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February 8 - February 14, 1939

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February 8, 1939. 1
2:45 p.m.

HMJr: Hello.

Alben
Barkley: Hello.

HMJr: Alben--

B: Yeah.

HMJr: Henry talking.

B: Yeah.

HMJr: Have you got a minute?

B: Yeah.

HMJr: I've got a letter, it's very short, which I'd like to send to Cabot Lodge.

B: Uh-huh.

HMJr: Now, could I--

B: I was going to -- I -- I tried to get you late yesterday. I've been in the Banking Committee the last two days on a bill of mine and I haven't had any time, but--

HMJr: Can I read it to you?

B: Read it over, yes.

HMJr: "My dear Senator: In reply to your letter of February second in which you asked for information in regard to the Stabilization Fund, I am pleased to advise you as follows:

1. Since its creation by the Act of Congress, the Fund has been operated as specified by the Act under the direction of the Secretary of the Treasury and with the approval of the President.

2. It is employed for the purpose specifically stated in the Act, which is that of 'stabilizing the exchange value of the dollar'. In its administration all of the Act's provisions have been most scrupulously followed both in letter and in spirit.

3. The Fund has not been employed for any purpose, has not been operated in any way, directly or indirectly, for any other object or to effect any other purpose than

that stated in the Act.

4. While the Congress appropriated two billion dollars as stabilization for the fund, only one-tenth of that amount, two hundred million, has been set up as a working fund.

5. Not as a part of the purpose for which the Fund exists, but as an incident to its operation it has accumulated a profit. The amount of twelve million dollars which you mentioned in your letter, as reported profit, is approximately correct."

B: Well, that's all right. Now, I thought this -- of course, what his imports is trying to get you to give him the details of the way in which the Fund has been operated to make that profit.

RMJr: Yeah.

B: Of course, it's all right to give him as much information as you think it's advisable to do, but the trouble is, as I've been thinking about it, you can't give him the details in which this -- this Fund has been operated that resulted in this profit without probably making public the -- the probable action you would take in similar circumstances in the future.

RMJr: That's right.

B: And to do that you just, in advance, give your hand away. That's a colloquial expression, but it's very -- it's -- everybody understands it; and if you do that the Fund becomes of no value. You have to -- you have to be governed from day to day, or week to week, or month to month, by conditions.

RMJr: That's right.

B: And I think that's all right. I don't know -- if you wanted to add a paragraph explaining why you couldn't go into details about it, why you might do that, but I don't really think it's necessary.

RMJr: Well, I thought I wouldn't do any explaining.

B: Yes.

RMJr: Just take a non-partisan position.

B: Yeah. Of course, your explanation won't satisfy him --

RMJr: I know.

B: And he'll just distort it and -- for some partisan purpose. I think your letter is all right.

HMJr: Well, the next thing he's going to do is to say that I'm -- I'm a liar.

B: Yeah.

HMJr: What?

B: That's right.

HMJr: Or that I haven't --

B: That you haven't answered his question. That you haven't--

HMJr: Yes, or -- well he -- at least this puts me on record.

B: Sure.

HMJr: That the Fund is used for the purpose which it was set up for.

B: That's right. That's right.

HMJr: And--

B: In the use of that Fund for that purpose, this profit has accumulated.

HMJr: Yes, and it also makes you and me together as far as the twelve million dollars is concerned.

B: That's right.

HMJr: Huh?

B: I think it's all right, but of course ^{if} he comes back with any further request, why you can be governed then by the nature of it.

HMJr: That's right.

B: Yeah.

HMJr: Now, just one other thing while I've got you on the wire. Is that Military Affairs Committee in the Senate ever going to give out that testimony?

B: I don't know. They are waiting on the -- on the return of it. You see they have -- they have permitted each witness to revise it, as usual, and it hasn't all been returned.

HMJr: Well, mine went back on February one.

B: It did?

HMJr: February one.

B: Uh-huh. Well, I was told yesterday it hadn't all been returned.

HMJr: I see.

B: And when they get it all back, then they are going to decide what, if any part of it, they will give out.

HMJr: I see.

B: Yeah.

HMJr: O. K. Well, thanks for the help.

B: All right.

HMJr: Thank you.

B: Good bye. Sorry I didn't get you yesterday.

HMJr: That's all right.

B: All right.

February 8, 1939.
3:14 p.m.

EWJr: Hello, Guy.

Guy

Belvering: Mr. Secretary, this morning Jim Rowe called me from the White House--

EWJr: Yeah.

E: And said that he had been authorized to state to me that on these temporary appointments up in the third New York District, we should proceed from now on in the usual manner.

EWJr: Yeah.

E: Now, I thought I'd advise you this on account of the President's very direct statement to you and I that they were there, and with these temporaries, that's all he has to do with.

EWJr: Yeah.

E: He approved the Alexander recommendation -- I wrote you a memorandum and you signed it and sent it to him.

EWJr: Yeah.

E: He approved that -- the keeping of this man Kelly; We had him in that place, to the next lower position, and I think maybe that's the thing they were particularly interested in.

EWJr: Well, I asked McIntyre some time ago whether this fellow Rowe was O.K. and he said yes.

E: Yeah.

EWJr: So if he says so, I think it's all right.

E: Yeah. Well, he called me himself. I talked to him this morning, and he --

EWJr: Well, I'd go ahead on that basis, then.

E: Yeah, all right; I just thought I'd let you know about it.

EWJr: Yeah, I appreciate it.

E: All right.

EWJr: Thank you.

February 8, 1939.
3:32 p.m.

FMJr: This letter.

Lowell
Hellett:

FMJr: Where are you?

M: At my office.

FMJr: Ah--

M: I want to see Mac for a minute. It is very important that I see him for a minute this afternoon. I suppose I could come -- I could come over now

FMJr: McReynolds?

M: Yeah.

FMJr: Well, I'm easy to see and I'll try to use my influence with McReynolds.

M: Will you do that much for me?

FMJr: Absolutely.

M: And you want me to come over now, then?

FMJr: That would be swell.

M: Righto.

February 8, 1939.
5:18 p.m.

7

HMJr: Hello.

Operator: Mr. Kilgore.

HMJr: Thank you.

O: Go ahead.

HMJr: Hello.

Bernard
Kilgore: Hello. .

HMJr: Kilgore--

K: Yes, sir.

HMJr: Morgenthau.

K: How are you today?

HMJr: How long would it take you to come over and see me?

K: Well, not very long.

HMJr: Supposing you come on over?

K: All right, I'll do that.

HMJr: I'm anxious to see you.

K: Well, we've got an edition going to press in just a little while.

HMJr: Yeah, well--

K: Do you think it would be advisable for me to hold up anything--

HMJr: I think it's advisable to hold up your edition until you see me.

K: All right, well, I'll -- I'll be over right away.

HMJr: I think it's advisable. It won't take more than five seconds.

K: All right, I'll --

HMJr: You better hold your edition until you see me.

K: All right, I'll do that.

HMJr: Thank you.

K: Thank you.

CHANGES IN COTTON HOLDINGS BY PERIODS

	Commodity Credit Corporation		Cotton Producers Pool	
	Sales	Amount	Spot	Future
Holdings to June 29, 1936	3,556,921	\$240,155,429	155,067	118,100
Changes July through December 1936 ...	- 536,497	- 36,261,626	-155,067	-118,100
Changes January through June 1937	-1,315,964	- 88,848,898	-	-
July	- 15,004	- 998,396	-	-
August	- 12,065	- 135,739	-	-
September	15,223	2,569,416	-	-
October	894,747	40,659,508	-	-
November	1,921,539	84,377,044	-	-
December	1,263,984	54,763,319	-	-
January	720,116	30,883,663	-	-
February	172,470	7,302,367	-	-
March	43,778	1,891,566	-	-
April	145,087	6,267,108	-	-
May	21,674	878,577	-	-
June	47,428	2,140,382	-	-
July	40,838	1,817,381	-	-
August 6	- 1,463	874,287	-	-
13	- 560	1,854,751	-	-
20	- 458	216,146	-	-
27	- 199	42,012	-	-
Sept. 3	- 1	5,663	-	-
10	-	551	-	-
17	-	15,050	-	-
24	13,279	626,334	-	-
Oct. 1	97,771	11,948,545	-	-
8	409,915	19,406,556	-	-
15	429,033	20,019,599	-	-
22	445,359	20,932,238	-	-
29	407,258	18,749,608	-	-
Nov. 5	321,532	14,779,060	-	-
12	211,112	9,735,400	-	-
19	280,616	12,913,940	-	-
26	260,866	12,193,291	-	-
Dec. 3	181,876	8,469,011	-	-
10	176,007	7,957,448	-	-
17	131,472	5,993,824	-	-
23	87,816	3,952,169	-	-
31	171,743	8,155,244	-	-
Jan. 7	101,369	4,674,091	-	-
14	114,014	5,103,770	-	-
21	104,287	4,836,198	-	-
28	74,135	3,470,151	-	-
Holdings to January 28, 1939	10,981,054	544,586,038	-	-
by Commodity Credit Corporation...	4,913,632	270,626,706	-	-
by banks	6,067,422	273,959,332	-	-

January 8, 1939

Regraded Unclassified

February 8, 1939

FOR THE SECRETARY:

Mr. Crowley telephoned me this afternoon and said that he had talked to Senator Glass Monday afternoon. Mr. Crowley wanted me to tell you that the Senator is still "all right" on the Bank Holding Company Bill. According to Mr. Crowley, Senator Glass will introduce the Bill after his subcommittee has finished work on the RFC Extension Bill, and he hopes to complete that Bill this week.

ESD



DEPARTMENT OF STATE
WASHINGTON

February 8, 1939.

My dear Mr. Secretary:

I enclose herewith a certified copy of the letter which the Department delivered today to Dr. Rowe, Director General of the Pan American Union, with regard to the resolution passed at the Lima Conference in regard to periodic meetings of Treasury representatives.

Sincerely yours,

Herbert Feis

Herbert Feis,
Adviser on International
Economic Affairs.

Enclosure:

To Dr. Rowe,
February 8, 1939.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

February 9, 1939.

My dear Dr. Rowe:

I have consulted with the Treasury in regard to your inquiry of January 18, 1939, informing the Department that you were planning to ask that a committee of the Governing Board of the Pan American Union be appointed to consider the resolution passed at Lima in regard to periodic meetings of Treasury representatives. I am informed by the Treasury that it is prepared to be represented at this meeting by suitable experts, and it suggests that the meeting be held not earlier than May 1 of this year, that it is not prepared to put forward definite suggestions for the agenda, and that it is inclined to visualize the prospective meeting as one affording opportunity for informal discussion between the various experts who would assemble, and that it does not contemplate that any attempt would be undertaken to arrive at this meeting at any formal agreements.

Sincerely yours,

SUMNER WELLES.



Dr. L. S. Rowe,

Director General of the Pan American Union,

Washington, D. C.

EA:HF:LWV

Regraded Unclassified

Treasury Department
Division of Monetary Research

12

Date February 8, 1939. ~~1938~~

Miss Chauncey

For the record:

This letter was agreed upon by Mr. Feis
and Mr. White with the three words indicated
deleted.

MR. WHITE
Branch 2058 - Room 200



DEPARTMENT OF STATE
WASHINGTON

February 7, 1939.

My dear Mr. Secretary:

I enclose a copy of the resolution passed at Lima. The question you raised is covered in numbered paragraph one.

I wonder whether the following text of a reply to the Pan American Union's inquiry would be satisfactory, to be sent under the signature of the Secretary of State:

"I have consulted with the Treasury in regard to your inquiry of January 16, 1939, informing the Department that you were planning to ask that a committee of the Governing Board of the Pan American Union be appointed to consider the resolution passed at Lima in regard to periodic meetings of Treasury representatives. I am informed by the Treasury that it is prepared to be represented at this meeting by suitable experts, and it suggests that the meeting be held not earlier than May 1 of this year, that it is not prepared ~~at this time~~ to put forward definite suggestions for the agenda, and that it is inclined to visualize the prospective meeting as one affording opportunity for informal discussion between the various experts who would assemble, and that it does not contemplate that any attempt would be undertaken to arrive at this meeting at any formal agreements".

Would

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

- 2 -

Would you kindly indicate whether this draft reply is agreeable to you, or any changes that you wish to have made in it.

Sincerely yours,

Herbert Feis

Herbert Feis,
Adviser on International
Economic Affairs.

Enclosure:

Draft resolution.

Resolution of the Lima Conference relating to Meetings
of Treasury Representatives

The Delegation of the United States introduced a resolution which was unanimously approved by the Conference reading as follows:

**"The Eighth International Conference
of American States**

RECOMMENDS:

1. "That the Treasuries of the American States arrange for periodic informal meetings, including group and regional meetings, of representatives for the discussion of subjects of mutual interest.

2. "That such meetings be held at least annually and whenever problems of special importance arise.

3. "The first meeting shall be held at Guatemala not later than June 1, 1939, in accordance with arrangements that may be worked out by the Pan American Union after consultation with the Governments of the American Republics.

"At the first meeting provision shall be made for the organization of subsequent meetings. (Approved December 23, 1938)."

United States Senate

COMMITTEE ON FOREIGN RELATIONS

FREE



16

Dr. Harry D. White,

Director of Monetary Research,

Treasury Department,

TREASURY DEPARTMENT

17

INTER OFFICE COMMUNICATION

DATE February 8, 1939.

TO Secretary ~~Morganthau~~
FROM Mr. Haas *EH*
Subject: Who Owns the Public Debt?

The attached chart and table show the principal classes of holders of guaranteed and direct Government obligations and the estimated amounts of their holdings on June 30, 1938.

Some of the more noteworthy aspects of the figures are:

(1) Individuals, including estates, trusts, etc., owned less than a quarter of the direct debt and less than a fifth of the guaranteed obligations.

(2) Federal agencies and trust funds held 12 percent of the direct public debt and 11 percent of the total direct and guaranteed debt. This is nearly as much as was held by insurance companies, which held 12 percent of the direct debt and 13 percent of the total direct and guaranteed debt. If the holdings of the Federal Reserve banks are added to those of Federal agencies and trust funds, the total would amount to 19 percent of the aggregate direct debt, and to 17 percent of the aggregate direct and guaranteed debt.

(3) As is well known, the banks constitute the largest single class of holders of the public debt. The total holdings of commercial and savings banks constituted 39 percent of the direct public debt and 41 percent of the total direct and guaranteed debt.

Attachments

Principal classes of holders of direct and guaranteed Government obligations
and the estimated amounts of their holdings on June 30, 1938

	Direct obliga- tions	Guaran- teed obliga- tions	Total direct and guaranteed obligations	Percent of total outstanding		
	Direct obliga- tions	Guaran- teed obliga- tions	Total direct and guaranteed obligations	Direct obliga- tions	Guaran- teed obliga- tions	Total direct and guaranteed obligations
(Billions of dollars)						
All insured commercial banks	11.2	2.4	13.6	31	50	33
Mutual savings banks	2.4	.3	2.7	7	6	7
Other commercial and private banks	.5	*	.5	1	*	1
Subtotal - all commercial and savings banks..	14.1	2.7	16.8	39	56	41
Federal Reserve banks	2.6	-	2.6	7	-	6
Insurance companies	4.5	.7	5.2	12	15	13
Other corporations	1.9	.2	2.1	5	4	5
Non-exempt organizations 1/	.5	-	.5	1	-	1
Individuals (including fiduciaries, states, etc.):						
U. S. Savings and Adjusted Service bonds	1.4	-	1.4	4	-	3
Other obligations 2/	6.9	.9	7.8	19	19	19
Subtotal - individuals	8.3	.9	9.2	23	19	22
Federal agencies and trust funds 3/	4.4	.3	4.7	12	6	11
State and local Government investment funds ...	.3	-	.3	1	-	1
Total amount outstanding 2/	36.6	4.8	41.4	100	100	100

Treasury Department, Division of Research and Statistics

Under \$50 millions, and under 1/2 of 1 percent.

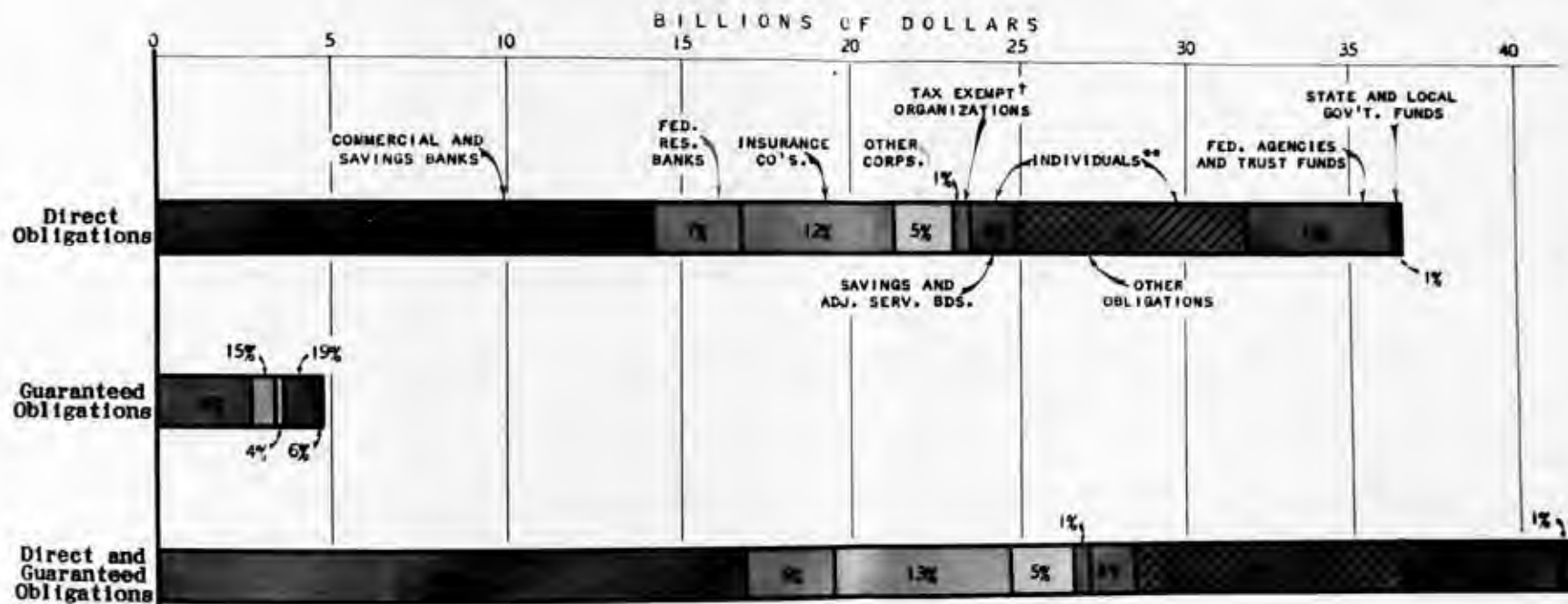
Other than mutual savings banks and insurance companies exempt from Federal income tax.

Includes foreign holdings, which are estimated at less than \$100 millions.

Excludes RFC notes held by the Treasury.

**PRINCIPAL HOLDERS OF DIRECT AND GUARANTEED GOVERNMENT OBLIGATIONS
AND ESTIMATED AMOUNTS OF THEIR HOLDINGS***

June 30, 1938



- * R.F.C. NOTES HELD BY THE TREASURY ARE EXCLUDED.
 ** INCLUDING FIDUCIARIES, ESTATES, ETC.
 † OTHER THAN MUTUAL SAVINGS BANKS AND INSURANCE COMPANIES EXEMPT FROM FEDERAL INCOME TAX.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 8, 1939.

TO Secretary Morgenthau

FROM Mr. Haas *MA*

Subject: Average Length of Maturity of the Interest-Bearing Public Debt

1. Attached hereto are a table and chart showing the average length of maturity of the interest-bearing public debt at the end of the calendar years 1929-1938, inclusive.

Because the Liberty and Panama Canal bonds were called and redeemed in advance of their original final maturity dates, the average has been computed in two ways: (1) With the maturity of the called bonds calculated as of the date of actual call; and (2) with the maturity of the called bonds calculated as of the date of their original final maturity, during the period that they remained outstanding. (Once they were retired, they naturally did not affect the average length of maturity, regardless of their original maturity dates.)

2. It will be noted that on the first basis, the average maturity at the end of the calendar year 1938 was the longest of the past ten years; and that on either basis, there has been a distinct lengthening of the average maturity since 1934, though there was a slight temporary reversal during the calendar year 1937.

3. It should be observed that averages of this sort covering so extended a period of time contain an internal bias in the direction of shortening the average maturity. That is, if the debt had all consisted of long-term obligations in 1929, and no change in the amount or composition of the debt had been made, the average maturity would now be ten years shorter. In order to lengthen the average maturity, the maturity of new issues must be sufficiently longer than the preceding average to more than offset the natural reduction in the average maturity that takes place with the mere passage of time.

Attachments

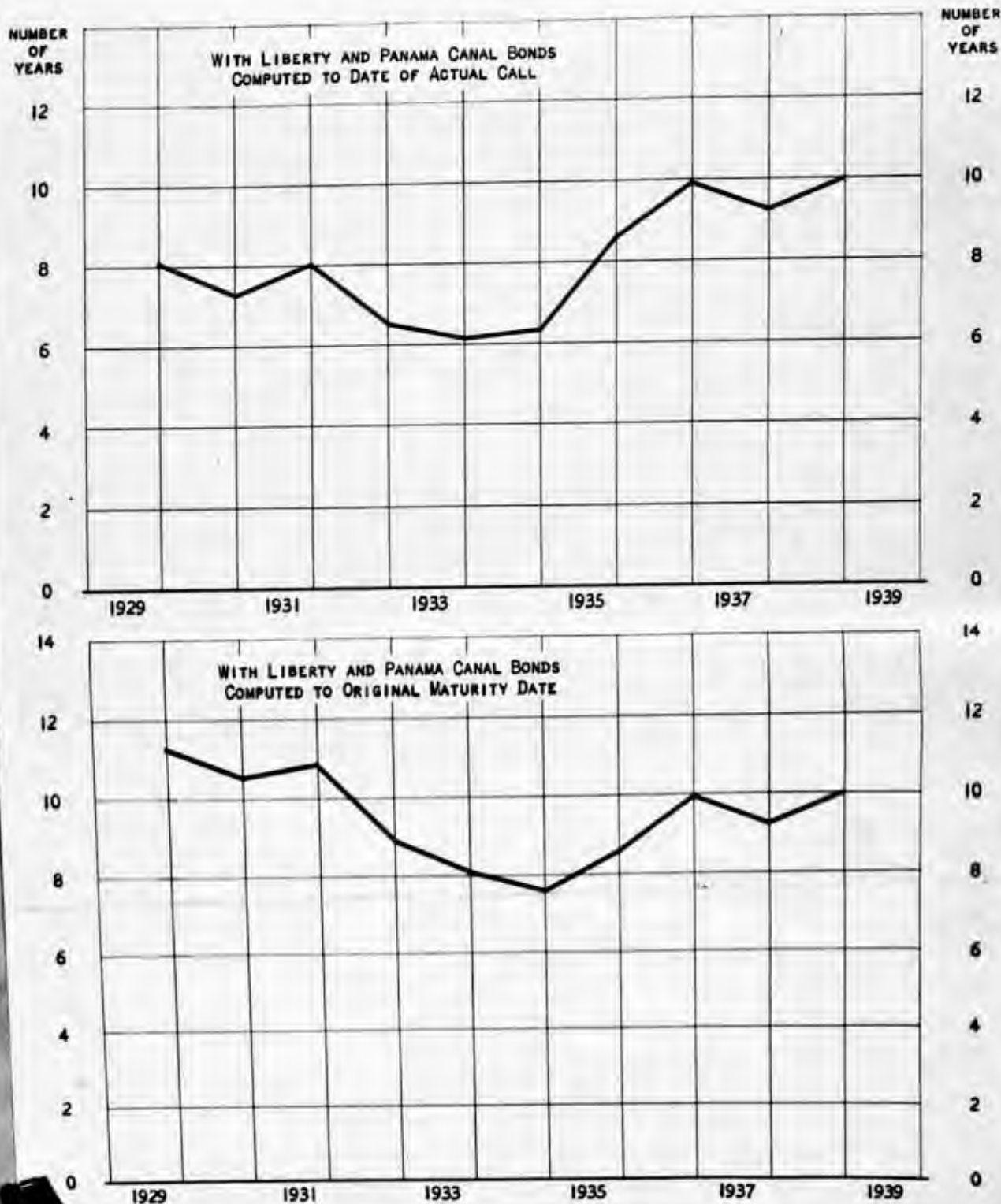
**Average Length of Maturity of the
Interest-Bearing Public Debt**

December 31, 1929-1938

Date	: With Liberty bonds and : Panama Canal bonds computed to date of actual call		: With Liberty bonds and : Panama Canal bonds computed to original maturity date	
	Years	Months	Years	Months
	:	:	:	:
Dec. 1929	8	1	11	3
Dec. 1930	7	3	10	6
Dec. 1931	8	0	10	10
Dec. 1932	6	6	8	11
Dec. 1933	6	2	8	1
Dec. 1934	6	4	7	7
Dec. 1935	8	7	8	7
Dec. 1936	9	11	9	11
Dec. 1937	9	3	9	3
Dec. 1938	10	0	10	0

Note: Exclusive of Consols, Postal Savings bonds, U. S. Savings bonds, Adjusted Service bonds and special issues to Government agencies and trust funds.

AVERAGE LENGTH OF MATURITY OF INTEREST-BEARING PUBLIC DEBT As of End of Year



NOTE: EXCLUSIVE OF CONSOLS, POSTAL SAVINGS, U.S. SAVINGS BONDS, ADJUSTED SERVICE BONDS, AND SPECIAL ISSUES TO GOVERNMENT AGENCIES AND TRUST FUNDS.

February 8, 1939

I asked the President whether I can have Noble
and he said, "Absolutely no".

(The above "Noble" is Edward J. Noble of the Civil
Aeronautics Authority)

February 8, 1939

11:55 am

Present:

Mr. Hanes
Mr. Gaston
Mr. Lockhead
Dr. White
Mr. Bernstein (soon after meeting started)
Mrs. Klotz

HM, Jr.: (reading draft of reply to Senator Lodge.)

I would simply say this:

"My dear Senator Lodge:

In reply to your inquiry concerning the status of the Stabilization Fund, I am pleased to furnish you with the following information:

1. It has been used solely for the purposes which Congress specified when they created the Fund, namely, "stabilizing the exchange value of the dollar."

Mr. Hanes: Let me read my draft:

"My dear Senator Lodge:

In reply to your inquiry concerning the status of the Stabilization Fund, I am pleased to report:

(1) This Fund of two billions dollars authorized by the Congress in 19-- has been under the direction of the Secretary of the Treasury from the date he was charged with the responsibility for its management.

(2) At no time during the operation of authority conferred by the Act has

-2-

*more than 200 million dollars of the Fund been employed.

(3) I wish to state emphatically that the provisions of the law creating this Fund have been administered in strict conformity to the Act of Congress.

(4) The Fund has never been used at any time or for any purpose except for stabilization of currencies, etc.

(5) I am also pleased to report that in obedience to law, and under the management of the Treasury, the original Fund has been preserved without any loss, and in addition, there has accrued to it a very substantial profit: (twelve million)!*

It's a political document. I am looking at the public reaction.

Mr. Gaston: Would you mind reading mine?

"I am writing to acknowledge receipt of your letter of February 2, in which you inquire as to the status of the Stabilization Fund, established by the Act of Congress approved January 30, 1934 (the Gold Reserve Act).

There has been no public report on the operations or the status of the Stabilization Fund, although I have on occasion made confidential disclosures as to its status to certain committees of the Congress. As you no doubt know, the Act creating it contains this direction: "An annual audit of such fund shall be made and a report thereof submitted to the President." Such annual audits have been made regularly by a committee of three veteran accountants in the classified career service and the audit reports have been duly submitted to the President as the Act requires.

The President on January 19 transmitted to the Vice President and to the Speaker of the House of Representatives identical letters requesting that legislation be enacted at this session to extend until January 15, 1941, the powers granted in Section 10 of the Gold Reserve Act, relating to the stabilization fund, as well as certain other

-3-

other powers granted by the Act.

"Those letters contained the following sentence:

"The Secretary of the Treasury and other representatives of the Treasury Department will be available to discuss with the appropriate committees of Congress the problems relating to such legislation."

"It seems to me that my appearance before such committees of Congress would constitute the appropriate occasion for me to make such additional disclosures with respect to the stabilization fund as appear to be in the public interest. There are, however, certain general statements which it would seem proper to make at this time, some of which are reflected, not in your letter to me, but in your remarks on the floor of the Senate as reported in the Congressional Record of Wednesday, February 1.

1. As provided by the Act of Congress creating it, the fund has been since its creation operated under the direction and control of the Secretary of the Treasury, with the approval of the President.

2. It has been used solely for the purpose laid down in the Act, which is that of 'stabilizing the exchange value of the dollar'.

3. It has not been employed in 'juggling a foreign nation's currency.' The United States asserts the right to control the value of its own currency and in all its dealings accords the same right to other nations.

4. While Congress appropriated the amount of \$2,000,000,000 as a stabilization fund, only \$200,000,000 or one-tenth of this amount, has been withdrawn from the Treasury as a working fund.

5. The fund has been highly successful, in my opinion, in attaining the objectives set for it by the Congress; that is, in stabilizing the exchange value of the dollar, the only objective for which it has ever been employed.

6. The Fund has not been operated at a loss, but on the contrary, as an incident to its operations, although not

-4-

a part of the purpose for which it has been operated, the fund has accumulated a profit."

HM, Jr.: (Interrupting the reading) No, I don't want to say that last thing.

Mr. Gaston: Of course, that could be left out. You have said it before. The point is that is the particular thing he asks you for.

(At this point, Mr. Bernstein came in.)

Mr. Lochhead: You are answering what he said on the floor of the Congress. I was wondering whether you want to bother with that or stick to the letter.

Dr. White: I think that is the general approach. There are one or two other sentences I would like to raise for discussion.

Included in one of the sentences may be another clause which emphasizes the fact that you are using this exclusively for purposes of monetary stabilization -- either by inference to say they are not being used for political purposes or consider a statement that at no time has any of the fund ever been used to service political ends -- whether that should be done by implication or a direct statement, but it should be one or the other.

HM, Jr.: I don't -- the question he writes me is "I understand the stabilization fund has been used in such a way as to make a profit to the American Treasury of something like \$12,000,000." Is this correct and how was it realized?

Dr. White: Is that all he asks?

Mr. Gaston: How much and how it was realized.

Dr. White: I change my mind.

Mr. Gaston: Of course, Johnnie's idea is we should make some general statement of what it has or has not been used for.

-5-

Dr. White: I withdraw my last suggestion.

HM, Jr: Acknowledge receipt of the letter -- in answer to your question, the stabilization fund has made a profit. For your additional information, I want to put in as strong a statement as we can that we have not juggled any foreign currencies. Would that answer what you have in your mind?

Mr. Hanes: I am looking at this not as Lodge, but when you hand it to the press ever paper in the United States is going to carry this thing and there is an awful lot of interest in it and, therefore, I think you have to take a positive approach rather than a negative one in defending yourself. I don't want to defend ourselves against anything. I want to say this is in obedience to the law and go down the line and not give the implication that we are defending ourselves.

Mr. Gaston: How about this: in reply to your letter and to clear up misconceptions in your remarks in the Senate

Mr. Hanes: That will call people's attention to the statement and I want to get out a broad public statement and nobody can argue with it and if he wants to investigate that's up to Congress. But to answer that letter, the Senator has to say the Secretary of the Treasury is a liar.

Dr. White: I would agree. I would go a step further. I would give both letters. Giving both letters would justify a brief reply, a dignified statement. I think I would even cut out one of the sentences you have, but I am in thorough agreement with the principle as John states it.

HM, Jr: Which sentence would you cut out?

Dr. White: I would have to take a look at it again. You wouldn't want to say the amount?

Mr. Gaston: I think my statement makes too much emphasis on the \$200,000,000. I don't think that's particularly important.

-6-

Mr. Hanes: I don't either. I think you can leave it out. The excuse for writing the letter and giving the information, I state in the first paragraph. In the second I say this fund of \$2,000,000,000 was authorized by Congress under certain conditions and I am charged with the administration and I have been administering it. The third you can leave out, about the \$200,000,000. I think it might serve some useful purpose in the public minds. He has had \$2,000,000,000; has only used \$200,000,000. He's a conservative fellow.

Mr. Gaston: I think the essential thing is to state the fund has been used solely for the purposes stated in the Act, which is stabilizing the exchange value of the dollar.

Mr. Hanes: Here is where I come to the third part, which I think is so vitally important, where I say it has not only been administered as stated up here, but in strict conformity to the Act of Congress; that is, I say I wish to state emphatically the provisions of the law creating this fund have been administered in strict conformity with the Act of Congress. The only way to answer that is for him to say you are a liar.

Dr. White: He does not imply in his letter that you are not so using it.

Mr. Hanes: Then, explanatory of that number 3, the fund has never been used at any time for any purpose except for -- whatever you want to put in there.

Five, I am also pleased to report that in obedience to the law -- again always in strict obedience to that law -- and under the management of the Treasury, the original fund has been preserved without any loss and, in addition, there has accrued to it \$12,000,000 profit, if you like.

Dr. White: I like that last sentence.

I wish you would give us about half an hour and I think we can agree on something.

-7-

HM, Jr: Would you want to do that?

Mr. Hanes: I don't care what you do, except don't put it in Treasury language. I don't say that with any criticism.

HM, Jr: Will you take these four men in your office now?

Mr. Hanes: Sure.

Dr. White: I think we can agree very quickly.

Mr. Hanes: I would like to put this in simple language so the newspapers will say, Morgenthau did a grand job, didn't he. Throw that back in Lodge's face.

HM, Jr: I am open to argument about saying yes, we did make \$12,000,000.

Mr. Lochhead: Preserved the fund without any loss and I would like to add, incidentally, it was a profit.

Mr. Gaston: It isn't a large profit, because if you invested in Government funds you would have a larger profit from that.

Dr. White: It's a substantial profit.

Mr. Gaston: Considering the fact it has not existed for making a profit.

HM, Jr: Harry thinks he can work better, and that's all right with me, if you take these four in your office and knock this thing out and whenever you are ready, come back and see me. On the letter, I will see them at 2:15, but I would like to have a finished document at 2:15 on this letter.

oOo-oOo

My dear Senator:

In reply to your letter of February 2, in which you ask the status of the stabilization fund ~~and, further, to clear up any misconceptions with respect to its operation~~, I am ^{pleased to} ~~happy to~~ ^{advise you as follows:} ~~make the following statements:~~

1. ~~The fund has been operated~~ ^{as specified by the Act} since its creation by the Act of Congress (the Gold Reserve Act, approved January 30, 1934) under the direction of the Secretary of the Treasury and with the approval of the President.

2. It has been employed for the purpose ^{specifically} stated in the Act, which is that of "stabilizing the exchange value of the dollar."

In its administration ~~both the purpose stated in the act and all of~~ the Act's provisions have been most scrupulously followed, ^{both in letter and in spirit}

3. The fund has not been employed for any purpose, and it has not been operated in any way, directly or indirectly, for any other object or to effect any other purpose than ^{that} ~~the one purpose specifically stated in the Act, which is to stabilize the exchange value of the dollar.~~

4. While the Congress appropriated \$2,000,000,000 as a stabilization fund, only one-tenth of that amount, \$200,000,000, has been ^{set up} ~~transferred from the Treasury~~ as a working fund.

5. Not as a part of the purpose for which the fund exists, but as an incident to its operation, it has accumulated a substantial profit. The ^{amount} ~~figure~~ of \$12,000,000, which you ^{mentioned} ~~stated~~ in your letter, is approximately correct, ^{as the reported figure}

Sincerely,
The Honorable Henry Cabot Lodge,
United States Senate.

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Draft by Mr. Harbo 4/5

Senator Lodge.

In reply to your inquiry
concerning the ^{status of the} Stabilization fund I am
pleased to report. ~~the fund~~

(1) This fund of two billion dollars
authorized by the Congress in 19—(?) has
been under the direction of the Sec. of the
Treasury from the date ~~he~~ was charged
with the responsibility for its management.

(2) At no time ~~during the~~
~~operation~~ ~~has there been any~~ operation
of authority conferred by the act has
more than 200 million dollars of the
fund been employed.

(3) I wish to state emphatically
that the provisions of the law creating this fund
~~are~~ ~~have~~ been administered in
strict conformity to ^{the} act of
Congress.

(4) The fund has never been
used at any time or for any purpose
except for stabilization of currencies

to - etc -

(5) I am ^{also} pleased to report
that in obedience to law, and
under the management of the
Treasury, the ^{original} fund has been
preserved [^] without any loss
and ^{in addition} there has accrued
to it a very substantial
profit - (twelve million)(?)

Respectfully yours.

Copy kept by J.W.H.

34

Senator Lodge:

In reply to your inquiry concerning the status of the Stabilization Fund, I am pleased to report:

(1) This Fund of two billion dollars authorized by the Congress in 19 --- has been under the direction of the Secretary of the Treasury from the date he was charged with the responsibility for its management.

(2) At ~~the~~ no time during the operation of authority conferred by the Act has more than 300 million dollars of the Fund been employed.

(3) I wish to state emphatically that the provisions of the law creating this Fund have been administered in strict conformity to the Act of Congress.

(4) The Fund has never been used at any time or for any purpose except for stabilization of currencies, etc.

(5) I am also pleased to report that in obedience to law, and under the management of the Treasury, the original Fund has been preserved without any loss, and in addition, there has accrued to it a very substantial profit (twelve million) ?.

Respectfully yours,

Senator Lodge:

In reply to your inquiry concerning the status of the Stabilization Fund, I am pleased to report:

(1) This Fund of two billion dollars authorized by the Congress in 19 — has been under the direction of the Secretary of the Treasury from the date he was charged with the responsibility for its management.

(2) At this time during the operation of authority conferred by the Act has more than 200 million dollars of the Fund been employed.

(3) I wish to state emphatically that the provisions of the law creating this Fund have been administered in strict conformity to the Act of Congress.

(4) The Fund has never been used at any time or for any purpose except for stabilization of currencies, etc.

(5) I am also pleased to report that in obedience to law, and under the management of the Treasury, the original Fund has been preserved without any loss, and in addition, there has accrued to it a very substantial profit (twelve million) %.

Respectfully yours,

W-draft H.S.M. 2/7/37

Dear Senator:

I am writing to acknowledge receipt of your letter of February 2, in which you inquire as to the status of the Stabilization Fund, established by ~~act~~ the Act of Congress ~~which~~ approved January 30, 1934 (the Gold Reserve Act).

There has been no public report on the operations or the status of the Stabilization Fund, although I have on occasion made confidential disclosures as to its status to certain committees of the Congress. As you ^{omit} know, the Act creating it contains this direction: "An annual ~~report~~ ^{audit} of such fund shall be made and a report thereof submitted to the President." Such annual audits have been made regularly by a committee of three veteran accountants in the classified war service and the audit reports have been duly submitted to the President as the Act requires.

The President on January 15 transmitted to the Vice President and to the Speaker of the House of Representatives identical letters requesting that legislation be enacted at this session to extend until January 15, 1941, the powers granted in Section 10 of the Gold Reserve Act, relating to the stabilization fund, as well as certain other powers granted by that Act.

These letters contained the following sentence:

"The Secretary of the Treasury and other representatives of the Treasury Department will be available to discuss with the appropriate committees of Congress the problems relating to such legislation."

It seems to me that my appearance before such committees of Congress ^{additional} would constitute the appropriate occasion for me to make such disclosures with respect to the stabilization fund as appear to be in the public interest. There are, however, certain general statements which it would seem proper to make ^{at}

this time, some of which are reflected, not in your letter to me, but in your remarks on the floor of the Senate as reported in the Congressional Record of Wednesday, February 1.

~~1. The fund has not been employed in "juggling a foreign nation's currency." It has been employed solely for carrying out the purpose stated in the Act, which is that of "stabilizing the exchange value of the dollar."~~

~~2. The fund has been operated solely and exclusively~~

1. As provided by the Act of Congress creating it, the fund has been since its ~~existing~~ creation operated under the direction and control of the Secretary of the Treasury, with the approval of the President.

2. It has been used solely for the purpose laid down in the Act, which is that of "stabilizing the exchange value of the dollar."

3. It has not been employed in "juggling a foreign nation's currency." The United States asserts the right to control the value of its own currency and in all ~~its~~ its dealings accords the same right to other nations.

4. While Congress appropriated the amount of \$2,000,000,000 as a stabilization fund, only \$200,000,000, ^{or one tenth of} this amount, has been withdrawn from the Treasury as a working fund.

5. The fund has been highly successful, in my opinion, in attaining the objectives set for it by the Congress; that is, in stabilizing the exchange value of the dollar, the only objective for which it has ever been employed.

~~6. As an incident to its operations, although not a part of the purpose for which it has been operated, the fund has accumulated~~

6. The fund has not been operated at a loss, but on the contrary, as an incident to its operations, although not a part of the purpose for which it has been operated, the fund has accumulated a profit.

7. The amount of this profit, which was one of the subjects of your inquiry, I am quite willing to state under the sanction of Congress, before an appropriate committee.

Sincerely,

2nd draft H.S.G. 2/7/39

In reply to your letter of Feb. 2 in which you ask the status of the stabilization fund, and, further, to clear up any misconceptions ~~that~~ ~~with~~ with respect to ~~the~~ its operation, I am happy to make the following statement:

1. The fund has been operated since its creation by the Act of Congress (the Gold Reserve Act, approved Jan. 30, 1934) under the direction of the Secretary of the Treasury and with the approval of the President.

2. It has been employed ~~solely~~ for the purpose stated in the Act, which is that of "stabilizing the exchange value of the dollar." In its administration both the purpose stated in the Act and all of the Act's provisions have been most scrupulously followed.

3. The fund has not been employed for any purpose ~~other than~~ and it ~~is~~ *has not been quoted* ~~operations have not been operated~~ in any way, directly or indirectly, for any other object or to effect any other purpose than the one purpose specifically stated in the Act, which is to stabilize the exchange value of the dollar.

4. While the Congress appropriated \$2,000,000,000 as a stabilization fund, only one-tenth of that amount, \$200,000,000, has been transferred from the Treasury as a working fund.

5. Not as a part of the purpose for which the fund exists, but as an incident to its operation, it has accumulated a substantial profit.

Final draft 11-29

In reply to your letter of February 2, in which you ask the status of the stabilization fund, and, further, to clear up any misconceptions with respect to its operation, I am happy to make the following statements:

1. The fund has been operated since its creation by the Act of Congress (the Gold Reserve Act, approved January 30, 1934) under the direction of the Secretary of the Treasury and with the approval of the President.

2. It has been employed for the purpose stated in the Act, which is that of "stabilizing the exchange value of the dollar." In its administration both the purpose stated in the Act and all of the Act's provisions have been most scrupulously followed.

3. The fund has not been employed for any purpose and it has not been operated in any way, directly or indirectly, for any other object or to affect any other purpose than the one purpose specifically stated in the Act, which is to stabilize the exchange value of the dollar.

4. While the Congress appropriated \$2,000,000,000 as a stabilization fund, only one-tenth of that amount, \$200,000,000, has been transferred from the Treasury as a working fund.

5. Not as a part of the purpose for which the fund exists, but as an incident to its operation, it has accumulated a substantial profit.

In reply to your letter of February 2, in which you ask the status of the stabilization fund, and, further, to clear up any misconceptions with respect to its operation, I am happy to make the following statements:

1. The fund has been operated since its creation by the Act of Congress (the Gold Reserve Act, approved January 30, 1934) under the direction of the Secretary of the Treasury and with the approval of the President.

2. It has been employed for the purpose stated in the Act, which is that of "stabilizing the exchange value of the dollar." In its administration both the purpose stated in the Act and all of the Act's provisions have been most scrupulously followed.

