

DIARY

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PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: February 14, 1940, 6 p.m.

NO.: 213

FOR THE TREASURY FROM MATTHEWS.

Today I had lunch with the Bank of Italy representative, Pennachio. Tomorrow he leaves Paris to meet the Governor of the Bank of Italy, and President McKittrick of the B.I.S., at Zurich for a quiet exchange of views on the general situation. They had hoped that this informal meeting would be attended also by Janssen of Belgium and Tripp of the Netherlands, but Pennachio understands that they will not be able to get there. No invitations were issued to representatives of belligerent countries.

From recent talks with local American bankers, I learn that steadily increasing pressure is being exerted on American exporters to invoice in francs with intimations that import licenses will be made contingent upon a willingness so to invoice. Of course, the French authorities are well aware that American exporters in most cases will promptly convert their francs into dollars on the free market in New York, thus adding to the floating supplies of francs. In the mind of the French authorities, the fact that such transactions do not involve an immediate drain of dollars from the stabilization fund, and the

hope

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hope that some slight stimulus might be given French exports thereby seem to outweigh other considerations.

Reference, telegram no. 164 of February 2, 6 p.m. from the Embassy: I also gather that the new exchange control measures recently instituted, in particular the second measure, are causing some inconvenience and anxiety to local American residents - apparently some of these residents do not yet fully appreciate that war is a serious business. For instance, they point out that any instructions to banks in the United States for payments on insurance premiums from income or deposits in the United States will require the approval of the Foreign Exchange Office in each instance. They likewise feel uneasy over the fact that technically they would be required to bring their entire income from abroad back to France - though no attempt whatsoever has been made ^{by the authorities} /to date to enforce this requirement, so far as I know.

END SECTIONS ONE, TWO AND THREE.

MURPHY.

EA:LWW

JT

GRAY

PARIS

Dated February 14, 1940

Rec'd 4:42 p.m.

Secretary of State,
Washington.

213, February 14, 6 p.m. (SECTION FOUR)

The entire press today headlines our Senate's approval of the increase in the revolving fund of the Export-Import Bank to permit an additional loan to Finland.

The slightly more cheerful tone noted on the securities market yesterday was dissipated today and followed by depression and irregularity. In light trading rentes and other French securities showed small irregular gains and losses. Internationals were weak.

Official exchange rates remained the same.

MURPHY

LMS:NPL

JT

GRAY

PARIS

Dated February 14, 1940

Rec'd 6 p.m.

Secretary of State,
Washington.

213, February 14, 6 p.m. (SECTION FIVE)

LE TEMPS of this evening carries a message from its Brussels' correspondent announcing that the commercial agreements which have been under negotiation for several weeks between Belgium, France and Great Britain have just been completed and that the new arrangements which will extend the regime set up by previous agreements to a certain number of special industries (textiles, leather, chemical products, and metals, other than iron) were initialed yesterday.

(END OF MESSAGE)

MURPHY

NPL

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FEB 15 1940
U.S. DEPARTMENT OF STATE

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TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE February 14, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

The selling of sterling which appeared in the market yesterday was resumed today with the rate for that currency continuing its downward movement. Prior to the opening in New York, sterling declined in Amsterdam to 3.95-7/8. The opening quotation in New York was 3.95-3/4 and shortly thereafter, sterling moved off to 3.95-1/4. Following a temporary recovery during the noon hours, when the rate strengthened to 3.95-5/8, a further recession developed and by mid-afternoon it reached a low of 3.94-1/2. Late in the afternoon, some commercial demand appeared and sterling regained part of its loss to close at 3.95-3/8.

Sales of spot sterling by the four reporting banks totaled £583,000, from the following sources:

By commercial concerns.....	£ 288,000
By foreign banks (Europe and South America).....	£ 295,000
Total.....	£ 583,000

Purchases of spot sterling amounted to £471,000, as indicated below:

By commercial concerns.....	£ 369,000
By foreign banks (Far East and South America).....	£ 82,000
Total.....	£ 471,000

The following reporting banks sold cotton bills totaling £119,000 to the British Control on the basis of the official rate of 4.02-1/2:

£ 95,000 by the National City Bank	
17,000 by the Guaranty Trust Co.	
7,000 by the Bank of Manhattan	
<u>£119,000 Total</u>	

The other important currencies closed as follows:

French francs	.0224-1/8
Guilders	.5315-1/2
Swiss francs	.2242
Belgas	.1687
Canadian dollars	13-1/2% discount

The quotation for the Cuban peso improved slightly in the last few days and is currently quoted at 7-9/16% discount. The rate for the Mexican peso has remained steady since January 3 at .1672.

CONFIDENTIAL

There were no gold transactions consummated by us today.

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

\$ 2,877,000 from Canada, shipped by the Bank of Canada, Ottawa, to the Federal Reserve Bank of New York, for sale to the U. S. Assay Office.

2,252,000 from Switzerland, shipped by the Swiss National Bank to the Federal Reserve Bank of New York, to be earmarked for account of the Swiss National Bank.

1,128,000 from Italy, shipped by the Bank of Italy, Genoa, to the Federal Reserve Bank of New York, to be earmarked for account of the B.I.S.

354,000 from England, shipped by Samuel Montagu & Co. to the Bankers Trust Company, New York, for sale to the U. S. Assay Office.

\$ 6,611,000 Total

The State Department forwarded to us cables stating that the following gold shipments were being made from England by Samuel Montagu and Co.:

\$ 240,000 consigned to the Guaranty Trust Co., New York.

114,000 consigned to the Bankers Trust Co., New York.

84,000 consigned to the Chase National Bank, New York.

\$ 438,000 Total

These shipments will be sold to the U. S. Assay Office at New York.

The Federal Reserve Bank of New York received cables from the B.I.S. and the Netherlands Bank requesting it to apply for a license to transfer approximately 15,000 ounces of gold (about \$525,000) from B.I.S. Account #2 to the account of the Netherlands Bank at the Federal Reserve Bank. B.I.S. Account #2 is gold owned by that institution. The Treasury granted permission to the Federal to make this transfer.

On the report of February 7 received from the Federal Reserve Bank of New York giving the foreign exchange positions of banks and bankers in its district, the total position of all currencies was short the equivalent of \$21,717,000, an increase of \$41,000 in the short position. The net changes in the positions are as follows:

COUNTRY	SHORT POSITION JANUARY 31	SHORT POSITION FEBRUARY 7	INCREASE IN SHORT POSITION
England	\$12,121,000	\$11,665,000	\$456,000 (Decrease)
Europe	5,767,000	5,895,000	128,000
Canada	17,000 (Long)	7,000 (Long)	10,000 (Decrease in Long Position)
Latin America	212,000	452,000	240,000
Japan *	2,547,000	2,753,000	206,000
Other Asia	1,098,000	1,022,000	76,000 (Decrease)
All Others	52,000 (Long)	63,000 (Long)	11,000 (Increase in Long Position)
Total	<u>\$21,676,000</u>	<u>\$21,717,000</u>	<u>\$ 41,000</u>

* Includes Korea and Manchuria

CONFIDENTIAL

In Bombay, the spot silver quotation worked out to the equivalent of 39.26¢, off about 1/8¢.

The prices fixed for spot and forward silver in London were 20-13/16d (off 3/8d) and 20-3/4d (off 5/16d) respectively, the lowest fixing prices since September 6, 1939. The U. S. equivalents, at 37.07¢ and 36.76¢, were the lowest that have been recorded since August 31, 1939. The decline in the silver quotations was attributed to Indian selling. The liquidation of silver holdings in London by Indian operators may be caused in part by their belief that the Indian import duty will be increased at the end of this month, which would tend to raise the cost of silver shipments from London to Bombay. Another factor influencing the London and Bombay silver markets may be pending legislation in the United States regarding the Silver Purchase Act.

Handy and Harman's price for foreign silver was unchanged at 34-3/4¢. The Treasury's price was also unchanged at 35¢.

We made nine purchases of silver totaling 694,000 ounces under the Silver Purchase Act. Of this amount, 456,000 ounces represented sales from inventory by three refining companies and the remaining 238,000 ounces consisted of new production from foreign countries, for forward delivery.

We also purchased 250,000 ounces of silver from the Bank of Canada under our regular monthly agreement.



CONFIDENTIAL

Regraded Uclassified

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Mexico City, Mexico

DATE: February 14, 1940, 6 p.m.

NO.: 53

The demand for dollars was greatly diminished here on publication today that action by the Finance Committee of the Senate has been postponed as regards the silver question; Senator Barkley's remarks were included in the published report.

The above, in addition to the policy of banks of not making loans, actually permitted the Bank of Mexico to buy a small surplus of dollars over sales today; therefore the Bank is temporarily at least relieved of a difficult situation.

Through today, the Bank of Mexico sold a total amount of gold of 6 metric tons. This leaves a reserve of 20 1/2 tons.

It would seem that future action of the Senate on the silver bill would determine the immediate future trend of the exchange situation in Mexico.

DANIELS.

EA:LWW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro

NO.: 60

DATE: February 14, 1940

Reference is made to my telegrams no. 54 of February 12, ^{and} no. 45 of January 31, and to the Department's no. 14 of January 20, especially the next-to-the-last paragraph.

As is known to the Department, Costa's plan to make payments at 50 percent of the rates for each of the four successive years set forth in the Aranha plan was accepted by the Europeans; the Department did not agree to this and it is now suggested by Aranha that Brazil pay the European bondholders on the above-mentioned basis and that the United States bondholders be paid in the four successive years of the new plan on the basis of 41.25 percent, 42 percent, 44 percent and 50 percent of the final year of the Aranha plan; this latter is the basis for which the State Department has expressed preference. I shall appreciate it if I may have the Department's opinion as soon as possible.

CAFFERY

EA:EB

TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE February 14, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Pinsent telephoned me this afternoon. He said he had planned to come to see me, but was not feeling well and would not risk the storm. He said that he could now tell us definitely that the formal vesting of American dollar securities by the British Government would take place this coming Saturday, February 17. He said there might be a few alterations in the list, for technical reasons. He was not sure whether the vesting would be announced on Saturday or perhaps Monday. He anticipated that a press release would be given out by the British authorities in London, simultaneously with the vesting. This release would probably follow the lines of the release drafted by the British group when meeting in Washington last December, but he is not sure that there will not be some amendments. The British Embassy does not plan to give out any statement, but hopes to be able to answer inquiries intelligently. It will be recalled that Mr. Stewart and I did not feel last December that we should have any part in the British press release.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE February 14, 1940

TO Secretary Mergenthau
 FROM Mr. Haas *BA*
 Subject: The Business Situation,
 Week ending February 10, 1940.


Conclusions

- (1) No definite indication of a turning point in the business decline has yet appeared. According to recent Federal Reserve Board opinion, the FRB index in February is likely to reach about 110. This would compare with a preliminary figure of 120 for January, and with a peak of 128 in December.
- (2) The New York Times business index for the first week of February dropped 1.6 points to 101.5, and a further downturn is indicated by preliminary data for the following week. Our weekly new orders index declined somewhat further last week, with lower levels for steel, textile, and other orders.
- (3) Many believe that a turn in the business trend is not likely before summer. The sharpness of the setback, however, offers some encouragement to a more rapid completion of the decline. The trend of our new orders index during the spring period of seasonal expansion in buying should give some clue to the probable duration of the decline.
- (4) In some quarters a strong upturn in stock and commodity prices is awaited to provide a "go" signal for renewed industrial buying. It may be of some significance that industrial stock prices, which have shown evidence of firmness for several weeks, regained their early-January levels last week in a four-day upturn. This rise has been accompanied by some strengthening in sensitive commodity prices.
- (5) Recent developments that will tend to cushion the business setback include the following:
 - (a) Unusually heavy retail automobile sales in the past few weeks have raised the January sales total to a record level, and suggest a possible upward revision in February production schedules.

Secretary Morgenthau - 2

(b) The first spring buying of steel by automobile makers, which appeared last week, failed to reveal evidence of weakness in the steel price structure. This may encourage more confident buying of steel products. New orders for structural steel reported last week rose to the highest weekly total since last October.

- - - - -

The present situation

The corrective setback in industrial activity continues under way, with no definite evidence as to how soon it will reach a turning point. The confidential "Current Comments" of the Federal Reserve Board last week said that "Reports now available indicate that the Board's seasonally adjusted index of industrial production will decline sharply further in February to about 110, as compared with an estimated figure of 120 in January and an average of 124 in the last quarter of 1939."

Current weekly data confirm the declining trend in business activity during February. The New York Times index for the week ended February 3 dropped 1.6 points to 101.5, which compares with a peak of 107.2 in early November 1939. (See Chart 1) For the second week of February, preliminary data for automobile, steel, and electric power production suggest a further decline of about 1.5 points in the index, if other components remain unchanged. A continued decline in steel output to 68.8 percent of capacity, scheduled for the third week of February (see Chart 1), will tend to reduce the New York Times index for that week.

The fact that industrial production normally rises seasonally during the spring months, reaching a peak level in terms of the FRB index during April and May, will hinder any upturn in adjusted business indices until that period is past. For this and other reasons, many do not expect a turn in business activity (seasonally adjusted) until about mid-summer.

The downturn so far, however, has been sharper than had been generally expected, which lends some encouragement to the possibility that the setback may be completed somewhat sooner than many expect. Any improvement, however, must be preceded

Secretary Morgenthau - 3

or at least accompanied by an upturn in new orders, which will provide the key to the business trend. The amount of seasonal improvement in new orders during March and April may provide an important clue to the duration of the current decline.

Many are looking for an upturn in stock and commodity prices to call the turn in business and start a wave of new industrial buying, as has occurred in several instances in recent years. While there is, of course, no present indication that stock and commodity prices this spring will behave similarly, it may be of some significance that industrial stock prices last week turned upward in a four-day rally to reach their early-January levels, despite evidence of a further contraction in steel output and in general business activity.

Sensitive commodity prices last week also firmed somewhat, showing evidence of resistance to further declines. (See Chart 2) The current week, however, opened with downturns in the prices of some commodities, chiefly hides, silk, and rubber, though the volume of trading in most commodities slackened on the decline.

Our weekly index of new orders (see Chart 3) appears to indicate that so far there has been no real change in the trend of industrial buying, and that the sharp upturn in the index during January was apparently of a temporary nature. Our latest weekly figure shows a downturn in orders for steel, textiles, and "products other than steel and textiles", perhaps reflecting a hesitation in buying due to more definite evidence that a business setback is under way.

In certain other directions, however, recent reports have been more encouraging. Factory sales of automobiles and trucks increased sharply and contra-seasonally during the latter part of January, raising the January total to a new record high of 453,000 units. This is 7 per cent higher than the previous record of 423,000 units in January 1929.

Automobile steel buying begins

During the past week the first buying of automobile steel for spring requirements appeared in an order from the Ford Motor Company, estimated in the trade at 25,000 to 40,000 tons. Buying of steel by the automobile industry, particularly if retail sales continue high, may provide an important cushioning influence on the business decline.

Secretary Morgenthau - 4

Of most significance to the steel trade was the failure of the Ford Motor Company to obtain price concessions of more than a minor nature, which some trade observers have interpreted as laying at rest the recent fear of lower steel prices, which had tended to discourage steel buying. This may bring more confident buying of steel in coming weeks, which will appear in our new orders data when shipping specifications are received.

A reawakening of structural steel buying has been noted recently, both for fabricated structural steel and for concrete reinforcing bars, after a considerable period of winter apathy. New orders for structural steel reported last week (see Chart 4) increased to the largest weekly total since last October.

Activity in the steel industry continues to be supported in part by unfilled orders, though these have been steadily declining. We estimate that unfilled orders of the United States Steel Corporation at the end of January (see Chart 5, lower section) had been reduced by 344,000 tons from the December figure. The reduction was less rapid than in the previous month because of a sharp decline in shipments (upper section of chart), while new orders in January were about at the level of last June and July.

Carloadings decline indicated

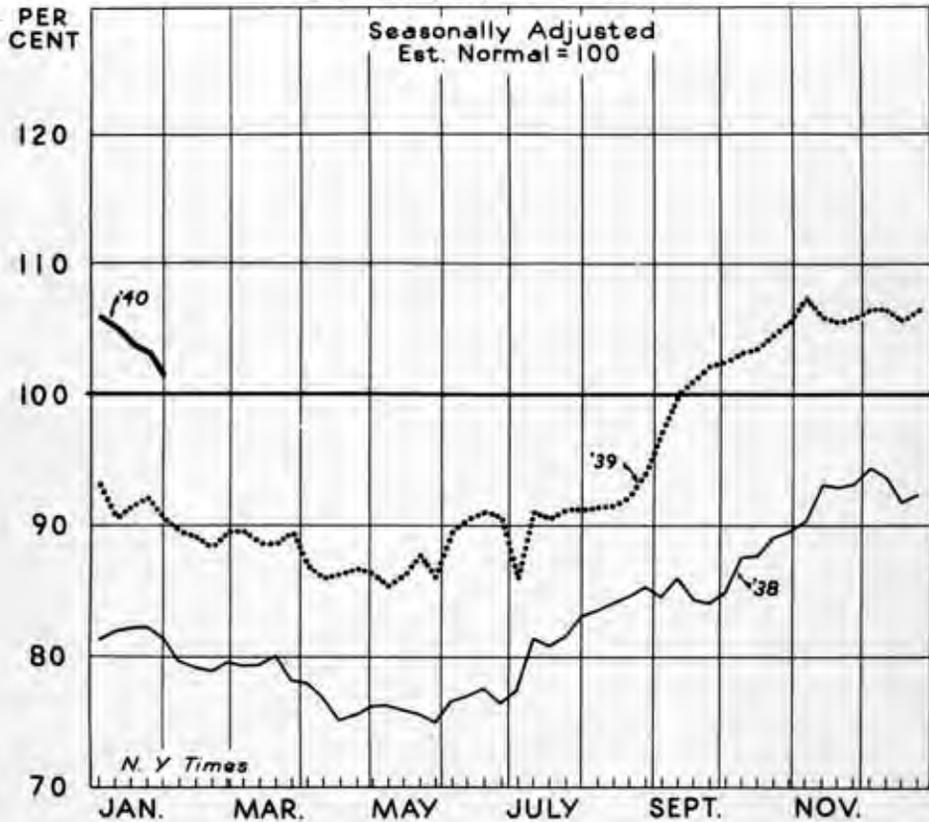
The Wall Street Journal estimates that carloadings of revenue freight during the week ended February 10 declined contra-seasonally to 626,000 cars, as compared with 657,000 cars loaded during the previous week. If borne out by actual figures, this would contribute to a greater drop in the New York Times index for that week than the 1.5 points decline now indicated on the basis of three components.

N. Y. Times Weekly Business Index

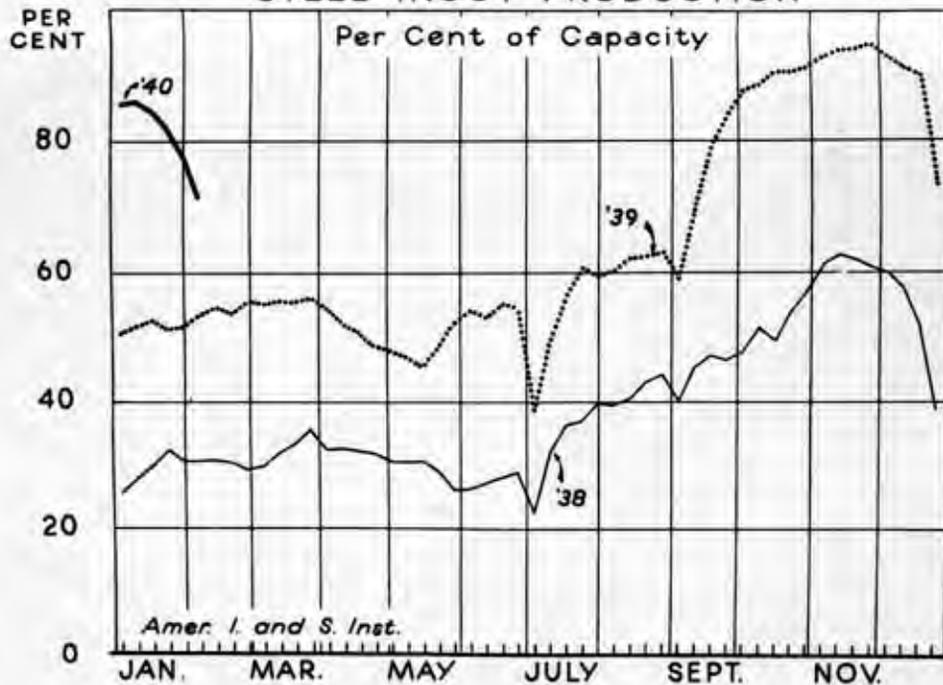
	<u>Weight</u>	<u>Feb. 10 wk.</u>	<u>Change</u>
Automobile Production	.03	112.7	off 7.4
Steel Ingot "	.10	99.9	off 8.5
Electric Power "	.49	103.2	off .8
Lumber "	.06		
Miscellaneous Carloadings	.19		
All Other "	.08		
Cotton Mill Production	.05		

NYT business index in Feb. 10, wk. is off 1.5 from previous week on basis of above 3 items.

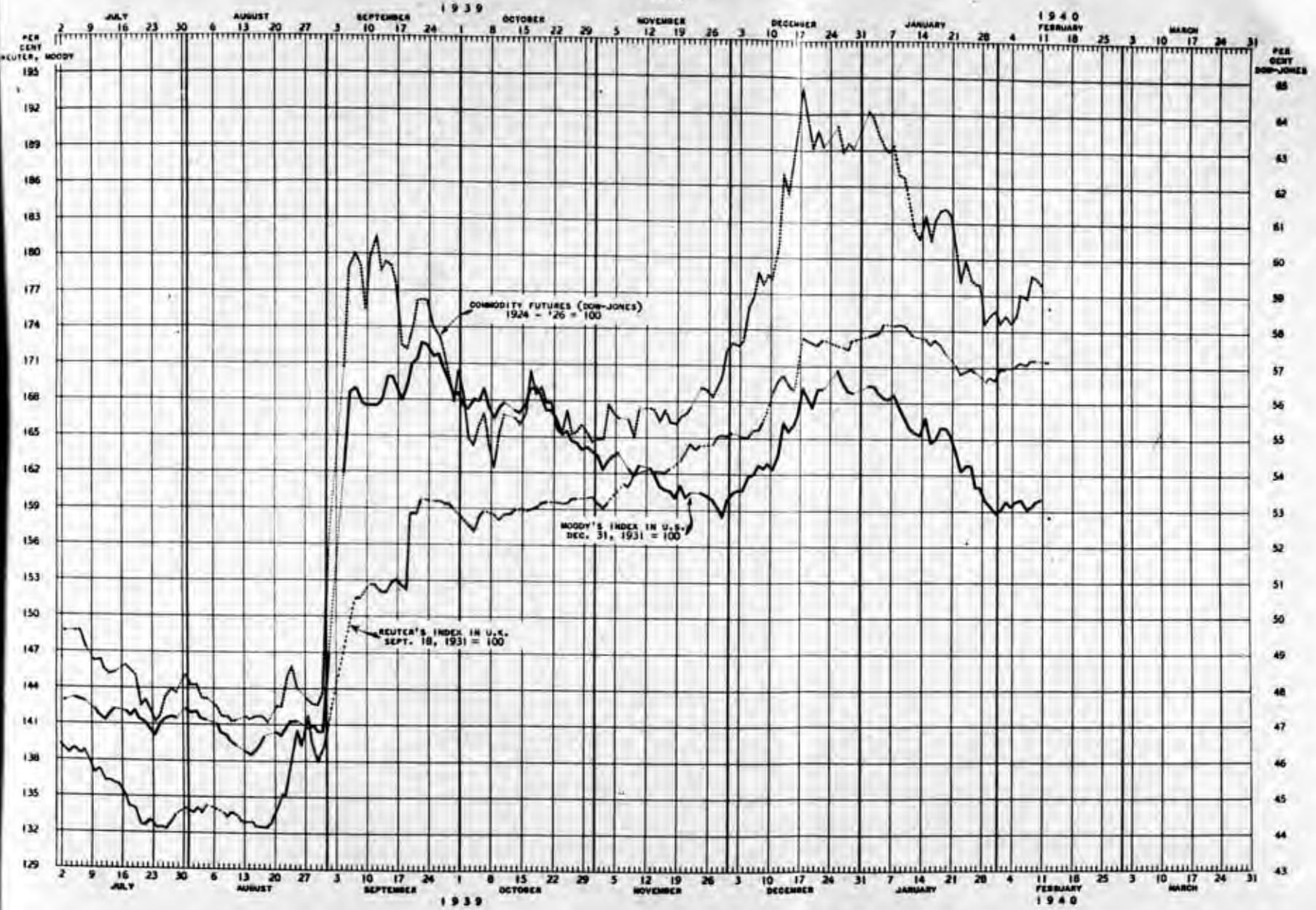
BUSINESS ACTIVITY



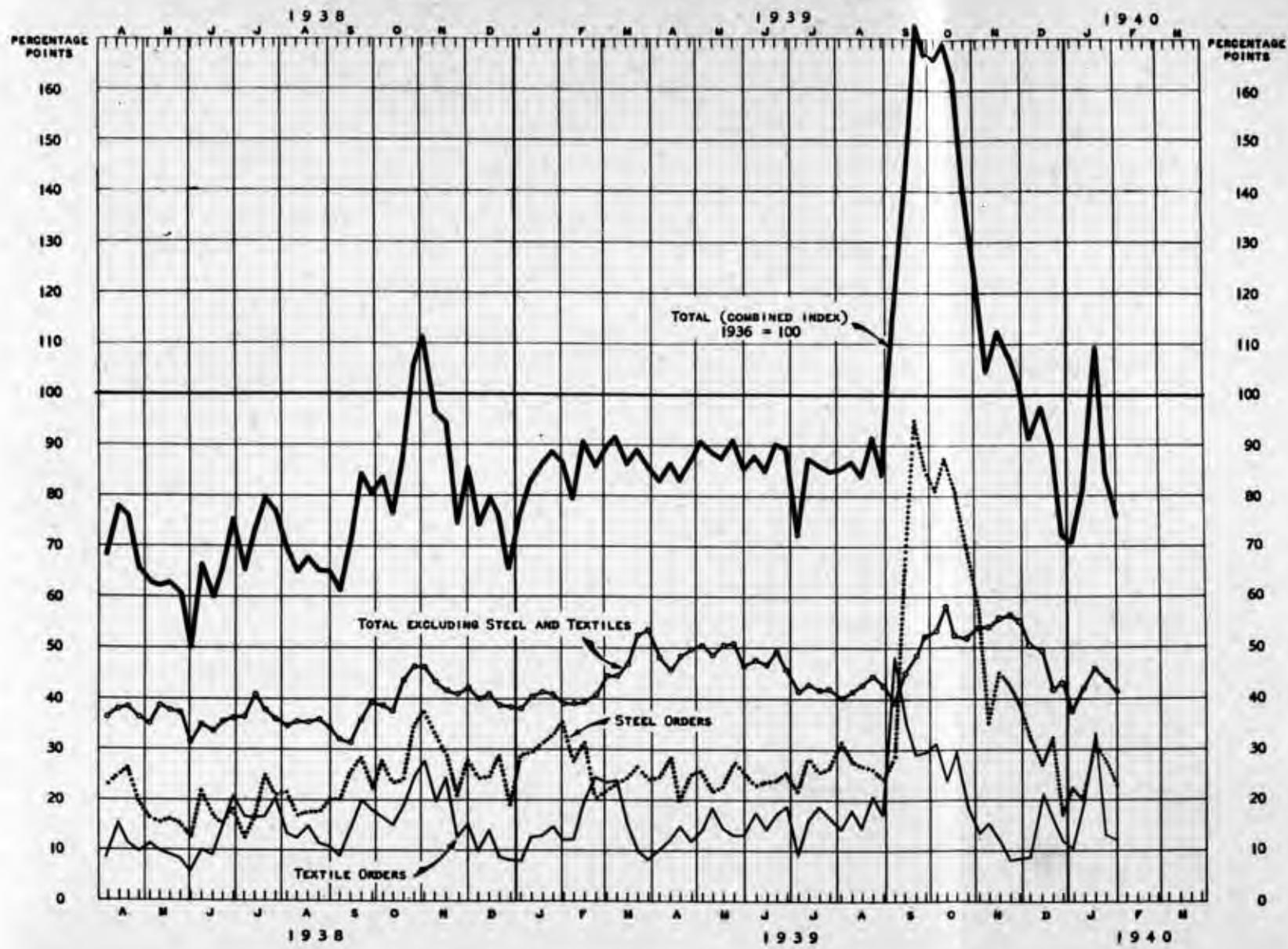
STEEL INGOT PRODUCTION



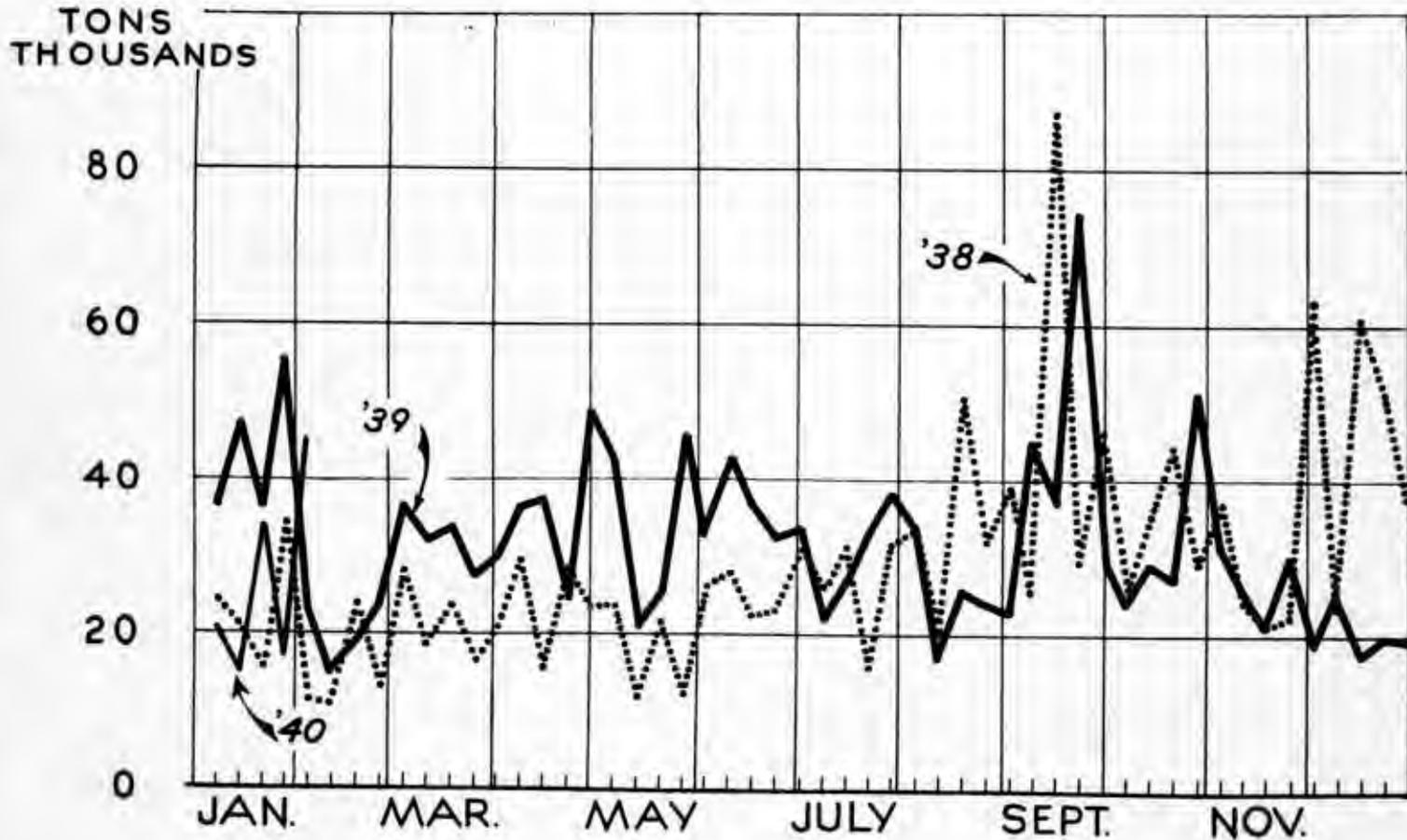
COMMODITY PRICE INDEXES IN U.S. AND U.K. Daily



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



STRUCTURAL STEEL ORDERS

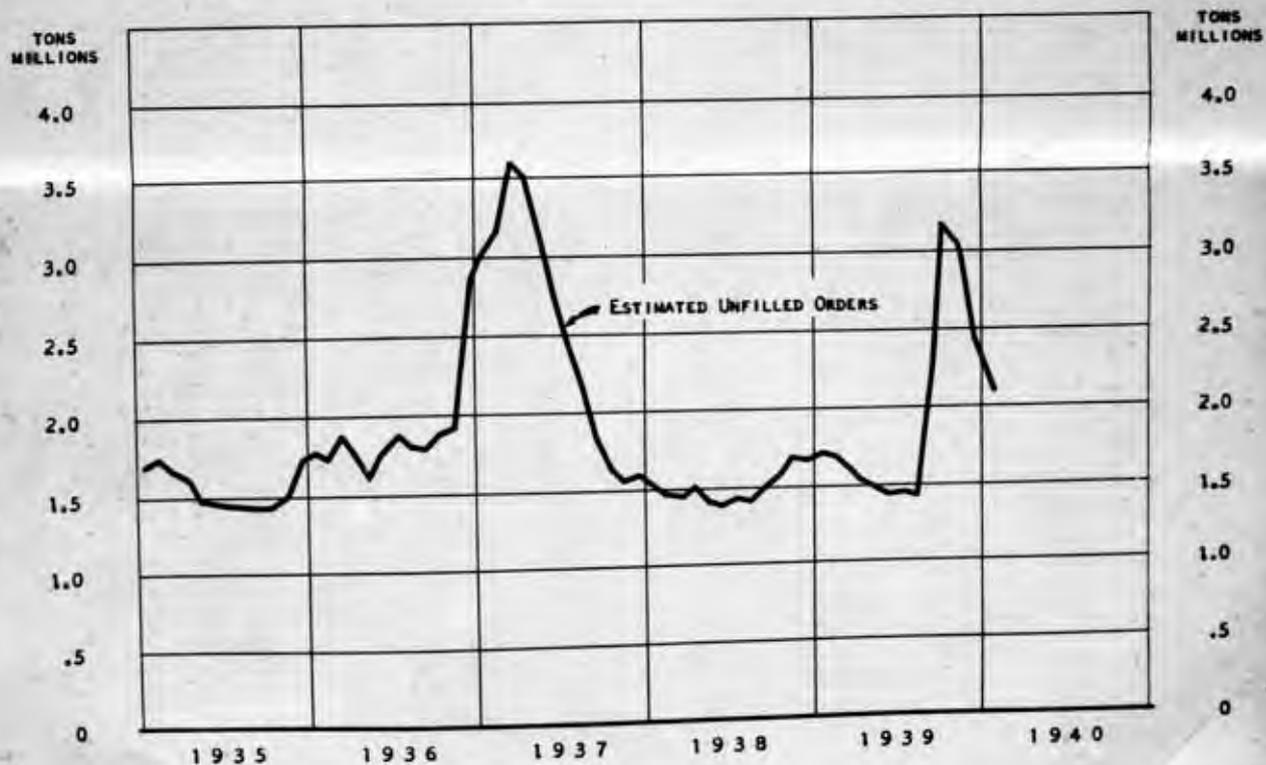
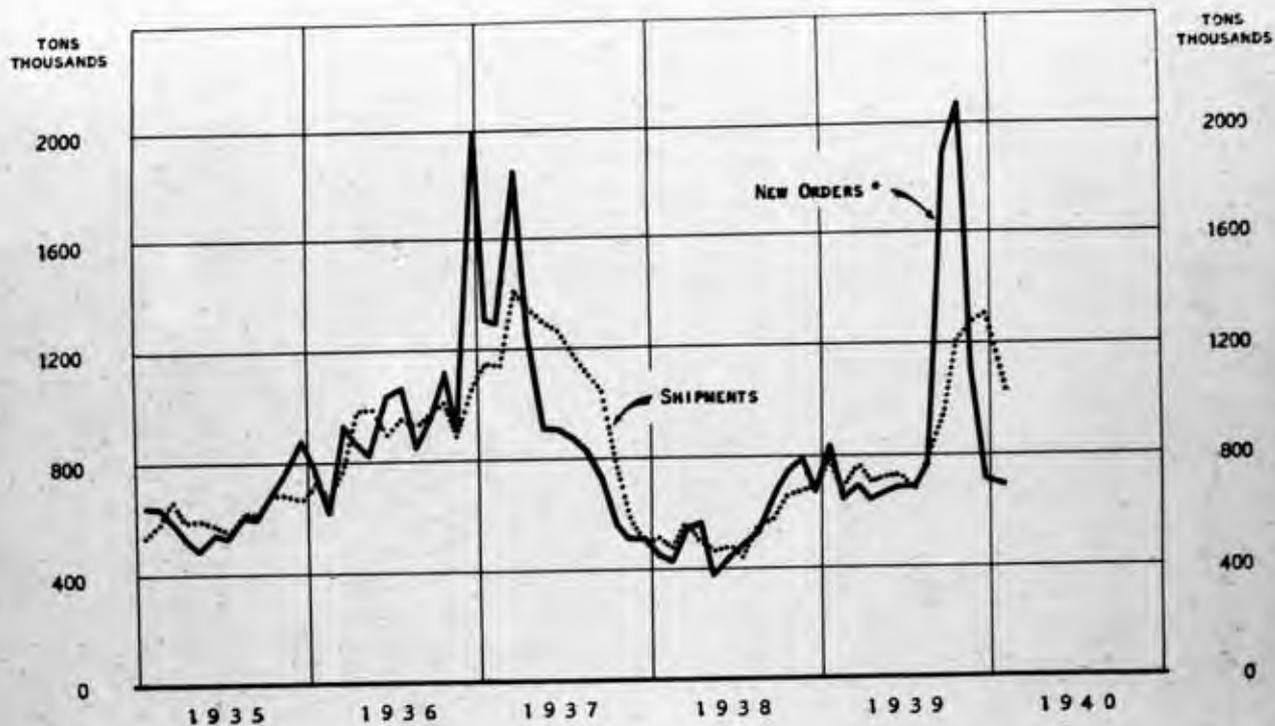


Office of the Secretary of the Treasury
Division of Research and Statistics

C-280

Chart 4

NEW ORDERS, SHIPMENTS AND ESTIMATED UNFILLED ORDERS
OF THE U.S. STEEL CORPORATION



* CORRECTED TO TAKE ACCOUNT OF CANCELLED ORDERS

February 14, 1940
10:26 a.m.

HMJr: Today is the fourteenth.

Daniel
Bell: All right.

HMJr: I say, today is the fourteenth.

B: That's Valentine, isn't it, or something?

HMJr: I don't know, I thought it was Giannini day.

B: (Laughs) Well, I -- I suppose the hearing has started, I don't know.

HMJr: I see.

B: But we're quite certain of one thing, that the Giannini crowd is not going to show up.

HMJr: I see.

B: We had three informal conferences and talked about the program a little and everything else aside of the program.

HMJr: Yeah.

B: But last night when they left we told them that we couldn't carry on any more informal conferences in view of this hearing today.

HMJr: I see.

B: And Mr. Cushing said that it was their disposition not to come in to the hearing. That's what his statement was at first and later he said, "We will not be here."

HMJr: I see.

B: So that we told them we would have to go ahead with the hearing and we couldn't talk with them any further.

HMJr: Well, did you have a united front with Eccles?

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B: Yes.....

HMJr: Good.

B:we did, and while there may have been things in the program that there was flexibility in and which we would have to change a little, yet there was substantial agreement.

HMJr: Good.

B: And in one of the conferences they mentioned coming over to the Board to meet the requirements of the Board for a state conversion.

HMJr: Yes.

B: And Eccles said, "Well, I want to let you know that you'll be up against the same requirements." And he said, "I'm quite certain that my Board would not agree to any less than what is substantially in this program."

HMJr: Yes.

B: But that didn't seem to phase it very much, so I think they still have hopes of getting better treatment than they get at the Treasury and other places. Otherwise I think they'd be worried about it.

HMJr: Well, I would say that the thing is as good as we could expect.

B: I think so. I think everybody around here feels that it has gone about as we had expected.

HMJr: Anything else, Dan?

B: Well, there are a number of things. I don't need to bother you about them until Monday.

HMJr: Unless they're terribly important I wouldn't.

B: No, I don't want to. We've got John Sullivan and Herbert Gaston and Ed Foley and Mrs. Klotz sitting here.

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HMJr: Well, let me talk to Gaston next.

B: O. K.

(Mr. Gaston takes the phone.)

Herbert
Gaston: Hello.

HMJr: Hello, Herbert.

G: How are you?

HMJr: I'm all right, thank you.

G: I hope you're enjoying it.

HMJr: Oh, yes. Anything important you want to tell me.

G: I don't believe there's anything very important. I have Glasser up in New York going into the industrial diamond situation pretty thoroughly. We had already looked into it.....

HMJr: I can -- I can wait.

G: Yes, that can wait. And the President sent over a memorandum of recent Amtorg purchases and wanted to know if there wasn't something we can do about it. That can also wait. It's.....

HMJr: Well, I wish you'd arrange with either the White House or with the Department of Justice that we get those weekly the way we used to.

G: Well, I have arranged that. I first tried the White House and they didn't know anything about it and I found that we had been getting them from Naval Intelligence, and Trey is making arrangements so that we'll continue to get them as before.

HMJr: O. K.

G: Yeah.

HMJr: All right, Herbert. I have nothing.

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G: Allright. Whom do you want next?

HMJr: Well, put -- let Foley come last because I imagine he's got the most -- the longest.

G: Yes.

HMJr: Sullivan.

G: All right, here comes John.
(Mr. Sullivan takes the phone.)

John
Sullivan: Good morning.

HMJr: Hello, John.

S: How are you, sir?

HMJr: I'm all right.

S: How are the horses?

HMJr: They're better than the riders.

S: (Laughs) Well, I repeat, happy landings.

HMJr: Did you have a successful trip up to your state?

S: Yes, sir.

HMJr: You did?

S: Yes, sir.

HMJr: O. K.

S: Right.

HMJr: And you -- I hope you don't enter into any more closing agreements until I get back.

S: Oh, you don't want us to continue them?

HMJr: Anything doing on any more

- 5 -

S: Mr. Blair of the New York City Bank was in this morning.

HMJr: Who?

S: Blair.

HMJr: I don't know him.

S: Well, he's apparently down here for Rentschler.

HMJr: Oh, yes.

S: And we had a very thorough discussion.....

HMJr: I don't hear you.

S: We had a very thorough discussion of the entire situation.

HMJr: Good.

S: And I think that he's the fellow who is to be liaisoned with -- through us, between the British and French and the manufacturers, most of whom apparently are working through his bank.

HMJr: Don't do it that way, John.

S: No?

HMJr: No, they have no business in that.

S: Well, I wasn't doing anything but that was apparently the play he was making.

HMJr: Well, they're smart. They're looking for business but we don't need any middleman.

S: Yeah. Very good, sir.

HMJr: No, that's the -- typical of the Rentschler crowd. They're on their toes, but we don't need any middleman.

S: Yeah. Well, I was -- I was just listening.

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HMJr: Yeah.

S: The -- the story I was getting was how close you and Rentschler were.

HMJr: Yeah. Well, we're -- we're just as close as can be as long as there's no business involved.

S: I get it.

HMJr: I don't know -- I mean, I know him and like him, but not where business is concerned.

S: Right.

HMJr: You ought to know that by now.

S: You -- did you talk with Rentschler before you left?

HMJr: Not on this subject.

S: You didn't?

HMJr: I talked to him about the guns being made -- the lathes being made for Russia in his brother's plant. That's all I talked to him about.

S: They seem to be quite a bit disturbed about that.

HMJr: What?

S: They seem to be very much disturbed about it.

HMJr: Why?

S: He spoke about it again this morning.

HMJr: Why is he disturbed?

S: Well, he seems to think that those should be kept for us or given to somebody else.

HMJr: Well, the President has the memorandum. He's had it for a week in his lap.

S: Yes.

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HMJr: I -- I gave it to him last Tuesday. I can't do anything more than that.

S: Yes. Well, there isn't anything -- there isn't anything in my department that needs bother you until you get back anyway and.....

HMJr: All right, John.

S:-- and I won't have anything bothersome for you here except all those closing agreements you want to sign.

HMJr: Allright. Well, you're an expert on those.

S: I -- say, I guess I'm not if I couldn't convince you that that idea was all wrong.

HMJr: What?

S: I guess I can't be if I couldn't convince you that the idea was all wrong.

HMJr: Well, we'll talk about it some more when I get back.

S: Right. Just a minute.

(Mr. Foley takes the phone.)

Ed
Foley: Hello, Mr. Secretary.

HMJr: Hello, Ed.

F: How are you, sir?

HMJr: I'm all right.

F: Fine.

HMJr: How are you?

F: Well, I'm all right too, thank you. (Laughs)

HMJr: I take it, no news is good news.

- 8 -

F: Well, that's the way it looks to me.

HMJr: Senator Norris came out, I saw in the papers.

F: Yes, I -- he sounded off and there have been a couple of pretty fair articles in the Wall Street Journal yesterday and today.

HMJr: I wish Mrs. Klotz would send those down.

F: I -- I'll take care of that.

HMJr: And -- in fact, they might send me the Wall Street Journal for the rest of the time I'm here, or else the clippings out of it. That's cheapest.

F: The clippings.

HMJr: Just any important clippings.

F: O. K. Did you see the.....

HMJr: What's their story?

F: What's that?

HMJr: They've had a fair story.

F: Yes. I think the -- the one yesterday was written by Gene Duffield and the one today was written by Barney Kilgore.

HMJr: And what is the -- Judge Leibell going to do?

F: Well, I -- I don't know. The -- the next step is up to him and if he follows the program that he outlined at the hearing last Tuesday.....

HMJr: Yes.

F:he will notify the SEC in writing of the people he proposes to appoint.

HMJr: I see.

F: And then will give the SEC an opportunity to come in on the 8th of March and voice any objection that they may have to those people.

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HMJr: Well, that's fair enough, isn't it?

F: I think so, and the SEC is trying to make up its mind whether it will go in open court and voice objection to Johnny Hanes.

HMJr: Well that's up to them.

F: That's up to them.

HMJr: After all, the people seem to forget in this battle that's going on that -- I don't know, we have six or seven million dollars at stake.

F: Secured too.

HMJr: What?

F: Five million of which is secured, we can't lose.

HMJr: Yeah, but we still have that at stake.

F: Yeah.

HMJr: So that's a lot of money.

F: Well, I think we're -- we're better situated than any other creditor, because we.....

HMJr: I hear Krock had the story yesterday.

F: Yeah, and he had the Hanes' version yesterday.

HMJr: I see. How did we make out?

F: We were in the middle. (Laughs)

HMJr: What does that mean?

F: Well that means that the Hanes' people were surprised that you were for the SEC and opposed to him, and the New Dealers were annoyed because Hanes is going to be appointed apparently and he said that the lines were drawn between the two forces, and the result would determine which was the stronger.

HMJr: Well now, two forces.....

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F: Meaning the Hanes.....

HMJr: Which were we in?

F: Well, we were between the -- the liberal group and the Hanes' group. Apparently both sides being dissatisfied with us and the position we had taken because we hadn't pleased either.

HMJr: That sort of makes us Lake Lagoda.

F: Well, I don't understand that Mexican talk but - (laughs)

HMJr: Well, I was trying to talk Finnish.

F: Finnish, well.....

HMJr: Lake Lagoda, which is between the Mannerheim Line and Leningrad.

F: Yeah. Well, Finnish Sullivan just told me what you were talking about. (Laughs) I didn't understand.

HMJr: Well, I -- I appreciate that all of you are sparing me and I can use the time down here. I'm not worried but I.....

F: Well.....

HMJr:just wanted to check up on today.

F: That -- that's fine. You knew the President was proposing to go away tonight?

HMJr: Well that's what he told me before I left and I figured that if by tonight I didn't hear from him that he must be entirely -- one hundred per cent satisfied with what I did.

F: Yeah. Well, I haven't heard from -- from Miss LeHand.

HMJr: Well, forget it.

F: Yeah. I think that's the thing to do.

HMJr: But you can be sure the President has heard about that and he must be satisfied, otherwise he'd have called me.

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- F: Well I assumed that -- that she spoke to him and that's why she didn't call me back.
- HMJr: Well, from Krock's -- your description of Krock's article I'd say we were just about right.
- F: (Laughs) Well I don't know what "right" means. We're in the middle, of course.
- HMJr: That's where I like to be, the middle of the road.
- F: Yeah. Well, that's where we are.
- HMJr: That's all right.
- Well, I am not -- as I say, I'm not worrying and I know I've got a good crowd there in the Treasury and I'll go on and enjoy the rest of the week.
- F: Well, that's fine and we won't bother you unless something slips here that we can't handle.
- HMJr: No, I'm sure the President has heard about the performance in my office and if he wanted to know he could have sent for you or called me on the phone.
- F: Yeah. That's right.
- HMJr: Well.....
- F: And I haven't heard any more. I haven't heard any more from Iokes or from -- from anybody, and I think the next move is up to the Judge and then what -- what we do after that, it seems to me, is up to the SEC.
- HMJr: Well, it's from now until the 8th of March, isn't it?
- F: That's right, and you'll be back and you'll have plenty of time to consider it before we have to take the next step.
- HMJr: O. K.
- F: Anything.....

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HMJr: If Klotz will go to her office I'd like to talk to her, please.

F: All right, she's going right in.

HMJr: Thank you.

F: Goodbye.

HMJr: Goodbye.

TREASURY DEPARTMENT

33

INTER OFFICE COMMUNICATION

DATE February 14, 1940

TO Under Secretary Bell
FROM Joseph P. Cotton, Jr.

Re: Colombia

I called Traphagen this morning. He said that, from the standpoint of the Council, everything looked all right as regards the temporary arrangement going into effect. Certain details remain to be worked out. The Council has also arranged to put out a public announcement in the newspapers today confirming the fact that the arrangement has been reached, supplementing the publicity put out by the Colombian Embassy day before yesterday.

I asked Mr. Traphagen his views as to the continuance of negotiations for a permanent settlement. He told me quite frankly that he saw little prospect of a settlement given a continuance of the present procedure whereunder the Colombians feel that they can appeal with success to the Committee of three to obtain concessions from the Council. Mr. Traphagen said that, of course he said this in full appreciation of the effort which the Secretary has made in this matter. He said he wanted to talk over this whole matter with the Secretary and myself and asked me if I was going to be in New York any time in the near future. I told him that I was at his disposition at any time if I could be useful, and, tentatively, we have agreed I should lunch with him in New York on February 24 to talk over the whole matter with a view to presenting his views to the Secretary in anticipation of Mr. Traphagen having an opportunity to talk to the Secretary personally.

As my business is very slow at the moment, I plan, if you do not have any objection, to take a long week-end beginning tomorrow afternoon. I am sending a separate memorandum to you through Mr. Thompson stating where I may be reached.

J.P.C.J.

THE SECRETARY OF THE NAVY.
WASHINGTON.

15 February 1940

My dear Mr. Secretary:

Relative to your inquiry concerning the 165-foot lathe being manufactured by the General Machine Company for the Russian Government, I am pleased to inform you that the Navy Department has no use for this equipment, nor have they any objection to its export to Russia.

Sincerely yours,



Charles Edison

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

United States Senate

WASHINGTON, D. C.

February 15, 1940.

My dear Mr. Secretary:

I am sending you herewith a copy of my letter to Chairman Frank of the Securities and Exchange Commission in reference to the Associated Gas and Electric case.

Sincerely yours,

G. W. Norris

Enclosures.

Honorable Henry Morgenthau, Jr.,

Secretary of the Treasury,

Washington, D. C.

COPY

February 14, 1940

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

My dear Mr. Chairman:

As a member of the Senate Judiciary Committee, I should like to call your attention to the inclosed article of Mr. Arthur Krock on the Associated Gas and Electric case, appearing in the New York Times of February 13.

The article has particular significance since Mr. Krock is not only a newspaper writer of high repute, but is known to be a close friend of Mr. John W. Hanes and would not be likely to state facts bearing upon Mr. Hanes' position without acquainting himself with Mr. Hanes' version of them. Certain statements in this article cannot help but create an atmosphere of concern about a possible attempt by powerful financial interests to overreach both the judicial and statutory processes in the appointment of a trustee. I quote from the article:

"The utility has assets roughly estimated to be 1 billion dollars. *** The holders of these assets and liabilities, in a series of informal meetings, decided that their choice for trustee was Mr. Hanes. *** (who) was a member of the SEC following a successful career as an investment banker in New York. *** All private parties in interest, save the government Mr. Hanes recently served, united to ask the court to appoint him."

