those French trawlers that you may remember slipping through the press.
- H.M.Jr: Never heard about them.
- B: No.
- H.M.Jr: Well what's up now?
- B: Well I merely -
- H.M.Jr: Somebody get away safely.
- B: Well they are getting away I suppose if your men sent out a wire they were getting away this afternoon. The French Ambassador sent over assurances that they were not going to join the armed forces of France and the Attorney General has ruled that that's good enough

assurance so they don't violate the law so if your people send out a telegram, I can't think of anybody else that ought to approve it unless it might be God, I should think they could go.

H.M.Jr: Well, I don't think it would be fair to ask God.

B: Well I agree that would put him on the spot.

H.M.Jr: I tell you Gaston is in here now and the minute he leaves the room I'll tell him to call you because he handles that.

B: Well I've been talking to Cairns in Gaston's absence, you see? Cairns has been doing the leg work so I asked Norman Thompson to telephone Cairns which he did and I telephoned so that -

H.M.Jr: Well if you don't mind -

B: Would you rather I'd clear this through Gaston. I happened to have been talking to Cairns right along but that's merely an accident and he -

H.M.Jr: I'd a little bit rather you handled it through Gaston. You see it's - Gaston was down in Guatemala when all this happened but Coastguard is his responsibility.

B: I'll talk to Gaston, this is merely inertia because we've been talking to Cairns while Gaston was away and just kept on doing it from habit, that's all.

H.M.Jr: I told Gaston, when he goes back to his office, to call you.

B: Thank you very much.

H.M.Jr: O.K. And White - I'll tell White, when he gets a call, to go over.

B: Well I'm very much obliged.

H.M.Jr: Righto.

B: Thank you.

December 12, 1939.
3:09 p.m.

158.

Operator: Governor Hill. Go ahead.

Governor Hill: Hello.

H. M. Jr: Hello.

H: Hello, Mr. Secretary.

H. M. Jr: Yes.

H: This is Frosty Hill over at the Farm Credit Administration.

H. M. Jr: Oh are you still there?

H: Well at this writing, ten minutes after three, I was just calling you on a purely personal matter in connection with this whole situation to get just your personal advice. Mr. Wallace called for one of our men, Mr. Lands, over this afternoon, at noon to be exact, and indicated that he asked - the President had asked Mr. Brownlow to review the whole situation and Mr. Brownlow had done so and had recommended again in favor of the Farm Credit continuing as an integral part of the Department of Agriculture and then the Secretary - Secretary Wallace went on to say that that being the case he felt that if it were to be in the Department that he should run it - with which position of course I can't disagree and felt that he ought to have somebody in to put somebody in as Governor who was more familiar with the policies and setup in the Department of Agriculture than I was on the thing and consequently the upshot of the thing was that I'm to go over at four o'clock to discuss it presumably again with the view to requesting my resignation which I understand from Mr. Lands, in a discussion with Mr. Wallace have been the approval of asking for my resignation has been approved by the President. Now of course that just gets down to a point - it sort of looks as though the whole thing was over as far as I was concerned. I don't know whether there's anything could be done or whether there's anything should try to be done.

H. M. Jr: Well -

H: I just thought I would call and check to see if you had any - off the record or personal suggestions to make in the situation.

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- H.M.Jr: Well I - via McReynolds, I thought that the President told you not to resign.
- H: That - that was right, that was - I got, via McReynolds, about - oh that was about, oh that was three or four weeks ago that I got that message not to resign.
- H.M.Jr: Well then why resign?
- H: Well then, presumably again through Mr. Wallace, who apparently says that he has contacted the President again and that the President has again cleared with him.
- H.M.Jr: Well I wouldn't do it unless I - unless the President asks you in writing to resign.
- H: I see. O.K.
- H.M.Jr: I mean that's my advice, if the President wants to ask you to resign let him do so in writing.
- H: Yes.
- H.M.Jr: And - uh - that's - didn't he appoint you?
- H: Yes, that's right.
- H.M.Jr: Well then let him ask you for a resignation.
- H: Yes, yes.
- H.M.Jr: What?
- H: Well I think that's all right. I just - I didn't want to -
- H.M.Jr: Now didn't they appoint a committee of fifteen or twenty people to -
- H: Well I guess they did, but I didn't hear anything more about that.
- H.M.Jr: Well I understood that the committee was to be appointed to consider the thing.
- H: Well that was my understanding too. This last story was that Mr. Brownlow had considered it.

H.M.Jr: Well I understood that I was on that committee also.

H: Well I had gotten the same word but I hadn't heard any more about it.

H.M.Jr: Well besides talking to me this advice you said is personal so I don't want it spread around the town.

H: Oh my goodness no.

H.M.Jr: But that's my advice and I'd also call up McReynolds.

H: I see.

H.M.Jr: But, strictly off the record, I wouldn't move unless the President gave it to you in writing.

H: O.K. Fine. Thanks a lot.

H.M.Jr: O.K.

H: O.K.

TREASURY DEPARTMENT

161

INTER OFFICE COMMUNICATION

DATE December 12, 1939

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 10:15 this morning there came to my desk Cablegram #2951 from Paris, providing the text of the Financial Agreement between France and Great Britain.

At 11:30 the Ticker began carrying a summary of the Agreement.

At 11:35 Mr. Pinsent, Financial Counselor of the British Embassy, telephoned me that he had just received a message from his Government which he desired personally to present to the Secretary of the Treasury at the earliest possible moment since the subject matter might be announced shortly in the British Parliament. I asked if he referred to the British-French Financial Agreement. He said he did, and asked what I knew about it. I read him the item that had just appeared on the Ticker, and also let him know that we had received the full text of the Agreement from Paris. He confirmed his understanding that the French Minister of Finance was to present the text to the American Embassy in Paris. He regretted, however, that a delay in transmission had prevented his giving us first word. He has not the full text, but a summary thereof. He would like to present this at the Treasury's convenience.

Pinsent inquired whether Walter Stewart was here. He would like to come down at an early date to discuss with Stewart and myself the departure of our Scotch friends. I read to him Article 13 of the Agreement under reference and inquired whether this had anything to do with their departure. He doubted this, but said he would give us a little more information whenever we could get together.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

182

DATE December 12, 1939.

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Knoke telephoned me late yesterday evening that the Federal Reserve Bank had just received a cablegram from London to the effect that the Federal would receive shortly \$50,000,000 of gold from Canada to be sold on arrival. Knoke assumed that this was gold which has just arrived from England by warship. We have not yet this morning had word of the arrival of gold in New York, and have no more definite knowledge than that here indicated. The British dollar balance in New York is down to around \$80,000,000, so this sum will undoubtedly be used to replenish the account. Knoke telephoned this message as soon as it was decoded.

Mr. Knoke also told me that the Federal Reserve Bank was making a payment of \$4,000,000 to the French-American Banking Corporation, under instructions from the Bank of France, this amount to be taken from the latter's account with the Federal. Since the French-American Banking Corporation has been used in making payment for French war material purchases, it is assumed that this new transaction merely carries on this system until the special account of the Bank of France is established with the Federal. This, Leroy-Beaulieu, has told us will be not later than January 1.

From the Bank of Finland account with the Federal Reserve Bank there was yesterday made a payment of \$50,000, to the Reichsbank.

A. M. R.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 12, 1939.

TO Secretary Morgenthau

FROM Mr. Cochran

Dr. Felix Somary, the Swiss banker who called some days ago in regard to the purchases which he is commissioned to make in the United States for account of the Swiss Government, came to see me yesterday afternoon. He had just finished a visit to New York and Ottawa.

Dr. Somary asked me if it was worthwhile for the Swiss to present officially the suggestion which he had advanced personally to me of paying for American commodities through gold held in Switzerland until after the war, with a corresponding amount of gold earmarked in the Federal Reserve Bank of New York in our favor to guarantee payment. I reminded the visitor that I had told him when we first discussed this matter that the Treasury uniformly followed the policy since the outbreak of hostilities of accepting gold only upon delivery in the United States. With such sympathy toward our Tripartite partner, Switzerland, and realizing the importance of the business which we may now have with Switzerland, we have studied this question quite thoroughly. I feel, however, that there is no possibility of the Stabilization Fund acting as intermediary to hold this gold in Switzerland, and make dollars available to the exporters here. Dr. Somary realized that the Federal Reserve Bank of New York made advances against gold only for seasonal transactions, and that interest was naturally charged thereon. He said that he had made inquiry in New York and had learned that it would be impossible under our law for private American bankers to make loans to Switzerland against gold held by the Bank of Switzerland with the Federal Reserve Bank of New York. I confirmed that private banks were not permitted to have a claim on gold earmarked here with the Federal Reserve Bank. Dr. Somary thought this limited the use of gold and that it would be in the general interest to amend this practice, and also to put gold coins into circulation. We then digressed on the common problems of the United States and Switzerland with respect to gold. Dr. Somary promised to prepare and send to me, with the cooperation of the Bank of Switzerland, and perhaps through that bank, an informal memorandum setting forth the Swiss problems and views on gold.

Returning to our immediate problem, it was agreed that the Swiss should not put forward officially the above outlined suggestion. Dr. Somary admitted that the main purpose was to avoid present high freight and insurance charges. I reminded him that various European Central Banks continue to ship gold to us in spite of the heavy cost.

Dr. Somary had an appointment with Secretary Hull for 3:45 yesterday afternoon. I let him know that a liaison committee had been set up since he was last here and it was understood that he was to be placed in touch therewith through Secretary Hull or one of his assistants. At Dr. Somary's request, however, I

telephoned Captain Collins to give him the background of the Swiss plans and to let him know that Dr. Somary might be referred to him, as chairman of the committee, through the Department of State.

J. M. S.

GROUP MEETING

December 12, 1939.
9:30 a.m.

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

H.M.Jr: Herbert?

Gaston: In connection with that pair of decisions on wire tapping by the Supreme Court yesterday, you might not like to know that we have no wire taps.

H.M.Jr: I might not like to know?

Gaston: You might like to know that we have no wire taps at this time, whatever, and don't propose to have any.

H.M.Jr: I take full credit for that, thanks to Herman Oliphant.

Gaston: Vincent Astor would like to see you Thursday morning, if you will be here. He is coming up Wednesday night and he would like to see you....

H.M.Jr: Will you get word to him that I will have you and he for lunch?

Gaston: Yes, I will ask him about that.

Klotz: When?

Gaston: Thursday. He hopes to see the President during the day. It might be that he will say that he wanted to see you early in the morning.

H.M.Jr: I don't want him.

Gaston: I will tell him for lunch.

We got our bad news from the Budget Bureau on the supplemental Coast Guard budget. We didn't get any boats whatever. The word was that the Navy can build the boats. We don't build boats. We get thirteen planes, which is pretty good, but no new stations.

Thompson: Fifteen planes.

H.M.Jr: All right, what else?

Gaston: Elmer has got Palmer from Atlanta and Frank Burke on Harold's job of the New York assay office.

H.M.Jr: Oh, all right.

Gaston: One Intelligence Unit man and one Secret Service man.

H.M.Jr: I told Elmer yesterday that the report I got on the man in charge of the Upper New York District, Allen, was the worst report that I have received since I have been in the Treasury.

Gaston: What service - Secret Service?

Thompson: Internal revenue agent in charge.

Gaston: I will look into that.

H.M.Jr: I told him to put new men on it and - it was just another complete whitewash of the fellow. He is the fellow, you see, the agent whom we are convinced - was assigned to a case contrary to my orders.

Gaston: You told Elmer that?

H.M.Jr: Yes. He is an Internal Revenue man. They certainly gave him a nice whitewash.

Gaston: Do you think there would be favorable reception to a suggested reorganization of the Bureau of Marine Inspection and Navigation?

H.M.Jr: Well, personally, I am all sour on all the organizations, as far as I am concerned. I am not really interested.

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Gaston: I am not terribly keen about it at this time.

H.M.Jr: If you are, all right, but I am not personally interested.

Gaston: I think it will have to be done sooner or later.

H.M.Jr: If you are hot for it, O. K., but I am sour on it.

Gaston: Well, I will see what the atmosphere is, whether there is anything likely to be done.

H.M.Jr: Talk to Basil Harris about it and see which side he is on.

Gaston: Bureau of Marine Inspection.

H.M.Jr: Talk to him about it. He used to be with a steam-boat company. I don't know whether they had paddle wheels or what.

Gaston: We have a situation in the Alcohol Tax that is not my bailiwick, only - the Alcohol Tax people don't admit it, but the fact is that everywhere except in the prohibition states, they have got an excess of men, they have got a good many more men than they need. We had thought of remedying that situation by modification of the law which would permit us to use - divert Alcohol Tax men to other services and still let them be paid on Alcohol Tax. It would just take one little slight amendment to a statute that we have now.

H.M.Jr: Try it.

Gaston: Instead of giving up the men.

H.M.Jr: O. K., try it. What else?

Gaston: That is all.

H.M.Jr: Gene?

Gaston: Except a couple of things I would like to speak to you about afterward, if I may.

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H.M.Jr: Sure. Will it take long?

Gaston: No, it will take about two minutes - one minute.

H.M.Jr: I will give you three minutes, and I want to see Basil Harris.

Gene, I see that you put the thing in the lap of the Attorney General and he left town with - what is her name?

Duffield: I didn't see that.

H.M.Jr: For Honolulu. He had his picture taken. What is the name of the girl?

Foley: Cromwell.

H.M.Jr: Yes.

Duffield: I just saw that we put it in his lap.

H.M.Jr: It was in the paper this morning, he and Doris left town, plus Mr. Cromwell.

Duffield: There is some expectancy - the boys are trying to get us to do something about the Attorney General's opinion and Mr. Gaston said last night that he would think about telling them the whole story today for a background.

Gaston: Well, I thought that today we might have the final decision on the thing from Justice and if they don't press us, I think we will let it go. We may get that final decision today.

H.M.Jr: All right.

Cochran: Leroy-Beaulieu telephoned down yesterday evening just when this thing came out and wanted to know what it was. I read him the ticker story and suggested he get in touch with Mr. Duffield.

Duffield: I forgot to mention that. One of the secretaries of the Embassy called me about 6:00 o'clock last night. The only thing that perturbed him was the statement on the UP ticker that these had been sold to the French Government, which I told him

- 5 -

you did not say. He was pleased at your comment on the French doing everything openly and above-board.

H.M.Jr: Did he know that I said that?

Duffield: I told him.

H.M.Jr: That is right.

Cochran: I would like just a minute sometime this morning.

H.M.Jr: I loved your back-seat driving, Cochran.

Cochran: That can be detached if you don't want it.

H.M.Jr: Oh no, that is fine.

Cochran: I have nothing else.

Cotton: I wonder if you have a moment to discuss this Finnish thing.

H.M.Jr: Do it right now, out in the open.

Foley: Like the French do.

Cotton: I prefer not to.

H.M.Jr: Come on, be a little man now. I will make you feel happy, or at least easier. At lunch yesterday, Warren Pierson said, "What am I going to be, the burnt offering on the altar," and I said, "No, a hero for one day."

Cotton: I suppose you just wanted to know what happened. Nobody knew what the proposition was exactly at the Bank and the State Department came with no definite ideas on the thing at all, so nothing was done except to consider the proposition so far as Warren Pierson knew it and to recommend to Mr. Jones to get the RFC to do it as everybody thought they would go to jail if they lent 10 million dollars from the Bank. That was about the size of it.

H.M.Jr: Do you still want your couple of minutes?

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- Cotton: Well, I would like to know - they don't really know what the proposition is.
- H.M.Jr: I will tell you all that I know. Sunday about noon, Jesse Jones called me up and said - he said, "My thought is that we will loan the Finnish Government, for the purchase of food-stuffs, either three or four million dollars." I think he said that they can do a little bit better than the RFC. He said, "I am either going to see or talk to the President at 1:00 o'clock." He said, "Will you go along on a loan of three or four million dollars by the Export-Import Bank for food stuffs," and I said, "Yes, I will."
- Cotton: The total is ten, the division between the Bank and....
- H.M.Jr: I am just repeating my end of the conversation and what I said yesterday. And then the next thing that I knew about it was the publicity in the paper. Then Jones called me up yesterday and said, "How was the publicity, how did it read," and I said, "All right." He said, "You are sure the publicity is all right," and I said, "Yes, the publicity is all right." So that is my end of it.
- Cotton: If it is a popular thing, it may be all right. If it isn't, it may wreck the Bank.
- H.M.Jr: Well, he said three or four million dollars, but I think that is the legal limit of the Bank, isn't it?
- Cotton: Well, it all depends on what he will do. If he will take over things....
- H.M.Jr: Well....
- Cotton: There is always a question, as I understand it, that it looks like sentimentality and hypocrisy. In doing it, I understand the cotton would be sold in England. In some way or other, this money might help the Finns. Nobody really knows the position of the Bank.

H.M.Jr: Doesn't Warren Pierson know?

Cotton: He doesn't know.

H.M.Jr: I would say the matter is something between the President and Mr. Jones.

Cotton: I understand Mr. Jones has gone away for a few days.

H.M.Jr: He won't be back until Friday.

Cotton: Anyway, you will want to know that the Bank didn't take any action at all except to recommend that the RPC consider, in view of the position of the Bank, whether it couldn't do the whole thing.

H.M.Jr: I have no instructions on it other than my conversation with Mr. Jones.

Cotton: Well, one would hope, I think, speaking frankly about it, that if the money was going to go to the Finns, it might do them some good, and I suppose it was - it was suggested the only way it would do good if it was an arrangement for selling the cotton immediately so they would get sterling to buy some airplanes. If the way had been fixed up with the British so they can do that, it might help them a little bit. Otherwise, it won't help at all.

White: Can't England sell them three million dollars worth of planes on credit?

Cotton: They have already sold them some planes, but nobody in connection with this Bank knows what the deal is.

H.M.Jr: That is why we have these 9:30 meetings and I try to tell you people everything that I am doing and....

Cotton: I assume the decision has been made to do it.

White: It certainly is democracy at its worst. It has been completely misrepresented in the papers, if that is the case. The funds are supposed to be for food and supplies to Finland. If you

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send them planes, I don't know quite how it is going to help them except to kill a few more Finns - just prolong it.

H.M.Jr: Kill a few more Finns?

White: Finns and Russians.

Cotton: Nothing can get from this country to Finland, probably, in under a month and is it going to do any good? If the plan is to allow virtually the use of this money to get airplanes from Great Britain, it is being put up in a terribly hypocritical way, which is the implication I got.

H.M.Jr: Keep me posted, that is all I can say. I can say this must be something between the President and Jones and I have told you everything that I know.

Cotton: Well, I have told you all I was able to speculate on the basis we were on yesterday.

H.M.Jr: I have heard nothing from the State Department or Mr. Traphagen.

Cotton: I have heard that - not through Mr. Traphagen, but the Colombians did make an offer.

H.M.Jr: Ed, could you come in at 11:30 and put on my desk everything that is pending in regard to the Bank of America?

Foley: Yes.

H.M.Jr: And I want Viner in on that, on that appraisal, see. Have you had a chance to look at it?

Viner: Yes.

H.M.Jr: Then I thought if we cleared the thing - is Delano in town?

Foley: He is in this morning.

H.M.Jr: Well....

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Foley: Do you want Leo Crowley?

H. J. Jr: Yes.

What else?

Foley: Sam Clark came over yesterday and brought back the Maney and Perini cases, those Boston cases, for reinvestigation.

H. J. Jr: I am not familiar with those.

Foley: They have pretty serious political implications that I think I ought to tell you about sometime and Brandon, the U. S. Attorney up there, sent them back with a recommendation not to present the evidence to a Grand Jury. Sam has talked with the Attorney General and the Attorney General sent him over to talk to me and if upon reinvestigation we feel that our original recommendation is correct in the light of this new theory, new defense theory that has been put forward by attorneys representing the contractors, Sam will force Brandon to present the cases to the Grand Jury, but before we get that far I think we ought to tell you what the implications are.

H. J. Jr: Who is Brandon?

Foley: He is the U. S. Attorney up there.

H. J. Jr: Is this a Curley matter?

Foley: It arose out of the investigation of Curley, and while he is not directly involved, it is his crowd that is involved.

H. J. Jr: Well, the old rule still holds good.

Foley: That is what I think.

H. J. Jr: Let the chips fall where they may. So you don't have to talk to me. Go right ahead. I mean there is nothing to talk to me about.

Foley: Well, I knew - I thought you would like to hear this slant on it.

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H.M.Jr: No, I don't want to hear it. Go ahead on it. If you get to a point where the Attorney General won't act, that is time enough to tell me, but go ahead and press whatever you think is legally correct.

Foley: All right. Well, Elmer has the cases and he is going to make a quick check now and....

H.M.Jr: Up to the time that you are stopped, don't bother me with it. If you are stopped, come and see papa.

What else?

Foley: Sometime this afternoon, perhaps right after the Bank of America meeting, I will have the letter to the Secretary of War and the Secretary of Navy and the memorandum for the President on obsolescence.

H.M.Jr: All right.

Foley: Which will be the wind-up....

H.M.Jr: And I want that to go through Viner before it comes to me. I mean I don't want to crowd you too much. If necessary, we will do it tomorrow.

Foley: He is a tough guy.

H.M.Jr: Who, Viner?

Foley: Sure. It took me a week to get this letter cleared and now he wants to rewrite it.

H.M.Jr: The obsolescence?

Foley: No, Bank of America.

H.M.Jr: He wants to rewrite it?

Foley: Yes. I started out with a good letter, too. He doesn't like what I got.

Viner: No, I didn't see the one you say was a good letter. This one isn't a good letter.