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4. While the Congress appropriated \$2,000,000,000 as a stabilization fund, only one-tenth of that amount, \$200,000,000, has been transferred from the Treasury as a working fund.

5. Not as a part of the purpose for which the fund exists, but as an incident to its operation, it has accumulated a substantial profit.

In reply to your letter of February 2, in which you ask the status of the stabilization fund, and, further, to clear up any misconceptions with respect to its operation, I am happy to make the following statement:

1. The fund has been operated since its creation by the Act of Congress (the Gold Reserve Act, approved January 30, 1934) under the direction of the Secretary of the Treasury and with the approval of the President.

2. It has been employed for the purpose stated in the Act, which is that of "stabilizing the exchange value of the dollar." In its administration both ~~the purpose stated in the Act and~~ all of the Act's provisions have been most scrupulously followed.

3. The fund has not been employed for any purpose and it has not been operated in any way, directly or indirectly, for any other object or to effect any other purpose than ~~the one purpose specifically stated in the Act, which is to stabilize the exchange value of the dollar.~~

4. While the Congress appropriated \$2,000,000,000 as a stabilization fund, only one-tenth of that amount, \$200,000,000, has been transferred from the Treasury as a working fund.

5. Not as a part of the purpose for which the fund exists, but as an incident to its operation, it has accumulated a substantial profit.

February 8, 1939.
11:29 a.m.

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WJr: Guy--

Guy

Helvering: Yes?

WJr: Did you let Senator Walsh or anybody know that Mr. Gougan didn't show up?

R: Well, no I didn't call Senator Walsh. Congressman Casey and Senator Walsh are both working on this and Casey knows about it. I didn't call Walsh because Walsh and I never got along very well.

WJr: What do you recommend?

R: Well, I'm -- I'm preparing a memorandum to send to you, just what occurred.

WJr: Yeah, O.K.

R: And--

WJr: I can send that over to the White House if necessary.

R: Yeah.

WJr: Now the suggestion has been made to me from an outside source, he's no politician -- Cornelius Leary, who is up there in the office now; he's -- let me see what he is -- just a second -- he's been in the Government service thirty years and -- well, he's up there anyway.

R: Yeah.

WJr: They say he's a Joe -- type of Joe Maynard up there.

R: How's that?

WJr: He's a fellow, they say, the same sort of type as Joe Maynard. He was the Collector of Customs.

R: Uh-huh.

WJr: Well, anyway, you might inquire about him, you see? He's in the Collector's office up there. Cornelius Leary -- L-E-A-R-Y.

R: Yeah.

WJr: You see, he's been suggested as a compromise candidate.

- 2 -

H: Mr. Secretary, do you know anything about this fellow Buckley?

HMJr: No.

H: Have you heard anything about him?

HMJr: No.

H: You know, they mentioned over there the other day of this man Dever, the Attorney General of the state.

HMJr: Yeah.

H: I think he and Senator Walsh are going to get together on a fellow by the name of Buckley.

HMJr: I never heard of him.

H: Now that's just grapevine information I had.

HMJr: Well, let's see what happens now, shall we?

H: Yeah.

HMJr: Huh?

H: My suggestion would be that we don't do anything until we hear about that.

HMJr: All right. That's all right, but you might inquire about this fellow Leary.

H: Yeah, I'll get his record and everything.

HMJr: Good! Thank you.

H: All right.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: February 8, 1939, 6 p.m.

NO.: 243

FROM COCHRAN

The French stabilization fund had gained 1,000,000 pounds by five o'clock this evening. The fund had given an order to Morgans today to buy dollars, but none were bought. The Guaranty bought for the fund yesterday 130,000 pounds and \$3,635,000.

The Bank of France Governor has received a communication from Funk to the effect that "the undersigned notifies" that he has been named as the Reichsbank President. I learn from Basel that there is an unconfirmed report circulating there that this weekend Funk will not attend the BIS meeting. It is said he will send Brinkmann only for the formal Monday meeting, and that he will not be there for the informal meeting on Sunday of the central bank governors. From the foregoing there is indication that Funk's attitude toward central bank governors collectively and individually as represented by the BIS may not be any too cordial. At the present moment Hechler, the German Resident Manager of the BIS, is in Berlin to find out what his own position may be in the future, as well as the future relationship between the Reichsbank and the BIS.

As yet nothing is known to my central banking friends

of

- 2 -

of the alleged visit of Baudouin to Rome as Bonnet's messenger. Baudouin, as a matter of fact, often goes to Rome for business conferences, as the controlling interest in the Djibouti-Addis Ababa Railway is held by his Bank of Indo-China.

French Treasury today announced that Treasury and national defense bonds will hereafter be subject to the same fiscal regime.

END MESSAGE.

BULLITT.

EA:LWW

February 8, 1939

Yesterday, February 7, at about 12 o'clock, Wayne Taylor walked into the Secretary's office and handed in his letter of resignation and the Secretary asked him if he did not want 24 hours to think it over. Wayne Taylor said that he did not; that he wanted definitely to hand in his resignation. He told the Secretary that he had also sent a letter to the President.

This morning, February 8th, at 9:30, the Secretary went to see the President. The President was very nice and was considerably annoyed with Wayne Taylor.

Upon receiving a message that Taylor's appointment with the President had been changed from 4 o'clock to 2:30 today, HM, Jr sent for Taylor at 2 o'clock and told him that he felt the part of his letter referring to the Secretary's secrecy in connection with the French plane situation was unfair and untrue and that if Wayne Taylor did not take that part out that he, the Secretary, would have to get into an open controversy with him. Taylor said he did not want that to happen, but that he would want a little time to think it over.

At 4:45 the President called HM, Jr and said that he had talked to Taylor and had told Taylor to think it over. The President added that he also told Taylor that while the Secretary did not mean that he wanted his men to agree with everything that he did, the Secretary did mean that once it was an Administration policy that he would have to go along.

At this point, HM, Jr told the President that Lowell Mellett had been in to look over the statement which had been prepared in answer to Father Coughlin and that knowing how close Mellett was to the President he, HM, Jr, had shown him Wayne Taylor's letter. The Secretary told the President that Lowell Mellett had said it was a very dirty letter and had made the following suggestion: that the President give Taylor another job and then ease him out at the end of three months or so; that this would not hurt Taylor up as the great American he pretends to be. The President thought well of this.

-2-

After Taylor's return from the White House he asked to see the Secretary, but the Secretary postponed this meeting until after he had had the above conversation with the President. The Secretary sent for Taylor at 5 o'clock.

Acting on the President's suggestion that HM, Jr should call him after the Secretary had talked to Taylor, HM, Jr phoned the President at 5:20 and said, "I had a long talk with Wayne and his whole attitude is changed. He is quite affable. One of the things that I talked about was his reference to my secrecy in connection with the French airplanes. He is willing to change his letter, but wants a chance to think about it overnight. I said, 'You know, Wayne, things are very difficult and once the President says "that is the policy" then we all have to go down the line. He is the quarterback. He gives the signals and we have to carry out his orders.' Wayne said, 'Nobody realizes that more than I do.'"

"I said to Wayne, 'You know, you went over and voted on the Export-Import Bank loan for China. You are on record.'"

"Oh, Taylor is quite, quite different! He also said he didn't know, if he stayed, whether his usefulness in the Treasury would be worth anything. He also said that Kilgore was going to run a story that he was going to resign and I told him I would send for Kilgore and tell him not to run it." The President commented, "I think that is much better."

In conclusion, the Secretary said to the President, "This is no time to do it and in the manner in which he wanted to do it. I am learning!"



ASSISTANT SECRETARY

TREASURY DEPARTMENT

Washington,

February 7, 1939.

Dear Mr. Secretary:

In the meeting held in your office at 9:30 a. m., on February 6, 1939, you asked to be informed if any one present was not in complete agreement with certain policies and acts which you have initiated and undertaken. You mentioned specifically the extension of credit to the Chinese, the purchase of silver from the Spanish Loyalist Government, and the French aeroplane purchases.

While I believe that I made my position quite clear during the discussions which attended these negotiations, I am taking the opportunity which your question of February 6th offers.

I believe that I can best summarize my position by telling you that if I had been Secretary of the Treasury I would not have initiated any of the negotiations which you mentioned. In the case of the Chinese and Spanish transactions, I feel that the actions which were taken violate the spirit of our neutrality legislation which represents the last expressed opinion of the American people on the subject of our giving aid, financial or otherwise, to belligerents. In the case of the aeroplane purchases by the French, I do not feel that the Secretary of the Treasury should devote his time to matters which so obviously fall outside the jurisdiction of the Treasury Department.

I do not ask or expect you to agree with my opinion on these matters, as I fully realize the sincerity of your approach to any decision involving the national interest. My own approach is similar. In your discussion of these questions on February 6th you in effect asked those present to completely endorse the transactions which

- 2 -

you specifically mentioned, and to underwrite future policies and acts of similar character. I cannot do either of these things.

I consider it a privilege to have had the opportunity of serving my country during the past six years, and I would gladly continue to do so. However, under all the circumstances I do not believe that it is desirable or possible for me to continue in my present capacity. I therefore feel that I must resign as Assistant Secretary of the Treasury.

Sincerely,

A handwritten signature in cursive script, reading "Wayne C. Taylor". The signature is written in dark ink and is positioned below the word "Sincerely,".

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

February 9, 1939

Wayne Taylor came in to see me this morning and said that, after thinking the matter over, he decided that he better go through with his resignation. He said he was in private business once and tried to stay, after he thought he ought to get out, and the thing didn't work.

So I said, "Wayne, I have always had a rule that anybody who works for me and wants to resign - I never urge him to stay. You seem to have a friendly attitude but I can't understand why you write the kind of letter that you do which at this time, when made public, will be very damaging." So he said, "I have no intention of making the letter public. The President gave me some friendly advice about how to resign and I expect to follow it." I said, "Wayne, you say you have the kindest feelings toward me but the gap in your letter is as big as the Grand Canyon where you leave out saying that you feel kindly disposed". He said, "Oh, I thought I said that and 'realize the sincerity of your approach". I said, "No, that does not say anything." So I said, "I take it that you disapprove of a large proportion of the policies of the Treasury the way I run it". He said, "No, that's not so - its more like two horses in a team and they don't pull very well. Does that make it clear?" I said, "No. This isn't a sudden thought on your part because Steve Early told the President that you told Pa Watson that you wanted to resign a week ago." He said, "No, I never said anything. Before I went south I told Pa Watson I was getting restless. The first person I ever mentioned the resignation to was when I handed it to you on Tuesday."

During the night I had an idea that in order to keep Wayne from making the letter public, if the President wanted to urge him to stay, I would be willing to have him stay if we transferred all of his activities to Procurement, Bureau of the Mint or Bureau of Engraving but only under those circumstances. I made no mention of this to Taylor.

I then called up the President and said that Wayne Taylor had been in to see me and, after thinking it over, he decided to resign. The President said, "How soon?" and I said, "I think right away". He said, "What about the letter?" I said, "Wayne said that you gave him some friendly advice and he had no intention of making the letter public. I think I would let him go, Mr. President". So the President said he would see him during the day.

Wayne Taylor removed that part of his letter which referred to the secrecy in connection with the French airplanes and handed to the Secretary a new letter of resignation which is attached herewith.

JR

GRAY

London

Dated February 9, 1939

Rec'd 3:10 p.m.

Secretary of State,
Washington.

195, February 9, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

The foreign exchange market has been relatively inactive today; even the resignation of Belgian Cabinet had little effect because it was expected. The dollar opened offered mainly due to Swiss sales for conversion into Swiss francs. The British authorities acquired some dollars before fixing but the volume of trading after fixing was very small. Gold was fixed at 148 shillings 3-1/2 pence which was parity and of the 275 bars sold 68 were supplied by the British fund and 73 were married.

JOHNSON

PEG:WTC

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: February 9, 1939, 5 p.m.

NO.: 248

FROM COCHRAN.

Today's exchange market featured by resignation of Belgian Cabinet and consequent decline in belga. An order to purchase dollars for the French fund today was given to Lazard Freres. \$420,000 was given to them by Guaranty, and other sources gave fair offering. Some sterling also acquired by fund. Both sterling and dollars are being sold by Swiss banks. New York is reported as being a buyer of Swiss francs, so this currency is quite strong. Good bidding continues for French Treasury bonds, particularly for the six months bonds. February 2 statement of the Bank of France showed fairly important end of month increase in circulation and deposits decrease, which compensated to meet the ratio of 62.50 versus 62.44.

From Amsterdam comes a press report that the Holland-American Line has announced, following its general meeting, that the management would no longer publish details of gold shipments to the United States from the Netherlands, at the request of the Netherlands Bank. Such action would be in line with the efforts of the Dutch authorities to keep their gold operations veiled. London financial newspapers allege that Amsterdam and Paris have not cooperated conscientiously with the British authorities to stop future gold

- 2 -

gold operations, but this is denied by Dutch and French financial papers.

At noon today I had a visit from Yanagita of the Bank of Japan, who was en route to Basel to attend the BIS meeting. Yanagita told me that in his country conservative and radical factors were having an internal struggle something like that which took place in Germany and which resulted in Schacht's leaving the Reichsbank. However, he feels that ground is being gained by the conservatives in Japan. Yanagita said he had recommended strongly to the Bank of Japan Governor against unfair trade measures vis-a-vis my country.

I had lunch today with Golay of the Swiss Bank Corporation, and Jay of Morgans. French financial recovery pleases both. The only fear of Golay is that if there should be continued improvement of the international situation, as he expects, French politicians will again start to quarrel among themselves, and French progress will be retarded. His market he said had easily absorbed the French 4 percent loan, and par is the quotation for it.

Golay has close contact with German and Italian financial interests; he is convinced that neither of these countries will risk the necessity of financing a war.

END OF MESSAGE.

BULLITT.

EA:LWW

JR

GRAY

Berlin (part air)

Dated February 9, 1939

Rec'd 7:25 a.m., 10th.

Secretary of State,
Washington.

110, February 9, 9 a.m. (SECTION ONE).

One. In view of the evident importance of the bearing of German economy on German policy I submit the following estimate and summary statement on the present German economic situation prepared jointly by the Chancery, the Attaches and the Consulate General.

A. Finances and credit: Central Government expenditures for the current fiscal year ending March 31 will probably run about 30 billion marks or perhaps one-sixth more than during the preceding fiscal period. One-third of this must be met by borrowing. These expenditures will represent 40% of 1938 national income estimated at 76 billion marks. Adding to this other levies such as local government expenditures, state insurance and contributions, the government and the party exact between 35 and 40 billions or one-half of national income as against one-fourth of the national income in the late twenties. The growing burden of government

exactions

-2- #110, February 9, 9 a.m. (SECTION ONE) from Berlin.

exactions is causing some discontent and since they are absorbing for nonproductive ends funds needed for the replacement and extension of productive equipment have caused increasingly visible economic deterioration.

It is conservative to reckon that two-thirds of the total government expenditures in 1938 went military or quasi-military purposes. On the other hand 1938 was an unusual year, within it falling the military occupation of Austria, the extensive mobilization in September and in particular the construction of the western fortifications which should be completed within a few months. Informed observers believe it likely that barring unforeseen external developments there will be some let up in armament production during 1939 and a pronounced saving through the completion of the western fortifications. On the other hand lessening of production of army equipment will to some extent be off set by increased naval building; and while completion of the western forts will release labor and equipment it is to be remembered that much of their cost was met by stopping or slowing other government construction project.

The economic deterioration and strain caused by excessive nonproductive government expenditure has been
gradual

-3- #110, February 9, 9 a.m. (SECTION ONE) from Berlin.

gradual and no one acquainted with the government's authority, organization and German discipline believes that there is any strong possibility of discontent becoming effective enough seriously to weaken the regime or to lead to serious economic dislocation in the near future. Governmental debt has not yet reached a point where its service constitutes a major problem or burden.

Whether or not the party in its present mood of expansion will permit sufficient economies to be made in its present varied program cannot be foreseen.

With respect to money and credit there has been an increase of credit and income which, however, has resulted in a corresponding increase of consumption goods. In a free economy this would have meant inflation and has already resulted in price increases on such goods and services as are not strictly controlled. The degree of this monetary expansion is not yet believed to be beyond the point of correction and indeed there is automatic restraint in that the country is practically almost fully employed. It is difficult to see how any sudden increase of Central Bank credit for government orders would have immediate effect since additional labor, materials

-4- #110, February 9, 9 a.m. (SECTION ONE) from Berlin.

materials and plant appropriation available for its use. Nevertheless whatever automatic restraining effect full economic activity and price and wage controls may exert it seems certain that these controls will break down if expansion of governmental expenditures should continue. A deterrent to such development lies in the memory of post war inflation. However, Schacht's dismissal and the passing of the control of Central Bank to the party may lead to a slow inflation although its full effects could no doubt be staved off for a considerable time.

(END SECTION ONE)

GILBERT

KLP

FS

GRAY

Berlin (part air)

Dated February 9, 1939

Rec'd 7:42 a.m. 10th

Secretary of State,
Washington.

110, February 9, 9 a.m. (SECTION TWO)

B. Foreign trade: In 1938 an unfavorable balance of 192 million marks was recorded for old Germany to which must be added 240 million marks more for Austria. This unfavorable balance has no doubt been made possible through gold and exchange reserves resulting from incorporation of Austria. Imports were high in volume in 1938 because of abnormal purchases of raw materials and food-stuffs in part for storage. Exports are expected to decline further in coming months except to Danubian countries. Germany maintains its position in western and overseas markets only with continued use of subsidies and other devaluation equivalents. The expected curtailment of raw materials imports through self-sufficiency progress did not take place in 1938.

C. Labor: Employment is now 65% higher than in January 1933. The labor shortage is still acute despite alleviation through Austrian and Sudeten annexations imported labor and the progressive releasing of 500 thousand

MEN

FS 2-No. 110, February 9, 9 a.m. from Berlin (SEC.TWO)

men from the western fortifications. The most serious problems are the shortage of skilled metal workers and the flight from the land. Energetic measures are being taken to train technicians and to reemploy pensioners and others not now working and to prevent shifts of labor and evasion of restrictions on wage increases. Although severe labor strain is evident substantial labor reserves could be tapped for emergency by curtailing public works, and eliminating luxury industries and by employing more women.

D. Transportation: In 1938 the transportation situation has become increasingly serious. The railway facilities have not kept pace with the demand of increased industrial activity, construction, rearmament and territorial expansion. Rolling stock and equipment of the railroads have deteriorated and replacement has not been sufficient. Thus although freight traffic was 11% higher in 1938 than in 1929 and nearly doubled the 1933 volume the number of freight cars decreased by 10% since 1929. Over use of rolling stock and exceptional wear on equipment is resulting in breakdowns and increased accidents. Twenty-eight fast passenger trains have recently been withdrawn and factories in Austria have had to close for lack of coal. The railways are faced with the urgent necessity of

FS 3-No. 110, February 9, 9 a.m. from Berlin (SEC. TWO).

of undertaking an extensive program of replacement and expansion which is estimated to require 10 billion marks. This becomes a difficult problem in view of the prevailing shortages of material and labor while the source of the required funds is also problematical. As operating costs have risen in proportion to receipts it is admitted that the railways cannot finance any extensive capital requirements.

E. Food and feed: There would seem to be no serious difficulties from the standpoint of adequate nutrition although a continuing strain from certain import and distribution problems must be envisaged. Germany is well supplied with grain feed, potatoes and sugar this season and prospective carry overs assure ample bread grain and sugar for 1939-40. Feed requirements in 1939-40 seem safeguarded by recent trade arrangements southeastern Europe unless 1939 harvests are poor. Supplies of fats, meats and eggs are somewhat below current demand and will probably so continue although some improvement in domestic and imported supplies of livestock products seems indicated for 1939-40. Coffee supplies are currently short. Margarine raw materials which are largely bought with foreign exchange are the most vulnerable point in the food situation. Fruits and vegetables are currently short and any real

improvement

PS 4-No. 110, February 9, 9 a.m. from Berlin (SEC. TWO)

improvement must await larger imports and the 1939 crop. The food shortage and rationing in Germany have been intensified by an increasing demand incident to rising employment and higher income for a considerable part of the population by acquisition of Austria and Sudeten (both deficit territories) by poorer fruit crops and reduced livestock production incident to foot and mouth disease cyclically reduced hog supplies and by special military needs. Market regulations machinery and rationing have functioned effectively to prevent what might otherwise have become a serious crisis. The labor shortage for agriculture has become particularly serious where the loss has been estimated at 400 thousand workers since 1933.

KLP

GILBERT

EDA

GRAY

BERLIN (PART AIR)

Dated February 9, 1939

Received 7:54 a.m. 10th

Secretary of State

Washington

110, February 9, 9 a.m. (SECTION THREE).

F. Public construction: It is estimated at present that 80% of all building is for public account. In December 1938 the volume of building orders approved but not executed was estimated at thirty billion marks as against an annual possible building rate of twelve billion marks. In the latter half of 1938 the fortifications in the west caused an almost complete stoppage of residential construction. Construction plans have been retarded by material and labor shortages. Concurrently building costs have risen sharply in spite of price and wage regulations. The high volume and fast tempo of public construction undoubtedly constituted one of the severe strains on German economy but appears at the same time to offer the most obvious source for economy. To date, however, no evidence of material retrenchment in this direction has been noted

G. Status of four year plan: Projects under way
to

EDA - 2 - #110, February 9, 9 a.m. from Berlin
Section Three

to increase German raw material production continues to be energetically pushed particularly with respect to plant construction. In 1938 most emphasis was laid upon synthetic gasoline, steel or domestic ore, cell wool and light metals. In spite of increased oil production both natural and synthetic total oil imports in 1938 show a marked increase over 1937 indicating that domestic production could not keep pace with increased consumption. Some of the new synthetic gasoline plants are now being constructed with a view to ordinary refining from imported crude in peace time and capable of being converted to the production of synthetic gasoline in war time. The largest plants for the utilization of low grade domestic iron ore are still in the construction stage and iron ore imports in 1938 were higher by about 8% than in 1937 despite an estimated increase of one third in domestic ore production in 1938. On the other hand raw rubber imports decreased by about 6% in 1938 probably as a result of larger buna production but progress toward self-sufficiency was slight. Cell wool production in 1938 is estimated to have risen perceptibly and is expected to attain 200,000 tons by the end of 1939. Cotton imports

nevertheless

EDA - 3 - #110, February 9, 9 a.m. From Berlin
Section Three

nevertheless increased by 7% and wool by 20% in 1938. The drive to substitute light metals and alloys for copper and iron continues but in spite of this copper imports in 1938 increased by 60%. In the case of certain imports increases it is not certain how much represented greater consumption and how much was for war stocks. In general, however, the considerable progress made in the production of domestic raw materials did not equal the increase in consumption. For textiles and steel, however, the present plant construction would indicate a higher domestic production by 1940.

GILBERT

DDM:CSB

EDA

GRAY

BERLIN (PART AIR)

Dated February 9, 1939

Received 8 a.m. 10th

Secretary of State

Washington

110, February 9, 9 a.m. (SECTION FOUR).

H. Prices, wages and costs: Although the official indices show that wage and price stability has been maintained there is no doubt that the price wage structure is subjected to great pressure because of shortages. Wage rates are substantially unchanged but earnings have risen as a result of longer hours, employment of women, transfer of workers into higher wage groups, et cetera, together with a certain amount of concealed wage increases. Income from labor during 1938 is estimated to have increased by 7%. This increase has accentuated the prevailing shortages and the authorities are endeavoring to prevent a further rise in consumer demand which could not be satisfied from existing supplies. Although wage rates are unchanged there has no doubt been an increase in production costs as a result of higher taxes and contributions social services, use of expensive substitute raw materials and the wear and tear on mechanical equipment from over-use and

unskillful

EDA - 2 - #110, February 9, 9 a.m. from Berlin
Section four

unskillful handling.

(In?)

I conclusion: At the beginning of 1939, Germany is suffering from strain in all important branches of national economy. Progress under the four year plan was not sufficient in 1938 to relieve this strain and additional tasks resulting from the absorption of territory have aggravated it. This strain appears to be due not so much to the program undertaken as to the tempo with which it is being executed with its consequent demands upon the money market, the labor market and the productive capacity of the nation. The stress could be considerably relaxed in all fields if the leaders were willing and able to adjust their demands for armament, greater self sufficiency and construction more in keeping with the present resources of labor, material and credit. So far there is no convincing evidence of any real intention to slow down. We do not see how the present rate of expansion can be indefinitely maintained without seriously impairing both the productive equipment and financial stability of Germany. It is emphasized however that a change of policy as regards expenditures and construction would relax much of the present strain. Furthermore

in

EDA - 3 - #110, February 9, 9 a.m. from Berlin
Section four

in such a closely controlled economy the inflationary
effects of present policies might well be postponed for
a considerable period.

GILBERT

HPD

PARAPHRASE. SECTION FIVE OF TELEGRAM NO. 110 OF
FEBRUARY 9, 1939, FROM THE AMERICAN EMBASSY, BERLIN.

Two. The foregoing is submitted, apart from its character as economic data per se, relative to the bearing of German economy on the internal and external policy of the German Government [apparent garbling in this paragraph].

Three. Hitler's speech of January 30 to the Reichstag contained the most recent disclosure respecting German external policy. This particular speech, stripped of its extraneous elements, is looked on here as perhaps the most important of all pronouncements by Hitler up to the present time - especially since it deals with the framework of German long term policy which he asserts it is his intention to prosecute, rather than with immediate objectives. Throughout the speech the relationship between German economy and German policy is emphasized.

The following is, in essence, the interpretation put on the speech here -

Germany's main intention is not to use war to achieve its announced aims. It is admitted that German economy vis-à-vis the needs of the German people is not satisfactory. Two parallel methods - (1) satisfactory external commercial relationships, and (2) colonies - constitute in the German view a means of meeting these needs. An export war will be initiated by Germany should outside powers

- 2 -

powers try to thwart Germany in her legitimate commercial enterprise. As for the colonies, their price is small compared to the diplomatic liability of Germany as a power which is not satisfied. Should Germany not be given an opportunity to utilize the two methods mentioned, there is still another method which she will resort to in order to meet the essential needs of her people. By full implication, this ultimate method is that of force and if necessary, Germany is prepared to use it. Furthermore, Germany brings Italy into the framework of the same picture and under the same terms; the necessities of Italy must be met in a comparable manner and under the same alternative conditions as to method - Germany pledges general support to Italy to this end.

The reason for regarding this German pronouncement of external policy as significant here, I may say, is that it seems to correspond to general estimates already prevalent in informed circles as to German policy derived from other sources. The best opinion here is that in effect Germany states that for 1939, rather than follow a policy of material action, its external policy lies in the field of negotiations or attempted negotiations.

It must be stated that in any such public pronouncements Hitler must, of course, bear in mind his own position and that of the regime vis-à-vis the people of Germany.

The

- 3 -

The emphasis which all classes of Germans place on the assurances of peace they feel they get from this speech, and their expressions of satisfaction over these assurances, are noted here.

END OF MESSAGE.

GILBERT.

KA: LWW

TREASURY DEPARTMENT

73

INTER OFFICE COMMUNICATION

DATE February 9, 1939.

TO Secretary Morgenthau
FROM Mr. Haas
Subject: Principal factors in the 1937 business decline and the 1938 business rise, as listed by business services.

Conclusions

(1)

The 15 investment services and business letters which we reviewed gave numerous and divergent reasons for the 1937 business decline, with no real attempt to rank them in order of importance nor to separate actual causal factors from those influences representing results rather than causes. Factors mentioned by 4 or more services are ranked below according to the number of services mentioning them:

Number
mentioning

- | | |
|----|---|
| 11 | Widespread pessimism, and resultant low level of new orders and investments. |
| 10 | Strikes and labor disturbances, and consequent increase in wages and decrease in hours. |
| 9 | Uncertainties about (and unpopular aspects of) government policies. |
| 7 | High prices of raw materials, and resultant narrowing of profit margins. |
| 7 | Heavy inventories. |
| 6 | War scares. |
| 4 | Federal Reserve raising of bank reserve requirements. |

Secretary Morgenthau - 2

(2)

Similarly, the same services attributed the 1938 business rise to the following factors:

Number
mentioning

- 14 Government spending (usually with some reservations).
- 11 Rising security and commodity markets, and resulting optimism.
- 10 Low level of inventories.
- 6 Large volume of capital seeking investment.
- 4 Well-maintained consumer buying, due to fairly high level of real income.
- 4 Large crops, which give business to the railroads and increase the purchasing power of the farm population.

(3)

None of the services reviewed anticipated the serious business decline which began in the fall of 1937. By early summer, unfavorable developments in security and commodity markets, together with serious labor difficulties, were recognized as affecting the business outlook, and a somewhat greater than seasonal recession during the summer was expected. Most services, with few exceptions, believed the situation favorable for a renewed rise during the fall. The most pessimistic expressed doubt regarding the fall outlook, without anticipating a serious setback.

The quick recovery in 1938 was not anticipated by any of the services reviewed. Most expected some improvement by fall, but the general feeling on the eve of the sensational July rise in stock prices was that business and stock prices might reach lower levels before the end of the summer. After stocks turned upward, however, the turn was recognized more quickly than the previous decline had been.

Secretary Morgenthau - 3

Factors causing the 1937 recession and 1938 rise

The following 15 recognized advisory services and business letters were reviewed to determine which factors were currently mentioned as causes of the business decline in 1937 and the recovery in 1938:

American Telephone and Telegraph Company. Summary of Business Conditions in the United States (monthly).

Angas, L. L. B., Digests (irregular).

Bond Buyer (weekly).

Business Week (weekly).

Cleveland Trust Company. Business Bulletin (monthly).

Goldsmith Washington Service. United States Government Securities (biweekly).

Guaranty Trust Company of New York. The Guaranty Survey (monthly).

Kiplinger Washington Agency. The Kiplinger Washington Letter (weekly).

Moody's Investors Service.

Moody's Bond Survey (weekly).

Moody's Stock Survey (weekly).

National City Bank of New York, Report on Economic Conditions, Governmental Finance, United States Securities (monthly).

Royal Bank of Canada Monthly Report (monthly).

Standard Statistics Company, Incorporated.

The Business Prospect (weekly).

Outlook for the Security Markets (weekly).

Whaley-Eaton Service, American Letter (weekly).

Secretary Morgenthau - 4

1937 business decline

In attempting to learn what factors were assigned as major causes of the 1937 decline by various business services, it was found impossible to determine the relative importance which was attached to the different factors, since none of the services made an attempt to rank them in order of their importance. Certain factors, however, were mentioned by most of the 15 services as important causes of the business recession, while others were mentioned by only a few. We have therefore listed the factors mentioned by 4 or more of these services, ranking them according to the number of services which considered them important influences in the recession.

(1) Widespread pessimism, and resultant low level of new orders and investments. (11 services). This was obviously a result of other factors, but most business services did not make a sufficiently reasoned analysis of the business decline to distinguish between causal factors and the more apparent secondary factors.

(2) Strikes and labor disturbances. (10 services). These were credited with undermining the business structure in three ways: (a) by unduly increasing manufacturing costs through raising wages, shortening hours, and reducing labor efficiency; (b) by upsetting business confidence due to the epidemic of "sit-down" strikes and inter-factional disputes, so that "the adoption of increasingly conservative policies has been the inevitable consequence"; (c) by causing an accumulation of stocks of finished and semi-finished goods as a protection against shortages due to labor troubles.

(3) Uncertainties about (and unpopular aspects of) Government policies. (9 services). Among the acts and policies most frequently cited were: Various reform measures and policies, tolerance of labor disturbances, the Wagner Labor Relations Act, the wage and hour bill, the undistributed profits tax, the capital gains tax, and Social Security taxes.

(4) High prices of raw materials and resultant narrowing of profit margins. (7 services). The failure of finished goods prices to rise in line with increased raw material and other costs, due in part to a failure of consumer demand to expand sufficiently to allow these costs to be passed on, are believed by some services to have initiated the recession by making manufacturers more cautious in their producing and buying policies.

(5) Heavy inventories. (7 services). Rising costs, general inflationary psychology, labor difficulties, and expectations of a continued high volume of new orders gave rise to heavy forward buying of raw materials and finished products, resulting in an accumulation of inventories. When new orders failed to materialize and prices began to decline, inventories became excessive in comparison with the reduced volume of sales, and a movement to liquidate inventories was begun.

As Barron's concisely summarizes it (January 9, 1939): "Just as soon as demand fell away (which may or may not be attributable to Federal Reserve deflationary action) forward buying ceased, most capital outlays were tabled, and business began to retrench. The inventories that in the summer of 1937 seemed quite unexcessive proved immediately burdensome once buying power dried up."

(6) War scares. (6 services). The recurring war scares and international crises in 1937, which were believed by a number of services to have been an important factor in initiating a curtailment of business in this country, were concerned with the Japanese invasion of China and the Spanish civil war.

(7) The raising of reserve requirements by the Federal Reserve Board. (4 services). While relatively few services mention this factor, those that do tend to emphasize it. The L. L. B. Angus Service, for example, puts it thus: "Indeed, the 1937 slump was due more to the positive deflation caused by the banks (after the raising of 'required reserves') selling \$2,000,000,000 of bonds -- the greatest bond liquidation in all history! -- than to the Government reducing its spending and borrowing less from the banks." The Royal Bank of Canada mentions that the severe liquidation of Government bonds, which it refers to as definitely deflationary, "may account in a considerable degree for the sudden change in business sentiment." The United Business Service, in contrasting the present situation (January 1939) with that in early 1937 says: "To begin with, there is no such powerful deflationary force operating as that which was created in early 1937 by the Federal Reserve Board's action in doubling member bank reserve requirements."

Secretary Morgenthau - 6

Other factors mentioned. The decrease in Government spending, the unsatisfactory railroad situation, a "natural" tendency for business to decline after a period of expansion, and unfavorable international conditions, were each referred to by 3 services as factors in the recession.

The only statement attributing to decreased Government spending a substantial measure of responsibility for the recession was that of the National City Bank of New York, the other two services barely mentioning it as a factor. The National City Bank said (October 1937): "Meanwhile, the Government pump-priming activities have been sharply reduced. Expenditures are as great, but are derived to a less extent from credit, since the rise of tax receipts including Social Security funds more nearly covers disbursements. This reduction in deficit financing is equivalent to a withdrawal of purchasing power which the Government has been creating." In its November 1937 report, the National City Bank made the following qualification: "To say that reduction of Government spending is a factor in the recession is not an argument for its resumption. Renewed spending would merely put off the inevitable. Sooner or later business will have to become self-supporting, and the longer the deficit spending is continued the worse the situation will ultimately be. The choice as between the two alternatives should be clear."

Various services mentioned the unsatisfactory market for new capital issues, a low level of confidence in the security markets, and a declining trend of construction, as factors in the business recession, but which were themselves the results of other factors rather than primary causes of the recession.

Standard Statistics study. Some light may be thrown on the causes of the 1937 recession by a survey of "major business fears" made by the Standard Statistics Company in that year. A prepared questionnaire listing 13 possible fears of businessmen was mailed to corporation executives in May and June 1937, with instructions to indicate which of these fears were causing them greatest concern. A tabulation of 700 returns lists the fears in the following order of importance: (1) labor disturbances, which will increase costs; (2) high tax rates; (3) further reform measures from the Administration; (4) decline in new construction, due to rise in costs; (5) Administration's warnings to control the price boom; (6) consumer resistance to higher prices; (7) low level of

investment, blocking capital expansion; (8) deflationary monetary policies; (9) heavy inventories; (10) pressure for economy at Washington and attempt to balance the budget; (11) repercussions from European speculative collapse; (12) possible increase of stock margin requirements to 100 per cent; and (13) government attitude toward private utilities.

1938 rise in business and markets

In discussing this change in the business situation, most commentators seemed hard-put to find reasons for it, since it had been widely expected that business activity and stock prices would sag somewhat lower before showing a fall improvement. The factors mentioned by 4 or more services are listed below:

(1) The Government spending program. (15 services). All of the services consulted agree that Government spending contributed to the rise, perhaps because of the coincidence in timing, although many of them say that this was not a healthy factor. For example, the National City Bank of New York says, "The Government spending, financed by what may be a record deficit, is assuredly not favorable in the long view, and even for the short term there is considerable opinion that it frightens away more spending by private business than it provides through public channels."

(2) Optimism resulting from rising security and commodity prices. (11 services). Most of the services take refuge in the phenomenal rise in security and commodity markets last June and July, and say that business recovery was due to the optimism which resulted from it. However, no real explanation for the rise in the markets is given.

(3) Low level of inventories. (10 services). Many point to the low inventories, especially in consumer goods lines, as a favorable factor. They say that inventories, which previously had been far too high in relation to sales, had been worked down until they were entirely inadequate to meet the needs of consumers when demand became more active, and new orders had to be placed with manufacturers.

(4) Large volume of capital seeking investment. (6 services). For 7 months prior to the reduction of reserve requirements in April 1938, excess bank reserves had been steadily rising, reflecting in part a lack of confidence among investors. The pressure of idle investment funds was greatly intensified by the April reduction in reserve requirements. Several writers claim that, by spring or early summer of 1938, the need to invest this capital had become great enough to contribute to the stock market rise which preceded the business recovery. This appears to be the only explanation offered for the rise in the stock market.

(5) Well-maintained demand situation. (4 services). The price maladjustments which businessmen had complained about in 1937 had, by the early summer of 1938, become fairly well corrected. In addition, retail prices were low, and real incomes of consumers were relatively high. The resulting favorable demand situation, causing well-maintained consumer buying, was looked upon as one of the important factors contributing to recovery.

(6) Favorable agricultural situation. (4 services). Large crops were forecast for most farm products for the summer of 1938. While it was admitted that these would depress farm prices, they were considered favorable because they would give considerable business to the railroads, and were expected to increase total farm income, especially in the drought area. The improved consumer demand caused by this higher income was expected to stimulate business in the fall.

Other factors mentioned. As additional influences in the 1938 recovery, the following were each mentioned by three services: (a) business activity in the summer of 1938 was ready for a rebound after the sharp uninterrupted decline of nearly a year; (b) low interest rates and easy money policy; (c) expansion in the building industry; (d) changes in automobile models; (e) inflationary (or reflationary) influences of the Government's recovery program.

As factors of greater or less importance in the recovery, the following were mentioned by one or two services: (a) increased production efficiency; (b) correction of price maladjustments between raw materials and finished goods; (c) higher velocity of money; (d) reduced volume of private debt; (e) modification of tax laws in Revenue Act of 1938; (f) relatively high exports; (g) increased freight rates and passenger fares; (h) anticipation of wage and hour law.

Timing of forecasts by 15 business services

None of the services effectively anticipated either the severe decline in 1937 or the sharp 1938 rise. In April or May 1937, most of them said that the summer decline would be of somewhat greater than seasonal proportions, but gave no definite reasons for their belief. Around the middle of June, three of the services became sufficiently concerned about the situation to discuss it at some length, and to attempt to list possible reasons for a greater than seasonal summer recession. A further rise in the fall, however, was generally expected. By the middle of September, many were acknowledging that, with the time for the long-awaited fall upturn at hand, and declines being registered in the security markets and business indexes, a recession must have come upon them. In November, the last of the services began to write of the current depression.

This survey seems to show that at any given time the various business services tend to hold much the same opinion regarding the business outlook, whether right or wrong, differing mostly in the reasons advanced for their opinion. At the onset of the severe business decline which began in September 1937, for example, practically all services were optimistic over the fall business outlook. The following are excerpts from reports published around the end of August and beginning of September by all of the 15 services that published definite business forecasts at that time:

Standard Trade and Securities -- "The Business Prospect",
September 3, 1937.

"There is a growing belief in some quarters that rather than witnessing a full seasonal recovery this fall, business activity will be well below earlier expectations. . . . We see no reason, however, to change our previous forecasts that a full seasonal upturn in industrial activity will be witnessed this fall. It is not at all surprising that certain lines have failed to record improvement in recent weeks, as business generally seldom begins its fall upturn until a week or two after Labor Day."

Secretary Morgenthau - 10

Standard Trade and Securities -- "Outlook for Security Markets", August 23, 1937.

"Recent developments have provided no basis for any modification of the generally favorable forecasts of probable industrial volumes for the final months of 1937 which we have presented in previous Surveys of the business outlook."

National City Bank of New York -- Monthly report on economic conditions, etc., August 1937.

"The business outlook has improved during July, and expectations of a fall upturn have been strengthened as compared with a month or two back. . ."

Same, October 1937.

"The best assurance against a major recession is that the conditions which usually precede it have not yet developed."

Royal Bank of Canada -- Monthly report on economic conditions, September 1937.

"Continued expansion of business in the United States, accompanied by a moderate reduction in tariffs, is releasing new purchasing power and constitutes a positive stimulus making for further improvement. . . . Both politically and economically the general outlook seems increasingly favorable."

Business Week -- September 4, 1937.

"The base for a sturdy expansion in fall business already has been laid; it consists of higher payrolls; greater employment; increased farm purchasing power; large dividends. Christmas trade should be good -- better than last year."

Kiplinger Washington Letter, August 26, 1937.

"On business outlook, short range, the prevailing Washington view is that no big ups or big downs are likely in the next 6-to-8 months. Moderate more-than-seasonal rise is expected in last quarter of 1937, carrying through into first quarter of 1938. But a big push forward to a new high plateau is believed unlikely until last half of next year."

Moody's Stock Survey, August 23, 1937.

"While hopes are being everywhere expressed of a vigorous fall upturn in business activity, it appears to us that the rise is unlikely to be more than seasonal -- hence, disappointing to many. The intermediate market outlook, therefore, appears to us to be none too satisfactory." (The most bearish of the services reviewed, yet expecting no more than a levelling-out of business activity.)

The Guaranty Survey (Monthly publication of Guaranty Trust Company) August 30, 1937.

"On the whole, the business situation presents the appearance of stability at virtually the highest level reached thus far in the recovery movement."

Cleveland Trust Company "Business Bulletin", August 15, 1937.

"It now seems probable that the volume of business activity will hold up well during the remaining months of the year, and that most of the important business indexes will show totals for 1937 well above those of 1936."

Recession more severe than expected

The severity of the recession was entirely unanticipated. During the winter of 1937-38, several of the analysts were writing that many of the factors always characteristic of a major business decline were lacking from the business picture, that the recession must be due to minor maladjustments, and that the recovery movement would soon be renewed. However, when the time for the usual spring rise came, and no improvement was apparent, writers became more gloomy. Opinion then shifted to the belief that business would decline a little further during the summer, and show only a slight upturn in the fall. A few said that such an uninterrupted and steep decline would have to reverse itself after a while.

None of the services really forecast anything like the rise which actually occurred in the markets in June and July 1938. However, once it happened, they recognized it much more readily than they had the decline, probably because of its more spectacular nature. By their July issue, all (except

Secretary Morgenthau - 12

one Canadian service) had admitted that a turn had come and attempted an explanation, although many writers did not believe that the improvement would last, or that business would immediately follow the markets' lead. Only when the July and August business indexes became available, showing a strong improvement in industrial production, did they think that it might be a sound recovery.

The following are excerpts from reports of those services making definite business forecasts, taken just before the phenomenal upturn in stock prices which began in the latter part of June 1938:

Cleveland Trust Company -- "Business Bulletin", June 15, 1938.

"During the four last months of 1937, business activity dropped with almost unprecedented rapidity, and by the beginning of this year it had reached a kind of depression floor. That floor has proved during the first six months of this year not to be a level one, but rather a downward tilting one. So far there have been no convincing indications that it is even levelling out."

Standard Trade and Securities -- "Outlook for the Security Markets", June 13, 1938.

"The downtrend of business volumes has made further progress in recent weeks, and present indications are that the actual low point for industrial activity will not be reached before August. . . . If signs of business recovery begin to appear in the fall or winter, the present level of (stock) prices might well prove to have been amply justified by earnings prospects."

