DIARY

Book 213

September 22 - September 26, 1939

September 22, 1939

My dear Mr. President:

First, may I extend to you my very heartiest congratulations on your great message to Congress yesterday.

Second, I am inclosing herewith a clipping from the New York Tribune in regard to Sterling. For the moment we have the matter in hand, thanks to the publicity which I gave it through the press.

Thirdly, I am not at all happy over the way the Federal Reserve has been handling the Government bond market and if it does not straighten itself out by Monday, with your approval and backing I propose to take over the exclusive handling of the Government bond market.

Yours sincerely,

The President,

The White House.

September 22, 1939

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Stocks Tend Higher While Volume Dips

Favorable Business News and Forecast of Long War Aid Bullish Side

Repeal of Embargo Is Echoed in Street

President's Appeal Meets With Broker Approval; Average Up Half Point

Submits Banking Report

U. S. Bank Unit Concentration Seen Unneeded

Supervisors Adopt Report Opposing Merry, While Warns of Dualisc Policy

Haskell Cites Exchange Role For Investors

Market Urges Prospective Purchasers to Investigate Issues; He Declares

Treasury Asks Tenders On $100,000,000 Bills

United States Treasury Statement

Wall Street Comment

9,800 du Pont Shares Purchased by Chairman

Mountain States Power Asks Approval of Plan

Domestic Copper Market Quiet

Export Managers Club to Meet

Treasury Issues Break Sharply In Bond Market

Off Point or More, Lacking Federal Reserve Support; Other Issues Affected

Bank of England Declares 6% Half-Year Dividend

138 Stock Issues Listed Higher

Morgenthau Confirms Ending Of U. S. Bond Market Support

15 Most Active Stocks

Sterling Rally Continues, With 7¼ Cent Gain

Rate Advances to $3.99¼; High for Day $4.00¼; French Francs Also Rise

Philip Morris Profits At $6,892,015 in Year

Reserve Ends Move to Prop Bond Market

Government-Paper Buying Dips to $2,766,000 After Heavy Purchases

Banks Alter Policy Of Supporting Price

$397,526,000 in Treasurys Taken in 3 Weeks Prior to Latest Action

August Tin Exports Shown

September 22, 1939
10:20 a.m.

PRESENT:

Dr. Randolph Burgess
Mr. Harold Smith
Mr. Walter Stewart
Mr. Daniel Bell
Mr. John Hanes
Mrs. Klotz

HM,Jr: Just for the record, what kind of an agreement -- (to Walter Stewart: This is a matter of policy and I want your advice.) -- what kind of a record have we from the Fed. that they were going to stay out of the market?

Burgess: Nothing. After Dan and I went over there we haven't heard anything directly from the Fed.

Stewart: You only knew they were out yesterday by George Harrison?

HM,Jr: What I mean, should I call up and say, "Why don't you let us know when you go back in"? Or should I do nothing?

Stewart: I think you should do something. I suggest Burgess......

Smith: It ought to come through regular channels.

Stewart: I think you could give Randolph a steer as to how you would like him to handle it. But what's the present status of our information? We only know from the market? We are still not advised?

Burgess: We know from the New York bank.

Stewart: From the New York bank. Yeah. We don't know anything about magnitude.

(Mr. Hanes came in at this point.)

HM,Jr: This pow-wow is on this; we have just learned from Hadley that the Fed. is back in the market buying bonds. I want some advice what to do. Randolph is really upset! (Burgess laughed at this remark.)

And fortunately I feel well this morning so I am not -- I just don't want to do anything half-cocked. We are just sitting here discussing what should we do in relation to the Federal Reserve Board in Washington. I would like some advice. There was evidently no official notice to us that they were going to stay out of the market.

Bell: I think for that record you ought to say that Dr. Burgess and I went over there three days ago to suggest to them that we wanted to consider financing and that you could not do financing without them being out of the market and that is about all that was said, and then after we left Harrison and Allan Sproul took it up over there and urged that the Board get out of the market and that was when the vote was taken, as we get it from the other end, but we didn't hear directly from the Board that they would be out of the market or what plans they were adopting for staying out of the market.

HM,Jr: Also for the record, yesterday I talked to George Harrison.......

(At this point Secretary spoke on telephone to George Harrison and record of conversation follows:)

HM,Jr: This is what is running through my mind, gentlemen. For the moment I have a little bit of reserve strength. Rather than call up Eccles and get into an hour's argument and lose my temper, I am going to ask you people to draft a letter in which we want to point out first -- this is what I am thinking -- that the Treasury is responsible for the financing and the raising of the money. This is the way I am thinking, not saying this is how I would like you to do it, I am not dictating. Second, that I am not at all satisfied with the way the Federal Reserve has handled the thing, and third, here we were under the impression, right or wrong, that they were going to stay out of the market and without any notice to us of any kind they have gone back in, and that after all, no matter who handles it, whether they handle it or I handle it, we must have better liaison, and I think the least Mr. Eccles could do would be, where he has been handling it, to arrange to let me know.

And lay it down and write a very careful letter and put it in a letter rather than have me call him up. One of us will end up losing our temper and that just burns up my energy.

What do you think, Johnny, of doing it that way?

Hanes: In order to get the thing crystallized as soon as we can -- I am confused to know who has the authority. Where does the authority rest on the final analysis? Have we got any control over the Federal Reserve or their policy at all?

HM,Jr: No, no. None. It would go to the President.

Hanes: I was going to suggest, it seems to me the thing is important enough, we lay it before the President and say, "Here, there is such a wide divergence of opinion we can't get together." And I know down in my heart -- I know he's destroying this market. I think it's serious enough......

Smith: On the control it's very definitely over there.

<u>Burgess</u>: To buy Government securities.

<u>Hanes</u>: I like your suggestion of getting in the record just exactly where we stand.

<u>HM,Jr</u>: That's what I think. I am going to ask you fellows to do this; could you go somewhere and talk it over? I feel this is sufficiently important that you, Walter, should sit in on it. This is policy, question of how we are going to handle the bond market and I think it's pretty important.

<u>Smith</u>: With your permission. You couldn't keep me out if you will let me.

<u>HM,Jr</u>: I am telling you (Stewart) to help me on how the Government should handle the Government bond market. Who said it's the Federal Reserve's responsibility?

<u>Smith</u>: The decision as to what there is to do is a decision to be made by the Open Market Committee. The Government bond market is not assigned to anybody. Nobody is charged with the responsibility with control maintaining the market.

<u>Bell</u>: It's really a public debt matter and the Secretary has the financing responsibility. It seems to me a Treasury function to complete that because it has such an important bearing on the financing problems we are confronted with. I think the line ought to be specifically drawn.

<u>Stewart</u>: Complete alteration of everything that we have has been conserved as an open market operation.

<u>HM,Jr</u>: Does anybody think I should call Eccles on the phone?

<u>Burgess</u>: No, I certainly do not.

<u>Smith</u>: No, sir.

<u>Hanes</u>: No, sir.

<u>HM,Jr</u>: You talk it over.

Bell: I question the letter also a little. Let's think that over.

HM,Jr: So you people know everything - I wrote a letter to the President this morning which I asked them to give him at his breakfast time. I wrote him to congratulate him on his speech and then I said, "I want you to know I am not at all satisfied the way the Federal Reserve is handling the Government bond market and if by Monday it doesn't straighten itself out, with your approval and backing I want exclusive handling of the Government bond market." He got that this morning.

Hanes: That meets my suggestion exactly.

HM,Jr: I said, "With your approval and backing I want the exclusive handling of the Government bond market." Because I didn't want him to jump me at Cabinet in front of everybody there - Jack Garner. "Why don't you do it"? Get into a l ong argument. I want the President to know -- I haven't bothered him -- that it isn't mine. The Fed. has been handling it and I thought it was time to let him know that. Whether he called Marriner on the phone and jumped on Marriner and that's what started it off -- that's what might have happened. But just so you know everything, I did do that this morning.

I wanted to lay the ground so I could walk into the President on Monday and say, "Well now Boss, with your approval and backing I want to handle it but I can't do it unless you give it to me." With that in mind -- we haven't got his approval and backing yet -- you might draft a letter and before sending it I might ask him to read it. There's an idea! So that I wouldn't be going off on the end of a limb and I might get him to read the letter and say, "This is what I am going to send to Eccles, but before I send it I want to know if it's O.K." I could get him to read it this morning.

Burgess: I suggest the secretary give us a couple of paragraphs of what you dictated.

HM,Jr: No, you have enough.

We can forget about Sterling. Sterling is all right.

If I write him the President had better see the letter before it goes off so I am sure, because I can't take this away unless the President says, "I want Henry to do this." He has to say that, doesn't he?

Burgess: Or it could be mutual agreement.

HM,Jr: I don't know how you (Burgess) feel physically but I can't do it.

Smith: You mean mutual agreement with Eccles?

HM,Jr: I just can't do it. What's the use. We go in and if we do it we tell them at the end of the day we bought "X" million dollars worth of bonds or sold "X" million dollars worth of bonds and you can have half of it if you want it.

Burgess: Right.

See Morrell's reply of 9-28-39

FEDERAL RESERVE BANK

OF NEW YORK

September 22, 1939.

Dear Mr. Secretary:

I beg to transmit herewith copy of a report which I have asked Mr. Knoke to prepare concerning the events leading up to and immediately following the release to the market on Thursday, September 14, 1939, of certain information concerning the official British buying rate for sterling. I am also sending this report to the Board of Governors of the Federal Reserve System with a similar covering letter.

Since my return to New York yesterday, after my absence in Washington Monday, Tuesday and Wednesday, I have interviewed each member of the Foreign Exchange Committee in order that each one of them might furnish to me a list of their transactions in sterling from the time that the notice was first delivered to Mr. Loree, Chairman of the Foreign Exchange Committee, until after the announcement was released on the Dow, Jones ticker - that is, between 2:00 p.m. and 2:51 p.m. Each member of the Committee was glad to avail himself of the opportunity to give us the complete transcript of his institution's transactions in sterling over the period in question. Mr. Knoke has examined each one of these documents and has advised me that they demonstrate that there was no abuse of the information conveyed, and specifically that there were no speculative purchases of sterling in the interval in question for account of any one of the institutions

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involved. Many of the institutions concerned had no purchases of sterling whatever in this period. Those that did have some such transactions, have confirmed to us to our complete satisfaction that they were normal and legitimate transactions growing out of demands of customers or correspondents. Indeed, even these transactions were relatively insignificant in number and amount.

In this connection, I would like to mention that the Foreign Exchange Committee at its first meeting on August 28, 1939, agreed in the interest of an orderly market not to transact any speculative foreign exchange operations. In the circumstances, I was certain that no such speculative transactions had been consummated. I am glad to advise you that the records confirm that opinion.

Faithfully yours,

George L. Harrison

George L. Harrison,
President.

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

Enc.

Control of the foreign exchange market in London was adopted by Great Britain, as a war time measure, on September 3, 1939. On September 5, 1939 the British control established "official" rates (that is rates at which the control, or its authorized agents, would buy and sell foreign exchange in the London market) for nine foreign currencies, including the United States dollar. The rate for the latter was fixed at 4.02 buying (the control when buying sterling would pay $4.02 for £1) and 4.06 selling (the control when selling sterling would sell £1 for $4.06). The control did not bind itself, however, to continue these "official" rates for any fixed period nor to satisfy all demands at these rates at any time. As far as the dollar quotation was concerned, the question of the control's willingness to buy sterling (sell dollars) at 4.02 was of no immediate importance inasmuch as sterling continued, for a number of days, to be quoted here above the London "official" selling rate for dollars 4.02. The range at New York from September 5 to September 12 was 4.08 to 4.03, with fairly substantial business being transacted within this range. Only in late dealings of the afternoon of Wednesday, September 13, after all European markets were closed, did the sterling rate drop below 4.02 reaching 4.00 at 4:38 o'clock p.m. and closing at 3.99 5/8 bid to 4.00 offered at 5:00 o'clock p.m. This did not cause any serious alarm or disturbance, however, because the easing of the rate could reasonably be ascribed to the fact that the control was operating only in the London market, which had closed for the day.

On September 14 sterling opened in New York (9:10 o'clock a.m. New York time; 2:10 o'clock p.m. London time) at 4.00 offered, unchanged from the previous closing. At 9:25 o'clock a.m. the first sale was effected at 3.97 1/2, followed at 9:45 o'clock a.m. by a sale at 3.97 5/8. At 10:10 o'clock a.m. sterling was offered at 3.96. At 10:20 o'clock a.m. business was done at 3.92. At 10:30 o'clock a.m. it was 3.88 3/4 on the bid side; at 10:45 o'clock a.m. 3.90 bid. Meanwhile at about 10:30 o'clock a.m. Mr. Lochhead of the Treasury Department and I discussed the situation on the telephone. Mr. Lochhead suggested that I try to get some information from Mr. Bolton at the Bank of England concerning the break in sterling and the operations of the British control in the circumstances. I talked to Mr. Bolton, by telephone, at 10:45 a.m. and I reported the substance of my conversation to Mr. Lochhead at about 11:40 o'clock a.m. after the transcript of my talk with Mr. Bolton had been typed and checked and after I had returned from an 11 o'clock conference in the bank. I was impressed, at the time, that the most important part of Mr. Bolton's comment to me was that all American demands for dollars would be satisfied, at the control's selling price (4.02) in the London market, if the demand arose from the sale of pre-war sterling balances or from the sale of the sterling proceeds of current trade with the British Empire.

After sterling had continued to decline further, and after it had seemed to have reached at least a temporary bottom at 3.77 at 12:05 and again at 12:15 o'clock p.m., I put in a second call for Mr. Bolton at the Bank of England. Before I was connected with Mr. Bolton I spoke to Mr. Lochhead at the Treasury, told him that I had put in the call and discussed with him the advisability of trying to get the British to authorize us to convey to our market the information (about dollars being available to Americans under certain circumstances at the 4.02 price) which Mr. Bolton had given to me earlier in the day. Both Mr. Lochhead and I felt that it would be helpful to everybody in our market, and prevent needless sacrifice of American holdings of sterling, if this information could be given out.

I was connected with London at 1:25 p.m. and finished my conversation with Mr. Bolton at about 1:30 o'clock p.m. In the course of this conversation Mr. Bolton agreed that it would be of help to the market if a hint were dropped to our market to the effect that American demands for dollar exchange would be satisfied in the London market, at the rate of 4.02, if such demands represented the liquidation of American owned pre-war sterling balances or of the sterling proceeds of current trade transactions with the British Empire. In order to avoid any possible misunderstanding I repeated to Mr. Bolton his comment as I had taken it down in pencil whilst he spoke, and he confirmed it. My report on both telephone conversations with the Bank of England, on September 14, which was as usual sent to the Treasury Department the same day, is attached.

Between 1:30 o'clock p.m. and 1:55 o'clock p.m. the transcript of the second telephone conversation with Mr. Bolton was typed and checked. With the transcript before me I dictated to my secretary the form of notice about sterling dealings in London to be given to our market; I immediately put in a call for Mr. Lochhead at the Treasury, gave him an outline of my second conversation with Mr. Bolton and spoke to him about the notice to be given to this market which I said I was sending to Mr. Loree, Chairman of the Foreign Exchange Committee. Mr. Lochhead made no comment whatever about preferring any other method of release. As I was talking to Mr. Lochhead, at about 1:55 o'clock p.m., the call was interrupted and Secretary Morgenthau came on the wire. I discussed the sterling market with him; I also mentioned the notice about sterling dealings in London which I said we were giving to the New York market through the chairman of the Foreign Exchange Committee, recently set up by the New York foreign exchange market at our suggestion. In reply to his question I explained briefly what this committee is and how, through it, we expected to be able to communicate information to the foreign exchange market more promptly and with completer coverage than in the past when, as he knew, we ourselves had had to telephone to a considerable number of banks in order to convey messages which we had been asked to get to the market. This group of banks with which we had had to communicate in the past was unavoidably only a small fraction of the banks and dealers engaged in the foreign exchange business. (Incidentally, it might be mentioned here that it was partly to avoid this old cumbersome and necessarily limited method of getting news to the market that the Foreign Exchange Committee was organized with representatives of each group of institutions engaged in the foreign exchange business.) After my talk with the Secretary I telephoned the chairman of the Foreign Exchange Committee to ask him to be prepared to receive a notice about foreign exchange dealings in London which I was sending to him; as he was out to lunch, I left a request that he call me immediately upon his return. My secretary handed the notice to a Federal Reserve bank messenger at just before 2:00 o'clock p.m. with instructions that it be taken to Mr. Loree's office immediately. I received a telephone call from Mr. Loree at a few minutes after 2 o'clock p.m. He said he had just returned to his desk and had been handed my notice which he was going to get out to the market right away. At the time I sent the notice to Mr. Loree I had not given a thought to the possibility of an announcement on the news ticker; I assumed that the chairman of the Foreign Exchange Committee would immediately notify, by telephone, those banks, bankers and stock houses represented on the committee and that these representatives, in turn, would call all of the others in their groups. Thus, as I had earlier told the Secretary, we would cover a much larger number of factors in the foreign exchange market whereas, in the past, we had been able to reach, promptly, only 20-odd banks. At no time during any of these conversations did anyone mention using the ticker as a means of release or suggest any other method of release than the Foreign Exchange Committee which, from the outset, I had assumed would be the best medium of release. This, for me, was a natural assumption in view of the fact that the Bank of England had not, as I understood it, suggested a formal official release and I certainly had left them under the impression that, as I put it on the telephone, I would drop a hint to the market.

Immediately after speaking with Mr. Loree I went into the meeting of the Board of Directors of the Federal Reserve Bank of New York; between 2:30 and 2:50 o'clock p.m. I received two messages, in the board room; one from my secretary, stating that sterling was 3.91, the other (from the chairman of the Foreign Exchange Committee) saying that the market had been notified and that sterling was about 3.95. After the board meeting, that is after 3:20 o'clock p.m., I got Mr. Lochhead on the telephone and discussed the sterling market with him in some detail.

At 4:30 o'clock p.m., Secretary Morgenthau's telephone message came through in the office of Mr. Harrison, President of the Federal Reserve Bank of New York and I learned, for the first time, that the Secretary was disturbed about what had been done in London and here. In the course of the conversation, Secretary Morgenthau spoke of a gap of almost an hour between the time (1:55 o'clock p.m.) when I had told him of the notice which we were giving out to the market, and the time that he thought the notice appeared on the Dow Jones news ticker (2:50 o'clock p.m.).

Upon returning to my office a little before 5 o'clock p.m. I called Mr. Loree. I requested him to check with the Dow Jones service and to let me know at what time it had put the message on its news tickers; I also asked him to describe to me the steps he had taken between 2 o'clock p.m., when my notice reached him, and the time the message appeared on the ticker. He called me back a little later to tell me that, according to Mr. Harrower of the Dow Jones service, the notice had gone out on the Dow Jones news tickers at 2:40 o'clock p.m. He said that, immediately on receipt of the copy of the notice (at a few minutes after 2:00 o'clock p.m.) he started to telephone to the eight other members of the Foreign Exchange Committee, reading the notice to them and asking them immediately to notify each member of the group which they represented on the committee. When he gave the message to Mr. Sidney J. Weinberg of Goldman Sachs & Co., he asked him how he proposed to reach the very large number of stock exchange firms, which he represents on the committee, and Mr. Weinberg suggested that he (Mr. Weinberg) should use the news ticker for that purpose. To this Mr. Loree agreed. Mr. Weinberg thereupon had given the message to the Dow Jones service at about 2:30 o'clock p.m. The Dow Jones service had checked back with Mr. Loree as chairman of the Foreign Exchange Committee and put the notice out at 2:40 o'clock p.m. (Mr. Weinberg, in a letter to Mr. Harrison of September 21, states that the notice was given to the ticker service around 2:45 p.m., "and it appeared on the news ticker at 2:51 p.m."; Dow Jones now agree that the time of appearance was actually 2:51 p.m.) Mr. Loree has since, at Mr. Harrison's request, written a letter to Mr. Harrison setting forth exactly what he had done, a copy of which is attached. In this letter Mr. Loree states that it never occurred to him that the notice prepared by me should be given out immediately to the newspapers or to the news ticker service but that he considered it his duty to get the report directly to the foreign exchange market as rapidly as possible.

Before leaving my office for the day at 6:20 o'clock p.m. I called Mr. Lochhead at the Treasury and passed on to him the information which the chairman of the Foreign Exchange Committee had given me.

AW Knoke

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE September 14, 1939

TO CONFIDENTIAL FILES

FROM L. W. Knoke

SUBJECT: TELEPHONE CONVERSATION WITH BANK OF ENGLAND

I called Mr. Bolton at 10:45 a.m. to keep him posted on the sterling quotation. Sterling was down to 3.89 1/2, I said, not due to heavy offerings but entirely because of the absence of buyers. Bolton referred to recent selling in our market by European central banks; I answered that I assumed that these would cease coming to us now that our rate had dropped below the 4.02 level quoted by the British control. Bolton replied that such orders received in our market must be transactions in which the British control was not interested. To what extent did they buy at 4.02, I asked? He replied that the British control was refusing exchange against certain demands but had not agreed upon any principle under which they would give exchange to all comers. If South America, I asked, wanted to buy dollars in London against old sterling balances, would they get the exchange? They had not come to any definite decision yet, Bolton replied. Wasn't, then, 4.02 a limited rate? Not to everybody, he replied, all American demands for exchange being satisfied if it was a demand against pre-war sterling balances or against current trade with the British Empire. There were a great many other transactions which they had to refuse. How many dollars did I think the control would have to sell to put the market straight, say back to 4.00? So far, I repeated, the volume in our market had been insignificant. Whether $1,000,000 would do the trick I did not know; nobody could answer that, only an actual test would show. If

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE September 14, 1939

TO CONFIDENTIAL FILES

FROM L. W. Knoke

SUBJECT TELEPHONE CONVERSATION WITH BANK OF ENGLAND.

we should again get selling orders for sterling similar to those received recently, $1,000,000 would surely not be enough. Meanwhile our market's reaction to this break in the sterling rate was a feeling of disturbance and nervousness. "They had no reason to feel nervous at all; they would have all the exchange they required," Bolton replied.

What was the answer to the following situation which had arisen in this market? As a result of a cotton deal done by a cotton house in New York with Egypt, the Egyptian party to the contract had been called upon to furnish additional margin. The Egyptian had replied that he could not get dollars in Cairo. If the margin were furnished in the shape of sterling could the American party freely dispose of this sterling in the London market? Bolton replied that he thought the answer was undoubtedly "yes" because dollar exchange was needed in connection with the trade transactions with part of the British Empire.

At 1:25 p.m., sterling having fallen to 3.77, I called Bolton again to acquaint him with the situation. Scandinavia had been a small seller here, I stated, and I understood that South America was trying to sell, but again I remarked the break in the rate could not be due to heavy offerings but rather to the complete absence of

MISC.38-3M-10-38

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE September 14, 1939.

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH BANK OF ENGLAND

FROM L. W. Knoke

buyers. The development was no surprise to them, Bolton replied, but would I tell our banks that any American demand for dollar exchange would be satisfied in the London market at the rate of 4.02 if such demand was in connection with the liquidation of American owned pre-war sterling balances or with current trade transactions with the British Empire. Could I drop a hint to the market to that effect? That was exactly the position in London, he replied, and I could advise the market of it.

LWK:KW

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C O P Y

GUARANTY TURST COMPANY OF NEW YORK

NEW YORK

In replying please
refer to 513.1

September 15, 1939.

Mr. George L. Harrison, President
Federal Reserve Bank
33 Liberty Street
New York City.

Dear Mr. Harrison,

When Mr. Knoke telephoned me yesterday concerning the announcement that dollars could be procured in the London market at 4.02 for pre-war American Sterling balances, it never occurred to me that this should be given out immediately to the newspapers or to the ticker.

My reaction was that it was my duty to get this to the Exchange Market - namely, those people on the Foreign Exchange Committee's list - as rapidly as possible, and I immediately started to telephone the members of the Committee asking them to communicate with certain names on our list so that the report could get to the market as rapidly as possible without having anyone know the fact much ahead of anybody else.

I asked Mr. Weinberg of Goldman Sachs & Company, representing the brokers how he was going to get the information to them - that being a long list and one which would be very difficult to handle - and he suggested that it be put out over the ticker which was done immediately - he giving the information out and Dow Jones confirming it with me.

As far as our own traders are concerned, I did not advise them until after all the members of the Committee had been advised and we had given the announcement to Dow Jones.

Sincerely yours,

(Signed) R. F. Loree, Chairman
Foreign Exchange Committee.

TREASURY DEPARTMENT

1939 SEP 25 AM 9 11

OFFICE
SECRETARY OF TREASURY

September 22, 1939
9:13 a.m.

Henry Wallace: Hello, Henry.

HMJr: How are you?

W: Fine. I just wondered if after Cabinet meeting I could stop in and see you about ten minutes.

HMJr: Well, Henry, I'd love to but I -- the sun sets at 6:07 today and I'm going home.

W: Oh.

HMJr: And so it's a minute -- a matter of minutes.

W: Yeah.

HMJr: I could get over to Cabinet a little early.

W: Well that will be fine.

HMJr: Sup.....

W: Let's see there are about......

HMJr: Supposing I be there at ten minutes of two?

W: Well, that would be grand.

HMJr: How would that be?

W: I think that would be fine.

HMJr: I'll be delighted.

W: All right.

HMJr: I'll be at Cabinet at ten minutes to two.

W: All right, sir.

HMJr: O.K.?

W: Right.

HMJr: Goodbye.

September 22, 1939
9:15 a.m.

HMJr: Hello.

Operator: Admiral Anderson.

HMJr: Right. Hello.

W. F. Anderson: Mr. Morgenthau?

HMJr: Talking.

A: This is Admiral Anderson, Mr. Morgenthau.

HMJr: Good morning.

A: Welcome back, sir.

HMJr: Thank you.

A: I have some information here that I think would be of interest to you and it's something that I think you'll want to know right away. I believe there's a proposed interview at the State Department on the subject today, and shall I send it to you or shall I send it to Captain Puleston?

HMJr: Either way, as long as I can get it.

A: Yes, sir.

HMJr: If you'll send it to Puleston he can walk it in to me.

A: Yes. All right, I'll send it over.

HMJr: Can you get it right away?

A: Right away. Yes, sir.

HMJr: Thank you.

A: Goodbye.

September 22, 1939
10:13 a.m.

HMJr:	Hello.
Operator:	The Attorney General. Go ahead.
HMJr:	Hello.
Frank Murphy:	Hello, Henry.
HMJr:	How are you?
M:	Fine.
HMJr:	How are we coming along on this -- what I call my 26-page letter which I asked......
M:	Well my God, I phoned Ed Foley about it last night.
HMJr:	Yes.
M:	Told him that I had gone through it myself. Rogge didn't arrive until late last night.
HMJr:	I see.
M:	I turned it over to him, in view of his knowledge of the subject.
HMJr:	Yeah.
M:	And I made a couple of suggestions......
HMJr:	Good.
M:	......that I thought might brace it a little. I think the letter is in good form.
HMJr:	Fine.
M:	And I'd -- I just wondered about the paragraph about the warning.
HMJr:	Uh-huh.
M:	How that might be strengthened somewhat.
HMJr:	Fine.

M: So as to get a little more action. So after giving my notations to Rogge and to Kemp, they went to work on it last night with the understanding and instructions from me that today around noon I could get into your hands whatever comment we had to make on it.

HMJr: Fine.

M: So it will be over there in a few hours.

HMJr: Fine. Now that's number one, and then I take it when you get that out of your way you'll take a look at what -- the fake insurance......

M: Yes.

HMJr: ......on Transamerica.

M: Yeah.

HMJr: That'll come next won't it?

M: Well, we're working on that.

HMJr: Fine.

M: Yeah.

HMJr: And you'll -- maybe Monday and Tuesday you'll......

M: On that matter I've already talked with Rogge about it and told him what I wanted done with it.

HMJr: Oh, grand!

M: Yeah.

HMJr: And then I'll -- I'd like to call you about that again Monday or Tuesday.

M: All right, Henry.

HMJr: Well, I -- I'm glad you're giving this your personal attention, because it's terrifically important.

M: Well, when it gets on my desk it always goes this way.

HMJr: Fine.

M: And -- I don't like that monkey business of last Monday.

HMJr: You mean the -- the......

M: Those telegrams.

HMJr: No, I don't either.

M: And I learned later, you know, some things that collaborated my judgment about it because the editor of that paper......

HMJr: Yeah.

M: ......that informed Judy......

HMJr: Yeah.

M: ......called up columnists here and gave it to them.

HMJr: Who -- who are they?

M: Well I can't disclose that.

HMJr: Oh, I thought you said Callender.

M: Called up newspaper columnists.

HMJr: Oh, columnists.

M: Yeah.

HMJr: Hell, I didn't -- I thought you said a man by the name of Callender.

M: No.

HMJr: No.

M: Called up and gave it to them, which indicates very clearly that what they had in mind was a political motive.

HMJr: I see.

M: Either some political attack on Giannini......

HMJr: Yeah.

M: ......or some effort to embarrass the President and myself. Otherwise they wouldn't have called the press, would they?

HMJr: No, they wouldn't.

M: And then I learned also that the matter was sent to the President before it came to me.

HMJr: Uh-huh.

M: And I inquired of Jerome Frank about it.

HMJr: Yeah.

M: Did you hand it to the President, Henry?

HMJr: Ah -- when I went over at lunch I gave him my copy, but Jerome Frank had sent it over......

M: ......On Saturday.

HMJr: Yeah.

M: Yeah.

HMJr: he had sent it over, but before -- but -- Frank sent it over, I think, on Saturday to the White House. I think that's correct.

M: All right.

HMJr: Righto.

M: All right.

HMJr: Goodbye.

September 22, 1939
10:22 a.m.

Operator: Go ahead.

HMJr: Hello.

George Harrison: Hello, Henry.

HMJr: What a pal you are, George.

H: Yes.

HMJr: You asked me to let you know.

H: Well, I've been on the telephone constantly and am calling you up now as fast as I can to tell you.

HMJr: Tell me what?

H: Huh?

HMJr: Tell me what?

H: That we have been instructed to go back in the market.

HMJr: Well, I thought you had a vote on that committee.

H: What's that?

HMJr: I thought you had a vote on that......

H: I voted against their action. You see what happened was -- ah (laughs) -- McKee was away and Szymczak was his alternate.

HMJr: Yeah.

H: And Szymczak was with us, which gave us three to two. McKee returned to town today.

HMJr: Yeah.

H: Which drops Szymczak off so that they then get a majority again. (Laughs)

HMJr: And this is your notice to me.

H: What's that?

HMJr: This is your notice to me.

H: And I'm advising you, yes.

HMJr: Aren't you chairman of that committee?

H: No, no. Eccles is. And I'm -- I'm advising you off the record because I told you I would if anything -- I......

HMJr: Yeah, you asked me not to let you -- not for me to saw off the limb on you yesterday.

H: Yeah.

HMJr: And I agreed not to.

H: Well I tried -- did my best, Henry.

HMJr: Oh I -- oh I understand it.

H: And I was just out-voted. And they first ordered us just to go in and keep the -- the longest bond between 99:10 and 14.

HMJr: Yeah.

H: And the others in relation thereto; and while we were talking the rate went down to 99:08, so when we began, we began at 99:08 gone down to 99:06. And then they called Allan up just a few minutes ago and told him they didn't like the way -- oh, they instructed us to buy up to 25 millions of dollars in an effort to raise the market even. And --......

HMJr: The......

H: I voted against it, and then a few minutes ago they called Allan and told him they didn't like the way he was handling it at all. Without having even consulted with me they said the majority of them there had voted that at once we should resort to the old practice of putting bids in with the dealers and everybody right across the board. So there we are. I had one bank call me up today and say they thought this was fine and that they were now going to begin to buy some bonds.

HMJr: Well......

H: But they said, "By jove, we're not going to if you fellows are going to get the jitters and change your policy again." Well, I couldn't tell him anything, so I don't know whether he bought any or not. He'll probably be all over the market now that we're buying again. (Brief pause.) It's too bad.

HMJr: Yeah, I think it's almost a tragedy.

H: Well, I do too. I think it's a dreadful thing to have happened.

HMJr: Yeah. Well......

H: I said that I must ask to be recorded as voting against it.

HMJr: Yeah.

H: I thought it was a mistake. They said when you've had a trial for two days and you said that when these things got below par, buying would come in. I said, "I never said anything of the kind. I said all the time that I knew they would not come in so long as we were buying." And there was just beginning to be evidence of real interest around; a few of the quotations are off, but after all, they may be lower before we get through.

HMJr: All right. Well, I'm going to do a little thinking on my own.

H: Well, I'm very sorry.

HMJr: Yeah.

H: And......

HMJr: Well I'm glad you called me, George, because that keeps your and my promises to each other, and......

H: Well, I called you as soon as I could, Henry. I tried, as a matter of fact -- I called a few minutes ago......

HMJr: Yeah.

H: ......to get ahold of Bailie -- oh, about a half an hour ago and to get ahold of Bailie about something else.

HMJr: Yeah.

H: And they told me you were tied up in a meeting.

HMJr: Well......

H: Cochran told me you were so I knew it was no use trying to get you then and I waited a few minutes to call you now.

HMJr: O. K.

H: Has Eccles advised you at all?

HMJr: Not a word.

H: Well, I suppose I'll be a damn bastard for having talked......

HMJr: No.

H: ......out of turn now.

HMJr: No, no. We -- we didn't get it through you. We -- Burgess came in ten minutes ago and told it to me. I got it from Burgess.

H: Yeah.

HMJr: That's where I heard it first.

H: Well, I'm very sorry. I did my best and I was just out-voted because they changed the composition of the committee on me.

HMJr: No, I learned it through Burgess.

H: Yeah, all right.

HMJr: Thank you.

H: First-rate.

September 22, 1939

To: The Secretary

From: Mr. Hanes

Bob Doughton and Jere Cooper asked me to come up to the Capitol this morning to discuss with them the possibility of having the sub-committee of the Ways and Means Committee start working on the tax program instead of waiting until November 1st. I told them that I would discuss this with you, having in mind the memorandum which I gave you last night on the subject of war-time taxes.

My own opinion is that we should continue the program as it is now scheduled and not take this matter up until the date set by the Ways and Means Committee, which was November 1st. The reason they were asking us if there was work that could be done now is simply because the House has absolutely nothing to do further in the matter of neutrality legislation until the bill shall have been passed by the Senate, owing to the fact that the House had already passed the neutrality bill at the last session just as recommended by Secretary Hull, with the exception that the so-called Voorhees amendment was added in the House. The last work for the House to do, therefore, will be in a conference between the Senate's conferees and the House conferees on the bill as finally passed by the Senate in order to iron out such differences as may exist between that one and the one already passed by the House.

My recommendation is that we let the schedule stand as is without change. I make this recommendation for the further reason that our business and economic conditions are changing so rapidly for the better that we should judge all these matters in the light of the then existing conditions rather than this far in advance.

J. W. H.

35

September 22, 1939

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J. W. H.

Mr. Kieley gave to Mrs. Klotz for Sec. to take to Fishkill 9-22-39

JWH:cc

GROUP MEETING

September 22, 1939
9:30 a.m.

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

H.M.Jr: Herbert?

Gaston: I have nothing. There was one little matter that was brought up in the coordination meeting the other day. The State Department wants to remove the Consul from St. Pierre. We don't see any objections.

H.M.Jr: Before you do that, tell them to check with Naval Intelligence.

Gaston: Right, I will do that. The letter hasn't come over. They just took it up verbally with Polio. I will tell that to Polio.

H.M.Jr: Tell them to check with the President's Naval Aide.

Gaston: Yes, Captain Watson?

Harris: The reason there is no smuggling, somebody shot the smuggler.

Gaston: You insult our coordination.

Harris: No, there was one fellow who was a smuggler and somebody shot him the other day.

Gaston: They are smuggling into Canada, not into the United States.

Harris: I got a report that read very amusingly, "Smuggling has come to a standstill because so and so has been shot and he is dead."

Gaston: They shipped out a couple of car loads this last week to Canada.

H.M.Jr: Well anyway, the President's Naval Aide....

Smith: They should find out who shot him.

H.M.Jr: Johnny, on your memorandum to Mr. Rovensky, is there anything up to me?

Hanes: No, we are advising you through this memorandum here that that standstill agreement - we haven't any authority to act. It is a policy question, so we are asking - recommending that it be referred to the State Department and the President. We might get a policy defined on that.

H.M.Jr: Could you fix me up a little letter to Mr. Hull?

Hanes: Yes.

H.M.Jr: What I am trying to do - there are certain things that I do in the day and there are certain things like this that will hang on forever. Mrs. Klotz can't stand it any longer.

Hanes: I will give you the....

H.M.Jr: And there is nothing more for me today?

Hanes: Nothing for you today.

H.M.Jr: Swell.

Hanes: One bit of information you asked me to get from the banks. You said get that for the Comptroller. They have set a date and I told them that you wanted to discuss it with them. There is the information you asked to get on the Bank of America. It was all an old matter.

H.M.Jr: Thanks. What else, John?

Hanes: We had our first question on the Reserve district this morning in Philadelphia. They called Danny and Danny referred them to me, and they were asking about transactions. You said some time ago that you thought we had better set up some kind of machinery here to handle this kind of an inquiry, which will be coming in, I imagine, from now on. I remember you said you wanted it to go through Cochran and Dietrich.

H.M.Jr: That was my thought, yes, and Harry White. Then what they couldn't clear, they could bring up to you and me.

Hanes: All right.

H.M.Jr: And then they have got the three "E's" to consult with when they want to.

Hanes: Are we going to get that regulation signed?

H.M.Jr: Mr. Thompson, are you going to get the regulation signed?

Thompson: At 6:00 o'clock last night it hadn't been signed. The President wanted to think about it.

H.M.Jr: He had gotten in to the President?

Thompson: Yes.

H.M.Jr: When you leave here, will you call up Foster again and ask him about it? Tell him that if the President could do it before he left town tonight, it would be appreciated very much.

Hanes: We ought to know whether he is going to sign it or if he doesn't like it, we will get out something else, and we ought to get something out as quickly as possible because it has been since September 5th now and we haven't done anything about it.

H.M.Jr: He has had a couple of busy days.

Hanes: He walked in the room on Wednesday.

Thompson: It went in to the President all right.

H.M.Jr: I don't think he has been....

White: I think there ought to be a lawyer on that working first group.

H.M.Jr: Who would that be, Bernie?

Hanes: Bernie.

Duffield: I think there ought to be a banker, somebody who is used to handling this type of credits. I don't know who it could be.

Hanes: I take it that it will be simplified when the regulation gets out and they begin to quote the transactions. That is going to be a lot of the question.

H.M.Jr: Let's leave this in a fluid state.

Bell: These boys are going to be calling me because of my contacts with the Federal Reserve Banks. This morning Davis called me.

Hanes: Refer them to me for the time being. I would like to hear them just to get familiar with them.

Bell: Fine.

Hanes: This question this morning this man brought up, I want to talk to Ed Foley and Bernie about it.

H.M.Jr: Herbert?

Gaston: Mr. Thompson has a rather interesting case.

Thompson: I believe I haven't gone deep enough into it for this morning.

Gaston: The new WPA State Director in Pennsylvania undertook to fire some people on the project for selling some tickets, and among the people he undertook to fire were three direct Treasury employees. He thinks he discharged them, but evidently he didn't, and Mr. Thompson and Mr. Irey are undertaking an investigation to straighten the thing out with the WPA.

Thompson: I want to take it up this morning with WPA.

H.M.Jr: Are they guilty?

Thompson: There was nothing to be guilty of.

Gaston: He had no more right to fire them than he had to come into the Treasury and fire them.

H.M.Jr: The State Director did that?

Thompson: Yes.

H.M.Jr: Have you got it in hand?

Thompson: Yes.

H.M.Jr: What else?

Gaston: I haven't anything.

H.M.Jr: Gene?

Duffield: A man by the name of Arthur Bartlett, who works on the Herald-Tribune syndicated magazine, wants to see you sometime or other this week.

H.M.Jr: Is he in town? Just this week he will be here?

Duffield: No, he will be here next week.

H.M.Jr: Let's let it go, then. Why not let's tell him Tuesday at 12:30? What else?

Duffield: That is all.

Foley: I have nothing.

Cochran: Sterling opened strong this morning in New York, just a little above 4.0, and the orders for Europe for buying were 130,000 pounds in excess of the selling orders but since I have come in they told me the Latvian Central Bank sent in a selling order for $300,000 and the market has already taken to Federal Reserve 100,000 pounds of 4.00¼ and 200,000 of 4.00.

H.M.Jr: Latvia has been a big seller, hasn't she?

Cochran: Yes, they had one other sale. That is the only thing....

H.M.Jr: With whom does Latvia deposit her dollars? Who does she deposit her dollars with?

Cochran: I am not sure whether they will leave them in the Federal or not.

H.M.Jr: Will you ask what happens to their dollars?

Cochran: All right, sir.