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- Foley: No, I said I started out with a good letter. You want to reduce this to a good letter now. By the time you get through six people and get everybody in agreement, you don't have what you started out with.
- Viner: This letter is about like an old man reminiscing about his vacation. He catches the same fish three times.
- H.M.Jr: When you come in at 11:30 ask me to tell the President's favorite story about, "appy 'oliday", a summer vacation story.
- Now, you know when I invite Viner to go over a proposed letter, I just thought it would save Preston Delano a mental strain not to be here. I knew what I was doing when I had Preston Delano - I think I will tell Crowley also to wait until afternoon.
- How is your desk, Jake?
- Viner: Well, I have taken most of it to my hotel room so my desk will look better.
- E.M.Jr: All right. What else?
- Foley: That is all.
- H.M.Jr: Is Walter Stewart....
- Viner: This morning's Times says the Germans have announced that aski marks must be used by December 31 or they are cancelled and I think there are lots of Latin American holdings and some Brazilian, possibly.
- White: They have written them off mostly and if they use them, how are they going to get the stuff out of Germany? They can only use them for purposes which....
- Gaston: They are trying to get some stuff out by way of Italy, shipped as neutral shipments out of Italy.

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H.M.Jr:

Well, along that idea, I have got an idea which may be perfectly cockeyed, and if it is, I don't mind somebody saying so, but this Jaramillo - you will have to spell it, that is the nearest I can come to it - informed me, maybe stupidly, that the price of coffee had dropped five cents a pound, which I think he said meant 25 million dollars less revenue to the Republic of Colombia.

White:

When did this drop take place?

H.M.Jr:

Just recently.

White:

Oh no, that would be all over the front page.

H.M.Jr:

I am just quoting Mr. Jaramillo. It dropped five cents a pound quite recently. Let's say for argument's sake that he knows what he is talking about. I sat next to the President of Haiti yesterday and all these people - I think they sold four or five hundred thousand bags of coffee, of which 125,000 came to America and the rest went to Europe. Again, let's say that he was approximately correct. Well, all of these people - if this thing of Jaramillo's is correct - the thing that is going through my brain is that we organize through the Export-Import Bank a coffee pool and - to keep this price from going through the floor before these people - and decide what is a fair price and we will - and get all of these South American countries around the table and let's say, "Now, look, 75 percent of your sales went to Europe, 25 percent went here. We will have an allotment and not have everybody drive this price down," and then it is not entirely altruistic because if he is correct, it means 25 million dollars less revenue in Colombia, and by the time we get through and they drive this price down, any loan we make to them becomes either pretty sour or pretty impossible and I don't see why it isn't at least worth while looking into.

White:

Definitely.

H.M.Jr:

The President of Haiti said they have only one coffee buyer from the United States who controls the whole thing, and you take a thing like this -

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if United Fruit Company is not in coffee, and I don't think they are in coffee, the President of that company might be very helpful in advising us. I don't think they are in coffee.

White:

Let's explore it preliminary now. It will take only a day or two to get up a memorandum and then you can move from there, but I think the idea is very worth examining because there are six countries that would be involved in a very serious way, so if it is possible to do anything, it should be done. It presents possibilities but it also presents a great deal of difficulties. I think it is definitely worth examining.

H.M.Jr:

You take this idea, if there is something to it, and lay it - give it to Berle and lay it before these people. There is something we can really do for these people.

White:

Let's first get up something here and see what it looks like to you.

H.M.Jr:

I know, but I am giving it to you to explore.

White:

It would be an idea - if you could work out something - for them to consider, because that is what they are up here for during the duration of the war, to tackle problems that relate to the war.

H.M.Jr:

I have a memorandum here and I wish somebody would tell me who gave it to me.

"Domestic economic developments, balance of payments to the U. S. for the first three quarters of '39, comparative figures for the corresponding period in '38."

Who gave me this?

White:

Doesn't sound like ours.

H.M.Jr:

"Merchandise export balance for the first..." I know. At Cabinet, Ed Noble gave it to me.

Haas?

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(Mr. Haas handed report to Secretary)

- H.M.Jr: See, this is when I get memoranda, Jake, like this.
- Viner: That is George. Let George do it.
- Haas: You probably will be asked that question tomorrow and that is just a suggestion.
- H.M.Jr: Is this for the President?
- Haas: No, I am working on that.
- H.M.Jr: What about this thing for the President?
- Haas: I was thinking that sometime before noon today I will have it in.
- H.M.Jr: I don't want to get it until Viner has seen it.
- Haas: Oh, I see. O. K. I won't have it done for about an hour.
- H.M.Jr: I don't want it unless it is all right. Has White seen it?
- Haas: No.
- H.M.Jr: Well, this is a question of the business survey for 1940. I want White and Viner - and I don't want it to come to me until either they have licked you or you have licked them, but let the best man who is left bring it to me.
- Klotz: You will never get it.
- Haas: I thought this....
- H.M.Jr: This is for the President.
- Haas: I thought this was just a summary of these people we had called in, both the departments - what they thought.
- H.M.Jr: Right, and the President said, "All right, Henry, that is what they think; what do you think?"

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Haas: The thing I was working on was a very brief thing, just two pages.

H.M.Jr: He said, "Doesn't the Treasury have an opinion?"

Haas: We have to, we made the estimates.

H.M.Jr: All right. Now, before it comes to me I want it filtered through Viner and White.

Haas: What is your deadline?

H.M.Jr: What?

Haas: Do you have to have it at noon today?

H.M.Jr: No, I will tell you - well, I ought to have it when I go up on the Hill tomorrow.

Haas: As far as I am concerned, you can have it before noon.

H.M.Jr: I ought to get it tonight so I can read it tonight. You give me this - give this back to Haas because I don't know by the time Viner and White get through with it whether they agree with you.

Haas: That one is foolproof.

H.M.Jr: That is why he is going to give it to me.

Haas: No, I was thinking of your reply.

H.M.Jr: Let it ride, it is too good to spoil.

Basil?

Harris: No, I have nothing, Mr. Secretary.

H.M.Jr: Harry?

White: Here is that petroleum report. We can separate it into a summary if you don't want to use the whole report.

H.M.Jr: Thank you.

White: That has been okayed by the men who were on it.

H.M.Jr: All right.

White: Here are a couple of telegrams I think you ought to read and here is a letter that you might want to read. You may have heard of the law that has just passed in Colombia, giving the President unusual powers with which to settle the debt.

Viner: May I speak to you a moment about this?

H.M.Jr: Yes.

Viner: This letter is dated December 1, 1939. It says that we shall probably set the first meeting of this committee late in this month or early in January. The committee has already met. The newspapers have reports of the meeting and the Treasury is not mentioned on that committee, according to newspaper reports.

H.M.Jr: Look on the back when I got it. There is a time stamp.

Viner: They have....

H.M.Jr: Where is the time stamp?

Viner: December second. You see, somebody at their office apparently didn't send this letter out and they have appointed their committees and I noticed that Treasury was not represented and Alcohol has a special interest there. They should be represented.

H.M.Jr: Would you prepare an answer for me to that letter?

Viner: Yes.

H.M.Jr: Good boy. Just remember that Hopkins is in bed when you write that. I mean if he was well we could give it to him with both barrels, but he is in bed.

White: Here is the story on the Russian stuff. This is the stuff we are going to give each week.

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We have got a man up there now. You might have noticed that unemployment in England is 170,000 more than it was three months ago, notwithstanding the fact that there is a million and a quarter men under arms.

We have a suggestion here for a quarterly bulletin for the American treasuries. It is written up in sort of a dummy form.

- H.M.Jr: Is it foolproof, the dummy? What are you going to do, hand it over to Berle?
- White: I thought that might be the idea, although this is part of the Treasury, this is purely Treasury business, but I think the only organization to carry it through would be the committee that is meeting up there.
- H.M.Jr: Give me a letter of transmittal to Mr. Hull.
- Gaston: We adopted a resolution, you know.
- White: This is in pursuance thereof.
- Gaston: At Guatemala.
- H.M.Jr: What will I do about it?
- White: That is what I think ought to be done, that it ought to be indicated that it is in pursuance of that.
- H.M.Jr: Give it to Mr. Gaston and let him fix up some kind of a letter of transmittal to somebody for me to sign.
- White: All right.
- H.M.Jr: Let Mr. Gaston fix up a letter of transmittal for me. All right, Harry?
- White: There are a couple of other things, things that I would like to see you about and this one thing about that list that you had asked us to do something on with Mr. Collins on that Russian matter, list of names and so on. Well, you

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gave us some - we had some material to go over and take some names off and so on.

H.M.Jr: Oh, well, Gaston is my Russian man. It is entirely in his hands. He is handling that. Tell Herbert; he has got that.

White: Yes, I will tell Herbert.

H.M.Jr: Harold?

Graves: When it is convenient to you, I would like to have a few minutes on this thing.

H.M.Jr: 4:15?

Graves: All right. I would like to bring Captain Collins.

H.M.Jr: O. K. I am sorry, but the other day I just - I was going through financing.

Dan?

Bell: The National City has instructions to pay over the sum of money due on the fifteenth on account of the Finnish debt. I understood you wanted to put on a show on Friday. Now, last year they did the same thing. We didn't have the check down here; it was sort of a dummy check you used, taking it from the Finnish Ministry. Is that all right this time?

H.M.Jr: If you and Mr. Cochran took a walk with the Finnish Minister on Sunday, they are the fellows really responsible for all this loan business. Sunday he had a long talk with him. He went out walking with him.

You really ought to know the fellow, Joe; you are sitting right next to him. If you and Cochran and Duffield would get together and arrange it with the Finnish Minister.

Bell: All right.

Duffield: Finland has one of these publicity men from New York they have hired and he is down around

town trying to arrange something.

- H.M.Jr: I will give you the time the Finnish Minister tackled me on this thing at the Gridiron. I first turned him down, but now that Cochran and all these fellows are doing things with Finland, I guess I had better get on board before Cochran and Herbert grab it all. Say, 10:30.
- Duffield: I am trying to get the newareel people to agree to do these things on time, but I am not having much success and I am afraid it is going to take the usual long time.
- H.M.Jr: If it is the newareel people who are always late, let's make it 11:00 o'clock.
- Duffield: Tell them 10:30 and make it 11:00?
- H.M.Jr: Yes, and I will put it on my calendar at 11:00. Tell the Finnish Minister, 11:00; the newareel people, 10:30.
- Bell: Checks are still rolling in. We have between 40 and 50 checks now for the Finns.
- H.M.Jr: We will do that the same way.
- Bell: The regulations of the Postal Savings System require that the bonds we purchased be registered in the name of the Postal Savings System and lodged with the Treasury of the United States. I have asked them to change that so we can put these securities in New York in case we want to sell them.
- H.M.Jr: Norman?
- Thompson: I have a statement for tomorrow's hearing. It is not one-half as long as the last one you gave.
- H.M.Jr: What is this?
- Thompson: That is that Sullivan thing.

Klotz: Do you want to read from this?

H.M.Jr: Yes.

Klotz: Do you want it on bigger type?

Duffield: We will do it on the regular speech machine.

H.M.Jr: The line of people who want to see me forms
at the right.

The two Governments consider it is in the common interest to avoid alterations in franc-sterling rate and no such change will be made without prior agreement between them.

Each exchange equalization fund will continue to be solely responsible as regards quotation of its currency in market in third countries, but there will be close consultation.

British fund and French fund will continue to sell to one another sterling for franc and franc for sterling at official rates. French fund will be thus sellers to United Kingdom fund of all francs required for our expenditure.

If French fund holds sterling in excess of fifty million pounds excess will be funded in form of Treasury bills repayable one year after war and renewable for two further years. Franc value of these Treasury bills will be guaranteed. Same system will apply to francs held by United Kingdom fund.

No request will be made by either fund for conversion of currency of other countries into gold. Sterling held by French fund will have a guarantee of its ^{franc} ~~accounted~~ value, and francs held by United Kingdom fund of their sterling value.

French may use their sterling in sterling areas/

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areas and by agreement in special cases elsewhere, and we may use our francs in French Empire and by agreement elsewhere.

These are main monetary clauses. Agreement also provided for contact between the two Treasuries and cooperation in all questions of common interest. Certain items of war expenditure in common cause, such as expenses of Polish armed forces, financial assistance to third countries and losses resulting from blockade delays, will be shared in proportion two for the French and three for the United Kingdom. Agreement is to remain in force for war period and for six months after signature of peace.

BRITISH EMBASSY,

WASHINGTON, D. C.,

December 12th, 1939

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

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DATE December 12, 1939

TO Secretary Morgenthau

FROM Mr. Cochran

The foreign exchange market was quiet although there was a slightly increased volume of sterling transactions. The opening quotation for sterling was 3.93. It was reported that there were substantial orders in the market to both buy and sell sterling. As is usually the case when the sterling rate strengthens, the Japanese were sellers. The rate gradually moved downward to 3.92-1/4. Shortly before noon it started to improve and by mid-afternoon the quotation was 3.92-5/8. The rate remained steady at about this level for the rest of the day.

Sales of spot sterling by the four reporting banks and the Federal Reserve Bank of New York totaled £727,000, from the following sources:

By commercial concerns.....	£ 141,000
By foreign banks (Europe, Far East and South America).....	£ 476,000
By Federal Reserve Bank of New York (For B.I.S.).....	£ 110,000
Total....	£ 727,000

Purchases of spot sterling amounted to £535,000, as indicated below:

By commercial concerns.....	£ 205,000
By foreign banks (Far East and Europe).....	£ 330,000
Total....	£ 535,000

The Bank of Manhattan reported that it had sold cotton bills totaling £60,000 to the British Control at the official rate of 4.02.

Mr. McKeon of the Federal Reserve Bank of New York informed Mr. Dietrich that some of the banks reported that the British Control would only purchase, at the official rate, sterling cotton bills which are ready for prompt and immediate mailing. Previously, the market sold such bills to the Control and mailed them within ten days from the time the bills were sold. He also said that the Control would no longer buy cotton bills drawn for payment at a future date.

The other important currencies closed as follows:

French francs	.0222-3/4
Guilders	.5309
Swiss francs	.2243
Belgas	.1644-1/2
Canadian dollars	13% discount

CONFIDENTIAL

The discount for the Cuban peso continued to widen and it was quoted today at 12-3/8%.

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

\$15,000,000 from the Bank of France
1,018,000 from the National Bank of Belgium
1,000,000 from the Netherlands Bank

\$17,018,000 Total

In the report of yesterday, mention was made that the Central Bank of Turkey would liquidate, on December 13, loans totaling \$3,309,000 at the Federal Reserve Bank of New York; also that it would procure a new loan from that bank amounting to \$4,325,000. The Federal Reserve Bank informed us today that the Turkish Bank changed its instructions and that on December 13 a new loan will be made for only \$3,500,000 which will be secured by \$3,886,917.12 in gold earmarked at the Federal. At the close of business on December 13, loans to the Central Bank of Turkey by the Federal Reserve Bank will amount to \$5,020,000 secured by gold valued at \$5,584,493.06.

The Federal Reserve Bank received a cable from the B.I.S. requesting it to obtain a license to transfer approximately \$420,000 in gold from its Account #2 to its Account #4. Gold in Account #2 is owned by the B.I.S. The gold in Account #4 is gold sold by the B.I.S. to the Turkish Bank, which is, in turn, pledged to the B.I.S. to cover commercial credits granted by that bank to the Central Bank of Turkey. Permission to make this transfer was granted.

The B.I.S. also requested the Federal to obtain a license to transfer approximately \$563,000 in gold from its Account #2 to the Account of the Netherlands Bank at the Federal Reserve Bank of New York. Permission to make this transfer was also granted.

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

\$5,586,000 from Italy, shipped by the Bank of Rome, for the account of the State Bank, U.S.S.R., consigned to the Chase National Bank for sale to the U. S. Assay Office at New York.
2,086,000 from South Africa, shipped by the South African Reserve Bank, consigned to Federal Reserve Bank of New York, to be earmarked for the account of the Netherlands Bank.
1,699,000 from Switzerland, shipped by the National Bank of Switzerland for account of the B.I.S., to be earmarked for account of the B.I.S.

\$9,371,000 Total

CONFIDENTIAL

The State Department forwarded to us copies of cables received from the American Consul at Sydney, Australia and the American Consulate General at Stockholm, Sweden, stating that invoices were certified for the following shipments of gold to the U. S.:

- \$5,870,000 from Australia, shipped by the Commonwealth Bank of Australia, Sydney, consigned to the Federal Reserve Bank of San Francisco.
 - 187,000 from Australia, shipped by the Bank of New South Wales, Sydney, to American Trust Company, San Francisco.
 - 12,000 from Australia, shipped by the Electrolytic Refining Company to Canadian Bank of Commerce, San Francisco.
 - 613,000 from Sweden, shipped by the Bank of Sweden, consigned to the Chase National Bank of New York for account of the State Bank U.S.S.R.
- \$6,682,000 Total

The first three shipments listed above will be sold to the U. S. Mint at San Francisco, and the last one will be sold to the U. S. Assay Office at New York.

On the report of December 6, 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 \$17,090,000, an increase of \$3,118,000 in the short position. The net changes in positions are as follows:

COUNTRY	SHORT POSITION NOVEMBER 22	SHORT POSITION DECEMBER 6	INCREASE IN SHORT POSITION
England	\$3,451,000	\$ 5,923,000	\$2,472,000
Europe	8,249,000	8,493,000	244,000
Canada	905,000 (Long)	257,000 (Long)	648,000 Reduction in long position
Latin America	421,000	34,000	387,000 Reduction in short position
Far East	2,732,000	2,870,000	138,000
All Others	24,000	27,000	3,000
Total	<u>\$13,972,000</u>	<u>\$17,090,000</u>	<u>\$3,118,000</u>

The spot and forward prices for silver in London were fixed at 23-7/16d and 23-5/8d respectively. The U. S. equivalents were 41.37¢ and 41.22¢.

In New York we made three purchases of silver totaling 175,000 ounces under the Silver Purchase Act. All of this silver was new production from foreign countries and it was purchased by us for forward delivery.

I spoke with Mr. Knoke of the Federal Reserve Bank at 2:30 this afternoon. We talked about the weakness in the Mexican peso. Knoke thought this probably came from the recent removal of the Mexican 4% tax on export of capital from that country.

CONFIDENTIAL

As of the opening of business this morning, the balance of the State Bank of Russia with the Chase Bank was \$6,000,000, as compared with \$11,000,000 on November 7; confirmed commercial credits amounted to \$4,000,000, against \$2,000,000 on November 7. A payment of \$1,500,000 from the Russian State Bank account to the Rotterdam Bank has been made during the period under review, together with one of \$700,000 to Amtorg. The Amtorg balance with the Chase Bank is up \$700,000 to \$1,800,000.



CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 12, 1939

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

The Secretary spoke with me this noon in regard to our questions with the British, and particularly that of access by the Secretary to the special account opened a few days ago by the Bank of England with the Federal Reserve Bank of New York to cover British purchases of war materials on this market.

At 3 P.M. this afternoon I asked Mr. Knoke if Governor Harrison was in New York, since I desired to speak with him about the account. Upon being informed by Mr. Knoke that Governor Harrison was in Washington, I reached the latter at the Federal Reserve Board. I referred to the recently opened account and asked if the Governor would prepare and mail for the Secretary's confidential information a weekly report on the Bank of England Special Account, the weekly period to correspond with the ordinary statement period of the Federal Reserve Bank.

Governor Harrison told me that the instruction which he had received from the Bank of England did not include such authority. In the absence of such authority he must politely decline. He and Mr. Knoke had both reminded me when I spoke with them on this point last week that the Secretary had undertaken, when we all met here in October, to discuss the question of the account, to take up through diplomatic channels and the British Chancellor of the Exchequer, the question of obtaining this authority. When Governor Harrison was in Washington ten days ago we had discussed this question and I had shown him the note delivered to the Treasury on October 30 by the Financial Counselor of the British Embassy wherein the Chancellor of the Exchequer agreed that the Secretary of the Treasury should have confidential access to the account. In the circumstances Messrs. Harrison and Knoke have thought it appropriate that the Treasury should invite Pinsent's attention to the fact that the instructions from the Bank of England to the Federal Reserve Bank of New York for the opening of the account did not include the authorization under discussion. I agree with this, and feel that the attitude of the Federal Reserve Bank of New York on this point is quite correct. It is suggested, therefore, that when we next see Pinsent, who desires an interview with the Secretary at the earliest possible moment, he should be reminded of the note under reference, and should be asked to see that this matter is definitely arranged.

H. M. R.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 12, 1939

TO Secretary Morgenthau

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FROM Mr. Haas *HA*

Subject: Forecast of business for 1940

In forecasting the business trend for 1940 we have given consideration to the unusual degree of uncertainty in the present outlook due to the unpredictable course which the European war may take. It is recognized that conditions may change overnight either to the advantage or to the disadvantage of business in this country.

Certain facts seem sufficiently clear, however, to warrant our belief that the forecast outlined below is a reasonable expectation for 1940, and neither too optimistic nor too conservative. It is clear that industrial production in the last quarter of 1939 has exceeded actual consumption; that new orders in recent weeks have shown a steep decline; that the bunching of orders for steel and other products this fall, due to war-stimulated fears, has taken considerable potential business from 1940; and that this foreshadows a corrective decline. Such a decline can be avoided only if large war orders come in soon, or if expenditures for capital equipment in early 1940 should undergo a marked expansion. Neither of these possibilities can at present be anticipated.

On the other hand, no maladjustments have as yet occurred that would warrant a business setback comparable to that of 1937. The business situation was sound before the war began and remains fundamentally sound. Following the expected decline, an improving business trend seems probable during the second half of the year.