Several implications of this story give me great concern.

COPY

Mr. Jerome Frank
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In the first place, it would appear that an undisclosed group of parties decided upon Mr. Hanes as their choice for trustee, and with Mr. Hanes' consent communicated their choice to the court, without waiting for any consultation with the Securities and Exchange Commission. As I read the language of the Holding Company Act, the Securities and Exchange Commission has the right to be consulted before any trustee other than itself is named by the court. Efforts to commit the court to a particular trustee without consultation with the Commission seem to me to be contrary to both the letter and the spirit of the Holding Company Act.

In the second place, this article places the "series of informal meetings" of these unknown and mysterious parties in interest prior to an inquiry which Mr. Krock states Mr. Hanes made to Secretary Morgenthau, the date of which inquiry is known to be prior to the filing of the petition in bankruptcy. This means that these unnamed parties had their meetings and had already decided on their choice of trustee before the case was even assigned to the Southern District of New York.

In the third place, who were these parties who assumed to choose a trustee for the court without consultation with the Commission, and before bankruptcy proceedings were even commenced?

The article says "the holders of these assets and liabilities". But since the security holders of Associated Gas and Electric, several hundred thousands in number, are widely scattered and could not possibly meet and are not known to have been solicited for proxies, it seems clear that the meetings to choose Mr. Hanes were not held by representatives of the security holders themselves. The inescapable conclusion is that the meetings must have been held by representatives of banking or management groups who had some previous connection or some hope for future connection in the affairs of Associated. As everybody especially interested in the utility field knows, and as your studies have undoubtedly informed you, these affairs have been so badly managed that I understand the Attorney General of the United States has ordered a grand jury inquiry in the Southern District of New York to ascertain whether in the financing and management of the Associated Gas and Electric system there has been violation of federal criminal law.

COPY

Mr. Jerome Frank

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Of course, experience has abundantly demonstrated there is always the distinct danger that the interests of banking and management groups may be adverse to those of other groups and the general body of creditors and security holders. Indeed, it was to prevent such special groups with special interests from dominating a trusteeship to the detriment of the general body of small creditors and security holders that the Congress provided in the Chandler Act for the appointment of one or more disinterested trustees.

The Associated Gas and Electric receivership is one of the largest and most important receiverships which has come into the federal courts in recent years. The receivership will come into contact with the SEC under the Holding Company Act in relation to nearly all important problems of reorganization. It is important, therefore, that the trustee have a sympathetic understanding of the Holding Company Act and be able to work in harmony with the Commission. I am frank to say that the Commission can be trusted to safeguard the interests of investors much better than the self-constituted banking groups which have not heretofore been noted for their solicitude in protecting the interests of small and inarticulate investors. The financial structure of the company is exceedingly complicated and the ramifications of its management and banking connections and affiliations are known to be far-reaching. Creditors and security holders have already suffered losses running into the hundreds of millions.

It will be the duty of the trustee or trustees to make a diligent investigation of the affairs of the company, and of those responsible for its management and its financial and security operations, and to prosecute the claims of the estate against any banking or management groups whose transactions with the company may reasonably be thought to subject them to liability.

It seems to me perfectly obvious that the general body of creditors and security holders can never be convinced of the complete independence and disinterestedness of a trustee whose name has been, according to Mr. Krock, agreed upon by private groups in advance of the filing of the petition in bankruptcy and urged by them upon the court in advance of a public hearing, without even consultation with the Securities and Exchange Commission.

COPY

Mr. Jerome Frank

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I regret that a man of Mr. Hanes' standing has been made the victim of such an unfortunate chain of events. But under the circumstances I think that both the court and the Commission have been put on notice by Mr. Krock's article to probe to the bottom the situation revealed in that article. I do not see how, on the basis of the situation revealed in Mr. Krock's article, Mr. Hanes can, in accepting the trusteeship, be regarded as free from entangling alliances. I do not mean to impute any wrongdoing to Mr. Hanes, but it would be embarrassing, to say the least, for Mr. Hanes to accept a position where he might be called upon to prosecute men with whom as an investment banker he has been closely and intimately associated, particularly if he owed his position to them.

This Associated failure is so large and so dangerous that the trustee must not only be free from technical disqualification for interest but--like Caesar's wife--be above suspicion. Certainly, the administration of so important a test of the ability of the courts and the Commission to work in harmony should not be embarrassed by starting out under a cloud created by an appointment of a trustee selected in advance by undisclosed private interests whose freedom from conflict with the general interests of the estate cannot be established without searching inquiry into the tangled affairs of the company.

This trusteeship is a magnificent opportunity to reestablish public confidence in Federal court administration of receiverships and bankruptcies which has recently concerned some members of the Judiciary Committee.

I am sending a copy of this letter to the Secretary of the Treasury and the Attorney General, by way of expressing my feeling that the article of Mr. Krock has put them, too, upon notice to apprise themselves of the true situation. I hope you will also be able to present the point of view expressed in this letter to the court before an appointment of a trustee is named.

Sincerely yours,

(signed) G. W. NORRIS

P. S. In view of Mr. Krock's reference to Senator Wheeler, I inclose a copy of Senator Wheeler's release to the press on February 13 and also my statement of February 11. G.W.N.

The New York Times
February 13, 1940

IN THE NATION

Issues and Implications in
Associated Gas Co. Case

By ARTHUR KROCK

Washington, Feb. 12--A Federal court in New York City, Judge Leibell presiding, has been the center of an interesting and important struggle between a government group and a business group over the reorganization of the Associated Gas and Electric Company and Corporation, petitioning as a bankrupt. The government group wants the judge to appoint a trustee or trustees selected by Washington. The business interests hold that the court should heed, in naming trustees, the wishes of the overwhelming ownership of the companies affected.

In the background of the struggle is a pattern of conflicting personalities and political philosophies, typical of the divisions in present-day Washington. Through this pattern runs the thread of government ownership of all utilities, favored by many New Dealers; and the outline of that New Deal tendency to have government take control of the details of private corporate management which lately found expression in the SEC's 3 to 2 decision on the Consumers Power Company financing application.

In the foreground are to be found such persons as John W. Hanes, the famous Federal "firm" of Corcoran & Cohen, Secretary Morgenthau, Attorney General Jackson, former Attorney General Cummings, Senators Wheeler and Norris, Majority Leader Rayburn and a once-again divided SEC. If the drama's outcome is of great economic and political significance, at least it is being played by a star cast.

Beginning of the Contest

The Associated Gas and Electric interests, refused a loan by Administrator Jones because of non-compliance with his conditions and for other actions, some time ago took the only course remaining to it and applied for bankruptcy reorganization in the Federal courts. The venue was transferred from Utica to New York City; whereupon the contest began between the two groups and the two ideas.

The utility has assets roughly estimated to be worth \$1 billion, and the scattered nature of its operating properties is such that it provides excellent material for that physical and financial integration which the SEC, by direction of the Wheeler-Rayburn Act, is about to undertake in the field of utility holding companies. The holders of these assets and liabilities, in a series of informal meetings, decided that their choice for trustee was Mr. Hanes. He lately retired as Under-Secretary of the Treasury with the warm compliments of the President and Mr. Morgenthau. Prior to that he was a member of the SEC, following a successful career as an investment banker in New York. All private parties in interest, save the government Mr. Hanes recently served, united to ask the court to appoint him. The government's financial interest is con-

Krook - 2.

ined to a tax claim of \$5 millions in the billion-dollar set-up.

When Mr. Hanes was advised of his selection he asked his recent chief, Mr. Morgenthau, if he saw any objection, and to ascertain if the President opposed the plan for any reason. The Secretary, having been advised by the draftsmen of the holding company act (Messrs. Corcoran and Cohen, probably through the Treasury's general counsel, Edward Foley, their protege) that the law permitted the SEC to serve as trustee in such cases, had previously approved this idea. But he offered no objection to Mr. Hanes, if appointed by the court, and Mr. Hanes was not advised of any disapproval by the President. Consequently he sent word that, if chosen as trustee, he would serve.

Efforts to Block Hanes

At this point began New Deal resistance to the choice of Mr. Hanes. The Attorney General, closely associated with Mr. Corcoran and Mr. Cohen, asked the Federal court to designate the SEC as trustee, and in this request he was surprisingly joined against Mr. Hanes by the latter's very recent chief, Mr. Morgenthau. When their action came to the attention of Messrs. Wheeler and Rayburn, whose names the holding company legislation bears and who drove it through Congress, they publicly opposed the plan. They objected to making the SEC trustee, as well as judge, jury, prosecutor and unscrambler of the bankrupt company. And Senator Wheeler wrote to the SEC a strong endorsement of Mr. Hanes.

These moves seem to have made the SEC plan too hot for the administration to hold. By a vote of 4 to 1 the agency decided to inform the court of its unwillingness to serve. The action was hastened, it is understood, by notice of two Commissioners--Mr. Healy and Mr. Mathews--that they would make public their emphatic objections.

Since it became evident that the SEC trusteeship must be abandoned the effort of its authors has been to find ways to persuade the court to appoint a trustee or trustees suggested by the administration and not by the holders of the large majority of the company's assets. It is said that serious consideration was given to the nomination of Mr. Corcoran, but this interesting alternative was abandoned. Senator Norris seemed to have something like it in mind, however, when he criticized any plan that might exist to appoint "an investment banker and a utilities magnate," a reference to Mr. Hanes and Henry I. Harriman, who, with W. M. Myers, former head of Farm Credit, had been most mentioned as co-trustees.

When the court resolves the contest by naming the receivers the winning group can easily be identified.

COPY

FOR A.M. PAPERS, TUESDAY, FEBRUARY 13, 1940

Senator Burton K. Wheeler made public the following statement:

I hope the statement that I made last Friday regarding the Associated Gas trusteeship will not be misunderstood. The so-called Wheeler-Rayburn Holding Company Act empowers the S.E.C. to act as trustee. But I expressed the opinion that it should not be necessary or desirable for the Commission to accept at this time, when the Commission is overworked in a determined drive to initiate general enforcement of section 11 of the Act, the added and onerous burden of the Associated Gas trusteeship which might involve extensive supervision of the company's operating subsidiaries. Of course this is provided that the Commission is satisfied that a trusteeship acceptable to it would be appointed whose disinterestedness, independence and sympathetic understanding of the requirements of the Holding Company Act are beyond dispute.

The creditors and investors of Associated Gas have suffered terrible losses, not through operating deficiencies but through financial manipulations. They have a right to be protected against exorbitant fees and charges for supernumerary trustees and counsel. They have also a right to be assured that their claims will be fearlessly pressed against management or other interests with which Associated Gas has dealt not at arms' length. That assurance the creditors and investors cannot have if a trustee has any interlocking relations with the people he might have to prosecute. For that reason the creditors and investors as well as the general public have a right to expect the appointment of a trustee whose fearlessness and independence and disinterested judgment cannot be subject to question because of past intimate associations with the management of a utility operating or holding company.

COPY

Statement of United States Senator G. W. Norris,
February 11, 1940
For immediate release.

The appointment of a receiver for the Associated Gas and Electric Company represents the end of a long trail of financial chicanery and duplicity. This company is large and far-reaching. Its corporate structure and affiliations are extraordinarily complicated, and its contacts with problems under the Holding Company Act are numerous, intricate, and exceedingly important. Tremendous losses have been incurred by thousands of investors under circumstances which make imperative the diligent investigation and prosecution of claims against the officers of this company, its directors, and all affiliated interests.

In the Holding Company Act, Congress provided that the Securities and Exchange Commission may be appointed by the court in cases of this kind and given power to act as trustee. The conditions surrounding this receivership are so vast and far-reaching that it seems to me to be perfectly apparent that in such an intricate case the SEC should be appointed and should act as such receiver. Investors' losses should be protected and, if possible, recovered, and should not be aggravated by juicy fees for multiple trustees and lawyers. But if the SEC declines to accept the trusteeship, public opinion demands a single trusteeship which is completely independent of private utility or banking influence, which is sympathetic with and understands the congressional policies embodied in the Holding Company Act.

I was dumbfounded to read in the newspapers that an investment banker and a utility magnate were about to be named as trustees in this case. I can hardly believe these reports. It seems to me to be incredible that the SEC, familiar with the provisions of the Holding Company Act and having the right to be consulted on the appointments, should ever consent to the appointment of trustees having sympathies with the kind of people they will undoubtedly have to prosecute. It would constitute a shocking precedent. I have heretofore criticized the Commission for not having enforced the Holding Company Act more vigorously, and I believe it would be inexcusably lax in its duty if it were to consent to the creation of such a precedent. However faithfully a banker or a utility magnate might try to perform his duty as trustee, neither the investors nor the public would have confidence that they would diligently prosecute claims against fellow bankers or fellow utility magnates.

CONSOLIDATION OF ALL SILVER PURCHASES FROM
THE ENACTMENT OF THE SILVER PURCHASE ACT ON
JUNE 19, 1934 TO DEC. 11, 1935 - WITH - PURCHASES
FROM DEC. 12, 1935 TO FEB. 14, 1940

SILVER PURCHASE ACT OF 1934

Figures are shown in thousands only. When 500 or under, the amount has been dropped, when over, it has been added. This applies to both the ounces and the dollars on this summary.

Source	PERIOD OF				TOTAL		Refer to PAGE
	June 19, 1934 to Dec. 11, 1935		Dec. 12, 1935 to Feb. 15, 1940		Ozs. .999 Fine	Cts	
	Ozs. .999 Fine	Cost	Ozs. .999 Fine	Cost			
NEW PRODUCTION SILVER							
<u>Countries south of the U.S.</u>							
Various Countries	-	\$ -	56,834	\$ 24,366	56,834	\$ 24,366	
Mexico	72,493	45,924	60,833	26,500	133,326	72,424	
Mexico Under Agreement	-	-	123,010	55,129	123,010	55,129	
Sub-Total	72,493	45,924	240,677	105,995	313,170	151,919	
Various Countries (not identified)	-	-	84,754	35,987	84,754	35,987	
All Canada	-	-	62,507	26,876	62,507	26,876	
<u>Total New Production Silver</u>	72,493	45,924	387,938	168,858	460,431	214,782	
* * * * *							
TRADING AND INVENTORY SILVER							
New York	174,491	27,832	112,026	\$ 49,638	286,517	\$147,470	
* * * * *							
OTHER PURCHASES OF SILVER							
<u>Various Countries</u>							
Canada	81	\$ 60	6,687	\$ 2,875	6,768	\$ 2,935	
London	460,716	287,095	32,082	14,822	492,798	301,917	
All Others	75,422	46,584	593,422	260,911	668,844	307,495	
<u>Total other Purchases of Silver</u>	536,219	\$333,739	632,191	\$278,608	1,168,410	\$612,347	
<u>Grand Total</u>	783,203	\$477,495	1,132,155	\$477,104	1,915,358	\$774,599	

RECAPITULATION OF
BY BUSINESS
DECEMBER 31, 1935

Figures are shown in thousands only. Over 500 of value, the amount has been dropped, when over, it has been stated. This applies to both the amount and the volume of this country.

Source of Receipts	1935		1934		1933	
	Vol. - 1935 Price	Value	Vol. - 1935 Price	Value	Vol. - 1935 Price	Value
TRADING SILVER						
American Metal Co., Ltd.	-	4,210	3,700	533	249	-
American Smelting & Refining Co.	-	1,799	443	914	97	-
Hendy & Norman	-	300	159	-	-	-
Irvington Smelting & Refining Co.	2,750	1,430	12,000	5,510	3,407	4,344
Others	2,450	1,750	18,000	8,230	17,074	8,491
Total Trading Silver						
INVENTORY SILVER						
American Metal Co., Ltd.	149	90	757	340	173	78
American Smelting & Refining Co.	-	-	529	238	623	330
Hendy & Norman	7,142	1,950	707	430	4,449	2,090
Irvington Smelting & Refining Co.	380	300	4,330	4,971	2,530	1,347
Others	-	-	-	-	-	-
Total Inventory Silver						
OTHER PURCHASES OF SILVER						
Canada	-	-	-	-	-	-
London	5,771	4,761	5,700	5,955	13,908	5,109
Spain	-	-	-	-	-	-
Switzerland	-	-	-	-	10,000	15,750
Mexico - Central Purchase	172	107	71	31	-	-
Mexico - via Mexico in New York	-	-	-	-	-	-
Others	-	-	-	-	-	-
Total	5,443	4,868	5,771	6,016	40,808	30,859
On Hand						
Spain	115	74	64,915	130,137	130,014	24,512
India	1,407	1,912	-	-	-	-
Japan	-	-	180	43	-	-
Java	-	-	-	-	-	-
Republic of China (China)	-	-	-	-	-	-
Total	1,602	2,656	65,095	130,180	130,014	24,512
Total 1935	11,492	7,384	78,265	181,110	171,626	120,381
Total 1934	11,492	7,384	100,000	181,110	171,626	120,381

ALL SILVER PURCHASES
FROM
TO FEBRUARY 23, 1940

Silver Purchases Act of 1934

Source of Receipts	1939		1938		1937		1936		1935	
	Vol. - 1939 Price	Value	Vol. - 1939 Price	Value	Vol. - 1939 Price	Value	Vol. - 1939 Price	Value	Vol. - 1939 Price	Value
TRADING SILVER										
American Metal Co., Ltd.	2,077	1,243	1,300	1,250	480	1,379	14,493	6,346	-	-
American Smelting & Refining Co.	-	-	100	283	-	-	2,432	2,443	-	-
Hendy & Norman	-	-	229	103	-	-	329	248	-	-
Irvington Smelting & Refining Co.	10,000	4,542	7,000	3,000	700	300	4,100	1,500	10,000	4,500
Others	10,000	4,542	16,700	6,130	1,000	400	11,000	4,100	10,000	4,500
Total Trading Silver										
INVENTORY SILVER										
American Metal Co., Ltd.	430	283	-	-	1,490	664	3,403	1,107	-	-
American Smelting & Refining Co.	2,077	292	-	-	-	-	1,407	483	-	-
Hendy & Norman	7,142	3,230	24,900	1,338	60	217	23,140	4,100	-	-
Irvington Smelting & Refining Co.	380	300	14,391	4,294	4,127	1,740	27,134	11,130	-	-
Others	-	-	-	-	-	-	43	80	-	-
Total Inventory Silver										
OTHER PURCHASES OF SILVER										
Canada	4,407	2,772	-	-	-	-	4,407	4,017	-	-
London	1,919	846	-	-	-	-	27,000	14,000	-	-
Spain	290	88	-	-	-	-	10,000	10,000	-	-
Switzerland	-	-	-	-	-	-	110	60	-	-
Mexico - Central Purchase	-	-	-	-	-	-	30,000	13,750	-	-
Mexico - via Mexico in New York	-	-	-	-	-	-	172	107	-	-
Others	-	-	-	-	-	-	31	31	-	-
Total	6,616	3,706	-	-	-	-	100,000	48,777	-	-
Total 1939	18,108	11,249	11,300	13,707	-	-	494,300	218,000	-	-
Total 1938	18,108	11,249	11,300	13,707	-	-	494,300	218,000	-	-
Total 1937	18,108	11,249	11,300	13,707	-	-	494,300	218,000	-	-
Total 1936	18,108	11,249	11,300	13,707	-	-	494,300	218,000	-	-
Total 1935	18,108	11,249	11,300	13,707	-	-	494,300	218,000	-	-

These figures are in thousands only. Don't add or subtract, the amount has been divided, also over, it has been added. This applies to both the income and the dollars on the currency.

SUMMARY OF THE PRODUCTION RECORD
 (in thousands of the United States Dollar)

State	Value per 100 lbs. of cotton	Value of cotton		Value of lint		Value of seed		Value of waste	
		1954	1953	1954	1953	1954	1953	1954	1953
Alabama	1.500	5,302	4,100	1,010	800	1,300	1,000	2,300	2,100
Arkansas	1.400	3,800	2,800	700	500	1,000	800	1,500	1,200
California	1.600	4,500	3,500	900	700	1,200	1,000	1,800	1,500
Florida	1.300	3,200	2,500	600	500	800	700	1,200	1,000
Georgia	1.450	4,800	3,800	1,000	800	1,300	1,100	1,900	1,700
Illinois	1.550	5,000	4,000	1,100	900	1,400	1,200	2,000	1,800
Indiana	1.400	3,500	2,800	700	600	900	800	1,300	1,100
Iowa	1.500	4,200	3,300	800	700	1,100	1,000	1,600	1,400
Mississippi	1.350	3,700	2,900	700	600	900	800	1,300	1,100
Missouri	1.450	4,600	3,700	900	800	1,200	1,100	1,800	1,600
Nebraska	1.500	4,300	3,400	800	700	1,100	1,000	1,600	1,400
North Carolina	1.400	3,600	2,800	700	600	900	800	1,300	1,100
North Dakota	1.550	4,900	3,900	1,000	900	1,300	1,200	1,900	1,700
Ohio	1.400	3,500	2,800	700	600	900	800	1,300	1,100
Oklahoma	1.450	4,400	3,500	800	700	1,100	1,000	1,600	1,400
South Carolina	1.300	3,100	2,400	600	500	800	700	1,200	1,000
South Dakota	1.500	4,200	3,300	800	700	1,100	1,000	1,600	1,400
Texas	1.400	3,600	2,800	700	600	900	800	1,300	1,100
Virginia	1.350	3,400	2,700	650	550	850	750	1,250	1,050
Washington	1.500	4,300	3,400	800	700	1,100	1,000	1,600	1,400
West Virginia	1.300	3,000	2,300	550	450	750	650	1,100	950
Wisconsin	1.450	4,100	3,200	750	650	1,000	900	1,400	1,200
Wyoming	1.550	4,800	3,800	900	800	1,200	1,100	1,800	1,600
Total		112,119	87,833	23,833	19,119	25,875	22,119	37,875	34,119

70 POUNDS AND OVER PER ACRE - 1954 FOR
 IN 1953, 1954

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UNITED STATES DEPARTMENT OF AGRICULTURE

SUMMARY OF THE PRODUCTION RECORD
 (in thousands of the United States Dollar)

State	Value per 100 lbs. of cotton	Value of cotton		Value of lint		Value of seed		Value of waste	
		1954	1953	1954	1953	1954	1953	1954	1953
Alabama	1.500	5,302	4,100	1,010	800	1,300	1,000	2,300	2,100
Arkansas	1.400	3,800	2,800	700	500	1,000	800	1,500	1,200
California	1.600	4,500	3,500	900	700	1,200	1,000	1,800	1,500
Florida	1.300	3,200	2,500	600	500	800	700	1,200	1,000
Georgia	1.450	4,800	3,800	1,000	800	1,300	1,100	1,900	1,700
Illinois	1.550	5,000	4,000	1,100	900	1,400	1,200	2,000	1,800
Indiana	1.400	3,500	2,800	700	600	900	800	1,300	1,100
Iowa	1.500	4,200	3,300	800	700	1,100	1,000	1,600	1,400
Mississippi	1.350	3,700	2,900	700	600	900	800	1,300	1,100
Missouri	1.450	4,600	3,700	900	800	1,200	1,100	1,800	1,600
Nebraska	1.500	4,300	3,400	800	700	1,100	1,000	1,600	1,400
North Carolina	1.400	3,600	2,800	700	600	900	800	1,300	1,100
North Dakota	1.550	4,900	3,900	1,000	900	1,300	1,200	1,900	1,700
Ohio	1.400	3,500	2,800	700	600	900	800	1,300	1,100
Oklahoma	1.450	4,400	3,500	800	700	1,100	1,000	1,600	1,400
South Carolina	1.300	3,100	2,400	600	500	800	700	1,200	1,000
South Dakota	1.500	4,200	3,300	800	700	1,100	1,000	1,600	1,400
Texas	1.400	3,600	2,800	700	600	900	800	1,300	1,100
Virginia	1.350	3,400	2,700	650	550	850	750	1,250	1,050
Washington	1.500	4,300	3,400	800	700	1,100	1,000	1,600	1,400
West Virginia	1.300	3,000	2,300	550	450	750	650	1,100	950
Wisconsin	1.450	4,100	3,200	750	650	1,000	900	1,400	1,200
Wyoming	1.550	4,800	3,800	900	800	1,200	1,100	1,800	1,600
Total		112,119	87,833	23,833	19,119	25,875	22,119	37,875	34,119

Regraded Unclassified

RECAPITULATION OF SILVER PURCHASED - BY MARKETS
 JUNE 19, 1934 TO DECEMBER 11, 1935

In listing the purchases on this schedule, the "Acts" they were made under have been disregarded and consideration given to dates, only so that the period shown represents period of the original purchases

Market	1934-June 19 to Dec. 31		1935-Jan. 1 to Dec. 11		Total		Refer to Page No.
	Ozs. .999 Fine (000's omitted)	Cost	Ozs. .999 Fine (000's omitted)	Cost	(000's omitted)	Cost	
New York	103,966	\$ 51,769,526.44	70,525	\$ 46,062,294.70	174,491	\$97,831,721.78	
Canada	-	-	81	59,599.80	81	59,599.80	
Europe (London)	80,995	40,772,481.85	379,721	246,222,345.80	460,716	287,094,927.01	
Far East:							
China (Shanghai)	19,506	10,427,997.50	50,000	32,092,303.40	69,506	42,520,300.90	
French Indo-China (Saigon)	-	-	4,170	2,981,967.00	4,170	2,981,967.00	
India	-	-	1,746	1,082,133.50	1,746	1,082,133.50	
Total Far East	19,506	\$ 10,427,997.50	55,916	\$ 36,156,403.90	75,422	\$ 46,584,401.40	
Mexico	11,649	6,174,841.00	60,844	39,749,287.50	72,493	45,924,128.50	
Grand Total	216,116	\$109,144,846.79	567,087	\$368,249,931.70	783,203	\$477,494,778.49	

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE February 15, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

The downward movement of the sterling rate was checked today after reaching a low of 3.94-1/4 at the opening. During the morning, the rate reached a high of 3.95-1/2. The closing quotation was 3.95.

Today the number of New York banks which report operations in sterling to the Federal Reserve Bank of New York was increased from four to six.

Sales of spot sterling by the six reporting banks totaled £639,000, from the following sources:

By commercial concerns.....	£ 216,000
By foreign banks (Europe, Far East and South America)..	£ 423,000
Total.....	£ 639,000

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

By commercial concerns.....	£ 260,000
By foreign banks (Europe, Far East and South America)..	£ 149,000
Total.....	£ 409,000

The following reporting banks sold cotton bills totaling £62,000 to the British Control on the basis of the official rate of 4.02-1/2:

£ 41,000 by the Guaranty Trust Co.
20,000 by the Bankers Trust Co.
1,000 by the Chase National Bank
<u>£ 62,000 Total</u>

The other important currencies closed as follows:

French francs	.0223-7/8
Guilders	.5312-1/2
Swiss francs	.2242-1/2
Belgas	.1685
Canadian dollars	13-5/8 % discount

There were no gold transactions consummated by us today.

The Federal Reserve Bank of New York reported that the Bank of Canada shipped \$4,712,000 in gold from Vancouver, British Columbia, to the Federal Reserve Bank, San Francisco, for account of the Bank of England. This gold

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will be sold to the U. S. Mint in San Francisco. The shipment is the first of its type to have come to our attention. It is possible that the gold may have been sent from Australia to Vancouver and was transhipped at that city.

The State Department forwarded to us cables stating that the following gold shipments were being made from Hong Kong:

\$ 1,184,000 shipped by the Chase Bank, Hong Kong, to the Chase National Bank, San Francisco.
 617,000 representing two shipments by the Chartered Bank of India, Australia and China, Hong Kong, to the Bank of California N.A., San Francisco.
 475,000 representing two shipments by the Banque Belge pour l'Etranger, Hong Kong, to the Bank of America N.T. & S.A., San Francisco.
 388,000 shipped by the National City Bank of New York, Hong Kong, to the American Trust Company, San Francisco.

\$ 2,664,000 Total

These shipments will be sold to the U. S. Mint in San Francisco.

The Bombay quotation for spot silver worked out to the equivalent of 39.57¢, up about 5/16¢.

The price fixed for spot silver in London was 20-3/4d, off 1/16d, and the forward quotation was unchanged at 20-3/4d. The U. S. equivalents were 36.85¢ and 36.63¢ respectively.

Handy and Harman's and the Treasury's prices for foreign silver were unchanged at 34-3/4¢ and 35¢ respectively.

We made four purchases of silver totaling 157,000 ounces under the Silver Purchase Act, all of which was new production from foreign countries, for forward delivery.



CONFIDENTIAL

Handwritten notes:
15 Feb 1940
H.M.S.

Handwritten: (p. 68)

15th Feb. 1940

SECRET

Notes for the Secretary of the Treasury on the
British foreign exchange position

1. In previous communications between the two Treasuries there has been no special mention of the British Empire gold production. This point is perhaps not very relevant to the subjects which have so far been discussed between the Treasuries. But it may be of interest to note that it is estimated that the sterling area (i.e. roughly the British Empire minus Canada, but plus Egypt and Iraq) will have a substantial adverse balance not only with the United States but also with the rest of the world, and that the adverse balance with the rest of the world will exceed the Empire's gold production. The balance has in fact been gravely affected not only by war purchases, but also by a fall in exports, by rising prices of imports (particularly oil), and by greatly swollen payments to neutrals for shipping, etc., which affect both the United Kingdom and the rest of the sterling area in their relations with countries other than the United States.

2. We feel that we must prepare for a war which may last three years or even more, and the drain on our gold and foreign exchange resources is bound to be on a strongly rising scale. It takes some time for purchases of munitions, etc., to make themselves felt. As manufacturing capacity in the

United Kingdom becomes more and more fully employed, we shall have to turn more to foreign countries for the additional purchases which will inevitably be required by our expanding fighting forces. This will represent a double drain, because the purchases will not only increase in volume, but also will have to be composed to an increasing extent of manufactured goods rather than raw materials, owing to the exhaustion of our own manufacturing capacity.

3. Our realisable assets, whether gold or securities, form for us a single pool, and it is not easy to formulate any exact policy as between the sale of gold and the sale of securities. The situation has changed in some respects since the outbreak of the war. In the first place we have realised that we cannot secure any advances against our dollar securities, and that we can only obtain money from them by outright sale, which requires more cautious handling. Secondly, our estimate of our net dollar requirements for purchases in the first year of war has already grown from about £100 million to nearly £140 million, and fresh proposals are constantly coming in. Thirdly, as we have already indicated, a number of unexpected demands for United States dollars have arisen. It is no longer possible to think that we could meet our requirements even in the first year without heavy shipments of gold.

4. The choice between selling gold and securities must, we feel, be determined largely by practical considerations. From first to last the

one factor which is of primary importance is the state of the United States stock market. On a good market we are happy to see securities realised, and we would consider ourselves ill-advised not to take advantage of it. On the other hand neither Government wishes to see the market broken by unduly forcing the pace. But it would be wholly remote from our intentions to rely at any time exclusively on gold unless there were the plainest evidence that securities could not be sold without ruining prices.

5. As was indicated in the first sentence of paragraph 5 of the Note for the Secretary of the Treasury delivered on the 1st February, 1940, the sales of gold and of securities have kept very close together up to date. We should be well content if this situation were maintained over a period, and this would be our general aim if and when securities are vested in His Majesty's Treasury. We should indeed be happy to see realisation maintained at about the November level of \$1 to 1½ million a day, though we feel doubtful whether the markets will be good enough for this in the months ahead.

6. But we would emphasize that our approach to the whole question is practical rather than theoretical and that the state of the market must remain the primary consideration. Day-to-day sales, whether of gold or securities, should not be interpreted as signifying any underlying change in our policy, which must remain flexible and adaptable if we are to make the best use of our limited resources.

STRICTLY CONFIDENTIAL
TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE February 15, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

Mr. Chen dropped in to see me this afternoon at 4:30. He had just come from negotiating further with Mr. Warren Pierson on the credit which the Export-Import Bank plans to grant China as soon as the bank's capital increase is ratified by Congress. Mr. Chen said the loan will be in the sum of \$20,000,000, for seven years at 3.6%. It will be recalled that the credit now outstanding is for five years at 4-1/2%. Against the new credit the Chinese Government will undertake to deliver 40,000 tons of tin, valued at \$800.00 per ton, totaling \$32,000,000.

Mr. Chen stated that the question of the tungsten held in Indo-China by the French has not yet been settled. The French allege that if a part of the tungsten is released for export to the United States the Americans may permit its reexport into Russian or German hands. Mr. Chen asked if the solution of this would not be for the American Government itself to buy the tungsten.

Mr. Chen stated that the French were absolutely opposed to any of the Chinese tungsten being released to Russia. The British were not opposed to such release, but this attitude helps little when it is recalled that the tungsten is in the hands of the French and not the British. Mr. Chen reminded me that China had been benefiting importantly from Russian financial assistance, consisting of three credits totaling \$250,000,000, against which China had been supplying tea, tungsten and other commodities to Russia. This agreement will now be endangered if China cannot make delivery of tungsten to the Soviet Government.

Mr. Chen is quite happy over the Export-Import Bank affair and will leave Washington on Saturday for two or three days of rest. He will be back in Washington next week, and hopes to have an early conversation with the Secretary on the question of tungsten.

B. M. S.

February 15, 1940.

Mr. Cushing, attorney for Bank of America, called my office this afternoon. I had my Secretary tell him that I was busy and would call him back.

In the meantime, I discussed the matter with Mr. Foley and Mr. Seymour as to whether I should talk with Mr. Cushing while the hearings on the Bank of America are being carried on. We decided that I should talk to him; make a record of the conversation and if he wanted a conference to tell him that it would be impossible to see him this week, as the Comptroller is out of town; wouldn't be back until tomorrow evening and probably not until Monday and that most of the people in the Comptroller's office are busy with the hearing and, therefore, would not be available.

The following is the conversation between me and Mr. Cushing, with Mr. Foley and Mr. Seymour present.

4:27 p.m.

Daniel

Bell: Hello.

Operator: Operator.

B: Is Mr. Cushing on there?

O: No. Wait, do you want him on this phone?

B: Yes, please.

O: Wait a minute.

(Brief pause.)

O: Go ahead.

B: Hello.

O.K.

Cushing: Hello. Good evening, Mr. Bell.

B: Hello, Mr. Cushing.

C: I called up Mr. Delano's office and find that he is out of town and will not be back until late tomorrow evening.

- 2 -

- B: That's right.
- C: We have drafted up a memorandum here that we can present to the Committee if you are agreeable to get them together either this afternoon or tomorrow, and we think it will be helpful.
- B: Well, I don't see how we can, Mr. Cushing. Mr. Delano being out of town;.....
- C: I see.
- B:he probably won't be here until tomorrow evening and probably won't be here until Monday.
- C: Is that so?
- B: Well, he might stay up there over the weekend. That was what he thought when he left; he wasn't sure about it. And then everybody is pretty well tied up here in the Comptroller's office.....
- C: Yes.
- B:in connection with this hearing that's going on, and I doubt if we could do anything about that before, say Monday.
- C: Well, would you suggest that we wait until then?
- B: I think that would be better.
- C: I beg your pardon?
- B: I think that would be better.
- C: Yes.
- B: And probably ought to get in touch with, say Delano, on Monday.
- C: Yes. Well, if you think that's desirable we'll do that.
- B: I do. I think it's much better. I don't think we can do anything else.

- 3 -

C: Yes.

B: Delano being out of town.

C: Yes. All right, thank you very much.

B: You're welcome.

C: Goodbye.

JR

PLAIN

London

Dated February 15, 1940

Rec'd 1:35 p.m.

Secretary of State,
Washington.

395, February 15.

FOR TREASURY FROM BUTTERWORTH.

In view of the present transitional stage of the British economy it seems worthwhile to report the price movements just published. Wholesale prices in January rose by 2 1/2% compared with December and by 27 1/2% compared with January 1939, the Board of Trade index numbers for the three months being 123.8, 120.9 and 97.2 respectively.

Despite the Treasury subsidy of over pounds 1,000,000 per week wholesale food prices last month increased by 3% on the previous month, the index numbers being 123.7 and 120.1. The rise compared with January 1939 when the index was 92.5 was 33 1/2%.

In the case of industrial materials and manufactures the advance on the month was 2.1% and that on the year 24%. Index figures were 123.8, 121.1 and 99.6 respectively.

Compared

-2- #395, February 15, from London.

Compared with August last the increase in all wholesale prices was 26.2%. For food the advance was 36.8%; for materials and manufactures it was 20.9%. The August index numbers were 90.4, 102.2 and 98.1.

Detailed rises compared with December 1939 are: coal 6.5 points, iron and steel 0.6 points, non-ferrous metals 8.5 points, wool 4.6 points, other textiles 5.1 points, chemicals and oils 3.2 points. There was no change in the case of cotton, the index figure for which was 122.4.

The rise for industrial materials and manufactures was confined to the first and third weeks of last month.

JOHNSON

HTM

JR

PLAIN

London

Dated February 16, 1940

Rec'd 12:03 p.m.

Secretary of State,

Washington.

379, February 16, 4 p.m.

FOR TREASURY FROM BUTTERWORTH.

Although the period prior to the close of the financial year at the end of March is the heaviest one the rate at which revenue is now coming in is exceeding both the Treasury's and the market's previous expectations. This revenue inflow together with the uneven incidence of treasury bill payments and maturities is mainly responsible for ^{the} ~~further~~ immobilization of funds in the hands of public departments as represented by the increase of nearly pounds 10.6 millions in public deposits in this week's Bank of England statement.

Owing to the action of the British monetary authorities in purchasing government securities to the amount of pounds 4.3 millions the effect of this lock-up on market resources has been lessened. The difference of pounds 6.3 millions has been about equally divided between bankers and other accounts. Thus bankers deposits--the bell wether of market credit--are only pounds 3.1 millions down at the reasonable level of pounds 105.5 millions. Currency notes

went

-2- #379, February 16, 4 p.m., from London.

went into circulation to the increased extent of pounds 530,000 which is against the usual trend, a year ago, for instance, there being a reflux of almost pounds 2 millions. Incidentally the latest statistical summary of the Bank of England shows that the upward movement in estimated circulation--that is in the hands of the general public--continues.

JOHNSON

RR



TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

OFFICE OF THE DIRECTOR

February 16, 1940

MEMORANDUM FOR THE SECRETARY

Concerning the question of tungsten and chrome raised by Mr. Purvis at a recent meeting in your office, there is at present no balance of funds available under the 1940 appropriation for critical and strategic materials to purchase chrome or tungsten ore.

However, in the pending Appropriation Bill \$12,500,000 is provided for critical and strategic materials for the fiscal year 1941, and there is at present in the Bill a proviso that \$2,500,000 of this amount will be available upon the passage of the Bill.

As soon as this legislation is disposed of immediate steps will be taken for the further purchase of critical and strategic materials, and it is not improbable that some of the money provided will be available for the purchase of chrome and tungsten ore, in which event immediate information will be furnished you.

H. E. Collins
Director of Procurement

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

AAA 68

DATE February 16, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Upon appointment, Mr. Pinsent, Financial Counselor of the British Embassy, called on me yesterday evening at 5 o'clock. He presented to me for the Secretary's strictly confidential information the attached Secret Notes on the British Foreign Exchange Position, dated February 15, 1940, which Mr. Pinsent had prepared upon instructions received from his Government subsequent to the visit of the British Ambassador with the Secretary on February 6. I thanked Mr. Pinsent for this memorandum, and told him that it would be brought to the Secretary's attention as soon as he returned.

Mr. Pinsent talked over two or three other points. He stated that Ambassador Kennedy had called on the British Ambassador this week and the question of vesting British owned dollar securities was raised by Mr. Kennedy. Lord Lothian let him know that the British will proceed shortly with the vesting of the first lot. Ambassador Kennedy reaffirmed his own view that only a small number of securities should be taken over by the British Government as the initial step, but had little more to say on the plan. While Pinsent feels that Kennedy has steadily been opposed to the plan as originally contemplated by Messrs. Whigham and Gifford, neither the British Embassy in this city nor Messrs. Whigham and Gifford on their return to England, have been able to confirm that the British delay in vesting securities resulted from Kennedy's influence. Pinsent told me that the few changes in the list of securities which will be vested on Saturday result principally from dividend dates. Pinsent has not yet received the final text of the press release which will be given out in London, presumably on Sunday, in regard to the vesting.

In connection with the taking over of securities, Pinsent told me that Gifford was having difficulty with at least one holder of American securities who owned U. S. Government Bonds, with a gold clause, which matured in 1933 prior to the Joint Resolution of Congress, and which have not yet been submitted for payment. The holder claims gold value. After consulting with my colleagues in the Treasury, I quoted to Mr. Pinsent the text of the Joint Resolution and told him that if the bonds in question were submitted now to the Treasury they would be paid on a dollar for dollar basis. If a more formal statement is required, either the British Embassy will make an inquiry in writing addressed to the State Department, or the holder of the bonds will be advised to communicate in writing with the Treasury Department.

I mentioned to Pinsent that the transcript of the British special account at the Federal Reserve Bank in New York was much thinner than the French transcript. He reminded me that the French had advanced considerably beyond the British in their purchase program in this country. Furthermore, all British purchases in this country were not yet being made through the Commission headed by Mr. Purvis. Pinsent assured me, however, that Purvis was continuing his efforts toward having a greater control over all purchases, and at least data in regard thereto. I suggested to Pinsent that either he or I might ask Mr. Purvis for the latest information on this point when he next comes to Washington.

TREASURY DEPARTMENT

69

INTER-OFFICE COMMUNICATION

DATE February 16, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Governor Harrison of the Federal Reserve Bank of New York telephoned me this afternoon at 3:40. He referred to a conversation we had had some months ago in regard to the hypothetical question of bank loans against gold. He stated that he had now been informed that a member bank has received a cablegram from Oslo, inquiring whether a private bank there could obtain a three-year loan against gold earmarked in New York. In answer to my inquiry, Governor Harrison did not know whether the gold in question would be gold which is now the property of the Norwegian Central Bank. The member bank is not willing to give the loan against gold held outside of the United States. Governor Harrison thought that we might profitably take this question into consideration at this time, when there is a growing concern over our accumulation of gold. He is of the opinion that such an operation as that in question might check to a certain extent sales of gold by foreign central banks. That is, if private banks in this country could make loans for which such gold is collateral, there would not be such a disposition or necessity to sell the gold to us.

Governor Harrison has let the member bank know that under present practice the operation in question is impossible. It was understood, however, that he would look further into the matter before the member bank cabled a reply to Norway. He asked whether the member bank should formally apply to the Treasury for a license or whether we preferred that he give a definite reply to the member bank on which its cable could be based. I promised to take this matter up upon the Secretary's return, and to give Governor Harrison our views on Monday if at all possible.



PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: February 16, 1940, 7 p.m.

NO.: 224

FOR THE TREASURY FROM MATTHEWS.

Today I had lunch alone with Rist. I found him somewhat preoccupied with what the situation would be in Europe after the war. He feels that inflation to an important degree is bound to come, despite all efforts - in recent weeks prices, agricultural and others, have risen noticeably here; however they have published no figures on this for fear irresistible demands for increases in wages would come from the labor element. Rist believes that inflation would be followed by an immediate collapse of prices upon cessation of the war, which would be somewhat in proportion to the length of the war and the rhythm of output.

END SECTION ONE.

MURPHY.

PARAPHRASE, SECTION TWO, TELEGRAM NO. 224 OF FEBRUARY 16,
1940 FROM PARIS

He said Europe would not be able to purchase from the United States, it would be impoverished. A demand for American goods was created following the last war with the devastation of France and Belgium, and the need of a rehabilitation. This will be lacking, in the absence of a similar devastation in this war to date at any rate. The effect of abrupt cessation of purchases by the Allies and the drop in prices he feels will be very serious for the economy of the United States as well. There is a strong possibility, he fears, that after the present war the world will be divided into three or more autarchic regions, namely, (1) France, Belgium, Holland and England; (2) Germany and central and eastern Europe; (3) the two Americas; and possibly the Far East would form another.

MURPHY.

PARAPHRASE, SECTIONS THREE AND FOUR, TELEGRAM NO. 224
OF FEBRUARY 16 FROM PARIS.

He feels that these separate autarchic regions would inherit the great natural drawbacks which are necessarily inherent in such systems, and which sow the seeds of serious discord, political and economic, for the future.

He expressed the hope that as a possible way to avoid this after the war there could be prompt devaluation of the currency; he said that this alone would permit return to the gold standard on a sound and lasting basis. After the last war it took many years to devalue the currency, but he said it might be possible to do this immediately after the present war, as the world is more devaluation-conscious now. He was quite positive in saying that there would have to be a return to a free gold standard if international trade is ever again really to flourish. Such return to the gold standard might be permitted by a speedy devaluation, and thus the post-war evils of the twenties avoided. He said that part of the cause of the latter lay in the efforts to maintain fictitious currency values in Europe, which drove gold to the United States and away from the continent of Europe. He said that it was nonsense for the British to have restored the gold standard in 1925, in view of their inadequate stocks of gold, and it was just as much nonsense to speak now of a sterling standard.

Rist

- 2 -

Rist expressed the belief that devaluation would permit, if not a redistribution of gold, at least a more satisfactory distribution of newly mined gold, with Paris and London functioning as gold centers once more. He did not mention the obvious economic or political repercussions upon the United States of devaluation of currency in Europe.

Rist finds that the functioning of the Monnet plan for cooperation between France and Great Britain is growing smoother and smoother, and he is pleased with it.

END SECTIONS THREE AND FOUR.

MURPHY.

PARAPHRASE, SECTIONS FIVE, SIX AND SEVEN. NO. 224
OF FEBRUARY 16 FROM PARIS.

He said that the Permanent Executive Committees are of use in holding down the hungry demands for purchases of supplies coming from ambitious or over-zealous ministers. However, in financial circles here he finds increasing anxiety over the growing rate of expenditures, particularly for purchases abroad. Reference: telegram No. 185 of February 8 from the Embassy. He would like to see a system of rationing instituted soon, both for its "social aspects" and in order to reduce consumption. He does not like the effect on morale of growing discontent because rich or favored persons can buy and hoard quantities of supplies of such things as soap and coffee, for example, when the poor or less favored people are not so much in a position to get such items.

As for the problems of his Ministry of Blockade, he said that their British friends unfortunately go on deluding themselves that by the use of economic pressure they can win the war in the long run, which was a serious mistake in his mind. Rist does not think the war can be won merely by exercising the blockade over a number of years and wearing Germany down - he said the reverse might eventually come about, with an active and successful German campaign by submarine and by air, and with the possible development of Russian transport and industry by Germany. He said that a victory by the military is necessary. On Tuesday evening

- 2 -

at my house Couve de Murville expounded the same view to the British Financial Counselor; the theory of the effectiveness of the blockade was upheld by Young.

Reference, telegram No. 180 of February 6 from the Embassy: During the period January 16-31 deposits in national (postal) savings banks were 365,000,000 francs, and 207,000,000 francs were withdrawn. This picture is somewhat less favorable than it was for the two weeks preceding.

The mid-month settlement on the securities market was effected yesterday without difficulty. The carry-over rate was $3/8$ percent compared with $7/8$ percent a month ago, and $1/2$ percent at the end of last month.

Today the market ended another dull week with the tone slightly firmer. There was an advance of from 10 to 75 centimes in rentes, except for the 1925 sterling exchange guarantee issue, which was down slightly.

It is reported by the Havas news agency that the new Dutch loan will be for a period of 40 years in the amount of 300,000,000 florins. It is to be issued at 100 with interest at 4 percent, subscriptions to open the twenty-sixth of February.

END OF MESSAGE.

MURPHY.

EA:LWW



TREASURY DEPARTMENT
WASHINGTON

OFFICE OF
COMMISSIONER OF INTERNAL REVENUE

ADDRESS REPLY TO
COMMISSIONER OF INTERNAL REVENUE
AND REFER TO

IT:P:CA
CAA

February 16, 1940.

REPORT FOR SECRETARY MORGENTHAU:

In regard to closing agreements under the Vinson-Trammell Act, the developments during the week were as follows:

The Midvale Company, Philadelphia, Pennsylvania:

At the request of the contractor, a conference was held on February 15, 1940, report of which has been rendered, and the contractor will file a letter with the Commissioner in regard to a desired ruling. The matter is mentioned in this report for the reason that one prospective Navy contract awarded Midvale (for armor plate) has not yet been signed; however, the contractor has not raised a question of agreement prior to signing and such potentiality is dormant at the moment.

Walter Kidde and Company, Bloomfield, New Jersey:

A conference was held on February 14, 1940, report of which has been rendered, and the contractor will file a request for a closing agreement pursuant to Press Release No. 18-79 in regard to the treatment of the cost of additional facilities required for a prospective Navy contract. Bids are to be opened on February 21, 1940, and Navy is requiring accelerated production.


Acting Commissioner.

IT:P:CA
CAA

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Commissioner.

CAA/MEA

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BUREAU OF FOREIGN AND DOMESTIC COMMERCE
OFFICE OF THE DIRECTOR

2/16/40

From DIRECTOR

To Hon. Henry Morgenthau, Jr.
Secretary of the Treasury

For

Sent to you at the request of Mr. Noble,
Under Secretary of Commerce.

James W. Young

(Inclosure - Notes dated 2/15/40, re
Economic Developments)

February 15, 1940

ECONOMIC DEVELOPMENTS

HIGH LEVEL OF EXPORTS reached in December was sustained in the opening month of 1940. Total exports of domestic merchandise \$357.9 million against \$357.5 million in December 1939--latter figure representing an increase of 25 percent as compared with November. Note sharp advance on accompanying chart.

The present year thus opened with -

Exports showing a slight increase over the high December total--70 percent larger than a year ago.

Export volume (value adjusted for price changes) at the highest figure since 1929--only slightly below the peak of that year. January 1940 and December 1939 index estimated at 140 (1923-29=100), compared with 143--the best quarter's figure for 1939.

Exports far in excess of imports--latter figures not yet available for January but in December merchandise export balance was \$121 million.

SIGNIFICANCE Export trade is extremely affording considerable support to the current business structure. January usually brings a seasonal decline; hence, seasonally adjusted index again advanced following the sharp rise of December.

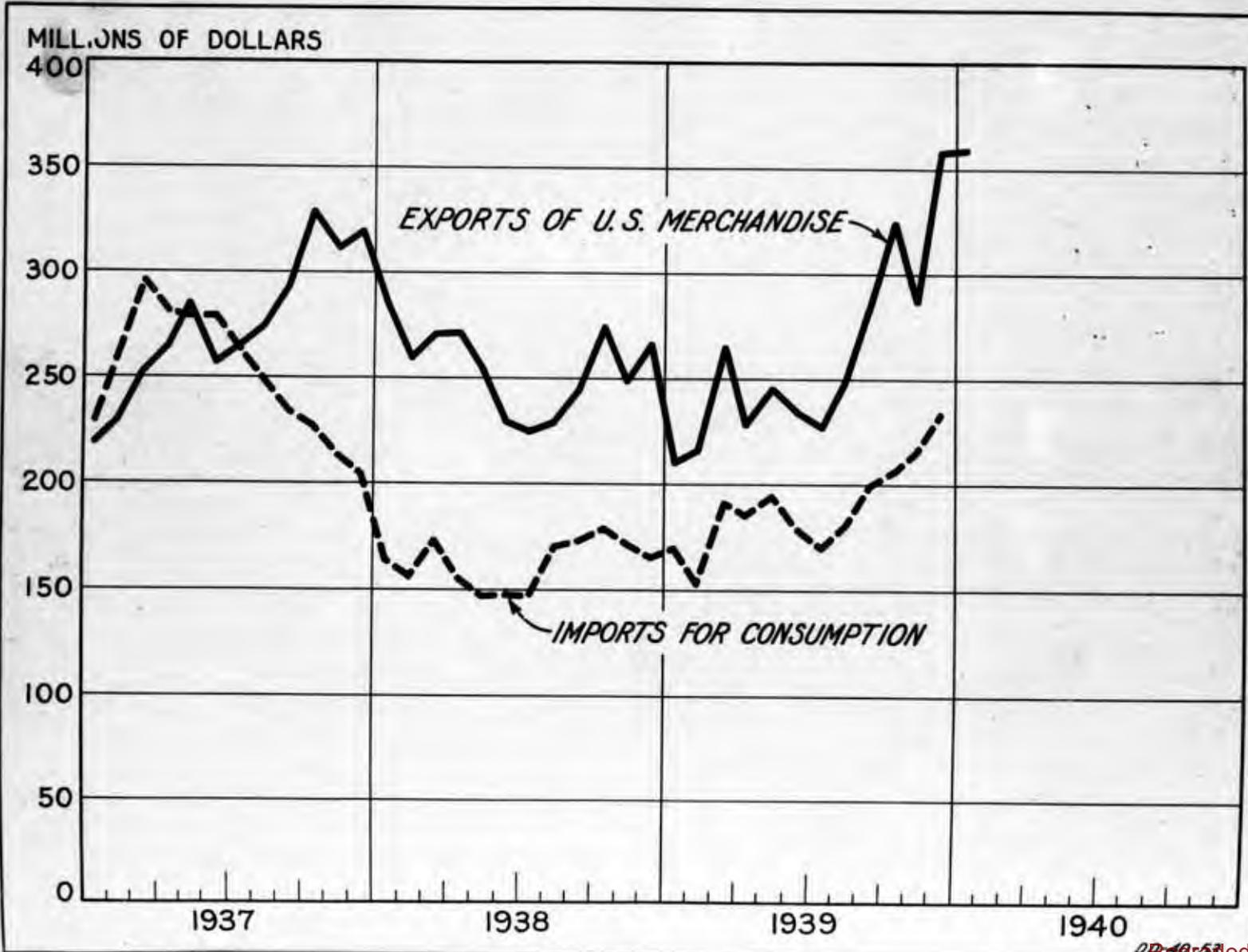
While volume is close to 1929 peak, the composition of the trade is much different today--less agricultural and automotive exports, but larger exports of aircraft, chemicals, metal-working machinery, etc.