Argentina just sent in another request this morning to buy 2½ million dollars in gold from us. The 20 million dollars has been used up. It is all right to go ahead with it?

H.M.Jr: Sure. Every time we sell a million dollars worth of gold I feel like opening a bottle of champagne.

Cochran: You asked the question as to whether Agriculture was still giving export subsidies.

H.M.Jr: Who knows whether they are still paying a subsidy?

Haas: I think they are still planning one on cotton, but I will check that. They stopped the wheat.

H.M.Jr: Find out about cotton because they get in on sterling. They were over here talking about how to handle their sterling in connection with the export of their wheat.

White: There was an item in your letter of yesterday, if I remember correctly, that stated that England did not - had refused to buy an export bill arising out of grain transactions. That is very peculiar. Do we have a list of the items yet of what they are going to permit to import or not? Are we getting some detailed information?

Cochran: The New York Federal Reserve Bank has received a copy of the permitted exports and imports. It is supposed to come down today. Some of these things are just day to day decisions, and it is only by the Bank's trying out that they find that canned milk is not permitted and cotton from the mill is not permitted, and so on.

White: You are going to get a list?

Cochran: The first list reached New York yesterday and it is supposed to come down by airmail here this morning.

H.M.Jr: Burgess?

Burgess: The market is a little easy on the opening. It is too early to tell yet. They are a little bumpy but we hope we can stay in the plane.

H.M.Jr: Have you got a parachute?

Burgess: Yes, sir.

H.M.Jr: Tom?

Smith: You remember yesterday morning we reported that the president of the Supervisors - of the National Association of Supervising State Banks had done away with the Comptroller's office. Later in the day the Association by resolution reinstated the Comptroller's office. They passed this resolution.

"Opposed to concentration of Federal banks' supervisory agencies under a single department."

What is more interesting, discussing the Senate Banking and Currency hearing, the Wagner Committee hearing, they had this to say:

"No Government agency should be permitted to shape the course of the investigation or to select facts to support its own preconceived theories of banking and monetary policy. If the Committee accepts evidence offered by any Government agency, it should do so with the knowledge that no one organization is in command of all the facts to be considered, and that no one agency is qualified to offer expert advice on all fields of banking and bank supervision."

H.M.Jr: They are getting kind of personal aren't they?

Smith: I will leave that to you.

H.M.Jr: Anything else, Tom?

Smith: No.

H.M.Jr: George?

Haas: There is one figure that came in here. I thought you might want to see it now. (Handing book to H.M.Jr.)

H.M.Jr: O. K.

Haas: That is all I had.

H.M.Jr: Harry?

White: The Department of Commerce has begun collecting daily figures for exports. We don't want the daily figures but we would like to get the weekly figures which - I understand they are not available. Didn't ask directly, but one of my men did and they suggested it might have to come through the Secretary's office. If you could have Mr. Hanes call up Mr. Noble, or I could call up....

H.M.Jr: Mr. Hanes would be willing to do that.

Hanes: Yes.

H.M.Jr: Give Mr. Hanes a memo and he will get you what you want. O. K.?

White: Yes. That is all.

H.M.Jr: How is 304-A, is that the right number?

Harris: Yes, that is the right number. Fine.

H.M.Jr: Any good?

Harris: Yes, very good.

H.M.Jr: Is it 304-A?

Harris: Yes, that is right. I didn't know what you meant.

H.M.Jr: Herbert sent me a memorandum about Army ships and all the rest. I take it that you two boys talked to each other.

Gaston: Yes, we are fully in touch.

H.M.Jr: Harold?

Graves: Nothing.

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

Graves: I hadn't been told.

H.M.Jr: Harold Smith is going to be here. Will you be here?

Bell: Yes.

H.M.Jr: Nothing else, Harold?

Graves: No.

H.M.Jr: Bell?

Bell: The daily statement shows an increase of $133,000,000 over last year's receipts in miscellaneous internal revenue. I just want to caution everybody that that doesn't mean an increase because of increased business activities. The Internal Revenue postponed the collection for 30 days of the capital stock tax, which makes up 90 million, and 30 million is out of state taxes.

H.M.Jr: Gene, take notes.

Bell: We have been talking about that.

H.M.Jr: Thompson?

Thompson: I have some changes on this stabilization.

H.M.Jr: This sounds suspicious. You mean that you are upping them?

Thompson: No.

H.M.Jr: Who is George A. Eddy?

White: He is a man we are taking on for replacement. He worked under George two years ago.

Haas: For me, and he worked for the New York Federal.

H.M.Jr: What is he going to do?

White: The usual work we do.

H.M.Jr: What is his training?

White: In the monetary field.

H.M.Jr: Will you send me a page history on him?

White: Yes, if you like.

H.M.Jr: I do like.

White: Glad to.

H.M.Jr: Anybody got anything else?

Just so that you know, I am available up to 1:00, then I go to Cabinet and then I go from the Cabinet to the plane to go home, and I come back for the President, I think, Sunday night. So if anybody has anything, please get it to me before 1:00 o'clock.

Mr. Hanes and Mr. Gaston be here tomorrow?

Gaston: Yes, sir, I will.

Hanes: Yes.

H.M.Jr: I expect to be back Monday morning.

Dear Henry -

This is a long letter which I have read carefully because Tom Smith told me these were honorable people -

My conclusion is that we have been unfair in this case - and I wish you could find time to read the letter to Tom —

J. W. H.

Dear John: not being a tax expert it is impossible for me to pass on this case. Please turn over to Helvering to be taken care of in the usual manner.

H.M.Jr.

pt 27 -

TREASURY DEPARTMENT
Washington,

September 22, 1939

Dear John:

Attached is a communication telling the story of the case of Edgar Queeny's sister.

As I told you the other day Edgar feels that the action of the Treasury has been very unfair. Furthermore, this is a matter which must have immediate attention.

Cordially,

Tom K. Smith.

The Honorable John W. Hanes,
Under Secretary of the Treasury,
Washington, D. C.

LOWENHAUPT WAITE & STOLAR

[illegible]

[illegible]

SAINT LOUIS, MO.

[illegible]

September 1[illegible], 19[illegible]

Mr. Tom K. Smith
Room 188
United States Treasury
Washington, D. C.

Dear Friend:

Last week in Washington I related to you Mrs. Olguita Queeny Berington's difficult position in connection with an income tax deficiency asserted for the year 1936. I told you also that Mrs. Berington and Mr. Edgar M. Queeny, her brother, felt that the proposed tax is very unjust and that they are now greatly disturbed by present developments in the matter. Because of the interest you indicated, I am writing this letter to state the facts to you.

Mrs. Berington is the daughter of John F. Queeny, now dead, and the sister of Edgar M. Queeny. Her husband is Thomas Patrick Berington, an English citizen. They were married in 1928. Since their marriage, she, with her husband, has continuously lived in England. They have one son and they have always considered England their home for the remainder of their lives.

An American-born woman married to an English man faces many complications under the conflict of laws applicable. Under the laws of England, she becomes a citizen of England upon her marriage, while under the laws of the United States she remains a citizen of the United States unless she renounces such citizenship. This dual citizenship in the case of a woman who has some wealth adds many burdens. In May, 1936, Mrs. Berington felt compelled to surrender her American citizenship.

Mrs. Berington has considerable wealth. Many years ago she established a trust with the Mercantile-Commerce Bank & Trust Company, as trustee, under which she deposited substantially all of her securities. She retained the power to revoke the trust. In 1936 the only holding of the trust consisted of the stock of the Olguita Investment Company, a personal holding company organized by the Trustee in 1932. Olguita Investment Company owned all of the property which Mrs. Berington had transferred to the Trustee. After Mrs. Berington surrendered her American citizenship, as related above, she decided it was advantageous that her securities be held by her in England, where she and her husband, with their advisers there, would be able to attend to them. Accordingly, in December 1936 she revoked the trust above mentioned, but the stock of the Olguita Investment Company shipped to her in England, and then sold this stock to an English corporation called CLM, Ltd., for cash. The English company then liquidated the Olguita Investment Company and took over all of its assets. This entire transaction was completed in December 1936.

A non-resident alien individual <u>not engaged in trade or business in the United States and with no office or place of business in the United States</u> was liable in 1936 for taxes upon income derived in the United States only to the amount required to be withheld from such income - 10 per centum. Such withholding applied only to certain types of income, such as dividends and interest. (Section 211 (a), Revenue Act of 1936.) On the other hand, a non-resident alien individual <u>engaged in trade or business, or with an office or place of business in the United States,</u> owed tax upon all his income of whatsoever character which is derived from sources within the United States, at the normal and graduated surtax rates - the same as a citizen of the United States. (Section 211 (b), Revenue Act of 1936.)

Mrs. Berington's attorneys were Messrs. Rassieur & Rassieur, and they advised her as to the proper procedure and as to her tax liability. Under their advice, when she surrendered her American citizenship she filed a tax return as a citizen of the United States for the period of the year while she was a citizen - from January 1, 1936, to May 26, 1936. After May 26, all the companies in which she was a stockholder withheld the tax at the rate of 10 per cent upon all the dividends or other income which they paid her.

In connection with the statement hereafter written, it is necessary that I call your attention to a provision in another law. Title VII, Revenue Act of 1932, Sections 901 to 904, imposed an excise tax upon the transfer by a citizen or resident of the United States of stock or securities to a foreign corporation in payment of its capital or surplus if the transfer was made with the purpose of avoiding American income taxes. This tax was 25 per cent of the excess of the value of securities at the time of their transfer over the basis for the determination of gain or loss upon such securities.

Some time in 1938 or the early part of 1939, Mrs. Berington's tax liability was referred to the Revenue Agent in St. Louis for audit. Some time after he started the examination, he stated to Mr. Butler of the Mercantile-Commerce Bank & Trust Company that he intended to set up the tax against Mrs. Berington under Title VII of the Revenue Act of 1932. This tax would be equal to about $1,000,000 if it were owing.

Mrs. Berington, when advised of this claim, executed a Power of Attorney to me and Mr. Theodore Rassieur, requesting that we defend her against this claim and any other claim for the year 1936. Shortly after I received the Power of Attorney, I spoke to the Revenue Agent. He exhibited to me a letter from the Revenue Agent in Charge in New York, recommending the imposition of the excise tax above mentioned. But he stated that he was not convinced that Mrs. Berington was liable for such a tax and requested that I brief the question for him in order that he might submit the brief to the New York Revenue Agent. Accordingly, Mr. Theodore Rassieur and I prepared a brief upon this question and submitted it to the St. Louis Revenue Agent. Thereafter, he never asserted this excise tax was owing. The Revenue Agent in St. Louis proceeded upon the basis that Mrs. Berington was liable for tax for the period from May 26 to December 31, 1936, as a non-resident alien of the United States engaged in trade or business in the United States. After the Revenue Agent asserted the basis of tax last related, there were many complicated questions concerning the income derived by her in the United States. But ultimately the Revenue Agent determined the amount to his satisfaction and calculated tax thereon, resulting in the deficiency determined by him in the amount of $37,544.66.

The sole basis for this asserted deficiency is that Mrs. Berington was engaged in trade or business in the United States in the period between May 26, 1936, and December 31, 1936. I quote the Revenue Agent's statement on this question:

> "The office of the Oluita Investment Company was at 721 Locust St., St. Louis, Mo.
>
> "Mrs. Berington, by reason of her ownership of the entire capital stock of the Oluita Investment Company and the rendering of personal services in connection therewith, has qualified under Section 211 (b) of the Revenue Act of 1936 and is taxable as provided therein.

"The question of engaging in trade or business for income tax purposes and carrying on or doing business for capital stock purposes was given consideration in (1936) G.C.M. 17014, XV-2, Cum. Bull. 317, and it was held that the expressions are used synonymously, citing Lewellyn v. Pettsburg, V. & L. E. R. Co., (CCA 3rd, 1915) 222 Fed. 177; McCoach v. Minchill and Schuylkill Haven R. R. Co. (1913) 228 U.S. 295; Von Baumbach and Sargent Land Co. (1917) 242 U.S. 503, and Edwards v. Chile Copper Co. (1926) 270 U.S. 452. In that ruling it was stated that the test of liability for income tax, excess-profits tax and capital stock tax, insofar as such taxes are based upon, or measured by, engaging in or doing business within the United States, should be identical.

"Mrs. Berington had the same relative position in connection with the Olguita Investment Company as the Chile Copper Company had to the Chile Exploration Company in Edwards v. Chile Copper Company, supra. In the latter case, the United States Supreme Court stated in part as follows:

> "' * * * In our opinion the plaintiff was liable to the tax. We do not rest our conclusions upon the issue of bonds in the first year or the call loans in the last, and for the same reason we cannot let the fagot be destroyed by taking up each item of conduct separately and breaking the stick. The activities and situation must be judged as a whole. Looking at them as a whole, we feel that the plaintiff was a good deal more than a mere conduit for the Chile Exploration Company. It was its brain or at least the efferent nerve without which that company could not move. The plaintiff owned and by indirection governed it, and was its continuing support, by advances from time to time in the plaintiff's discretion. * * *'

"In the instant case Mrs. Berington exercised her authority in the formulation of the business policies and in the management of the Olguita Investment Company. The performance of this function of controlling and directing the domestic corporation constitutes, in the opinion of the examining officer, carrying on or doing business and rendering personal services within the meaning of the Revenue Act of 1936."

Let me remind you that the conditions of liability under Section 211 (b) are that the non-resident alien individual be "(a) engaged in trade or business in the United States, or (b) have an office or place of business therein." Article 211-7, Regulations 94, provides that

> "the term 'office or place of business' implies a place for the regular transaction of business. It does not include a place where casual or incidental transactions might be or are effected.
>
> "Neither the beneficiary nor the grantor of the trust, whether revocable or irrevocable, is deemed to be engaged in a trade or business in the United States or to have an office or place of business therein, merely because the trustee is engaged in a trade or business in the United States or has an office or place of business therein."

It is plain, therefore, that it was impossible to rest the charge upon the basis that Mrs. Berington had an office or place of business in the United States, and the Revenue Agent does not do so. He says that she was engaged in a trade or business. He could not rest this statement upon the activities of the Trustee. He attempts to make a showing that, because the revocable trust owned all the stock of Olguita Investment Company, Mrs. Berington directed the business policies of the Olguita Investment Company.

Mrs. Berington was not a director or officer of the Olguita Investment Company. Whatever she did after May 1936 was by correspondence from England. The sole basis of the charge that she managed the company was that she was consulted upon many of the matters pertaining to the company, as, for instance, the declaration of dividends. Also, in May 1936, while Mrs. Berington was still a citizen, Monsanto Chemical Company issued rights to its stockholders to buy a new 4-1/2 per cent preferred stock, and she requested or directed that these rights be exercised, and in December 1936, when she revoked the trust, she arranged for the payment of the loan which the company had made in order to finance the exercise of these rights.

I am firmly of the opinion that Mrs. Berington cannot be charged with being in business because she was consulted by the directors and officers of Olguita

Investment Company as to the policy of the company, or because of any of her acts. In Article 211-7 of the Regulations, it is stated:

> "Such phrase (engaged in trade or business within the United States) does not include the effecting of transactions in the United States in stocks, securities, or commodities (including hedging transactions) through a resident broker, commission agent, or custodian."

The exercising of the Rights by the ~~Trustee~~ Company - purchasing the stock of Monsanto - was not business in the United States on her part.

As related above, the tax liability finally asserted against Mrs. Berington in June 1939 was $37,544.66. Mrs. Berington was then able to pay this amount. At an earlier date, as related above, she was advised that consideration was being given to an excise tax against her of approximately $1,000,000, an amount which would have been ruinous and which probably she would have been unable to pay. In connection with this excise liability, I told her there was no adequate method of contest until after payment, that is, there was no appeal to the Court or to any reviewing body outside the Treasury Department before payment.

In June 1939, when the Revenue Agent's investigation was completed, Mrs. Berington and her husband were in the United States and I conferred with them. They were of the opinion that England would shortly be at war and they were fearful that if this happened before this tax liability was settled, such complications would arise that Mrs. Berington would be unable to properly defend against any claim. The last-stated reason was conclusive with her, and, therefore, she instructed me to accept the Revenue Agent's finding on condition that by the payment of this amount she would settle all her liabilities of every character. She executed, and I delivered, a closing agreement (Form 870), proposing to close her liabilities at the amount determined by the Revenue Agent and to pay this amount. In a statement attached to the form, under the title "Special Reasons for Requesting this Agreement", we wrote:

"As stated above, taxpayer lives in England. She did not surrender her United States citizenship to avoid any tax liability to the United States and wishes to pay all her obligations to the United States.

"International relations and commerce are daily becoming more precarious. Although taxpayer does not believe that she owes any amount, and is so advised, she has not contested the assertion of liability and desires to pay at this time so that the matters recited will be completely closed and behind her, fearing that at a later date she may find it difficult, if not impossible, to attend to her defense. In order to effectuate her purpose, it is necessary that by such payment the assertion of other claims against her, arising out of her transactions or the transactions of the Olguite Investment Company in the calendar year 1936, be foreclosed."

When I handed this agreement to the Revenue Agent in the middle of June 1939, I read this statement to him and told him that time was the essence of this agreement; that it was essential that the agreement be put through promptly. Shortly after I delivered this agreement to him, I became personally somewhat incapacitated and was compelled to go away from St. Louis. I returned to St. Louis about the first of September and found that the agreement had not been accepted. Thereupon I went to Washington and found that the agreement was still in the Sorting Division, [illegible] of [illegible], part of the tax withheld at the source. I [illegible] this up with the Auditor in the Checking Division. He approved the credit and passed the file on. But in the next section I was told that the matter could not be closed for several weeks.

Now I find that our worst fears are realized. England has sequestered the income, moneys, and securities in the United States of citizens of England. Moreover, the pound has fallen from about [illegible] in June, when the offer was made, to about 3.75 at the present time, and if acceptance of the offer is delayed much longer, we do not know where the pound will be. The payment of [illegible] in June [illegible] only about £[illegible], while at the present rate of exchange it requires about £[illegible] - [illegible] of her [illegible] income. [illegible] sure today that Mrs. [illegible] [illegible] which to make payment. If this uncertainty exists at this time, no one can foretell what the next two weeks will bring.

I have not been able to get in touch with Mrs. Berington since I saw you last week, but I am quite familiar with her sentiments. If she is able to obtain the exchange with which to pay this tax, she will do so with hesitation and reluctance because of the additional burden which that will place upon the already difficult exchange situation of her own nation.

I am convinced that Mrs. Berington does not owe any tax to the United States. I do not know what can be done now. If she must pay I desire that the matter be closed at once.

I trust that the length of this letter will not prove too burdensome.

Very truly yours,

Abraham Lowenhaupt

AL:T

9-22 ?

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PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: The American Embassy, Paris, France

UNDATED

NO.: 2121

For the Treasury.

We have been informed by Reynaud that the repatriation of French capital is continuing. Also, that the fund was a gainer of gold and foreign exchange to the tune of 90,000,000 francs yesterday. The repatriation brought about much of this gain. That armament bond and treasury-bill subscriptions were completely satisfactory was also confirmed by Reynaud. Furthermore, we have been given to understand by the Morgans, confidentially, that several of their important French clients have, largely from patriotic motives, taken steps to transfer substantial foreign currency and foreign security holdings which have long been maintained abroad, to Paris within the past few days.

(GRAY) There were no changes in official foreign exchange rates today. A little confusion has arisen in connection with the liquidation of future exchange contracts outstanding at the time of the establishment of exchange control. Some banks understand that authorization for such liquidation is required under the pertinent decrees and are awaiting such authorization where others have proceeded to liquidate without requesting authority.

EA:MSG

DBW

GRAY
Paris
Undated
Rec'd 2:21 p.m.

Secretary of State,
Washington.

2121, undated (SECTION TWO).

The security market was firm today on increased volume largely owing to political developments: President Roosevelt's plea for amendment of the neutrality law which has been extremely well received, Daladier's calm and impressive radio address in answer to Hitler's Danzig utterance, and the news reports of serious outbreaks in Bohemia and Czechoslovakia have all served to engender some degree of optimism. Practically all rente issues except The Exchange Guaranty issue of 1937 which was subject to profit taking improved - partly on the basis of stronger franc quotations in New York.

French imports for the first eight months of 1939 totaled thirty two and a half billion francs against thirty and a half billion francs in the comparable period of 1938. Exports were up about five billion francs this year totaling 23.8 billions as against 18.7 billions for the first eight months of 1938. (End of message)

BULLITT

HBD

TELEGRAM SENT

CJ PLAIN

September 22, 1939

AMERICAN EMBASSY

LONDON

1039, twenty-second.

CONFIDENTIAL. FROM THE TREASURY.

The following article from the New York Herald Tribune of September 22 is reproduced for Butterworth's information and for forwarding by him by mail to the American Embassies in Paris and Berlin:

"The strong rally in sterling continued further yesterday and lifted the rate 7½ cents net to \$3.99½, or nearer the official rate maintained by the Bank of England than it had stood for more than a week. The high for the day for sterling was \$4.00½, compared with the official buying rate of \$4.02.

Sterling has been on the mend since Secretary of the Treasury Henry Morgenthau Jr. voiced at his press conference late Monday his concern over the fall in free sterling under the rate for approved deals fixed by the Bank of England. Commercial buying and short covering have combined to raise the price of sterling around 26 cents since Monday.

French francs advanced 4 points net to 0.0227½ and

guilders

guilders were 7 points higher, but belgas broke 8 points and the recession in the lira was unchecked. From the fall of 1936 until the war crisis developed the lira had been pegged at 0.0526. But, after yesterday's decline of 2 points, the lira stands now at 0.0510.

The depreciation in sterling and French francs has apparently led the Italian authorities to break the lira's tie to the dollar which had been maintained for three years.

Canadian dollars closed at a discount of 9 1/16 per cent. The Canadian unit has failed to rally along with free sterling. The Japanese yen was unchanged at .23 5/16, but its link with sterling will be resumed if the latter unit rises above the $4 level. Swiss francs were unchanged on the day at .2270.

The weekly banking statistics showed that the gold stocks had increased $94,000,000 in the week ended Wednesday to a new high at $16,902,000,000. The daily statement reported that imports here yesterday amounted to $105,000, of which $79,000 arrived from Canada and $26,000 from Costa Rica.

The gold statement for the week ended September 20 listed imports here of $78,407,000 of which $60,895,000 arrived from Canada, $13,231,000 from England, $2,173,000 from India, $2,100,000 from Colombia and $8,000 from

Guatemala

-3- #1039, September 23, to London

Guatemala. Gold under earmark for foreign account decreased $11,415,000 in the week, while receipts at San Francisco included $3,354,000 of gold from China.

The banking figures show that foreign bank deposits in the Reserve Banks increased $45,711,000 to a total of $495,787,000. Thus it was plain that foreign central banks were building up very large cash balances in this country for use in buying war materials."

MOORE
Acting

September 22, 1939. 61

From: Mrs. Klotz

To: Miss Chauncey

The President said, for the time being, he would like Procurement to contact the French Buying Mission. Later on he may use Admiral Peoples.

I called Captain Collins and told him that the President said it was O.K. to get in touch with Mr. Castan.

(In connection with Cochran's daily report 9-21-39)

September 22, 1939 (at Cabinet)

Herbert Gaston:—

THE WHITE HOUSE
WASHINGTON

Pres. wants Coast Guard to follow a ship with no name coming up thru (spelling ??) Winward Passage, which I believe is near Cuba, and see what she does. Herbert Gaston should contact Edison at once and get instructions

F.M.J.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Sept. 22, 1939.

TO Secretary Morgenthau

FROM Mr. Haas

Subject: Cotton and Wheat Export Subsidies

Cotton

The cotton export subsidy program began on July 27, 1939, and continues in force. Sales and deliveries for the export of cotton and cotton products from July 27 through September 18 amounted to 1,895,000 bales. The subsidy amounts to 1½ cents a pound on raw cotton, with equivalent payments on cotton products. The figures cover cotton not yet actually exported but for which definite commitments for sale abroad have been made by exporters.

In the current fiscal year, Mr. Milo Perkins, President of the Federal Surplus Commodities Corporation, estimates roughly that the cotton subsidy will cost about $40 millions. Actual exports of cotton from August 1 through September 18 were 526,000 bales, compared with 429,000 bales in the corresponding period last year. In the 1938-1939 marketing year raw cotton exports were 3,327,000 bales.

Wheat

Since the outbreak of the War, export subsidies on wheat have been largely suspended, though subsidies on flour have been continued and the general program is still in effect. The Federal Surplus Commodities Corporation plans to expand its operations in the wheat export market soon on a conservative basis.

Since June 30, 1939, an average subsidy of 33¾ cents a bushel has been paid on exports of 12,070,000 bushels of wheat (including flour). Mr. Perkins estimates roughly that the wheat subsidy program in this fiscal year will cost about $23 millions.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 22, 1939

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Sterling was again in demand in New York today. It opened at 3.98-3/8; reached a high of 4.00-3/8; a low of 3.97-3/8; and closed at 4.00.

The reporting banks in New York and the Federal Reserve Bank reported sales totaling £1,022,000, from the following sources:

Commercial concerns	£201,000
Foreign banks (Europe and Far East)	£471,000
Federal Reserve Bank (£25,000 for Norway; £25,000 for Sweden; £300,000 for Latvia)	£350,000
Total	£1,022,000

Purchases of sterling amounted to £-627,000, as indicated below:

By commercial concerns	£236,000
By foreign banks .... (Europe, Far East & South America)	£391,000
Total	£627,000

The banks also reported that the Control had purchased sterling amounting to £21,000 at the official rate.

At 9:20 this morning there was an excess of buying orders over selling orders from Europe, amounting to £130,000 sterling. At 10:10 A.M. an order had been received from the Central Bank of Latvia to sell £300,000. This was disposed of without difficulty, £100,000 at 4.00-1/4 and £200,000 at 4.00. In answer to my inquiry as to what the Latvian Central Bank did with the dollar proceeds, Knoke replied that these were automatically credited to the Latvian dollar account with the Federal. When the Latvian Bank sold £250,000 last week, their account with the Federal increased to $2,250,000. No instruction had been received to indicate that all or any important part of the proceeds of these two sales was to be withdrawn.

We received this morning through the Federal Reserve Bank of New York a request from the Central Bank of Argentina to purchase $2,500,000 gold bars. Since the total of $20,000,000 authorized sometime ago for gold sales to Argentina has now been exhausted, I sought the Secretary's approval for this transaction at the 9:30 meeting and it was granted. We are, therefore, proceeding to execute this order.

We today bought $810,000 gold from the National Bank of Belgium, released from their earmarked account. I reported to the Secretary this morning that there had been a flight from the belga to the Dutch florin, presumably due to the Franco-German fighting developing so close to the corner of Belgium and Luxembourg. The necessity of the Belgian authorities giving gold to us to support their currency evidently results from this movement. Incidentally, Latvia was a buyer today of 30,000 belgas on the New York market.

There was reported a gold shipment amounting to $189,000 to the Irving Trust Company from England on the SS Manhattan which evidently had the approval of the British Control.

Leroy-Beaulieu, French Financial Attaché in New York, telephoned this morning to inquire whether the regulations of the Committee set up for advice under Article III of the Neutrality law on commercial credits to belligerents had been issued. He asked how we would look upon the issuance of a letter of credit in favor of the French Government without the cash to the full amount of the letter being on hand. He said he had once received an interpretation unofficially in so far as the Johnson Law was concerned but he thought this quite narrow. I told him that I would forward him two copies of the regulations whenever released, but that I did not know whether they would answer his specific question. I preferred that he should consult with our Legal Department, and I switched his call to Mr. Bernstein.

Mr. Collado of the State Department telephoned me that Mr. Harry Winston, an American citizen with offices in New York, was having difficulty in his business of buying diamonds from Brazil. Winston's lawyer had telephoned the State Department today on this subject. When Winston went to Brazil last winter he made arrangements with the Government for them to give him a favorable rate for his dollars in milreis, which latter currency he used in purchasing the diamonds. Later he consummated an arrangement whereby he acquired gold in London and then sold this gold to the Brazilian government against milreis at the price paid for domestically mined Brazilian gold, which is understood to be higher than the London price. Now that gold can no longer be obtained in London for this purpose, Mr. Winston inquired whether he could obtain gold in New York. I advised Mr. Collado that a definite answer could only be given if a formal application was made through the Federal Reserve Bank of New York. I let him know, however, that approval of such private applications would be exceptional. When Mr. Collado asked if it would be satisfactory for Mr. Winston or his lawyer to telephone me directly to see what could be done under the arrangement whereby the Stabilization Fund sells gold to Brazil against dollars, I told him that I preferred not to have direct contact with Winston. I thought it appropriate that any information which might have been published with respect to the Brazilian arrangement be passed on to Winston, but I did not want the Fund to advise him as to any method which he might follow in negotiations with the Brazilians toward obtaining his milreis at a special rate through gold.

The representative in New York of the Swiss Bank Corporation, Basel, came to the Federal Reserve Bank in New York with a cable from his headquarters inquiring whether, and on what conditions, the United States Treasury or the Federal Reserve Bank of New York would buy gold put on American or Italian steamers in European ports, or delivered locally to the Swiss National Bank at Berne. Mr. Knoke properly replied that we were not disposed to accept such gold offered abroad.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 22, 1939.

TO Secretary Morgenthau

FROM Mr. Cochran

I received this morning from Mr. Knoke a pamphlet issued by the British on "CONTROL OF EXPORT - LIST OF GOODS - Prohibited to be exported from the United Kingdom" which Mr. Knoke had received from Mr. Loree of the Guaranty Trust Company. Mr. Knoke was not certain as to what use Mr. Loree had yet made of this pamphlet.

At 10 o'clock this morning Governor Harrison telephoned me to let me know that Mr. Loree had sent him a printed pamphlet of twelve pages, dated September 13, giving a British Black List of names. Governor Harrison thought it was important that this information be made available to American business men, especially since they may suffer if they trade unknowingly with firms on this List and then endeavor to dispose of their sterling to the British control. Governor Harrison stated, however, that in view of recent discussions of the policy involved, Mr. Loree did not feel free to make any release of this List without consulting us. I promised Governor Harrison to call him back.

Shortly after talking with Governor Harrison, Mr. Knoke also mentioned this publication to me. In answer to my inquiry, he said the pamphlet was not marked "Confidential". His first reading of the pamphlet revealed no American names. Most of those listed are of firms or individuals in South America, the Baltic States, Switzerland, and other neutral countries. Knoke is having photostatic copies made of this one copy, but will make no disposition thereof pending word from us. The National City had telephoned him to see if such a list was available in New York.

The copy of the Black List pamphlet received by Mr. Loree from the Guaranty Trust office in London is, as far as we know, the only copy so far available in New York.

After mentioning this subject to Secretary Morgenthau, he referred me to the "Advisors". I talked with Mr. Bailie in New York by telephone at 11:35 this morning. I told him of my conversations with Messrs. Harrison and Knoke. He thought definitely (1) that the Treasury should have nothing to do with releasing this Black List; (2) that the Federal Reserve as the fiscal agent of the Treasury should not release it (3) that the Loree Committee, considering its semi-official character, and following after the 4.02 release experience, should not put out this information, containing so much potential dynamite. On the other hand, American business should have this information. Mr. Bailie suggested two possible ways of making it available: (1) the British Financial Counselor should have the List and let it be understood that information thereon was available through his office and that of British Consuls in the United States; if Pinsent

CONFIDENTIAL

desired, he could of course publish the List himself; (2) have Allan Sproul mention to the press after his 3:30 conference that such a list is available at the office of the above mentioned British officials.

Mr. Bailie was definitely of the opinion that neither the Treasury nor its fiscal agent should give releases based on material received through the channels indicated and, furthermore, did not think that either our Ambassador in London or our official establishments here should be utilized by the British as their means of publicizing the regulations.

Mr. Bailie told me that he was to see Governor Harrison at 1:15, Washington Time. If I could obtain a clearance from the Secretary before that hour, he desired that I telephone him at the Federal Reserve. If the Secretary did not clear this, he suggested my consulting Dr. Stewart.

I consulted Dr. Stewart upon the above question at 12:30 noon. He thought that the question of promptness was more important than that of the channel through which the Black List information should be made available. He thought that if the British authorities in this country could release the information promptly, it should be handled through them; if not, the Loree committee should handle it. He inquired as to whether the List was official. I told him it was my understanding that it was an official list which had been obtained by the Guaranty Trust in London and sent by Clipper air mail to the Guaranty Trust in New York. I made it clear that the Treasury itself had received no official word with respect to this List.

Not having had the opportunity of clearing this matter with Secretary Morgenthau before 1:15, I spoke with Undersecretary Hanes at that hour. He gave as his immediate opinion, although he thought this was a matter that merited considerable deliberation, that the Treasury and Federal Reserve Bank should have nothing to do with it; and that Loree, in his capacity as Chairman of the Committee, should not be responsible for any public release. If the British did not choose to make the List public in the United States through their own official channels, his only idea was that Loree as a banker might pass the word on to other bankers that such a list was in existence. The Undersecretary stressed the danger of any American officials getting out any statements or opinion which might lead to the interpretation that the U. S. Government was providing names of firms, placed on a Black List by the British, with whom Americans should not trade.

At 1:25 I telephoned the substance of my conversations with Messrs. Hanes and Stewart to Mr. Bailie who was at that hour with Governor Harrison in the latter's office in New York. I explained to Mr. Bailie that I had not cleared this matter with our Legal Department. Furthermore, I recalled the decision taken in the group meeting last week in which the Federal Reserve Board participated to the effect that any decision as to release of such information as that now in question was to be left to the Treasury. Mr. Bailie said he understood the situation and would have to use his own judgment. He told me he would call me back if necessary.

H.W.K.

CONFIDENTIAL

SEP 22 1939

CONFIDENTIAL

My dear Mr. Secretary:

I have pleasure in providing, as of possible interest to you, the following extract from the confidential report of the Stabilization Fund Office for September 21, 1939:

"Upon inquiry being made of the British Control, an American bank was informed that exports of canned fruits, milk and nuts were not entitled to their proceeds in sterling being converted at 4.02. The Guaranty Trust advised the Federal Reserve Bank of New York that a cotton bill which they had offered to the British Control was questioned to make sure that the sterling had not been sold at the pre-war rate of 4.68, then covered by the seller at a rate below $4.00 and was now being offered to the Control at the official rate of 4.02. The Control was satisfied that this was not the case and purchased the sterling. The Guaranty Trust had also inquired of London as to whether cotton bills drawn by American firms in Brazil covering Brazilian cotton exports to the Empire would be eligible for the 4.02 rate. The reply was negative."

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

The Honorable
Henry Wallace,
Secretary of Agriculture.

HMC:emk
9.22.39

List of Senators Opposing Repeal

LaFollette, Johnson Lead Fight to Keep Arms Embargo

The 24 Senators attending the anti-repeal conference yesterday were:

ROBERT M. LA FOLLETTE (P.), of Wisconsin.

HIRAM JOHNSON (R.), of California.

BENNETT CHAMP CLARK (D.), of Missouri.

PAT McCARRAN (D.), of Nevada.

WILLIAM E. BORAH (R.), of Idaho.

ARTHUR H. VANDENBERG (R.), of Michigan.

ARTHUR CAPPER (R.), of Kansas.

GERALD P. NYE (R.), of North Dakota.

CHARLES W. TOBEY (R.), of New Hampshire.

JOHN A. DANAHER (R.), of Connecticut.

LYNN J. FRAZIER (R.), of North Dakota.

CHAN GURNEY (R.), of South Dakota.

CLYDE M. REED (R.), of Kansas.

STYLES BRIDGES (R.), of New Hampshire.

HENRY CABOT LODGE (R.), of Massachusetts.

SHERIDAN DOWNEY (D.), of California.

JOHN H. OVERTON (D.), of Louisiana.

DAVID I. WALSH (D.), of Massachusetts.

ERNEST LUNDEEN (F.L.), of Minnesota.

HENRIK SHIPSTEAD (F.L.), of Minnesota.

W. WARREN BARBOUR (R.), of New Jersey.

RUSH D. HOLT (D.), of West Virginia.

WILLIAM J. BULOW (D.), of South Dakota.

D. WORTH CLARK (D.), of Idaho.

Office of the Secretary

Shanghai

September 22, 1939

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SOVIET LEADERS' ALLEGED PROPOSAL TO CHINA

According to information received by Japanese secret service from their agent in Chungking, on September 4th, Mr. Livinoff, the former foreign Commissar of Soviet Russia arrived by plane secretly in Chungking and was warmly welcomed at the airfield by Gen. Chiang Kai-shek, Mr. Chow En-lai and some fifty Chinese government leaders. Mr. Livinoff was then driven to the Waichiaopu's hostel where he stayed during his sojourn in Chungking. Miss Soong Ching-ling (Mme. Sun Yat-sen) and Mr. Chow En-lai then held a conference with Mr. Livinoff for over one hour. After that the Soviet visitor went to bed.

The next morning at about 9 o'clock, Dr. Wang Chung-hui called on Mr. Livinoff and had a two-hour talk with him. Mr. Livinoff handed over to Wang for delivery two letters from Stalin and Molotov for Gen. Chiang Kai-shek. Mr. Livinoff also disclosed the nature of his present visit to Dr. Wang.

In the afternoon Dr. Wang saw Gen. Chiang Kai-shek, reported details about the mission of Mr. Livinoff, and translated the contents of the two letters for the Generalissimo, who immediately devoted himself to deep thought. He told Dr. Wang that since Gen. Pai Chung-hsi and Gen. Chen Cheng were both in the front, he could make no decision for the time being. He ordered Gen. Ho Ying-ching to wire to these two generals to return immediately, and he asked Dr. Wang to tell Mr. Livinoff that the issues concerned could not have his immediate reply because he had to wait for a conference with responsible military leaders.

Mr. Livinoff was taken by Dr. Wang to see Gen. Chiang at 5 p.m. and the three of them had a lengthy talk. On the same night, Gen. Chiang gave a party in Mr. Livinoff's honor and a large number of government leaders attended.

The following morning (September 6th) Gen. Chiang called a conference of government leaders to consider the following four points contained in the letters of Stalin and Molotov.

(1) The letters state that Soviet Russia, Germany and Italy offered to mediate in the Sino-Japanese dispute and that the three nations are ready to guarantee the territorial integrity of China.

(2) That the three nations mentioned above strongly urge China and Japan to join their proposed five power pact.

(3) That Soviet Russia voluntarily pledged herself to change the communistic system and that Germany and Italy would act as her guarantors.

(4) That the formation of the proposed five power pact will render the neutrality act of America impractical and consequently she will be compelled by circumstances also to join the pact.

Those present were divided in their opinions regarding the above proposals but most of them favored a careful policy so as to avoid falling into any trap. Finally Gen. Chiang asked all those present to give due consideration to these issues and contribute their ideas at another conference to be called shortly.

Noted
H. M. Cochran

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COPY

QUADRUPLICATE

No. 223

Rangoon, Burma, September 22, 1939.

CONFIDENTIAL

SUBJECT: Transportation of Materials over the Burma-Yunnan Highway.

THE HONORABLE

THE SECRETARY OF STATE,

WASHINGTON, D. C.

SIR:

I have the honor to refer to this Consulate's despatch of July 11, 1939, transmitting despatch no. 194 of July 10, 1939, concerning transport conditions prevailing on the Yunnan-Burma highway. In connection therewith I now have the honor to submit additional information relating to the transportation over the highway of supplies for the Chinese Government.

The Rangoon contractor referred to in the aforementioned despatch continued during July and August to transport supplies by truck from the railhead at Lashio to various depots over the Chinese border. He now operates a fleet of two hundred trucks driven by crews of Burmans, Anglo-Burmans, and Chinese, who are paid at the uniform flat rate of two rupees, two annas a day (about U.S. $0.62 at present rates of exchange). During June the Chinese authorities gradually dispensed with the services of numerous independent contractors operating over the road. Since the beginning of July, therefore, his trucks have been the only ones engaged in the transportation of war materials and supplies for the Chinese Government from Burma to China.

The following figures show the number of trips made by the trucks of this fleet from Lashio to the places in China indicated during June, July, and August, 1939. Each truck is understood to have been filled to its two-ton capacity but not overloaded. Quantities of materials can be estimated quite accurately, therefore, by multiplying the number of trips by two. These figures do not show comparatively small quantities carried by independent contractors during June but indicate the total volume of supplies transported from Burma over the highway during July and August.

	June		July		August	
	Trips	Tons	Trips	Tons	Trips	Tons
Lashio - Chefang	507	1,014	39	78	147	294
Lashio - Mangshih	167	334	70	140	231	462
Lashio - Paoshan	41	82	394	788	None	None
	715	1,430	503	1,006	378	756

The materials carried consisted principally of ammunition, but included two hundred tons of T.N.T. transported during August.

By August 28th all military supplies then awaiting shipment at Lashio were cleared, and a few trucks were used thereafter to transport gasoline. It was expected, however, that additional supplies of war materials soon would be shipped by rail from Rangoon to Lashio.