After a careful weighing of these diverse influences we have accepted as a reasonable expectation an average of 111 for the Federal Reserve Board index for the calendar year 1940. In other words, if this forecast is realized, it will mean that the average index in 1940 will be higher than the 1939 average, and higher than the average for any other year since 1929, but not as high as in the last quarter of the current year.

Secretary Morgenthau - 2

Forecasts of advisory group

The forecast of the business level for 1940 is the same as an average of the estimates of eleven economists engaged in forecasting business trends (names given in Appendix) -- eight representing business and banking institutions and three representing Government agencies -- whose opinions were solicited as an aid in appraising the business outlook. The average expectation of the eleven economists was that industrial production, as measured by the FRB index, would be lower in 1940 than during the closing months of 1939, but would be higher than in any other year since 1929. An FRB index of 111 was the average expectation for 1940, as compared with an index of 105 for 1939. The current level of the index (November) is about 125.

Each of the individual estimates of industrial production in 1940, given in the table below, represents a considered opinion made with the assistance of an independent research staff.

Individual estimates of average FRB index in 1940

	Calendar year	1st 6 months	2nd 6 months
Meers:			
Lichtenstein	121	115-120	125
Crews	96	100-105	90
Hayford	114	110-115	116
Andrew	118	115	120
Naess	105	110	100
Ayres	110	115	105
Roberts	109	109	109
Crum	107	116	98
Thomsen	112	109	115-116
Nathan	110	112-114	108
Garfield	116	113	120
Average	111	112	110

AppendixPersonnel of advisory group on business outlook

The names of those from outside the Treasury who attended conferences on the business outlook on November 28 and 30 are listed below:

Business and banking group (November 28)

Mr. Seymour L. Andrew, Chief Statistician,
American Telephone and Telegraph Company.
Col. Leonard P. Ayres, Vice President,
Cleveland Trust Company.
Mr. Joseph S. Crews,
Barrett Associates.
Mr. F. Leslie Hayford, Economist,
General Motors Corporation.
Mr. Walter Lichtenstein, Vice President,
First National Bank of Chicago.
Mr. Ragnar Naess, Vice President,
Tri-Continental Corporation.

The following, who were unable to attend,
submitted their estimates in writing:

Dr. W. L. Crum, Professor of Economics,
Harvard University.
Mr. George B. Roberts, Vice President,
National City Bank of New York.

Government group (November 30)

Executive Offices of the President:
Lauchlin Currie, Administrative Assistant
to the President.
Bureau of the Budget: Frederick J. Lawton,
Morris A. Copeland.
Federal Reserve System: Frank Garfield,
Senior Economist.
Bureau of Agricultural Economics:
Eric Englund, Assistant Chief;
Frederick L. Thomsen, Principal
Agricultural Economist; Louis Bean,
Head Agricultural Economist.
Bureau of Foreign and Domestic Commerce:
Robert Nathan, Economic Analyst.
Bureau of Labor Statistics:
Isador Lubin, Commissioner.

Bx 225

December 12, 1939.
10:32 a.m.

H.M.Jr: Hello.

Captain Collins: Good morning Mr. Secretary.

H.M.Jr: Yes.

C: Mr. Secretary I reported to you Saturday evening concerning the action that had been taken Saturday afternoon at the meeting.

H.M.Jr: Yes.

C: This morning I contacted Admiral Speer, and he told me that there had been a meeting yesterday in Mr. Edison's office concerning the list of materials that had been given to his representative at the Saturday meeting.

H.M.Jr: Yes.

C: That Mr. Edison and Mr. Johnson had jointly drawn up a letter of protest to the President on the appointment of this Board, that they had pointed out the fact that the President was paralleling the action he had taken in his letter of July 1, 1939, and I thought I'd want to post you about that because I understand that would go over there today.

H.M.Jr: Well supposing you give me - ought I to have a memorandum on that or not.

C: I don't think so, sir.

H.M.Jr: No, let's see what happens.

C: Yes, sir.

H.M.Jr: I mean it's up to the President.

C: That's right, sir.

H.M.Jr: Woodring called me up and talked to me for fifteen or twenty minutes yesterday protesting what Johnson had done and I kept saying, "Well that's not up to me, tell it to the President".

C: That's right.

H.M.Jr: He knew all about it and how Johnson called in somebody off the golf course on Saturday - do this sort of thing and so forth and so on, but

the President - it's entirely in his hands what he wants to do.

C: Yes, sir.

H.M.Jr: And I - after all I've laid it in his lap. I think I'll let it lay there, don't you think so?

C: Yes, sir, I think so, sir.

H.M.Jr: This is a fight between Johnson and Woodring, and I'm not going to get in on it again.

C: Yes, sir. Well I spoke to Mac about the same matter this morning, sir, very casual, and I asked him if he'd give me a tip when he got to New York what had happened. He said he would.

H.M.Jr: Well the thing is that Johnson is definitely bucking Woodring on it. They'll have to straighten it out.

C: Yes, sir.

H.M.Jr: Well thanks for the call.

C: Entirely welcome, sir. Good morning sir.

MEMORANDUM

12-13-39

When Chen saw Hong

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Under date of October 2, 1939 a cable was received from Dr. H. H. Kung presenting the following credit plan for the kind consideration of the United States Secretary of the Treasury, Mr. Henry Morgenthau, Jr.:

1. A new credit of US\$75,000,000 to be granted to China;
2. Credit to be used for the purchase of American agricultural and manufactured products;
3. Repayment by instalments within ten years;
4. Pledged delivery of Chinese Tin, 10,000 tons a year for ten years;
5. Out of sales proceeds of Tin delivered each year, US\$6,500,000 be reserved for payment of Tin to Yunnan Provincial Government, and certain amount for freight and insurance on Tin shipments, and balance entirely devoted to repayment of the new credit.

China's determination to resist Japan's aggression to the last man is again reaffirmed by Generalissimo Chiang Kai-shek's declaration before the Plenary Session of the Sixth Convention of Kuomintang held at Chungking on November 12, 1939. In order to continue this resistance numerous materials and supplies which are essential for the maintenance of China's national economy must be continuously supplied. It is estimated that among other essential materials and supplies, the following are urgently required and must be purchased as soon as possible:

<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/>
	\$ 74,674,600
	<hr/>

Under the first credit of \$25,000,000, granted by the Export-Import Bank, purchases have been made of diversified lines and wide distribution has taken place among the various industries and many states. Importation of tung oil has been kept up to the promised tonnage in spite of ever-increasing transportation difficulties, and the distribution of this oil 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. The credit of \$25,000,000 has been entirely allocated and practically used up.

A new credit 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 and Chinese producers, 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.

THE WHITE HOUSE
WASHINGTON

August 17, 1953

CONFIDENTIAL

MEMORANDUM FOR

THE PRESIDENT

FROM THE SECRETARY OF STATE

RE: [Illegible]

[Illegible]

December 17, 1939

MEMORANDUM FOR

THE SECRETARY OF WAR

I have your joint memorandum with the Secretary of the Navy in regard to an informal committee to deal with the subject of purchase of war materials by foreign governments.

I think you fail to realize that the greater part of such purchases is not, in a strict sense of the word, munitions -- probably well over fifty per cent of the purchases will consist of articles and raw or semi-raw materials which are primarily of civil use rather than military use.

With all due deference to the Army and Navy Munitions Board, it is not as experienced in making purchases as is the Procurement Division of the Government. In any event, the coordinating committee which has been set up will have representatives of the Army and Navy on it, and I am perfectly willing to have the Quartermaster General and the Paymaster General represented by officers who are also members of the Army and Navy Munitions Board -- especially when it comes to purely military or naval materials.

Finally it must be remembered that we are not at war, that we are trying to keep prices in this country down, that the work of the committee deals with civilians, and that the general fiscal and purchasing policies of the Treasury are very definitely involved.

That is why I think I should let the present arrangement stand.

F. D. R.

December 11, 1939

Dear Pa:

Here is the memorandum about which Secretary Edison and myself desired to talk with the President, which this morning you asked us to send up so that he might look at it tonight. It is most important.

Sincerely yours,

Walter D. Wilson

General E. M. Watson
Secretary to the President
The White House

Enclosure

ARMY AND NAVY MUNITIONS BOARD
MUNITIONS BUILDING
WASHINGTON, D. C.

December 9, 1939.

MEMORANDUM FOR THE PRESIDENT.

SUBJECT: White House letter of December 6, 1939, creating an informal committee to represent the American Government in its contacts with interested foreign governments in all matters relating to the purchase of war materials.

Action Recommended:

That the letter in question be reconsidered and the present Army and Navy Munitions Board Clearance Committee continue to function in accordance with the approved action of July 6, 1939 (copy herewith), and your Military Order of July 5, 1939 (copy herewith).

Reasons:

1. The War and Navy Departments have primary interest in the munition program pertaining to national defense.
2. Coordination of the Army and Navy procurement programs is being obtained through the joint Army and Navy Munitions Board, which has been functioning in close cooperation with other interested United States Government agencies since 1922.
3. All joint Army and Navy Boards were placed under your direction and supervision by Military Order, dated at the White House July 5, 1939. Since that date cooperation between those joint boards has been close, and action expedited on questions arising during the present emergency.
4. The mission given the new Committee by your letter of December 6, 1939 appears to duplicate the mission previously assigned by you to the Army and Navy Munitions Board, and a Clearance Committee of that Board has been satisfactorily carrying out the same mission since July 6, 1939. The present Committee setup, with its Rules and Policies, is attached. These rules and policies have already been approved by the Secretaries of War and the Navy, and conform to the action desired by the National Munitions Control Board of the State Department.

5. Close cooperation has been established between the Army and Navy Munitions Board and the State, Treasury, Commerce, and the Interior Departments, in all matters affecting munitions of war and basic raw materials.

6. Close liaison has been established with representatives of all foreign governments and the Committee has been assisting many of these governments during the past six months.

7. The State Department has already requested all foreign governments to furnish the Army and Navy Munitions Board all pertinent data pertaining to their contemplated purchases in the United States. Copy of the instructions already sent by the State Department to foreign governments attached hereto.

8. Congress has also placed the execution of Public No. 117, relative to stock piles of strategic and critical materials, under the Army and Navy Munitions Board and the Department of the Interior. This action is effectuated by this Board with close cooperation and advice from the Departments of State, Commerce and Treasury.

9. The War and Navy Procurement Plans are already being coordinated, and the records pertaining to such plans are a part of the Army and Navy Munitions Board's confidential files. To assign this duty to any other agency or committee will cause confusion, delay, and inefficiency, since munitions requests from foreign powers will be mainly for items not normally produced commercially and distinctly of a highly technical character. The production of such items is of vital interest to our national defense and must be closely coordinated with our own rearmament program. The setup for such coordination already exists and the responsibility is definitely fixed. The proposed setup has not the technical data available to administer the anticipated foreign requests, nor the knowledge of what military information may be released without detriment to the national defense. The present Board augmented by liaison officers of all Supply Services and Bureaus, and its close cooperation with the Joint Aeronautical Board, has immediate access to procurement plans, current technical data, production schedules, and current orders. It also has the confidence and cooperation of industry and numerous trade associations, which have already been contacted and are furnishing confidential information concerning foreign purchases and the ability of this country to meet their demands.

10. The State Department, which is responsible for the execution of the decisions of the National Munitions Control Board, is

completely ignored. The closest liaison must be maintained between the State Department and the Intelligence Sections of the War and Navy Departments in regard to military secrecy and the disclosure of such in the sales of munitions to foreign powers. The Rules and Policies attached have been drawn up in accordance with the present practice and procedure within the War, Navy, and State Departments.

Louis Johnson

LOUIS JOHNSON,
The Assistant Secretary of War.

Charles Edison

CHARLES EDISON,
The Assistant Secretary of the Navy.

5 Incls.

Wil. Order 7-5-39

Approved action 7-6-39

ls (Rules and Policies) 12-1-39

Cy instructions to foreign
governments.

Cy ls 12-6-39.

CONFIDENTIAL

WAR DEPARTMENT

OFFICE OF THE ASSISTANT SECRETARY

WASHINGTON, D. C.

June 20, 1929

100M

The number of requests from foreign military agencies for military supplies in this country will increase and it is desirable to establish organized cooperation for the handling of such requests. It is recommended that the War Department be authorized to receive and handle such requests for our own benefit.

The War Department will be chiefly in obtaining authority for the purchase of ordnance and aircraft and for the sale of surplus property for the desired items can best be obtained from the War Department. The judicious distribution of such surplus property will serve a very useful purpose in advancing our own national defense.

The matter at hand clearly pertains to the work of the War and Navy Departments. It is therefore recommended that you authorize the Board to receive and to administer these requests for assistance in such a manner as best to serve approved policies. It is understood that these requests will be referred to the Board through the usual channels and that the Board will confer freely with other Government agencies in carrying out its functions in this respect, particularly with the Board of Controls of the Department of

has been seen and approved by the Under Secretary

Assistant Secretary of the Navy.

LOUIS JOHNSON
The Assistant Secretary of War.

July 6, 1929
Approved
[Signature]
[Signature]

RESTRICTED

MILITARY ORDER

By virtue of authority vested in me as President of the United States and as Commander-in-Chief of the Army and Navy of the United States, it is hereby ordered that (1) the Joint Army and Navy Board, organized to secure complete cooperation and coordination in all matters and policies involving joint action of the Army and Navy relative to the national defense, (2) the Joint Economy Board organized for the purpose of effecting economies without loss of efficiency, by the elimination of overlap or the simplification of functions in those activities of the War and Navy Departments concerned with joint operations of the two services or which have approximately parallel functions, (3) the Aeronautical Board organized for the purpose of securing a more complete measure of cooperation and coordination in the development of aviation of the Army and of the Navy, and to provide an agency for consideration of aeronautical matters, and (4) the Joint Army and Navy Munitions Board organized for the purpose of harmonizing the plans of the Army and Navy for the procurement of munitions and supplies for war purposes, now functioning by understanding between the Secretary of War and the Secretary of the Navy, shall hereafter exercise their functions for the purposes aforesaid under the direction and supervision of the President as Commander-in-Chief of the Army and Navy of the United States.

This order shall become effective on July 1, 1939.

FRANKLIN D. ROOSEVELT
C. in C.

The White House,
July 5, 1939.

(F. R. Doc. 39-2343; Filed, July 6, 1939; 11:06 a.m.)

ARMY AND NAVY MUNITIONS BOARD
MUNITIONS BUILDING
Washington, D. C.

CONFIDENTIAL

December 1, 1939.

FROM: The Army and Navy Munitions Board.

TO: Colonel Charles Hines, U.S.A., Secretary of the Army and Navy Munitions Board, (Chairman).
Lieut. Colonel George S. Warren, A.C., Office, Chief of Air Corps.
Lieut. Colonel E. E. MacKorland, O.D., O.A.S.W., Plans Division, (Secretary of the Committee).
Major L. A. Miller, O.D., Office, Chief of Ordnance.
Captain J. C. Byrnes, Jr., U.S.N. (Ret.) (Bu. Ord.).
Commander A. B. Anderson, U.S.N., Office of Chief of Naval Operations.
Commander P. O. Dushan, (SO), Bureau of Supplies and Accounts.
Lieut. Commander D. C. Logan, U.S.N., Bureau of Aeronautics.

SUBJECT: Army and Navy Munitions Board Committee for Clearance of Munitions.

1. The above-named officers are hereby designated as representatives of the Army and Navy Munitions Board on a committee for clearance of munitions.

2. The duties of this Board will be to carry out the intent of the memorandum for the President, dated June 30, 1939, copy of which appears below, as follows:

MEMORANDUM FOR THE PRESIDENT.

June 30, 1939.

"In the past few months, the number of requests from foreign sources for assistance in procuring military supplies in this country has multiplied. It is probable that these requests will increase materially in the near future and it now appears desirable to establish a definite procedure on the subject, to assure organized cooperation in meeting these requests and to centralize the securing for our own use of such military information as may be obtainable from these sources.

"The cooperation required from us will be chiefly in obtaining authority to use non-secret drawings of ordnance and aircraft material and in suggesting where orders for the desired items can best be filled from domestic sources. The judicious distribution of such orders to domestic industry can be made to serve a very useful purpose in advancing our own plans for national defense.

"The matter in question clearly pertains to the work of the Army and Navy Munitions Board. It is therefore recommended that you authorize the Board to pass upon and to administer these requests for assistance in such a manner as best to serve approved policies. It is understood that

these requests will be referred to the Board through the usual channels and that the Board will confer freely with other Government departments in carrying out its functions in this respect, and particularly with the Division of Controls of the Department of State.

This memorandum has been seen and approved by the Under Secretary of State.

(Sgd) CHARLES EDISON
The Assistant Secretary of the Navy.

(Sgd) LOUIS JOHNSON
The Assistant Secretary of War.

Approved

July 6, 1939.

FRANKLIN D. ROOSEVELT."

3. Copy of the initial "Rules and Policies for the Army and Navy Munitions Board Clearance Committee" is attached. These rules and policies have been approved by the War and Navy Departments.
4. Lieutenant Colonel E. E. Mackorland, O.D., will be on full-time duty as Secretary of this Committee, and will act as the steering member in order to insure uniform and expeditious action.
5. Copies of this memorandum will be furnished all Supply Arms and Services of the War Department and Bureaus of the Navy Department in order that they may be acquainted with the mission of this Committee and be prepared to give the members such information and advice as come within the scope of their department.
6. This memorandum replaces a similar one dated November 10, 1939, same subject, establishing a joint committee for the clearance of munitions.
7. The records and files of this Committee will be maintained as a part of the Office of the Secretary of the Army and Navy Munitions Board.

For the Army and Navy Munitions Board:

Charles Hines
CHARLES HINES,
Colonel, U. S. Army,
Secretary.

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ARMY AND NAVY MUNITIONS BOARD
MUNITIONS BUILDING
Washington, D. C.

CONFIDENTIAL

December 1, 1939.

RULES AND POLICIES FOR ARMY AND NAVY
MUNITIONS BOARD CLEARANCE COMMITTEE

1. Authority - Under date of July 6, 1939, the President approved a joint recommendation of the Assistant Secretaries of War and Navy that the Army and Navy Munitions Board be authorized to pass upon and administer requests from foreign sources for assistance in procuring military supplies in the United States in such manner as best to serve approved policies.

2. Joint Committee - This particular task of the Army and Navy Munitions Board will be exercised through a joint committee consisting of four Army and four Navy officers. The Army members consist of two officers of the Office of The Assistant Secretary of War, one officer, Office, the Chief of the Air Corps, and one officer of the Office of the Chief of Ordnance. The Navy members consist of one officer each from the Office of the Chief of Naval Operations, the Bureau of Ordnance, the Bureau of Aeronautics and the Bureau of Supplies and Accounts. The official designation of this group is "Army and Navy Munitions Board Clearance Committee".

3. Mission of Committee - The mission of the committee is defined as follows:

a. To cooperate with foreign representatives who have obtained authority to use drawings, specifications, and other technical information concerning American military materiel in connection with orders to be placed with American manufacturers.

b. To suggest where foreign orders for munitions of all kinds should be placed in this country to serve the best interests of our own national defense, first ascertaining from interested Bureaus whether they contemplate placing orders before suggesting placing foreign orders that might take up capacity of the plants that interested Bureaus contemplate using.

c. To secure such military information as is obtainable from these foreign sources.

d. To confer freely with other Government departments in carrying out its functions.

4. Basic Policies - The following basic policies will govern the activities of the committee:

a. Friendly foreign states are to be advised concerning the

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procurement of munitions in this country and will be furnished such designs and specifications of our materiel as may be authorized under existing law and approved facilities, provided firm and substantial orders are placed with American manufacturers.

b. Orders may be placed by foreign sources with concerns already engaged in production of munitions for our account provided our procurement program is not delayed thereby, and provided all information relating to confidential materiel then under manufacture in these concerns is safeguarded in accordance with the instructions of the United States Departments or Bureaus thereof having materiel manufactured therein.

c. The augmentation of industrial capacity for munitions production by means of foreign orders operates to strengthen our own national defense position.

d. Our designs of materiel should not be released to a foreign power unless manufacture is to be undertaken by a reputable American firm in the United States and in such substantial quantities as to make the firm a dependable national defense asset for the early production of these items in time of war.

e. The United States will assume no responsibility for the inspection of materiel produced for a foreign power, but advice may be given if solicited. The inspection of materiel by foreign inspectors in plants manufacturing equipment on classified contracts will be done as heretofore in a manner satisfactory to the departments or bureaus having such contracts in those plants.

f. In every case, careful study will be given to insure that release of information does not violate the Espionage Act.

g. All manufacturers, exporters, and importers of items defined by Executive Order as Arms, Ammunition, and Implements of War are subject to registration with the National Munitions Control Board, whose operating agency is the Division of Controls, State Department.

h. Export and import licenses, issued by the Division of Controls, State Department, are furnished to registered munitions manufacturers, except where the issue of such licenses will violate some law of the United States or a treaty to which the United States is a party.

i. The following policies regarding military secrets of interest to the national defense are quoted from the pamphlet "International Traffic in Arms" published by the Department of State:

"SPECIAL PROVISIONS REFERRED TO MILITARY SECRETS

"Title I of the Espionage Act, approved June 15, 1917, reads in part as follows:

"Whoever, with intent or reason to believe that it is to

be used to the injury of the United States or to the advantage of a foreign nation, communicates, delivers, or transmits, or attempts to, or aids or induces another to, communicate, deliver, or transmit, to any foreign government, or to any faction or party or military or naval force within a foreign country, whether recognized or unrecognized by the United States, or to any representative, officer, agent, employee, subject, or citizen thereof, either directly or indirectly, any document, writing, code book, signal book, sketch, photograph, photographic negative, blue print, plan, map, model, note, instrument, appliance, or information relating to the national defense, shall be punished by imprisonment for not more than twenty years . . .'

