DIARY

Book 220

October 30 - October 31, 1939

TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE
Monday, October 30, 1939
10/30/39

Press Service
No. 19-20

The Secretary of the Treasury, on behalf of the Reconstruction Finance Corporation, is today offering for subscription, at par and accrued interest, through the Federal Reserve banks, $250,000,000, or thereabouts, of notes of the Reconstruction Finance Corporation, designated 1 percent notes of Series S. The notes will be dated November 10, 1939, and will bear interest from that date at the rate of 1 percent per annum, payable January 1 and July 1 on a semiannual basis. They will mature on July 1, 1942, and will not be subject to call for redemption prior to maturity. They will be issued only in bearer form with coupons attached, in denominations of $1,000, $5,000, $10,000 and $100,000.

The notes will be fully and unconditionally guaranteed both as to interest and principal by the United States. They will be exempt both as to principal and interest from all taxation (except surtaxes, estate, inheritance, and gift taxes) now or hereafter imposed by the United States, by any Territory, dependency, or possession thereof, or by any State, county, municipality, or local taxing authority.

Subscriptions will be received at the Federal Reserve banks and branches, and at the Treasury Department, Washington; they will not be received at the Reconstruction Finance Corporation. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve banks and the Treasury Department are authorized to act as official agencies. Subscriptions from banks and trust companies for their own account will be received without deposit but will be restricted in each case to an amount not exceeding one-half of the combined capital and surplus of the subscribing bank or trust company. Subscriptions from all others must be accompanied by payment of 10 percent of the amount of notes applied for.

The right is reserved to close the books as to any or all subscriptions or classes of subscriptions at any time without notice. Subject to the reservations set forth in the official circular, all subscriptions will be received subject to allotment. Payment for any notes allotted must be made or completed on or before November 10, 1939, or on later allotment.

The text of the official circular follows:

RECONSTRUCTION FINANCE CORPORATION

1 PERCENT NOTES OF SERIES S, DUE JULY 1, 1942

Dated and bearing interest from November 10, 1939

FULLY AND UNCONDITIONALLY GUARANTEED BOTH AS TO INTEREST AND PRINCIPAL BY THE UNITED STATES, WHICH GUARANTY IS EXPRESSED ON THE FACE OF EACH NOTE

Exempt both as to principal and interest from all taxation (except surtaxes, estate, inheritance, and gift taxes) now or hereafter imposed by the United States, by any Territory, dependency, or possession thereof, or by any State, county, municipality, or local taxing authority

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1939
Department Circular No. 624

Public Debt Service

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, October 31, 1939.

I. OFFERING OF NOTES

1. The Secretary of the Treasury, on behalf of the Reconstruction Finance Corporation, invites subscriptions, at par and accrued interest, from the people of the United States for notes of the Reconstruction Finance Corporation, designated 1 percent notes of Series S. The amount of the offering is $250,000,000, or thereabouts.

II. DESCRIPTION OF NOTES

1. The notes will be dated November 10, 1939, and will bear interest from that date at the rate of 1 percent per annum, payable on a semiannual basis on January 1 and July 1 in each year until the principal amount becomes payable. They will mature July 1, 1942, and will not be subject to call for redemption prior to maturity.

2. The notes will be issued under authority of an act of Congress (known as "Reconstruction Finance Corporation Act") approved January 22, 1932, as amended and supplemented, which provides that the notes shall be fully and unconditionally guaranteed both as to interest and principal by the United States and such guaranty

shall be expressed on the face thereof; and that they shall be exempt both as to principal and interest from all taxation (except surtaxes, estate, inheritance, and gift taxes) now or hereafter imposed by the United States, by any Territory, dependency, or possession thereof, or by any State, county, municipality, or local taxing authority. These notes shall be lawful investments, and may be accepted as security, for all fiduciary, trust, and public funds the investment or deposit of which shall be under the authority or control of the United States or any officer or officers thereof.

3. The authorizing act further provides that in the event the Reconstruction Finance Corporation shall be unable to pay upon demand, when due, the principal of or interest on notes issued by it, the Secretary of the Treasury shall pay the amount thereof, which is authorized to be appropriated, out of any moneys in the Treasury not otherwise appropriated, and thereupon to the extent of the amounts so paid the Secretary of the Treasury shall succeed to all the rights of the holders of such notes.

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

III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve banks and branches and at the Treasury Department, Washington. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve banks and the Treasury Department are authorized to act as official agencies. Others than banking institutions will not be permitted to enter subscriptions except for their own account. Subscriptions from banks and trust companies for their own account will be received without deposit but will be restricted in each case to an amount not exceeding one-half of the combined capital and surplus of the subscribing bank or trust company. Subscriptions from all others must be accompanied by payment of 10

percent of the amount of notes applied for. The Secretary of the Treasury reserves the right to close the books as to any or all subscriptions or classes of subscriptions at any time without notice.

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

IV. PAYMENT

1. Payment at par and accrued interest, if any, for notes allotted hereunder must be made or completed on or before November 10, 1939, or on later allotment. In every case where payment is not so completed, the payment with application up to 10 percent of the amount of notes applied for shall, upon declaration made by the Secretary of the Treasury in his discretion, be forfeited to the United States.

V. GENERAL PROVISIONS

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

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

HENRY MORGENTHAU, JR.,
Secretary of the Treasury.

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Wednesday, November 1, 1939.
10/31/39.

Press Service
No. 19-23

Secretary of the Treasury Morgenthau announced last night that the subscription books for the current offering of 1 percent notes of Series S of the Reconstruction Finance Corporation closed at the close of business Tuesday, October 31.

Subscriptions addressed to a Federal Reserve bank or branch, or to the Treasury Department, and placed in the mail before 12 o'clock midnight, Tuesday, October 31, will be considered as having been entered before the close of the subscription books.

Announcement of the amount of subscriptions and the basis of allotment will probably be made on Friday, November 3.

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TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE,
Friday, November 3, 1939.

Press Service
No. 19-25

Secretary of the Treasury Morgenthau today announced the subscription figures and the basis of allotment for the offering of $250,000,000, or thereabouts, of 1 percent notes of Series S of the Reconstruction Finance Corporation.

Reports received from the Federal Reserve banks show that subscriptions aggregate $3,619,000,000. Subscriptions were allotted 7-1/2 percent, but not less than $1,000 on any one subscription.

Further details as to subscriptions and allotments will be announced when final reports are received from the Federal Reserve banks.

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TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE,
Monday, November 6, 1939.

Press Service
No. 19-28

Secretary of the Treasury Morgenthau today announced the final subscription and allotment figures with respect to the current offering of 1 percent notes of Series S of the Reconstruction Finance Corporation.

Subscriptions and allotments were divided among the several Federal Reserve districts and the Treasury as follows:

Federal Reserve District	Total Subscriptions Received	Total Subscriptions Allotted
Boston	$ 209,255,000	$ 15,938,000
New York	1,814,510,000	136,525,000
Philadelphia	184,934,000	14,024,000
Cleveland	257,111,000	19,585,000
Richmond	111,658,000	8,845,000
Atlanta	86,792,000	7,802,000
Chicago	460,900,000	35,220,000
St. Louis	76,222,000	5,940,000
Minneapolis	52,033,000	4,017,000
Kansas City	56,813,000	4,402,000
Dallas	59,696,000	4,811,000
San Francisco	247,500,000	18,663,000
Treasury	1,250,000	94,000
TOTAL	$3,618,674,000	$275,866,000

—oOo—

444 9

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION CONFIDENTIAL

DATE October 30, 1939

TO Secretary Morgenthau

FROM Mr. Haas

Subject: The Business Situation,
Week ending October 28, 1939

Haas

Summary

(1) Our basic business indices, now available for September, show that a strong further improvement in the underlying business trend occurred during that month and that no maladjustments have as yet appeared.

(a) The new orders index in September rose to a level exceeded by only one month in the 1936-37 business upturn.

(b) Our estimated index of basic demand in September exceeded the peak reached in November and December of 1936.

(c) The composite index of sales, however, representing the "offtake" of manufactured goods, failed to improve because of a decline in automobile sales incidental to the early changeover.

(d) Estimated inventories increased slightly from their previous low level, but any excessive accumulation is, as yet, represented only by orders on manufacturers' books.

(2) Some decline in the general level of commodity prices seems likely, since supplies are increasing in response to recent high prices, and the world demand for many products has been curtailed by the war.

(3) Further increases in industrial production after this month will be more gradual, as the output in various industries approaches the practical limit of capacity. Any setback in production during the first half of 1940 will be minimized, if the war continues, by the effects of increased capital expenditures for industrial expansion and increased export business.

(4) National income (revised series) rose further in September to an annual rate of $70.9 billions, with farm income substantially improved. The rise in national income has been a factor in an increasing volume of retail sales.

Basic business trend improves

A strong improvement occurred during September in the basic trend of business activity, according to our compilation of indices measuring important basic factors. (See Chart 1)

Our estimated index of basic demand in September (upper section of chart) reached a higher level than the peak established in November and December 1936, following a high August figure which has been revised upward on the basis of additional data for that month. The estimated basic demand continues to exceed the level of industrial production. This represents a material improvement over the situation when the 1936 top was reached, since at that time production was in excess of demand and inventories were being accumulated.

Greatest gains in the individual components of the basic demand index were shown by steel, automobiles, bituminous and anthracite coal, lumber, and crude petroleum.

The composite index of new orders in September (lower section of chart) rose sharply to a level exceeded in recent years only by that in March 1937. Added to a moderately favorable volume of new orders in earlier months, this has given manufacturers a backlog of unfilled orders sufficient, in itself, to continue output at a high rate for many weeks.

The sales index, on the other hand, which represents the "offtake" of manufactured goods into consumption, exports, etc., levelled out during September. This was due to a considerable decline in automobile sales in September, owing to a lack of new cars previous to the introduction of new models. The index may be expected to rise in October.

Inventories still low

No evidence of excessive inventory accumulation has yet taken definite form. Potential inventories, so far, are largely in the form of unfilled orders on the books of manufacturers, and the large volume of buying during September and October has done little more, as yet, than to transfer ownership of goods from one group to another.

Our estimate of inventories, derived from a comparison of the volume of industrial production with an estimated volume of consumption, (see Chart 2) increased very slightly during September, but remains at a relatively low level. In view of the larger volume of inventories normally required when business expands and consumption increases, the estimated level of inventories in September was lower, relative to the consumption rate, than in any month of recent years. (See lower section of chart) This situation will be changed, of course, as new orders on manufacturers' books are made up into finished goods.

More gradual rise expected

With current output in various industries approaching capacity levels, the rise in industrial production hereafter is likely to become more gradual. The FRB index, which reached 110 in September, is expected in October and November to approach closer to the 1936-37 high of 121. In some industries, however, the output in September had already approximated the 1936-37 and the 1929 peaks, and capacity limitations will soon operate to restrain any rapid further expansion until new capacity is built up.

In Chart 3 we compare the FRB production indices for the major industries in September with the peaks reached by those industries in the 1928-29 and the 1936-37 periods. It will be noted that the food products and petroleum refining groups have already exceeded their 1936-37 highs, and that four groups have exceeded their 1928-29 highs.

We estimate that if all industries had established their 1936-37 output peaks in the same month, in terms of the FRB adjusted indices, a maximum FRB index of 132 would have been recorded. This compares with the actual figure of 121 reached in December 1936, and with a peak of 125 in June 1929.

National income increasing

National income (see Chart 4) increased slightly in September to an annual rate of $70.9 billions, according to a new series of Department of Commerce estimates, which raises the figures for recent years to somewhat higher levels than the earlier estimates. The equivalent purchasing power of the national income, as shown on the chart, turned down slightly in September owing to increased living costs.

Cash farm income (lower section of chart) rose sharply in September, reflecting the substantial upturn in farm prices. Benefit payments to farmers under the AAA program exceeded those of any September since 1934.

The increase in payrolls and other income in recent months has been reflected in a rising trend of department store sales. (See Chart 5) Variety store sales have not improved, however, and rural retail sales have declined in spite of increased farm incomes. (All three indexes are seasonally adjusted.) There is usually a noticeable lag between changes in incomes and changes in retail sales. The widespread drought, moreover, may have been a factor in causing reduced farmer purchases.

The price situation

A downward movement in general commodity prices, rather than a further rise, seems probable for a time, until such influences as rising costs, increased demand, monetary factors, and possible supply reductions due to drought, take a more active part in the price situation.

Certain factors in the general price situation, and in the situations for individual commodities, have become more bearish:

(1) The war, on the whole, has probably caused a reduced world demand for most goods and materials, excluding those entering actively into warfare. Food rationing, and various war regulations restricting consumption; prohibition or discouragement of non-necessity buying, which has seriously affected the demand for such products as automobiles; restrictions on imports through exchange control and import license arrangements; the blockade of Germany, which has cut off an important demand area for certain world products; all these operate toward reducing the world demand for commodities generally, especially foods and such manufactured products as are not necessary for warfare and defense.

(2) Increasing supplies of various products are overcoming the temporary shortages which were partly responsible for the rapid price advance in September. Copper production in this country is being increased rapidly, while Great Britain is expanding the Empire production of this metal. A heavy movement of hogs to market, reaching record-breaking proportions in some

areas, has caused hog prices to lose practically all of their September advance and has been a depressing factor in the lard and cottonseed oil markets. Increased supplies of sugar have carried prices back to their August lows. Exports of tin during the third quarter, from countries participating in the restriction plan, were nearly double those of the second quarter.

(3) Prices of commodities in general, as measured by the BLS all-commodities index, rose too high in September in relation to raw material prices. (See Chart 6) This suggests that a decline in the general index is probable, until such time as raw material prices again turn upward.

A renewed rise in stock prices would provide some incentive for a further rise in speculative commodity prices. It appears, however, that the continued foreign selling of American securities is beginning to discourage stock market speculation. The press last week took notice of this factor, in reporting that "The selling of American stocks by British holders in this market through a central control operated in London is now believed by Wall Street to be a definite factor in the current market..... Early in the war individual holders transmitted their orders. These are now combined through a central control. The declared object is to create American dollar balances for purchase of war supplies and machines after neutrality act repeal."

Favorable factors for next spring

The capacity limitations now becoming apparent in various industries will lead sooner or later to a considerable volume of capital goods expansion, which is likely to become a factor in business activity about the time that industrial production would otherwise tend to slacken. This may provide strong support against any important business setback during the first half of 1940.

As a second supporting factor, a volume of potential export orders for steel, machine tools, and various other products, is awaiting only a slackening in domestic buying, since manufacturers recently have been obliged to turn down these orders in order to supply their domestic customers.

Of the 200,000 tons of semi-finished steel sought in this country by Great Britain, for example, it is reported in the steel trade that only 25,000 tons have been sold, apparently because the steel companies are disinclined to sell for export when a huge volume of domestic business is conveniently at hand. However, Great Britain has bought considerable quantities of pig iron from the United States, at least 100,000 tons having been purchased since the outbreak of the war, according to trade reports. Considerable demand for steel plate products is reported from South America, but the pressure of domestic orders has prevented the acceptance of all except a few small lots.

A survey of various industries by the National Industrial Conference Board, published October 20, mentions that in the chemical industry "pressure for foreign shipments has continued unabated, and it has been necessary to turn down flatly a great many foreign inquiries in order to guarantee the quantities needed by regular domestic customers and regular foreign customers."

Export orders depend on war continuing

The potential support of export orders, of course, is largely contingent upon the prospect of a prolonged war. A definite movement toward peace would affect both the export demand and the domestic orders now on manufacturers' books. The Conference Board survey quotes a steel company as saying: "A sudden change for peace in the European situation would mean cancellation or requests for deferment of 60 to 75 per cent of the orders now on our books." A rubber company similarly says: "Unquestionably the establishment of peace in Europe would cause an immediate cancellation of at least 50 per cent of orders on hand." On the other hand, an electrical manufacturing company reports that none of its large backlog of orders is subject to cancellation if the foreign situation should change.

The volume of goods and materials currently being contracted for by buying agents of the belligerent countries is probably larger than has appeared in trade news, since it is obviously to the interest of such buyers to conceal the volume of buying in order to prevent undue price rises. The French Ambassador this week disclosed that France is purchasing in this country considerable stocks of blankets, shoes, and other goods for the French army.

Current business news

The New York Times index for the week ended October 21 rose .6 point to 103.8, a new high since the week ended September 25, 1937. Substantial downturns in the indices of automobile production and electric power production were more than offset by rather large rises in the indices for steel, lumber, and miscellaneous carloadings, and by smaller upturns in the cotton and "all other carloadings" series.

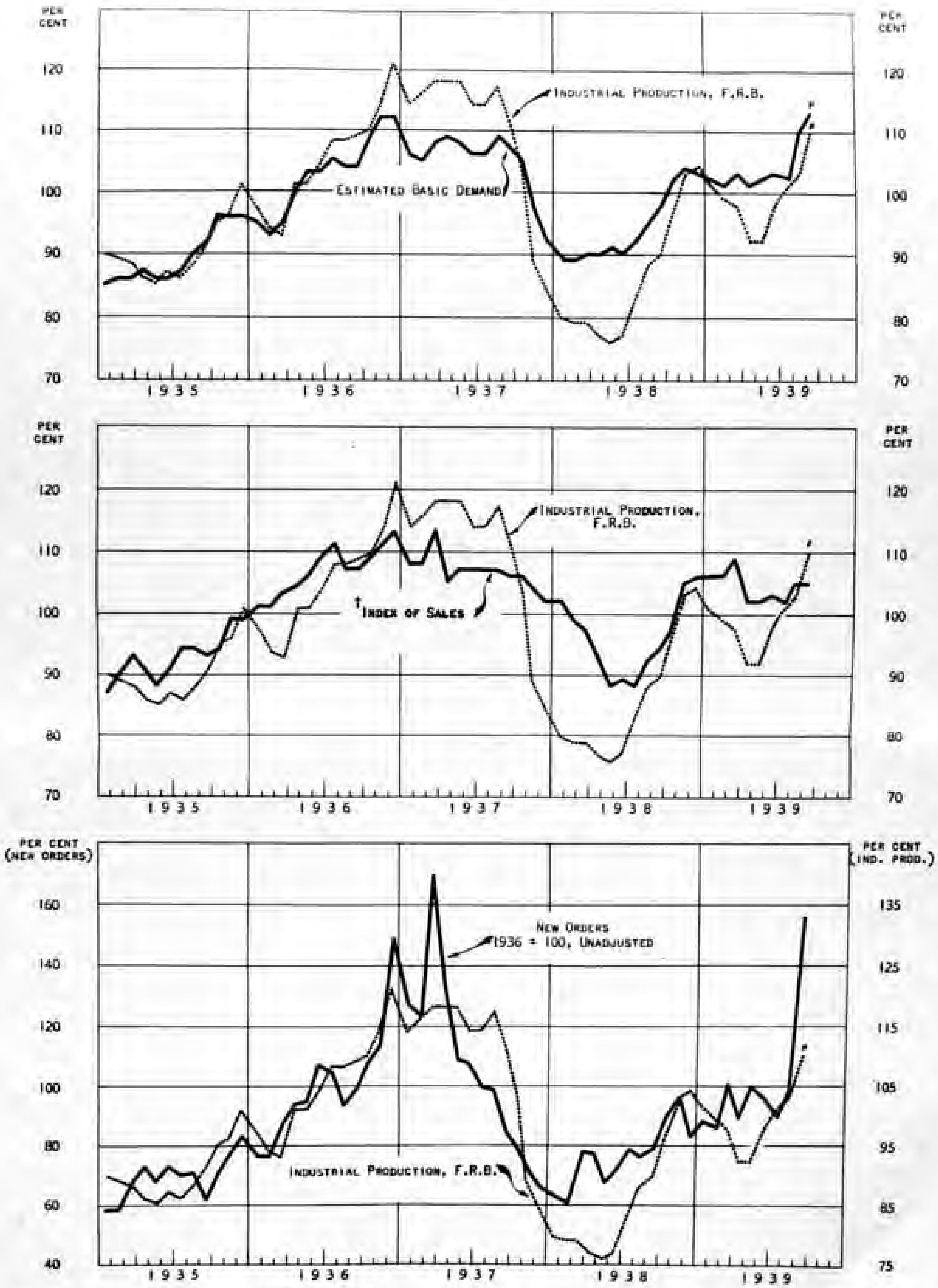
Carloadings during the week ended October 21 continued upward to a nine-year high of 861,198 cars. This is the only year as far back as 1930, at least, that the seasonal fall rise has continued past the middle of October. At this level of loadings some actual shortages of cars are being reported from certain areas.

Our weekly new orders index for the third week of October was approximately unchanged from the previous week at 161.7. This compares with a recent peak of 172.7. Steel orders lost their gain of the previous week, textile orders were somewhat higher and other orders were about unchanged.

Private heavy construction awards continue to increase, apparently reflecting an expansion in industrial and commercial capacity. For the week ended October 26 this class of awards was nearly double those of the previous week, and 156 per cent above those of the corresponding week last year. Other awards, including Federal, State and municipal, and public awards, were lower both in comparison with the previous week and with last year.