As the foregoing table indicates, none of the trucks operating out of Lashio proceeded as far as Paoshan during August. The reason was that heavy rains caused frequent landslides and washouts in the mountainous country through which the road passes between Mangshih and Paoshan, rendering that section of the highway virtually impassable throughout the greater part of the month. It is understood, however, that heavy rains in that region cease early in September and that workmen are engaged in repairing damaged sections of the highway.

Unfavorable weather conditions prevailing during July and August greatly hampered the operation of trucks in other areas and caused frequent delays. However, the road was kept open to traffic between Lashio and Mangshih during the summer months when rainfall was heaviest.

Respectfully yours,

AUSTIN C. BRADY

Austin C. Brady
American Consul

Distribution:
1. Original and four copies to Department.
2. Copy to American Embassy, London.
3. Copy to American Embassy, Chungking.
4. Copy to American Consulate General, Calcutta.
5. Copy to American Consulate, Yunnanfu.

800

WLP:cp

original incoming referred to Dr. White to prepare a reply.

photostatic copies referred to Earle Bailie, Professor Viner, Professor Riefler and Professor Stewart.

9/26/39 - mas

ADDRESS OFFICIAL COMMUNICATIONS TO
THE SECRETARY OF STATE
WASHINGTON, D. C.

DEPARTMENT OF STATE
WASHINGTON

In reply refer to

My dear Mr. Secretary:

I quote below from a telegram dated September 11, 1939, from the American Consul General at Sydney, Australia:

> "Arrangements have been made for purchase by Great Britain of all surpluses over Australian requirements of most primary products including wool, canned and dried fruits, meat, butter, et cetera. No announcement yet regarding wheat."

The foregoing constitutes confirmation of the many reports in circulation regarding the control by the British Government of stocks of primary products produced in Australia. The Department had also been informed that the object of such an arrangement with Dominion Governments was to enable the British Government to control whatever proceeds in foreign exchange may be derived from the sale of these products in non-British countries, particularly the United States, since obviously the total

production

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

production would not be expected to be consumed or stored in the United Kingdom. The first intimation received by this Government of a hope on the part of the British Government that barter or similar transactions be entered into between the two Governments was made to the Agricultural Attaché at London. This report transmitted the intimation that the British Government may formally propose an exchange of Australian wool for certain American surpluses, particularly wheat. A further intimation has reached the Department in an informal communication from the Commercial Counselor of the British Embassy, which I quote below:

"The present clip has been acquired by the British Government. I should think that undoubtedly, as before, some Wool Control will be set up in London which among other functions will have that of supplying neutral countries with their requirements.

"In the last war the supplies of U.S. requirements were coordinated through the Textile Alliance, a U.S. corporation, which is still in existence with all records.

"Lord Barnby, who was Wool Controller in the last war, is at present in this country and has conferred, in a personal and unofficial capacity, with leaders of the Wool Textile Industry, with Mr. Frank A. Fleisch, the former General Executive of the Textile Allience, and Mr. E. Farnham Greene, the senior remaining director. I have received Lord Barnby's report and recommendations.

"Mr. L. R. Macgregor, the Australian Government Trade Commissioner, has been approached by Mr. Arthur Besse, president of the National Association of Wool

Manufacturers,

Manufacturers, and Mr. H. Clyde Moore, president of the Boston Wool Association. These gentlemen are anxious for information as to arrangements which can be made for providing for U.S. requirements of Australian wool. Mr. Macgregor has informed them after consulting Canberra that while Australia has an important indirect interest any business arrangements regarding obtaining the current or succeeding clip should be made with the British Government or its representatives. They are therefore desirous of consulting me at the earliest possible moment.

"I now propose to refer to London for information and instructions but in the meantime I shall be glad that you ascertain whether Departments of the United States Government have an interest in any aspect of the subject which they would wish to discuss with me informally or otherwise.

"I think there may be two such main aspects, viz. (A) the trade aspect, even though it were proposed that arrangements should be concluded directly between an organization such as the Textile Alliance and the Wool Control in London, and (B) the finance aspect.

"You will appreciate that (B) raises the consideration that the clip represents a sterling asset which might provide dollar assets or credits utilisable for general purposes or for specific purchases of or exchange for commodities in the United States. I should like to know the opinion of the Department of Agriculture whether this consideration opens up any possibilities under Public Resolution - No. 52 - 76th Congress and Public - No. 387 - 76th Congress, both approved August 11, 1939, relating respectively to sale and exchange of surplus agricultural commodities.

"I may have occasion to make similar enquiries in regard to Jute Control."

The last paragraph but one of the foregoing would appear to be a clear intimation of the British Government's desire to make some proposal for the exchange of

British

British Empire primary products for some of the American surpluses.

This informal communication and the enclosed excerpt from a telegram just received from the American Embassy at London were read at a special meeting of the Executive Committee on Commercial Policy, convened on September 15 to consider the problem of the price of wool, and are now transmitted for the information of the agencies and departments represented on the Committee. The Committee decided to establish a subcommittee to study the question of methods of meeting conditions growing out of new British economic organization as typified by the wool situation.

Sincerely yours,

Cordell Hull

Enclosure:

Excerpt of telegram.

EXCERPT FR[illegible] CABLE [illegible]

A new and interesting technique lies in the opportune possibilities which the younger brains of the Ministry of Economic Warfare see in the plans for large purchases of Empire and other supplies of important commodities which the Ministry of Supply and the Food Control [illegible] are considering. These departments are faced with the necessity of obtaining essential supplies without exhausting Britain's foreign exchange resources (the Ministry of Supply have already taken over the whole Australian wool clip for example) with a view to using the surplus beyond Britain's own needs for the obtaining of other products on the most advantageous terms. The Ministry of Economic Warfare see in such a policy the means of obtaining control of a large proportion of world supplies of some important commodities, centering their [illegible] in [illegible] and possibly also using them in barter deals or compensation arrangements which would increase Britain's power of preventing supplies from going to Germany direct and of undermining Germany's export trade by exchanges with neutral countries for products which they might furnish to Germany. Incidentally Anglo-French buying is to be carefully coordinated. These examples provide a glimpse of the magnitude and ramifications which British economic policy is likely to encompass. The task of coordinating the efforts is obviously tremendous. The raw materials [illegible] allocated to British industry by the various agencies having their control; the Treasury will allocate the foreign exchange and the new capital which may be issued; the military departments, through the Ministry of Supply, will have priority in materials and [illegible]; and the Ministry of Food and the Ministry of Supply will be engaged in large commodity transactions [illegible] Board of Trade [illegible] control the exports and imports. The Ministry of Economic Warfare, however, must have [illegible] of the controls in the hands of other agencies to further its objectives. There is as yet no [illegible] of other outlets whose sole function is to coordinate the efforts of the various departments. Therefore it is [illegible] possible to measure the speed with which the economic and financial policies as a whole will be crystallized. But certain implications are apparent. The urgency of need [illegible] and the availability of [illegible] large purchases in the United States market but these factors will certainly operate [illegible] this factor may or may not. (1) The British (and French) [illegible] to conserve their free foreign exchange resources as much as possible. For example the British Treasury has instructed

the

the British tobacco companies to cease purchases of American tobacco. (2) Strategic purchases in markets contiguous or near Germany and Italy either (a) to prevent such supplies reaching Germany or (b) to increase political leverage through rectification of the balance of payments. For example attempts are being made to purchase large quantities of lead from Yugoslavia and dried fruits from Turkey. (3) Shipping, which involves the whole question of the availability and safety of ships under submarine warfare conditions, the length of the haul and whether or not a ballast voyage is involved.

KENNEDY

THE WHITE HOUSE
WASHINGTON

81

Sept. 23, 1939

MEMORANDUM FOR HENRY MORGENTHAU, Jr.

Please bring to me some day next week after further observation.

F.D.R.

Put in ice box
H.M.Jr.

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THE SECRETARY OF THE TREASURY
WASHINGTON

SEP 20 1939

MEMORANDUM FOR THE PRESIDENT:

In order to enable the Treasury Department to administer the provisions of your regulations of September 6 and 11, 1939 concerning credits to belligerents, I have signed and am submitting herewith for your approval, regulations requiring persons to report periodically all credit transactions with belligerents.

The proposed regulations, which have been recommended by the Advisory Committee assisting me in connection with this problem, will enable the Treasury to keep itself informed as to credit transactions with belligerents, and to detect prohibited transactions.

I recommend your approval of the attached regulations.

H.Morgenthau Jr

CODE OF FEDERAL REGULATIONS
TITLE—31—Money and Finance
SUBTITLE—A—Office of the Secretary
PART 20—REGULATIONS ISSUED BY THE SECRETARY OF THE TREASURY UNDER THE REGULATION CONCERNING CREDITS TO BELLIGERENTS, AS AMENDED.

September , 1939

Section 20.1. Authority for regulations.—These regulations are issued under the joint resolution of May 1, 1937, 50 Stat. 121 (the Neutrality Act) and under the Regulation Concerning Credits to Belligerents, as amended, which was issued by the President pursuant to section 3 of said Act, and under all other authority of law.*

Sec. 20.2. Reports.—Every person purchasing, selling, or exchanging bonds, securities, or other obligations of a government of a belligerent state named in a proclamation of the President issued pursuant to section 1 of the Neutrality Act, or of any political subdivision of any such state, or of any person known by the person making the report to be acting for or on behalf of the government of any such state, issued after the date of such proclamation, or making any loan or extending any credit to any such government, political subdivision, or person (including ordinary commercial credits and short-time obligations in aid of legal transactions and of a character customarily used in normal peacetime commercial transactions) shall furnish to the Secretary of the Treasury, through the Federal Reserve bank of the district in which such person has his principal place of business in the United States, information relative thereto upon report forms prescribed by the Secretary of the Treasury. Such information shall be furnished on a weekly basis except as the Secretary of the Treasury may authorize the information in certain cases or classes of cases to be furnished on the basis of longer intervals, provided, however, that the first report filed by any person hereunder shall cover the period commencing September 5, 1939, and each subsequent report shall cover the period commencing with the end of the period covered by the immediately previous report. Reports shall be filed within 7 days after the end of the week, or period, covered thereby, provided, however, that an extension of the time for making and filing any report may be permitted with the approval of the Secretary of the Treasury. All persons engaging in reportable transactions prior to the issuance of these regulations shall file their first reports within 7 days from the date of these regulations, which reports shall include all reportable transactions engaged in by such persons commencing September 5, 1939 and prior to the issuance of these regulations. Report forms may be obtained from Federal Reserve banks or branch banks of the Federal Reserve System, or at the Treasury Department, Washington, D. C. Each person required to file a report shall upon request of the Secretary of the Treasury or any Federal Reserve bank furnish such additional information as the Secretary of the Treasury or any Federal Reserve bank may require. Nothing herein shall be construed to authorize the doing of any act or thing prohibited by section 3 of the Neutrality Act or by any other provision of law.*

Sec. 20.3. Records.—Every person required by section 20.2 hereof to file a report shall keep accurate and detailed records of each transaction concerning which a report is required to be filed. Such records shall be preserved for at least 3 years and shall be made available for examination by a duly authorized representative of the Secretary of the Treasury.*

Sec. 20.4. Federal Reserve Banks.—Each Federal Reserve bank shall keep itself currently informed, with respect to its own district, as to the transactions concerning which a report is required to be filed under section 20.2 of these regulations, and shall report to the Secretary of the Treasury any such transaction, attempted or effected, which is not permitted by the Neutrality Act and the regulation referred to in section

20.1 hereof. The Federal Reserve banks will act as fiscal agents of the United States in connection with these regulations.*

Sec. 20.5. Penalties.—Section 3(c) of the Neutrality Act reads as follows:

"Whoever shall violate the provisions of this section or of any regulations issued hereunder shall, upon conviction thereof, be fined not more than $50,000 or imprisoned for not more than five years, or both. Should the violation be by a corporation, organization, or association, each officer or agent thereof participating in the violation may be liable to the penalty herein prescribed." *

Sec. 20.6. Modification or revocation.—These regulations may be modified or revoked at any time.*

H M Morgenthau Jr.
Secretary of the Treasury.

APPROVED:

THE WHITE HOUSE,

September , 1939.

* Joint Resolution of May 1, 1937, 50 Stat. 121; Pres., Regulation Concerning Credits to Belligerents, September 6, 1939; Pres., Regulation Concerning Credits to Belligerents, September 11, 1939.

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BB:mjb 9.18.39

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Secretary of the Treasury.

APPROVED:

THE WHITE HOUSE,

September , 1939.

* Joint Resolution of May 1, 1937, 50 Stat. 121; Pres., Regulation Concerning Credits to Belligerents, September 6, 1939; Pres., Regulation Concerning Credits to Belligerents, September 11, 1939.

...ntially Referred to
Commissioner of Customs
...of the Secretary
For...
M. R. Nicholson
U. S. TREASURY ATTACHE
SHANGHAI, CHINA

30

Shanghai, September 23, 1939.

MOSCOW RECOMMENDS CHUNGKING GOVERNMENT PURGE

Information secured from a Chinese official who has just returned to Shanghai from Chungking to see his family, reveals the fact that through her new Ambassador, Soviet Russia has made a concrete proposal to Gen. Chiang Kai-shek as a condition for the former to increase her support of China in the resistance against Japan. The Soviet Ambassador was alleged to have presented a list of names containing over one hundred allegedly corrupt Chinese officials with Dr. H. H. Kung, Gen. Ho Ying-ching and Gen. Chang Chun heading said list, with the suggestion that these men should be deprived of their positions and banished from China, as they constitute the real enemies of the nation.

Since these men are all wealthy, it will be better for them to retire to America for a few years so that they will not only have a quiet time in which to repent their sins but also the opportunity to see what other people are doing for their country. The Soviet suggestion went on to recommend that Gen. Chiang Kai-shek should remain as China's leader, because his unselfishness and far-sightness fully qualify him for the position while the position of president of the Executive Yuan should be given to Mr. Sun Fo, and Gen. Chu Teh, the well-known leader of China's red army should be made Minister of War. Mr. Chu Mao, Mr. Chow En-lai and many other communist leaders are recommended for important government jobs. If Gen. Chiang could accept the above proposal, Soviet Russia is ready to give China enough support to crush Japan in a short period. Gen. Chiang is reported to have promised to consider the proposal but later found himself not in a position to carry out the wishes of Soviet Russia.

PARAPHRASE OF TELEGRAM

To: Secretary of State, Washington.
From: American Embassy, Berlin
Dated: September 23, 1939, 8 a.m.
Rec'd: September 23, 1939, 3:40 p.m.
No. 1385.

It can be said that the economy of Germany has for a long time been set up on a war basis. However, now that hostilities have actually broken out and there is a state of war going on with Germany fighting against England and France and Russia being aligned on the side of Germany, there are certain new factors which are of importance in evaluating Germany's economic situation at the moment. Goering asserted, during the course of his September 9 speech, that Germany was safe from blockade and that she was entirely prepared economically for a long struggle. These assertations are continually being repeated in Germany's press in one way or another, but logic is not always present since one article will show that the food supply in Germany is sufficient and invulnerable from blockade, while another article will pour condemnation on the blockade alleging that it is meant to starve women and children in Germany. It is known that until the summer of 1939 Goering has championed a relaxation of foreign policy of aggressive nature because Germany has neither attained economic consolidation nor was fully ready for a general war and thus, according to reliable opinion, Goering realized fully that the

speech

speech he made on September 9 consisted of propaganda meant to encourage public morale, although the sources being made up of patriotic Germans and having knowledge of the efficient espionage system are careful not to reveal just what the Reich's economic weaknesses are. No reliable judgment of Germany's ability to stand up against a long war can be made, therefore, before there exists further information regarding what war reservations of munitions and materials Germany has and until some indication is given regarding the character, extent, and method of the Reich's future military operations. Nonetheless, many reservations can already be applied to the assertations of Goering.

Eu:Morris:MHL

PARAPHRASE OF TELEGRAM

To: Secretary of State, Washington.

From: American Embassy, Berlin.

Dated: September 23, 1939, 9 a.m.

Rec'd: September 23, 1939, 3:22 p.m.

No. 1366.

Goering's declaration regarding general trade, when he said the blockade was (?) thin because it covers only the area from Basel to Denmark, is misleading. The reason is that as compared to the delay with which the allies applied their blockade in the World War, pressure of the present blockade has already made itself felt in the major part of the overseas trade of the Reich. Of all her imports approximately twenty percent is made up of the trade Germany has with enemy nations. Twenty-three percent of her exports and thirty percent of her imports depend upon Germany's trade, now almost impossible, with countries overseas and in Europe. Only forty-three percent of Germany's imports come from neighboring countries. Thus far communication with these countries approaches normal conditions. However, quite a large section of products imported from these countries adjacent to Germany are made up wholly or partly from materials which were imported in the past from abroad. It is probable that with a blockade in effect neighboring countries will be unable to import such goods into Germany. Thus it would seem that the Reich would be severed from at least half her import

reservoirs

reservoirs of necessary supplies, even when allowance is made for an augmentation of imports from countries like Russia and Rumania.

By means of Goering's discourse, coupled with a constant flow of press articles on the subject of Russia's large natural resources of raw materials, an attempt has been made to picture the Reich's loss due to the blockade as being supplanted by imports from Russia. Reliable opinion in Germany states that within the subsequent several months manganese, timber, and flax in limited amounts from Russia will probably be available to Germany. But that would necessitate some time and cooperation from the U.S.S.R., even to the extent of Russia's permitting experts from Germany to advise and direct in her centers of production before any Russian supplies would be available to Germany in important amounts. Also, it would be necessary to wait for improvement in present railroad communications between Germany and Russia and within the Soviet Union itself.

Changing from the subject of the general effect of blockade on the Reich's import trade to its influence on those basic goods necessary to nourish the German people and to sustain military operations, it can be stated that it is shown by a study of the food situation that taking into consideration home products and supplies which can be obtained from

southeastern

southeastern and northern Europe and from that part of Poland which Germany has occupied, undoubtedly the Reich is in a much better condition than she was in 1914 and it should be possible for her to obtain most vital products and thus to hold out against a blockade without suffering undue hardship.

Eu:Morris:MHL

PARAPHRASE OF TELEGRAM

To: Secretary of State, Washington.

From: American Embassy, Berlin.

Dated: September 23, 1939, 10 a.m.

Rec'd: September 23, 1939, 4:35 p.m.

No. 1387.

There exists a serious lack of margarine. Margarine supplies approximately one third of the fat needs of Germany, and it is made of materials which Germany imports from areas now cut off from the Reich. However, some emergency derivation might be developed from Poland, though the exact teritorial areas to be ultimately reclaimed by the Reich is not yet known, nor is it known how much damage has been suffered by the productivity of that area. Another factor to be taken into consideration is the demands for which the present resources will be called upon, in order to nourish the people uprooted by the strife. Furthermore, only approximately forty thousand metric tons of animal fats, taking in the fat content of living animals, was exported in 1938 by Poland to nations other than the Reich, that is to say, less than two percent of the 1938 consumption of fats in Germany. The Reich's egg supply should be augmented to a greater extent by the occupied area of Poland. (The 1938 export of eggs by Poland to nations other than the Reich equaled approximately five percent of the diminished consumption of eggs in Germany.) The contribution which Poland will make to the Reich's

Reich's supply of meat and feed grain should be more important as regards quantity. However, the production of these supplies in Germany, even without further imports from Poland, should be sufficient for the Reich's minimum needs for an indefinite time, due to the great reserves in grain which she has and due to the usual supplies of grain and meat from neighboring sources.

The calculation for Germany's relative self-sufficiency in food is based on standards of food consumption which have been lately restricted. A special German food commissioner stated in an unpublished study that from the viewpoint of health average food consumption standards are unsatisfactory. It is presumed that this is viewed from the angle of a deficiency in vitamins, especially the dearth of fruit during years of poor crops, although no special deterioration of general health is understood to have been discovered. The reaction vis-à-vis the reduced rations is more important. This public reaction, although it accepts generally these enforced rations as being necessary and enough to keep life going, considers that when bound together with the difficulties embedded in agreement to the rationing system the morale of the people will be adversely affected and might prove to be an important internal factor, should the system be continued for long.

Eu:Morris:MHL

PARAPHRASE OF TELEGRAM

To: Secretary of State, Washington

From: American Embassy, Berlin.

Dated: September 23, 1939, 11 a.m.

Rec'd: September 23, 1939, 6:04 p.m.

No. 1389.

Turning to the provision for fundamental strategic goods, the insufficiency today of the Reich's domestic production of ore and the fact that Germany is denied access to important supplies due to armed conflict and blockade is Germany's plainest weakness in her war economy. Iron ore to the amount of thirty-two million tons was produced in 1916 by Germany with Austria, Hungary, and Luxemburg, and supposedly Germany received further supplies from those parts of Belgium and France which she had occupied. Today the Reich's production of iron ore is only fifteen million tons a year, (taking into consideration even the particular efforts of the last year) and a considerable part of this ore has an iron content considerably lower than ores of Lorraine retaken by France. With iron content for a measure the Reich has been forced to get almost eighty percent of her needs of iron ore from foreign supplies. Germany's imports of high-grade ore in 1938 came to twenty-two million tons, while eleven million tons were produced within Germany itself. By making use of deposits of poor quality, the Government in Germany planned to increase ore production to 25.7 million tons. However, it it was envisaged that three years would be necessary to accomplish this. Though this job undoubtedly will be speeded up, considerable time must intervene before the program can be completed, if war conditions allow that it ever be brought to completion. Supposedly while the World War was in progress, Germany imported the major part of the ore output of Sweden. This came to six million tons in 1918. Nine million tons of ore from Sweden were taken by Germany in 1938, but 5.5 million tons of this amount were produced in the northern mines and were sent via a route which has now ceased to be available, i.e., by way of Norway and the North Sea. Evidence exists to the effect that the Reich has suggested that Sweden maintain fully her shipments of iron ore. However, according to reliable sources to do this it would be necessary for the Swedish Government to construct handling and railroad equipment. Thus considerable delay would be involved before large amounts of ore could be shipped via the Baltic from the most northern mines. Whereas certain other countries provided her with about forty-five percent of her ore needs in 1938, Germany is now severed from these areas. Thus even should the 1938 levels of shipments of Swedish ores be maintained; even should Luxemburg keep up her shipments to Germany of ores, which amounted in 1938 to 1.7 million tons; even should Germany use Poland's yearly production of eight

hundred

hundred thousand tons; even if Germany's domestic production should be, by some unusual effort, quickly brought up to its presumed yearly maximum of 25.7 million tons, the supply of iron for greater Germany would still remain less than the amount Germany had in the World War period.

Regarding Germany's reserves of petroleum products, her lack of these things improved when the Reich acquired the Polish fields having an annual output of sixty-six million metric tons of crude oil. This amount contrasts with 4.8 million tons which Germany imports and 1.7 million tons of different petroleum products which she produced in 1938 within the country. The Shell Oil Company's German director died enroute back to Germany several days ago, but it was stated by the German press that his mission to Rumania was successful. Supposedly this was a mission to "persuade" Rumania to supply Germany with further oil supplies to be repaid in goods. Rumania supplied Germany with less than twenty percent in value of the petroleum products imported to Germany in 1938. Anent a source which is reasonbly reliable the reserves of petroleum that Germany has plus her output at home are enough to supply her wants for one year of active fighting.

Eu*Morris:MHL

PARAPHRASE OF TELEGRAM

To: Secretary of State, Washington.

From: American Embassy, Berlin.

Dated: September 23, 1939, 2 p.m.

Rec'd: September 23, 1939, 7:35 p.m.

No. 1402.

Concerning the coal situation, Germany is an important exporter of coal. Hence the war and blockade should affect Germany little in this regard. Germany might even be enabled to raise the amounts she exports let alone to meet requirements for war, due to the fact that she is now in control of the mines in Poland with their twenty-eight million tons surplus. Nevertheless, Germany would appear to be most vulnerable to the effects of the blockade when it comes to imports of cotton, tin, rubber, nickel, copper, and several further materials. Though dependable information has not been received regarding what military reserves Germany has or what possibilities she may have for replacing the above-mentioned metals with substitutes, a trustworthy source reports that Germany's supplies of copper fall below the reserves of 1914.

Turning to the textile situation, though the newspapers in Germany often speak of Russian cotton production, thus far cotton exports from the U.S.S.R. do not surpass an annual production of about thirty thousand bales, which

amounts

amounts to approximately two and one-half percent of the 1938 importation of one million two hundred thousand bales into Germany. One understands that that part of Poland which has been occupied is supplied with enough cotton and finished textiles for several months and that this supply is now in the hands of German forces. However, when use has been made of this supply Poland, as far as textiles go, will probably become a drain on Germany, for the Reich's home production of natural and synthetic fibres accounted approximately for merely a third of her 1938 consumption of textiles, and this in view of the fact of large investments. It would seem, however, as if Germany would be in a more favorable position than she was in the World War period, even taking into account this insufficient though increasing output.

Concerning the supply of labor, Germany's occupation of Poland might seem to provide her for the moment with enough labor to carry on necessary industrial and agricultural output. As the situation stands, unemployment again exists in Germany due to the fact that the population has been withdrawn from exposed western areas; and because material is no longer available work in unnecessary trades and industries has diminished. Already it is believed that several hundred thousand persons are without employment, though figures regarding this are unavailable. The authorities are concerned

over

over this situation, though it has been said that the Government will give work to the unemployed, because of the existence of possible causes for social uneasiness, a situation which may remain until they can finish the process of moving and training the unemployed to take up work on essential projects. Thus as conditions are now, Germany should be able to get men without difficulty for her industrial and military needs. Later on, though, Germany might encounter trouble in this regard which she did not meet during the last war. For then she possessed some assets amounting to twelve billion marks and she was able to employ these to pay for a great part of her vital imports in place of having to put into the making of goods for export plant materials and labor which she needed for the making of munitions.

Eu:Morris:MHL

PARAPHRASE OF TELEGRAM

To: Secretary of State, Washington.

From: American Embassy, Berlin.

Dated: September 23, 1939, 4 p.m.

Rec'd: September 23, 1939, 1:36 p.m. 24th.

No. 1407.

It is still a carefully kept secret regarding what the foreign exchange and gold position, actual and potential, of Germany is. During a confidential talk regarding an article which appeared on June 30, 1930 in The New York Times and which claimed that one billion marks ($400,000,000) could be mobilized by Germany, it was stated by a source which is dependable and authoritative that the true gold supply which could be mobilized by Germany was far less than four hundred million marks ($160,000,000). On August 30 it was disclosed that the gold reserve of the Reich Bank and the gold discount bank amounted to one hundred and ten million marks only. Therefore, in case of a war of long duration, unless Germany turns to military occupation or puts pressure on neighboring supply sources, she will seemingly have to put a much larger proportion of her factors of production into the output of goods for export than she did in 1914, since she lacks foreign exchange and gold with which to pay for her imports.

Eu:Morris:MHL

PARAPHRASE OF TELEGRAM

To: Secretary of State, Washington.

From: American Embassy, Berlin.

Dated: September 24, 1 p.m.

Rec'd: September 24, 4:24 p.m.

No. 1413

Since figures are unavailable the calculations and observations made above cannot be looked upon as comprehensive or basic, nor can they be considered completely reliable since new factors may develop at any moment and bring in elements which at this time cannot be evaluated. However, from the above one may draw the conclusions that follow: It would seem that perhaps for several years, anyway for a long period of blockade, Germany will be able to supply her population with minimum food requirements as far as quantity goes but not qualitatively. Moreover the labor and facilities that she has for manufacturing and transportation seem sufficient enough for her military needs. On the other hand, the situation as it concerns raw materials in most goods, with the exception of coal, will eventually become one of scarcity and inferiority until it reaches a deficiency point which, in the case of several vital metals, will

become

bedome dangerous if the war should prove as lengthy and as wasteful of material as the war of 1914. Germany is put in a definitely disadvantageous position due to her relative absence of foreign exchange and gold. This situation would be aggravated by a prolonged war unless some method is found to overcome and correct that position. It can be said briefly that though her position from a financial and economic view is one which justly is the cause of serious worry to her leaders, yet it is not as serious as is often indicated by statements frequently expressed abroad, and the conviction which is often expressed that the collapse of Germany is imminent is certainly not justified.

Should peace efforts prove a failure and should the war get more serious, it is true that the people's morale in Germany might easily be undermined due to the prolonged pviation. It is also true that the same situation might cause them to adopt a front of active discontent and that should the country's resources continue to be drained this would be shown not merely in every section of national activity but likewise in the bodily resistance of the population. Moreover, much depends upon what the regime does in the future as to whether the two factors mentioned above would

would be permitted to reach the breaking point. Looking back into the past, it would seem that any attempt to keep morale up would be by trying to gain greater victories in the military field, and a need to increase resources for Germany would probably tend to cause further campaigns for acquisition of territory. Be it as it may, enough basis exists for argument which some people put forward holding that German plans would not be deterred by any consideration of effects from the long-term economic viewpoint as long as Hitler stays in power, but for him an increase of economic and financial stringency would prove an incitement rather than a deterrent.

Eu:Morris:AMR.

CJ

GRAY

PARIS

Dated September 23, 1939

Rec'd 11:50 a.m.

Secretary of State,

Washington.

2148, September 23, 1 p.m.

FOR THE TREASURY.

The JOURNAL OFFICIAL this morning publishes a blockade measure providing that owners of transit merchandise on ships in French waters may be required to furnish a transshipment bond guaranteeing arrival at destination of the merchandise in neutral countries and that it will not be reexported directly to an enemy country or country occupied by the enemy.

A further decree sets October 22 as the date when the five franc nickel coins will no longer be legal tender. They may be exchanged at the Treasury or Bank of France, however, till November 10. There is apparently no immediate intention of withdrawing the 10 franc and 20 franc silver pieces in circulation although it will be recalled (Telegram No. 1727, September 2, 2 p.m.) that authorization therefor exists and presumably they will be withdrawn later.

(END SECTION ONE).

BULLITT

WWC

109

CJ

GRAY

PARIS

Dated September 23, 1939

Rec'd 11:55 a.m.

Secretary of State,

Washington.

2148, September 23, 1 p.m. (SECTION TWO).

A further decree lays down conditions for the rationing of gasoline and other petroleum products to the various national defense services, transportation services, public administrations and the civil population. The procedure provided will take effect on November 1st with certain transitory limitation on deliveries established immediately.

The office of foreign exchange has clarified the situation mentioned in our telegram No. 2121 of yesterday and has granted authorization for the liquidation of all maturing future foreign exchange contracts concluded before September 10th. (END OF MESSAGE).

BULLITT

WWC

COPY

BLS

GRAY

BERLIN

Dated September 23, 1939

Rec'd 4:18 p.m.

Secretary of State,

Washington.

1398, September 23, 1 p.m.

My 1200, September 12, 9 a.m.

This morning's press gives extended publicity to the new and stricter food rationing regulations the main features of which are: (1) The introduction of bread cards; (2) the reduction of milk, butter and sugar rations; (3) the differentiation of most rations by age and type of labor performed by recipients; (4) the extension of rationing to meals taken in restaurants.

The new weekly bread ration is fixed as follows for "normal" consumers: 2.4 kilograms; for heavy manual labor 3.8 kilograms; heaviest manual labor 4.8 kilograms; for children under six years 1.1 kilograms; children from six to ten years 1.7 kilograms. The weekly "normal" meat ration (five hundred grams) is the same as during the last two weeks but for heavy labor is fixed at 1,000 grams; for the heaviest manual work 1,200 grams; for children below six years 250 grams.

The

The new fat cards entitle the consumer to purchase eighty 80 grams of butter weekly as against 90 grams heretofore. The fat card further entitles the consumer to 125 grams of margarine, cooking fats or salad oil; 65 grams of lard, bacon or tallow; 62.5 grams of cheese and 125 grams of curds with special rations for workers and children.

While under the previous ration all adults were entitled to 0.2 liter of milk daily in the future milk coupons will be issued only to children and expectant and nursing mothers. The daily rations for children under six years is fixed at 0.75 liter; for children from six to fourteen years 0.25 liter; and for mothers 0.50 liter. There is as yet however no restrictions on the consumption of skimmed and buttermilk.

The sugar ration is reduced to 250 grams weekly against 355 grams heretofore. The coffee substitute ration is limited to 125 grams weekly while the former weekly allowance of 20 grams of real coffee is apparently entirely abolished. Eggs, tea and artificial honey will only be distributed when available. Restaurant visitors have to surrender their coupons for bread, meat and fats. Meat, milk, butter and other fats can only be bought from one retailer with whom consumers must register in order to

utilize

utilize their ration cards.

Inform Treasury and Commerce.

KIRK

HPD

TREASURY DEPARTMENT 113

INTER OFFICE COMMUNICATION

DATE September 23, 1939

TO Secretary Morgenthau

CONFIDENTIAL

FROM Mr. Cochran

The foreign exchange market was very quiet with sterling opening at 3.99, touching a high of 4.00-1/4 and closing at the low of 3.99. The easing off of the rate was due to the offering of £50,000 from Sweden, £30,000 of which was sold at 3.99-3/4, and the remaining £20,000 was offered down to the rate of 3.99.

The reporting banks in New York and the Federal Reserve Bank sales totaled £218,000, from the following sources:

Commercial concerns	£ 32,000
Foreign banks (Europe & Far East)	£ 111,000
Fed. Res. Bk. (£25,000 for Norway; £50,000 for Sweden)	£ 75,000
	£ 218,000

Purchases of sterling amounted to £118,000, as indicated below:

By commercial concerns	£ 28,000
By foreign banks (Australia, Far East & South America)	£ 90,000
	£ 118,000

The banks also reported that the British Control had purchased sterling amounting to £36,000 at the official rate.

Mr. Knoke advised me this forenoon that the Guaranty Trust had, after several days negotiations, obtained for one of their clients permission to sell £10,000 sterling, constituting a pre-war balance, to the British Control at $4.02, after satisfying the Control on the three necessary points. This is the first case of this type that has come to the attention of the Federal Reserve Bank. The other transactions which I have been reporting have been current commercial operations.

The Guaranty Trust Company also reported that they had received an order to sell £50,000 at 4.01-1/2 or better which was not executed as the market did not go that high.

The National Bank of Belgium is today selling us $155,000 of gold from their earmarked account.

Gold valued at $119,000 was shipped from England to the Guaranty Trust Company and $49,000 to the Bank Belge pour l'Etranger. Both of these shipments evidently had approval of the British Control.

There was also reported a shipment of gold valued at $2,863,000 from Canada to the Federal Reserve Bank of New York and $575,000 from India to the Chase National Bank.

H.M.C.

Mus C

SEP 2 3 1939 114

My dear Mr. Secretary:

Mr. Joseph Rovensky, Vice President of the Chase National Bank and one of the American representatives on the German Standstill Agreement Committee, at the suggestion of Under Secretary Welles, had a conference with Under Secretary Hanes and other officials of the Treasury on September 21, relative to a proposal for the renewal of the Standstill arrangement.

Mr. Rovensky stated that when the Standstill Agreement was terminated a few weeks ago the American share of the outstanding indebtedness was about $66,000,000 and in addition there was outstanding unused credits in the amount of about $15,000,000. He stated that in any renewal of the Standstill arrangement the $15,000,000 unused credit would be eliminated and there would also be deducted certain amounts equal to the German assets which have been recently attached or set-off by American banks.

Mr. Rovensky stated that both he and his colleagues felt that it was entirely clear that the contemplated arrangements did not violate the Neutrality Act since it involved merely a renewal or adjustment of an indebtedness existing on the date of the President's Proclamation and also because the renewed credits which would become available would be ordinary commercial credits of a type permitted by the President's Regulations of September 6, 1939, as amended. He stated that the reason he was making the inquiry was in order to ascertain the desirability of the proposal from the point of view of the Administration's policy.

It would seem therefore that Mr. Rovensky's inquiry presents no question under Section 3 of the Neutrality Act for consideration by this Department and that his inquiry is one for consideration by the State Department. I will therefore informally advise Mr. Rovensky that we are referring his inquiry to the State Department and I assume that your Department will take any further action which you deem appropriate.

Very truly yours,

/s/ H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable

The Secretary of State.

[redacted] 9-23, 1939
attn. A.A. Berle Jr.
BY SPEC. MESSENGER 11:15 a.m.
initialed
FILE TO Bernstein
COPY TO Miss Chauncey

BB:dkm 9/22/39

September 23, 1939

To: The Secretary

From: Mr. Hanes

Bernstein, Duffield, and I have revised the Press release in connection with the Treasury carrying out its functions under Section 3 of the Neutrality Act. It is attached hereto.

I am just as well pleased that the President did not want to issue formal regulations at this time as I think we will be better informed after having gained some experience in the handling of each transaction as it comes up, and if at some later date we should decide to issue regulations, we will be in a much better position to do so.

My thought would be in handling this matter with the Press that at your Press conference on Monday if asked any questions about the regulations not having been returned, you could say that in view of the many unknown factors surrounding all types of short-term credit that we had decided to hold any regulation in abeyance until we had gained experience in handling the details and were familiar with all types of short-term credits and peace-time operations.

J.W.H.

PROPOSED PRESS RELEASE

A policy of encouraging banking and business houses to continue a normal international short-time credit business within the scope of the Neutrality Act has been recommended to Secretary Morgenthau by an Advisory Committee which he has formed to assist the Treasury in carrying out its functions under section 3 of the Neutrality Act. This section of the Act governs credit transactions between persons in the United States and governments of belligerent states, or their agents.

President Roosevelt on September 6 and 11, 1939, approved regulations permitting certain types of credit accommodations and authorizing the Secretary of the Treasury to administer the provisions of the regulations. To assist in the work Secretary Morgenthau designated Under Secretary Hanes to head an Advisory Committee composed of the representatives of the State, Commerce and Treasury Departments.

The Committee recommended to Secretary Morgenthau that the President's regulations be administered with the least possible disturbance to business. The Committee also recommended that persons seeking guidance on particular transactions should be requested to submit their questions, with a full statement of facts relating thereto, to the Federal Reserve bank of their district, which will act as fiscal agent of the United States in this connection. The Federal Reserve banks have been asked to transmit any doubtful questions to the office of Under Secretary Hanes who will supervise the legal and administrative work on matters arising under the President's regulations of September 6 and 11.

The Secretary of the Treasury has adopted the recommendations of the Advisory Committee.

9-23-39

STRICTLY CONFIDENTIAL

139

Paraphrase of Telegram No. 194, September 23, 1 p.m. from the American Legation at The Hague.

Today I was given by the Secretary General of the Foreign Office a copy of an aide-mémoire which he had received from the German Minister at The Hague conveying the point of view of the Government of the Reich towards any yielding by the Netherlands to British pressure in connection with neutral trade with Germany. While short, the aide-mémoire is extremely sharp in tone and closes with the following threat: If neutral governments in any way comply with British demands the Reich reserves to itself the fullest freedom of action to combat with all means such participation of neutral states in the economic war directed against Germany. The aide-mémoire contains the essence of the DDPK article transmitted to the Department in telegram no. 1226, September 13, 1 p.m. from the Embassy at Berlin.

When the document was received from the German Minister by the Secretary General, the latter tells me that he qualified it to the Minister as "pure nonsense". The Secretary General has been informed that when a similar communication was delivered by the German Ambassador at Brussels to the Belgian Foreign Minister, the latter declared it to be "inadmissible".

The

The Dutch are not inclined to take the unusual tone of the aide-mémoire too seriously as they feel that it is probably a paraphrase of an instruction drafted by Ritter whom they know of old. Although they have not yet decided whether to send a reply to Germany, present indications are they they will not.

Eu:Cumming:DG

STRICTLY CONFIDENTIAL

Paraphrase of Telegram 106, September 23, 11 a.m. from the American Legation at Stockholm.

Boheman, Secretary General of the Foreign Office had a conversation yesterday with Ministerial Director Walther who is now in Stockholm as the principal member for Germany of the Permanent Committee for German-Swedish Trade. As a result of this conversation Boheman's anxiety as to the situation has been greatly increased. Boheman was told by Walther that if Sweden yielded to any demands of Great Britain which would adversely affect normal trade between Sweden and Germany it would be considered by Germany as an unneutral act, and Germany "would use every means in her power to counteract such action". Boheman admitted that he was perhaps overly-pessimistic, but pointed to the difficulties of Sweden's position. In this connection he said that while noone knew the terms of the Soviet-German understanding, it was not inconceivable that in order to bring pressure on Sweden, Germany might give the Soviet Union a free hand to enter Finland and even Sweden.

Eu:Cumming:DG

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin

NO.: 1407

DATE: September 23, 1939, 4 p.m.

Carefully guarded secrecy still surrounds Germany's actual and potential foreign exchange and gold position. In a confidential discussion with a reliable and authoritative source with reference to an article which appeared in the New York TIMES of June 30, 1930 (9?) stating that a gold reserve of 1 billion marks($400,000,000) could be mobilized by Germany, it was said that far less than 400,000,000 marks ($160,000,000) was the real amount of gold which that country could mobilize. On August 30 the total disclosed gold reserve of the Reichsbank and the gold discount bank was only about 110,000,000 marks. Therefore, since Germany lacks both gold and foreign exchange with which to pay for imports, it would seem that in the event of a long war it would be necessary for her to divert a much larger part of the country's factors of production to the making of goods for export than was necessary in 1914 (?) unless she has recourse to occupying adjacent sources of supply with her military forces or otherwise exerting compulsion upon them.