"The Secretary of State will not issue a license authorizing the exportation of any arms, ammunition, or implements of war considered by the Secretary of War or by the Secretary of the Navy as instruments or appliances included among the articles covered by those terms as used in this act if, in their opinion, they involve military secrets of interest to the national defense. The articles which may be so considered are articles falling within one of the following categories:

'(a) articles, the whole or any features of which have been or are being developed or manufactured by or for the War Department or the Navy Department or with the participation of either of those Departments; and

'(b) articles, the whole or any features of which have been used or are being used by the War Department or the Navy Department or which either Department has contracted to procure.'

"Included among articles developed by or for the War Department or the Navy Department are articles the development of which has been contracted for by either of those departments, or which have been developed in accordance with Army or Navy specifications and submitted to either department for evaluation for procurement.

"Prospective exporters of arms, ammunition, and implements of war should, before applying for a license to authorize the exportation of any article falling within the above categories which may possibly involve military secrets of interest to the national defense, communicate with the Secretary of State in advance of the proposed shipment in order that he may be in a position to ascertain for the prospective exporter whether or not military secrets are, in fact, involved therein."

Release of articles for foreign sale coming within the scope of the above paragraphs is made by the action of the Secretaries of War and Navy. The chief of the supply arm or service concerned, after coordination with the other arm and the Army or Navy, as the case may be, recommends to the Assistant Chief of Staff, G-2, or to the Director of Naval Intelligence, the action to be taken. The industrial features of the problem will be

presented by the Army and Navy Munitions Board. The matter is then referred for final decision to the Secretary of War or the Secretary of the Navy.

j. Where an agreement with a foreign power limits some feature of one of our own designs to use by our Government only, foreign buyers will be advised to make their own arrangements with the foreign power with which the United States has an agreement.

k. There is no general authority of law to sell any government-owned stocks of munitions direct to a foreign power nor for production in a government plant for foreign account. Action by Congress in each case is necessary.

l. Foreign buyers will be informed that they must make their own arrangements for use of patents applying to the material being purchased.

m. Any information divulged will be given directly to officials of the foreign governments and not to middlemen. Where it is necessary to turn over drawings and specifications to an American manufacturer to enable him to bid on a foreign order, copies of this information will be furnished only to the manufacturer concerned, and then in a confidential status. After a firm and substantial order is placed, copies may be furnished to the foreign inspectors and to the foreign government concerned so that the material may be subsequently maintained.

5. Procedure of Clearance Committee - The general procedure of the Clearance Committee will be as follows:

a. Each interested Bureau of the Navy and Supply Arm or Service of the Army will designate a contact officer who will obtain decisions from his own chief and transmit same to the Committee.

b. Foreign buyers will first establish contact with the State Department. After approving their credentials, the State Department will refer the foreign buyers to G-2, War Department General Staff, or Office of Naval Intelligence, Navy Department. After proper identification by the intelligence services, foreign buyers will be referred to the chairman of the Committee.

c. The Clearance Committee will refer all items desired by foreign buyers to the chief of the supply arm, service or bureau concerned for consideration of the release status of the items with respect to military information. The chief of the supply arm, service or bureau will notify the Clearance Committee direct concerning all items of American design which have previously been released. Items not previously released will be processed in accordance with present practice, the industrial features of the problem being presented by the Army and Navy Munitions Board in accordance with the recommendation of the chief of the supply arm, service or bureau concerned. The decision of the Secretaries of War and Navy on items which have not already been released will be transmitted to the Clearance

Committee by the Office of Naval Intelligence or the Military Intelligence Division, General Staff. It will then be the duty of this Committee to obtain the final action by the State Department on the specific equipment involved.

d. After clearance of design is settled, the Clearance Committee will then suggest, on the recommendation of the interested supply agencies of the War and Navy Departments, several sources for placement of orders, due regard being given to our procurement program and the best interests of industrial preparedness.

e. Foreign buyers will be informed that munitions orders must be placed with registered manufacturers who will be required to obtain export licenses, both of which functions are administered by the Division of Controls, State Department.

f. Close liaison will be maintained with the Division of Controls to keep informed as to export licenses issued and to secure such other military information on munitions transactions as may come into the hands of the State Department.

g. For commercial items covered by military specifications, clearance for release of specifications only will be required.

The Clearance Committee will also lend every assistance to foreign buyers, if so solicited, by recommending reputable sources for such ordinary commercial items as machine tools, where development of productive capacity has a vital effect on industrial preparedness.

h. The military intelligence services will act on requests to visit Government plants, proving grounds, commercial plants in which Government orders are in process, or to examine military items, in conformity with their usual routine in these matters; the Clearance Committee will arrange for contacts and visits to commercial plants not executing Government orders.

i. The Clearance Committee will gather information concerning foreign orders in this country from the State Department and other sources and furnish same to interested agencies of our Government.

j. The Office of the Secretary of the Army and Navy Munitions Board will be the office of record for the activities of the Clearance Committee. The files of the Army and Navy Munitions Board covering plant allocations will also be posted with such information as is applicable. Such statistics as are necessary will be prepared by the Statistics Division, Army and Navy Munitions Board.

k. A file will be kept by the Clearance Committee containing a full record of all conferences, agreements reached, and other business transacted. It is essential that all verbal conferences, in particular, be separately reported in the files.

l. In general, Army items will be considered by the Army members and Navy items by the Navy members in accordance with the policies and procedure outlined above.

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COPY OF COPY

The Secretary of State presents his compliments to their Excellencies and Messieurs the Chiefs of Mission and has the honor to inform them that the Army and Navy Munitions Board, which is charged with the duty of coordinating governmental action in connection with purchases in this country to the extent necessary to safeguard the programs of the War and Navy Departments, to create additional manufacturing capacity in the United States and to protect stocks of strategic or critical materials accumulated in this country, is desirous of learning of orders which have been or may be placed in this country by foreign governments for all supplies for military or naval use. It desires this information in order that it may fulfill its duties as outlined above without causing any unnecessary inconvenience to foreign purchasers.

It would be greatly appreciated, therefore, if the Chiefs of Mission could find it possible informally to communicate to the Division of Controls, Department of State, for transmission to the Army and Navy Munitions Board, information in regard to any unfilled orders for all supplies for military or naval use which may have been placed in the United States by any purchasing agents

to their governments. It would also be appreciated if the Chiefs of Mission could from time to time informally communicate to the Arms Division of the Department information in regard to orders which may be placed here in the future by any purchasing agents of their governments. All such information submitted to the Department for the use of the Army and Navy Munitions Board will, of course, be considered as strictly confidential.

Department of State,

Washington, November 6, 1939.

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THE WHITE HOUSE

WASHINGTON

December 6, 1939.

My dear Mr. Secretary:

I have created an informal committee to represent the American Government in its contacts with the interested foreign governments in all matters relating to the purchase of war materials in the United States, consisting of the following:

- (a) The Director of Procurement, Treasury Department;
- (b) The Quartermaster General of the Army;
- (c) The Paymaster General of the Navy.

This committee will serve as the exclusive liaison with reference to procurement matters between this Government and the interested foreign governments. It will hold sessions at least once weekly, and at such more frequent intervals as may be necessary. At these sessions, it will receive an accredited representative of the embassy of any interested foreign government for the purpose of giving consideration to the requirements of such government for supplies, equipment, and materials, in relation to: (a) availability of the desired articles, (b) priorities, and (c) prices. The Committee will submit a complete report of its proceedings, acts and recommendations, at least weekly, to the President through Mr. McKeynolds.

The Secretary of State has informed the British and French Ambassadors of this arrangement.

Will you please inform the Paymaster General of his designation as a member of this committee.

Sincerely,

Franklin D. Roosevelt,

Hon. Charles Edison,

Acting Secretary of Navy.

TREASURY DEPARTMENT

218

INTER OFFICE COMMUNICATION

DATE December 13, 1939

TO Secretary Morgenthau

FROM

Mr. Haas *HAAS*

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

Dec. 1: Export demand was very disappointing today, but there were rumors that Great Britain was planning on further heavy purchases of Canadian wheat. It was estimated by Winnipeg grain people that 15,000,000 bushels of Canadian wheat and flour had been sold for export the past week.

Dec. 2: The Buenos Aires National Grain Elevators Board reported today that Argentina exported 500,000 tons of wheat, about 16,666,600 bushels, in November, the largest month's total since 1919. All but 100,000 tons went to Europe.

The International Institute of Agriculture in Rome estimates that exporting countries have a surplus of 1,313,000,000 bushels, of which only 600,000,000 bushels will be required by importers during the current season. The carryover at the end of the season is expected to exceed 700,000,000 bushels, establishing a new high record.

Sales of Canadian wheat and flour last week are estimated at 15,000,000 bushels, making about 50,000,000 bushels sold in the past six weeks.

Dec. 4: Week-end sales of grain for export were rather light. It was estimated that sales included 400,000 bushels of Manitobas, 100,000 bushels of Canadian barley, and 120,000 bushels of American rye, worked to the Continent and Denmark. Weekly world shipments of wheat and flour totaled 12,213,000 bushels compared with 10,448,000 bushels a week ago and 11,769,000 bushels a year ago.

Dec. 6: Export sales of Manitoba wheat were estimated at close to 1,000,000 bushels to the Continent. This included about 450,000 bushels to Norway.

Secretary Morgenthau - 2

Exports of grain from the United States in the week ended December 2 totaled 373,000 bushels, which compares with 958,000 bushels shipped in the previous week and 1,004,000 bushels exported in the like week in 1938, the Department of Commerce reported. Included in the December 2 shipments were 277,000 bushels of wheat and 93,000 bushels of corn. Grain exports this season thus far totaled only 20,346,000 bushels against 57,425,000 bushels exported in the same period of last season. Included in the season's exports were 11,874,000 bushels of wheat and 5,875,000 bushels of corn.

Dec. 7: Winnipeg was strong on good export business, estimated at over 1,000,000 bushels of Manitobas to neutral nations, and buying by mills helped to force the market to new high levels.

Freight was booked for 60,000 bushels of heavy grain to Copenhagen from New York.

Dec. 8: Winnipeg reported the sale of 250,000 bushels of Manitobas and about 100,000 bushels worked by New York exporters.

Denmark bought 360,000 bushels of No. 1 yellow corn for shipment from the Gulf. There were also inquiries for corn from Continental countries, including Belgium and Holland.

Export flour sales this week are the best since the first two weeks in September.

Dec. 9: Export sales of 250,000 bushels to 500,000 bushels of Canadian cash wheat were reported, but business was restricted by inability to secure ocean freight. New York exporters reported that they could have sold several million bushels if freight space could have been booked.

December 13, 1939

20

3 pm

Present:

Mr. Teutomu Nishiyama, Financial Attache
Mr. Cochran

Mr. T: Thank you very much for seeing me.

HM, Jr: We have met before. Won't you sit
down? You have been talking with Mr. Cochran?

Mr. T: Yes.

HM, Jr: Have you been in Washington all the
time?

Mr. T: No. No. I always stay in New York.
It is very fortunate to have Mr. Cochran here because
I want to offer some explanation because we are ship-
ping some gold, a little more than usual at this time.

HM, Jr: I see.

Mr. T: In general our trade is much better
this year than it was last year. But since outbreak
of the war

HM, Jr: Which war?

Mr. T: European war, Great Britain made some
exchange control and then India, Singapore, has this
exchange control, over the Far East, so that our money
tied up everywhere in Great Britain Dominion. It is
pretty difficult to get money from London to New York.
And furthermore our export bills cannot be paid on
account of the blockade of business. We can't be
paying. So we are short of funds in New York. And
I think we started to ship about two or three weeks
ago just about twice the amount we usually ship. It
will continue for sometime. We must have strength

-2-

in our balances this year in New York. But in Japan since last year the Government was buying from private gold. It was wonderfully successful and we are pretty comfortable. The amount is not

HM, Jr: Buying gold from whom?

Mr. T: Japanese people. Private hoard. So we are pretty comfortable. We need sell certain amount of gold to tide over this temporary difficulty without drawing upon the reserve of Bank of Japan. I don't know how much it will come to, but, anyhow, I think we will ship for one, two, three months rather big amount, then it will stop, because perhaps, we anticipate, we can draw money from around Singapore, Australia, everywhere from British Dominion.

HM, Jr: But now it is blocked.

Mr. T: Yes. Certain amount of money tied up, and this difficulty is only temporary and it will be all right after few months, I guess.

HM, Jr: Well, have you any idea as to the amount of gold you will be shipping here for the next few months?

Mr. T: I think about 200 million yen, about \$50,000,000. I think we will ship just about the amount we shipped in last year.

HM, Jr: I see.

Mr. T.: Yes; roughyl. But for this war, this European war, we might have been much more comfortable.

HM, Jr: I see.

Mr. T: Yes.

HM, Jr: I see. Well, I appreciate your coming in to tell me.

Mr. T: Yes. Yes.

HM, Jr: I have no comment to make. Our policy is, as you know, until further notice we will buy gold

-3-

at \$35.00 less 1/4%.

Mr. T: Yes.

HM, Jr: And that is still our policy.

Mr. T: I hope so.

HM, Jr: But there is a lot of gold coming this way from all directions. That's our worry, isn't it?

Mr. T: Yes.

HM, Jr: If I might ask a question as long as you are here ...

Mr. T: Yes.

HM, Jr: Are the proceeds of the sale of this gold

Mr. T: Yes.

HM, Jr: what proportion of that is used in the United States?

Mr. T: Practically all the money is spent in this country.

HM, Jr: It is.

Mr. T: Yes. And we must make provision for paying our coupons of Government bonds, municipal bonds and utility bonds issued in this country. It is pretty

HM, Jr: heavy?

Mr. T: yes, heavy.

Mr. Cochran: May I ask, were you not with the Yokohama Specie Bank in New York?

Mr. T: I was asked to resign that job and I have separate office.

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Mr. Cochran: But you were with it?

Mr. T: Yes. Yes.

HM, Jr: But you have only been in this country six months? Nine months?

Mr. T: Yes. Six months, but I was here about three years ago. I was Manager of Yokohama Bank.

HM, Jr: There is nothing we can say other than thank you for the information.

Mr. Cochran: Yes.

HM, Jr: We like to know what's coming. It is helpful and now that you know Mr. Cochran come down oftener. Don't wait so long.

Mr. Cochran: I will be very glad to see you.

Mr. T: Thank you very much, Mr. Secretary.

oOo-oOo

No. 248

COPY

AMERICAN CONSULATE

Rangoon, Burma, December 13, 1939.

STRICTLY CONFIDENTIAL

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

THE HONORABLE

THE SECRETARY OF STATE,
WASHINGTON.

Sir:

I have the honor to report, supplementing information which has been transmitted to the Department, that imported war materials for China shipped from Rangoon during the period from October 14 to October 27, 1939, were valued for Customs purposes at Rupees 3,243,399, or \$1,135,189 at exchange of 35 cents to the rupee. Statistics relating to these materials are transmitted herewith.

At the end of the period mentioned the total value of all war supplies for China shipped in transit through Burma stood at Rupees 82,264,894, or approximately \$28,792,712.

Respectfully yours,

Austin C. Brady
American Consul

In quintuplicate to the Department.

EOO
ACE

WAR MATERIALS FOR CHINA

Statistics of imports at Rangoon inspected and passed for transit during the period from October 14 to October 27, 1939.

Type of Material	Number pkgs.	Description and Quantity	Country of origin	Value Rupees
<u>Aeronlane parts</u>	1	No description	Great Britain	2,653
	28	" "	United States	121,085
<u>Machine guns</u>	101	Madsen 7.9 mm. guns and accessories, machinery and parts; 100	Denmark	196,860
	34	Madsen 20 mm. machine cannon with mountings and accessories; 14	"	152,893
<u>Rifles</u>	680	Mauser 7.9mm.; 17,000	Belgium	936,321
<u>Fuses</u>	12	Safety, with S. W. W. No. 30; 3,600 coils	Great Britain	2,115
<u>Mortars</u>	8	81 mm. with accessories and 51 rounds shells; 1	United States	8,530
	50	Brandt 60 mm. with accessories; 50	France	67,000
<u>Cartridges</u>	460	Madsen 20 mm.; 21,000 rounds	Denmark	188,745
	11,500	7.9 mm.; 13,000,000	Belgium	<u>1,567,197</u>
		Total		3,243,399

WAR MATERIALS FOR CHINA

Imports at Rangoon inspected and passed for transit during the period from
October 14 to October 27, 1939.

RECAPITULATION BY COUNTRIES OF ORIGIN

<u>Country of origin</u>	<u>Value Rupees</u>	<u>Equivalent U. S. Dollars</u>
1. Belgium	2,503,518	876,231
2. Denmark	538,498	188,474
3. United States	129,615	45,365
4. France	67,000	23,450
5. Great Britain	4,768	1,669
Totals	3,243,399	1,135,189

RECAPITULATION BY TYPES OF MATERIAL

<u>Type of Material</u>	<u>Unit</u>	<u>Quantity</u>	<u>Value Rupees</u>	<u>Equivalent U.S. Dollars</u>
1. Cartridges	No.	13,021,000	1,755,942	614,580
2. Rifles	"	17,000	936,321	327,712
3. Machine guns	"	114	349,753	122,414
4. Airplane parts	---	---	123,738	43,308
5. Mortars	No.	51	75,530	26,435
6. Fuses	"	3,600	2,115	740
Totals			3,243,399	1,135,189

COPY

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No. 243

AMERICAN CONSULATE

Yunnanfu, China, December 13, 1939.

SUBJECT: Highways of Northwest China.

The Honorable

The Secretary of State,
Washington.

Sir:

I have the honor to enclose for the Department's information a copy of the pertinent parts of a letter received from the Reverend Paul A. Contento, reporting on the conditions of the highways in Northwest China. Mr. Contento, an American missionary, was transferred from Yunnanfu to Liangchow, Kansu, and traveled from Yunnanfu to that place by motor truck. The letter is dated November 9, 1939, at Liangchow.

With respect to Mr. Contento's statement that the Russian trucks used in the northwest all burn gasoline, it should be noted that according to information received by this Consulate from an employe of the Dunlop Rubber Company who has contacts in the northwest, gasoline is cheaper in Sian than in Chungking. According to the same source, trucks arrive in Sian from the

Russian border at the rate of 80 to 100 per day.

Respectfully yours,

/s/ Paul W. Meyer,
American Consul.

Enclosure:-

Copy of letter from Mr.
Contento, dated November
9, 1939.

In quintuplicate.
Copy to Embassy at Peiping.
Copy to Embassy at Chungking.

SOO
SCB:Epj

Enclosure to despatch No. 243, dated December 13, 1939.
from Paul W. Meyer, American Consul, Yunnanfu, China, to
the Department of State, Washington, on the subject:
Highways of Northwest China.

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"We had quite a thrilling trip getting here. From Kunming to Chungking we went on Red Cross trucks but from Chungking to Lanchow, I drove a two ton 1935 Ford truck which belongs to our Mission. Contrary to expectations, I had no trouble at all.

"From Chungking to Chengtu, the road surface is quite bad, but from there right on to the Shensi border, it steadily gets worse and worse. For about a stretch of fifty miles, just beyond Kwangyuan, the road is simply awful. It is cut out of the side of rocky cliffs and so narrow that a truck has to scrape the rocks in order to keep from going over. And there is a drop of about one thousand feet to the dry river bed below!! The roads in Shensi are splendid, but once we turned at Swang Shih Pa, (some 200 kilometer south of Pu Chi, rail-head) to go into Kansu, the road was quite poor again. It is a new road they have put in which goes direct to Tienshui. The road is well engineered and the bridges all in but the surface is pretty bad. The road continues about the same in quality right to Hua Chia Ling, (near Ting Hsi) where the Tienshui road meets the Lanchow-Sian road. Here the road is very good. Of course, it rains so seldom in these parts that they do not bother to put in a stone foundation like in the Yunnan-Iweichow roads. The road from Lanchow to here is fairly good and continues the same right to the Sinkiang border. I say very good, but I should qualify that because while the road is very wide, the section stoned is only about the width of a truck wheel base. The stoned section is about six or eight inches higher than the rest of the road. This makes very difficult driving and accounts for many accidents as once the truck gets off the stoned surface, the drivers seem to make for the ditches. All the trucks used in the northwest are of Russian make and are very clumsy. They all use gasoline.

"Well now, when are we going to have the pleasure of entertaining you in Liangchow? You could easily make the trip from Kunming to here in 8 days even though there are 10 ferries to cross between Chengtu and Hanchung. A warm welcome awaits you here."

JR

PLAIN

 230

London

Dated December 13, 1939

Rec'd 12:05 p.m.

Secretary of State,
Washington.

2610, December 13.

FOR TREASURY.

1. The text of the statement on the Anglo-French financial agreement circulated in Parliament last night after Simon's announcement reported in the fifth paragraph of No. 2598 of December 12, 6 p.m. follows:

"1. The two Governments have agreed that it is in the interest of both countries to avoid alterations in the existing official rate of exchange between the pound and the franc.

"2. The francs required by the United Kingdom (including those for the B.E.F.) will be provided against payment in sterling, and the sterling required by France (including that required for the purchase of raw materials in the British Empire) will be provided against francs. Both countries will for the duration of the war be in a position to cover the whole of their requirements in the currency of the other country by payment in their own currency without any question of their having to find gold.