… TRENDS COMPARED WITH INDUSTRIAL PRODUCTION

1923 - '25 = 100, Seasonally Adjusted*



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

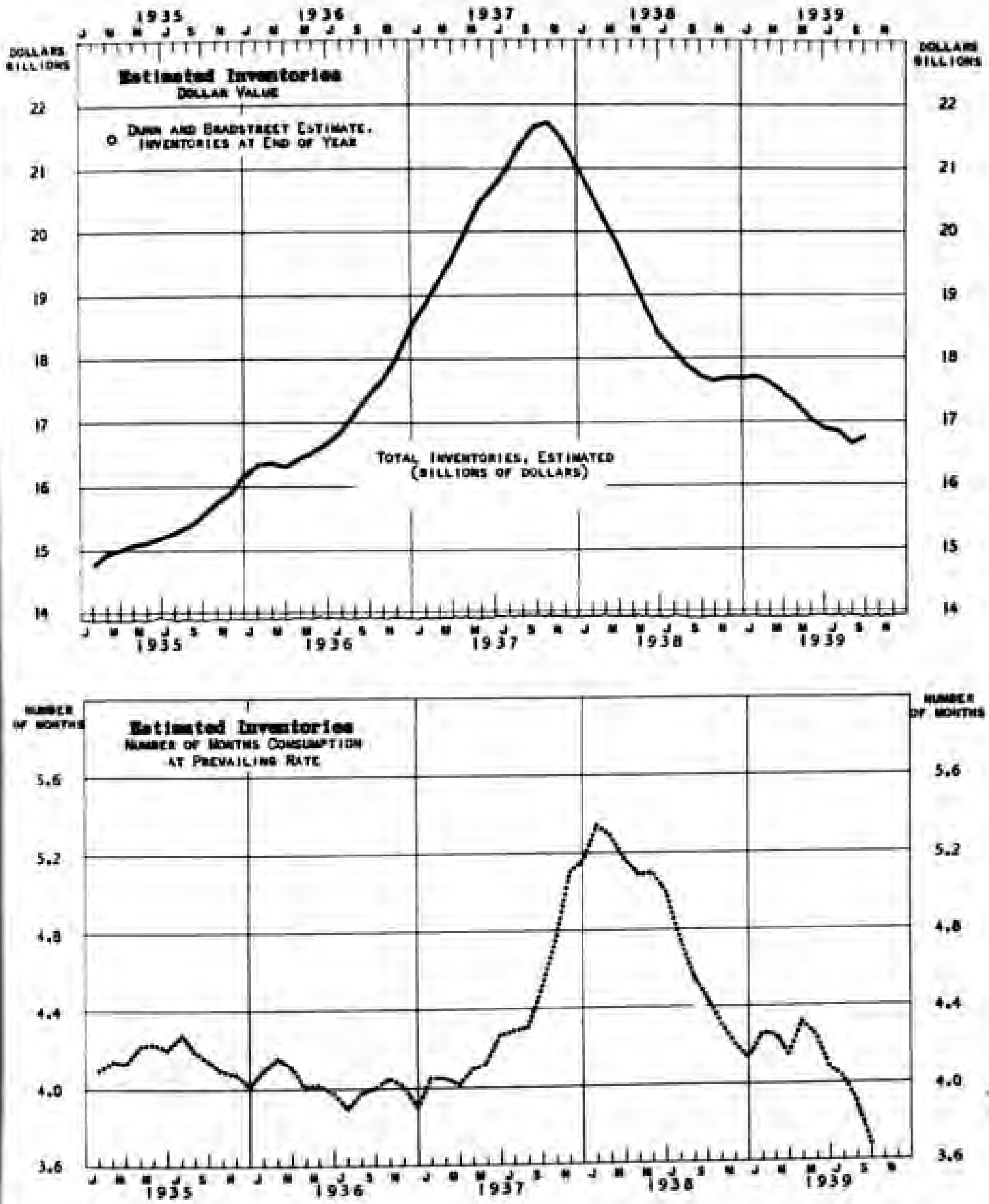
Office of the Secretary of the Treasury
Division of Research and Statistics

C - 245
Chart 1
CONFIDENTIAL

Chart 2
CONFIDENTIAL

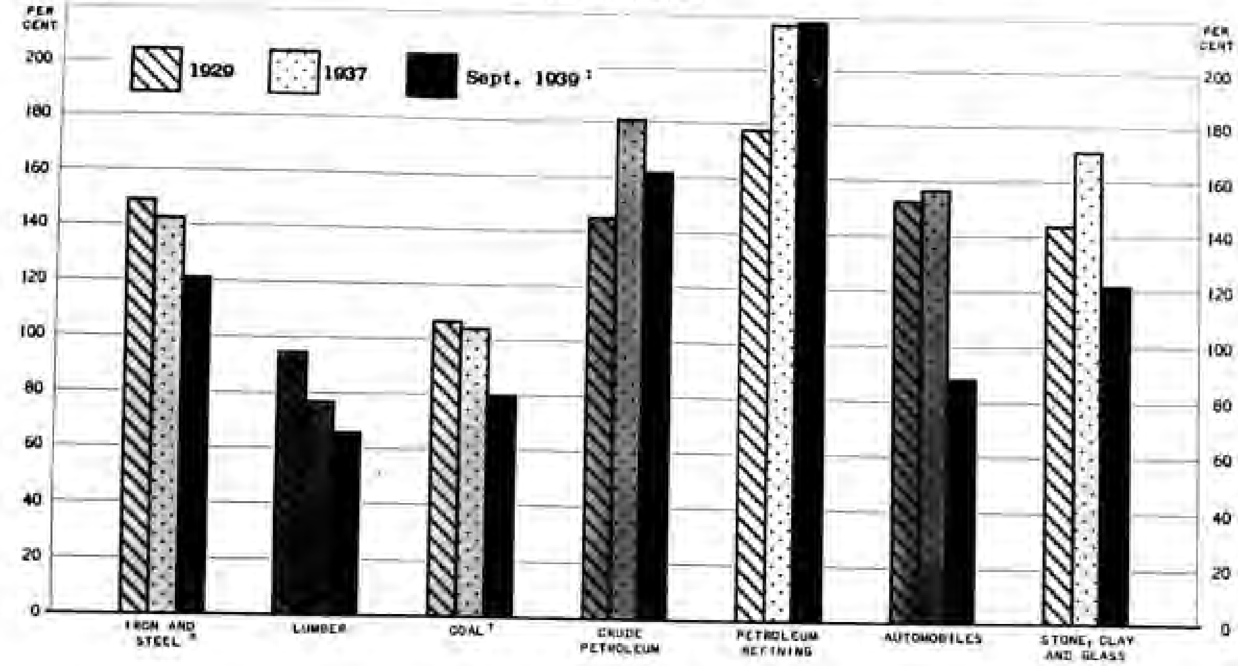
17

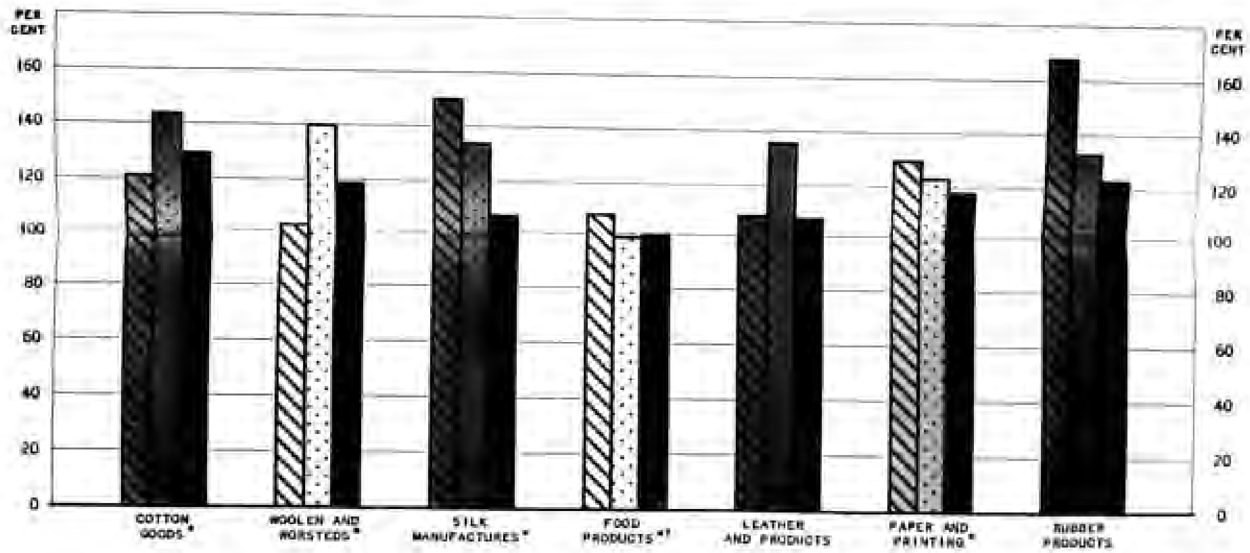
CORPORATION INVENTORIES
At End of Month



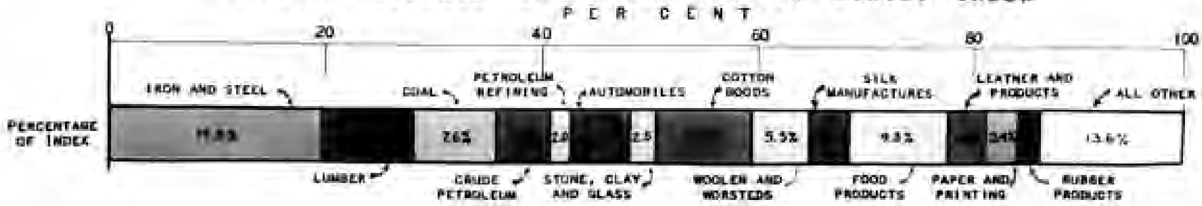
INDUSTRIAL PRODUCTION BY INDUSTRIES, AT SELECTED PEAK MONTHS IN 1929, 1937, AND 1939

F.R.B. Indices





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



* High in 1936   † High in 1928   ‡ August 1939 for Petroleum Refining

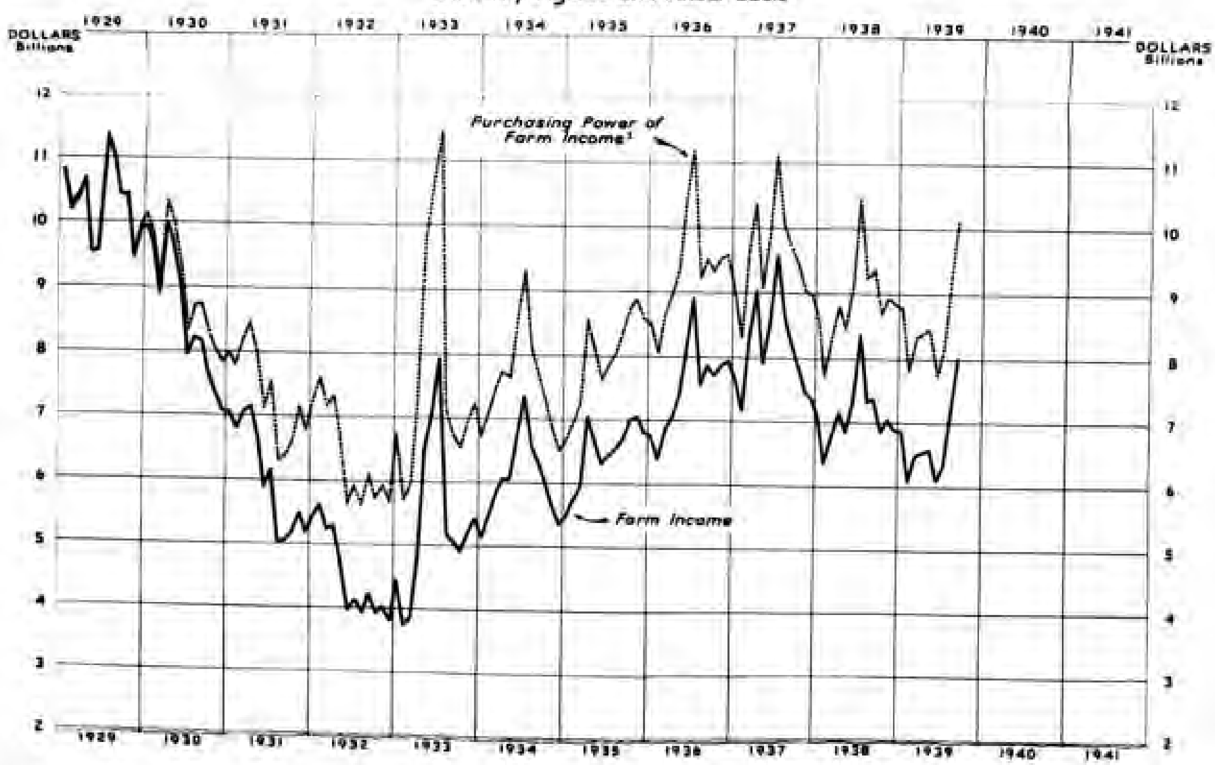
Office of the Secretary of the Treasury
Division of Research and Statistics

C - 285

Chart 3 CONFIDENTIAL

NATIONAL INCOME AND ITS EQUIVALENT PURCHASING POWER
Monthly Figures on Annual Basis*

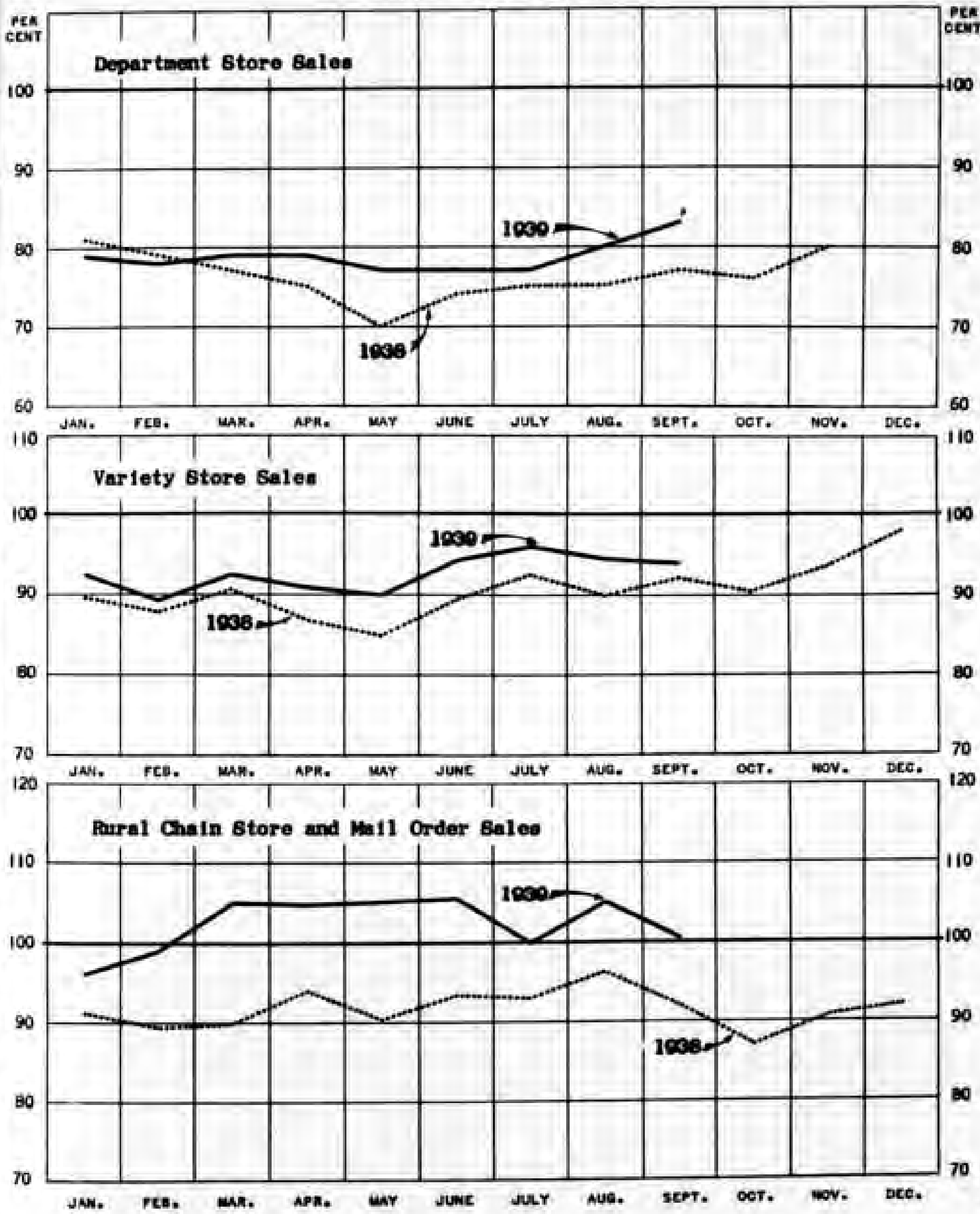
FARM INCOME AND ITS EQUIVALENT PURCHASING POWER
Monthly Figures on Annual Basis*



*Seasonally Adjusted Monthly Figures Multiplied by Twelve.
¹Based on Cost of Living Index of Nat'l Ind Conf Bd
²Based on Prices Paid by Farmers, 1929 = 100

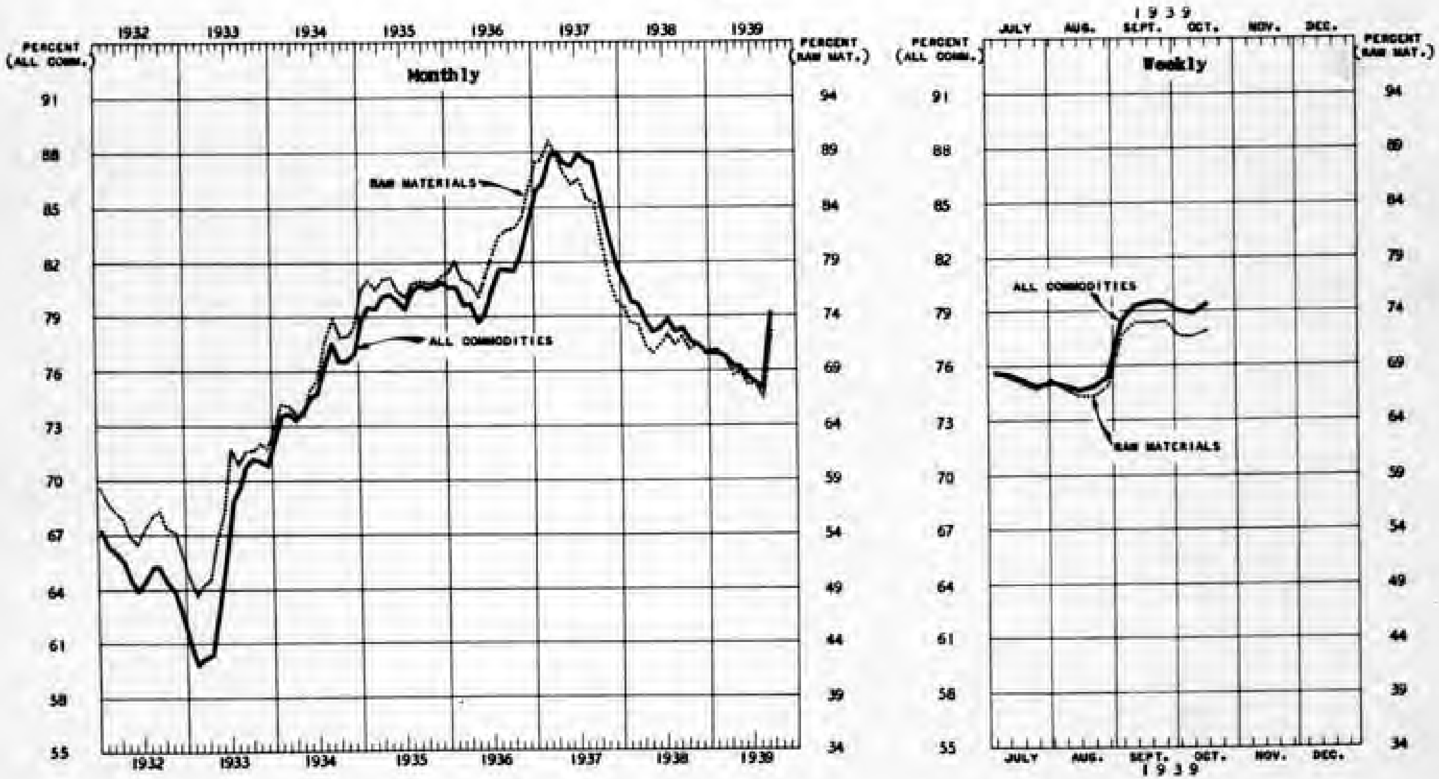
C-284

RETAIL TRADE
Urban and Rural Sales of General Merchandise
1929 = 100, Adjusted



B.L.S. ALL COMMODITY PRICE INDEX AND INDEX OF RAW MATERIALS

1926 = 100



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

P - 183

Chart 6

October 30, 1939.

Dear Mr. Chen:

Let me acknowledge your letter of October 21st, and thank you for giving me the information which it contained.

With cordial, personal regards,

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Kwang Pu Chen,
Room 1918,
630 Fifth Avenue,
New York, New York.

GEF/dbs

October 30, 1939.

Dear Mr. Chen:

Let me acknowledge your letter of October 21st, and thank you for giving me the information which it contained.

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New York, New York.

GHF/dbs

Please simply courteously
no comment

KWANG PU CHEN
Room 1618
630 Fifth Avenue
New York

October 21, 1939

Dear Mr. Secretary:

Although you may have received some direct reports from China regarding the Highway Transportation Mission headed by Mr. Sheahan, I am taking the liberty of furnishing you herewith a short summary of the reports which I have personally received regarding the progress of their work and recommendations.

At Chungking they called on Ambassador Johnson and were also received by Mr. Chang Kia-Ngau, Minister of Communications, Dr. H. H. Kung and Generalissimo Chiang Kai Shek, who all expressed their deep appreciation of your interest in the work of this Mission.

To facilitate their work and investigations a very comprehensive memorandum on Chinese highways had been prepared to furnish the proper background for Mr. Sheahan and his two assistants, Mr. Bassi and Mr. Van Patter. Altogether seven conferences were held and three memorandums were submitted by the Mission. The first four conferences were devoted to a thorough and frank discussion dealing with the present organization of the Bureau of Highways; management of drivers and elimination of undesirable practices; and problems of maintenance and spare parts. At the subsequent conferences the discussions were confined to a detailed study of memorandums and recommendations on the basic problems as submitted by the Mission.

Minister Chang Kai-Ngau personally participated in all the seven conferences. There has been very fine cooperation on both sides and a great deal of progress has been made in a general understanding of the problems attending highway transportation. Minister Chang and his assistants were most frank in the presentation of their major problems and eager to seek ways and means for fundamental improvements, while Mr. Sheahan and his associates were earnest in their desire to assist.

The most important memorandum submitted was on the subject of the recommendations concerning the coordination of all major civil transport organizations into one central transport corporation under the Ministry of Communications.

I believe that the basic principles for the formation of a central transport corporation are sound as it aims at centralization of highway transport management and traffic control, elimination of wasteful duplication of repair and service facilities, creation of a central store system for spare parts and efficient management and control of mechanics and drivers.

Also I note a few high lights of their observations, which I trust will be of interest to you: (1) Mr. Sheahan writes me that he does not believe the cargo situation at Haiphong is as bad as we have been led to believe; (2) The Mission finds that the performance in the past, as well as statistics of repairs, shows that light trucks do not suit the requirements of present Chinese highways; (3) It has been estimated that approximately 30 per cent of available trucks are under repair and an additional 30 per cent are waiting for essential parts, while the balance of 40 per cent are in operation. Plans are now completed to pool all the essential parts available in the interior and to speed up the reclamation of the trucks out of service; (4) Mr. Sheahan states that they were agreeably surprised by the progress made in the Kunming-Chungking Highway; and that although the highway leaves much to be desired, they are sure operations can be improved.

If you have not already received a set of these memorandums, I shall be most happy to submit the same to you. I again wish to thank you for your sincere interest in the problems which confront us and to assure you that your efforts are deeply appreciated.

With kindest personal regards,

Yours sincerely,

KPC:GT

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

October 30, 1939.

Dear Mr. Nicholson:

I have received and read with interest your letter of October 11th, and the enclosures which accompanied it. Thank you very much for getting all this material into my hands.

With cordial, personal regards,

Sincerely,

(Signed) H. Morgenthau, Jr.

Honorable M. R. Nicholson,
Treasury Attaché,
American Consulate General,
Hong Kong, China.

GEF/dbs

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American Consulate General,
Hong Kong, China.

GHF/dbs

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UNITED STATES TREASURY DEPARTMENT

AMERICAN CONSULATE GENERAL

HONG KONG

OFFICE OF
TREASURY REPRESENTATIVE

20

October 11, 1939

Dear Mr. Secretary:

I have the honor to acknowledge receipt of your letter of July 26, 1939, relative to the selection of a commission of three American transportation experts for service in China in connection with the Ministry of Communications.

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Mr. T. V. Soong seems quite interested in Sheahan and his mission to China, and I am sure will prove very helpful to him. I shall keep you advised as to his progress.

With kind personal regards, I am

Respectfully yours,

M. R. Nicholson

Treasury Attaché

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

No. 6 New Villa,
Chungking China,
October 5th,1939

Dear Mr. Nicholson:

Thank you for yours of September 21st, received last evening and with which you enclosed data in connection with the shipment of wood oil to the United States via the Foo Shing Trading Corporation.

We have been over the more important highways in the Southwest, have visited the major shops and concentration points, discussed with Provincial and National Officials and studied the existing transportation problems, with the result that we have made certain very definite recommendations which I will attempt to explain briefly;

1- Consolidation of the major Civil Government Transportation Agencies into a new Central Government Corporation within the Ministry of Communications.
2- Inclusion of the operation of one thousand American trucks in recommendation No. 1, These trucks are now owned by the Foo Shing Trading Corp.,
3- Definite segregation of the Military transport from the Civil.
4- Improve the morale of the operating personnel through bettering working conditions and elimination of red tape in licensing and regulation of Drivers, Mechanics and equipment.
5- A definite program of reclamation of trucks and busses and curtailment of new purchases.
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Treating with the above seriatum; The consolidation into one Corporation is felt to be essential in order that present wasteful practices may be more quickly and uniformily eliminated. Government agencies are bidding against one another for competent personnel. They duplicate facilities and stocks of spare parts. It is my thought that the new Corporation should be under the Ministry of Communications where the best personnel trained in transportation are available. The Corporation should be a Non-Profit one. Rates must be tariffed and filed and made uniform for all, including the Commercial haulers. The various Governmental Departments to contribut[e] to the deficit in ratio to the tonnage or passengers handled for account of each seperate branch. In this way fluctuations in exchange would be absorbed by the Government itself and should not affect the commercial users of the Government or Commercial facilities of transport.

The Foo Shing operations are barely started despite the prevalent opinion that they are in full operation. They have about 76 trucks on the road, 354 tied up on the Burma route due to a wash-ed out bridge and landslides. The balance are in Haiphong. About 40 borrowed by the French-Indo-China Authorities and the balance awaiting completion of cabs by an indpendent contractor. The tools and equipment for Foo Shing are in the Haiphong blockade, and the French Railway has been out of operation for the past two weeks on account of a combination of landslides and train wrecks. From the foregoing you will observe several reasons wood oil is not moving in the anticipated quantities. The Foo Shing people have recruited their personnel from other Governmental agancies in the main and as a result have incurred some enemity on the part of highway official-s resulting in strict compliance with existing laws and regulations both Provincial and National. True similar differences will exist under any plan of operation but I am convinced these difficulties can best be alleviated through normal channels by the Ministry of Communications.