EA:EB

TREASURY DEPARTMENT

WASHINGTON

September 23, 1939.

Memorandum of telephone conversation between the Secretary and Mr. Graves, Saturday, September 23, at twelve o'clock, noon

Mr. Morgenthau evidently called from his home at Fishkill.

He asked me to take up two subjects with the Procurement Division, as follows:

1. How well are the several branches of the Government supplied at the present time with reference to a possible shortage of coal?

2. He asked that surveys be made at Chicago, Boston, and other large cities with a view to consolidating the contracts of all Government branches for electrical current. He said he wanted this to follow along the lines of a consolidation of this kind which was made about two years ago in the New York City area. He said further that it was his impression that in the case of New York the consolidated contract included the Navy Yard and Army facilities, and that he desired to have this done also at any other places where similar action should be taken.

NOTE: Captain Collins, the Director of Procurement, happened to be in my office when the Secretary's call came in, and I immediately communicated the Secretary's instructions to him. Captain Collins promised to have memorandums on these two subjects within the next few days.

COPY

224

AC

GRAY

Berlin

Dated September 24, 1939

Rec'd 12:10 p.m.

Secretary of State

Washington

1412. September 24, noon. (SECTION ONE).

My 1398, September 23, 1 p.m.

The editorial comment accompanying the new food rationing regulations in general follows this pattern: Great Britain is endeavoring to starve out German women and children but these efforts will be in vain since in the past years the Reich has accumulated large stocks of foodstuffs sufficient to meet deficiencies resulting from poor harvests and consequently the new stricter rations are merely to insure equitable distribution and continuing ample supply. In an article by Agricultural State Secretary Backe England is alleged to have started its campaign of starvation in spring of this year through (one) cornering the whale oil supply and (two) inciting Poland to stop the regular seasonal emigration to Germany of 90,000 Polish farm laborers.

The new bread rations are generally accepted as sufficient and as roughly corresponding to the previous consumption of the respective categories of the population. While the "normal" meat ration is the same as during the

past

past fortnight it is two hundred grains lower than the ration introduced August 28. The smallness of the milk ration for children from six to fourteen is generally considered to be the greatest hardship of the revised schedule. The application of food cards to restaurant meals stops a gap in rationing which was being increasingly taken advantage of by the German public.

The following is a tentative comparison of the new ration with (one) the official statistics of average per capita consumption in 1938 for all classes of the population and (two) average per capita working class consumption taken from a careful study under the labor front of the actual expenditures of 350 workers' families in 1938.

KIRK

CSB

COPY

128

PARAPHRASE OF SECTION TWO OF TELEGRAM NO. 1412 OF SEPTEMBER 24, 1939, FROM THE AMERICAN EMBASSY, BERLIN.

The new normal meat ration, on the basis of this data, would seem to be only 54 percent of former average per capita consumption of the whole population but 87 percent of the average consumption of the working class. The ration for butter is 47 percent of the national average consumption for 1938, but is 88 percent of the former butter consumption for workers. The normal allowance for cheese is only 57 percent of the national average for 1938, but is about 86 percent of the average consumption for workers. For other edible fats (185 grams of margarine vegetable fats, bacon, oil or suet) the normal weekly ration is but 56 percent of the national average formerly, but is 93 percent of the average for workers. The normal ration for sugar is only 53 percent of the average for the Reich for the year 1938, but is some 11 percent above the average for the workers.

The new meat allowances for "heavy" and "extremely heavy" manual labor, however, are respectively about 75 percent and 110 percent higher than the per capita average of the workers family, which includes, however, women and children who do not consume as much as the family head. For butter and cheese there is no differential allowance. However, for other fats the worker who is on "heavy" and "extremely heavy" work may buy respectively some 63 percent and 200

percent

percent more than the actual consumption of members of workers' families in 1938. Here it may be pointed out that even with the supplements for "extremely heavy" work the maximum weekly meat ration for civilians is now only 1200 grams as compared with 1750 grams, the full military ration for active service.

Taken as a whole, the new rations would appear to be intended not to bear too heavily on the average working class consumption. If availed of for individual manual laborers they possibly represent an increase of consumption. It seems questionable, however, whether it will be possible in all cases for the manual laborers to take advantage of any increased food made available to them, in view of the reduction of wages as a result of abolition of overtime bonuses.

It is by no means a certainty, however, that the civil ration has fallen to its final level under the new regulations. It is the belief of certain observers that there may be further reductions in allowances of food if, as is possible, another million men are added to the two and a half million men now under arms. A certain amount of food will have to be subtracted either from the amount available for the civilians or from the emergency reserves, in view of the fact that the military rations are so much higher than the civil allowances.

It is requested that you inform the Treasury and Commerce of the foregoing.

KIRK.

EA:LWW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Helsinki, Finland

DATE: September 24, 1939, 1 p.m.

No.: 194

CONFIDENTIAL.

Yesterday in talking with the Minister for Foreign Affairs he mentioned to me that there has now been cleared up any misunderstanding which may have existed prior to the visit of Secretary Morgenthau here regarding the purposes of any proposed loan to Finland from the United States. He said that discussions for a loan of $30,000,000 were now in progress.

My inference was that if the United States should make such a loan, the proceeds would be used mainly to augment the already substantial volume of foreign exchange available to Finland. The money would not be earmarked for certain special acquisitions as at first intended.

It is expected that control of foreign remittance through the system of import licenses will protect the dollar balances. However, there is already apprehension with regard to the probable effect on replenishment of foreign balances of reduction in exports.

SCHOENFELD.

EA:LWW

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 25, 1939

TO Secretary Morgenthau

CONFIDENTIAL

FROM Mr. Cochran

The foreign exchange market was dull today. Sterling ranged between 3.99-1/2 and 4.00-1/8, and closed at 3.99-3/4.

Reporting banks in New York and the Federal Reserve Bank reported sales totaling £484,000, from the following sources:

Commercial concerns	£	278,000
Foreign banks (Far East, South America, Europe & Scandinavia)	£	131,000
Fed. Res. Bk. (£25,000 for Norway; £50,000 for Sweden)	£	75,000
Total	£	484,000

Purchases of sterling amounted to £266,000, as indicated below:

By commercial concerns	£	240,000
By foreign banks .... (Europe & South America)	£	26,000
Total	£	266,000

The banks also reported that the British Control had purchased sterling amounting to £15,000 at the official rate.

We received through the Federal Reserve Bank of New York a request from the Central Bank of Argentina to purchase $2,000,000 in gold, to be added to their earmarked account, which request was approved.

The National Bank of Belgium today sold to us $535,000 gold from their earmarked account.

The Federal Reserve Bank of New York received a cable from the Bank of Portugal stating that it contemplated shipping gold to them. They asked whether the terms of the Federal Reserve Bank's letter of December 1, 1937 were still in force with respect to earmarking of gold and if the Federal would be willing to convert the dollar balances of the Bank of Portugal into gold to be held under earmark. The Federal Reserve Bank's answer to the first question was in the affirmative. To the second question it replied, with the approval of the Treasury, that gold could only be purchased upon application to the Treasury and that the Federal Reserve Bank of New York had reason to assume that such applications would be promptly and favorably acted upon by the Treasury, on the presumption that the gold was to be used to strengthen that Bank's gold reserve. The Bank of Portugal expressed its willingness to give us gold against our "eventual escudos balances".

Secretary Morgenthau. **CONFIDENTIAL** -2-

A gold shipment of $70,000 was reported from England to the United States which evidently had the approval of the Control. We were further notified that Japan was shipping to this country $4,700,000 gold.

Mr. Pinsent, Financial Counselor of the British Embassy, called on me at 3:30 P.M. I introduced him to Mr. Bailie and later took him to see Mr. Stewart.

Pinsent first spoke of the pay checks for the British Embassy. He said he had received no answer to a cablegram to his Government, wherein he asked that the Bank of England instruct the Federal Reserve Bank of New York, for the information of the Riggs and other interested banks, that these checks are negotiable at 4.02.

Mr. Pinsent said that Colonel Greenlea (of Babcock and Wilcox) would arrive in New York Thursday, along with four other British purchasers. They will go on to Canada to join there the other members of the Commission, which the Colonel will head. They are not yet raising officially the question as to whether the Commission could open an account with the Federal Reserve Bank of New York. No commitments have been made, but if an account is not opened with the Federal, business will probably be done through one or more of the New York banks that have served the British Government in the past. After looking into the experience of the last war, Pinsent thinks his people will decide against incorporating their purchasing Commission. They will seek certain exemptions or immunities for it or its members through the Department of State.

Pinsent has only one copy of British exchange and trading regulations, and this set may not be complete.

Mr. Livesey of the State Department telephoned me at 6 P.M. that the Persian Minister had called at the Department to inform them that he had just been instructed by his Government to obtain immediately a loan of $15,000,000. The Department's understanding is that at least part of this is desired for construction purposes. Messrs. Murray and Alling of the Near Eastern Division of the State Department thought the Minister should be referred to the Secretary of the Treasury. Is this desirable, or should he be referred to the Export-Import Bank?

Mr. Livesey also mentioned to me that he had seen a memorandum wherein the Secretary of State reported a conversation which he had recently had with the Minister of Finland, who is seeking a $30,000,000 loan. Mr. Hull advised him to see the Secretary of the Treasury and Mr. Jesse Jones. A cablegram dated September 24 has now been received from Minister Schoenfeld at Helsinki in regard to the purposes of this loan.

H.M.C.

MP RECEIVED GRAY

Paris

SEP 25 1939 Dated September 25, 1939

DEPARTMENT Rec'd 3 P.M.

Secretary of State,

Washington

RUSH

2162, September 25, 7 P. M.

FOR THE TREASURY

The securities market was practically unchanged today. The undertone, particularly of French industrials, was firm. Rentes were well supported and most issues improved their previous quotations fractionally. There were no important changes in foreign exchange rates and no developments of importence in this field today. Financial circles are generally well satisfied at the improvement in the "unofficial" sterling and franc quotations in New York.

The Journal Official of this morning carries the statement of the holdings of the French stabilization fund at the end of May. It shows that the fund had gold valued at 15,773,000,000 francs as against 14,838,000,000 at the end of April (please see my telegram 1595, August 25, 8 P. M.). The fund likewise had two billion francs of gold on deposit with the rentes fund.

BULLITT

KLP

September 25, 1939.

The following is the explanation which Steve Early said he was giving the newspaper men on the short-term credit regulations Friday:

> The President did not have time to act on the regulations before going to Hyde Park for the weekend and asked Secretary Morgenthau to take them back.

To this I have added the following when I talked to newspapermen today:

> Since the Treasury now has the regulations back they have been returned to the General Counsel's office for "another look". Their issuance, therefore, is indefinitely postponed and may be affected by the Neutrality legislation now pending.

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9-25-39.

FROM: MR. GASTON'S OFFICE

TO: The Secretary

Mr. Gaston -

Lt. Pollio's office just phoned that the Coast Guard ship MENDOTA reported at 12:30 p.m. today that she had received word from the Norwegian AUGUST that the latter had sighted a submarine flying no flag four miles east of Chesapeake light ship.

mel -R

You may be interested. Naval intelligence has been notified.

HG

September 25, 1939

FOR THE SECRETARY:

I learned that Ed Foley is disturbed by the phrase "Under Secretary Hanes who will supervise the legal and administrative work" which appeared in the proposed press release on short-term credits. For the sake of the record and to prevent any jealousy between the two offices, I must confess to the authorship of that phrase. It unfortunately remained in the draft last Saturday, although I was perfectly aware that the Legal Division might consider the language offensive, and I had intended to cut out the whole clause beginning with the word "who" before any press release was actually issued. The entire sentence was inserted because Mr. Hanes said that he wanted to make clear to whom inquiries should be addressed.

I told Ed about this.

ESD

September 25, 1939

Memorandum for Secretary Morgenthau

From Earle Bailie

When I was in George Harrison's office at the Federal Reserve Bank in New York last Friday afternoon, September 22nd, he was called up from the Federal Reserve Board in Washington and told by the Secretary of the Open Market Committee that the Committee had placed orders in the market 2/32nds to 4/32nds above the last sales. (This conversation George Harrison repeated to me as soon as he put down his telephone). Mr. Harrison said, "Well, report me as voting in the negative, and have placed on the record the fact that I was not consulted in advance and that I was not given any opportunity to express my opinion before the Committee acted."

Earle Bailie

CONFERENCE WITH THE FEDERAL RESERVE BOARD AND THE EXECUTIVE COMMITTEE OF THE OPEN MARKET COMMITTEE IN THE BOARD ROOM, 3:30 p.m. MONDAY, SEPTEMBER 25, 1939

Governor Eccles telephoned me today that in view of the fact that Dr. Burgess was absent from the city he would like to have me come in his place over to the Board after the market closes to discuss the policy the Committee should follow tomorrow in the Government security market. In response to this request I attended the meeting.

Governor Eccles started the meeting by asking Mr. Piser to review the day's operations. Mr. Piser said that the market was down about 4/32nds on the bonds from Saturday's close, holding at prices fixed by the Federal Reserve Board. He said the System had purchased $6,800,000 up to 3 o'clock, that the volume was light, and that there was some indication of selling orders drying up.

Governor Eccles said that he thought the market had given a good account of itself during the day's operations and he would like to see it operate about the same way tomorrow. He asked me if I had any suggestions or comments to make.

I said that I had no objections to offer to the way the market had been handled during the past two days, but I would like to raise two questions. The first one was why the Federal Reserve has a different price on the stock exchange from the price it sets for over-the-counter transactions. I said that I did not want to suggest that this be changed, but the question had been raised in our conferences at the Treasury and I was asking for information. I said that we knew it was originally established to throw the larger part of the business from the board to over-the-counter transactions, but now that that had been accomplished we wondered why the continuation of the differential.

Governor Eccles and Mr. McKee both said that was a good point and they would both like to know why the differential, and they wondered, too, if the time had not arrived when we might go back to more normal trading operations.

Governor Harrison undertook to explain why it was necessary to have the differential. He said it was true that it had been established largely to divert the business from the exchange to over the counter in order that they could control operations better. He said it was still necessary to control these operations because there is an advantage to stock exchange brokers in dealing on the exchange as there are no commissions over the counter. In bidding 2/32nds less on the exchange than over the counter they are, in effect, paying commissions to the dealers, which is about the differential in normal trading operations. He thought that if the bids on both places were put at the same level the brokers would have 2/32nds advantage and they might undertake to drum up business, whereas the dealers are operating on our side, by trying to discourage selling.

I told them that it might be absolutely necessary to have this differential and that I only wanted to raise the question for discussion and get some information on it. I said the other question I wished to raise is whether or not the Committee had considered the matter of not putting bids in the market for the whole list of short to long bonds, as had been the practice for the past three weeks, but of giving to the Federal Reserve Bank of New York flexible authority to purchase blocks of any securities where weakness develops, and if the whole list develops weakness, buy blocks of certain issues and not the whole list. In other words, would it not have a good effect if the Federal Reserve Bank of New York directs the dealers through whom it operates to buy one or two million dollars of the 2-7/8% Treasury bonds of 1955-60 and let those dealers shop around for these particular securities. It might have orders in to buy more than one issue.

Governor Eccles thought this a good suggestion and that it might help to ease the Federal Reserve System out of the market. Mr. McKee thought it was all right too, but was afraid weakness might develop throughout the entire list. This could be controlled by buying more than one issue. After all, this could only be an experiment, I explained, and they might have to change their tactics if there was an avalanche of selling orders.

Governor Eccles then made this suggestion: That in view of the strength in the note market, why not sell some of the notes and buy some of the longer bonds. In other words, revert to the switching operations that the Federal Reserve carried through a year or so ago.

I said I did not know that this could be done at this time very effectively, but I thought it might be another way of easing out of the market although care should be exercised in the timing of this operation.

Governor Harrison said that he liked the suggestion that they be permitted to buy blocks of certain issues and not be compelled to hold the list at a certain predetermined price. He thought that operations of that kind were much more effective and the System could slip out of the market unnoticed, whereas, as long as it has bids in for most of the list it is noticed the minute those bids are changed in any way.

Mr. McKee said that there had been some discussion during the past two years of allowing the portfolio of the Federal Reserve Bank to fluctuate. He wondered if I had any views on that matter.

I told him that I had always felt that the Federal Reserve portfolio should fluctuate, probably as much as a quarter of a billion dollars one way or the other, so as to get the banks and dealers out of the habit of watching that fixed amount.

He said he was inclined to agree with that, and that he had come to the feeling that probably the Federal Reserve System should be more or less constantly in the market, buying and selling securities or allowing them to run off so that the portfolio would not show the same amount each week. In this connection I was advised that the System expects to permit $30,000,000 in Treasury bills to mature this week without replacement. Up to date they have bought less than $15,000,000 in securities and if they do not acquire any additional securities tomorrow the portfolio will show a $15,000,000 reduction over last week.

I then left the meeting, before any definite policy was decided as to just what the System would do in the market tomorrow.

DWB

SEP 2 5 1939

My dear Mr. Messersmith:

Reference is made to your letter written on August 26th to Mr. Hanes in which you kindly solicited our opinion as to whether the American Consul General at Basel should in the future refrain from having contact with the Bank for International Settlements. This question arises since Mr. Cochran, who went to Basel as Consul in 1930 to cover the B. I. S., and continued to perform this function while First Secretary of the Embassy in Paris, has now arrived in Washington and assumed his new duties in the Treasury Department.

In actual circumstances I should prefer that no one of the Foreign Service Officers in London, Berlin, or Paris who are making special reports to the Department of the Treasury be assigned the task of traveling to Switzerland for the purpose of reporting upon the B. I. S. meetings, if these may continue to be held. It would appear adequate, as well as wise, that for the present the consular officer in whose district the B. I. S. is situated should have freedom of contact with that institution. Such factual reports as he may be able to make upon the status and operations of

By hand

the B. I. S. should meet the requirements of this Department.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

The Honorable
George S. Messersmith,
Assistant Secretary of State,
Washington, D. C.

HMC:mk
9.25.39

ADDRESS OFFICIAL COMMUNICATIONS TO
THE SECRETARY OF STATE
WASHINGTON, D. C.

MC

DEPARTMENT OF STATE
WASHINGTON

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In reply refer to
EA 125.1756/41

August 26, 1939

My dear Mr. Hanes:

In 1932 when it was arranged that Mr. H. Merle Cochran, as Secretary of the Embassy in Paris, should continue the reporting on the Bank for International Settlements, which he had conducted as Consul at Basel, the Consulate at Basel was instructed not to undertake thereafter to maintain contacts with the bank or to report on it.

The Consul General at Basel has now inquired whether it is the intention to continue this policy, that is, that the Consulate should continue to refrain from making contacts with the bank and should make no reports concerning the bank or other financial developments in the consular district.

I should be glad to receive a suggestion as to the reply which should be made to the Consul General's inquiry.

Sincerely yours,

For the Secretary of State:

George S. Messersmith
Assistant Secretary

The Honorable
John W. Hanes,
Acting Secretary
of the Treasury.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin, Germany

DATE: September 25, 1939, 10 a.m.

NO.: 1415

FOR TREASURY FROM HEATH.

Reference is made to my telegram of September 9, No. 1156.

It is reliably reported that the Swiss have concluded a standstill agreement with Germany which is practically identical in terms with the 1939 agreement, although no text is as yet available. It is understood that the main change is a slight adjustment of interest rates, lowering them. Swiss sources say that under present conditions advantage will be taken of only about half of the open lines of credit. Agreement was made by the Swiss to adhere to an eventual global neutral standstill agreement. On September 25, Abs of the Deutsche Bank will proceed to Brussels and thence to Amsterdam, on invitation from the standstill committees in Belgium and the Netherlands, to try to get these countries to participate in a global arrangement on standstill credits.

KIRK.

EA:LWW

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION CONFIDENTIAL

DATE September 25, 1939

TO Secretary Morgenthau

FROM Mr. Haas

Subject: The Business Situation,
Week ending September 23, 1939.

Conclusions

(1) Orders now in the hands of manufacturers, or in definite prospect, as a result of three weeks of intensive buying, appear sufficient to carry industrial production substantially higher and to maintain production at a high level throughout the remainder of the year.

(2) The widespread anticipation of future requirements, however, raises the possibility that an inventory congestion may later affect business adversely. A potential vacuum is being created, which must be filled by new orders arising from increased consumption or capital goods expansion, or increased exports, if a business setback in 1940 is to be avoided.

(3) Fortunately, a substantial increase in consumption of both consumers' goods and capital goods seems in prospect. Consumer purchasing power is being expanded by increased factory payrolls and increased farm incomes, while larger capital expenditures are being scheduled by various industries, particularly by the railroads. Whether this will result in an increase in new orders sufficient to insure against a business setback is open to question. Our indices of basic demand, merchandise sales, new orders, and inventories should provide a basis for appraising developments as they occur.

(4) A marked change has occurred in the outlook for employment. Considerable increases in factory and railroad employment have been made, and labor shortages seem not far distant in some skilled lines.

\- - - - - -

The general situation

Further evidence of the improving business trend appears in statistical data which became available last week. The New York Times index for the week ended September 16 was carried 2.6 points higher to 99.8, the highest level since October 1937, with all components sharing in the rise. Preliminary data for the following week show even greater increases in the adjusted indices of steel production and automobile production.

Our index of new orders (See Chart 1) rose very sharply, with steel orders showing a precipitous rise and textile orders not much below the high figure of the previous week.

All reports indicate, however, that a large part of the buying has been purely speculative, similar to that during the 1936-37 boom. The same influences -- fear of price increases and fear of inability to get delivery of goods -- have been at work. The movement has apparently extended to the general public in an even greater degree than in 1936-37.

A confidential report of a survey by the 12 Federal Reserve banks to determine the effects of the war on individual industries mentions that orders recently placed "reflect not only efforts to bring inventories up to current needs and provide for an immediate larger volume of business, but also to expand inventories beyond current needs in anticipation of price advances and delays in deliveries later on."

Certain effects of this movement seem inevitable:

(1) Industrial production will be maintained at a high level through the remainder of 1939, due to the backlog of unfilled orders on manufacturers' books.

(2) Inventories of manufactured goods will accumulate, while new orders may fall off sharply after the current rush is ended.

(3) The business structure in early 1940 will become vulnerable to any unfavorable developments.

Among possible unfavorable developments which might cause a business setback in 1940 may be listed: (1) Failure of domestic demand to improve enough to offset the prospective decline in orders after inventory accumulation has been completed; (2) failure of war orders and orders from neutral countries to increase as rapidly as now anticipated; (3) a downturn in prices, which might cause inventories to be liquidated; (4) a turn in war developments toward the possibility that this country might become actively involved.

Consumption outlook improves

Fortunately, there has been a definite improvement in the outlook for consumption of manufactured goods in this country. The purchasing power of consumers has been increased through recent payroll increases and through higher farm incomes, while larger expenditures for capital goods are under way in various industries.

The increase in factory employment and payrolls in the past two months has been marked. The BLS adjusted index of factory payrolls increased in August to 89.3 from 83.9 the previous month. Factory employment as of mid-August rose to the highest level since December 1937, approximately 250,000 people having been added to the rolls since the middle of July. The Secretary of Labor estimates that an additional 300,000 had been added by the middle of September.

In Chart 2 we compare the BLS index of employment with the unadjusted FRB index of industrial production for the previous month, with which in the past it has been closely related. It is significant that while the industrial production index in August (unadjusted) was substantially below its December peak, factory employment rose sharply above its December level. Employment in the textile industry (lower section of chart) has increased more promptly than usual in response to increased production. In the steel industry, however, employment continues relatively low, due in part to the installation of labor-saving equipment.

Farm incomes increased substantially during August, before the beginning of the sharp upturn in agricultural prices. Cash farm income (including Government payments) rose \$73 millions in August to a total of \$643 millions, which contrasts with a decline of \$15 millions in that month last year to a total of \$629 millions.

The outlook for increased consumption of manufactured products is brightened by a movement in various industries toward greater expenditures for capital goods. Outstanding among these has been a strong unseasonal expansion in railroad equipment orders, in anticipation of heavy demands for freight cars in the near future. In addition, old equipment is being repaired and heavy orders are being placed for steel rails. Purchases of rails during the week ended September 16 were the largest of any single week in recent years.

A factor in the sudden movement to increase railroad equipment has been an unusual rise in carloadings in the past few weeks, reflecting heavy shipments due to the widespread buying movement. (See Chart 3.) When figures for last week's carloadings are released, it is expected that they will equal or exceed the 1937 peak.

The steel situation

The demand for steel during the past week has continued heavy, according to trade reports, though below the high volume reached earlier in the month. A feature of the week has been a series of increases in steel scrap prices, which makes the week's upturn one of the sharpest on record, and brings prices at Pittsburgh to the peak level reached in early 1937. The scarcity of steel scrap has brought a heavy demand for pig iron, used interchangeably in steel making. Some observers now believe that the relatively small pig iron capacity, which has not kept pace with the expansion of steel capacity, may provide a bottle-neck in the current rise in steel production.

Export inquiries for steel are increasing, but the trade expects no large orders for several months, except perhaps for pig iron and semi-finished steel. Outstanding in the latter is an inquiry from the British Government for 200,000 tons, principally semi-finished.

A further increase in automobile output to 53,950 units, versus 41,245 the previous week, has been accompanied by a heavy demand for steel from this industry. Steel activity in the Detroit district is running at 96 per cent of capacity, and factory employment in that district on September 15 reached the highest level for that month since 1929.

While the domestic demand for new cars is reported to be almost unprecedented for this time of year, some uncertainty exists over the trend of automobile production during the coming winter, owing to the effect of the war on the export demand for passenger cars. Manufacturers believe, however, that the loss of markets in Europe will be compensated to some extent by increased demand from other countries.

Basic indices improve

Our basic business indices show an improving tendency in August, with production about in balance with demand. (See Chart 4.) The prospect of increased consumption arising from expanding automobile output during the fall and from some degree of inventory replenishment were bullish factors at that time, to which has been added the recent stimulus arising from the war outbreak.

Basic demand in August showed a rising tendency. The index of sales, which tends to lag behind business movements, continued approximately unchanged. New orders in August improved from the July level. These indices in succeeding months should provide valuable indications of any maladjustments that may result from the recent speculative buying.

FHA mortgages decline

The volume of FHA mortgages selected for appraisal has gradually declined since the peak reached last March, despite a further reduction in interest rates that went into effect on August 1. (See Chart 5.) While residential contract awards (shown on the chart) have held generally steady over the past several months, the decline in the FHA figures appears to foreshadow a downturn in residential awards during September and October.

Weekly FHA data on mortgages selected for appraisal are shown in the lower section of the chart. Currently they are running at a slightly lower level than last year.

Prices last week slightly higher

Commodity prices in the futures markets, as represented by the Dow-Jones futures index, held steady last week at the approximate level of the previous week, while the volume of speculative activity decreased. Further upward adjustments in spot prices continued, however, raising Moody's spot index somewhat above the previous week's level. The rise in raw materials prices has further affected prices of semi-finished and finished goods, raising the BLS all-commodities index to 79.3 from 78.4 the previous week.

Stock prices have continued to mark time around their recent high levels. In the meantime, gradual liquidation of American securities by British holders has resulted in a consistent net sales balance in security transactions from Great Britain over the past week or more. (See Chart 6.)

INDICES OF NEW ORDERS

Combined Index of New Orders and Selected Components

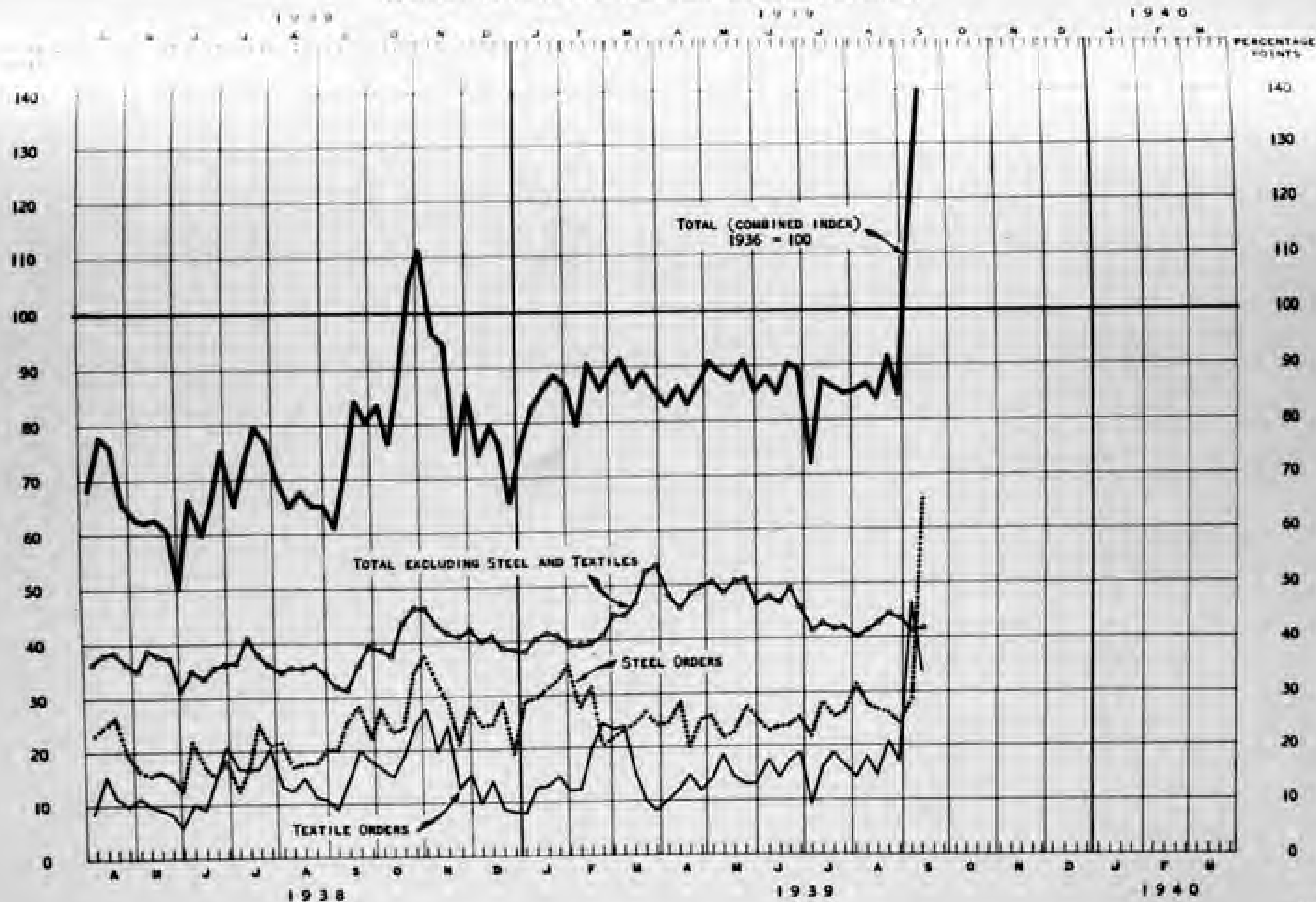

Chart 1
CONFIDENTIAL

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

1 - 85 - 8

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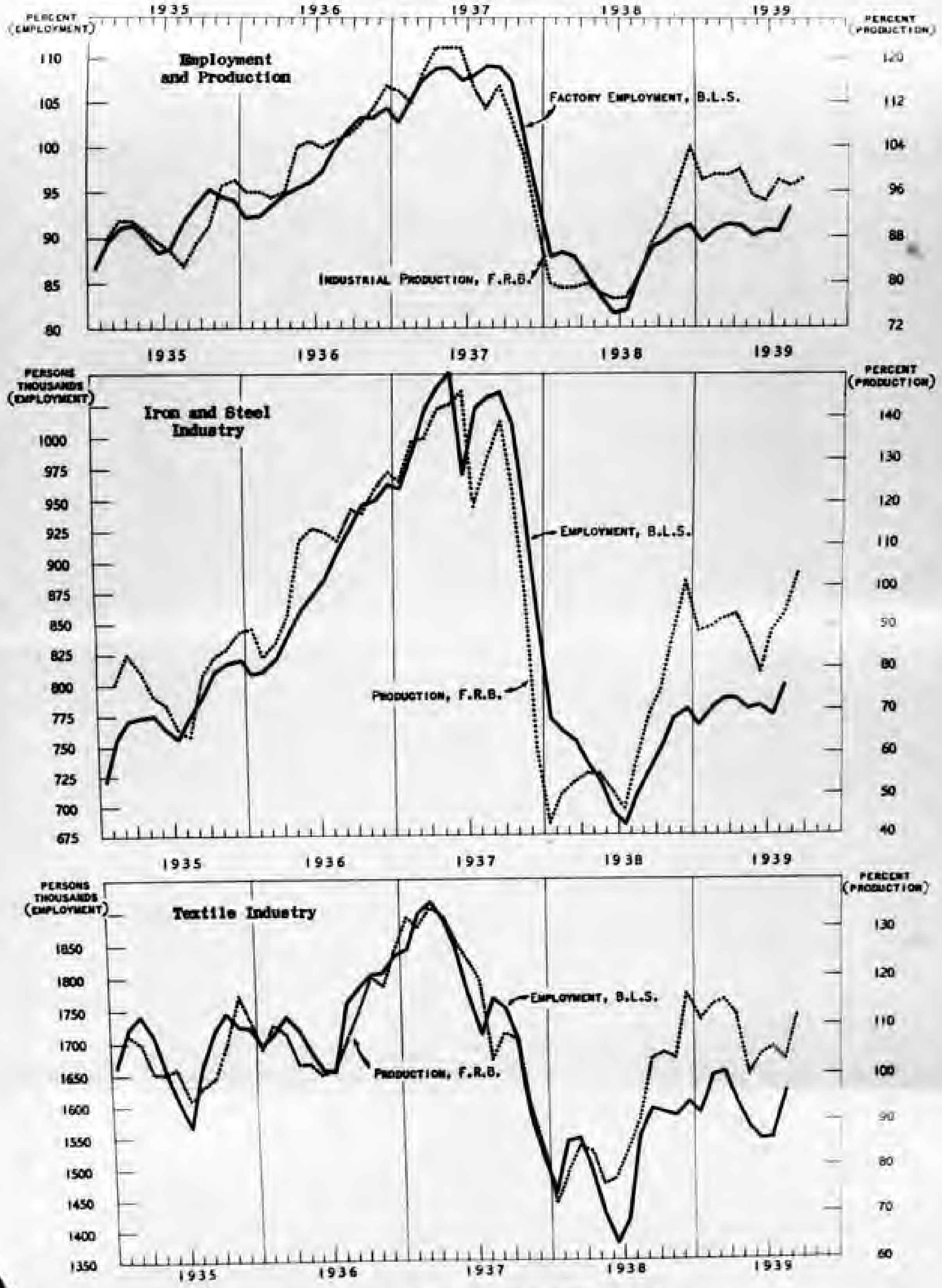
COMPARISON OF EMPLOYMENT AND PRODUCTION
Employment Current Month, Production Previous Month
1923 - '25 = 100, UNADJUSTED*

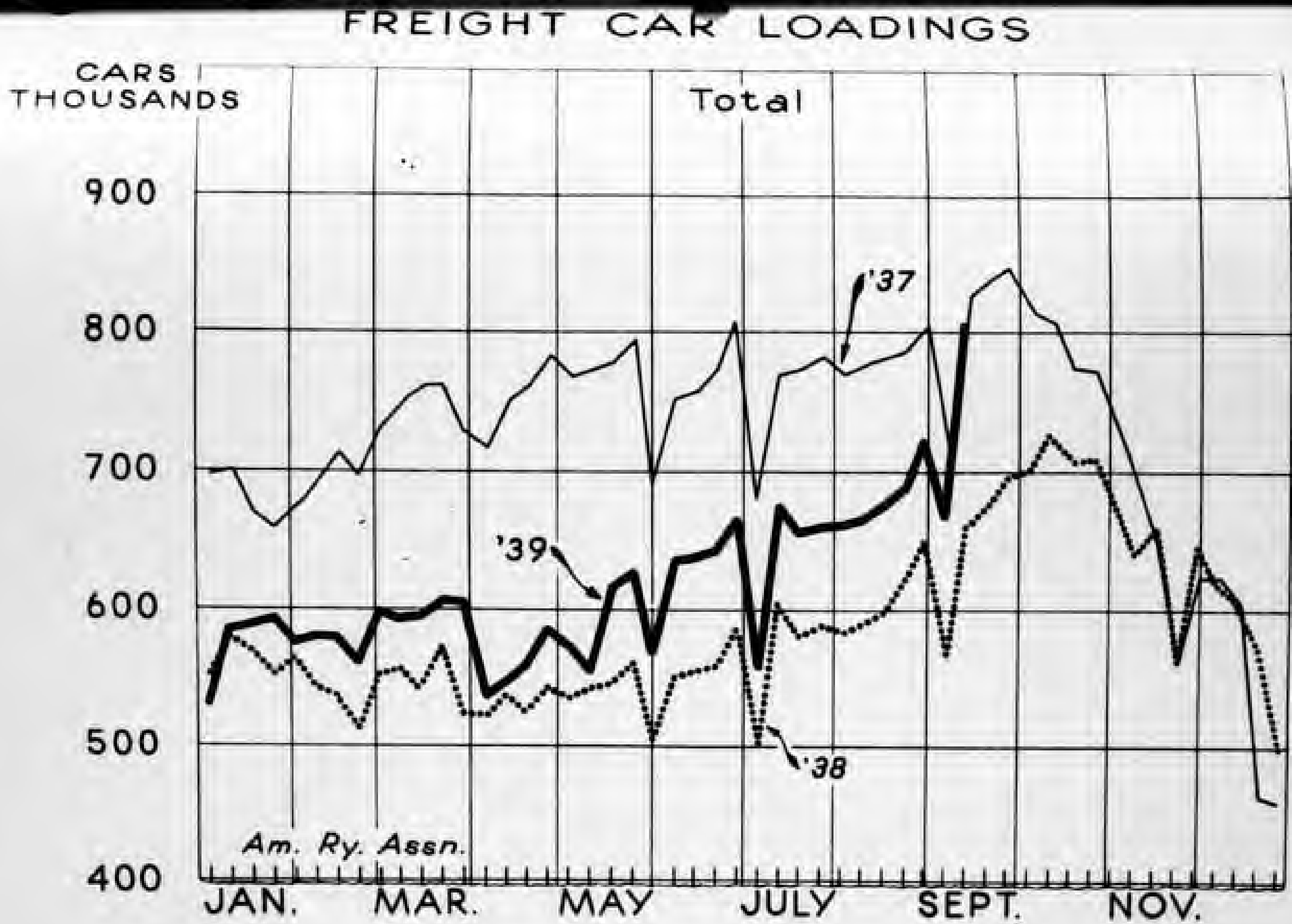


*IRON AND STEEL, AND TEXTILES, ACTUAL NUMBER EMPLOYED

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

C - 256

Chart 2



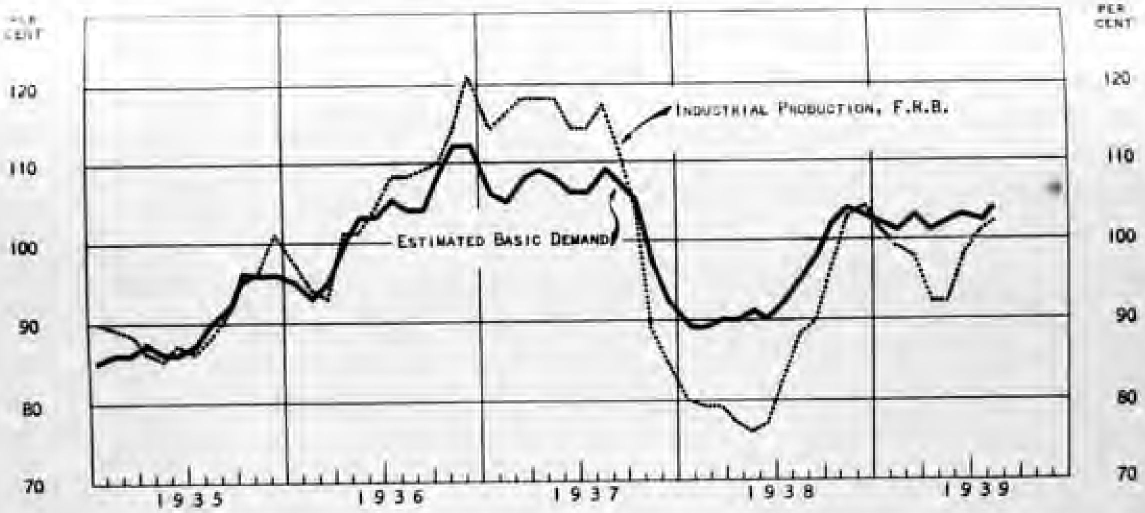
Office of the Secretary of the Treasury
Division of Research and Statistics