"3. The sterling held by the French monetary
authorities

-2- #2610, December 13, from London.

authorities will be available for expenditure throughout the sterling area, and the francs held by the United Kingdom monetary authorities will be available for expenditure throughout the French Empire.

"4. The question of sharing equitably the expenses necessitated by the conduct of the war which the two Governments have to defray in gold and dollars will be kept under review.

"5. The United Kingdom and French Treasuries will have frequent meetings to review the position of the Allied Governments as regards their resources in gold and foreign exchange.

"6. Neither Government will raise a foreign loan or credit except in agreement with (or jointly with) the other Government.

"7. Neither Government will impose fresh restrictions on the imports from the other country during the war for protective purposes or for exchange reasons.

"8. The two Governments will maintain contact as regards their policy in regard to prices.

"9. Finally the two Governments will share certain items of expenditure in the common cause such as financial assistance to other countries and the cost of the armed forces

-3- #2610, December 13, from London.

forces of their Polish ally. The contribution of the two Governments will be fixed on a basis which will take due account of the national wealth of each. In general, the French contribution will be 40 per cent and the United Kingdom contribution 60 per cent of the total.

"10. These arrangements will remain in force till six months after the signature of the treaty of peace."

Press comment this morning, which unanimously welcomes the agreement, emphasizes the importance of the fact that the exchange clearing arrangements extend to the whole French and British empires, and also the significance of the fact that equitable sharing of gold and dollar resources are to be kept under review. The two most interesting comments are in the NEWS CHRONICLE and the FINANCIAL NEWS. The latter states that discussion is centered on the reference to price levels in the two countries since if the sterling-franc rate is stabilized for the duration of the war it will be essential that identical policies should be pursued regarding the trend of the respective national price levels. This article points out that up to now prices in France have been kept down with a firm hand while in the United Kingdom they have risen considerably so that unless measures are taken more drastically

-4- #2610, December 13, from London.

drastically to stabilize prices in Britain the two economic systems may get out of equilibrium. The NEWS CHRONICLE financial editor stresses the same point with greater force, pointing out that keeping the pound-franc rate stable without resort to settlement of balances in gold or by tariff action involves "as Sir John Simon said, subsequent discussion of the more general problems of price policy and also (which he did not mention) of wage policy." The NEWS CHRONICLE writer goes on to point out that wage rates have been stabilized in France by government ordinance while in Britain they are undergoing a widespread rise, and that continued divergence must finally break down the currency agreement. In this connection it is significant that seven British trade union leaders go to Paris this week for the first of a series of monthly meetings with their French counterparts to discuss war-time labor legislation, with special attention to the French labor decrees stabilizing wages, et cetera, the results of this meeting, following that of the National Joint Advisory Council with Simon and other ministers reported in the second section of No. 2562 of December 7, on the British trade union attitude to war-time wage problems will be of far reaching importance.

Incidentally

Incidentally since my No. 2167 of October 25, wage increases have been numerous. On December 2 the DAILY HERALD boasted on behalf of trade union leaders that they had negotiated wage increases equal to pounds 30 million a year for four million workers during the 13 weeks since war began. This covered, among others, workers in the shoe, rubber, paper, drug, bacon curing, linen, furniture, engineering, building trades and agricultural workers. Meanwhile transport workers and local government employees and others are pressing for wage increases.

2. Government returns for the week ended December 9 show a drop from last week's peak in expenditure (reported in No. 2551 of December 6) of pounds 76.3 million to pounds 43.8 million. The proportion required for national debt interest was pounds 22.6 million and pounds 9 million respectively. Ordinary revenue totalled pounds 13 million. Receipts (net) from national savings certificates were pounds 5.2 million and subscriptions to baby defense bonds yielded pounds 6.35 million. These with the pounds 25 million expansion in the tender Treasury bill issue to pounds 700 million amounted to pounds 5.8 million more than the week's deficit of pounds 30.7 million and consequently the tap issue was reduced by pound 4.5 million and ways and means advances by pounds 1.3 million, making the total floating debt

-6- #2610, December 13, from London.

debt pounds 1,473 million, or pounds 19.3 million up on December 2.

3. The official belge rate was fixed weaker at 24.30-55 today and the Argentine peso at 17.30-80, but the Swedish and Norwegian rates were unchanged.

JOHNSON

ESM

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE December 13, 1939.

CONFIDENTIAL FILES

SUBJECT TELEPHONE CONVERSATION WITH

L. W. Knoke

BANK OF ENGLAND.

231

I called Mr. Bolton at 12:50 today. There was a good deal of confused and confusing information in this market about a changed attitude on the part of the British Exchange Control towards cotton bills for forward delivery. What could he tell me in this connection? Under the present arrangement, Bolton replied, exchange was given at the official rate against bills covering merchandise "actually on the move". In order to protect themselves against being handed clean bills, that is, non-documentary bills which had nothing to do with actual merchandise operations, they were now insisting that any bill offered to the British Control for settlement at the official rate was guaranteed to have documents attached within 10 days; this was considered a reasonable time for the shippers to move the merchandise out of the warehouse, load it, obtain shipping documents, attach the documents to their draft and have it collected through their bank. If the exchange transaction had to do with a sale of merchandise for forward delivery, the foreign seller could easily protect himself on the exchange risk by arranging with the British buyer to apply through his bank in England for foreign exchange for forward delivery at the official rate. The British buyer would describe the merchandise, would produce the import license and on the bank's knowledge of the business, the exchange would be allocated. This was the only way the British Control could make certain that the foreign exchange applied for did not go into the wrong hands and did not serve

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE December 15, 1930.

TO CONFIDENTIAL FILES

SUBJECT TELEPHONE CONVERSATION WITH

FROM L. W. Kneke

BANK OF ENGLAND.

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speculative purposes. The foreign seller who had a contract for the sale of merchandise for forward delivery could protect himself as to the exchange rate in the future as he had in the past but instead of doing it in his own market as heretofore, the buyer would do it for him in London. The fact of the matter was that this was the kind of arrangement that had been contemplated from the outset but it had taken a long time for the British importers to realize that that was the way in which the business should be done. There had been a great deal of confusion particularly in Lancaster due to the fact that cotton dealers there were trying to do their business in war times as they had done it in peace times.

According to Bolton, then, the foreign shipper continues to have the same protection as in the past but instead of covering his forward exchange in his own market hereafter it will be up to the British buyer to do it in London. The official rate, of course, remains unchanged.

LWK:KW

RECEIVED

DEC 15 1930

THE NEW YORK FEDERATION OF
BANKERS AND TRUST COMPANIES
INCORPORATED IN NEW YORK

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

238

DATE December 13, 1939

TO Secretary Morgenthau

FROM Joseph P. Cotton, Jr.

Re: Export-Import Bank Credit
to Finland.

At a meeting of the Board of Trustees this morning a resolution was adopted, subject to the recording of the two State Department votes which have not yet been cast in favor thereof, assuming a \$3 millions commitment in favor of the Finnish-American Corporation, a domestic corporation being organized today, to be used to finance the export of American products other than armaments and munitions, the purchase of which shall be approved by the Bank, disbursements to be made against shipping documents.

The matter was considered yesterday at an Executive Committee meeting at which no decision was reached except to request the President of the Bank to find out if the RFC, in view of the present financial condition of the Bank, would not be willing to assume the whole \$10 millions commitment publicized by Mr. Jones. This morning approval was requested of a \$3 millions commitment, it being assumed, although the RFC Board has not acted, that Mr. Jones will secure their approval of the \$7 millions commitment. Rather violent objection was taken by Tels to the fact that the RFC was not committed and that disbursements would be made first by the Bank with no assurance of RFC participation in current disbursements. In view of Terren Pierson's review of the position of the Bank and the reduction in the amount to \$3 millions, I did not insist on these objections.

The substance of the transaction received little discussion. As far as I know, however, it seems clear that the credit cannot produce immediate, effective aid to Finland unless through arrangements with Great Britain or other powers in a position to render effective help, whereby the purchase of goods for export here by the Firms could be made a basis for immediate export of armaments and other goods from countries close to Finland. I hope it, on the basis of our conversation yesterday, that this is a matter into which you did not wish me to inquire too closely and I am also informed that it is a matter which Mr. Hull does not wish to take up with the President.

Under the circumstances, however, I should like to point out that under the set-up designed by Mr. Jones (1) there appears little likelihood of the credit being of immediate, effective aid to Finland, and (2) there is

- 2 -

Some possibility, if the Finns move quickly in making purchases here, of \$5 millions being thrown away and the whole onus of the transaction falling upon the Export-Import Bank, although I suspect Mr. Jones hopes that the credit will not be largely drawn upon before the situation in Poland becomes clearer one way or the other.

Under the circumstances I registered my vote in favor of the resolution, indicating in so doing that I was acting under special instructions from you.

J.P. E.H.

MA

GRAY

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Paris

Dated December 13, 1939

Rec 'd 5:40 p.m.

Secretary of State

Washington

2970, December 13, 7 p.m.

FOR THE TREASURY.

Our telegram Number 2963, December 12, 6 p.m.

The Franco-British financial accord has been the subject of enthusiastic comments in financial circles today and has received the unanimous approval of the French press. The latter has given it quite a play and it shares with "Russia versus the League" most of the front pages. While most editorial comment is largely in the nature of paraphrases of Reynaud's statement and praise of his able handling of the negotiations Frederic Jenny has a leading article in this morning's AGENCE ECONOMIQUE FINANCIERE in somewhat more serious vein. Asserting that the financial accord is fully as important as the recent Franco-British economic accord and that it implies "total monetary solidarity" it seems: "this means first that for the duration of hostilities and six months following the signature of the peace treaty French currency and the pound will be stabilized in practice in their relationship to each other apparently on the basis of present quotations. (END SECTION ONE).

NPL

BULLITT

JT

GRAY

PARIS

Dated December 13, 1939

Rec'd 5:30 p.m.

Secretary of State,
Washington.

2970, December 13, 7 p.m. (SECTION TWO)

The essential point is that stabilization will be effected without gold movements. The French Government will furnish the English Government against pounds the francs which the latter may need for its expenditures and its purchases in France and our Colonial Empire and reciprocally the English Government will place at the disposal of ours against francs the necessary pounds for settlement of French purchases in the United Kingdom and in the sterling area that is to say, the entire British Empire except Canada.

But monetary solidarity does not exist only in the relationship between the franc and the pound. It is equally manifest in the relations of the two countries with other states and that in two respects: (first) the two governments have decided that they will share fairly expenditures to be made in gold or in dollars. That means that just as economic resources of the two countries have been pooled their foreign exchange resources - which furthermore will

be

-2- #2970, December 13, 7 p.m. (SEC TWO) from Paris

be the object of frequent surveys - will form in effect
one sole mass 'as sole' war treasure.

BULLITT

NPL

JT

243

GRAY

PARIS

Dated December 13, 1939

Rec'd 5:43 p.m.

Secretary of State,
Washington.

2970, December 13, 7 p.m. (SECTION THREE)

(Secondly) Each of the two governments will refrain from contracting foreign loans or from soliciting credits without prior accord with the other, thus in the common interest competition already set aside in purchased of raw materials or of war materials will be equally so in the field of international credits." The psychological aspects of the agreement as a further answer to Germany's efforts to separate the two allies are also stressed in the comments we have heard, as well as hopes that some of its principal features and the practical cooperation which it demonstrates may long survive the war. Nor has the importance of the mutual agreement to impose no new protecting tariff measures been overlooked. There is pleasure too that early press reports from Washington indicate that "the agreement has received favorable comment there" and that it is not considered as infringing "the functioning of the tripartite monetary accord".

BULLITT

NK:R PL

JT

GRAY

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PARIS

Dated December 13, 1939

Rec'd 6:08 p.m.

Secretary of State,
Washington.

2970, December 13, 7 p.m. (SECTION FOUR)

One despatch states "political circles add that relative stabilization between London, Paris and Washington of their respective currencies may serve to restore to the world at the appropriate time the bases of a future economic order in conformity with the idea so dear to President Roosevelt and Monsieur Cordell Hull".

The Netherlands Bank statement for the week ending December 11 shows gold reserves down 6,000,000 florins to 1,019,000,000. Total liabilities are 1,345,000,000 as against 1,353,000,000 the previous week. Gold coverage is down from 75.08% to 75.01%. It is commented locally that this small further reduction in gold reserves indicates continued demand in dollars but largely for commercial needs; there is no indication of any important flight of capital.

BULLET

NPL

JT

GRAY

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PARIS

Dated December 13, 1939

Rec'd 6:18 p.m.

Secretary of State,
Washington.

2970, December 13, 7 p.m. (SECTION FIVE)

The B I S statement for November shows a slight reversal of the previous downward trend. Gold holdings are up 4,500,000 Swiss francs to 22,100,000. Rediscountable bills and acceptances are up 1,600,000 to 159,700,000 and cash is up 12,800,000 to 28,600,000. Short term deposits are up 7,500,000 to 27,600,000 and total resources are 460,000,000 compared with 452,000,000 on October 31.

The Paris securities market was subject to profit taking and turned heavy toward the close. Moderate gains and losses were the rule except for rentes most issues of which continued to gain on the average 1.50 francs. The exchange guaranty issues were weaker, however, the 1937 issue losing 1.20 francs. The continued gain in rentes without exchange guaranty is apparently due to the feeling that the Franco-British financial accord has strengthened the franc. Suez was down 500. Official exchange rates were unchanged except for the belga which improved from 714-720 to 717-723. (END OF MESSAGE)

BULLITT

NPL

The two Governments consider it is in the common interest to avoid alterations in franc-sterling rate and no such change will be made without prior agreement between them.

Each exchange equalization fund will continue to be solely responsible as regards quotation of its currency in market in third countries, but there will be close consultation.

British fund and French fund will continue to sell to one another sterling for franc and franc for sterling at official rates. French fund will be thus sellers to United Kingdom fund of all francs required for our expenditure.

If French fund holds sterling in excess of fifty million pounds excess will be funded in form of Treasury bills repayable one year after war and renewable for two further years. Franc value of these Treasury bills will be guaranteed. Same system will apply to francs held by United Kingdom fund.

No request will be made by either fund for conversion of currency of other countries into gold. Sterling held by French fund will have a guarantee of its ^{franc} ~~accounted~~ value, and francs held by United Kingdom fund of their sterling value.

French may use their sterling in sterling areas/

-2-

areas and by agreement in special cases elsewhere, and we may use our francs in French Empire and by agreement elsewhere.

These are main monetary clauses. Agreement also provided for contact between the two Treasuries and cooperation in all questions of common interest. Certain items of war expenditure in common cause, such as expenses of Polish armed forces, financial assistance to third countries and losses resulting from blockade delays, will be shared in proportion two for the French and three for the United Kingdom. Agreement is to remain in force for war period and for six months after signature of peace.

BRITISH EMBASSY,

WASHINGTON, D. C.,

December 18th, 1939

RECEIVED

DEC 18 1939

TREASURY DEPARTMENT

6225

December 13, 1939.

248

Memorandum to The Secretary

From Mr. Stewart.

Subject: Strategic Metals.

Questions:

How can the "moral embargo" of strategic metals be made an effective method of restricting the war activities of certain countries?

What is the best organization for assembling the necessary information and for taking action based upon it?

What are some of the immediate and longer term consequences of "moral embargo" of these metals, and what problems can be foreseen?

- o -

The more highly "localized" metals are easiest to control. These are molybdenum (U. S. A.), nickel (Canada), and vanadium (Peru). Some degree of international cooperation would be necessary to effective control. The less localized metals (chromium and manganese) are to some extent substitute for molybdenum, and manganese is a required alloy in all steels. The information concerning present and prospective supplies of manganese is therefore of first rate importance.

The extent of damage that can be done by withholding certain of these alloys differs by countries:

Russia - Most nearly self-sufficient, - since it is the chief producer of manganese and has adequate supplies of chromium.

Germany - Most dependent upon outside sources, but highly skilled in the art of substitution, and under existing circumstances may draw upon Russian supplies of alloys.

Japan - Most uncertain. Information concerning its own production of chromium not available, but it also

imports from the Philippines and supplies are available in New Caledonia. Pressure on Japan might result in that country making an agreement with Russia concerning manganese.

U. S. A., Great Britain and France are all importers of manganese, largely from Russia. The present and potential supplies from other sources (such as Brazil and Cuba) need to be investigated with particular reference to present capacity and the time and money required to increase supplies from these other sources. It is also important to know how many months supply of manganese is now stocked in the U. S. A., Great Britain and France and whether these stocks are adequate to bridge over a period during which Russian supplies might be shut off. While the U. S. A. might be able to meet its current requirements from Brazil and Cuba, such action might shift the deficiency to Great Britain and France.

General Considerations:

1. As an alternative to a "moral embargo" aimed at complete withholding of embargoed metals it may be desirable to consider a scheme of rationing. This could be supervised by the trade after an understanding with the U. S. Government, under which the amounts made available to any single country was restricted to some pre-war basis.

2. Understanding reached with the trade will be subject at some time to public explanation. For example, the management of Climax Molybdenum will presumably be called upon to explain to the stockholders the decline in exports of molybdenum to Russia. Is the company to say this was done at the request of the U. S. Government, and upon what basis, - or is there an alternative form of explanation to the public. No matter how confidential the information may be regarded, the fact of a moral embargo will soon be known in trade channels.

Sources of Information:

In existing circumstances I recommend that Government sources of information be used to the fullest extent before asking private industry for the facts. I suggest that Harry White and his division, possibly with the help of Mr. Kamarok, now working under Captain Puleston's direction, be used to collect and interpret the information.

Others of us would be available for such consultation and advice as seemed desirable. The reports of the Munitions Board are said to contain basic information on these metals, and some of these reports are already in the Treasury. On existing stocks of manganese in this country the American Iron and Steel Institute is probably the best source.

Information most urgently required concerns manganese. I would be inclined to suspend further action on "moral embargo" of strategic metals until manganese position was assessed. Whatever the efficacy and risks of the "moral embargo" may be, it is clearly desirable to have a full understanding of international position of the strategic metals. This can be justified as part of a preparedness program. It is less clear that it is the function of the Treasury to assemble and interpret this information.

TO:

12/13/39

MRS. KLOTZ
.....

I would appreciate it if you would bring this to the Secretary's attention as soon as possible, as I ought to call Mr. Trap-hagen this afternoon.

JVC, Jr.

From: MR. COTTON

TREASURY DEPARTMENT

251

INTER OFFICE COMMUNICATION

DATE December 13, 1939

TO Secretary Morgenthau
FROM Joseph P. Cotton, Jr.

Re: Colombian debt.

130
Thursday

Mr. Traphagen called me this morning to say that, as a result of his meeting with Jaramillo and Turbay in Washington last week and a meeting which he arranged yesterday in New York to have them meet the executive committee of the Bondholders' Council, the Council has formulated an "irreducible minimum" in connection with any adjustment of the Colombian debt. Mr. Traphagen would like to come to Washington to see you personally in order to inform you of the situation either Thursday, Friday or Saturday of this week -- preferably Friday. He would prefer to see you personally rather than the committee consisting of Mr. Jones, Mr. Welles and yourself. He would like to explain the situation to you before communicating the "irreducible minimum" to the Colombians, because he sees little reason for so doing unless the Council could be assured of the backing of the Government in this position.

I told him I would communicate the above to you and call him back as soon as possible.

J.P.C.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

AS 252

DATE December 13, 1939

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

The Canadian Minister talked with me by telephone at 12:10 this noon. He stated that Colonel Ralston would be here on December 20. Since his time is short, his schedule calling for departure by plane about 4 o'clock in the afternoon, after arriving only in the midforenoon, it was desired to learn whether there should be an arrangement for a conversation at the Treasury before or after the luncheon which the Secretary is giving here for Colonel Ralston and the Minister. When I reminded the Minister that in his conversation with the Secretary a few days ago the decision had been left to the Canadians as to whether they preferred to lunch at the Secretary's residence, in the event that no publicity should be given their visit, or at the Treasury, the Minister said he had informed the Secretary's private secretary that they were not endeavoring to keep the visit confidential and would be glad to come to the Treasury.

The Minister explained that they had no specific questions or anything to ask of Secretary Morgenthau. The main purpose was to become acquainted. Colonel Ralston might be accompanied by Dr. Clark. The Minister will inform us definitely later.

Shortly after talking with the Canadian Minister, I reported my conversation to the Secretary who had me call back the Minister shortly before 1 o'clock, and tell him that the best time for an extended conversation would be immediately after the luncheon.

The Minister raised the further question as to a communication to the press. He suggested that he draft something along general lines which could be given out and that he then submit his draft to us. I told him that if he telephoned me after his draft was finished I would see that we got together with him.

J. M. R.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 13, 1939

TO Secretary Morgenthau
FROM Mr. Cochran

253
STRICTLY CONFIDENTIAL

At 4 o'clock the Secretary received Mr. K. F. Chen. Mr. Cochran and Mr. Cotton were present. Mr. Chen read to the Secretary, and handed to him, the copy of a memorandum providing the information with respect to Chinese production and export of tungsten which the Secretary had requested some days ago. It appeared that only about 3,000 tons per annum might be available for export to the United States, since the other was pledged for barter to Russia or for sale to England or France, after local needs were taken care of. The Secretary said to Mr. Chen that this material might be made the basis for a loan more easily than tin. Chen remarked about the small amount, calculating that at \$1400 per ton a loan of only between \$4,000,000 and \$5,000,000 could be figured on. The Secretary said that this amount was something.