Standard Trade and Securities -- "The Business Prospect", June 10, 1938.

"Supplies of raw materials are increasing, just as they have during the early stages of past depressions. . . . This indicates that there will be a delay of at least several months before the appearance of a renewed demand for raw materials is actually reflected in increased operations among the primary producers."

Secretary Morgenthau - 13

Hiplinger Washington Letter, June 18, 1938.

"Business outlook . . . July, 73, and probably the bottom of the depression. This is the majority opinion here. Minority think Aug. will be bottom . . . Sept., Oct., a bit higher, a few points, nothing spectacular."

The Guaranty Survey, June 27, 1938.

"The latest reports suggest that recession has, for the time being at least, given way to stability and even to slight upturns in some directions. However, with the traditionally quiet midsummer period immediately ahead, only limited significance is attached to week-to-week fluctuations at present."

Moody's Stock Survey, June 20, 1938.

"Business readjustments have proceeded sufficiently far to remove the obstacles to recovery, but the low level of capitalistic confidence has thus far inhibited the beginning of any cyclical upturn in business and the markets. The natural forces of recovery (plus Governmental efforts) will eventually prevail, but investors' patience may be tried by some further period of irregular markets."

National City Bank, June 1938.

"The markets show that business men are not expecting much change for the better at least until seasonal influences again turn favorable, which will be in late August or September. . . . Unquestionably inventories are being worked down, but in many instances they are still too large to warrant expectation of early production increases."

Business Week, June 11, 1938.

"Business was still edging lower this week. It is true that security and commodity prices were higher . . . but industrial activity seemed to be moving toward a midsummer low marked by widespread shut-downs."

*Wm. and
file*

February 9, 1939

To: The Secretary

From: Mr. Hanes

On Tuesday, February 7th, I communicated with Attorney General Frank Murphy in accordance with your instructions to have cleared by him the announcement proposed by you in reference to salaries of public officials of \$10,000 and over.

On February 8th, I was advised by you that the Attorney General had cleared the memorandum which I dictated over the telephone to Miss Baumgardner in his office. This memorandum is attached hereto and is a draft of a release for the press on this subject drawn by Mr. Gaston.

I immediately transmitted this memorandum to Commissioner Helvering for his approval, both as to form and substance. Attached hereto are a few of his objections. Over the telephone this morning I got the impression that the Commissioner was somewhat upset by this procedure and very much opposed to any action being taken until he had the opportunity to discuss it fully with us. I assured him that we would give him ample opportunity to discuss this matter with you and me.

JWH

Talked to A. Y. Frank Murphy at 1240
Feb 7
Initiated to Miss Baumgardner for A. Y. 87

Secretary Morgenthau announced today that, with the approval of the President, he has directed that a regular annual audit be made by the Bureau of Internal Revenue of the income tax returns of all officers and employees of the United States who have incomes of \$10,000 a year or more.

For this purpose a special auditing committee is being set up in the Bureau of Internal Revenue.

Therefore, by direction of the Secretary, the Government payrolls will be checked against income tax returns to make certain that all employees who should do so file timely returns. This process will be continued.

As to the returns of Federal ^{employees.} ~~returns~~ however, has heretofore been the rule ~~xxx~~ under which only a portion of the returns have been subjected to detailed audit and investigation. The new order will apply with respect to all returns showing gross income of \$10,000 or more in any one taxable year.

Others than Federal employees are regularly audited when they show ~~xxx~~ income of \$25,000 a year or more, when they make large transactions or when they contain other unusual features.

The balance of the returns are audited on a sampling basis.

Real, correct, OK, and return to me please
JWH

Objections to Proposal to Investigate Returns of All Federal Employees Receiving \$10,000.00 or More Compensation Per Year.

2. The plan may well be interpreted by the officers and employees involved, their friends and associates, and the public at large as a gratuitous insinuation that their returns are unreliable or as evidence that the Department has facts in its possession indicating an outstanding lack of integrity on the part of public officials in high places.
3. The class of persons affected by this plan includes the President and Vice President of the United States, the Cabinet, Congress, the Federal Judiciary, and the top rank of all other executive, legislative and administrative personnel in the Federal Service. The majority of these persons are now given assistance by the Bureau of Internal Revenue in the preparation of their returns.
4. The public trust in this personnel should not be jeopardized by the suspicion which might be engendered by the publicity of such a plan.
5. The segregation of the returns of these persons for audit "by a special committee" in Washington would be known by tax practitioners and other informed persons to be an ineffective and useless gesture. The public press might well attack the plan as an effort to whitewash guilty partisans and persecute political opponents in office.
6. Publicity of the fact that the Bureau does not investigate all returns is a tacit invitation to under declaration by persons who now believe their returns are subject to intensive audit.
7. The last two paragraphs are inadequate statements of the present procedure of the Bureau in that (1) Rule that only a portion of returns are subject to detailed audit and investigation applies to all taxpayers; (2) All \$25,000.00 gross income cases are not investigated. Audit is limited to survey in cases where the return is fair on its face.
8. The plan establishes a special procedure for a limited number of taxpayers whereas the Bureau has always followed the policy of treating all taxpayers alike whether their incomes were large or small.
9. In 1936 there were 236,125 individuals who reported incomes from salaries, wages, commissions, fees, etc. in excess of \$10,000.00. Why treat the few thousand federal officers and employees who are in this class differently than the remainder of the class.

February 9, 1939.

*Suggested statement # 1 if any
announcement is deemed necessary*

February 9, 1939.

th

Secretary Morgenthau announced today that, with the approval of the President, he has directed that a regular annual investigation be made by the Bureau of Internal Revenue of the fiscal affairs of all officers and employees of the United States who have incomes of \$10,000 a year, or more.

~~Competent~~ Civil Service employees in the field offices of the revenue forces will be selected to conduct these investigations. Heretofore the compensation of public officers and employees as shown on the Federal payrolls has been checked against their income tax returns to make certain that all Federal employees who should do so file timely returns. This procedure has been ~~initiated~~ ^{initiated} with that attempted as to the compensation of all persons privately employed. This process will be continued. Under this procedure only those returns which have appeared to be in error have been made the subject of a detailed field audit.

Under the order issued today a field audit and investigation is made mandatory in all cases where a Federal officer or employee receives compensation of \$10,000 or more.

Suggested statement #2

30

Secretary Morgenthau announced today that, with the approval of the President, he has directed that a regular annual investigation be made by the Bureau of Internal Revenue of the fiscal affairs of all officers and employees of the United States who have incomes of \$10,000 a year, or more.

~~Department~~ Civil Service employees in the field offices of the revenue forces will be selected to conduct these investigations. Heretofore the compensation of public officers and employees as shown on the Federal payrolls has been checked against their income tax returns to make certain that all Federal employees who should do so file timely returns. This procedure has been identical with that ~~established~~ ^{established} as to the compensation of all persons privately employed. This process will be continued. Under this procedure only those returns which have appeared to be in error have been made the subject of a detailed field audit.

This policy has been criticized as tending to permit the withholding of the returns of high ranking Federal officials from examination in the field.

The Secretary stated that while he was well satisfied that the Bureau's procedure as heretofore established was administratively sound, the new order should put an end to such criticism.

Under the order issued today a field audit and investigation is made mandatory in all cases where a Federal officer or employee receives compensation of \$10,000 or more.

In JWH's handwriting - pencil

Talked to A. G. Frank Murphy at 12:40 - Feb. 7

Dictated to Miss Baumgardner for A. G.

...

Secretary Morgenthau announced today that, with the approval of the President, he has directed that a regular annual audit be made by the Bureau of Internal Revenue of the income tax returns of all officers and employees of the United States who have incomes of \$10,000.00 a year or more.

For this purpose a special auditing committee is being set up in the Bureau of Internal Revenue.

Heretofore, by direction of the Secretary, the Government payrolls have been checked against income tax returns to make certain that all federal employees who should do so file timely returns. This process will be continued.

Audit of the returns of Federal employees, however, has heretofore followed the rule under which only a portion of the returns have been subjected to detailed audit and investigation. The new order makes this a rule with respect to all returns showing gross income of \$10,000 or more in any one taxable year.

Returns of others than Federal employees are regularly audited only when they show income of \$25,000 a year or more, when they reflect large transactions or when they contain other unusual features. The balance of the returns are audited on a sampling basis.

...

JWH's handwriting - pencil

Gay - Read, correct, OK, and return to me please

JWH

FEB 8 - 1938

My dear Mr. Secretary:

You will recall that the President in his Budget Message this year said:

"The public has been showing an increased interest in the adoption by the Government of a form of budget which would conform more nearly to the practice followed in commercial business. There has been some criticism of the Government's practice of including in its budgetary expenditures, amounts disbursed for loans, or for self-liquidating projects, or for other extraordinary capital outlays which increase the wealth of the Nation.... it seems to me that such portions of the cost of public projects as are clearly self-liquidating should occupy a separate category in budgetary reporting."

Under the President's express direction, the Treasury Department has drafted proposed legislation which would implement this policy by establishing a new method of financing the self-liquidating portions of Federal power and water projects. The attached draft of a bill embodies a plan for these projects which the Department believes would achieve the President's objectives.

The Treasury, in setting up this plan, has had in mind the following basic considerations:

- (1) The plan should provide for the financing of new construction against probable future revenues, as well as for the refunding of past costs on existing projects.
- (2) Existing managerial authority over projects should be left undisturbed so far as possible, but at the same time --

(3) The solvency of the financing agency must be assured and protected.

(4) To this end the financing agency must be able to secure an accurate independent estimate of the annual net earnings over the life of the project; final discretion on the extent of the financing must rest with the financing agency.

(5) The financing agency should be as small as possible, utilizing the facilities of existing agencies rather than creating its own.

The President has instructed the Treasury to submit its draft bill to the Federal agencies which are affected by the plan and to obtain their comments. The President wants a consensus of the Federal agencies before he leaves Washington February 15. Accordingly, I am sending you the attached bill and asking that you or some representative of your agency attend a meeting in my office on February 13, 1939, at 3 p.m.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary

The Honorable

The Secretary of the Interior

Enclosure

EED/EHF:s Typed 2/8/39

FEB 24 1939

My dear Mr. Secretary:

You will recall that the President in his Budget Message this year said:

"The public has been showing an increased interest in the adoption by the Government of a form of budget which would conform more nearly to the practice followed in commercial business. There has been some criticism of the Government's practice of including in its budgetary expenditures, amounts disbursed for loans, or for self-liquidating projects, or for other extraordinary capital outlays which increase the wealth of the Nation.... it seems to me that such portions of the cost of public projects as are clearly self-liquidating should occupy a separate category in budgetary reporting."

Under the President's express direction, the Treasury Department has drafted proposed legislation which would implement this policy by establishing a new method of financing the self-liquidating portions of Federal power and water projects. The attached draft of a bill embodies a plan for these projects which the Department believes would achieve the President's objectives.

The Treasury, in setting up this plan, has had in mind the following basic considerations:

(1) The plan should provide for the financing of new construction against probable future revenues, as well as for the re-funding of past costs on existing projects.

(2) Existing managerial authority over projects should be left undisturbed so far as possible, but at the same time --

(3) The solvency of the financing agency must be assured and protected.

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(5) The financing agency should be as small as possible, utilizing the facilities of existing agencies rather than creating its own.

The President has instructed the Treasury to submit its draft bill to the Federal agencies which are affected by the plan and to obtain their comments. The President wants a consensus of the Federal agencies before he leaves Washington February 15. Accordingly, I am sending you the attached bill and asking that you or some representative of your agency attend a meeting in my office on February 15, 1933, at 3 p.m.

Very truly yours,

(Signed) H. Morganthau, Jr.

Secretary

The Honorable

The Secretary of War

Enclosure

HRD/HRF/ahm 2-8-33

FEB 9 1939

My dear Mr. Conway:

You will recall that the President in his Budget Message this year said:

"The public has been showing an increased interest in the adoption by the Government of a form of budget which would conform more nearly to the practice followed in commercial business. There has been some criticism of the Government's practice of including in its budgetary expenditures, amounts disbursed for loans, or for self-liquidating projects, or for other extraordinary capital outlays which increase the wealth of the Nation.... it seems to me that such portions of the cost of public projects as are clearly self-liquidating should occupy a separate category in budgetary reporting."

Under the President's express direction, the Treasury Department has drafted proposed legislation which would implement this policy by establishing a new method of financing the self-liquidating portions of Federal power and water projects. The attached draft of a bill embodies a plan for these projects which the Department believes would achieve the President's objectives.

The Treasury, in setting up this plan, has had in mind the following basic considerations:

- (1) The plan should provide for the financing of new construction against probable future revenues, as well as for the refunding of past costs on existing projects.
- (2) Existing managerial authority over projects should be left undisturbed so far as possible, but at the same time --

(3) The solvency of the financing agency must be assured and protected.

(4) To this end the financing agency must be able to secure an accurate independent estimate of the annual net earnings over the life of the project; final discretion on the extent of the financing must rest with the financing agency.

(5) The financing agency should be as small as possible, utilizing the facilities of existing agencies rather than creating its own.

The President has instructed the Treasury to submit its draft bill to the Federal agencies which are affected by the plan and to obtain their comments. The President wants a consensus of the Federal agencies before he leaves Washington February 15. Accordingly, I am sending you the attached bill and asking that you or some representative of your agency attend a meeting in my office on February 15, 1958, at 5 p.m.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary

Hon. Clyde L. Seavay,
Acting Chairman,
Federal Power Commission,
Washington, D. C.

Enclosure

ESD/ZHF/akm 2-8-58

Regraded Unclassified

FEB - 1939

My dear Mr. Cohen:

You will recall that the President in his Budget Message this year said:

"The public has been showing an increased interest in the adoption by the Government of a form of budget which would conform more nearly to the practice followed in commercial business. There has been some criticism of the Government's practice of including in its budgetary expenditures, amounts disbursed for loans, or for self-liquidating projects, or for other extraordinary capital outlays which increase the wealth of the Nation... it seems to me that such portions of the cost of public projects as are clearly self-liquidating should occupy a separate category in budgetary reporting."

Under the President's express direction, the Treasury Department has drafted proposed legislation which would implement this policy by establishing a new method of financing the self-liquidating portions of Federal power and water projects. The attached draft of a bill embodies a plan for these projects which the Department believes would achieve the President's objectives.

The Treasury, in setting up this plan, has had in mind the following basic considerations:

(1) The plan should provide for the financing of new construction against probable future revenues, as well as for the refunding of past costs on existing projects.

(2) Existing managerial authority over projects should be left undisturbed so far as possible, but at the same time --

(3) The solvency of the financing agency must be assured and protected.

(4) To this end the financing agency must be able to secure an accurate independent estimate of the annual net earnings over the life of the project; final discretion on the extent of the financing must rest with the financing agency.

(5) The financing agency should be as small as possible, utilizing the facilities of existing agencies rather than creating its own.

The President has instructed the Treasury to submit its draft bill to the Federal agencies which are affected by the plan and to obtain their comments. The President wants a consensus of the Federal agencies before he leaves Washington February 15. Accordingly, I am sending you the attached bill and asking that you or some representative of your agency attend a meeting in my office on February 13, 1939, at 3 p.m.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary

Hon. Benjamin V. Cohen
General Counsel
National Power Policy Committee
South Interior Building
Washington, D. C.

Enclosure

END/EMF:s Typed 2/8/39

FEB 9 1939

My dear Mr. Chairman:

You will recall that the President in his Budget Message this year said:

"The public has been showing an increased interest in the adoption by the Government of a form of budget which would conform more nearly to the practice followed in commercial business. There has been some criticism of the Government's practice of including in its budgetary expenditures, amounts disbursed for loans, or for self-liquidating projects, or for other extraordinary capital outlays which increase the wealth of the Nation.... it seems to me that such portions of the cost of public projects as are clearly self-liquidating should occupy a separate category in budgetary reporting."

Under the President's express direction, the Treasury Department has drafted proposed legislation which would implement this policy by establishing a new method of financing the self-liquidating portions of Federal power and water projects. The attached draft of a bill embodies a plan for these projects which the Department believes would achieve the President's objectives.

The Treasury, in setting up this plan, has had in mind the following basic considerations:

- (1) The plan should provide for the financing of new construction against probable future revenues, as well as for the refunding of past costs on existing projects.
- (2) Existing managerial authority over projects should be left undisturbed so far as possible, but at the same time --

(3) The solvency of the financing agency must be assured and protected.

(4) To this end the financing agency must be able to secure an accurate independent estimate of the annual net earnings over the life of the project; final discretion on the extent of the financing must rest with the financing agency.

(5) The financing agency should be as small as possible, utilizing the facilities of existing agencies rather than creating its own.

The President has instructed the Treasury to submit its draft bill to the Federal agencies which are affected by the plan and to obtain their comments. The President wants a consensus of the Federal agencies before he leaves Washington February 15. Accordingly, I am sending you the attached bill and asking that you or some representative of your agency attend a meeting in my office on February 15, 1939, at 5 p.m.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary

Hon. Harcourt A. Morgan,
Chairman of the Board,
Tennessee Valley Authority,
Knoxville, Tennessee.

ESD/ENF/akm 2-8-39
Enclosure

FEB 8 1939

My dear Mr. Ross:

You will recall that the President in his Budget Message this year said:

"The public has been showing an increased interest in the adoption by the Government of a form of budget which would conform more nearly to the practice followed in commercial business. There has been some criticism of the Government's practice of including in its budgetary expenditures, amounts disbursed for loans, or for self-liquidating projects, or for other extraordinary capital outlays which increase the wealth of the Nation... it seems to me that such portions of the cost of public projects as are clearly self-liquidating should occupy a separate category in budgetary reporting."

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The President has instructed the Treasury to submit its draft Bill to the Federal agencies which are affected by the plan and to obtain their comments. The President wants a consensus of the Federal agencies before he leaves Washington February 15. Accordingly, I am sending you the attached bill and asking that you or some representative of your agency attend a meeting in my office on February 13, 1939, at 3 p.m.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary

Hon. James E. Ross
Administrator
Bonneville Project
Portland, Oregon

Enclosure

ESD/SHF:s Typed 2/8/39

FEB 9 1935

My dear Mr. Delano:

You will recall that the President in his Budget Message this year said:

"The public has been showing an increased interest in the adoption by the Government of a form of budget which would conform more nearly to the practice followed in commercial business. There has been some criticism of the Government's practice of including in its budgetary expenditures, amounts disbursed for loans, or for self-liquidating projects, or for other extraordinary capital outlays which increase the wealth of the Nation... it seems to me that such portions of the cost of public projects as are clearly self-liquidating should occupy a separate category in budgetary reporting."

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The Treasury, in setting up this plan, has had in mind the following basic considerations:

- (1) The plan should provide for the financing of new construction against probable future revenues, as well as for the refunding of past costs on existing projects.

- 2 -

(2) Existing managerial authority over projects should be left undisturbed so far as possible, but at the same time --

(3) The solvency of the financing agency must be assured and protected.

(4) To this end the financing agency must be able to secure an accurate independent estimate of the annual net earnings over the life of the project; final discretion on the extent of the financing must rest with the financing agency.

(5) The financing agency should be as small as possible, utilizing the facilities of existing agencies rather than creating its own.

The President has instructed the Treasury to submit its draft bill to the Federal agencies which are affected by the plan and to obtain their comments. The President wants a consensus of the Federal agencies before he leaves Washington February 15. Accordingly, I am sending you the attached bill and asking that you or some representative of your agency attend a meeting in my office on February 13, 1939, at 3 p.m.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary

Hon. Frederic A. Delano
Vice Chairman, National Resources Committee
North Interior Building
Washington, D. C.

Enclosure

ESD/EPF:is Typed 2/8/39

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE FEB 9, 1939

Secretary Margenthu

Mr. Foley

Re: Draft bill to create a National Resources Finance Corporation

Attached is a tentative draft of a bill for the creation of a "National Resources Finance Corporation," the corporate purpose of which will be to finance and refinance Federally-owned and operated projects of a self-sustaining character. The Secretary of the Treasury is given the direction and control of the Corporation and all matters of policy must be determined by him. Provision is made for the appointment by the President of a Manager of the Corporation with such duties as the Secretary of the Treasury may prescribe.

The draft bill authorizes the Corporation to issue bonds to finance authorized facilities, including those already constructed or under construction, which are revenue-producing and which can be paid for on a self-supporting basis, and for the revenue-producing portions of multiple-purpose projects. Whenever the Corporation floats a bond issue to finance facilities already built, it is contemplated that the proceeds of the sale will be used to reimburse the Treasury.

The bill is limited in its application to aiding in the financing only of revenue-producing power and water facilities. In order that the Act may have flexibility, a provision has been made for the issuance of bonds to finance the construction and completion of projects of a self-sustaining character, but no new project may be financed unless Congress authorizes its construction and the Corporation approves it as a self-supporting enterprise. All construction work will be carried on by the appropriate Federal agency or department having jurisdiction of the project.

The Secretary of the Treasury is given absolute discretion as to the amount of bonds of the Corporation which can be issued, and such bonds will be direct and general obligations of the Corporation and will be guaranteed by the United States. The duty of establishing and maintaining rates for the services rendered by such facilities in an amount sufficient to pay the bonds and the interest thereon is placed in the agency or department having jurisdiction of the project. Provision is made for annual reports as to the status of the projects to be submitted to the President and Congress.

In order that the Secretary of the Treasury may be protected in his determination as to the amount of bonds to be issued, the bill requires the Federal Reserve Commission to submit to the Corporation its estimates of net earnings of any facilities which are required to be determined on a conservative basis. Upon the basis of the estimated net earnings and the supporting data, the Secretary of the Treasury decides whether he will permit the Corporation to issue bonds and in what amounts. No bonds may be issued in excess of the allocated cost of the revenue-producing portions of the facilities.

E. W. F. L.

A BILL

To create a National Resources Finance Corporation, and for other purposes.

1 Be it enacted by the Senate and House of Representatives of the
2 United States of America in Congress assembled, That this Act may be
3 cited as the National Resources Finance Corporation Act of 1939.

Purpose of Policy of the Act

4
5 SECTION 1. The purpose or policy of this Act is to provide a
6 sound method of financing which, without burdening the national tax-
7 ing power or increasing the public debt, will aid in the development
8 of the electric energy and water resources of the United States on a
9 self-sustaining basis through the issuance of bonds of a governmental
10 corporation payable from revenues resulting from the development of
11 such resources.

Creation of Corporation

12
13 SEC. 2. There is hereby created in the Department of the Treasury
14 and under the direction and control of the Secretary of the Treasury a
15 body corporate of perpetual duration to be known as the National Resources
16 Finance Corporation (herein called the "Corporation"). The Corporation
17 shall be an agency and instrumentality of the United States with its
18 office in the District of Columbia, but the Corporation may exercise
19 all or any of its powers in any place.

Powers of Corporate Power.

20
21 SEC. 3. The powers of the Corporation shall be vested in and
22 exercised by the Secretary of the Treasury who may delegate to an

23 officer to be known as the Manager any powers and duties provided for
24 in this Act. All matters of policy shall be considered and determined
25 by the Secretary of the Treasury. It shall be the duty of the Manager
26 in carrying out the provisions of this Act to act in accordance with
27 such determinations.

28 Appointment and Qualifications of Manager

29 SEC. 4. The Manager shall be appointed by the President with the
30 advice and consent of the Senate. The Manager shall receive a salary
31 of \$12,000 a year to be paid by the Corporation as a current expense,
32 and he shall be reimbursed by the Corporation for actual expenses, includ-
33 ing traveling and subsistence expenses, incurred by him in the performance
34 of his duties.

35 Personnel

36 SEC. 5. The Secretary of the Treasury is authorized, subject to
37 the civil-service laws and the Classification Act of 1923, as amended,
38 to appoint and fix the compensation of such employees, in addition to
39 the Manager, as may be necessary for the proper performance of the duties
40 of the Corporation under this Act; except that without regard to the civil-
41 service laws he may appoint such officers, attorneys and experts, as may
42 be necessary to carry out the purpose of this Act.

43 General Corporate Powers

44 SEC. 6. To the extent necessary or appropriate to carry out its
45 functions under this Act, the Corporation shall have power:

- 46 (a) To sue and be sued in its corporate name;
47 (b) To adopt, alter and use a corporate seal, which shall be
48 judicially noticed;

(c) To acquire, hold and dispose of real and personal property;

(d) To use the United States mails in like manner as the executive departments of the Government;

(e) To borrow money, incur indebtedness and issue negotiable bonds and other evidences of indebtedness (herein called the "bonds") and provide for the payment thereof;

(f) To enter into such contracts and agreements and do all such acts and things, as the Corporation deems desirable to carry out the powers now or hereafter conferred by law.

Survey by Federal Power Commission

SEC. 7. The Federal Power Commission (herein called the "Commission") is authorized and directed to make a survey of all facilities which have been constructed, are under construction, or have been authorized by the Congress to be constructed, on the date of enactment of this Act and at or by means of which electric energy is or will be generated, transmitted, or distributed for sale to public or private users, or at or by means of which water is or will be stored or distributed for sale to public or private users (herein called "authorized facilities") of which the United States through any agency or agencies or department or departments or instrumentality or instrumentalities, corporate or otherwise, (herein called an "Agency") has complete or partial charge. Not later than September 1, 1939 the Commission shall prepare a list with a brief description of the authorized facilities and submit the same to the Corporation, and shall transmit a duplicate of such list and description to each Agency.

Submission of Financial Statement to Federal Power Commission

SEC. 8. It shall be the duty of each Agency, not later than ninety

76 days after being requested by the Commission to submit to the Commission
77 a comprehensive and complete financial statement in reference to any
78 authorized facilities of which it has complete or partial charge, showing:

- 79 (a) The cost or estimated cost of construction of all such
80 facilities segregated so as to show in detail the cost of each
81 operating unit;
- 82 (b) The annual gross operating revenues derived and estimated to
83 be derived over the probable life of such facilities from
84 the sale of electric energy generated thereat or transmitted
85 or distributed thereby, or from the sale of water stored thereat
86 or distributed thereby, or from any other source whatever;
- 87 (c) The annual gross operating expenses paid and estimated to be
88 paid over the probable life of such facilities for operating
89 and maintaining such facilities;
- 90 (d) A balance sheet and profit and loss statement covering the
91 facilities as of the end of the governmental fiscal year 1939;
- 92 (e) If the authorized facilities have multiple purposes, such
93 allocations of costs incurred or to be incurred as may have
94 been made in accordance with law among such multiple purposes,
95 such as navigation, flood control, irrigation, power develop-
96 ment, or other types of development (as the case may be)
97 together with such supporting data as may be available to
98 substantiate such allocations, and if no such allocations
99 have yet been made in accordance with law, the estimated
100 allocations of such costs;
- 101 (f) Such other and additional information as is necessary, in the
102 judgment of the Commission, for a complete report as to the

operation and proposed operation of the facilities.

Estimate by Federal Power Commission of Cost of Facilities

SEC. 9. The Commission at the request of the Corporation shall

certify the costs or estimated costs of any authorized facilities shown in the financial statement of the Agency having complete or partial charge thereof, and, in the case of multiple purpose facilities, the costs or estimated costs allocated or allocable under law to the revenue-producing portions of such facilities. In the event that the law does not provide the method for allocating such costs among the multiple purposes served, the Commission:

- (a) Shall make a thorough investigation of such facilities for the purpose of allocating the costs or estimated costs thereof among the various purposes served thereby, such as navigation, flood control, irrigation, power development, or other types of development (as the case may be); and
- (b) Shall allocate costs of facilities having a value only for one purpose to that purpose, and costs of facilities having a joint value for more than one purpose equitably among such purposes in such manner as the Commission deems necessary or appropriate to promote a sound national economy, to encourage the widest possible economic use of water for irrigation and of electric energy for domestic, rural, and industrial needs, and to avoid the imposition upon any one purpose of a greater share of joint costs than such purpose may fairly bear;
- (c) Shall certify such allocations of costs to the Corporation and to such Agency which shall use such allocations of

129 costs determined by the Commission under this section in keeping its books.

130 Estimate by Federal Power Commission of Net Earnings

131 SEC. 10. The Commission shall, after receiving any financial
132 statement required to be submitted to it by an Agency under this Act,
133 promptly transmit a copy of such financial statement, together with its
134 own analysis of such statement indicating what, in its judgment, the
135 annual net earnings of authorized facilities will amount to over the
136 probable life of such facilities, having due regard to the possibility
137 of a margin of error in the estimated receipts or expenditures, making
138 due allowance for contingencies, and determined upon a conservative basis
139 in accordance with accepted principles of security analysis.

140 New Facilities

141 SEC. 11. The Commission shall, at the request of the President or
142 of either of the Houses of the Congress or of the Corporation, after
143 study and investigation, prepare and submit to the President, the Congress,
144 and the Corporation

- 145 (a) Its estimates of costs, and, in the case of multiple purpose
146 facilities its allocations of costs;
- 147 (b) Its estimates of annual net earnings for any facilities which
148 shall be recommended to the Congress by the President or any
149 executive department of the Government but which have not been
150 authorized by the Congress to be constructed prior to the
151 date of enactment of this Act, or which shall be authorized by
152 the Congress after such date, and at or by means of which
153 electric energy is or will be generated, transmitted or dis-
154 tributed for sale to public or private users, or at or by
155 means of which water is or will be stored or distributed

for sale to public or private users (herein called "new facilities") of which an Agency has complete or partial charge.

The provisions of this Act applicable to the submission of estimates by the Commission to the Corporation in regard to authorized facilities shall apply to its estimates under this section in regard to new facilities as nearly as may be.

Authorization of Bonds

SEC. 12. The Corporation is hereby authorized to issue its bonds to finance or to aid in the financing of any authorized facilities or any new facilities authorized by the Congress. No bonds shall be issued in anticipation of the revenues of any facilities in an amount exceeding the amount determined by the Secretary of the Treasury, in his absolute discretion, to be consistent with sound revenue financing based upon the estimates of net earnings submitted to the Corporation by the Commission, and in no event in excess of the cost or the estimated cost of such facilities, or, in the case of multiple purpose facilities, in excess of the amount of such cost or the estimated cost allocated to the revenue producing portions of such facilities.

Terms of Bonds

SEC. 13. The bonds may be issued from time to time in one or more series, may bear such date or dates, may mature at such time or times, may bear interest at such rate or rates not exceeding four per centum per annum payable semi-annually, may be in such denomination or denominations, may be in such form, either coupon or registered, may carry such registration, conversion, or interchangeability privileges, may be subject to such terms of redemption, with or without premium, may be payable at such place or

183 places, may provide for the replacement of mutilated, destroyed, stolen,
184 or lost bonds, may be executed and delivered in such manner, and may
185 contain and be subject to such terms, covenants, and conditions, as may
186 be prescribed by the Corporation, subject to the approval of the Secretary
187 of the Treasury.

188 Sale of Bonds

189 SEC. 14. The Corporation may sell its bonds at such price or prices
190 as it may determine to be in the best interest of the Corporation, subject
191 to the approval of the Secretary of the Treasury, and at the request of
192 the Corporation, the Secretary of the Treasury may market the bonds for
193 the Corporation, utilizing all the facilities of the Department of the
194 Treasury now or hereafter authorized by law for the marketing of obligations
195 of the United States. The Corporation may at any time with the approval
196 of the Secretary of the Treasury issue bonds in exchange for outstanding
197 bonds of the Corporation either at, before, or after the maturity or
198 maturities of such outstanding bonds.

199 Lawful Investments

200 SEC. 15. The bonds shall be lawful investments and may be accepted
201 as security for all fiduciary, trust, and public funds the investment or
202 deposit of which shall be under the authority or control of the United
203 States or any officer or officers or agency or agencies thereof. The
204 Secretary of the Treasury, in his discretion, also is authorized to
205 purchase any bonds of the Corporation issued hereunder, and for such pur-
206 pose the Secretary of the Treasury is authorized to use as a public-debt
207 transaction the proceeds from the sale of any securities hereafter issued
208 under the Second Liberty Bond Act, as amended, and the purposes for

209 which securities may be issued under such Act, as amended, are extended
210 to include any purchases of the Corporation's bonds hereunder. The
211 Secretary of the Treasury may at any time sell any of the bonds of the
212 Corporation acquired by him under this section. All redemptions,
213 purchases, and sales by the Secretary of the Treasury of the bonds of
214 the Corporation shall be treated as public-debt transactions of the
215 United States. The Corporation shall have power to purchase such bonds
216 in the open market at any time and at any price.

217 Security of Bonds

218 SEC. 16. The bonds shall be direct and general obligations of the
219 Corporation and the full faith and credit of the Corporation shall be
220 pledged to the punctual payment of the principal thereof and interest
221 thereon. The bonds shall be fully and unconditionally guaranteed, as
222 to both principal and interest by the United States, and such guaranty
223 shall be expressed on the face thereof. In the event that the Corporation
224 shall be unable to pay upon demand, when due, the principal of, or
225 interest on, such bonds, the Secretary of the Treasury shall pay to the
226 holder the amount thereof which is hereby authorized to be appropriated,
227 out of any money in the Treasury not otherwise appropriated, and thereupon
228 to the extent of the amount so paid the Secretary of the Treasury shall
229 succeed to all the rights of the holders of such bonds.

230 Preparation of Bonds

231 SEC. 17. In order that the Corporation may be supplied with such
232 forms of bonds as may be needed, the Secretary of the Treasury is authorized
233 to prepare such forms, including engraved plates, dies, bed pieces, and
234 other material, as shall be suitable for such purpose. The Corporation
235 need not reimburse the Treasury Department for any expenses incurred in

the preparation, custody, and delivery of bonds. Pending the preparation of definitive bonds, the Corporation may issue interim receipts or certificates to the purchaser or purchasers of any bonds issued under this Act.

Duty of Agencies to Provide Funds

SEC. 18. It shall be the duty of every Agency having complete or partial charge of any facilities in anticipation of the net earnings of which bonds shall have been issued under this Act to cause such facilities to be operated in an efficient and economical manner and to cause such rates and other charges in connection therewith to be established, maintained and collected as may be necessary or proper in order that to the extent consistent with law funds will be available, after making due and reasonable allowance for contingencies and for a margin of error in the estimates and financial statement submitted to the Commission:

- (a) To pay all current expenses of operation and maintenance of such facilities;
- (b) To provide the Corporation with funds at least sufficient to pay when due the interest on bonds issued by the Corporation;
- (c) To provide the Corporation with funds in such amount as the Secretary of the Treasury shall determine and certify to such Agency will be required for the purpose of amortizing the capital investment in such facilities (or in case of multiple purpose facilities the cost allocated to the revenue producing portions thereof) over a reasonable period of years out of the net earnings of such facilities.

Revised Estimates

261
262 SEC. 19. Every Agency having complete or partial charge of any
263 authorized facilities or new facilities authorized by Congress shall
264 submit to the Commission, in October of each year, a financial statement
265 and report on the status, business and progress of such facilities since
266 the issuance of bonds in anticipation of the net earnings of such
267 facilities or the date of its last such financial statement and report.
268 The Commission is authorized and directed upon the request of the Cor-
269 poration to submit from time to time to the Corporation revised estimates
270 of net earnings, costs and allocations of costs, and all other pertinent
271 information based upon the most recent data available for such facilities.
272 Whenever such revised estimates of net earnings are sufficient, in the
273 judgment of the Secretary of the Treasury, to warrant the issuance of
274 bonds (a) in addition to bonds theretofore issued in anticipation of the
275 net earnings of such facilities and/or (b) in lieu of bonds theretofore
276 issued for the purpose of temporarily financing such facilities in
277 anticipation of the net earnings thereof, the Corporation may issue such
278 bonds in an amount (including the amount of bonds theretofore issued
279 not to be exchanged therefor or discharged by the proceeds from the sale
280 thereof) not in excess of the actual or estimated costs or allocations
281 of costs for such facilities most recently certified by the Commission
282 to the Corporation.

Moneys of the Corporation

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284 SEC. 20. All moneys of the Corporation from whatever source derived
285 shall be paid into the Treasury of the United States as miscellaneous
286 receipts.

Creation of Revenue Bond Fund

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SEC. 21. The Corporation is hereby authorized and directed to

establish on its books an account to be known as the "Revenue Bond

Fund" which shall consist of an amount equal to the sum of the

following items, less an amount equal to the amount paid by the

Corporation to discharge the obligations of the Corporation arising

out of bonds issued pursuant to this Act:

(a) The amount of moneys paid to the Corporation by any Agency pursuant to the duties imposed upon such Agency by this Act;

(b) The amount of all moneys realized by the Corporation from the sale of its bonds in excess of the sum of

(i) the amount needed by an Agency to finance or to aid in the financing of the construction of authorized facilities or new facilities authorized by the Congress;

(ii) the amount needed by an Agency for working capital during such period of development of any authorized facilities and any new facilities authorized by the Congress as may be consistent with sound economy and prudent management, such development period to be fixed by such Agency with the approval of the Commission; and

(iii) the amount provided for the construction of authorized facilities and new facilities from funds appropriated by the Congress for any such purpose out of general revenues of the Treasury or out of the proceeds of direct obligations of the United States issued thereby

314 or on the credit thereof.

315 Appropriation of Amount Equal to Fund

316 SEC. 22. A sum equal to the amount from time to time standing to the
317 credit of the Revenue Bond Fund is hereby permanently appropriated to the
318 Corporation to be continuously available to the Corporation without further
319 appropriation for the sole purpose of paying bonds of the Corporation, the
320 payment of which is not otherwise provided for, together with interest
321 thereon and the redemption premium, if any, as the same shall become due
322 or payable; and the Corporation is hereby authorized and directed to make
323 payments therefrom for such purposes. The Comptroller General is authorized
324 and directed to allow credits in the proper account for payments
325 certified to him as made under this section.

326 Discharge of Obligations of Agency

327 SEC. 23. The Secretary of the Treasury shall maintain separate
328 book accounts for every Agency having complete or partial charge of
329 authorized facilities or new facilities authorized by the Congress,
330 in anticipation of the net earnings of which bonds of the Corporation
331 shall have been issued, and shall credit thereto the payments by
332 such Agency pursuant to the duties imposed upon such Agency by this
333 Act in respect of any such facilities. Whenever the payments so
334 credited to the book account of such Agency for any such facilities
335 shall be sufficient in the aggregate to meet all obligations of
336 the Corporation arising out of the issuance of bonds in anticipation
337 of the net earnings of such facilities, the duties of such Agency
338 under this Act in respect of such facilities shall thereupon cease
339 and determine.

340

Federal Reserve Banks

341
342 SEC. 24. The Corporation is authorized to utilize the Federal
343 Reserve Banks for, and the Federal Reserve Banks are authorized and
344 directed to act as, fiscal agencies for the Corporation in the
345 performance of its functions under this Act.

Reports

346
347 SEC. 25. The Corporation shall submit to the President and
348 to Congress, in December of each year, (1) a financial statement and
349 complete report of the Corporation for the preceding governmental
350 fiscal year, and (2) a complete report on the status, progress and
351 business of all facilities financed by it since the creation of the
352 Corporation or the date of its last such report. The Corporation
353 shall at all times keep complete and accurate accounts of all its
354 operations, including all funds expended or received for the account
355 of the Corporation.

Penal Provisions

356
357 SEC. 26. (a) All general penal statutes relating to the larceny,
358 embezzlement, conversion, or improper handling, retention, use, or
359 disposal of public moneys or property of the United States, shall
360 apply to the moneys and property of the Corporation and to moneys
361 and properties of the United States entrusted to it.

362 (b) It shall be unlawful for any person to do any act or thing,
363 or to enter into any conspiracy, collusion, or agreement, express
364 or implied, with intent to defraud the Corporation or wrongfully
365 or unlawfully to defeat its purposes. It shall be unlawful for any
366 individual, association, partnership, trust, or corporation to use

367 the words "National Resources Finance Corporation", or any combination
368 of these four words, as the name, or part of a name, under which he
369 or it shall do business. Any person who violates any provision of
370 this subsection shall be guilty of an offense against the United
371 States, and, upon conviction thereof, be fined not more than \$10,000
372 or imprisoned not more than five years, or both.

373 (c) The Corporation, the Commission, and any Agency may transmit
374 such evidence as may be available concerning any act or thing in
375 violation of any provision of this section to the Attorney General,
376 who, in his discretion, may institute the appropriate criminal proceedings
377 under this Act.

378 Appropriations

379 SEC. 27. There are hereby authorized to be appropriated from
380 time to time such sums as may be necessary to carry out the provisions
381 of this Act.

February 9, 1939

Mr. Foley recommended Joe O'Connell, of the Treasury's legal staff, to represent the Treasury on the Monopoly Committee, taking Herman Oliphant's place.

HM, Jr sent for O'Connell and said, "The President has asked me to select somebody to take the place of Herman Oliphant on the Monopoly Committee and I asked Foley to talk to Bill Douglas and Henderson and it is the unanimous opinion that you are the best qualified."

O'Connell said, "Nothing would please me more. I did work with Mr. Oliphant on this Committee."

HM, Jr then sent for McReynolds and said, "At your earliest convenience, will you get hold of Admiral Peoples and bring him and O'Connell and Foley together and work out a plan -- well, I would suggest that they continue on the same basis as it was when Herman Oliphant was carrying on."

To Mr. O'Connell the Secretary said, "I don't want regular memoranda, but if there is something important that same evening I should like to get a memorandum from you sent to my house. Better yet, I think you ought to send the copy first to McReynolds who will read it and thus keep himself informed and then he will see that I get it at my house that night. Also send a copy to Foley."

Kunming, February 9, 1939

To: Secretary Morgenthau

From: J. Lossing Buck

THE YUNNAN-BURMA HIGHWAY

All kinds of people have been travelling over the highway to Burma, so the road is becoming well documented in private files of various organizations.

I saw Captain McHugh of our Navy Department in Hongkong, who went over the road with our Ambassador. He describes the road as one of the wonders of the world and marvels at the accomplishment under such difficult conditions. He says that it compares favorably with the road between Kunming and Chungking a description of which I reported to you last October. Actually it is a much more difficult road to Burma.

Today I have just talked with Mr. Whitehouse, a Britisher with the Ministry of Communications and apparently representing British interests. He has just been over the road and has also followed the route of the proposed new railway as far as possible, i.e., seventy-five per cent of the way. He states that many of the cuts in the highway are too steep and a series of ranges have such loose soil that slides are easily started and that during the rainy season the road will be impassable most of the time. The rainy season usually begins with May but possibly some trouble might be expected in April. He urged me to go over the road before that time. If you desire me to make this trip I trust you will bear this in mind as during the rainy season I might be stuck there for an indefinite period.

Kunming, February 9, 1939

-2-

Mr. Whitehouse states there are few workmen on the road between Kunming and the Burma border but that from the border to Lashio there is a large number. He ascribes the reason to differences in currency. Chinese laborers going to Burma can change their rupees for a large amount of Chinese currency upon their return. For this reason large numbers of laborers are going to Burma. If you will refer to my former reports on this road you will find the statement of a Chinese informant that the Burma section was delayed on account of difficulty of hiring labor during the harvest season and that work on the Burma section was to be done during the winter months.

Mr. Whitehouse is not sending in a very favorable report on the road as to its capacity, and Mr. Tang, Director of the highway, is happy to have his own statements to the Ministry of Communications backed up by Mr. Whitehouse. Mr. Whitehouse speaks of the road as a five-month dry weather road for at least five years after which if the cuts are properly made it can probably be used for a longer period.

The Chinese have seven survey sections for the railway and some earthwork has been accomplished in several sections. Out from Kunming a varying amount has been done for a distance of 50 kilometers. Mr. Whitehouse was favorably impressed with the work of the surveying parties. He also states he hears there may be a conference regarding financing the railroad in Kunming in the near future. It is to be a narrow gauge railroad, to connect with the narrow gauge railway in Burma and with the French Yunnan railway. Whether the railway to Szechuan from Kunming is to be narrow gauge or broad gauge is according to him still under

Kunming, February 9, 1939

-3-

discussion. I was told in Chungking it was to be narrow gauge. Mr. Whitehouse will in the near future study the proposed route to Szechwan on which work has begun.