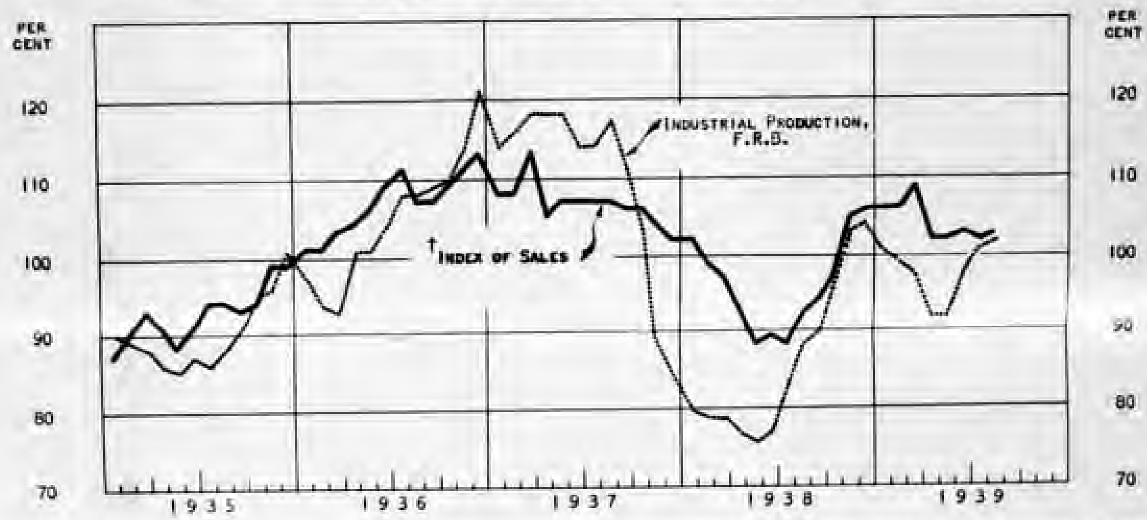
C-233

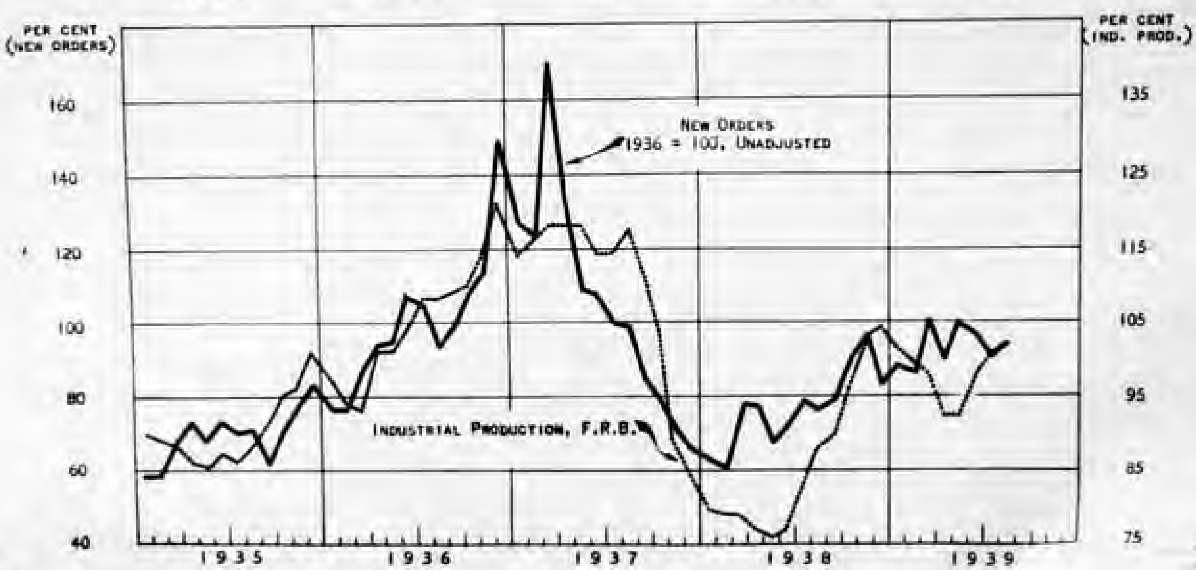
Chart 152

INDICES OF BASIC BUSINESS TRENDS COMPARED WITH INDUSTRIAL PRODUCTION

1923 - '25 = 100. SEASONALLY ADJUSTED*





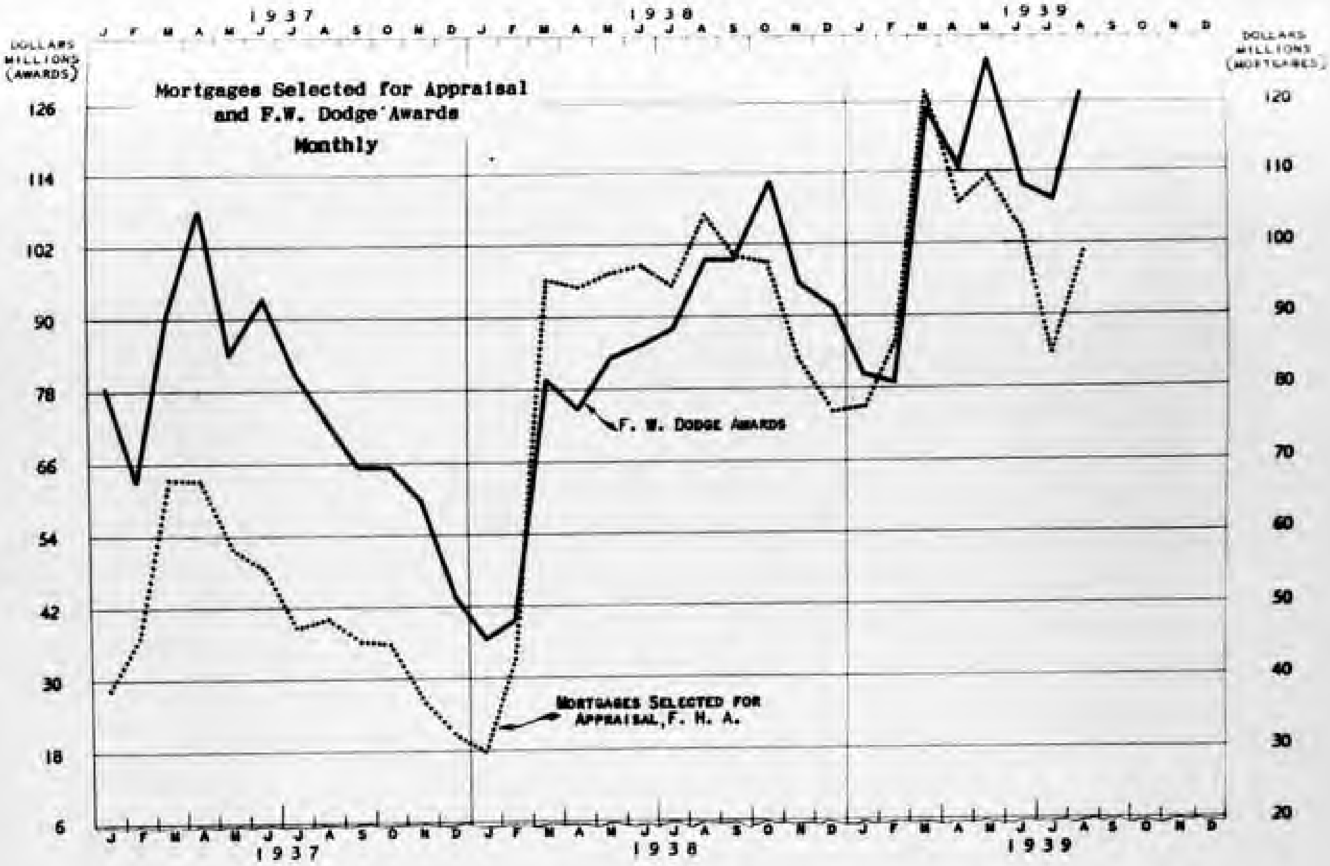


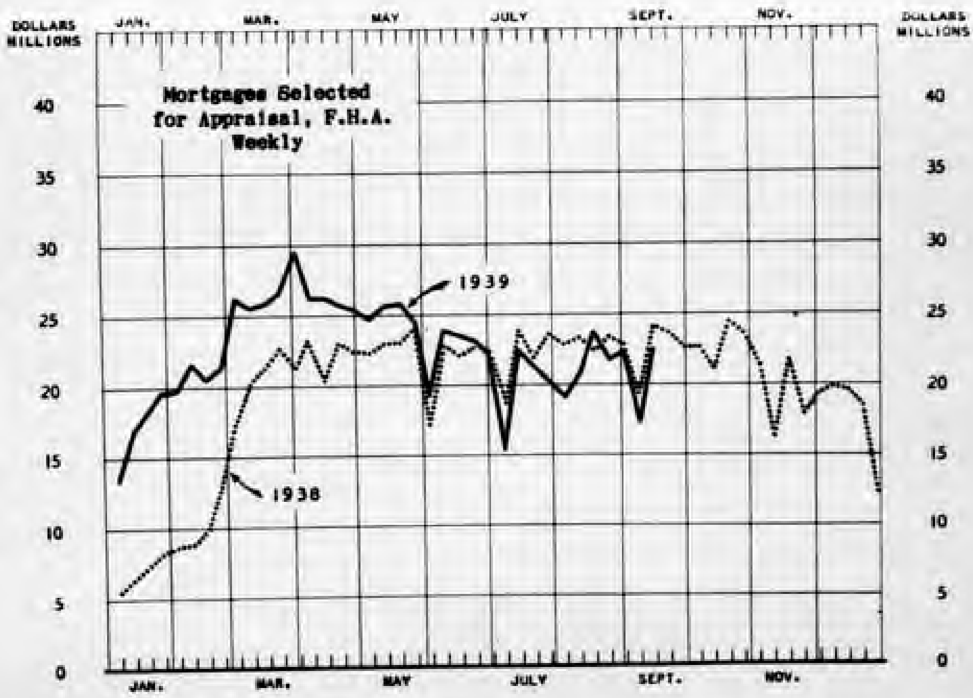
*EXCEPT NEW ORDERS
†REPRESENTS "OFFTAKE" OF MANUFACTURED GOODS, IN PHYSICAL VOLUME

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

C - 245
Chart 4
CONFIDENTIAL

RESIDENTIAL CONTRACT AWARDS AND F.H.A. MORTGAGES





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

C - 260 - 2
Chart 5

NET FOREIGN PURCHASES OR SALES OF U.S. STOCKS

Net Purchases (+), Net Sales (-)

Daily Average by Weeks

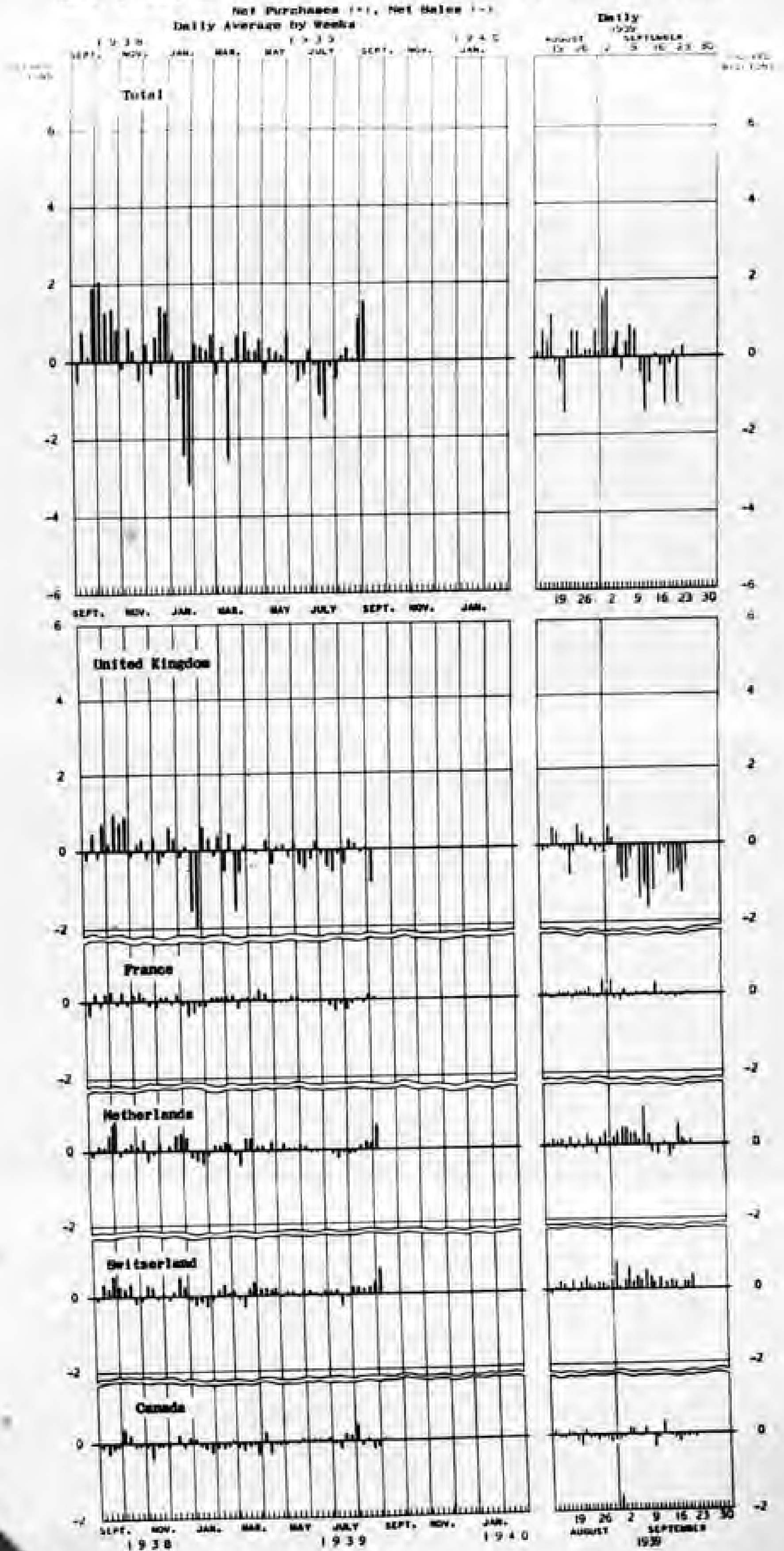

Chart 6
CONFIDENTIAL

GROUP MEETING

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

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

H.M.Jr: Ed, where did Bernstein get the idea of the President signing those papers?

Foley: I don't know, Mr. Secretary. When I came back from lunch he told me that the regulations had been approved and he got the idea, I think, because Mr. Thompson asked our office to have a duplicate set run off so they could be sent over there, and I corrected that impression as soon as I got back and found out what had happened.

H.M.Jr: Tell Bernie not to jump to conclusions like that. It was a perfectly silly performance on his part.

Foley: What did Bernie do, Mr. Secretary?

H.M.Jr: Bernie reported it had been signed. How did he know it had been signed? Why should he jump to any conclusion?

Klotz: Tell Mr. Hanes about it.

H.M.Jr: What happened about the White House was that Thompson wanted an extra copy and Bernstein runs around telling everybody that it was signed.

Duffield: He didn't tell me that they had been signed. He told me that we had been asked to send over and pick up an envelope and he thought that meant they had been signed.

H.M.Jr: Why should he think it? Why let his imagination run away? He got everybody around here excited.

I don't understand it. As a matter of fact, I don't understand the whole business anyway, why there has been such a tremendous build-up on this whole thing. You would think it was the most important thing the Treasury had to do. Where is the release on it?

Duffield: Mr. Hanes' memo was released (handing paper to Secretary).

My suggestion is, I told Mr. Hanes on Saturday that we should not put out any press release, but if you want to use that....

H.M.Jr: In the first place, if you don't want me to call down the press between now and 4:00 o'clock, you had better tell them that they let you down and let me down. I told them in strict confidence that this thing was over at the White House. They let you down and they let me down. I don't know all the ins and outs, but they absolutely broke faith with me when they called up the White House and asked where the thing was. As a result of it, I am never going to tell them again, never.

Duffield: I think that is right.

H.M.Jr: But they certainly broke faith with you and with me. Now, without asking anybody's advice, you can tell them that there is a statement. I asked somebody this morning and he said so far there hasn't been any release. They will just have to handle it and when Mr. Leroy-Beaulieu or somebody wants something, we can do it by word of mouth, but I want this thing killed once and for all. It is absolutely unnecessary and unimportant. Why make this thing - my God, we have got things around here one hundred times as important as this and I want them killed. If you can't do it between now and 4:00 o'clock, I'll have to do it.

Duffield: I will try.

H.M.Jr: I don't want to hear anything more about it. When this stuff comes and we get inquiries from the Bank and they come up to Merle Cochran - we said we had a Committee, didn't we, Bernstein and Baillie and - who else was on it?

Duffield: White.

H.M.Jr: White. And they can refer it right up to Mr. Hanes and Mr. Bailie, and then if they can't answer it, they can refer it to me. This constant build-up is one thing - I would like to know for what. If I get in wrong with the White House, I want to get in wrong on something that is worth while, and this certainly isn't. Whoever started this thing had a crust.

Gaston: It was Bailie that originally worked on it, wasn't it - I mean putting it out.

Foley: The regulations?

Gaston: Yes, the order.

Foley: The order was, as I remember it, first prepared over in the State Department and it wasn't submitted along with the Neutrality Proclamation because they thought we were going to do it and we thought they were going to do it.

Gaston: I remember now.

Foley: And then we made a revision and we presented the order.

Gaston: The order was signed.

Foley: And the order was signed, and then we had a large meeting in the Secretary's office and the question of how the Federal Reserve Banks were to be notified and what sort of regulations and restrictions we were to have, and then we drafted that regulation that was never signed.

Gaston: But it was the State Department that originally initiated it.

Foley: That is right.

H.M.Jr: It is buried now.

Anything, Herbert?

Gaston: That ship that you were interested in on Friday, the Navy identified it as a British tanker bound in conjunction with their Caribbean fleet.

H.M.Jr: O. K.

Gaston: Admiral Waesche is back in the office today. He goes to the hospital again this afternoon and will be back Wednesday or Thursday.

H.M.Jr: Anything else?

Gaston: I don't know of anything else except that I went over Saturday with Hall and Wilson to look over the Bureau in connection with their request for additional protection. In view of this situation, they think that they ought to have quite considerably increased guard protection at the Bureau of Engraving.

H.M.Jr: Take it up with Thompson.

Gaston: I mean to take it up with the Budget people.

H.M.Jr: I don't want to be bothered with it. Take it up with Thompson and Harold Graves.

Gaston: Well, I think if you don't mind, we can take it right straight up - all right, I will take it up through Mr. Thompson.

H.M.Jr: Bureau of Engraving, you said?

Gaston: Yes.

H.M.Jr: Well, it is Secret Service and Bureau of Engraving.

Gaston: Right, I will talk with Harold about that.

H.M.Jr: There are enough people around here.

Gaston: I haven't anything else.

Foley: Here is a letter to the Attorney General in reply to his letter (handing letter to Secretary).

H.M.Jr: Yes, I have got it. The first time I get time I want to see Foley. I don't know when it will be.

Your memorandum on FDIC and that other thing - here it is.

Cochran: Sterling opened at Amsterdam this morning at 3.99¼. That is where it closed Saturday.

H.M.Jr: While I am at your corner, Harry, this is statistics, see? Would you mind looking over my shoulder a minute? I asked Cochran to give me the balances here for the principal countries. Do you also have it, the balances of these countries in other banks?

White: In other countries? No, they only keep....

H.M.Jr: No, balances.

White: Privates have it in other banks.

H.M.Jr: Can I have a statement like this showing how much the Bank of England has on deposit in dollars in the United States?

White: You also want other banks in England in the United States, private banks?

H.M.Jr: This is what I want.

White: Yes, but private banks, persons in private banks in the United States. Not the Bank of England, but private banks having balances in the United States.

H.M.Jr: What I want to know is, how much money has the Bank of England or its divisions got on deposit for England?

White: That is right. There are private banks and individuals that have balances in this country.

H.M.Jr: And then give it to the people who are interested. Take this sheet here. Japan - Earle, I want you to get this....

Bailie: I can't hear you, Mr. Secretary.

H.M.Jr: Come up here; I can't talk any louder.

The Bank of Japan has no deposits and no earmarked gold. That may be very misleading, because they may have a lot of money with the Chase or National City, and I want to know.

White: We have them every week but they are not on that. They appear in the weekly report.

Bailie: We can combine the reports.

H.M.Jr: Do you see what I mean?

Bailie: Yes, we will get one for you.

H.M.Jr: Maybe the Bank of Japan drew its money out of the Fed and deposited it with the Chase. This thing that I have got is of no use.

Bailie: We will get that for you.

H.M.Jr: We ought to know. We are doing it weekly now. I think we ought to get it down to possibly daily. Let's first get it weekly.

Bailie: Let's get the form first.

H.M.Jr: How much gold security has each nation got with us? In other words, if there is a sudden change, we ought to know.

White: We don't have each nation now. We haven't been collecting it that way, but we will consider....

H.M.Jr: Take Japan and Russia or Turkey, for instance.

White: They have been lumping with the nearest powers.

H.M.Jr: That doesn't help us a bit. We should watch Turkey. Turkey may.... Getting a ten-day loan wouldn't be any good. Do you agree?

Bailie: Yes.

Cochran: Do we have the figures now showing the Bank of England deposits?

H.M.Jr: Do you fellows know what I want?

Bailie: Yes.

H.M.Jr: Would you like to have it?

Bailie: I would love to have it.

H.M.Jr: Right.

Jake, could you help on that, because you set up this thing first. You know what I am talking about?

Viner: Yes.

H.M.Jr: Don't you think I ought to have it?

Viner: Certainly. I don't think you ought to set it up on the daily basis, but you ought to ask them to send a daily report when they think anything striking occurs.

H.M.Jr: Let's first get it weekly. There was something supposedly striking happened and then we ran it down and it wasn't. But let's start weekly.

Viner: Yes.

H.M.Jr: I am on the war path today.

Jake?

Viner: Nothing.

H.M.Jr: How did my son look?

Viner: He looked fine. I think he is pretty happy.

H.M.Jr: Did your boy go back?

Viner: Yes.

H.M.Jr: Got your teeth fixed?

Viner: I thought so, but I am not so sure today.

H.M.Jr: Which means you want another week off.

Viner: Or a good dentist here in town.

H.M.Jr: Those are available.

Haas?

(Haas hands paper to Secretary).

Anything else, George?

Haas: That is all.

White: We are making two studies, one to find out how much the British and the French Empire will need in foreign exchange resources during the first two years of a war, the first year and the first two years. We have gone far enough along in it to be able to say that they have far in excess of anything they may need. We also have a report on what their resources are, so that there is no justification at all for talking about the extension of credits to belligerents in order to aid them. They don't need any and won't need any in the forseeable future, but that will be ready in a couple of days. Much of this talk about the abrogation of the Johnson Act, and so on, is not needed for them.

There are a few of the more interesting reports that you might want to read on China (handing documents to Secretary).

Bailie: Without arguing out that point, it might be extremely advisable from our point of view that sales of foreign securities in this market should not be hastened at periods of weakness in this market.

White: That is a very accepted credit.

Bailie: I don't think it is quite as simple as Harry puts it.

White: It is just as simple as I put it. You must have misunderstood me.

Bailie: Let's go into a huddle outside.

H.M.Jr: We have a huddlers' room down the hall.

White: I will send him a memorandum.

H.M.Jr: Did you arrange for that appointment with Jay Crain today?

Cochran: Yes, at 1:00 o'clock. I also asked him about this friend over in London. He has not been called in service yet. Jay was very nice, very cordial.

H.M.Jr: Anything else, Harry?

White: No.

H.M.Jr: Harold? Harold, when I asked you about coal for the various Federal departments and they said, "Everything is lovely," does that mean that coal is in the bins?

Graves: That is right. Collins is going to get more details on that and give me a memorandum for you in the next day or two.

H.M.Jr: How about electric lights?

Graves: He has already started that survey in a number of cities.

H.M.Jr: Anything else?

Graves: Nothing except that I have an engagement at 10:30 to see Mr. Stone of the Bureau of the Budget.

H.M.Jr: Good.

Dan?

Bell: I have nothing.

H.M.Jr: In writing up the memorandum for me, Dan, will you particularly mention the meeting which took place here when you brought in that letter Friday and decided that you and Burgess should walk it over.

Bell: Yes, I have already dictated it.

H.M.Jr: If anybody is interested in a battle with Federal Reserve, Mr. Burgess and Mr. Bell can report.

Bailie: I heard about it this morning.

Gaston: I am interested.

Bell: They have called about every hour, or they did on Saturday.

H.M.Jr: As a result of these two ambassadors going over instead of our - I think we should stay out. Tell columnists about it twelve hours in advance if they are doing it. From now on, Mr. Piser will keep Mr. Bell informed.

Bell: Of the operations.

H.M.Jr: And on policy matters.

Bell: Governor Eccles will either call the Secretary or Dr. Burgess.

H.M.Jr: I think that is proper.

Bailie: I think so too.

H.M.Jr: We have got a lot of diplomats around here.

Bailie: There is one part of that story I want to tell you, because I got an entirely different story in New York at the Federal Saturday. It is quite interesting. You ought to know it before the close of business today. I told it to Dan, so he knows about it.

H.M.Jr: Anything else, Dan?

Bell: No.

H.M.Jr: Thompson?

Thompson: I have nothing to report, Mr. Secretary.

H.M.Jr: I hear you have almost got Mr. Cochran housed.

Thompson: Yes, we have got his room all boarded up. There is one thing, I would like to get a new carpet for the big room.

Klotz: This is a bad day for that.

H.M.Jr: Get him a piece of linoleum. He needs a non-slip linoleum. What does he want a big carpet for? That room should look just as bare as the old cupboard.

Incidentally, strictly in the room, I gave the stabilization fund $600,000 worth of long-term Governments on Saturday, the idea being that I want to build it up to at least 10 million to get a little earnings. If anybody doesn't approve and has any ideas, I would be glad to hear from them, but we took 600,000 of our very longest - is that right?

Bell: Yes, sir.

H.M.Jr: We have carried as much as 25 or 30 million.

Bell: 30 million was the high.

H.M.Jr: And we have got five now.

Bell: Yes.

H.M.Jr: So if anybody doesn't think it is good, why I would be glad to hear from them.

Is everything all right, Thompson?

Thompson: Yes.

9-25-39

Louisiana Tax Cases

~~R.M.~~ Bell Treas. Houston Tex

Investigating L. Austin Fontenot

RENE L. DE ROUEN

of Opelousas

MEMBER OF CONGRESS
7TH DISTRICT

9-25-39

LOUISIANA

September 25, 1939
11:53 a.m.

HMJr: Hello.

Operator: Mr. Crain. Go ahead.

HMJr: Hello.

Jay Crain: Hello, Mr. Secretary.

HMJr: How are you?

C: Fine. Nice to hear your voice again.

HMJr: Good. Jay Crain, I wanted to make sure that you knew how much importance I had attached to sending Captain Puleston up to see you.

C: Yeah, he's just -- he's just come in this minute.

HMJr: Well, I just want to say that I'm tremendously interested in this and so is the President.

C: Yeah.

HMJr: And I just wanted to give you first hand - what I want to know if you people can get it or have got it or help us get it.

C: Yeah.

HMJr: And that is this whole question of the amount of fuel oil and gasoline that the Germans have on hand and where they're going to get it from and how long is it going to last them.

C: Yeah.

HMJr: Now I don't know any organization that most likely has better information than you have. Hello?

C: Well I -- I'll be glad to do anything we possibly can.

HMJr: And if you -- if there are some pieces missing that other companies have, tell me about it. See?

C: Yeah, yeah.

HMJr: But I thought you'd be interested to know that when I asked the President this morning coming down, did he know just how much the Germans had, and he said he didn't have the faintest idea.

C: Yeah.

HMJr: And I told him that I'd send Puleston up to see you and he said, "That's fine."

C: Yeah.

HMJr: But this whole question of the Roumanian oil and everything else.

C: Yeah, yeah.

HMJr: And you keep Puleston there long enough until he has it and if there are certain pieces missing that you can't get, which I doubt......

C: Yeah.

HMJr: ......tell us where we can get it.

C: I will.

HMJr: See?

C: Yeah.

HMJr: But I have put -- I -- I lay great stress on this.

C: Yeah.

HMJr: You -- you most likely have it all, haven't you?

C: I should think we could -- I should think we could give a pretty good idea, yes.

HMJr: And you've got this awful smart fellow in London.

C: Yeah, that's right.

HMJr: What's his name?

C: Porters.

HMJr: Yeah.

C: Yeah.

HMJr: Yeah.

C: Well we'll -- we'll do everything we possibly can, Mr. Secretary. And Captain Puleston is out at the desk now and I'll talk to him and help you in any way we can.

HMJr: Well you -- you get what I want?

C: Absolutely.

HMJr: And I -- I -- as I say, I lay great importance on it.

C: Yeah.

HMJr: Now let me ask you this, you're not furnishing this to anybody else, are you - anybody else ask you for it?

C: No, not so far as I know.

HMJr: I mean, I'm not doubling on somebody else's tracks.

C: I haven't heard of it from any -- anywhere else.

HMJr: Well, I mean -- I didn't -- I didn't want to cover the same ground that......

C: No.

HMJr: ......the Army or Navy had done.

C: Well it's -- it's -- I'll keep that in mind, but so far as I know they haven't asked us.

HMJr: And I also -- well I know the President doesn't know because I wanted to make sure that -- whether he knew.

C: Sure. I see.

HMJr: And -- in other words, you -- you get the picture.

C: Yeah.

HMJr: This -- this one -- this war is going to be won or lost on -- on......

C: That's right.

HMJr: ...... -- on oil and it's by.......

C: Yes.

HMJr: .... -- oil and it's by-products.

C: That's right.

HMJr: And if you -- for instance, after you get into this thing and want to bring somebody down and explain it to me in person.....

C: Yeah.

HMJr: ......I'll lay everything aside to get it.

C: All right, sir. It's a very interesting inquiry and I'll be glad to look into it.

HMJr: And you understand I consider it highly confidential.

C: Yeah, absolutely.

HMJr: O. K.

C: Thanks very much.

September 25, 1939
12:55 p.m.

René DeRouen: Mr. Secretary.

HMJr: Talking. Now what it is - - I could help you out on the phone.

DeR: No, I think this is somewhat a little personal matter if you wouldn't mind for about five minutes.

HMJr: Oh. You're sure it's something that I've got to do?

DeR: No. I say -- what is that?

HMJr: It's something -- you say you want to see me about.

DeR: Yes, sir. I want to speak to you personally just for about three or four minutes.

HMJr: Three-fifteen?

DeR: Any time to suit you, Mr. Secretary.

HMJr: Three-fifteen.

DeR: Three-fifteen. O. K.

HMJr: Thank you.

DeR: All right.

September 25, 1939
3:26 p.m.

HMJr: Hello.

Operator: Mr. Helvering. Go ahead.

HMJr: Guy......

Guy Helvering: Yes.

HMJr: I have Congressman DeRouen here.

H: How's that?

HMJr: Congressman DeRouen -- D-E-R-O-U-E-N, of the 7th District of Louisiana.

H: Yes.

HMJr: And he's chairman of their delegation, and he's telling me about some troubles they're having and while he didn't use this word he feels that if they are Treasury people, that through the press and that sort of thing that we're persecuting the people. That is, he thinks everybody ought to pay their taxes and never -- he has no objection, but he thinks this man R. M. Bell has gone too far.

H: R. M. what?

HMJr: Bell -- B-E-L-L.

H: Uh-huh.

HMJr: Now, all I want is that everybody be treated fairly and justly......

H: Yeah.

HMJr: ......as you know. And I'm not familiar with the circumstances; as I told him, as far as I know that when all the people are surrounded with these Huey Long cases -- as far as I know, they've all paid their taxes.

H: Yeah.

HMJr: So I don't know of any drive on Louisiana. Now he's here......

H: I can't hear you, Mr. Secretary.

HMJr: He's here and when could you see him?

H: Well I could see him -- ah -- anytime he could get over here now.

HMJr: Can you see him now?

H: Yes.

HMJr: I'll send him over with a Treasury car.

H: Yes, all right.

HMJr: And -- and give him the same courteous treatment you give everybody.

H: Yes. Mr. Secretary......

HMJr: Yes?

H: This trial of Bergdoll up in New York.

HMJr: Yes?

H: It seems as though they have discovered that Mr. Hoeye has certain information about passports.

HMJr: Yes.

H: And there's a letter coming over from the War Department to you......

HMJr: Yes.

H: ......okaying us giving that information.

HMJr: I see.

H: But in order to facilitate the thing, we have pretty nearly got to have it this afternoon, because I've got to trace it down through the British Consulate....

HMJr: Yes.

H: ......to get the information, and I've told them that if they'd prepare a letter I would ask you if that would be all right and we'd get our -- we'd -- instruct Hoeye right now.

HMJr: Well, if you -- you say it's all right?

H: Oh, yes. I think it's all right.

HMJr: Well, if it's all right, I'll take your word for it.

H: Just coming from the other Department it should come through and state reasons for it......

HMJr: That's right.

H: ......and everything and I wanted something in writing requesting it.

HMJr: Well, you give it to them and then get him to confirm it in writing.

H: Yeah. Well the Secretary of War will send you a request through the......

HMJr: Right.

H: ...... -- the Adjutant General -- that is, the Adjutant General will send a request through the Secretary of War.

HMJr: All right, Guy.

H: All right.

HMJr: Is that all?

H: Yeah.

HMJr: And you can see him now?

H: Yes, right away.

HMJr: Thank you.

September 25, 1939
3:40 p.m.

HMJr: Hello.

Samuel Rayburn: Hello, Henry.

HMJr: Hello, Sam.

R: Yeah.

HMJr: How's the lone steer?

R: (Laughs) Up to now it's all right, but it's just three-thirty. I don't know what will happen......

HMJr: Yeah.

R: ......the rest of the day. Henry, there's a Mr. Samuel Cottrell who works under the Treasury.....

HMJr: Yeah.

R: ......in Income Tax Unit that for 12 years has been making out the income tax returns for members of the House and Senate up here on the Hill.

HMJr: Yes.

R: Now there a lot of people that are interested in his staying on a little longer. He reaches the retirement age on Saturday.

HMJr: Uh-huh.

R: And the V.P. is the first man who spoke to me about it. He has been working with him for -- all these years. Of course my income tax doesn't amount to anything but he really has one. And -- well, I think the Speaker spoke to me about it and then -- well, a lot of people around here - and I was wondering if the -- would it be violating all your rules and this that and the other if you would ask the President for an executive order to keep him on a year?

HMJr: Well, it would be violating most of the rules, but I'd do it for you.

R: Well now, if you'd call the Speaker I think he'd say exactly what the......

HMJr: I don't have to call the Speaker.

R: And the Vice President, or anybody.

HMJr: No, no. What the hell's the matter with Sam Rayburn?

R: Well -- (laughs).

HMJr: Now let me get this guy's name. What's his name?

R: Samuel Cottrell. C-O-T-T-R-E-L-L.

HMJr: How do you spell it?

R: C-O-T-T-R-E-L-L.

HMJr: ....T-E-R-L-L?

R: Cottrell.

HMJr: Cottrell - and......

R: And he's been with the Treasury for 25 years.

HMJr: 25 years.

R: And he has been so capable up here that the fellows would just like to keep him on as long as they could, and his retirement comes up Saturday.

HMJr: Well......

R: And we'd like powerful for him to be given another year, if possible.

HMJr: I'll send it over with my recommendation.

R: Thank you.

HMJr: I'll get it over either tonight or the first thing tomorrow morning.

R: Henry, that's mighty fine.

HMJr: Delighted to do it.

R: Thank you, sir. Thank you.

HMJr: Righto.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Sept. 25, 1939.

TO Secretary Morgenthau

FROM Mr. Haas HA

I am attaching tables and a chart showing W. P. A. employment, weekly, through September 6, 1939, and monthly, through August, 1939, the latest figures available on these series.

The total number of W. P. A. workers on September 6, 1939, was 1,661,000.

The decrease from the week ended August 31, 1939 was 180,000 workers.

Attachments

WORKS PROGRESS ADMINISTRATION
Number of Workers Employed - Weekly
United States

Week ending	Number of Workers (In thousands)
1938	
December 3	3,287
December 10	3,241
December 17	3,186
December 24	3,124
December 31	3,094
1939	
January 7	3,070
January 14	3,030
January 21	3,001
January 28	2,986
February 4	2,966
February 11	2,966
February 18	3,011
February 25	3,043
March 4	3,032
March 11	3,009
March 18	3,015
March 25	3,009
April 1	2,980
April 5	2,906
April 12	2,761
April 19	2,752
April 26	2,751
May 3	2,734
May 10	2,660
May 17	2,622
May 24	2,609
May 31	2,598
June 7	2,594
June 14	2,590
June 21	2,578
June 28	2,551
July 5	2,388
July 12	2,290
July 19	2,250
July 26	2,200
August 2	2,081
August 9	2,053
August 16	1,976
August 23	1,896
August 30	1,841 a/
September 6	1,661

Source: Works Progress Administration.
a/ Confidential.

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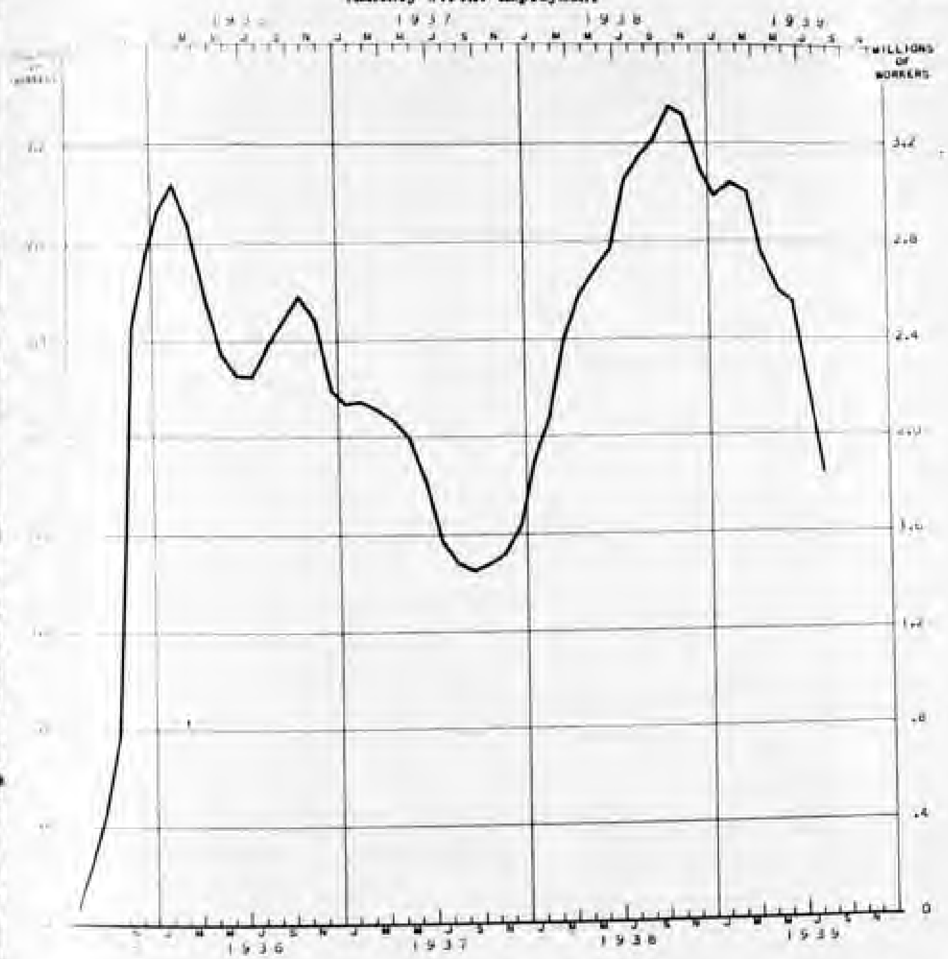
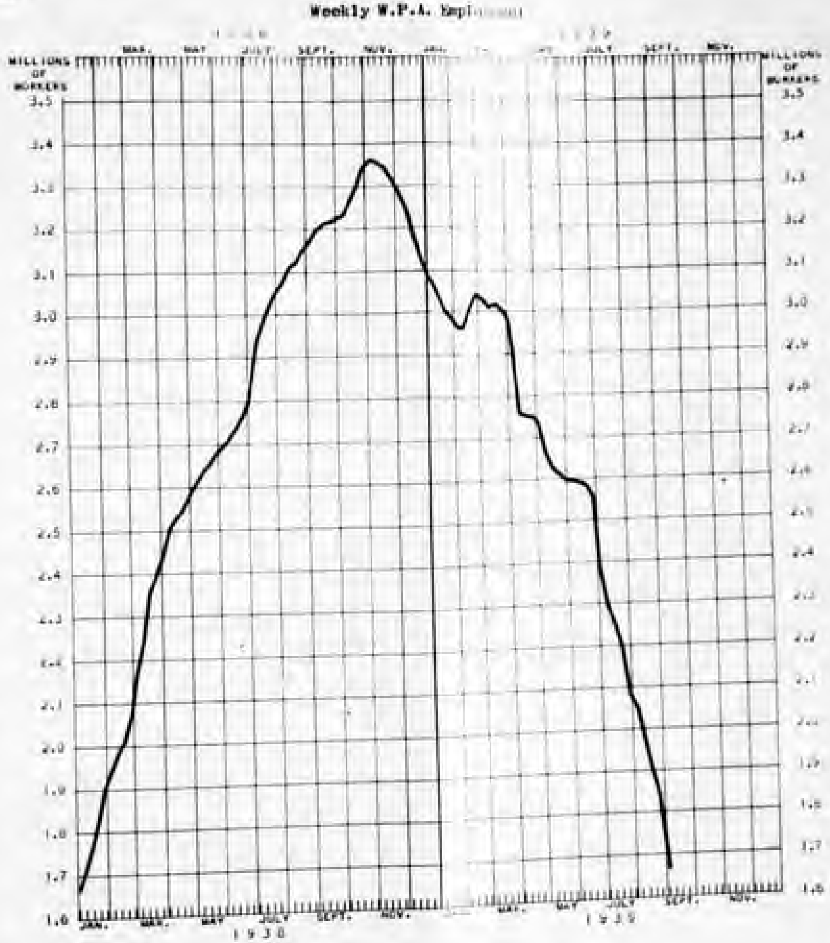
WORKS PROGRESS ADMINISTRATION
Number of Workers Employed - Monthly
United States

	Number of Workers (In thousands)
1936	
June	2,256
July	2,249
August	2,377
September	2,482
October	2,581
November	2,483
December	2,192
1937	
January	2,138
February	2,146
March	2,115
April	2,070
May	1,999
June	1,821
July	1,569
August	1,480
September	1,451
October	1,476
November	1,520
December	1,629
1938	
January	1,901
February	2,075
March	2,395
April	2,582
May	2,678
June	2,767
July	3,053
August	3,153
September	3,219
October	3,346
November	3,319
December	3,094
1939	
January	2,986
February	3,043
March	3,009
April	2,751
May	2,598
June	2,551
July	2,200
August	1,841 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.