The balance of the items enumerated above are more or less self explanatory. The principal purpose of my writing to you about our recommendations is certain difficulties we have run into in connection with securing the co-operation of Foo Shing. I contemplate Foo Shing retaining ownership of the 1000 American trucks as well as representation on the new Corporation, never the less Mr. K.P.Chen of Universal Trading Corpn., New York is reticent to release the trucks to the Ministry of Communtdations fearing that harm may come to his present negotiations with our Government looking towards additonal credits on Wood Oil. On the contrary it seems to me that American confidence can best be had through action and the proposals are pointed to that end. The new Corporation would guarantee the equivalent capacity in American trucks to the 1000 commitment of Foo Shing as outlined in Article 9 of the agreemant of FooShing through Universal to the Export Import Bank. With the Government back of the Corporation and a proper selection of personnel under our direction the responsibility is definitely allocated. The maint-enance of the highways etc., in the Ministry could no longer be the excuse.

The recommendations we have made have been accepted for the most part by all concerned including Dr. H.H.Kung and Mr. Chang Kia Gnau, in fact by all concerned in the administmation. Action awaits only a favorable reply from Mr. Chen in New York and I believe this could be had if our Treasury Department concurs. I have today cabled Mr. Chen as per copy enclosed. If you see fit to condense this rather tiring version and pass the information along to Washington, I would appreciate it or, if you have any differing views would appreciate hearing from you. Meanwhile I intend to leave here next Tuesday Oct. 10th, for Rangoon but will return in about two weeks. Meanwhile with the kindest personal regards to yourself and Mr. Campbell, I remain,

Sincerely,

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C O P Y

Chungking, China
Telegram, Oct. 5th, 1939
3:30 p.m.

DLT

KPCHEN UNITRACORP NEWYORK

HAVE CAREFULLY RECONSIDERED AND MY BEST OPINION THAT CENTRAL GOVERNMENT CORPORATION UNDER MINISTER COMMUNICATIONS INCLUDING POSTAL AND MAJOR CIVIL GOVERNMENT OPERATIONS WITH OVER TWO THOUSAND TRUCKS EXCLUSIVE FOOSHING AND SWTRANSCO BEST SOLUTION FOOSHINGS PARTICIPATION ASSURES OVER THREE THOUSAND TRUCKS AND NEW CORPORATIONS GUARANTEE OF EQUIVALENT CAPACITY ONE THOUSAND TRUCKS SHOULD ASSURE ACTION AND AMERICAN CONFIDENCE THIS DEFINITELY SEGREGATES CIVIL AND MILITARY TRANSPORTATION AND NO ATTEMPT INVOLVE SWTRANSCO AT THIS TIME FOOSHING PRESERVES OWNERSHIP TRUCKS AND ADEQUATE REPRESENTATION NEW CORPORATION ASSURING COMPLIANCE GUARANTEE ELIMINATING WASTEFUL DUPLICATION FACILITIES ASSURES ECONOMICAL OPERATION ENTIRE MATTER ABEYANCE PENDING YOUR ADVICES SHEAHAN

Department COPY

TREASURY DEPARTMENT
BUREAU OF CUSTOMS
INVESTIGATIVE UNIT
TREASURY REPRESENTATIVE
OFFICE OF AMERICAN CONSUL

HONG KONG
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(Signed) M. E. Sheahan

U. S. TREASURY DEPARTMENT
OFFICE OF
TREASURY REPRESENTATIVE
AMERICAN CONSULATE
HONGKONG

OFFICIAL BUSINESS

CORREO AEREO VIA AIR MAIL

PENALTY FOR PRIVATE USE TO

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

CORREO AEREO VIA AIR MAIL

GROUP MEETING

October 30, 1939.
9:30 a.m.

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

H.M.Jr: Norman?

Thompson: I have a letter to Governor Eccles asking for the detail of Andrew M. Kamarck, an economist employed by the Federal Reserve Board. His services are desired to assist Captain Puleston.

H.M.Jr: Do you have to do it this formally?

Thompson: Well, Mr. Goldenweiser said he wouldn't release him otherwise.

There are two estimable ladies who are retiring tomorrow. Would you like to see them?

H.M.Jr: I would be delighted. Any time before 9:30.

Dan Bell?

Bell: We had a news release Saturday. I was on the golf course at that hour.

H.M.Jr: What do you mean?

Bell: When you called up at 12:00 o'clock.

H.M.Jr: Did they bring you back?

Bell: No, indeed. They just called up out there.

Duffield: And told him to look in the Monday morning papers.

H.M.Jr: The reason I seemed bewildered, I thought you were referring to the U. S. Housing.

Bell: That was a little surprise, too.

H.M.Jr: You were surprised?

Bell: Yes, because they were waiting for the "go" sign from the Treasury and I talked to them Saturday morning and told them that I would like to hold the "go" sign off until Monday to see what we do on the RFC. The dates are not given and that is what they wanted from us.

H.M.Jr: Well, didn't they show it to you?

Bell: No, not at all. I didn't know anything about it until I saw it in the paper. Will there be a conference this morning?

H.M.Jr: Right after this.

Harold?

Graves: You asked me a few days ago to arrange to have a design for this Aldrich medal.

H.M.Jr: That is right.

Graves: Mrs. Ross instructed the Philadelphia Mint to design that medal and they are bringing the design down this morning. I think perhaps you would like to have us bring that in to you.

H.M.Jr: Well, when it is here, bring it in and I will take it over to the President at lunch and show it to him.

Graves: I am not sure as to the time the men will come with it, but I think it will be this morning.

H.M.Jr: You might call her up and say I would like to have it before 1:00 o'clock.

Graves: I have told her that.

H.M.Jr: That is fine.

Cotton: Nothing.

H.M.Jr: Are you going to Guatemala?

Cotton: I was away Saturday. I understand some things happened that I may not be quite up on.

H.M.Jr: You had better talk to Riefler.

Riefler: I was away Saturday. What happened?

Hanes: I was here Saturday and I didn't know anything happened at all.

H.M.Jr: Well, will the Guatemala expedition get together?

Riefler: Mr. Hanes?

H.M.Jr: Would you (Hanes) find out who is going?

Hanes: Yes, sir.

H.M.Jr: And let me know at the appropriate time.

Hanes: I thought we were on record that Mr. Riefler and Mr. Cotton and Mr. Hanson, if Mr. White could spare him....

H.M.Jr: Supposing you call a little meeting in your office.

Hanes: Right after this?

H.M.Jr: I would like you to stay. Financing will only take ten or fifteen minutes.

Harry?

White: You probably noticed reports of the first month's trade of Great Britain on the war is rather interesting. Their exports declined 40 percent and their imports declined only 30 percent, but owing to the fact that their imports are so much larger than their exports, that still meant that their unfavorable balance of trade was cut in half. In other words, the first month's trade, if it is at all typical of what will happen later, means that the pressure on their exchanges will be much less than has been anticipated usually, although the first month may not be a difficult month at all. That is what it shows, that they will need much less money, in other words, than has been generally anticipated in the form of foreign exchange.

H.M.Jr: What else?

White: There is a cable here that you asked me to see about from Charles Reese.

H.M.Jr: Yes. Well, that is on German economics?

White: Yes.

H.M.Jr: While you are on that, I want you to get the full information on Caillaux's statement on Germany (handing clipping to Mr. White).

What is that you put on my desk?

White: That is just some cables you might want. We investigated that matter of the residual on the balance of payments that Harris had some further data on with respect to tourist expenditures, and got in touch with the Department of Commerce and compared our figures with theirs. It still looks as though the residual for this year - the amount, in other words, that they cannot account for - is going to be somewhere between 800 and a billion dollars in gold inflow, which cannot be accounted for in our figures. I think sometime some committee ought to be appointed to further investigate the existence of that residual. It is getting much too large to be passed. There is no immediate hurry on it. We can do that at the end of the first year.

H.M.Jr: George?

Haas: (Handing report to Secretary) There are some charts that might be interesting. Then I have this letter to you from Stewart McDonald. I am doubtful whether you want to help him on that. Remember what it is?

H.M.Jr: No, I just knew you wrote me a letter. He writes me a pep letter every so often.

Haas: He wants you to help him straighten out this conflict between agencies of the Department of Commerce. He claims they are talking building down and he wants you to talk it up. He wants you to hold his hand.

H.M.Jr: My hands are fully occupied. Just acknowledge it.

Haas: Yes.

H.M.Jr: Riefler might be interested, for old times sake.

Riefler: I would like to see it, but I don't think I would like to handle that case.

Haas: I will show it to him.

H.M.Jr: Who does he come under, Jesse Jones?

Haas: Yes.

H.M.Jr: What else?

Haas: That is all.

H.M.Jr: Riefler?

Riefler: Nothing.

Viner: Nothing.

H.M.Jr: Ed?

Foley: The Attorney General of Ontario wants a Treasury lawyer to come to Toronto to testify in connection with their bringing suit against individuals who have been melting down American gold coins. He asks that the person be familiar with gold currency laws in this country and can answer as an expert witness. I think we ought to let John Pehle go up, if that is all right with you. I will call him and see if we can straighten it out, but if it is necessary, we will let him go.

H.M.Jr: All right.

Foley: Here is the memorandum I spoke to you about on the telephone on Saturday, about Pittman's statement.

H.M.Jr: Well....

Foley: The Neutrality Act applies to corporations of the United States....

H.M.Jr: Let me let the President read it.

Foley: Yes. I spoke to Jerry Frank about it on Saturday and he thought it ought to be brought to the President's attention because it deals with the proposal the British are making.

H.M.Jr: I will take it over at lunch. Anything else?

Foley: Nothing.

H.M.Jr: Herbert?

Gaston: Mr. Fly of the Federal Communications Commission called me Saturday morning. You perhaps saw that story.

H.M.Jr: Yes, I called you up and you weren't here. I kidded Elmer Irey about it.

Gaston: When was that?

H.M.Jr: Saturday, when it was handed to me. It was handed to me a little after noon, around 12:00 o'clock, Saturday. It is amazing that you fellows didn't see the story.

Gaston: I saw the story.

H.M.Jr: It was in Friday's paper.

Gaston: His request was for a meeting at 10:30 to be in my office. He wanted the meeting to be held here rather than in his office for, I suppose, an obvious reason, and just the top men, as he expressed it, of certain departments. So, I would like to talk to you about it.

H.M.Jr: Is the meeting this morning?

Gaston: At 10:30 this morning.

H.M.Jr: Have I any choice in the matter? Supposing I didn't want to have a meeting take place in the Treasury.

Gaston: We would call it off. It isn't necessary that any action should occur. He didn't even mention the subject of the meeting, but of course I know what it is.

H.M.Jr: Before we do financing - I will be through any minute and I want to talk to you. I don't want any meeting in the Treasury.

Gaston: Of course, it may be just an explanation.

White: Somebody in the White House wanted to know about the London silver agreement. I don't know who knows about it.

Cochran: We gave them the information Saturday. One of the young assistants there wanted some figures on it.

H.M.Jr: Which young assistant?

Cochran: I forget his name now. He talked to Dietrich.

H.M.Jr: Find out what his name is, will you?

Cochran: Yes.

Duffield: It is Kannee.

H.M.Jr: Oh, that is all right.

John?

Hanes: George has made another change in the budget estimate due to a windfall we had in the estate tax section. We collected about - what was it, George, about 30 million dollars?

Haas: Yes.

Hanes: We collected that from the Vanderbilt estate. It brings the estimate up to $5,525,000,000.

H.M.Jr: Does this make the figures sit pretty?

Haas: Yes, that makes the deficit look a lot better and we would raise it anyway in November. I left the income tax, Mr. Secretary, the total, the same as it was in January, which makes the total up 45 or 46. It didn't look like much to me but they thought it was a lot.

H.M.Jr: I am surprised at you to look differently at the subject under that kind of pressure.

Haas: That wasn't pressure.

Hanes: The deficit was an odd figure, something like $3,998,000,999.98. We tried to get under the wire with 24 million.

H.M.Jr: What else?

Hanes: That is all.

H.M.Jr: Do you two gentlemen (Riefler and Viner) want to sit in on this financing?

Riefler: Yes.

Viner: Yes.

H.M.Jr: I would like five minutes with Gaston and Hanes.

October 30, 1939.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

SUBJECT: Airplanes.

Captain Chalker was in this afternoon by appointment with two of his assistants and L. V. Kerber, Washington representative of the Lockheed Company.

The plane which Gannett owns is a Lockheed 12. It has the same power plant as your present plane, the Lockheed 10, but is 2 ft. 3 in. shorter and the fuselage is narrower. A few are in use on feeder transport lines. Kerber says he rode in one of them only a short time ago. The aisle is very narrow, so that it is difficult to squeeze into the seats. In addition to places for the pilot and co-pilot it has six passenger seats in its transport form, three seats on each side. It was the opinion of Kerber and Chalker's men that it would not be feasible to put the radio equipment now carried on your present plane and a crew of four into the No. 12. If you put in a divan to lie on, there probably would not be room for a seat for you to say nothing of any passenger or passengers. This plane would be quite workable without radio equipment as there would then be room for six seats. It has less cabin space than the Northrup. The wing spread of the No. 12 is 49 ft. 6 in. as compared to 55 ft. for your present plane, the No. 10. By cutting down the dimensions there has been a gain in speed over the No. 10. The 12 has a cruising speed of 203 m.p.h. and a top speed of 220 m.p.h. as compared to 176 - 190 m.p.h. for the No. 10.

Lockheed has laid out a new plane, designated No. 16, which is the same as the No. 10 except that it will have a roomier fuselage, but this plane is not in production and there is no prospect that it will be soon under present conditions.

If you should decide that the No. 12 is too small for your use, as I think you will decide, the new No. 18 rather than the No. 14, which has been ordered, would seem to be by all odds the best bet. The 18 and the 14 are identical except that the fuselage of the 18 is 5-1/2 ft. longer and it lands slower - 65 m.p.h. as against 69 for the No. 14. It also, according to Mr. Kerber, has greater stability and superior handling characteristics. Kerber thinks it will do decidedly better in and out of a small field than the No. 12 since it has greatly superior power and better take-off characteristics. As a transport plane it rates 14 passenger seats as against 12 for the No. 14. These are in two rows of 7 seats each. If you adopt this plane the radio equipment can be concentrated in a separate compartment immediately aft of the bulkhead of the pilot's cabin running back as far as the main wing girder which rises from the floor of the cabin. This would leave a roomy cabin aft for yourself and additional passengers, with plenty of room for the couch and additional passenger seats. Another feature mentioned is that the 18 has a wide door, easy to enter, while the 12 has a very small door, difficult for a big man to squeeze through. The cabin height in the 18 is 6 ft. 3 in. as compared to exactly 5 ft. in the No. 12. The 18 also has a much greater range and a ceiling of 22,500 ft. Its power plant consists of two G-1028 Wright motors, each developing 1100 horse power at take-off, as compared to two 450 horse power motors, either Wright or P.& W., on the 12, as on the No. 10. The cruising speed of the 18 and of the No. 14 is about 220 m.p.h., with a top speed of 240. In other words, both do twenty miles per hour better than the 12 and about thirty better than the plane you now have, the No. 10.

Chalker believes that for general service use, if you should later relinquish it, the No. 18 would be considerably more useful than a No. 12. It would have better range for cruising and would be adaptable for aerial survey work.

October 30, 1939.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

SUBJECT: Airplanes.

Captain Chalker was in this afternoon by appointment with two of his assistants and L. V. Kerber, Washington representative of the Lockheed Company.

The plane which Gannett owns is a Lockheed 12. It has the same power plant as your present plane, the Lockheed 10, but is 2 ft. 3 in. shorter and the fuselage is narrower. A few are in use on feeder transport lines. Kerber says he rode in one of them only a short time ago. The aisle is very narrow, so that it is difficult to squeeze into the seats. In addition to places for the pilot and co-pilot it has six passenger seats in its transport form, three seats on each side. It was the opinion of Kerber and Chalker's men that it would not be feasible to put the radio equipment now carried on your present plane and a crew of four into the No. 12. If you put in a divan to lie on, there probably would not be room for a seat for you to say nothing of any passenger or passengers. This plane would be quite workable without radio equipment as there would then be room for six seats. It has less cabin space than the Northrup. The wing spread of the No. 12 is 49 ft. 6 in. as compared to 55 ft. for your present plane, the No. 10. By cutting down the dimensions there has been a gain in speed over the No. 10. The 12 has a cruising speed of 203 m.p.h. and a top speed of 220 m.p.h. as compared to 176 - 190 m.p.h. for the No. 10.

Lockheed has laid out a new plane, designated No. 16, which is the same as the No. 10 except that it will have a roomier fuselage, but this plane is not in production and there is no prospect that it will be soon under present conditions.

If you should decide that the No. 12 is too small for your use, as I think you will decide, the new No. 18 rather than the No. 14, which has been ordered, would seem to be by all odds the best bet. The 18 and the 14 are identical except that the fuselage of the 18 is 5-1/2 ft. longer and it lands slower - 65 m.p.h. as against 69 for the No. 14. It also, according to Mr. Kerber, has greater stability and superior handling characteristics. Kerber thinks it will do decidedly better in and out of a small field than the No. 12 since it has greatly superior power and better take-off characteristics. As a transport plane it rates 14 passenger seats as against 12 for the No. 14. These are in two rows of 7 seats each. If you adopt this plane the radio equipment can be concentrated in a separate compartment immediately aft of the bulkhead of the pilot's cabin running back as far as the main wing girder which rises from the floor of the cabin. This would leave a roomy cabin aft for yourself and additional passengers, with plenty of room for the couch and additional passenger seats. Another feature mentioned is that the 18 has a wide door, easy to enter, while the 12 has a very small door, difficult for a big man to squeese through. The cabin height in the 18 is 6 ft. 3 in. as compared to exactly 5 ft. in the No. 12. The 18 also has a much greater range and a ceiling of 22,500 ft. Its power plant consists of two G-1028 Wright motors, each developing 1100 horse power at take-off as compared to two 450 horse power motors, either Wright or P.& W., on the 12, as on the No. 10. The cruising speed of the 18 and of the No. 14 is about 220 m.p.h., with a top speed of 240. In other words, both do twenty miles per hour better than the 12 and about thirty better than the plane you now have, the No. 10.

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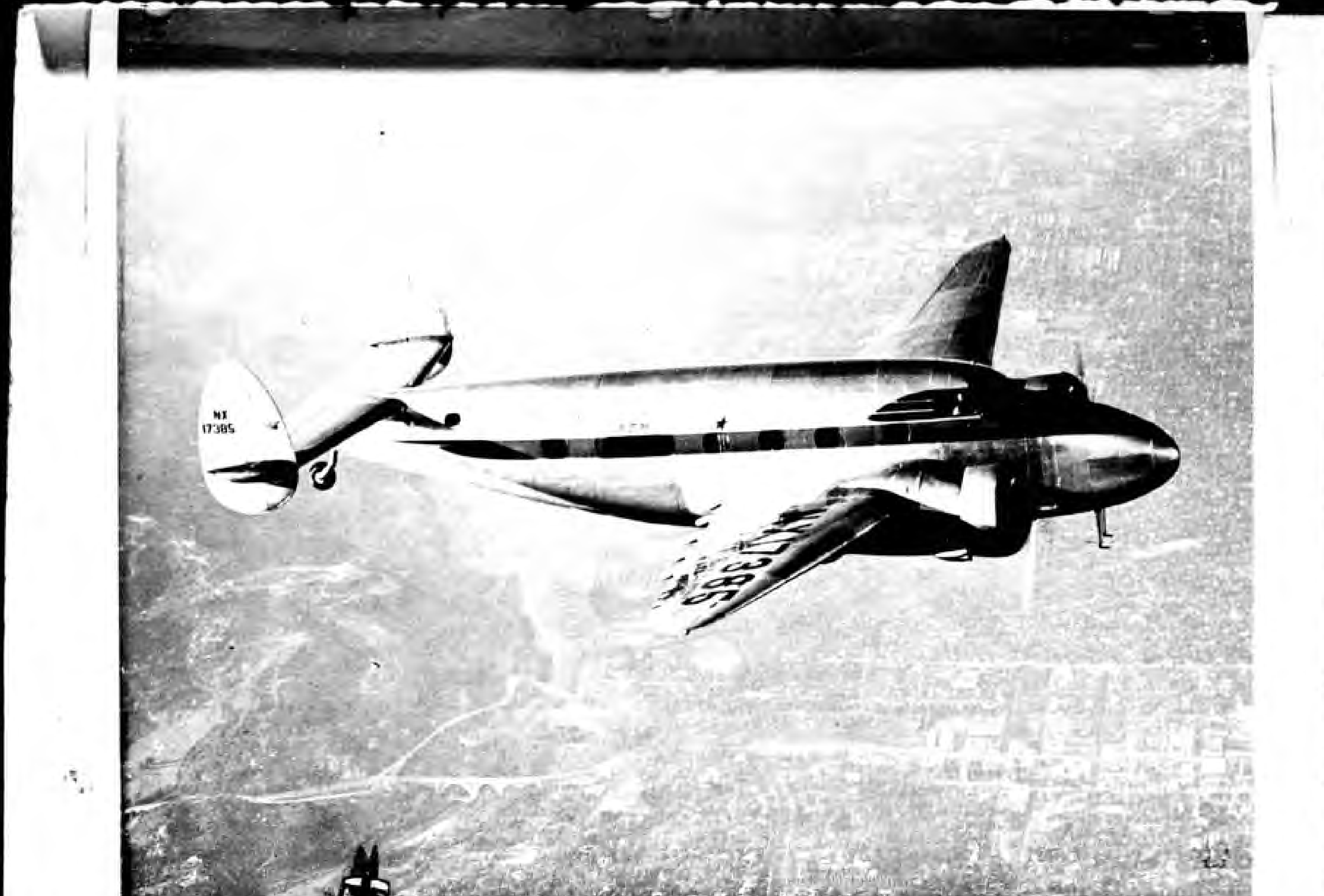
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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 30, 1939

TO Secretary Morgenthau

FROM Mr. Cochran

The transactions in the foreign exchange market today were very small. Sterling opened at 3.99-3/8 bid, and about 10 o'clock was quoted at 3.99-5/8 offered. The rate remained steady for the balance of the day and closed at 3.99-5/8.

The Japanese were again sellers of sterling, but from the steadiness of the rate in the market their orders were evidently being executed at 3.99-5/8 or better.

Reporting banks in New York and the Federal Reserve Bank reported sales of sterling totaling £215,000, from the following sources:

Commercial concerns	£107,000
Foreign banks (Europe and Far East)	£108,000
Total	£215,000

Purchases of sterling amounted to £304,000 as indicated below:

By commercial concerns	£110,000
By foreign banks (Near East and Europe)	£194,000
Total	£304,000

The banks also reported that the British Control purchased sterling amounting to £73,000 at the official rate of 4.02. All of the sterling represented the sale of cotton.

The Federal Reserve Bank purchased 500,000 French francs for the National Bank of Yugoslavia and 20,000 belgas for the Bank of Latvia.

The other important currencies fluctuated in a narrow range.

The Chinese yuan continued to improve and was quoted at .08-13/16 as compared with Saturday's quotation of .08-7/16. It was reported from Shanghai that the improvement in the yuan was attributed to the flight of capital from Hong Kong to foreign banks in Shanghai, and was induced by the introduction of an income tax in Hong Kong.

CONFIDENTIAL

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

Bank of France...............	$10,000,000
Netherlands Bank.............	5,000,000
National Bank of Belgium.....	385,000
Total.....	$15,385,000

The Federal Reserve Bank did not report to us any shipments of gold to this country.

An item appeared in the New York Tribune today, stating that it was announced officially in London that the Government of India has prohibited the import or export of gold except under license.

The Treasury's price for foreign silver today was fixed unchanged at 35¢. Handy and Harman's price was fixed at 34-3/4¢ off 1/8¢. When the spread of 1/4¢ below the Treasury's price was maintained by Handy and Harman the Treasury has in the past acquired most of the silver offered for sale in the New York market. This condition prevailed today and we bought in New York a total of 700,000 ounces under the Silver Purchase Act.