The Secretary then referred to the list which Mr. Chen had handed him on his last visit, and which the Secretary had passed on to the President. The Secretary suggested that the Chinese Ambassador, who has not seen the President since September 5, ask for an appointment and stay with the President until he talked him into doing something for China's urgent needs. He told Chen that the Finnish Minister Procope had followed this policy successfully, as evidenced by the \$10,000,000 loan which has just been arranged.

Mr. Chen had talked with the President of American Metals in regard to zinc, and has had instructions to buy an increased quantity thereof, but has not yet made any arrangements, particularly because of the high price.

The Secretary raised the question of the services of Mr. Sheahan. Mr. Chen said that this man had rendered service of value, due importantly to the fact that his influence was strengthened by the understanding that he had been recommended by Secretary Morgenthau. Mr. Chen does not know how fully his technical recommendations have been adopted or found practicable, but he has been pleased to see him working toward a coordination of transportation in China which was sorely needed. The Secretary voiced his pleasure at Sheahan's having charged Chen for time spent in calling on the Secretary in Chen's behalf. The Secretary reminded Chen that no intermediary was necessary between them, and that he thought the money should be returned to Chen. The latter deprecated the importance of this matter.

B. M. F.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 13, 1939

254

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 5:30 this afternoon the Secretary received the Belgian Ambassador in Washington and M. Theunis, who is here as "Ambassador at Large" for Belgium, and who has in the past visited the United States on various missions and held important posts in the Belgian Government, including that of Minister of Finance. Mr. Cochran was also present.

Mr. Theunis explained that he merely wished to pay his respects. It had been thought sometime ago that it might be well for some Belgian to come to the United States who was familiar with the economic situation in Belgium and who could speak on this as well as study the American situation. Mr. Theunis reminded the Secretary that he had visited the United States to effect the Belgian debt refunding agreement, following after the British, and unfortunately having to pay a rate of interest which has been found too high. He contrasted that rate of interest with the present cost of money.

Mr. Theunis stressed the hardships now being imposed upon Belgium by the war. While Belgium has an advantageous position in time of peace, favoring it as a trading country, this same position of so small a country reacts greatly to its disadvantage during a war such as this where it is between two devils fighting and the deep sea which Britain controls. He said that the port of Antwerp had suffered badly, as result of the allied blockade and Belgium is having much difficulty in procuring raw materials. He said that while the British had held up for a few weeks certain vessels bringing American cotton to Belgium, France had not only taken such vessels into the Port of Havre, but had actually confiscated the cotton without making any payment therefor. He said the Belgian Government had protested, but ineffectively. "What can we really do, when we Belgians are as sympathetic as the Americans with the allied cause."

The Minister said that the Secretary of the Treasury would realize what a problem his colleague in Belgium has in meeting the heavy expenditure for keeping 600,000 men under colors, while suffering a lack of income from paralyzed shipping and business. M. Theunis mentioned the problems of the Netherlands as being equally serious with those of Belgium, the Port of Rotterdam suffering even more. From a military standpoint, Switzerland had an easier problem than these two flat countries, because of the natural protection which the Rhine and the mountains afford Switzerland.

The Secretary asked where Belgium was obtaining her iron ore. M. Theunis said part of this came from France, while Belgium in turn shipped coal to France. He added that some metallurgical coke had been obtained from Germany, but that Germany insists on obtaining materials from Belgium which England will not permit Belgium to have and sell to Germany. This complicates Belgium's problem very much. Questioned by the Secretary as to what materials Germany needed most, M. Theunis thought her food supplies ample for some-time. The greatest need was for materials such as copper, manganese and various metals required in steel alloys. He did not think Russia should normally provide foodstuffs for export to Germany, but admitted if this seemed to be a necessary national policy, the Russians would simply export the food and let their own people starve as they have in the past when desiring foreign exchange and selling wheat therefor. Theunis could not believe that Hitler was happy over his partnership with Stalin. At this point the Belgian Ambassador remarked that he had word through Italy that sentiment in Germany was anything but favorable to the present connection with Russia. The Ambassador thinks that various factors give a hope for peace in the Spring. Theunis recalled that during his only conversation with Hitler, which was for five minutes two years ago, they found they had one common hatred, namely, that against Bolshevism.



STRICTLY CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 13, 1939

TO Secretary Morgenthau

FROM Mr. Cochran

356

The Secretary spoke to me at 9:00 o'clock this morning about the failure of the Bank of England to authorize the Federal Reserve Bank of New York, in its cablegram setting up the special account, to permit confidential access thereto to the Secretary of the Treasury, as specifically promised in the message from the Chancellor of the Exchequer which was delivered to the Secretary on October 30, 1939, by Mr. Pinsent. The Secretary then telephoned Governor Harrison at the Carlton Hotel. Governor Harrison told the Secretary that it was his understanding, particularly after talking with Messrs. Stewart and Cochran, that he should go ahead and accept the Bank of England account, even if prior arrangements were not made with him by the Bank of England to give the Secretary access thereto. He thought from his earlier understanding with the Secretary and from his recent talks with the Secretary's assistants that the Treasury had already cabled London in regard to the condition in question, and that it was this Department's task to remind the British of their undertaking, as communicated to the Treasury through Pinsent.

After this conversation, I was directed by the Secretary to have Mr. Pinsent come to the Treasury as soon as possible and to deliver to him a message from the Secretary.

I called Mr. Pinsent at his house at 9:15 and asked him to come and see me at once. He said he was not quite ready but would come down as soon as he could. He reminded me that he had three or four things to take up with us and asked if he could see Walter Stewart this morning. I told him that we must first clear the matter on which I wished to see him.

Mr. Pinsent arrived shortly after 10:00 o'clock. I told him that the cablegram of December 6 from the Bank of England to the Federal Reserve Bank of New York, setting up the special account of the Bank of England, did not contain an authorization for the Secretary of the Treasury to have personal and confidential access thereto, as had been definitely promised in the message from the Chancellor of the Exchequer which Pinsent had delivered to us on October 30. I showed Pinsent a copy of this message, and he had in his brief case a copy of the cablegram from the British Foreign Office to the Embassy upon which this note was based. I told Pinsent that the Secretary was disappointed because this arrangement had not been carried out. He felt that the account should not have been opened without this point being covered in the instructions. Furthermore, the Secretary had instructed me to ask Pinsent to telephone London and get this matter definitely straightened out before the Secretary would receive him again. Pinsent stated that this must have been simply an oversight by the British authorities, and he was sure it could be promptly adjusted since so definite an undertaking had been received from the British Chancellor of the Exchequer.

When he stated that it was his practice not to use the telephone to the Treasury in London, and that he understood the Ambassador was the only one in their establishment who was permitted to telephone to London, I offered our telephone facilities if he desired to utilize them. Mr. Pinsent accepted this offer and I put through a call for him to Mr. Waley of the British Treasury (Whitehall 1234), and Mr. Pinsent spoke with him at 11:50. With the cablegram from the Foreign Office before him, Pinsent identified the message to Waley and told him that the Secretary of the Treasury was quite insistent that the instruction be immediately transmitted from the Bank of England to the Federal Reserve Bank of New York to put into effect the part of the agreement which was identified, and which concerned the confidential access to the account by the Secretary of the Treasury. Waley promised Pinsent to attend to this matter at once.

While waiting for the phone call to go through, Pinsent asked if he could discuss some other matters. I told him there could be no discussion with the Secretary until this bank account matter was cleared up, but that he could mention anything to me that he desired. He first handed to me the attached third person note, dated December 12, 1939, which provides a summary of the Anglo-French financial agreement, to which Pinsent referred yesterday in his telephone conversation with me. Pinsent had not yet received the full text of the agreement and asked if I could make available to him a copy of our text as received from Paris. I promised to do this, but reminded him that it was probably a translation, and evidently contained some garbles.

Mr. Pinsent then moved to the subject of the departure of Messrs. Whigham and Gifford for London without any final steps being taken toward liquidating British owned dollar securities on this market. I told Pinsent that the Secretary had been concerned over this and would want an explanation from Pinsent. The latter told me that there were certain points which he did not feel like elaborating to me when he told me over the telephone last Friday evening that the two gentlemen were sailing back to England the following morning.

In the first place, Pinsent assured me that Messrs. Whigham and Gifford had been most earnest and emphatic in their cablegrams recommending that vesting of securities be not delayed. In New York they had consulted various bankers and technicians on this subject and received in particular the views of Mr. George Whitney of J. P. Morgan and Company, which were to the effect that while the vesting might cause some trouble, this is a hurdle that must be passed, and that it should be taken as soon as possible. That is, Mr. Whitney, whose opinion the visitors considered most valuable because of his experience in this business, agreed with the views of Messrs. Whigham and Gifford, who likewise realized that the initial vesting might for a while cause some upset.

With considerable hesitancy, Mr. Pinsent then stated that we must know that Ambassador Kennedy had some influence in the decision to postpone the vesting. Mr. Kennedy had talked with Whigham in New York and had also discussed the subject with the British authorities in London after Whigham had sailed. Mr. Kennedy thought that the vesting at this time would be very bad. He did not agree that sixty odd securities should be taken over at the first step. He thought only a small number, perhaps, twenty should be vested to begin with. Pinsent reminded me that Ambassador Kennedy was a very persuasive individual. The two Scotch

representatives who had come to America had hoped to accomplish the arrangements quickly, and Mr. Whigham in particular had desired to return home because of the serious illness of his wife. When the fact was brought home to them in New York that the British officials in London were hesitating to make up their mind in favor of early vesting (the word having been received that since vesting did not take place on December 9, it could not be arranged, at earliest, before December 30) and then realizing that Ambassador Kennedy had perhaps more influence in London during their absence than they could bring to bear through telegrams sent some 3000 miles away, they had taken the quick decision to return to London.

Mr. Pinsent told me that the foregoing was off the record, since he did not desire to get mixed up in our matters. I told him, on the other hand, that the Secretary had taken a great interest in endeavoring to facilitate the visit and arrangements of the British experts; that he would naturally seek all information that could be obtained in regard to the circumstances attending their departure. At this point, Mr. Pinsent hedged a little and said that perhaps the decision to return to London had, to a large extent, been determined before Mr. Kennedy arrived in New York. He confidentially added that the two Scotchmen thought they might have a clear field for putting across their program in London during the absence of Ambassador Kennedy from his post.

Mr. Pinsent brought up one question. He said that just when Whigham was departing he remarked that there was really no need for his coming back since he and Gifford had now so completely prepared the way; that the liquidation could be carried out under telegraphic instructions from London to New York, when once it is decided upon. Pinsent was concerned over this point, since he felt that it was the tacit, although perhaps not the formal, understanding with the Treasury that a British expert should be in this country to oversee the liquidation. I reminded him of the arrangement discussed and approved in our exchange of cablegrams with London with respect to a branch of a Canadian bank in New York acting as the liquidating agent. I told him that I was sure the Secretary expected to have some British or Canadian authority on securities in New York who could talk to us on any problems incidental to liquidation. I preferred, however, that Pinsent bring this matter up with the Secretary himself at the next opportunity. Pinsent said it was his understanding that technical advice and market assistance in liquidating the British securities could be freely obtained and added that J. P. Morgan and Company had been consulted importantly during the visit of Messrs. Whigham and Gifford. The question will likely arise on Pinsent's visit, therefore, as to whether he should follow out his inclination to have the British Ambassador urgently cable his Government to send back Whigham or Gifford or a successor to look after the disposal of the securities, or whether we would be satisfied with the New York branch of the Bank of Montreal serving as the depository of the securities and obtain the assistance of New York banks in the actual selling, all under cabled instructions from London. The contact with the Treasury would then be presumably through the British Embassy.

Pinsent also brought up the question of British gold sales to us. He said that he had checked with Osborne and had found that the Bank of England and the Bank of Canada had given the Federal Reserve Bank of New York at least the customary two days notice with respect to the arrival and sale of the \$50,000,000 gold shipment which the Secretary mentioned to the British representatives when they called

on him. I told Pinsent that a notice of a second \$50,000,000 shipment and sale had been received day before yesterday. He said he knew nothing about this. I told him that we had not objected to the technical inter-bank steps, but had been surprised to see a sale of \$50,000,000 of gold to us just on the day vesting of securities was postponed. The inference would be somewhat naturally that the British had decided to sell us gold and postpone liquidation of their securities. Pinsent insisted that no such decision had been taken. He explained that even if the vesting of securities does take place it will be necessary to continue to dispose of some gold to us, because selling securities to meet the full requirements, figuring that the British will have to spend 100,000,000 pounds with us the first year of the war, would unduly depress the security market.

Pinsent mentioned that there was some difficulty already with respect to the account in New York, since of the four officials authorized to sign checks against it, only one is regularly in New York, the other three making headquarters at Ottawa. Since any check must be signed by any two of the officials, it is necessary after the official in New York has signed, to send the check to Ottawa for the second signature. It is hoped that this may shortly be remedied.

Mr. Pinsent desired to talk with Mr. Stewart about the sale of securities on this market, but Mr. Stewart and I agreed that no such conversation should be held until after the Secretary has received Pinsent.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

260

DATE December 13, 1939

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

The foreign exchange market had the appearance of being quiet but the volume of sterling transactions was greatly increased over that of the previous day. Sterling opened at 3.92-5/8 bid in New York. During the day there was a fair commercial demand for sterling which included rubber, tin and burlap concerns. Shortly after noon, the rate was quoted at 3.94. At that time the Federal Reserve Bank of New York received an order from the Bank of Latvia to sell for its account £504,000 at 3.92 or better. The Federal disposed of £410,000 and held the remaining £94,000 for execution tomorrow, pending confirmation of the exact amount of sterling to be sold. About mid-afternoon, the rate started to ease off and it closed at 3.93-3/4.

Sales of spot sterling by the four reporting banks and the Federal Reserve Bank of New York totaled £1,227,000, from the following sources:

By commercial concerns.....	£	382,000
By foreign banks (Europe, Far East and South America)....	£	435,000
By Federal Reserve Bank of New York (for Latvia).....	£	410,000
Total.....	£	1,227,000

Purchases of spot sterling amounted to £731,000, as indicated below:

By commercial concerns.....	£	367,000
By foreign banks (Europe, Australia and Far East).....	£	364,000
Total.....	£	731,000

From the turnover figures given, sales exceeded purchases by £496,000 and it is difficult to conclude what disposition was made of this amount as the reporting banks do not supply figures showing changes in their own sterling positions or sterling transactions with other domestic banks.

Yesterday, mention was made in the report that the British Control was purchasing sterling cotton bills at the official rate of 4.02 in a selective manner. In view of this change by the British Control, it is interesting to note that today the reporting banks did not sell any cotton bills to the Control.

The rate for the belga showed considerable strength today and improved to .1651 from yesterday's close of .1644-1/2. It was reported that there was an order in the market to purchase 350,000 belgas. This order, coming on a thin market, had the effect of moving the rate higher.

The other important currencies closed as follows:

French francs	.0223-1/4
Guilders	.5309-1/2
Swiss francs	.2242-1/2
Canadian dollars	12-7/8% discount

Both the Cuban and the Mexican peso continued to decline, being quoted at 12-3/16% discount and .1755 respectively.

In the report of December 11, mention was made that the Bank of Sweden sold \$2,350,000 in gold from its earmarked account. Yesterday, the Federal Reserve Bank transferred from the account of the Bank of Sweden \$2,250,000 to the account of the Finlands Bank. Taking these two transactions together, it appears that the Bank of Sweden purchased gold, deposited abroad, from the Finlands Bank and released its own gold here, in order to provide the dollars to pay to Finland.

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

\$1,125,000 from the Bank of Mexico
<u>790,000 from the National Bank of Belgium</u>
\$1,915,000 Total

The Federal Reserve Bank informed us that the Bank of Norway shipped \$2,405,000 in gold to the Federal Reserve Bank of New York, the disposition of which is unknown at the present time.

The State Department forwarded to us a cable received from the American Consulate General at Ottawa stating that the Bank of Montreal shipped gold valued at \$30,766 to the Bank of Montreal, New York. This shipment will be sold to the U. S. Assay Office.

The London fixing prices for spot and forward silver were 23-1/2d and 23-11/16d, respectively, up 1/16d for each delivery. The U. S. equivalents were 41.51¢ and 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 four purchases of silver totaling 275,000 ounces, under the Silver Purchase Act. All of this silver was new production from foreign countries and it was purchased by us for forward delivery.

B. W. F.

Before Subcommittee of

12-13-39

Committee on Appropriations, House of Representatives, 12/13/39.

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STATEMENT BY SECRETARY MORGENTHAU

Appropriations under the Treasury Department, as set forth in the 1941 Budget, may be classified as follows:

- (a) Annual appropriations for operating expenses of the Department;
- (b) Annual appropriations for non-operating expenses of the Department, including internal revenue and customs refunds;
- (c) Indefinite appropriations and trust funds; and
- (d) Interest on and retirements of the public debt payable from ordinary receipts.

With reference to the first class, which covers the annual appropriations for operating expenses, it should be explained that the estimates now before this Committee do not include the additional requirements of the Coast Guard to meet extraordinary expenditures estimated to be incurred in 1941 in connection with the enforcement of neutrality under the President's proclamation of September 8, 1939. Such additional requirements are now being reviewed by the Bureau of the Budget, and will, it is understood, be separately considered by the Committee. A further exception should be noted with respect to the annual estimate for salaries and expenses of the Procurement Division. Under plans recently developed, the scope of work to be performed by this Division will be substantially increased.

The preparation of the 1941 estimate for the Procurement Division, on the basis of such increased operations, has involved considerable investigation and study, rendering it impossible to include this item in the estimates now before your Committee. The estimate is now being considered by the Bureau of the Budget, however, and final allowance is expected to be made within a few days.

With the two exceptions noted, the 1941 estimates of annual appropriations for operating expenses of the Department aggregate about \$146,881,000. The appropriations available in 1940 for operating expenses, (exclusive of the Procurement Division and after deducting \$14,598,000 provided for administrative expenses under the Emergency Relief Act) aggregate \$146,186,000.

The 1941 estimates for operating expenses, therefore, when compared with similar appropriations for 1940, show a net increase of \$695,000.

The gross increase under this class of appropriations includes the following major items:

Administrative Promotions

The Bureau of the Budget has instructed the Department to allocate in the 1941 estimates sufficient funds for the granting of one-step administrative promotions, within the average of the respective grades, to eligible employees who, on June 30, 1940, with respect to positions in grades having a minimum salary of \$3,200 or above, shall not have received a promotion since June 30, 1936, or, with respect to positions in grades having a minimum salary of less than \$3,200, shall not have received a promotion since June 30, 1938.

The gross amount required by Treasury Bureaus to effect this promotion program will be over \$1,250,000, of which the bureaus will absorb \$340,000 from lapses or savings. The remaining \$910,000 is being requested as specific items of increase in the appropriation estimates of the bureaus concerned.

Permanent Work Performed by Emergency Employees

Under the Office of the Secretary (including the Personnel Division), the Office of the Chief Clerk, the Office of the General Counsel, the Office of the Commissioner of Accounts and Deposits, the Office of the Treasurer of the United States, the Coast Guard, and the Secret Service, the Department is requesting funds for 152 permanent positions, with salaries totaling over \$266,000, in lieu of positions now paid from emergency funds.

Your Committee is familiar, I believe, with the situation with respect to the use of these emergency employees in the performance of regular permanent functions of Treasury bureaus. This matter was brought to your attention a year ago in connection with our 1940 estimates. The Bureau of the Budget has again approved the inclusion of these positions in our estimates, and it is my earnest hope that you will find it possible to accord them favorable consideration.

In this connection I should like to point out, as I have done upon previous occasions, that the duties of the Treasury Department include certain service functions, such as accounting, disbursing, procurement, and check clearance, which expand proportionately as the general activity of the Federal Government expands.

In other words, any increase in the Government's operations as a whole is reflected almost immediately in one or more branches of the Treasury. In recent years this increased burden of permanent work has been borne in part through the temporary assignment of such emergency personnel as could be made immediately available. Obviously, such an arrangement is undesirable and wholly unsatisfactory from the standpoint of proper administration, since it involves not only the problem of acquiring competent personnel in the first instance, but the further problem of retaining their services after they have been trained.

With these facts before you, I hope that you will recognize the situation with which we are faced, and that you will provide us with permanent personnel to do the job.

Division of Personnel

An item of \$185,000 has been submitted to cover the gross personnel requirements of the proposed Division of Personnel, to be established in accordance with the Executive Order of June 24, 1938. Of this amount, \$26,000 represents new positions, the remainder consisting of the emergency positions previously referred to and permanent personnel transferred from other bureaus of the Department.

Contingent Expenses

I cannot too strongly urge your Committee's approval of an increase of \$29,000 requested under "Contingent Expenses". This appropriation is the only source from which funds are made available for the equipment and supplies required by a number of Treasury bureaus.

It provides, in addition, funds for the payment of certain recurring charges, such as electric current, rent, travel and communication service. This appropriation has not been adequate in the past to meet the Department's needs, and there have been occasions during recent months when the lack of funds for the purchase of these contingency items has actually hampered the Department's operations. I trust, therefore, that your Committee will find it possible to allow the \$29,000 increase which we have requested.

Other Increases

Under the Office of the Treasurer of the United States, an increase of over \$50,000 is required to enable that office to handle an increased volume of accounting, security, check and cash transactions.

The additional personnel is made necessary principally because of the large number of check clearances estimated to be handled.

The estimate for "Collecting the Internal Revenue" includes an increase of \$388,000 due to the additional duties imposed upon that bureau by the Vinson-Trammell Act and the National Defense Act. Both the collection of excess profits taxes under the Acts mentioned and the handling of legal problems arising in the same connection require additional personnel, including 100 field agents. A further increase of \$50,000 is being requested by the Bureau of Internal Revenue to meet additional requirements of rented quarters in the field.