OTHER EXPORT increase was major factor in the good January showing--movement exceeded 1,000,000 tons. January cotton exports valued at \$58.8 million against \$43.3 in December. All other exports combined showed a reduction of about the same amount, i.e., without the increase in cotton exports would have declined by about the usual seasonal amount (4 percent).

EXHIBITS:

Comparison of Cotton and Total Exports

Year	Total Domestic Exports (Million Doll.)	Cotton Exports (Million Doll.)	% of Total Exports
January 1936	195.9	35.1	17.9%
" 1937	219.1	37.8	17.3%
" 1938	285.8	44.7	15.6%
" 1939	310.3	58.8	18.9%
" 1940	397.9	58.8	14.8%



SIGNIFICANCE: Cotton movement is higher than in past two years for a combination of reasons—low volume of exports prior to present cotton year beginning August; low stocks of American cotton abroad; export payments and cotton shipments in exchange for rubber. It did not contribute a larger share of the total than in the opening months of either 1936 or 1937. Movement not expected to be sustained at this level for an extended period, though large volume of cotton awaited shipment at end of January.

SHIFTS in our commodity trade, as well as the magnitude of the increase, since the outbreak of war in Europe may be seen from the comparative data presented in Table I. Note that in the first five months of war, exports increased 29 percent, but that the changes for the major commodity groups ranged from a minus 14 percent for vegetable food products to an increase of nearly 200 percent for aircraft. For the two months of December and January the rate of gain in total exports was much higher—50 percent. The characteristics of the trade have not altered to a major degree in the past month or two—cotton as noted above being perhaps an exception. Major changes on the 5-month comparative basis—September-January 1939-40, and September-January 1938-39—follow:

Examples of declines - in percent -

Corn.....	28
Wheat and wheat flour.....	40
Fruits.....	7
Leaf tobacco.....	70
Crude petroleum.....	3
Autos, parts & accessories.....	7

Examples of major increases -

Aircraft.....	194
Industrial chemicals.....	81
Metals & manufactures.....	81
Metal-working machinery.....	36
Raw cotton.....	110

SIGNIFICANCE: War time conditions have shifted the foreign demands upon domestic industries to a considerable extent. Demand is heavy for the products of those industries providing basic materials or tools for war economy, and neutrals likely to experience delivery difficulties, as well as belligerents, are undoubtedly adding to their supplies. Repressive measures in belligerent countries—and special trade arrangements having a military basis—have cut deeply into some items of our trade—tobacco being the outstanding example.

- 3 -

A HIGH DEGREE of concentration of the export trade in particular products is shown for some of the major countries. This is true of the entire period since war started, as well as for January.

Examples of January situation -

Of the total exports to France, \$17 million was machinery and vehicles (\$12 million aircraft) and \$10 million was cotton.

More than half of the trade with the United Kingdom was accounted for by the same classifications, though demand here is more generalised than in the case of France.

Of the \$11 million of exports to the U.S.S.R., copper accounted for \$7 million, metal-working machinery for \$2 million and electrical machinery for \$1/2 million.

Two-thirds of the exports to Spain consisted of cotton and petroleum products.

SIGNIFICANCE: Conservation of financial resources abroad dictates purchasing by belligerents of only the more essential commodities, and this applies as well to neutrals with controlled economies. We are the best (and in some cases only available source) of many essential commodities. The trend thus far indicates that increased purchasing by belligerents will be largely confined to a relatively limited list of commodities.

INTERESTING is the fact that December and January show less unevenly distributed increases, by major geographical areas, than was true of the first three months of the war when temporary disruptions were important factors in the trade. Note from Table II that the gain for exports to all areas was 50 percent—for Europe 53 percent, for Canada and Oceania, 51 percent each, and for Asia, 47 percent. The major deviation is for South America, where the rise was 76 percent, and Africa where the increase was but 7 percent. The relative gains have widened in late months for each of the major regions.

For individual countries the variations are large within any one of these areas.

EXAMPLES: (Percentage changes for December-January 1939-40, ^{compared} with December-January 1938-39) -

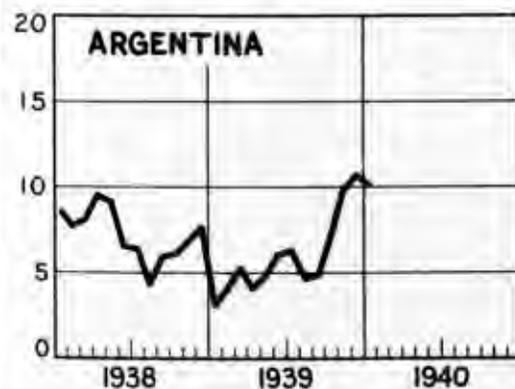
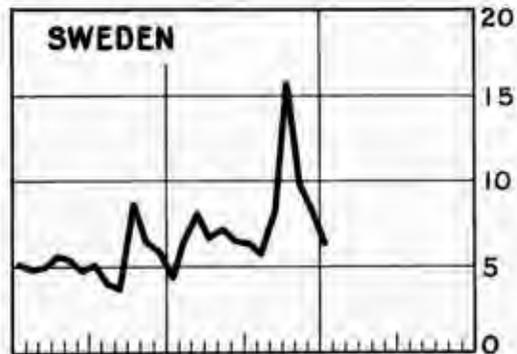
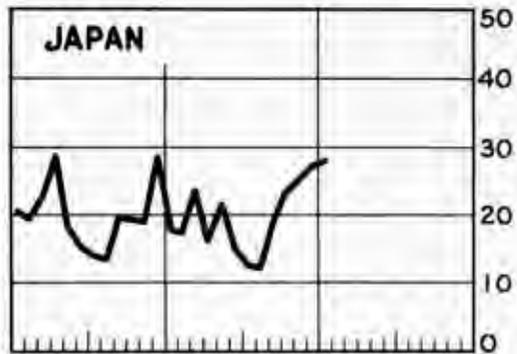
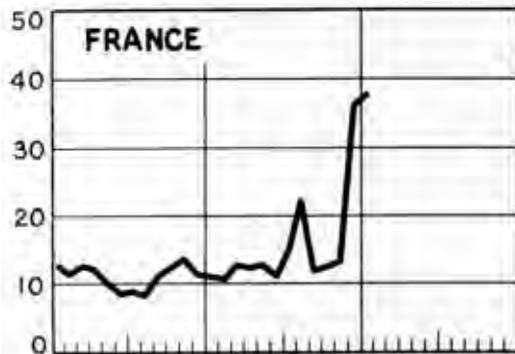
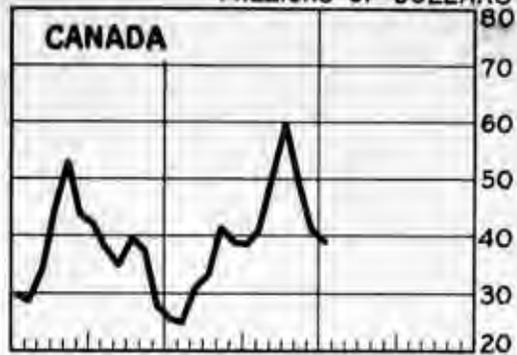
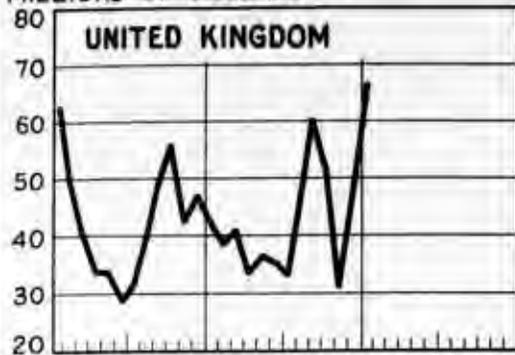
Europe:

France.....	+240
U.S.S.R.....	+118
Netherlands.....	+ 50
Belgium.....	- 19

EXPORTS

MILLIONS OF DOLLARS

MILLIONS OF DOLLARS



1938

1939

1940

1938

1939

1940

DD-20-54

Latin America:

Argentina.....	+ 94
Brasil.....	+ 67
Netherlands West Indies....	- 11

Asia:

China.....	+126
Japan.....	+ 21

SIGNIFICANCE: The general nature of the increase is attributable to a variety of influences, but basically it reflects the higher level of economic activity throughout the world now than a year ago. While this is traceable in large part to the war—directly or indirectly—our trade is not made up to any great extent of actual war materials (aircraft and gasoline are major items in the latter category). But the war has shifted demands to our factories and mines and it has increased the demands for essential raw and semifinished materials needed in a war dominated economy; it has raised business expectations in such neutral areas as Latin America as well as here; and it has generated protective and speculative purchasing in countries other than the United States. Diversion and advance purchasing is a major influence in Latin America since economic conditions there—though showing improvement—have not changed to the extent that one might judge by the increase in our exports to that area. Peace in Spain has reopened that market to us.

Table I

VALUE OF EXPORTS, BY GROUPS AND PRINCIPAL COMMODITIES
(In Millions of Dollars)

85

Exports	5 months		Percentage Change	Dec. 1938 and Jan. 1939		Percentage Change
	Sept.- Dec. 1938 and Jan. 1939	Sept.- Dec. 1937 and Jan. 1938		Dec. 1938 and Jan. 1939	Dec. 1937 and Jan. 1938	
Total exports of U. S. Merchandise	1,244	1,609	+29.4	477	725	+52.1
Animals and products, edible	32	36	+12.5	13	16	+23.1
Meats and food	28	23	-21.4	9	12	+37.7
Animals and products, inedible	17	20	+17.6	8	8	-0.5
Leather	5	7	+40.0	2	3	+50.0
Leather manufactures	4	4	+0.0	1	2	+100.0
Vegetable food products and beverages	122	105	-13.1	47	36	-23.4
Cann	17	12	-29.4	7	4	-42.9
Wheat and wheat flour	23	15	-34.8	13	7	-46.2
Canned vegetables	2	1	-50.0	1	1	+0.0
Fruits (dried, and canned)	4	5	+25.0	2	3	+50.0
Other products	4	5	+25.0	2	2	+0.0
Vegetable products, inedible	126	89	-29.4	44	34	-22.7
Automobile coatings	3	2	-33.3	2	2	+0.0
Leaf tobacco (bright flue-cured)	2	2	+0.0	2	2	+0.0
Textile fibers and manufactures	14	26	+85.7	5	12	+140.0
Raw cotton	10	25	+150.0	10	12	+20.0
Wool and paper	3	1	-66.7	0	0	-0.0
Small products	15	16	+6.7	6	6	+0.0
Nonmetallic minerals	19	23	+21.1	7	7	+0.0
Coal	22	24	+9.1	9	5	-44.4
Petroleum and products	12	16	+33.3	8	11	+37.5
Crude petroleum	10	17	+70.0	6	11	+83.3
Metals and manufactures	150	271	+80.7	61	119	+96.7
Iron and steel-mill products, total	73	138	+87.7	30	67	+123.3
Iron and steel scrap	17	23	+35.3	7	7	+0.0
Other alloys	7	13	+85.7	2	3	+50.0
Aluminum, except manufactures	3	14	+350.0	1	3	+200.0
Copper, refined	3	5	+66.7	1	2	+100.0

(Continued on next page)

Regraded Unclassified

VALUE OF EXPORTS, BY GROUPS AND PRINCIPAL COMMODITIES
(In Millions of Dollars)

- continued -

Exports	5 months,		Percentage Change	Dec. 1938: Dec. 1939		Percentage Change
	Sept.-Dec. 1938 and Jan. 1939	Sept.-Dec. 1939 and Jan. 1940		and Jan. 1939	and Jan. 1940	
Machinery and vehicles	322	397	+23.4	156	201	+27.6
Machinery, total 2/	190	225	+18.7	75	99	+31.8
Electrical machinery and apparatus	41	48	+15.9	17	20	+18.6
Radio apparatus	10	11	+2.2	4	4	+0.0
Power-generating machinery	5	7	+25.7	2	3	+53.3
Construction and conveying machinery	9	9	+0.6	4	4	+0.0
Metal-working machinery	41	56	+36.0	17	24	+41.7
Engines and parts	17	18	+6.2	5	6	+21.1
Automobiles, parts and accessories	107	100	-7.1	51	49	-3.9
Motor trucks and buses	27	24	-8.2	12	13	+8.3
Passenger cars	42	30	-28.6	22	15	-31.1
Parts for assembly	18	22	+19.7	8	11	+37.5
Aircraft, engines and parts	34	72	+109.3	11	34	+209.1
Chemicals and related products	56	90	+61.3	20	37	+85.0
Industrial chemicals and specialties	23	42	+80.6	8	17	+112.5
Miscellaneous	44	45	+2.1	17	18	+5.9

1/ Statistics included for January 1940 are preliminary and subject to revision.

2/ Includes industrial machinery, electrical apparatus, agricultural implements, office and printing machinery, railroad equipment and vehicles other than automobiles and aircraft.

Source: U. S. Department of Commerce.

UNITED STATES EXPORTS (domestic value) TO LEADING COUNTRIES
(In Millions of Dollars)

87 Table II

	12 months, Dec. 1939 & Jan. 1940	12 months, Dec. 1939 & Jan. 1940 (1)	12 months, Sept.-Oct. 1939-1940	1939 & 1940 (2)	1939 & 1940 (3)	Percent Change
Total	1,844	1,689	120.4	477	718	+ 50.1
Europe, total	828	642	19.5	207	317	+ 53.4
Germany	59	112	100.0	22	74	+ 232.1
Italy	64	1	-99.8	20	—	—
Great Britain	226	208	+ 9.3	88	116	+ 31.0
France	29	28	-14.9	11	9	- 18.2
Netherlands	57	54	+ 48.7	18	22	+ 22.2
Belgium	10	12	+ 38.0	4	8	+ 100.0
Denmark	5	6	+ 3.2	2	2	- 3.1
Sweden	9	22	+ 144.3	3	8	+ 165.7
Poland	29	48	+ 66.8	10	18	+ 44.0
Union of Soviet Socialist Republics	23	26	+ 50.4	10	22	+ 118.2
Czechoslovakia	24	24	+ 41.0	9	17	+ 78.6
Yugoslavia	2	2	+ 3.4	1	1	- 22.0
Greece	4	18	+ 357.1	1	10	+ 714.0
Northern North America, total	168	243	+ 44.4	54	81	+ 50.7
Canada	165	239	+ 44.8	52	80	+ 51.2
Northern North America, total	109	180	+ 59.6	44	68	+ 54.5
United States	21	48	+ 34.6	12	18	+ 18.2
Iceland	24	40	+ 62.4	11	17	+ 57.7
Far East, total	17	18	+ 7.6	6	6	- 10.0
China	11	17	+ 54.5	4	5	+ 25.0
Japan	29	48	+ 64.8	12	19	+ 57.5
Philippines	10	15	+ 50.1	4	7	+ 75.0
India	12	24	+ 39.9	8	11	+ 37.5
Australia	19	21	+ 64.7	8	14	+ 75.0
New Zealand	2	2	+ 0.0	1	1	- 0.0
Other Asia	2	2	+ 0.0	1	1	- 0.0
Africa, total	215	205	+ 22.7	91	125	+ 48.9
South Africa	22	48	+ 64.5	12	28	+ 133.3
Egypt	100	124	+ 18.2	48	68	+ 41.7
Sudan	28	48	+ 38.9	18	21	+ 16.7
Other Africa	65	85	+ 30.8	13	17	+ 30.8
Latin America, total	68	82	+ 19.1	28	35	+ 25.0
Mexico	25	25	+ 21.4	12	17	+ 41.7
Other Latin America	43	57	+ 32.6	16	18	+ 12.5
Oceania, total	48	51	+ 3.4	21	23	+ 9.5
New Guinea	20	21	+ 3.4	12	14	+ 16.7

Statistics included for January 1940 are preliminary and subject to revision. For purposes of comparison, trade with Austria, Czechoslovakia and Poland are included with that for Germany in all periods shown.

Source: U. S. Department of Commerce.

Japan: Our confidential reports from Tokyo contain abundant evidence of the economic strain in the country.

With the development of economic control since the outbreak of the hostilities in China, there has been a definite tendency to grade the law, which is manifested not only in the fact that business firms obtain certain commodities by disregarding various official regulations, but also that many individuals have found a considerable source of profit from such operations.

The seriousness of the shortage of coal is evidenced by the fact that the government has found it necessary to restrict the production of staple fiber (which is one of the most important textile industries) during the first quarter of 1940 by 35 percent as compared with 1939.

On December 28 a measure was adopted authorizing the expropriation of factories and workshops engaged in the production of products for military use. It is believed that this law would make it possible for the government to take over foreign as well as domestic plants.

The shortage of electric power has become so acute that it was decided by the cabinet to invoke emergency regulations to restrict the use of power from February 10. The new restrictions will provide a 50 percent reduction for the Tokyo area, and 25 percent for the important industrial Osaka area.

Germany: The increased exports from Germany to neutral neighboring countries during the first months of the war were due to the fact that those countries were handling German goods in anticipation of future difficulties. These countries were ready to buy almost anything that they could obtain for immediate delivery, and paid the prices demanded by the German manufacturers. It is believed that the German exporters will not be in a good position to carry on on the same scale, this being particularly true of the German textile industry, which is very much handicapped by the shortage of cotton and wool.

Soviet Union: A significant decline in the Soviet exports through the Black Sea is shown in the recently announced figures for 1939. The exports of grain have decreased from 1,727 thousand tons to about 268 thousand tons, and petroleum products from 630 thousand tons to 517 thousand tons. There has been only a slight reduction in the exports of other minerals, which consist largely of manganese.

United Kingdom: The recently established Manchester branch of a large American soap concern has received very extensive orders and is operating on a twenty-four hour basis, using three shifts. This represents largely a replacement of shipments from the Canadian branch of the same concern.

Brazil: In connection with the efforts to increase our imports from Latin American countries, it is interesting to note that the Brazilian exports of precious and industrial diamonds in 1939 were nearly 2 million dollars, as compared with a little over half a million dollars in 1938. The United States took over 50 percent of the Brazilian diamonds in 1939, and the chief American importer of Brazilian diamonds has informed the Bank of Brazil that he intends to purchase about 5 million dollars worth in 1940.

Bureau of Foreign and Domestic Commerce,
February 15, 1940.

WEEKLY WHOLESALE PRICE INDEXES

(1926 = 100)

Group	1939			1940		Percent increase Feb. 10, 1940 from	
	Feb. 11	Aug. 26	Sept. 15	Feb. 3	Feb. 10	Feb. 11, 1939	Aug. 26, 1939
All commodities	76.6	74.8	79.3	78.8	78.5	2.5	4.9
Farm products	66.7	61.1	69.7	69.6	68.9	3.3	12.8
Foods	71.1	66.7	75.5	71.7	70.9	- 0.3	6.3
All commodities other than farm products and foods	80.4	80.4	82.4	83.6	83.5	3.9	3.9
Hides and leather products	92.7	92.6	98.3	103.0	103.2	11.3	11.4
Textile products	65.6	67.4	71.4	75.3	75.3	14.8	11.7
Fuel and lighting materials	73.7	73.2	74.1	73.3	73.0	- 0.9	- 0.3
Metals and metal products	94.5	93.5	94.9	95.6	95.5	1.1	2.1
Building materials	89.1	89.7	90.7	93.1	93.1	4.5	3.8
Chemicals and drugs	76.1	74.2	77.1	77.5	77.3	1.6	4.2
House-furnishing goods	86.7	87.0	87.1	89.5	89.5	3.2	2.9
Miscellaneous	72.8	73.1	76.1	77.1	77.1	5.9	5.5
Raw materials	70.3	66.2	73.0	73.2	72.7	3.4	9.8
Semimanufactured articles	74.6	74.4	82.0	80.3	80.1	7.4	7.7
Finished products	80.2	79.3	82.3	81.7	81.4	1.5	2.6

Source: U. S. Department of Labor, Bureau of Labor Statistics.

SELECTED COMMODITY PRICE SERIES

Commodity	Unit	1939			1940	
		Feb.15	Aug.30	Sept.13	Feb.7	Feb.14
Electrolytic, N.Y.	\$ per lb.	11 1/4	10 1/2	12	11 1/4	11 1/4
prompt shipment, N.Y.	do	4.85	5.05	5.50	5.00	5.00
M. Y.	do	4.84	5.14	6.64	5.89	5.89
traits, N.Y.	do	45	49 3/4	75	45 1/8	45 5/8
plantation, N.Y.	do	16 1/8	16 7/8	22 1/2	18 7/8	19 3/16
light native cows, Chicago.	do	10	11	15	13 1/4	13 1/4
13-15 denier, 78% scriplene, N.Y. \$ per lb.	\$ per lb.	2.07	2.72	3.21	3.25	2.95
middling, av. 10 markets	\$ per lb.	2/ 8.52	8.53	9.01	10.55	10.66
cloth, 60x64, 38 1/2 inches, N.Y. \$ per yd.	\$ per yd.	4 1/8	4 5/8	5 3/8	5 1/4	5 1/8
tops, Mar. 1940 futures, N.Y. \$ per lb.	\$ per lb.	3/81.5	4/81.5	4/111.9	100.0	98.0
raw, 96°, duty free, N.Y.	do	2.75	2.92	3.70	2.80	2.82
Acera, N.Y.	do	4.50	4.38	6.45	5.37	5.35
Santos, No. 4, N.Y.	do	8	7 5/8	7 3/4	7 1/2	7 1/2
Cash, Chicago.	do	6.50	5.65	7.75	6.12	6.10
seed oil, Mar. 1940 futures, N.Y. \$ per lb.	\$ per lb.	3/ 6.64	4/ 5.61	4/ 7.30	6.93	6.98
May 1940 futures, Chicago.	\$ per ba.	5/67 7/8	4/67 1/4	4/ .85 3/8	.98	.99
good and choice, 220-240 lbs., \$ per cwt.	\$ per cwt.	6/ 8.10	6.88	8.13	5.38	5.43
beef, medium, 750-1,100 lbs., \$ per cwt.	\$ per cwt.	8.75	8.38	8.88	8.50	8.25

Final.

Price is for February 14; no quotation for February 15.

Each 1939 futures.

September 1939 futures.

1939 future.

Weights weighing 220-250 pounds.

Notes: All commodities, with the exception of wool tops, cottonseed oil, hogs, and sheep, are taken from the Journal of Commerce; wool tops and cottonseed oil are taken from the Wall Street Journal; and hogs and steers are from the U. S. Department of Agriculture, Bureau of Agricultural Economics.

COMPOSITE PRICES OF PIG IRON, STEEL SCRAP, AND FINISHED STEEL

Date	Pig Iron ^{1/}	Steel Scrap ^{2/}	Finished Steel ^{3/}
	(Dollars per gross ton)		(Cents per pound)
1939			
February 14	20.61	15.00	2.286
August 29	20.61	15.62	2.236
September 19	22.61	19.25	2.236
October 3	22.61	22.50	2.236
1940			
February 6	22.61	17.08	2.261
February 13	22.61	17.00	2.261

^{1/} Based on average for basic iron at Valley furnace and foundry iron at Chicago, Philadelphia, Buffalo, Valley and Southern iron at Cincinnati.

^{2/} Based on No. 1 heavy melting steel quotations at Pittsburgh, Philadelphia, and Chicago.

^{3/} Based on steel bars, beams, tank plates, wire, rails, black pipe, sheets and hot-rolled strip. These products represent 85 percent of the United States output.

Sources: The Iron Age.

PRICES OF PETROLEUM PRODUCTS - IN BULK AT GULF COAST PORTS

Date	Motor gasoline, 65 octane	Light fuel oil, number 2	Diesel oil, ships' bunkers,	Bunker oil, grade "0", cargoes
	(Cents per gallon)		(Dollars per barrel)	
1939:				
February 15	4.50 - 4.75	3.375 - 3.625	1.45	0.675 - 0.70
August 30	4.75 - 5.00	3.375 - 3.75	1.45	0.75 - 0.80
September 13	6.25 - 6.875	3.875 - 4.00	1.45	0.825 - 1.00
1940:				
February 7	5.50 - 6.00	4.125	1.70	1.00 - 1.05
February 14	5.50 - 6.00	4.125	1.70	1.00 - 1.05

Source: Platt's Oilgram.

ENCLOSURE WITH TO

SECRETARY OF TREASURY
OFFICE

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE February 16, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Although the foreign exchange market had the appearance of being quiet today, the reported volume of sterling transactions was greater than that of yesterday. As shown below, there was a large amount of sterling offered for account of South American and European banks. The Federal Reserve Bank informed us that the greater part of these offerings was absorbed by New York branches of Japanese banks. After opening at 3.95-1/2 bid, sterling advanced to a high of 3.96-1/8 by mid-afternoon and closed at 3.95-7/8.

Sales of spot sterling by the six reporting banks and the Federal Reserve Bank of New York totaled £789,000, from the following sources:

By commercial concerns.....	£ 209,000
By foreign banks (South America and Europe).....	£ 530,000
By Federal Reserve Bank of New York (for Yugoslavia).....	£ 50,000
Total.....	£ 789,000

Purchases of spot sterling amounted to £501,000, as indicated below:

By commercial concerns.....	£ 232,000
By foreign banks (Far East, Europe and South America).....	£ 269,000
Total.....	£ 501,000

The following reporting banks sold cotton bills totaling £24,000 to the British Control on the basis of the official rate of 4.02-1/2.

£ 11,000 by the Guaranty Trust Co.
8,000 by the National City Bank
5,000 by the Bankers Trust Co.
£ 24,000 Total

The Federal Reserve Bank of New York purchased 50,000 Swiss francs, 30,000 guilders and 20,000 belgas for the Bank of Latvia.

The other important currencies closed as follows:

French francs	.0224-3/8
Guilders	.5310
Swiss francs	.2242-1/2
Belgas	.1682
Canadian dollars	13-1/2% discount

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

\$10,000,000 from the Bank of France
<u>175,000 from the National Bank of Belgium</u>
\$10,175,000 Total

The State Department forwarded to us a cable stating that the Westminster Bank, London, shipped \$105,000 in gold to the Central Hanover Bank and Trust Co., New York, for sale to the U. S. Assay Office.

The Bombay quotation for spot silver was equivalent to 39.37¢, off 3/16¢.

In London, the price fixed for spot silver was unchanged at 20-3/4d, and the forward quotation was 20-11/16d, off 1/16d. The U. S. equivalents were 36.92¢ and 36.59¢ respectively.

Handy and Harman's price for foreign silver was unchanged at 34-3/4¢. The Treasury's price was also unchanged at 35¢.

We made five purchases of silver totaling 256,000 ounces under the Silver Purchase Act, all of which was new production from foreign countries, for forward delivery.



CONFIDENTIAL

COPY FOR SECRETARY

*MRS
Chambers*



DEPARTMENT OF STATE
WASHINGTON

February 17, 1940.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses a copy of a paraphrase of telegram no. 63 from the American Embassy at Rio de Janeiro, dated February 16, 1940, with reference to Brazilian bonds.

Enclosure:

From Rio de Janeiro,
no. 63, February 16,
1940.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro

NO.: 63

DATE: February 16, 1940

STRICTLY CONFIDENTIAL

Reference is made to my telegram no. 60 of February 14. I do not like the suggestion made by Aranha which is set forth in that telegram. On identical loans the interest rates which would be paid in the first year to American and British bondholders, respectively, would be as follows: 2 and 2.5 in Grade I; 2.9 and 3.5 in Grade II; 1.44 and 1.14 in Grade III; 1.15 and .8, Grade VI, State of São Paulo 8-percent loan; .9 and .6 in Grade VII.

Under the plan based on the last year of the Aranha plan we would receive \$675,000 more than we would receive under the Costa plan. However, it might be difficult to make the situation clear to our public:

It would be necessary to make the public understand that payment to United States bondholders was being made on the basis of 41.25 percent plus of the Aranha plan's final year, while payment to European bondholders was being made at the rate of 50 percent of the whole Aranha plan, with first-year payments made at the rate of

-2-

50 percent of that plan's first year. It is my opinion that to the press and the public the terms granted to the European bondholders might sound better.

This morning Aranha offered another plan. This would provide that during the four years of the new plan interest and amortization for Grades I and II would be paid at 50 percent and 40 percent, respectively, of the rates provided under the last year of the Aranha plan, and that during the respective four successive years of the new plan interest for Grades III to VII, inclusive, would be paid at 40 percent, 41 percent, 43 percent and 50 percent of the rates of the last year of the Aranha plan.

Under this plan we would get more money than under any of the other plans which have been discussed; it is obvious that this plan would cost the Brazilian Government considerably more than any of the other plans.

Since final action will have to be taken very soon to avoid Costa's being provided with an excuse for delaying the carrying-out of the new plan beyond April 1, when the semi-annual coupon on many American bonds falls due, I strongly recommend that the Department let me have a prompt expression of its opinion.

CAFFERY

EA:EB

Rangoon, Burma, February 16, 1940.

CONFIDENTIAL

SUBJECT: Volume of Materials Transported
Over the Burma-Yunnan Highway.

THE HONORABLE

THE SECRETARY OF STATE,

WASHINGTON, D. C.

SIR:

I have the honor to refer to this Consulate's confidential despatch No. 223 of September 22, 1939, entitled "Transportation of Materials Over the Burma-Yunnan Highway". Since the date of the submission of that despatch the Rangoon contractor referred to therein has continued to transport military supplies by truck from the railhead at Lashio to depots across the Chinese border. Although earlier in the year he carried materials to Mangshih and even as far as Pao-shan during June and July, he has operated only between Lashio and Chefang since the end of September, 1939, when motor truck services of the Chinese Government are understood to have resumed the exclusive transportation of war materials over the highway west of Chefang.

The following table shows the number of individual truck-trips made by the vehicles of the Rangoon contractor from Lashio to various depots in China during each month since his fleet commenced operations in the latter part of February 1939, when

the

- 2 -

the highway was opened to traffic, until January 15, 1940. Inasmuch as each truck is understood to have been filled to its two-ton capacity, but not overloaded, the number of tons carried may be computed by multiplying the number of trips by two. Although some slight differences appear in these figures and those reported previously, it is believed that the statistics in the following table are accurate.

	<u>Lashio - Chefang</u>		<u>Lashio - Mangshih</u>		<u>Lashio - Paoshan</u>	
	<u>Trips</u>	<u>Tons</u>	<u>Trips</u>	<u>Tons</u>	<u>Trips</u>	<u>Tons</u>
February	24	48	(None)	---	(None)	---
March	513	1,026	(None)	---	(None)	---
April	983	1,966	32	64	(None)	---
May	867	1,734	(None)	---	(None)	---
June	459	918	97	194	41	82
July	39	78	70	140	168	336
August	147	294	231	462	(None)	---
September	180	360	57	114	(None)	---
October	569	1,138	(None)	---	(None)	---
November	856	1,712	(None)	---	(None)	---
December	1,014	2,028	(None)	---	(None)	---
January 1 to 15, 1940	<u>398</u>	<u>796</u>	<u>(None)</u>	<u>---</u>	<u>(None)</u>	<u>---</u>
Total	<u>6,049</u>	<u>12,098</u>	<u>487</u>	<u>974</u>	<u>209</u>	<u>418</u>

Total round-trip mileage	1,633,230	160,710	122,274
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The above figures show that, in the course of 6,745 truck-trips over a total round-trip distance of 1,916,214 miles, 13,490 tons of supplies were carried from Lashio into China between the latter part of February, 1939, and January 15, 1940, by the Rangoon contractor's truck fleet, which constituted the principal transportation unit operating over the border during that period. Although these supplies consisted chiefly of munitions, they included some quantities of gasoline and miscellaneous products, such as construction materials

materials. In addition to the supplies transported by this fleet, materials were hauled at irregular intervals as conditions warranted by a number of independent contractors operating a truck or two each. It is roughly estimated that these contractors carried about 2,000 tons of materials between the latter part of February and the end of May, 1939, when most of them discontinued operations, because the amount of traffic over the highway did not warrant their services. They hauled small quantities during June and July and are understood practically to have ceased operations during August and most of September, when damage to the surface of the road during the rainy season greatly impeded transport services. In the fall they are understood to have resumed the carriage of supplies on a limited scale at irregular intervals, but statistics relating to the quantities they transported during that period are not available. About the middle of December, when the volume of goods stored at Lashio justified the use of additional trucks, they increased their services and are reported to have made an average of twenty truck-trips a day out of Lashio from December 15, 1939, to January, 1940. Calculating upon a basis of an average load of two tons a trip, it is estimated that they transported approximately 1,200 tons of supplies into China between those dates. It is regretted that exact figures relating to quantities carried by the independent contractors are not available, but it is hoped that the foregoing table and statistics may provide an indication of the volume of traffic over the highway at various periods since it was opened.

The storage depots at Lashio are reported to be filled to capacity, and transport services are understood to be operating over the border with frequency and regularity. It is believed that there will

continue

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to be considerable traffic on the highway in the near future.

During the dry season the road is reported to have become very rough and uneven, particularly in the section running through Burma. In some sections in China heavy stones have been placed on the highway in order to improve the foundation. It is expected, however, that the surface will be in much better condition during the next rainy season than it was in the last.

Respectfully yours,

Austin C. Brady,
American Consul.

Distribution:

1. In quintuplicate to Department.
2. Copy to American Embassy, London.
3. Copy to American Embassy, Chungking.
4. Copy to American Consulate General, Calcutta.
5. Copy to American Consulate, Yunnanfu.

800
WLP/cp

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE February 16, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 10 o'clock this morning Mr. Livesey called me from the State Department. He said that Secretary Hull desired to know the situation with respect to the silver market. I told Livesey that our purchases of silver had been rather heavy on two days last week following the announcement that the Sub-committee of the Senate was working on a bill to prohibit purchases of foreign silver by this Government. I added that the purchases had become lighter this week, particularly after word had been given out that the Silver Committee in the Senate would take no action on the Sub-committee's report pending receipt of statements from the Departments of State and Treasury. I explained to Livesey that the Treasury price of 35¢ was being regularly paid and that this was the level established last June. I also explained to him the Handy and Harman rate of 34 3/4. In answer to his inquiry in regard to the London market, I explained that silver could only be imported there under license and that I was not aware of any silver having been shipped from this country to London subsequent to the placing of the silver embargo by the British last Autumn. I likewise explained the Indian situation. I gave Livesey the top and bottom quoted for silver in London from February 1 to February 16.

I asked Livesey if he knew just why this information was requested. He said that Fels had asked him to get it since Secretary Hull had received an urgent request from Senator Townsend therefor. I told Livesey that it was our understanding that the Silver Committee expected to hear from both Secretary Hull and Secretary Morgenthau, and that we were busy here getting data together for Secretary Morgenthau's return on Monday. I suggested the strong desirability of the two Secretaries conferring. Livesey seemed to feel, however, that his Department might go ahead and indicate the international relations factors which entered into this question.

J.M.F.

In this communication see also memo from Mr. Cochran dated 2/1/40.
W.C.B.
BK 240 p. 389

February 16, 1940

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To: The Secretary

From: Mr. Bell

Supplementing Mr. Cochran's attached memorandum of February 16, 1940, I had a telephone call from Mr. Duggan about 10:30 A.M. today advising me that Secretary Hull had received a telephone call from Senator Townsend, in which he asked the Secretary his views regarding the Townsend Bill - to prohibit further purchases of foreign silver - and the Secretary wanted to reply that so far as the foreign policy of the State Department is concerned there is no reason why the bill should not pass. In discussing this matter in his office, the Secretary conferred with Under Secretary Welles who told the Secretary of my conversation with him earlier in the week, during which I advised him that I had talked with the President about the matter and it was the President's views that the legislation should not go through at this time for reasons which are stated in my recorded conversations with Senators Barkley and Wagner. I told Mr. Duggan that I thought the Secretary should say to Senator Townsend that it is his understanding from reading Press reports that the Senate Committee will ask both the Secretary of State and the Secretary of the Treasury for their views on the Townsend Bill and the two Departments are now studying the matter and will be prepared to submit a report within the next week or ten days. He said he would again talk with the Secretary and call me back.

In about ten minutes he did call back and stated the Secretary had decided to say to Senator Townsend that while the subject was primarily one for the Treasury Department he felt that the two Departments should get together and discuss the whole subject of foreign silver purchases and he would advise the Senator after those conferences.

sub

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro, Brazil

DATE: February 17, 1940, noon

NO.: 64

Reference is made to telegram of February 16, No. 63, from the Embassy.

In another discussion last evening with regard to his last suggestion for a settlement of the debt, Aranha said positively that if we have no objection to it the Government of Brazil is definitely willing to go through with it.

If we will assent to it, Aranha said that the Brazilian Government would simply make an announcement that they had reached a final decision to use that basis for resuming service on the debt.

It is my opinion that this offer of the Brazilian Government is as good as any that could be secured from them just now.

CAFFERY.

EA:LWW

Noted

H. M. Cochran

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**DEPARTMENT OF STATE
WASHINGTON**

In reply refer to

FA 811.515 Gold Purchase/158

February 17, 1940.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits the enclosed communication for consideration and such action as may be required.

Attention: Mr. H. Merle Cochran,
Room 281, Treasury Building.

2-A

Noted

R. Hawkey

M. P. D.

Bombay, India, December 29, 1939

SUBJECT: Shipments of Gold From Bombay

THE HONORABLE
THE SECRETARY OF STATE,
WASHINGTON.

SIR:

I have the honor to refer to the Department's instruction of December 6, 1934 (File No. 811.515 - Gold Purchase/158), entitled "Consular Invoices Required for Importations of Gold, with Certain Exceptions", and to furnish the following information regarding three shipments of gold from Bombay for which consular invoices were certified at this office during the week ended December 29, 1939.

These shipments were not reported by telegraph since the stated value of the gold covered by the invoices was less than \$100,000. The following are details concerning the shipments:

Shipped by the Comptoir National d' Escompte de Paris, Bombay, to the Chase National Bank of the City of New York, New York, as merchandise not purchased, on the steamship President Marce which sailed from Bombay on December 8, 1939, ounces 2,950; invoice value Rs. 330,750-0-0; consular invoice certified on December 22, 1939.

Shipped by the Netherlands Trading Society, Bombay, to the Chase National Bank of the City of New York,

- 2 -

San Francisco, California, as merchandise not purchased, on the steamship Small which sailed from Bombay on December 23, 1939, cunes 1,119 3/8; invoice value Rs. 127,199-15-0; consular invoice certified on December 23, 1939.

Shipped by the Netherlands Trading Society, Bombay, to the Chase National Bank of the City of New York, New York, as purchased merchandise, on the steamship Bordeaux Maru which sailed from Bombay on December 18, 1939, cunes 1,868 3/8; invoice value Rs. 211,409-8-0; consular invoice certified on December 23, 1939.

Respectfully yours,

Howard Donovan
American Consul

A true copy of
the original
[Signature]

621.11/621.5
GWL-cu

In quintuplicate to the Department of State.
Copy to the Consulate General, Calcutta.

DO NOT WRITE IN THESE SPACES
TECHNOLOGICAL SERVICE
COAST GUARD LINE

RECEIVED 10 JAN 1940

RECEIVED 10 JAN 1940

NATIONAL POWER POLICY COMMITTEE
INTERIOR BUILDING
WASHINGTON

Dear Ed,

I have sent the enclosed statement to Jack Robertson, Norris' Secretary, but have asked him to check the statement, referring to what happened at the Treasury, with you before using it.

Yours,
Ben -

Mr. Krock has questioned the conclusions drawn from Mr. Krock's own article by Senator Norris in his letter to Chairman Frank of the Securities and Exchange Commission that a group of insiders got together to put over Mr. Hanes as trustee of Associated Gas and Electric before the bankruptcy proceedings were filed. Mr. Krock can do little better than suggest that the bankruptcy proceedings preceded the deal. But even that does not seem to be the case.

Mr. Krock stated in his article that the holders of the assets and liabilities of Associated "decided in a series of informal meetings that their choice for trustee was Mr. Hanes."

The Associated filed its petition in bankruptcy on January 10 at Utica, New York. Senator Norris has inquired of the Treasury when Mr. Hanes discussed with Secretary Morgenthau the matter of Mr. Hanes' accepting the trusteeship of Associated, and has been reliably informed that the matter was discussed between Secretary Morgenthau and Mr. Hanes on January 11. The Secretary of the Treasury cannot recall whether the matter was or was not earlier discussed. But it is clear that if before January 11 the holders of the assets and liabilities of Associated had already had a series of informal meetings to discuss their choice for trustee, had already decided on Mr. Hanes, and had already communicated their choice to Mr. Hanes, the groups promoting Mr. Hanes certainly must have been at work prior to January 10, the date of the bankruptcy proceedings. Certainly all these things occurred long prior to the transfer of the case to the Southern District of New York.

- 2 -

It is difficult therefore to understand Mr. Krock's statement in reply to Senator Norris' letter, that the chronological order was: "first came the bankruptcy proceedings, then the suggestions and endorsements of Mr. Hanes as trustee, then his visit to Mr. Morgenthau to determine if the Secretary objected, then the public representation to the court by Mr. Cummings and others."

But the amazing thing about this later statement of Mr. Krock's is his candid admission that Mr. Hanes' name was presented to the court by Mr. Cummings and others. This makes it clear that Mr. Cummings, who is known to be counsel for the Hopson family interests, was one of the group which selected Mr. Hanes, and apparently was one of the group which presented the name to the court. Mr. Krock speaks of "public representations to the court." But there has been no public representations to the court, and if such representations were made, they must have been made privately.

Mr. Krock's later statement therefore does not in any way alter the conclusion which Senator Norris drew from Mr. Krock's article. Indeed Mr. Krock's statement corroborates and strengthens the conclusion that Mr. Hanes was selected by special groups with special interests seeking to dominate the trusteeship, and that efforts were made to commit the court to a particular trustee in advance of public hearing and without consultation with the S.E.C.

February 17, 1940
12:15 p.m.

Daniel
Bell:

Good morning. How are you?

Arthur
Purvis:

Good morning. I'm sorry to trouble you on a Saturday morning.

B: Well, I'm sorry to be so slow but I've been tied up in conferences.

P: Yes, I know. It's a busy world.

Mr. Bell, I have received an extremely important cable from the other side.

B: Yes.

P: On the subject of a big program. Do you know what I mean?

B: Yes.

P: The indications in it are that whereas it's not a concrete and final and definite thing at all, nevertheless it's moving forward hopefully.

B: Uh-huh.

P: And I think presently we'll have one or two people here with a good deal of power to decide technical phases.

B: I see.

P: Now, I felt this, that the cable -- I -- I feel that the Secretary would like to see the cable, in effect, and as a matter of fact there are a number of points in it that I would like to take up with him or with you if he's not there. Now, I think -- the cable only arrived at two a.m. this morning so.....

B: Yes.

P:it's very recent.

B: Yes.

- 2 -

P: I'm wondering whether he's going to back at the beginning of the week or not.

B: So far as I know he'll be here Monday morning.

P: Oh, I see.

B: And that's the last word I had from him.

B: Well now, I -- I have not been down to Washington this week through pressure of other things largely though I know our people have been indirectly getting in touch with you in connection with this terrific tax difficulty, and that tax difficulty will also come into this program I think.

B: Oh, it will?

P: Yes. I see it looming up in this cable.

B: I see.

P: And I wanted to mention that to you. Now.....

B: Let me ask you this.....

P:I wonder whether -- I suppose there is nothing at this stage on a Saturday that we can do. I'm better to leave it until I -- until Monday morning and come down to Washington on Monday, if the Secretary can see me or -- or you can see me if he can't.

B: Well one of us can see you I'm sure, and I'm quite certain the Secretary will be here and will want to see you.

P: Yes, I think he will because he has been so interested in this program. ✓

B: That's right. Well, there isn't anything that.....

P: I have some other rather important matters that I'd like to talk with him too. Well now I'll get in touch with his office in regard to the possibility of an appointment, shall I?

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B: You'll be in Washington on Monday?

P: Well, I thought I would make it contingent upon his ability to see me and that I would either fly down on Monday morning after hearing from him if I can't fix it up today, you see? I can always get there in a couple of hours, and I have -- as a matter of fact, if I can spend Monday here I like to do it because we have our meeting of the Anglo-French Purchasing Board that day. But this is so important that if he wants -- if he can see me on Monday I shall break away from that altogether.

B: Well, I'm certain that he would see you if you wanted to come down but I think that.....

P: Then I think what I'll try and do is to rearrange, if I can, the Anglo-French Purchasing Board meeting for first thing in the morning and fly down at mid-day.

B: Well I'm sure that he'd want to see you but on the other hand if you've got these meetings scheduled it might give him an opportunity to.....

P: Well now.....

B:clean up what's accumulated here in his absence.

P: Well now this is really what I had a little bit in mind in ringing you as to whether -- there would bound be -- knowing what happens to my desk in two days, I can imagine what happens to his in seventeen.

B: That's right, he has a number of problems to discuss on Monday.

P: Yes.

B: And he probably could give you a little more time if you would make it Tuesday.

P: I think then in that case I shall work that way and on the other hand I may, perhaps, have a little talk with him on the telephone if he wants to and give him in a very general way the situation.

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B: I think that would be fine.

P: Good.

B: Fine.

P: Now then in that case I think I better get in touch with Captain Collins and give him a little bit of the same picture, just by telephone, because I'm very anxious that any word that comes through shall first get to the Treasury.

B: All right. Can I switch you?

P: Yes -- well now, one other thing before you go off. On the taxation thing, do you see any hope in any of these discussions that the lawyers have had, Mr. Bell.

B: I haven't been in touch with them on the details.

P: No.

B: But I had a little discussion with Sullivan.....

P: Yes.

B:and I think Sullivan still feels that the agreements don't give anybody what they want. I'd rather he'd answer for himself but that's just the general impression I got. But I think that on Tuesday in discussing this whole matter that probably Sullivan better be present.

P: Yes.

B: So that he could give his version of the conferences that have gone on.

P: Very definitely. Actually, you see, what has happened is this: That that very important item I considered as out of order.

B: Yes.

P:which, as I say, is worrying my life out, because it has lions on the back of it, I have just

- 5 -

not been able to sign the contract at all.

B: I see.

P: Because it has been impossible to sign an undertaking for another Treasury, or for two other Treasuries rather, which is indeterminate in nature.

B: I see.

P: You see what I mean?

B: Yes.

P: Otherwise -- it's not the -- it's not the payment of the lump sum in the final analysis if you want something that will prevent your taking it, but it's hardly pertinent, apparently, which the Treasury can do because of fear of the terrible public criticism if the thing did pyramid in some way; to sign an undertaking which might be a pyramiding undertaking subject to legislation outside the control in another country.

B: I see. I think.....

P:

B: I think when you're down here that you better discuss that in a little more detail with John Sullivan.

P: I will. I will.

B: I think that's fine. Well, then we'll see.....

P: Thank you very much indeed.

B: We'll see you Tuesday.

P: Thank you.

B: And shall I switch you to Harry Collins?

P: If it could be done I'd like to very much.

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B: I think it can; just hold on a minute.

P: Thanks.

Operator: Yes, sir.

B: Would you give Mr. Purvis to Harry Collins?

O: All right, sir.

B: Thank you.

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Rio de Janeiro

NO.: 33

DATE: February 17, 1940, 3 p.m.

CONFIDENTIAL

Reference is made to your telegram no. 60, dated February 14, 1940, 10 p.m.

Careful consideration has been given by the Department to the new suggestion made by Aranha. It is noted by the Department that although a greater percentage of coupon would be paid to American holders of bonds in Grades III to VI than would be paid to Europeans holding bonds in those grades, the Europeans, since they hold sterling bonds in Grades I and II, would be paid 50 percent of coupon and amortization while Americans who hold dollar securities which are precisely similar would be paid only 41.25 percent. Undoubtedly the United States public would react unfavorably to any debt offer made by the Brazilian Government which would make a discrimination of this kind in favor of European bondholders in connection with Federal and coffee realization securities; especially in view of the statements which the Brazilian authorities have made repeatedly to the effect that American bondholders would receive at least as favorable treatment

-2-

treatment as that accorded to European bondholders, the Department would be unable to approach the Foreign Bondholders Protective Council with a view to securing its favorable reception of the plan.

It appears that a fairly equitable and reasonable distribution as among all the parties concerned is provided by the grading relationship in the final year of the Aranha plan. Therefore, in so far as distribution among the grades is concerned, no objection would be interposed by the Department to any plan which, as regards dollar bonds, was based on the last year of the Aranha plan, provided that as regards percentage of interest and amortization, treatment accorded to Europeans in no (I emphasize no) grades exceeded that accorded to United States holders of bonds in the same grades. If a unilateral offer should be made by Brazil to resume payments on such a basis and the Brazilian Government should offer to American holders of dollar bonds the percentage suggested (i.e., 41.25 percent for the initial year of the new plan) of the final year of the Aranha plan, the Department will do its best to secure as favorable a reception as possible for the offer from the Foreign Bondholders Protective Council, which, except for the suggestions made by it which were reported in the

Department's

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Department's telegram no. 18 of January 25, has not given any indication of its attitude.

With reference to your telegram no. 63, dated February 16: As we understand your telegram the suggestion made by Aranha on February 16 would change the grading relationship which was established under the Aranha plan of 1934 so as to provide throughout the four years of the new plan (1) 50 percent of the interest for bonds in grades I and II during the last year of the Aranha plan, and (2) 40 percent of the amortization for grades I and II during the last year of the Aranha plan. However, it is also possible to interpret your telegram to mean that under the suggestion made by Aranha on February 16 the grading relationship provided by the Aranha plan of 1934 would be altered as regards grades I and II with the result that grade II would be slightly demoted for the purpose of providing uniform service of 50 percent of contractual interest and amortization for Grade I. The Department hopes that the first interpretation mentioned above is the correct one but it does not feel that it is necessary to make objection to the proposal in either case if it would serve to straighten out the difficulties on the side of the European bondholders, which it appears have

have delayed the announcement of the resumption of
Brazilian debt service under the new provisional basis.

HULL

EA:EB

TO THE PRESIDENT
EXECUTIVE SECRETARIAT
STATE DEPARTMENT

12 11 PM - 61 927 CG

RECEIVED
STATE DEPARTMENT

TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE February 17, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

The foreign exchange market was very small. Sterling opened at 3.96 and on some small Japanese buying the rate rose to 3.96-3/8. It subsequently receded and closed at 3.96.

Sales of spot sterling by the six reporting banks totaled £184,000, from the following sources:

By commercial concerns.....	£ 29,000
By foreign banks (Europe and South America).....	£ 155,000
Total.....	£ 184,000

Purchases of spot sterling amounted to £97,000, as indicated below:

By commercial concerns.....	£ 62,000
By foreign banks (Europe).....	£ 35,000
Total.....	£ 97,000

The following reporting banks sold cotton bills totaling £32,000 to the British Control on the basis of the official rate of 4.02-1/2.

£ 13,000 by the Irving Trust Co.
10,000 by the Chase National Bank
9,000 by the Guaranty Trust Co.
£ 32,000 Total

The other important currencies closed as follows:

French francs	.0224-1/4
Guilders	.5309
Swiss francs	.2242-1/2
Belgas	.1682-1/2
Canadian dollars	13-1/2 % discount

We sold \$2,000,000 in gold to the Central Bank of the Republic Argentina, which was earmarked for its account at the Federal Reserve Bank of New York.

CONFIDENTIAL

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

\$3,424,000 from the Netherlands, shipped by the Netherlands Bank to the Federal Reserve Bank of New York to be earmarked for account of the Netherlands Bank.

563,000 from Switzerland, shipped by the National Bank of Switzerland for account of the B.I.S., the disposition of which is unknown at the present time.

512,000 from India, shipped by the National City Bank, Bombay, to the American Trust Co., San Francisco, for sale to the U. S. Mint at San Francisco.