Mr. Gardner of the Federal Reserve Board telephoned me today in regard to the form of the weekly gold statement which will hereafter be issued by the Department of Commerce. It was agreed, after I had consulted Mr. Bernstein, that the gold held by the Federal Reserve Bank of New York, as Fiscal Agent of the United States, in the name of the Bank of Brazil as Fiscal Agent of Brazil, should be included under the heading: "Gold held under earmark at Federal Reserve Banks for Foreign Account". This will insure accuracy of totals, without revealing the earmark account under reference, which is the only one of this exact type.

Mr. McKittrick, who assumes the presidency of the BIS on January 1, called today to say goodbye. He sails a week from Saturday on the Rex.

Mr. Leroy-Beaulieu, Financial Counselor of the French Embassy, stated this morning, while in the Treasury, that the principal members of the General Commission for French war purchases in this country will leave Europe next week, either on the clipper plane or the Rex. The group will be headed by Mr. Bloch-Laine, whom I have known for several years as a partner in Lazard Freres, Paris, and who was a member of the Tardieu financial mission here during the last war.

In a conversation this morning with Mr. Pinsent, Financial Counselor of the British Embassy, he told me that a bank in New York had estimated the maximum holdings of gold in Soviet Russia at present at about $1,100,000,000 and the annual production at about 5,000,000 ounces.

Mr. Vass, Vice President of the Riggs National Bank, called today with reference to an inquiry which that bank received from White & Company, New York. It seems that White & Company have certain amounts due them from Yugoslavia, and

CONFIDENTIAL

they requested the Riggs Bank to find out for them if the dollars received by the Post Office Department, in payment of postal money order remittances to Yugoslavia, could be segregated and applied to debts owed by the nationals of that country to companies in the United States.

H. M. Jr.

CONFIDENTIAL

OFFICE OF THE COMMISSIONER OF CUSTOMS

10-30-37.

TO THE SECRETARY

FROM THE COMMISSIONER OF CUSTOMS

There is attached for your signature, if you concur in the recommendation contained therein, a communication addressed to the President, transmitting a draft of an Executive Order making certain changes in the field organization of the Customs Service in the State of Texas, to become effective thirty days from the date of approval of the order.

The changes set forth in the proposed Executive Order are recommended in the interests of economy and a more efficient supervision of the customs business in Customs District No. 23, as well as in the territory to be transferred from District No. 23 to District No. 22 (Galveston). A saving of $7,600 per annum will be accomplished by the transfer of the headquarters port of District No. 23 from San Antonio, Texas, to Laredo, Texas, and the abolition of the customs office in Fort Worth, Texas.

The reasons in support of the recommendation that these changes be made are pointed out in the draft of the communication addressed to the President; hence, it is unnecessary to restate them in this memorandum.

The question of transferring the headquarters port of District No. 23 from San Antonio to Laredo has been discussed with Hon. Harry P. Hornby, the present collector of customs at San Antonio, and Mr. Hornby has stated that he cannot give any valid reason for opposing such transfer. He recommends, however, that San Antonio be retained as a port of entry. This appears desirable at the present time, and you will note that Paragraph 3 of the proposed order will effect its retention. The collector also recommends that Corpus Christi be transferred to the Galveston District. This, likewise, is believed to be advisable and is covered by Paragraph 5 of the order.

It is thought that by a rearrangement of the space in the Federal Building at Laredo it will be possible to accommodate the personnel to be transferred from San Antonio.

I realize that it is very likely that some objections will be submitted by the Senators, certain Congressmen, officials of Chambers of Commerce, and others, against the transfer of the headquarters of the district from San Antonio to Laredo, and the change in the name of the district. Civic pride will be the basis for their objections, however, and I am of the opinion that satisfactory explanations can be made, especially since the city of San Antonio will be retained as a port of entry and the importers will suffer no inconvenience or curtailment of the service now being rendered to them.

Complaints from the same sources will, perhaps, be received upon the abolition of the customs office in Fort Worth, Texas. Satisfactory answers to these complaints may be made, as an officer will be detailed from the port of Dallas to handle whatever business may arise at Fort Worth, and shipments may be made to that city for storage in the bonded warehouse. The business at Fort Worth decreased materially during the fiscal year of 1939.

Basil Harris.

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WHC:JTF 10-21-39

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OCT 31 19[illegible]

Through the Bureau of the Budget
Attorney General
Division of the
Federal Register.

My dear Mr. President:

I have the honor to transmit herewith for your signature, if it meets with your approval, a draft of a proposed Executive Order making certain changes in the field organization of the Customs Service in the State of Texas, to become effective thirty days from the date of the order.

The following information is submitted in support of my recommendation that such changes be made:

On March 3, 1913, President Taft signed a Proclamation reorganizing the Customs Service, effective July 1, 1913. The Laredo Customs District (No. 23), was created by that Proclamation and the city of Laredo was designated as the headquarters port. The city of San Antonio was designated as a customs port of entry in the District of Galveston (No. 22), by the same Proclamation. By Executive Order No. 2702, dated September 7, 1917, a readjustment was made of the Customs Districts in the States of Texas and New Mexico, said order creating the District of San Antonio (No. 23), and fixing the limits of that district to include that portion of Texas lying west of the 97th degree of west longitude and east of the Pecos River. San Antonio was established as the headquarters port and the city of Laredo was designated as a port of entry in the San Antonio District.

In 1917, such action was evidently warranted, as San Antonio was the largest city, from the standpoint of population, in the district. However, during the past twenty years, conditions in the State of Texas and the contiguous country of Mexico have changed considerably, improved highways and transportation facilities having been provided, and a study of statistics reveals that a much greater volume of importations is received at the port of Laredo from Mexico than at any other port of entry in the district.

For the purpose of comparison, there is tabulated below a statement indicating the number of entries of merchandise and the customs duties collected thereon at the port of San Antonio (the present headquarters port of Customs District No. 23), and the port of Laredo, during the fiscal years of 1936, 1937, 1938 and 1939:

San Antonio

Fiscal Year	Entries	Customs Duties
1936	788	$ 87,814.00
1937	717	91,670.00
1938	427	68,989.00
1939	308	76,468.00

Laredo

Fiscal Year	Entries	Customs Duties
1936	21,880	$ 361,800.00
1937	24,282	397,668.00
1938	28,373	356,311.00
1939	30,408	479,634.00

The port of Laredo is situated on the Rio Grande River, which is the boundary line between the United States and Mexico. It is located midway between the eastern and western boundaries of the present San Antonio District, whereas the city of San Antonio is located approximately 125 miles inland. There are on the Rio Grande River six other customs ports of entry and four customs stations. The supervision of the business at these ports and stations may be accomplished more economically and expeditiously by the collector of customs or his assistants if the headquarters of the district were at Laredo, which is centrally located, inasmuch as the travel expenses of those officials would be greatly reduced.

It may be added that the port of Laredo is a railroad center and is located on an international highway leading from Mexico. There is a large number of automobiles, buses, and other vehicles, passenger trains, freight cars, and pedestrians entering the United States at Laredo from Mexico. A statement of this business during the past four fiscal years is as follows:

	1936	1937	1938	1939
Automobiles entering U. S.	362,563	320,611	380,478	380,161
Buses	925	2,909	2,921	1,784
Other vehicles	3,110	3,830	15,250	13,938
Passenger trains	728	742	780	784
Freight cars	7,606	10,619	12,898	8,784
Pedestrians	909,312	1,063,078	1,084,469	1,237,363

It will be noted that the bulk of the customs business is handled at Laredo and that the customs revenue greatly exceeds the amount collected at San Antonio. Therefore, a large majority of customs matters requiring the decision of the collector of customs in charge of the district originates at Laredo, and it is my opinion that the transfer of the headquarters of the present San Antonio District from San Antonio to Laredo is entirely justified. Furthermore, the headquarters of a customs district are usually selected by reason of geographical considerations and the relative importance with other ports in the district from the standpoint of customs transactions. Consequently, it is very apparent that the logical location for the headquarters of the district where the collector should supervise the customs business will be at Laredo.

With respect to the change in the name of this district, I wish to state that, when the Customs Service was reorganized in 1913, many districts were given the same names as the cities selected as the headquarters thereof, such as the New York District, Chicago District, Philadelphia District, Pittsburgh District, St. Louis District, San Francisco District, Los Angeles District, etc. It will, therefore, be desirable, in this instance, to change the name of the district to "Laredo Customs Collection District."

The designation of the city of San Antonio as a port of entry will not be disturbed. Although the number of entries of imported goods has decreased during the past four years, there is still a sufficient volume of business to justify the retention of the customs office. There are two bonded warehouses in San Antonio which are used for the storage of imported merchandise generally. The establishment of these warehouses, in which importers may store goods until they are required for sale or other use, is a great convenience, and the retention of the office will likewise be a privilege to the importers, as they may have their merchandise shipped in bond without appraisement from the ports of arrival to San Antonio, under the provisions of section 552 of the Tariff Act of 1930, for immediate consumption or storage in the bonded warehouses. Paragraph 3 of the proposed order will accomplish the retention of San Antonio as a port of entry.

As to the port of entry of Fort Worth, Texas, it is felt that the volume of business handled does not justify its retention. During the fiscal year of 1936, only 58 dutiable consumption entries of merchandise were made at that port, the receipts amounting to $85,648.00; during the fiscal year of 1937, 80 dutiable consumption entries were filed, and the collections totaled $30,997.00; during 1938, 54 consumption entries covering dutiable goods were made, the collections totaling $34,011.00; and during 1939, there were only 20 dutiable entries, and the customs revenue amounted to $20,625.00. It will be noted that the collections decreased materially in 1939 in comparison with the three previous years.

The transfer of those portions of the Counties of Dallas, Aransas, and Refugio, State of Texas, lying west of the 97th degree of west longitude, and the Counties of Tarrant, San Patricio, and Nueces, State of Texas (including the port of entry of Corpus Christi, which is located in Nueces County), from District No. 23 to District No. 22 (Galveston), is deemed to be advisable in the interest of economy and a more efficient administration of the customs and marine business at Corpus Christi and Fort Worth.

The present boundaries of Customs District No. 23 comprise that part of the State of Texas lying west of the 97th degree of west longitude and east of the Pecos River. Customs District No. 22 (Galveston), includes within its limits that part of the State of Texas lying east of the 97th degree of west longitude, except the territory embraced in Customs District No. 21 (Sabine), which includes a certain area in the southeastern part of Texas and two adjoining counties in Louisiana. A small portion of Dallas County and the entire County of Tarrant, are situated west of the 97th degree of west longitude.

In view of the fact that the designation of the city of Fort Worth, in Tarrant County, as a port of entry, will be revoked by the proposed order, and a bonded warehouse for the storage of imported merchandise generally has been established at Fort Worth, it will be advisable to transfer the County of Tarrant and that portion of the adjoining County of Dallas, now within the limits of District No. 25, to the Galveston Customs District (No. 22), so that the deputy collector of customs or some other officer at the port of Dallas, which is approximately 35 miles from Fort Worth, may supervise the receipt and delivery of merchandise at the bonded warehouse in Fort Worth, accept warehouse entries, withdrawal entries, collect duties thereon, and handle any other customs business which may arise at Fort Worth.

The transfer of Tarrant County (in which Fort Worth is located), and the small portion of Dallas County, now in District No. 23, to the Galveston District, will, therefore, be very desirable, for the reasons stated, and the additional reason that a saving in travel and subsistence expenses (chargeable to the importers, under the provisions of article 770, Customs Regulations of 1937), will be possible by detailing an officer from the adjacent port of Dallas to handle the business at Fort Worth, rather than to detail an officer from San Antonio, a distance of approximately 270 miles from Fort Worth.

With regard to the port of Corpus Christi, Texas (in Nueces County), now in District No. 23, I wish to state that the chief business at that port, which is also a port of documentation, consists of the entry and clearance of vessels engaged in the foreign and domestic trade, the issuance of marine documents to such vessels, recordation of bills of sale and mortgages, issuance of seamen's certificates, etc. Vessels enter at Corpus Christi (on Corpus Christi Bay), from the Gulf of Mexico through Corpus Christi Pass. It is the present practice of the deputy collector at Corpus Christi to get in touch informally with the office of the collector at Galveston when any problem of importance arises, as the collector and his assistants at Galveston have had considerable experience in marine work and the enforcement of the navigation laws. It is, therefore, recommended that Nueces County (in which Corpus Christi is located), be transferred to the Galveston District in the interests of better administration of customs and marine transactions at Corpus Christi.

Portions of Aransas and Refugio Counties, and the entire County of San Patricio, are at present within the limits of District No. 23. Vessels may reach points in those counties through several passes leading from the Gulf of Mexico to Corpus Christi Bay, Nueces Bay, Aransas Bay, Copano Bay, San Antonio Bay and

Hinse Bay. Consequently, the same reasons which are set forth in the preceding paragraph, pertaining to the transfer of Nueces County, prompt me to recommend the transfer of such territory from District No. 23 to District No. 22 (Galveston). These transfers are covered by Paragraph 5 of the order.

With reference to the personnel involved in connection with the proposed changes, it is contemplated to transfer the deputy collector in charge at Fort Worth to San Antonio. It is believed that two employees will be able to take care of the customs business at San Antonio, a deputy collector in charge, and one other employee now stationed at San Antonio. This will make possible the transfer of the collector of customs, the assistant collector, and five other employees, from San Antonio to Laredo. The transfer of these officers and employees from San Antonio to Laredo will effect a yearly saving of $7,600 as three existing vacant positions at Laredo may be abolished, namely, one deputy collector in charge (Grade CAF-9), at $3,200 per annum, one deputy collector (CAF-6), at $2,400 per annum, and one clerk (Ungraded), at $2,000 per annum.

The action recommended is within the authority conferred upon you by section 1 of the Act of August 1, 1914, 38 Stat. 609, 623 (U. S. C. title 19, sec. 2).

Faithfully yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The President,

The White House.

WNC;JTF 10-21-39

EXECUTIVE ORDER

- - - - -

MAKING CERTAIN CHANGES IN THE FIELD ORGANIZATION OF THE CUSTOMS SERVICE IN THE STATE OF TEXAS.

By virtue of and pursuant to the authority vested in me by section 1 of the Act of August 1, 1914, 38 Stat. 609, 623 (U. S. C. title 19, sec. 2), it is hereby ordered that the following changes be made in the field organization of the customs service in the State of Texas:

1. The headquarters of Customs Collection District No. 23 (San Antonio) are transferred from San Antonio, Texas, to Laredo, Texas.

2. The name of Customs Collection District No. 23 (San Antonio) is changed to "Laredo Customs Collection District."

3. The city of San Antonio, Texas, shall be retained as a customs port of entry in Customs Collection District No. 23 (Laredo).

4. The designation of Fort Worth, Texas, as a customs port of entry in Customs Collection District No. 23 is revoked.

5. Those portions of the Counties of Dallas, Aransas, and Refugio, State of Texas, lying west of 97° west longitude, and the Counties of Tarrant, San Patricio, and Nueces, State of Texas (including the customs port of entry of Corpus Christi, Texas, in the County of Nueces), are transferred from Customs Collection District No. 23 to Customs Collection District No. 22 (Galveston).

This order shall become effective thirty days from the date hereof.

THE WHITE HOUSE,

[illegible] , 1939.

October 30, 1939
10:02 a.m.

HMJr: Hello.

William Bullitt: Hello, Henry.

HMJr: How are you?

B: How are you?

HMJr: I'm fine. How are you, Bill? Hello?

B: Hello.

HMJr: Can you hear me?

B: I can hear you very well.

HMJr: Bill, I wanted to know whether it would be entirely agreeable to you if Butterworth, who is coming back on the 6th or 7th of November......

B: Yes.

HMJr: ......would spend a couple of days in Paris to see some of the Treasury and Bank of France people so that he could bring back to me whatever they might have in mind?

B: Why certainly, Matth e ws can introduce him to everybody here.

HMJr: Fine. Well, there -- I'd like him to see some of the people that you think are worth while.

B: Yes, fine.

HMJr: But I didn't want to do it without talking to you first.

B: No, no, that's fine. Matthews has all of those people on the string now. He can do anything he pleases with them.

HMJr: Fine. Well then I'll send a cable.

B: He'll be delighted to take Butterworth to anybody you want.

HMJr: Well then I'll ask the State Department to order Butterworth to spend two days in Paris.

B: Yeah, that's fine. I'll be perfectly delighted.

HMJr: But I didn't want to do it without asking you first.

B: That's very nice of you. I'm perfectly delighted.

HMJr: Thank you so much.

B: Now -- Henry, what do you think the prospects are for the f a t e of the passage of this bill?

HMJr: Oh, I'm not worried about it.

B: But you think it will be passed by Thursday or Friday?

HMJr: Oh, yes.

B: You do think so?

HMJr: I -- I'd bet -- oh, I'd give liberal odds on it.

B: On Thursday or Friday?

HMJr: Yes.

B: Oh that's fine. I'm delighted.

HMJr: Well, I'd say this week.

B: Yeah. Fine, Henry.

HMJr: I'd say this week; I'd bet heavily on it.

B: Yeah. Well that's swell; I'm perfectly delighted.

HMJr: Right. How's your health?

B: Oh, fine -- I -- are you all revived again?

HMJr: Pardon me?

B: Are you all revived again?

HMJr: Oh, you -- who were you listening to?

B: I'm listening -- I didn't say that -- I say, are you revived again?

HMJr: Not entirely, no.

B: Because you told me the last time you talked to me that you were under the weather.

HMJr: Yeah. Well, I'm all right but I could use a couple of weeks of that place in Cuba where you went to.

B: (Laughs) It's a good place to go. If you've got a holiday try it.

HMJr: O. K.

B: Only don't swim out too far and get eaten by the barracuda.

HMJr: Well, we've got those in Washington.

B: Yeah. (Laughs) All right, Henry.

HMJr: All right.

B: My regards to your wife.

HMJr: Thank you. Thank you.

B: Good luck.

HMJr: Goodbye.

TO:

Miss Chauncey 11/1'39

For your info.

Mr. Foley called the Congressman yesterday. The Congressman said that if the ruling was going to be adverse he didn't want it.

Foley suggested that he read an Opinion of the Attorney General dated June 28, 1867, and if he disagreed with Foley (that the ruling would have to be adverse) he should call him.

We have had no call.

Mc

MR. FOLEY

October 30, 1939
10:10 a.m.

HMJr: Hello.

Operator: Go ahead.

HMJr: Hello.

Frank H. Buck: Hello.

HMJr: Morgenthau talking.

B: Yes, Mr. Secretary. This is Congressman Buck of California.

HMJr: How's the west coast?

B: Fine, thank you. I have a request from the west coast that I have to put up to you.

HMJr: Yes.

B: I called up the Bureau of Internal Revenue on this -- Saturday and talked to Wenchel and he said that it was a matter of policy and would have to be determined by you entirely.

HMJr: Yes.

B: The -- some people out there who are fighting this "Ham and eggs proposal" of which you have no doubt heard.......

HMJr: Yeah.

B: ......asked me to get a ruling from the Commissioner of Internal Revenue......

HMJr: Yes.

B: ......as to whether these warrants, if they should be circulated, would be subject to the tax under section 1900(b) of the Internal Revenue Code. That is, that ten per cent tax on circulation other than that of national banks.

HMJr: Yeah.

B: And he didn't want to make a ruling without your authorizing it to be done.

HMJr: Well, I'll -- I'll look into it right away. Which -- what do you want me to do?

B: Well, I'd like to have it ruled that they -- I think it's -- to my notion it is positive that they are subject to the tax.

HMJr: I see.

B: And I think it would be perfectly proper for you to make a ruling of that kind.

HMJr: If it's not an improper question, are you for or against "Ham and eggs"?

B: I'm decidedly against it.

HMJr: You're against it?

B: Yes.

HMJr: O. K. Well now, let me -- I'll find out and then I'll have somebody, -- I'll go after it right away.

B: All right, and you'll have somebody let me know?

HMJr: Yes, I will.

B: All right, thank you very much.

HMJr: Thank you.

October 30, 1939
10:20 a.m.

HMJr: Hello.

Operator: Chairman Eccles is expected in about 45 minutes.

HMJr: Well, if Harrison is still busy give me Allan Sproul.

O: All right.

October 30, 1939
11:23 a.m.

HMJr: Hello.

Operator: Jerome Frank. Go ahead.

HMJr: Hello.

Jerome Frank: Hello. This is Jerome.

HMJr: Hello, Jerome.

F: I wanted to tell you about what I've learned on the Rogge thing.

HMJr: Righto.

F: I spoke to Chester Lane.

HMJr: Yes.

F: He's got very disturbing information. Rogge went out there, asked to have sent with him one of our best men......

HMJr: Yeah.

F: ......whom he designated, who was to spend ten days with him.

HMJr: Yeah.

F: When he got there he established headquarters at the D.A.'s office.

HMJr: Yeah.

F: He apparently saw some people, he had a press conference at which our fellows weren't present.

HMJr: Who, the D.A.?

F: No, John.

HMJr: John Rogge had that?

F: Yes. He then -- he then -- let me see, the next thing, he had an evening -- one evening with our man Ed Cohen, that he asked to come out there......

HMJr: Yeah.

F: ......in which he talked practically nothing about the matter. He had a conference with the Giannini's; he stated that he had had a criminal reference from us on a matter affecting them; that he had to see all their books or else he'd have to take it before a grand jury, and that he wanted to see everything so he could make up his mind what he should advise the several departments to do.

HMJr: Yeah.

F: The -- he left without having any further talk with our boys and went away with somebody -- a lawyer who is -- Gary, who is in one of the K. R. Giannini cases.

HMJr: Yes.

F: The whole thing is very disturbing to us.

HMJr: Yeah.

F: He -- I phoned him this morning and said I wanted to see him and he said he was trying to arrange for a conference between you, the Attorney General, himself, me, Chester Lane our General Counsel, and one of our other fellows.

HMJr: Yeah.

F: And he would let me know later.

HMJr: Yeah.

F: I didn't say anything to him about what I had learned because I didn't know many of the particulars, but I'm -- I've got a phone call in for him now in which I'm going to say I've heard things that disturbed me and of course I don't believe them.

HMJr: Is he back?

F: Yes, He's back.

HMJr: Oh, I didn't know that. I didn't know that. Well, I suppose you're not going to let any grass grow.

F: I certainly am not. I've got a call in for him now in which I'm going to say that I've heard some disquieting things and of course I don't believe them.

HMJr: Yeah.

F: Now, it may all be very innocent.

HMJr: Yeah. Well, if you'll keep me posted, why......

F: I will indeed.

HMJr: ......I'll appreciate it.

F: I certainly shall.

HMJr: Thank you so much.

F: All right.

October 30, 1939
3:21 p.m.

HMJr: Hello.

Operator: Go ahead.

Sumner Welles: Hello, Henry.

HMJr: Hello, Sumner.

W: Henry, I've had a chance now to go through that correspondence that you spoke of.

HMJr: Yeah.

W: And also certain related matters and I'd be delighted to come over to see you this afternoon if you're free.

HMJr: Well, let me just think a minute.

W: Or I can do it early tomorrow morning, if that's better.

HMJr: No, let me just see a minute. No, I'm all tied up tomorrow. I have press at 4 o'clock; how about 4:30?

W: That's all right. That would suit me very well.

HMJr: Fine, I'll be glad to see you.

W: I'll come over at 4:30.

HMJr: Thank you.

W: By the way, Henry, have you got anybody yet for Riefler?

HMJr: Well, Riefler only came in this morning and said his papa was very sick.

W: Yeah.

HMJr: So I have nobody. I don't know where I'm going to get anybody.

W: That's a problem, because the time is short.

HMJr: Yeah. Well......

W: Well, that's one of those things. Well, I'll talk to you about it when I come over.

HMJr: Thank you.

W: Thanks.

October 30, 1939
3:52 p.m.

HMJr: Hello.

Marriner Eccles: Hello.

HMJr: Marriner......

E: Yeah.

HMJr: We made it July 1, '42.

E: Compromise?

HMJr: Yeah.

E: Huh?

HMJr: Yeah.

E: Well, that's all right. I think that's a -- that's a good deal and......

HMJr: I tell you, I don't feel quite as comfortable about the world situation as I did last week, and -- so we talked about 1 or 2 months, and this is the first cash offer.

E: That's right, this -- this -- the other wasn't a cash offer.

HMJr: And this is the first cash offer that any government in the world has made the public since the war started.