Under the appropriation "Public Debt Service" an increase of over \$52,000 is requested principally for the purpose of handling increased transactions relating to United States Savings Bonds.

The Bureau of the Mint is requesting about \$17,000 for additional departmental personnel, and \$58,000 for the adjustment of salaries of certain field employees. For increased production of coins an item of \$264,000, has been submitted, together with a request for \$23,500 to provide additional mechanical equipment in Mint institutions. In addition, the estimate for transporting bullion and coin is \$285,000 above the current year's appropriation.

Coast Guard

The estimates under Coast Guard include certain items which in prior years have been separately submitted under the Light House Service, Department of Commerce. In addition, and with the approval of the Director of the Budget, it is proposed to consolidate two groups of Coast Guard appropriations, one group covering "General Expenses" of the Service, and the other covering "Civilian Employees". Disregarding the necessary additional funds allowed by the Bureau of the Budget in the 1941 estimates to meet increased activities and mandatory provisions of law, the consolidation of these appropriations will make possible a saving of over \$960,000.

However, if the consolidation is not approved, and as a result it should not be possible to operate a single, integrated service, additional appropriations will have to be provided, and one of the principal purposes of the reorganization of the Light House and Coast Guard services will have been defeated.

For "Pay and Allowances, Coast Guard", the 1941 estimate is \$884,000 above the 1940 appropriation. Practically all of this amount represents mandatory increases over which the Service has no control. The item for "Special Projects, Light House Service, Coast Guard", shows a reduction of \$130,000 under the 1940 funds. Due to an increase in the retired list, \$160,000 additional is requested for "Retired Pay, Light House Service, Coast Guard".

Summarizing the foregoing Coast Guard items, and including certain non-recurring expenditures for airplanes and construction, the total requested for Coast Guard in the estimates now before your Committee for consideration is approximately \$75,000 less than the appropriations for the current fiscal year.

Reductions in Operating Expense Items

The foregoing items constitute the major increases in the estimates submitted by the several Bureaus for operating expenses. They are off-set to a considerable extent by those items which for 1941 reflect a reduction as compared with the amounts available for 1940, as for example, (1) a reduction of \$1,250,000 under "Salaries and Administrative Expenses for Refunding Processing and Related Taxes";

(2) a reduction of over \$104,000 in the estimate for "Collecting the Revenue from Customs", to be accomplished through the curtailment of operations throughout the Customs Service wherever the circumstances will permit; (3) a reduction of over \$51,000 under "Distinctive Paper for United States Securities"; and (4) a reduction of \$50,000 under "Recoinage of Silver Coins".

Annual Appropriations for Non-Operating Expenses

The estimates of annual appropriations to meet non-operating expenses of the Department include (a) \$42,000,000 for "Refunding Internal Revenue Collections", representing an increase of \$4,000,000 over the current year's appropriation for this purpose; and (b) \$14,200,000 for "Refunds and Drawbacks, Customs", representing a reduction of \$2,800,000 below the amount appropriated for the current year.

Indefinite Appropriations

Under the indefinite appropriation "Expenses of Loans" (Public Debt Service), an estimate of \$4,032,420 is submitted. This represents an increase of about \$437,000 above the limitation fixed for the current year under this head, the additional amount being due largely to increased reimbursements to the Post Office Department and to Federal Reserve Banks incident to the issue and redemption of bonds by those agencies.

Sinking Fund

and

Interest on the Public Debt

The Sinking Fund will require \$584,000,000 for 1941, an increase of \$2,000,000, as compared with the revised estimates for 1940.

Tentative estimates of the interest on the Public Debt indicate that it will require \$1,120,000,000 for 1941, an increase of \$70,000,000, as compared with the revised estimate for 1940, the additional amount being necessary because of an increase in the estimated amount of obligations which will be outstanding.

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This concludes my general statement, Mr. Chairman.

I believe I have covered, in a general way, the outstanding items of the Treasury's estimates for 1941. I can assure you that we have attempted to confine our requirements to the minimum amounts which we believe to be necessary for the efficient operation of the Department.

The representatives of the various bureaus and divisions will appear before you to present a complete justification in support of their estimates. However, if any additional explanation is desired, and you will so advise me, I shall be pleased to see that the information is promptly furnished.

- - - - -

December 13, 1939.
9:01 a.m.

280

H.M.Jr: Hello

Operator: George Harrison. Go ahead.

H.M.Jr: Hello.

George
Harrison: Hello.

H.M.Jr: George?

H: Good morning Henry.

H.M.Jr: How are you?

H: First rate, thank you.

H.M.Jr: George, I'm very much upset over this refusal of yours to the Secretary of the Treasury that he can't have the information in regard to the British accounts. Now I realize that the authorization from the Bank of England has not come through.

H: Yes.

H.M.Jr: On the other hand I think you've got to realize that you and Eccles and I agreed as to what the conditions would be when I decided that we would not make it a fiscal agency account and let it go directly to you.

H: Yes.

H.M.Jr: And part of the conditions was that the Treasury would have access to those figures.

H: Yes, but I think Henry you'll remember that I pointed out that I said each time I talked to you and to Cochran and Mr. Stewart too, that of course we'd have to get permission of the Bank of England.

H.M.Jr: Granted. But the point that I'm making is that the account should not have been opened until the conditions which you and Eccles and I had entered into had been fulfilled a hundred per cent.

H: Well my understanding of that may be a bit wrong but it says very definite with Stewart and Cochran and I talked with you too, that that would be arranged through you and the British Government. In fact Cochran told me that you cabled the British Government about it.

H.M.Jr: Well I didn't cable them -

H: Well somebody did.

H.M.Jr: But - that is again correct but I - go back again, there's a three cornered agreement, and I say until those conditions were fulfilled the account shouldn't be opened.

H: Well, you see, I had every reason to believe that you or your officers there were taking the necessary steps through the British Government. I don't think there would be any question about it, if somebody puts a spare under them.

H.M.Jr: Well Cochran is going to do it this morning.

H: Yes.

H.M.Jr: And I'm not going to see Pinsent again until those conditions are fulfilled.

H: Yes, well I think -

H.M.Jr: But I still feel that you, Eccles and I had an agreement -

H: Well I think - I agree with you Henry that we had an agreement but I'm positive and the record would show it that I had to condition mine upon the Bank of England giving consent.

H.M.Jr: Well now, I'm not looking for more trouble than I got and I'm keeping this for the next twenty-four hours between you and me.

H: Yes.

H.M.Jr: Because if I call this Eccles up he'd simply come down like a ton of bricks.

H: Yes.

H.M.Jr: So I'm not going to do it and I'm - Cochran is in the room here now.

H: Yes.

H.M.Jr: And I told him, I mean it's just the same thing, I enter into an agreement with these men over here that want to sell their securities.

H: Yes.

H.M.Jr: And I tell them, "Gentlemen you give us this information every day and you've got my word it will not be released unless you give me your permission."

H: Yes.

H.M.Jr: Well I enter into a condition. Then if Frank of SEC wants a release, they could say, "Well we entered into it with you".

H: Yes. Well I understood frankly I made a mistake in letting the Treasury agree with me. It would be much better for that part of the arrangement to be conducted through you or your men there.

H.M.Jr: That's correct. But the only point I'm making George, is, and all of these things that we do for years and years, it's a matter of confidence, a matter of word of mouth, and I just think that this condition would - not having been fulfilled, I think that you should have said wait.

H: Well by everybody to be sure and get that account open.

H.M.Jr: Now I want you to know Cochran doesn't agree with me.

H: Yes, I thought it'd be most important thing for us and having been jibed by everybody -

H.M.Jr: Well now George -

H: To be sure and get the account open.

H.M.Jr: You put yourself in my place. The account is open -

H: Yes.

H.M.Jr: The President sends for me this afternoon and says, "Henry, what is the Mission account?", and I've got to say, "George Harrison won't let me have it."

H: Well Henry that isn't - I'm just living up to what I thought was a bargain we all had.

H.M.Jr: Yes, but I -

H: As a matter of fact Henry, you know perfectly well that

what we are talking about now, and I thought I was putting you in the proper position as far as the British are concerned, that is to enable you to come back and say why won't you give us this permission if the Bank won't give it to you.

H.M.Jr: Well I'm -

H: Now I've given you and I do give you, from time to time, information about all these accounts and if you want that specific information as of today I'll get it for you.

H.M.Jr: Well now that's -

H: But you don't want me to tell you that.

H.M.Jr: No, but I did want you to tell it to me and then I don't ask you, darn you.

H: Well of course, I've always done that, but I gathered from my conversation with Cochran that what you wanted was a negative answer so you could put a bomb under those people, so officially I give you the negative answer and if you want the specific information Henry, I'll give it to you.

H.M.Jr: Well now look, I got it right here and I got it in writing, on the seal of the British Embassy.

H: Yes.

H.M.Jr: And here it is, a message from the Chancellor of the Exchequer to the Secretary, United States, it's on their stationery. "The Chancellor of the Exchequer wishes to convey to Mr. Morgenthau his personal thanks for advice and assistance and to say he readily accepts the proposal to open a special account with the Federal Reserve Bank of New York and agrees that Mr. Morgenthau should personally and confidentially have access to it." Now what more do you want than that.

H: Well I think that - I think the Bank is the one that ought to give me the information.

H.M.Jr: Well here it is from the British Embassy, from Sir John Simon.

H: Yes but theoretically the Chancellor hasn't anything to do with the Bank.

H.M.Jr: Oh my God.

H: Well I'm in the position - I - I think what you want me to do is to say no on the regular routine of it. If you want the information this afternoon I'll be glad to get it for you.

H.M.Jr: Well I'm going to show this thing to Pinsent this morning.

H: Yes.

H.M.Jr: I mean, here it is signed October 30th on their stationery, saying that I should have it.

H: Yes.

H.M.Jr: Well he can show this - Pinsent knows about this and I'm going to tell him if they can't telephone, he should telephone from here and say that they should instruct you on this today.

H: Well I think they should. Now frankly I took this up over a week ago with both Walter and Cochran.

H.M.Jr: Yes.

H: And told them I didn't want a jam - I'd get the account open but it was understood between all of us that the question of getting authority would be done through -

H.M.Jr: There's no argument on that, I mean, Cochran - that's perfectly correct, but I just - I take the different position that you and I got a bargain and until the conditions which you and I entered ^{into} are lived up to - if I was here, which I wasn't or wasn't available, I would have said, well we won't open it.

H: Well I understood on the other hand that everybody's in a hurry to get that account open.

H.M.Jr: Well with this thing of the Chancellor of the Exchequer I - you still want instructions from the Bank of England.

H: I think so.

H.M.Jr: What?

H: For the protection of all of us, yes.

H.M.Jr: Well, I'm - unless -

H: Except that I again reiterate that I'll give you the information as of this afternoon if you want it.

H.M.Jr: Well that's - that's what I - I wasn't going to say - insist, but I thought if I called you up and said "George I'd like to take a look at it, I wanted to hear you say I could have it".

H: Sure. Well, but I gave you the other answer because I frankly thought, officially, that was the answer you wanted in order to get after the British.

H.M.Jr: No. Well, Cochran's here and I'm going to have him send for Pinsent immediately.

H: Yes.

H.M.Jr: And get that and one other thing while I have you on the wire, have you had any talks or did you have any talks with Whigham and Fleming before he left?

H: No I did not. I had one with Whigham, when he first called.

H.M.Jr: Yes - you don't know why they went back.

H: No I do not.

H.M.Jr: Neither do I.

H: Thank you.

December 13, 1939.
9:18 a.m.

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H.M.Jr: Hello

Operator: Mr. Ladd.
Carl
Ladd: Hello

H.M.Jr: Hello.

L: Hello Henry.

H.M.Jr: Yes.

L: This is Carl Ladd.

H.M.Jr: Good morning.

L: Could I talk with you a minute?

H.M.Jr: Sure.

L: I'm very much concerned over this Farm Credit situation.

H.M.Jr: Yes.

L: You know that the President apparently isn't even going to have his Committee meet, that Wallace has asked Hill to leave or step down and that Black is going to be put in charge.

H.M.Jr: Well Hill talked to me yesterday and I advised him what to do.

L: Yes. Of course it means an awful lot to us in the colleges, it means a lot to those of us who are on the various Farm Credit Boards in the District.

H.M.Jr: Yes.

L: And we just don't know how much to blow up, whether all to resign, how much to blow up or what to do.

H.M.Jr: Well as far as I know I'm the only person that's written the President about it, and when I spoke to Myers and Babcock, oh two or three weeks ago, and told them what I had done, neither of them seemed to know that I had had any part in it. I not only wrote the President but I gave him a plan how to handle Farm Credit to make it an independent agency.

- L: What can we do to help with that plan?
- H.M.Jr: I don't know. I don't know. I told Hill yesterday, on a strictly personal basis, he asked me what to do before he went over and I said not to resign unless the President asked him to do it in writing.
- L: Yes.
- H.M.Jr: But I can't fight the President. I can write him a letter and give him my opinion and also give him a plan and beyond that I can't go.
- L: I - it comes to me at once because Hill will come back here when he resigns.
- H.M.Jr: Yes.
- L: We can get our finances in shape so he can.
- H.M.Jr: Yes.
- L: But it just seems too darned bad to hand this thing over to a Department where - you know what will happen to it.
- H.M.Jr: Well, I agree with you and I - the day I heard about it, the next morning the President had it in writing from me.
- L: Yes.
- H.M.Jr: Now I can give it to him in writing and I can't go any further than that.
- L: Well I wondered if you - if you see anything that we can do. I feel very strongly about this whole Department of Agriculture. I've been living with it now for six years with the problem and the land grant colleges all over the United States are just terribly upset, the relations are very bad, they're feeling very bitter towards Wallace, and for all these things that he's done, he's constantly centralizing more power in trying to build up his own political machine instead of playing loyal to his Chief and to the party and it's just got to the point where I think the President ought to know that the relationships are terribly bad.
- H.M.Jr: Well I don't know what your lines are but the way I

tell all these people, I just say, would be for you to ask - to see the President yourself.

L: Well, would I get kicked out if I told him that.

H.M.Jr: Well, it would be in a worthy cause.

L: (laughs) Well, I don't know - I just - I don't know how quick to fight on it, whether this is the time to fight or whether to take it laying down.

H.M.Jr: Well I can't advise you because I can't advise anybody to fight the President.

L: Sure.

H.M.Jr: And wouldn't.

L: Yes.

H.M.Jr: I mean it's one thing to do what I've done in a perfectly formal manner to file my protests.

L: Yes.

H.M.Jr: I don't know anybody else that's done as much.

L: Yes. Of course these boys have felt that their hands were tied.

H.M.Jr: Who?

L: Bill and Babcock more or less, because the stuff is all kept confidential and they don't feel free to say anything much to other people.

H.M.Jr: Well that isn't what Babcock told me. He said he was going out to organize Agriculture to fight it.

L: Well but I don't think he did. I think -

H.M.Jr: Well that's what he told me.

L: I think they felt that finally that his hands were tied and he couldn't - of course we can talk with him.

H.M.Jr: Well when I told him what I'd done he said, "Don't worry, we're going to back you up a hundred per cent".

L: Yes.

- H.M.Jr: And now you tell me he didn't do anything.
- L: Well I haven't seen him in a week, he may have done more than I think:
- H.M.Jr: Well he told me, don't worry, we won't let you out on an end of the limb. We're going to fight and so forth and so on.
- L: Yes.
- H.M.Jr: I still come back. I think I'm the only person who's spoken to the President.
- L: Yes.
- H.M.Jr: And I did it formally.
- L: Well I guess I see some things a way, some ways in which we can move then.
- H.M.Jr: Well I mean Babcock was going to put up this great big fight, Myers and everything else and where is it.
- L: Yes.
- H.M.Jr: What's happened since - it's three or four weeks old now.
- L: Yes.
- H.M.Jr: And nothing happened. The President most likely didn't hear from anybody except myself, he just thought this was my former child and I was interested, he didn't hear from anybody, O.K.
- L: Yes.
- H.M.Jr: And this is what the result is.
- L: Well I guess that gives us what we want Henry.
- H.M.Jr: Well I don't know what I gave you, but I know how I feel. I've done my job and evidently nobody else has done his.
- L: Yes, well I guess it's up to the rest of us to move.
- H.M.Jr: Well I - yes, but it's most likely too late.
- L: Yes.

- H.M.Jr: The time to move was when the first time Wallace sent for Hill.
- L: Yes. But, you know the President appointed a committee, which we supposed was going to operate on this.
- H.M.Jr: Well you don't know yet that it won't. If Hill stuck by his guns yesterday and -
- L: Well of course if the committee is going to operate why we don't want to start a thing.
- H.M.Jr: Well -
- L: That's - but if the committee -
- H.M.Jr: I never got any notice that I was on the committee. I heard about the committee but I was never notified.
- L: You weren't.
- H.M.Jr: Never.
- L: Yes. All right. Well thanks ever so much Henry.
- H.M.Jr: Well I don't know what you're thanking me for, but at least you know where I stand. I'm not going to change and I told Frosty Hill yesterday to stick by his guns and not to resign unless the President gave it to him in writing.
- L: Yes.
- H.M.Jr: Now, that was my advice, that's what I think he ought to do.
- L: Yes.
- H.M.Jr: But I'd fight and I'll stick by my friends, I always have.
- L: That's right.
- H.M.Jr: Always will.
- L: Yes. Maybe we haven't shown good judgment since the start, but I reckon promptly we'd better start pretty quick, now.
- H.M.Jr: Well, don't ask me -

L: No, no.

H.M.Jr: You can always find out, Carl, where I am and what I've done and I'll always tell you.

L: Yes. I appreciate it very much Henry.

H.M.Jr: O.K.

L: Thank you, goodbye.

December 13, 1933.
9:27 a.m.

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H.V.Jr: Hello

Operator: Governor Hill.

H.V.Jr: Hello.

Governor Hill: Hello.

H.V.Jr: Henry Morgenthau.

H: Yes, sir.

H.V.Jr: What happened?

H: Well I went over to see Mr. Wallace yesterday afternoon. We had quite a long discussion on the whole situation. His attitude on the thing was about this, that he hadn't asked the Farm Credit in the first place, that he wasn't very fussy whether I stayed over there now or not, but that the President or somebody had asked Mr. Brownlow to look into the situation again and that he had reaffirmed his former position that he thought it belonged with Agriculture and that he, the Secretary, I mean Secretary Wallace felt that if it was to be over there that he ought to run it, with which I couldn't take very great exception. But I told him that I thought in view of all the circumstances if it was appropriate that I'd like to discuss the matter with the President before I took any final action. He concurred in that and tried to arrange an appointment -

H.V.Jr: I didn't hear, I'm sorry.

H: What's that?

H.V.Jr: I didn't hear what you said.

H: I told him that I thought, in view of all the circumstances, that I'd very much like to discuss the situation personally with the President, that that was in the cards. He said he had absolutely no objection to that, would be glad if it would be helpful or to try to arrange an appointment at the White House. He called Steve Early, I don't know whether I'll get an appointment or not, but he more or less indicated that as far as he was concerned, that if the President had changed his mind it was O.K. by him, but as I say,

he hadn't asked for it and he wasn't particularly fussy whether he had it or not, but that if it was to be over there why he felt that he ought to name the man that was to head it up. Well that's about the way the thing was last.

H.M.Jr: But he didn't ask for your resignation.

H: Well, yes, he had indicated yes. He'd indicated he wanted my resignation which I didn't offer. I told him before I took any such action as that I'd want to discuss the whole thing with the President.

H.M.Jr: Well, then you took my advice.

H: That's right.

H.M.Jr: So far it's good.

H: So far I'm still over here.

H.M.Jr: Well Carl Ladd just got through talking with me and wanted to know about this and that. I told him what I had done.

H: Yes.

H.M.Jr: And how Babcock said he'd - this was three or four weeks ago, go out and fight so forth and so on.

H: Yes.

H.M.Jr: Now I understand that Babcock hasn't done anything. So I said, most likely the President hasn't heard from any Farm organizations and he thinks that this is all right.

H: Well the - he must have heard from some. The Grange, I know, or at least they told me, had sent in resolutions on the thing. I know the Cooperative Counsel took action on the matter in their executive committee meeting, last week, and I understood that a resolution, a copy of which they sent me, had gone to the President, and that very definitely indicated their interest in the matter, and the fact that they thought it should be reestablished. The Farm Bureau, last week, in Chicago, sort of straddled the fence on the thing. Frankly there was quite a bit of sentiment down the line in

favor of reestablishing it as an independent agency. Their resolution, as I say, kind of straddled the fence. They talked about the desirability of retaining the cooperative features and of keeping it operating on a sound basis and then went on to suggest that it be set up under an independent Federal Board, I think their language was either within the Department or closely correlated with the Department on that.

H.M.Jr: Hill, you know what Wallace does when he wants to put across a certificate plan.

H: Yes.

H.M.Jr: You know how he organizes that.

H: Yes, yes.

H.M.Jr: Well -

H: On this Farm Bureau thing, of course I didn't frankly expect that they would, I didn't frankly expect that the Farm Bureau would go down the line on the thing.

H.M.Jr: Well I just - interested, and I told Carl Ladd, as far as I know, I'm the only person who put it in writing to the President.

H: Yes.

H.M.Jr: And I gave him a plan too.

H: Yes, yes.

H.M.Jr: But I'd stick by my guns until the President asked you personally to resign.