\$4,499,000 Total

The State Department forwarded to us cables stating that the following gold shipments would be made:

\$ 669,000 from Calcutta, representing two shipments by the French Bank to the Chase National Bank, San Francisco.

589,000 shipped by the French Bank to the Guaranty Trust Co., New York.

553,000 from Calcutta, shipped by the National City Bank to the American Trust Co., San Francisco.

375,000 from Calcutta, shipped by the French Bank to the French American Banking Corporation, San Francisco.

220,000 from Calcutta, shipped by the Netherlands Society to the Chase National Bank, San Francisco.

579,000 from England, shipped by Sharps & Wilkins to the National City Bank, New York.

\$2,985,000 Total

The shipments consigned to San Francisco will be sold to the U. S. Mint there, and those consigned to New York will be sold to the U. S. Assay Office in that city.

In a report received from the Federal Reserve Bank of New York showing deposits for account of Asia as reported by the New York Agencies of Japanese banks on February 14, such deposits totaled \$37,940,000, an increase of \$1,019,000 since the last report as of February 7. Of this amount, \$27,348,000 represented deposits with the Yokohama Specie Bank by its branches in China. The overdraft on the books of the Yokohama Specie Bank in New York for account of its head office in Japan was \$80,966,000, a decrease of \$98,000 since February 14.

B. M. F.
CONFIDENTIAL

February 17, 1940
10:35 a.m.

Eddie

Greenbaum: I see. Well, Tom is here in New York, --

Daniel

Bell: Well here, Ed's coming in now.

G:the thing to the Comptroller. Hello?

B: Yes.

G: Now, getting us up to date on this first, did anything happen yesterday at that hearing?

B: Let me ask Ed a minute.

(Bell talks aside to Mr. Foley.)

Ed tells me that the hearing was adjourned yesterday until Tuesday and he thinks that Tuesday we'll clean it up.

G: It'll be closed then?

B: Yes.

G: Well how.....

B: The other thing that happened that you might like to know about is that Mario and Cushing went over to the Federal Reserve Board and tried to see Eccles and John McKee.

G: Just one minute, Danny, I think I'll go on a telephone where Tom can hear too.

B: Swell!

G: Just one second, if you don't mind.

B: Yeah.

(Brief pause.)

Operator: Did you want me Mr. Bell?

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- B: No, Mr. -- Mr. Greenbaum is getting on a double phone.....
- O: All right.
- B:so Mr. Smith could come on.
(Brief pause.)
- B: Hello.
- G: Hello.
- B: Yeah.
- G: I'm sorry, Dan, I wanted to come in a room where we could both hear.
- B: Is Tom there now?
- G: Yeah, we're both here. Tom's on too.
- B: Well, I started to tell you what happened yesterday. I say, Mario and Cushing went down to the Board and tried to see Eccles and John McKee. And Leo had gone there first to try to convince Eccles that he should not see these people.
- O: Yes.
- B: That we should see -- all of us should see them together. Finally Eccles sent word out that he couldn't see them so Mario went back home to California, but Cushing either right then or later asked if he couldn't just say a word to Eccles and Eccles went out and saw him and he told Eccles that they had a program which they would like to submit to this informal committee that has been meeting. And the only thing we got out of that program so far -- told us yesterday was that they would be willing to put up 30 million dollars in capital within 90 days and the 8 million reserve we ask on the real estate they wanted to cut to 5.....
- G: They want that cut to 5 million?
- B: 5 million, but leave in the provision that they had convinced the Comptroller that he was wrong or the

- 3 -

5 million would be written off within a certain time - I think a year although they didn't specify it.

Now, those are the -- the latest developments.

G: In other respects would -- they would agree to the program?

B: No, I think that the program that they wanted to submit was probably some comments and criticisms of the items. But how much detail they went into we don't know and I don't think Eccles got a copy of the program. If he did we didn't hear about it.

G: Let me ask you this: That 30 - 90 days, would that be from RFC or preferred stock or what?

B: Well, we don't know. The last conference we had with them they asked us if we had any objection to common stock and we said no that we didn't care where the capital came from as long as there was 35 million capital. Well then they wanted up to July 1 and we said that that was a different proposition and we'd have to take that under consideration along with all of the other matters to be discussed.

G: Yeah.

B: But we wouldn't agree - we thought that there ought to be 35 million immediately and then if they sold common they could retire the preferred, but we did indicate to them that we would consider a definite date for putting in 35 million; in other words, get a commitment.....

G: Yes.

B:from Jesse to buy 35 million worth of cap -- preferred stock on a certain date. We said July 1 seems a little far off, we might agree on some other date, but -- and in the meantime they could sell common and the 35 million would be reduced on that date by the amount of common that they had sold.

G: What did they say about the dividend policy, Danny?

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B: That's one thing that they argued a little about and not much said about it; but every time they talked about it they got away from it. But I think we convinced them that we weren't trying to control absolutely their dividend policy except that they must set up these reserves. And they accused us, in a few cases, of trying to manage their bank and we said, "No, we're not trying to manage your bank but we're certainly trying to get you to follow good banking practice." But there wasn't much said about the dividend policy, but I think they understood that they had to set up these reserves before they could pay dividends and they had to set aside their bond profits until the profits equalled the premiums.

C: Well, Cushing is still there?

B: He's still in town and is going to stay here next week.

C: What's the next move? Are they going to submit formal program then to this committee, so-called?

B: How's that?

C: Is the next move that they are going to submit a definite program?

B: That's what they'd like to do. They said they were a little disappointed that we wouldn't see them this week. When they called me on Thursday, I think it was, I told them I didn't think that we could carry on any further discussions until this hearing was over and they should call Delano on Monday to see whether or not we could get together again. But Ed just tells me that he heard that Mario was in town last night, although we were told yesterday that he was going back to the coast. I understand Leo saw him last night although we -- we also understood that Cushing was going to stay here and try to settle this thing.

Tom K.
Smith:

Well, Danny, I saw John McKee and had a long talk with him up here.

B: How's that?

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- S: I saw John McKee.
- B: Yes.
- S: And of course he's very, very anxious to hold the front and stay together.
- B: Yeah.
- S: And just -- and just bends over himself in -- in expressing his appreciation of the way that you've devoted yourself to it.
- B: Um-hm. Well.....
- S: I'm planning to go home unless there's some reason why I should come down there. I don't see any reason for it, do you?
- B: No, I don't, Tom. But we don't think that it's doing any harm letting these people sit around and wait a little while. Now we bent every effort to try to get them to discuss this program before this hearing started and they wanted to discuss everything else but the program; told us what good boys they had been and all that, that had very little bearing on the program that we had laid out. I don't think it hurts to let them sit here for a few days.
- S: It doesn't hurt at all as long as you keep the door open.
- B: Well, I think the door is still open although I should like to see these hearings wound up before we re-open the door.
- S: When will the last -- you'll have them lasting through Tuesday?
- B: Tuesday Ed says.
- S: That'll finish it?
- B: He thinks it'll be wound up Tuesday, yeah.

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- G: And they've given no indication yet about coming into the hearing at all, is that it?
- B: Well, they've definitely said that they would not come into the hearing.
- G: Yeah.
- B: In writing, yeah.
- G: They have?
- B: Yeah.
- S: Well, that's all to the good as far as this -- working out the program and your so-called sanctions go, isn't it?
- B: Ah.....
- G: Well, I feel.....
- B: Well, I don't know whether that's all to the good or not.
- G: I beg pardon.
- B: I don't know that that's all to the good.
- G: Well I mean as far as making the record goes in case you have to do anything with us and what you want to do. In other words, you're in the same position now on Tuesday night as you would be after a six month's period. I'm not disappointed in that - on the contrary, because if you don't mind just -- even to think of -- even at the risk of being repetitious I want to emphasize this: The whole idea of the hearing and all this stuff was to give us a weapon to make them come down and talk. Now you've got that and you've pretty near finished as far as how far you could go on the program. In a week or so, after being a little more patient with them, you'll know just the yes or no how they stand. Isn't that true? Hello?
- B: Yes, I think that is true, but I think that it would have been far better for everybody concerned if they had come in to the hearing and tried to make their

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record in the hearing rather than in these conferences. They had -- that would have given them a chance to answer everything that we had, and now that answer isn't there and we still have the charge that the Treasury is being quite arbitrary in many of these matters, and the only place they are being answered is informal -- in informal conversations.

- G: Well I may be wrong, but I would think as a matter of public relation the charge of being arbitrary is completely annihilated. When you have this hearing is set up with an outside examiner and they just fail to come there. I can't see that they'd get very far on the charge of arbitrariness from now on. I mean, if you ever have to take the action.
- B: Uh-huh.
- G: Well anyway, what I was going to say is, the big thing is that you neither want a Section 30 proceeding nor the publication of the report, and therefore you've got them in a position, or at least you will have within a week or so, of a definite thing from you and that's the furthest they will go and then I should think your position would be an ultimatum there. They will do this or that unless, and if they don't then you will be required to have the examiner's report acted on.
- B: Yeah.
- G: I don't know how Tom feels, but that's the way.....
- S: That's exactly the way I feel. The publication of the report is the last resort.
- B: How's that?
- S: I say, the publication of the report is the last resort.
- B: Well, I think we've got to take the report of this examiner and weigh it and then determine from there what the next step is.
- G: That's right.

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- B: Whether he'd -- whether they'll decide it under 30 or publish the report, or both; or whatever else there is to do.
- G: If in the meantime you could make a deal with them, get them to put in the 35 million and set up this reserve -- I don't think it makes any difference whether it's reserve or charge-off, do you?
- B: Well, I think a charge-off is -- is better from the standpoint of the picture, but then I don't see that we hurt our position any in agreeing to reserve with the understanding that they will show us that the reserve is wrong, and if they don't show us why it will be written off within a period.
- G: That's right.
- B: I see no objection to that.
- Well, let me ask you -- you fellows this: What is your recommendation with respect to resuming these informal conferences with them that they want to continue.
- G: My feeling is yes. I see no reason why that couldn't couldn't and shouldn't be done. But it should be definitely made clear to them that on such and such a date you'd -- it'll have to conclude with them saying yes or no if they are going to do the things that you put up to them and you would then have your program maybe modified in some way from what you've already done by leaving in the things that they've said they will agree to.
- B: Yeah. Do you think that they ought to continue even while the hearing is going on? In other words, could we have these conferences say Monday and Tuesday with the final hearing on Tuesday?
- G:until your hearing is concluded.
- B: How's that?
- G: I think you're right not to have that until after Tuesday.
- B: Uh-huh.

- G: Finish your hearings first.
- S: Yes.
- B: I see.
- S: Finish your hearings first and then the -- the line in which you're having a conference, or the basis on which they are is -- now the examiner will be submitting his report pretty shortly in order to enable the Comptroller to decide what he wants to do on the basis of that report, if you have anything definite to suggest that you're willing to do with a signed agreement to do it, the Comptroller will consider that in connection with it all.
- B: Yeah.
- S: And a definite time limit on everything, I think.
- B: In other words, a definite time limit on the informal conferences.
- S: And the period in which they will give you a specific report; I mean, a specific agreement -- commitment to a program.
- B: Yeah. Of course if we -- if we go in to a definite program and agree that on the capital -- addition to the capital, they should really put in something, shouldn't they, to show good faith before the end of the 90 days.
- S: Oh, hell, long before, yes.
- B: Well that -- that's the way Ed feels about it I'm sure.
- S: Do you mean put in the new capital?
- B: Well at least part of it before the end of the 90 days to show their good faith.
- S: Yes.
- B: If we get over this 90-day period and then we may start all over and have -- have another program, another hearing.

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- G: Yes, well that's just what you don't want to do.
- B: That's right.
- G: Would it be possible to do this: If you have an informal conference with them after Tuesday and then insist upon their giving you something in writing, definitely?
- B: Well, I think you might insist upon it. I don't know whether you'd get it or not?
- G: Well.....
- B: It's hard for us to tell how much bluff there is in this whole procedure from their standpoint. We think there's a lot of bluff in it. We haven't been able to tell just how much bluff. They've been getting away with murder for so long, not only in this case but in a previous connection with the state banking department, that they can't understand why there's such a stiff attitude here now.
- G: Well, the stiffer it seems to them then their bluffing will stop because they're just playing for time.
- B: Well, I think that's right.
- G: I think that's
- B: They certainly played for time up until these hearings started. I think they wanted to find out what we were going to do about the hearing if they didn't show up.
- G: Well they.....
- B: We told -- we showed them that we were going on with it and make a record and then they came back and wanted to continue the hearings.
- G: Yeah. Well they should see that that hearing is a damn serious thing and that's the reason I feel that you're right in not meeting with them until after it is concluded.
- B: Yeah.

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- G: And then there's -- the whole tone of your meeting would be well now, we're going to get a report from the examiner. If you've got anything you want us to submit we're willing to sit down with you and talk, and that will be considered by the Comptroller to give you a definite answer immediately on that.
- B: Yeah.
- G: And the Comptroller is also considering the examiner's report in case we're not getting together.
- B: Yeah.
- G: That's the weapon you've got. Well, that's about all I.....
- B: Well, I think what we'll do is -- the Secretary will be back Monday and we'll review the case with him and we'll tell him what you fellows think about it and see whether or not he agrees. After we wind up the hearings we should go on with these conferences and try to get together.
- S: Well, that should be done of course, because you've got them licked, Danny, and the -- the only discussion you could have would be in the interim between the time when the hearings are closed and when the examiner makes his report.
- B: Yeah.
- S: And that's going to be the limit on it.
- B: Well, I don't know how long it will take the examiner to make his report.
- S: Well, you can't do anything until he does anyhow.
- B: Ed thinks it will take about a week.
- S: Well, you can't do anything until he does.
- B: Yeah.

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- S: And.....
- B: You think in the meantime we might go ahead with conferences?
- S: Yeah, no harm to be done. And it might -- and they might get -- you might get together with them.
- B: Yes.
- S: That is, if they say no, then -- then there's no longer -- no use conferring any more.
- B: Uh-hm.
- G: They've got to be made to realize that you have a definite program in mind; not only the program of things that you outlined for them that you offered them an opportunity of doing but if they don't accept that then your course is clear and your knowing what you're doing. They can be guessing what it is but they have to get the feeling that this hearing and the examiner's report, the preliminary some strong arm action which you don't want to have to use.
- B: Yeah.
- G: I think that's essential.
- B: All right.
- S: One thing, Dan, they asked, after you started the hearings, they asked that you continue?
- B: How's that?
- S: They never did recognize the hearing at all, did they?
- B: No, they didn't. They were told on Tuesday night when we broke up they were told that we could not go on with these informal conferences with these hearings going on.
- S: Yeah.

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Q: And at that time Cushing said, "Well we were -- we are definitely not coming to the hearing." There was, up to that time, a possibility if they had asked for it of the hearings being postponed.

A: Yes.

Q: But he said they would not request such a postponement even though Seymour told them that they could do that without prejudicing their position in any way.

A: Yeah.

Q: But they wouldn't do that. They said they'd be glad to receive notice from Mr. Seymour that the -- or the Comptroller -- that the hearings had been postponed but he said they would not request it or play any part in it. So we told them that the conferences certainly couldn't go on while the hearing. In spite of that they came along on Thursday and asked for a further conference.

A: Yeah.

Q: I think they were trying to test -- they were testing us.

A:disappointed that they didn't show up at the hearings. After all you didn't want a record of their stuff made and they have had all opportunity with Folger and through you and Cy Uham and everybody to tell their story. I think the hearings have served their purpose, Danny.

Q: Do you?

A: I do, yeah.

Q: Well.....

A: You're in an infinitely stronger position on your public relations and on your trading and everything else having these closed than if they would deliberately have dragged them over until during the campaign, which they could have damn well done and that was what Whitney Seymour was afraid of.

Q: Yeah. That's right.

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- S: No, I think it was -- I think that they made a "bull" on that. I honestly do.
- B: Well, I -- I feel they've made a "bull" for not coming in because I think they had everything to gain and absolutely nothing to lose by it.
- S: I think so. The thing that we were afraid of is they'd drag them on endlessly.
- B: Yeah. Yeah.
- S: I think they made a terrific "bull" on that and I think it strengthens your position tremendously, both as far as public relations and trading.
- B: Uh-huh.
- S: That's the way I see it.
- B: Well.....
- S: O.K. Well, those are all the words of wisdom that I.....
- B: (Laughs) Well, they're very good and we appreciate them. Let me ask Ed if he's got.....
- S: I'll go on home then.
- B: Let me ask Ed if he's got anything?
- S: (Talks aside to Ed Foley,)
No, Ed hasn't got anything. Tom.....
- S: Yes.
- B: Leo Crowley wants to talk to you before you get off the phone.
- S: All right.
Then I'll go on home.
- B: I don't believe there's any use in you coming down for this. We'd love to see you but.....

- 15 -

S: Well no, I -- I see enough of Washington and if you want me you can call me.

B: All right. (To Ed Foley: What did you say?)

G:

B: Wait a minute.

(Brief pause.)

Yeah, Ed -- Ed says that after the examiner makes his report and before the Department takes any action why the Secretary will probably want all of you fellows to come in for a conference.

S: Yeah.

B: And he'll let you know, of course, at that time.

S: Yeah.

B: Now, just a moment, Leo wants to get you.

S: Yeah.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro

NO.: 65

DATE: February 18, 1940

Under Aranha's last offer, as was correctly understood by the Department, each of grades I and II would be given interest at 50 percent and amortization at 40 percent of the rates provided in the Aranha plan, which were constant for the four years. In the four successive years of the new plan all the other grades would be paid 40 percent, 41 percent, 43 percent and 50 percent, respectively, of the rates of the final year of the Aranha plan.

With reference to my telegram no. 54 of February 12 and to the last paragraph of my no. 63 of February 16, before taking any further action Aranha will, of course, inquire directly of me regarding the public attitude which would be taken in the premises by the Foreign Bondholders Protective Council.

CAFFERY

EA:EB

NEW YORK TIMES

February 18, 1940

MEXICO TO AID PESO BY STRICT ECONOMYSuarez Hints at Higher Dollar
Ratio—Tells of Rayon Plant

MEXICO CITY, Feb. 17—Absolute confidence in his ability to stabilize the peso at its present level of six to the dollar—and if conditions are favorable perhaps even to revalue it till it reaches five to the dollar—was expressed by Finance Minister Eduardo R. Suarez in a statement that is featured by the local press this morning.

These objects, he said, will be achieved by means of a carefully studied plan which includes the reduction of the paper circulation and the withdrawal of part of the treasury bonds at present in the hands of the public.

By means of stringent economies, Senor Suarez stated, the treasury would be able to lay aside sufficient funds by the end of March to withdraw about 20,000,000 pesos of treasury bonds. The Bank of Mexico, at the same time, would be able, with the cooperation of the remaining banks, to save between 15,000,000 and 20,000,000 pesos which would be withdrawn from circulation.

Senor Suarez painted a hopeful picture of Mexico's economic future. Silver exportation, though important, was not vital, he said, as was shown by the fact that silver had sold in the past as low as 22 cents per ounce without paralyzing Mexico. Reduced exportations of silver could be compensated by developing Mexican industry, he said. Among other plans for achieving this object he mentioned the erection of a rayon factory, at a cost of 30,000,000 pesos, to produce \$5,000,000 worth of rayon, which is at present imported from Italy.

The Finance Minister was particularly hopeful about the future of the oil industry. Though production had now dropped to about 100,000 barrels daily, he believed it would soon rise to about 200,000. A market for surplus oil would be found, he said, as soon as Mexico had a fleet of tankers, part of which was being purchased in the United States and part supplied by Italy in exchange for oil already delivered. Sixty thousand barrels daily would be used internally and the remainder exported, Senor Suarez concluded.

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: February 19, 1940

NO.: 233

FOR THE TREASURY FROM MATTHEWS

There are reports, without comment, in most of the newspapers in Paris carrying the announcement of the British that the Government is taking over certain listed American securities owned by British. The announcement has hardly occasioned much surprise here, in view of previous discussions of the subject. Reference: telegram No. 190 of February 9 - as I have indicated in this and various previous telegrams, a similar step just now is not contemplated by the pertinent French authorities. From the French point of view - as well as, I presume, from the American - the problem is of course both less urgent and less important, because of the very much smaller sums involved; various estimates give the total holdings as from \$80,000,000 to \$130,000,000. The French, as you will recall, have not as yet taken the necessary first move to find out exactly either the total French holdings of American securities or the distribution of such securities. In France there is no real counterpart to the large holdings of British investment trusts; for the most part American securities owned by the French are in relatively small lots. Up to the present no declaration has been required for those securities which are physically held in or brought back to France. Probably

- 2 -

a fair portion of those which are held abroad and not placed in the dossier of a bank in France are not included in declarations. As mentioned in the telegram No. 190 referred to above, the French are giving some consideration to requisition of holdings of foreign exchange. I believe that at some later time there will follow similar treatment for securities, as there is increasing pressure on dollar and gold reserves.

END SECTIONS ONE AND TWO.

MURPHY.

JT

GRAY

PARIS

Undated

Rec'd February 19, 1940

4:40 p.m.

Secretary of State,
Washington.

233, (SECTION THREE)

The first authoritative note here suggesting forced reduction of consumption should not be carried to extremes (a warning which certainly seems unnecessary in France at the present time;) was struck by Frederic Jenny in LE TEMPS last evening. His article was devoted primarily to price policy in Great Britain but referred also to France. After approving such consumption restrictions as are necessary for army needs, foreign exchange preservation, and maritime transport economy he said: "The question of knowing whether one should go further and envisage a systematic limitation of consumption as a veritable means of financing the war through the transfer, more or less obligatory to the government, of all purchasing pretenses which the non-utilization that is to say, economy to the profit of the state can be directly or indirectly imposed on the public - seems more questionable.

MURPHY

NPL

JT

GRAY

PARIS

Undated

Rec'd February 19, 1940

4:42 p.m.

Secretary of State,
Washington.

233. (SECTION FOUR)

From the financial point of view we should not lose sight of the fact that all consumption presupposes a corresponding production and that all production generates wealth - therefore resources for the state. It is at least questionable whether all industries and all concerns can so transform their activity in practice as to work only for war and for export; in other words whether war production and sales abroad can suffice to assure the extraordinarily heavy requirements of the treasury. Any exaggeration of such ideas risks bringing about as a counterpart of economies imposed on consumers the drying up of the past savings of the producers and merchants affected, thus reducing the return to the treasury or increasing unemployment and thereby adding to the charges of the state - in brief of going against the results desired".

MURPHY

NPL

JT

GRAY

PARIS

Undated

Rec'd February 19, 1940

6:22 p.m.

Secretary of State,
Washington.

233 (SECTION FIVE)

(With war requirements what they are in France and the fact that between 4 and 5,000,000 men are under arms I cannot but feel that his fears are somewhat exaggerated. Certainly such non-utilization of productive resources and such small unemployment as may exist today in France are largely the result of lack of adequate measures to offset the immobility of labor or to readapt industry to war or export needs and diminish full war effort to that extent. These problems will be and are being adjusted and the advantages to a war economy to war finance and to averting the dreaded excess inflation of drastically reducing consumption seem to me greatly to outweigh Jenny's somewhat imaginary fears).

MURPHY

NPL

PARAPHRASE, SECTION SIX, TELEGRAM NO. 233 OF
February 19, 1940 FROM PARIS

Rumors that Reynaud is to retire from the Ministry of Finance have received such currency the last few days that they warrant mentioning, although part of the reason therefor may be political speculations, which, in the present period of relative military inactivity, are naturally rife, and partly due to the recent revival of political activity by the Chamber. The retirement rumors are tied up with his well-known higher political aspirations, friction with his chief, and certain considerations of a personal nature. With his major financial policies there is, of course, no disagreement - He has accomplished a remarkable job in restoring French finance to meet the shock of war. Also, he has earned the gratitude of all thinking Frenchmen through the smooth and faultless financing of the first six months of the conflict.

MURPHY.

EA:LWW

JT

GRAY

PARIS

Undated

Rec'd February 19, 1940

6:13 p.m.

Secretary of State,
Washington.

233. (SECTION SEVEN)

The securities market was strong and more active today partly because of improved technical position and partly on the "firmness" displayed by the British Government in the ALTMARK incident. Advances ranged from 2 to 4% for French industrials, banks and utilities. Most rents issues showed little change except the 1937 guarantee issue which regained 4.25 of recent losses.

(END OF MESSAGE)

MURPHY

NPL

NOTED BY MR. O. 21
RECEIVED

JR

PLAIN

London

Dated February 19, 1940

Rec'd 2:12 p.m.

Secretary of State,
Washington.

417, February 19.

FOR TREASURY FROM BUTTERWORTH.

1. The British Treasury's press statement of the Treasury acquisition order of specified dollar securities, copy of which was cabled to the British Embassy for transmission to you at the end of last week, was issued so late Sunday night that only one London newspaper contains editorial comment. This editorial of the FINANCIAL TIMES characterizes the step as another stage in a well ordered scheme for the proper financing of the war and expresses the opinion that "admitting that the necessity for mobilization must arise sooner or later the course now taken will be seen to be the best." The tone of the comment by financial editors is favorable with the exception of Lord Beaverbrook's DAILY EXPRESS which asserts that "many people in the city will regard it, and rightly, as a bad move". My own impression is that the city regards it as a perhaps regrettable but

none

-2- #417, February 19, from London.

none the less inevitable move and has today taken it in its stride. In point of fact its main pre-occupation has been with the question as to whether the sterling funds will move into equities or British Government securities and whether a war loan is to be announced before March 4.

There is, of course, a great deal of speculation as to the amount involved in this list of securities and private estimates vary as much as press estimates which range from pounds 24 million by the DAILY MAIL to between pounds 35 million and pounds 62 million by the FINANCIAL NEWS, most calculations being made here take the Federal Reserve Board's statement of British holdings of American securities as an authoritative known starting point.

The city has been pleasantly surprised at the moderation of Wall Street's reaction as reflected in the first hour or so of trading. The main query that has come from New York about the British Treasury order has been how the list was compiled.

2. Sir Samuel Hoare in the course of a speech over the weekend mainly concerned with the export problem placed it in importance with the maintenance of the fighting forces and expressed the opinion that "if we do not maintain our export trade we must lose the war." He also gave a hint of coming increase of taxation when he declared that "taxpayers will not shrink from further sacrifices when the time comes for them."

KLP

JOHNSON

TREASURY DEPARTMENT

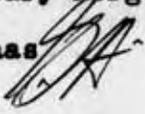
150

INTER OFFICE COMMUNICATION

DATE Fébr. 19, 1940

TO Secretary Morgenthau

FROM

Mr. Haas 

The Works Projects Administration reports 2,287,000 employes for the week ended February 7, 1940, an increase of 22,000 persons over the 2,265,000 employed during the week ended January 31, 1940. The figure for the end of January represented an increase of 113,000 persons over the number reported for the last week in December, 1939.

Attachments

WORKS PROJECTS ADMINISTRATION
Number of Workers Employed - Monthly
United States

	Number of Workers (In thousands)
1937	
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	1,901
November	2,024
December	2,152
1940	
January	2,265

Source: Works Projects Administration.

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

They include certified and noncertified workers.

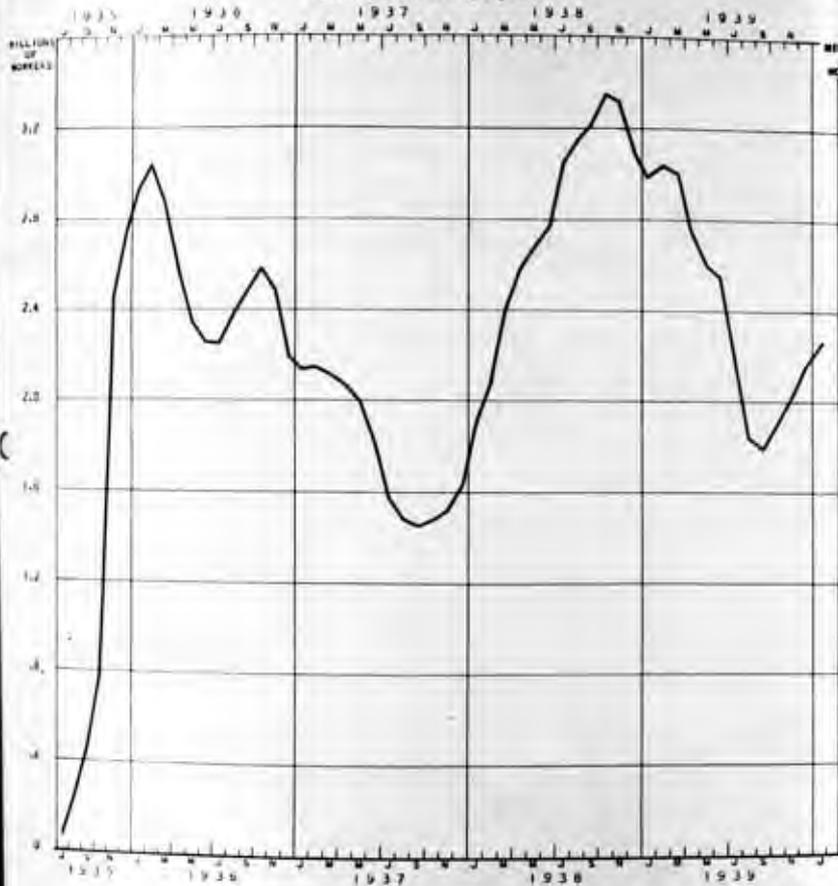
WORKS PROJECTS ADMINISTRATION
Number of Workers Employed - Weekly
United States

Week Ending	Number of Workers
1939-40	(In thousands)
July 5	2,388
July 12	2,290
July 19	2,250
July 26	2,200
August 2	2,082
August 9	2,054
August 16	1,977
August 23	1,897
August 30	1,842
September 6	1,662
September 13	1,696
September 20	1,735
September 27	1,790
October 4	1,834
October 11	1,875
October 18	1,898
October 25	1,901
November 1	1,901
November 8	1,929
November 15	1,961
November 22	1,987
November 29	2,024
December 6	2,075
December 13	2,123
December 20	2,144
December 27	2,152
January 3	2,160
January 10	2,189
January 17	2,222
January 24	2,244
January 31	2,265
February 7	2,287

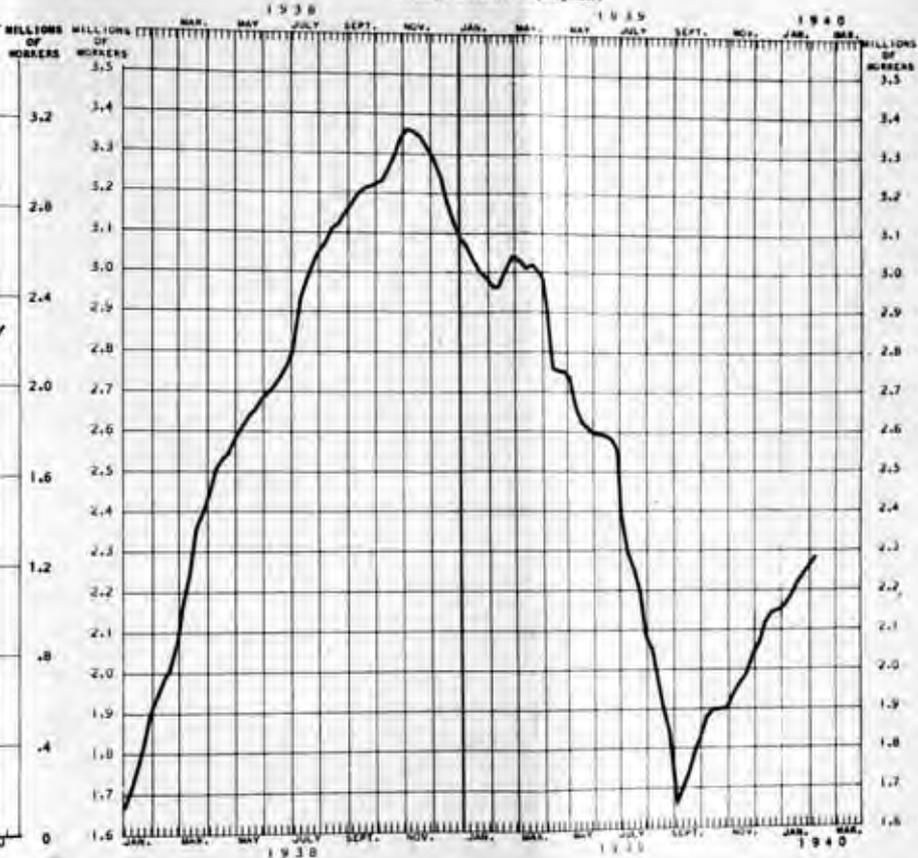
Source: Works Projects Administration

WORKS PROGRESS ADMINISTRATION
Number of Workers Employed
United States

Monthly W.P.A. Employment



Weekly W.P.A. Employment



SOURCE: WORKS PROGRESS ADMINISTRATION

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 19, 1940

TO Secretary Morgenthau

FROM W. H. Hadley

GOVERNMENT SECURITY MARKETFOR TWO WEEKS ENDING FEBRUARY 17, 1940

The government security market has moved through a very narrow range in light trading activity. During the last two weeks there has been a net gain of about 1 and 2/32nds in prices. The general tone of the market is that of waiting for announcement of Treasury financing terms. The market for the longest Treasury bonds continues very thin and what trading has taken place has been mainly in selected intermediate and shorter issues.

NEW CORPORATE SECURITIES

Activity in the new corporate and municipal bond market picked up substantially, with a total of about \$150 million offered in the last two weeks. A \$98 million offering of Triborough Bridge bonds accounted for the bulk of this total. These issues which were properly priced moved well but, as in the past, these thinly priced were somewhat sluggish. Corporate bonds offered ranged from 3% to 3 1/2% and from 20 to 40 year maturities.

TREASURY INVESTMENT ACCOUNTS

Since February 1st \$11,080,000 bonds have been sold for Treasury investment accounts. Except for \$1,230,000 of long bonds, sales were confined to issues callable within five years. Sales included \$2,250,000 for F. D. I. C. and \$8,830,000 for Alien Property Bureau.

TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE February 19, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

The foreign exchange market was quiet today. The opening quotation for sterling was 3.95-3/8. After reaching a high of 3.95-1/2 in the early forenoon, the rate eased to close at 3.95-1/8.

Sales of spot sterling by the six reporting banks totaled £424,000, from the following sources:

By commercial concerns.....	£ 107,000
By foreign banks (Europe and South America).....	£ 317,000
Total....	£ 424,000

Purchases of spot sterling amounted to £375,000, as indicated below:

By commercial concerns.....	£ 355,000
By foreign banks (Far East).....	£ 20,000
Total....	£ 375,000

The following reporting banks sold cotton bills totaling £15,000 to the British Control on the basis of the official rate of 4.02-1/2:

£ 11,000 by the Chase National Bank
4,000 by the Bankers Trust Co.
<u>£ 15,000 Total</u>

The other important currencies closed as follows:

French francs	.0224
Guilders	.5311
Swiss francs	.2242-1/2
Belgas	.1683
Canadian dollars	13-9/16% discount

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

\$1,000,000 from the Bank of the Republic of Colombia
450,000 from the National Bank of Belgium
<u>\$1,450,000 Total</u>

The Federal Reserve Bank of New York reported that the Bank of Mexico was shipping \$1,122,000 in gold to be earmarked for its account at the Federal Reserve Bank.

The State Department forwarded to us cables stating that the following gold shipments would be made:

\$16,707,000 from Sweden, representing five shipments by the Bank of Sweden to the Federal Reserve Bank of New York, for account of the Bank of Sweden. The disposition of these shipments is unknown at the present time.
282,000 from the Netherlands, shipped by the Twentsche Bank, Amsterdam, to the Guaranty Trust Company, New York, for sale to the U. S. Assay Office.
112,000 from Switzerland, shipped by the Banque Federale, Bern, to the National City Bank, New York, for sale to the U. S. Assay Office.
\$17,101,000 Total

The shipment from the Netherlands, shown above, is the first one which has been made by a commercial bank from that country to the United States since the outbreak of the war.

There was a holiday in India today, and the Bombay silver market was closed.

The London fixing prices for spot and forward silver were unchanged at 20-3/4d and 20-11/16d respectively. The U. S. equivalents were 36.92¢ and 36.62¢.

Handy and Harman's and the Treasury's prices for foreign silver were unchanged at 34-3/4¢ and 35¢ respectively.

We made six purchases of silver totaling 312,000 ounces under the Silver Purchase Act, all of which was new production from foreign countries, for forward delivery.

By telephone this afternoon Mr. Knoke gave me the following figures as of the opening of business on February 19, to bring to date those which had been provided on February 8 in regard to Russian balances in New York. The State Bank of Russia today had with the Chase Bank \$5,100,000; and letters of credit amounting to \$8,400,000. The Amtorg balances with the Chase Bank amounted to \$1,300,000; and its letters of credit \$2,200,000. Between the 8th and the 19th the principal in-payments to the State Bank account were \$5,600,000, representing the proceeds of the gold shipment from Vladivostok to San Francisco; and \$3,500,000 from the Rotterdam Bank. Out-payments included \$2,250,000 to Amtorg; \$230,000 to Lithuania; \$600,000 to Estonia; \$300,000 to Latvia; \$300,000 to a machine company in Pittsburgh; \$200,000 to the Narodny Bank in Moscow; and both an in- and out-operation with the Banco di Roma for \$500,000.



CONFIDENTIAL

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE February 19, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

The Spanish Ambassador telephoned me at 11:20 this forenoon to learn whether we could give him any answer to the question which he raised a few days ago in regard to paying for nickel and the minting thereof with the proceeds of Spanish silver coins to be sold to the United States Government.

I told the Ambassador that no answer could be given pending the arrival of Secretary Morgenthau, which was delayed by bad weather. I promised to call the Ambassador as soon as I had had an opportunity to present this matter for the Secretary's consideration.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE February 19, 1940

TO Secretary Morgenthau
FROM Mr. Haas
Subject: The Business Situation,
Week ending February 17, 1940.

Conclusions

- (1) The rapidity of the setback in industrial production, which has caused the FRB index in two months to lose one half of its entire 1939 rise, will tend to shorten the duration of this corrective decline. Nevertheless, no definite indication of a turn has yet appeared, and no upturn in industrial production can be expected until new orders reverse their present declining tendency.
- (2) The relatively high level of underlying demand for manufactured products, and the fact that no serious maladjustments have occurred, will also tend to limit the duration and extent of the decline. However, the underlying demand will doubtless fall off somewhat as a result of the business setback, and there is no assurance that new orders may not be further reduced.
- (3) Significant, though not conclusive, evidences of underlying strength continue to appear in certain quarters:
- (a) Retail demand for automobiles in early February showed further contraseasonal expansion, which has led to an upward revision of Ward's estimate of February automobile production.
- (b) Rubber companies have stepped up production to the high levels of November, and cotton consumption by mills in January established a new high record for the month.
- (c) The firmness of sensitive commodity prices over the past several weeks has been followed by some indication of a renewed upturn, led by a sharp improvement in wheat prices.
- (4) On the other hand, new orders for steel continue to decline, and further contraction of steel output is expected in the trade; carloadings are off sharply; and weekly business indices show steep downturns.

Secretary Morgenthau - 2

The general situation

The steepness of the current setback in industrial production is indicated by the fact that an FRB index of 110 for February, as tentatively estimated by the Federal Reserve Board, would represent a loss in two months of exactly one half of the entire 1939 rise in the adjusted index, from a low of 92 in April and May to a high of 128 in December. (See Chart 1, upper section)

Such a setback would carry industrial production below the level of demand, as indicated by our basic indices, thus correcting in part the moderate maladjustment that developed during the last quarter of 1939. According to our index of basic demand and our index of sales, the level of demand in December was equivalent to an FRB index of about 117-118, or 10 to 11 points below the production level in that month. Our basic indices for January are not yet available, but a preliminary calculation of our sales index shows the "offtake" of goods in January to have been at a level equivalent to about 119 for the FRB index.

The relatively high level of demand indicated by these figures will tend to limit the duration of the decline in industrial production, since production in the past has seldom continued long below the demand level except to correct some serious maladjustment. However, the level of demand may be expected to decline somewhat because of the business setback, and there is no assurance, of course, that the recent lower volume of new orders will be fully maintained.

As indicated in the lower section of Chart 1, the setback in the FRB index of industrial production in January was due largely to a corrective decline in the steel industry. A further contraseasonal drop in steel output in February will also be largely responsible for the estimated decline in the index to about 110 in that month.

The sharpness of the setback in industrial production will tend to bring production quickly in balance with demand, and will result in a more healthy situation than if production had been maintained by building up inventories. A correction of the moderate maladjustment in the heavy industries will not mean, however, that a renewed rise in industrial production will necessarily immediately follow. A renewed upturn must

Secretary Morgenthau - 3

await some influence that will bring an expansion in new orders, of which no definite indication can yet be seen.

Steel orders lower

The centering of the present setback in the steel industry gives more than usual significance to the trend of new orders for steel. Orders reported by the United States Steel Corporation for the second week of February declined further to the equivalent of about 35 per cent of capacity, the lowest since Christmas week. (See Chart 2, upper section)

The rate of steel output continues gradually downward, operations being reduced 1.7 points this week to 67.1 per cent of capacity. The independent steel companies are operating at a slightly higher rate than the United States Steel Corporation (lower section of chart) and may be receiving a slightly larger volume of orders, since the current level of orders for the industry as a whole is estimated in the trade at about 40 per cent of capacity.

Demand for steel from abroad has been slowly expanding, providing one of the most encouraging factors in the present situation, according to the Iron Age. Shortage of fuel in Europe is a factor which may result in more purchases of steel in this country. Norway is reported to be enquiring for 7,000 tons of coke owing to a depletion of supplies in that country.

Continued expansion in automobile sales during early February provides an encouraging note. Retail deliveries of 14 leading makes during the first 10-day period of February were approximately 8 per cent higher than in the same period of January. Total sales in February normally are about 9 per cent lower than in January. Ward's has revised upward its estimate of automobile production for February, raising it 20,000 units to 360,000.

Some encouraging developments appear

Following several weeks of firmness, sensitive commodity prices turned upward at the end of last week, led by the sharpest upturn in wheat prices since the rise of early September. (See Chart 3) No especial news accounted for the

Secretary Morgenthau - 4

wheat rise, except some broadening of foreign demand, a reduced Argentine estimate, and some fear of damage to the domestic crop because of reduced snow cover. The principal price factor seems to have been a sold-out condition of the futures market. Buying of copper by industrial consumers and exporters expanded markedly during the week.

The consumption of cotton by domestic mills during January, totalling 730,000 bales, established a new high record for that month, though showing a less than seasonal increase over December. This consumption figure is exceeded only by that of March 1937, which totalled 777,000 bales. There is a belief in the cotton trade, however, that mills are accumulating inventories of finished goods, which may lead to a later decline in production unless new orders improve.

Rubber companies stepped up production during January to approximately the high November level, owing to a continued high demand for original equipment tires. The daily average consumption of crude rubber increased to about 2,500 tons in January, which compares with 2,421 tons in December and 2,587 tons in November. Manufacturers appear to be continuing their schedules on about the same basis this month.

FHA mortgages improve

While FHA mortgages selected for appraisal remain below last year's figures, a sharp upturn occurred during the second week of February, carrying them nearer the 1939 level. (See Chart 4, lower section) Monthly figures for January (upper section of chart) show a small improvement over the December total. In contrast, the F. W. Dodge residential awards (solid line) declined further in January, similar to the seasonal trends in 1938 and 1939.

The decline in FHA mortgage applications in recent months has been due to a sharp reduction in applications for insurance on refinanced mortgages. On the other hand, applications for insurance of mortgages on newly built homes during November and December exceeded the previous year's figures, and unofficial estimates indicate that they were well ahead in January.

Secretary Morgenthau - 5

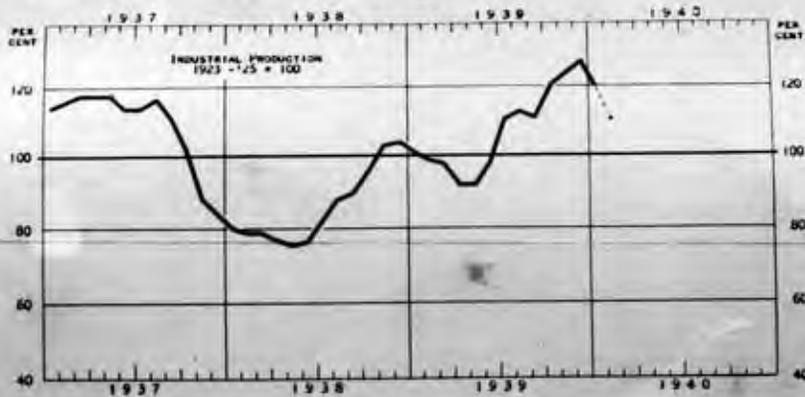
Current business news

The business news remains unfavorable in various aspects. New orders, as indicated by our weekly index, show no improvement. (See Chart 5) During the second week of February the index remained but slightly above the Christmas week low, an improvement in textile orders being offset by a further decline in orders for steel and other products.

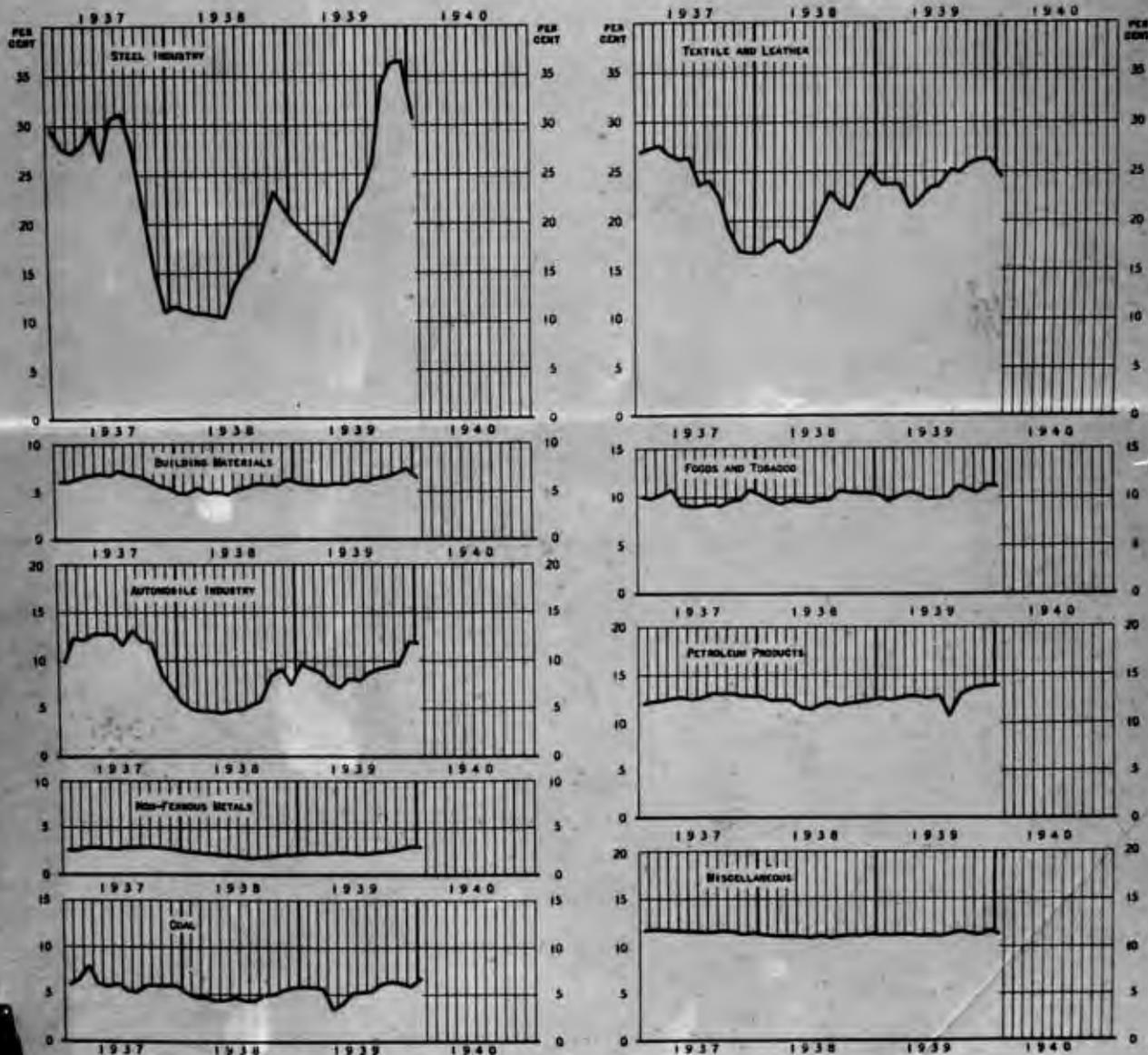
Weekly business indices show wide declines during the second week of February. The New York Times index for the week ended February 10 dropped 2.9 points to a figure of 98.6. Sharp downturns in the adjusted indices of automobile and steel production, and in miscellaneous and "all other" carloadings, were largely responsible.

Further declines in the steel and automobile indices are indicated for the following week. Automobile production was reduced slightly, from 95,985 units to 95,050 units, at a time when the seasonal index begins to improve sharply.