Kunming, February 9, 1939

BOMBING OF KWEIYANG

A friend, Mr. Findley Andrew, of Butterfield and Swire (a British coastal and internal waterways shipping firm in China) left Kewiyang right after the bombing. He, with the Vice-chairman of the province, Mr. Y. L. Tsun, narrowly escaped from a bomb dropping 100 yards from them. Mr. Andrew's colleague left a day later. Incendiary as well as explosive bombs were dropped in the heart of the business section and at least one-third of the city was destroyed. The planes dropped bombs from a great height. The Central Bank and the Shanghai Commercial and Savings Bank were among those destroyed. Mr. Andrew describes the bombing as indiscriminate because at that height there was little chance of hitting special targets.

KUNMING, A CENTER

Here at Kunming one comes in touch with all kinds of government, business and newspaper people either visiting Kunming to assess possibilities for development or business or for collecting news on the situation here; or people on their way to or from Chungking. Because of the hotels here it is much easier to meet such people and to know some of the things going on than in Chungking where there are no modern hotels and where people are scattered. It is the most central place now connecting China with the outside world.

FOREIGN BUSINESS AGENTS' ACTIVITIES AT KUNMING

Butterfield and Swire have a delegation here headed by Findley Andrew investigating trade possibilities. Mr. Andrew is recommending that his company operate a fleet of trucks on an efficient basis and divert trade

-5-

Kunming, February 9, 1939

to Rangoon.

The head representative of a large German Chemical firm in Hongkong is here. He is wondering how long this war will last and thinks it is foolish.

Mr. Hansen, a Texaco representative, has just started over the Burma road to assess oil service possibilities.

Mr. Rea, representative of Standard Oil is also here.

These are just a few samples of the activity.

-6-

Kunming, February 9, 1939

CHINA AND INTERNATIONAL RELATIONS

This morning when I went to see Mr. Hsiao, Director of the Telegraph Administration, about sending messages in code he began discussing the situation. At first he expressed appreciation of the help America and Great Britain were rendering and he said: "It is not only my personal hope but that of the Chinese people that America extend the most help of any nation to China." I told him I considered that to date she had already rendered the largest amount of assistance. He confirms the seriousness of the Kweiyang bombing. The telegraph office was partially demolished, equipment destroyed and some of the operators killed and wounded.

Yesterday Professor T. C. Lin of Political Science in the Associated University here stated: "We do not look for a large amount of help from America during the war but at the peace table we expect her assistance in insisting on a fair peace, even in opposition to possible proposals from other third powers."

-7-

Kunming, February 9, 1939

SIAM AND JAPANESE INFLUENCE

Political developments in Siam hold some importance for China, especially to the extent in which they might affect Indo-China. The Far Eastern Survey publishes articles from time to time and in a recent issue there appears to be a rather good survey of the situation. The article concluded that although there is some collaboration with the Japanese the Siamese want Siam for themselves.

My friend, Dr. Robert L. Pendleton, Soil Scientist, now with the Siamese government, and an American who was formerly in the Philippines and for two years on soil survey work in China with the Chinese National Geological Survey has written telling of one or more Japanese experts employed in the Siamese Department of Agriculture. In a letter dated August 14, 1938 he has also written as follows:

"Naturally I am very much interested in impartial word from China, and yours was most assuring, particularly because most of the published news here is from Domesi. -----

"There is an important pack trail from the Siamese border, thru the Shan States, to Yunnanfu, passing Chiangrung, - 25 days from the end of the highway on the Siamese border, to railroad in Yunnanfu. There are said to be very significant developments in highway and railway construction north of this region to connect Burma with Yunnan, but the details I cannot learn here."

It has occurred to me that if I make the trip to Burma it might be well to return via Siam in order to ascertain any economic significance

~~-3-~~

Kunming, February 9, 1939

of Japanese influence there to the China situation. It would also be a quicker way to return except for the time spent in Siam.

FEB 9 1939

MEMORANDUM TO THE PRESIDENTFor your information

On the recommendation of Edward H. Foley, Jr., Acting General Counsel of the Treasury Department, and with the concurrence of William J. Douglas, Chairman of the Securities and Exchange Commission, I have designated Joseph J. O'Connell, Jr., Special Assistant to the General Counsel, as the Treasury's representative on the Temporary National Economic Committee to fill the vacancy caused by the death of Herman Oliphant.

Mr. O'Connell, since last summer, has served as Mr. Oliphant's understudy in connection with the work of the Committee, and is the best informed man in the Treasury to carry on the work which Mr. Oliphant was doing on the Committee.

Rear Admiral Christian J. Peoples will continue, as alternate, to sit and act on the Committee in the absence of Mr. O'Connell.

(Signed) H. Morgenthau, Jr.

EEF:s Typed 2/7/39

FEB 9 1939

My dear Mr. Henderson:

I hereby designate Joseph J. O'Connell, Jr., Special Assistant to the General Counsel of the Treasury Department, as the representative from the Treasury Department on the Temporary National Economic Committee to fill the vacancy caused by the death of Herman Oliphant.

Rear Admiral Christian J. Peoples will continue, as alternate, to sit and act on the Committee in the absence of Joseph J. O'Connell, Jr.

Very truly yours,

(Signed) H. Morgenthau, Jr.
Secretary

Mr. Leon Henderson
Executive Secretary
Temporary National Economic Committee
Federal Trade Commission
Washington, D. C.

HM:is Typed 2/7/39

February 9, 1939

Today, after thinking it over, the Secretary decided not to send a statement to the press answering Father Coughlin, but to prepare a personal letter to Father Coughlin correcting the misstatements made in his speech, the idea being that if he continues to make these misstatements it strengthens our case in the future for a libel suit.

February 9, 1939

3 p.m.

Present:

Mr. Hanes
Mr. Gibbons
Mr. Gaston
Dr. White
Mr. Foley

HM, Jr.: All I would say is:

"My dear Father Coughlin:

I wish to bring the following facts to your attention.

1. My only contact with Mr. Maxim Litvinoff, Foreign Minister of the U.S.S.R., was during his visit to Washington in 1933. Since that time I have not seen Mr. Litvinoff nor have I had any communications with him, direct or indirect.

2. For your additional information, Mr. Edward H. Foley is Acting General Counsel and one of his four assistants is Mr. Bernard Bernstein. Nobody connected with the General Counsel's Office has anything to do with the management of the Stabilization Fund.

I sincerely hope that in making future radio addresses you will keep the above facts in mind.

Yours truly,*

this. Dr. White: I would like to have another try at

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HM, Jr.: You fellows have had three hours at this thing.

Dr. White: We will try again.

HM, Jr.: It seems to me that the thing is so simple. I want to make a direct statement. Mr. Murphy, who knows him, said "Don't editorialize. Just give him the facts."

Mr. Gaston: It can be handled in a straight factual way. I would prefer the way Harry started -- with his main charge that you are handling this Stabilization Fund in the interest of international bankers and not the United States and then I would take the other points and tell him those are not true.

Mr. Hanes: Would it serve the purpose to write your letter and inclose a copy of your letter to Lodge?

Mr. Gaston: No. I don't think so.

Mr. Gibbons: That and the letter to Bob Reynolds -- just facts.

Dr. White: Wholly different implications. Two implications there. He said Mr. Bernstein was in charge. You say Mr. Bernstein is not in charge. By that implication you assume that if Mr. Bernstein were in charge it would be very bad. (b) You say you did not meet Mr. Litvinoff. Again, by implication, if you did you were guilty of the entire scarlet thread that runs through that speech, and to leave it on that basis would give him more ammunition.

Mr. Hanes: He has got to get more ammunition.

Mr. Gibbons: I think you are merely denying his statement.

Mr. Hanes: What can he say, other than to tell another lie, at which time you can refute it with facts.

Dr. White: Direct statement. Innuendo throughout the whole speech that the Secretary is operating that Fund in the interest of international Jewry and international bankers.

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Mr. Hanes: Here is a statement given to the Senate of the United States which declares the fact it has been operated according to law and for the specified purpose for which it was designed. A factual answer, and not resort to the same kind of facts that he has resorted to. I would keep it on that level. I remember the time General Johnson had a fight with Huey Long and Father Coughlin attached them both. But fighting a skunk, General Johnson lost his battle.

Mr. Gibbons: You can't get into a controversy.

Mr. Hanes: I read the statement and it's the kind of statement that no human being with any principle whatsoever would issue. Why enter into a discussion that you are going to get licked on?

Dr. White: Then why do anything?

Mr. Hanes: To keep the record straight.

Mr. Gaston: I think you can write a letter or deal with the general charge that the Secretary handled the fund in the interest of foreigners -- "This is wholly untrue. I am inclosing copy of statement I wrote to Senator Lodge. (2) You state that I met with Litvinoff and others in Paris ..." and then go on and state the facts -- "I have not seen Mr. Litvinoff" and so on.

Mr. Hanes: I am frank to say that unless you make some sort of an answer he would say "I made these statements and he did not come back."

HM, Jr: You three people take another crack at it.

oOo-oOo

E.H.F.

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THE SECRETARY OF THE TREASURY
WASHINGTON

My dear Father Coughlin:

I learned from the newspapers that your radio address of last Sunday contained derogatory references to me. Accordingly, I obtained a transcript of your address. On examination of the transcript I found statements which are grossly inaccurate. I am taking this opportunity of making the true facts available to you so that you may correct your statements.

1. You said that I am operating the Stabilization Fund, not in the interest of the people of the United States, but "for the benefit of the British and French international bankers." I wish to inform you that the Fund has been employed exclusively for the purpose of "stabilizing the exchange value of the dollar" in meticulous accord with the letter and spirit of the Gold Reserve Act of 1934. The Fund has been employed solely for the purpose of monetary stabilization. The Fund has not been employed for any other purpose and it has not been operated in any way, directly or indirectly, for any other object.

2. You referred to a meeting or conference which you said took place in Paris in September, 1938. If I understand you correctly, you asserted that I was present at that meeting and that others present included Mr. Maxim Litvinoff, the Soviet Russian

- 2 -

Foreign Minister. I did not attend any such meeting, either at that time and place, or at any other time and place. I did not see Mr. Litvinoff when I was abroad last summer, nor have I had any communication with him, direct or indirect, since he was in Washington in 1933 on an official mission.

3. You said that you had been informed that Mr. Bernard Bernstein is my assistant in the management of the Stabilization Fund. Mr. Bernard Bernstein is one of four assistants general counsel in the Treasury Department who operate under the direction of the Acting General Counsel, Mr. Edward H. Foley, Jr. No one in the General Counsel's office has anything whatsoever to do with the Stabilization Fund.

Sincerely,

Secretary.

Reverend Charles E. Coughlin,
Shrine of the Little Flower,
Royal Oak, Michigan.

1158-784

My dear Father Cougolini

I learned through the newspapers that your radio address of last Sunday contained derogatory references to me. Accordingly, I obtained ~~the~~ a transcript of your address. ^{from an informant} In it are statements which are grossly inaccurate. I am taking this opportunity of making the true facts known so that you may correct your statements. ^{from an informant} 3 from 6

In your address you referred to a meeting or conference which you said took place in Paris in September of 1936. If I understand you correctly, you assert that I was present at that meeting, together with Ambassador Bullitt, Leon Blum, to whom you refer as "Premier of France", and Litvinoff, the Soviet Russian Foreign Minister.

I did not attend any such meeting with these gentlemen, either at that time and place or any other time and place. It is true the newspapers reported that Litvinoff was in Paris in September of 1936. But it is not true that I was there at that time. I spent most of last August with my family in Southern France. ~~On my return~~ I passed through Paris and sailed from Havre on August 24. I did not see Litvinoff while I was abroad last summer. As a matter of fact, I have seen him only once, when he was in the United States on an

- 2 -

official mission in 1933, and ~~was only for a very brief period~~
I have had no communication, direct or indirect, with him since
that time. I did see Leon Blum, to whom you refer as "Premier of
France." I also saw the Minister of Finance and other ministers and
former ministers who were courteous enough to call on me. [These
were purely social visits which I was happy to receive as testifying
to the friendship which exists between the people of the United
States and those of France.] I had no diplomatic or official mission
whatsoever, but, as I have said, I was in France with my family pure-
ly for a much needed rest.

At another point in your speech, you said that it had been re-
ported to you that Mr. Bernard Bernstein is my assistant in the man-
agement of the Stabilization Fund. The significance of that state-
ment, if it were true, I leave to you. It is not true. Mr. Bernard
Bernstein is one of four assistants general counsel in the Treasury
Department who act under the direction of the Acting General Counsel,
Mr. Edward M. Foley, Jr. Mr. Bernstein has absolutely nothing to do
with the management of the Stabilization Fund.

A more serious charge is contained in your repeated statement
that I am operating the Stabilization Fund, not in the interest of
the people of the United States or for the purpose for which it was
established by act of Congress, but "for the benefit of the British
and French international bankers who reap the rewards of imperialism."

- 3 -

That is a statement that I have been false to my oath of office, and a traitor to my country. If it were true, I should be impeached and removed from office, and I should deserve the contempt of my fellow countrymen. It is not true. Serious as the charge is, you produce not one scrap of honest evidence to support it, but only hearsay tales that are equally false.

I hope that you will be honorable enough to retract these falsehoods.

Sincerely,

Secretary.

Reverend Charles E. Coughlin,
Shrine of the Little Flower,
Royal Oak, Michigan.

HDW:EHF,Jr.:BJ 2/9/39

My dear Father Coughlin:

I learned through the newspapers that your radio address of last Sunday contained derogatory references to me. Accordingly, I obtained what purports to be a transcript of your address. In it are statements which are grossly inaccurate. I am taking this opportunity of making the true facts known so that you may correct your statements.

In your address you referred to a meeting or conference which you said took place in Paris in September of 1938. If I understand you correctly, you assert that I was present at that meeting, together with Ambassador Bullitt, Leon Elum, to whom you refer as "Premier of France", and Litvinoff, the Soviet Russian Foreign Minister.

I did not attend any such meeting with these gentlemen, either at that time and place or any other time and place. It is true the newspapers reported that Litvinoff was in Paris in September of 1938. But it is not true that I was there at that time. I spent most of last August with my family in Southern France. On my return I passed through Paris and sailed from Havre on August 24. I did not see Litvinoff while I was abroad last summer. As a matter of fact, I have seen him only once, when he was in the United States on an

official mission in 1933 and then only for a very brief period. I have had no communication, direct or indirect, with him since that time. I did see Leon Blum, to whom you refer as "Premier of France." I also saw the Minister of Finance and other ministers and former ministers who were courteous enough to call on me. These were purely social visits which I was happy to receive as testifying to the friendship which exists between the people of the United States and those of France. I had no diplomatic or official mission whatsoever, but, as I have said, I was in France with my family purely for a much needed rest.

At another point in your speech, you said that it had been reported to you that Mr. Bernard Bernstein is my assistant in the management of the Stabilization Fund. The significance of that statement, if it were true, I leave to you. It is not true. Mr. Bernstein is one of four assistants general counsel in the Treasury Department who act under the direction of the Acting General Counsel, Mr. Edward H. Foley, Jr. Mr. Bernstein has absolutely nothing to do with the management of the Stabilization Fund.

A more serious charge is contained in your repeated statement that I am operating the Stabilization Fund, not in the interest of the people of the United States or for the purpose for which it was established by act of Congress, but "for the benefit of the British and French international bankers who reap the rewards of imperialism."

- 3 -

That is a statement that I have been false to my oath of office, and a traitor to my country. If it were true, I should be impeached and removed from office, and I should deserve the contempt of my fellow countrymen. It is not true. Serious as the charge is, you produce not one scrap of honest evidence to support it, but only hearsay tales that are equally false.

I hope that you will be honorable enough to retract these falsehoods.

Sincerely,

Secretary.

Reverend Charles E. Coughlin,
Shrine of the Little Flower,
Royal Oak, Michigan.

EDW:EHF,Jr.:BJ 2/9/39

Dear Mr. Coughlin:

I learned through the newspapers that your radio address of last Sunday
~~contained~~ ^{contained} references to me, ^{and I have obtained what is said to be a transcript}
~~of it.~~ ^{of it.} It are statements which are ^{not in accordance with the facts.}
~~that you should know the facts so that you may have an opportunity to~~
~~make your statements.~~

~~In your address~~
~~you referred to a meeting or conference which you said~~
~~took place in Paris in September of 1938. If I understand your language correctly~~
~~that I was present at that meeting~~ ^{with the press}
~~Joseph Dillit, Leon Blum, whom you refer to as "Premier of France," and~~
~~Yakovlev, the Soviet Russian Foreign Minister.~~

I did not attend any such meeting, ^{with the press} either at that time and place or any other
~~time or place.~~ ^{It is true that} The newspapers reported that Litvinoff was in Paris in September
~~of 1938. I had spent most of August with my family in Southern France.~~

~~I did not~~ ^{pass} through Paris and sailed from Bayre on August 23. I did
~~not see Litvinoff while I was in Paris.~~ ^{at least last summer. As a matter of fact}
~~I did not see him until I returned to the United States on an official mission in 1939.~~ ^{and the only person I saw}
~~I had no contact, direct or indirect, with him since then. I did see Leon Blum, whom you refer to as "Premier of France."~~

~~I also saw the Minister of Finance and other ministers and~~
~~other persons who called on me. These were purely social visits which I was happy to~~
~~make as testifying to the friendship which exists between the people of the~~
~~United States and those of France. I had no diplomatic mission there, but was~~
~~in France with my family purely for rest and relaxation.~~

At another point in your speech you said that it had been reported to you
~~that~~ ^{Bernstein} ~~that~~ Bernstein is my assistant in the management of the stabilization fund.

Question
 In accordance of this, if it were true, I leave to you. ~~but~~ it is not true.
Answer
 Mr. Depaist is an ^{on 7 Jan} assistant general counsel in the Treasury Department.

As ~~under~~ ^{under} the direction of the Acting General Counsel, Mr. Edward E. Foley, Jr.

Mr. Depaist
 is willing to do with the management of the stabilization fund. *the setting*
~~it is contained~~ ^{in your report} in your report of statement that I am operating
 the stabilization fund, not in the interest of the people of the United States
 but for the interest for which it was established by act of Congress, but "for the
 British and French International League who reap the rewards of
 stabilization."

That is ~~statement~~ ^{statement} that I have been false to my oath of office and a traitor
 to my country. If it were true I should be impeached and removed from office and
~~be~~ ^{be} the contempt of ~~my fellow countrymen~~ ^{my fellow countrymen}. ~~It is not true.~~
 It is not true. It is a monstrous falsehood. Serious as the
 charge is, you require not one scrap of honest evidence to support it, but only
~~statements~~ ^{statements} that are equally false.

return these please
 Sincerely,

Mr. Depaist
 I am sending you
 a copy of the letter
 regarding the stabilization
 fund. I am sending you
 a copy of the letter
 regarding the stabilization
 fund.

I hope that you will be kind enough
 to return these please. ~~and~~
~~to return these please.~~

Garson draft
to be considered
 2-7-39

Harry White

Sir:

I learned through the newspapers that your radio address of last Sunday contained references to me. Accordingly, I obtained the transcript of your address from the appropriate authorities. I find that it contains statements not in accord with the facts and numerous comments and innuendoes which mislead and vilify.

I wish to inform you of the facts so that you can correct the misinformation to which you have given publicity.

You stated repeatedly that I am operating the Stabilization Fund not in the interest of the people of the United States but "for the benefit of the British and French international bankers"

I wish to inform you that the Fund has been employed exclusively for the purpose of "stabilizing the exchange value of the dollar" in scrupulous accord with the letter and spirit of the Gold Reserve Act of January 1934. The Fund has been employed solely for the purposes of monetary stabilization. The Fund has not been employed for any other purpose and it has not been operated in any way, directly or indirectly, for any other object. Since its creation the Fund has been operated, as specified by the Act, under the direction of the Secretary of the Treasury and with the approval of the President.

Your comments which ascribe another purpose to the Act and which impugn the motives of the President and the Secretary of the Treasury in their operation of the Fund, can only be regarded as a distinct

disclosure to your country. Unless refuted they must be interpreted only as uttered in the interests of foreign governments whose principles, antithetical to those of the United States you apparently share.

You likewise refer to a meeting or conference which you said took place in Paris in September of 1933. If I understand your language correctly you assert that I was present at that meeting and that others present included Mr. Litvinoff, the Soviet Russian Foreign Minister.

There is not a shred of truth in either the statement or the inferences which you apparently draw from that statement. I did not attend any such meeting, either at that time and place, or any other time and place. I have not seen Mr. Litvinoff, nor have I had any communication direct or indirect with him since he came to the United States on an official mission in 1933.

At another point in your speech you said that it had been reported to you that Mr. Bernard Bernstein is my assistant in the management of the Stabilization Fund. Mr. Bernard Bernstein is one of four assistant general counsels in the Treasury Department. He acts under the direction of the Acting General Counsel, Mr. Edward B. Foley, and he has nothing to do with the management of the Stabilization Fund. Even were your statement not false, I resent the imputation that it would be in any way improper for Mr. Bernstein to be connected with the administration of the Stabilization Fund.

Very truly yours,

Statement by Secretary Morgenthau

Several ^{persons} ~~of my friends~~ have expressed concern over statements made by Father Charles E. Coughlin in a radio address last Sunday, ^{stating that} ~~expressing the~~ belief that so far as these statements reflect discredit upon me and upon my conduct of United States government business they ought not to go unchallenged.

They particularly call my attention to the following paragraph of what is said to be a transcript of Father Coughlin's address:

"At length the curtain rises. It is now September, 1938. Mr. Morgenthau, weary with juggling the stabilization fund to no good advantage for America, decides to take a holiday in France. Coincidentally, William Christian Bullitt, who, by the way, is half Christian and half Jew, likewise finds it convenient to be in France. As the act opens, we find him reading an Associated Press dispatch describing Litvinoff's arrival from Russia at the French capital at this suspicious moment. Leon Blum, the Premier of France, enters the stage from the left wing, and immediately joins in conference. Leon Blum, by the way, whose off-stage name really is Garfunkelstein. The conference proceeds. Henry Morgenthau, Jr., from one of the most exclusively American Jewish families, Litvinoff, the well known bank robber and Secretary of Foreign Affairs from Red Russia, Garfunkelstein, alias Leon Blum, whose books are amongst the best known which advocate sexual promiscuity outside of the bonds of matrimony, and William Christian Bullitt, husband of Anne Bryant, the former wife of John Reed, America's most notorious Communist, whose corpse

- 2 -

is buried at the Kremlin in Moscow. Mr. Ballitt reminds the conferees that Litvinoff is a very expert persuader. In fact, it was he who persuaded Mr. Roosevelt to recognize Russia. This act, I remind you, is portrayed in Paris in September, 1938.*

There was no such meeting or conference. It is true that press dispatches report that Litvinoff was in Paris in mid-September. *I was not there.* I sailed from France on August 28th after a month's vacation spent on the Mediterranean. I did not see Litvinoff while I was in Europe, I have met him on only one occasion, ~~whenever~~ *that time* when he visited the United States on an official mission *that time* in 1933. *It is true also that Leon Blum was formerly the Premier of France;* but he was not the Premier either in August of 1938, when I was in France, nor in September of that year. I did see Mr. Blum, for whom I have the greatest respect, and other ministers and former ministers of France who were good enough to call on me to pay their respects, thereby, as I understood it, testifying to their friendship for the Government and the people of the United States. I was very happy to see them on that basis. I had no diplomatic mission or purpose in France. I went there with my family purely for rest and relaxation.

The tale that I had a meeting with Litvinoff last summer originated with a European newspaper of a type from which Father Coughlin seems frequently to derive his misinformation. That account more plausibly placed the meeting at a spot in France near the Mediterranean Coast at a time while I was in that vicinity. That tale also happened to be untrue. The absurdly false story broadcast by Father Coughlin some weeks ago that a

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report of "The American Secret Service" fastened responsibility for financing the Russian revolution on certain American citizens had a similar untrustworthy origin.

At another point in his address Father Coughlin asserted that "it is reported" that my assistant in the management of the stabilization fund is Mr. Bernard Bernstein, an assertion that appeared to him to have some significance. That statement also is untrue. The facts regarding Mr. Bernstein's employment in the Treasury Department are revealed in the attached exchange of letters with Senator Reynolds of North Carolina.

Other statements and inferences in Father Coughlin's address are equally false. Those that I have mentioned are of no particular importance, taken by themselves; but they are important in this respect, that they relate to matters of fact which can be checked and serve as a test of the credibility and the honesty of the man who gives utterance to them. They illustrate the irresponsibility and the reckless disregard of ordinary standards of truth and honor with which this propagandist develops his attack on our government and its policies.

There are other falsehoods that are sure to be condemned since they deal with more serious matters.

Congress has established a stabilization fund for the purpose of protecting the exchange value of the dollar. Father Coughlin asserts that I am operating that fund, not in the interest of the American people or for the purpose for which it was established, but "for the benefit of the British and French international bankers who reap the rewards of imperialism."

and has no part in the management of the stabilization fund.

- 4 -

If that statement were true I should be impeached and removed from office. It is utterly and totally untrue and without the semblance of any foundation.

It seems to me a thing to be deplored by men of all religious faiths, in this country where freedom of worship is guaranteed and tolerance should be the rule, that a man clad in the vestments of the church, with an obligation to lead and instruct the people in the ways of truth and honor, should use his office to mislead the people, to stir prejudices and dissension, and, deserting the mission of charity and appeasement, should devote himself instead to a mission of hate.

It is a spectacle that must inevitably be viewed with sorrow by all Americans who value and cherish the ideals of our country.

2/8/37 - *Wheeler*

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statement by Secretary Morgenthau

Several of my friends have expressed concern over statements made by Father Charles E. Coughlin in a radio address last Sunday, expressing the belief that so far as these statements reflect discredit upon me and upon my conduct of the United States government business they ought not to go unchallenged.

Father Coughlin is reported to have told of a meeting or conference in Paris in September, 1938, ~~which he said was attended~~ at which he said I was present along with "Leon Blum, the Premier of France," Ambassador Fullitt and Litvinoff, "Secretary of Foreign Affairs from Red Russia."

[There was no such meeting or conference. ~~It is true~~ It is true that press dispatches report that Litvinoff was in Paris in mid-September. I sailed from France ~~on~~ August 21 after a month's vacation spent on the Mediterranean. I did not see Litvinoff while I was in Europe. I have met him on only one occasion, which was when he visited the United States on an official mission in 1935. It is true also that Leon Blum was formerly the Premier of France; but he was not the Premier either in August of 1938, when I was in France, nor in September of that year. I did see Mr. Blum, ^{for whom I have the greatest respect, and} ~~and many~~ other ministers and former ministers of France who were good enough to call on me to pay their respects, thereby, as I understood it, testifying to their friendship for the Government and the people of the United States. I was very happy to see them on that basis. I had no diplomatic mission or purpose in France. I went there with my family purely for rest and relaxation.

~~Other statements and inferences in Father Coughlin's address are equally false.~~

Twenty

They particularly call my attention to the following paragraph of what is said to be a transcript of Father Coughlin's address:

*Put in
marked paragraphs
P 9 - Coughlin*

The tale that I had a
 meeting with Litvinoff last
 summer originated with a
 European newspaper of a type
 from which Father Coughlin seems
 frequently to ^{derive} ~~pull~~ his ^{misinformation} ~~canards~~.
 That account more plausibly
 placed the meeting at a spot in
 France near the Mediterranean
 Coast at a time while I was
 in that vicinity. That tale also
 happened to be untrue. ~~I have~~
~~not seen it~~ The absurdly false
 story broadcast by Father Coughlin
 some weeks ago that ^{a report of} the American
 Secret Service fastened responsibility
 for financing the Russian revolution
 on certain American citizens had
 a similar untrustworthy origin.

~~Page 1~~

At another point in his address Father Coughlin revealed that "it is reported" that my assistant in the management of the stabilization fund is Mr. Bernard Bernstein, an assertion that appeared to him to have some significance. That statement also is untrue. The facts regarding Mr. Bernstein's employment in the Treasury Department are revealed in the attached exchange of letters with Senator Reynolds of North Carolina.

Other statements and inferences in Father Coughlin's address are equally false. Those that I have mentioned are of no particular importance, taken by themselves; but they are important in this respect, that they relate to matters of fact which can be checked and serve as a test of the credibility and the honesty of the man who gives utterance to them. They illustrate the ~~recklessness~~ ~~reckless~~ irresponsibility and the reckless disregard of ordinary standards of truth and honor with which this propagandist develops his attack on our government and its policies.

There are other falsehoods that are more to be condemned since they deal with more serious matters.

Spud Vincent

and in citing the statements quoted above, which are of no great moment, is to call attention to the general recklessness and irresponsibility of Douglas. Douglas develops his attack on American policy, for what purpose I am not informed.

Douglas has established a stabilization fund for the purpose of protecting the value of the dollar. Father Douglas asserts that I am operating this fund in the interest of the American people or for the purpose for which it was established, but "for the benefit of the British and French international banks and the rewards of imperialism."

If such statement were true I should be impeached and removed from office. This statement is totally untrue and without the semblance of any foundation.

~~I am sure that the people would not believe a statement of this kind. I am sure that the people should know the truth about this matter.~~

~~That a man is devoted himself might be evident to any reasonably well informed listener. In pursuing his objective he makes use of the grossest methods, documents which were originally produced for foreign consumption and obviously not intended to be subjected to the scrutiny of the citizens of a democratic country where the sources of information are free to travel. Of this character was ~~any statement~~ an alleged series of ~~statements~~ cited in one of his recent addresses ~~purporting to~~ state that the ~~United States~~ American Secret Service had reported that British American citizens had participated in financing the Russian revolution in 1917. There was never any such by the United States Secret Service, in fact as Douglas could easily have established by a simple letter or document.~~

His statement in the radio address of last Sunday should be corrected.

It seems to be a thing to be deplored by men of all religious faiths, in this country where freedom of worship is guaranteed and tolerance should be the rule, and a man clad in the vestments of the church, with ^{an obligation} ~~mission~~ to lead and guide the people in the ways of truth and honor, should use his office to alienate the people, to stir prejudices and dissension, and, deserting the mission of charity and appeasement, should devote himself instead to a mission of hate.

It is a spectacle that must inevitably be viewed with disfavor by all ^{Americans} who ~~hold dear~~ the ideals of the country.
A value and cherish.

February 9, 1939

4:45 p. m.

Present:

Dr. White
Mr. Gaston
Mr. Gibbons
Mr. Foley

HM, Jr.: (Reading attached draft of letter to Father Coughlin.)

I think that's all right. Every time I have had anything to do with the dictator type, I hit and hit hard when I was on the right side. I have never suffered. I think I will call Frank Murphy and see what he thinks of it.

Dr. White: When you are talking to the Attorney General, you might also get his reaction to whether he thinks you ought to send that letter or send no letter.

HM, Jr.: Of course, he has crossed the bridge. He knows him better than anybody. He says I should write it.

(HM, Jr called the Attorney General and read the draft over the phone to him.)

"Dear Sir:"

"Oh! Start it 'Dear Father'."

"That's what I want your advice on."

"Your address of last Sunday, February 5, contained statements whose inaccuracy and essential falsity should, I think, be called to your attention in order that you may have an opportunity to correct them."

(The Secretary read the letter through to the Attorney General.)

-2-

"Would you like to see this and have it in your hand? Over at the hotel? Sure. Where are you? Well, I did want it tonight, but it's more important that you see it. Tell you what I will do. I will let Ed Foley bring it over. I hate to bother you, but I gather you don't feel quite comfortable about it. Well, all I am trying to do is this: I don't want any threat, but I do want to lay down the legal foundation in case we should want to sue for libel. I will have Ed Foley come right over. I am ever so much obliged."

(The conversation with the Attorney General was continued as above.)

HM, Jr.: He questioned the first sentence. The rest of it is all right. And the salutation, he said should be "My dear Father Coughlin. Otherwise it would be disrespectful. He said Woodrow Wilson did it and got into some trouble. The first sentence -- the rest of it is all right. There is a threat there 'if you don't I will'. He said if you (Foley) bring it right over. Miss Chauncey will wait.

Mr. Foley: If this is all right, Miss Chauncey need not wait. I can have it typed up in my office; you can sign it and I will mail it.

Mr. Gibbons: Suppose he says he never got it, if it wasn't registered.

HM, Jr.: What I can do is have one of my messengers ... You get started. I can call Lieut. McKay to wait at your office or somebody else or a Secret Service man who will bring the letter to my house, take it and register it. Would you send two copies, one registered and one air mail?

I will have McKay or a Secret Service man at your office. He will bring it to my house. I will sign it and he will take it to the post office and register it.

I think it's a swell letter. And ask Mr. Murphy once more, after he is through, whether he thinks we ought to send it.

Mr. Foley: Right!

HM, Jr.: And tell him that what we have in mind is

-3-

the possibility in case he keeps this thing up, the possibility of a suit.

(HM,Jr at this point asked the operator to tell Secret Service that he wanted a man available in Mr. Foley's office at 5:30 who was to wait there and Mr. Foley would give him his instructions.

oOo-oOo



4-ENF/2 MDW-
2/9/39
THE SECRETARY OF THE TREASURY
WASHINGTON

183

Dear ~~Mr.~~ Father Coughlin

Your radio address of last Sunday, February 5, contained statements whose inaccuracy and essential falsity should, I think, be called to your attention in order that you may have an opportunity to correct them.

1. At various points in your address, as reported to me, you stated and implied that I am operating the stabilization fund, not in the interests of the people of the United States or for the purpose for which it was established by act of Congress, but "for the benefit of the British and French international bankers who reap the rewards of imperialism." This is completely untrue. I am enclosing for your information a copy of a letter on the subject of the stabilization fund, which I have written to Senator Henry Cabot Lodge, Jr., in response to an inquiry from him.

2. In your address you referred to a meeting which you said took place in Paris in September of 1933. If I have a correct report of what you said, you asserted that others at the meeting were Ambassador Bullitt, Leon Blum and Litvinoff, Foreign Minister of the Russian Soviet government. I did not attend any such meeting and know of no such meeting. The only occasion on which I ever saw Litvinoff was when he was in the United States on an official mission in 1933. I have had no communication, direct or indirect, with him since that time. I was not in France at the time you state this meeting was held.

3. You stated that, "so it is reported," Mr. Bernard Bernstein is my assistant in the management of the stabilization fund. Mr. Bernstein is one of four Assistant General Counsel in the Treasury Department, all of whom work under the general direction of Mr. Edward H. Foley, Jr., Acting General Counsel. No one in the General Counsel's office has anything to do with the management of the stabilization fund.

I am not attempting to deal specifically with all of the many inaccuracies and falsities both of statement and inference in your address. I merely wish to avoid seeming to give assent to them by silence.

Sincerely,

Secretary of the Treasury.

Reverend Charles E. Coughlin,
Squire of the Little Flower,
Royal Oak, Michigan.

Rev. Charles E. Coughlin
Dear Sir:-

Your radio address of last Sunday, February 5, contained statements whose inaccuracy and essential falsity should, I think, be called to your attention, ~~and which I am sure you will appreciate~~
~~and which I am sure you will appreciate~~

1. At various points in your address, as reported to me, you stated and implied that I am operating the stabilization fund, not in the interests of the people of the United States or for the purpose for which it was established by act of Congress, but "for the benefit of the British and French international bankers who reap the rewards of imperialism." This is completely untrue. I am enclosing for your information a copy of a letter on the subject of the stabilization fund, which I have written to Senator Henry Cabot Lodge, Jr., in response to an inquiry from him.

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Sincerely,

Secretary of the Treasury.

Reverend Charles E. Coughlin,
Shrine of the Little Flower,
Royal Oak, Michigan.

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This a copy of the letter as it was taken
by Mr. Foley to the Attorney General at 4:16
2/9'39.

McGuire

Dear Sir:

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Sincerely,

Secretary of the Treasury.

Reverend Charles E. Coughlin,
Shrine of the Little Flower,
Royal Oak, Michigan.

2/9'39 167

• This is the copy on which the Attorney General
made penciled changes.



THE SECRETARY OF THE TREASURY
WASHINGTON

My dear Father Coughlin:
Dear Sir:

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Sincerely,

Secretary of the Treasury+

Reverend Charles E. Coughlin,
Springs of the Little Flower,
Royal Oak, Michigan.

Lock No.

Rotary Nos

Page No.

dated

169

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To

Reg No

REGISTERS

OFFICE OF ORIGIN

Howard No. at
Office of Address

*Original Reg. No.
or Index or Lock No.

OFFICE OF ORIGIN

Howard No. at
Office of Address

350367

350368

350369

Charles E. Coughlin
1577 N. State St. St. Louis, Mo.
Edw. A. Mooney 1735 Wash. St. St. Louis, Mo.

Postmark of

Dispatching Office

Bill No.

Index No.

Case No.

Rotary No.

Received
articles described on
above-specified bill from
dispatching office named
in postmark.

Articles

POSTMASTER

Per

of this Dispatch

Articles

POSTMASTER

Per

of this Dispatch

Dispatching Office

Postmark of

Receiving Office

Postmark of

Receiving Office

Receiving Office

Receiving Office

(Use back for reporting irregularities or discrepancies.)

890

FEB 9 1939

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Sincerely,

[Signed] H. Morgenthau, Jr.
Secretary of the Treasury+

Vereend Charles E. Coughlin,
Sistine of the Little Flower,
Royal Oak, Michigan.

HEB:EHF,Jr.:BJ 2/9/39

FEB 9 1939

My dear Cardinal Mundelein:

Solely for the purpose of putting myself in a proper light with you and others in the Church for whom I have great respect, I am taking the liberty of enclosing a copy of a letter I have written to Father Coughlin.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

His Eminence
George Cardinal Mundelein
1435 North State Street,
Chicago, Illinois.

Enclosure

HMFJr/fm
2/9/39

FEB 9 1939

My dear Archbishop Mooney:

Solely for the purpose of putting myself in a proper light with you and others in the Church for whom I have great respect, I am taking the liberty of enclosing a copy of a letter I have written to Father Coughlin.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

His Excellency
Edward A. Mooney
1234 Washington Blvd.,
Detroit, Michigan.

Enclosure Letter to Father Coughlin 2/9/39

HMFJr/ fm
2/9/39

TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE,
Thursday, February 9, 1939.

Press Service
No. 16-34

Secretary Morgenthau today made public the following exchange of correspondence with Senator Henry Cabot Lodge, Jr., of Massachusetts:

UNITED STATES SENATE
Committee on Finance

February 2, 1939.

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

Dear Mr. Secretary:

On page 1410 of the Congressional Record for February 1, Senator Barkley is quoted as follows:

"I understand that the stabilization fund has been used in such a way as to make a profit to the American Treasury of something like \$12,000,000."

Would you be so kind as to tell me whether Senator Barkley's understanding is correct and, if so, how this profit was realized?

With kind regards, I remain,

Sincerely yours,

(Signed) H. C. LODGE, JR.

- 2 -

TREASURY DEPARTMENT
Washington

Office of the Secretary

February 8, 1939.

My dear Senator:

In reply to your letter of February 2, in which you ask for information with regard to the stabilization fund, I am pleased to advise you as follows:

1. Not as a part of the purpose for which the stabilization fund was created by the Act of Congress (the Gold Reserve Act, approved January 30, 1934) but as an incident to its operation, the fund has increased by approximately \$2,000,000.
2. While the Congress appropriated \$2,000,000,000 as a stabilization fund, only one-tenth of that amount, \$200,000,000, has been used as a working fund.
3. Since its creation, the fund has been operated, as specified by the Act, under the direction of the Secretary of the Treasury and with the approval of the President.
4. It has been employed for the purpose specifically stated in the Act, which is that of "stabilizing the exchange value of the dollar." In its administration all of the Act's provisions have been most scrupulously followed, both in letter and in spirit.
5. The fund has not been employed for any purpose, and it has not been operated in any way, directly or indirectly, for any other object or to effect any other purpose than that stated in the Act.

Sincerely,

(Signed) HENRY MORGENTHAU, JR.

Secretary of the Treasury.

The Honorable Henry Cabot Lodge, Jr.,

United States Senate.

-000-

February 9, 1939.
9:22 a.m.

Mr.: Hello.

Operator: Chairman Douglas.

Mr.: Hello.

Q: Go ahead.

Mr.: Hello.

Chairman Douglas: Hello, Henry.

Mr.: How are you?

Q: Fine.

Mr.: On the advice of counsel I've appointed Mr. O'Connell to the Monopoly Committee.

Q: Say, that's grand.

Mr.: And it's signed this morning.

Q: Oh, that -- that's swell. He's a -- he's a top fellow and I think he'll give very, very fine service.

Mr.: And -- it's only a question of going up there today until we get word to Admiral Peoples. We'd like Peoples to go through with the day's hearings.

Q: Yeah. Yeah.

Mr.: Is that all right?

Q: Oh, sure.

Mr.: What?

Q: That's fine, yeah.

Mr.: And then we'll get word of Peoples this afternoon and talk to him.

Q: Yeah, that's good.

Mr.: But that's all right with you?

Q: Absolutely.

Mr.: Swell.

Q: Absolutely. I appreciate very much your calling.

- 2 -

- WMJr: All right. You drinking any California Italian wine?
- D: Well, we're plugging away on the -- purely Trans-America basis of the thing. It's kind of tough sledding; it's -- it's --
- WMJr: I haven't got any of this, what do they call it, Italian Colony Wine from California? They haven't sent me any cases of it.
- D: (Laughter) You know, a fellow in the Administration came to me yesterday--
- WMJr: Yeah.
- D: Saying that Mr. Giannini thinks it's very important that he and I meet out at the Chevy-Chase Country Club and have a little rendezvous for about thirty minutes to talk this whole thing over.
- WMJr: Oh.
- D: And, I think that would be perfectly ridiculous, don't you?
- WMJr: Oh, yes. I -- I bet you I can guess who the Administration fellow was.
- D: Yeah, you could.
- WMJr: Huh?
- D: Sure, you could.
- WMJr: Jesse?
- D: No -- no, but it was generally of that -- that type. Jesse probably, if he had seen me, would have said it also.
- WMJr: Yeah.
- D: But I--
- WMJr: Oh.
- D: This is of interest to you -- their lawyers are playing a kind of a funny game. They keep telling -- sending word in to me, never directly, but indirectly, if you want us to get rid of Giannini we'll do so. Now, I'd never walk into that trap, because what they would love to do would be to go to the press with their press agent

- 3 -

publicity, with a statement that they finally got to the bottom of the thing; all the S.E.C. wants is to have them throw Giannini to the wolves.

Mr.: I see.

D: It's a man-hunt, and so on. But they keep sending that back about -- to the office -- about every other day.

Mr.: Well, I think you've handled yourself awfully well.

D: Well, thank you, it's -- it's been -- it's been a little tough. I think from now on it will be fairly -- fairly easy, as compared to what we have been through.

Mr.: Right.

D: With a good, smacking court victory behind us.

Mr.: Well, I wanted to let you know about O'Connell.

D: Well, thanks very much, and I think that's grand.

Mr.: O. K.

D: Good bye.

Mr.: Good bye.

February 9, 1939.
9:29 a.m.

Mr. Jones: Hello.

Operator: Mr. Jones. Go ahead.

Mr. Jones: Jesse.

Jesse Jones: Hello.

Mr. Jones: Good morning.

J: Yeah.

Mr. Jones: Jesse, on the R.F.C. note, series "B"--

J: Yeah.

Mr. Jones: We received two billion five hundred and sixty-six million subscriptions.

J: Two billion five hundred and sixty-six million.

Mr. Jones: If we allot twelve percent, that gives us three hundred and ten.

J: All right, sir.

Mr. Jones: And that's what I recommend if it's agreeable to you.

J: Entirely.

Mr. Jones: All right.

J: You couldn't sell the entire two billion and let us take a trip to Jerico or someplace?