H: Well that's what I had planned on doing. I wanted to go over and talk the whole thing over, give him my point of view on the thing and indicate that the Secretary had asked for my resignation and then ask him if that's what he had in mind, I mean.

H.M.Jr: Yes. What about this committee that was going to study the thing.

H: Well that, I wondered about that too.

H.M.Jr: I've never had any notice.

- H: Neither have I. I've had absolutely no notice on that, and I got from Wallace that Brownlow had been down and that he had discussed it presumably with Wallace and presumably with the President.
- H.M.Jr: Well that's -
- H: Of course he's just merely reaffirmed his former position on the thing which I don't know, Brownlow maybe discussed the matter with him, it looks like his - as far as I know he's never been near Farm Credit - I don't know how much he even knows about the operation.
- H.M.Jr: Most likely he doesn't know anything about it.
- H: I expect that's right. I am quite certain that there's two angles of it, that he's given very little attention to, one is
- H.M.Jr: Well why don't you ask to see Brownlow?
- H: Well I thought I might reach that question with the President.
- H.M.Jr: All right Hill, well good luck.
- H: O.K. fine. Well I appreciate your interest in the matter, but I think it's right up to the President now, because the Secretary - Secretary Wallace has indicated, well he more or less put it this way, just between you and me, that if he could sell the President bill of goods on pulling it out why he'd be perfectly happy about it.
- H.M.Jr: All right.
- H: O.K. fine. Thank you for calling.
- H.M.Jr: Goodbye.

December 13, 1939.
12:00 noon.

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H.M.Jr: Hello.

Operator: Mr. Smith. Go ahead.

H.M.Jr: Hello, Harold Smith.

Harold Smith: Yes.

H.M.Jr: Morgenthau.

S: Yes.

H.M.Jr: Two things, three. First how are you?

S: Fine. A little worried and a little overworked at the moment but still surviving.

H.M.Jr: You have no monopoly on that.

S: (laughs)

H.M.Jr: TNEC will look into that.

S: That's right.

H.M.Jr: What I'm calling up about is, oh I walked down with Henry Wallace. The President has been suggesting we get together for months on this certificate plan, tax plan. Now Wallace asked when he can come before this so-called monetary group, you know, yourself and Eccles.

S: Yes.

H.M.Jr: And Delano, and he'd like to have a hearing. So I said, "Sure, I'll get them together." So I'm calling you to know whether you can do it next Monday or Tuesday.

S: I think so. Do you think that - is that the - good to go into this thing?

H.M.Jr: Well -

S: Did the President suggest that that group to hear Wallace?

H.M.Jr: -

S: Have you explored that?

- H.M.Jr: I haven't with the President, but Wallace gave me the impression that he understood that group was opposed to it so he'd like to have a chance to hear them.
- S: I see.
- H.M.Jr: So I said -
- S: Well it's all right with me, I mean, whatever is your judgment on it.
- H.M.Jr: Well -
- S: I just wondered. I hadn't thought about it. I just wondered if you - you thought whether that was the right group or whether there was some other - well that could be pulled together.
- H.M.Jr: Well I don't know of any other group that we could add anybody to it that you thought, on a hearing.
- S: Huh-huh. Just a quick question that I raised and I don't have the answer to.
- H.M.Jr: Well I tell you what let's do. Supposing I say tentatively ten o'clock Monday?
- S: All right.
- H.M.Jr: And we'll call up the others and find out if it's agreeable and if you have any after thoughts of anybody who ought to be added let me know.
- S: Yes. All right, ten o'clock Monday.
- H.M.Jr: That's that. Now the other thing is -
- S: I, by the way, do have a proposed legislation which I - has come clearance through here on this very certificate thing. We wrote it up to not commit the President in any way but I have not signed it yet, rather I did sign it and then changed my mind and held it up because I was afraid to let go of it, and maybe this will help clear that up.
- H.M.Jr: Well was this something that came over from Agriculture?
- S: Oh yes. Oh yes.

- H.M.Jr: Well now, let me just - Henry Wallace told me point blank yesterday when I asked him for the details that he couldn't give it to me because it hadn't been worked out in detail.
- S: Well maybe it hasn't, but I don't know where this bill comes from, whether it's a hangover from the last Session or not, it's all - I'll look it over again but I know that's exactly what's proposed, the certificate plan.
- H.M.Jr: Well.
- S: Yes.
- H.M.Jr: Now -
- S: I just thought I'd tell you that.
- H.M.Jr: What - well I won't repeat it. Just for me. And the other thing is, you remember you and I talked about letting the Procurement Division of the Treasury buy for all the Departments other than the -
- S: Yes.
- H.M.Jr: War and Navy.
- S: Yes.
- H.M.Jr: And they're having a little tough sledding they think over with some of the boys down the line, and I just wanted to remind you that this is one of the things that I'm really interested in.
- S: Yes. Well now I'll tell you on that we've had a number of sessions and hearings and we agree of course, with the principle of the thing and it's just a question of how many steps we can take now if you had time to sit in on any of it although I'm sure Graves has a very good view of the whole picture now.
- H.M.Jr: Yes.
- S: I think you would be convinced that we were going along with Graves pretty much on the safe side of it for the moment. The other thing is that it means yanking money out of the other budgets and we got caught rather late with that and we're trying to get

language, well I think the language is there now which will permit you to go along at a pretty good clip doing what you propose to do there anyway, you see? I mean we're trying to clear up some brush. It's really quite complicated because this sur-charge involved, we would have to go through and pull funds out of all the other departments and make adjustments, and it seems pretty difficult to do as fast, I think, as you had in mind or Graves had in mind in the beginning.

H.M.Jr: Well we only had it this fast that we wanted to do them all except on Army and Navy because I'm sure we can save money.

S: Yes.

H.M.Jr: But if what you have in mind -

S: It's practically impossible to get it done from our point of view by January 1, you see. You've talked to Graves about that.

H.M.Jr: I have, that's why I'm calling you.

S: Well we've done about the best we can with it.

H.M.Jr: But don't expect us to go around with our hat in our hand and ask these other Departments for the money because I'm not going to do it.

S: Well we're going - you'll have to make some transfers anyway and we're going to arrange for that.

H.M.Jr: Well if you arrange -

S: That's in the law already, you see?

H.M.Jr: Well if you arrange for it so that it comes under the Budget, that's one thing, but don't expect me to go around and say please to these people.

S: No, no, we'll take care of that.

H.M.Jr: Because I - I -

S: All sales would be transferred with the approval of the Director of the Budget, that seems to be -

H.M.Jr: Well if you'll do that, fine, but I wanted to make my

position because I'm not going around and say, "Mister can you spare me a dime?"

S: No, that's right, and we've really spent an awful lot of time on this with Graves and I think when you see it all shaped up, you'll feel we've done pretty well after all.

H.M.Jr: Well I felt that, on account of your experience in Michigan, that you were just as enthusiastic about that as I.

S: That's right. That's right. But one of the things we've found and you, I think, should know this is that Procurement Division has almost no statistical section at all. We're recommending an increase to cover that because the Procurement Division can not tell us what the volume of these things are.

H.M.Jr: Yes.

S: At the present time, and I think there's a very important deficiency that we're trying to make up.

H.M.Jr: Fine.

S: Yes.

H.M.Jr: Well, just as long as we get the authority from the President through you I'm satisfied but don't expect me to go beyond what directions I get from you people.

S: We're - we're not going to embarrass you in any way on that, I'm sure.

H.M.Jr: Because you know how generous other Cabinet officers are.

S: (laughs) Oh do I. Yes.

H.M.Jr: Now have you got another minute or are you in a conference?

S: No.

H.M.Jr: Now this is strictly between the President, you and me, what I'm going to say now. The President asked me yesterday to find four billion dollars for him, non-interest bearing securities to offset the deficit so that he could say that the deficit would be less

on July 1st, '41 would be on January 1, '40.

S: Yes.

H.M.Jr: The debt rather.

S: Yes.

H.M.Jr: Did you know about this?

S: Well not except in very general terms. He didn't talk to me about it.

H.M.Jr: Do you know where this is coming from?

S: No, no.

H.M.Jr: Well what I'm doing is this. By Friday night, we'll send you over our revenue estimates.

S: All right.

H.M.Jr: Then I'm going to write a very carefully written and carefully thought out letter to the President telling him why I think that this is a mistake, - on the debt.

S: Yes.

H.M.Jr: See?

S: Well I don't know a thing about it except just very round about way, I heard that Currie was working on something in connection with debt, and he has been hounding me for figures on the overall expenditures for next year which we couldn't obviously give because we don't have them yet, but by the end of the week I think we will have them in the rough, I have just two more budgets to clear with the President.

H.M.Jr: Well -

S: And then I can get those figures to you.

H.M.Jr: Yes.

S: And give you some idea what this thing is all about.

H.M.Jr: Well I just happen to be one of those old fashioned people that can't change and that is if I spend ten million dollars and raise six and I have a deficit

- 7 -

of four it makes four billion dollars and by issuing Thomas currency it doesn't make it a bit less.

S: Yes.

W.M.Jr: I mean I just can't - I can't see that kind of arithmetic.

S: Yes.

W.M.Jr: And nobody else will - I mean they'll call it if it's a ten million dollar deficit - budget, it's a ten million dollar budget no matter whether we use paper, silver certificates or Thomas currency.

S: Yes. Well I've read something in the paper and I've heard various kind of tricks discussed and in general I think that it's bad, perhaps bad finance and bad politics to seem to be pulling tricks. There's always - there's always repercussions and you know better than I.

W.M.Jr: Not only aren't there going to be any here but we're going to lay it right on the line as long as the President asks me to give him an answer.

S: Yes.

W.M.Jr: And I'll send you a copy of it.

S: All right, fine.

W.M.Jr: Thank you.

S: Thank you.

December 13, 1939.
1:14 p.m.

303

H.M.Jr: Hello.
S.
Lewisohn: Hello, is this Mr. Morgenthau's secretary?
H.M.Jr: Who?
L: Hello, is this Mr. Morgenthau's secretary?
H.M.Jr: No, is this Mr. Lewisohn?
L: Yes.
H.M.Jr: Sam?
-- Are you Mr. Morgenthau's secretary?
Operator: Just a minute.
H.M.Jr: What is the matter?
O: Go ahead.
H.M.Jr: Hello
Lewisohn: Hello Henry
H.M.Jr: Yes.
L: Sam.
H.M.Jr: How are you?
L: I'm swell, how are you?
H.M.Jr: Very well.
L: Henry, I'd like to come down and see you tomorrow
some time.
H.M.Jr: Sure, why not.
L: Could I come - what time would suit you, eleven
o'clock? Or ten o'clock. How about ten o'clock?
H.M.Jr: What have you got, income tax trouble?
L: What?
H.M.Jr: Got income tax trouble?

L: No, no, this is something entirely different.

H.M.Jr: Metal?

L: No, this is - I'll talk to you about it, it's - this Colombian situation.

H.M.Jr: Oh!

L: I just wanted to tell you something.

H.M.Jr: Oh!

L: For your own private consumption.

H.M.Jr: I see.

L: To do something - just, I want to tell you the situation.

H.M.Jr: Well now I tell you what I can do, I can make it eleven o'clock tomorrow.

L: Eleven o'clock.

H.M.Jr: Is that all right?

L: Fine. Suit - I'm taking the midnight down and I'll be there at eleven o'clock.

H.M.Jr: Eleven o'clock my office.

L: Eleven o'clock in your office.

H.M.Jr: On the Columbian -

L: What?

H.M.Jr: On the Columbian situation.

L: Yes. But don't - well I want to just talk to you about it and tell you, certain situation there.

H.M.Jr: I won't have more than six people here when you are here.

L: Don't have more than six and maybe just us two.

H.M.Jr: Well, that's kind of difficult you know. You're a suspicious character.

L: (laughs)

H.M.Jr: Ha, ha, ha.

L: Well, - by the way Ellie looked pretty well.

H.M.Jr: Yes, she's fine.

L: She had a good looking hat on.

H.M.Jr: (laughs) I see you still have an eye.

L: I've got an eye I still haven't - have you?

H.M.Jr: Well the children say I've got the eye but I have no follow through.

L: (laughs) You're not getting me to commit myself over the wire.

H.M.Jr: O.K.

L: Whether I follow through and then get me in trouble, I won't do that.

H.M.Jr: All right.

L: All right, eleven o'clock.

H.M.Jr: Righto. Goodbye.

December 13, 1939.
2:46 p.m.

306

Sam Lewisohn: Henry this is a coincidence. I had it in mind to call you in the next minute or two.

H.M.Jr: Good. Shall I talk first?

L: Please.

H.M.Jr: I have a message from Cotton, who talked to Traphagen, and Traphagen asked whether he could come down and see me, that he'd like to talk.

L: Yes.

H.M.Jr: Now he asked whether he could see me alone.

L: Yes.

H.M.Jr: But I don't want to do it if you have any feeling about it.

L: Not the slightest. Not a bit of it.

H.M.Jr: Well, Jones is away so that the thing doesn't rise with him.

L: Yes.

H.M.Jr: But it's immaterial to me whether I see him alone or not.

L: I think it's much better for you to see him alone, Henry.

H.M.Jr: Well then as soon as he leaves, I'll call you up and tell you what he said.

L: When is he coming?

H.M.Jr: Well he - I haven't communicated with him yet.

L: I see.

H.M.Jr: I just got this message via Cotton and I didn't want to communicate - he said he'd like to come Friday. He said he'd come Thursday, Friday or Saturday.

L: Yes.

H.M.Jr: Now if there's any rush I'll tell him Thursday.

L: I think it would be helpful if you did.

- H.M.Jr: I'll see him Thursday.
- L: I'd appreciate it very much, but - what you say, but I think it's much easier probably if you'd see him alone.
- H.M.Jr: Well I don't know but I'll tell him Thursday and when he gets through I'll call you.
- L: Thank you Henry.
- H.M.Jr: Right.
- L: What I wanted to talk to you about is the same matter.
- H.M.Jr: Right.
- L: I saw Dr. Jaramillio, the Colombian representative this morning. He told me that at the meeting which took place in New York yesterday -
- H.M.Jr: Yes.
- L: That to his surprise and to that of the Colombian Ambassador, they were confronted with the entire membership of the executive committee, and also Francis White -
- H.M.Jr: Oh my.
- L: And he said that Mr. Traphagen's attitude in New York, as it had been here, was extremely comprehensive, intelligent, constructive and friendly.
- H.M.Jr: Yes.
- L: But that they got a very different impression from the other members of the committee.
- H.M.Jr: I see.
- L: And he has returned here not nearly as optimistic as he was after talking with Traphagen.
- H.M.Jr: I see.
- L: I merely commented to him that my understanding had been that Traphagen alone was to conduct these conversations.
- H.M.Jr: That's what I understood.

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L: He said they'd gone to New York with that understanding.

H.M.Jr: Well that's my understanding.

L: So perhaps when you see him on Thursday that'll be cleared up.

H.M.Jr: Yes, that's tomorrow isn't it?

L: Yes, tomorrow, that's right. Well that's the situation from the Columbian angle.

H.M.Jr: Right. What else do you know?

L: That's about all.

H.M.Jr: Well I have nothing else for the moment.

L: All right. Thanks for calling and then I'll hear from you tomorrow.

H.M.Jr: Yes I'll see him at eleven-thirty and as soon as he leaves I'll give you a ring.

L: Thanks a lot Henry.

H.M.Jr: Goodbye.

L: Goodbye.

December 13, 1939.
3:23 p.m.

309

H.M.Jr: Hello

Operator: Mr. Crowley.

H.M.Jr: Hello

Leo
Crowley: Hello Mr. Secretary.

H.M.Jr: Hello Leo. I tried to get you yesterday. I didn't get your message about your lunching companion before I saw you, you see?

C: Oh I see.

H.M.Jr: So I didn't have the advantage of knowing Gene had it, I didn't get to Gene you see.

C: Well I think it's all right anyway, don't you?

H.M.Jr: Yes. I don't - what I didn't understand is his interest, the result of his being to the White House.

C: That's my idea because he called me up apparently right after he left there and wanted to know if he couldn't please have lunch with me.

H.M.Jr: I see.

C: Then he started to tell me how his objectives on that thing was the same as yours and mine.

H.M.Jr: I see.

C: And I have an idea that he must have been told over there that - how the President felt about it, don't you see?

H.M.Jr: I see.

C: And he told me that he was very much afraid that the Hill might feel that they hadn't done their part in cooperating on this thing.

H.M.Jr: Yes.

C: So that I don't think we have to worry about any trouble from that side.

- H.M.Jr: Well he didn't try to indicate that he'd been kept out of it, did he?
- C: No as a matter of fact I told him just what you told him that very definitely the request was made to keep out of it.
- H.M.Jr: Yes, that's right.
- C: And I think our record is very clear on that.
- H.M.Jr: I think it is.
- C: I don't think we have to worry about that a particle.
- H.M.Jr: I think they'd have a tough time explaining why they hadn't been in on it for a year.
- C: That's right, and I think they've been kind of sulking and giving the enemy a lot of consideration.
- H.M.Jr: Yes.
- C: Now I think that they see that the thing is going to work out and they want to back into the thing.
- H.M.Jr: Well you wouldn't, if you were me, taking a sheet of paper with no heading and no signatures on it would you?
- C: Positively not. Let them write a letter and put their names to it.
- H.M.Jr: I haven't got it yet.
- C: All right. I have an idea when it does come it'll just be one of those things.
- H.M.Jr: Well, when they do, if they're going to put McKee on it, he's a good man.
- C: Yes, well isn't he - we can handle that, he's not quite in sympathy with what you and I want to do but that's all right.
- H.M.Jr: Well you'll have to handle him that's all.
- C: The record speaks for itself.
- H.M.Jr: Well, after all we can listen to him but we don't have to do what they -

C: That's right. That's right.

H.M.Jr: I'm not going to change the course for some fellow that gets on the band wagon just before election.

C: That's right. That's right. And if he has anything to present he can present it and we'll go right on our own way.

H.M.Jr: That's right.

C: Goodbye.

H.M.Jr: O.K. Thank you.

Note:

Copy of this given to Mr. Bell last night at 5:15, on instructions of the Secretary.

McH

Dec. 13/39

December 13, 1939.
4:32 p.m.

312

H.M.Jr: Hello.

Operator: Secretary Morgenthau.

H.M.Jr: Yes.
John
Ottley: Mr. Secretary, this is John Ottley.

H.M.Jr: Yes.

O: I got your long letter and all those documents and I've been out of town, just got back yesterday.

H.M.Jr: Yes.

O: And we put up the bonds in that account, as suggested in the regular routine way.

H.M.Jr: Yes.

O: Now, I told you small favors thankfully received.

H.M.Jr: Yes.

O: What I had in mind and that is that I understood that it was in your discretion and one you wanted to that you just had an independent account as Secretary of the Treasury.

H.M.Jr: Not that I know of.

O: And if this account we have, of course we're glad to have it but that's what you'd call run of the mine. Now I didn't want to ask you to do anything that you couldn't do or that you didn't do.

H.M.Jr: No, well the trouble is you see, you happen to be in a city of a Federal Reserve city.

O: Yes.

H.M.Jr: And so what I am doing is out of the ordinary and exceptional and we - as I understand from Mr. Bell, heretofore, we've turned everybody down in a Federal Reserve City.

O: Well I mean - well I didn't understand that.

H.M.Jr: I tell you - let me do - may I? Let me switch you over to Mr. Bell, see?

- O: Well I'll just leave it with you. I - you're the boss and if - I mean if I ask you to do something that you don't do or that would embarrass you to do, why then I'll just get off - I'll get off the sidewalk.
- H.M.Jr: No. I've already done something for you which is not the ordinary run of the mine.
- O: I see.
- H.M.Jr: And I've gone as far as I can Mr. Ottley.
- O: O.K.
- H.M.Jr: See. Well I mean - I don't think you'll find any account in any other bank in Atlanta.
- O: Well of course I wouldn't - that wouldn't be my business to find out about that.
- H.M.Jr: Yes. Well the next time you come up I'll have Bell in and he'll explain the whole thing to you. How's that?
- O: That's O.K. In other words you're my boss and whatever you say - in other words I just thought - I mean I asked you for something that I thought that was in your line, that you did some time when you wanted to do it.
- H.M.Jr: No, I don't think that's right.
- O: Well then -
- H.M.Jr: But when you come up we'll have Mr. Bell come in and we'll go over the whole thing and maybe there's something about it that I don't know that's happened before.
- O: All right sir. That's fine enough.
- H.M.Jr: If there's anything which is purely my discretion, I'll give it to you cheerfully.
- O: O.K. That's fair enough.
- H.M.Jr: If it's simply up to me you can have the Treasury and the lot too.
- O: (laughs) Well that's just fine enough.

H.M.Jr: I'll throw in one chair and coca-cola, just to make it good.

O: All right now. I tell you that would cost you something and I wouldn't accept that. I never let anybody give me anything that cost them anything.

H.M.Jr: Listen, the thing that doesn't cost anything is no good.

O: I know but that coca-cola sounds good and it's worth something. You'd better keep that instead of giving it away.

H.M.Jr: Well I'd have to go out and buy it, because I don't own any.

O: I see. Well I thank you and I just want - I mean -

H.M.Jr: No. If it's anything in the Treasury, a bank balance, which is purely discretionary with me you can have it but Bell tells me it isn't so, but we'll have him come in the next time you come in.

O: Well you just - I tell you what you do, you just let him study his lesson, so he knows it the next time we come up and then he'll teach me mine.

H.M.Jr: All right.

O: Well thank you a thousand times.

H.M.Jr: Thank you.

O: Goodbye.

H.M.Jr: Goodbye.