FEDERAL RESERVE BOARD INDEX OF INDUSTRIAL PRODUCTION*
SEASONALLY ADJUSTED

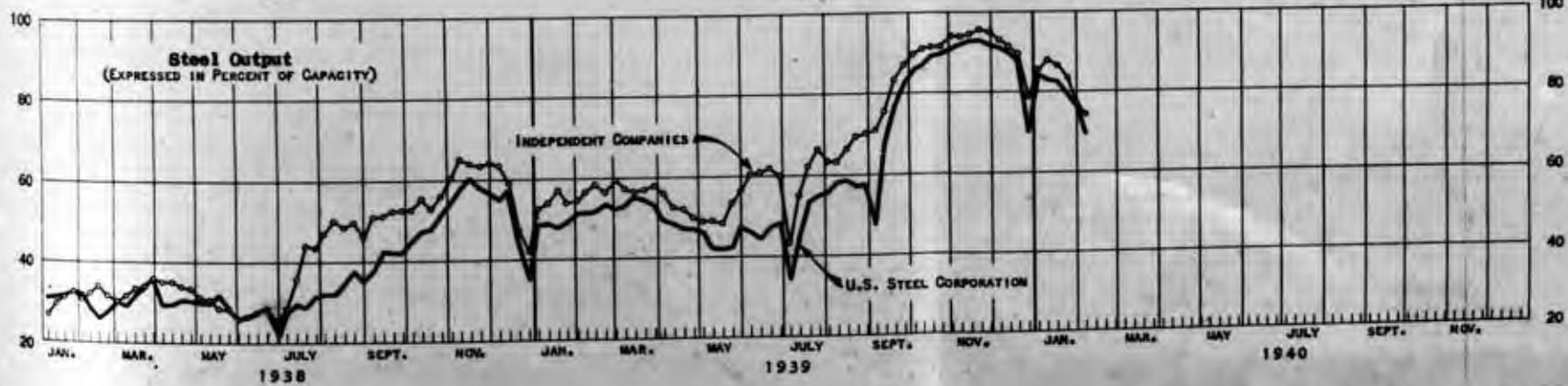
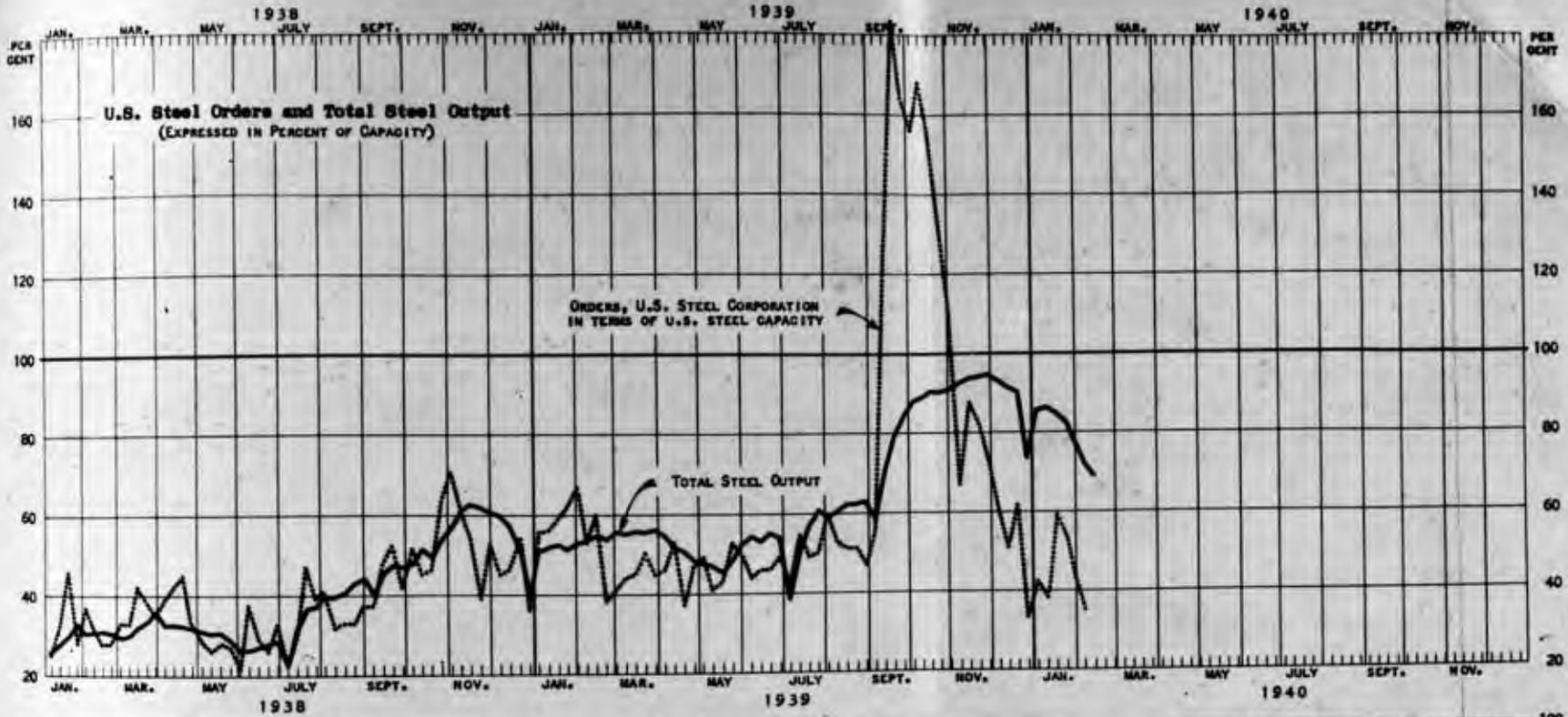


Components by Industrial Groups

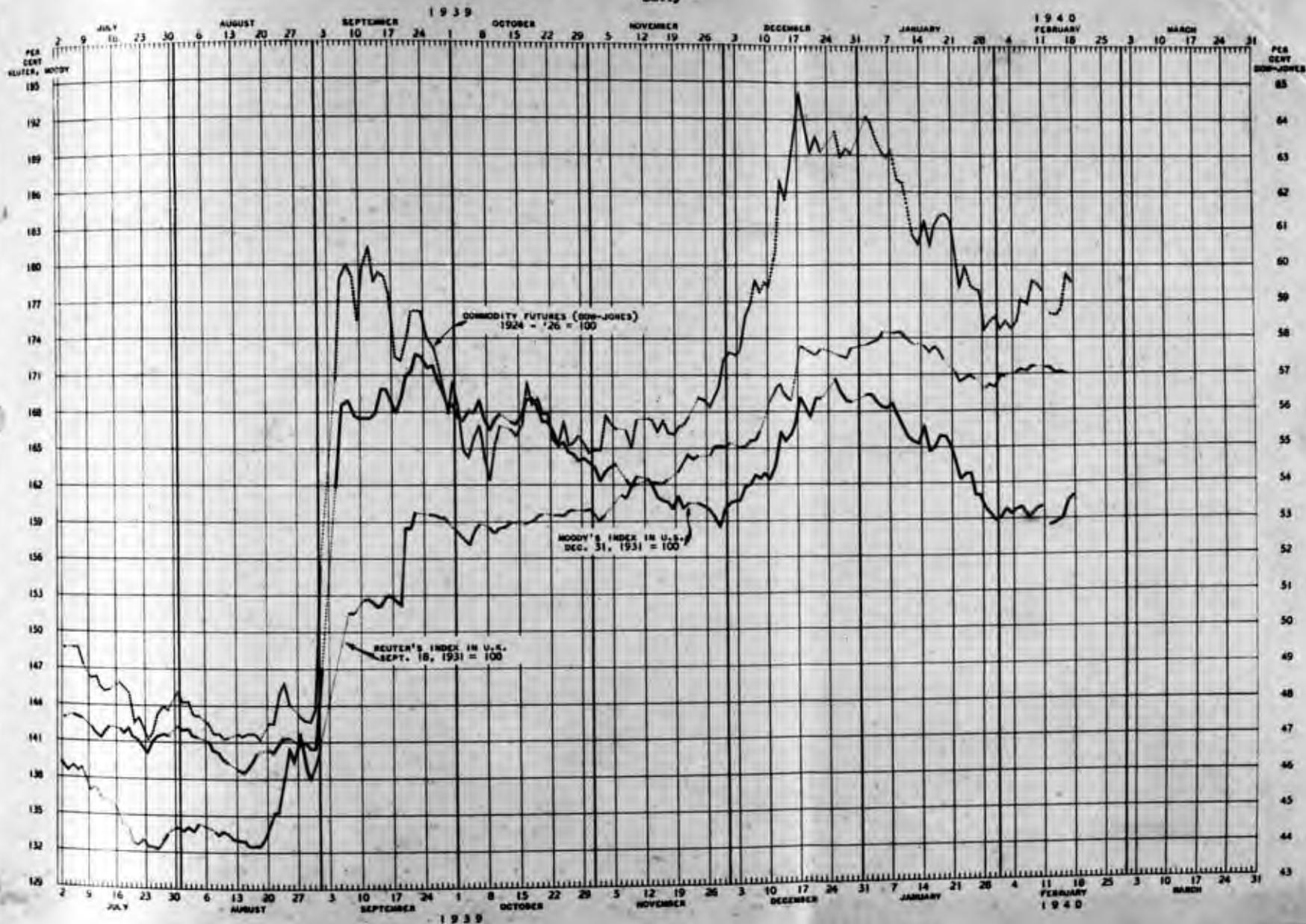


* MOST RECENT FIGURES ARE PRELIMINARY

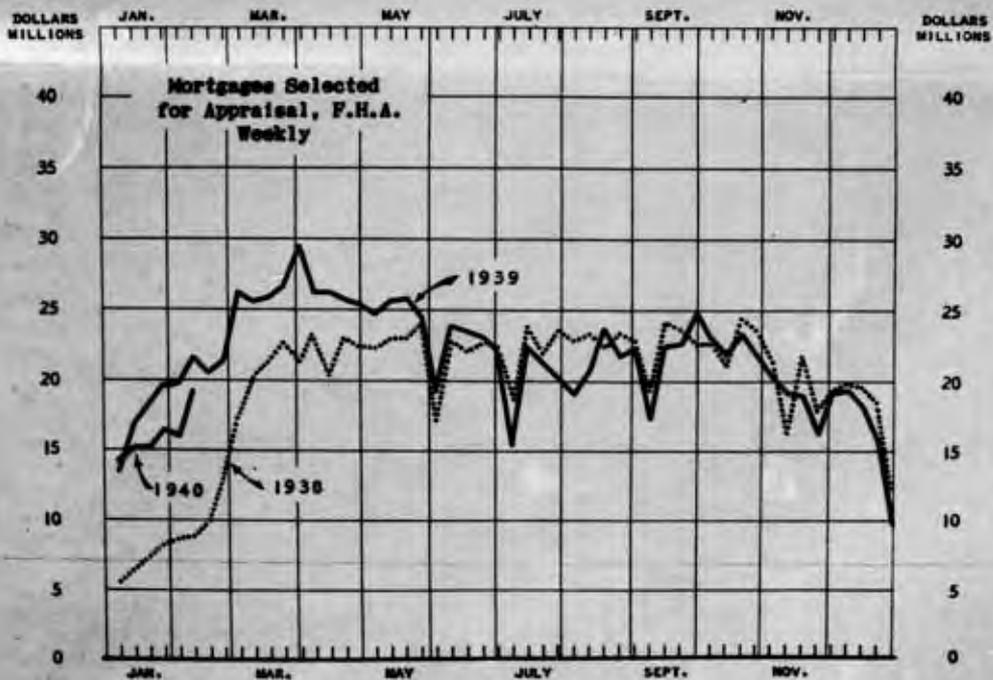
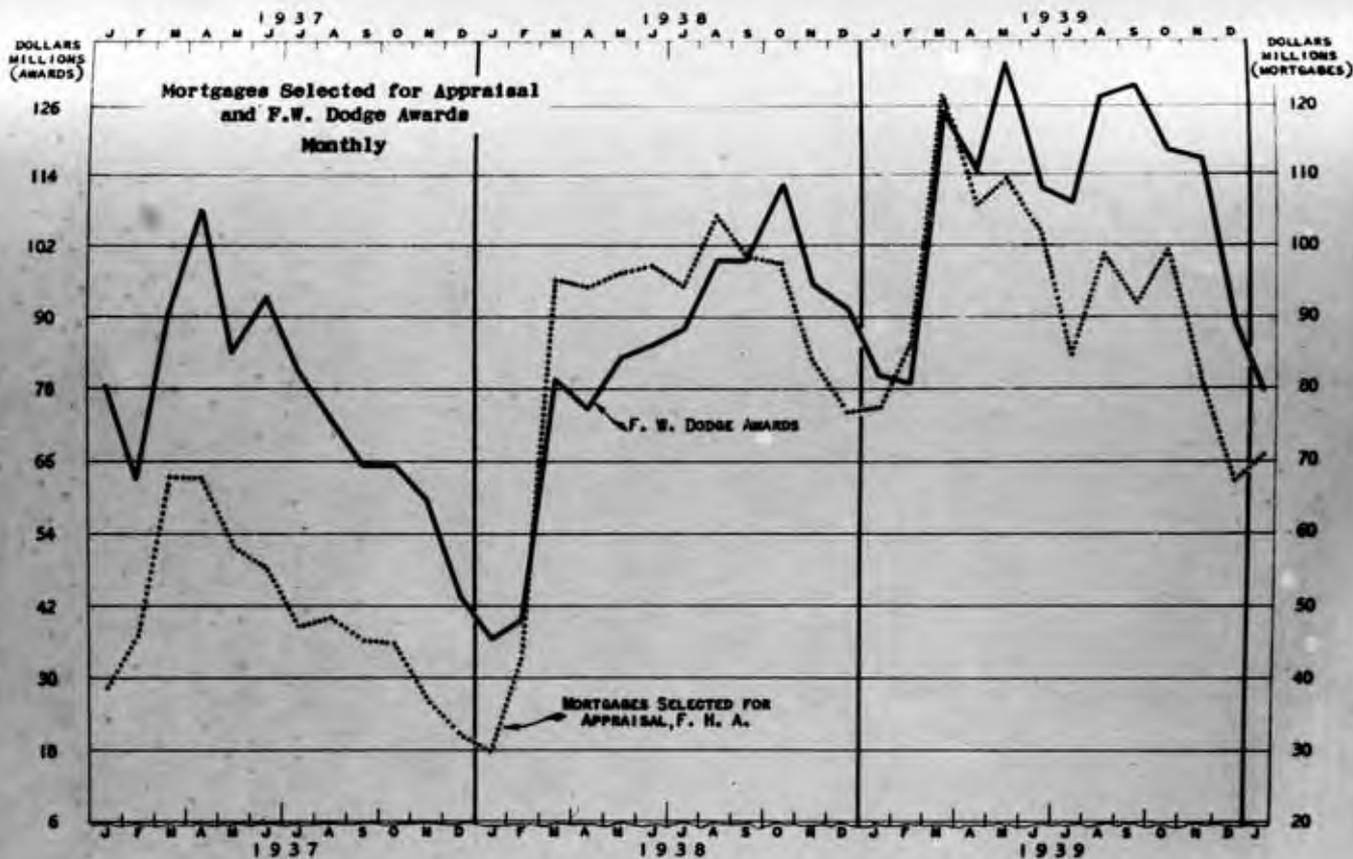
STEEL INGOT PRODUCTION AND U.S. STEEL CORPORATION ORDERS



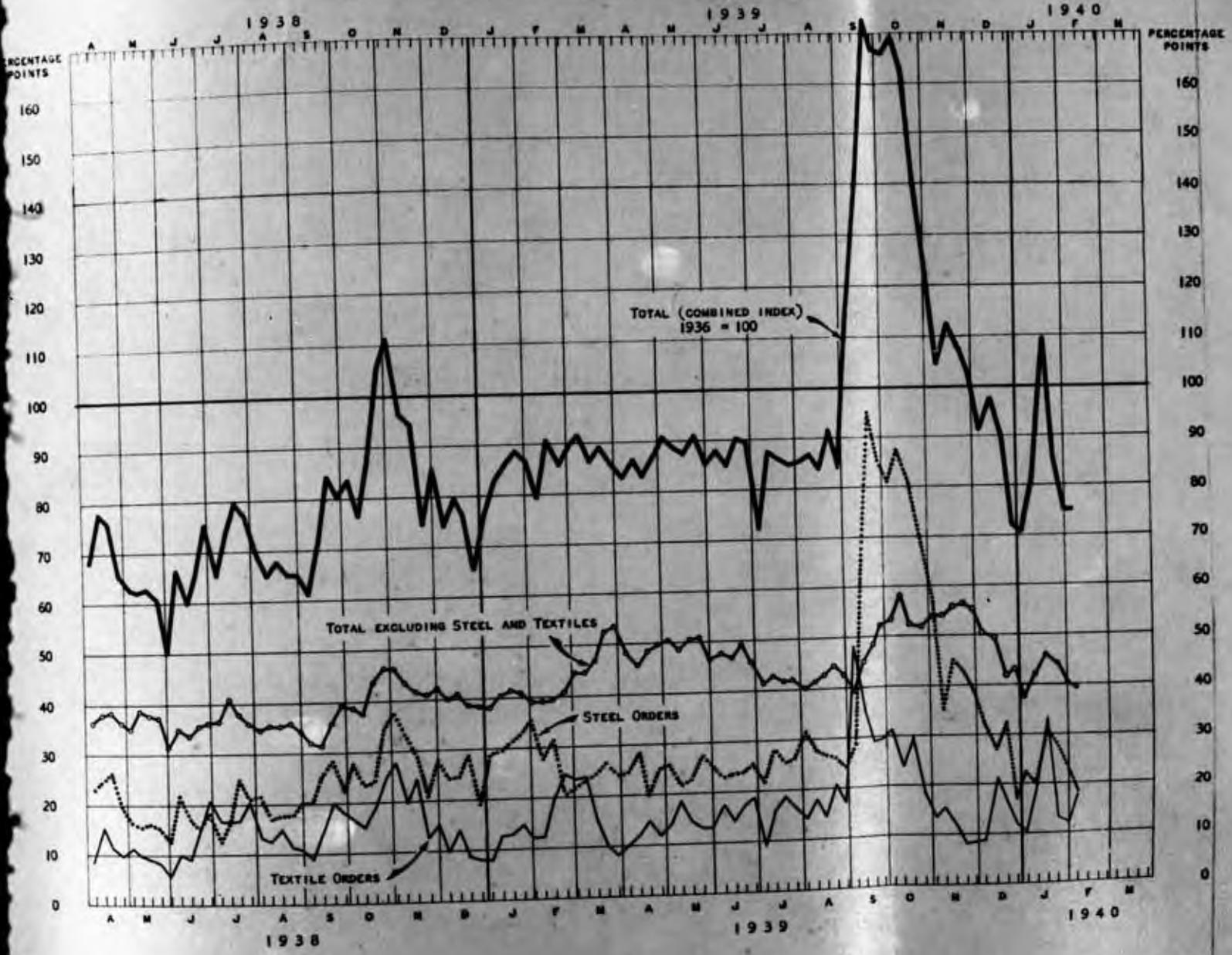
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RESIDENTIAL CONTRACT AWARDS AND F.H.A. MORTGAGES



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



TREASURY DEPARTMENT

Confidential

INTER OFFICE COMMUNICATION

DATE February 19, 1940

TO Secretary Morgenthau
FROM Captain Puleston
Subject: Surplus Naval Material Available For Sweden.

1. During my discussion with Admiral Furlong, Chief of the Bureau of Ordnance, he supplied me with the enclosed list of ordnance material that can be declared a surplus.

2. The legal procedure would be for the Navy to declare the surplus and the Army arrange for its sale. If this could be sold to Sweden and any or all of it passed along by Sweden to Finland, it would be the quickest way for us to provide the Finns with munitions of war.

3. I also learned that the Army and Navy had already made it possible for Finland to obtain some T.N.T. in this country.

4. The prices for these articles are in some cases almost nominal, and in all cases they are very reasonable, as this material can not be used to advantage by the United States Navy.

W. D. Puleston
W. D. Puleston,
Captain, U.S.N., Retired.

February 7, 1940.

1. The Bureau of Ordnance of the Navy can declare surplus the following:

- a. 35,000 U.S. Rifles, Cal. 30, Model 1903 (Springfield)
Unit Cost Price \$48; Selling Price \$20.
- b. 2,500 Lewis machine guns, ground type (need a little overhaul)
Unit Cost Price \$200; selling price \$50.
- c. 3,000 Lewis machine guns for aircraft, could be altered for ground use or used as is in winter. Guns in excellent condition.
Unit cost price \$200; Selling price \$50
- d. 18,000 Spare barrels for above.
Unit cost price \$6; Selling price \$3.
- e. 30,000 Magazines for above.
Unit cost price \$---; Selling price \$1.
- f. 1,993 Browning automatic rifles, require little overhaul.
Unit cost price \$135; selling price \$90.
- g. 321 18" torpedoes, less war heads. We will give designs of war head which can be made commercially. These torpedoes could be used in coastal motor boats. Range 1000 to 4000 yds. Speed - 30 kts.
Unit cost price \$3-5,000; Selling price \$1,500.
- h. 12,000 Mark IV contact mines & anchors in good condition, old type, not loaded.
Unit cost price (loaded) \$374; Selling price \$35
- i. 500 Smith and Wesson .38 cal. revolvers.
Unit cost price \$26; Selling price \$20.
- j. 5,000 A.P.12" projectiles.
Unit cost price (unloaded) \$395; Selling price \$200.
- k. 100 3"/23 field guns with carriages.
Unit cost price \$---; Selling price \$500.
- l. 600 3"/50 guns with naval pedestal mounts, 15° elevation; could be used on fixed emplacements or on board vessels, but not adaptable to anti-aircraft fire.
Unit cost price \$8,000; Selling price \$2,500.00
- m. 400 4"/50 cal. naval guns with pedestal mounts 18° elevation, fixed emplacements as on shore or on board ship but not adaptable to A.A. fire.
Unit cost price \$16,000; Selling price \$4,000.

Range 7500 yds. at 15° elev.

Y.	Range	Elev.
400	12000	18°
900	14500	18°

ALB

W.R. FURLONG,
Chief of Bureau of Ordnance.

February 19, 1940
11:30 a.m.

HMJr: Hello, Dan.

Daniel
Bell: Are you still continuing your vacation in Nashville?

HMJr: Yeah. It's a lovely place; have you ever been here?

B: No, I haven't but I've heard about it.

HMJr: Yeah.

B: Well that's too bad.

HMJr: Yeah.

B: How are you feeling otherwise?

HMJr: Oh, I guess I'll be all right once I get back but
right now.....

B: Now you're just anxious to get back, huh?

HMJr: Yeah. Anything you want to ask me or tell me?
Am I on the loudspeaker?

B: Yes, you're on the loudspeaker. Everybody's listen-
ing to you.

HMJr: Go ahead.

B: No, I haven't a thing that can't wait until you get
back.

HMJr: Right.

B: I have a number^{of} items I can talk to you about but they
can wait until tomorrow.

HMJr: Anything new on the Bank of America?

B: No, other than we hope to wind up the hearings tonight.

HMJr: Right.

- 2 -

B: And the people have asked for a conference -- further conferences and we told them that we'd see them -- we'd set a tentative date for 2:30 tomorrow.

HMJr: Uh-huh.

B: But we want to go over many of the matters with you before we go into that conference. That's the reason we set it for the afternoon.

HMJr: Well I only get in at 11:30, Dan, tomorrow.

B: 11:30?

HMJr: Yeah. So I don't have much.....

B: You probably won't be at the office then before.....

HMJr: Well I think I'll come to the office. I don't know.

B: Um-hm. Well, maybe we'd better put it off until later. We started to put it off until Wednesday and.....

HMJr: Well, make it 3 o'clock.

B: 3 o'clock?

HMJr: Yeah.

B: All right. Glad to.

HMJr: Dan, what did you do about the head of the Assay office in New York?

B: That's one of the things that I have on the list to talk to you about.

HMJr: Well I think he ought to be suspended.

B: Really?

HMJr: What?

B: Really?

HMJr: Oh yes, I -- I thought surely you would have suspended him.

- 3 -

- B: No, he came in and talked to me about the case and I sent him to Harold Graves.
- HMJr: Yeah.
- B: And Harold Graves told him that he would talk to you upon your return. He said that if the matter was in any way embarrassing to the Treasury or the President he would submit his resignation. Now.....
- HMJr: Well, I think -- I think you'd better get it and then we'll decide what to do with it because I read it in the New York Times very carefully.
- B: Uh-huh.
- HMJr: And I know this Charlie Mullin, and I think you ought to have the resignation and then we can decide what we'll do with it.
- B: Well now, Mr. Foley said that he was going to get something from somebody on this case that might involve Solomon and we thought we had probably ought to wait for that.
- HMJr: Involve who?
- B: It might involve Solomon. (Aside: Is that right, Ed?) Apparently Solomon made a miserable showing before the grand jury and made some mis-statements.
- HMJr: Well take my advice and without asking anybody else, I'd have his resignation and then you can decide what to do with it.
- B: I see.
- HMJr: I'd have it in writing.
- B: All right.
- HMJr: After all, Tom Dewey -- Governor Lehman appointed a Commissioner, Judge Crane, and he was going to go into it and while he was making up his mind Tom Dewey goes in and gets this fellow.

- 4 -

B: Uh-huh.

HMJr: And I'd like to have his resignation in my pocket and then we can decide what to do.

B: All right.

HMJr: Because the fellow may change his mind.

B: I see.

HMJr: We don't have to accept it.

B: Well, it probably was a little bluff. (Laughs)

HMJr: What?

B: There probably was a little bluff in it.

HMJr: Well I.....

B: He rushed right down here. He called my house.

HMJr: Well, I'd send word and take his resignation; get it tomorrow and we'll decide.

B: All right, I'll call him up right away.

HMJr: And find out if there is a way of suspending him subject to trial or something. I think it's terrible having that kind of a person in charge of the Assay office.

B: Well, have we got any evidence that he's involved in any way?

HMJr: Well, all you've got to do is to read the papers.

B: Well, it's his brother that.....

HMJr: No, it's he. Isn't it he?

B: No, no.

HMJr: The paper read was he.

B: No, no, it's his brother.

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HMJr: Oh -- oh.

B: And he came down here to tell us that he had nothing to do with it.....

HMJr: Oh.

B:and he tried to get his brother out of that racket.

HMJr: Oh, well, I withdraw what I said. I thought it was he.

B: No, no.

HMJr: No, I withdraw that.

B: Well, it's his brother.....

HMJr: No, well.....

B:involved.

HMJr:I withdraw what I said; I thought it was he.

B: And now we were waiting on this other thing that Ed was talking about to see whether or not the grand jury's statement of Solomon was good enough for us to take some action on.

HMJr: No, I withdraw. I thought it was he.

B: I see.

HMJr: O. K.

B: Yeah. Do you want to talk to anybody else - Sullivan, Gaston and Foley are all.....

HMJr: I want to talk very much with Foley.

(Mr. Foley takes the phone.)

Hello.

B: Just a moment.

Ed
Foley: Hello, Mr. Secretary.

HMJr: Hello, Ed. Ed, somebody sent me the Wall Street Journal Friday.

F: Yeah.

HMJr: And in Friday's Wall -- this clipping it gave an account of a letter which Senator Norris wrote to Chairman Frank.

F: Yeah, he sent you a copy.

HMJr: What?

F: He sent you a copy.

HMJr: Well now, that must have been written Thursday.

F: I think so because Norris' letter to you was dated the 15th of February.

HMJr: Well, it's in the Wall Street Journal of the -- as of the 16th.

F: Yeah, that's right. And -- and the letter to -- to Frank is dated the 14th.

HMJr: Yes. Well, with -- with that letter and the very short excerpt that the Wall Street Journal printed, I can't understand why you and Sullivan wanted me to supply Ben Cohen with the information that -- about Hanes.

F: Well, at the time we talked -- on Friday I didn't have the letter that Senator Norris had sent to Jerry Frank nor a copy of the letter to you.

HMJr: Yeah.

F: Ben Cohen called me home on Friday morning.

HMJr: Yeah.

F: And he said that he would like to know the exact date when you had a talk with Hanes.

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HMJr: Yeah.

F: And I told him I never knew that date.

HMJr: Yeah.

F: From what I knew it was sometime shortly after Hanes resigned but I didn't know the exact date. And he asked me if I could find out by inquiring of Mrs. Klotz and by checking the records, and I told him I didn't know but I would try. And I spoke to Mrs. Klotz and we couldn't find anything that was very definite. It was my recollection that you had spoken to me when I was out at your house at dinner on the 5th, but there wasn't anything in the records that showed that you had spoken to Hanes at any particular time. There were a number of times when you had seen him, and under the circumstances after talking with Mrs. Klotz we thought the best thing to do was to call you and find out. All I was trying to do was to avoid another blow-up and keep them from saying that we were not cooperating.

HMJr: Well, that's all right from your standpoint, but why after Norris had written a letter and undoubtedly at Cohen's instigation.....

F: Yes, I think probably they wrote it for him.

HMJr: Well then why on Friday, 24 or 48 hours later, were they trying to get the detailed information and hang it on me?

F: Well I don't think they were trying to hang it on you, Mr. Secretary. I think that they were trying to afford a basis for a reply to Krock's statement in respect of the letter that Norris had sent to Jerome Frank.

HMJr: Well, listen, Ed.....

F: Yeah.

HMJr:either one of two things: If he wrote that letter on the 14th, and they wrote it for him, then they didn't have the information and got cold feet on Friday.

F: Well, I think that -- I think that Krock.....

HMJr: No, I think -- I mean, I think for Ben Cohen to call you up on Friday and get all his information after this letter had been written.....

F: Yeah.

HMJr:two days before, I think it's outrageous. I mean, the letter said that Hanes had done so and so and so before.....

F: Well, it's subject to that interpretation. I'll read you the paragraph that.....

HMJr: And I just think that Ben was trying to use you and make me the goat.

F: Well, I didn't get that impression at all.

HMJr: Well stop and think a minute.

F: Yeah.

HMJr: Stop and think a minute. Why, two days later, 48 hours later, should he call up in all this excitement and try to get the information. Either he didn't have it when he assisted Norris to write the letter, or he did have it and then he thought well we'll say that we got this from Morgenthau.

F: Well, his statement to me was, "Krock is trying to crawl out by taking exception to the time when Hanes is supposed to have seen the Secretary."

HMJr: Who -- well, but the letter -- Norris' letter made a flat statement. Never mind about Krock.

F: Well, here's -- I'll read you a paragraph. It's subject to two -- to two interpretations. Let me find it. (Brief pause.)

"In the second place, this article places the 'series of informal meetings' of these unknown and mysterious parties in interest prior to an inquiry which Mr. Krock states Mr. Hanes made to Secretary Morgenthau,

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the date of which inquiry is known to be prior to the filing of the petition in bankruptcy. This means that these unnamed parties had their meetings and had already decided on their choice of trustee before the case was even assigned to the Southern District of New York."

HMJr: Yeah.

F: So the -- the statement, "the date of which inquiry is known to be prior to the filing of the petition in bankruptcy" could refer to the informal meetings or it could refer to Hanes' conversation with you.

HMJr: But the fact remains -- now just stop and think a minute, Ed. This letter was written on the 14th, wasn't it, Norris' letter?

F: Dated the 14th, that's right.

HMJr: O. K. Now, 48 hours later they call up in great excitement.....

F: Yes, because Krock had called Norris on that date, as I understand it.

HMJr: Well, the fact remains when they wrote the letter on 14th they didn't have their facts, did they?

F: That's right.

HMJr: What?

F: That -- I mean, insofar as that date is concerned.

HMJr: Yeah.

F: That's correct.

HMJr: What?

F: I think that's right.

HMJr: Well, I was under the impression, and Mrs. Klotz tells me that I was wrong, that when I talked to you from the ranch that you said that you and I were out on the 28th.

- 10 -

- F: No, you and I had dinner on the 5th, Mr. Secretary, at your house, and we went to the movies after that.
- HMJr: Yeah, I remember, and you said we saw his -- Hanes' secretary there.
- F: That's right. That was -- that was on a Friday night on the 5th of -- of January.
- HMJr: I see.
- F: And then the reason that I think you mentioned it to me at that time is because at the -- at the Jackson Day Dinner on the 8th.....
- HMJr: Yeah.
- F:I sat next to Tom and Tom said something about Hanes trying to get the Associated Gas trusteeship. And that was the -- the first time that I had heard it from anybody but you.
- HMJr: Well I -- I have absolutely no recollection of that, you see?
- F: Yes.
- HMJr: I mean -- and I had Mrs. Klotz look up the Saturday Evening Post article which was the 13th.....
- F: Yes.
- HMJr:and -- and I remember -- the only thing that I can remember is that I had expected to have an unpleasant luncheon with him on the 11th on account of the article.
- F: Yeah.
- HMJr: And after the luncheon I said -- well, he never brought up the article because he spent most of the time talking about his own problems.
- F: Yeah. Well, I called them after we talked with you on Friday and I told them that I had called you and the best recollection that you had was that the thing had been mentioned to you first at the luncheon that you had with Hanes on the 11th.

- 11 -

HMJr: Yeah. Well, the other thing which I can't understand is, that I understand it that you and Sullivan felt that if we could give them this information had taken place prior to the 10th that that would ease me out of the situation.

F: Well,.....

HMJr: It seems just the opposite tome.

F: Well, I -- I don't know whether it would ease you out of the situation, Mr. Secretary. What I thought was that if they disqualified Hanes on that ground then -- then the whole thing would come out satisfactorily from their standpoint and then all this bitterness might be forgotten.

HMJr: Yeah, and all the bitterness would be concentrated on me.....

F: Well, not necessarily.

HMJr:by Hanes.

F: Well, maybe it would shift the burden.

HMJr: Oh, sure. Well, that's just -- exactly.

F: Yeah.

HMJr: Exactly.

F: Well, I -- I -- that's what I -- last week when I told you that we were in the middle I -- I don't.....

HMJr: Yes, but what you wanted to do on Friday, you and Sullivan would have made, certainly from Hanes' standpoint, would not only put me out of the middle but would have put me right in with Ben Cohen and Hanes would have blamed me entirely.....

F: Well, I -- yeah.

HMJr:for not getting it.

F: Well.....

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- HMJr: That's not a very enviable position to be in where I consider my own reputation for sincerity and in that the man did ask me had I any objection and I didn't and if I was asked publicly tomorrow had I any objection, I'd have to say the same thing, that I have not.
- F: That's right. That's right.
- HMJr: And I -- I've got certain principles, and you said just what I felt after my conversation with you that -- on Friday and after seeing this article I was very much upset because it would place the entire thing on me and Hanes would have every reason to feel that I'm the person solely responsible for his not getting it.
- F: Well, I don't think he can feel that, Mr. Secretary, because I understand from reports that come -- oh, Bob Kintner and Gene Duffield and other people, that all of Hanes' anger is directed at Corcoran and Cohen.
- HMJr: But you do agree with me that if we had been able to give it to him it would have shifted it on to me in that I would have supplied the necessary evidence.
- F: No, I don't think so, Mr. Secretary. I think that.....
- HMJr: Let me ask you one thing. Aren't you surprised to learn now -- I mean, would you have called me on Friday if you'd have known that Senator Norris had written this letter 48 hours before?
- F: I think so, Mr. Secretary, in view of everything that has happened. I -- I may be wrong but.....
- HMJr: I can't help it, Ed. I think -- I think that Cohen pulled a fast one on you.
- F: Well.....
- HMJr: And -- and you stop and think it over. I mean, he didn't tell you when he called you, did he, that Norris had written this letter 48 hours previous? And what he wanted was to make good that letter?
- F: Oh, I don't think he said that in so many words, Mr. Secretary, but the matter had been on the ticker of Norris' -- Norris' letter the day before and then

- 13 -

Krock's reply to Norris was also on the ticker, and I gathered that Ben was trying to answer Krock for Norris. I didn't think that there was any withholding of information. It is a fact that I didn't have the letter from Norris to Frank and I didn't get it until Saturday.

HMJr: Well, at least I'm satisfied as far as you're concerned that you've kept good faith with me.

F: Well, I've tried to keep good faith, Mr. Secretary. It's a very trying situation and.....

HMJr: Yes.

F:I -- I realize that where there are conflicting feelings of this character it's awfully hard to.....

HMJr: After all.....

F:be consistent and what I'm trying to do is -- is be consistent.

HMJr: Now, what -- well, what I want to say to you is this: When I come back tomorrow, I'd like you today to dictate and if Sullivan has taken part -- any part that he has taken -- a sort of a timetable what you think happened from the very beginning. You see?

F: Sure.

HMJr: A timetable.

F: Sure.

HMJr: I then would also like a very brief summary of the Act which provides for the SEC to be the trustee, is that what you called the SEC?

F: That's right. That's right.

HMJr: You see?

F: Yeah.

HMJr: Because I may want to restate why I said what I said and why I think it would be good if the SEC did it. I don't know whether I'm going to but I may want to restate that, you see?

- 14 -

F: Yes.

HMJr: Because I feel that there are two things which I've had part in - both are public property, and one is that Hanes asked me did I have any objection and I said no. Two, I thought the SEC should take it, you see?

F: Well, I have a proposed reply to Norris' letter.....

HMJr: Yeah.

F:that may give you an opportunity to set forth your position again, that you may want to utilize for that purpose.

HMJr: Well, I'd like to be able, as I say, to realize just what this responsibility would be if the SEC did take the trusteeship.

F: Yes. You see, Jerry tried to take the position that he had told us.....

HMJr: No.

F:that they would not take it.

HMJr: Now, that was a damn lie.

F: That's right. Because I've got a transcript of my conversation with Jerry where Jerry said that they didn't want it and they wouldn't do anything to get it. As a matter of fact, two of his commissioners were absolutely opposed to their taking it, but if some creditor wanted to ask the court to appoint them and the court asked them to take the case, that would be another matter and they would consider it.

HMJr: Well, I don't know when that conversation took place.

F: Well, I do. That conversation took place on -- on Friday night or Saturday morning the -- either the 11th or 12th of January, and then I also told Jerry before Thurman Hill went to New York when the hearing was held in February before Judge Leibell that that was what -- that we were going to ask the court to appoint the SEC.

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HMJr: Yeah.

F: And Jerry said, "Well that's all right with me but I don't know what the Commission will do."

HMJr: Well, I want to get that straightened out because I -- I can tell you of two conversations I had with Frank, both of which you were present.

F: Yeah.

HMJr: And the second one Mrs. Klotz was present.

F: Yeah.

HMJr: The one at my house where he said as far as the SEC taking it, he was neutral and he was -- he said either way -- he didn't care either way; he had no opinion.

F: Well, he said they wouldn't do anything to go get it, but if the court asked them to take it, why then that would be another matter and they'd have to consider it.

HMJr: He said, and then again the other day at the office, that famous afternoon, he repeated that statement.

F: Yes, I -- we -- we let go by there, Mr. Secretary, a chance to knock that down, because I got out on the edge of my chair and I -- I looked at you and I said, "Let me take it," and you waved your hand for me to keep quiet.

HMJr: Yeah.

F: And we let.....

HMJr: Do I ever do that?

F: We let that one go by.

HMJr: Yeah.

F: But.....

HMJr: Well, you've got it, and that little footnote on Krock's thing was -- I figured was just a lie.

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F: Yes, he called Krock and he told that to Krock.

HMJr: Well.....

F: Krock didn't put it on him directly but I understand that he called Krock and said that he told us that they wouldn't take it and we knew darn well they wouldn't take it when we went up and asked the clerk to give it to them.

HMJr: Well, Kintner and Alsop repeated that. Their column is published in the Tucson paper.

F: Yes.

HMJr: They repeated the same thing.

F: Yes. Well Bob talked with me about that after he talked to Jerry and before he wrote that column.

HMJr: Well, this -- this is the way I feel. All I want to do is -- whatever I'm going to do I'm going to do publicly, see?

F: Yeah.

HMJr: And as far as Krock is concerned the saying nobody reads it but Cabinet is pretty good, and -- but I do want to do one of two things: Either say nothing -- hello?

F: Yes, I'm listening.

HMJr:or if I -- whatever I do I want to give it to the so-called working press rather than to the columnists.

F: Yes. Well, you could -- you could reply to Norris and you could publish a copy of your reply to Norris by handing it to the press.

HMJr: But I can't help it, Ed, I don't like what happened Friday; I don't like the way Cohen handled himself; and I think the kindest thing you can say about the man is that in his present condition he's irresponsible.

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- F: Well, he's certainly terribly exercised about the whole thing. I haven't seen him since the -- the.....
(Laughs)
- HMJr: What?
- F: I haven't seen him since -- since you left. I've had a couple of talks with him on the telephone and -- and that not until Friday last week. Then he called up on Saturday a couple of times and he sent over something that he -- he had drafted for Norris to say in reply to Krock and said that he had told Norris' secretary to check with me the time when Hanes had seen you, which was the 11th, and Norris' secretary hasn't called me and I don't think any use has been made of that.
- HMJr: Well -- well that's -- you know how I feel and.....
- F: Well, it's an unfortunate situation all the way around. I have never seen a situation where there were so many feelings involved in all my life.
- HMJr: Well my feelings are very quiet. I mean, I've been perfectly forthright about it and I'm not going to let anybody change me.
- F: Yeah.
- HMJr: And there's nothing that I have to apologize or explain to anybody and if -- after all, I still would like to see the SEC do it. How does the -- How does Norris feel about that?
- F: Well, he -- he thinks they made a great mistake. He feels very, very strongly that that was the provision -- I mean, that was the situation that this provision was inserted in the law to take care of.
- HMJr: The amusing thing is, as to principle, I'm in the position of the most extreme New Dealer who wants the SEC to carry this out.
- F: You and Bob Jackson. That's right.
- HMJr: What?

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F: You and Bob Jackson.

HMJr: Right.

F: And Norris -- Norris gives you that credit.

HMJr: And the other stuff is all very unpleasant personalities and I'm going to stick to my principles.

F: Yeah.

HMJr: I'm also going to stick to the fact that I -- I made Hanes a statement which I'm not going to/back on for anybody. go

F: Yeah.

HMJr: Because I never have gone back on my word and I'm not going to now. Now there's one other thing that -- this has bothered me a lot, which you boys ought to put in the back of your heads. I think that this is important but I don't want it to go out of the Treasury without my consent. Hello?

F: Yes, sir.

HMJr: At no time did Hanes tell me he wanted this.

F: I see.

HMJr: When Hanes phoned me -- I've only talked to him twice -- when he got through and before he hung up he said, "Everybody now has agreed that they want me." You see?

F: Yes.

HMJr: But he said, "I haven't definitely made up my mind yet to take it."

F: Yes.

HMJr: So I think that's important as to his relationship between Hanes and myself.

F: Yes.

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HMJr: I think it's very important.

F: Yes.

HMJr: Because Hanes never said to me, "Now, Henry, I want this."

F: I see.

HMJr: You see?

F: I see.

HMJr: And I think if -- Mrs. Klotz ought to see whether there is a record on what night that he phoned me. I imagine he called me through the Treasury switchboard.

F: At your house?

HMJr: At my house.

F: O. K.

HMJr: But the last thing he said was, "Well I haven't made up my mind definitely that I want to take it yet."

F: Yeah.

HMJr: Of course that was just an added thing, but it's -- it's interesting and it's worth remembering.

F: Yeah. Would you want -- I -- would you want me to read you this proposed reply that -- to Norris that I have?

HMJr: I don't think so -- how long is it?

F: Very short.

HMJr: All right, please.

F: "Upon my return to Washington today I read the copy of your letter of February 14th to Chairman Frank of the Securities and Exchange Commission relative to the Associated Gas and Electric case which you sent me on February 15th.

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"Like you, I would have been delighted by the appointment of the Securities and Exchange Commission as sole trustee in this proceeding.

"In the interest of fairness, there is one matter which I want to clarify. Your letter is susceptible to the interpretation that former Under Secretary of the Treasury Hanes inquired of my position prior to the filing of the petition in bankruptcy on January 10th.

"I have looked through my records and to the best of my recollection it was on January 11th when I had lunch with Mr. Hanes that he asked me if I would have any objection to his appointment as trustee. I told him that I would have no objection if the Court appointed him but at no time did I say that I would recommend him to the Court."

HMJr: Well now, the letter is all right but before I send it I'm going to show it to Hanes.

F: Sure.

HMJr: And I'm going to make him initial it.

F: All right.

HMJr: You see?

F: Yeah.

HMJr: Then there can be no question about it. And he may say, "No you're wrong, Henry, I talked to you about it so and so."

F: Yeah.

HMJr: See?

F: Well, I had this -- well -- to submit for your consideration because I think we -- I think it's all right.

HMJr: It's all right, but before I send it I -- I certainly -- I personally would show it -- I mean, I'd send for him myself and show it to him.

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F: Yeah.

HMJr: I mean, I think that that would be the thing to do.

F: Yeah.

HMJr: And say, "Is this correct?"

F: Yeah.

HMJr: But if he says the letter is entirely satisfactory, and I think it's very well written and I think I'd -- and then I'd publish it.

F: Yeah.

HMJr: Well.....

F: You'll have a chance to think about it and I'll -- I'll get up that memorandum and then we can talk about it tomorrow when you get back.

HMJr: Right. Now, does Sullivan want to say anything about this?

F: He says not now.

HMJr: What?

F: He says not now.

HMJr: Is that somebody laughing?

F: Yes, that was I.....

HMJr: Oh.

F:and Dan.

HMJr: Not now? Well, he'd better say it now or never.

F: All right, here he is.

John
Sullivan: I merely wanted to say, sir, that I don't acquiesce in your view of the situation but I don't think you want to discuss it any more over the phone, do you?

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HMJr: Not particularly - you mean about the Friday incident?
S: That's right.
HMJr: Uh-huh. No, I can -- you know how I feel.
S: I know how you feel, sir, and I think you're wrong.
HMJr: You do?
S: Yes, I do.
HMJr: You mean about Cohen.
S: That's right.
HMJr: Well, I'll listen when I get back.
S: That's what I thought.
HMJr: Right.
S: Well, pleasant landings, sir.
HMJr: Is Gaston there?
S: Right here, sir.
(Mr. Gaston takes the phone.)
Herbert
Gaston: Hello.
HMJr: Hello.
G: Yes?
HMJr: Anything new, Herbert?
G: Nothing particular I guess. They had a motor out
of your plane this last week and have got it back again.
HMJr: Uh-huh.
G: Otherwise I don't know of anything important.
HMJr: O. K.

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G: That won't wait.

HMJr: All right.

G: Right. Anybody else?

HMJr: No -- if Mrs. Klotz is going back to her room I'll talk to her there.

G: Yes, she's doing that right now.

HMJr: Thank you.

G: How's your weather there?

HMJr: Bad.

G: Bad.

HMJr: How is it in Washington?

G: Well, it couldn't be worse.

HMJr: I see.

G: Cold -- cold rain.

HMJr: Right.

G: Just a minute.
(Brief pause.)

Operator: Hello.

G: Yes. He's -- he's switched over, isn't he?

O: Yes, he has. Right.

MEMORANDUM FOR THE SECRETARY:

FEBRUARY 19th 1940.

Shipping Situation

The export cargo situation has not materially changed.

Up until the storm this week the railroads were lightering for export an average of 800 cars per day. The railroad lighters on demurrage at noon yesterday numbered 144 against 118 the same day last week. The railroads report that there has been an increase of approximately 900 cars in the quantity of export freight unloaded from cars and held in railroad facilities.

Grain is moving freely both in and out and there are approximately 4,000,000 bushels in elevators, barges and railroad cars.

There is an active demand for grain space to Antwerp/Rotterdam, 75¢ having been paid with 80¢ bid and refused.

The outstanding development in the freight market has been the spectacular advance in the rate on grain from the River Plate to Europe - \$32.00 per ton against \$24.00 a week ago.

The net form and time charter rates are advancing, the former from the Gulf being 39¢ and from the North Atlantic 34¢ per cubic foot. One advantage of this is that it makes the going very rough for the speculators and non-Conference operators, who are curtailing their sailings. The Black Diamond Line took the small Norwegian steamer "HELVIG" on time charter at \$35,000. per month.

While the situation has not yet been entirely cleared up, it seems likely that the British government has embargoed all packing house products, with the exception of sausage casings, shipped subsequent to February 10th. While it is hoped and expected that import licenses may be granted for frozen pork products, these will probably be only

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for limited quantities and the exclusion from this important export market will provide a problem, not only for the American packers but also for the steamship lines operating to the United Kingdom, whose vessels are equipped to carry refrigerated cargo. Packing house products were the only remaining cargo of any consequence moving that required refrigeration. As indicated previously, Mosvold and the East Asiatic Company are expected to abandon their projected services from this coast.

Basil Harris



TREASURY DEPARTMENT
WASHINGTON

February 19, 1940.

*Spit for
(Crummey index)*

MEMORANDUM FOR MRS. KLOTZ:

The large case which has been in bonded warehouse in New York, and in which the Secretary was interested, has been shipped to Canada and cleared by rail through the port of Ogdensburg, New York.

Basil Harris.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

R-618

STATEMENT FOR THE PRESS

For release in morning newspapers of
Wednesday, February 21, 1940

February 20, 1940

The Federal Advisory Council of the Federal Reserve System held its annual organization meeting in Washington on February 18-20, and elected Edward E. Brown, President of the First National Bank of Chicago, as President of the Council, and re-elected Howard A. Loeb, Chairman of the Tradesmen's National Bank & Trust Company of Philadelphia, as Vice President. Walter Lichtenstein was reappointed Secretary.

In the course of its meetings the Council discussed business conditions, pending legislation affecting banking, and monetary policies, including gold and silver questions. On the subject of silver, the Council adopted the following recommendation:

"The Federal Advisory Council has noted that the Senate Committee on Banking and Currency is considering at this time S. 785 which would discontinue the purchase of foreign silver by the Secretary of the Treasury. The Council is unanimously of the opinion that these purchases of foreign silver should be discontinued forthwith, particularly in view of the fact that silver purchases increase the already excessively large bank reserves."

The Council requested that the Board of Governors, with whom it met on Monday and again today, transmit a copy of the foregoing resolution to the Senate Committee on Banking and Currency.

The Council is composed of the following members:

Federal Reserve

- District No. 1. Thomas M. Steele, of New Haven, Connecticut.
- No. 2. Leon Fraser, of New York, New York.
- No. 3. Howard A. Loeb, of Philadelphia, Pennsylvania.
- No. 4. B. G. Huntington, of Columbus, Ohio.
- No. 5. Robert M. Hanes, of Winston-Salem, North Carolina.
- No. 6. Ryburn G. Clay, of Atlanta, Georgia.
- No. 7. Edward E. Brown, of Chicago, Illinois.
- No. 8. S. E. Ragland, of Memphis, Tennessee.
- No. 9. John Crosby, of Minneapolis, Minnesota.
- No. 10. John Evans, of Denver, Colorado.
- No. 11. R. E. Harding, of Fort Worth, Texas.
- No. 12. Paul S. Dick, of Portland, Oregon.

TO THE FEDERAL RESERVE BOARD
WASHINGTON, D. C.

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TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE February 20, 1940

TO Secretary Morgenthau Mr. Basil Harris
Mr. Gaston Mr. Cochran
FROM Mr. White

Subject: Shipments to U. S. S. R.

Following are details of the S. S. Wildwood sailing February 19 with cargo for Russia.

Domestic Exports:

Industrial machinery	\$1,039,947
Brass strips and castings	445,408
Copper and products	411,505
Electrical machinery and apparatus	153,554
Aircraft engines, instruments and parts. ^{1/}	82,820
Iron and Steel plates and sheets	80,487
Automobile engines and parts	29,162
Wool rags	19,343
Wheels of artificial abrasives	15,929
Other printed matter, including photographs and blue prints	9,725
All other commodities	7,060
Total Domestic exports	\$2,294,940

Re-exports

Copper and products	848,254
Shellac	15,375
Total re-exports	863,629

Total Cargo \$3,158,569

^{1/} Reported in memo of February 5 as being carried by the S. S. Norbryn. These airplane engines and parts have been transferred to the Wildwood.

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

TREASURY DEPARTMENT

CONFIDENTIAL

INTER OFFICE COMMUNICATION

DATE February 20, 1940

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

SUMMARY

- (1) High-grade securities markets in the United States have been marking time. The market for United States Government securities is currently higher than it was at the time of the December financing (Chart I).
- (2) An offering of \$98.5 millions of Triborough Bridge Authority bonds was made by a syndicate last week. The offering, which consisted of \$50 millions of sinking fund bonds and \$48.5 millions of serial bonds, was well received. Chart II shows the offering yields of the various maturities of the serial bonds and the comparable yields on United States Treasury bonds and notes.
- (3) Rights values on Treasury securities are currently lower than prior to the March financing last year -- when a record high level was established -- but higher than before the November financing -- which marked the subsequent low point (Chart III).
- (4) It is estimated that total interest-bearing governmental securities outstanding in the hands of the public aggregated \$57.1 billions as of December 31, 1939, as compared with only \$4.9 billions on June 30, 1913. Chart IV shows the changes year-by-year during this period.
- (5) There have been practically no changes in the prices of British and French Government securities in the last two weeks. The Dominion of Canada is reported to be considering the issuance of savings certificates similar to United States Savings bonds. The Dutch Government is sponsoring a bill authorizing the issuance of a new loan on a forced basis if necessary. The Italian Government offered a new 5 percent nine-year issue last week.

I. Domestic High-Grade Securities Markets

United States securities have shown little change in the last two weeks. The average yield of long-term Treasury bonds stood at 2.32 percent on Monday of this week, the same as two weeks previously. This stability has been reflected in all maturity groups.

The market for United States securities is currently higher than it was at the time of the December financing. The details concerning the December refunding were announced by the Secretary on December 12. From then until January 5, all maturities gained on net balance. Bonds over fifteen years to call gained in price by an average amount of 1-14/32. From January 5 through January 30, a downward movement took place which affected all maturities. Long-term bonds fell during this period by around a point. Since January 30, the market has tended somewhat higher (Chart I).

High-grade corporate bonds held steady last week. Our average of the yields of high-grade corporate bonds has decreased four basis points since the end of January, and is now only six basis points more than the record low yield (high price) established last August. Municipal bonds have been marking time in the last two weeks.

The volume of new bond issues last week reached the highest level in several months. The new issues were mostly for refunding purposes, and the bulk of the bonds are believed to have been taken by holders of the old securities. Most of the volume was accounted for by \$98.5 millions of bonds of the Triborough Bridge Authority (discussed in some detail below) and \$16 millions of bonds of the Southwestern Gas and Electric Company. The latter issue, rated A by Moody's Investors' Service, was sold to yield 3.10 percent to maturity (1970).

Among the new issues of last week were four long-term serial bonds of local housing authorities. These issues aggregated \$1.7 millions, and represented from 10 to 25 percent of the total cost of the respective projects. The issues were as follows:

	: Amount :	Range of	: Average
	: (Thousands) :	maturities	: yield
		(Years)	(Percent)
Syracuse, N. Y.	\$ 993	6 mos. to 25-1/2 yrs.	2.48
Allentown, Pa.	342	6 mos. to 25-1/2 yrs.	2.57
Utica, N. Y.	242	6 mos. to 26-1/2 yrs.	2.70
St. Petersburg, Fla.	104	6 mos. to 13-1/2 yrs.	2.66

Secretary Morgenthau - 3

The Syracuse and Allentown issues were reoffered yesterday (Monday), both at prices to yield from .20 percent for the six-month maturity to 2.65 percent for the 25-1/2 year maturity.

The annual contribution by the USHA on local projects will be pledged as security for the bonds of the local authorities. The USHA is reported to have stated that these offerings were test sales and would be followed by other and larger offerings. Mr. Straus said that local housing authorities hereafter may raise as much as 40 percent of the capital cost of their projects through public sale of their own securities. In the past, it has been customary for the local authorities to raise only the minimum of 10 percent required by law, while the USHA loaned them the other 90 percent.

II. Triborough Bridge Authority Bonds

The \$98.5 millions of Triborough Bridge Authority bonds offered by a syndicate last week constitute what is reported to be the largest offering of revenue bonds ever made. The offering, which consisted of \$50 millions of sinking fund bonds and \$48.5 millions of serial bonds, was well received. The sinking fund bonds bear interest at 3-1/4 percent, and mature February 1980. At the offering price of 102-1/4, they yield about 3.15 percent. This issue is callable beginning February 1, 1942 at 105, and thereafter at successively lower premiums.