Mr. Jones: (Laughter)

J: By the way--

Mr. Jones: Yeah.

J: Henry, I expect -- I tried to get you yesterday morning--

Mr. Jones: Yes, I called you back and they said that you--

J: Well, I was testifying. I expect we better raise that limit about twenty-five million.

Mr. Jones: Oh, really?

J: On the -- well, what do you think -- the Export-Import Bank?

- 2 -

WJr: Make it a hundred and twenty-five?

J: Yeah.

WJr: Well--

J: I don't -- it don't make any difference to me, but I got the impression from Warren Lee Pierson, from some conference that had been held in the Treasury, that maybe the hundred million limit wouldn't be enough. I'd rather leave it just like it is. I think it will be enough probably.

WJr: Well, I don't know what he refers to.

J: Uh-huh.

WJr: Because the only conference that he was at which I was present at took place the other day and there were no figures mentioned, but, you know, I did say that Brazil -- it's within the realms of possibility -- they might take fifty.

J: Yes, but I believe a hundred million would sound better up there. I'd rather they'd stick to around that, but

WJr: How much -- how much have we got -- are used now?

J: Well, we've only got outstanding loans approximately twenty-five million dollars.

WJr: That would give you a leeway of seventy-five.

J: Yes. Now, we've got twenty-five million committed, of course, to Japan -- to China -- that would leave us fifty.

WJr: Yeah.

J: Of course, the payments are coming in all the time. It's a revolving fund -- wait, will you hold the wire just a minute?

WJr: Sure.

J: Pierson has just come in. (Aside -- There was the conversation you had, Mr. Pierson, about the -- at the Treasury -- that they thought they might -- the amount might run larger than a hundred million? The Secretary doesn't know anything about it. (Pause) That was talked between you and Welles -- Sumner Welles; I see).

- 3 -

J: That's where I -- I misunderstood him.

WJr: Yeah.

J: He -- his talk with Welles.

WJr: I see.

J: And--

WJr: Well, I -- I'll go with you up to two hundred.

J: All right. I talked --I couldn't get you, and I got the President and he said go ahead and use my judgment about it.

WJr: Well, I'll go along with you up to two hundred million, and I say the same thing.

J: All right.

WJr: Is that all right?

J: That's perfectly all right.

WJr: Thank you.

J: Fine. Good bye.

February 9, 1939.
5:12 p.m.

WMr: Hello.

James A.
Farley:

Any chance for me to get some of that profit of the Stabilization Fund?

WMr:

Well I told you before that if they are only accusing me of using the profits for the National Democratic Committee, at least I'd have something to defend myself.

F:

That's right.

WMr:

What?

F:

That's right.

WMr:

You could use twelve million, couldn't you?

F:

Oh, definitely; or less than that, a hundred thousand.

WMr:

I see.

F:

How are you?

WMr:

Oh, pretty well, Jimmy.

F:

I understand.

WMr:

What?

F:

I understand.

WMr:

I don't know.

F:

I came to New York. I'm going to a show tonight, and I have some things to clear up here tomorrow, so I'm going to miss the meeting tomorrow. I'm going to leave on Monday, brother, for Florida.

WMr:

Are you?

F:

Yes, sir. I haven't had a day off since the first of August, and I'm going away.

WMr:

What are you going to do? Go down there there--

F:

I'm going to Miami.

WMr:

Are you going to go down there and pal around with Joe Kennedy?

F: No, sir, he's in Palm Beach.

MR: Oh.

F: I go down with the poor, down in Miami, and go to the races every day, and play golf if I feel like it. If I don't, I won't.

MR: Oh, I see. Well --

F: If you want -- it's up to you and if you wanted to sit by and watch the Government while I'm away.

MR: We're doing a good job now, aren't we?

F: Yeah, very. (Laughter) Are you free to talk?

MR: Yeah.

F: I won't have -- I don't know whether I'll have a chance to talk with you on Monday or not, but I'm really concerned about things, Henry.

MR: You and me both, brother.

F: I mean, I'm terribly concerned about a bitterness that's being engendered all around down there that's -- doesn't auger well for the future.

MR: Well, I think you're a hundred percent right.

F: I mean, there's a lot -- there's -- some petty things being done that really, it's just too stupid for words.

MR: Well, if you're asking me who's advising him, I can't tell you.

F: Well, I -- I go in to you, you know. You and I have always been good friends, and frank, and I always will be that way.

MR: That goes both ways.

F: I know that. Now I -- express opinions and I know that they just -- I might just as well talk to the wall.

MR: Yeah.

F: And that's all right, if that's what -- if that's the way it's to be, it's all right with me, but some of the things, Henry, are just too silly for words.

MR: Well--

- F: And I don't want -- I'm not going to get peeved, or get sore about anything, you know --
- Wife: No, all I can say is I've been through two very difficult weeks, and he has -- as far as the Treasury is concerned, he's held up my hand.
- F: Well, that's marvelous.
- Wife: Now, we went -- we had some awful thin ice that we went through --
- F: Well, I'm delighted on your account.
- Wife: And as far as I'm concerned, it was very, very difficult between the President and myself, and he backed me up a hundred percent.
- F: Well, I'm delighted about that.
- Wife: And I -- as far as I'm concerned personally, I've got no complaint. He's been fine with me.
- F: I have no personal complaint, Henry, except that I'm -- I'm annoyed at the trouble that is developing where it shouldn't develop at all.
- Wife: I know what you mean.
- F: See?
- Wife: I -- I mean, I know what you mean, and I think -- well, this -- this rising glass and all the rest of the stuff just -- he's getting the worst of it.
- F: Why, of course, because you and I and everybody knows that those -- that appointment was made just to take a shot at those fellows.
- Wife: Yeah, I know that.
- F: So you and everybody knows. I -- I begged him last July not to do it.
- Wife: Yeah.
- F: I went to Glass and spent an evening with him and did all I could, and then went back to the Boss. I said, "Now, he's going to -- they're going to confirm that fellow, now you just better -- better think a while before you do that."
- Wife: Yeah.

- W: But I couldn't stop him, so what's the use? All the Senators are sore. Here's the thing that I'm terribly afraid of, and I don't know enough about it; I'm going to do all I can to help on it, but I think they're going to kick Hull's Reciprocal Trade Agreements all over the lot up in that Senate.
- Mr: Are they?
- W: Yes, pardon.
- Mr: I'm sorry to hear that.
- W: Well, I think they are.
- Mr: Well, why should they do that?
- W: Well, some of them are -- some of them think they should be, sincerely.
- Mr: Yeah.
- W: But where's that -- oh, what the hell -- you know, they say, "What the hell, they don't pay any attention to us."
- Mr: I thought Hull was popular on the Hill.
- W: Well, he's allright, but it isn't a question of Hull, is it? They are just going to kick everything around, Henry. Now I talked to three or four fellows today and nothing can happen on that between you -- you forget that I told you that because nothing can happen on that for a while or so.
- Mr: I get you.
- W: And when I get back I'm going to go up there and sit down with a lot of those fellows and do all I can to try to help and I think maybe I can, but we're going to be in for a lot of rough water up there.
- Mr: Who's going to watch the Post Office Treasury bill?
- W: Oh, that will be all right. Bill Hovee will be there.
- Mr: I see.
- W: We'll be all right.
- Mr: Well, --
- W: But I'm terribly annoyed--

- 5 -

WJr: Are you going through town again before you go south?
F: Yes, I'll be there Monday.
WJr: Just Monday?
F: Yes.
WJr: And that's all.
F: That's all.
WJr: Oh, hell.
F: Are you going to be there Monday?
WJr: Yeah.
F: You take care of my interests at the Cabinet meeting tomorrow.
WJr: Grandpa Hopkins and I will.
F: O. K. That's very good.
WJr: Yeah.
F: That's very good. Ma Perkins will be all right too.
WJr: Oh, yeah, lovely.
F: By that time she won't be impeached and everything will be well.
WJr: So will Cotton Henry Wallace.
F: O. K. See you later.
WJr: Thank you.
F: I'm glad you're in such good humor.
WJr: Well, that's one thing that they haven't taken away from me.
F: Well, that's all right, Henry.
WJr: O. K.
F: Well, I may see you Monday if I get a chance.
WJr: Gosh, I hope so.
F: Thank you very much. Good bye.

TENNESSEE VALLEY AUTHORITY
KNOXVILLE, TENNESSEE

February 10, 1939

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

My dear Mr. Secretary:

I have received your letter of February 9 concerning the proposed legislation for creating a National Resources Finance Corporation.

Our Comptroller, Mr. E. L. Kohler, will attend the meeting which you have scheduled for Monday, February 13, 1939, at 3 p.m., in your office.

Yours very truly,

TENNESSEE VALLEY AUTHORITY

Harcourt A. Morgan
Harcourt A. Morgan
Chairman of the Board

SEP 11 1938

TENNESSEE VALLEY AUTHORITY

KNOXVILLE, TENNESSEE

OFFICIAL BUSINESS



PENALTY FOR PRIVATE USE TO AVOID

PAYMENT OF POSTAGE, \$300



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

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 10, 1939

TO Secretary Morgenthau

FROM Mr. White

Subject: The Argentine Government's Indebtedness

1. The total external funded debt of the Argentine Republic is - - - - - \$375 million

of this sum:

United States dollar bonds amount to - - - -	150	"
Sterling bonds amount to - - - - -	190	"
Swiss francs amount to - - - - -	25	"

2. The total internal funded debt is \$1000 million; the floating debt is \$120 million.

3. The service on Argentine's foreign debt amounted to \$50 million in 1937. To service private investments, however, required \$100 million of foreign exchange in 1937.

4. Argentina has been reducing its total outstanding foreign debt. In 1937 the reduction amounted to \$150 million.

TO:

189.

MR. McREYNOLDS

At the meeting of the Temporary National Economic Committee this morning the presiding officer (Congressman Sumners) announced my appointment to membership of the Committee, and then said: "I am happy to be able to announce that our colleague Admiral Peoples will continue to assist the Committee as the Treasury Department alternate. He has many other responsibilities, and the fact that much of the Treasury work for the Committee is of a legal nature would make it unreasonable to expect him to carry the burden alone. He will, of course, continue to direct the Government purchasing study."

February 10, 1939.

J. O'Connell

From: MR. O'CONNELL

February 10, 1939.
9:52 a.m.

Mr.: Hello.

Operator: Mr. Kellett. Go ahead.

Mr.: Hello.

Lowell
Kellett: Hello, Mr. Secretary.

Mr.: Yes, Lowell.

Q: I was over at Baltimore yesterday and didn't get back until pretty late and I wondered if you expected to see me last evening?

Mr.: Well, I tell you, the stuff finally came to the house at seven o'clock.

Q: Oh, yes.

Mr.: And Frank Murphy went over it and made several corrections, and we let it go.

Q: Well, it's all fixed up then?

Mr.: What's that?

Q: It's all fixed up.

Mr.: Yeah. Any time you are around I'll show it to you.

Q: Ah -- when do you expect to --

Mr.: No release.

Q: No release.

Mr.: They thought they'd just -- they thought -- not have any release. Just let it go and see what happens.

Q: Uh-huh. No light on the other matter.

Mr.: On a certain individual?

Q: Yeah.

Mr.: He's been told that -- that McIntyre wanted him to think it over over Saturday and Sunday.

Q: Saturday and Sunday?

Mr.: Yeah.

- 2 -

Q: Uh-huh.

A: And he's holding out a bag of peanuts too.

Q: Yeah? I happen to be very good friends of a pretty very good friend of his --

A: Yeah.

Q: We probably could make him see what he's doing if you want it done.

A: Uh-huh.

Q: But maybe it's better to leave it alone, I suppose.

A: Well, the way it sets right now, his whole attitude is completely changed.

Q: Uh-huh.

A: I mean, it's much more friendly. I think it's all right.

Q: Uh-huh. Well, that's -- that's the hope.

A: I think so, but if it should change I'll keep that in mind.

Q: Yeah, it would be interesting to know who wrote the piece.

A: What's that?

Q: It would be very interesting to know who wrote the piece.

A: Yeah. Surely.

Q: Yeah.

A: Well, I appreciate your calling.

Q: Right.

A: When it got so late last night; I mean, as I say, as a matter of fact, I didn't sign it until seven-thirty last night.

Q: Uh-huh.

A: It only came up then.

Q: Yeah.

- 3 -

HMJr: But they thought they'd hold it. I'd like you to see it if you happen to be in the neighborhood.

M: Well, if I -- if I can, I could -- I could get it from Herbert?

HMJr: Oh, yes, yes.

M: Righto.

HMJr: Thank you so much.

February 10, 1939.
11:49 a.m.

George S.
Messersmith: Hello, Mr. Secretary. This is George Messersmith talking.

Mr.: Yeah.

Q: About an hour ago Tom Corcoran called me up and said that he was calling me over the White House wire. He couldn't get in touch with the President because the President was still sleeping and not well, you know.

Mr.: Yeah.

Q: And he said that Cardinal Mundelein, unless he can get away on the Rex tomorrow, will not be able to get there in time for the Conclave, and of course it is very important that he get there because he's -- we know what the Italians and Germans are trying to do in that election.

Mr.: Yes.

Q: And the -- the Rex is the only steamer which would get him there in time. Now, she's sailing at twelve o'clock at noon today -- or tomorrow -- and Mundelein is in Florida, and can't possibly get there before, I think, a couple of hours after twelve o'clock tomorrow; Corcoran said three o'clock. He was hoping that some way something could be done to get the sailing delayed.

Mr.: Well, I'm in the midst of a conference now; if I could call you back, but I have -- I have no influence there.

Q: Well, could I come over and see you?

Mr.: Sure.

Q: When?

Mr.: Oh, about two-thirty.

Q: Oh, I think we'll have to get at it sooner than that.

Mr.: Well, what can I do?

Q: Well, the Secretary said that he thought there were various ways in which the -- the Treasury could delay the sailing of the ship, you know, without saying anything about it.

Mr.: Oh, no, I wouldn't be a party to that.

Q: What's that?

Mr: I wouldn't be a party to that.

M: You wouldn't?

Mr: No, I positively would not.

M: Uh-hm.

Mr: No, I mean, I'm sick and tired of doing these things now -- of that kind.

M: Uh-hm. Well, I quite understand. It is -- it is an important matter, of course.

Mr: Well, I understand, but I -- I'm sick and tired of doing these things and then being the goat around here. No, I -- they'd have to do it openly and above board. I'm not going to do any more of those things.

M: Uh-huh. All right.

Mr: I mean, I'm sorry, but I just can't be a party to any of this -- any more of this sort of thing.

M: Uh-huh. All right, fine.

Mr: I'm sorry.

M: Good bye.

February 10, 1939.
1:17 p.m.

Mr. S.: Hello.

Mr. S.: Hello, Mr. Secretary.

Mr. S.: Yes.

Mr. S.: I thought you would be interested to know that the line has just informed Corcoran that they'll keep the ship until the Cardinal arrives.

Mr. S.: Yes, well, Corcoran just told me.

Mr. S.: Oh, I'm sorry to--

Mr. S.: That's all right. I made him a suggestion. I suggested that they use somebody up there and call them.

Mr. S.: Yeah.

Mr. S.: And he took my suggestion and he said it worked.

Mr. S.: Well, it's ever so much better, you know, in that way.

Mr. S.: Oh, yes. I mean, quite frankly, I mean -- I -- I just wouldn't know how to hold the line for two or three hours and I don't think it would be proper to do it.

Mr. S.: Well, it would be -- it would have -- it's the sort of thing which is always dangerous. I mean, -- it can be done but it would have had -- it might have had come-backs, you know, that we certainly want to avoid.

Mr. S.: I think that-- it would have had a real kick.

Mr. S.: Yeah, right.

Mr. S.: All right.

Mr. S.: All right, thanks a lot.

Mr. S.: Thank you.

REB

GRAY

London

Dated February 10, 1939

Rec'd 3:32 p. m.

Secretary of State,
Washington.

204, February 10, 7 p. m.

FOR TREASURY FROM BUTTERWORTH.

One. The announced appointment of Sir Horace Wilson, industrial adviser to the (*) to succeed on October 1 Sir Warren Fisher as permanent Secretary of the Treasury and head of the Civil Service, is of no consequence to the American Treasury since the latter's functions are general and administrative rather than technical except in the budgetary field. However, the important general powers which the office entails are enhanced in the case of Wilson by reason of the confidence which the present Prime Minister reposes in him.

Two. The foreign exchange market continues inactive and on balance the British fund has neither lost nor gained many dollars. Gold was fixed at 148 shillings 3-1/2 pence the premium being 1 penny and the market gave all of the 140 bars sold; 13 were married.

JOHNSON

TMC
CSB

(*) Apparent Omission

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: February 10, 1939, 6 p.m.

NO.: 258

FROM COCHERAN.

A good week has been experienced by the French stabilization fund. At half-past five this evening I had a talk with my friend at the Bank of France. I was told that the fund had converted its entire resources into gold and now it is using its privilege of taking francs from the Treasury with which to operate in acquiring foreign exchange, which system obviates the necessity of sales of gold to the Bank of France by the fund.

Today the exchange market was quiet. Several hundred thousand dollars were acquired by the Chase Bank operating for the French fund. 100,000 Reichsmarks had to be bought by the Bank of France from the Reichsbank, and relations were found to be quite normal. As yet there is no definite news from Brussels, but the possibility is being considered of getting Mertens to give up his academy appointment and thus permit the returning to office of the Spaak Government.

There is already speculation in the press of probable financial help for Franco. There is one rumor that there is under consideration joint aid in the form of a ten-billion-franc-loan from France, Great Britain and the United States.

Tonight I am going to Basel, where this weekend the BIS directors will meet.

BULLITT.

EA:LWV

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Paris, France

DATE: February 10, 1939, 2 p.m.

NO.: 80

If you perceive no objection, Cochran is authorized, at Secretary Morgenthau's request, to go to Finland, Sweden, Norway and Denmark on or about the eighteenth of February, in the line of his duties in covering the Bank for International Settlements, for the purpose of reporting to the Treasury on those countries' monetary and financial condition.

HULL

EA:LWW

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

February 10, 1939.

Secretary Morgenthau

FROM Mr. O'Connell

For your information

During the past week the Temporary National Economic Committee has been holding public hearings relative to insurance. The presentation of testimony was handled by the Securities Exchange Commission, the first day's testimony consisting of facts relative to the enormous growth and present size of the insurance industry generally (it had assets of more than \$28 billion in 1937 as against \$2.9 billion in 1906), and the rest of the time being taken up with the corporate structure, size, management, and methods by which the control of the management has been perpetuated in the Metropolitan Life Insurance Company (that company being the largest company in the world, a mutual company, and owning in the neighborhood of \$5 billion in assets).

The testimony that aroused the greatest amount of comment and the most serious opposition on the part of the Metropolitan was that of a number of agents who testified that it was a general practice in their offices to forge the names of policyholders on ballots used in connection with the biennial election of directors. The testimony seemed reliable, although the Metropolitan remains unwilling to admit either the existence or the prevalence of the practice, and the Committee decided to-day that any more testimony along the same line (which Chairman Douglas of SEC said he was prepared to continue to produce for an indefinite period) would be merely cumulative, and that the Committee would hear no more testimony of this nature for the time being. A spokesman for Metropolitan stated that, without admitting the existence of the practice, they were investigating it and would take steps to see to it that it never happens again.

The fact of the forgeries is not of great importance, as such, since none of the elections were contested (the "administration" slate of directors being the only one for which the policyholders could vote), and it is my understanding that Chairman Douglas presented the evidence as helping to prove the thesis (which he intends to prove in other ways), that control by policyholders in mutual companies as large as Metropolitan is in fact non-existent, though constantly stressed as a fact, and an important one, by the management.

The Committee adjourned this morning until Monday afternoon at 2.30, at which time the SEC will continue to present material in connection with the insurance business.

Joseph H. O'Connell

February 10, 1939.

Secretary Morgenthau

Mr. O'Connell

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(Initialed) J. J. O'D. Jr.

JJOC:Jr/Lew

February 10, 1939

Welles said that as far as he was concerned, he was completely washed up with Wayne Taylor and wanted nothing more to do with him. When I told him that the President was looking for a spot for Wayne in South America he said "That is simply terrible."

February 10, 1939

Sumner Welles told me (which I did not realize) that in connection with the appointment of Cahill as United States District Attorney in New York there was a show-down between Tommie Corcoran and Farley and that Corcoran won and Farley feels very badly about it.

February 10, 1939

Harry Hopkins called me and asked me, "What would you do with the Brazilians now that they are here?" and I said, "Harry, if I was Secretary of Commerce I would call on the Secretary of State and say that I am new at my job and what can I do to be helpful."

That was my advice to Harry Hopkins.

February 10, 1939

Present:

Mr. Hanes
Mr. Gaston
Mr. McReynolds
Mrs. Klotz

HM, Jr.: I have been thinking some more. I called up Knollenberg and told him that the President authorized me to offer him General Counsel in the Treasury (copy of phone conversation of February 8th is attached hereto) and I said to him the next move is for you to go to the President of Yale.

He did that and then wrote me a note that the President gave his approval, but limited it to six months. I said, "Why do you make it six months," and he said, "I can't get any more and I want you to think about my going through a confirmation for the short period of six months." (A phone conversation to this effect, dated February 9th, is also attached hereto.) I said, "How about Assistant to the Secretary?" and he said, "That would be all right with me."

Knowing that Knollenberg is only coming for six months, should I go ahead and make him General Counsel or Assistant to the Secretary and leave Foley Acting General Counsel.

(Mrs. Klotz' note: The men decided that it would be best to make Knollenberg General Counsel even though he had to be confirmed, which could be done easily, rather than make him Assistant to the Secretary and assign him to do the work of the General Counsel. They felt that would be a mistake.

Knollenberg also told the Secretary that the Board of Trustees would have to approve his coming down even though he got the approval of the President and as soon as he knew he would let the Secretary know.

The telegram from Mr. Knollenberg is attached hereto, stating that the Board of Trustees did not approve his leave of absence.)

February 8, 1939.
11:40 a.m.

Mr. Knoll: Hello.

Mr. Morgenthau: I have Mr. Knollenberg.

Mr. Knoll: Fine.

Mr. Knoll: Go ahead.

Mr. Knoll: Hello.

Mr. Knoll: Knollenberg speaking.

Mr. Morgenthau: This is Henry Morgenthau, Jr.

Mr. Knoll: How do you do, Mr. Secretary.

Mr. Morgenthau: How are you?

Mr. Knoll: Very well, thank you.

Mr. Knoll: Mr. Knollenberg, I think you'll be pleased to know that the President authorized me today to go ahead and talk with you, see?

Mr. Knoll: Yeah.

Mr. Morgenthau: And you might also like to know that the -- the new Attorney General is most enthusiastic about having you come down here.

Mr. Knoll: Well, that's very interesting.

Mr. Morgenthau: He wrote -- he wrote a very, very enthusiastic letter.

Mr. Knoll: I see.

Mr. Morgenthau: Now, it gets down to you and me.

Mr. Knoll: Yes.

Mr. Morgenthau: And, I only heard it this morning, and, the President has had a lot of things, as you know, but -- now -- how would you think it would be best to proceed?

Mr. Knoll: Well, I think I had better see the President right away; President Seymour here.

Mr. Morgenthau: I think so.

- 2 -

E: And then I'll call you back.

Mr: Would you do that?

E: I'll call you in the course of the day.

Mr: And -- I just want to let you know, the fact that ten days or so have gone by -- just -- those ten days, I want you more than ever.

E: All right. Well, thank you for -- for feeling that way, and I'll call you just as soon as I've talked with President Seymour, which will be immediately.

Mr: You might be interested in the last sentence of the Attorney General's letter. He said, "In my opinion", this is to the President, "Mr. Knollenberg is fully qualified, highly desirable for the position that you have in mind."

E: Well, that's very nice.

Mr: So I thought you would like to--

E: Thank you very much.

Mr: You're welcome.

E: I -- you'll be hearing from me in the course of the day.

Mr: Thank you so much.

E: Good bye.

February 9, 1939.
2:35 a.m.

WJr: Hello.

Knollenberg: This is Knollenberg.

WJr: Good morning.

K: I saw Mr. Seymour last evening --

WJr: Yes?

K: And he said that he would recommend my being given the temporary leave --

WJr: Oh, grand.

K: That the corporation happened to be getting on this coming Saturday.

WJr: Wonderful!

K: So that if it acts favorably, as he thinks it probably will, although not certainly, it would mean that I could come down Monday.

WJr: That would be wonderful.

K: Now, what -- what would your -- what would you like to have me do?

WJr: Well, to be down here Monday.

K: All right.

WJr: And come right to my office. If -- you'll know then whether they did or didn't.

K: Yes, I'd know. Seymour will call me just as soon as they have taken action on Saturday.

WJr: And -- he did it cheerfully.

K: Yes, he did it cheerfully -- reluctantly but cheerfully.

WJr: And how long did you ask for?

K: Well, I told him that I had told you that I would only come for six months and that I had intended to stick to that.

WJr: I see.

K: And it's on that basis.

Mr.: Uh-huh. Uh-huh, I see.

Q: Now if that's -- if -- I want you to realize that if that isn't going to be satisfactory, now is the time to say it, because I really am going to have to adhere to that.

Mr.: I see. Well, beggars can't be choosers.

Q: Well, you're not a beggar, but on the other hand, I -- this is where I'm sure I'm going to have my life's greatest happiness and I'm just not going to jeopardize it.

Mr.: Well, I think if it's going to be six months, I'm thinking out loud now, see? --

Q: Yes.

Mr.: Then I wonder if you want to go through all the rigmarole being confirmed.

Q: I -- I don't, no.

Mr.: And that -- I just think that -- I think your suggestion of coming down as assistant to the secretary.

Q: I think that's the sensible thing.

Mr.: And see it through the six months, rather than going through all that confirmation business.

Q: I -- I think so too. That suits me.

Mr.: What? Well, we can both be thinking it over.

Q: All right. Well, realize that that will be entirely satisfactory to me.

Mr.: Could -- you couldn't -- I can't wangle you for twelve months?

Q: No -- that's -- that's simply out of the question.

Mr.: I see. I see. Well, six months is six months, and if the Yale corporation will grant it, you come down Monday and as to -- I'll be figuring out the best way in relation to the Will to handle it, see?

Q: Fine. Well, that's --

Mr.: I haven't -- I have, you see, a position assistant to the Secretary that doesn't have to be confirmed that pays ten thousand a year.

- 3 -

Q: Well, I -- it isn't -- the salary hasn't -- isn't material in the thing at all.

A: I know. I know, but that -- that is vacant, and then the -- the other one -- to go all through that confirmation business, I don't know whether it's worth it for six months. Hello?

Q: Yeah.

A: Well, I'll --

Q: You -- you decide that. You understand I'm -- I'm glad to come in either way.

A: Right.

Q: Because what I want to do is the job.

A: Yeah.

Q: I told Seymour that I'm planning to file in there and that it will mean I really will have to cut myself off from the library.

A: I understand.

Q: So he appreciates that.

A: Fine.

Q: All right.

A: Thank you so much.

Q: Good bye.

Treasury Department

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TELEGRAPH OFFICE

118 TO 130

C NEWHAVEN CONN 1136A FEB 11-39

1939 FEB 11 PM 12 31

HENRY MORGENTHAU JR

PERSONAL WASHDC

THE PRUDENTIAL COMMITTEE OF THE CORPORATION WHICH MET THIS MORNING BELIEVES THAT SHORT PERIOD I HAVE BEEN HERE WOULD CREATE UNEASINESS AMONG THE FRIENDS OF THE LIBRARY AND OTHERS THAT I MIGHT BE WEANED AWAY FROM THIS POSITION OR MIGHT BE MORE INTERESTED IN OUTSIDE AFFAIRS THAN IN THE LIBRARY AND THAT THEREFORE I OUGHT TO WITHDRAW MY REQUEST FOR LEAVE OF ABSENCE STOP ALTHOUGH I WAS EAGER TO COME AND TRY TO HELP I THINK COMMITTEES STAND ENTIRELY REASONABLE AND THEREFORE FEEL I

Treasury Department

11W SHEET 2.

TELEGRAPH OFFICE

MUST COMPLY STOP AM EXTREMELY SORRY TO HAVE CAUSED DELAY IN YOUR
SEEKING ELSEWHERE STOP IF I CAN BE OF HELP HERE PLEASE CALL ON ME
STOP STRONGLY RECOMMEND RANDOLPH PAUL MY SUCCESSOR LORD DAY AND
LORD IF YOU HAVE NOT ALREADY TRIED HIM STOP AM APPEARING BEFORE
SENATOR BROWNS COMMITTEE THURSDAY.

BERNHARD KNOLLENBERG

1231P

Yale University Library

New Haven Connecticut

212

February 11, 1939



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

Dear Mr. Secretary:

I haven't much to add to the enclosed copy of the telegram which I sent you this morning. I am naturally disappointed, but not at all resentful because I think that the Prudential Committee's decision was entirely reasonable.

I greatly enjoyed the opportunity of meeting you, and hope for many reasons that I shall not entirely lose touch with you because of my inability to help out at this time.

Sincerely yours,

Bernhard Knudsen

En/wh
Enc.

Confidential

Telegram

February 11, 1939.

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

The Prudential Committee of the Corporation which met this morning believes that short period I have been here would create uneasiness among the friends of the Library and others that I might be weaned away from the position or might be more interested in outside affairs than in the Library and that therefore I ought to withdraw my request for leave of absence stop although I was eager to come and try to help I think Committee's stand entirely reasonable and therefore feel I must comply stop am extremely sorry to have caused delay in your seeking elsewhere stop if I can be of help here please call on me stop strongly recommend Randolph Paul my successor Lord, Day & Lord if you have not already tried him stop am appearing before Senator Brown's Committee Tuesday.

Bernhard Knollenberg

February 11, 1948.

Dear Mr. Spraul:

Thank you for your letter of February 10th, giving a survey of the corporate issues for the past week. This information will be brought to the Secretary's immediate attention.

Sincerely yours,

E. S. Elts,
Private Secretary.

Mr. Allen Spraul,
First Vice President,
Federal Reserve Bank of New York,
New York, New York.

GHF/als

**FEDERAL RESERVE BANK
OF NEW YORK**

February 10, 1936.

Dear Mr. Secretary:

The largest corporate issue in this week's total (\$13,200,000) of security financing is \$10,000,000 of American Can Company 2 3/4% debentures of 1945, for working capital. The private sale of these debentures, to a bank, was published today, although the sale may have occurred earlier. There were three other small issues amounting to about \$3,200,000 altogether.

Municipal bond awards totaled about \$11,000,000, and, in the field of short-term financing, New York State sold \$100,000,000 of notes to banks, due June 28, at .20 per cent interest. This is the lowest rate at which the State has ever publicly borrowed money.

The only sizable corporate issue now definitely in prospect is the \$10,000,000 of Cincinnati Union Terminal refunding bonds, which are up for public bidding next Tuesday. It has been claimed that a significant saving may be made by opening this issue to bids rather than selling it to the investment bankers who have handled the company's previous financing, without competitive bidding.

There is talk of heavy financing for public utility operating and holding companies during the next few months, but almost all of it is for refunding. The large increase in public utility construction, which has been mentioned recently, and which presumably would mean the borrowing of new money, is, probably, dependent in some measure upon an increase in general business and demand for electric power. Meanwhile, corporate securities for new capital in the first two months of the year are likely to amount to no more than twenty-five or thirty million dollars, in spite of the broad market demand for high grade issues.

Yours faithfully,


Albert Spraul,
First Vice President.

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

February 11, 1939

To: The Secretary

From: Miss Lonigan *EL*

The total number of WPA workers on February 4, 1939 is 2,965,942.

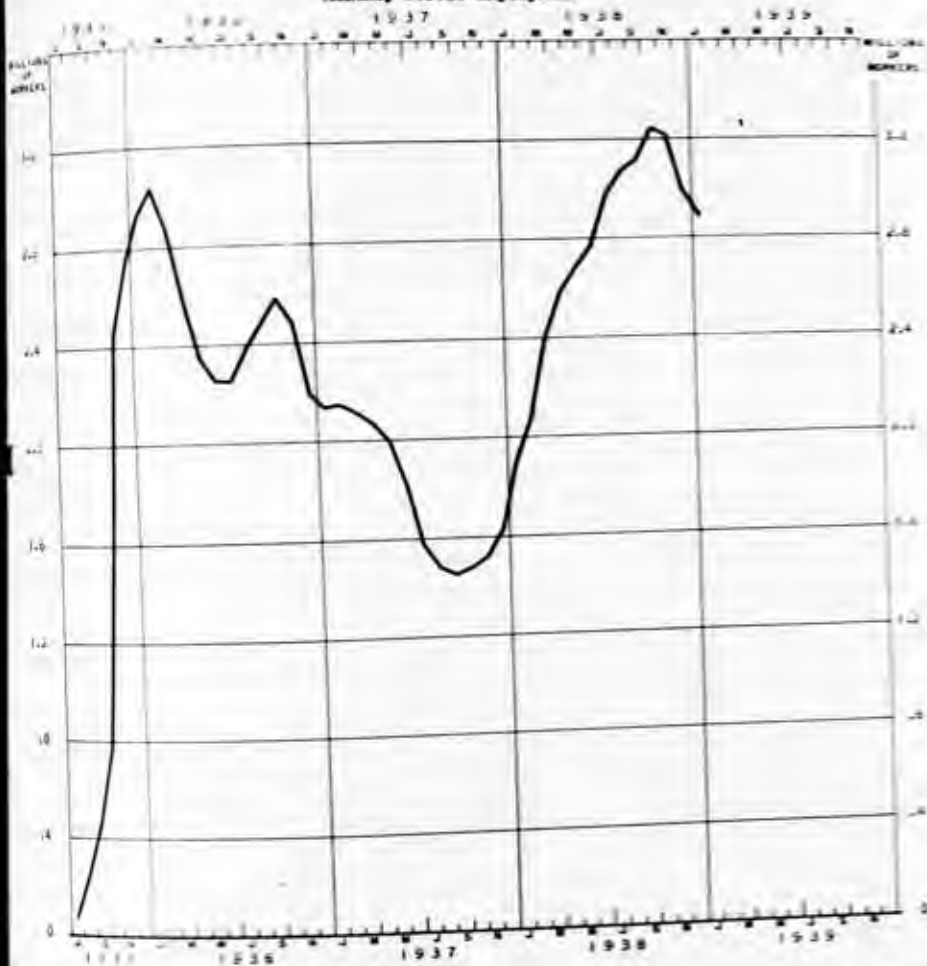
The increase during the week from January 28 to February 4 was 83,256 workers.

This is the first increase since November 5, 1938.

WORKS PROGRESS ADMINISTRATION
Number of Workers Employed
United States

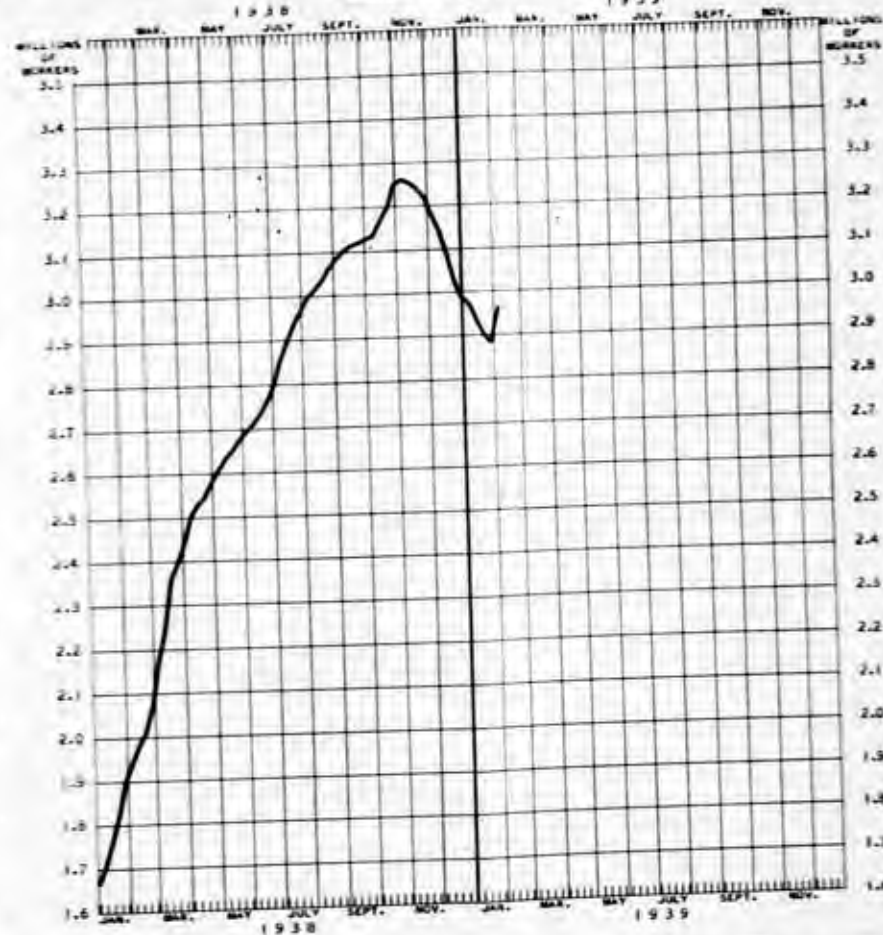
Monthly W.P.A. Employment

1937 1938 1939



Weekly W.P.A. Employment

1939



SOURCE: WORKS PROGRESS ADMINISTRATION

WORKS PROGRESS ADMINISTRATION
Number of Workers Employed - Weekly
United States

218

Week ending	Number of Workers (In thousands)
1938	
April 2	2,445
April 9	2,504
April 16	2,531
April 23	2,544
April 30	2,582
May 7	2,607
May 14	2,626
May 21	2,650
May 28	2,678
June 4	2,693
June 11	2,712
June 18	2,736
June 25	2,767
July 2	2,807
July 9	2,853
July 16	2,899
July 23	2,938
July 30	2,967
August 6	2,993
August 13	3,017
August 20	3,039
August 27	3,067
September 3	3,086
September 10	3,102
September 17	3,114
September 24	3,120
October 1	3,129
October 8	3,137
October 15	3,167
October 22	3,201
October 29	3,245
November 5	3,263
November 12	3,258
November 19	3,244
November 26	3,216
December 3	3,185
December 10	3,139
December 17	3,083
December 24	3,021
December 31	2,966
1939	2,967
January 7	2,927
January 14	2,898
January 21	2,883
January 28	2,966 a/
February 4	

Source: Works Progress Administration
a/ Confidential

WORKS PROGRESS ADMINISTRATION
Number of Workers Employed - Monthly
United States

219

	Number of Workers (In thousands)
1936	
January	2,936
February	2,936
March	2,872
April	2,570
May	2,340
June	2,256
July	2,249
August	2,377
September	2,452
October	2,521
November	2,453
December	2,192
1937	
January	2,128
February	2,146
March	2,115
April	2,070
May	1,852
June	1,721
July	1,656
August	1,628
September	1,451
October	1,426
November	1,428
December	1,328
1938	
January	1,401
February	2,073
March	2,335
April	2,322
May	2,322
June	2,727
July	2,967
August	3,027
September	3,128
October	3,241
November	3,222
December	2,922
1939	
January	2,827 a/

Source: Works Progress Administration

a/ Confidential

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

They include certified and non-certified workers.

Federal Surplus Commodities Corporation
Summary of Commodities Procured -
Fiscal Year 1938 and Fiscal Year 1939 to date

(Figures in thousands)

Commodity	Unit	Total Fiscal Year ended 6/30/38	Total Fiscal Year ended 6/30/39	7/1/38-11/30/38	12/1/38-2/28/39	3/1/39-5/31/39	6/1/39-8/31/39	9/1/39-11/30/39	12/1/39-2/28/40	3/1/40-5/31/40	6/1/40-8/31/40	9/1/40-11/30/40	12/1/40-2/28/41	3/1/41-5/31/41	6/1/41-8/31/41	9/1/41-11/30/41	12/1/41-2/28/42	Total Fiscal Year ended 2/8/39	Total Fiscal Year ended 2/8/39
Wheat (Soft)	Bushels	14,000	547	-	-	-	-	-	-	-	-	-	-	-	-	-	-	547	(1)
Wheat (Hard)	Bushels	10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(2)
Wheat (Soft)	Bushels	10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(3)
Wheat (Hard)	Bushels	10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(4)
Wheat (Soft)	Bushels	10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(5)
Wheat (Hard)	Bushels	10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(6)
Wheat (Soft)	Bushels	10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(7)
Wheat (Hard)	Bushels	10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(8)
Wheat (Soft)	Bushels	10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(9)
Wheat (Hard)	Bushels	10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(10)
Wheat (Soft)	Bushels	10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(11)
Wheat (Hard)	Bushels	10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(12)
Wheat (Soft)	Bushels	10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(13)
Wheat (Hard)	Bushels	10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(14)
Wheat (Soft)	Bushels	10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(15)
Wheat (Hard)	Bushels	10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(16)
Wheat (Soft)	Bushels	10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(17)
Wheat (Hard)	Bushels	10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(18)
Wheat (Soft)	Bushels	10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(19)
Wheat (Hard)	Bushels	10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(20)
Wheat (Soft)	Bushels	10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(21)
Wheat (Hard)	Bushels	10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(22)
Wheat (Soft)	Bushels	10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(23)
Wheat (Hard)	Bushels	10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(24)
Wheat (Soft)	Bushels	10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(25)
Wheat (Hard)	Bushels	10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(26)
Wheat (Soft)	Bushels	10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(27)
Wheat (Hard)	Bushels	10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(28)
Wheat (Soft)	Bushels	10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(29)
Wheat (Hard)	Bushels	10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(30)
Wheat (Soft)	Bushels	10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(31)
Wheat (Hard)	Bushels	10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(32)
Wheat (Soft)	Bushels	10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(33)
Wheat (Hard)	Bushels	10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(34)
Wheat (Soft)	Bushels	10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(35)
Wheat (Hard)	Bushels	10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(36)
Wheat (Soft)	Bushels	10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(37)
Wheat (Hard)	Bushels	10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(38)
Wheat (Soft)	Bushels	10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(39)
Wheat (Hard)	Bushels	10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(40)
Wheat (Soft)	Bushels	10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(41)
Wheat (Hard)	Bushels	10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(42)
Wheat (Soft)	Bushels	10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(43)
Wheat (Hard)	Bushels	10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(44)
Wheat (Soft)	Bushels	10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(45)
Wheat (Hard)	Bushels	10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(46)
Wheat (Soft)	Bushels	10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(47)
Wheat (Hard)	Bushels	10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(48)
Wheat (Soft)	Bushels	10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(49)
Wheat (Hard)	Bushels	10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(50)

February 11, 1939

Summary Department, Division of Research and Statistics.

* Weekly figures reported by Federal Surplus Commodities Corporation are based on telegraphic reports and are unverified.
 Fiscal year 1938 totals have been revised to include all contract cancellations and other adjustments.

Regraded Unclassified

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro

DATE: February 11, 11 a.m., 1939

EO.: 50

Reference my No. 48 of February 4, 11 a.m.

I am informed by the Director of Exchange that the Bank of Brazil will close exchange for maturities and daily quotas from January 8 to January 14 inclusive, during the week of February 13.

Please inform Commerce.

SCOTTEN

EA:DJE

PS

GRAY

London

Dated February 11, 1939

Rec'd 8:55 a.m.

Secretary of State,
Washington.

209, February 11, 1 p.m.

FOR TREASURY FROM BUTTERWORTH.

The foreign exchange market was quiet today with sterling inclined to be offered. Gold was fixed at 148 shillings 5 pence the premium being one pence and of the 132 bars sold 100 were supplied by the British fund; 15 were married.

PEG

JOHNSON

SC

GRAY

LONDON

Dated February 13, 1939

Rec'd 3:55 p.m.

Secretary of State

Washington.