E: Ummmm -- I hadn't thought of that. I guess that's right though, isn't it?

HMJr: Yeah.

E: But it's......

HMJr: Well, if I err I err on the side of

E: Well -- well, I don't think -- I don't think that -- that you can say that it's an error at all because.....

HMJr: We figured there's a margin of from 16 to 20/32nds on it.

E: 16 -- now, from 16 to 20.

HMJr: Yeah.

E: Um-hm. Well that -- that's pretty good -- that's a pretty good deal.

HMJr: That's all right.

E: A one per cent on a 2 and three quarter. I mean.....

HMJr: But don't -- but don't forget that Thursday the market went off a half a point in a day and it's up a half a point today.

E: Well, that was the wrong -- that was the wrong cause.

HMJr: I know.

E: I -- I would think on a long bond -- of course, I -- I think that's out for sometime; I'm not sorry personally that it is, but -- but anything as short as this with these banks in the position they are, needing earnings, needing loans, needing investments, it -- it just can't -- it can't fluctuate much.....

HMJr: Well......

E: ......and it can't fail, and......

HMJr: We'll do the best we can.

E: Listen, I was going to -- I was going to ask you, the -- the financing now -- this is about -- this is all you have in mind, isn't it......

HMJr: That's all.

E: ......until December now?

HMJr: Well I may -- I may anticipate the refunding.

E: Oh, you mean the March -- you mean on the March?

HMJr: Yeah, but I don't plan anything......

E: No new money?

HMJr: Well, 500 million dollars sometime between now and the first of January.

E' Yes, but -- but what I -- what I was thinking of, the -- this will likely be closed tomorrow, won't it?

HMJr: Yeah, that's right.

E: And as far as the -- the open market committee is concerned......

HMJr: Yeah.

E: ......that if -- if it were necessary, if the situation developed to where we felt it was necessary.....

HMJr: Yeah.

E: ......to do something in the market, either by switches or -- or furnishing certain securities if there was a strong demand......

HMJr: Yeah.

E: ......or a weakness, either one......

HMJr: Yeah.

E: .....that we -- we would feel free to do it.

HMJr: That's right.

E: However, we wouldn't do it without -- without calling you up and telling you the way we felt about it.

HMJr: I'd appreciate it if you'd call me first, but as far as we're concerned you're free now to do anything you want.

E: Yeah. Well, we'll -- we'll call you about it and we don't have anything particular in mind at all because the market has really been -- been taking care of itself pretty satisfactorily.

HMJr: I think very satisfactorily.

E: But there is a possibility, if it shows -- it may show an undue strength.

HMJr: Yeah.

E: And if it does it may be advisable to -- to furnish certain issues to the market in limited amounts.....

HMJr: Yeah.

E: ......rather than have it go clear up again and then have us in a position where it will need a lot of support. And inasmuch as we have indicated that it ought to be a two -- a two-way street.

HMJr: Yeah.

E: That -- that I -- I wouldn't -- I'd really like to let some of the securities run off, especially if the market shows a lot of strength.

HMJr: Well, if you get into that mood give us a ring, but there -- there's no reason now - you shouldn't move in any direction.

E: Well -- well, O.K. Now there's one other thing. On the -- you expect to continue to offer bills each week for an indefinite period?

HMJr: A 100 million from now on.

E: A 100 million?

HMJr: Yeah.

E: You mean you quit......

HMJr: They quit the 150.

E: Have you announced that?

HMJr: No, but I will at -- in about five or ten minutes.

E: Oh.

HMJr: I don't need the money.

E: Well, no you don't unless you want to carry balances.

HMJr: No.

E: And I -- and you don't need to carry them.

HMJr: We've got all.....

E: You can always -- you can always get the bill money.

HMJr: Oh yes, we'll stay -- drop it for a while -- I mean, the extra 50 and then when we need it we can go back again.

E: Um-hm. Well, the new financing then is pretty well out of the market until December.

HMJr: That's right.

E: I'm figuring on going out west again next week. I got out, as you know, but hell I never got more than there and turned around and came back.

HMJr: That's right.

E: And I would like to -- I haven't been out of here except that very short period since a year ago last -- the first of this month.

HMJr: Yeah.

E: A year ago in September.

HMJr: Yeah.

E: And Congress ought to be out here possibly this week - with the financing over with.....

HMJr: Yeah.

E: ......and it doesn't look like they're going to have any -- anything of any very great importance in November.

HMJr: No.

E: And I think it's one of the best times for me to get away.

HMJr: I think so.

E: Well, I'll possibly see you before I go.

HMJr: Yeah, do that.

E: And I just -- I wanted to check with you so if you see any reason why you think I shouldn't, I wish you'd let me know.

HMJr: O. K.

E: All right then.

HMJr: Thank you.

E: Goodbye.

October 30, 1939
3:57 p.m.

HMJr: Hello.

Operator: Mr. Harrison.

HMJr: Hello.

O: Go ahead.

HMJr: Hello.

George Harrison: Hello.

HMJr: George?

H: Yes, sir.

HMJr: We made it July 1, '42.

H: So Rouse just told me - he heard from Bell.

HMJr: Yeah.

H: Well, I -- I think that's all right.

HMJr: Sure it is.

H: (Laughs) I -- I think the other would have been all right too.

HMJr: It -- it might have, but I'm not quite as -- I don't feel quite as comfortable about the world situation this week as I did last, George.

H: I -- I see.

HMJr: I'm -- I'm a little more nervous.

H: Well, it's a little   so it won't hurt much.

HMJr: Yeah, I'm a little more nervous.

H: All right, sir.

HMJr: O. K.

H: Thank you for letting me know.

HMJr: Goodbye.

H: Goodbye.

HMJr: Hello.

Harry Hopkins: Hello, Henry.

HMJr: Well for heavens sakes how are you?

H: Well, I'm alive.

HMJr: Well, that's something, isn't it?

H: It certainly is. I was wondering if there was any chance of you stopping by on your -- before you go to your social engagements tonight.

HMJr: I didn't hear you very well, Harry.

H: I wondered if there was any chance of you stopping by before you begin on your social engagements tonight.

HMJr: Stop by where?

H: Stop by my house.

HMJr: Oh.

H: And say hello.

HMJr: When are you going to be home?

H: I'm home now.

HMJr: Well, they told me you were at your office.

H: No, I don't know where they got that.

HMJr: Oh for heavens sakes.

H: My God, I wish I were, Henry.

HMJr: That -- why.....

H: I'm propped up in bed with a nice radio and reading the evening paper.

HMJr: Sure I'll stop by - I'd love to.

H: Fine. I tried to call Elinor but I couldn't find her. She's out......

HMJr: Oh.

H: ...... -- out calling.

HMJr: Oh. Well, I -- if I can get her......

H: If you can get her, bring her with you, will you?

HMJr: You bet.

H: Grand, Henry. You know where I live?

HMJr: Yes, we do.

H: All right, old boy.

HMJr: Swell.

H: Goodbye.

HMJr: Goodbye.

TREASURY DEPARTMENT

WASHINGTON

OFFICE OF
CHIEF, INTELLIGENCE UNIT
BUREAU OF INTERNAL REVENUE

October 30, 1939.

MEMORANDUM FOR THE SECRETARY.

Joseph M. Schenck is the dominating figure in each of three cases involving alleged evasion of income taxes, namely, his own individual case, the William Bioff case and the so-called Twentieth Century-Fox reorganization case. These cases were referred to the Department of Justice in June and July, 1939, with recommendations for criminal prosecution.

The most important of the three is the reorganization case, which involves Joseph Schenck, William Goetz, Darryl Zanuck, and others in charges that they conspired to defraud the United States of taxes due as a result of the merger of the Fox Film Corporation and the Twentieth Century Pictures, Incorporated, in the year 1935. This also includes the charge that the taxpayers bribed Revenue Agent Kadis to falsify his official reports. As a result of a thorough investigation by field officers of the Bureau of Internal Revenue and subsequent exhaustive review of their reports, as well as careful analysis of the evidence by competent attorneys, reorganization experts and administrative officials of the Treasury Department, it was unanimously concluded that the evidence of fraudulent intent was sufficiently strong to warrant criminal prosecution.

Upon receipt of the case in the Department of Justice, it was given prompt consideration. Soon thereafter, both the taxpayers and their legal representatives were afforded an opportunity to be heard. At the first such meeting Assistant Attorney General Morris quoted the Attorney General, in part, as follows:

> "The purpose of the conference is not to undertake to build up a case; it is not certainly for the purpose of entrapping anyone into any statement that might be disadvantageous to them."

Shortly thereafter the Attorney General entered the hearing, he having been in conference with Messrs. Schenck, Goetz and Zanuck in an adjoining room. He remained only long enough to address all concerned including the taxpayers and their attorneys, stating, among other things:

> "As you know, in a proceeding we preside over or under our direction, there could be no artifice in it and there are no thoughts of this sort of thing being used to put anyone in a bad position, so please--if that is back in anybody's mind--banish it."

(Attached are complete copies of the opening statements made by both of these officials as recorded in the approved transcript).

Inasmuch as this conference was being conducted by the Department of Justice, these preliminary statements necessarily caused the Treasury representatives to refrain from following their usual practice of closely questioning the accused and the persons appearing in their behalf; consequently, many statements were left unchallenged which might otherwise have been refuted. Attorneys for the taxpayers were granted too much liberty. In many instances defending counsel, by abrupt interruptions, unexpected requests for adjournments, and similar tactics, rescued their clients when they were on the verge of making damaging admissions or statements against their own interests. Ordinarily, under circumstances of this kind, the Treasury representatives would have insisted that the witness be allowed to complete his statement and counsel would not have been permitted to interfere, except in the proper assertion of constitutional rights.

It will be seen, therefore, that the procedure and tactics employed during these conferences precluded the representatives of the Treasury Department from developing the facts which seemed worthy of consideration by the Department of Justice. Far more serious than this, however, is the fact that the taxpayers and their attorneys, due to the liberties allowed them, succeeded in learning much of the Government's evidence which agents had gathered without cooperation, but, rather, in spite of the taxpayers' evasive and obstructive tactics. Even Attorney Carr of the Department of Justice, to whom the cases were later assigned, expressed the opinion that these hearings in that Department were conducted in such manner as to defeat the best interests of the Government; that too much opportunity was allowed the accused taxpayers and their attorneys to learn practically all of the evidence in the Government's case. This likewise is the view of the representatives of the Treasury Department who were present.

Shortly after the conclusion of this series of hearings, a meeting was held in the Attorney General's office which was attended by Mr. Foley, Mr. Wenchel and Mr. Carpenter of the Treasury Department. On this occasion the Attorney General announced that the lawyers under his supervision who had reviewed the major conspiracy case were unanimously of the opinion that the facts did not warrant criminal prosecution. In the discussion which followed his attention was directed to the fact that there was a bribery angle to the case involving a former agent of the Treasury Department who had been removed because of his collusion with the accused. Thereupon, the Attorney General instructed Attorney Carr to proceed to Los Angeles for the purpose of presenting the William Bioff case to the grand jury, and, incidentally, to examine certain witnesses believed to have first-hand knowledge of the alleged bribery. Mr. Carr was further instructed not to go on any "fishing expedition" and not to inquire into the reorganization features of the case unless "fruitful leads of information" were obtained by examination of the bribery charge, in which event he was to communicate with his Department.

While there has been no objection on the part of the Treasury to seeking an indictment of the former revenue agent, this angle has been considered the least important among the possible criminal actions which could be instituted in this group of cases. If he was bribed, and there is little reason to doubt this, he was bribed by or on behalf of Messrs. Schenck, Goetz and Zanuck for the purpose of inducing favorable action in their income tax matters, yet the decision of the Department of Justice was not to further consider the proposed prosecution of these wealthy moving picture directors.

Mr. Carr, prior to his assignment in his present position, was employed as an assistant United States attorney in Los Angeles, to which position he had been appointed by Mr. Peirson Hall, then United States District Attorney. When first assigned to this particular case he exhibited great enthusiasm and expressed the opinion that the prosecution should be undertaken. However, this enthusiasm noticeably diminished after a date on which this office received confidential information that his former employer, Mr. Hall, then a practicing attorney, had become professionally interested in the case.

In the judgment of the agents and officers of this Department, Mr. Carr grossly mishandled the presentation of the bribery matter to the grand jury. A review of the transcript of the testimony indicates clearly that he employed poor strategy and neglected to follow the usual course of a competent prosecuting attorney endeavoring to develop evidence from unwilling witnesses. His questions were actually framed and presented in such manner as to invite negative and false testimony. After examination of one important witness he instructed that individual to notify a second witness to appear before the grand jury, thereby affording an opportunity for collusion.

While it is admitted that, under instructions of his Department, Mr. Carr was limited as to the extent of his inquiries, it is difficult to escape the conclusion that, either negligently or designedly, he failed to develop the true facts. Of significance as to his attitude is the following excerpt from his official report:

> "It took only a short time before the grand jury with Goetz for the writer to determine that the Government was on a hopeless fishing trip. It was apparent, however, that Goetz made no effort to tell the truth concerning the matters about which he was questioned."

A most serious result of the manner in which these grand jury proceedings were conducted is the depreciated effect on the future value of any testimony of these witnesses. Having once testified falsely under oath they would naturally be loath, due to fear of prosecution, to change their testimony in the event of subsequent grand jury proceedings even though vigorous efforts were made to induce the truth.

It had been hoped by the Treasury Department at the time the Attorney General agreed to refer the bribery feature for grand jury attention that evidence might thereby be developed of such a nature as to induce the Department of Justice to prosecute the reorganization case. However, because of the unsatisfactory manner in which Mr. Carr presented the bribery matter, no evidence has developed which might, of itself, accomplish that purpose.

In correspondence which has been had by Mr. Wenchel with Assistant Attorney General Clark since the grand jury proceedings, and in conferences in the Department of Justice participated in by Mr. Wenchel and Special Agent Oftedal of the Intelligence Unit, dissatisfaction has been expressed by our representatives with the negative results obtained by Mr. Carr. Suggestions were made which it was hoped might facilitate better development of the evidence. In fact, it was urged that the entire matter be referred to the United States Attorney and handled by him in cooperation with representatives of the General Counsel's office in a manner similar to that which was adopted in the Annenberg case. The objects in making this suggestion were two-fold--the elimination of Mr. Carr and the prospect of making possible a more thorough reconsideration of the major conspiracy case. However, these discussions resulted only in the agreement that further attention would be given the bribery phase of the case, and there is nothing at present to indicate that the Department of Justice has any thought of withdrawing Mr. Carr.

Therefore, as matters now stand, there is no hope for development of the major case. The situation is now such that the only individual in the group being considered for possible prosecution is the former agent of the Treasury Department who was removed for his misconduct and who profited least by the frauds committed. This agent should receive further punishment, but I feel it is of far greater importance that those most responsible for the bribery and the conspiracy to defraud should not escape punishment. In attempts to indict and prosecute such a minor figure as Harry Kadis the Government might well be charged with unfairness when it is realized that the principals who participated in and directed the several violations of law, are, in the language of the Attorney General, allowed to go "unwhipped of justice."

I continue to strongly favor vigorous prosecution of the major conspiracy case involving the principals, Schenck, Goetz and Zanuck. I believe that further effort should be made to have presented to the grand jury in a competent manner, not only this reorganization case but the cases relating to Schenck's individual tax returns and the Bioff matter. However, we cannot lose sight of the fact that the Government's position is not as strong as it was at the time of our original recommendation, and it should be clearly understood, if further steps are taken in this matter, that the burden of responsibility for possible loss or defeat in criminal proceedings should not be permitted to shift to the Treasury Department. Certainly this Department is not at fault or subject to blame for the advantages gained by the accused at the hearings in Washington and as a result of the grand jury proceedings, all of which would be of great value to the defense in the event of trial.

E.L.I.

Elmer L. Irey.

Following is the substance of an opening statement made by Assistant Attorney General Morris in the opening stages of the conference in the Department of Justice June 13, 1939.

"As I explained, certain of the gentlemen that are interested in this matter asked that they have a conference with the Attorney General today. Since he is leaving town it could only be arranged prior to our arranging the general conference that had been set here this morning. So that there may be no misunderstanding on the proposition I will state what he stated to me in connection with it and that is this: that this case like so many others that are referred to this Department is one of a complicated character. It is important for this Department to understand the case fully. The matters and things that have been developed by the investigation of the Treasury Department, of course, are available to us and the object of this conference at the request of the interested parties is for the purpose of hearing anything that they feel will enlighten us more fully than we might otherwise be with the object of our taking the right action in the matter.

"The purpose of the conference is not to undertake to build up a case. It is not certainly for the purpose of entrapping anyone into any statement that might be disadvantageous to them. At the same time in perfect frankness and candor it should be understood that the Government feels at perfect liberty, and must, to make use of any information that is stated in such a conference, whether that purpose be for the determination that it is not a case to be prosecuted or whether it is one that should be, and you gentlemen have the same liberty, of course, to use anything that you think is advantageous to your clients in the matter other than as I say simply for the matter of publicity, which we don't approve of.

"Now with that short statement that there might be no misunderstanding in the matter, I should like Mr. Zanuck, if he wishes to, to proceed with the statement as to the history of this reorganization."

Following is the substance of an opening statement made by the Attorney General in the opening stages of the conference in the Department of Justice June 13, 1939.

"First let me apologize for keeping you and second, for the short shift, if that word is correct, I will have to give to this morning's conference, but it is necessary for me to get on a train in just about ten minutes and fortunately I have been able to visit with two or three of your clients, as we may call the taxpayers in this instance, and I would like to further - if I can say anything further here it is this: Counsel in the case need not be told by me that this is an informal proceeding; that it is not a matter of record. The Department strictly speaking has no right to bring any of you in here and as I see it, does not initiate this proceeding. The taxpayer has, it seems to me, the right to be heard, or at least a responsible department ought to extend that right to the taxpayer. Here is a matter of great importance to the public. We speak for and represent the public. You represent individuals. It is of great importance to them and all of us want to proceed in a responsible way so perhaps the first thing that I can mention here is that this climate here is one in which you may have complete confidence in for we are here to give you a chance to be heard and to explain and that may be done without the slightest concern on your part or fear on your part.

"As you know, in a proceeding we preside over or under our direction, there could be no artifice in it and there are no thoughts of this sort of thing being used to put anyone in a bad position, so please, if that is back in anybody's mind - banish it. The Treasury Department has made an investigation - an exhaustive one. No one ought to assume that that investigation is made in any other way but in good faith. (Now just close that door and the train can wait a minute and don't anybody get excited about messages for me.) And this is reported to the Department of Justice and referred to it. Likewise, recommendations are made that place a duty upon the Attorney General of the Department of Justice. It is a very responsible one and I want it to be met in a responsible way. And if the facts of this case justify and indicate that the Government should proceed with a criminal prosecution it will be done without delay and will be done just as vigorously as it is possible for me to muster the forces of the Government of the United States to proceed with that prosecution. If the facts in this case do not indicate or justify a criminal prosecution it strikes me that it is just as much the responsibility of the Department of Justice to protect the people from an injustice as to see that no one goes unwhipped of justice when an offense is done against the people of the United States.

"What you ought to address yourselves to here is the question of intent, - any intent to defraud or evade or that state of mind which, of course, is necessary in order to constitute criminal action; secondly, address yourselves to the question of if an amount is owed to the Government in good faith, what is it? I have got to leave you now, but you can all of you sit down here as gentlemen and with complete confidence in one another try to be helpful. The case will have to go along in the lines I have just said. If it is not a criminal case we will have to find that out. If it is, we will have to go ahead and settle it in the courts and I hope we can take a little time about this. I think that if it is of such importance, another day or two may be necessary."

STATEMENT OF FACTS

In May, 1933, Twentieth Century Pictures, Inc., was incorporated. Joseph M. Schenck and William Goetz were sole stockholders of record. Goetz, however, acted in his capacity as trustee of the Mayer Family Trust of which he was a minor beneficiary and of which his father-in-law, Louis B. Mayer, was the creator.

Schenck invested $350,000 in cash in Twentieth Century and the Mayer Family Trust also invested $350,000 in the enterprise. In return for such investment Schenck and Goetz each received 3500 shares of preferred stock having a par value of $100 a share. The common stock of Twentieth Century Pictures, Inc., which consisted of 100 shares was split between Schenck and Goetz on a fifty fifty basis, each receiving 50 shares. Schenck then assigned to the Corporation a personal service contract between Zanuck and himself which provided for a weekly salary plus 10 per cent of the net profits.

Zanuck had no stock interest in Twentieth Century Pictures, Inc., until March, 1934, when his personal service contract was revoked and in lieu thereof a new written contract was made under which he was permitted to buy 10 shares of the common stock owned by Schenck and 10 shares of the common stock owned by Goetz at a nominal price of $100 a share. This gave him a 20 per cent interest in the Corporation for the nominal sum of $2,000. In addition his salary was reduced from $4,000 to $2,000 a week and he was permitted to retain $100,000 which had been advanced to him by Schenck in anticipation of Zanuck's 10 per cent share of the net earnings under the original contract.

In his tax return for the year 1935 Zanuck did not report the gain represented by his purchase of these 20 shares at a nominal price of $100 a share. The book value attributed to the stock indicated that it was worth at least $10,100 a share. Upon ascertaining these facts Kadis reopened Zanuck's return for the year 1934 in September 1936 and recommended that Zanuck and his wife be assessed an additional tax of approximately $100,000, Zanuck and his wife holding their property as community property.

In August, 1935, a merger was affected between Twentieth Century, Inc., and Fox Film Corporation under a plan of reorganization which required Twentieth Century, Inc., to transfer all of its assets to Fox Film Corporation in exchange for stock in Fox Film Corporation. The name of Fox Film Corporation after the merger was Twentieth Century-Fox Film Corporation. The name of the old Twentieth Century Pictures, Inc., was changed to S-G-Z Corporation, and it was shortly afterward dissolved.

In affecting the merger two classes of stock were issued. The preferred stock represented the assets of both Corporations. The book value of Fox assets was approximately $37,000,000. The book value of Century assets was approximately $4,000,000. Preferred stock in the amount of 1,358,000 shares was issued, each share being valued for purposes of the merger at about $30 a share. Consequently Fox stockholders received 1,226,000 shares of preferred stock and Century stockholders received 132,000 shares of preferred stock on the basis of their respective assets.

The common stock was treated for purposes of the reorganization as if it had no monetary value. The old stockholders of Fox received the new common stock on the basis of one-half share of common for each share of new preferred. Therefore, old shareholders of Fox received 613,000 shares of common stock. An equal amount of common stock was issued to stockholders of Century. If Century stockholders had received the same treatment as Fox stockholders 66,000 shares of common stock (one-half of the 132,000 shares of preferred) would have been issued to Century stockholders. The tax liability is predicated upon the excess of 547,000 shares of common stock received by Century stockholders which was apparently issued as compensation for the personal service contracts required under the plan of reorganization to be entered into by Zanuck and Schenck with the new Twentieth Century-

Fox Film Corporation.

Moreover, when received by Century the preferred stock was allocated in accordance with the stockholdings of record, that is 40 per cent to Schenck, 40 per cent to Goetz and 20 per cent to Zanuck, whereas the common stock was divided on the basis of 35 per cent to Schenck, 35 per cent to Goetz and 30 per cent to Zanuck. Although Schenck through manipulation of the asset value per share of preferred stock tried to make it appear that Zanuck was receiving 30 per cent of the preferred as well as the common and Goetz and he only 35 per cent of the preferred for the purpose of fooling Zanuck, this was not actually the fact. This tricking of Zanuck by Schenck is of concern only to establish that their holdings were actually as they were of record, namely 40 per cent in Schenck, 40 per cent in Goetz and 20 per cent in Zanuck.

The actual distribution among Century stockholders of the new preferred stock in Twentieth Century-Fox was as follows:

	Total Shares	Zanuck	Goetz	Schenck
Preferred ckholders: 700,000 at $30	22,000	—	11,000 (50%)	11,000 (50%)
Common stockholders: alance Preferred tock (Basis 20-40-40)	110,000	22,000 (20%)	44,000 (40%)	44,000 (40%)
	132,000	22,000	55,000	55,000

The purported distribution among Century stockholders of new preferred stock in Twentieth Century-Fox was as follows:

	Total Shares	Zanuck	Goetz	Schenck
Preferred ckholders: 0,000 at $12 per re (asset value reached working backward on enck's orders)	59,000	—	30,000	30,000
ance Preferred stock Common stockholders: (Basis 30-35-35)	73,000	22,000 (30%)	25,000 (35%)	25,000 (35%)
	132,000	22,000	55,000	55,000

The distribution among Century stockholders of the new common stock in Twentieth Century-Fox was as follows:

Total Shares	Zanuck	Goetz	Schenck
613,000	183,000 (30%)	214,000 (35%)	214,000 (35%)

"SEC. 112, RECOGNITION OF GAIN OR LOSS

"(a) GENERAL RULE.—Upon the sale or exchange of property the entire amount of the gain or loss, determined under section 111, shall be recognized, except as hereinafter provided in this section.