The serial bonds are interesting in view of the fact that their maturities are spread over thirty-one years from 1945 to 1975. This issue consists of two segments, \$8.5 millions of 2-3/4's due 1945-52, and \$40 millions of 3's due 1953-75. These bonds are callable in inverse order of maturities, but only after, or simultaneously with, retirement of all sinking fund bonds.

Chart II shows the offering yields of the various maturities of the serial bonds and, for perspective, shows the comparable yields on United States Treasury bonds and notes. The Triborough issue indicates the market relationship existing between various maturities of serial bonds, although the exact level of the curve of yields naturally is a function of the quality of the issue. It should be noted that the Triborough bonds are commonly believed to be fully exempt from Federal income taxes.

Secretary Morgenthau - 4

III. Movement in Rights Values in the Last Year

In the course of the last few years, there have been several cycles in the values assigned by the market to rights on Treasury securities. The highest level was reached prior to the financing last March. Two weeks before the announcement of the refunding offering, the Treasury note being refunded at that time had a rights value* of 59/32.

Thereafter, the value of rights began to decline, reaching the lowest point in approximately two years just before the financing last November. On October 9, two weeks prior to the announcement of the details concerning the new offering, the rights of the issue being refunded were valued in the market at 24/32, a decline of 35/32 from the preceding March.

Subsequently, rights values again began to increase. As of the close last Friday, the rights value of the June notes was 47/32, and of the 3-3/8 percent bonds of 1940-43, 50/32.

Chart III compares the values of rights at the present time and two weeks before the announcement of details concerning each of the March and November financings last year. There are three grids on the chart, each showing the rights values for one of the three dates. Each grid consists of a series of bars showing the rights values reflected in the prices of Treasury bonds and notes, the bars being arranged in the order of maturity or first call. The rights values have been calculated on the assumption that each issue would be refunded three months prior to maturity or first call, and the excess of the current price over a zero yield to that date has been assigned as the rights value.

It is interesting to note that the number of issues reflecting some rights value has fluctuated from nine before the financing of last March, and eight before last November's financing, to eleven at the present time. On the basis of 47/32 as the current rights value of the June notes and of 50/32 for the 3-3/8's of 1940-43, the rights value pertaining to these two issues aggregates about \$16 millions.

IV. Growth of Over-All Public Debt in the United States since 1913

In the years since the beginning of the first World War, the amount of public securities outstanding in the United States has increased tremendously. It is estimated that total

* Price in excess of zero yield to actual or probable refunding date.

interest-bearing governmental securities outstanding in the hands of the public aggregated \$57.1 billions as of December 31, 1939, as compared with only \$4.9 billions on June 30, 1913.

Chart IV shows the total interest-bearing public debt held by private individuals and corporations (including banks and insurance companies) year-by-year from June 30, 1913 to December 31, 1939. The amounts of public securities held by governmental units and agencies and in governmental trust funds and sinking funds have been excluded, as well as the amounts held by the Federal Reserve banks.* The securities of all Federal agencies have been included, whether or not guaranteed by the Federal Government. The chart thus gives a complete picture of the interest-bearing debts of government in the United States absorbed by non-governmental holders.

Distinction is made in the chart between the Federal debt (including Federal agencies) and the debt of State and local governments. The chart also shows separately securities wholly exempt and securities partially exempt from Federal income taxes.

During the World War years, the amount of public securities outstanding increased sharply. As of June 30, 1916, privately held public securities aggregated \$6.0 billions, all wholly tax-exempt. In the next three years, there was an increase of \$24.9 billions, practically all Federal, and 88 percent in partially exempt issues.

In the Twenties, State and local securities increased at the rate of almost \$1 billion a year, approximately offsetting the steady decreases taking place in the United States Government securities. As may be seen in the chart, the incidental result of this was a replacement of partially tax-exempt securities with wholly tax-exempt issues. Throughout this period, the wholly exempt issues of the United States, including Federal instrumentalities, remained almost unchanged.

In the depression years, State and local securities outstanding remained relatively stable, while United States Government and Federal instrumentality issues were showing large increases. In the decade ended June 1939, issues of the United States Government alone increased \$16.2 billions, of which \$5.2 billions were wholly exempt and \$11.0 billions partially exempt.

* The amount of government securities held by State and local trust and investment funds has not been deducted in any year in obtaining the net amount of securities held by the public because adequate estimates of such holdings are available only for the last three years. These holdings are estimated at \$2.8 billions for December 31, 1939.

Secretary Morgenthau - 6

This marked the first time that the United States Government had issued wholly exempt securities in great quantities. The explanation, of course, is that the Government was relying heavily on short-term issues to finance the deficits. It was not until the latter part of the decade that wholly exempt United States securities were replaced by partially exempt issues as short-term securities were funded into longer maturities.

Meanwhile, the rapid development of Federal agencies was also providing a large increase in public securities. Between June 1933 and June 1939, interest-bearing securities of Federal instrumentalities increased \$5.0 billions, all of which consisted of partially exempt securities. It should be observed that the agencies with wholly exempt securities outstanding are the older Federal agencies. With minor exceptions, the agencies organized within the last ten years are authorized to issue partially exempt securities.

V. Foreign Markets

British and French Government securities have held relatively stable over the past two weeks. British 2-1/2 percent consols closed yesterday (Monday) at 73-3/4, as compared with the high of 74-3/8 for the recent recovery reached on January 31. French 3 percent rentes closed yesterday at 73.95, approximately the same price as on January 31.

The press recently announced that the Dominion of Canada is considering the issuance of savings certificates similar to United States Savings bonds. The denominations may run to smaller amounts, perhaps to as low as \$5 and \$10. The banks and special dealers, as well as Federal Government agencies, may be authorized to sell the new issue instead of handling the sale through post offices.

Additional data have now been released concerning subscriptions to the recent Dominion war loan. More than 178 thousand persons subscribed to the loan. Of this total number, 172 thousand, or about 97 percent of subscriptions, were for amounts from \$50 to \$5,000. These persons accounted for about \$114 millions of the \$200 millions of cash allotments.

Newspaper reports from Amsterdam indicate that the Dutch Government is sponsoring in Parliament a bill authorizing the issuance at par of a 4 percent 40-year loan of 300 million guilders (approximately \$159 millions). If the offering is not successful on a voluntary basis, it is to be issued on a forced basis at 3 percent. In the latter event, individuals would be obliged to subscribe at a progressive rate according to their

Secretary Mergenthau - 7

property tax, while corporations would be forced to subscribe the equivalent of 50 percent of profits distributed during the year ended April 30, 1939. Other funds and institutional investors would be obliged to subscribe to the extent of 2 percent of the net value of their properties.

Subscriptions were received for a new 5 percent nine-year Italian Treasury bond issue last week. No limit has been fixed for the loan, and it is reported that the Government is likely to accept all subscriptions tendered. Early reports indicate that the amount of subscriptions will be large.

Attachments.

Chart I

CHANGES IN THE PRICES OF U.S. SECURITIES SINCE JUNE 5, 1939
Points Plotted Represent Differences from Average Price of Each Maturity Class on June 5.

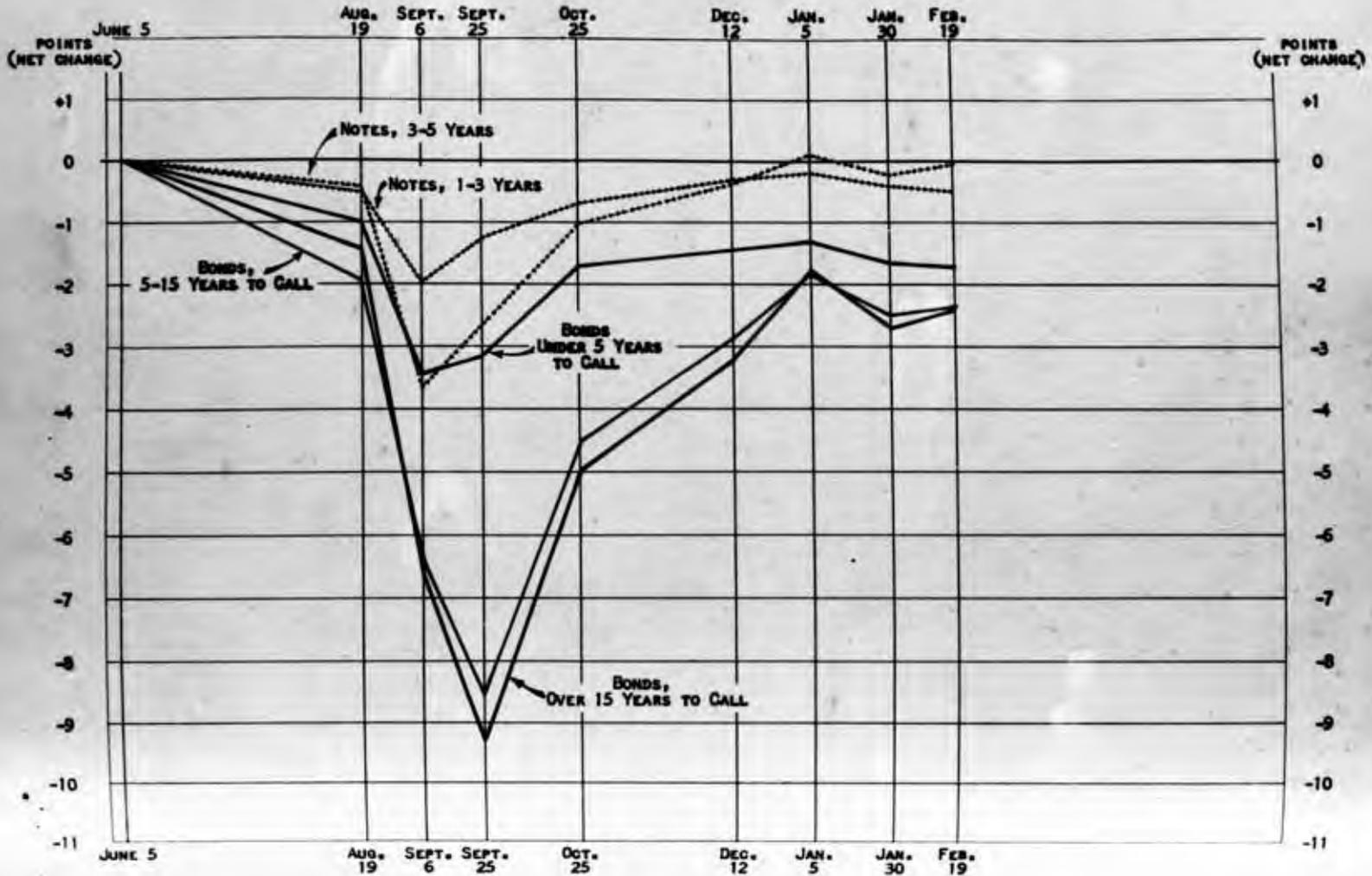


Chart II

YIELD OF NEW SERIAL BONDS OF THE TRIBOROUGH BRIDGE AUTHORITY AS OF FEB. 14, 1940
Compared with Yields of United States Securities

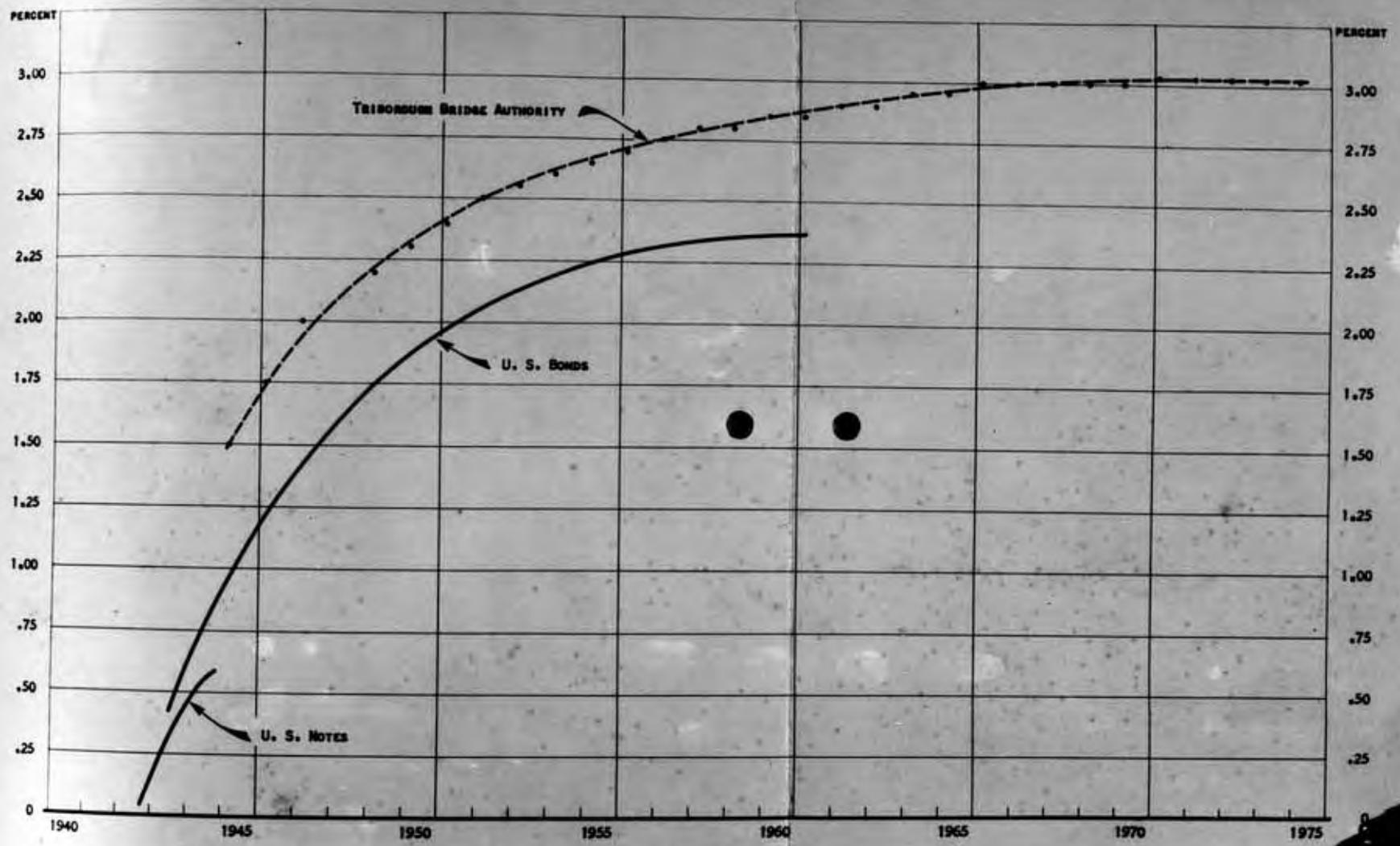
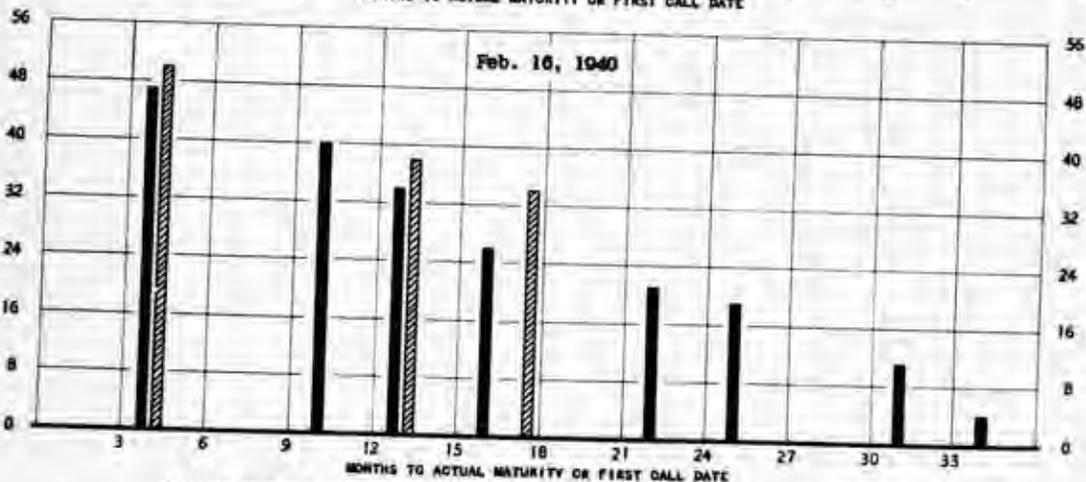
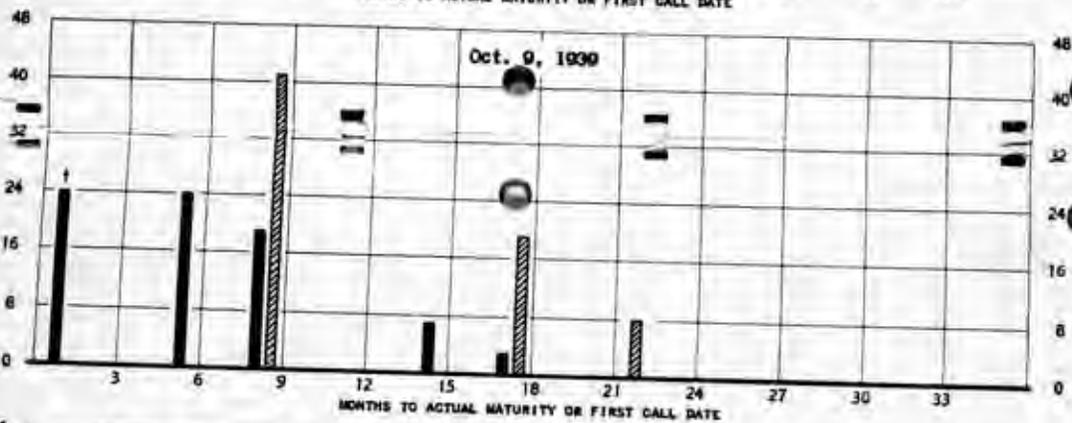
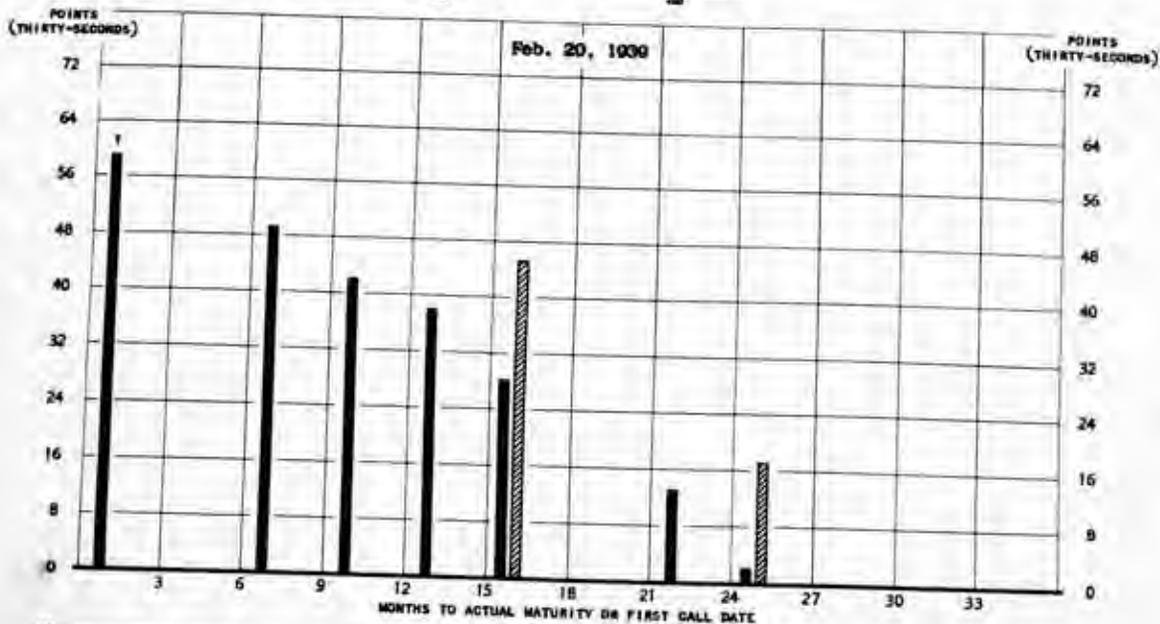


Chart III
 COMPARISON OF RIGHTS VALUES*
 Feb. 20, 1939; Oct. 9, 1939; Feb. 16, 1940

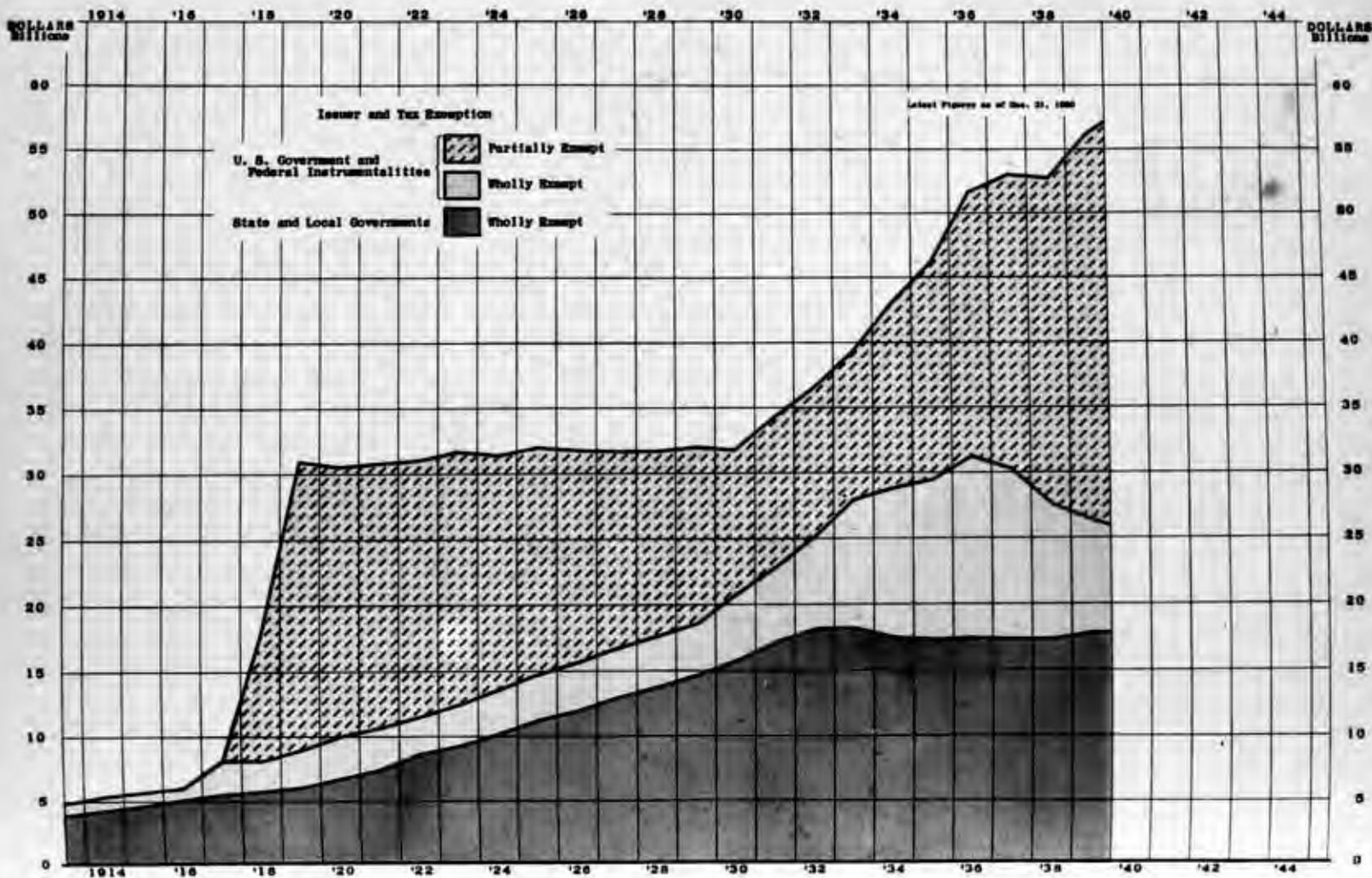
Notes Bonds



* EXCESS OF PRICE OVER ZERO YIELD TO DATE THREE MONTHS PRIOR TO MATURITY OR FIRST CALL
 † EXCESS OF PRICE OVER ZERO YIELD TO ACTUAL REFUNDING DATE

Chart IV

ESTIMATED AMOUNT OF PRIVATELY HELD PUBLIC DEBT OUTSTANDING*
June 30, 1913 to date



* Estimated gross amounts containing less estimated amounts held by U.S. Government, its agencies and trust funds, Federal Reserve banks and by State and local government sinking funds.

TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE February 20, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

There was no outstanding development in the foreign exchange market today although the reported volume of sterling transactions was slightly greater than that of yesterday. After opening at 3.94-7/8, sterling advanced during the morning to 3.95-1/4 at noontime. It fluctuated within a narrow range for the rest of the day and closed at 3.95-1/4.

Sales of spot sterling by the six reporting banks totaled £631,000, from the following sources:

By commercial concerns.....	£ 200,000
By foreign banks (Europe and South America).....	£ 431,000
Total.....	£ 631,000

Purchases of spot sterling amounted to £328,000, as indicated below:

By commercial concerns.....	£ 283,000
By foreign banks (Europe).....	£ 45,000
Total.....	£ 328,000

The following reporting banks sold cotton bills totaling £44,000 to the British Control on the basis of the official rate of 4.02-1/2:

£ 31,000 by the Irving Trust Company
6,000 by the Guaranty Trust Company
5,000 by the National City Bank
2,000 by the Bankers Trust Company
<u>£ 44,000 Total</u>

The other important currencies closed as follows:

French francs	.0224
Guilders	.5315
Swiss francs	.2242-1/2
Belgas	.1682-1/2
Canadian dollars	13-3/8 % discount

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

\$10,000,000 from the Bank of France
1,475,000 from the National Bank of Rumania
 \$11,475,000 Total

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

\$3,103,000 from England, shipped by the Bank of England to the Federal Reserve Bank of New York, to be earmarked for account of the Bank of England.
 1,911,000 from South Africa, shipped by the South African Reserve Bank to the Federal Reserve Bank of New York, to be earmarked for account of the Bank of Sweden.
 1,042,000 from Italy, shipped by the Bank of Italy to the Federal Reserve Bank of New York, to be earmarked for account of the B.I.S.
\$6,056,000 Total

The State Department forwarded to us a cable stating that the Swiss Bank Corporation, Zurich, was shipping \$2,254,000 in gold to its New York agency for sale to the U. S. Assay Office at New York.

The Federal Reserve Bank of New York received cables from the B.I.S., the Netherlands Bank and the Bank of Latvia requesting it to apply for licenses to transfer from B.I.S. Account #2 approximately 32,000 ounces of gold (about \$1,120,000) to the account of the Netherlands Bank and approximately 16,050 ounces (about \$562,000) to the account of the Bank of Latvia. B.I.S. Account #2 is gold owned by that institution. The Treasury granted permission to the Federal to make these transfers.

On the report of February 14 received from the Federal Reserve Bank of New York giving the foreign exchange positions of banks and bankers in its district, the total position of all currencies was short the equivalent of \$20,856,000, a decrease of \$861,000 in the short position. The net changes in the positions are as follows:

COUNTRY	SHORT POSITION FEBRUARY 7	SHORT POSITION FEBRUARY 14	DECREASE IN SHORT POSITION
England	\$ 11,665,000	\$ 10,395,000	\$ 1,270,000
Europe	5,895,000	5,938,000	43,000 (Increase)
Canada	7,000 (Long)	4,000 (Long)	3,000 (Decrease in Long Position)
Latin America	452,000	651,000	199,000 (Increase)
Japan *	2,753,000	2,596,000	157,000
Other Asia	1,022,000	1,312,000	290,000 (Increase)
All Others	63,000 (Long)	32,000 (Long)	31,000 (Decrease in Long Position)
	<u>\$ 21,717,000</u>	<u>\$ 20,856,000</u>	<u>\$ 861,000</u>

* Includes Korea and Manchuria

- 3 -

The Bombay quotation for spot silver worked out to the equivalent of 39.37¢.

In London the price for spot silver was fixed at 20-5/8d, off 1/8d, and the forward silver quotation was also 20-5/8d, off 1/16d. The U. S. equivalents were 36.65¢ and 36.46¢ respectively. Since the beginning of this month, the spot silver price has moved off 1-1/8d (a decline of nearly 2-1/2¢ in the equivalent), mainly on small selling in a thin market by local speculative interests and Indian operators. The discussions which have been going on in the Senate Banking and Currency committee regarding Senator Townsend's bill relative to the purchase of foreign silver may have exercised some psychological influence upon the London silver market.

Handy and Harman's price for foreign silver was unchanged at 34-3/4¢. The Treasury's price was also unchanged at 35¢.

We made two purchases of silver totaling 100,000 ounces under the Silver Purchase Act. This silver was new production from foreign countries and was purchased for forward delivery.



CONFIDENTIAL

TREASURY DEPARTMENT
INTER-OFFICE COMMUNICATION

214

DATE February 20, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

SPAIN

The Spanish Ambassador desires to be informed as early as possible, in order that he may communicate with his Government, as to whether the Treasury will buy Spanish silver coins, the proceeds of the sale to be used in paying for nickel (Canadian) and the minting thereof into Spanish coins in the United States.

SILVER

I am confidentially informed that the Advisory Council of the Federal Reserve System will at its meeting today unanimously recommend that the Treasury be authorized by law to stop forthwith the purchase of foreign silver. From an attorney who has been close to Townsend's committee, I understand that the bill as passed by the sub-committee stops the purchase of foreign silver; insures the validity of Treasury contracts outstanding for the purchase of forward silver; abolishes the 50% tax; but does not prohibit the importation of silver into the United States. It is my firm conviction that the Treasury should not oppose the Townsend bill, it being our responsibility to look after the monetary and financial interests of the Government, which certainly require no more foreign silver. Even the State Department is, I understand, hesitant to put forth the usual argument that our foreign relations require the maintenance of foreign silver purchases. As far as enabling other countries to purchase American goods with the proceeds of their silver sales to us, we have no arrangement which assures that such funds will be spent on our market, and we do have evidence enough that Mexico, the most important source of our foreign silver, flagrantly disregards American interests in that country. In connection with the Advisory Council, it is to be noted that two of the twelve representatives come from western silver states. They realize that our domestic producers are taken care of by law, and join with their colleagues in opposing purchases of foreign silver. It is very probable that the resolution to be passed by this Council will be published shortly.

BRITISH

The vesting of the sixty American securities took place in very favorable circumstances. The press was uniformly excellent; even the New York Herald Tribune today commented upon the secrecy with which this operation was arranged. The general interpretation, both in New York and London, is that this measure will prove constructive rather than injurious to the security markets. On February 15, Pincet submitted further notes on the British foreign exchange position, and expects to give us some additional data in the near future.

- 2 -

From New York I have learned that the Bank of England contemplates shortly resuming direct gold shipments from London to New York.

CHINA

Mr. Chen has called two or three times to thank you personally for help in obtaining the new credit for him. This will apparently be for \$20,000,000, 7 years, at 3.6%. It will be recalled that the outstanding credit is for 5 years at 4-1/2%. Against the new credit the Chinese Government will undertake to deliver 40,000 tons of tin, valued at \$800 per ton. Mr. Chen hopes to visit China this spring with one purpose thereof being to modernize and increase Chinese tin production. Mr. Sheahan, the transportation man, who went to China, and Dr. Buck will both be in this country shortly to report to Mr. Chen on Chinese transportation and economic questions.

GOLD

With so much publicity being given to the gold question, I am more than ever convinced that any inquiry we make into this subject should be within our four walls and strictly confidential. Incidentally, the Federal Advisory Council is undertaking a gold study, with the report to be made at its next meeting. The impression now is that the Council would regard Aldrich's suggestion for circulation of gold coins as not objectionable, but only a small factor in the situation. They would most likely favor: (1) permitting a rise in prices which would automatically help to rectify the gold situation in time; (2) perhaps increasing reserve requirements, or at least having the machinery to make this possible; (3) planning to lend abroad when conditions warrant; and (4) considering the possibility of international joint action toward simultaneously lowering the price of gold after the war is over. These ideas are purely tentative, and may not be found generally acceptable, particularly the last one. The Council members are opposed to such measures as prohibiting gold imports, putting taxes thereon, etc.

BABY BONDS

At the meeting yesterday, the Federal Advisory Council strongly opposed Eccles' criticism of baby bonds. The Council members are happy to see these Government securities distributed to the public, as contrasted with other bonds held largely by banks. They do not object to the favorable rate of interest which makes them so attractive. They have a little nervousness, but will not indicate this in their arguments with Eccles, that if we should get into a war and have to borrow tremendous amounts on bonds, perhaps at 4% or above, there might be an important dumping of baby bonds which could seriously embarrass the Treasury in such an event.

MISCELLANEOUS

Governor Harrison's inquiry on gold loans.
 Governor Booth's letter on Finland.
 Rumor of Reynaud's retirement.
 Visit of Under Governor Gordon of Bank of Canada on February 21.
 Brazilian bond tangle continues.
 Procope and a popular loan.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Febr. 20, 1940

TO Secretary Mergenthau
 FROM Mr. Haas *J.A.*
 Subject: Wheat export sales and other market data from the Federal Surplus Commodities Corporation.

Feb. 6: A sale of 200,000 barrels of flour was reported to have been made by southwest mills to an eastern chain bakery. Winnipeg was strong on intimation that the United Kingdom might soon be back in the market for North American wheat and further fears concerning the foreign crop outlook. A good many traders feel that a big crop scare might develop in wheat in the early spring.

Feb. 7: Flour sales were up to 129 per cent of capacity during the past week compared with 11 per cent the previous week and 30 per cent a year ago.

Reports from London that the chartering of grain freight space had been resumed on the Balkan exchange attracted considerable attention. These Balkan countries have a substantial surplus of grain left for export and additional purchases there might result in smaller takings of Canadian wheat.

There were inquiries for from one to several cargoes of Number 2 Northern Canadian wheat, but only about 200,000 bushels were sold.

The United Kingdom purchased 130,000 bushels of United States corn and were understood to be interested in more.

Feb. 8: Canada reported sales of 300,000 to 350,000 bushels of export wheat. Norway bought 150,000 bushels of Canadian wheat, and during the past few days the Scottish cooperatives are understood to have sold between four and six cargoes of Manitoba wheat to the British Cereal Committee.

Secretary Morgenthau - 2

Feb. 9: It was estimated that about 400,000 bushels of Manitoba wheat had been sold to the Continent and this included some scattered lots afloat. New York reported the chartering of a boat for the shipment of 360,000 bushels of heavy grain and barley for February-March shipment from New York to Antwerp at 70 and 80 cents per hundred, or 5 and 10 cents higher respectively.

About 170,000 bushels of Argentine oats are afloat destined to United States Gulf ports and will no doubt be distributed to Louisiana and Texas points. Oats were strong today and sold up to 40 7/8 for Chicago May, the highest price quoted for any delivery since July 1937. The visible supply of oats on February 1, amounting to 8,100,000 bushels, was the smallest on that date since 1903.

Feb. 10: While no official figures have been put out on the Argentine corn crop, private estimates range from 325,000,000 to 400,000,000 bushels. If they do come through with 400,000,000, it would be double last year's crop. This new crop will start moving in April. The Commodity Credit Corporation has offered to sell some of its stored corn but is asking considerably above the present cash market.

Feb. 14: Kansas City market reports that 25 to 30 per cent of the wheat stored in elevators and under Commodity Credit Corporation loan has been sold to the grain trade at prices netting the farmers in excess of the established loan price plus carrying charges to date.

Feb. 15: One of the private crop experts said scattered reports indicate that the general condition of winter wheat was more favorable than on December 1, when the last Government report placed the condition at 55 per cent of normal. It is interesting to note that with the large acreage of 45,000,000 acres, even a 10 per cent improvement in condition would undoubtedly make considerable difference in the final yields of winter wheat.

Secretary Morgenthau - 3

It has been reported that Russia has turned to the United States to buy wheat from the Pacific Coast to take care of its army in the Siberia territory. This is not unusual because for the past two years there has been a certain amount of Pacific Coast wheat worked to Vladivostok, Russia to take care of these army maneuvers. It is doubtful as to whether or not the volume of this will be very large.

Feb. 16: It is reported that leading speculators in the East have been short wheat about 98 to 98½ for quite a long while and the stubbornness of the market lately caused them to become very nervous. Buying orders which were put in near the close found the pit absolutely bare of offers.

There were exaggerated reports on sales of Pacific Coast wheat to Russia. One news item mentioned that 14 to 15 cargoes were worked to Russia and China in the last two weeks. However, this is wrong. Only 3 cargoes have actually been sold to Russia at the full market price. There was no subsidy granted on this business and 2 cargoes were sold at a subsidy basis to China.

Great Britain bought close to 5,000,000 bushels of wheat from Canada, about 1,000,000 to be shipped from Vancouver, British Columbia, and the remainder from the Atlantic Coast.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: February 20, 1940, 5 p.m.

NO.: 237

FOR THE TREASURY DEPARTMENT FROM MATTHEWS.

Today the Paris manager of the National City Bank had lunch with me. He again expressed his satisfaction with the French administration of exchange control problems. He attributed its success to the understanding and common sense approach of Sebilleau and his main assistants, as well as to Rueff. Incidentally, this view is rather generally held in Paris by members of American branch banks.

However, the National City manager said that there is naturally increasing pressure for invoicing in francs, and that many American exporters are becoming reconciled to this - as the loss of their market in France is sometimes the alternative. Reference: my telegram of February 14, No. 213 - he agreed that the only real advantage of such procedure, as indicated in the second paragraph of the aforementioned telegram, is to avoid immediate relinquishment of dollars, for the most part at the expense of forfeiting future dollar acquisitions in payment for exports from France, and he felt it was a not too encouraging sign for them to play for this time-lag at such an early stage.

He repeated that the pressure to invoice in francs is unmistakably growing, and he said it does not come from French importers

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importers but emanates from government authorities. He has noticed that when applications are filed simultaneously for exchange to cover sterling transactions and exchange to cover dollar transactions of a similar nature, the latter are usually subject to varying delays whereas the former are granted almost immediately. Reference: telegram of February 9, No. 190, from the Embassy - it is presumed the foregoing is a natural preliminary to the more formal forthcoming relaxation of exchange formalities covering commercial transactions in francs and sterling about which Couve de Murville told me.

According to Pearce, most French industrial concerns are now in a particularly strong liquid position, partly because today they have reduced to a minimum the customary hidden reserves constituted by merchandise and raw material inventories. In particular, the inventories of the northern woolen textile industry are at an unusually low point partly through important orders from the Government and partly because wool supplies are under tight control by the French group Ement and by the British Government. Pearce said that this liquid condition should give Reynaud considerable tax revenue, which has not been forthcoming in previous years.

He remarked incidentally that he is still skeptical about the ability or the willingness of fiscal authorities

in

- 3 -

in France to enforce any important increase in direct taxes or to take the real measures to restrict consumption which will be so emphatically required by the situation if France is to avoid excess inflation. He said that armament bond subscriptions, on the other hand, continued to flow from wealthy and poor people in an uninterrupted stream. For instance, the clientele of the National City Bank is naturally more well-to-do than that of most French banks, particularly in the French provinces; it has received authority to keep on hand large supplies of armament bonds in the smaller denominations of 500 and 1,000 francs, and they have authority to affix the necessary validation stamp so that clients who do not want delay or who do not want to make return visits will be satisfied.

He spoke of the requisition by the British Government of American securities and of the fact that there is no indication that similar steps will be taken soon by the French. He said he felt the French had made only a somewhat half-hearted attempt to ascertain their foreign holdings, partly to avoid embarrassment in high places, and that even if this had not been the case, they would have been unable to detect/^{and control} an important percentage of such holdings particularly those held in various quarters of the world by French family holding companies.

The

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The question of our gold problem continues to occupy space in the French financial press. LA SITUATION ECONOMIQUE ET FINANCIERE for example in commenting on the natural anxiety of the "American authorities to preserve the commercial outlets of the United States in Europe after the war" and on the importance of Franco-British economic collaboration remarks:

END SECTIONS ONE TO SIX INCLUSIVE.

MURPHY.

EA:LWW

RFP

GRAY

Paris

Dated February 20, 1940

Rec'd 6:55 p.m.

Secretary of State

Washington

237, February 20, 5 p.m. (SECTION SEVEN).

"It must be made clear at the same time that international trade cannot develop without the contribution of the United States. If the latter wish the restoration of the broad currents of trade they alone being able to open for the world a new era of prosperity, they must not forget that they hold the great majority of gold reserves and that without gold the world will necessarily have recourse to economic nationalism and to solutions of autarchy of which they (the United States) would be the first victims. We must likewise express the hope that if they are imbued with this idea they will find a better distribution of credits than in the past." The foregoing views would otherwise find substantial approval in many circles in France.

MURPHY

NPL

RFP

GRAY

Paris

Dated February 20, 1940

Rec'd 7:05 p.m.

Secretary of State
Washington

237, February 20, 5 p.m. (SECTION EIGHT).

A decree has appeared in the JOURNAL OFFICIEL (dated February 18) providing for the establishment of an Inter-Ministerial Financial Blockade Commission. Its stated purpose is "to place in operation measures necessary for the financial blockade of Germany". The covering memorandum recalls that a somewhat similar body was established in September 1916 and continued to function until December 1918. Rist is named chairman of the new commission. The other members are De Costa Baume, Assistant Director of Political and Commercial Affairs of the Foreign Office; the Secretary General of the Ministry of Finance or his representative; the Governor of the Bank of France or his representative; Drouin, Under Director of Blockade; Gabriel Dayras of the Blockade Ministry; Auboy Neau, member of the French Economic Mission in England; Roger Auboin and Gaillet-Billoteau former French Financial Attache at Berlin.

MURPHY

NPL

Regraded Unclassified

RFP

GRAY

Paris

Dated February 20, 1940

Rec'd 7 p.m.

Secretary of State

Washington

237, February 20, 5 p.m. (SECTION NINE).

An arrete of the Minister of Armaments published in today's JOURNAL OFFICIEL provides that any physical or moral person who produces, deals in, or holds aluminum or magnesium must make a declaration of the stocks in his possession within one month and a quarterly declaration thereafter. He is also required to keep a detailed and up-to-date record of the operations effected by him in such metals. A declaration is not required for stocks of pure aluminum, scrap aluminum, scrap duralumin, or other scrap aluminum alloys of less than one ton; the limit for pure magnesium, scrap magnesium, or scrap magnesium alloys declarations is 500 kilograms.

MURPHY

NPL

RFP

GRAY

Paris

Dated February 20, 1940

Rec'd 7:45 p.m.

Secretary of State

Washington

237, February 20, 5 p.m. (SECTION TEN).

Today's JOURNAL OFFICIEL also publishes an arrete providing for the abolition of the Inter-Ministerial Compensation Commission (created in April 1934 to supervise the operation of clearing and payments agreements between France and certain foreign countries) in view of the recent establishment of a compensation office (My telegram No. 2882, December 1, 6 p.m.). The Executive Committee of the new Compensation Office is composed of the Director of Foreign Commerce of the Ministry of Commerce, the Director of the Compensation Office, the Under Director of the Commercial Section of the Ministry of Foreign Affairs, the director of the movement General Desfonds, a representative of the Governor of the Bank of France, and a representative of the Paris Chamber of Commerce.

The securities market was less active and subject to some profit taking today.

Rist and Ashton-Gwatkin sail from Genoa SS WASHINGTON
February 24.

(END OF MESSAGE).

NPL

MURPHY



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

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February 20, 1940

MEMORANDUM FOR THE SECRETARY

The attached copy of a memorandum shows the proposed schedule of contracts to be made by representatives of the Government of Norway.

Through an intercession with Mr. Gordon I was able to get 70 Wright 1820 motors, 1200 HP military rating, which can be used in the type of planes which the Norwegians apparently want to purchase. This morning I talked with Captain Motzfeldt of the Norwegian Air Force by phone. He is in Los Angeles, and he informed me that the delivery schedule of engines offered was entirely satisfactory to them.

They had expressed a desire to power these ships with P&W 1830s, but none of these engines will be available during the year 1940.

H. E. Collins
Chairman, Liaison Committee

att.

NORWAY

	1940					1941	Total
	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	
Pursuits P-36			2	10	15		27
Vultee Single Engine Bombers		1	5	8	4		18
Douglas Single Engine Bombers		8	12	5			25
Engines, Wright R-1820, 200 Series 1200 HP Military Rating		9	19	23	19	10*	70

*For use as spares if desired.



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT
PROCUREMENT DIVISION
WASHINGTON

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February 20, 1940

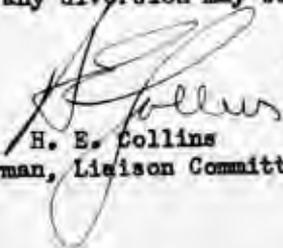
MEMORANDUM FOR THE SECRETARY

The attached is a schedule of deliveries by months of the 144 Vultee Light Bombers which have been purchased by Sweden.

The representatives of Sweden have expressed a desire that, if possible, the delivery of all of the 144 planes be completed during the year 1940. In connection with this suggestion I have talked with Mr. Beale, President of Aviation Manufacturing Corporation, who is at present having a study made to see what, if anything, might be done to speed up delivery of the planes and what new schedule might be arranged. Pending definite information from him on this subject it is not considered desirable to discuss the question of speeding up deliveries of the P&W engines. In this connection it appears that probably the only way in which expedited deliveries may be had will be by delaying a corresponding number of engines presently under contract with the French.

Last week I had two meetings of a Board I convened composed of Captain Kraus and Commander Richardson of the Navy, and General Brett and Major Lyons of the Army, to survey the possibilities of having engines diverted from the Army and Navy delivery program. After a thorough study on the part of both branches, it does not appear feasible, without materially interfering with the proposed deliveries for both the Army and the Navy, to divert any P&W motors from those due under their contracts.

The conclusion inevitably follows that the French, who have due on contracts for delivery during the year 1940 approximately 2900 engines, seem to be the only source from which any diversion may be effected.


H. E. Collins
Chairman, Liaison Committee

att.

SWEDEN

	1940												1941		
	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May
Vultee 48C Light Bombers					2	10	12	12	13	13	13	16	16	16	24
Engines, P&W-1830		1	5	10	10	10	10	10	10	10	16	16	16	20	

TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE February 20, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 3:15 this afternoon Dr. Feis telephoned me that the Banking and Currency Committee of the House, while discussing the Finnish loan question, had asked Mr. Hackworth of the Department of State whether the Department of State had information concerning the Federal Reserve Bank's account for the British Government. The question implied some sort of a fiscal agency arrangement. Mr. Hackworth disclaimed any knowledge of the situation and brought the question back to the State Department for consideration. Dr. Feis said it was to be decided whether the question should be evaded or whether he, Feis, should appear before the Committee and testify. (Hackworth had stated to the Committee that Feis was the State Department official who would be familiar with this subject.) I told Feis I should prefer that the matter be first discussed between the Secretaries of State and Treasury.

At 3:25 Secretary Morgenthau told me that Secretary Hull had just telephoned him. He said that since I was familiar with the matter of the British account I should give Dr. Feis the desired information. I explained that Feis had just been in touch with me and that I had given the above suggestion, namely, that the Secretary of State speak directly with Mr. Morgenthau before taking any action. Secretary Morgenthau explained to me that he did not want the question evaded.

Upon returning to my office, I got in touch with Dr. Feis at 3:30. I took pains to correct any impression that there was a fiscal agency arrangement. Feis understood this situation. I endeavored to make it clear that the Bank of England and the Bank of France had opened accounts with the Federal Reserve Bank of New York, with the approval of the Federal Reserve Board, which were deposit accounts from which payments would be made for war materials purchased on this market. In answer to Dr. Feis' inquiry, I stated that it was not unusual for the central banks having accounts with the Federal Reserve Bank of New York to carry more than one general account. As an example, I told him that the Bank of France had a general account, an account for its Stabilization Fund, and now the special account for war purchases. Again I reiterated that the special accounts were bank to bank accounts and not fiscal agency accounts, so that the Treasury Department is not a party thereto.

In answer to questions posed by Dr. Feis in regard to whether the Federal Reserve Bank of New York participated in the liquidation of British owned dollar securities, I explained that the only connection was that funds obtained from the sale in New York of such securities might naturally be deposited in the Bank of England Account with the Federal. I confirmed the press report that the New York agency of the Bank of Montreal has been chosen as the depository for the dollar securities which the British Government is taking over; that a British security expert is in this country to act as adviser to that bank in liquidating securities; and that the services of outside banks and brokerage concerns may be

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utilized. Feis said that he would not give all of this information, but was glad to have it.

Feis then asked whether he could reply to the Committee that the State Department was aware of the arrangements as made by the Bank of England with the Federal Reserve Bank of New York. I reminded him that we had provided the Secretary of State with a copy of the memorandum of November 9 from the Secretary of the Treasury to the President, in the first paragraph whereof the arrangement in question was outlined. Feis will testify, if necessary, that the State Department has been kept informed of the general procedure by the Treasury Department.



RE TESTIMONY OF MR. FEIS BEFORE
CONGRESSIONAL COMMITTEE RE-
GARDING FINNISH LOAN

February 20, 1940.
3:00 p.m.

Present: Mr. Cochran

H.M.Jr: Merle, Mr. Hull just telephoned and they asked him today when he was testifying on the Finnish loan how come the Federal Reserve Bank in New York was fiscal agent for England and Feis is going up to testify tomorrow, so I said if Feis would get in touch with you, you would give him the whole story. You sat in on that, didn't you?

Cochran: Yes, sir.

H.M.Jr: So, will you contact Feis and post him?

Cochran: He phoned me just before he got you and I told him the fact that I only acted in one capacity and he said, "May we tell them up on the Hill that or should we try to dodge the question?" And I told him I would rather speak to you before.

H.M.Jr: I wouldn't dodge it. It is the Federal Reserve Board here, Federal Reserve Bank. We are not in it, the way it finally worked out.

Cochran: No, we are not in it. They are not acting as our fiscal agent. I will explain it to him.

H.M.Jr: Thank you.

RE TRUSTEES FOR ASSOCIATED
GAS AND ELECTRIC

February 20, 1940.
2:00 p.m.

Present: Mr. Bell
Mr. Foley
Mr. Sullivan
Mr. Schwarz
Mrs Klotz

H.M.Jr: I won't read this thing now. I will read it tonight. Everybody else has got the background except me.

Foley: I am not sure anybody else has all of that, because what I did, after you --

H.M.Jr: Shall I read it out loud?

Foley: I think maybe that would be the best thing to do. After you spoke to me, I went into my records and my memory and everything. I tried very carefully to put down everything.

H.M.Jr: Let me read it out loud, and supposing these people wait a little bit.

Bell: That won't hurt them.

H.M.Jr: "December 22, 1939, Hanes resigned.

"January 4, 1940, Secretary's luncheon for Hanes.

"January 5, 1940, Foley had dinner with the Secretary, who mentioned for the first time that Hanes was interested in A. G. & E."

Do you have a record of that?

Foley: No, I have only my memory. I will tell you why I remember it. I think you were going out to mention something in the kitchen and you stood in the doorway and said just to keep in the back my mind in case I heard around town, Hanes was interested in Associated Gas and Electric.

H.M.Jr: Did you come back?

Foley: No, I didn't, but I will tell you why I knew it, because I sat next to Corcoran at the Jackson

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Day dinner and Corcoran said he heard that Hanes was interested in Associated Gas and Electric and it clicked, because I had heard - I remembered hearing that from you.

H.M.Jr: Well --

Foley: But you didn't say anything about Hanes having asked you whether --

H.M.Jr: Well now, the way --

Foley: You just said he was interested.

H.M.Jr: Let's find out if we can - what is this lawyer's name over there?

Foley: Schenker.

H.M.Jr: Didn't he talk only one way? He was at that dinner.

Foley: Yes.

H.M.Jr: Would he remember? You think we had better let it go, do you?

Foley: I would let it go, yes, sir. I don't want to ask Dave Schenker.

Klotz: As I told you over the telephone, you went up to the farm right after the day he resigned. You went up on the 22nd on the farm and then you came back again on the 28th, and that first day, that was on a Thursday, the 28th, you had a press conference in the morning and then that night at 5:00 o'clock we had Hanes down and he came in to see you, at 5:00 o'clock that afternoon. He was in here a whole hour with you as I waited.

Foley: Well, Mr. Secretary, I don't think it makes a bit of difference one way or the other, because whether it was the 11th or whether it was prior to the 5th when I had dinner with you, in so far as what Norris was trying to do is concerned, it doesn't make any difference.