214, February 13, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

One. From a reliable source I have been informed that the British Overseas Bank is attempting to arrange for a £ 1,000,000 revolving credit to Franco Spain. Confirmation will be sought as soon as a suitable opportunity presents itself but whether this particular endeavor is real or not there is no doubt a firm intention on the part of the British authorities to use their available financial economic and diplomatic assets in order to reestablish their leverage in the Iberian Peninsula; this is well understood in the city which has always favored Franco and is predisposed to cooperate.

Two. As previously reported business has for many months been at a low ebb in the city and consequently there is talk of impending amalgamations and of "quiet failures" particularly among stock broking houses.

Three. Due to New York being closed the foreign exchange market has been even (*) active than in recent days.

NC -2- #214, from London, February 13, 1939 6 p.m.

days. The dollar has remained steady and idle at around 4.68 9/16. Gold was fixed at 148 shillings 4½ pence, a ½ pence premium, and of the 179 bars sold the market supplied all; 97 were married.

JOHNSON

KLP

NPL

(*) apparent omission

February 13, 1939.
12:31 p.m.

Operator: Go ahead.

Mr. Duffield: Hello.

Mr. Duffield: Hello, Henry--

Mr. Duffield: Yes?

Mr. Duffield: In this committee it's my suggestion that -- thinking the thing over -- that it would be much more effective if Duffield would act as the chairman of that committee. Now he's -- you're the chairman of the committee; he's your assistant, and it seems to me that it -- that it would facilitate matters if none of the economists acted as the chairman of that committee. I think the economists can do better work if they're -- if they're working under the direction of someone else than where they have to act, any of them, as a chairman of the committee -- they are constantly trading back and forth among themselves as economists, and -- and I think as a matter of organization if Duffield, who knows the public reaction to everything and -- and has got fine economic understanding as well, I think personally it would facilitate matters greatly if -- if Duffield would take the chairman of that and no economist should be the chairman of that committee.

Mr. Duffield: Now, will you do me a little favor?

Mr. Duffield: Yeah.

Mr. Duffield: Would you clear it first with Frederic Delano?

Mr. Duffield: All right.

Mr. Duffield: See whether it's agreeable to him.

Mr. Duffield: All right.

Mr. Duffield: So that they don't think I'm trying to put my man in.

Mr. Duffield: Yeah, well, don't you -- don't you agree with me on that?

Mr. Duffield: Well, personally, I don't think there ought to be any chairman.

Mr. Duffield: Well, I know, but you've got to have someone; otherwise, -- someone's got to take responsibility for calling and getting the report out. They don't necessarily need to write the report.

- Mr. J.: How would this be -- no chairman, but let Duffield be secretary to the committee.
- E: That's -- well, that's -- let Duffield be secretary to the committee and let him -- and be responsible for getting -- getting them together and getting -- and responsible for getting the report out.
- Mr. J.: Right! But--
- E: And let them select, each time they meet, if they want to elect somebody to take charge of the meeting, let him take charge when they meet -- whoever happens to be there.
- Mr. J.: That's all right.
- E: That's all right.
- Mr. J.: Well, I don't -- well, would you make that suggestion to Deland?
- E: I'll -- I'll be glad to do it, but I wanted to speak it with you and see if you don't agree with me.
- Mr. J.: No chairman; Duffield act as secretary, and ride hard on them and see that they get the stuff out.
- E: Then if they have a chairman, it will be a temporary chairman at each meeting when they meet. If they want to elect one, that's up to them.
- Mr. J.: And if we do this, will you tell Curry it's your idea so that he doesn't feel hurt.
- E: Oh, well, Curry will feel perfectly all right because, as a matter of fact, I talked to Curry about it already and I told Curry that -- that the work was done over there, a good deal of it -- that it seemed to me that it was a mistake. I told him that it seemed to me it was a mistake for him to have to assume that responsibility, and that I felt that he could do better work if he -- if he didn't have to take the chairmanship and if he could merely do the economic work that I -- and I feel the same about White or Hays. I think that --
- Mr. J.: I -- I wouldn't let them be chairman.
- E: What is it?
- Mr. J.: I wouldn't let either of them be chairman.

E: Well, I -- I think it's a mistake to have them do it, because when they do it -- it deters them from -- it deters them from -- they lean over backwards, in other words. Now -- now, they sit there and they -- you try to reconcile all these points of view and -- and if -- you've got the responsibility for getting the report out, see?

WJr: Well, if you'll do this for me -- if you don't mind clearing it with Delano --

E: Yeah.

WJr: And then tell White to call me back, it will be all right.

E: Yeah.

WJr: Will you do it that way?

E: I'll -- I'll tell who to call you?

WJr: Well, I mean, if you just clear this with Frederic Delano and then if it's all right with him, if you don't mind telling Curry--

E: Yeah.

WJr: That we don't want him as chairman, and then I'll take care of the rest.

E: And now I'll call you back.

WJr: If you would, please.

E: All right.

WJr: Thank you.

February 13, 1939.
4:48 p.m.

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WMr: Hello -- hello -- hello.

Operator: I have Congressman McCormack. Go ahead.

WMr: Hello.

McCormack: Hello, Mr. Secretary. How are you?

WMr: How's Mr. McCormack?

M: Fine, thank you.

WMr: Good.

M: How are you?

WMr: I'm pretty well.

M: That's good. I wanted to find -- save you -- save bothering you going down personally on the Collector of Internal Revenue at Boston -- could you give me any -- conveniently, if you can, give me any more dope on it?

WMr: No, I'm sorry I can't. I don't know -- I don't know where it stands. As a matter of fact, you might say we -- we're completely stalled.

M: Um-hm. I see. Of course, you know who I'm for.

WMr: I know who you're for.

M: I'm for the real fellow.

WMr: Hesse?

M: Haseett, yeah.

WMr: Well, right now it's stalled.

M: As a matter of fact, confidentially, I think that about everybody would be for him if -- because there's some for Gougan, but I think that about everybody who is -- would have Haseett for their second choice.

WMr: Well, Gougan was down here last week, and he demanded a hearing, that he had never had one; I arranged for one for him the following day with Commissioner Helvering, and he never showed up.

M: I see.

- 2 -

WJR: And that's the last I've heard or seen of him.

M: Um-hm. Well, thanks, Secretary, I -- that saves you -- saves you --

WJR: Well, that's where it stood. We gave him a time and everything else and he never showed up.

M: Um-hm.

WJR: He said he wanted to clear up his record.

M: The only thing is if we -- if we're going to do anything we might as well get the benefit for the next -- of the appointment, because this fellow Hassett, of course, he's an outstanding man and everybody --

WJR: Well, I'm not stalling. As far as I --

M: Oh, no, don't you --

WJR: As a matter -- as a matter -- the only person I could refer you to would be to Jim Farley.

M: I see.

WJR: Yeah.

M: All right, O.K. I wouldn't want you to think that I was intimating about stalling because I know what these situations -- I know that there's a situation there that's -- that has got to be handled with some delicacy.

WJR: Right.

M: All right, thanks, Secretary.

WJR: Good bye.

M: Good bye.

February 13, 1939.
4:48 p.m.

WJr: Hello.

Operator: Chairman Eccles. Go ahead

WJr: Hello, Marriner.

Marriner
Eccles: I talked to Delano --

WJr: Yeah.

E: And I also talked to Curry --

WJr: Yeah.

E: And that matter that I discussed with you is perfectly agreeable with both of them. As a matter of fact, Curry would very much prefer to be -- to have more freedom as a member than he feels he would have as chairman. He thinks he's more or less deterred in -- and in trying to reconcile all the different points of view it -- he said he'd sooner not have it.

WJr: Good.

E: And Delano thinks that -- that that arrangement is all right. That Duffield act as the secretary and assume responsibility for getting it together and getting out a report.

WJr: Fine. I'll tell Duffield right away.

E: Yeah, all right then.

WJr: Thank you.

E: Good bye.

GROUP MEETING

February 13, 1939.
9:30 a.m.

Present: Mr. Hanes
Mr. McReynolds
Mrs Klotz
Mr. Haas
Mr. Duffield
Mr. Lochhead
Mr. Gibbons
Mr. Foley

H.M.Jr: Mac, what have you got?

McR: The only thing I've got is this letter. I don't think you want to go into it at this meeting. It's a letter to the President about this F.A.A. He asked us to prepare an answer from him to Sheppard.

H.M.Jr: (On phone) Hello, Janet. Mr. Gaston's on his way up to the house, and on the left-hand side of my bed there should be some pamphlet - says something about testimony before the Military Affairs Committee. There are five different sections of it, and if you could find it Mr. Gaston will be up there and have it ready for him. There are five sections of it. - What? - Yes. It says "Testimony before Military Affairs Committee." Will you have it ready? - Thank you.

Do you (McR) think I ought to tell that clerk up there?

McR: No, I don't think so. It was handed to him by their military adviser.

H.M.Jr: (On phone) What's the clerk's name of the Military Affairs Committee? - Well, find out; I'll talk to him, please.

Klotz: What time is it supposed to be, 10 o'clock?

H.M.Jr: Well, Mac, ...

McR: This is a letter written to the President by Sheppard. He sent it over and asked us to prepare a reply. And

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it's about the appointment of that Federal Alcohol Administration Board, and calls attention to the fact that he had never appointed it. He wants his chance to select somebody. Just a sort of a - Sheppard knows that he isn't going to appoint anybody. What we've done was not to commit ourselves, because after all we're preparing a paragraph to go in the revenue bill

H.M.Jr: How do you answer it, Mac?

McR: I've got a memorandum to the President telling him the circumstances. But we're merely telling him that in view of the pending reorganization legislation, it didn't seem appropriate to do that. That's the statement to the President.

H.M.Jr: (Signs papers)

McR: Just a review of the facts.

H.M.Jr: All right?

McR: That's all.

Duffield: Be ready at 10 o'clock.

H.M.Jr: At 10 o'clock. Well, White went out to try to rewrite that stuff. If you don't mind my saying, I think it's terrible?

Duffield: Do you?

H.M.Jr: Oh, I think it's awful. I'm just disgusted with the thing.

Haas: Ten men usually do that kind of a job.

H.M.Jr: (On phone) Hello. - Mr. Smalley, Mr. Morgenthau speaking. My testimony, at least the copies of five sections of testimony you sent down to me ... Hello? - They're on the way up to the Hill now. They may be a few minutes late, but I just want you to know that Mr. Gaston is bringing them up there himself. I just wanted to let you know. (Conv. ends)
Now, I think it's terrible. First place, the

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language - I've told this all to Harry, only stronger - it's very technical language; it's the Eccles language. It doesn't make sense to me; I don't know what it's all about. It was a good memorandum the way it first came. I mean it's - I've got to have a heck of a fight this morning; I don't know, I just was disgusted.

Duffield: If you think that's the Eccles language, you should have seen it in the first place.

Haas: Yes. We had a big draft.

H.M.Jr: well, I just think it's terrible. Now, I'm generous in my praise when I like something.

Duffield: Yes.

H.M.Jr: What?

Duffield: Sure.

H.M.Jr: And I don't mind saying it. Now, incidentally, N.A.M. have got out exactly the same thing. Have you seen it?

Duffield: This morning.

H.M.Jr: I'm going to start off the meeting by reading it. And they've been very fair, and they write it in language I can understand. "Management Seen Erring in Judging Effects of Government Programs." They criticize themselves. "U. S. Policies Block Upturn, N.A.M. Finds."

Haas: That's the analysis of the last depression.

H.M.Jr: What's the matter, how to go ahead. I'm going to find out who was the brains of this and have him come down and sit down with the fellow. Whoever the brain is, I figure that he and I both had a good idea.

Haas: Was that in today's paper?

H.M.Jr: Sunday's Tribune.

But I just can't pour it on too thick now disgusted

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I am with that memorandum you fellows gave me. Now - and we just - we've got to get something. I mean let me just read a typical thing.

Hanes: I'd like to submit mine along with the manufacturers and this first one and the second draft, because I worked over the first memorandum.

H.M.Jr: The thing that made Harry sick particularly was when I said, "The whole emphasis is on Government spending and only incidentally private initiative."

Duffield: I went over that Saturday, and I'll have to disagree with you.

H.M.Jr: That's all right. He does too. But the whole tone - I'm not half - I'm calm compared - were you (Lochhead) there?

Lochhead: Yes.

H.M.Jr: Did I pour it on Harry?

Lochhead: Yes, I think you put the salt in his wounds.

H.M.Jr: Well, that's the impression I've gotten; and I'm particularly sorry because - well, again N.A.M. has led the way now. We'll see. You don't agree with me?

Duffield: I don't agree that the emphasis is all on Government spending. Maybe I'm influenced by the way it was when I first saw it.

Haas: I think so.

H.M.Jr: I didn't see that. But when I get this - I'm very low. You're (Hanes) going to be here at 10, aren't you?

Hanes: Yes, sir.

H.M.Jr: We private initiative fellows have got to stick together. These Government spenders, you know, ...

Haas: We made progress, as Gene says, from the first draft.

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H.W.Jr: All right.

Lochhead: Foreign markets are quiet. The New York market's closed today. Knoke is down in my office. I'm going to get in touch with the other side.

Harry wanted to leave this to show there's been a fairly heavy inflow this last period. Nothing very startling.

One interesting thing is that France has been gaining dollars this last week. They've gained a total of about 15 or 16 million dollars. They generally turn that all to gold. They've been putting this over into one account in the Fed and keeping it dollars this time, which makes me think they're building up a dollar balance for their airplane purchases, because ordinarily they'd convert that to gold.

H.W.Jr: Answer that for me. You're on South America. Just get some kind of an answer. (Hands an incoming letter to Lochhead)

You're going to send that stuff over to Mr. Hull for me.

Lochhead: Being photostated now, won't be ready until 10 o'clock. Takes three quarters of an hour.

H.W.Jr: When it's ready

Lochhead: As soon as it's ready, I'll have three copies go over to Mr. Hull.

Gibbons: Congressman Sabath was over to see me about Eastern States Oil.

McCartay wrote us a letter about this oil jumping case. We've been trying to get a delay in it, letting the State Department send a man down there. We got a report on it Saturday; the Mexicans wouldn't let this fellow we sent down look at their books. But this thing you or I can do nothing about.

I'd like to talk to you about Mrs. Pike, the Collector of Customs in Ohio that the President

-6-

doesn't like. They'd like to put Charley West out there.

H.M.Jr: That's entirely in your hands. The President told me about it, and if he wants Charley West in place of Mrs. Pike, why,

Gibbons: I've got to see Donahey, of course. Donahey thinks Mrs. Pike is efficient.

H.M.Jr: You and the President

Gibbons: I just wanted to let you know. Jim is against Mrs. Pike. She got up at Chicago in 1932; then they had to accept her.

H.M.Jr: Well, you look after it.

Gibbons: I just wanted to

H.M.Jr: Remember, she's a lady. All right?

Gibbons: O.K.

H.M.Jr: George, will you find out - my son Robert wants to know if boys working their way through college will or will not be exempt from Social Security. He thinks they should be. Will you find out, give me a little memo? Give it to Mrs. Klotz. He wants to know where they stand: boys that are working their way through college. He thinks they ought to be exempt.

H.M.Jr: O.K.

Brown is planning on coming in again tomorrow. Then he has to go out to Chicago. He could be back Thursday. He's on a program out there. But otherwise he'll be back Friday.

H.M.Jr: That's all right. I'll see him definitely tomorrow, if you remind me again.

WCR: Well, Altmeyer is supposed to go before the Committee on Wednesday. He asked me what I thought about his being back here Tuesday or later in the week. I told him by all means to make it Tuesday if it was convenient, because I thought he ought to be here, available

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for Altmeyer to consult.

S.A.Jr: Was he kept busy Thursday and Friday?

James: Yes. We had the transcript of all the testimony and we had these questions that Altmeyer submitted to you. We're all in agreement on that, including Brown. And we discussed this variable grant; we spent half a day with him on that.

S.A.Jr: Well, Saturday morning I told Mrs. Klotz there were two things I wasn't up on; one was Brazil and the other was Social Security. At least I'm abreast on Brazil, but I'm still behind on Social Security.

John: Brown ought to have a chance to talk to you for ten minutes on Tuesday.

S.A.Jr: He will.

John: Because it's that question of Federal subsidy.

S.A.Jr: Well, let's tell him now, Mrs. Klotz. I'll tell him - from 10:15 to 11 we'll meet Brown.

Klotz: When?

S.A.Jr: Tuesday morning.

O.D., George.

James: That's all I have.

James: I got a note from Aranha on that corporation idea that he asked me to hand to you, which I'll give to you and tell you in five minutes about the lunch I had with him yesterday.

S.A.Jr: Oh. Maybe we can do it right now.

James: Right after this.

S.A.Jr: Yes, because at 10 o'clock I go into a meeting.

James: Shall I get that memorandum?

S.A.Jr: Will you please?

(To Foley) Go ahead.

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Foley:

There was a gold case in the Supreme Court last week. I understand Mr. Oliphant and Bob Jackson had decided that since the Government wasn't directly interested, we wouldn't participate, but merely observe. It involves a foreign bondholder, where the bond contained an option to pay in guilders or gold, and he's claiming payment in unrevalued dollars - the equivalent in guilders.

I understand the Court is quite troubled about the case, and if it's all right with you I'll talk it over with Bob and discuss submitting something to the Court to state the Government's position. I understand they criticized the Government because they say they're interested in putting liberal judges on here to carry out the Government's policy and then you don't tell the judges what the Government's policy is. And we have no way of knowing what the Administration's position is

H.M.Jr:

Will you and Robert Jackson take care of it?

Foley:

Yes, sir.

H.M.Jr:

Swell.

Foley:

State Department last November sent over a bill to amend the Trading-with-the-Energy Act to combat discriminatory control by foreign governments where payments are made to Americans and permit the American Government to confiscate payments to people in those countries where such discrimination is going on.

Now, we've gone over the bill and we've made some additions and some changes. I have a letter sending it back to Hull, saying that it is a basis for further discussion.

H.M.Jr:

I'd like to look at that.

Foley:

Just a redraft, just leading up to another discussion, and I think we ought to get it out of here and get it back there.

H.M.Jr:

Well, if Mr. Hanes has time to read it, I'd like - I'd like somebody to read it, if you don't mind,

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before it goes over.

Foley: Taylor has been over it, and White.

E.A.Jr: If you don't mind, just let Hanes read it and take his time. I'll sign it so you won't hold it, but I would like Hanes to read it.

Foley: This doesn't mean that they'll introduce it.

E.A.Jr: Well, I just want

Foley: We submit an alternative draft which can be discussed at a later conference.

E.A.Jr: All right, Ed?

Foley: Yes. Well, one other thing.

E.A.Jr: Please.

Foley: This legislation about airplanes that we worked on with Bob Jackson - that was turned over to Louis Johnson.

E.A.Jr: Yes.

Foley: And we got a note that Louis had submitted it to the industry for their suggestions. You said that I should talk to Bob and get Bob's advice. Well, I did, and Bob was just as much upset about Johnson turning the thing over to the industry as we were; but he said it was his understanding that the policy was to be determined by the War Department and that we and Justice were to work on the mechanics of the legislation. So he feels that there isn't anything he can do about it, and he's waiting until Johnson comes back to him with his suggestions.

E.A.Jr: Well, personally, unless somebody in the room thinks otherwise, I think the Treasury better drop out of it. In either reading the testimony or reading the press - the War Department has jumped on these suggestions - I read it somewhere - and this isn't what they wanted, and so forth and so on, although

-10-

they participated and O.K.'d everything. Now, I've just been through this thing once and I don't want to go through it again; and let the Army and Navy do what they want. I mean after all, they can report to the President and let the President tell them. I mean I just read my testimony all last night: What have we got to do with buying the planes? Nothing. Well, what have we got to do with drafting legislation for buying them? Well, it would be the same thing. And when I read General Arnold's sworn testimony, it's just amazing, I mean, and - well ...

Foley: It's all right with me.

H.M.Jr: Good. I'd just let it go. I'd let her ride. I'd just drop out of it, unless

Foley: ... Bob wants us to help him.

H.M.Jr: and even before you go back into it again, talk to me about it again. I mean Johnson, as I understand, drew up this thing and approved it; but now I just don't want to be the goat again, that's all. So I'd keep out of it unless I ask you to get into it, or unless the President asks me to ask you to get into it; then we'll do a little talking about it.

O.K.

ARCHDIOCESE OF DETROIT

1234 WASHINGTON BOULEVARD

DETROIT, MICHIGAN

241

ARCHBISHOP'S OFFICE

February 13, 1933

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

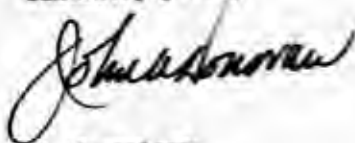
Your Honor:

In behalf of Archbishop Mooney, who is out of the city at the present time, I wish to acknowledge receipt of your letter of February 9th and express the Archbishop's appreciation of your kindness in sending him a copy of your recent letter to Father Coughlin.

It will no doubt please the Archbishop that you discussed the matter of a recent broadcast directly with Father Coughlin.

Your letter and enclosures will be referred to the Archbishop as soon as he returns.

Sincerely yours,



Secretary

JAD:P

62-15 037

February 13, 1950.

My dear Colonel McCabe:

This will acknowledge receipt of your memorandum of February 8th.

Sincerely,

(Signed) H. Morgenthau, Jr.

Colonel E. E. V. McCabe,
Assistant Chief of Staff, G-3,
Military Intelligence Division,
War Department,
Washington, D. C.

EHF:lmf

SECRET

~~CONFIDENTIAL~~

WAR DEPARTMENT
WAR DEPARTMENT GENERAL STAFF
MILITARY INTELLIGENCE DIVISION, G-2
WASHINGTON, D. C.

243

February 8, 1939.

MEMORANDUM FOR MR. MORSEWELL:

The following circumstances learned from a very reliable source are transmitted for your information:

On February 2 the Japanese Embassy in Berlin was approached by an official of the German Finance Department in company with a representative of the German Committee of the International Scrap Iron Agreement. The conversation brought out the point that since Japan is not a party to this agreement she has been purchasing scrap iron from America to such an extent as to cause the price to rise abnormally. The Germans insisted that this was extremely harmful to Germany which country, in view of the present crisis, was in no position to be placed at such a disadvantage. Due to the fast friendship between Japan and Germany it was argued that Japan certainly should join the agreement. If this were impracticable she should at least confer with the leading German industrialists and arrange to purchase at an equal pace with them in order not to injure Germany and to arrange an agreement for a reasonable price.

It was also brought out that Japan had been purchasing scrap iron from Belgium at a price 50 to 60 francs higher than other nations thus throwing the market into chaos. It was urged that Japan and Germany should get together and buy from the United States at the "right price," and that a Japanese representative be sent to confer with the German Finance Department at once regarding the matter.

E. H. W. McCall

E. H. W. McCall,
Colonel, General Staff,
Assistant Chief of Staff, G-2.

SECRET

~~CONFIDENTIAL~~

Regraded Unclassified

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Copies furnished

Mr. Hanes
Mr. Taylor
Mr. Lochhead

~~Should Dr. White get a copy?~~ *yes*

February 7, 1939

My dear Col. McCabe:

Thank you for your letter of February 6th, relative to the approaching visit to Mexico of Mr. Tanichi Fukushima.

Information of this nature is of much interest to the Treasury Department and I appreciate your kindness in making it available to us.

Sincerely,

(Signed) H. Morgenthau, Jr.

Col. E. H. W. McCabe,
Assistant Chief of Staff, G-5,
War Department,
Washington, D. C.

note: Envelope stamped "Confidential"

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9
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CONFIDENTIAL

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WAR DEPARTMENT
WAR DEPARTMENT GENERAL STAFF
MILITARY INTELLIGENCE DIVISION, G-1
WASHINGTON, D. C.

February 6, 1935.

MEMORANDUM FOR MR. MORSEWORTH:

In order to keep the Treasury Department current with certain efforts of the Japanese Government to bolster up its financial situation, the following information from a reliable source is transmitted:

One Tanichi Fukushima was due to leave Yokohama on January 17 and to arrive in Mexico City early in February for the purpose of selling to Japanese residents in Mexico China Emergency bonds to the amount of one million yen. After completion of his work in Mexico he expects to engage in the same activity in Panama and Peru.



E. R. W. McCABE,
Colonel, G. S. C.,
Assistant Chief of Staff, G-2.

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WAR DEPARTMENT
WAR DEPARTMENT GENERAL STAFF
MILITARY INTELLIGENCE DIVISION G-2
WASHINGTON, D.C.

February 6, 1939

MEMORANDUM FOR MR. MORGENTHAU:

In order to keep the Treasury Department current with certain efforts of the Japanese Government to bolster up its financial situation, the following information from a reliable source is transmitted:

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(Sgt) E. E. V. McLELL
Colonel, U. S. G.
Assistant Chief of Staff, G-2

RECEIVED G-2 1194

FEB 11

CONFIDENTIAL

My dear Mr. Secretary:

In further reply to your letter of November 17, 1936, enclosing draft legislation and a memorandum relating to combating discriminatory control by foreign countries of payments to Americans, I consider that your suggestion that legislation in this field be sought is one of major importance. Accordingly, it has had very careful consideration and will be given further attention.

The matter has been gone into far enough to suggest that the legislation which your Department proposes would be even more useful if it were framed a little more flexibly, so as to permit the President effectively to deal with other ramifications of the general problem. Moreover, it would seem that the legal basis for such legislation could be strengthened. Of course it is not possible at this time definitively to pass upon all the policy questions involved in such legislation. Furthermore, constitutional questions are raised which must be reserved for further consideration. However, with a view to developing the matter further between the two Departments, I attach an alternative draft which also can be discussed at any conference between representatives of the two Departments which you may care to arrange.

Very truly yours,

Reginald E. Macpherson, Jr.

Secretary of the Treasury.

The Honorable

The Secretary of State.

TREASURY DEPARTMENT
DEPARTMENTAL NOTE FORM NO. 1

SPECIAL

and
~~Confidential~~

**It is important
that this Paper
should be made
Special. 249-222**

U. S. GOVERNMENT PRINTING OFFICE: 1934

SECRET

TREASURY DEPARTMENT

250

INTER OFFICE COMMUNICATION

DATE FEB 6, 1939

TO: Secretary Morgenthau
FROM: Acting General Counsel

The State Department has sent to us for consideration a preliminary draft of an act "to implement the Executive in dealing with payments by Americans to creditors abroad in the light of current discriminatory control of payments to Americans". As drafted by the State Department the bill, which has been prepared as an amendment to the Trading With the Enemy Act, would permit the President to combat discriminatory control of payments to Americans by foreign countries by requiring that payments from persons in the United States to such countries be turned over to the United States for disposition in a manner prescribed by the President.

We have redrafted the State Department's proposed amendment in order: (a) to put it on a more sound legal base; and (b) to add sufficient flexibility to permit the President to deal with the problem involved in its various ramifications by:

- (1) Giving the President control over all foreign holdings in this country as well as all American holdings abroad and thus giving the Government power to retaliate for discriminatory and unwarranted acts by other countries in this field.
- (2) Authorizing the President to enter into agreements with other countries for the purpose of protecting the interests of the United States and its nationals.

Furthermore, as mentioned above the act being amended is the Trading With the Enemy Act, which as amended by the act of March 9, 1933,

is the source of the Treasury's authority in the field of exchange control, etc. Accordingly, if the State Department is going to request any legislation of this kind, it is a propitious time for us to get legislation which would be helpful in the general field of international monetary relations. We have, accordingly, redrafted the amendment so as to enable us to cope with problems in this field which we have been considering in the last few years by: (a) making explicit a number of powers about which there is now some doubt; and (b) giving us a number of new powers. Thus, as redrafted, the amendment gives the Treasury explicit power to:

- (1) Deal with the "hot money" situation in various of its aspects. Here we have included the power to obtain full information on foreign holdings of property in this country and American holdings of property abroad, and to regulate and prohibit the bringing of property into the United States as well as the taking of property out of this country.
- (2) Protect our economy in the event of threatened or actual war or other serious economic disturbance here or abroad.

I have also prepared a letter to the Secretary of State enclosing our draft as an alternative draft for the consideration of the two Departments. In this letter we point out among other things that it is not possible at this time definitively to pass upon all the policy questions, and also that there are constitutional questions which will have to be considered further.

E.H.H.

(Public No.)

AN ACT

To protect the foreign and domestic commerce of the United States, and for other purposes.

As it enacted by the Senate and House of Representatives of the United States in Congress assembled, That subdivision (c) of section 5 of the Act of October 6, 1917 (40 Stat. 411), as amended, is hereby further amended to read as follows:

Par. 2. The short title of this subdivision shall be the "Foreign and Domestic Commerce Act of 1939".

Par. 3. Whenever the President finds the existence of: a national emergency, or any actual or threatened war, or any actual or threatened insurrection, invasion or disturbance of the international relations of the United States; actual or threatened confiscatory, discriminatory, or otherwise unwarranted, prejudicial, or unreasonable action or default by any foreign country with respect to any property or interest therein, or the foreign commercial relations, of the United States or nationals thereof; or impelling circumstances at home or abroad of such character as to warrant such action for the protection of the interests of the United States or nationals thereof, the President may, (A) by means of licenses, or otherwise, investigate, regulate, or prohibit: (1) any transactions in foreign exchange, transfers of credit between or payments by or to banking institutions, and the importing, exporting, hoarding or withholding, melting, or earmarking of currency or gold or silver coin

of value or credit equivalents thereto, within, into, or out of the United States or any place subject to the jurisdiction thereof, or by any person subject to the jurisdiction of the United States; and (11) any acquisition, disposition, payment, transfer, transportation, or other dealing or trading in, or holding or withholding of any property or interest therein (a) subject to the jurisdiction of the United States, or any designated or all foreign countries or nationals thereof or, (b) situated outside the United States, by any national of the United States; and, (B) in addition to any of the foregoing measures, enter into agreements, which are hereby authorized, with any foreign country with respect to any of the foregoing matters to carry out the purposes of this Act.

Par. 4. Any property or interest therein, or any proceeds thereof, acquired by or for the account of the United States pursuant to any provision of this Act, shall be held, liquidated, administered or disposed of in accordance with regulations issued by the President, and may be applied: (A) in compensating the United States or nationals thereof for losses suffered as a result of action or default by a foreign country; (B) in such manner as may be provided for in any agreement entered into by the President with a foreign country as hereinabove authorized; or (C) in such other manner as the President finds is consistent with the purposes of this Act or as Congress may otherwise hereafter designate.

Par. 5. Any payment, conveyance, transfer, assignment or delivery of property or interest therein, made to or for the account of the United States pursuant to this Act or any order, regulation, or instruction

issued hereunder shall be a full acquittance and discharge for all purposes of the obligation of the person making the same to the extent of the same; and no person shall be held liable in any court for or in respect to anything done or omitted in pursuance of this Act or any order, regulation, or instruction issued hereunder.

Par. 6. There is hereby appropriated, out of any moneys in the Treasury not otherwise appropriated, such sums as may be necessary for expenditure under the direction of the President and in his discretion for any purpose in connection with the carrying out of this Act, and such appropriation shall be deemed a permanent annual appropriation.

Par. 7. Whoever willfully violates any of the provisions of this Act or any order, regulation, or instruction issued hereunder, shall, upon conviction, be fined not more than \$10,000, or if a natural person, may be imprisoned for not more than ten years, or both; and any officer, director, or agent of any corporation who knowingly participates in such violation may be punished by a like fine, imprisonment, or both; and, in addition, any property or interest therein, subject to the jurisdiction of the United States and referred to in this Act, which is acquired, disposed of, paid, transferred, transported, imported, exported, or otherwise dealt or traded in, salted, earmarked, or held or withheld, in violation of this Act, or of any order, regulation, or instruction issued hereunder, or with respect to which any violation of the provisions of this Act, or of any such order, regulation, or instruction, has occurred, shall be forfeited to the United States, and may be

seized and condemned by like proceedings as those provided by law for the forfeiture, seizure, and condemnation of property imported into the United States contrary to law; and in addition whoever fails to comply with the provisions of this Act or of any order, regulation, or instruction issued hereunder, shall be subject to a penalty equal to twice the value of the property or interest therein, in respect of which such failure occurred, and such penalty may be collected by suit, including counterclaim, set-off, recoupment, or other affirmative action or defense, or otherwise.

Par. 8. The President is authorized to issue regulations and instructions to carry out the provisions of this Act; and he may exercise any power or authority conferred on him by this Act through any officer or agency that he may designate, or otherwise.

Par. 9. The President, at any time, may require any person or national referred to in this Act to furnish under oath complete information, including the production of any books of account, contracts, letters or other papers, relative to any matter referred to in this Act, or in connection therewith, in the custody or control of such person or national.

Par. 10. The right to alter, amend, or repeal this Act is hereby expressly reserved. If any provision of this Act, or the application thereof to any person or circumstances, is held invalid, the remainder of the Act, and the application of such provision to other persons or circumstances, shall not be affected thereby.

Par. 11. All Acts and parts of Acts inconsistent with any of the provisions of this Act are hereby repealed, but the authority conferred in this Act is declared to be supplemental to the authority heretofore conferred.

Par. 12. As used in this Act the term "foreign country" shall include any empire, country, dominion, colony, or protectorate, or any subdivision thereof or faction therein, regardless of whether the same have been recognized by the United States, and the term "national" shall include any person who is, or who there is reasonable cause to believe is, domiciled in, or a subject, citizen or resident of, a foreign country or of the United States, as the case may be, and shall also include any partnership, association, or other organization, including corporations, organized under the laws of, or having its principal place of business in a foreign country or in the United States, as the case may be, or which is controlled by, or a substantial part of the stock, shares, bonds, debentures, or other securities of which is owned or controlled by, directly or indirectly, a person, or persons, who is, or are, or who there is reasonable cause to believe is, or are, domiciled in, or the subjects, citizens or residents of a foreign country or of the United States, as the case may be: Provided, That the foregoing definitions shall not be construed as a limitation upon the power of the President, which is hereby conferred, to prescribe other and further definitions of the terms used in this Act, not inconsistent with the purposes of this Act.

NOV 18 1938

My dear Mr. Secretary:

This will acknowledge receipt of your letter of November 17 transmitting a memorandum dated November 3 and a draft of a possible bill which might be presented to the next session of Congress in order more adequately to implement the Executive in dealing with payments by Americans to creditors abroad in the light of current discriminatory control of payments to Americans.

I shall be glad to respond, as early as the importance of the problem permits, to your request for an expression of my judgment on the policy and form of this legislation.

Sincerely yours,

(Sgd.) H. Morgenthau, Jr.

The Honorable
The Secretary of State
Washington, D. C.

HO:s Typed 11/18/38

(COPY)

DEPARTMENT OF STATE
WASHINGTONURGENT AND CONFIDENTIAL

November 17, 1938

My dear Mr. Secretary:

The Treasury is of course fully acquainted with the fact that many governments are now subjecting the payments due to Americans for purchases of goods, yield on investment, proceeds of inheritances, et cetera, to strict and often discriminatory control. In considering some of these situations it seems to me that we might well be in a more effective position to protect the American interests if there were legislation specifically giving the Executive the authority to control payments by Americans. I am told that under certain sections of the Trading with the Enemy Act the Executive already possesses some such authority in general terms, but believe that it would be preferable to have this authority explicitly conveyed for an explicit objective and with public understanding.

I have had prepared the draft of a possible bill which might be presented the next session of Congress.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

- 2 -

This bill on such action is receiving the tentative consideration of the Department. I know that this is a matter of great interest to the Treasury Department and furthermore surmise that the application of policy in this field would have to be carried out largely if not primarily under the administrative direction of the Treasury.

I therefore request consideration of the policy embodied in this piece of legislation and of the precise terms of this legislation, and would appreciate an expression of your judgment on both as promptly as may be convenient.

I am also attaching a copy of a short memorandum setting forth the skeleton ideas that were in mind in preparing this draft.

Sincerely yours,

(Sgd.) Cordell Hull

Enclosures:

1. Draft of bill.
2. Memorandum, November 3.

STRICTLY CONFIDENTIAL.

November 3, 1938.

Suggested Draft of the Substance of Legislation Empowering
the President to Control Payments to Foreign Countries

The purpose of the draft suggested below is to sketch the framework of provisions in the broadest terms possible which would give the President authority, in case it were desirable to use it, to control payments to foreign countries pursuing policies in the exchange field detrimental to American interests. There has been no attempt to throw it into the legal language of final draft legislation nor is there any consideration whatever of possible constitutional questions that might be raised.

I

Whenever the President shall find as a fact that any foreign nation is directly or indirectly prohibiting, restricting or regulating payments or transfers of any kind from that country to residents of the United States, he may, if in his opinion the public interest will be served thereby, direct that payment of all sums of any designated class or classes of payment due to residents of the other country shall be made by paying the dollar amount, if the debt be expressed in dollars, or, if the debt be expressed

- 2 -

in a foreign currency, the amount in dollars equivalent thereto at the buying rate in the New York market at noon on the day the payment is due as determined by the Federal Reserve Bank of New York and certified daily to the Secretary of the Treasury pursuant to Section 522 of the Tariff Act of 1930, into such funds or institutions as the President may establish or designate for that purpose.

This leaves open the widest possible latitude for action on the grounds of exchange treatment abroad. It does not permit of any action on the grounds of general discrimination outside of the exchange field, nor for venting spleen on political policies we may not like. Alternatively, and again only within the exchange field, the President might be required to find one or more of the following conditions precedent to acting:

(a) That the exchange policies and practices of another country result, in any given class of payments, in less favorable treatment of American creditors than that available to like creditors of a third country. This might also be worded so as to reserve to the President the right to judge whether

categories established in the other country were in fact equitable (i.e., whether the United States would acquiesce in Brazil's paying cash for armaments, most of which are acquired in third countries, while delaying payment for commercial imports; or whether Chile or Honduras could establish luxury categories with less favorable exchange treatment than that accorded to essentials, and then include radios in the luxury group while leaving out wines or laces which might be supplied by a clearing country).

(b) That the other country is failing to fulfill an international obligation to which the United States is a party in the matter of payment and exchange treatment accorded to residents of the United States. At the moment this would chiefly and perhaps solely mean Brazil. It should not include war debt defaults; this is probably taken care of by speaking of exchange treatment and payments accorded to residents of the United States. By limiting it to obligations to which the United States is a party,

- 4 -

it would exclude defaulted bonds, etc., which can be included if desired under (c) below.

(c) That the other government is in default on payments due to residents of the United States.

(d) That the action of the other government in its clearing agreements, blocked currencies, etc., is causing some third country to accord discriminatory treatment in exchange matters to residents of the United States.

II

Payment from the amounts paid into any fund or institution in accordance with the provisions of the preceding section shall be subject to such regulations as the President may establish.

This blanket provision makes no attempt to establish priorities of classes of payments, no means of determining individual priorities within any given class, and no attempt to reserve these funds for the payment of domestic claims exclusively or in preference to permitting payment abroad from the established funds. In the absence of any very

- 5 -

detailed section I, it would be almost impossible to draft a satisfactory section II except in the broadest terms.

III

Payment into a fund or institution established as provided in section I shall relieve the debtor from all further responsibility with regard to such payment, including responsibility arising out of fluctuation in exchange rates between the time such payment is made and the time at which the foreign creditor receives his payment.

IV

Penalties for failure to comply with the provisions of section I and with any rules or regulations established thereunder shall render a resident of the United States liable to civil penalties, not to exceed (25 percent) of the value of the payment which should have been made.

V

This section to be appropriation of necessary funds.

VI

Authorization to the President to delegate this to the appropriate agency.

- 6 -

VII

Definitions of terms used in the act.

DRAFT

(Public No.)

AN ACT

To regulate, restrict or prohibit payments or transfers from the United States to residents of certain foreign countries, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That Title I, Section 2 of the Act approved March 9, 1933, entitled "an Act To provide relief in the existing national emergency in banking, and for other purposes", as amended, is hereby amended by adding thereto subdivision (c), reading as follows:

"(c) Whenever the President shall find as a fact that any foreign nation is directly or indirectly prohibiting, restricting or regulating payments or transfers of any kind from that country to residents of the United States, he may, if in his opinion the public interest will be served thereby, and directly or through any agency that he may designate, prohibit, restrict or regulate, under such rules and regulations as he may prescribe, by means of licenses or otherwise, any payments or transfers of any kind from the United States to residents of such foreign country, and he may direct that payment of all sums of any designated class

- 2 -

or classes due from residents of the United States to residents of that other country shall be made by paying, into such funds or institutions as he may establish or designate for that purpose, the dollar amount of the debt, if the debt be expressed in dollars, or, if the debt be expressed in a foreign currency, the amount in dollars equivalent thereto at the buying rate in the New York market at noon on the day the payment is due as determined by the Federal Reserve Bank of New York and certified daily to the Secretary of the Treasury pursuant to Section 522 of the Tariff Act of 1930. Payments so made shall relieve the payer from all further responsibility with regard to such payment including responsibility arising out of fluctuation in exchange rates between the time such payment is made and the time at which the foreign creditor receives his payment. Disposition of the amount of payment so made shall be governed by such regulations as the President may promulgate. Whoever wilfully violates any of the provisions of this subdivision or of any license, or, rule or regulation issued thereunder, shall, upon conviction, be fined not more than \$10,000; and any officer, director, or agent of any corporation who knowingly participates in such violation may be punished by a like fine. As used in this subdivision the term 'residents of the United States' means persons, including individuals, partnerships, associations, or corporations having their abode in the United States."

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE February 13, 1939

TO Secretary Morgenthau
FROM Mr. Haas
Subject: The Business Situation,
Week ending February 11, 1939.

Conclusions

(1)

While the business outlook remains generally favorable, viewed from the standpoint of domestic conditions, renewed weakness in commodity prices has added somewhat greater uncertainty to the outlook, and may tend to prolong the current period of hesitation. The price index of 30 sensitive commodities declined this week to the lowest level since June, despite a rising trend of security prices in this country and strong stock market upturns abroad.

(2)

An increased volume of new orders in various lines, together with other favorable factors, point to a relatively short period of hesitation in business, unless these should be offset by further weakness in prices or other unsettling developments. With industrial production practically on dead-center, according to our basic indexes, it is more than usually sensitive to both favorable and unfavorable influences.

(3)

Recent reports indicate a change toward increased confidence and a brighter business atmosphere in Great Britain, perhaps resulting in part from a marked improvement in security prices over the past two weeks. Current statistical data from various industries are also reported as showing improvement. This follows earlier reports of business improvement in France.

The general situation

Business currently is in a period of hesitation at a level of activity (on a seasonally adjusted basis) slightly below that of November and December. Spring influences are awaited to bring an improvement in orders and a renewed rise in industrial production. The FRB index for January will show a drop of about 3 points from the 104 level reached in December, largely because of a contraseasonal decline in steel output. Unless steel operations improve rapidly during the latter half of the month, as they could well do with the current level of new orders, the FRB index for February may show some further decline. Business sentiment, however, has for some time been prepared for a moderate setback during the first few months of 1939.

Evidence is not clear as to the probable extent and duration of the current business setback, although domestic conditions as measured by our various business indexes provide no basis for expecting more than a moderate and relatively short period of hesitation. The trend of new orders in recent weeks, particularly for steel products, has been definitely encouraging. The reduction in inventories to a low level at the end of 1938 suggests that production early in 1939 might easily be stimulated by buying for inventory purposes. The demand for materials for Government projects will be relatively heavy during the next few months.

The prospect might be changed toward a more prolonged setback, however, if outside developments should react unfavorably on commodity and security prices and on new orders. Industrial production is practically on dead-center, according to our basic indexes (See Chart 1), making it both sensitive to favorable influences and vulnerable to unfavorable developments.

Prices work lower

A decline this week in the price index for 30 sensitive commodities to a new low since last June calls attention to an underlying weakness in the price situation. The decline would have been less significant had it occurred at a time of general weakness in other markets, but this downturn occurred during a period of strong recovery in security prices abroad and while security prices in this country were in a rising trend.