WORKS PROGRESS ADMINISTRATION
Number of Workers Employed
United States





SOURCE: WORKS PROGRESS ADMINISTRATION

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

September 25, 1939.

MEMORANDUM FOR THE SECRETARY:

Mr. Noble's office telephoned this morning to say that a meeting is to be held at Commerce on Wednesday morning with reference to Latin America and asked whether I would be able to come. Dr. White received a similar message.

Under the circumstances I wonder whether you would like me to go?

J.P.C.Jr.

Joseph P. Cotton, Jr.

Sept. 26, 1939

I gave this information verbally to White and Cotton: "I have had a talk with Mr. Noble and have told him that unless the President asks the Treasury to cooperate, we will not send any of our staff members over to the Commerce Department in connection with discussions on South America.

HM,Jr.

MJD

GRAY

PANAMA VIA N. R.

Dated September 25, 1939.

Rec'd. 3 a. m., 26th.

Secretary of State,

Washington.

15, September 25, 8 p. m.

The Mexican Delegation are considering the introduction of amendments or additions to our resolution on "Protection of the Monetary and Commercial Policies by the American Republics" probably in form somewhat as follows:

First. They suggest a change in the procedure for the selection of the members of the Advisory Committee. Their suggestion is as follows: substitute for our present paragraph on the subject the following: "The Advisory Committee shall consist of five members, selected as follows: two selected by the Republics of South America; one selected by the Republics of Central America; and two by the Republics of North America. The members shall be persons of acknowledged experience and competence in monetary and exchange matters. In case of the consideration of a problem involving any government or governments which may not have a regular representative on the Advisory Committee, there shall be added delegates representing each of the directly interested governments."

Second.

MJD -2- No. 15, September 25, 8 p. m. from PANAMA

Second. The substitution for our final paragraph of the following: "Second:

To instruct the Advisory Committee to submit to the meeting of representatives of the treasuries, which is to take place in Guatemala a report on the basis for the creation of an inter-American financial institution of a permanent character.

Among other matters, this report should give consideration to the possibility that the organization which may be created should carry out the following functions: (a) To facilitate the settlement of payments between the American Republics; (b) To facilitate the cooperation of the central banks of this continent in their relations with one another; (c) To facilitate cooperation for the satisfactory solution of the monetary and exchange problems that concern the American Republics."

It will be seen that this proposal goes farther forward than our own draft but seems to us in accord with ideas discussed at previous conferences and at Washington.

We would appreciate indications as to what position to take in regard to these suggestions if they are put forward. Please consult Treasury.

WELLES

Respectfully Referred to
Commissioner of Customs

For Office of the Secretary
M. R. Nicholson
U. S. TREASURY ATTACHE
SHANGHAI, CHINA.

Shanghai, September 25, 1939.

WANG CHING-WEI'S REPRESENTATIVE HAS UNSATISFACTORY TALK

WITH GERMAN CONSULAR OFFICIALS

Mr. Wang Ching-wei has appointed a Mr. Feng Chung-hsing (馮中興) to take charge of diplomatic affairs with Germany. A few days ago, Mr. Feng gave a party in honor of leading members of local German consulate staff in an effort to seek the support of Germany towards Mr. Wang's proposed regime. According to inside information received, the German consular officials at this party frankly told Mr. Feng that under the present circumstances, Germany, though desirous of complying with Japanese wishes, does not deem it wise to antagonize Chinese public opinion. Furthermore, as Soviet Russia and Great Britain still remain masters of the Far East, their policy towards China should be taken into consideration. In case Great Britain agrees to a compromise with Japan, and brings pressure to bear upon the Chungking Government, Soviet Russia will undoubtedly support Chungking. In such case, Germany will probably stand against Great Britain and side up with Soviet Russia. Under such circumstances, Germany will not be able to support Wang Ching-wei's puppet regime. But should Japan and Soviet Russia come to some sort of terms, and Chungking maintains a friendly and neutral attitude towards Germany, Soviet Russia is not likely to withdraw her support of Chungking. So consequently Germany does not see her way clear to change her policy towards China at the present time.

Report [illegible] Referred to
Commissioner of [illegible]
Secretary
By: M. R. Nicholson
U. S. TREASURY [illegible]
SHANGHAI, CHINA

Shanghai, September 25, 1939.

REAL MOTIVES OF JAPAN'S TRUCE WITH SOVIET RUSSIA OVER BORDER DISPUTES

According to information secured from Japanese secret service the recent truce between Japan and Soviet Russia in the border warfare was concluded on the motive of Japan for the following two reasons. In the first place, in an encounter on the Manchukuo-Outer-Mongolia border, one and one half divisions of crack Japanese troops belonging to the proud Kwantung Army were practically annihilated by the Soviets within twenty four hours. As a result of this shameful defeat, the whole army staff of the Kwantung Army presented their resignations. The Japanese leaders in Tokyo fearing that the Soviet might continue their victorous drive into Manchukuo and develop a real war were, therefore, compelled to conclude a truce with Russia.

In the second place, the truce will serve as a measure of retaliation against the abrogation of Commercial and Navigation Treaty by U.S.A. Tokyo is desirous of finding a powerful backer to increase Japan's national prestige in her stand against America.

It is reported that Japan also proposed a non-aggression pact with Soviet Russia, but the latter presented a fundamental secret condition in return for the formation of such a treaty. This secret condition is regarded as absolutely unacceptable to Japan, hence the failure. The details and nature of the Soviet condition which Japan could not accept are unknown to informant.

Rec Cochran memo of 9-29-39

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PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Panama

DATE: September 26, 1939, 3 p.m.

NO.: 16

Mr. Jaramillo, noted Colombian economist, and the Colombian Minister for Foreign Affairs, have placed before us with obvious seriousness their anxieties lest the present war in Europe affect their exchange situation and jeopardize their present reserve, forcing them to place restrictions on imports which are needed for various national developments. The prospect of reduced coffee sales and depressed coffee prices is mainly responsible for their fears. They have asked us whether we will be prepared to give them financial assistance, in accordance with our general declaration. We have explained to them the various types of transactions which our Government might consider and they have now presented a memorandum in which they request financial assistance in the form of a credit for the Bank of the Republic for reserve purposes so that it will be able to continue necessary imports and maintain the stability of their currency, and for the purchase of war ships. (We will explain to the Colombian Government that the latter financing cannot be considered.) It is suggested by the Government that the amount of the credit to be extended

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be determined after a careful study of their most pressing needs, the conditions which may be established for the service of the existing debt, and the nature of the credit and the terms on which it is advanced. The memorandum stated that they would be willing that a new banking organization be established to receive the loaned monies and control their expenditure. The United States could supply whatever technical help it believed necessary. The memorandum suggests that the Colombian Government as a first step would be willing to invite the United States to send a representative to Colombia to study the matter. We are sending you copies of the memorandum by air mail.

The scope of the proposals is obvious and we believe that it is to be foreseen that any actual arrangement would have to be based on an exchange of letters and commitments like those with the Brazilian Foreign Minister last March. It would be of great help to us if we were able to say either that we would accept Colombia's invitation to send a representative there or that our Government has authorized that an invitation be given to the Colombian Government to send a special representative to the United States. Will you kindly consult the Treasury and Messrs. Pierson and Jones and notify us by telegraph as soon as possible.

We

We have already explained to the Government of Colombia that any undertakings of any agency of the United States at the present time must be contingent on having sufficient funds for the purpose.

The Foreign Minister of Peru has also presented a memorandum less extensive but in the same sense. It emphasizes that Peru has lost markets for sugar, cotton and other products and needs financial assistance if further depreciation of its currency and further curtailment of imports from the United States are to be avoided. It asks credit from the Export-Import Bank be given to the reserve bank of Peru to finance the payment of our exports to that country. Peru offers deposit of equivalent sums in soles to be liquidated in an agreed manner. The problems facing Peru will, in our opinion, be genuinely serious, perhaps as difficult as those faced by any other Latin American country. We would also like authorization to tell the Foreign Minister of Peru that he is invited to send a representative to this country to talk over the situation with Mr. Pierson's bank.

WELLES

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 26, 1939

TO Secretary Morgenthau

CONFIDENTIAL

FROM Mr. Cochran

The foreign exchange market was again dull today. Sterling ranged between 3.99-1/2 and 4.00-1/4, and closed at 4.00-1/4.

Reporting banks in New York and the Federal Reserve Bank reported sales totaling £675,000, from the following sources:

Commercial concerns	£	261,000
Foreign banks (Far East & Europe)	£	339,000
Fed. Res. Bk. (£25,000 for Norway; £50,000 for Sweden).....	£	75,000
Total	£	675,000

Purchases of sterling amounted to £393,000, as indicated below:

By commercial concerns	£	127,000
By foreign banks	£	266,000
(Far East, Europe & South America) Total	£	393,000

The banks also reported that the British Control purchased sterling amounting to £25,000 at the official rate of 4.02. The Control posted a new rate today of 4.01 for sterling arising from approved transactions, delivery within thirty days, but no transactions were reported to us.

Mr. Knoke mentioned by telephone that cotton bills covering shipments to Great Britain under which the 4.02 rate is claimed are now in rather small amounts. The City Bank reports that so far all of the cotton bills it has offered to the British control have been accepted at the official rate. Knoke said a number of people were apparently hesitating to pay above 4.00 for sterling.

Mr. Knoke gave me the following information by telephone in regard to Russian balances on the New York market. The holdings of the State Bank of Russia with the Federal Reserve Bank are practically the same as last week, namely, around $3,250,000, including $2,250,000 in gold. With the Chase Bank, the State Bank of Russia today has on deposit approximately $2,000,000, as compared with $1,500,000 last week. The gain of $500,000 is not significant. The interesting point is that out of the $2,000,000, already $1,000,000 is blocked. The reason is as follows: Up to two weeks ago the United States did business with Russia on a credit basis. That is, exporters sold directly to Russia, giving appropriate credit to the purchaser. It appears that there has now been a tendency to change to a cash basis as far as the American exporter is concerned. Consequently, the Chase Bank has been called upon to open credits to the exporters to Russia. As the Chase Bank gives these credits it blocks, in turn, an equivalent amount in the funds deposited with it by the State Bank of Russia. Furthermore, the Amtorg balances with the Chase Bank have risen to $4,400,000, which is up $2,000,000 from a week ago. The funds which have been deposited to augment this account have come from the State Bank of Russia which, in turn, has been getting money back from Scandinavia and other parts of the European continent. The Amtorg presumably needs these increased balances for the same purpose that the Chase needs them, that is, to give credits to exporters to Russia.

I telephoned Mr. Livesey in the State Department to learn whether the Department considered it a matter of international policy of interest to it, as to whether the Treasury should take some cognizance of the request of J. P. Morgan & Company that we in some manner assist in bringing to this country gold which the Italian Government is offering in Switzerland or at an Italian or French port for taking care of the amortization service due October 1 on the 7% dollar bonds of the Italian Government loan, for which Morgans are trustees.

This matter originally came to my attention on September 15. On that date Mr. Knoke informed me of the inquiry that had been made of the Federal Reserve Bank of New York by Mr. Lamont, and Mr. Livesey also let me know that Mr. Lamont had approached the State Department on this subject. Messrs. Livesey and Knoke had informed Morgans that this matter had been referred to the Treasury Department. I let Mr. Livesey know at that time that the Treasury did not make it a practice of accepting gold abroad. Exceptions were made only when transactions involved Tripartite monetary operations, and we were reducing these to a minimum. I also discussed the matter with Mr. Knoke, who agreed that our past policy precluded our intervention in this case. We decided that Knoke should pass on word to Morgans that the Swiss National Bank had recently made a shipment of gold, in behalf of the National Bank of Hungary, to New York on the Italian SS CONTE DI SAVOIA. Consequently, the Italian Government had available its own line of steamships to take the gold from Europe to America if it would only assume the responsibility for the shipment, including the war risk insurance.

My only other suggestion to Mr. Knoke for passing on to Morgans was that the BIS has frequently arranged swaps between holders of gold on different markets. If the BIS might have gold in New York which it was willing to trade against gold in Switzerland, something could be worked out through this medium. I doubted, however, whether in present circumstances, the BIS or any other holder of gold in New York would be willing to exchange this for gold in Europe.

It is Mr. Livesey's understanding that the sum involved in affecting the amortization service October 1st is $3,614,000. He is not aware as to how much money will be required to take care of the coupons of this loan maturing December 1st. It appears that $69,000,000 of the bonds are outstanding, but that approximately one-half of these are held in Italy. It would not appear necessary, therefore, for the Italian Government to send to the United States gold sufficient to cover the service of all the bonds outstanding, those in Italy being taken care of by Italian currency. If Italy did send over gold enough for the entire service, and then paid service on only half the bonds out of this account, their dollar balances on the American market would be increased.

CONFIDENTIAL

When I spoke with Mr. Livesey today he was personally of the opinion that, as much as the State and Treasury Departments might be anxious to protect the interest of American bondholders, he did not see any reason for the Treasury to depart in this instance from its practice of not taking gold abroad. When I told him that Mr. Leffingwell had today spoken to Mr. Bailie and had raised the point as to whether it might be of considerable political interest for us to assist the Italian Government at this time through consummating the above-mentioned transaction, Livesey said he would have to take this matter up with the political section of the State Department. He was not able to get in touch with Mr. Moffat, but promised to see Assistant Secretary Berle and to let me hear later.

While I was talking with Mr. Livesey in the afternoon, Mr. Bailie informed me that Mr. Leffingwell had just telephoned that the Italian Government had informed him that they were remitting the dollars to take care of the City of Rome bonds and themselves shipping the gold, as had been suggested, to take care of the October 1 amortization. While the gold will thus arrive a few days late, the matter is taken care of. I told Livesey this. He said he had no further word from Berle, so they would consider the matter closed.

With the Secretary's approval, I suggested to Mr. Livesey that the Persian Minister be referred to the Export-Import Bank in the matter of the $15,000,000 loan which he is seeking.

H.M.C.

CONFIDENTIAL

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

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE Sept. 26, 1939

TO Secretary Morgenthau

FROM Mr. Haas

Subject: Current Developments in the High-grade Securities Markets

SUMMARY

(1) The average yield of long-term Treasury bonds increased by .14 percent last week and was unchanged on Monday, September 25 (Chart I). Most of the increase took place on Wednesday and Thursday when official support was withdrawn from the market. Long-term securities have been much weaker than short-term issues (Charts II and III). The decrease in the market value of the United States security holdings of all insured commercial banks from June 30 until the close on Monday is estimated at $599 millions.

(2) The long-term Treasury bond market has now lost substantially all of its gain since the early spring of 1935 (Chart IV). As compared with the situation at the bottom of the 1937 break, long-term securities are now only slightly higher, while short-term issues are much higher -- i.e., their yields are much lower (Chart V). This is about what might be expected, considering the radically different character of the influences which brought about the 1937 break and the present one.

(3) Little change occurred in high-grade corporate bond yields last week (Chart I). There was some revival in public offerings, but this was overshadowed by two large private sales to insurance companies.

(4) New York State and City bonds have increased about the same in yield since the beginning of the war crisis as have Treasury bonds (Chart VI). There was some revival of new municipal financing last week.

(5) British and French Government securities showed practically no change during the past week. Note circulation in both England and France has receded slightly from the peaks established in the last preceding weekly reports.

I. Current Developments in United States Securities

United States securities continued to decline during the early part of last week, and then remained relatively stable through Monday (September 25). The average yield of all long-term Treasury bonds stood at 2.79 percent on Monday, as compared with 2.66 percent a week before (Chart I).

Long-term issues declined far more during the week than shorter issues, as is shown in the following table:

	Average Price Change: Week ended Sept. 23	Average Price Change: Monday September 25	Average Price Change: Total
	(Decimals are thirty-seconds)		
Notes			
1 to 3 years	- .01	+ .01	0
3 to 5 years	- .05	+ .01	- .04
Bonds			
Under 5 years to call	- .13	- .01	- .14
5 to 15 years to call	-1.23	- .03	-1.26
15 years and over to call	-2.01	- .05	-2.06

Chart II shows the daily fluctuations in prices and yields of five selected Treasury notes and bonds, beginning with August 1. The securities included have been chosen with special reference to their terms and coupons. The three bonds all have the same coupon -- 2-3/4 percent -- and are thus directly comparable in all respects, except maturity and call provisions. It will be noted that the longer issues have shown much more weakness since the outbreak of war than the shorter issues.

This tendency is brought out even more sharply in Chart III, which shows divergences before and after September 6 in the prices of United States securities classified in the same manner as in the above table. Prior to

September 6 the prices of securities of all maturity classes had been declining indiscriminately. Since that date, however, the market has shown a marked preference for securities with maturities or call dates of less than five years. As is shown in the chart, these have rallied substantially, while securities with maturities or call dates of over five years have continued to decline.

The decline in the market during the past week should be viewed in connection with the reduction in the amount of official support. On Monday and Tuesday, the Federal Reserve System and the Treasury together purchased $14.3 millions of United States securities; and the average yield of long-term Treasury securities increased by only .01 percent each day. On Wednesday and Thursday no official purchases were made; and the long-term Treasury average increased by .05 percent and .07 percent, respectively. On Friday official purchases totaled only $1.4 million, on Saturday there were none, and on Monday they aggregated $6.9 millions; meanwhile, the long-term average remained unchanged at 2.79 percent on Friday through Monday, inclusive.

Commercial banks have continued to hold their Government securities with but minor exceptions. In the week ended September 20, weekly reporting member banks in 101 cities reduced their holdings of Government securities by $53 millions. Holdings of Treasury bills declined by $38 millions and of Treasury notes by $22 millions, while holdings of United States bonds decreased by only $1 million and guaranteed obligations increased by $8 millions. Reporting banks in New York City increased their holdings of United States bonds by $14 millions, while banks outside of New York City reduced their holdings by $15 millions, making a net reduction of $1 million for all reporting banks.

The estimated decline in the market value of the United States Government security holdings of all insured commercial banks between June 30, 1939, and the close on Monday is $599 millions. This amounts to 4.0 percent of the total carrying value of such securities on June 30 ($15,038 millions) and to 9.2 percent of the reported capital funds of the banks on that date ($6,515 millions). We had previously estimated the amount of this depreciation for the period from June 30 to the close on September 14 at $486 millions.*

* Memorandum dated September 15, 1939.

II. Longer-term Perspective of the Government Bond Market

The average yield on long-term Treasury bonds stood at 2.79 percent at the close on Monday. The average yield first touched this point on the way down on February 19, 1935, so that, on net balance, all of the bull market in long-term Treasury bonds since that date has now been wiped out. Except for a few months following the Ethiopian War crisis in 1935 and for a time following the bad break in the Government bond market in 1937, present yields on long-term Treasury bonds are the highest which have obtained at any time since the spring of 1935 (Chart IV).

A good method of securing a perspective on the major swings in the long-term Treasury bond market is by following the price movement of the 2-7/8's of 1955-60. These bonds were first issued on March 15, 1935, at which time they were the longest-term issue outstanding. Their closing price on their date of issuance was 100-23/32, from which they rose to a 1935 high of 101-27/32 on July 9. During the Ethiopian War crisis they sold as low as 98-30/32, and during the break in the spring of 1937 as low as 99-12/32. On June 5 of this year, they reached an all-time high of 110-9/32, and on Monday closed at 100-17/32 -- i.e., within a few thirty-seconds of their price on the first day of trading four and a half years earlier.

While the average yield on long-term Treasury bonds is now within .05 percent of its level on April 1, 1937 — the bottom of the sharp decline in the market following the second increase in reserve requirements -- the yields on short-term securities are much lower now than at that time (Chart V).

The relative movement of long and short securities since the spring of 1937 is not surprising in view of the different situation then obtaining from that at the present time. The break in the market in the spring of 1937 was primarily occasioned by what the banks evidently considered an actual and prospective dearth of excess reserves. The excess reserves of all member banks got as low as $711 millions and those of New York City banks as low as $67 millions in the summer of 1937, and this scarcity was foreshadowed in the spring decline in the market.

This restriction of excess reserves had a mechanical effect on short-term money rates, and this effect was propagated outward to the long-term bond market. The market maintained its confidence in the long-time downward trend of long-term interest rates, however, so that the long bonds suffered less than proportionately. (It will be remembered that the official explanation accompanying the second increase in reserve requirements envisaged no change at all in long-term interest rates, but expected that the effect of the increase in reserve requirements would be on short-term rates only.)

At the present time just the opposite situation prevails. Excess reserves are at an all-time high and still rising. All of the mechanical factors are making for continued low money rates. The psychological atmosphere at the moment has changed completely, however, and the general expectancy is now for a protracted upswing in interest rates. The main impact of such a change is naturally on long-term rates, and is propagated to the short-term rates principally by means of a shock psychology from which recovery is apt to be rather rapid, as is seen in the divergent movements of long- and short-term rates since September 6 shown in Chart III.

III. High-grade Corporate Bonds

There was little change in the high-grade corporate bond market last week. The Treasury average of high-grade corporate bonds increased in yield from 3.31 percent on Saturday, September 16, to 3.33 percent on Saturday, September 23, and closed at the same figure on Monday.

These changes reflect a greater degree of stability than existed in the market for Government securities, the spread between long-term Treasury and high-grade corporate bonds falling from .66 percent on September 16 to .54 percent on Monday, or back to the level of last March.

New corporate issues last week amounted to $5,800,000 consisting of $1,600,000 of 10-year 4-1/2 percent convertible debentures of Durez Plastics & Chemicals, Inc., offered at par, and $4,200,000 of 2-1/2 percent equipment trust certificates of the Chesapeake and Ohio Railroad sold to a syndicate at a price of 100.16.

The private placement last week with a group of insurance companies of two issues totaling $141,600,000 attracted considerable attention. The New York Telephone Company, which had planned a public offering about October 20 to refund obligations maturing November 1 and to repay advances by the American Telephone and Telegraph Company decided "to protect itself" by selling now at private sale. The issue consisted of $75,000,000 of 3-3/8 percent bonds, priced at 99-1/2, equivalent to a yield of about 3.40 percent. This is a considerably higher yield than that now obtaining in the market on comparable issues, and indicates that the Company believed that it would be difficult to make a public offering of its securities at this time. In view of the high credit standing of the issuer and of the probability that short-term accommodation could have been secured from the banks if desired, it would also appear to indicate that the Company took a bearish view of the longer-term prospects of the market.

The New York Power and Light Company also sold privately to a group of insurance companies $66,582,000 of 3-3/4 percent bonds due in 1964 at a price of approximately 104, to yield 3.50 percent. This sale occurred as a result of the failure of an exchange offer to the holders of bonds called for redemption November 1.

Private sales of bonds to date this year have reached a new all-time high, both in amount and in percent of total. They accounted for almost half of corporate bond financing in 1939, as compared with one-third in 1938, the previous all-time high.

IV. State and Municipal Bonds

Chart VI compares daily the yields of two long-term municipal bonds -- New York City 3's of 1979 and New York State 3's of 1971 -- with the Treasury 2-3/4's of 1960-65. In general, these bonds appear to have suffered increased yields to about the same extent as have Treasury bonds. We are informed, however, that the municipal market is very sluggish and quotations are largely nominal.

There has been some revival of new municipal security financing, the awards during the past week amounting to $5.3 millions. While this is a small week by ordinary standards, it does represent a considerable improvement over recent weeks.

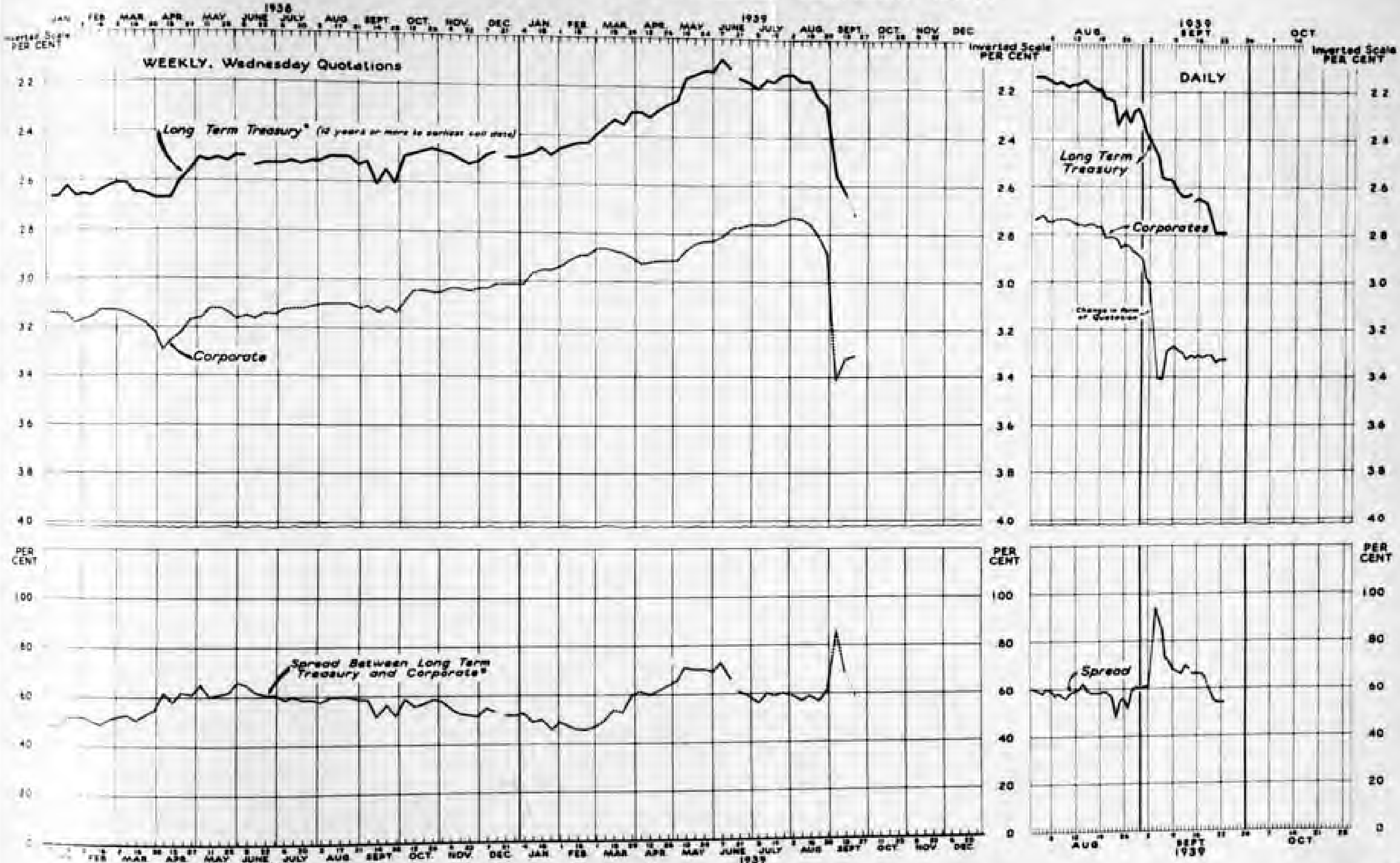
V. Foreign Markets

British and French Government securities showed practically no change during the past week. The quotation on British 2-1/2 percent consols remained at 62 all week, but since this is approximately the minimum price set by the London Stock Exchange, the quotation has little meaning. French 3 percent rentes closed at 67.70 to yield 4.43 percent on Monday, as compared with a price of 67.45 last Monday.

The regular weekly offering of British Treasury bills sold Friday at an average rate of 3.31 percent, the best rate since the beginning of the war. Note circulation in both England and France has receded slightly from the peaks established in the last preceding weekly reports.

Chart I

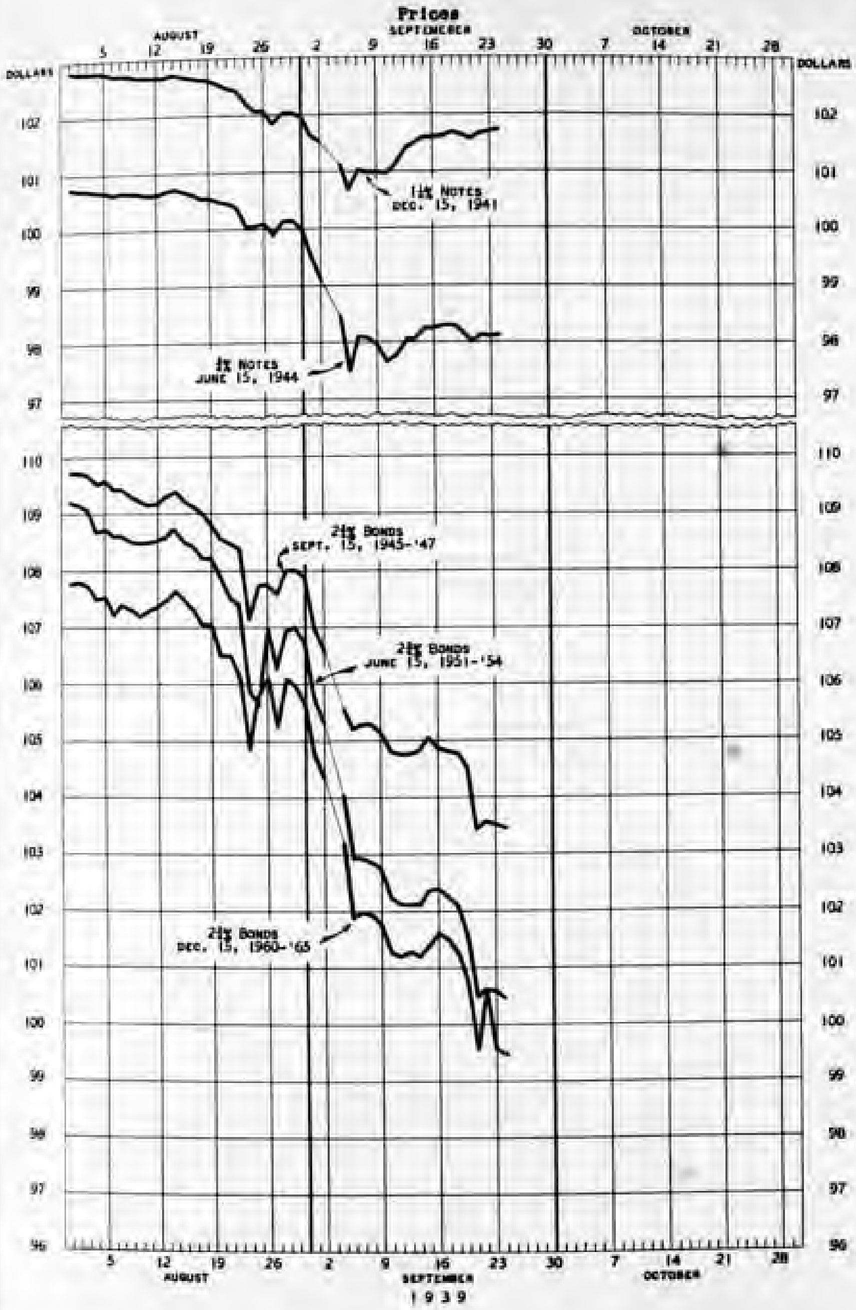
Comparative Yields of Average of All Long Term U.S. Treasury and Average of High Grade Corporate Bonds

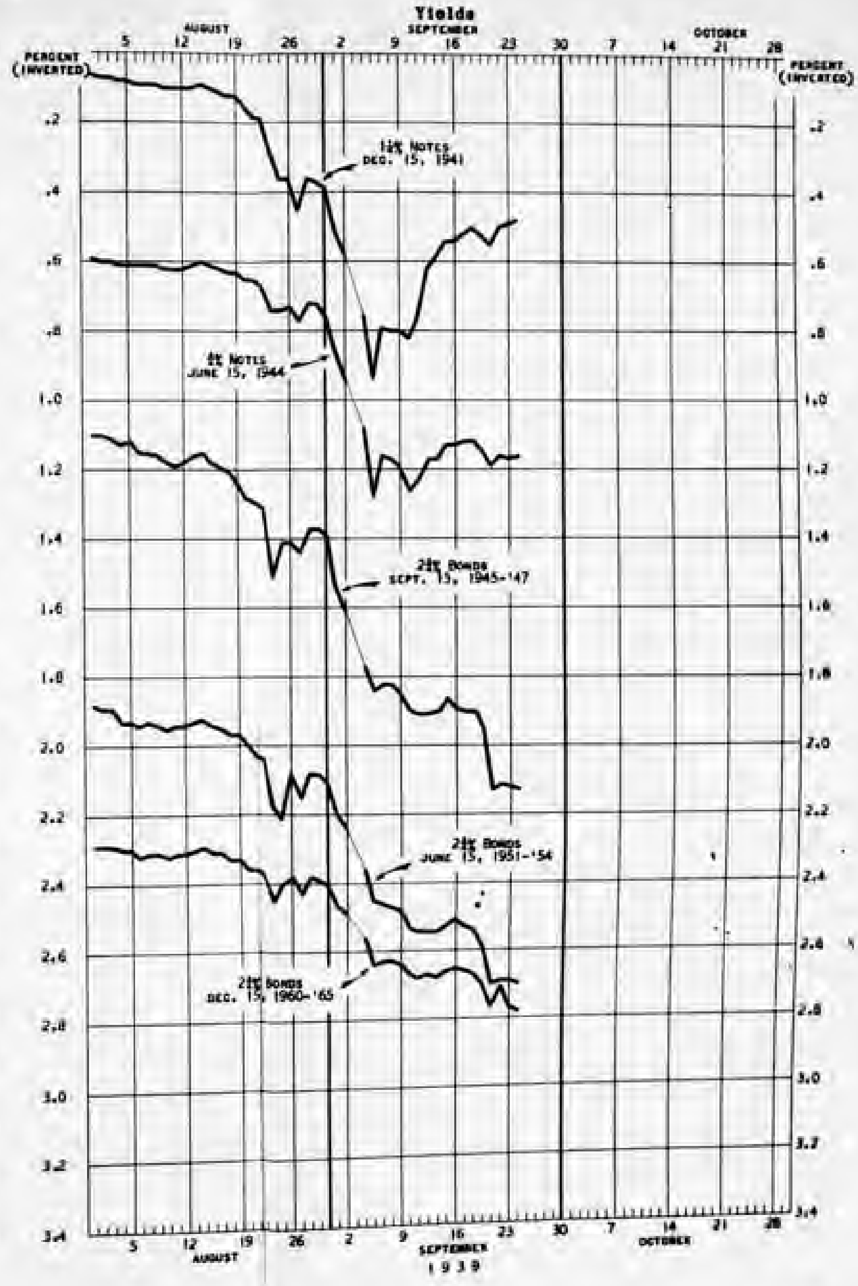


*Break in line indicates change in composition of Long Term Treasury average

Chart II

PRICES AND YIELDS OF SELECTED GOVERNMENT SECURITIES
Daily





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

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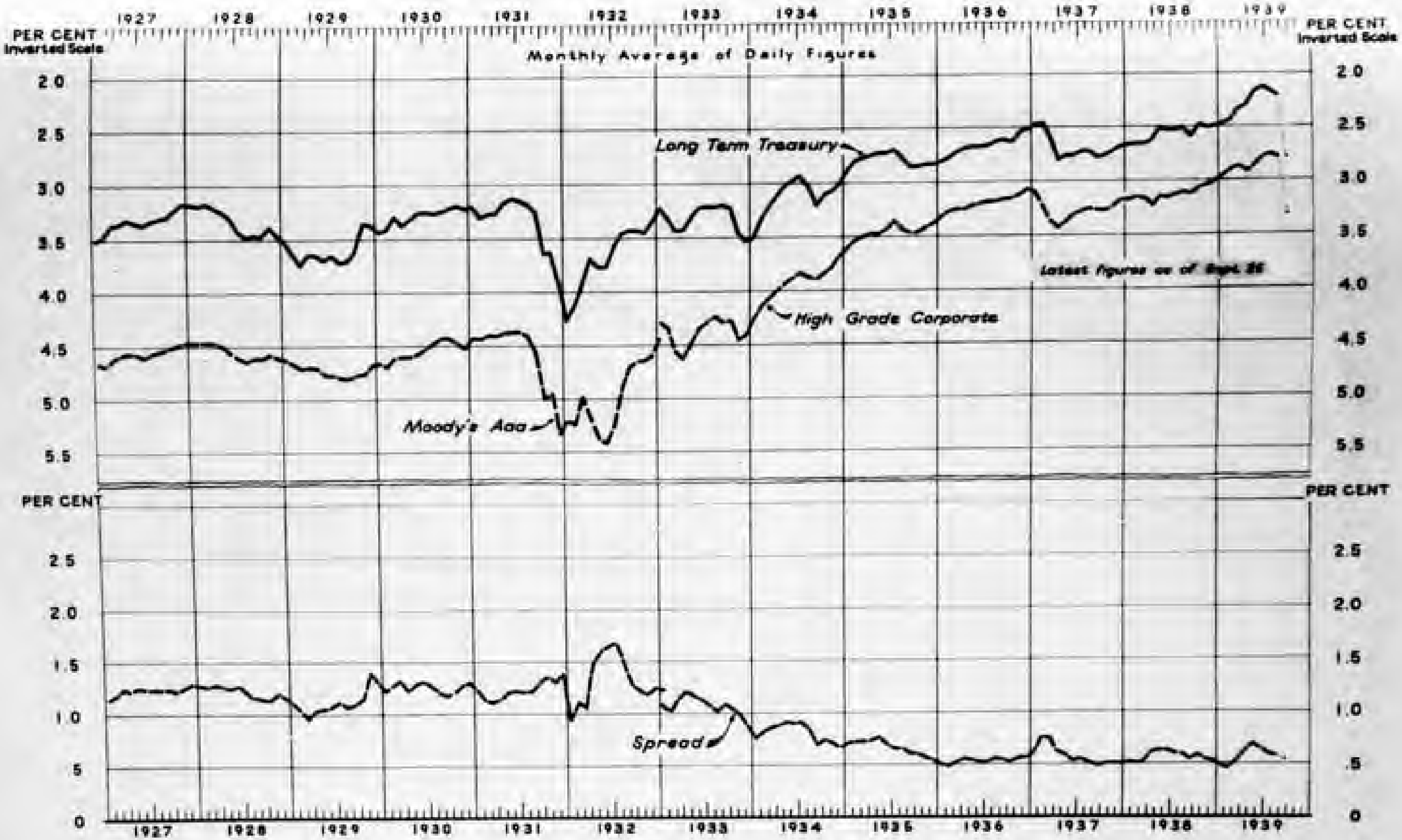
COMPARATIVE YIELDS OF AVERAGE OF ALL LONG TERM U.S. TREASURY AND AVERAGE OF HIGH GRADE CORPORATE BONDS



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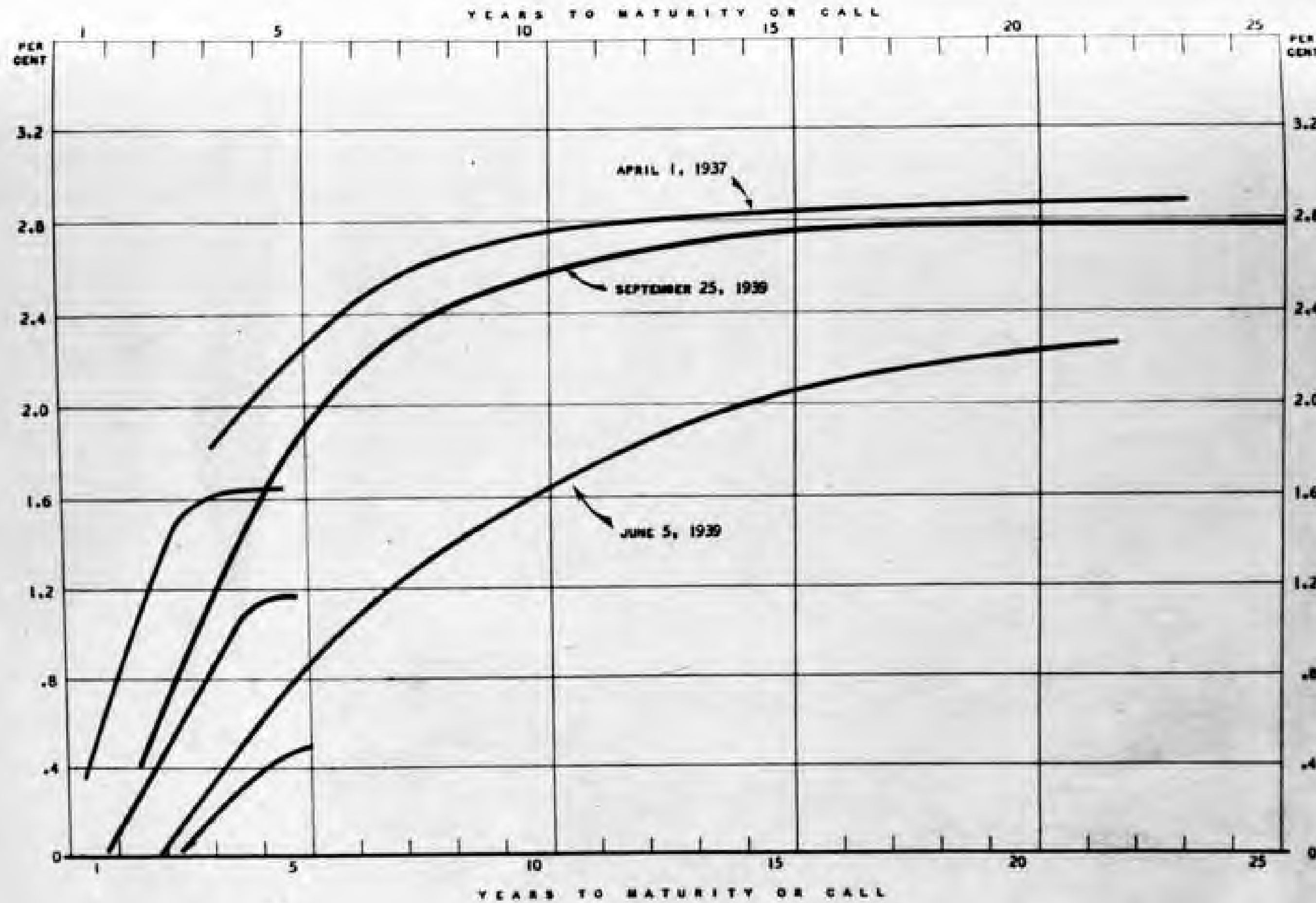
YIELDS OF TREASURY BONDS AND NOTES
Based on Closing Prices



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

MJD

PLAIN

LONDON

Dated September 26, 1939.