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If, on the 11th, the petition having been signed on the 10th, he came to you and asked if you had any objection, the people must have been talking about it when they had their meetings before the petition was filed, so it doesn't make any difference whether it was that date or an earlier date.

H.M.Jr: What I am trying to do is, the way I always do, I want to assume my share of whatever the burden is and I was just trying to - if this thing really was so, I would like to know it, but I think it is water over the dam now.

Foley: It is water over the dam and I have written the letter that way. I don't think it makes any difference.

H.M.Jr: All right.

"January 8, 1940, Jackson Day dinner. Foley sat next to Corcoran, who mentioned Hanes' interest in A. G. & E.

"January 10, 1940, voluntary petition in bankruptcy filed by A. G. & E. Company and A. G. & E. Corporation, in the U. S. District Court for the Northern District of New York.

"January 11, 1940, Secretary had luncheon with Hanes, who asked the Secretary if he had any objection to him serving as trustee, if appointed by the court."

Have you been able to find out when he telephoned?

Klotz: The operator might have the information.

H.M.Jr: Will you ask her?

(Mrs. Klotz made inquiry of telephone operator.)

Klotz: Did you have a dinner at your house that night?

H.M.Jr: No, he got me about 20 minutes of 8:00, because Bob, or somebody, was on the phone.

Klotz: No, that isn't right (speaking to telephone operator). If that is the only record you have in mind, never mind.

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H.M.Jr: Thank you.

"January 12, 1940, Foley spoke to Wenchel and Thurman Hill (Treasury lawyers) in regard to appointment of trustee.

"January 13, 1940, Jerome Frank called at 11:22 a.m., to say that Miss LeHand had conveyed word from the President last evening that he did not want Hanes to be appointed trustee. Frank said that SEC could be appointed under Holding Company Act, but thought it would be a mistake for them to seek it. However, he thought it would be a different situation if the court asked the SEC to serve.

"Frank called again to say that he had another message from Miss LeHand and that the President wanted Frank to talk to Secretary Morgenthau about the appointment of a trustee. The Secretary arranged an appointment for 4:00 p.m.

"The Secretary, Frank and Foley met at the Secretary's house at 4:00 p.m. and discussed A. G. & E. situation. Frank stated the President had notified him that Hanes was not to be appointed. Frank said that the SEC did not want the trusteeship and would do nothing to seek it but would take under consideration request by Court that it serve as trustee."

Now, that is the first answer to Mr. Krock where Krock lied.

"The Secretary suggested Judge John E. Mack and Randolph Paul, but wanted an opportunity to clear these names with the President. Nothing was finally settled as to names or procedure."

Foley: If you have any different recollection as we go along, I am only relying on my memory and on my notes and my office calendar.

H.M.Jr: This is all right. Then I went upstairs. You don't have that. I went up and talked to the President at that point, didn't I?

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Foley: Yes, you went upstairs and Jerry and I talked while you were upstairs.

H.M.Jr: "January 14, 1940, Sullivan, Wenchel and Thurman Hill met with Foley at his apartment at 3:00 p.m. Hill was leaving at 4:00 p.m. for Malone, New York to attend the hearing on the appointment of a trustee on January 15. He was instructed to assist SEC in every way in making application to the Court for the removal of the case from the Northern District to the Southern District of New York. Hill was informed that the appointment of Hanes was not favored by the Administration, but was told not to suggest any names to the Court for trustee."

Now, do you know why, after the meeting at my house, Frank didn't go out and try to get Randolph Paul appointed?

Foley: No, as we go on here, you will see that Frank called me back and asked if we had gotten the clearance of Randolph Paul and I told him that I had heard nothing more and that I had instructed Hill not to mention any names to the Court. You see, I asked Hill to call me at 10:00 o'clock the following Monday so that I would have a chance to talk to you at 9:30 and give him any instructions.

H.M.Jr: Yes.

"It was arranged that Hill would call Foley from Malone the next morning before appearance in Court.

"January 15, 1940, Foley told Hill, after speaking to the Secretary at 9:30 meeting, that Treasury had decided not to suggest any names to the Court.

"At the Secretary's press conference, Foley answered questions in regard to A. G. & E. receivership.

"John E. Crider of the NEW YORK TIMES asked the Secretary if he was for Hanes. The Secretary replied that he would be delighted if SEC would serve as the Trustee.

"Thurman Hill telephoned that Judge Bryant had set January 23 as the date when he will hear oral argument in Utica, New York on government's application to remove the case to the Southern District of New York.

"January 16, 1940, Frank called Foley to inquire if the Secretary had cleared Randolph Paul with the President. Foley said he had heard nothing further about it, but Foley told Hill yesterday, after speaking to the Secretary, the Treasury did not wish to suggest names to Judge Bryant."

There was nothing said at my house.

Foley: No, I said that nothing was decided, names or procedure.

H.M.Jr: Am I not correct that after all it wasn't up to us to get a receiver? I mean, it never occurred to me that I was to go out and get Randolph Paul or Tom Corcoran or anybody.

Sullivan: I think that is right.

H.M.Jr: It just never crossed my mind and when Frank stood here Thursday and said it was up to us, I said he was just crazy. I said he was just crazy.

Foley: They are the ones that injected us into it, you see. Frank told Missy LeHand when Missy called him and said he didn't want Hanes that the Treasury was a nice big creditor and that that information should be gotten over to you and if the President had any names that he wanted, he ought to make them available to the Treasury, because the Treasury had an interest as a creditor.

H.M.Jr: As a matter of fact, when I talked to the President he said, "I have no suggestions to make." That was when I talked to him upstairs that day. He said, "I have no suggestions to make."

Foley: Yes, that checks. I am not disagreeing.

H.M.Jr: No, but I am saying when I talked to him he said, "I have no suggestions." He said, "I have got objections, but I have no suggestions." And as far as I can remember, he never did make any suggestions to me.

"Foley asked Frank if he was satisfied with the way things went yesterday, and Frank said that he was."

To go back and show that I thought - and this clinches it - that it was up to Jerome Frank to clear it, I said to him at my house, "Now wait until you speak to Randolph Paul on account of the little difficulties I have had. I would appreciate it if you would say it was my suggestion," and when I told him that here the other day, he threw that back in my teeth. The point was, if it was up to me to talk to him, why did I ask him to give me the credit? I never had any intention of talking to Randolph Paul.

Klotz: I remember that distinctly.

H.M.Jr: It never occurred to me. We made that suggestion and I thought from then on it was up to him.

"Foley asked Frank if he was satisfied with the way things went yesterday, and Frank said that he was.

"Ben Cohen called and said he thought the Secretary's statement at the press conference yesterday was splendid, and he wished the SEC had a little guts."

Didn't he write me? I either had a letter or a telephone call, one or the other, from Cohen, congratulating me.

Klotz: I know it was a telephone call. I have a record.

H.M.Jr: Get it for me. This is on the 16th:

"Foley talked to Hill about Judges in the Southern District of New York before whom the A. G. & E. case might be brought.

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"January 18, 1940, Ben Cohen called and discussed Judges in the Southern District of New York available for the A. G. & E. case.

"January 19, 1940, Weiner of SEC and Thurman Hill of the Treasury discussed on the telephone with Foley the available judges in the Southern District.

"January 24, 1940, Hill informed Foley that Judge Knox would assign the case to Judge Leibell if Judge Bryant granted the motion removing the case to the Southern District of New York.

"January 25, 1940, Ben Cohen and Jerome Frank telephoned in regard to the President's conversation with Frank last evening. The President had discussed Judge Leibell and the possibility of the appointment of Cyrus Eaton of Cleveland as trustee. Frank did not think this would be so good."

Terrible. The President mentioned that to me. I remember Eaton and I said to him, "Well, if you want an example of all Holding Companies, and so forth and so on, put Eaton on." He is terrible.

Foley: Nobody was for him and that is why I called it to your attention.

H.M.Jr: The President for a couple of years has been sort of for Eaton.

"January 26, 1940, Foley cleared with the Secretary the proposed press release which had been sent to Foley by Corcoran to the effect that the Attorney General would instruct the U. S. Attorney for the Southern District of New York to investigate the affairs of A. G. & E. with a view to ascertaining whether there has been any violation of Federal laws.

"Foley spoke to Frank on telephone about Judges Leibell, Murray Hulbert and Cox. Foley preferred Leibell and mentioned the success Treasury had experienced before him in Spanish Silver and British American Tobacco cases."

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Somebody talked to me about Murray Hulbert.

Foley: The President did, I think, and you said the fellow that was on this Commission and I said Murray Hulbert, and you said this was the fellow and I said I thought Leibell was better and you said you agreed.

Sullivan: No, at the 9:30 meeting you confirmed that.

H.M.Jr: What, Leibell?

Sullivan: Yes.

H.M.Jr: "January 30, 1940, Judge Bryant signed the order removing the A. G. & E. case from the Northern to the Southern District of New York.

"January 31, 1940, James B. Alley, former General Counsel of RFC, and now with the firm of Auchincloss, Alley & Duncan telephoned from New York and suggested the appointment of Auchincloss (director of Chase Bank) as trustee. He said he had spoken to Frank about him."

Remember that time I had that experience with Alley?

Klotz: Yes.

H.M.Jr: Do you know his brother?

Foley: I have met him, but I don't remember him.

H.M.Jr: It was not so good.

Foley: You see, Auchincloss is a Director of the Chase and Harris Forbes financed the A. G. & E. and Harris Forbes was taken over by Chase and they have got a definite interest. The corporation owes Chase money and Harris Forbes financed them, so that the trustee, if there are violations of law in connection with the finances of A. G. & E., would have to prosecute the very people that he might be serving as Director here.

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- H.M.Jr: When Hanes says to me, "I have got all the interests for me," does anybody know who the interests involved are, who does he mean? Well, he made that statement. Did I tell you people that Hanes told me he had been approved by Associated Gas & Electric before going into receivership to head the company?
- Foley: Mr. Secretary, maybe that is what you meant out there at your house when you said to me, "He is interested in Associated Gas & Electric."
- H.M.Jr: He told me that he had been approached by Associated Gas & Electric to head the corporation before it went into receivership, but as a former member of the SEC and as the Undersecretary in charge of Internal Revenue to settle the case, he felt it was improper for him to undertake any such job.
- Klotz: That is what he told you, I think, that December 28th.
- Foley: I didn't sense any difference until you --
- Klotz: That is when he came in.
- H.M.Jr: He told me that he had been approached by the management of the Associated Gas to become president of the corporation.
- Sullivan: I think it was before that that Roger Whiteman was elected the new president.
- Bell: Oh, he has been there some time.
- H.M.Jr: This was more recent.
- Foley: That is right, John.
- Sullivan: No, he was elected this fall.
- Bell: But he had been there 60 or 90 days.
- Foley: He was put in there in November. He had only been in there about 30 days or so when they began to talk about putting it into receivership.

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- Bell: Yes.
- Sullivan: In December sometime.
- Bell: Before Hanes resigned.
- Sullivan: Yes.
- Klotz: I think it was that night.
- Foley: That may very well be.
- H.M.Jr: Now, I can tell you, coming back - excuse me. We even asked where he could live, that we had been told that he wanted to live in Washington and we said he could pick his own place to live.
- Foley: Well, if that is so, that would explain the recollection I had that you mentioned it at your house, because I didn't distinguish between Associated Gas, as a growing company, and Associated Gas, as a bankrupt outfit.
- Klotz: Mr. Morgenthau, that checks with what you said, because you hated to have lunch with him on the 11th and you thought you would have to go into the whole article.
- H.M.Jr: The Saturday Evening Post?
- Klotz: Yes, and then you were so relieved because you said you didn't get a chance because all you discussed was his own affairs in this Associated Electric thing.
- H.M.Jr: He could perfectly well have done it on the 28th and told me he was approached to manage the Associated Gas, because - I wish somebody would look and see what conversation took place between Hanes and Jesse Jones.
- Foley: He has been in it.
- H.M.Jr: Between the 15th when Jesse turned down that so-called "upstream loan." I don't know, but I just have always wondered if there wasn't conversation.

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Foley: I think there must have been, because there was an Arthur Krock justification of SEC's action when Jerome Frank indicated that he thought that John should not accept trusteeship, since he had been a former member of the Commission and it wouldn't look so good and then Arthur Krock said lots of people would think the SEC had forced A. G. & E. into bankruptcy, but this isn't just New Dealers doing this. Jesse Jones, in whom all business men have great confidence, highly approved in what the SEC did and said they couldn't do anything other than force them into bankruptcy and Jesse Jones refused to advance the loan.

H.M.Jr: That might have been.

"February 1, 1940, Foley attended conference at Attorney General Jackson's office on A. G. & E. There were present Cohen, Corcoran, Frank, Jackson and Foley. At this conference it was suggested that the following be proposed to Judge Leibell as trustees subject to the approval of Secretary Morgenthau: (1) Tom Corcoran; (2) Randolph Paul; and (3) Lewis Dabney.

"Foley saw the Secretary at the latter's house and obtained approval of these names.

"February 2, 1940, Foley informed Tom Corcoran by telephone that the Secretary had cleared the proposed names. Corcoran asked Foley if the Secretary would go to bat for him, and Foley replied that the Treasury representative would say in open court that the Treasury wanted Tom Corcoran provided his name was first presented by the representative of SEC.

Did I say that?

Foley: Yes, sir.

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

Foley: Well, I asked you at your house --

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- H.M.Jr: I am not questioning it. Mind you, there is a mass of material here and if I could remember it I would be the tenth wonder of the world.
- Sullivan: I can corroborate that, that subsequently, in another meeting in here, that was rehashed.
- Foley: I told Corcoran exactly what you told me the day before.
- H.M.Jr: If that is true, he certainly can't feel sore at me.
- Foley: No.
- Klotz: Mr. Morgenthau, we have a lot of records, I mean, where at 9:30 meetings you talked about this, but I didn't dig that up, because that wasn't the point up to this time.
- Foley: I don't think that will appear in any 9:30 records, because that was on a Thursday night when the Secretary was going up to Hyde Park with the President and I came out to his house at 10:00 o'clock and rode down to the train with him. We cleared that and then Tom called me in the morning and asked if I had seen him and I said I had and he said it was all right, and he said, "Will he go to bat for me?" and I said, "If your name is presented by SEC to the Court, then the President will say it is O. K."
- H.M.Jr: Was that the time you came to me and they wanted you and Frank to go up together?
- Foley: That is right, and I brought that up and you said, "No, do it the normal way. Who would go up for you?" And I said, "Hill," and you said, "Tell Hill that if the SEC people present Corcoran's name, it is all right with the Treasury."
- H.M.Jr: "February 3, 1940, James B. Alley telephoned again and was informed by Foley that Auchincloss was not acceptable because of his Chase Bank connection."

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- Foley: I brought up his name at the Justice meeting and everybody was against it because he is a Director of the Chase.
- H.M.Jr: "February 5, 1940, Matt McGuire of the Department of Justice, who had been sent to New York by Jackson to speak to Senator Wagner in regard to the appointment of Tom Corcoran for A. G. & E., told Foley, who ran into him at luncheon, that Senator Wagner had just informed him by telephone from New York that Judge Leibell proposed to appoint Hanes, Myers and Harriman.
- "Tom Corcoran asked Foley to ask the Secretary to call Attorney General Jackson at his apartment when the Secretary arrived. Mrs. Klotz, Sullivan and Foley were present while the Secretary talked to Jackson."
- Foley: I thought there was a record of that conversation and that is why I didn't try to summarize it here.
- Klotz: What date is that?
- Foley: That was on the 5th, and quite late in the afternoon and after the Secretary had come back by plane from the farm.
- Klotz: That is right.
- H.M.Jr: I can't remember that at all. Well, it is a record.
- Sullivan: It is the day I rode back from the airport with you. When you got out of the car, I said, "Mr. Foley is very anxious to see you," and we sat --
- Foley: That was the night I came in and said I didn't think I knew everything that was going on.
- Sullivan: Jackson was home ill and you talked with him. Mrs. Klotz and I were here.
- Klotz: That is right, I remember that.

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H.M.Jr:

"After this telephone conversation, it was decided that the Treasury representative would request Judge Leibell to appoint SEC at the hearing in New York tomorrow.

"Cohen asked Foley to stop at his office on his way home.

"Foley told Frank on the telephone that the Treasury would ask the Judge to appoint SEC, and Frank said that was okay with him although he didn't see why the Treasury couldn't go in and name whom it wanted since Hanes had represented to the Court that he was acceptable to the Administration.

"The Secretary requested Foley to see him at his house before he saw Ben Cohen. The Secretary told Foley of Hanes' conversation in which Hanes asked the Secretary to ascertain the President's attitude and to speak to Foley.

"Foley had dinner with Tom Corcoran and Ben Cohen who told Foley that it was a mistake to have injected Corcoran's name into the matter, and that their only interest was to block Hanes and obtain the appointment of trustees in sympathy with the purpose of the Holding Company Act.

"Foley instructed Thurman Hill to request the Court to appoint SEC at the hearing in New York in the morning.

"February 6, 1940, Foley was present while the Secretary talked to W. I. Myers. Myers said that he had been asked by Judge Leibell to serve as trustee with Harriman and Hanes at a salary of \$50,000 each but didn't know whether he would accept. He wanted to get Secretary's advice. Secretary told him he was not for him, but was for SEC. Myers told the Secretary that he understood Eccles had recommended him to Senator Wagner as Wagner had called him urging that he accept."

Has there ever been any back talk on that, anything about Eccles being in the picture?

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- Foley: No, you asked me to tell Ben Cohen that and I called him and told him.
- H.M.Jr: Did they ever ask about that?
- Foley: No.
- H.M.Jr: "At the Secretary's request, Foley told Corcoran and Cohen of the Secretary's conversation with Myers.
- "Thurman Hill informed Foley by telephone from New York that Judge Leibell decided today that SEC should notify him in writing whether or not it would accept appointment as trustee; if SEC decided not to accept, Judge Leibell would notify the SEC in writing of the trustees he proposed to appoint, and give the creditors an opportunity to present objections at a hearing to be held on March 8."
- Do you want to tell your office that you will be a little bit late, Dan? I think we ought to go through with this. Shall I tell McKay to tell them?
- Bell: Yes, that will be all right.
- H.M.Jr: This is a nice job.
- Klotz: Marvelous.
- Foley: Well, I put in everything I knew.
- H.M.Jr: "Foley notified the Secretary of Hill's call."
- Foley: That was the report that the Judge had put the thing down on the 8th and said he would give the SEC an opportunity to notify in writing whether they would take it.
- H.M.Jr: "February 7, 1940, Gene Duffield telephoned Foley that the Treasury was right and SEC should serve as trustee. Duffield thought the matter would come up before the Commission today.

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"February 8, 1940, Tom Corcoran, Ben Cohen and Jerome Frank talked to Foley by telephone to urge that the Secretary call in Hanes and ask him to withdraw.

"Foley informed the Secretary of his telephone conversations with Corcoran, Cohen and Frank.

"Mrs. Klotz, Frank, Cohen and Foley were present at a meeting in the Secretary's office when the Secretary told Cohen he would not see Hanes since he did not think it would do any good.

"After Cohen left, the Secretary told Frank he was willing to have Foley go with Frank to see Judge Leibell and ask him to withhold action on the appointment of trustees until after the Secretary returned to his office on February 19 so that the Secretary might have an opportunity to speak to Hanes concerning his representation of the Secretary's position to Judge Leibell."

Now, nobody could do anything more than that.

Bell: No, that is right.

Foley: May I bring up something there?

H.M. Jr: Please.

Foley: You said at lunch today that at no time had Hanes said that he wanted this.

H.M. Jr: That is right.

Foley: I understood you to say, Mr. Secretary - now, I am only bringing that up because I have it in my mind.

H.M. Jr: Sure.

Foley: That you could tell the way Hanes got grit in his voice that it wouldn't do you any good to call him in and ask him to withdraw, because he had told you that he wanted this thing more than anything in the world.

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- H.M.Jr: No, that is not correct. I will repeat what happened. The thing that I am referring to is when he called me at the house and when he got grit in his voice he said, "If the President doesn't want me, the only reason is political."
- Foley: Yes, I remember that.
- H.M.Jr: When he hung up that night, the last thing he said was, "Now, everybody has got together, everybody has agreed that they want me, but I haven't yet made up my mind that I want it."
- Klotz: That is exactly what it was.
- Foley: I just brought it up, because I have a different recollection.
- Sullivan: I have a different recollection and I can't remember where it was, but I do know that - I do seem to recall your expressing how terribly anxious he was to have this.
- H.M.Jr: That may be. When he told me that he didn't want it, I realized that he was kidding me.
- Foley: It isn't important and I haven't got it in here anywhere.
- H.M.Jr: It is important just in this way, that I can tell Hanes the day I talked to him I said, "Just remember this, Johnny, you never told me you wanted this. All you ever asked me was, did I have any objection to it, and I told you no, I didn't, but you never told me that you wanted this. You have always told me everybody else wanted you, but you never told me you wanted it."
- Klotz: That is right. After your conversation that night, I remember you came back and that was exactly what you told Hanes.
- H.M.Jr: And the time he got the grit in his voice was, "If the President doesn't want me, the only reason is political."

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- Sullivan: All I recall is that you told me you knew he wanted it very, very badly.
- Klotz: From that conversation.
- H.M.Jr: Sure. The two things are compatible.
- Sullivan: Oh yes, they are.
- H.M.Jr: But when he came through and I went in and talked to Mrs. Morgenthau - it was at home, and I said, "Hanes, here, is calling me up," and I said, "I never have seen him put the pressure on me the way he is putting the pressure on me on this thing. And then when he gets through he says, 'I haven't made up my mind whether I want it,' and I said, 'How ludicrous it is for him to say that to me.'"
- Klotz: Yes, that is what you told me the next day.
- H.M.Jr: But if he sits there, some day, which he will, I will just say, "Now, Johnny, when did you ever tell me you wanted this?"
- Foley: I am bringing these up as they go along, because the only way I can help you is - you can tell me that this is wrong or --
- H.M.Jr: Well, maybe I can tell you something.
- "At the request of the Secretary, Foley went to see Secretary Ickes and told him what took place in the Secretary's office."
- That was a master stroke, my sending you there, I mean so that --
- Klotz: Well, he got the picture.
- H.M.Jr: Ickes got it from you. I think otherwise Ickes would have gone to the President.
- "Foley told Ickes that, in his opinion, what had taken place in the Secretary's office that afternoon did not give Cohen grounds for resigning."

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"Foley, after talking to Ickes, saw Corcoran and told him what had taken place."

You told me that Ickes had an entirely different story.

(Insert telephone conversation with Attorney General Jackson)

February 20, 1940
2:32 p.m.

HMJr: Hello.

Operator: I have the Attorney General.

HMJr: Thank you.

O: Go ahead.

HMJr: Hello.

Robert
Jackson: Hello.

HMJr: Hello, Bob.

J: Yes, sir.

HMJr: Hello.

J: Hello.

HMJr: Henry talking.

J: Henry, I can't be there tomorrow.

HMJr: Well, Bob, how about Thursday?

J: That'll be all right.

HMJr: Because I want to talk to you about this Associated Gas and Electric.

J: That'll be fine. I'll be there Thursday.

HMJr: Now, what I -- if I want to send you a letter tonight where could I address it to?

J: Well, it wouldn't reach me before I'd be leaving here.

HMJr: Oh!

J: I'm afraid.

HMJr: Well.....

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J: The best way to do would be to send it to the house -- to the Wardman Park - and I'll get it along four or five o'clock when I drive in. I'm driving down tomorrow.

HMJr: Oh. All right, because I've got an answer to Senator Norris. Hello?

J: Yes.

HMJr: And before it goes I'd like you to see it.

J: All right, fine.

HMJr: Because I -- I'd like to have Justice and Treasury -- eye to eye on this thing; I think we are.

J: Yeah.

HMJr: But.....

J: All right, I'll be glad to -- I'll be glad to -- the best way is to send it to the apartment and I'll have it there when I get home.

HMJr: Well -- all right, and then we'll have lunch together Thursday.

J: That'll be fine.

HMJr: You know it's Washington's birthday but you eat just the same, don't you?

J: I eat on that day too.

HMJr: Good for you.

J: All right, fine.

HMJr: Goodbye.

J: Goodbye.

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Foley: Ickes said that Cohen had come in there quite upset and said that you had said to him in a boorish way two or three times, "Sit down, sit down," and I said, "Mr. Secretary, that isn't quite what happened. I think Ben was so emotionally upset, he perhaps doesn't realize what happened. I said to Ben a couple of times, 'Sit down, Ben,' and finally the Secretary said, 'For heaven's sake, Ben, sit down and control yourself,' and then he started to go to the door and I think --" I think you said, "Where do you think you are?" or something like that. Now, both of you were excited at that point, but you didn't say to Ben two or three times, "Sit down."

H.M.Jr: No. What I said to him when he was pounding my desk was, "Who do you think you are?"

Foley: And after I saw Ickes, I stopped in Tom's office over there in the same building and I told Tom what had happened.

H.M.Jr: "At the request of the Secretary, Foley went to see Secretary Ickes and told him what took place in the Secretary's office. Foley told Ickes that, in his opinion, what had taken place in the Secretary's office that afternoon did not give Cohen grounds for resigning.

"Foley, after talking to Ickes, saw Corcoran and told him what had taken place.

"After Cohen learned from Frank that the Secretary wanted an apology from Cohen for his actions, Cohen called Foley during the evening in great heat and repeated his intention to resign."

Foley: I thought that Frank was not playing the game when he called Ben and Ben was upset.

H.M.Jr: I asked you to do it.

Klotz: No, you asked Frank.

Foley: You said, "I don't want you to do it." You said, "You tell Frank." I didn't think that Jerry should have done this.

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- Klotz: He carried out your orders.
- Foley: And then he got Ben all upset again and Ben called and he was in a terrible state and couldn't talk. He got kind of personal about me and talked - I told him that I wanted to come and see him and he said he didn't want to see me and one night last week I was going to have dinner with Kintner and his fiancée and Ben was supposed to come and when Ben found out I was coming he told Bob that he was sore at me and he didn't want to come.
- Sullivan: Sullivan ate for Cohen.
- H.M.Jr: Sullivan ate what?
- Sullivan: Sullivan ate for Cohen.
- H.M.Jr: I thought you said you ate the corn.
- Foley: So I haven't seen Ben except to talk with him on the telephone and that appears here later on, since that - since you have seen him.
- H.M.Jr: What I said about the apology still holds good and I have gotten along for seven years and I haven't made any personal enemies in Washington that I know of. People disagree with me, but - so I guess I can last out the year without Mr. Cohen.
- "The Secretary called Foley from Nashville, with the assistance of Mrs. Klotz."
- Klotz: If he hadn't put something like that in I would have been disappointed.
- Sullivan: It was Arizona, wasn't it?
- Klotz: The first time.
- Sullivan: That wasn't in Nashville.
- Foley: I understood you to say you were in Nashville.

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H.M.Jr: No, I put that there.

Foley: This was on the way down when the Secretary was changing trains.

Sullivan: I share the responsibility about that call, by the way.

Klotz: Thank you.

H.M.Jr: "Secretary Ickes telephoned and said he had just talked to Secretary Morgenthau and understood that Foley and Frank were to see Hanes. Foley told him that only Frank was going to see Hanes and the outcome of this conference would probably determine whether Foley and Frank would see Judge Leibell.

"Foley received two wires from the Secretary.

"Foley telephoned Grace Tully and told her that the Secretary had requested him to see Miss LeHand and give her our version of the A. G. & E. matter. Grace Tully called back and said that 'Missy' could not do it that afternoon, but would telephone Foley at home in the morning.

"Foley had luncheon with Duffield who gave Foley copy of SEC release to the effect that SEC had notified Judge Leibell it would decline to serve as trustee."

Is that the way you got it? You haven't got it from the SEC direct?

Foley: No, Gene came over to the --

H.M.Jr: Frank never sent it to you?

Foley: No.

H.M.Jr: Nice babies, aren't they?

Foley: Gene gave me the release at lunch at the Occidental. Jerome hasn't called me since, either. I called him once to see whether or not I was supposed to go to New York. I understood he had gone to New York last Thursday.

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H.M.Jr: Who?

Foley: Frank, and saw Leibell.

H.M.Jr: You didn't know what happened?

Foley: No, Ben told me that last night.

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

Foley: I don't know.

H.M.Jr: Is he sore at you, too?

Foley: I guess so. Everybody is sore at everybody else in this thing.

Schwarz: There must be a lot at stake.

Klotz: There is.

Bell: Fifty thousand dollars at stake.

Sullivan: That isn't all, that is peanuts.

H.M.Jr: "Corcoran notified Foley by telephone at home that he had seen Judge Leibell the day before about Hanes but got nowhere."

Foley: Corcoran went up and saw him, too. That was on Saturday.

H.M.Jr: What surprises me is that Frank isn't keeping you posted. Did Frank ever ask for that list?

Klotz: No.

H.M.Jr: "John E. Crider of THE NEW YORK TIMES telephoned Foley that he was trying to ascertain for Arthur Krock why the Treasury had proposed SEC and whether the Treasury would have any objection to Hanes now that the SEC had declined."

Foley: He tried to say that we knew SEC wouldn't serve and all we were doing was just making motions because we knew they wouldn't take it and now that SEC was out of the way, would we approve

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Hanes or would we offer any objection to Hanes, that was it.

H.M.Jr: "Foley replied that the Treasury thought SEC could do most effective job, and he had no comment as to Hanes until the Treasury was notified by Judge Leibell of the trustees the Court proposed to appoint.

"February 13, 1940, Foley received from Ben Cohen memorandum giving Cohen's interpretation of Arthur Krock's column."

Foley: I gave that to Mrs. Klotz.

H.M.Jr: I would like to take that home.

Klotz: I have got the original.

Foley: You have got another one, Mrs. Klotz, that I haven't got back and I don't have any copy. I think he ought to have that, too.

Schwarz: I have seen Norris' letter to Frank.

H.M.Jr: "Tom Corcoran called Foley at home after midnight and asked Foley when petition was filed; when Secretary stated at press conference he was for the SEC; and when Hanes asked the Secretary if he would have any objection to him if appointed by the Court. Foley said the petition was filed on January 10; the press conference was held on January 15; and that he did not know date when Hanes saw the Secretary but thought that it was soon after Hanes submitted his resignation.

"Foley talked to the Secretary on the telephone and informed him of the new developments."

Foley: That was Wednesday. You called in and we talked about it.

H.M.Jr: "Kintner asked Foley over telephone if Treasury had been told SEC would not accept trusteeship prior to February 6 when Treasury urged that Court appoint SEC. Foley said that first notice Treasury had that SEC would not serve was when news of SEC action was released last Saturday."

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- Foley: This was when I was taking it easy. I wasn't down here.
- H.M.Jr: "Sullivan telephoned Foley at home that Ben Cohen was anxious to reach Foley by telephone. Foley called Cohen who asked Foley the date when the Secretary had informed Hanes he would have no objection to him if he were appointed by the Court. Foley said he didn't know the exact date. Cohen then asked him to find out definitely from the Secretary's records as 'Arthur Krock had taken exception to Norris' statement that the meeting had taken place prior to filing of the petition, and Ben wished to ascertain definitely when the meeting had taken place."
- Sullivan: That is where I got back into the picture. Ben called me and said he couldn't locate Ed and then told me what he wanted and that is why I said I thought you were wrong yesterday. He was looking for factual information.
- H.M.Jr: After the letter had gone?
- Sullivan: What letter had gone?
- H.M.Jr: The letter Norris had written to Frank.
- Sullivan: I knew nothing about such a letter until Saturday noon.
- H.M.Jr: What you are saying doesn't make my statement one bit different.
- Sullivan: No, but in the conversation Monday you indicated that you thought that Ben was not on the level.
- H.M.Jr: Well, there is nothing here that contradicts that.
- Sullivan: I think that they all assumed all along that Hanes had talked with all of the people who wanted him to represent them before the petition was filed. I think that that is so and I think that the facts as you recall them

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yourself, indicate that that was so, because although he told you for the first time on January 11, the petition was filed on the 10th and you just don't get all the various interests together in 24 hours.

- H.M.Jr: But that doesn't change the fact that Corcoran first called Foley on midnight of the 13th. The letter was written on the 14th.
- Foley: It is dated the 14th.
- H.M.Jr: It is dated the 14th. Now, this is what I surmised is what happened. Corcoran called Foley on the night of the 13th. He tries to find out just what we are talking about and Foley can't tell him.
- Foley: I never knew that date, Mr. Secretary.
- H.M.Jr: That is right.
- Foley: I remembered your saying sometime soon after he resigned.
- H.M.Jr: On the 14th this letter is written, the Norris letter goes over to Jerome Frank and then after it has gone forward, these boys begin to get worried, because, I gather, Krock questioned something or other and then after the boys had got worried, they called up Foley Friday, which was - what?
- Sullivan: The 16th.
- H.M.Jr: Forty-eight hours after this letter had been written and I said that after the letter had been written and after it had gone, they were trying to justify the facts in the letter.
- Foley: Well --
- H.M.Jr: And this bears it out. All of these things are all relative. Let's say in their enthusiasm I believe these boys were carried away. They get this thing out, this letter goes out from Norris. They don't have their - they try to

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rush to Ed and try to hang this thing on me.

Foley: I don't think that is quite right.

Sullivan: No, I think they thought they had the facts and were looking at the evidence to prove it.

H.M.Jr: That is all I am saying.

Sullivan: That is a little different.

Foley: I don't think they are hanging it on you.

Sullivan: There are two questions. One is motive, which exists under your interpretation and does not exist under mine, and the other one is their attempt to shift responsibility to you, and I doubt that.

H.M.Jr: But as to the facts, am I correct that they tried to get the evidence after the letter was written?

Sullivan: Yes, I think so.

H.M.Jr: Now, I can interpret their motives one way and you can interpret them another way, can't you?

Sullivan: Surely.

H.M.Jr: My interpretation is they didn't have the facts and hours later they realize they haven't got it. They can't definitely say Hanes talked to somebody before the 10th and therefore they try to pin it on me.

Sullivan: No.

Foley: No, I don't think so.

H.M.Jr: As long as you both say that the way they acted it looked as though 48 hours later they were looking for the evidence.

Foley: There are the facts, Mr. Secretary. Your interpretation of the facts is your business. My interpretation is mine. We don't agree on the interpretation of the facts.

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H.M.Jr: But as to the facts --

Foley: O. K.

H.M.Jr: Forty-eight hours later they didn't have the evidence. You said that.

Sullivan: Sure.

H.M.Jr: I am entitled to my interpretation and you boys are entitled to yours.

Sullivan: I wasn't in on this dramatic scene in the office and I have no feeling about the matter at all. All I have to go on is Ben's tone to me on the phone and certainly there wasn't anything in his conversation with me that arouses the slightest implication of the things that you indicated.

H.M.Jr: What is your interpretation?

Klotz: You asked me and I agree with the boys, definitely.

H.M.Jr: That is all right.

Klotz: Especially happening that day, and I don't think that that boy was doing anything - I mean, he was the father of this thing and he felt it very closely and strongly and you happened to be in the way. I mean, you were the only fellow - they felt up to that point that you were for Hanes, that you wanted Hanes, and after that scene I think they found out that you were not.

H.M.Jr: Well, I am satisfied. We are all agreed that they didn't have the evidence and they were looking for the evidence on Friday.

Now, what was motivating that? Each fellow can interpret that himself.

Schwarz: There is a middle ground there, Mr. Secretary, what we used to call "getting off a spot," when they just take any convenient out.

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H.M.Jr: That is what I think.

Schwarz: I mean, not necessarily directed toward you.

H.M.Jr: Let me make another statement. If Ben Cohen stays in Washington, see, he will never be satisfied until he puts a dagger in my back clear up to the hilt, never, because he has always, as long as he - he will always be ashamed of the thing as long as he lives. He will always be ashamed of the thing he put on in this office and his way of showing it is to get me. I am not going to argue about it and I don't expect you to answer, but just remember that. In order to cleanse himself and not to be ashamed of himself, he will never be satisfied until he buries the dagger clear up to the hilt. I am not asking you to comment, but just remember if he stays in town.

Klotz: May I ask Mr. Foley one question?

H.M.Jr: Sure.

Klotz: Do you think at this time that Ben Cohen feels that Mr. Morgenthau really is not responsible, even though he is sore and angry and all that? Do you see it differently?

Foley: Mrs. Klotz, he didn't talk to me at all on the telephone and he didn't want to be where I was and didn't want to see me. Now, I think he has gotten control of himself so he can talk about this thing rationally and he has telephoned me - the first time I have heard from him was on Friday. He telephoned me yesterday from New York and he talked much more calmly and rationally about it. I don't think - and I am being very frank - that Ben is giving full faith and credit to the Secretary's statement that he would not oppose Hanes if he were appointed by the Court. I think he puts his interpretation on that to mean that the Secretary was for Hanes and because of that, I think he feels that Hanes was able to get an advantage here, so that no one now is able to take away the advantage from Hanes.

H.M.Jr: I think you are right.

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- Bell: That bears out the Secretary's suspicion.
- Foley: I think he has made an enemy of Ben, but I don't know about the sticking of the knife up to the hilt.
- H.M.Jr: If you could go to great psychologists and without mentioning names, say what took place in this office, I will bet you would get the same interpretation I gave you.
- Sullivan: Then you would also get an interpretation that he would put the knife into Foley, too.
- H.M.Jr: No.
- Sullivan: He was here and saw the performance.
- H.M.Jr: No, Ed has a long standing and he has a reputation for being loyal to the one he works for and he will figure out that Ed is loyal to Morgenthau and he was my friend, and so on, but I am the fellow that will take the brunt and afterward it will wear off, as far as Ed is concerned.
- Sullivan: I would think that Ed, as a former friend, would make him number one on the list.
- H.M.Jr: No, I think that is wrong.
- Bell: He has already made up with you, in a way.
- Foley: In a way, in the sense that he can talk to me now without getting mad.
- Sullivan: Well, I don't know.
- H.M.Jr: It will wear off and he will come around and try to square himself with Ed.

"At Foley's request, Mrs. Klots examined the Secretary's records, and when the event could not be established from the Secretary's records, Mrs. Klots, Sullivan and Foley decided it would be in order to ask the Secretary by telephone. The Secretary told Foley that he could not say definitely that Hanes had spoken to him about the A. G. & E. trusteeship prior to his luncheon with Hanes on January 11."

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But I am saying what I am saying for a definite reason and just to put you all on your guard. The whole time it has been Cohen and Frank and Eccles, the spending group, those are the three, you see, who have always been opposed to me, personally, you see.

Sullivan: Well, they are the two who gave him the worst.

H.M.Jr: Who?

Sullivan: Eccles and Frank.

H.M.Jr: But you will find them together again before you find him with me.

Sullivan: Does your remark indicate that we should refrain from any efforts toward --

H.M.Jr: Oh no, I have had no personal enemies since I have been here and as far as I am concerned if Mr. Frank wants to walk in here - I mean, Mr. Cohen - on a man to man basis and ask to see me, I am willing to see him alone, see.

Sullivan: The reason I asked him the question --

H.M.Jr: I am willing to see him alone if he asks to come and see me, but he has got to ask to come and see me, and if he does, it is all right. Does that answer your question?

Klotz: I think he will.

Sullivan: The reason I asked the question is that Saturday night I thought I would have Ben and Tom and Ed out for dinner and I fortunately called Tom first and he was out of town and that ended it.

H.M.Jr: Oh no, I have no feeling. He acted outrageously. The fact that he lost control of himself doesn't excuse a man of 38. Isn't that what he is?

Foley: He is 44.

H.M.Jr: When a man is 44 years old, he ought to be able to control himself on business and it is no excuse for a man to act the way he did and I

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am not talking as Secretary of the Treasury, I am just talking as Henry Morgenthau, Jr. It isn't a question of the office, it is a question of me, and that is what I said at the time. When a man has reached that age, it is time that he got over being hysterical.

Klotz: I think that he will do that.

H.M.Jr: Well, he isn't the kind of person who should be charged with great responsibilities. You can't trust a person like that. His judgment is poor.

Foley: Well, I have known him for eight years, and I have never seen him like that.

H.M.Jr: I am sure you hope you don't see him again like that.

Foley: I hope I never see him like that again.

H.M.Jr: That is why I asked Frank to tell him, send him the message, instead of you.

Foley: If you had asked me, I wouldn't have told him. I would have waited until he calmed down. That is why I was sore at Frank and I think Frank is the - I blame Frank for the whole thing, if you are asking me.

H.M.Jr: Well, I haven't told you people everything yet that I know, why Frank is acting the way he does, but I told the President. I told the President and I might as well tell you fellows. Some time last summer Hanes came to me and said, "I thought that you would like to know that Jerry Frank asked me could I get him a couple of good clients." Did I ever tell you this?

Foley: No.

H.M.Jr: "Because he wants to get out and make some money. He has asked me if I could get him a couple of good clients," and Hanes said, "I am looking for a couple for him."

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I told this to the President. The President knows everything that I know, always, but he knows this. Does that explain something?

Foley: Sure, and that checks, too. Remember, I told you what had happened now that Bill Douglas has gone?

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

Foley: He told me wanted to get out then and wanted me to go with him.

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

Foley: Well, I told you that night you told me about Hanes' telephone conversation with you and you said you didn't know where I stood and where the President stood.

H.M.Jr: Frank, if this was anything else, could have handled this thing just as easily as possible. He has tried all the time to push me out in front.

Sullivan: We knew that, but we didn't know why. It is abc, now.

H.M.Jr: I don't think I have withheld anything else. This is the last thing. As long as we are playing truths --

Foley: If there is anything that I have withheld, it is in there.

Klotz: Doesn't that again show you that Ben Cohen is less at fault, I mean by pushing Frank out --

Sullivan: If Ben knew that - I don't know that the scene ever would have occurred.

Klotz: I agree with that.

Foley: I don't know if he knew that or not, but I think one of the reasons Ben tried so desperately to get you to assume the forefront here in this was because he recognized the

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futility of working through the SEC with Jerome at the head of it.

H.M.Jr: Well, you remember they told me that the President sent a hurry-up call on Wednesday morning.

Foley: Yes, and had them all over there.

H.M.Jr: Yes. Well, I told him this about Frank.

Sullivan: Well, apparently he didn't get very far with them.

H.M.Jr: Who?

Sullivan: The President.

H.M.Jr: No, but I mean - the President knew everything that I knew. You see what I mean, and he most likely got to worrying the way I did. He most likely woke up in the middle of the night and said, "My God, where does this leave me?"

"Foley notified Cohen that Hanes discussed matter with Secretary at luncheon on January 11. Cohen told Foley that Norris had sent copy of his letter to Frank to the Secretary. Foley told Cohen that he had not seen the letter. Cohen suggested that the reply to Norris state that the Senator's viewpoint would be presented to the Court, and that the Secretary does not recall Hanes talking to him about the trusteeship prior to January 11. Foley told Cohen that the Secretary would be back on Monday (February 19) and he would talk to him about the reply on that date.

"February 17, 1940, Foley received a handwritten note from Ben Cohen together with draft of statement Cohen had prepared for Senator Norris.

"Foley talked to the Secretary at Nashville."

Not at Nashville on the 9th?

Foley: Yes.

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H.M.Jr: Oh, my God, yes.

Sullivan: Have you forgotten Nashville so soon?

H.M.Jr: "Cohen called Foley from New York and asked Foley if he had seen copy of report of the trustee in the Reynolds Investment Company, Incorporated, and Foley told him that he had not seen the report."

What is Reynolds Investment?

Foley: That is an Investment Trust that Hanes was head of that was very severely criticized by the trustees for the way the people in the management had manipulated it for the companies they were interested in.

H.M.Jr: Was he the head of this?

Foley: He was Vice President of it.

H.M.Jr: Is that the one Eddie Greenbaum is handling now?

Foley: I don't know. The financing was all done by Smith Barnum.

H.M.Jr: There is one that he was director of.

Foley: I have got it, if you would like to look at it, about ten pages censoring this.

H.M.Jr: I would like to see it.

"Cohen said Frank had seen Judge Leibell last Thursday and Judge felt honor bound to appoint Hanes; Harriman and Myers were now out. Foley told Cohen former New York State Insurance Commissioner James A. Beha was now being mentioned."

How did they get rid of Harriman and Myers?

Foley: Myers refused to accept it and Harriman, Jerry told you here, he could disqualify on the ground he was a utility magnate in Boston and

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when he told the Judge about that, the Judge probably said, "Well, he is obviously not a disinterested trustee." Jerome hasn't told me he had this conversation.

H.M. Jr: Jerome has given you nothing?

Foley: Nothing at all.

H.M. Jr: My hunch to be eye to eye with Bob Jackson is better than I thought it was.

Foley: I haven't seen Jerome since the meeting here and I have only talked with him once. I talked with him on Monday to make sure that I wasn't - that if he was going to New York to see the Judge, I didn't want him to feel I was not co-operating.

H.M. Jr: When I have lunch with Bob on Thursday, you two gentlemen eat with me, please.

"Foley told Cohen former New York State Insurance Commissioner James A. Beha was now being mentioned."

He is a terrible person.

Foley: That was on the ticker yesterday.

H.M. Jr: Beha is thumbs down. He is a Nazi, for one thing.

"Foley obtained copy of the Trustees' report of the Reynolds Investment Company, Incorporated, from Ed Burke of SEC."

Klotz: I think by the time they get through Hanes might look good.

H.M. Jr: Now, I can study that last part. Here is the thing. What do I need more to study?

Ed, may I compliment you on that? May I say on the record and off the record and to you that I think you have handled a very, very difficult thing extremely well and I am delighted.

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Foley: Thank you.

Klotz: I second the motion.

H.M.Jr: I don't see how anybody could have handled it better and I appreciate particularly the difficulty of it. I realize that it was a close friendship of years standing.

Foley: Well, it bothers me a good deal, because they are all my friends and I don't like to see my friends get that way.

H.M.Jr: Well, nobody could have done a better job than you did.

Foley: There is the excerpt from the Chandler Act which provides for a disinterested party.

H.M.Jr: (Reading Sec. 156 of the Chandler Act) "Upon the approval of a petition, the judge shall, if the indebtedness of a debtor, liquidated as to amount and not contingent as to liability, is \$250,000 or over, appoint one or more trustees. Any trustee appointed under this chapter shall be disinterested and shall have the qualifications prescribed in section 45 of this Act, except that the trustee need not reside or have his office within the district. If such indebtedness is less than \$250,000, the judge may appoint one or more such trustees or he may continue the debtor in possession. In any case where a trustee is appointed the judge may, for the purposes specified in section 189 of this Act, appoint as an additional trustee a person who is a director, officer, or employee of the debtor."

Foley: Here is the Utility Holding Company Act. It would authorize the SEC to accept.

H.M.Jr: Let me just see if I got this thing correct. Let me just go to school with it, see. As I understand this Holding Provision Act - and I am a little bit sketchy, I realize - but the thing I envisage is this, that when this thing went through the SEC was given the right to take a Holding Company that had a piece of

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utility in Wisconsin and another piece over in New York and another piece down in Georgia and take those pieces and refit them geographically.

- Foley: And slice off the super-structure.
- H.M.Jr: But I mean, they can take Associated Gas --
- Foley: Integrated unit, and they are supposed to slice off the super-structure.
- H.M.Jr: And take off that as well?
- Foley: That is right.
- H.M.Jr: In other words --
- Foley: That is the so-called death sentence.
- H.M.Jr: And the death sentence part is a time limit, isn't it, or something like that?
- Foley: Well, they had to come in and file under that provision within a certain time.
- Schwarz: They gave an extension, didn't they?
- Foley: Because the constitutionality of it hadn't been determined.
- H.M.Jr: But the death sentence is on the super-structure.
- Foley: Yes, they had to submit plans within a certain time providing for the integration into efficient operating units and the elimination of the super-structure.
- H.M.Jr: Am I correct, that so far the SEC hasn't done this once?
- Foley: That is right.
- H.M.Jr: Am I right?
- Foley: Yes, this is the guinea pig.

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- H.M.Jr: That they haven't done it once and that by not having done it --
- Foley: They have got some plans, but they haven't done a damn thing.
- H.M.Jr: Have all these different companies - of them all, there isn't one they have done, is that right?
- Foley: That is right.
- H.M.Jr: Am I not right in saying that by not having done it they have been negligible.
- Foley: Well, they haven't been very --
- H.M.Jr: Call it by any name that you want. Am I not further right that if they don't believe in it they ought to say so, they ought to do one of two things, either they ought to go through with the thing and say, "We believe in it, we are going to carry out the spirit of Congress," or, "We don't believe in it and recommend that the thing be stricken off the books"?
- Sullivan: And as a practical matter, if they don't do it in this case, they never will.
- Foley: You see, Corcoran and Cohen looked upon this situation, Mr. Secretary, in the same light that they looked upon the Whitney situation in so far as the Stock Exchange legislation is concerned. They thought that it was a break that would show the soundness of the legislation and the SEC just muffed the ball when they refused to accept it.
- H.M.Jr: When they refused to accept it, aren't they in just Anglo Saxon being cowardly about facing this thing?
- Foley: I think they are afraid of it, yes, sir.
- H.M.Jr: Now, I just wanted to see - if that is my understanding, then this is certainly one of the things that Mr. Roosevelt has wanted

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ever since he was Governor and it isn't any different than the bank holding business, is it?

- Foley: No, except this is an accomplished fact. We never got anywhere with the Bank Holding Act and in a much bigger degree, Mr. Secretary, this thing, this Associated Gas & Electric bond and share, Standard Gas & Electric, these big utility empires represent to Ben Cohen the same thing that Giannini represents to you.
- Klotz: Exactly.
- Foley: Except they have been living with it longer.
- H.M.Jr: Then you see, gentlemen, they have got this thing off on the wrong foot. Now, the foot to get this thing on - the only person that has come out publicly and said, "I think the SEC is wrong," was me.
- Foley: You and Jackson.
- H.M.Jr: When?
- Foley: In court.
- H.M.Jr: Not over his signature.
- Foley: No, his representative did it. Fulton appeared before Leibell at the same time Hill appeared on our behalf and he urged on behalf of the Department of Justice with Jackson's approval --
- H.M.Jr: The President of the United States told me he didn't want it.
- Foley: I think the President of the United States never genuinely felt confident in the SEC's ability to administer this thing, because he has listened to Jerome and he has listened to Leon.
- H.M.Jr: My trouble has been, knowing the President didn't want this thing, I knew he also didn't want Hanes, and that - now I have got an answer to this

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whole business. My mind is fresh when I come back. I think the thing for us to do, what I would like to do, is forget about Johnny Hanes and everybody else and just cut right across this thing and Jackson and I to prepare a memorandum which we both sign to the President, urging that on behalf of the Administration we say publicly, talking for the Administration, that we address a letter to Judge Leibell over Jackson's and my signature and we want the SEC to have it and state the reasons why.

Sullivan: Here is why you have to do something more than that. In no proceeding under this section or otherwise shall the Commission be appointed as trustee or receiver without its express consent. Now, the President has got to tell them to take it.

Foley: And Jerry is going to come back at you, Mr. Secretary, and do what he has been trying to do throughout the crop, that you knew all the time that they wouldn't take this and that he informed you of that and you were just trying to get out of a bad situation.

H.M.Jr: That is a lie.

Sullivan: I think it would clarify the Secretary's position if Frank did say that and the Secretary could say publicly that it is not true.

H.M.Jr: That is all right, that is a lie. Now, let's go a step further from the President's standpoint. He is worried if a couple of these Commissioners resign. Now, Jerry - I said to Tom and I said to Ben, if heads have got to roll over there, let them roll now, because you are going to face this situation six months or a year from now when the trustees bring in the plan and if you have got three trustees and the Court and the SEC, and you have got the SEC split two to three in every issue that comes up, how in the name of common sense do you think you can work this thing out and keep the Commissioners?

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- Sullivan: Now, tell the Secretary about this conversation about resigning.
- Foley: Leon is a member of the TNEC and Kades has been representing us down there and he has had a conversation with Leon and Leon says, "Really, do you think that?" and all that sort of stuff, you know, and Norris is on it - sitting at those meetings now, too, and he has been talking to Leon and Leon has indicated that he is terribly unhappy and he is thinking about resigning.
- H.M.Jr: For what?
- Foley: Well, because he has incurred the animosity of so many people whose opinions he respected, because of his action here.
- H.M.Jr: But you see --
- Foley: You see, you and Bob Jackson and Bill Douglas and Ben and Tom all feel very, very strongly that the SEC should take this. Gene Duffield feels the same way. I feel that way. All of us do.
- H.M.Jr: I am going to get Douglas for lunch tomorrow. I want to get the people I have respect for.
- Foley: If Douglas had been on the Commission, Mr. Secretary, this thing never would have happened.
- H.M.Jr: I am trying to cut this thing through and get down and forget Johnny. What you said here - supposing Johnny gets it or Mr. Jones gets it, then they bring that plan six months from now. One either does or doesn't believe in this thing. I believe in this reorganization business.
- Foley: It has got to be done.
- H.M.Jr: Whether the President campaigns now or for history, he might much better come out and say, "I want this."