"(b) EXCHANGES SOLELY IN KIND. * * *

"(3) Stock for Stock on Reorganization.—No gain or loss shall be recognized if stock or securities in a corporation a party to a reorganization are, in pursuance of the plan of reorganization, exchanged solely for stock or securities in such corporation or in another corporation a party to the reorganization.

"(4) Same.—Gain of Corporation.—No gain or loss shall be recognized if a corporation a party to a reorganization exchanges property, in pursuance of the plan of reorganization, solely for stock or securities in another corporation a party to the reorganization."

* * *

Construing the meaning of the work "reorganization" as used in section 112 of the Revenue Act of 1928 (from which section 112 of the Internal Revenue Code is derived) the Supreme Court in 1935 in the case of <u>Gregory</u> v. <u>Helvering</u>, (293 U.S., 465), involving the tax liability resulting from a reorganization which conformed to the literal terms of section 112, had this to say:

"* * * Putting aside, then, the question of motive in respect of taxation altogether, and fixing the character of the proceeding by what actually occurred, what do we find? Simply an operation having no business or corporate purpose - a mere device which put on the form of a corporate reorganization as a disguise for concealing its real character, and the sole object and accomplishment of which was the consummation of a preconceived plan, not to reorganize a business or any part of a business, but to transfer a parcel of corporate shares to the petitioner. * * *

"In these circumstances, the facts speak for themselves and are susceptible of but one interpretation. The whole undertaking, though conducted according to the terms of subdivision (B), was in fact an elaborate and devious form of conveyance masquerading as a corporate reorganization, and nothing else. The rule which excludes from consideration the motive of tax avoidance is not pertinent to the situation, because the transaction upon its face lies outside the plain intent of the statute. To hold otherwise would be to exalt artifice above reality and to deprive the statutory provision in question of all serious purpose."

RE FINANCING

October 30, 1939.
10:00 a.m.

Present: Mr. Viner
Mr. Riefler
Mr. Murphy
Mr. Bell
Mr. Hanes
Mr. Hadley
Mrs. Klotz

H.M.Jr: Mr. Bell, would you see if I have got my lesson correct? This is what I would like to say this afternoon - that is all right, Jake, I know how you conduct your classes.

Viner: That is how my students do.

H.M.Jr: I'll bet they don't. I suppose after you have had an M.A. and a Ph.D., you don't have to listen. I got away with that, so far.

This is what I would like to say, if I have learned my lesson for this afternoon. With the RFC financing, the Treasury can go until December 31st with doing possibly the following: We may - not this week or next week, but after that, any time after the week of election, beginning with the week of the 13th - we may want to do our March refunding between now and the first of January. We may want to raise between a half and three quarters of a billion dollars in cash, exclusive of bills, to give myself a little leeway.

Bell: Yes.

H.M.Jr: Too much, just a half a billion?

Bell: Yes. I wouldn't put it over that much at this time.

H.M.Jr: All right, a half a billion. I would like to say that the bills which we are offering today for 50 million - next Monday it will be a hundred million until further notice.

Bell: You were going to offer this week's for sale next week?

H.M.Jr: No, we will stop it.

Bell: Well, Wednesday is the one that is out.

H.M.Jr: I mean we will do the one this week, which will make it 150.

Bell: That is right.

H.M.Jr: The one that is offered.

Bell: The one that will be paid for on Wednesday of this week, which is November 1st, will be 150 million.

H.M.Jr: After it is stopped, we will draw from the 150 million again, and next week it will be 100 million. Now, so much for the Treasury. I could go until the 15th of March, but I don't know what Congress is going to do so why go beyond the end of the year? That is going two months, which is longer than I have ever gone before. That gives private interest plenty of notice as to what the Treasury needs for two months.

The U. S. Housing owes us how many millions?

Bell: They don't owe us anything.

H.M.Jr: I thought they owed us some money.

Bell: No, they are asking today for credit of 15 million to run until the 15th or thereabouts.

H.M.Jr: Then they are going to borrow fifteen more?

Bell: Not more than 15 million. They don't owe us anything up to date.

H.M.Jr: What I am getting at, if they sell 50 million on the 8th of November, do we get any of that back?

Bell: Not unless they have borrowed something in the meantime.

H.M.Jr: And on the 15 million, how much interest do you charge them?

Bell: We have been charging them a quarter of one percent.

H.M.Jr: But they don't owe us anything as of today?

Bell: No, sir, they do not.

H.M.Jr: Then U. S. Housing takes care of itself? Is there the usual turnover on Commodity Credit?

Bell: They are out of the picture now because they have refunded theirs.

H.M.Jr: I mean Farm Credit.

Bell: There is nothing in the picture for them.

H.M.Jr: Now, you have got financing to do for the TVA.

Bell: Yes, we own 50 million dollars of their securities and they have probably 10 or 11 more coming, a total of 61 million. We don't know, but we do have that in certificates which we can convert any time into a definitive obligation.

H.M.Jr: How much?

Bell: 50 million, and it might come up to 60.

H.M.Jr: Would you do that between now and Christmas?

Bell: I don't think so.

H.M.Jr: But I could list that as a possible procedure.

Bell: Yes.

H.M.Jr: Fifty, should it be, or should I say sixty?

Bell: I would say sixty.

H.M.Jr: Then we might sell 60 million dollars worth of securities in the TVA.

Bell: That is in the picture.

H.M.Jr: I just want to get everything. Now, have I got everything? I don't commit myself that I won't increase the bills again. I might increase them again between now and the first of January, above a hundred million.

Bell: Well, you wouldn't do that and the 500 million.

H.M.Jr: Well, I don't want to have them say, "Well, you said...." I just want to leave that door open. Do I have to leave that door open?

Bell: The reason I am asking you, I am afraid you might be rushing the market a little too much to announce this so far ahead of time.

H.M.Jr: I thought it would be good for the market.

Bell: Well, 500 million dollars is not little, I don't believe.

H.M.Jr: Well, think about it. Go ahead.

Bell: You see, we had this in this picture for the period ending December 31st, 800 million dollars in new financing. We have had 150 of it in bills, or will have this week, and this 250 will make 400 million, leaving 400 million yet to go. Now, a hundred million dollars of it is taken out by the U.S.H.A. financing itself, but I think you could get by if you want to cut down this 500 million by saying 400 million. It might help the market a little. Five would improve our picture a little.

H.M.Jr: I want five.

Bell: I wouldn't go any more than five.

H.M.Jr: And I don't need any more of the bills either, since a hundred million a week will take us through the rest of the year.

Bell: Yes. The 150 million will mature in January.

H.M.Jr: You see, Johnny, what I have got in mind is this: I may be on the edge, say, a utility company or something might want to finance. Well, what does the Treasury need? Well, I give it to them for two months. They have the facts. They know this is what the Treasury needs for the rest of this year. Whether it is good or bad, at least it is the facts. I should think if I was up there and was in private business of selling securities, I would like to know, "Well, what is the Treasury going to do?" Does that make sense?

Hanes: I think it would be very helpful and it will give an optimistic looking picture.

H.M.Jr: I could go to the 15th of March, but I think it is silly to do that. It is unnecessary. That takes care of the things you have in mind, doesn't it?

Riefler: Yes. It sounds like more than I thought it was. There are some different items there. You want to be pretty sure they sound small rather than large to the market. It seems to me the point is to give the market a picture.

H.M.Jr: There are only three things I may want to do between now and the first of January. I may want to refund the March note. I will want to raise 500 million dollars, and I may want to sell 60 million dollars for TVA over a period of two months. They would know, at least. Think it over. We will have another talk between now and 4:00 o'clock.

Bell: I should think the first two are all right. I believe I would leave the TVA or anything else until January or February.

H.M.Jr: I am sorry, I don't agree with you. I am not going to say I am going to, I will say I may.

Bell: The market is a little thin.

H.M.Jr: It might get awfully good. You might come around crying, "Well, you didn't tell us, you can't do it." Well, think about it. The purpose of this is a dress rehearsal and a discussion. Think about it. We will have another meeting again. As a matter of fact, I would like to meet with you people at a quarter of 12:00. I am just thinking out loud to give everybody a chance.

Bell: There isn't any private financing in there this week, except Thursday, to amount to anything. There are a couple of small ones.

H.M.Jr: Well now, what else? Now, what about the rates?

Hadley: These figures haven't changed for the last couple of days (handing chart to Secretary).

H.M.Jr: Give that to Haas.

H.M.Jr: Where were we when "ham and eggs" reared up its ugly head? Dan, have you made up your mind?

Bell: Well, I think the best one on that list is the August 1st, 1942, at one percent. You might stretch it to November. I think it would be a little thin.

H.M.Jr: August?

Bell: It is the second one on that list.

H.M.Jr: John?

Hanes: Two years and nine months at one percent will give you about....

Bell: It will give you a maximum of 17 and a minimum of 13/32nds premium, but the way Hadley has figured the three years, it might work out as low as 10/32nds. Probably it is a little thin, although if this market keeps on like it did Saturday, it might not be thin.

Hadley: The market on these issues has held steadily since Friday and these estimates haven't changed. I am playing them somewhat conservative, but I think this is about where they will hit and the two year nine months, one percent, to me seems about right and the people in New York get the same figures as I do on these.

H.M.Jr: On the last RFC issue, how much did we give them?

Hadley: We gave them 13. The range is 13 to 16.

H.M.Jr: On the last one?

Hadley: On the last one, I believe we gave them 13.

Bell: The last three issues?

Hadley: There were three issues and they came within a range of about four or five months. The market was rather quiet at that time.

Hanes: That August would fall in the range of the last one. It is about the only one there, according to your figures, that would. The two year six months at one percent would fall in that range.

Bell: The Federal Reserve Board and New York both are playing around with a one percent in August.

Hadley: The market looks good on the opening. Treasury bonds are up one and 2/32nds and look like they are going higher. The short issues are about the same.

H.M.Jr: How is Haas and Company?

Haas: What are they talking about, two years and nine months?

H.M.Jr: What are you talking about?

Haas: We have got them all the way.

H.M.Jr: I want you to put your finger on one issue.

Haas: Well, our favorite today is subject to change. This market is very good, but we think a two year six months at one percent.

H.M.Jr: Are you together?

Murphy: We have a premium for 20/32nds on a two year six months. That is not as conservative as Hadley's.

Hadley: I have 16 to 20 on that one.

Haas: That....

H.M.Jr: Are you fellows for two years and six months or nine months?

Haas: Six.

Murphy: Six.

H.M.Jr: O. K. Have you got anything special?

Riefler: No.

H.M.Jr: Have you?

Viner: No.

H.M.Jr: Do you care to express yourself as to the advisability of doing it tomorrow?

Riefler: Yes, I think this one tomorrow is all right.

Viner: I have no opinion, sir.

H.M.Jr: Johnny, do you want to listen a little bit?

Hanes: I can't see a great deal of difference. I kind of favor two years and nine months. You are right in the range of your last premium on your last issue there.

Murphy: Each of our last two issues have sold below where it should have fallen, in line with the rest of the market and both of them have been exchange, only. This is our first venture in cash and it seems to me that two years six months is about as thin as we should cut it.

Haas: There may be a change and the worst you could do is get 20 on it. On the other hand, if it sells like the last two which you are refunding, you are perfectly safe.

Hadley: The Commodity Credit issues, which is this same sort of issue except on refunding, hit right on the line on offering, then moved up rapidly as soon as it came out.

Murphy: I disagree with that diagnosis. It opened right where we had priced it, but that is because the whole market had moved up and it was still back where the old market should have been. We have a chart on that little thing and a memorandum which we gave you, showing that that sold as much as about 8/32nds out of line.

H.M.Jr: Well, let's see what George Harrison has to say. Am I correct, that no Government in the world, as far as we know, any good-sized Government, has done any financing, with the exception of the U. S. Treasury, since the first of September?

Viner: Public financing. The Canadian Government has done a big financing with banks.

H.M.Jr: Well, public offering.

Viner: Not a public offering. I take it to have been by private contract, but it was a 200 million dollar financing. Multiply that by 15 and that is three billion dollars equivalent.

H.M.Jr: But public offering, that would be correct?

Viner: As far as I know. I don't think of one, offhand. That was new cash, too, as far as Canada is concerned. It was a refunding to English holders with Canadian cash.

H.M.Jr: Is there any conflict with any other date?

Haas: No.

Bell: No.

Haas: We have all the dates.

H.M.Jr: Just tell me.

Haas: No.

Bell: There is an 879 million dollar Home Owners Loan callable on July 1st that should be well out of the way.

H.M.Jr: Callable?

Bell: Callable. That should be well out of the way by July 1st or not called at all.

Viner: What is the rate on it?

Bell: Two and a quarter.

Viner: That is what year?

Murphy: '42-'41.

Viner: You won't want to call it.

Bell: Can I quote you on that?

Viner: Yes.

H.M.Jr: (On phone) Hello. (Telephone conversation with George Harrison follows:)

October 30, 1939
10:22 a.m.

HMJr: Hello.

Operator: Mr. Harrison.

HMJr: Hello.

George Harrison: Hello.

HMJr: George?

H: Good morning, Henry.

HMJr: Good morning. Have you been studying this R.F.C. note?

H: Well, I did -- I haven't since Thursday. I had all the dope out on it then and I thought the stuff that Sproul and Rouse gave me was about right, but if it's very imminent I'd rather talk to them again.

HMJr: Well, is it imminent?

H: Yeah.

HMJr: Yes, it's -- it's very imminent.

H: Well, could I talk to them and call you back in about a half hour?

HMJr: Well I'll tell what I'd do - let me call you back when I -- there will be some people here about that time.

H: Yes. Well, anytime.

HMJr: Well, let's put it this -- have you any doubts about doing it tomorrow?

H: No, I have not.

HMJr: I mean, because I'd like to do it tomorrow.....

H: Oh well, I would. I would do it too, Henry. I think that you have ups and downs in the situation, but on the whole it's -- it's a fairly good market and I don't think that you gain anything by delaying.

HMJr: Well......

H: I would definitely go ahead.

HMJr: Supposing I say I'll call you sharp at a quarter of twelve.

H: Quarter of twelve. First rate.

HMJr: And then you'll have a chance......

H: Yes, I'll talk to them in the meantime, because we've all been working on it but I haven't gone over it since Thursday afternoon and I'd rather not talk until I check up as of -- as of now.

HMJr: Well, let's take a look at it as of Thursday.

H: All right.

HMJr: I mean, as of a quarter of twelve.

H: That's what I mean.

HMJr: Right.

H: All right.

HMJr: Thank you.

H: Goodbye.

H.M.Jr: Dan, tell Chairman Eccles that I will be calling him between a quarter of 12:00 and 12:00 to ask his advice on this thing, and to be ready.

Bell: O. K.

H.M.Jr: I think I know how Jesse feels. I think he favors two years and six months, but we will find out.

Did you send out a telegram to have the forms written and all that sort of thing?

Bell: Yes, we sent out a form Friday evening and Saturday morning, saying that this information would be sent them by telegram whenever you gave the instructions, but we didn't say that they would be received today, so it is quite open.

H.M.Jr: (On phone) Hello. (Telephone conversation with Jesse Jones follows:)

HMJr: Hello.

Operator: Jesse Jones.

HMJr: Hello.

Jesse Jones: Good morning. I was just talking about you.

HMJr: Well......

J: So we must be thinking about each other.

HMJr: That's right. How are you today?

J: Pretty good. How are you?

HMJr: Just about the same.

J: How does it look?

HMJr: Well, it's between two years and six months and two years and nine months, one per cent.

J: Why don't you make it two -- two eight? July first.

HMJr: I see. Well, that's a -- that's a thought too.

J: That's the date that Henry Mulligan and I -- we were just talking about it.

HMJr: Yeah.

J: That's the date that we kind of fixed on, but then.....

HMJr: I see.

J: ......it doesn't matter -- it doesn't make any difference but I think what you ought to do, Henry, and do it - the thing that will go the best......

HMJr: Yeah.

J: ......for your market, see?

HMJr: That's right.

J: And if it's -- you think two six is better, why do it two six.

HMJr: Well, I don't know. I'm going to call the boys back again at a quarter of twelve and if you'd be available around twelve o'clock......

J: I will be.

HMJr: ......I'd like to talk to you again.

J: Fine.

HMJr: We've got a rising bond market today.

J: Good.

HMJr: So that's to the good, but I think -- there doesn't seem to be any doubt that we'd like to do it tomorrow if that's agreeable to you.

J: Perfectly.

HMJr: So I'll call you right around noon.

J: I'll be right available.

HMJr: Thank you.

J: Goodbye.

H.M.Jr: You boys can figure two years and eight months.

Murphy: That falls right on top of this HOLC, Mr. Secretary.

H.M.Jr: Then this is out.

Murphy: That is the first call date.

H.M.Jr: Get that word to Mulligan, will you, that we don't like July 1st.

Bell: Yes.

Murphy: Either 2-6 or 2-9 fits in much better with the schedule.

Bell: There wouldn't be much difference in the price.

Hadley: 1/32nd higher on a month.

H.M.Jr: Well, as of today, right now, I lean toward two years and six months, but we will listen to Harrison and Eccles and our own crowd this noon and then we will check again after I come back from the White House, so if anybody has any ideas, I would like to have them, but nothing is settled.

Thank you.

RE FINANCING

October 30, 1939.
2:30 p.m.

Present: Mr. Hanes
Mr. Bell
Mr. Murphy
Mr. Haas
Mr. Riefler
Mr. Viner
Mr. Hadley
Mr. Jones
Mrs Klotz

H.M.Jr: They are trying to make this hard for me, Mr. Jones. They keep shifting the price on me all the time.

Now, are you fellows all together on this bottom of 15/32nds for two years and nine months?

Hadley: Well, I have that bottom but they seem to be working - Mr. Haas and Mr. Murphy seem to be working on the top figures.

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

Murphy: Assuming there is no change in the general market, I will agree to 15/32nds. That doesn't make an allowance for a movement down in the whole market.

H.M.Jr: (On phone) Hello. (Telephone conversation with George Harrison follows:)

October 30, 1939
2:33 p.m.

HMJr: Hello.

Operator: George Harrison.

HMJr: Right.

O: Go ahead.

HMJr: Hello.

George Harrison: Hello.

HMJr: George?

H: Yes, sir.

HMJr: You're on the loudspeaker. Now -- what does it look like now?

H: Well, I have just been talking to both Sproul and Rouse who are in my office and while we haven't got a loudspeaker they've got an extension they're listening on.

HMJr: Well, can you talk a little louder?

H: Yes, indeed. And we see no reason to change our suggestion that you use a two and three quarters at one percent.

HMJr: Yes.

H: We've gone over the figures again and that looks nearest to a fair price. Now, you could run it thinner and run more risk......

HMJr: Oh, I don't want to run it any thinner.

H: .....by doing the three years at one percent but we would not recommend that.

HMJr: No.

H: You could be much safer by doing the two and a half, but we feel that the maturity that we suggest is -- is a fair one and that the price is fair and that you would be sufficiently safe to warrant your picking that maturity.

HMJr: I see. Well, supposing the government bond market went down a half a point the way it did on -- was it Thursday?

H: Yes.

HMJr: What would this do?

H: Well, I'll let one of my experts answer that specifically. Go ahead Sproul.

Allan Sproul: Well this might go off three or four thirtyseconds, but your issue would still go, in my opinion.

HMJr: No, supposing the government bond market went off a half a point.

S: Well that's what I -- if it did, I think this might lose three or four thirty-seconds but that the issue would still go.

HMJr: I see. Uh-huh.

S: I think that's the -- the reason for doing a two and three quarter one instead of a three year one, is to have a little cushion in there in case the government market does go off half a point.

HMJr: Well I'm not considering a three year one.

S: Well, then I think the two and three quarter year one has enough cushion in it to take account of any such eventuality as that.

HMJr: You do?

S: Yeah.

HMJr: Of course it's gone up two -- what --two thirty-seconds since noon, hasn't it?

S: Yes, but we're discounting that rise and basing our judgment on where it -- where it stood this morning and where it has stood over a period of weeks leaving out the rapid runup it had towards the close of last -- the early part of last week.

HMJr: Well how much -- what's the worth -- I mean, supposing I have a bad -- very bad day tomorrow, what's -- what's the most you could vizualize these selling off?

S: Well I would say the worst day of these would sell off would be 4 or 5/32nds at most. That's a big move in a note of this short maturity and there's a big demand in this area, so that would have to be a very bad day I should say.

HMJr: I see. I see. Well you fellows are so bullish down there I can't keep up with you.

George Harrison: Well, you know we were right on your note issue.

HMJr: Yeah. Now don't get -- don't get (hearty laughter) cocky now.

H: I've got my fingers crossed all the time whenever I make any suggestions.

HMJr: Yeah.

H: This seems to be the fairest thing.

HMJr: I see.

H: There seems to be a -- quite a substantial underlying demand just below this present level.

HMJr: I see.

H: Now -- on the 7/8ths at about 4-15, 4-16 the demand is large. They have traded today, since we talked with you this morning, at 4-18.

HMJr: Yeah.

H: A minute or two.

HMJr: I see.

H: But I think Mr. Sproul has hit it right on the nose in his estimate in terms of 32nds.

HMJr: I see. Well, I'll talk to the Federal Reserve Board and we'll let you know in a few minutes. Mr. Jones is here with me and he's my customer; I've got to satisfy him.

H: (Laughs) Tell him I'm arguing his case for him.

HMJr: All right. All right, thanks, George. We'll let you know in a little while.

H: All right. First-rate.

HMJr: Thank you.

Jones: I have already voted.

H.M.Jr: You have? You haven't changed since this morning?

Jones: No.

H.M.Jr: I have changed a little bit. You want two years and six months?

Jones: Yes.

H.M.Jr: I have changed a little bit since it has gone up 2/32nds. You won't let us have June one or July one?

Bell: Well, I don't have any serious objection. It is just getting into a period where I like to see it clear. It is not a large issue. You probably could handle it. Maybe Mr. Jones will have enough cash at that time to pay it off.

Jones: Might.

Bell: To take care of his liquidations. If we have the June one, you might get it out of the way by the 15th or 20th of May.

H.M.Jr: On July one, you have got something, haven't you?

Bell: We have a callable issue of 829 million. That is $2\frac{1}{4}$ percent. We may not call at that time. That is another thing, if you do call it, the chances are it will be out of the way back in April or May, just like we did in calling the August ones, we had them out of the way.

H.M.Jr: Well, Mr. Jones originally asked for July one, didn't he?

Bell: Yes, that is all right. Now, too, that is a good price, one-half point. That is a good place now on the market price.

H.M.Jr: Have you got something coming due then?

Murphy: It falls right on top of the first call date of those RFCs.

H.M.Jr: How long do they run?

Riefler: Two years.

Murphy: One, two, four.

H.M.Jr: (On phone) Hello. (Telephone conversation with Marriner Eccles follows:)

October 30, 1939
2:40 p.m.

HMJr: Hello.

Operator: Chairman Eccles. Go ahead.

HMJr: Hello.

Marriner Eccles: Hello.

HMJr: How does it look to you now, Marriner?

E: Well, just the same, Henry.

HMJr: What's that?

E: Personally, I would favor the three years. I think the -- it is -- although it's a little thin, but I don't think you'll have any trouble on it. The difference between that and the $2\frac{1}{2}$ and 2 3/4, however, is so small that I don't think there's very much to argue about.

HMJr: I see.

E: How do you feel about it?

HMJr: Well of course since I talked to you it went up 2/32nds.

E: Yeah. Well, I think you've got plenty of margin on the other. For instance, you've got your three -- you've got a 3 year, and here's one per cent. Now the other day we put out you call a 4 years and 3 months.

HMJr: 6 months. Four years and a half.

E: That's right, $4\frac{1}{2}$ instead of 5 years.