Rec'd. 12:55 p. m.

Secretary of State,

Washington.

1829, September 26, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

One. A British Treasury announcement today extends from September 26 to October 9 the period during which returns must be made of overseas securities which are required to be registered.

In reply to my inquiry whether the exemption to be granted to Americans resident in the United Kingdom (as outlined in my No. 1683, September 16, 2 p. m.,)in respect of securities means that they are also exempted from having to surrender the dollars obtained as interest on their securities, the British Treasury replied in writing: "The answer is affirmative, though I gather that the precise machinery to be adopted has not been fully worked out."

Two. Rucinski, the Polish Financial Counselor, states that there was very little Polish gold earmarked abroad when the war began. He said that the Polish military authorities never envisaged such a speedy defeat as had occurred and therefore many preparations were inadequate, that in the case of the gold of the Polish National Bank

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he "hoped it was safe" but that in the main it was in a contiguous country and until it was removed from there it was impossible to be sure it would not fall into the hands of Poland's enemies.

Three. Today's official fixed exchange rates and the principal changes since September 14 are given below:

The dollar remains at 4.02-04 and has been unchanged since September 14. The Canadian dollar remains unchanged since September 18 at 4.43-47 having depreciated from September 14 from 4,38-42. The French franc has remained unchanged at 176-7 since September 12. The Norwegian krone is 17.50-70 where it has remained since September 20 having appreciated on that day from 17.55-75, the rate fixed on September 14. The Swedish krone fixed today at 16.70-90 has not changed since September 19 when it returned to the rate fixed on September 14 having in the meantime been slightly lower at 16.80-17.00. The Argentine peso which depreciated from 16.75-17.10 on September 14 to 17.00-17.60 where it stood from September 16 to 19 appreciated steadily from September 20 until Monday when it was 16.40-17.00. This rate reacted slightly today to 16.50-17.10.

The depreciation in the Dutch, Belgium and Swiss exchanges which occurred yesterday on fears of possible German intentions to invade contiguous neutrals was checked today. The Dutch guilder which had remained at 7.55-62 from September 14 to 19 and had appreciated by September 23

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MJD -3- No. 1829, September 26, 6 p. m. from LONDON

to 7.45-55 was fixed on Monday at 7.50-60 and at 7.47-57 today. The Belga which had remained at 23.30-60 from September 14 until September 22 when it went to 23.35-65 had depreciated by yesterday September 25 to 23.50-80 and was fixed today at 23.50-675 The Swiss franc which had remained at 17.65-85 from September 14 to September 19 and at 17.55-75 until yesterday when it was fixed at 17.60-80 was unchanged today.

KENNEDY

CSB

[illegible] 2 [illegible] 1938

To the Officers and Members,
The International Association of Chiefs of Police:

Through Chief Wilson I desire to extend my greetings to the members of the International Association of Chiefs of Police and to join him in thanking all of you and the organizations you represent for the very fine cooperation you have given and are giving not only to the Secret Service but to all the law enforcement organizations of the Treasury Department.

With respect to this cooperation I get the same report from Elmer Irey, Chief of the Intelligence Unit of the Bureau of Internal and general coordinator of Treasury law enforcement, from Stewart Berkshire, Deputy Commissioner in Charge of the Alcohol Tax Unit, from Tom Gorman, Deputy Commissioner of Customs, from Harry Anslinger, Commissioner of Narcotics and from Admiral Waesche, Commandant of the Coast Guard, as from Chief Wilson.

This report is uniformly to the effect that the efficiency of Federal law enforcement officers and the respect in which they are held is due in very great measure to the willing and cordial help given to them by local police authorities, from Commissioners and Chiefs to patrolmen and plain clothes officers.

We hope that we may continue to enjoy your aid, your support and your confidence and it is my hope and desire that all of our men will always so conduct themselves as to merit it.

We deal with different laws, but our problem is one with yours. It is to protect our citizens everywhere within our borders and to defend their governments against the operations of men of criminal intent.

The growing respect for law throughout the nation is testimony to the increasing effectiveness of your efforts. I hope you may continue to make progress.

Sincerely,

(Signed) H Morgenthau Jr

HMD/mah

Secretary of the Treasury.

Orig & file to Gaston's office

September 26, 1939

To: The Secretary

From: Mr. Hanes

I have secured the following information about Federal Reserve Bank deposits:

1. The Federal Reserve Bank cannot accept deposits of a government or a government financial commission unless requested to do so by the Secretary of the Treasury - they, the Federal Reserve, acting in their capacity as fiscal agent of the United States Treasury. The Federal Reserve Bank has done this in the past, at least once, in the case of Parker Gilbert as "Agent General of Reparations."

2. The Federal Reserve Bank can accept deposits in special accounts from the Bank of England or the Bank of France under instructions from those banks to honor drafts drawn and countersigned in accordance with their own instructions. This method is now being followed in the case of the British and French plane purchases in this country.

As I visualize these two situations it occurs to me that subject (1) would accomplish the purpose you have in mind better than (2), for the simple reason that the Federal Reserve Bank, acting as our fiscal agent, could with propriety give to the Secretary of the Treasury such information about these transactions as he may wish to obtain, whereas under the second plan, I am not certain that the Federal Reserve Bank would be at liberty to give such information without the consent of the depositor.

J. W. H.

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PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin, Germany

DATE: September 26, 1939, 10 a.m.

NO.: 1429

Information has come to us that Germany is now negotiating with several countries of Europe, and will soon begin negotiations with others, with the purpose of either increasing its imports from them or to change the character of the present trade to meet Germany's specific wartime needs. So far as we could learn, the Germans have refrained from any indications of military threat even though adopting an insistant tone in the negotiations, nor have they tried to force these governments to supply the goods on credit. Various countries have, however, in effect granted clearing credits to Germany, under clearing arrangements with that country, in view of the fact that they have allowed their exports to exceed the exports of Germany to them - thereby they accumulate in Germany funds which are blocked. It is understood that in August about 40,000,000 florins was the amount of the Dutch clearing credit.

An authoritative source has told us that this week a German representative will leave for Yugoslavia to negotiate for larger supplies of ores and metals from that country. Specific mention was made of copper and lead, but it is suppòsed that larger supplies of chrome and antimony will also be to Germany's interest.

interest. This same source informed us that Germany had been offered practically the entire Yugoslav surplus of live hogs and pork products, but that this opportunity was being sacrificed to Germany's greater need for metals for her military purposes, despite her great need for fats.

It was learned from the same source that the economic authorities of the Reich do not anticipate that imports from the U.S.S.R. for the next year will be in excess of the 200,000,000 marks contemplated in the agreement signed last summer, despite the rumor and German press propaganda that there will be greatly increased supplies from Russia. According to this informant, Russia had agreed to make the bulk or total output of the Galician oil fields available to Germany - which oil fields, contrary to previous semi-official assurances of their acquisition to the Reich have under the demarcation agreement now apparently been occupied by Russia; however, our informant stated that he had not yet received definite confirmation of the foregoing.

Reports that the Reich had successfully negotiated for increased deliveries of oil from Rumania were confirmed by this informant, but he admitted that for a considerable time transportation difficulties would prevent a large increase in deliveries from Rumania. This informant denied that

Germany

Germany was seriously deficient in petroleum products for any military operations she might undertake in the near future. He pointed out that a considerable number of private and commercial vehicles are still allowed to operate. An informed source estimates, in this connection, that one million metric tons of gasoline and oil were consumed by the military in the Polish campaign.

The one serious food deficiency, it was authoritatively stated, is the deficiency in fats, particularly in margarine materials. Under present blockade conditions, the economic authorities saw no way of substantially overcoming this deficiency. However, it was believed that it would be possible for Germany to negotiate with the Netherlands and Denmark for increased butter and bacon supplies. It was even possible Germany could get the bulk of Denmark's export surplus, drawing from the production which the British Isles took formerly.

It is admitted at the Belgian Embassy that their country is under pressure to maintain and increase deliveries of iron and steel from Belgium. The German negotiators were told by the Belgian Government that they would not be able to do this since the iron ore came largely from France, which country was limiting the amount of iron ore exported to Belgium to the amounts needed for Belgian internal orders and for steel orders from France. The German negotiators then declared that

they

they would supply Swedish ore, bringing it via the Baltic, Kiel Canal, to Hamburg, and thence by German canals or railroads to Belgium. Furthermore, the Belgian Embassy said, in addition to restrictions on ore supplies by France, several steel works in Luxemburg and Belgium which are controlled by Frenchmen, were refusing to accept orders from Germany, and the Belgian Government was experiencing difficulty because of it. In this latter connection reports have circulated that especially emphatic demands have been made by Germany on Belgium during the past week.

It is requested that excerpts of the foregoing telegram be sent to the Treasury Department.

END MESSAGE.

KIRK.

EA:LWW

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 26, 1939

TO Secretary Morgenthau

FROM Undersecretary Hanes

I have just discussed with Mr. Cochran the question as to whether the Persian Minister should come to the Treasury Department in regard to the loan of $15,000,000 which his Government has asked him to obtain.

Since there appear to be no funds or facilities available to the Treasury itself for consummating the loan, it is recommended that Mr. Cochran be permitted to suggest to the Department of State, through Mr. Livesey, that the Persian Minister be referred directly to the Export-Import Bank.

J. W. H.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 26, 1939

TO The Secretary

FROM Mr. Cochran

In its Cablegram #62, dated November 24, 1936, to the Netherlands Bank, the Federal Reserve Bank of New York quoted the release of the Secretary of the Treasury of the preceding evening in regard to the addition of Belgium, the Netherlands and Switzerland to the Tripartite accord. This cablegram, set forth the terms upon which the Federal Reserve Bank of New York, as Fiscal Agent of the United States, would work with the Netherlands Bank as agent of the Dutch Stabilization Fund. The pertinent paragraphs of this cablegram, in so far as the earmarking of gold in the Netherlands is concerned, are reproduced herewith:

"1. Netherlands Bank is prepared to consult with us as fiscal agent of the United States, from time to time, as to the amounts of dollars to be purchased or sold in Amsterdam and the amounts of guilders to be purchased or sold in New York, as well as to the rates at which purchases or sales of the currencies in question will be made.

2. On the basis of reciprocity in accordance with the statements of Mr. Morgenthau of October 12 and November 23 any dollars thus acquired for the account of the Dutch Exchange Equalization Fund will upon your request be converted by us into gold at the rate of $35 per ounce fine plus 1/4 of 1% handling charge and any guilders thus acquired for the account of Federal Reserve Bank of New York as fiscal agent of the United States will upon our request be converted by you into gold on the basis of $35 per ounce fine less 1/4 of 1% handling charge.

3. The gold thus acquired will be earmarked for account of the owner in the country of the other party and will at the request of the owner be shipped to the country of the owner by first available steamer of his country, the cost of shipment including insurance, melting charges and any loss in weight through melting always to be borne by the Dutch Exchange Equalization Fund.

4. Netherlands Bank and Federal Reserve Bank of New York will advise each other daily of any transactions as a result of which gold is to be earmarked or released under this arrangement.

5. It is understood and agreed that this arrangement may be revoked or altered by either party at 24 hours notice without prejudice of course to past transactions."

In a letter dated September 26, 1938, the Secretary of the Treasury authorized the Federal Reserve Bank of New York to send to the Netherlands Bank, Amsterdam, the following cablegram:

> "Secret and confidential for De Jong. Referring telephone conversation it remains of course the desire of the Secretary of the Treasury to cooperate with you to the fullest extent possible. Therefore against the next \$25,000,000 which you may have to sell in support of your currency it will be in order for you to earmark gold in Amsterdam under the arrangement set forth in our #62 STOP You must however understand that it is not the Treasury's intention to leave the gold in Europe but to have it shipped here upon their request at your expense STOP Regarding Noordam we have not been able to get any more insurance at 17 cents STOP For your information war risk rates on gold shipments from channel ports were increased today to 25¢ per \$100 but market very limited STOP Marine risk rates remained unchanged at 4 1/2¢."

Since this authorization was granted, there has been only one operation thereunder, namely, on September 28, 1938, in the sum of \$690,000, thus leaving outstanding under this order a balance of \$24,310,000.

The question now arises as to whether we should permit this order to remain outstanding. The Tripartite Agreement definitely provides that the cost of shipping, including insurance, from Europe to America must be borne by the Dutch Stabilization Fund. Since war risk insurance is, however, not applicable except to goods on board a vessel, what would our position be if Germany should invade the Netherlands at a time that gold has been earmarked at the Bank of the Netherlands for us, and seize this gold before it could be placed on board ship?

The Tripartite Agreement does not fix any limit as to the amounts of gold that the Dutch Stabilization Fund may earmark for us, or establish any time limits. The Agreement does provide, however, that the Netherlands Bank is to consult with the Federal Reserve Bank, from time to time, as to the amounts of dollars to be purchased or sold in Amsterdam and the amounts of guilders to be purchased or sold in New York, as well as to the rates at which purchases or sales of the currencies in question will be made.

Furthermore, in a conversation by telephone on September 7, 1938 between Mr. Knoke of the Federal Reserve Bank of New York and Mr. De Jong of the Netherlands Bank, Mr. Knoke made the point that we preferred to discuss earmarking operations on the Amsterdam market before rather than after they are made.

Since the Tripartite Agreement itself does not limit the amounts, it may not be desirable to cancel outright the $25,000,000 arrangement which is not a commitment (the agreement itself providing the commitment) but a voluntary limitation, and does, in fact, put a brake on possible operations to the extent of $25,000,000. Without this, the Dutch might feel that there is no limit. If we should definitely annul the $25,000,000 arrangement, they might interpret this to leave them a free field, or they might conceivably decide that we are ending the Tripartite Agreement.

One suggestion is, therefore, that the Federal Reserve Bank of New York be instructed to communicate with the Netherlands Bank and inform the latter definitely that, in view of present world conditions, it is essential that there be prior consultation between the two banks before gold is earmarked on the part of either Bank for the benefit of the other party.

An alternative suggestion is that the Federal Reserve Bank remind the Netherlands Bank that this outstanding authorization has not been utilized for one year. In view of this fact and considering present world circumstances, would they object to our recalling this order, with the definite understanding that if the Netherlands Bank needed dollars they should communicate promptly with the Federal Reserve Bank of New York, and prior to taking any action.

H.M.Jr.

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FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE September 26, 1938.

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH DE NEDERLANDSCHE BANK.

FROM L. W. Knoke

Mr. de Jongh called at 9:20 this morning. Having released during the last two weeks or so a little over $20,000,000 of their gold in New York, they were wondering what we would think if they asked us now to earmark some gold in New Amsterdam. He also mentioned that all of the gold which they had earmarked for us on September 8 had now reached New York. I asked him what amount he had in mind and he replied about $10,000,000 and added that his dollar sales today approximated $5,000,000; they would not, of course, earmark the full amount of $10,000,000 at once but do that gradually, according to their needs, as they sold dollars. I told him that naturally, particularly under prevailing conditions, I would have to discuss this matter with Washington and that I would telephone or cable our reply before the day was over.

I inquired how things looked in Europe at present and de Jongh thought not so very bright but it may all come out all right yet.

de Jongh wanted to know whether we could cover more insurance for him on the Noordam and said what we had done so far was altogether satisfactory. I replied that we were hopeful we could increase the amount and would let him know before the day was over. I asked him whether we had made it sufficiently clear in our cable that war risk insurance, as now written, covered only from the moment the gold was aboard steamer but not on land. de Jongh replied that he could appreciate that.

LWK:KW

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FEDERAL RESERVE BANK
OF NEW YORK

219

OFFICE CORRESPONDENCE

DATE September 28, 1939.

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH BANK OF ENGLAND.

FROM L. W. Knoke

I called Mr. Bolton but in his absence spoke to Mr. Hawker at 11 o'clock a.m. Things were a little less hectic in London, Hawker said. For the last two or three days they had lost more exchange than they had gained but there were a great many dollars flowing in. I explained that I was in search of information on a number of points which were puzzling our market:

(1) Was it correct (as some people were doing here) to talk of permitted and approved imports, if so, what was the difference? A. There was no difference. The situation was this:

(a) a certain class of imports was free and required no license at all,

(b) another group of imports did require licenses, and

(c) a third group of imports (luxury articles) was prohibited.

As regards (a) no list of free imports had been published as yet but the information was available on application to the Board of Trade. Generally speaking foodstuffs, essential raw materials and materials for munitions were free, although here again it must be borne in mind that a good many of such imports were a government monopoly and consequently had to be referred to government departments for special approval even though the merchandise shipped

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE September 26, 1939.

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH BANK OF ENGLAND.

FROM L. W. Knoke

might be on the free list. Grain seems to be one of them and requests to import must be referred to the Ministry of Food. Hawker had not heard of any grain bills having been accepted by the British control up to date but there was no reason, he thought, why they could not be accepted. In a general way what he had told me last week still held good, namely, that an American exporter who had the British importer's assurances either that he held a license for the import of merchandise in question or that the merchandise was on the so-called free list, could be sure of getting dollars at 4.02.

(2) How about merchandise which had arrived in England before September 3, but payment in sterling was made to the American exporter only after September 3?

A: He could definitely get dollars at 4.02 on application; this was a pre-war contract and any pre-war contract could be liquidated at 4.02 without any difficulty at all.

(3) People frequently spoke of blocked sterling balances. What was that? A: There was no such thing at all, Hawker replied. In this respect the situation was as follows:

(a) A nonresident could transfer his sterling balances to another nonresident without any formality.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE September 26, 1939.

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH BANK OF ENGLAND.

FROM L. W. Knoke

(b) A nonresident could transfer his sterling balances to a resident without any formality provided the latter was willing to accept this sterling (in practice it is rather of little consequence because it would probably involve a nonresident buyer and a resident exporter and the latter would probably ask for payment in foreign exchange rather than in sterling although, as Hawker pointed out, the British control would, of course, encourage the resident exporter to insist on foreign exchange. He added, however, that there was no obligation on the resident to refuse payment in sterling).

In both cases the sterling could be sold at current rates (not, of course, at the official rate).

(c) Pre-war balances belonging to U.S. nationals could be liquidated at 4.02 on conditions previously explained by him.

That being the situation and bearing in mind what he had told me about permitted or prohibited imports, there was no room in the picture for blocked sterling balances. As regards liquidation of U.S. pre-war sterling balances,

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE September 26, 1939.

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH BANK OF ENGLAND.

FROM L. W. Knoke

Hawker said, a good deal of them was going through now.

(4) What was the status of silver imports just now? / A: Silver was in a fluctuating position at the moment and the whole matter was now being considered. At the present time the nonresident shipper could sell the silver in the market, would get sterling for it and sell the sterling proceeds at current rates (not official rates). People who wanted to handle silver, however, should be careful lest the import be prohibited some day.

JR

GRAY

Paris

Dated September 26, 1939

Rec'd 5:45 p.m.

Secretary of State,

Washington.

2180, September 26, 5 p.m. (SECTION ONE).

FOR THE TREASURY.

There were no changes in the official foreign exchange rates today and authorization to purchase foreign currencies continued to be handled with increasing despatch particularly as regards foreigners.

The securities market was again calm but fairly well supported with a tendency toward discrimination between individual issues and industries, their geographical situation, et cetera. Rentes were firm and increased their gains of yesterday, the issues with exchange guaranty gaining 2 francs 30 centimes and 1 franc respectively for the 1925 and 1937 issues.

(END SECTION ONE).

BULLITT

PEG:KLP

BLS

GRAY

PARIS

Dated September 26, 1939

Rec'd 5:35 p.m.

Secretary of State,

Washington.

2180, September 26, 5 p.m. (SECTION TWO)

What may be called the first phase of France's mobilization and entry into the war has now been terminated. It was accomplished with remarkable precision and smoothness and a minimum of unnecessary disruption of the country's economic life. The second phase is now beginning: it involves the staggering task of reorganizing the country's civil industry and readjusting its agriculture to the dislocation of war. There are the mechanical problems for example of the collection of drafts, the payment for military requisitions, the rebuilding of administrative and engineering staffs to say nothing of skilled labor, to fill the huge gap made by mobilization. Apparently realizing the importance of the sugar beet crop arrangements were made to release temporarily from the military forces sufficient field labor to get in the crop and sufficient cars and trucks for military requisition to take it to the factory. The efficiency with which

this

-2- #2180, September 26, 5 p.m., from Paris.

this was handled, however, is more in the nature of an example. The wholesale evacuation of populations from danger zones and the ensuing complications of lodging, hygiene, etc. has been apparently less thoroughly thought out.

BULLITT

EMB

JR

GRAY

Paris

Dated September 26, 1939

Rec'd 5:30 p.m.

Secretary of State,

Washington.

2180, September 26, 5 p.m. (SECTION THREE).

The present tendency of trade and commerce to insist upon immediate cash payment is likewise causing anxiety. The Ministry of Commerce published a communique today inviting attention to the liberal credit facilities which the Bank of France is prepared to grant; the latter has decided to discount drafts drawn on debtors called to the colors which are reimbursed by banks. Industrial and business concerns having direct accounts with the Bank of France may leave with the latter drafts drawn on mobilized soldiers if such concerns are not in a position to reimburse such drafts. The Bank of France is also prepared to grant new credits either through rediscount operations or directly where supplies of raw material are concerned or where necessary to tide over temporary difficulties.

(END OF MESSAGE).

BULLITT

September 26, 1939

My dear Mr. President:

The Chinese Ambassador called on me today and informed me that he had just learned, this morning, that the Government of French Indo-China had announced that from now on no munitions, motor cars or gasoline belonging to the Chinese Government could pass through their territory.

I have called up Ambassador Bullitt and given him this information and asked him to try to get an explanation. ("from the French Government"--- added in HM,Jr's handwriting)

The Chinese Ambassador has also approached me on an additional loan from the Export-Import Bank against the sale of tin in this country. I would appreciate your advising me how far you wish me to go with this negotiation.

Yours sincerely,

(Sgd) Henry Morgenthau, Jr.

The President,

The White House.

Confidential (written in HM,Jr's handwriting)

25

September 28, 1939

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The President,

The White House.

Confidential (written in HM,Jr's handwriting)

123

September 26, 1939

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Yours sincerely,

(Sgd) Henry Morgenthau, Jr.

The President,

The White House.

Confidential (written in HM,Jr's handwriting)

GROUP MEETING

September 26, 1939.
10:00 a.m.

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

H.M.Jr: How are we on attendance today?

Bell: Looks pretty good.

Foley: The clock stopped.

H.M.Jr: I am going to have to take it a little easy until I get well. I have got jaundice, so you will all have to be a little patient if I am a little unreasonable, et cetera. The doctor says it might take three days or three weeks, so I am going to go to the veterinary to get well. I need a horse doctor. You will have to be a little patient with me until I get over it. I will try not to be unreasonable.

Harry, I have got a formal note from Cotton on this meeting tomorrow and I have asked Mr. Noble to come in to see me to tell me what it is about at 11:00 o'clock.

White: Yes, I was going to read it. It is in business hours and it is taking on the aspects of a conference instead of a luncheon, which is very different.

H.M.Jr: Well, I am seeing him. I would like to have it in writing. I would also like to know if it is something the President wants.

White: They asked for an answer, and I will just postpone the answer.

H.M.Jr: Have Mrs. Klotz let you know what happened.

Cotton approved you on this memorandum.

White: Yes, we spoke about it.

H.M.Jr: Just so we are clear on the thing, that other memorandum from Bullitt about somebody - what was the thing about Bullitt?

Cochran: May I read it?

H.M.Jr: Please.

Cochran: "PERSONAL FOR SECRETARY MORGENTHAU:

"I AM AGAIN BEING PRESSED BY REYNAUD FOR ACTION IN THE CASE OF MARCEL ROCHAS. I HAVE BEEN TOLD BY WAIT THAT THE TREASURY HAS SEVERAL TIMES RECOMMENDED THAT THE ACTION AGAINST ROCHAS BE DROPPED, BUT THAT THE MATTER HAS BEEN DELAYED BY THE UNITED STATES ATTORNEY IN NEW YORK. WOULD YOU PREFER THAT I CABLE TO FRANK MURPHY DIRECTLY, OR DO YOU WANT TO TAKE UP THE CASE WITH HIM YOURSELF? IN ANY EVENT, I SHOULD LIKE TO BE IN A POSITION TO GIVE REYNAUD A REPLY AS SOON AS IT IS POSSIBLE.

BULLITT"

H.M.Jr: Mr. Harris acts as though he knows about it.

Harris: That moiety business went through me yesterday about it.

H.M.Jr: Who is that?

Harris: Payment to an informer.

Foley: John Cahill doesn't want to drop the case. He feels that he has to go through with it and the only reason for nolle prossing it would be because of our friendly relations with France.

H.M.Jr: What did the fellow do?

Foley: Smuggled dresses into the United States.

H.M.Jr: Why should it be nolle prossed?

Harris: He sent them in with different women. There was a plain case of corruption throughout.

Foley: I think Wait feels that he cooperated with the United States authorities in running down the other participants in the crime and unless we nolle pross it or show some leniency, it would be very difficult in the future to get any kind of cooperation.

H.M.Jr: Unless we do nolle pross it?

Foley: Yes.

Harris: It is a very flagrant case.

Foley: John Cahill doesn't want to do it and I don't want to put it on a personal basis with John and I initialed the letter yesterday that went to Harris.

Harris: It isn't like a case of misunderstanding. It is just a deliberate fraud and they laid their plans well in advance.

H.M.Jr: Well, will Mr. Harris and Mr. Foley give me - prepare an answer for me to send to Bullitt?

Foley: Yes.

Harris: You might hold that up if it comes to you.

Gaston: Yes.

H.M.Jr: Are you in on it too?

Gaston: You referred it to me some months ago and I wasn't able to get anywhere with it. It doesn't appear probable to us that Marcel Rochas wasn't guilty.

H.M.Jr: Prepare the thing and I think just - what should I say - to protect all entrances to the Treasury before we accept it, why not show it to the Attorney General? At least I would like an answer to go out tonight to Bullitt.

Foley: I will get up something and clear it through Gaston and Harris.

(Discussion off the record).

H.M.Jr: Between you, I will get something tonight?

Harris: We will get something tonight.

H.M.Jr: Bullitt's threat to take it up with the Attorney General just gives me a laugh.

Hanes: I have nothing.

H.M.Jr: Herbert?

Gaston: I have nothing.

Duffield: That reporter from the New York Herald Tribune who wanted to come in and see you at 10:30 says it is not essential to see you. He seems to have been satisfied with these other interviews around here and wants to be relieved of that.

H.M.Jr: Very nice.

Duffield: That is all.

Foley: I don't have anything.

Cochran: Pinsent of the British Embassy has been raising this question the last few days about his pay checks and also about putting a deposit with the Federal Reserve Bank in New York.

H.M.Jr: Now, I don't know who all is interested in this, but I am very much interested and I wish you would go in a huddle, John, with some of these people and I would like to know a good reason why the French and British Governments can't open an account in the Federal Reserve of New York just the way I know the British have heretofore on their planes. Now, all the planes that the British bought, the certificates of payment were presented to the Federal Reserve in New York and they paid on certificate. I think the French did the same, I am not sure.

Now, in view of the way the President feels about this thing....

(Discussion off the record)

H.M.Jr: I think the logical place for them to have their account is the Federal Reserve of New York, and that also gives us openly an opportunity to know what they are doing. I don't know why that isn't the place to have it.

Bell: All those governments had accounts there during the war.

Burgess: There was no Bank of England, was there? It was all through their central banks.

Bell: No, I think we deposited money there directly to the credit of the British Treasury when we made loans.

H.M.Jr: You will remember when we asked about Osborn coming over, the answer was that the British Treasury and the Bank of England are practically one now. It seems to me from their standpoint and our standpoint it is a much cleaner thing to let them deposit there. They have asked twice about it now. Personally, unless there is some awful good reason, I would like to see their accounts, their pay accounts, in the Federal of New York.

Bell: I see no reason why it can't be done.

H.M.Jr: I would like to have somebody tell me why it can't be done.

Cochran: The reason they have told me in the past was that the Federal had taken deposits ordinarily from central banks only principally because of the question of signatures and so on. That is, the government changing....

H.M.Jr: But Merle, I know that the British planes which are on order here now are paid for by the Federal of New York.

Cochran: Yes, I know. It is the same with France. It was the Bank of France which had the account.

H.M.Jr: There you have got it. I can't understand it.

Cochran: The Federal hasn't given any negative answer. I just put up the question.

H.M.Jr: I don't want to put it up, but I thought if you fellows could have a meeting on it and look at it from the standpoint of the United States Government, aren't there certain advantages? It certainly is a great advantage to have it there and know how much money and how much they are buying, who they are paying, and tell them so, rather than to say, "Well, can we ask 'X' National Bank to tell us," and so forth and so on. Do you see any reason, John, why it shouldn't be in the Federal?

Hanes: No, I am quite certain the French arranged that.

H.M.Jr: Didn't you and I tell them that?

Hanes: Yes.

H.M.Jr: Now, whether the French Treasury makes the deposit with the Bank of France who does it here, or whether it comes directly, it seems to me so unimportant compared to the principle, and I am sure it would be very pleasing to the President. Then that cuts out all this thing of whether the Chase should have it or whether they shouldn't have it, or some other bank. I make no bones about it. I would like to know how much they have got and what they are buying and so on, and when it goes to the Federal, tell them I expect them to tell me.

Walter Stewart, can you see anything wrong with that?

Stewart: I see distinct advantages from our point of view.

H.M.Jr: Harry, can you see anything?

White: No, I think the contrary would need to be defended.

H.M.Jr: I think we ought to move on the question today because Pinsent has raised it twice. I think he ought to have the answer.

Hanes: Is he asking the Treasury for....

H.M.Jr: It was in a memorandum of last night which is on your desk. It is all in there. Let's have an answer tonight as to how we feel.

Cochran: There was another question of the Persian loan. The Persian Minister came to the State Department yesterday and told them that he had instructions from his government to get a 15 million dollar loan immediately.

White: You wouldn't want to disappoint him, would you?

Cochran: No.

H.M.Jr: John, will you look into that? Ask them if they are going to put up some nice Persian carpets as a collateral.

Cochran: He said it is partly for construction purposes.

H.M.Jr: Well, let's get an answer on that.

Have you got something else?

Cochran: Wallace Murphy suggests there might be some security because this Uranian Oil Company pays some 200,000 pounds to the Persian Government.

H.M.Jr: Is there a lien on the oil company?

Cochran: Just a royalty, but how well that will hold I don't know. They want to know whether the Minister should come over here and see anyone in the Treasury.

H.M.Jr: Hanes will call immediately.

Cochran: That is all I have.

H.M.Jr: Stewart, can't you fix up this fellow Pinsent so he gets 4.02 and quit worrying?

Stewart: He seems to be worried about that and I saw him for a little while yesterday and just reviewed old things, but told him that I didn't want to have any further talk with him until I talked with you and found out what lines, if any, you wanted to have open between us.

H.M.Jr: Personally, I hope Congress doesn't investigate the fact that they have only sent over here assistants to you or former assistants to Jake Viner.

Viner: No, personal friends.

H.M.Jr: That is worse. Wait until Pearson and Allen get hold of that.

Jake?

Viner: Nothing.

H.M.Jr: Are you going to do that little job for me today?

Viner: Immediately.

Burgess: I haven't any report yet on the market this morning. I spent a good deal of time with it yesterday and Saturday. I think it is gradually getting adjusted.

H.M.Jr: Well, let me say this in strict confidence in this room - because so many people are interested, I mean - we started with a background which Hanes is familiar with. While I was gone, Mr. Eccles sold the President the idea - I will say this was before the war started, I don't know whether it is changed - about using up the free gold and the silver certificates and everything else and not borrowing any money and our balances ran down. We have come to that - from that point to the point yesterday where I brought the President's attention to the propaganda. If between now and the first of October the Federal Reserve doesn't give me a clear track, I want him to back me up to shove them off the track. Then he said, "I will give you a rule of thumb," and this is the most encouraging thing that has happened since I have been here these three weeks, because after all, raising the money is our job. He said, "Henry, until ten-year money goes to three percent," he said, "don't bother me." So I said, "Well, Mr. President, with more than five billion excess reserves, I won't have to bother you for a long time."

I explained to him what is happening and all the troubles we are having, and so forth. He was very sympathetic and if I needed help as a last resort, he would give me the backing I need. He said to do everything possible to get Eccles to come in line without bothering him. He didn't say it in just so many words, but that is what he meant.

Bailie: We think we can.

Burgess: I think we are on a basis to work with him now much better than we have been.

H.M.Jr: I am telling you gentlemen that October 1st is the deadline. If I don't get a clear track, I will just have to shove them off the track.

Burgess: I think perhaps today or tomorrow we might sit down and have a review of that thing if you would like to.

H.M.Jr: As I pointed out to the President, I am not going to give up the advantageous position that I have now, that I can choose the time to finance and refund. I don't want somebody else to tell me I have got to do it now at their terms. That is a great deal more important than Mr. Eccles' philosophy of cheap money, with which he can't do anything anyway, and I almost let it slip last night- and I wish I had - at my press conference, "Take a look at the bill market where the Federal Reserve leaves it alone and I borrowed yesterday at half the rate." I almost let it go, but I didn't.

Burgess: Glad you didn't.

H.M.Jr: Mrs. Klotz keeps me down. I won't guarantee to be a good boy indefinitely, though.

Bailie: Just tell us when you are going to be bad before you are.

H.M.Jr: Well, after we all read Pearson and Allen I don't know what I will do.

Riefler: I haven't anything.

H.M.Jr: George?

Haas: I have nothing this morning.

Harris: After the outbreak of hostilities, the first American boat to get in trouble was a boat called the Wacosta. I think I foretold you that she would get in trouble, because she was an American ship and had been chartered to the British to replace one of their ships that they were using for troop carrying. That same company had two other ships which they had chartered at the same time and they now propose to fulfill that charter, and I have discussed it with the Maritime Commission and they say, "Well, they signed the charter before hostilities," and they propose to let them go through with it.

Well, I would like to go on record as stating that it is a very dangerous precedent and if one of those boats loads again on that same berth and a Sub catches her, she will undoubtedly sink her, and I think it is a matter - I have drawn you a memorandum that you ought to at least lay before the State Department.

H.M.Jr: I will lay it before the President. Give me the memorandum and I will lay it before the President.

Harris: The second matter was - I don't know whether you saw this memo last night or not, but it had to do with the abolition of that southeast patrol and working them in conjunction with the Coast Guard. We feel that this plan is a much better plan for the protection of our southern ports now.

H.M.Jr: I am not familiar with it.

Gaston: We are all agreed on it. (Mr. Harris hands document to Secretary)

H.M.Jr: Which is which?

Harris: The patrol is underneath that.

H.M.Jr: Well now, wait a minute. If the President read that he wouldn't get the history on it from that.

Harris: That is for you, you see. I will give you that in....

H.M.Jr: Give me the background.

Harris: Yes.

H.M.Jr: But try to keep it to one page.

Bell: Make the page big.

H.M.Jr: Getting it cold, he wouldn't know, you see.

Harris: Well, this is for you.

H.M.Jr: What are you people doing on the southeast patrol?

Gaston: Abolishing the Customs motorized patrol around Florida and the Gulf. It doesn't seem to be of any great value. The Coast Guard can take care of it as far as belligerent ships are concerned.

Harris: We have a lot of ports down there - ships are going in and out and they haven't even got a Customs man there.

H.M.Jr: One port where you haven't got anybody and a ship came in and out - Bocagrande.

Harris: Wilmington is another one.

H.M.Jr: At Bocagrande they have got a Customs fellow there and he lets his daughter clear the papers. This was a big boat while I was there. She took on thousands of tons of phosphate. No Customs men were on it or anything. I reported it at the time. This man's daughter just gives them, as a matter of formality, Customs clearance. And I think, if I remember rightly, he spends his time as a Customs man down there running the ferry. Now, Bocagrande is the place - is that on the West Coast?

Harris: Yes.

H.M.Jr: That is the place where they shipped most of the American agricultural chemicals. It is a big plant and they ship their phosphate and they have got a fellow there who runs the ferry and his daughter is the clearance, and no agents go on board. I think some of those places - Bocagrande should have a lot of phosphate and phosphate seems to be, the English consider, contraband. You might take a look at some of those outlying ports.

Harris: I will.

White: There are two minor things. A man from the State Department came over to get our opinion with respect to answering a request from the Liberian Government by way of Firestone. They are in need of currency and according to his story they asked the British Government for more coinage and they say the British Government turned them down and they want to know whether it would be all right for us. The request didn't have sufficient data to make it appear anything but either a very unusual transaction or one of negligible economic aspects, so I told them that if he was further interested, to make an official request to the Treasury so that we could comment on it, because it may have political and psychological effects, even though it doesn't have economical effects, so you may or may not hear from him. We didn't give him any opinion.