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Klotz: That goes all the way back.

Foley: Ickes is with you, too.

H.M.Jr: And somebody has got the President - this thing I read of being judge and jury, this is just poppycock.

Klotz: That was why I wanted you to talk to the President before you went away.

H.M.Jr: I did.

Klotz: I mean the day you left, when this thing came up.

H.M.Jr: In the first place, Mrs. Klotz, if anybody was to get hysterics, it would have been me, being as shocked physically as I was.

Foley: What you are saying now, Mr. Secretary, I said to Ben and Tom that night when Ben had the hysterics and the night I had the dinner with them, when I said, "Let's get together and do something constructive and let's not surrender to our enemies here," and that was the night we decided to go for the SEC and we instructed Thurman Hill to go up there and get up and shout.

(Insert telephone conversation with Bill Douglas):

February 20, 1940
3:18 p.m.

William O.
Douglas:

Hello.

HMJr:

Bill?

D:

Hello, Henry.

HMJr:

How are you?

D:

Fine.

HMJr:

Ride 'em cowboy!

D:

(Laughs)

HMJr:

I can't open any rodeos although they wanted me to kiss the rodeo queen and have my picture taken but I refused to, and I said get you out there and you'd do it.

D:

Oh, sure.

HMJr:

What?

D:

Sure, I'll pinch-hit for you any time, Henry.

HMJr:

Well, they tried to have me open it up by kissing and I said I wouldn't do it.

D:

Did you have a good time?

HMJr:

Swell.

D:

Grand.

HMJr:

Say, Bill.....

D:

Yeah.

HMJr:

.....could you, by any chance, have lunch with me tomorrow off the record and talk to me about Associated Gas and Electric and this whole question of holding companies and all the rest of that?

D:

Sure.

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HMJr: I'd like to go to school with you.

D: (Laughs)

HMJr: I think I'm all right on it but I'd like to go to school with you.

D: I'd love to, Henry.

HMJr: Hello?

D: I'd love to, Henry.

HMJr: Would you come over here at one o'clock tomorrow?

D: Sure.

HMJr: What?

D: Fine.

HMJr: I'd appreciate it.

D: I'll be over there.

HMJr: Thank you.

D: O. K.

HMJr: Goodbye.

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- Sullivan: I was wondering when you said "tomorrow" to Douglass whether you realized Jackson wasn't coming until Thursday.
- H.M.Jr: I think I had better have him alone.
- Schwarz: Mr. Secretary, there are two points I would like to mention. One man you mentioned was on the ticker yesterday, and Gibbons has been active in his behalf. He was down here this week-end and yesterday Perlmeter of the AP came in. The United Press carried the Beha story and Perlmeter came in and scoffed at it and said, "We understand the President favors Judge Mack. What do you know about it?" I didn't know anything.
- H.M.Jr: Well, I think we want to get off favoring anybody and get this down to - get the President straightened out on this thing.
- Schwarz: It has become principles, rather than personalities.
- H.M.Jr: And as long as I am on the principle business, I am on firm ground. When it comes down to who is going to get this piece of pie, it isn't a person's name, but what he stands for and where we will be six months from now when he brings in the plan and either the people believe that these top holding companies should be done away with or they don't. I believe in it.
- Schwarz: The Administration is committed to it.
- H.M.Jr: But the President himself is --
- Foley: Well, he is afraid of that Commission and he is also a little afraid, I think, of the political argument that might be made this fall that this is invasion of private enterprise on the part of the Government, but that is silly, because every time you appoint a trustee he is an instrumentality of the Court and the Court represents the public and whether you do it with a Commission or

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you do it with a slate of three trustees, it is the same thing.

H.M.Jr: Are we going to begin to crawl in the eighth year?

Klotz: We never have.

H.M.Jr: Is everybody happy?

Klotz: Surely.

Sullivan: Absolutely. Can you get hold of him down there?

H.M.Jr: Who?

Sullivan: The President.

H.M.Jr: He is supposed to be back by the 29th.

Foley: But I don't think, Mr. Secretary, that the Judge is going to wait. Once the Judge announces his slate in writing to the SEC, then the only function the SEC can perform after that is to go to court and voice its objection.

Sullivan: Knock 'em down.

Foley: The Judge may say - SEC may say, "We have changed our mind and now we think rather than take any of these fellows that we would rather take it ourselves," and the Judge may say, "Well, I gave you an opportunity and you informed me in writing that you didn't want it, by a vote of 4 to 1. Now, I am sorry, but I have made commitments and I can't go back on my commitments."

H.M.Jr: Well, I can't - I don't want to move until I have seen Jackson.

Foley: You are doing the right thing. You are seeing the two most important people in town at the present time.

H.M.Jr: That is right.

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- Sullivan: My suggestion was going to be this: Would it be possible, after you have seen Jackson and Justice Douglas, if your joint opinion is the same as you have just announced, with a possible communique from the President --
- H.M.Jr: I have a code that only the President and I have, nobody else has it. I have a special code for him. It doesn't go through the White House or anybody.
- Sullivan: The only thing that is necessary, in that event, is, if he can get word to Leibell to take no action, to announce no slate until after he has returned.
- H.M.Jr: The way to do it, if you don't mind, is through Wagner.
- Sullivan: Yes, however it is done, but I think --
- H.M.Jr: If the President tells me to see Wagner and hold off, I will see him and he will take my word.
- Sullivan: The thing I was trying to get across to you is that it isn't going to do any good after Leibell announces his slate. If you can get word to him to hold off on that --
- H.M.Jr: All right, now what is the SEC going to do when they announce Hanes? Are they going to be objecting?
- Foley: I don't think they will.
- H.M.Jr: Of course not. But where these fellows got off on the wrong foot, smart as they are, they got on personalities instead of principles and they knew as well as I did that the President didn't want the SEC to take it. What they should have done is gone to work on the President instead of on me.
- Klotz: Didn't they try, Mr. Foley?
- Foley: I think they went to work on everybody.

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H.M.Jr: Well, they weren't successful.

Klotz: That is true.

H.M.Jr: And as long as you are on principles, you are safe, but when you get down to personalities, and so forth and so on, it is very difficult. I mean, if Hanes walked in tomorrow and he said, "What objection have you got to me, as a man?" "I have got none to you." "Well, how do you feel about it?" "Well, why don't you ask me?" He could say, "If the President has doubts, why doesn't he ask me where I stand? How does he know I am not just as much for this thing as anybody else?" They don't know. They don't like him, but they don't know. Maybe Hanes is just as much for this thing as I am. Well, you don't know.

Foley: Well, I mean, Mr. Secretary --

H.M.Jr: I mean from his standpoint.

Foley: I have got a good idea. You don't find those things out by asking a fellow.

H.M.Jr: I am Johnny Hanes. I have got a perfect right to say to the President of the United States, "How do you know that I am not just as much for this - whatever you call it --" What do you call it?

Foley: Holding Company Act.

H.M.Jr: "...that I am not just as much for this thing as Ben Cohen is?" I mean, he has got a right to say that, because - all that has happened - "Mr. President, everybody is against me but nobody has asked me where I stood," and he is perfectly within his rights on that. I think the whole thing - I still want to know when Hanes said all the interests are for him, who are the interests?

Foley: I feel, as far as Hanes is concerned, asking him how he stands is a little bit like asking a murderer if he is for capital punishment.

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- H.M.Jr: Wait a minute, Hanes has committed no murder.
- Foley: No, but he has been a part, Mr. Secretary, of the ring that has financed these big utilities and he has used these holding companies --
- H.M.Jr: All right.
- Foley:for his own advantage.
- H.M.Jr: But I am Mr. Hanes. "I hit the sawdust trail. I got religion. I got Whitney on the Stock Exchange. I came down, Mr. President, and helped you with the SEC. I was a Wall Street representative and you welcomed me with open arms. You took me into the Treasury."
- Sullivan: "And kissed me goodbye."
- H.M.Jr: "And kissed me goodbye. Now, never mind, if you are willing to take Mr. Eaton, Mr. President, whose record isn't one-tenth as good as mine, why, after having been down here and served you and having this beautiful letter from you, what right have you got to believe that I didn't get religion?"
- Kletz: That is right, no argument.
- Schwarz: Senator Norris says, "Like Caesar's wife, you have got to be above suspicion."
- H.M.Jr: Caesar's wife never was good enough for me.
- Schwarz: That was a fast one.
- Sullivan: I think that probably some of the boys in the Commission were swell when everything was hotsy-totsy, but can't stand up and take it.
- H.M.Jr: Now listen, John, look here, when you get all washed up and done - when Bill Douglas was there, he and I stood shoulder to shoulder on this Bank of America thing and since he has been out, what cooperation have I got?

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Would Mr. Jerome Frank, when I asked him to take Eccles out and have a talk with him, would he do it? No, he was busy. Now, when it gets down to going after the Gianninis or the Anenbergs, or the fellow in Kansas City, Pendergast, or the Nucky Johnsons in Atlantic City - the only big cases that have been won here are cases that have been made in the Treasury, whether it is important people, rich, or with influence. The President can't point to any other cases. We have gotten a lot of fly-by-nights, but when it is an important case and it is a question of standing up, with the exception of the Treasury crowd, he hasn't got anybody that will see him through.

Sullivan: That is what I said, they can't take it.

H.M.Jr: You are right, because everybody else is thinking of himself. And the only crowd the President can bank on is the Treasury crowd and that is why Ben Cohen ought to get on his hands and knees from the door and walk over here and kiss my feet.

Foley: That is why I feel so badly, because you two --

Klotz:are really together.

Foley:are in this situation that we find here, because I feel that Ben and Tom very definitely belong in that category. I think they have fought and bled for the things they believe in. I think that they fought this bill through Congress and they fought it through the courts and they made it stick. They have drafted it. They lobbied for it and they argued for it in the courts and they made it stick against the most high-priced counsel in the United States and against the most high-priced lobby that has ever appeared on the Hill and here they find themselves thwarted by a weak Commission that has no leadership whatsoever. Jerome Frank not only can't deliver the majority over there, he can't deliver his own vote half of the time because he doesn't know where he stands.

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- H.M.Jr: This was a gesture used at my house. He said, "I am like this (waving hand)."
- Foley: The Commission has had two good Chairmen and it has had two rotten Chairman in the sense that the votes could be delivered for the things that the Commission stood for. Joe Kennedy and Bill Douglas were good Chairmen. When they were there they could deliver their votes. I don't care whether you believe in what they believe in or not, but they delivered their votes. Jim Landis couldn't do it and neither could Jerry.
- H.M.Jr: Well, we will all keep quiet now. Where is the letter that I wrote to you?
- Foley: The letter Norris wrote to you is under there.
- H.M.Jr: Ed, you are swell.
- Foley: Well, I am glad you and I didn't argue.
- H.M.Jr: Oh no, you are swell. We will call it a day.

(COPY:Co:HB)

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No. 54 Air Mail

AMERICAN CONSULATE GENERAL

American Foreign Service, Hanoi, Indochina,
February 20, 1940.

SUBJECT: Cargo Transitted to China
during January, 1940.

The Honorable

The Secretary of State,
Washington.

Sir:

I have the honor to refer to my despatch no. 35 of January 3, 1940, in regard to the quantity of cargo transitted to China via Indochina during the month of December, 1939, and to submit the following information in regard to the quantity of cargo transitted during the month of January, 1940.

As a result of the bombing of the Indochina-Yunnan Railway in the early part of the month, which disrupted through traffic, the total volume carried by the railway in January was only a fraction of that carried during the previous month, a total of about 5,250 tons as against approximately 18 thousand tons. Of this amount, only about 2,600 tons can be definitely allocated to transit commercial cargo, i. e., cargo shipped from Haiphong to Kunming. The remainder is understood to have been divided between service needs (coal, construction materials, et cetera) and shipments from Saigon and intermediate stations, chiefly non-war essentials.

Of the transit cargo, possibly 80 per cent represents gasoline and petroleum products, under Chinese Government contracts. The reports of the various oil companies show only about one-half of this amount as being shipped during January, but the discrepancy is accounted for by large shipments in the closing days of December, which were stranded in Chinese territory by the bombings.

As predicted, the widely-discussed Caobang road failed to carry any appreciable amount of cargo, probably not exceeding 200-250 tons, of which the greater part was gasoline. To be sure, the road was only open for traffic a comparatively short period.

During the month under review, activated by the urgent requirements of the Chinese Government, little else but Chinese Government

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or Chinese governmental agencies' cargo was carried by the railway and the Caobang road. The enlargement of the powers of the Southwestern Transportation Company worked to place a more effective control over shipments to China and to eliminate to a great extent the forwarding of non-essentials. There was a certain amount of criticism of the seemingly arbitrary activities of the Southwestern Transportation Company, but a non-biased opinion must be governed by the fact that these seemingly arbitrary activities affected a degree of transportation coordination hitherto unknown.

Arrivals of cargo at Haiphong during January probably exceeded shipments to China, but only by a very small amount. The two British navigation companies calling regularly at Haiphong are understood to have discharged approximately 1,800 tons of cargo for China, all other companies (including American vessels) discharging about 1 thousand tons. The major part of this cargo consisted of gasoline and petroleum products, followed by metal in bars.

Conditions at Haiphong remained approximately as during the previous month, except that the onset of the fog and mist season presaged a further deterioration of much of the cargo stored in the open. Non-Chinese commentators continued to be pessimistic as to the possibility of clearing the congestion of cargo at that port by present available transportation means.

Respectfully yours,

For the Consul at Saigon,

CHARLES S. REED II,
American Consul.

In duplicate to the Department (Original by air mail)
Copies to Embassy, Chungking and Peiping
Copies to Consulates General, Hongkong and Shanghai
Copies to Consulates, Kunming and Saigon

815.4

CSR:car

February 20, 1949

Original
p. 304

Secretary Morgenthau

E. H. Foley, Jr.

For your information

Pursuant to your request, I am attaching a chronology of events bearing upon the appointment of trustees for A. G. & E. which represents my best recollection of the events concerning which I have been informed or in which I have been directly involved.

Admittedly I have not been able to cover completely everything that took place, but if there are omissions they are from inadvertence or ignorance. I have attempted to give an accurate running story of everything I know from the time the matter first came up.

Reference to the occurrences are quite brief. However, I shall be glad to elaborate on them if you wish.

Also I am attaching an extract from the Holding Company Act which contains the authority of the SEC to act as sole trustee for a utility holding company in a proceeding in bankruptcy.

Attachments

EHSr/ta
3rd rewrite
2/20/49

**CHRONOLOGY OF EVENTS LEADING UP TO THE APPOINTMENT
OF TRUSTEES FOR A. G. & E.**

<u>DATE</u>	<u>INCIDENTS</u>
December 22, 1939	Hanes resigned.
January 4, 1940	Secretary's luncheon for Hanes.
January 5, 1940	Foley had dinner with the Secretary who mentioned for first time that Hanes was interested in A. G. & E.
January 8, 1940	Jackson Day Dinner. Foley sat next to Coover who mentioned Hanes' interest in A. G. & E.
January 10, 1940	Voluntary petition in bankruptcy filed by A. G. & E. Co., and A. G. & E. Corp., in U. S. District Court for the Northern District of New York.
January 11, 1940	Secretary had luncheon with Hanes who asked the Secretary if he had any objection to his serving as trustee if appointed by the Court.
January 12, 1940	Foley spoke to Venshal and Thurman Hill (Treasury lawyers) in regard to appointment of trustee.
January 13, 1940	Jerome Frank called at 11:22 A.M., to say that Miss Leland had conveyed word from the President last evening that he did not want Hanes to be appointed trustee. Frank said that SES could be appointed under Holding Company Act, but thought it would be a mistake for them to seek it. However, he thought it would be a different situation if the Court asked the SES to serve.
	Frank called again to say that he had another message from Miss Leland and that the President wanted Frank to talk to Secretary Houghton about the appointment of a trustee. The Secretary arranged an appointment for 4:00 P.M.
	The Secretary, Frank and Foley met

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at the Secretary's house at 4: P.M., and discussed A.G. & E. situation. Frank stated the President had notified him that Hanes was not to be appointed. Frank said that the SEC did not want the trusteeship and would do nothing to seek it but would take under consideration request by Court that it serve as trustee.

The Secretary suggested Judge John E. Mack and Sandolph Paul, but wanted an opportunity to clear these names with the President. Nothing was finally settled as to names or procedure.

January 14, 1940

Sullivan, Menchel and Thurman Hill met with Foley at his apartment at 3:00 P.M. Hill was leaving at 4 P.M. for Malone, New York to attend the hearing on the appointment of a trustee on January 15. He was instructed to assist SEC in every way in making application to the Court for the removal of the case from the Northern District to the Southern District of New York. Hill was informed that the appointment of Hanes was not favored by the Administration, but was told not to suggest any names to the Court for trustee.

It was arranged that Hill would call Foley from Malone the next morning before appearance in Court.

January 15, 1940

Foley told Hill, after speaking to the Secretary at 9:30 meeting, that Treasury had decided not to suggest any names to the Court.

At the Secretary's press conference, Foley answered questions in regard to A.G. & E. receivership.

John E. Crider of the NEW YORK TIMES asked the Secretary if he was for Hanes. The Secretary replied that he would be delighted if SEC would serve as the Trustee.

Thurman Hill telephoned that Judge Bryant had set January 23 as the date when he will hear oral argument in Utica, New York on government's application to remove the case to the Southern District of New York.

MEMO

January 16, 1940

Frank called Foley to inquire if the Secretary had cleared Randolph Paul with the President. Foley said he had heard nothing further about it, but Foley told Hill yesterday, after speaking to the Secretary, the Treasury did not wish to suggest names to Judge Bryant.

Foley asked Frank if he was satisfied with the way things went yesterday, and Frank said that he was.

Ben Cohen called and said he thought the Secretary's statement at the press conference yesterday was splendid, and he wished the BSC had a little guts.

Foley talked to Hill about judges in the Southern District of New York before whom the A. O. & E. case might be brought.

Ben Cohen called and discussed judges in the Southern District of New York available for the A. O. & E. case.

Bolmer of BSC and Thurman Hill of the Treasury discussed on the telephone with Foley the available judges in the Southern District.

Hill informed Foley that Judge Knox would assign the case to Judge Laddell if Judge Bryant granted the motion removing the case to the Southern District of New York.

Ben Cohen and Jerome Frank telephoned in regard to the President's conversation with Frank last evening. The President had discussed Judge Laddell and the possibility of the appointment of Byron Bolton of Cleveland as trustee. Frank did not think this would be so good.

Foley cleared with the Secretary the proposed press release which had been sent to Foley by telegram to the effect that the Attorney General would instruct the U. S. Atty. for the Southern District of New York to investigate the affairs of A. O. & E. with a view to ascertaining whether there has been any violation of Federal laws.

Foley spoke to Frank on telephone about Judge Laddell, Murray Halbert and Gen. Foley preferred

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Leibell and mentioned the success Treasury had experienced before him in Spanish Silver and British American Tobacco cases.

January 30, 1940

Judge Bryant signed the order removing the A.G.&E. case from the Northern to the Southern District of New York.

January 31, 1940

James B. Alley, former General Counsel of RFC, and now with the firm of Aushinloss, Alley & Duncan telephoned from New York and suggested the appointment of Aushinloss (director of Chase Bank) as trustee. He said he had spoken to Frank about him.

February 1, 1940

Foley attended conference at Attorney General Jackson's office on A.G. & E. There were present Cohen, Corcoran, Frank, Jackson and Foley. At this conference it was suggested that the following be proposed to Judge Leibell as trustees subject to the approval of Secretary Morgenthau (1) Tom Corcoran; (2) Randolph Paul; and (3) Lewis Dabney.

Foley saw the Secretary at the latter's house and obtained approval of these names.

February 2, 1940

Foley informed Tom Corcoran by telephone that the Secretary had cleared the proposed names. Corcoran asked Foley if the Secretary would go to bat for him, and Foley replied that the Treasury representative would say in open court that the Treasury wanted Tom Corcoran provided his name was first presented by the representative of SEC.

February 3, 1940

James B. Alley telephoned again and was informed by Foley that Aushinloss was not acceptable because of his Chase Bank connection.

February 5, 1940

Matt McGuire of the Department of Justice, who had been sent to New York by Jackson to speak to Senator Wagner in regard to the appointment of Tom Corcoran for A. G. & E, told Foley, who ran into him at luncheon, that Senator Wagner had just informed him by telephone from New York that Judge Leibell proposed to appoint Hanes, Myers and Harrison.

Tom Corcoran asked Foley to ask the Secretary to call Attorney General Jackson at his apartment when the Secretary arrived. Mrs. Elots, Sullivan and Foley were present while the Secretary talked to Jackson.

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After this telephone conversation, it was decided that the Treasury representative would request Judge Leibell to appoint SEC at the hearing in New York tomorrow.

Cohen asked Foley to stop at his office on his way home.

Foley told Frank on the telephone that the Treasury would ask the Judge to appoint SEC, and Frank said that was okay with him although he didn't see why the Treasury couldn't go in and name whom it wanted since Hanes had represented to the Court that he was acceptable to the Administration.

The Secretary requested Foley to see him at his house before he saw Ben Cohen. The Secretary told Foley of Hanes' conversation in which Hanes asked the Secretary to ascertain the President's attitude and to speak to Foley.

Foley had dinner with Tom Corcoran and Ben Cohen who told Foley that it was a mistake to have injected Corcoran's name into the matter, and that their only interest was to block Hanes and obtain the appointment of trustees in sympathy with the purpose of the Holding Company Act.

Foley instructed Thurman Hill to request the Court to appoint SEC at the hearing in New York in the morning.

February 6, 1940

Foley was present while the Secretary talked to W. I. Myers. Myers said that he had been asked by Judge Leibell to serve as trustee with Harriman and Hanes at a salary of \$50,000 each but didn't know whether he would accept. He wanted to get Secretary's advice. Secretary told him he was not for him, but was for SEC. Myers told the Secretary that he understood Eccles had recommended him to Senator Wagner as Wagner had called him urging that he accept.

At the Secretary's request, Foley told Corcoran and Cohen of the Secretary's conversation with Myers.

Thurman Hill informed Foley by telephone from New York that Judge Leibell decided today that SEC should notify him in writing whether or not it would accept appointment as trustee; if SEC decided not to accept, Judge Leibell would notify the SEC in writing of the trustees he proposed to appoint, and give the creditors an opportunity to present objections at a hearing to be held on March 6.

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Foley notified the Secretary of Hill's call.

Foley notified Tom Coreoran and Ben Cohen of Hill's call.

February 7, 1940

Gene Duffield telephoned Foley that the Treasury was right and SEC should serve as trustee. Duffield thought the matter would come up before the Commission today.

February 8, 1940

Tom Coreoran, Ben Cohen and Jerome Frank talked to Foley by telephone to urge that the Secretary call in Hanes and ask him to withdraw.

Foley informed the Secretary of his telephone conversations with Coreoran, Cohen and Frank.

Mrs. Klots, Frank, Cohen and Foley were present at a meeting in the Secretary's office when the Secretary told Cohen he would not see Hanes since he did not think it would do any good.

After Cohen left, the Secretary told Frank he was willing to have Foley go with Frank to see Judge Leibell and ask him to withhold action on the appointment of trustees until after the Secretary returned to his office on February 13 so that the Secretary might have an opportunity to speak to Hanes concerning his representation of the Secretary's position to Judge Leibell.

At the request of the Secretary, Foley went to see Secretary Ickes and told him what took place in the Secretary's office. Foley told Ickes that, in his opinion, what had taken place in the Secretary's office that afternoon did not give Cohen grounds for resigning.

Foley, after talking to Ickes, saw Coreoran and told him what had taken place.

After Cohen learned from Frank that the Secretary wanted an apology from Cohen for his actions - Cohen called Foley during the evening in great heat and repeated his intention to resign.

Secretary called Foley from Nashville.

DATE

NOTES

February 9, 1940

Secretary Lohse telephoned and said he had just talked to Secretary Hargentzen and understood that Foley and Frank were to see Hanes. Foley told him that only Frank was going to see Hanes and the outcome of this conference would probably determine whether Foley and Frank would see Judge Lehall.

February 10, 1940

Foley received two wires from the Secretary.

Foley telephoned Grace Tully and told her that the Secretary had requested him to see Miss Lehman and give her our version of the A.O. & E. matter. Grace Tully called back and said that "Missy" could not do it that afternoon, but would telephone Foley at home in the morning.

Foley had luncheon with Duffield who gave Foley copy of SEC release to the effect that SEC had notified Judge Lehall it would decline to serve as trustee.

Foley wired developments to Secretary in Tucson.

February 11, 1940

Corcoran notified Foley by telephone at home that he had seen Judge Lehall the day before about Hanes but got nowhere.

February 12, 1940

John E. Grider of THE NEW YORK TIMES telephoned Foley that he was trying to ascertain for Arthur Krook why the Treasury had proposed SEC and whether the Treasury would have any objection to Hanes now that the SEC had declined. Foley replied that the Treasury thought SEC could do most effective job, and he had no comment as to Hanes until the Treasury was notified by Judge Lehall of the trustees the Court proposed to appoint.

February 13, 1940

Foley received from Ben Cohen memorandum giving Cohen's interpretation of Arthur Krook's column.

Tom Corcoran called Foley at home after midnight and asked Foley when petition was filed when Secretary stated at press conference he was for the SEC; and when Hanes asked the Secretary if he would have any objection to his if appointed by the Court. Foley said the petition was filed on January 10; the press conference was held on January 15; and that he did not know date when Hanes saw the Secretary but thought that it was soon after Hanes submitted his resignation.

DATE

February 16, 1940

Foley talked to the Secretary on the telephone and informed him of the new developments.

Klatsner asked Foley over telephone if Treasury had been told SMC would not accept trusteeship prior to February 6 when Treasury urged that Court appoint SMC. Foley said that first notice Treasury had that SMC would not serve was when news of SMC action was released last Saturday.

Gullivan telephoned Foley at home that Ben Cohen was anxious to reach Foley by telephone. Foley called Cohen who asked Foley the date when the Secretary had informed Hanes he would have no objection to him if he were appointed by the Court. Foley said he didn't know the exact date. Cohen then asked him to find out definitely from the Secretary's records as Arthur Krock had taken exception to Morris' statement that the meeting had taken place prior to filing of the petition, and Ben wished to ascertain definitely when the meeting had taken place.

At Foley's request, Mrs. Klotz examined the Secretary's records, and when the event could not be established from the Secretary's records, Mrs. Klotz, Gullivan and Foley decided it would be in order to ask the Secretary by telephone. The Secretary told Foley that he could not say definitely that Hanes had spoken to him about the A. G. & F. trusteeship prior to his luncheon with Hanes on January 11.

Foley notified Cohen that Hanes discussed matter with Secretary at luncheon on January 11. Cohen told Foley that Morris had sent copy of his letter to Frank to the Secretary. Foley told Cohen that he had not seen the letter. Cohen suggested that the reply to Morris state that the Senator's viewpoint would be presented to the Court, and that the Secretary does not recall Hanes talking to him about the trusteeship prior to January 11. Foley told Cohen that the Secretary would be back on Monday (February 19) and he would talk to him about the reply on that date.

Foley received a handwritten note from Ben Cohen together with draft of statement Cohen had prepared for Senator Morris.

February 16, 1940

February 17, 1940

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February 19, 1940

CONTENTS

Foley talked to the Secretary at Nashville.

John called Foley from New York and asked Foley if he had seen copy of report of the Trustee in the Reynolds Investment Company, Inc., and Foley told him that he had not seen the report.

John said Frank had seen Judge Liphell last Thursday and Judge felt honor bound to appoint Hanes, Harrison and Myers were now out. Foley told John former New York State Insurance Commissioner James A. Rehn was now being mentioned.

Foley obtained copy of the Trustee's report of the Reynolds Investment Company, Inc. from Ed Burke of SBC.

Provisions of the Chandler Act which specify that a trustee in bankruptcy must be disinterested are as follows:

"Sec. 156. Upon the approval of a petition, the judge shall, if the indebtedness of a debtor, liquidated as to amount and not contingent as to liability, is \$250,000 or over, appoint one or more trustees. Any trustee appointed under this chapter shall be disinterested and shall have the qualifications prescribed in section 49 of this Act, except that the trustee need not reside or have his office within the district. If such indebtedness is less than \$250,000, the judge may appoint one or more such trustees or he may continue the debtor in possession. In any case where a trustee is appointed the judge may, for the purposes specified in section 159 of this Act, appoint as an additional trustee a person who is a director, officer, or employee of the debtor.

"Sec. 157. An attorney appointed to represent a trustee under this chapter shall also be a disinterested person: Provided, however, that for any specified purposes other than to represent a trustee in conducting the proceeding under this chapter the trustee may, with the approval of the judge, employ an attorney who is not disinterested.

"Sec. 158. A person shall not be deemed disinterested, for the purposes of section 156 and section 157 of this Act, if -

"(1) he is a creditor or stockholder of the debtor; or

"(2) he is or was an underwriter of any of the outstanding securities of the debtor or within five years prior to the date of the filing of the petition was the underwriter of any securities of the debtor; or

"(3) he is, or was within two years prior to the date of the filing of the petition, a director, officer, or employee of the debtor or any such underwriter, or an attorney for the debtor or such underwriter; or

"(4) it appears that he has, by reason of any other direct or indirect relationship to, connection with, or interest in the debtor or such underwriter, or for any reason an interest materially adverse to the interests of any class of creditors or stockholders." (Underlining is supplied.)

The provision of the Public Utility Holding Company Act, authorizing SEC to serve as Trustee for a registered holding company, is as follows:

"Sec. 11 (f). In any proceeding in a court of the United States, whether under this section or otherwise, in which a receiver or trustee is appointed for any registered holding company, or any subsidiary company thereof, the court may constitute and appoint the Commission as sole trustee or receiver, subject to the directions and orders of the court, whether or not a trustee or receiver shall theretofore have been appointed, and in any such proceeding the court shall not appoint any person other than the Commission as trustee or receiver without notifying the Commission and giving it an opportunity to be heard before making any such appointment. In no proceeding under this section or otherwise shall the Commission be appointed as trustee or receiver without its express consent. In any such proceeding a reorganization plan for a registered holding company or any subsidiary company thereof shall not become effective unless such plan shall have been approved by the Commission after opportunity for hearing prior to its submission to the court. Notwithstanding any other provision of law, any such reorganization plan may be proposed in the first instance by the Commission, or subject to such rules and regulations as the Commission may deem necessary or appropriate in the public interest or for the protection of investors, by any person having a bona fide interest, (as defined by the rules and regulations of the Commission) in the reorganization. The Commission may, by such rules and regulations or order as it may deem necessary or appropriate in the public interest or for the protection of investors or consumers, require that any or all fees, expenses, and remuneration, to whomsoever paid, in connection with any reorganization, dissolution, liquidation, bankruptcy, or receivership of a registered holding company or subsidiary company thereof, in any such proceeding, shall be subject to approval by the Commission.

RECEIVED
TREASURY DEPARTMENT

JRDG & MR 001000

PLAIN

London

Dated February 20, 1940

Rec'd 1:50 p.m.

Secretary of State,
Washington.

423, February 20.

FOR TREASURY FROM BUTTERWORTH.

The British Treasury is thoroughly pleased at the the reaction to the Treasury vesting order, particularly the way in which the New York stock market behaved. It feels that the fortuitous moment was hit upon when the New York market had ceased discounting the winter recession of business activity in the United States. In this connection I might mention that several of the American bankers and brokers here seem to have the impression that blocks of the vested shares must have been previously sold privately to American investment trusts or insurance companies. If this unfounded assumption is widespread, when it is dissipated there may be some further reaction.

Both British equities and British Government securities were strong today.

KLP

JOHNSON

TREASURY DEPARTMENT

304

INTER OFFICE COMMUNICATION

DATE

February 20, 1940

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

For your information

Pursuant to your request, I am attaching a chronology of events bearing upon the appointment of trustees for A. G. & E. which represents my best recollection of the events concerning which I have been informed or in which I have been directly involved.

Admittedly I have not been able to cover completely everything that took place, but if there are omissions they are from inadvertence or ignorance. I have attempted to give an accurate running story of everything I know from the time the matter first came up.

Reference to the occurrences are quite brief. However, I shall be glad to elaborate on them if you wish.

Also I am attaching an extract from the Holding Company Act which contains the authority of the SEC to act as sole trustee for a utility holding company in a proceeding in bankruptcy.

E. H. F.

Attachments

Feb. 20, 1940.

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CHRONOLOGY OF EVENTS LEADING UP TO THE APPOINTMENT
OF TRUSTEES FOR A. G. & E.

<u>DATE</u>	<u>OCCURRENCE</u>
December 22, 1939	Hanes resigned.
January 4, 1940	Secretary's luncheon for Hanes.
January 5, 1940	Foley had dinner with the Secretary who mentioned for first time that Hanes was interested in A. G. & E.
January 8, 1940	Jackson Day Dinner. Foley sat next to Corcoran who mentioned Hanes' interest in A. G. & E.
January 10, 1940	Voluntary petition in bankruptcy filed by A. G. & E. Co., and A. G. & E. Corp., in U. S. District Court for the Northern District of New York.
January 11, 1940	Secretary had luncheon with Hanes who asked the Secretary if he had any objection to him serving as trustee if appointed by the Court.
January 12, 1940	Foley spoke to Wenchel and Thurman Hill (Treasury lawyers) in regard to appointment of trustee.
January 13, 1940	Jerome Frank called at 11:22 A.M., to say that Miss LeHand had conveyed word from the President last evening that he did not want Hanes to be appointed trustee. Frank said that SEC could be appointed under Holding Company Act, but thought it would be a mistake for them to seek it. However, he thought it would be a different situation if the Court asked the SEC to serve.
	Frank called again to say that he had another message from Miss LeHand and that the President wanted Frank to talk to Secretary Morgenthau about the appointment of a trustee. The Secretary arranged an appointment for 4:00 P.M.
	The Secretary, Frank and Foley met

DATEOCCURRENCE

at the Secretary's house at 4: P.M., and discussed A.G. & E. situation. Frank stated the President had notified him that Hanes was not to be appointed. Frank said that the SEC did not want the trusteeship and would do nothing to seek it but would take under consideration request by Court that it serve as trustee.

The Secretary suggested Judge John E. Mack and Randolph Paul, but wanted an opportunity to clear these names with the President. Nothing was finally settled as to names or procedure.

January 14, 1940

Sullivan, Wenchel and Thurman Hill met with Foley at his apartment at 3:00 P.M. Hill was leaving at 4 P.M. for Malone, New York to attend the hearing on the appointment of a trustee on January 15. He was instructed to assist SEC in every way in making application to the Court for the removal of the case from the Northern District to the Southern District of New York. Hill was informed that the appointment of Hanes was not favored by the Administration, but was told not to suggest any names to the Court for trustee.

It was arranged that Hill would call Foley from Malone the next morning before appearance in Court.

January 15, 1940

Foley told Hill, after speaking to the Secretary at 9:30 meeting, that Treasury had decided not to suggest any names to the Court.

At the Secretary's press conference, Foley answered questions in regard to A.G. & E. receivership.

John E. Crider of the NEW YORK TIMES asked the Secretary if he was for Hanes. The Secretary replied that he would be delighted if SEC would serve as the Trustee.

Thurman Hill telephoned that Judge Bryant had set January 23 as the date when he will hear oral argument in Utica, New York on government's application to remove the case to the Southern District of New York.

<u>DATE</u>	<u>OCCURRENCE</u>
January 16, 1940	Frank called Foley to inquire if the Secretary had cleared Randolph Paul with the President. Foley said he had heard nothing further about it, but Foley told Hill yesterday, after speaking to the Secretary, the Treasury did not wish to suggest names to Judge Bryant.
	Foley asked Frank if he was satisfied with the way things went yesterday, and Frank said that he was.
	Ben Cohen called and said he thought the Secretary's statement at the press conference yesterday was splendid, and he wished the SEC had a little guts.
	Foley talked to Hill about Judges in the Southern District of New York before whom the A.G. & E. case might be brought.
January 18, 1940	Ben Cohen called and discussed Judges in the Southern District of New York available for the A.G. & E. case.
January 19, 1940	Weiner of SEC and Thurman Hill of the Treasury discussed on the telephone with Foley the available judges in the Southern District.
January 24, 1940	Hill informed Foley that Judge Knox would assign the case to Judge Leibell if Judge Bryant granted the motion removing the case to the Southern District of New York.
January 25, 1940	Ben Cohen and Jerome Frank telephoned in regard to the President's conversation with Frank last evening. The President had discussed Judge Leibell and the possibility of the appointment of Cyrus Eaton of Cleveland as trustee. Frank did not think this would be so good.
January 26, 1940	Foley cleared with the Secretary the proposed press release which had been sent to Foley by Corcoran to the effect that the Attorney General would instruct the U. S. Atty. for the Southern District of New York to investigate the affairs of A. G. & E. with a view to ascertaining whether there has been any violation of Federal laws.
	Foley spoke to Frank on telephone about Judges Leibell, Murray Halbert and Cox. Foley preferred

DATE

OCCURRENCE

Leibell and mentioned the success Treasury had experienced before him in Spanish Silver and British American Tobacco cases.

January 30, 1940
Judge Bryant signed the order removing the A.G.&E. case from the Northern to the Southern District of New York.

January 31, 1940
James B. Alley, former General Counsel of RFC, and now with the firm of Auchincloss, Alley & Duncan telephoned from New York and suggested the appointment of Auchincloss (director of Chase Bank) as trustee. He said he had spoken to Frank about him.

February 1, 1940
Foley attended conference at Attorney General Jackson's office on A.G. & E. There were present Cohen, Corcoran, Frank, Jackson and Foley. At this conference it was suggested that the following be proposed to Judge Leibell as trustees subject to the approval of Secretary Morgenthau: (1) Tom Corcoran; (2) Randolph Paul; and (3) Lewis Dabney.

Foley saw the Secretary at the latter's house and obtained approval of these names.

February 2, 1940
Foley informed Tom Corcoran by telephone that the Secretary had cleared the proposed names. Corcoran asked Foley if the Secretary would go to bat for him, and Foley replied that the Treasury representative would say in open court that the Treasury wanted Tom Corcoran provided his name was first presented by the representative of SEC.

February 3, 1940
James B. Alley telephoned again and was informed by Foley that Auchincloss was not acceptable because of his Chase Bank connection.

February 5, 1940
Matt McGuire of the Department of Justice, who had been sent to New York by Jackson to speak to Senator Wagner in regard to the appointment of Tom Corcoran for A. G. & E. told Foley, who ran into him at luncheon, that Senator Wagner had just informed him by telephone from New York that Judge Leibell proposed to appoint Hanes, Myers and Harrison.

Tom Corcoran asked Foley to ask the Secretary to call Attorney General Jackson at his apartment when the Secretary arrived. Mrs. Klots, Sullivan and Foley were present while the Secretary talked to Jackson.

DATE

OCCURRENCE

After this telephone conversation, it was decided that the Treasury representative would request Judge Leibell to appoint SEC at the hearing in New York tomorrow.

Cohen asked Foley to stop at his office on his way home.

Foley told Frank on the telephone that the Treasury would ask the Judge to appoint SEC, and Frank said that was okay with him although he didn't see why the Treasury couldn't go in and name whom it wanted since Hanes had represented to the Court that he was acceptable to the Administration.

The Secretary requested Foley to see him at his house before he saw Ben Cohen. The Secretary told Foley of Hanes' conversation in which Hanes asked the Secretary to ascertain the President's attitude and to speak to Foley.

Foley had dinner with Tom Corcoran and Ben Cohen who told Foley that it was a mistake to have injected Corcoran's name into the matter, and that their only interest was to block Hanes and obtain the appointment of trustees in sympathy with the purpose of the Holding Company Act.

Foley instructed Thurman Hill to request the Court to appoint SEC at the hearing in New York in the morning.

February 6, 1940

Foley was present while the Secretary talked to W. I. Myers. Myers said that he had been asked by Judge Leibell to serve as trustee with Harriman and Hanes at a salary of \$50,000 each but didn't know whether he would accept. He wanted to get Secretary's advice. Secretary told him he was not for him, but was for SEC. Myers told the Secretary that he understood Eccles had recommended him to Senator Wagner as Wagner had called him urging that he accept.

At the Secretary's request, Foley told Corcoran and Cohen of the Secretary's conversation with Myers.

Thurman Hill informed Foley by telephone from New York that Judge Leibell decided today that SEC should notify him in writing whether or not it would accept appointment as trustee; if SEC decided not to accept, Judge Leibell would notify the SEC in writing of the trustees he proposed to appoint, and give the creditors an opportunity to present objections at a hearing to be held on March 8.

DATEOCCURRENCE

Foley notified the Secretary of Hill's call.

Foley notified Tom Corcoran and Ben Cohen of Hill's call.

February 7, 1940

Gene Duffield telephoned Foley that the Treasury was right and SEC should serve as trustee. Duffield thought the matter would come up before the Commission today.

February 8, 1940

Tom Corcoran, Ben Cohen and Jerome Frank talked to Foley by telephone to urge that the Secretary call in Hanes and ask him to withdraw.

Foley informed the Secretary of his telephone conversations with Corcoran, Cohen and Frank.

Mrs. Klotz, Frank, Cohen and Foley were present at a meeting in the Secretary's office when the Secretary told Cohen he would not see Hanes since he did not think it would do any good.

After Cohen left, the Secretary told Frank he was willing to have Foley go with Frank to see Judge Leibell and ask him to withhold action on the appointment of trustees until after the Secretary returned to his office on February 19 so that the Secretary might have an opportunity to speak to Hanes concerning his representation of the Secretary's position to Judge Leibell.

At the request of the Secretary, Foley went to see Secretary Ickes and told him what took place in the Secretary's office. Foley told Ickes that, in his opinion, what had taken place in the Secretary's office that afternoon did not give Cohen grounds for resigning.

Foley, after talking to Ickes, saw Corcoran and told him what had taken place.

After Cohen learned from Frank that the Secretary wanted an apology from Cohen for his actions - Cohen called Foley during the evening in great heat and repeated his intention to resign.

Secretary called Foley from Nashville.

<u>DATE</u>	<u>OCCURRENCE</u>
February 9, 1940	Secretary Ickes telephoned and said he had just talked to Secretary Morgenthau and understood that Foley and Frank were to see Hanes. Foley told him that only Frank was going to see Hanes and the outcome of this conference would probably determine whether Foley and Frank would see Judge Leibell.
February 10, 1940	Foley received two wires from the Secretary.
	Foley telephoned Grace Tully and told her that the Secretary had requested him to see Miss LeHand and give her our version of the A.G. & E. matter. Grace Tully called back and said that "Missy" could not do it that afternoon, but would telephone Foley at home in the morning.
	Foley had luncheon with Duffield who gave Foley copy of SEC release to the effect that SEC had notified Judge Leibell it would decline to serve as trustee.
	Foley wired developments to Secretary in Tucson.
February 11, 1940	Corcoran notified Foley by telephone at home that he had seen Judge Leibell the day before about Hanes but got nowhere.
February 12, 1940	John E. Crider of THE NEW YORK TIMES telephoned Foley that he was trying to ascertain for Arthur Krock why the Treasury had proposed SEC and whether the Treasury would have any objection to Hanes now that the SEC had declined. Foley replied that the Treasury thought SEC could do most effective job, and he had no comment as to Hanes until the Treasury was notified by Judge Leibell of the trustees the Court proposed to appoint.
February 13, 1940	Foley received from Ben Cohen memorandum giving Cohen's interpretation of Arthur Krock's column.
	Tom Corcoran called Foley at home after midnight and asked Foley when petition was filed; when Secretary stated at press conference he was for the SEC; and when Hanes asked the Secretary if he would have any objection to him if appointed by the Court. Foley said the petition was filed on January 10; the press conference was held on January 15; and that he did not know date when Hanes saw the Secretary but thought that it was soon after Hanes submitted his resignation.

<u>DATE</u>	<u>OCCURRENCE</u>
February 14, 1940	Foley talked to the Secretary on the telephone and informed him of the new developments.
	Kintner asked Foley over telephone if Treasury had been told SEC would not accept trusteeship prior to February 6 when Treasury urged that Court appoint SEC. Foley said that first notice Treasury had that SEC would not serve was when news of SEC action was released last Saturday.
February 16, 1940	Sullivan telephoned Foley at home that Ben Cohen was anxious to reach Foley by telephone. Foley called Cohen who asked Foley the date when the Secretary had informed Hanes he would have no objection to him if he were appointed by the Court. Foley said he didn't know the exact date. Cohen then asked him to find out definitely from the Secretary's records as Arthur Krock had taken exception to Norris' statement that the meeting had taken place prior to filing of the petition, and Ben wished to ascertain definitely when the meeting had taken place.
	At Foley's request, Mrs. Klotz examined the Secretary's records, and when the event could not be established from the Secretary's records, Mrs. Klotz, Sullivan and Foley decided it would be in order to ask the Secretary by telephone. The Secretary told Foley that he could not say definitely that Hanes had spoken to him about the A. G. & E. trusteeship prior to his luncheon with Hanes on January 11.
	Foley notified Cohen that Hanes discussed matter with Secretary at luncheon on January 11. Cohen told Foley that Norris had sent copy of his letter to Frank to the Secretary. Foley told Cohen that he had not seen the letter. Cohen suggested that the reply to Norris state that the Senator's viewpoint would be presented to the Court, and that the Secretary does not recall Hanes talking to him about the trusteeship prior to January 11. Foley told Cohen that the Secretary would be back on Monday (February 19) and he would talk to him about the reply on that date.
February 17, 1940	Foley received a handwritten note from Ben Cohen together with draft of statement Cohen had prepared for Senator Norris.

DATE

OCCURRENCE

February 19, 1940

Foley talked to the Secretary at Nashville.

Cohen called Foley from New York and asked Foley if he had seen copy of report of the Trustee in the Reynolds Investment Company, Inc., and Foley told him that he had not seen the report.

Cohen said Frank had seen Judge Leibell last Thursday and Judge felt honor bound to appoint Hanes; Harriman and Myers were now out. Foley told Cohen former New York State Insurance Commissioner James A. Beha was now being mentioned.

Foley obtained copy of the Trustee's report of the Reynolds Investment Company, Inc. from Ed Burke of SEC.

The provision of the Public Utility Holding Company Act, authorizing SEC to serve as Trustee for a registered holding company, is as follows:

"Sec. 11 (f). In any proceeding in a court of the United States, whether under this section or otherwise, in which a receiver or trustee is appointed for any registered holding company, or any subsidiary company thereof, the court may constitute and appoint the Commission as sole trustee or receiver, subject to the directions and orders of the court, whether or not a trustee or receiver shall theretofore have been appointed, and in any such proceeding the court shall not appoint any person other than the Commission as trustee or receiver without notifying the Commission and giving it an opportunity to be heard before making any such appointment. In no proceeding under this section or otherwise shall the Commission be appointed as trustee or receiver without its express consent. In any such proceeding a reorganization plan for a registered holding company or any subsidiary company thereof shall not become effective unless such plan shall have been approved by the Commission after opportunity for hearing prior to its submission to the court. Notwithstanding any other provision of law, any such reorganization plan may be proposed in the first instance by the Commission, or subject to such rules and regulations as the Commission may deem necessary or appropriate in the public interest or for the protection of investors, by any person having a bona fide interest, (as defined by the rules and regulations of the Commission) in the reorganization. The Commission may, by such rules and regulations or order as it may deem necessary or appropriate in the public interest or for the protection of investors or consumers, require that any or all fees, expenses, and remuneration, to whomsoever paid, in connection with any reorganization, dissolution, liquidation, bankruptcy, or receivership of a registered holding company or subsidiary company thereof, in any such proceeding, shall be subject to approval by the Commission.

Provisions of the Chandler Act which specify that a trustee in bankruptcy must be disinterested are as follows:

"Sec. 156. Upon the approval of a petition, the judge shall, if the indebtedness of a debtor, liquidated as to amount and not contingent as to liability, is \$250,000 or over, appoint one or more trustees. Any trustee appointed under this chapter shall be disinterested and shall have the qualifications prescribed in section 45 of this Act, except that the trustee need not reside or have his office within the district. If such indebtedness is less than \$250,000, the judge may appoint one or more such trustees or he may continue the debtor in possession. In any case where a trustee is appointed the judge may, for the purposes specified in section 189 of this Act, appoint as an additional trustee a person who is a director, officer, or employee of the debtor.

"Sec. 157. An attorney appointed to represent a trustee under this chapter shall also be a disinterested person: Provided, however, That for any specified purposes other than to represent a trustee in conducting the proceeding under this chapter the trustee may, with the approval of the judge, employ an attorney who is not disinterested.

"Sec. 158. A person shall not be deemed disinterested, for the purposes of section 156 and section 157 of this Act, if -

"(1) he is a creditor or stockholder of the debtor; or

"(2) he is or was an underwriter of any of the outstanding securities of the debtor or within five years prior to the date of the filing of the petition was the underwriter of any securities of the debtor; or

"(3) he is, or was within two years prior to the date of the filing of the petition, a director, officer, or employee of the debtor or any such underwriter, or an attorney for the debtor or such underwriter; or

"(4) it appears that he has, by reason of any other direct or indirect relationship to, connection with, or interest in the debtor or such underwriter, or for any reason an interest materially adverse to the interests of any class of creditors or stockholders." (Underscoring is supplied.)

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Section 156 of the Chandler Act

Upon the approval of a petition, the judge shall, if the indebtedness of a debtor, liquidated as to amount and not contingent as to liability, is \$250,000 or over, appoint one or more trustees. Any trustee appointed under this chapter shall be disinterested and shall have the qualifications prescribed in section 45 of this Act, except that the trustee need not reside or have his office within the district. If such indebtedness is less than \$250,000, the judge may appoint one or more such trustees or he may continue the debtor in possession. In any case where a trustee is appointed the judge may, for the purposes specified in section 189 of this Act, appoint as an additional trustee a person who is a director, officer, or employee of the debtor.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro

NO.: 66

DATE: February 20, 1940, 1 p.m.

Reference is made to my telegram no. 65 of February 18.

It is not possible to place too great emphasis on the dangers which might result from delay in transmitting to Aranha the attitude of the Foreign Bondholders Council toward the latest offer for settlement which he has suggested. The Department knows that so far there has not been strong sentiment in Brazil in favor of paying the debt, and the sentiment which has existed is waning fast. If there is delay, the result might be that the entire negotiations would be placed in jeopardy in addition to losing for us the payment on the coupons due in April, which make up a large part of a whole year's payment on the dollar indebtedness.

CAFFERY

EA:EB

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 20, 1940

TO Acting Secretary Bell
FROM Joseph P. Cotton, Jr.

Re: Colombian Debt.

Duggan of the State Department called yesterday to say that Turbay was furious about, feared serious repercussions in Colombia from, and wished to call the attention of the Secretary of the Treasury to, the latter part of a statement issued by the Council yesterday with respect to the temporary settlement (see attached clipping). Turbay claims that the latter part of this statement was not cleared with him as the first part had been. He is talking to Duggan today and further information may be available tomorrow.

I don't see that there is anything we can do about it.

J.P.C.

PAYMENT OFFERED ON COLOMBIA BONDS

Protective Council States Negotiations Will Be Continued

The Republic of Colombia, through its Ambassador at Washington, Gabriel Turbay, is announcing today it will pay interest represented by coupons maturing in 1940 on its 6 per cent external sinking fund gold bonds due January 1, 1941, and its 6 per cent internal sinking fund gold bonds of 1938 due October 1, 1941, at the rate of four cent per annum in United States currency. The republic is also announcing that it will set aside for application this year the sum of \$400,000 for purchase of bonds of these issues for retirement.

Interest payments, which are the result of negotiations between the republic and the Foreign Bondholders Protective Council, Inc., will start with the payment immediately of the coupon which matured January 1, 1940, and subsequent 1940 coupons will be paid on their maturity dates. Interest payments will be made at the office of Halgarten & Co., 46 Pine street, New York, or Kidder, Peabody & Co., 17 Wall street, New York, as agents for the republic.

Continues Negotiations

Commenting upon the offer, the Foreign Bondholders Protective Council said in part:

"The council would point out that this offer is for one year only during which time the council will continue negotiations in the hope that they may result in an offer of a permanent settlement which the council may be able to recommend to the bondholders as fair and equitable. The council feels that the present resumption of payment on a temporary basis is a step in the right direction and the bondholders may consider it in their interest to take the amount offered for this year.

"The council fully shares the great disappointment of the holders of Colombian bonds, departmental, municipal and bank, that their rights and necessities have not yet been given the consideration which they require and deserve. The council will do everything it properly may to induce the appropriate Colombian authorities to long to make fair and just offers to its bondholders and it will hope that the departmental, municipal and bank bonds will be included at the time of future offers."