The Wall Street Journal mentions that "Several of the Street firms are commenting on the performance of commodity markets and there is some concern that commodities broadly

will break out of the narrow price range of the past several months and work into a lower area A low level for commodities in itself is no proof that business activity and profits cannot rise, but the persistent sag in price levels tends, in view of current world uncertainties, to make buying agents extremely cautious about committing themselves far ahead.*

The decline in commodity prices may to some extent reflect a weakening in demand and accumulation of supplies coincident with the current hesitation in business activity. (See Chart 2.) A more important factor, we believe, has been the various deflationary influences in the foreign situation. The decline in business activity in Great Britain, in recent months, combined with uncertainty over the possibility of war this spring, has also doubtless tended to reduce the demand for commodities. Although sterling exchange, as shown in Chart 2, has held very steady in recent weeks, the deflationary influences responsible for the earlier weakness may still be operating on commodity prices.

Reports from abroad more optimistic

Stock prices on the London and Paris exchanges have recovered strongly during the past two weeks, making relatively greater gains than in New York. This broad upturn has been accompanied by reports of increased confidence and a brighter business atmosphere in Great Britain, and of improving business in France.

Following a further decline in the London Economist business index to 100% in December, as compared with 101% in November, an improvement in some industries was reported during January. Iron and steel production in Great Britain in that month showed substantial gains. During the past week, according to the Wall Street Journal, the British cotton textile industry enjoyed the best week in some time, and orders are estimated to have run ahead of production. Recent improvement in the motor industry is reported to have been more than maintained, with company officials definitely optimistic.

The current business trend

In this country, business has been affected somewhat by recent severe storms, which limited automobile production by restricting deliveries, reduced department store sales, and affected carloadings. The New York Times index for the week

Secretary Morgenthau - 4

ended February 4 declined to a new low for the year at 90.5 which compares with 92.3 for the previous week. While the adjusted index of steel production rose by a small fraction, all other components declined, most of them showing substantial losses. Preliminary data for the following week show a strong recovery in automobile production, and a fractional gain in the adjusted steel index.

Department store sales during the week ended February 4, according to Federal Reserve Board reports, were 6 per cent below the 1938 level. This compares with a decline of 1 per cent last week.

Steel activity increasing

Steel operations this week (figured on a revised ingot capacity basis) increased to 53.4 per cent of capacity. On the old basis, this would equal 54.3 per cent, as compared with 52.8 per cent the previous week.

The volume of incoming steel orders seems to warrant a continued increase in the rate of operations, since reports from the U. S. Steel Corporation show new orders last week equivalent to 66 per cent of capacity, and orders the previous week equivalent to 61 per cent. Two factors may be tending to hold down the general level of operations. In the first place, U. S. Steel may be receiving a larger than usual share of orders, since structural steel, railroad materials, and other types of heavy steel in which the U. S. Steel Corporation specializes have accounted for a large proportion of recent orders. In the second place, the desire to maintain an even level of employment may cause steel companies to be conservative in increasing their operating rates, pending a clarification of the spring outlook.

The automobile companies, which have bought relatively little steel since the last quarter of 1938, may add their buying this spring to the new orders coming in from other sources. Some apprehension has recently arisen, however, over the possibility that the automobile companies may be increasing their inventories of new cars too rapidly. Recent estimates indicate that about 25 per cent of current output is going into factory and dealer inventories, partly in anticipation of a good spring demand, and partly to be prepared for labor troubles.

We have made a study of the relation between production and sales (shown in Chart 3) and find that through December there had apparently been no more than the usual year-end excess

Secretary Morgenthau - 5

of production over sales (new car registrations plus exports). Automobile output during December, as shown in the chart, gained but slightly over the November output, while sales showed a strong improvement. The trend of sales during the last quarter contrasts markedly with that in 1937.

In the lower section of the chart it will be noted that about a normal surplus of new cars was produced in November and December, while the December level of sales was substantially above that of the previous year. The January and February trends, however, will bear close watching.

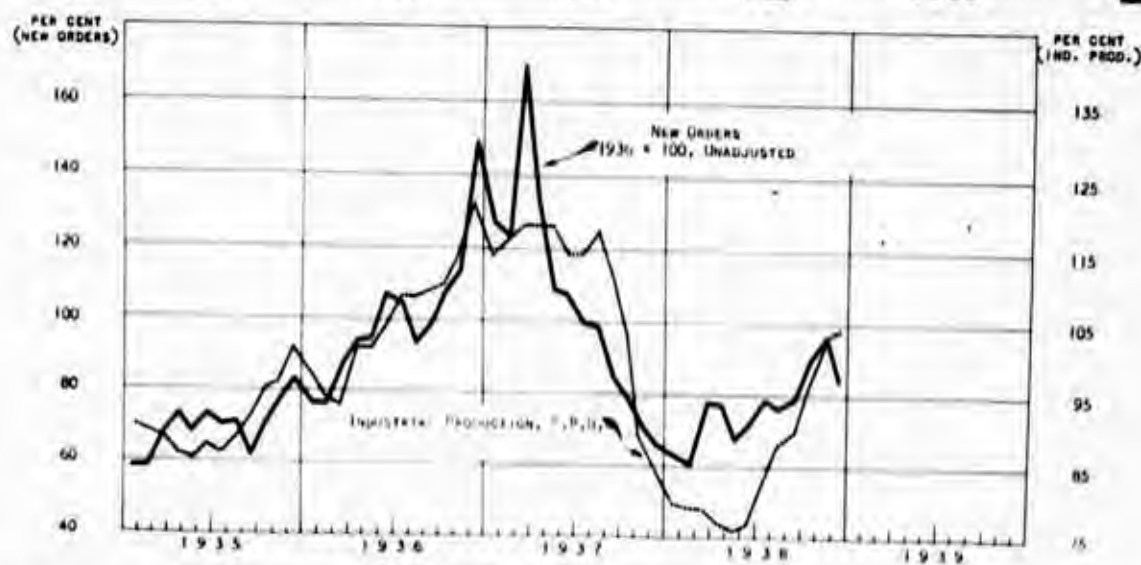
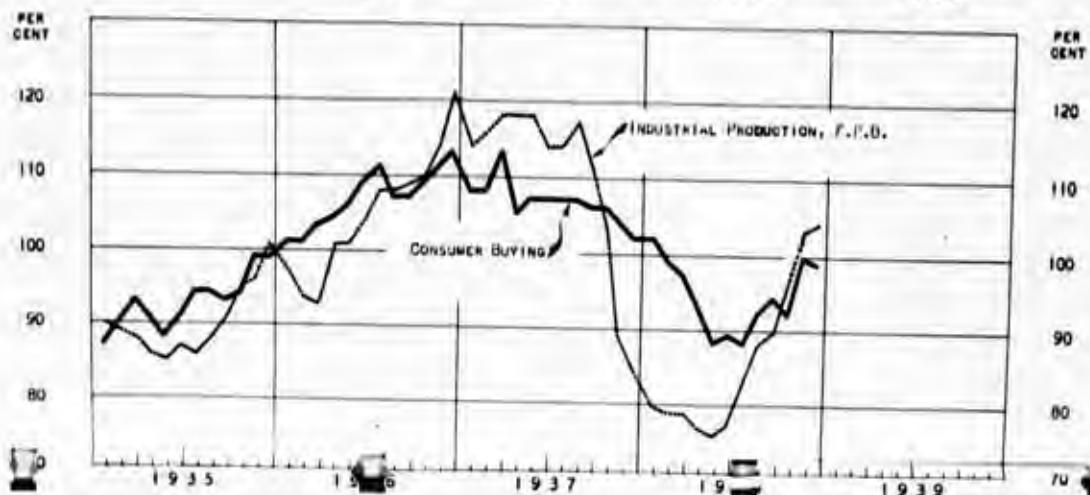
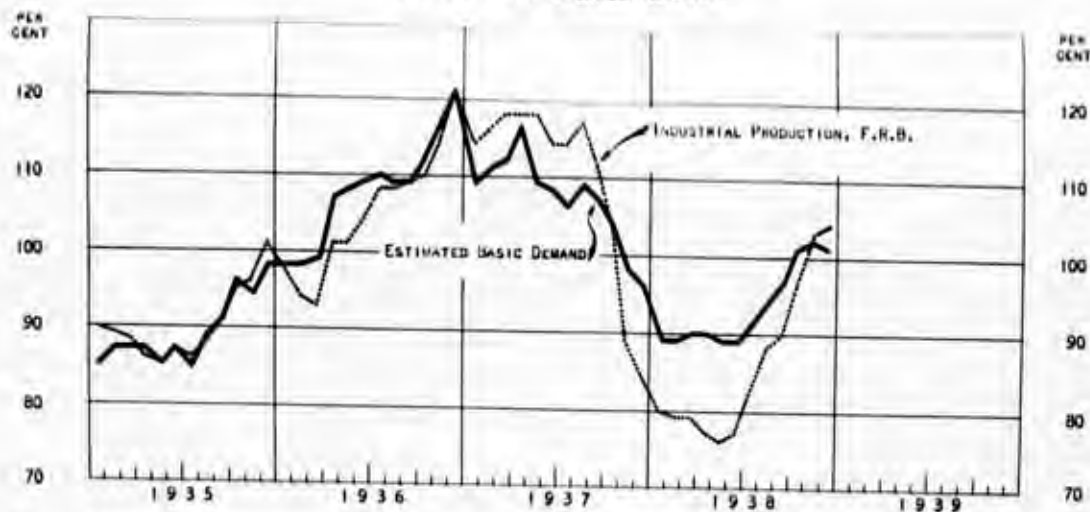
New orders hold well

The volume of new orders has continued at a relatively favorable level, though our combined index for the first week of February shows a decline from the previous week's figure. (See Chart 4.) Increased steel orders during that week were offset by declines in other components of the index.

Machine tool orders in the Cleveland area, which are probably typical of the industry as a whole, are reported to have shown further gains during January after a marked improvement in December. Heavy gains in orders from aircraft and shipbuilding companies contributed to the January rise.

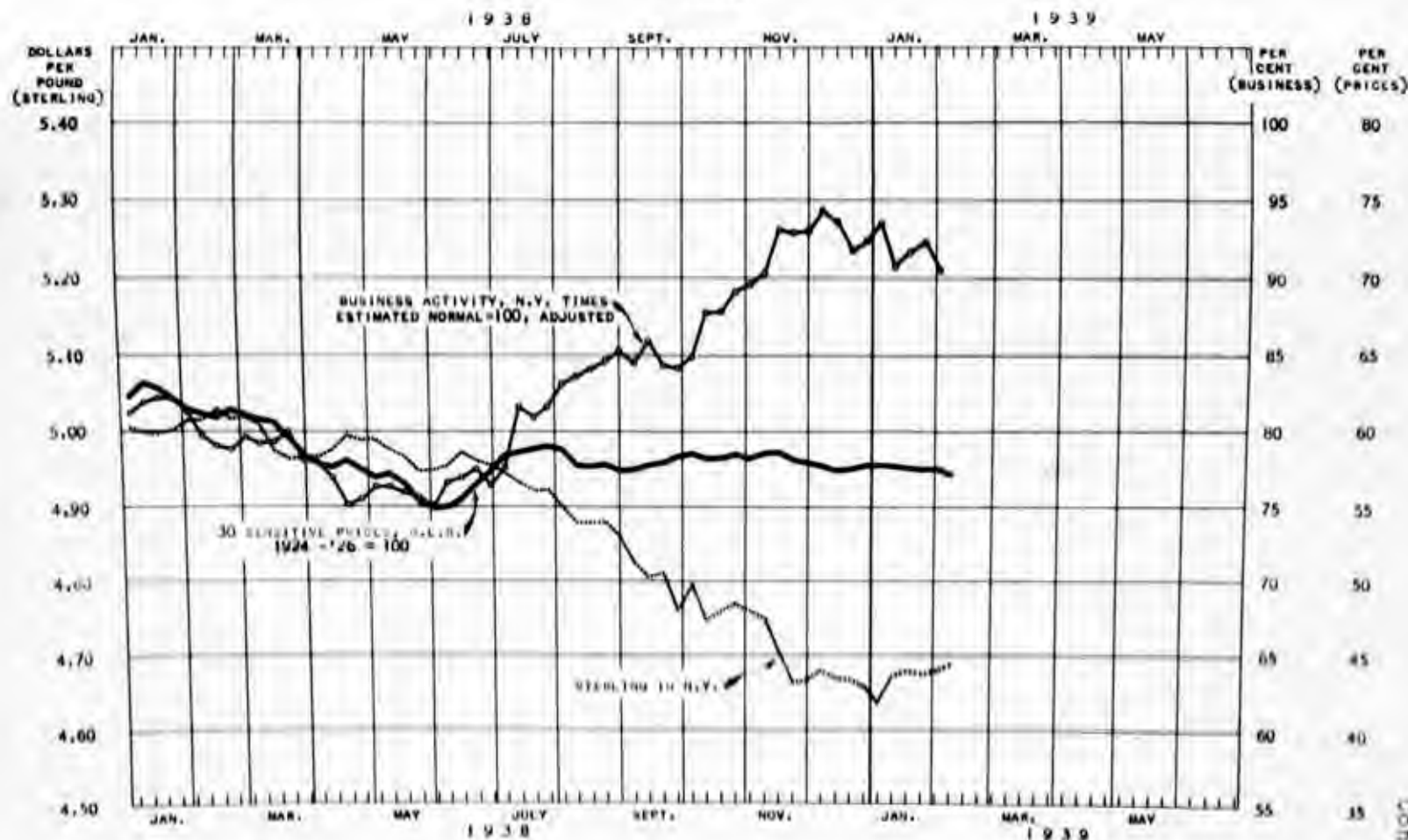
INDICES OF BASIC BUSINESS TRENDS COMPARED WITH INDUSTRIAL PRODUCTION

1923-25 = 100, SEASONALLY ADJUSTED*



* EXCEPT NEW ORDERS.

COMMODITY PRICES, BUSINESS ACTIVITY AND STERLING EXCHANGE Weekly



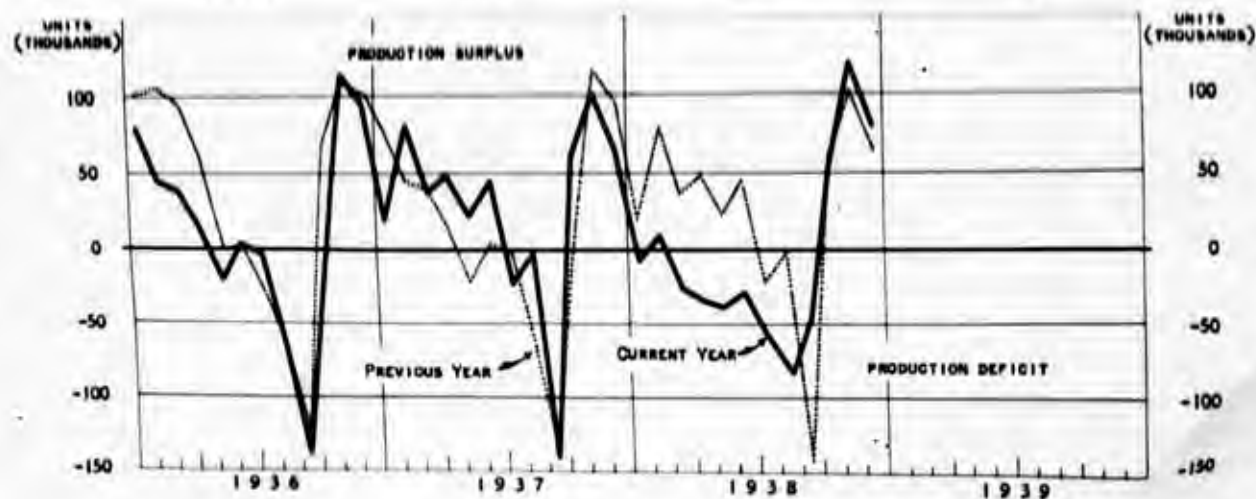
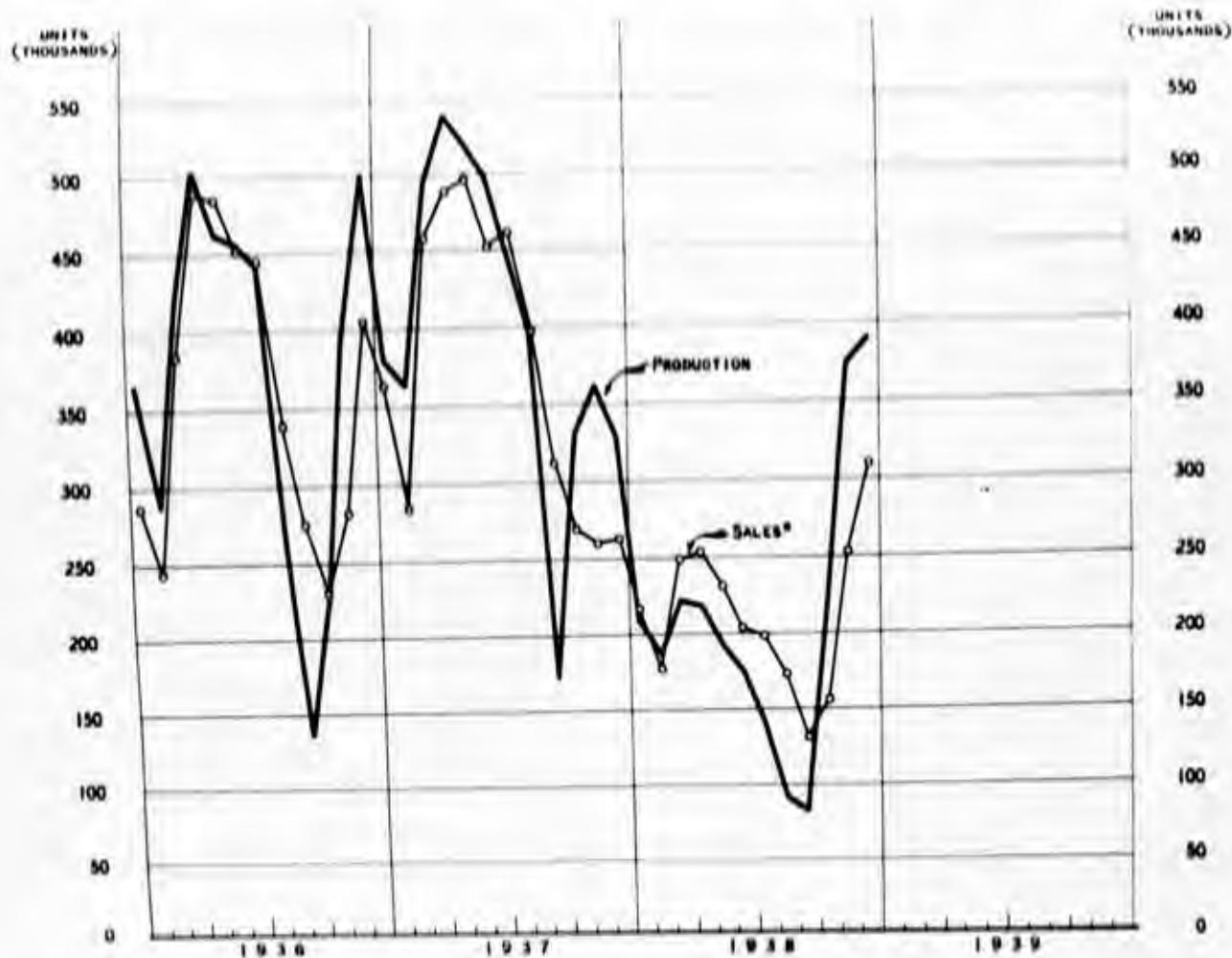
Office of the Secretary of the Treasury
Division of Research and Statistics

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Chart 2
Confidential
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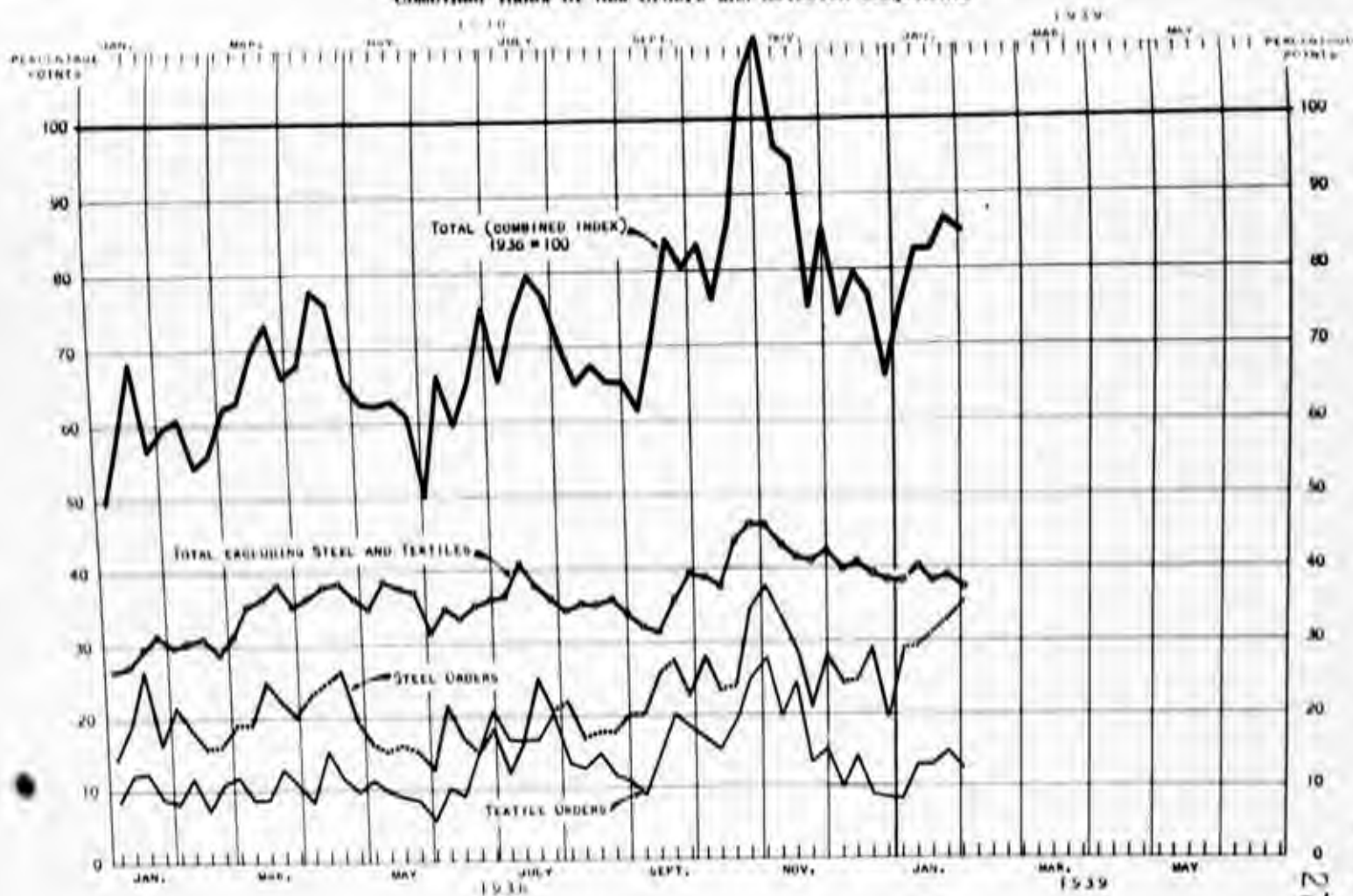
Regraded Unclassified

MONTHLY AUTOMOBILE PRODUCTION AND SALES*



*NEW AUTO REGISTRATIONS IN U.S. PLUS EXPORTS

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



GROUP MEETING

February 14, 1939.
9:30 a.m.

Present: Mr. Hanes
Mr. Gaston
Mr. Lochhead
Mrs Klotz
Mr. Gibbons
Mr. McReynolds
Mr. Haas
Mr. White
Mr. Foley
Mr. Duffield

H.M.Jr: Ed, would you have lunch with Somers and me today?

Foley: (Nods yes)

H.M.Jr: And can you find out before lunch

(Hanes comes in)

Good morning.

Hanes: Good morning.

H.M.Jr: Could you find out - last time we had the discussion at the house - from whoever the clerk of the Speaker is, is he going to refer this thing to Coinage, weights and Measures, or to Banking and Currency, in the House - stabilization. Last time it went to Weights and Measures.

Foley: Already been referred to Weights and Measures. The letter went there.

H.M.Jr: If you'll just be there today and - he's - after all, he works every two years. The only thing he ever does is come down on extension of the Stabilization Fund - Somers, Brooklyn - and the rest of the time he never shows up.

Have you (Hanes) got anything?

Hanes: The power bill, I think, is very bitterly opposed by all the agencies that are supposed to be financed

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thereby. We had a meeting that lasted three hours, and there was general opposition to the idea both on the part of the working staff and the heads of the various agencies.

I'm writing - I got each man there to express a thought as to his feeling about the policy of undertaking this thing at this time, and I think I'll just hand you that as a report of the meeting, because the rest of the minutes would be so voluminous you wouldn't get anything out of it anyway.

H.M.Jr: Then we can send it on down to the President and ask him to advise us.

Hanes: They were all opposed to it. Do you think that's a fair statement?

Foley: The War Department is in favor of it, I think, and Ben Cohen.

Hanes: The War Department wasn't in favor; just had no objection.

Duffield: I think the operating units all expressed varying degrees of opposition.

Foley: Mr. Delano and Charley Elliot of the Resources Committee feel it's wrong to limit it to power and water, think it ought to cover the whole thing or not to be done at all, think it puts too much emphasis on power at this time.

H.M.Jr: I think it's a grand thing.

Foley: If you could drop out the Federal Power Commission and perhaps broaden it to include everything, you'd get everybody except the T.V.A. I don't think you'd get T.V.A. under any circumstances. They're just against it.

There's a swell editorial in the Daily News which was repeated in the Herald-times this morning on it, stating our position exactly. (Hanes clipping to H.M.Jr)

H.M.Jr: Well, let's get the whole thing. I mean I've got

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to the point - this is what the President wanted and he wanted it because of this idea that we can sell some of our assets to the public. A lot of people around town think that that's the thing to do. I personally am for it for that reason. I'm for it for another reason. I think that if there are five different agencies constructing power and if out of this thing we could get a power policy and a common yardstick and have the Power Commission measure the thing and let the public know how much money has been invested for experimentation and how much is sound, I think it would be one of the best things we could ever do.

Hanes: I think one of their chief resentments was the fact that the Treasury would be using the Federal - what's that agency? - ...

Foley: Power Commission.

Hanes: ... to audit the work of the individual agencies. They seemed to resent that a good deal.

Foley: No one has any confidence in the Power Commission, none of these power agencies; that's the trouble.

H.M.Jr: Well, the position that I put myself in - you (Hanes) listened for three hours and you can correct me - I'm an issuing house, I've got a hundred million dollars worth of electric revenue bonds to sell. Now, the normal thing would be to go out, hire a corps of engineers, J. G. White or somebody, to make a survey, give me a statement that the properties are worth so much - so much power and so forth. Now, being in the Government, my engineers are the Federal Power Commission.

Hanes: That's what they resent. They wouldn't mind you doing it; they wouldn't mind you doing it, apparently. Said, "If the Secretary of the Treasury would do it, all right, but if you put it in the Power Commission, that's butting into our business, we don't want that."

H.M.Jr: Do you think they're right?

Hanes: I don't think they're right. I think it's silly. But the implication I got all the way through is

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that they do not want another agency auditing their work, and still they didn't seem to be willing to back their own figures, did they?

Duffield: No, the part of the bill which would commit them to pay over to the Treasury the amount of revenue which they estimate they're going to get - they didn't like that a bit. They didn't think they ought to be made to stand behind their own figures. I got the impression they didn't want anybody to check up on their figures, and yet they wouldn't stand behind their own figures. That may be unfair.

H.W.Jr: well, unless Hanes and you tell me I'm wrong, I think there's so many good things in this thing that I can't see any bad in it.

Hanes: I think too there was a misunderstanding - they didn't understand in the first place - a misunderstanding as to what you were going to do, whether you were going to sell bonds, then put this money up in some place and they come and draw upon it, or whether we were going to force them to raise their rates in order to meet our interest and amortization charges. There's a general misunderstanding about it. I think if we sit down with each one of them individually and explain to them that all in the world we're doing is just reimbursing the Treasury for money already paid out, just as the railroad goes to the bank and borrows money until they've got an accumulation of bonds there and the bonds are sold to an underwriter and they pay off their debts - that's all we're doing, but they think there's a trick in it somewhere.

H.W.Jr: Well, when you do this thing, somebody - yourself or somebody - what I'd like you to do, for the President, would be to sum up whatever the criticisms are. And inasmuch as you sat there for three hours, I'd like an accompanying page from you - "I've listened to this thing; I think these criticisms are bona fide, or they're not, for the following reasons:" You see? - so I get the benefit of what you listened to for three hours. And if this is good, I'd just attach this editorial to the memo, see, when we send it to the President. Shall we leave it that way?

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Races: Well, we're doing that, as a matter of fact, this morning.

E.A.Jr: I'd do it this morning.

Races: Master is going to give me that final policy statement of all the men first, before he gives me the other notes.

Polley: We're revising the bill in the light of suggestions that were made yesterday.

E.A.Jr: I think that this ties up with what we're doing in the Fiscal and Monetary Committee - particular section which says that the Administration should define what the Government thinks its field is for investment. Those two things together, this plus that - I mean it ties the two things up together. I don't say that it may go over to the country, but it would be a long step forward to satisfying people who have a little money and are worried about their savings, so forth. I didn't read it, but Mr. Hoover's headline speech, so forth and so on - and if the President of the United States would come out and say, "We've invested a hundred million dollars in T.V.A.; 40, 50 million of it is for experimentation, but what's left is good, and there's enough revenue to pay and retire 50 million dollars. Sure, we took 50 million dollars to experiment, and so what?" I mean that's what I keep saying.

And I think it's about time some of these fellows were brought to heel and just that they understand; and if the Federal Power Commission isn't any good, get one that is.

Polley: That's right.

Gaston: Why not let the T.V.A. call their own bets and leave the Federal Power Commission and anybody else out of it? Let them estimate how much is self-supporting. You have to pay the deficiency out of one pocket or the other anyway.

E.A.Jr: The trouble is, if I'm right, the T.V.A. did call in some outside auditors and paid them, and the outside auditors' figures were quite at variance with their own. Is that right?

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Foley: I think that's correct.

H.M.Jr: Yes.

Gaston: I mean they'll have to take the responsibility anyway ultimately. Let them decide how much they want to set up as self-supporting.

Duffield: They don't want to take the responsibility ultimately. I said, "Suppose you say that we can take 125 million dollars out of this thing and bond it, and we only get a hundred million dollars out of it. Who's going to make it good?" And they said, "Why, you are."

Gaston: Of course, that's all right, that's inevitable. The Treasury has to make it good out of one pocket or the other.

Hanes: They claim they now have the right to issue their own bonds under their own statute. In other words,...

H.M.Jr: Well, did you by any chance ask them where they're going to get the 30 million dollars out from?

Hanes: No, I didn't. I wanted to, but this fellow - what's his name?

Duffield: Blandford - B-l-a-n-d-f-o-r-d - and Kohler.

Foley: The Comptroller and the Chief Auditor.

Hanes: They couldn't speak for the T.V.A., said they hadn't had time to think carefully, couldn't speak; none of their directors were here in town.

Foley: Well, Mr. Secretary, the power crowd is the most suspicious and the most jealous crowd in town. I don't think it's as discouraging as it appears, because I think that they can be brought to terms; I think the idea is sound, and I think the President has to get them together and tell them that's what he wants.

H.M.Jr: Well, of whom are they suspicious?

Foley: They're suspicious of the Federal Power Commission and I think they're suspicious of us; I think they're suspicious of our motives, don't know whether we're

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friendly to public ownership, don't know whether we're friendly to this kind of a thing or not, and they're afraid we're not to scuttle it.

H.M.Jr: Well, I wish some of them, if they are suspicious, would look at my record in New York State; I was in this thing long before some of them ever heard of power. I mean the first thing we ever did was - I, without any power or any authority, did the thing for Roosevelt up there, got through the so-called Antromacks power plan of \$24 per mile per month, long before these fellows ever heard of it. And I'd like them to look at the record of the Conservation Department while I was there.

Foley: Well, I don't think they're thinking about that.

H.M.Jr: I'd like them to look at it.

Foley: They're thinking about the Treasury as a banker, you see.

H.M.Jr: Well, some of these people - the only thing they know how to do is to spend money. That's all they know.

Foley: Criticize, too.

H.M.Jr: What?

Foley: And criticize.

H.M.Jr: Oh yes.

Mr: Afraid their authority to spend will be curtailed, that's all.

H.M.Jr: I think they're afraid of that, I think they're afraid of having an independent agency examine their books; and I think if they are, it's high time that they were examined.

Well, I'll wait; this is a fight that I enjoy.
How about you (Hanes)?

Hanes: We'll get this thing up for you today. I guess Master will be ready.

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- H.M.Jr: I got the ticker last night, Herbert, and there seemed to be a correction on the U.P.
- Gaston: Yes, they made a mistake; they said the gift was five thousand dollars, and I told them to cut out the five thousand dollars.
- H.M.Jr: I'd have done better if you or I had explained the thing.
- Gaston: Well, the A.P. had a perfectly good story; the U.P. was wrong.
- H.M.Jr: Well, the Times puts the erroneous statement on the front page and then when there's a correction that's what they did. (Shows back page location of correction notice)
- I thought we weren't going to have any more mysteries around here. I'm allergic to secrets. So I called Guy Helvering into my press conference, let him explain why Mrs. Morgenthau got \$1400 back, after getting Mrs. Morgenthau's permission.
- Gaston: They didn't understand Guy at all.
- Klotz: I didn't.
- H.M.Jr: Neither did I.
- Klotz: I understood it before the press came in, and after that he was terribly nervous.
- H.M.Jr: I thought I understood it, but after Guy got through I didn't understand it either.
- Gaston: His memorandum was perfectly all right, but he hastily scurried through some of the words; they didn't get it.
- H.M.Jr: I think that story's finished.
- Gaston: Yes, that's finished. I think it was good having Guy make a statement.
- H.M.Jr: O.K.
- Gaston: The Silver Committee is very clamorous about getting

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back that testimony, and they wanted it without fail last night but it just was impossible on account of everybody being tied up yesterday; and Harry is digging it up this morning. I don't know whether you want to see it again or not. I don't think there's anything in it you'd care about.

H.J.Jr: What about the eight questions?

Lochhead: I put in a call once for the A.S.A., for White; couldn't get him. I suppose I was in here when he called back.

White: They were repeated in the press.

Lochhead: Yes, but we haven't got them officially.

H.M.Jr: That's all right. O.K.

You're (Foley) all right?

Foley: George Rublee has resigned from that refugee commission. Would you want to log the A.G. about that countervailing duty opinion? Felix Levy is coming in again about dumping of German horseshoes.

H.J.Jr: No, I gave the President the memorandum which you wrote for me, and I said, "Now, Mr. President, I haven't signed it, I don't know whether you want to keep it or not." He said, "Yes, I want to keep it." Now, I don't think that I should go beyond that. I mean after all the matter is entirely in the President's hands. I mean if he hasn't done it when he comes back from his trip, we'll look up the date and I'll ask him again. But this is what - about a week or ten days now that I gave it to him.

Foley: About ten days ago.

H.J.Jr: I think it would be discourteous

Foley: Well, I just mentioned it because Rublee resigned.

H.M.Jr: Well, if you would do this: make a note to bring it to my attention on the fifth of March, when he's back.

Foley: Yes, sir.

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H.M.Jr: Will you make a note of that?

Foley: Yes.

H.M.Jr: The fifth of March, which will be just about a month.

Foley: Uh-huh.

We got this stuff rewritten on Brazil.

H.M.Jr: Will you wait, and right after this meeting you Brazilian nuts O.K.?

George? George, would you come in with Douglas Brown at quarter of 11, please.

Haas: (Handing H.M.Jr a balloon chart) Those are the January figures.

H.M.Jr: Will you give Mr. Hanes a copy of these, please?

Haas: Yes, sir.

H.M.Jr: What else, George?

Haas: I have nothing else.

H.M.Jr: I hope really to do something this morning with Douglas Brown.

Haas: Fine. We have it all written up. Just a question of getting your opinion.

H.M.Jr: Herry?

White: (Nods nothing)

Gibbons: Nothing.

H.M.Jr: Farley was in yesterday; I had a nice talk with him. I asked about Mrs. Pike. He said he had no interest in Mrs. Pike.

Gibbons: Doesn't want her.

H.M.Jr: What?

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Gibbons: Doesn't want her.

H.M.Jr: Now, the latest thing - Congressman McCormack called me up, wanted to know what about the Collector for Boston.

Gibbons: Collector of Internal Revenue.

H.M.Jr: I told him Mr. Geoghan had been down here, we arranged the appointment - he had demanded a hearing to clear his record - made an appointment for him with Commissioner Helvering, so he'd be complying with his demand, and that Mr. Geoghan never showed up.

Gibbons: Well, they're trying to make him a United States Marshal.

H.M.Jr: All right with me. Also the vacancy on the Supreme Court.

Gibbons: Huh? McCormack wants Hassett, the Acting Collector.

H.M.Jr: Oh, I'm sorry, Mr. Justice, I'm very sorry. (To McReynolds) I beg your pardon, I'm so sorry.

Gibbons: That's too deep for me.

H.M.Jr: Dear old Mac - I like to see him blush.

Klotz: He is blushing.

H.M.Jr: All right.

McR: I laughed out of turn that time.

Gibbons: McCormack didn't say who he wanted. He wants Hassett, the Acting Collector.

H.M.Jr: Yes. So I told him the matter was in the hands of the Chairman of the National Democratic Committee and I was waiting to hear from him.

Gibbons: Jim is trying to get Senator Walsh to commit himself one way or the other.

H.M.Jr: I told him the matter was in the hands of the

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Democratic National Committee. That was all right with him. I'm a regular Democrat.

Lochhead: Everything is quiet in the morning markets. Dutch guilders are a little bit down. They're attributing this foreign weakness to the fact the Japanese occupied that island near French Indo-China, threatening the Dutch Indies. But nothing important.

Duffield: The National Association of Manufacturers' reports haven't been printed yet. They'll be printed by the end of this week. They'll send us a dozen copies. They put out a press release before they had them printed.

H.M.Jr: Would you ask whoever their representative is here whether - that I'd like to know who the economists are that worked on it, and also mention whoever the chairman of the committee was - of the National Manufacturers Association - the President of the Standard Oil of Ohio. See?

Duffield: Oh.

H.M.Jr: And if he would care to come down, I'd like to meet with him and go over his memorandum; I'm very much interested in it.

Duffield: You want to do that after you have gotten the printed memorandum.

H.M.Jr: Yes, some time next week, if he and some of his people would come down; some of the Treasury people would like to sit down and go over the thing. I'm very much interested. Don't you (Hanes) think that's a good thing?

Hanes: Very good.

Duffield: One other thing. You on Saturday said that some time you'd like to see who was getting the Bulletin. Well, there is the very worked-over mailing list, and it's quite long. Now, we can put it up any way you'd like to look at it.

H.M.Jr: Just leave it there. When I get a chance

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Duffield: It's kind of mussed up.

H.M.Jr: That's all right. Anything else?

Duffield: That's all.

H.M.Jr: Mac?

McR: My friend Lowell Mellett has asked us to send three Treasury employees to the New York World's Fair to work in their information booth - people that the Treasury pays. Now, the question is, since the Federal Government gave them considerably money, whether we ought to pay Treasury employees to stay at the information booth at our own expense. There might be some criticism.

H.M.Jr: What do you recommend?

McR: well, I don't know what we ought to do. Of course, we've got a lot of Customs people that will be working there anyhow; that's their regular business.

H.M.Jr: Come on, give me yes or no.

McR: I don't see how we can very well justify detailing employees

H.M.Jr: Does that mean yes or does it mean no?

McR: It means no.

H.M.Jr: All right.

Gibbons: Archie's got the answer; he said they could all take turns on vacation.

H.M.Jr: You've heard that story - have you got time - have I ever told you the story about Professor Einstein and the President? When he first came here the President had him over, and after dinner - you've (Klotz) heard this story - the President went on, told him a very long, very humorous story. Mr. Einstein said, "Yes. ... Yes, Mr. President. Yes, Mr. President." When he got all through, he kind of snickered a little bit and he turned to Mrs. Morgenthau and he said, "Tell me, does the President -

-13-

does he mean yes or does he mean no?"

(Hearty laughter)

So I paraphrased him.

Gaston: They also asked us to pay for printing a large edition of a booklet generally descriptive of the Treasury Department. That came through Birgfeld. I told them no, we don't want to give

Gibbons: Also at San Francisco.

H.M.Jr: I think we can be just a little bit on the red tape side. That's all right.

(Mrs Klotz whispers something over to Gibbons)

H.M.Jr: I wish you (Klotz) would make your deals after the meeting.

The meeting's adjourned.

TREASURY DEPARTMENT

291

INTER OFFICE COMMUNICATION

DATE 2-14-39

TO Secretary Morgenthau
FROM Mr. White
Subject: Current Anglo-German Coal Discussions

1. Great Britain now has coal agreements with a number of countries. (Finland, Denmark, Norway, Sweden, Latvia, Estonia, Ireland, France, Italy, Poland, and Argentina)
2. German imports of British coal and coke are restricted by a quota. The formula for determining this quota was established in 1933 in an Anglo-German trade agreement. The quota for January 1939 is 302,400 tons. There is no indication that any change in this arrangement is being contemplated.
3. Since 1929 British coal exports have declined both relatively and absolutely. Subsidies on the export of coal are granted in Germany and other countries and it has been strongly urged in Great Britain that British coal exports be subsidized in the same manner but no action along this line has yet been taken.
4. The British have played an important role in the current attempt to set up a European coal cartel and thereby to establish a definite export quota for each European coal exporting nation. Cartel discussions have been proceeding throughout 1938, but an apparent obstacle to any agreement was the sharp difference of opinion between Germany and the United Kingdom concerning the base period for allocation of quotas. (The more recent and shorter the period chosen, the more favorable it would be to Germany because of her sharply increased coal exports in each year, 1933 to 1937.)
5. On January 28, 1939, it was announced in London that all outstanding differences between the British and the Germans had been removed by a preliminary Anglo-German agreement. The details of this agreement were not disclosed, but the London Economist reported a rumor to the effect that the two countries had agreed to share equally in their total aggregate export of coal, coke, and briquettes -- a decision predominantly favorable to the Germans. It was announced at the same time that cartel negotiations would be resumed. Although no conclusive cartel agreement has yet been reached, the announcement of a European coal cartel may now be expected at any time.

TREASURY DEPARTMENT

292

INTER OFFICE COMMUNICATION

DATE February 14, 1939

TO Mr. White

FROM Mr. Ostrander

Subject: The Background of Current Anglo-German Coal Discussions.

1. Since 1933 Great Britain has concluded various forms of preferential agreements with a number of countries concerning their importation of British coal.

For example, in 1933 Denmark agreed to take 80 percent of her imports of coal from Great Britain, Finland 75 percent, Norway 70 percent, and Sweden 47 percent. Similar agreements have been concluded with Latvia, Estonia, Eire, and Argentina.

The Anglo-French Trade Agreement of June 1934 provided for the barter exchange of 480,000 tons of coal for 320,000 tons of pitwood annually. In addition, the United Kingdom was guaranteed 49.5 percent of the imports made under the French licensing system (constituting about half of the coal equivalent of the total coal, coke, and briquette imports of France). During 1936 and 1937 France failed to take the full quota of British coal. Between June and December, 1938, discussions took place between the British and French governments concerning French imports of British coal. At the end of December a new Anglo-French coal agreement was announced, removing certain of the controversial questions concerning the coal quota and providing that public utilities, railroads, and other large buyers of coal in France would purchase 49.5 percent of their coal in Great Britain.