Then in one of the reports from Nicholson there was a statement to the effect that the Japanese, fearing that an embargo might be placed on exports of certain types of war materials, have already made arrangements with American concerns to ship to the Philippines and they would be re-routed through the Philippines. I don't know how much there is in it, so I am just passing it on.

Then the Universal Trading Company has changed its contract with respect to the price they are going to charge for tung oil. I don't know whether you were notified of that. It is a small thing, but they are just keeping us informed and they got the O.K. of the Treasury, I think, before they did it.

H.M.Jr: What are they going to charge?

White: They are going to make the basis for the charge the price prevailing in the previous month instead of the previous quarter, which will enable them to up their price more rapidly in accordance with the rapidly changing price.

H.M.Jr: The last I heard they were charging 12 cents.

Hanes: 21 cents.

Foley: When that price was fixed, it was fixed in the light of a background contemplating control of the source of supply. They haven't had control of the source of supply and the independent dealers have been getting tung oil in this country at around 25 cents, and this is to - it is to cut down the difference between what the independent....

H.M.Jr: I still say that the last thing I heard, Chan told me that they were charging 15 cents for tung oil and in Hongkong he was only charging 12.

White: That must have been some time ago.

H.M.Jr: Last July.

Foley: It is up as high as 27 cents as far as the independents are concerned.

White: The demand is much greater than the supply and they don't control all the supply, so that there are certain dealers who are making an enormous profit unless the Universal Trading Corporation has the right to follow the market more closely. That is what this new change is doing. I am just keeping you informed.

H.M.Jr: Well, Cotton, being on Export and Import Loan, he ought to watch that.

White: There was a letter which went to the Export-Import Bank about it.

H.M.Jr: Why don't you tell Cotton about this thing and let him watch Universal? Will somebody tell him? Will you tell him for me, Mrs. Klotz?

Anything else, Harry?

White: That is all.

Graves: Nothing.

H.M.Jr: Nothing?

Graves: Nothing.

H.M.Jr: Are you all right on January 1st?

Graves: I am doing some home work now.

H.M.Jr: Incidentally, I had a chance to tell the President what we were doing on extending purchasing to civil departments throughout the country. He is very much pleased and thinks it is moving in the right direction.

What happened about this man Stone?

Graves: Not much of anything happened.

H.M.Jr: Tell them who Stone is.

Graves: Stone is the head of the methods branch of the Bureau of the Budget. He is the fellow who....

Viner: Another personal friend of mine.

Graves: ....considers ways and means of coordinating administrative methods throughout the departments. He has nothing to do with the estimates branch of the service, as I understand. I had an hour's conference with him yesterday and I think his attitude was frankly - I don't believe that they are in position over there to be of any positive help to us.

H.M.Jr: But they don't block us?

Graves: No, on the contrary I am sure they will help us in an advisory way.

H.M.Jr: Which will be the first test case that you have over there?

Graves: You mean which branch of the service?

H.M.Jr: Yes.

Graves: Collins has just gotten in on the various departments. The data he had called for last June giving the facts about their purchasing set-ups, he is just beginning to digest that material. I think he is going to tackle the Interior Department first, because he said to me yesterday....

H.M.Jr: What is he going to do after that?

Graves: Well, I haven't heard anybody say anything about it. I understood him to say that he was going to get in touch with Fry, the purchasing man for Interior, right away. Some of the Interior agencies have already been - that is, the arrangements have already been made. The Housing Administration, for instance, and the branch of Aeronautics in Commerce. We are in the middle.

H.M.Jr: You have got the President heartily approving this thing and the Director of the Budget approving it, so I guess we are all right.

Graves: Yes.

Duffield: As soon as possible, I would like to tell the newspaper men what Mr. Graves is doing and what the background of the whole business is.

H.M.Jr: I would wait a little bit.

Graves: What we have got to do before we will be in that state, I think, is....

H.M.Jr: Then they would be calling for information and information. I would like to let him go along for a month or so.

Graves: We have got to make a blueprint of this whole set-up before we will be in shape.

H.M.Jr: Then they will start asking....

Duffield: They are going to see the Procurement people going in to call on him.

H.M.Jr: Well, no one has asked about....

Duffield: He is the hardest man to see I ever saw. He is never in the hall or anything.

H.M.Jr: Try and see Graves. Let's let it go. All right?

Graves: Yes.

H.M.Jr: Dan?

Bell: We know that the total bids increased yesterday again on Treasury bills.

H.M.Jr: Four hundred and some odd....

Bell: 548 million; that was compared with 480 million the week before and 340 million the week before that.

H.M.Jr: Did the Federal let theirs run off?

Bell: Yes, about 30 million dollars worth, and they bought less than 15 million last night. Other securities in the market - whatever they get today will make that much less in their portfolio.

H.M.Jr: How much did that run off?

Bell: About 30 million.

H.M.Jr: So they have got to buy another 15 million to show....

Bell: ....even. And if they don't get any more today they will show a drop of something like 15 million this week.

H.M.Jr: That makes it perfectly consistent, doesn't it, Mr. Stewart, in an open market operation?

Stewart: That is right.

H.M.Jr: You can write a text-book on how to run an open market operation.

Stewart: Yes.

Burgess: I think it would be reassuring.

Viner: I think it would be very good to show a drop to show that they are controlling and not paying.

Stewart: It will convince the press that it is the Treasury that is doing the buying and not the Federal.

Bell: That is my next question. The last two conferences we had with the Board, this matter has come up both times. I believe it was raised by John McKee. He said there is a feeling on the outside that a billion dollars worth of bonds have been purchased in the last two or three weeks and that the Federal only shows half a billion, so where is the other half billion? I haven't seen any publicity to that effect, but....

H.M.Jr: Neither have I.

Bell: They raised the question as to whether you shouldn't let it leak out some way, I mean not necessarily make it a precedent, that we have purchased some 70 million dollars for our....

H.M.Jr: No, sir. Let them stew in their own juice. After they have been out of the market for one week, then I will talk, and maybe sooner, but not along that line. Why should I pick their chestnuts out of the fire?

Bell: I wouldn't see any particular harm....

H.M.Jr: Let's take a look at that and we will see. If you get me giving out leaks, I am afraid.

Bell: Well, I didn't exactly mean a leak but I thought maybe a question might be asked you at a press conference.

H.M.Jr: It is dangerous, Dan, to question me.

Bell: Let's don't do it, if it is dangerous.

H.M.Jr: If you get me started on that thing, I am going to talk plenty.

Bell: I haven't seen anything in the paper about that, but I wouldn't want the impression out that we have purchased that half a billion and are hiding it.

H.M.Jr: Who has got that information?

Bell: I don't know. I haven't seen it.

H.M.Jr: It is imagination.

Bell: It has been raised twice in the last two weeks.

H.M.Jr: It is in nobody's mind except the Federal Reserve Board.

Viner: Ask them to send you the clippings, Dan.

Bell: Well, they are so closely in touch with all the banks of the country that it probably came from the banks.

Viner: Maybe it came from Burgess.

Burgess: I think the primary argument now is to keep the publicity down on this. It has been too much on the front financial page, and so on, and the less that can be said about it now, the better. I think there is theoretically a case for the public knowing parallel what the Reserve System is purchasing and what we are purchasing. We do ordinarily give that out, once a month.

H.M.Jr: The 15th of the month for the month before. We have never broken that.

Burgess: Well, I think that now in view of the undesirability of publicity that it might be just as well to let it ride.

Bailie: I think there is a very strong reason against breaking that rule, Mr. Secretary, because you give the impression that trust funds are being used to manipulate markets, which we do not wish to give at all.

H.M.Jr: Not when we are not very good at the manipulating.

Bailie: You said it.

H.M.Jr: When we have been successful, we don't mind what fund we have used.

Bailie: You never have advertised it.

Bell: I think the smart boys can figure out about what we are doing because the redemptions at two percent show up daily on our daily statement.

H.M.Jr: Let John McKee put on his gas mask.

Any other news?

Bell: That is all.

H.M.Jr: Thompson?

Thompson: I am having the papers prepared in the case of Mr. Cottrell, in whom Mr. Rayburn is interested.

H.M.Jr: Check that with the Commissioner. Tell Mr. Hanes about it and then when you walk it over I will sign it.

Thompson: It has to do with Civil Service and he also has to take a physical examination.

H.M.Jr: Why don't you send for the man?

Thompson: I have already done that.

H.M.Jr: Fine.

September 26, 1939

11:15 a. m.

Present:

Chinese Ambassador
Mr. Cotton
(Dr. White at the very end)

HM,Jr: Do you know Mr. Cotton?

Ambassador: Yes; we have met before.

HM,Jr: Mr. Cotton is the Treasury Director on the Export-Import Bank. Having some idea of what you have in mind, I thought he might just as well hear it.

Ambassador: I come to report to you an interview I had with the President, just two weeks ago last Friday. He was gracious enough to give me an interview.

After reporting to him the international situation in the East created by these stupendous changes in Europe, I was reporting to him that this situation made our Government very nervous. On one hand we were afraid of the steps Russia might take; on the other hand we are afraid that the Allies, England and France, might desert us and might come to agreements that would be very disadvantageous to China. We were most afraid that not only the concessions, the International Concessions, might be affected, but also these two routs, the two back doors of communication, transportation, might be affected.

Only one minute ago my Secretary called me up -- and this is diversion -- just a momment ago my First Secretary called me up. Just after I left they got a cable from the Government saying that the French Government had enforced under the war emergency, in French Indo-China ordinances ....

HM,Jr: What does that mean?

Ambassador: .... under which the French Government forbids Chinese munitions, motor cars and gasoline -- they specified these three things: Chinese munitions, motor cars and gasoline -- from passing through French Indo-China.

HM,Jr: That is serious.

Ambassador: That is very serious. One of those things we were afraid.

Reporting thesee, my Government was really jittery and I told the President that last year, at our worst moment, the American Government gave us .....

HM,Jr: They won't permit what to go through? Munitions?

Ambassador: Munitions, motor cars and gasoline.

HM,Jr: Munitions, motor cars and gasoline.

Ambassador: Yes, to go through French Indo-China to China.

Mr. Cotton: These are purchases already made?

Ambassador: All purchases already made. This just came this morning, just after I left the house. They were decoding when I came here. My Secretary called me up.

HM,Jr: Humph!

Ambassador: That was one of the things we were afraid of. I was telling the President, last year at our worst moments the American Government gave us this $25,000,000 loan, credit, which really had its life-saving and life-sustaining effect, sort of injection to strengthen the heart at a time when the heart was really sinking. And I reported what Mr. Chen had reported to me -- Mr. K. P. Chen reported to me -- about the uses and expenditure and the great cooperation which the Treasury Department has given to us, given to him and the Trade Corporations and all the purchases. I gave the President a general summary of the purchases, of the character of the purchases, including the 5,000 motor cars, trucks, and medical supplies, and so on.

I reported that the money is now spent, although not entirely paid out, but by October, by the middle of October, all the payments will be made and that will mean the end, the exhaustion of this loan. I was asking the President if at this very trying moment your Government might be pleased to give us another injection, another life-saving injection, in the form of a loan. That would greatly strengthen our morale and buttress our courage at this time. Also indirectly give a manifestation of the American attitude of sympathetic support to China to the other nations.

The President was very much interested. He asked about certain details. For example, payment of this last credit, and I reported that three installments had been paid on it. He was very much pleased. He said, "That is highly complimentary; that alone should be a good excuse of renewing or extending more credits." And he asked about securities. I told him that I learned from Mr. K. P. Chen that wood oil, tung oil, the annual production is about 44,000 tons a year and in about five years, under the contract, in five years the total production will be about 220,000 tons. At the market price of $440.00 a ton, that would be enough, would be in five years' time worth $96,000,000.

Then I also reported to the President that just that week my Government had notified Mr. Chen and myself that the Central Government was taking over the tin, the control of the tin, production of tin, which constitutes about 70% of the world's production, which amounts to 10,000 tons a year from the Province of Yunan and 3,000 tons from the Province of Kwangsi, so about 13,000 tons a year, and tin at that time was worth $1,100 a ton and now, in 2 weeks' time, I am told, the price is $1,200 a ton. So that, if we talk in terms of five years, the tin would be worth at least between $60,000,000, $60,000,000 or $70,000,000. The President was interested in this. He said, "I will see the Secretary of the Treasury."

<u>HM,Jr</u>: Mr. Ambassador, I have been waiting for two weeks to hear from you.

<u>Ambassador</u>: I did not dare to come in to see you because of the disturbed condition . I know you have

been very busy. That's why I did not dare intrude.

HM,Jr: For two weeks I have -- I heard about the loan against tin, which you raised, and I could not understand why I did not hear from you.

Ambassador. I am glad you told me. I felt I should not intrudé at a time when your Government must be very, very busy on the war situation.

HM,Jr: I have always seen you when you have asked.

Ambassador: You are very kind and because you are kind, I feel hesitant in intruding.

HM,Jr: Mr. Ambassador, what did the President say about the question of a loan to you?

Ambassador: The President said, he said he was very much, he said, that's all he said to me. He said, he said the Chinese Government has paid promptly on this $25,000,000 loan, on schedule, and that's, that loan will be a good reason for extending another loan.

HM,Jr: Let me ask you this question. In view -- they won't let you bring tin out through Indo-China, will they?

Ambassador: I think if these are commercial, ordinary business, it goés. I don't think there will be any reason.

HM,Jr: Have you got a little time to sit down ....

Ambassador: Yes, sir; I have.

HM,Jr: .... with Mr. Cotton and Mr. White?

Ambassador: Yes, sir.

HM,Jr: Would you?

Ambassador: Yes, sir.

HM,Jr: And go over this thing more fully?

Ambassador: Yes, sir. I don't want to take too much of your time.

HM,Jr: No. I would like you, if you have a few minutes, to sit down with Mr. Cotton and Mr. White and go into this thing more fully.

Ambassador: Yes, sir.

HM,Jr: Production, and how you get it out, and give them in more detail just what -- I mean, so we would know as much about tin as we do about tung oil.

Ambassador: The tin, the tin, 3,000 tons of tin of Kwangsi has already been transferred to the control of the National Committee of Resources, but this is tin, and the 10,000 tons of tin from Yunan has always been under Provisional Government and the Commissioner of Finance of the Province, Mr. Miller (?) is an American, educated engineer there, efficient engineer, has been running this, but they are rather jealous of the foreign exchange value that this tin will bring to Provisional Treasury, so the Government, only last -- day before yesterday, Mr. K. P. Chen telephoned to me that he got wire from Dr. Kung that this transfer is completed.

HM,Jr: I see.

Ambassador: That the Central Government promises to pay the fixed amount of foreign exchange to the Provisional Treasury as a guarantee of the Provisional currency so that the Central Government from now on will be able to take over this tin, completely.

HM,Jr: Well, it's a question of delivery and how you are going to deliver it and where you are going to deliver and where you are going to ship all that stuff and everything else and, as I say, if you had the time to sit down with Mr. White and Mr. Cotton, why ......

Ambassador: I would be very happy.

HM,Jr: .... and give it to me in more detail.

Ambassador: You want me to talk over with Dr. White and Mr. Cotton .....

HM,Jr: If you would.

It's a privilege, Mr. Ambassador, to see you any time.

Ambassador: Shortly after the President returned I noticed that the Government was calling this special session of Congress and the President and all members of the Government conferring with leaders of the different parties, I thought I had better wait.

(At this point, Dr. White came in.)

HM,Jr: (To Dr. White) The Ambassador has brought up the question of another loan to China against tin and I have asked him to talk to you and Mr. Cotton in more detail.

oOo-oOo

September 26, 1939
12:06 p.m.

HMJr: Hello.

Operator: Ambassador Bullitt. Go ahead.

HMJr: Hello.

Bill Bullitt: Hello, Henry. How are you?

HMJr: I'm all right.

B:

HMJr: Bill, I'm just going on the theory that the French Government listens anyway.

B: Hello.

HMJr: Hello.

B: Hello, Henry. I'm afraid this call is going by way of England and it's hard to hear.

HMJr: Well, can you hear me fairly well?

B: I can hear you now. I couldn't a moment ago. I hear you now.

HMJr: Well, the Chinese Ambassador was just in here five minutes ago......

B: Yes.

HMJr: ......and he tells me that the French Government have gotten out an order that no more gasoline, munitions or trucks can go through Indo-China.

B: the Chinese Ambassador?

HMJr: Yes.

B: That no more gasoline, munitions or trucks.....

HMJr: Or motor trucks.

B: Yeah.

HMJr: Can go through French Indo-China.

B: Yes.

HMJr: And I thought you might ask them how come.

B: Yeah.

HMJr: Because that's pretty serious.

B: Yeah. Gasoline and motor trucks especially.

HMJr: Yeah.

B: The other has always been forbidden.

HMJr: That's right.

B: Henry......

HMJr: Yes.

B: ......did you get my telegram about the American hospital?

HMJr: I handed it this morning to Johnny Hanes and he'll give you an answer tonight.

B: Fine. I'm delighted.

HMJr: I gave it this morning to Johnny.

B: Yeah. I'm very much obliged to you.

HMJr: He'll do the best he can.

B: Fine. Henry, I'll get on that job immediately because -- and I don't believe anything new in that regard, because I only finished discussing matters in that area at three o'clock this afternoon.

HMJr: I didn't get that, Bill.

B: I say, I had a long discussion on affairs in that area which ended only three hours ago.

HMJr: I see.

B: But I will get on it right away.

HMJr: Well I thought you'd want to know because I know how much interested you are.

B: But I -- I'll g e t y o u something on that subject yet.

HMJr: Right.

B:

HMJr: Yes. I understand.

B: Yes.

HMJr: Well, if you'd find out I'd appreciate it.

B: Thank you very much indeed, Henry. Much obliged to you. How are you?

HMJr: I'm just fair. I've got jaundice.

B: Oh, what a shame!

HMJr: Yeah.

B: Henry, tell me about the chances of the Neutrality Act.

HMJr: The chances?

B: Yes.

HMJr: I think they're good.

B: You do think they're good?

HMJr: Yes, I do.

B: And when do you think it may come through?

HMJr: Oh, I don't think it'll under three weeks at the earliest.

B: Oh, you think it will take that long?

HMJr: Yeah.

B: That's too bad.

HMJr: I would say -- I'm afraid three weeks.

B: Yeah. Well, good luck, Henry. Thank you very much for calling me.

HMJr: Goodbye.

B: Goodbye.

HMJr: Goodbye.

September 26, 1939
2:16 p.m.

Joseph
Kennedy: Hello, Henry.

HMJr: How are you?

K: Oh, I'm fine.

HMJr: Joe, I wonder if there's anybody in the British Government who watches the sales of securities in the United States?

K: I wouldn't think so.

HMJr: You don't think so?

K: I don't know any way that they'd know it up until the last two or three weeks.

HMJr: Well I mean now.

K: Well, now I -- I imagine that they probably do. I -- yes.

HMJr: Well, I -- I wonder, would you mind sort of making some inquiries?

K: Yeah.

HMJr: Because everything is going fine now but if it didn't go so well in our own market why then we might want to talk to somebody.

K: As a matter of fact, Henry, it isn't the practical thing for them to do
having taken everything over......

HMJr: Yeah.

K: ......they -- they have to know every vantage because they are permitting people to sell their securities provided they return the -- the power to them at once, so they'd have a record of that.

HMJr: Yeah.

K: But I would think that it was only a question of a short time when their -- they take -- when even that power would be taken away from them and that everything would be under Government.

HMJr: Well......

K: So I'll get busy tomorrow. Now then this -- of course this report comes tomorrow......

HMJr: Yeah.

K: ......and I'm seeing Montague Norman on Friday morning and I'm -- I'm writing you a pretty definite report on what I think of the financial situation here.

HMJr: Yeah.

K: And what I think is -- is probably the line of direction.

HMJr: Well, there's nothing that we're worried about now but I'm looking to the future.

K: Yes, of course.

HMJr: And the time might come where the -- if there was somebody that we could talk to or you could talk to for us....

K: Yes.

HMJr: ......why, it would be helpful.

K: I'll find out tomorrow, Henry, and then we -- we -- I think that can be arranged.

HMJr: Because -- for your information they're -- they're continuous sellers here.

K: Yes, of course.

HMJr: And, as I say, the market takes it very nicely, but there might come a time when they wouldn't.

K: Well, they asked me about that question about ten days ago.

HMJr: Yes.

K: And I told them that I never -- I could see no difficulty in selling on a rising market.

HMJr: No.

K: And......

HMJr: Then the -- the natural question, what are they going to do on a falling market.

K: Yes -- well, it's most -- it all depends on what the demands are at that time but I'll -- I'll get on that tomorrow. But I'll have something to say about that as a matter of policy in my report that I'm sending to the President and I'll put on it for you as well as Hull.

HMJr: Will you do that?

K: Yeah.

HMJr: All right. How are you otherwise?

K: I'm fine, Henry. How are things there now, all right?

HMJr: They're all right. I -- I think we're all right on this legislation.

K: You do think so?

HMJr: Yes, but I think it's going to take at least three weeks.

K: Yeah. Well every -- I -- everything I had heard said it would take a month, but I think any time anything takes a month nowadays it's always very difficult.

HMJr: Yes, it isn't going to be easy but I -- as far as a fellow can tell as of today, I think it's all right.

K: Well, I'm glad of that because that's -- that's pretty important at the minute.

HMJr: Yeah, the boss is doing nothing else but that.

K: somebody said he was quite tired.

HMJr: Quite what?

K: Tired.

HMJr: No. No, I was with him yesterday for lunch and he -- in fact, he said he didn't have enough to do.

K: He didn't?

HMJr: No.

K: (Laughs)

HMJr: He said -- he said, "All I'm doing here is sitting here and interviewing Senators and Congressmen on this neutrality legislation." He said, "Outside of that I've got nothing to do."

K: (Laughs) Oh, my gosh!

HMJr: What?

K: Oh, my golly.

HMJr: So he's all right.

K: In spite of that, I don't know where -- where we'd get off if he didn't have that disposition.

HMJr: That's right. And -- and he really is working awful hard on this neutrality thing.

K: Oh, I judged that.

HMJr: Yeah.

K: Well, it's very important for the peace of the world.

HMJr: You bet.

K: All right, Henry. Well I'll get busy on this and don't give it any more concern. I'll get it lined up for you.

HMJr: Yeah, and if you're sending some report over, put a note on it to show it to me.

K: I'll -- (connection bad)

HMJr: Hello.

K: (Cannot understand because of connection)

HMJr: O. K.

K:

HMJr: What's that?

K:

HMJr: Hello?

K: Is Johnny Hanes there?

HMJr: I didn't hear that Joe.

K: Is Johnny Hanes there?

HMJr: Is who?

K: Johnny Hanes.

HMJr: I -- I'm sorry I don't get it.

K: The Under-Secretary.

HMJr: Is he in the room?

K: Yeah.

HMJr: No.

K: I was going to ask him about a fellow.

HMJr: No, I don't know if he's in his office. Do you want to talk to him?

K: Well, if he's -- if you can connect me up with him I'd like to speak to him a minute.

HMJr: Well now, just a moment. Hold on a minute.

K: All right.

O: Operator.

HMJr: If Mr. Hanes is in his office Ambassador Kennedy wants to talk to him.

O: All right. I'll get him right on.

HMJr: Thank you.

September 26, 1939
2:44 p.m.

HMJr: Hello.

Operator: Mr. Frank. Go ahead.

HMJr: Hello.

Jerome Frank: Hello.

HMJr: Morgenthau -- Henry.

F: Yes, sir.

HMJr: How are you?

F: Very good, thank you. Aren't you feeling well?

HMJr: No.

F: I'm sorry to hear that.

HMJr: I've got catarrhal jaundice.

F: Oh, I had that once.

HMJr: What did you do for it?

F: Oh, you have -- one school of doctors starves you.....

HMJr: Yeah.

F: And the -- and I almost died of the starvation, and then they -- the other school told me to eat as much as I wanted to, which wouldn't be too much.

HMJr: Yeah.

F: And then it took me about two weeks.

HMJr: Well, this Doctor Lyons, who is a good doctor, said there is nothing that I can do to help it. It may be several days or several weeks, so I told him I was going to get myself a good veterinarian.

F: (Laughs) Well, I tell you, the part -- the only part that's unpleasant about it is you get a feeling of lassitude.......

HMJr: Yeah.

F: ......but the unpleasant part is when it begins to itch.

HMJr: Well I haven't got there yet. I hear that happens too.

F: Well the only -- the only thing I found that was worth -- worth a damn was alcohol with a lot of menthol in it.

HMJr: Really?

F: And that -- nothing else does you any good.

HMJr: With menthol. You mean a rub-down?

F: Yes, keep putting that on when it itches, because the menthol will cool it and stop the itching.

HMJr: Did you stay home?

F: Oh, I did for a while and then I -- it doesn't make any difference what you do.

HMJr: No.

F: You just don't feel like doing anything.

HMJr: Yeah. Well, I got it anyway.

F: (Laughs) I don't envy you.

HMJr: To keep you posted, I called up Joe Kennedy today and said, "Joe, isn't there somebody in the British Government that knows about what American securities are selling"? See?

F: Yes.

HMJr: You remember you and I talked.......

F: Yes.

HMJr: ......about this. And he said, "Well I suppose there is." He said, "They talked to me about it several days ago," and he said, "I told them as long as they were selling on a rising market everything was lovely."

F: Yes.

HMJr: So I said, "Well, that's just it, but I don't want to have to raise the question if they start to sell on a falling market."

F: Yes.

HMJr: And I said, "Can't you find out - isn't there some person that Washington can talk to." See?

F: Yes.

HMJr: In case the thing -- before anything should happen.

F: Yes.

HMJr: So he said, "You're quite right," and he said, "I'll talk to them and find out." And if he does let me know why I'll let you know right away.

F: Fine. You mean to have somebody here that we could talk to?

HMJr: That's right.

F: Yes, that would be a very excellent idea.

HMJr: That's right.

F: Thank you very much for calling me.

HMJr: It's just so that you know, because......

F: Yes, all right. A splendid idea!

HMJr: Thank you.

F: And I hope you feel -- I hope you get over it very soon.

HMJr: Thank you. Goodbye.

Columbia University
in the City of New York
SCHOOL OF LAW

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September 26, 1939

Dear Henry:

I enclose herewith a brief general memorandum on the excess profits tax, together with a short bibliography of discussions of it. The memorandum was prepared by Carl Shoup, with a few amendments by myself.

We have covered the subject in the most general manner only, since it was my understanding that you wanted something brief to read for your general information. I am sure that there must be many extensive discussions of different aspects of the excess profits tax in the Treasury's files, and I should think that Blough and Tarleau could dig up for you the most useful for your purposes. If you want Shoup or myself to work on particular aspects of the subject, please do not hesitate to call on us.

I enjoyed very much seeing you the other day, and I hope that we can have another visit together in the next month or so. I hope that you will be careful to relax and ride horseback and the like as much as possible, for I know the strain of your day's activities must be very great.

With warm regards,

Sincerely yours,

Roswell Magill

Roswell Magill

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

NOTES ON THE EXCESS PROFITS TAX

The excess profits tax evolved during the World War. It was used by most of the belligerents and several of the neutrals. Shortly after the war it disappeared almost completely, and at the outbreak of the present war only fragments or weak imitations of it were to be found. Under the fiscal strains now developing, however, it is likely to reappear in many countries; Canada, for instance, enacted an excess profits tax on September 12.

The special taxation of unusual gains obtained in wartime may take either of two main forms:

1. A tax may be levied on the increase in an individual's wealth. This is not, strictly speaking, an excess profits tax, since it is not based directly on income. It may, however, serve as an alternative to, or, as in Germany in the World War, a complement to an excess profits tax. It would probably not be available for the United States until the constitutional restrictions on direct taxation were removed.

2. A tax may be levied on income - chiefly, perhaps wholly, business profits. The tax strikes only that part of the profit that is deemed "excessive." To ascertain whether a given profit is excessive, either of two tests may be used:

(i) The firm's profits for the year in question (say, 1940) can be compared with the profit in some year fixed in the law (say, 1938) and the tax then imposed on the amount by which the 1940 profits exceed the 1938 profits. Hence this method uses what we may call "the profits standard," as contrasted with the "invested capital standard," to be discussed under (ii) below. The profits standard is arbitrary for several reasons: (1) 1938 may have been a good year or a poor year for any particular firm. Instead, two or three pre-war years might be taken and their results averaged. Or the taxpayer might be given his choice of several years. Still, the method is unsatisfactory, and grows increasingly so as time goes on. (2) Some firms will have expanded greatly after 1938 (or whatever other basic year is chosen), and their total profits in 1940, 1941, etc., may be much greater than in 1938, yet be no more than a modest return on the total capital invested, and obviously not excessive. (3) New firms spring up, with no pre-war year to go by. So faulty is this method that, so far as I am aware, none of the excess profits taxes placed exclusive reliance on it.

(ii) The firm's profits can be compared, not with the profits of any pre-war year, but with the amount of capital invested, and the tax can then be applied to that part of the profits that seems to be above a fair return on the capital. Thus a fair return might be deemed to be 8 per cent, and if the concern were earning 12 per cent, the 4 per cent would be treated as "excessive" and hence taxable. This method therefore uses the "invested capital standard."

It is better than the profits standard, insofar as it takes care of cases that the "profits standard" cannot logically cover - new firms, and firms that are expanding and shrinking, but it is much more difficult to administer. The ascertainment of "invested capital" involves many complex problems. The setting of a fair rate of return is very troublesome; for instance, concerns in an unstable industry, where chances of loss are great, equitably should be allowed a higher fair rate of return than concerns in stable industries, but the difference between the two cannot be arrived at with precision. Ordinarily no such allowance has been made. More important, the determination of the exact total amount of investment in a business which has gone on for many years, obtaining new capital and retiring old security issues, and perhaps reorganizing, presents legal problems of great difficulty and magnitude. There is bound to be a considerable amount of controversy and subsequent litigation.

Common to both methods (profits standard and invested capital standard) are several other serious problems, of which only the most important can be noted here. If an individual owns one business that is making excess profits and another business that is losing money, shall the latter be allowed to offset the former, so that no tax is imposed? If a business is getting only a modest rate of return from security investments that are not necessary to the conduct of the business, shall this modest return be averaged with the excess profits from the business operations proper, thus lessening the "excessiveness" subject to tax? Shall interest paid to bondholders (and preferred dividends, perhaps) be deductible in determining profits? Shall the heavy losses that commonly occur after the war be allowed as an offset to the excess profits of the war period, thus necessitating refunds, or long delay in computation of tax due? Shall the tax be only on "real" excess profits, that is, profits that remain after adjustment has been made for a rise in the general level of prices? If the tax is believed to be a temporary one, business men are induced to spend money in ways - for instance, advertising - that may bring in the benefits only later, after the tax is repealed; can this unusual, perhaps socially wasteful, increase in business expenditures be prevented? Shall the tax apply to corporations only; and if not, shall farmers be included? These questions do not mean that the tax cannot be successfully imposed; the experience of the World War shows that it can be. But the law cannot be drafted and enacted overnight, and it must either give wide discretion to the administrative force or be drawn in great detail.

Both the United States and Great Britain used a combination of the invested capital standard and the profits standard. Great Britain put somewhat more emphasis on the profits standard than did the United States, which used it only for 1918 and then only as an option against the taxpayer (he had to pay under whichever standard gave the most tax). Under the British tax the taxpayer could choose whichever standard gave the least tax.

The British tax, enacted in 1915, and the United States tax, enacted in 1917, were both repealed in 1921. (Both had been preceded shortly by excess profits taxes applying to munitions manufacturers only.) They were highly productive; the American tax yielded $1,600,000,000 on 1917 incomes, $2,500,000,000 on 1918 incomes, and $1,400,000,000 on 1919 incomes. In the five years 1915-16 to 1919-20, Great Britain collected nearly one billion pounds from the excess profits duty - approximately one-fourth of her total receipts from both tax and non-tax revenue (not including borrowings). These amounts reflect high tax rates; at one time on another they reached 80 per cent in both countries.

The French war profits tax was enacted in 1916. It was in force long enough to cover profits realized between August 1, 1914 and June 30, 1920. Apparently, chief emphasis was placed on the profits standard as arrived at by averaging the profits of the three pre-war years.

Among other countries that used the excess profits tax were Austria, Greece, Hungary, Italy, Japan, the Netherlands, Russia, Spain, Switzerland and parts of the British Empire.

If the United States should become involved in war, the pressure for an excess profits tax would almost surely be irresistible.

So long as the United States stays out of the war, the arguments for an excess profits tax are:

1. By reducing the chance for huge gains from dealings with the British and French, the tax would reduce the financial stake that our business concerns would have in the success of those nations and might to that extent assist in preserving our neutrality.

2. By taking gains that on the whole would be above the level needed to induce investment and production, the tax would repress industry and trade less than almost any other tax increase. Even if no increase in total tax revenues were needed, the proceeds of an excess profits tax would be useful in allowing the reduction of certain other taxes that tend to restrict business.

3. The appropriation of part of such profits by the government would accord with the community's sense of justice.

The arguments against the tax are chiefly the difficulties of definition and administration adduced in earlier pages above.

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司公業商興復
FOO SHING TRADING CORPORATION
Sun Sun Gardens, Chungking.

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26th September 1939.

Secretary Henry Morgenthau, Jr.
Treasury Department,
Washington, D.C.
U.S.A.

Dear Mr. Morgenthau,

I am enclosing herewith two memoranda which I think may be of interest to you.

Sincerely yours,

J. Lossing Buck
per M.C.

J. Lossing Buck.

To be read by Haas White Cotton

RECEIVED
Treasury Department
OCT 31 1939
Division of
Monetary Research

INTERVIEW WITH MR. Y. T. MIAO

Kunming, September 12th, 1939.

Mr. Miao's Personal Position. Mr. Miao reported to me that he was in a very difficult position and that many people did not understand him and that he was primarily a business man. He feels that he is obstructed in many things he would like to do for the development of Yunnan and for the cooperation of Yunnan and the Central Government by his colleagues who have a much less broad vision. I can very readily see how this can be entirely true since Mr. Miao has been part of the local picture for years. Of course, as a matter of fact his opinion is greatly respected and the Governor knows that in any case, he must have Mr. Miao's approval; otherwise, he may even give up his position as manager of the new Futien Bank.

Mr. Miao reported the good relationship between the Governor and the bank saying that the Governor respects the bank as a business organization and does not require overdrafts and supports Mr. Miao whenever unscrupulous business men attempt to obtain loans from the bank for projects which are financially unsound.

Yunnan Tin and American Credit. Mr. Miao stated that Yunnan was now ready to contract its tin for 10,000 tons a year in return for American credit to China. He spoke of the high quality of the tin as being desired above other tin in the market.

Yunnan Wood Oil. Mr. Miao indicated his willingness to turn over the Yunna wood oil to Foo Shing but stated that he would like to keep one third of the foreign exchange for Yunnan. I imagine there may be some way of adjusting this since the

Yunnan government and the Central Government are now discussing the whole question of foreign exchange accruing from the export products. The amount of wood oil exported from Yunnan from 1st July 1938 to 30th June 1939 was about 3,500 tons.

Mr. Miao and American Cooperation. Mr. Miao on this as on previous occasions again indicated his interest in American technical assistance as well as American equipment. He responded favorably to my suggestion of obtaining the services of Dr. Robert Pendleton now with the Siam government for the purpose of practical recommendations for crop products in Yunnan.

INTERVIEW WITH MINISTER WONG WEN-HAO

Chungking, September 24, 1939.

Dr. Wong came and had breakfast with me and we had about a two hours' talk on various matters. I will classify these remarks by subject.

The European War and China. Dr. Wong is very much discouraged over the outbreak of the European war since it means the discontinuance of help which China was receiving from England.

China and Internal Politics. He is also discouraged over the internal politics even among the small group of highest officials. I should judge the situation is like internal politics in any country, but he like others naturally expects to find less of it during the period of war than in normal times. He mentioned particularly the difficulties between Dr. H. H. Kung and T. V. Soong and the attempts of General Chang Chun, the Secretary-General of the Supreme Defense Council and Vice-Premier of China to influence the Generalissimo with appointments of as many of General Chang's own men for positions in Szechuan province of which the Generalissimo is now Chairman. It may be stated at this point that Governor Wang was made to resign and it was officially announced that Governor Wang was anxious to go to the front to fight. That is presumably where he has gone.

China and American Experts. Dr. Wong again expressed his interest in and his desire for practical Americans to assist in the development of West China in the field of agriculture, mining and industries. He even went so far as to say that such men should come out and hold definite positions in the Government for doing actual work rather than holding the position of advisership. He also stated that many Chinese would be very happy to work with such men and would be inspired by the opportunity. I think Dr. Wong is correct in this analysis because the younger Chinese do welcome the opportunity of working under Americans of experience in preference to Chinese without similar experience. Dr. Wong indicated that he would be communicating with me later in regard to this matter. He was also quite pleased with my report of the possibility of obtaining American agricultural extension men to assist in the development of Chinese agriculture. He himself suggested a matter I had also thought of and that is the use of some of the China Foundation funds (American Boxer Indemnity Funds) for the bringing out of a few such experts. He also indicated that it is being planned that I become one of the trustees in the changes to be made next year.

China Tin. Dr. Wong spoke of the possibility of utilizing the Yunnan tin as a basis of a further credit from the United States and indicated that there are only two problems connected therewith: (1) deciding how much of the credit obtained would be assigned to Yunnan, and (2) the quality of the tin. In this latter point Mr. Miao in talking with me spoke as though the quality of Yunnan tin was already such that it is preferred in the market above other tins, but I expect there is some point in Dr. Wong's feeling that in making any arrangement, probably some improvement could be made in the smelting and refining of the tin and possibly in the mining methods where the labor conditions are most appalling.

Dr. Wong also spoke of Kwangsi tin as being entirely contracted for in the barter arrangement between Russia and China. He spoke of the large amount of Chinese products going to Russia mostly from the east and south of China by steamer and that wool was the only large export overland from Northwest China.

The Generalissimo. Dr. Wong in discussing various matters spoke of the fine leadership of the Generalissimo and stated that he believed there is no other man in China who could succeed in as good leadership as the Generalissimo is giving the Chinese people.

司 公 業 商 興 復

FOO SHING TRADING CORPORATION

Sun Sun Gardens, Chungking.

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27th September 1939.

Secretary Henry Morgenthau, Jr.
Treasury Department,
Washington, D.C.
U.S.A.

Dear Mr. Morgenthau,

I am sending you the continuation of report on my interview with Dr. Wong Wen-hao which I mailed to you yesterday and two other memoranda.

Sincerely yours,

J. Lossing Buck
per MC

J. Lossing Buck.

To be read by
Haas
White
Cotton

Encl:

JLB:MC

CONTINUATION OF REPORT ON INTERVIEW WITH
MINISTER WONG WEN-HAO

Chungking, September 24, 1939.

Dr. Wong reported upon the co-ordination of the four Government Banks with the Generalissimo as head. Dr. Wong deprecated the appointment since the Generalissimo is a military man and knows little about banking and also spoke unfavorably of General Chang Chun's part in advising Dr. Kung to make such an appointment.

AMERICAN TRANSPORTATION MISSION

Chungking, September 27, 1939.

The Chinese Government is giving the American transportation experts every facility and cooperating with them whole-heartedly in the sincere desire of improving the transportation situation. The Ministry of Communications took special pains to give these men a well-furnished house and left no stone unturned to provide for their personal comfort. It is a safe prediction that the visit of these experts will result in very material improvement in transportation.

Foo Shing trucks are just beginning to be put into operation and there are about fifty or sixty now operating. The number should increase by at least about twenty each day. Unfortunately, there was a bridge washed out on the Burma road which is delaying one hundred trucks ready to proceed to Kunming. The French Indo-China authorities seized thirty-six of our trucks at the time first orders came through from France for commandeering various means of transportation. Mr. Groff took the matter up with the French authorities and secured the order for their release.

WOOD OIL

Chungking, September 27, 1939.

The recent slump in the amount of wood oil shipped from Hongkong was apparently caused by several factors. (1) At Chungking there has been difficulty in securing commercial trucks for transporting wood oil because these commercial trucks in turn were unable to obtain gasoline. (2) Another factor in the situation which has not been stated to me but which I fear may be one of the causes is the fact that the Government has a set price which I understand commercial trucks find too low to cover operating costs in case they carry government goods in both directions; (3) the spoilage of wood oil en route by seepage of rain water in the container; (4) the stoppage of shipment by the French authorities from Dong Tong to Haiphong for a short period; (5) the flooded roads in Kwangsi.

When I passed Kunming in September from the 9th to 14th, I found that the wood oil arriving in Kunming is being promptly shipped to Haiphong and there has been no accumulation in the godown as at the end of last June. At Chungking, the present godown is not very satisfactory and within half a month, the loading capacity at one time will be ten units as compared with two at present. Mr. Groff recommended last July a site further up the river which necessitated extension of the road. Today Mr. Groff will investigate whether or not this recommendation was carried out, if not and whether it is still practicable.