HMJr: Yeah.

E: 4 years and 5 months to be exact, wasn't it?

HMJr: Yeah.

E: 4 years and 5 months, at one per cent.

HMJr: Yeah.

E: Now what you're doing is putting 3 years out at one per cent, or it's nearly -- it's nearly a year and a half less. The difference, of course, one is a guaranteed and the other is a direct.

HMJr: Yeah.

E: But looking at it from the standpoint of a banker, I would a whole lot sooner have the 3 year one per cent guaranteed issue than I would have the 4 year and 5 months one per cent direct issue. And -- and the -- if we had -- if there was a justification for putting out the one per cent 4 year and 5 month issue, it seems to me there is more of a justification in putting out the three year and one per cent guaranteed issue. There is this difference - the other was a refunding whereas this is new money.

HMJr: Well......

E: But there is such a shortage of short-term stuff in the market, such a volume and pressure of funds for investment, that I just can't imagine that a 3 year issue would have any possible trouble, and you've got a -- you've got a premium of about -- what is that, about 16 or 17/32nds more than a half a point.

HMJr: Yeah.

E: Which is just as much of a premium, when you consider the shorter maturity, as -- as a 25 or 24/32nds on the 4½ year obligation last week.

HMJr: Well, nobody here wants a 3 year.

E: Well, they think it's a little close, do they?

HMJr: Yeah.

E: Well then why don't you compromise at 2 and 3 quarters?

HMJr: Well, this morning I was leaning towards 2 years and 6 months, and my customers here -- we go in a huddle and we do the best we can. But I -- but nobody in the Treasury wants 3 years and the Fed in New York isn't talking 3 years either.

E: No, of course the -- what the -- what the attitude of the banker generally is, I know -- they want to get the biggest -- all the margin they can get and I -- I take the other side of the thing just for the sake of the argument because I know the position they always take and you've got to trade and usually if you compromise you hit it about right.

HMJr: Well, thanks for the advice and we'll talk it over.....

E: Our -- our -- the boys over here, the other members here were -- were pretty indifferent - I mean, as to whether it was 2½ or 2 3/4, and I'm -- I'm just putting up the argument for the 3 years just for what it's worth and......

HMJr: O. K.

E: All right then.

HMJr: Thank you so much.

E: All right.

H.M.Jr: Dan? Let's go around.

Bell: I still say the August 1st, but I wouldn't kick if you went down a month or two.

H.M.Jr: Still August 1st?

Bell: I would favor August 1st. I think that is a good price, but I wouldn't kick if you went down to July or June.

H.M.Jr: Hadley?

Hadley: I would favor August 1st over July 1st, because of having a July 1st issue on top of the HOLC date. I think there is enough cushion for an August 1st but I wouldn't fight against a two year six months, May 1st.

H.M.Jr: Johnny?

Hanes: Two years nine months.

H.M.Jr: Do you care to say anything, Riefler?

Riefler: No.

H.M.Jr: George?

Haas: I am on the very rich side, I guess, and I would hope it would come out that way. I still favor the two years six months and I would feel very good if it looked as if we gave them something very rich and it went over very good. That is a very conservative position to take, that is all.

Murphy: I think the August 1st would go, but I would prefer it May 10th, which I think would take a decline of a point or more in the long-term market and still go over. In other words, it would be 100 percent safe.

H.M.Jr: That is two years and six months?

Murphy: Yes.

H.M.Jr: Do you want to say anything?

Jones: No. I wouldn't make it further than July, that is eight months.

H.M.Jr: Well, two years and seven months is June 1st.

Jones: July 1st is eight months.

H.M.Jr: You feel we might be criticized for having the date fall due on an HOLC?

Bell: No, that was Hadley's remark. I think this about the Home Owners Loan, while that is the call date, if you are going to call them, you will call them on April 1st, three months prior, and you will have them refunded before you reach July 1st. You would never let that maturity come in there on July 1st without doing some refunding beforehand.

H.M.Jr: What is the matter with June 1st?

Bell: Nothing the matter with it except it falls in the Treasury financing period. I don't think that is so serious.

H.M.Jr: I kind of favor July 1st. If your figures are right, the worst there is a half of 16/32nds.

Haas: Under any eventuality?

Bell: That is the present mark.

Hadley: That is quite a bit below the present mark. That is allowing for the reaction that took place in the Treasury in CCC and discounting that.

H.M.Jr: What would you put it at for the bottom?

Hadley: Well, that is the bottom, but I would put it out half way between those two figures.

H.M.Jr: Could you visualize it going below 16/32nds?

Hadley: I could not.

Murphy: You mean with today's market?

Hadley: Today's or yesterday's market or Friday's market.

H.M.Jr: Can you visualize it?

Murphy: Not with today's market. I think that is the lowest you can sell at, today's market, but it could follow any market move, of course.

H.M.Jr: Supposing the Government bond market is up today. Supposing it goes down half a point.

Murphy: It would still be all right. It might be questionable if the Government bond market went down over a point, which, of course, isn't a very likely contingency.

Bell: Last week when your Government bond market went down drastically, the notes in this area weren't affected very much.

H.M.Jr: How much did they go off?

Hadley: Practically nothing. They have held at the same level since the 17th of October except for a slight rise when the Treasury note came out, and these were more attractive. Then when the RFC issue was announced, they moved off about 3/32nds and they have recovered half of that now.

H.M.Jr: Well now, the issue date would be November 10th to July 1st, is that it?

Bell: Yes, sir. July 1st, 1942, two years and eight months.

H.M.Jr: It wouldn't be, would it?

Bell: Well, it would be ten days less than eight months.

H.M.Jr: Do you (Jones) want to ask any of these boys a question?

Jones: No, I am thinking purely about....

H.M.Jr: Want to ask anybody here?

Jones: Not a thing. The date that I am figuring on is - I would like it to be good in the interest of the Treasury and your interest, because I don't think the amount of dollars we are going to save would make any difference.

H.M.Jr: Let's make it July 1st.

Jones: O. K.

H.M.Jr: All right?

Jones: That is my judgment.

H.M.Jr: O. K. Do I have to do anything?

Bell: You have to sign the telegrams when we get them ready. It will be close to 3:00 o'clock. It will be nearer 3:30.

H.M.Jr: Come in about a quarter of 4:00.

Bell: I think they will be ready at 3:30.

H.M.Jr: I won't be ready. Phone me.

132 A

October 30, 1939.

French purchases in the United States.

Since October 23, the French Missions have placed to date the following orders, subject to a contingent clause in case the arms embargo should not be lifted.

1.- WHITE MOTOR CO., Cleveland Ohio. Contract of October 19,1939. 1500 trucks at $2,008.98 F.O.B.

Cleveland..........$	3,013,470.-
spare parts........................	100,000.-
TOTAL amount of contract............................$	3,113,470.-

2.- E.W. BLISS CO. Brooklyn, N.Y. Contract of October 24, 1939. 3 machine tools (presses).........$ 112,000.-

3.- CHRYSLER CORPN., Detroit, Michigan. Contract of October 26, 1939. 1500 trucks type VH48 at $1,134.75:$ 1,702,125.-

4.- DOUGLAS. 100 motors DB7. Contract of October 20,1939:$10,483,200.-

5.- CURTISS WRIGHT. propellers. Contract of October 31,1939:$ 9,158,125.-

October 30, 1939.

planes.

FRENCH PURCHASES IN THE UNITED STATES.

The French State has agreed in several contracts to pay the aircraft manufacturers in the United States, in addition to the normal price of airplanes and engines, extra sums of money called "premiums for accelerated deliveries" which are in fact intended to cover entirely or in part the cost of extending the existing manufacturing plants.

In other cases, it has been clearly stated in the contracts that the manufacturing and processing facilities of the aircraft manufacturers shall have to be expanded in order to enable the firms to fulfill the contracts. In such cases, the French State has been furnished with an estimate of those extensions and the contractor has insisted that the corresponding costs (special machinery and tools, general machinery, erection of buildings), should be amortized in 2 years, or even in one year.

The sums thus paid or to be paid by the French State amount to:-

GLENN L. MARTIN CO. Contract of February 6,1939.

Extension of plants............................$ 840,000
Machinery, tools.................................. 1,410,000
TOTAL (paid by increase in price of 115 airplanes)........... $ 2,250,000.

UNITED AIRCRAFT CORPN. (PRATT & WHITNEY DIVISION).
(2.250 motors). .Contract of October 2,1939.
A sum of $ 3,600,000 will be amortized by the increase in price of these 2.250 motors, which are to be delivered during the year 1940.. 3,600,000

If options for a further number of motors to be delivered in 1941 are lifted at the end of 1940, a further sum of $ 1,400,000 shall have to be paid.......................... 1,400,000

UNITED AIRCRAFT CORPN. Contract of October 20,1939.
Propellers and speed controls.................................. 315,000

$ 7,565,000

to be brought over...

Brought forward.............. $ 7,565,000

WRIGHT AERONAUTICAL CORPN. Contract of October 10,1939.

Total amortization of plants and machine tools paid by increase in price of 1.440 engines to be delivered by January 31, 1940, under present contract..............................	5,500,000
This contract also provides an option for the complete production capacity of plant extensions during the year 1941, without further amortization charges.......................	

CURTISS WRIGHT CORPN. Contract of October 5,1939 for 630 airplanes; and Contract of October 27,1939 for propellers.

Amortization to be paid by increase in price of airplanes....	940,000
by increase in price of propellers...	300,000
TOTAL:-	$ 14,305,000

\+ + +

These extensions of plants and machinery have increased the capacity of production of the manufacturers as shown hereafter:-

Capacity of production increased by:

GLENN L. MARTIN CO. 65 twin engine airplanes per month.

UNITED AIRCRAFT CORPN. 250 (1200 H.P.) engines per month.

WRIGHT AERONAUTICAL CORPN. 200 (1600 H.P.) engines per month.

CURTISS WRIGHT CORPN. 60 single engine airplanes per month.

To sum up, and considering only the disbursements made directly by the French State:

1) The increase in aircraft production capacity of the United States amounts to: 125 high performance airplanes and 450 high power engines per month.

2) The total amount paid for such increase is $ 14,305,000.

3) The total amount of the French orders since last year is $ 260,000,000.

(The above figures include only the sums paid directly by the French State to its contractors; in addition to these, the following indirect investments should also be considered:

1) Some manufacturers have invested in plant extension part of the profits made on French orders, so that it has not been necessary to include in their contract a special clause to cover the corresponding cost;

2) The size of the orders placed has had similar effects on indirect vendors, - (propellers, accessories, raw materials) - who have had to increase their plant capacity.)

RE FINANCING

October 30, 1939.
11:45 a.m.

Present: Mr. Riefler
Mr. Viner
Mr. Murphy
Mr. Hadley
Mr. Haas
Mr. Bell
Mr. Hanes
Mrs Klotz

H.M.Jr: George, I didn't get time to read this thing. Will you boil it down for me?

Haas: The last two financing jobs, the issue didn't immediately line up with the market on the CCC. It was a week before it lined up with the rest of the comparable market, and on this last Treasury financing, it hasn't lined up yet and we put some charts in there to show that. The only other thing I had in there, we made up a table so it would facilitate your looking over to see what your schedule of maturities is.

H.M.Jr: Just boiling the thing down, it is that these things have been dragging a little bit, is that it?

Haas: That is right, not much bigger, even on the refunding.

Hadley: I beg to differ on that CCC issue. It hasn't dragged a bit. It jumped up and got in a better position than the other issues three or four days after it came out.

Haas: I don't know if you are using the same figures we are.

H.M.Jr: Why don't you boys stick together? Have your horse races in somebody else's room. You ought to get together.

Haas: I didn't know, I thought it was a generally accepted opinion.

H.M.Jr: (On phone) Hello. (Telephone conversation with George Harrison follows:)

October 30, 1939
11:30 a.m.

HMJr: Hello. Hello.

Operator: Yes, sir.

HMJr: Go ahead.

O: He's coming on now. Just a moment.

HMJr: Thank you.

O: Go ahead.

HMJr: Hello.

George Harrison: Hello, Henry.

HMJr: Yes, George.

H: Well, we've gone over this whole matter.

HMJr: Yes.

H: And due somewhat to a change in yield that has occured since last week......

HMJr: Yes.

H: ....we've revised somewhat our ideas of last week.

HMJr: Yes.

H: But we think in short that the best thing to do in all the circumstances is two and three quarter year one percent, which would sell at about a half a point premium on the basis of the yield.

HMJr: I see. You think that's perfectly safe?

H: Well, we think it's -- we think it's entirely safe. The three year one percent would be too thin, in all the present circumstances.

HMJr: Yeah.

H: And looking towards the future especially.

HMJr:	What about two years and six months?
H:	Well I think that's too rich.
HMJr:	You think that's too rich?
H:	Yes.
HMJr:	Uh-huh.
H:	I think the two and three quarters just about hits it right.
HMJr:	Uh-huh. Well......
H:	And we all feel that way.
HMJr:	Yeah.
H:	There are some here who feel that you might possibly do even a three year at one percent but Sproul and Rouse and I differ with that .
HMJr:	Yeah. Well......
H:	It's too risky.
HMJr:	Would you be available again at 2:30?
H:	All day.
HMJr:	Well, I'll call you around about 2:30.
H:	All right, sir.
HMJr:	And we'll -- we'll make another check then.
H:	First rate.
HMJr:	How's the bond market behaving today?
H:	Well now wait a minute I'll put Rouse on - he can tell you directly.
HMJr:	Right.
Rouse:	It's quite strong , quotation was and up quite sharply.

HMJr: Yes.

R: But very little volume. There's very little selling and a little inquiry in a few spots.

HMJr: Any inquiries on these -- for these R.F.C. notes?

R: I've only known of one substantial transaction in the last two or three days. Two million of the January maturity transferred on Friday afternoon at par 15......

HMJr: Yes.

R: ....which is a sixty-six yield.

HMJr: I see.

R: It didn't know whether a substantial transaction is in the market to our knowledge.

HMJr: But you take/there'll be a good demand for a two years a nine months? it

R: Yes, I do. I think they'll go rapidly.

HMJr: Right.

R: And a cash issue, they'll be very glad to get them at the -- at the coupon rate.

HMJr: O. K.

R: It leaves a good deal of leaway.

HMJr: Thank you.

R: Yes, sir.

HMJr: Goodbye.

H.M.Jr: Mr. Murphy, you have been kind of conservative recently, you and Haas, haven't you?

Murphy: Yes, sir.

H.M.Jr: You used to be the other way around.

Haas: We had a war.

Murphy: This is a famous first, you know. It is our first, since the war.

H.M.Jr: I can tell you beforehand what Eccles will say.

Bell: I think he will tell you it is a toss of the coin.

Hadley: The general street gossip is something below three years and probably in the range of 2-6 to 2-9 at a one percent coupon, which is what we are talking about, so that it wouldn't come as a surprise, which the last Treasury note last week may have done.

H.M.Jr: Have you got anything maturing on June 1st?

Hadley: Nothing between March and September of that year, and the only one is a callable maturity, that is the HOLC on July 1st.

Bell: We have a maturity at that time that comes right in there when the Treasury is least thinking about it and it has a churning effect. If this is a two year six months, Mr. Secretary, I would like to make it May 10th and date these notes November 10th, which would be exactly five coupons.

H.M.Jr: O. K.

Have you fellows got anything one way or the other?

Riefler: Well, I really am no good at this end of it so I shouldn't talk, but it has been dragging slowly since last week.

H.M.Jr: (On phone) Hello. (Telephone conversation with Marriner Eccles follows:)

October 30, 1939
11:49 a.m.

Operator: He's coming to the phone, Mr. Morgenthau.

HMJr: Thank you.

(Brief pause.)

Operator: Shall I call you back when he comes to the phone? I thought they had him on.

HMJr: I'll hold on.

O: All right.

(Brief pause.)

O: Go ahead. Go ahead.

HMJr: Hello.

Marriner Eccles: Hello.

HMJr: Good morning, Marriner.

E: Good morning, Henry.

HMJr: Have you been looking at this R.F.C. proposed issue?

E: Yes, sir. Yeah, we have been discussing it this morning. We looked at it a little on Saturday. There doesn't seem to be very much choice. As I understand it it's between a three year, which would be due November first '42; a two year nine months, due August first '42......

HMJr: Yeah.

E: ......or a two and a half year, due May first, 1942.

HMJr: That's right.

E: Now, the -- the November first '42, three years, would -- would leave a premium of about 15/32nds this morning.

HMJr: Yeah.

E: Which is a little over -- just about a half a point.

HMJr: Yeah.

E: Now I personally think that that's -- the financing could be done on that basis. I mean, as -- on a short issue with the demand for funds that -- I mean with the demands for securities there seems to be, I think it could be done. However, it -- in discussing it with the -- with the other members of the board here, we all conclude it's just about a toss-up. It really -- it really doesn't make very much difference one way or the other. The two and a half year, of course, gives you a -- gives you a little -- makes it a little sweeter. It -- a hundred and -- about 21 or 22/32nds for a two and a half issue.

HMJr: Yeah. Well you fellows don't -- have you a personal opinion as to how long you'd make it?

E: I don't. It really wouldn't make a particle -- I would say -- I would -- personally I would make it the three years, if it was just a personal decision. However, I think the question is -- the question is one that you could decide any way. It's a very close question and the other members here all feel that it's a toss-up.

HMJr: O. K. Well, we won't make up our mind until about 2:30 or so, and.....

E: In other words, if -- if the problems we have in the future are as easy to decide as this one there shouldn't be any difficulty.

HMJr: That's right.

E: All right then, Henry.

HMJr: Thank you.

E: Goodbye.

H.M.Jr:	Jesse wasn't worried about that July 1st, I take it. He said it was just a suggestion and any place you want to put it is all right with him. It doesn't cost them anything, it is just that we borrow for three months shorter time.
Bell:	It costs them something for that three months.
H.M.Jr:	Well, you don't know. If Viner is right, it will, and if Viner is wrong, it won't. Nobody knows. But it is 250 million dollars and they forget now that last week they were telling me I was crowding the market too much. I still lean toward two years and six months, but I am not giving anything away.
Hadley:	We can't lose on a two years six months. You can just have that much more insurance.
H.M.Jr:	I don't know how you (Hanes) feel, but I am a little bit more nervous this week than I was last week.
Hanes:	So am I. Getting back to that - somewhere in between, they apparently think a two year, six is a little too rich. A two year, seven, though, would be in the right place.
H.M.Jr:	(On phone) Hello. (Telephone conversation with Jesse Jones follows:)

October 30, 1939
12:00 Noon

HMJr:	Hello.
Operator:	Jesse Jones. Go ahead.
HMJr:	Hello.
Jesse Jones:	Hello, Henry.
HMJr:	Jesse -- well, I've talked to all the experts so now I'm talking to a practical fellow.
J:	Yeah. Good.
HMJr:	Oh, they tell you -- the Federal Reserve of -- of New York say two years and nine months.
J:	Um-hm.
HMJr:	Eccles says that he'll take anything, it's unimportant but it might even do three years.
J:	Yeah.
HMJr:	I'm a little bit nervous. I'm leaning a little bit towards two and a half years.
J:	Well, I'm -- I'm on your side.
HMJr:	I'm a little bit nervous.
J:	I think, Henry, it's a lot better for these things to be grabbed and go up. The dollar -- the dollars don't amount to much.
HMJr:	Well, we're talking -- all we're talking about is whether we'd make it three months longer or shorter.
J:	That's right.
HMJr:	That -- no one can tell what you'll have to pay for money in July '42.
J:	We can climb that hill when we get to it.
HMJr:	Yeah. So if it's just the same with you I'm going to wait until 2:30. I'm going to check once more but right now I'm personally -- my own people aren't

all in agreement with me but I -- I'm leaning a little bit towards two years and six months. Now, the trouble with two years and seven months is that that would be just ahead of June 15th, which we'd like for the Treasury.

J: Yeah.

HMJr: But does May 1st or June 1st make any difference to you?

J: Not a bit. Not a bit.

HMJr: And the other thing - Danny says he'd like to make it pay in the money on November 10th.

J: November 10th?

HMJr: Yes.

J: That'll be fine.

HMJr: Well, if -- if you're available around 2:30 I'll call you again.

J: I will be.

HMJr: But I'm just a little bit -- not quite as sure this week about the picture as I was last week.

J: Well anyway I -- I think you -- I just -- just as I said, I feel that a few months more on there might be the difference in making it awfully sweet or not so sweet.

HMJr: Yeah.

J: I don't think it hurts you to make it a little sweet.

HMJr: O. K.

J: Thanks.

HMJr: Thank you.

J: Goodbye.

H.M.Jr: Last week I felt pretty good, but the horizon, to me, seems a little blacker abroad.

Bell: I would make it 2-6, then, if you feel that way. I think the market sheets today would say that 2-9 is fine but there is that extra premium in there that is insurance and I would take it.

H.M.Jr: You don't like to have a June 1st date, do you?

Bell: No. We tried to get those June one maturities out of there.

H.M.Jr: Johnny, do you feel strongly about it?

Hanes: No.

H.M.Jr: Do you have the same reaction?

Hanes: I do. I am a little more nervous than I was last week.

H.M.Jr: I would draw it up temporarily on two years and six months and we can check it once more at 2:30.

Bell: There isn't anything we can do about giving information to the banks?

H.M.Jr: No, not until I can see the President.

Bell: Should we send them out a wire now, saying they can expect something?

H.M.Jr: Is that customary?

Bell: Yes, so they can be getting their machine ready.

H.M.Jr: O. K. Everybody is in agreement that we do it tomorrow?

Hanes: Yes.

H.M.Jr: Well, if you and Hanes could stay a minute, then I could talk to you.

Bell: May I discuss this other point for a moment? We didn't talk to Riefler and Viner, but George Haas and I discussed, this morning, what you might want to say on this program. We feel that you shouldn't say anything until after this is closed. If you were going to say anything, it might have been said last week to see what effect it would have on the market.

H.M.Jr: Say it Thursday?

Bell: Well, you are going to close tomorrow night. You might say it then or you might say it when you give out the final results.

H.M.Jr: Sold!

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 30, 1939

3:15 P. M.

TO Secretary Morgenthau

FROM W. H. Hadley

RFC Financing

Maturity	Coupon	Yield	Offering Price	Market Price	Premium
2 yrs. 6 mos. (May 1, 1942)	7/8%	0.72	100	100.12	12/32nds
		0.77	100	100.8	8/32nds
	1%	0.72	100	100.22	22/32nds
		0.77	100	100.18	18/32nds
		0.72	100 1/8	100.22	18/32nds
		0.77	100 1/8	100.18	14/32nds
2 yrs. 7 mos. (June 1, 1942)	1%	0.73	100	100.21	21/32nds
		0.78	100	100.17	17/32nds
2 yrs. 8 mos. (July 1, 1942)	1%	0.75	100	100.20	20/32nds
		0.80	100	100.16	16/32nds
2 yrs. 9 mos. (Aug. 1, 1942)	7/8%	0.77	100	100.9	9/32nds
		0.82	100	100.4	4/32nds
	1%	0.77	100	100.19	19/32nds
		0.82	100	100.15	15/32nds
3 years (Nov. 1, 1942)	1%	0.82	100	100.16	16/32nds
		0.87	100	100.12	12/32nds
	1-1/8%	0.82	100	100.28	28/32nds
		0.87	100	100.23	23/32nds
		0.82	100 1/4	100.28	20/32nds
		0.87	100 1/4	100.23	15/32nds

Note: Premiums on the day of offering of the last three RFC issues range from 13/32nds to 16/32nds.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 30, 1939

11:30 A. M.

TO Secretary Morgenthau

FROM W. H. Hadley

RFC Financing

Maturity	Coupon	Yield	Offering Price	Market Price	Premium
2 yrs. 6 mos. (May 1, 1942)	7/8%	0.75	100	100.10	10/32nds
		0.80	100	100.6	6/32nds
	1%	0.75	100	100.20	20/32nds
		0.80	100	100.16	16/32nds
		0.75	100 1/8	100.20	16/32nds
		0.80	100 1/8	100.16	12/32nds
2 yrs. 7 mos. (June 1, 1942)	1%	0.76	100	100.19	19/32nds
		0.81	100	100.15	15/32nds
2 yrs. 8 mos. (July 1, 1942)	1%	0.78	100	100.18	18/32nds
		0.83	100	100.14	14/32nds
2 yrs. 9 mos. (Aug. 1, 1942)	7/8%	0.80	100	100.7	7/32nds
		0.85	100	100.2	2/32nds
	1%	0.80	100	100.17	17/32nds
		0.85	100	100.13	13/32nds
3 yrs. (Nov. 1, 1942)	1%	0.85	100	100.14	14/32nds
		0.90	100	100.10	10/32nds
	1 1/8%	0.85	100	100.26	26/32nds
		0.90	100	100.21	21/32nds
		0.85	100 1/8	100.26	22/32nds
		0.90	100 1/8	100.21	17/32nds

Note: Premiums on the day of offering of the last three RFC issues range from 13/32nds to 16/32nds.