The Anglo-Italian Commercial Agreement of November 6, 1936, established a quota for imports of United Kingdom coal into Italy to a total of 43.5 million lire quarterly (174 million lire, or about \$9 million, annually). At the same time an Anglo-Italian Clearing Agreement provided for the transfer of funds between the two countries. On March 18, 1938, the Anglo-Italian Trade Agreement was revised without, however, any change in the quota for British coal, but the amended clearing agreement of the same date made possible the preferential transfer of larger sums in payment for the importation of British coal (40 percent of the sterling value of British imports from Italy is earmarked for payment of British coal exports to Italy).

A somewhat different type of agreement was concluded between Great Britain and Poland in December 1934 providing that Polish exports of coal would not exceed 25 percent of British coal exports after January 1935.

Mr. White - 2

This agreement was revised in January 1937 and Polish coal exports were made a fixed percentage of the exports of the five principal European exporting countries. In December 1937 another revision gave Poland even larger quotas.

2. One of these agreements was concluded with Germany in 1933; it is still in force.

An Anglo-German Agreement dated April 13, 1933 (see Appendix 1) provided that imports of British coal and coke into Germany would not fall below 180,000 metric tons a month, and would exceed that figure by the percentage that German consumption of coal, briquettes and coke exceeded the equivalent of 7,500,000 metric tons of coal in any month. Since 1933 bimonthly announcements have been made stating the import quota called for by the above formula. For example, the January 19, 1939 Board of Trade Journal carried the announcement of the import quota for January 1939; as a result of the increase of German coal consumption from 7,500,000 to 12,626,300 metric tons, the British import quota had been increased from 180,000 to 302,400 metric tons. (See Appendix 2). There is no indication that any change in this agreement is being contemplated.

3. Subsidized coal exports from Germany and other countries have been primarily responsible for important changes, in recent years, in European export coal markets. Various measures have been proposed in the United Kingdom for meeting the situation which has arisen: subsidies on British coal exports have been strongly urged, and the British have played an important role in the discussions which are now in progress concerning the formation of a European coal cartel.

As yet no conclusive action along either line has been taken, but it was announced on January 28 that all outstanding differences between the British and the Germans with respect to the base period for a cartel agreement had been removed in a preliminary Anglo-German agreement of which the details were not disclosed.

It appears that coal exports are being stimulated by direct and indirect subsidies in at least nine countries. Belgium, Poland, and Holland are important subsidizers of coal exports, but German coal exports have been more heavily subsidized than those of any other country. Partly as the result of subsidies and partly as the result of steadily increasing prices for British coal, Germany has been increasing her coal exports ever since 1932 and this increase has been almost entirely at the expense of British coal exports. 1/

1/ In 1929 and in 1932 Great Britain exported about 50 percent of the coal exported by the seven most important European coal exporting countries and Germany about 25 percent; in the first half of 1938 the percentages were: Britain, 40 percent; Germany, 37 percent.

The coal equivalent of total exports of cargo coal, coke, and briquettes from Great Britain and Germany for selected periods is as follows (in millions of metric tons):

	United Kingdom	Germany
1929	66.8	49.0
1933-1937 (Annual average)	43.3	39.7
1937	45.4	52.4
1938 (Estimated from 11 month total)	40.0	38.6

Mr. White - 3

One of the results of this situation is that there has been a great deal of discussion in Great Britain concerning the possibility of subsidizing British coal exports. Since last July the British Minister of Mines has had under consideration a proposal to institute retaliatory subsidies with funds raised along the lines of the German subsidy. It does not appear, however, that any definitive step in this direction has yet been taken.

Another result of the disturbed conditions in European export coal markets is that attempts have been made for some time to form a European coal cartel and to draw up an international marketing agreement. About the middle of 1937 an International Coke Agreement was concluded between the principal European exporters of that product. In April, and again in July, 1938, representatives of the coal industry in Belgium, Czechoslovakia, France, Germany, Holland, Poland, and the United Kingdom met at The Hague for the purpose of concluding a similar agreement for coal. There does not seem to have been any formal meeting of this group since July; however, informal discussions have continued.

Meanwhile, new factors may have altered the relative bargaining strength of the various parties: Czechoslovakian coal areas have been transferred to Germany and Poland; British consideration of the possibility of subsidizing exports is said to have caused the Germans some concern; and the statistics of coal exports for 1938 show a 25 percent decline of German coal exports accompanied by only a 15 percent decline of British exports and an increase in Polish, Dutch and Belgian exports.

The principal obstacle to the completion of a European coal cartel has been the sharp difference of opinion between Germany and the United Kingdom concerning the period which is to be used as the basis for quota allocation. The more recent the period chosen the more favorable it will be to Germany's intention to retain her recently improved competitive situation. (See note 1, page 2). It is said, for example, that Germany originally demanded that the single year 1937 - the most favorable in her post-war coal exporting history - be used as the basis for cartel allocations.

In December it was reported that the preparation of a statistical basis for the proposed cartel agreement had reached an advanced stage. In the middle of January it was reported that the gap between the British and German views had narrowed during recent discussions, the British then being reported to be demanding average exports for the past ten years as the base period for quota allocation, Germany having receded to a demand for the average of the past three years.

Finally, on January 28 the Central Council of British Colliery Owners announced that all points of difference between the representatives of British and German coal industries had been settled in special Anglo-German discussions, and that, accordingly, cartel negotiations would be resumed by all the coal exporting countries. The details of the Anglo-German arrangements concerning the base period for quota allocation were not disclosed. According to the London Economist, it is rumored that the two countries have agreed to share equally in their total aggregate export of coal, coke, and briquettes, - a

Mr. White - 4

decision which would be predominantly favorable to Germany, allowing her to retain practically all of her recent coal export gains.

At the present time no final agreement has been announced and no conclusive action has been taken toward setting up a European coal cartel.

UNITED KINGDOM - GERMANY

Trade Agreement

The following is the text of an Exchange of Notes, dated April 13, 1933, constituting a Trade Agreement between H.M. Government and the German Government.

Exchange of Notes between His Majesty's Government in the United Kingdom and the Government of the German Reich regarding Commercial Relations

London, April 13, 1933

No. 1

Sir John Simon to Dr. Leopold von Hoesch

Your Excellency.

Foreign Office, April 13, 1933.

I have the honour to inform your Excellency that His Majesty's Government in the United Kingdom are prepared to undertake to take the necessary steps to secure that the articles enumerated in the Schedule annexed to this note produced or manufactured in Germany shall not on importation into the United Kingdom be subjected to duties or charges other or higher than those specified in the Schedule on condition that the German Government secure (1) that licenses shall be issued for the importation into the German Customs Area of coal and coke produced in the United Kingdom up to an amount which shall in no case be less than 180,000 metric tons a month (for this purpose a ton of coke shall be reckoned as equal to a ton of coal), and (2) that if the total consumption in Germany of coal, coal briquettes and coke exceeds by 1 percent or more the equivalent of 7,500,000 metric tons of coal in any month, licenses shall be issued for the importation into the German Customs Area in the second month following of an amount of coal and coke produced in the United Kingdom which exceeds 180,000 metric tons by the same percentage as the said total German consumption exceeds 7,500,000 metric tons. Such detailed arrangements as may be necessary (including the method of calculating the increased importation to be allowed in any month) shall be agreed between the Reichswirtschaftsministerium and the Mines Department.

Source: The Board of Trade Journal, May 4, 1933.

Appendix 2.

GERMANY

Importation of Coal and Coke from the United Kingdom

The Board of Trade has been informed that, for the purposes of the Exchange of Notes of 13 April 1933, between the United Kingdom and German Governments, the Reichs Coal Commissioner has notified the figure of German coal consumption for November 1938 as 12,626,800 metric tons.

This represents an increase of 68 per cent over 7,500,000 metric tons, and accordingly the quota for imports of United Kingdom coal and coke into the German Customs Area for January 1939, has been correspondingly increased from the minimum of 180,000 to 302,400 metric tons.

Source: The Board of Trade Journal, January 19, 1939.

February 14, 1939.
3:58 p.m.

Operator: Go ahead.

WMJr: Hello.

Mr. Secretary?

WMJr: Talking.

Just a minute, please, sir.

Fred H.
Vinson: How are you, Mr. Secretary?

WMJr: Hello. How are you, Judge?

V: All right, sir. This is Fred Vinson.

WMJr: Yeah.

V: I was seated down here cogitating--

WMJr: Yes, sir.

V: And I was thinking about the vacancy on this Court.

WMJr: Yes.

V: And I wondered what might be thought of Ross McGill coming down here.

WMJr: I don't know -- he'd have to answer that one.

V: Well, of course, I -- I haven't discussed it with anybody. I wanted to talk it over with you, and probably won't mention it to anybody if you don't think that it would be a good idea.

WMJr: Oh, no, I think it's --

V: But it looks to me like with his background and his capacity that he would fit in mighty well.

WMJr: Well, I think if there's some way of your getting word to him -- I think it would be very nice. I --

V: Well, I was calling you thinking that you were the gentleman who could do the job if you thought it ought to be done.

WMJr: Well, it's a swell idea and I'll put it up to Ross.

V: Well, I -- I was thinking, Mr. Secretary, that --

RMJr: I'll tell him that you called me.

V: It would be done maybe before the President went away on his trip.

RMJr: I don't know.

V: And I just thought possibly that the President would be happy to get that suggestion and I know he'd -- I thought maybe he would just like to -- if it pleased him, just call Ross up and talk to him about it.

RMJr: Well, it -- I hope to see the President tomorrow, see?

V: Yes.

RMJr: And when I see him I'll tell him that it's your suggestion and, of course, I heartily endorse it, and see what he thinks about it.

V: It -- I don't know of anybody that is any keener or any clearer-headed, any finer than Ross.

RMJr: I agree with you. He'd be a magnificent appointment.

V: And, of course, he comes from Illinois. He's been in New York, but he's taught law for years and then we know just his true worth.

RMJr: Well, I --

V: Now you understand, I don't want to be in the attitude --

RMJr: No, I understand.

V: Of butting in, or anything of that kind, but I know that the President is tremendously busy, and he's got a thousand and one things on his mind, and if the suggestion came to him about Ross he might just eat it up.

RMJr: Well, I'll -- I think I'm seeing him tomorrow, and I'll certainly make the suggestion.

V: Well, I tell you -- you understand the spirit in which I --

RMJr: Oh, perfectly, and I'm just going to carry out that spirit the best I know how.

V: It's just a question of trying to be helpful.

RMJr: Thank you so much.

V: All right, Mr. Secretary.

HMAJr: Hope to see you soon.

V: Thank you, sir.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

301

DATE February 14, 1939

TO Secretary Morgenthau

FROM W. H. Bailey

Summary of Government Security Market

Week ended February 11, 1939

The principal feature of the government security market during the week just ended was the successful flotation of a \$300 million R. F. C. guaranteed note issue. Although offered at a price of 100 1/4, an innovation in Treasury financing, subscriptions aggregated slightly under \$2.6 billion and the note fell immediately in line on a yield basis with outstanding guaranteed note issues. The range on bid quotations during the week was from a low of 100.14/32 to a high of 100.16/32 at which price the note closed the week.

The \$2.6 billion of subscriptions on this \$300 million issue compared with \$2.8 billion on the recent \$100 million U. S. Housing note and \$2.6 billion on the \$300 million R. F. C. note of last July, appears to confirm the belief that the amount of subscriptions is at present dependent upon capital and surplus limitations of subscribers rather than the size of the offering.

The market for outstanding Treasury issues was only moderately active during the week. However, a firm tone was maintained throughout, with intermediate Treasury bonds receiving most of the attention from banks and other investors. Gains up to 9/32nds were recorded by these issues, thus bringing them more in line with the longer issues which had shown greater gains in the previous week. On the average, Treasury bonds closed the week up 4/32nds,

while guaranteed bond issues were up 5/32nds. Treasury note issues were 1/32nd higher on average, while guaranteed note issues were generally unchanged, with the exception of the recent U. S. Housing issue which closed 4/32nds higher for a price of 100.31 - 101.1

Dealers' Portfolios

Although total holdings were increased about \$10 million, dealers continued to keep their portfolios at minimum proportions during the past week. The only changes of any significance were a reduction of about \$6 million in notes under 1 year ("rights"), an increase of \$9.5 million in notes over 1 year and an increase of \$5.6 million in holdings of H. O. L. C. bonds. At times during the week Treasury bond holdings showed a net short position up to \$4 million but closed the week on the long side.

(millions of dollars)

	<u>Holdings</u> <u>Feb. 4</u>	<u>Holdings</u> <u>Feb. 11</u>	<u>Net Change</u>
Treasury bonds	0.1	2.4	+ 2.3
Treasury notes (under 1 yr.)	30.3	24.5	- 5.8
Treasury notes (1-5 yrs.)	0.5	10.0	+ 9.5
Treasury bills	17.0	16.3	- 0.7
H. O. L. C. bonds	0.7	6.3	+ 5.6
F. F. M. C. bonds	-1.9	-2.2	- 0.3
Total	46.7	57.3	+ 10.6

Dealers' volume of business in outstanding government direct and guaranteed issues was somewhat reduced during the week as a result of activity in the new H. F. C. note issue. Daily average volume was approximately \$115 million (excluding Treasury bills) compared with \$130 million and \$170 million in the previous two weeks, while daily trading in Treasury bonds alone was only \$75 million compared with \$80 million and \$115 million.

New Security Issues

The only new corporate bond financing during the week was a private sale of \$10 million.

Corporate Bond Market

The corporate bond market was relatively quiet but firm during the week. However, with the exception of utility issues which continued their advance of the previous week, price changes were slight. High grade issues as represented by Moody's AAA average were unchanged at levels higher than the record levels of 1937. Second grade issues as a whole also remained practically unchanged and although at levels better than the peaks of 1938 are considerably under the record highs of 1937.

Treasury Investment Accounts

There were no transactions in the market nor in special Treasury issues for account of Treasury investment account during the week ended February 11, 1939.

Federal Reserve System Account

The Federal Reserve System account replaced \$59,855,000 holdings of maturing February 8 bills with a like par amount of Treasury bills (including \$46,855,000 new bills maturing May 15, 1939). In addition \$46,000,000 Treasury bills (including \$42,000,000 of the new May 17 bills) were purchased in anticipation of the replacement of \$51,535,000 February 15th maturity.

February 14, 1939

FOR THE SECRETARY:

I was present in Secretary Morgenthau's office today during his entire interview with Mr. Legoretta. Mr. Legoretta was introduced to the Secretary by Mr. John B. Glenn, President of the Pan American Trust Company who then left the room. Mr. Legoretta explained that he was President and Director of the Banco Nacional de Mexico, a private institution controlled by French capital. He said that his bank and various friends of his in the Government, in the oil companies, and in foreign financial institutions were interested in trying to bring about a settlement of American-Mexican difficulties on oil expropriation, silver, and servicing of the foreign debt. These matters, he said, could be settled either by the United States taking a more vigorous attitude toward President Cardenas and his Government or by the offer of some overall settlement acceptable to the United States. He suggested that the foreign debt be consolidated and include bonds issued to the expropriate oil companies in payment for their properties at a price agreeable to both parties. At the same time, Mexico would resume servicing of the foreign debt and would, if possible, make a cash payment to the oil companies. He asked the Secretary's advice on this program.

Secretary Morgenthau said that he was sorry but that he was not interested and could give no advice. He explained that he had been a good friend to Mexico and had done a great deal for Mexico. However, Mr. Suarez, the Finance Minister, after obtaining the silver agreement two years ago, had failed to keep his word and perform his side of the contract. Decrees were published raising Mexican duties on American imports the day that Mr. Suarez returned to Mexico. The Secretary asserted that he could do business only with Governments that kept their word and that he was no longer interested in Mexican affairs or ^{did} ~~would~~ he have any financial arrangements with Mexico.

ESD

 Luis G. Logorreta 306
President and General
Banco Nacional de Mexico

307

Mrs. Klotz:

O Luis (Mexico) comes in to-day at
10:30. Here is the correspondence.

Mch

Feb. 14/39

TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

Mr. Luis Legoretta,
Hotel Pierre,
5th Avenue and 61st Street,
New York, N. Y.

SECRETARY MORGENTHAU WILL BE GLAD TO SEE YOU TEN THIRTY
TUESDAY MORNING FEBRUARY FOURTEENTH

H. S. Klotz,
Private Secretary.

308
TREASURY DEPARTMENT
WASHINGTON

CHARGE TREASURY DEPARTMENT, APPROPRIATION FOR

Official

(The appropriation from which payable must be stated on above line)

U. S. GOVERNMENT PRINTING OFFICE

8-14117

February 11, 1939.

TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

Mr. Luis Legoretta,
Hotel Pierre,
5th Avenue and 61st Street,
New York, N. Y.

SECRETARY MORGENTHAU WILL BE GLAD TO SEE YOU TEN THIRTY
TUESDAY MORNING FEBRUARY FOURTEENTH

H. S. Klotz,
Private Secretary.

TREASURY DEPARTMENT

309

WASHINGTON

CHARGE TREASURY DEPARTMENT, APPROPRIATION FOR

Official

(The appropriation from which payable must be stated on above line)

February 11, 1939.

MISS CHAUNCEY

Glenn letter of 2-8-39 referred
to you 2-9-39.

310

HF 2-11-39

MRS. FORBUSH
ROOM 470

P.D. M 60 NL 5 EXTRA

TELEGRAPH OFFICE

IN NEWYORK NY FEB 10 1939

PERSONAL SECRETARY OF MR HENRY MORGENTHAU JR 1939 FEB 11 AM 8 44

JOHN GLENN PRESIDENT PAN AMERICAN TRUST COMPANY WROTE MISTER MORGENTHAU
FEBRUARY EIGHTH REQUESTING APPOINTMENT FOR ME TO DELIVER LETTER I
HAVE FROM AMBASSADOR DANIELS MEXICO CITY STOP DUE TO MONDAY HOLIDAY
I BEG YOU TO NOTIFY ME DATE APPOINTMENT HOTEL PIERRE NEWYORK IF POSSIBLE
BY WIRE AND AFTER MONDAY THROUGH MISTER GLENN MANY THANKS AND OBLIGED
LUIS LEGORETTA PRES BANCO NACIONAL DE MEXICO

840A



PAN AMERICAN TRUST COMPANY

52 WILLIAM STREET, NEW YORK

February 8, 1939

JOHN B. GLENN
PRESIDENT

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

Dear Mr. Morgenthau:

It gives me much pleasure to inform you that Mr. Luis G. Legorreta and myself will be in Washington on February 15th and 16th.

Mr. Legorreta, who has a letter of introduction to you from Ambassador Daniels, is President of the Banco Nacional de Mexico, the largest commercial banking institution in the Republic of Mexico, and is thoroughly familiar with every phase of the Mexican situation.

If you will be good enough to fix an hour for an interview with you, it will be very much appreciated.

With kind regards,

Sincerely yours,

John B. Glenn

President

JBG-cj

PAN AMERICAN TRUST COMPANY

52 WILLIAM STREET
NEW YORK, N. Y.

313



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

México, February 3, 1939.

My dear Mr. Secretary:

I take great pleasure in introducing to you my good friend Señor Luis G. Legorreta, a prominent banker and influential citizen of Mexico, who is visiting our country. He is a gentleman of high character and responsibility, and I take pleasure in commending him to you.

With my warm personal regards, believe me

Sincerely yours,

Josepaucares

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury,

Washington, D.C.

TREASURY DEPARTMENT

315

INTER OFFICE COMMUNICATION

DATE February 15, 1939

TO Secretary Morgenthau

FROM

Mr. Haas 

Attached is the American Federation of Labor's statement, to which I referred in the discussion of the business situation this afternoon. It appeared in today's New York Times.

OF L. QUESTIONS FEDERAL SPENDING

Permanent Solution of
Unemployment, Executive
Council Declares

HOPE ON INDUSTRY

Removal of Distrust in
Governmental, Social and
Economic Procedure

By LOUIS STARK

NEW YORK, Feb. 14.—Government industry and labor must cooperate in the task of "a lack of confidence and distrust in governmental and economic procedure," the executive council of the American Federation of Labor declared today.

Expressing its view of the business and economic situation, the council on the last day of its session pressed the conviction that governmental spending of whatever type was only a temporary measure and was not the permanent solution for the problem of unemployment.

The statement called for a "sound economic policy" which would support the masses with purchasing power and also stimulate private industry to increase production and give more additional employment. It emphasized that the "rules of the game" under which industry and commerce should be more definite, clear and understandable.

Wm. Green, president of the council, said that the executive council believed that the government should make "the rules of the game" clear to the business and that industry launched its enterprise. New rules should not be laid out called for readjustment of the game.

The Unemployment Question

The continued existence of "an army of unemployed numbering more than two million workers in this country," the executive council said. In the last ten years the country had experimented with various measures and many organizations affiliated with the A. F. of L. have expended millions of dollars in their treasury in support of their unemployed members.

The council for absorbing the "burden" of industry "should be placed squarely upon the owners and management of private industry and the government." The council was ready to assist "in the execution of a plan which will provide for the employment, in private industry, of the millions who are idle."

After saying that the conclusion was "inevitable that private industry" should be stimulated, the statement continued:

"What can be done and what should be done, therefore, are the problems which, at the moment, call for consideration and a proper solution. We do not believe that the nation has reached the maximum in production or consumption of manufactured goods. For that reason we cannot accept the reasoning of those who maintain that we must prepare to maintain constantly an army of unemployed as the wants of the government."

"We must turn to private industry for the solution. It should and must serve the nation. Our national interests require that private industry be accorded the widest opportunity to do so. That involves expansion and an increase in productivity. Such action must be considered as the primary step necessary to create work opportunities for the millions who are unemployed."

Call for Confidence

"Obviously, the next step must be the establishment of credit and the will and purpose on the part of the owners of industry to risk, invest, build and construct. The basis for such procedure must be found in the creation of a favorable state of mind. First, a lack of confidence and distrust in governmental, social and economic procedure should be removed."

"A political and economic state of mind should be created which would enable all financiers and the owners and management of industry to face the future with confidence, willing to risk in the expenditure of funds for the development of industrial enterprises and in the manufacture and sale of manufactured products."

"We are firmly convinced that the realization of this objective should be the primary purpose of government, industry and labor. Whenever stands in the way—whatever barrier may have been created, either as a result of fear or as a result of affirmative action on the part of those who administer the affairs of government, ought to be broken down so that our industrial processes may function in a proper way and unemployment may thus be overcome."

"Some strong, powerful and influential representatives of private industry maintain that in order that private enterprise may go forward it is necessary that the rules and laws under which industry should operate should be more definite, clear and understandable. This, it is asserted, would stabilize industrial conditions and would serve to release financial and industrial forces necessary to the development and expansion of private industry."

"The executive council is firmly of the opinion that this issue should be met squarely. All should understand that no new rules or regulations will be promulgated by some administrative bureau other than the rules and regulations definitely set forth in legislative action enacted by the Congress of the United States. Such action will serve to help business, labor and the people generally. Under such a plan industrial management would be accorded the widest opportunity to render service to the solution of our unemployment problem."

Upholds Private Enterprise

"The executive council reaffirms the position of the American Federation of Labor regarding private enterprise and private initiative. We are firmly committed to such an economic philosophy. We believe that private initiative, private investment and private endeavor in private industry should be encouraged and supported. We cannot dispel

those who invest in private industry should earn a fair return upon such investment and that labor should be paid a price which would accord to all workers and their families an opportunity to live in decency and comfort."

"We urge the development of the highest and most perfect form of cooperation between management and labor. We are convinced that the best interests of all the people of the entire nation can be served through the acceptance by those who administer the affairs of our government and by the law-making bodies of the nation of the well considered plans and recommendations which both management and labor can, as a result of long and varied experience, submit for discussion and consideration."

The council directed Mr. Green to obtain all possible information bearing upon the proposal made by the American Wage Earners Protective Conference that an excise tax be placed on imported goods, so as to place foreign manufactured merchandise on a price parity with goods of similar quality made in the United States.

Mr. Green was also asked to obtain data on the State department's reciprocal trade policy and what that policy meant to labor in the United States. He explained that the A. F. of L. had been cooperating with the State Department on reciprocal trade agreements and had also tried to protect United States wage earners in all such agreements. In some instances he said, industries in the United States had been adversely affected and in other instances they had been benefited.

The membership of the federation shows a substantial increase in the last quarter and it is rapidly approaching the 4,000,000 mark, according to a report made by Frank Morrison, secretary-treasurer. The council ended its session tonight. Its next meeting will be held in Washington on May 15.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: February 14, 1939, 9 a.m.

NO.: 280

FROM COCHRAN.

This morning I returned from Basel, where on Sunday and Monday the BIS directors held their meeting. Beneduce of the Bank of Italy, Janssen of the Belgian Bank, and Trip of the Netherlands Bank were ill and did not attend.

Schacht is of course no longer a BIS director, having been dismissed as President of the Reichsbank. When Schacht left the Reichsbank, Reusch, the German industrialist director, resigned from the BIS board. The only German director present was Von Schroeder, the Cologne banker. He came only in time to attend the session on Monday morning.

The Chairman of the Board, Niesmeyer, had written the customary letter to Funk as soon as the latter became President of the Reichsbank reminding him that he had thus become eligible as ex-officio director of the Bank for International Settlements. Funk replied that it would not be possible for him nor for Vice Governor Brinkmann to come to the February meeting, but that one of them would attend hereafter.

END SECTION ONE.

BULLITT.

PARAPHRASE. Section Two, telegram No. 280 of February 14, 1939, FROM PARIS.

A personal letter was written to Funk by Niemeyer, after the informal discussion on the point which took place among the governors on Sunday regarding the question of the eligibility of Brinkmann under the BIS statutes, Article 31. Being the Reichsbank President, Funk can serve ex officio as BIS director, even though he is Economics Minister. However, there is a question whether Brinkmann, who is still Secretary of State in the Economics Ministry and consequently is a government official, could be definitely named to the BIS as substitute for Funk or whether [omitted] he could only serve as alternate to Funk. A successor for Reusch has not yet been named by Funk. A banker had been picked out for the post, but since an industrialist is required, a banker is impossible.

At Basel the story is being circulated that Schacht and members of his board had signed and submitted to Hitler a memorandum in which they urged that German expenditures for armaments and public works be reduced, and recommended that taxes be raised. It is alleged that Goering and Funk were consulted and such a program was agreed to by them. Schacht and Funk were called in by Hitler one night at 9:00 o'clock to talk about the matter. Schacht was at the opera and could not be located, but Funk appeared and put his own ideas before Hitler. Schacht received word of his own dismissal at 9:00 o'clock the next morning. It is reported that Goering ~~was~~ tried to console Schacht by telling

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telling him that all of Germany realized what a service he had rendered the country, and that Schacht retorted that it was realized by the whole world more than by his own country. It is the belief of some of my friends that the real reason for the dismissal of Schacht was the unhappiness of Hitler over Schacht's open criticism of the Nazi Party and policies when he was in London, in particular.

END SECTION TWO.

BULLITT.

EA:LWW

PARAPHRASE OF SECTION THREE, TELEGRAM NO. 280 OF
FEBRUARY 14, 1939 FROM PARIS.

The foregoing is borne out somewhat by stories told me by friends who recently have visited the Reichsbank. Brinkmann, aided by Puhl, they say, (and Puhl is the only one of Schacht's higher officials who is still in the Reichsbank) is going to try to adhere to Schacht's own policies and fight inflation as vigorously as he can. Certain conciliatory political gestures have been made by Brinkmann, such as ordering for the Reichsbank and its branch banks 600 subscriptions to the STURMER, the vile Nazi sheet, and putting Hitler's, et al, photograph in the banks in place of former Reichsbank presidents. Puhl himself is overworked and nervous, and it is doubtful whether he will continue indefinitely in office.

No immediate changes in German financial or monetary policy are expected by BIS observers. Since Germany is now going to try to expand exports and cannot afford to injure her credit standing any further, these observers do not look for any alteration in the Standstill Agreement. However, if political relations between Germany and the United States continue to deteriorate, some of my friends fear that Germany may take exceptional and prejudicial steps vis-à-vis American creditors.

END SECTION THREE.

BULLITT.

The only central bankers at Basel who seemed nervous lest Germany might make some military move this year were the Swiss, who have Germany and Italy on three sides of them. It is the belief of most of my friends that during the next few months Germany will follow a policy of consolidation, working for trade, and in particular, negotiating with the Soviet for some commercial and possibly financial arrangements. They do not think that an early move will be made against Danzig or Memel. These friends are convinced that the Germans are by no means enthusiastic over letting Italy involve them in a war, since it is becoming more and difficult for them to obtain payments from Italy, and they are increasingly concerned over the economic situation at the southern end of the axis. Of all the central bankers at Basel, Rooth was more worried than any over Germany possibly upsetting Imredy, turning Hungary into a Nazi state, and perhaps seeking to use Hungary for entrance to Rumania. Germany's economic and financial difficulties were not minimized by my friends, but they do not expect these factors to lead to any foreseeable crash in that country. They know that increased effort is being exerted to get foreign exchange. The banks are paying almost double the official Reichsmark rate to certain foreign diplomats and to German servants called back from abroad who bring foreign money with them. It was not possible

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possible for me to get confirmation of the story that Germany has been officially dumping Reichsbank notes in London and in other foreign centers; the story was vigorously denied by Hechler.

END SECTION FOUR.

BULLITT

There can be no big drive in the export jobbing unless men are withdrawn from military works, in view of the scarcity of available labor in Germany. My friends would rather face Germany's goods than her guns, and consequently they are glad to see her turn to trade. Some observers are puzzled about the United States being so wary of competition trade with from or ~~with~~ Germany, since the United States has such great natural resources, exportable surpluses, mass production, idle riches and unemployed labor.

Some of the BIS people are primarily concerned lest Germany might default on the transfer and payment of sums due the BIS on account of investments in Germany. Such action would partially paralyze the institution by freezing an important share of BIS funds.

I was told by Governor Norman of the Bank of England that speculation had been effectively checked by the January restrictions. However, a large share of the exchange business on his market had been stopped thereby. Banks would have to go out of business, he said, if there is continuation of these restrictions and the Government's cheap money policy. Norman puts the blame on cheap money for Government extravagance, lack of interest and initiative by banks in extending enterprises, and a lot of other evils prevailing just now.

Schacht's fall naturally disappointed Norman. He had to drop several plans they had had under consideration with

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with respect to business and banking methods. Norman expressed particular concern over the question of business morality and he said if the capitalist system is to survive that must be improved. In recent ^{years} ~~(1941-1942)~~ he said there have been financial frauds and investment bubbles in his own country. He still regrets activities of those who for profit will cast reflections on sterling and picture opportunities for flight into foreign shares. He feels that the situation can be got and held under control on the London market, for city circles can effectively ostracize anyone who is guilty of questionable operations on that market. He believes at the same time that the common trend toward profligate government spending, indefinitely unbalanced budgets, currency manipulation, abrogation of contracts, and utilization of public funds for political ends make difficult the development of individual business morality. Nevertheless, he said if we in capitalist countries are to preserve our amount of funds, it is necessary ^{to have} ~~for~~ sound businessmen of character rather than clever showmen with fascination.

Without exception, all the central bankers are advocates of peace. Naturally they hope that the result of recent developments in the United States will be toward restraining the warlike from going to war. But most of these men, as it happens, have had no serious concern about any further extensive marching; they have realized that

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that there are certain unsatisfied aspirations, but they have thought them susceptible of solution by negotiation. They believe that such solutions are the most likely to bring permanent satisfaction. These observers said they are happy to see France strengthened and consolidated, but at the same time they fear the very support now so flagrantly being laid at the feet of France - "that spoiled and selfish dame among nations", as it was put by one observer - by Great Britain and the United States. They are afraid it may cause France to become so self-satisfied that her own weaknesses will not be corrected, and so disagreeable that rather than conciliate her neighbors she will exasperate them. Even now it looks as though some French political leaders are jealous of the recent success of Daladier, and would like to elevate him to the Presidency of the Republic, and thus eliminate him from active political life and leave the field free for their usual maneuvers. The opinion was expressed by one of the French bankers at Basel that in the United States sentiment was too shifting and uncertain to warrant France in thinking that should there be a war over African desert boundaries the total resources of the United States, including an army, would be put at their disposal. I find that European uneasiness is in part due to hot and then tepid statements coming from Washington.

The

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The financial and monetary recovery in France pleased Fournier, who thinks that in due time economic improvement will come. He said that it was foolish to expect that there would be immediate pick-up in production. As yet, little of the repatriated capital has gone into private financing, he said, and many of the commercial concerns have been using the money they brought home simply to liquidate the short position which they had been carrying in francs. There will have to be gradual new investment in France, and only as there is improvement in the international situation.

I was told by the British that no change in monetary policy was involved in their recent arrangement between the Bank of England ^{and} the exchange equalization account, that it was only a mechanical one. It is still Norman's belief that the world price of gold has been brought too high. He has thanks rather than criticism for the BIS for having started a gold scare two years ago, as it showed the danger of increasing the price any further, and suggested the possibility that at some future date it might even be lowered.

The Bank of France Governor, Fournier, interprets the British gold move as having considerable significance; he said that it certainly works against returning to any fixed standard for gold. For another thing, it breaks down the protection for a fixed gold reserve in the central bank, and

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it was one of the purposes of the stabilization funds to preserve that protection. He feels that if the arrangement is to involve all of the resources of the Bank, it would be better for the central bank to absorb the fund and have full responsibility for currency and credit. A Treasury may be in a position to have much more effective control of the credit situation than the central bank itself, under the new arrangement, with a large stabilization fund, big cash balances with the central bank, authority to borrow important sums therefrom, and controlling various other Government funds. The new system, he feels, tends to perpetuate stabilization funds as well as increase the part to be played by treasuries and politicians in the regulation of the credit of a country. The Governor admitted that sterling had been strengthened by recent British steps including this one. However, he expressed the opinion that the position which the continental members of the tripartite assumed last month vis-à-vis the British did a lot to convince the British that a very disastrous and undesirable international debacle of currencies might be involved in a further decline of sterling.

The Swedish BIS economic adviser, Jacobsson, refuted to me the arguments of Fournier. He said that Governor Fournier was one of the few advocates of the old-fashioned gold

gold

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gold standard who have not yet seen the light. The recent change, Jacobsson says, was instituted at the insistence of the Bank of England itself. He said it makes the defense of the currency easier, showing greater resources behind it. He believes that the gold supply of a central bank should not be rigid but should fluctuate as a barometer. He said government intervention in central banking affairs is here to stay, and certainly should be considered an accepted fact.

The British handling of the sterling situation is satisfactory to President Bachmann of the Swiss National Bank. He has not been approached by Swiss banks for approval of any new credits to France or any other countries, but it is probable that in the autumn some conversion operation for the 200,000,000 Swiss franc two-year credit which Swiss banks gave France in October 1937 will be undertaken. If the French Government should see fit to issue a straight French franc loan this spring, Swiss bankers maintain, they would not touch it even though the Swiss market has now well absorbed the recent 4% French loan issued in Swiss francs and florins.

President Bachmann said he is anxious to participate in any Spanish financial reconstruction, and to help improve Swiss-Spanish trade.

The Belgian bank head, Galopin, expects a compromise

in

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in the Mertens affair now involving acute political differences in Belgium, and the setting up of a new government essentially similar to the last Spaak cabinet; he does not think that any monetary change will be made.

The Japanese representatives, Yanagita and Kano, think that Japanese troops will not advance further in China, and that efforts will be made to pacify and consolidate the areas which they have already gained.

The representatives from Italy realize that Italy's need is peaceful foreign trade in goods and tourists. They say that in such trade lies the only solution of their economic and financial problems.

March 13 has been set as the date of the next meeting of the BIS.

END OF MESSAGE.

BULLITT.

PS

GRAY

London

Dated February 14, 1939

Rec'd 3:35 p.m.

Secretary of State,
Washington.

219, February 14, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

Inactive conditions continue in the foreign exchange market with sterling today having a slightly firmer tone. Gold was fixed at 148 shillings 3½ pence and the 90 bars had to be prorated, the British fund refusing to contribute to the offerings; 39 bars were married.

PEG:WTC

JOHNSON

917112

11

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Paris, France

DATE: February 14, 1939, 6 p.m.

NO.: 89

Cochran's transportation expenses and per diem chargeable to the Treasury Department authorized subject to Travel Regulations. He should report the dates on which he will make his trips.

HULL.

EA:LWW

JR

PLAIN

London

Dated February 15, 1939

Rec'd 3:48 p.m.

Secretary of State,
Washington.

RUSH.

232, February 15, 7 p.m.

FOR TREASURY FROM BUTTERWORTH.

The Chancellor of the Exchequer replying to a question this afternoon from the leader of the opposition regarding the financing of the armament program said.

"The House of Commons will recall that on November 29 last I made a statement that in view of our increasing expenditure on defence preparations further borrowing powers would be needed and that it was my intention at the appropriate time to ask Parliament to draft legislation for this purpose. The Defence Loans Act of 1937 authorized borrowing in connection with our rearmament programs to a total of pounds 400,000,000 in respect of the quinquennium 1937-1938 to 1941-42. It was made clear at the time of the introduction of that

Act

-2- #232, February 15, 7 p.m., from London.

Act that the limit of pounds 400,000,000 was by no means final and that if conditions required it Parliament would be asked to authorize a measure of further borrowing. Accordingly a ways and means resolution is being tabled today upon which to found a bill which will double the amount which may be raised in the five year period ending 1941-42 so that the total loan authorized becomes pounds 800,000,000. The expense of rearmament met out of borrowed money up to the present is just under pounds 200,000,000 so the result of the new bill will be to provide for the future a total authority of about pounds 600,000,000. The bill will follow the same lines as the Act of 1937 but I propose to include among the purposes for which these defence loans may be used expenditure on civil defence and the purchase of food and other essential commodities under the Essential Commodities Reserves Act of last session. The Prime Minister authorizes me to add that a White Paper on defence has been prepared."

The White Paper shows that the expenditure of the Navy, Air and War Ministries for 1937 was approximately pounds 262,000,000 and that in the current financial year ending March 31, 1938 the corresponding total including projected

-3- #232, February 15, 7 p.m., from London.

projected supplementary estimates is about pounds 388,000,000. In the financial year which starts on the first April 1939 the estimates for the Navy, Army and Air Ministries will be some pounds 523,000,000. The total expenditure therefore in the first three years of the quinquennium ending March 1942 amounts to over pounds 1,173,000,000.

The expenditure on air raid precautions amounted to pounds 3,500,000 in 1937. For the year 1938-39 it is estimated to reach pounds 9,250,000 including a supplementary estimate in prospect while for the year 1939-40 the estimate is pounds 42,000,000 exclusive of assistance to vital public utility services and water for emergency fire fighting purposes estimated at pounds 9,000,000.

Expenditure on storage of food, fertilizers and petroleum amounting to pounds 8,500,000 was incurred in 1938 and the estimates for 1939 make provision for pounds 6,000,000.

Therefore the total defence expenditure in 1939-40 including expenditure on civil defence will be in the neighborhood of pounds 580,000,000. That figure exceeds the current year's expenditure after taking

-4- #232, February 15, 7 p.m., from London.

taking into account supplementary estimates by some pounds 175,000,000, and exceeds the portion of the current year's defence expenditure to be met from revenue by pounds 307,000,000.

The foreign exchange market was quiet in the morning but the above announcement created an active demand for dollars in the afternoon; one large commercial dollar buying order came in just before Simon's statement. The British authorities gave dollars at 4.68-9/16. Gold was fixed at 1495. 4D. and of the 147 bars sold 42 were supplied by the British fund; 21 were married.

JOHNSON

EPD

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

DATE: February 15, 6 p.m., 1939

NO.: 295

FROM COCHRAN

Over 16,000,000,000 gold francs are now being held by the French stabilization fund which continues to borrow francs from the Treasury in order to take care of preponderant (?). Today the fund gained 1,000,000 through Guaranty and yesterday \$5,500,000 through Morgans. One-half of today's total was given by Lazards to Guaranty. At 5:30 this evening while I was at the Bank of France, word was received of British parliamentary decision to double authorization for the national defense loan. The immediate reaction was to weaken sterling and £200,000 was gained by French Control in a few minutes, but toward closing the move subsided. Despite sudden death of Jasper who might have formed a government, the belge remains steady.

The working of restrictions at London toward reducing exchange trading to straight commercial transactions pleases my friend at the Bank of France. My friend said that so long as London was so lax, many continental banks, particularly Swiss, had used that center for operations of a speculative nature.

EA:DJW

REL

PLAIN

London

Dated February 16, 1939

Rec'd 4:10 p. m.

Secretary of State,
Washington.

239, February 16, 6 p. m.

PCR TREASURY FROM BUTTERWORTH.

1. Yesterday's announcement of the increase to be asked for borrowing powers to meet armament expenditure from £400 million to £800 million was not unexpected because the Chancellor of the Exchequer had announced his intention of taking such a step on November 29 (see No. 1370, November 29, 6 p. m.) but the amount of the increase was larger than had been generally anticipated. The actual expenditure from borrowed funds by the end of March will have been only about £200 million. To date the total of long term funds raised under the defence Loan Act is £180 million to which should be added last year's budget surplus of about £28 million diverted from sinking fund and counting as part of borrowed funds for armament expenditure. There will therefore be in hand on March 31, 1939 some £8 million of borrowed funds.

I understand

FEB

2-#239, From London, Feb. 16, 6p.m.

I understand that when I was in Washington consideration was being given here to a long term issue to be put out in February but that in view of the exchange equalisation account's gold losses and consequent absorption of Treasury bills and the resulting uncomfortably short supply of Treasury bills in the discount market it was then decided to postpone the issuance until the late summer or early autumn. It is therefore likely that an increasing portion of armament expenditure will be financed for the time being by an increase in the total Treasury bill issue which now stands at about ~~£1000~~^{£13} million. As mentioned in my memorandum of June 10, 1937 there is a tradition that the Treasury bill issue should not go above £1000 million but there is no compelling reason why this limit should not be exceeded especially as such a large proportion is now held by the equalization account.

It is believed that some increase in taxation must be expected in the forthcoming budget. Parliamentary gossip has it that the income tax which is now at 5S. 6D. in the pound (the highest rate 6S. in the pound prevailed from 1918-22) will not be increased because of the deflationary effect but it is expected that surtax will be assessed on
lower

REB

3-#239, From London, Feb. 16, 6p.m.

lower incomes than are now affected and that there will be an increase in the national defence contribution tax which taps to some extent the profits of armament manufacturers. Taxes tending to reduce consumption of nonessentials also seem likely.

Judging from the £800 million limit on borrowing and assuming that defence expenditure met by taxation may be increased by say £50 million per annum the total five year program now envisaged will run to something like £2,200 million of which £670 million will have been spent in the first two years with £1,530 million to be spent in the remaining three years. The estimate for the coming year is £580 million which would leave an average of £475 million per annum in the two last years. So that if 1939 does not prove to be the peak year the British Government must be contemplating heavier taxation than would yield an extra £50 million per annum or again asking for an increase in borrowing powers. The White Paper itself includes a statement that it is at present impossible to predict how soon there could be a slowing down in the production of armaments.

2. Sterling remained offered today and the market was a little more active with the British fund selling dollars at

REB

4-#239, From London, Feb. 16, 5p.m.

at the opening and all afternoon but giving only a small amount. The rate hardly changed remaining around 4.68-9/16 all day. There were no appreciable sales of sterling from the Continent, yesterday's announcement regarding defence expenditure appearing not to have disturbed confidence in sterling unduly. 198 bars of gold were sold 53 of which were married and about 114 furnished by the British Fund. The price was 148S. 4 1/2D. quoted as a 1/2D. premium on 4.68-5/8.

The franc remained steady all day at 175.96 with the Bank of France taking small amounts of sterling.

KENNEDY

HPD