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		Bond 3-3/8% (1940-43)					353	
	Dec. 15	Note 1-1/2%	737					
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		FFMC 3% (1942-47)						236
	Mar. 1	FFMC 2-3/4% (1942-47)						103
	Mar. 15	Note 1-3/4%	426					
	July 1	HOLC 2-1/4% (1942-44)						879
	Sept. 15	Note 2%	342					
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	May 15	FFMC 3% (1944-49)						835
	June 15	Note 3/4%	416					
	July 1	HOLC 2-1/4% (1942-44)				879		
	Dec. 15	Bond 4% (1944-54)					1,037	

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE October 30, 1939

TO Secretary Morgenthau

FROM Mr. Haas

Subject: Setting for the RFC Financing

The Government bond market was weak for several days last week, but recovered part of its losses on Saturday. Guaranteed issues shared in both the decline and the rally. Short-term issues lost less during the week than longer maturities but no more than the normal relationship would indicate.

I. Behavior of New Treasury Note

The new Treasury note maturing March 15, 1944 opened Tuesday morning out of line with the market for existing issues. At the close on Tuesday, the new note actually had a higher yield than the June 1944 note with a maturity three months longer. Thus, the new note was about three months out of line.*

This situation continued throughout the remainder of the week, and as of Saturday's close the new note was yielding .84 percent, as compared with .85 percent for the June note. Chart I compares the yields of the new note and of the December 1943 and June 1944 notes daily beginning with the opening on Tuesday. Chart II shows the yields of all Treasury notes as of the close on Saturday, and indicates clearly how much the new note is out of line.

The rights for the new note closed Monday night at 101-6/32 bid. The new note opened Tuesday when issued at 100-26/32 bid. Only about 2/32 of the total difference of 12/32 may be attributed to a decline in the market. About half of the remaining 10/32 of decline represented overexpectation in the pricing of the rights (had the new issue opened exactly in line), and about half represented weakness in the new note relative to the remainder of the market.

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*The June note, of course, is selling at a discount, and could itself be out of line for that reason. Examination of Chart II, however, does not indicate that this is the case.

II. Behavior of New CCC Issue

After having been out of line since the close on the first day of trading (Tuesday, October 17), the new CCC note came into line last Tuesday (October 24) for the first time. Chart III compares the new CCC note with the RFC note maturing two weeks earlier (November 1, 1941) and indicates how much the CCC note was out of line during its first week of trading. Chart IV shows the yields of all guaranteed issues having fixed maturities as of the close on Saturday. It will be noted that the new CCC issue is well in line with the old issues of similar maturities.

III. Pricing and Maturity of New RFC Note

The three RFC notes outstanding have behaved about the same as other issues of comparable maturities since the announcement on Thursday that a new RFC issue was in prospect. As of the close on Saturday, RFC issues were well in line with the rest of the guaranteed market, as may be seen in Chart IV. On the basis of the data in this chart, we have estimated the probable prices for an RFC issue running two years, two and a half years and three years, as follows:

	Yield basis	Price
	(Percent)	(Decimals are thirty-seconds)
2 years		
1 percent	.65	100.22
1-1/8 percent	.65	100.30
2-1/2 years		
1 percent	.75	100.20
1-1/8 percent	.75	100.30
3 years		
1-1/8 percent	.85	100.26
1-1/4 percent	.85	101.06

It should be observed that a major disadvantage of a two-year maturity, if dated November 15, would lie in the fact that it would have the same maturity date as the new CCC issue. Moreover, the RFC already has an issue maturing on November 1, 1941, only fourteen days earlier. Neither a two and a half nor a three-year maturity would encounter a corresponding difficulty, as may be seen in the attached table.

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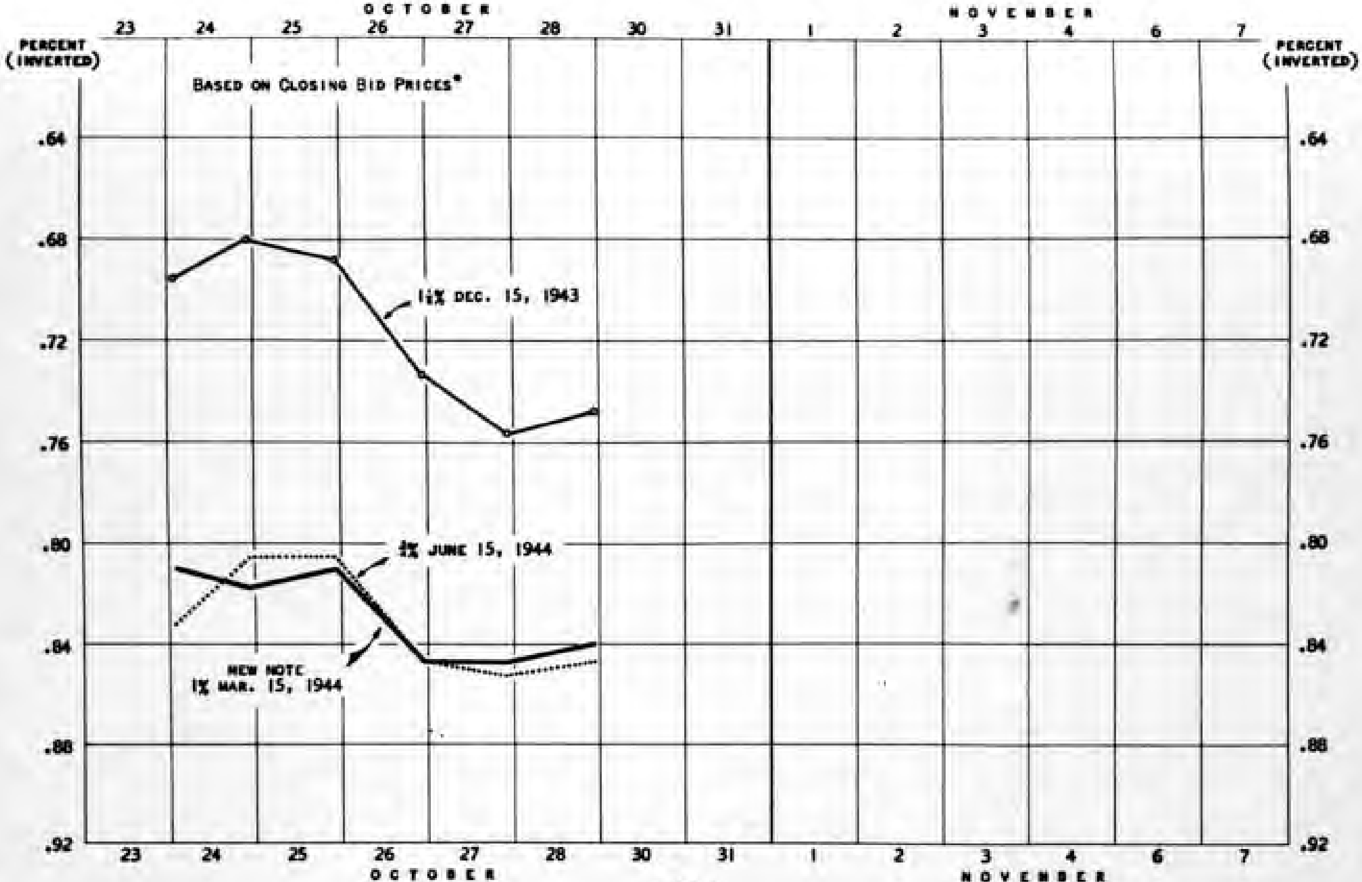
	Dec. 15	Bond 4% (1944-54)					1,037	

COMPARISON OF YIELD OF NEW TREASURY NOTE WITH YIELDS OF NOTES IMMEDIATELY PRECEDING AND FOLLOWING IN MATURITY



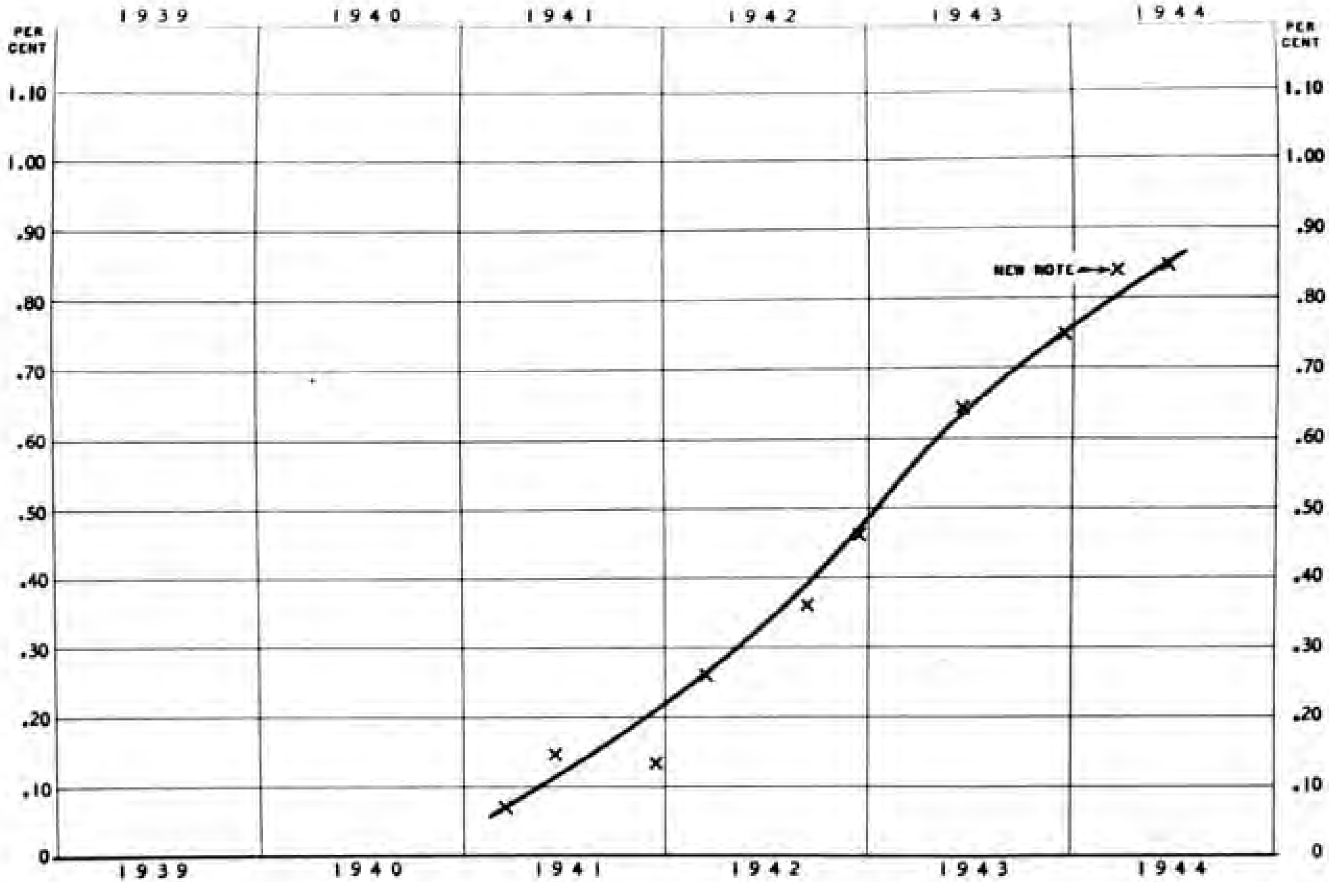
* 1ST QUOTATION SHOWN IS OPENING ON TUESDAY THE 24TH.

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

F - 137

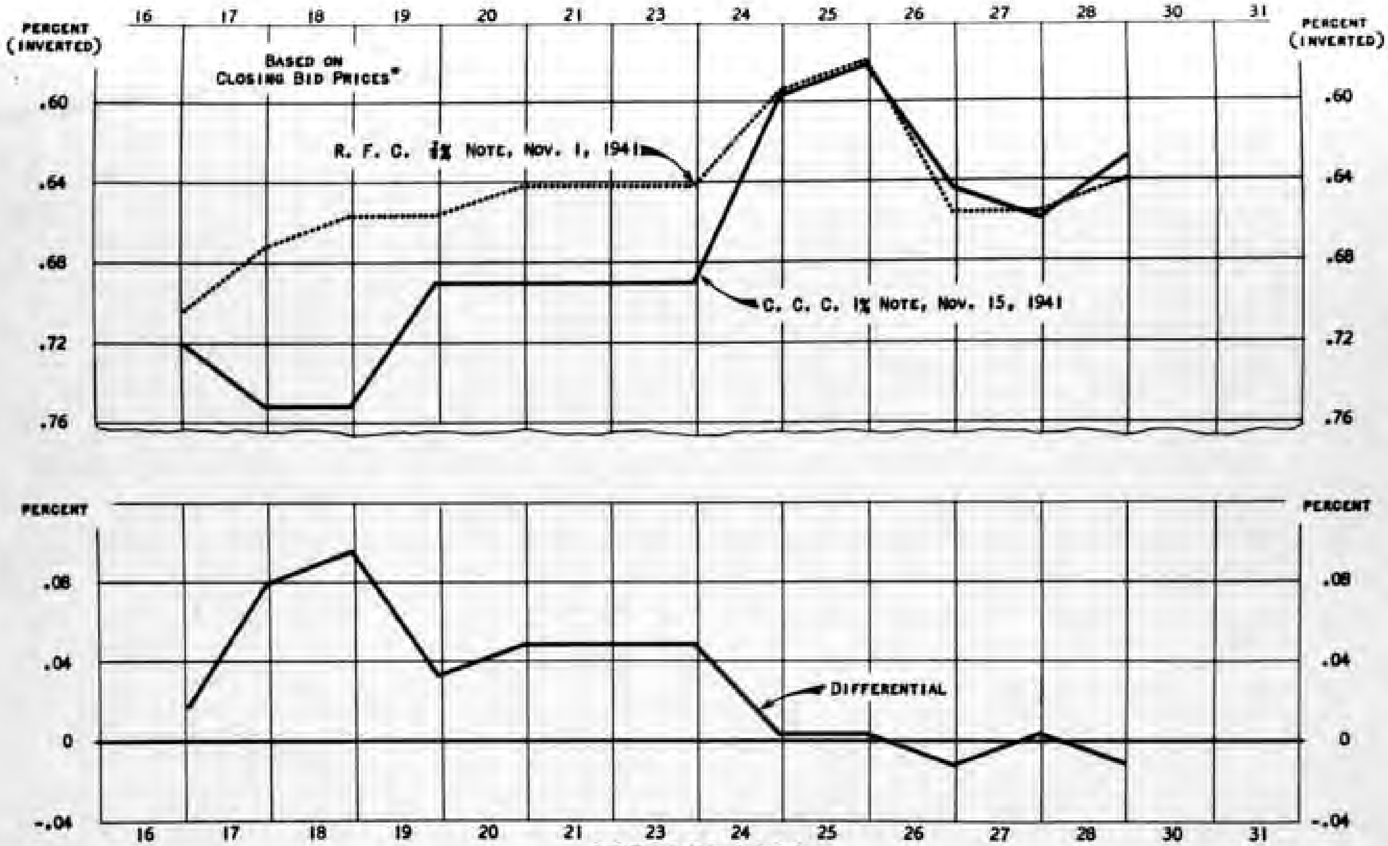
YIELDS OF TREASURY NOTES

On Basis of Closing Bids October 28



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

COMPARISON OF YIELD ON NEW C.C.C. NOTE OF NOV. 15, 1941
WITH R.F.C. NOTE OF NOV. 1, 1941

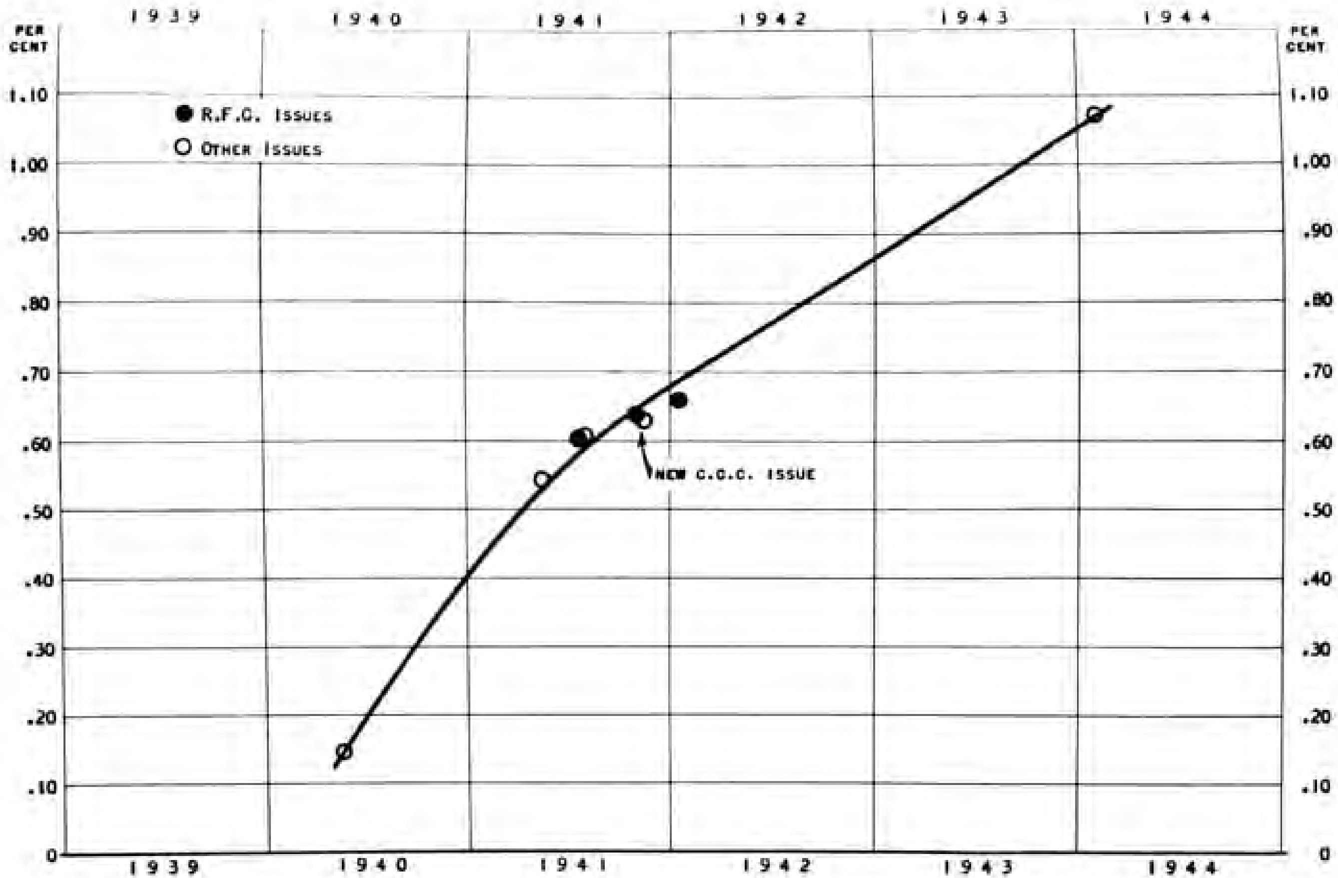


*1ST QUOTATION SHOWN IS OPENING ON TUESDAY THE 17TH

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

F - 132 - 1

YIELDS OF GUARANTEED ISSUES WITH FIXED MATURITIES
On Basis of Closing Bids October 28



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

F-136

Calendar of Direct and Guaranteed Bonds and Notes
Maturing or Callable January 1, 1940 to December 31, 1944

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	Dec. 15	Bond 4% (1944-54)					1,037	

Messrs.
Viner
Riefler
Stewart

MR. MORGENTHAU'S OFFICE TO--

Mr. Hanes	Mr. Gaston
Mr. Gibbons	Mr. McReynolds

Mr. Alexander	Mr. Harper
Mr. Allen	Mr. Helvering
Mr. Bartelt	Mr. Irey
Mr. Batchelder	Mr. Julian
Mr. Bell	Mr. Kilby
Mr. Berkshire	Mr. Lochhead
Mr. Bernard	Miss Lonigan
Mr. Birgfeld	Mr. Maxwell
Mr. Blough	Adm. Peoples
Mr. Broughton	Miss Reynolds
Mr. Bryan	Mr. Rose
Mr. Cannon	Mrs. Ross
Mr. Davis	Mr. Sloan
Mr. Delano	Mr. Spangler
Miss Diamond	Miss Switzer
Miss Flanagan	Mr. Tarleau
Mr. Foley	Mr. Thompson
Mr. Graves	Mr. Upham
Mr. Haas	Mr. White
Mr. Hall	Mr. Wilson
Mr. Hanna	

1- Dr Viner
2- Dr Riefler
3- Mr Stewart.
Sent to you at the Secretary's request.
Pls return to Miss Chauncey
Rm 285

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

DEPARTMENT OF STATE
WASHINGTON

October 30, 1939

In reply refer to
EA 862.00/3894

STRICTLY CONFIDENTIAL

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses, for his strictly confidential information, a copy of despatch no. 1435 from the American Embassy at Berlin, dated September 28, 1939, transmitting a memorandum of a conversation of Donald R. Heath, Esquire, First Secretary of the Embassy, with Dr. Hjalmar Schacht.

Enclosure:

From Berlin, no. 1435,
September 28, 1939.

H.F.

Department of State

BUREAU } EA
DIVISION }

ENCLOSURE

TO

Letter drafted

ADDRESSED TO

Treasury

U. S. GOVERNMENT PRINTING OFFICE 1—1043

Berlin, September 28, 1939.

No. 1435

Subject: Transmitting Memorandum of Conversation with Dr. Schacht.

Confidential

The Honorable
The Secretary of State,
Washington, D.C.

Sir:

1/ I have the honor to transmit a memorandum of a conversation of Donald R. Heath, Esquire, First Secretary of the Embassy, with Dr. Hjalmar Schacht, Minister without portfolio, and until January of this year President of the Reichsbank.

Respectfully yours,

Alexander Kirk
Chargé d'Affaires ad interim

Enclosure:

1. Memorandum

800

DRH/hu

A true copy of the signed original. hn

Enclosure No. 1 to despatch No. 1435 dated September 28, 1939, from the American Embassy, Berlin, Germany.

Confidential

September 27, 1939.

Memo: To Mr. Kirk.

I had a long talk with Schacht at his home this morning. He began by reviewing his present position in the Government; i.e., he had retained his position as Minister without portfolio in the thought that a situation might eventually arise in which he could, without compromising his own views, be of assistance to the Government. This position was entirely nominal. He had seen no member of the Government since his return from India with the exception of Funk, with whom he had had one conversation. He had not attended the Reichstag meeting on September 1, nor had he been present at the von Fritsch funeral. He said his position was very similar to that of General Beck, former Chief of Staff, who was living in complete retirement in Lichterfelde. Like himself, Beck had maintained his independence and had refused to compromise on questions of principle and fundamental policy.

While he had maintained his ministerial position in the hope that a situation might develop where his services could be utilized, he saw little early likelihood of such an occurrence. His personal relations with Hitler were by no means unfriendly, however, and his farewell interview last January had been in an atmosphere of respect, although not one of cordiality. Hitler was not ungrateful for what he had accomplished but could not forgive his refusal to become a real member of the Party. In previous years, he said, Hitler had personally besought him on several occasions to identify himself with the Party.

He

He could understand that attitude because Hitler depended on the Party and could not remain in power without it. He, however, had certain principles, and the fact was that most of the Party leaders were not very honest men or, if they were, they were fanatics. This was the case of Hess, who was unquestionably honest but entirely fanatic and limited in outlook. He remarked that the only Party personage who would oppose his return to the Government in time of emergency and was personally inimical to him was Ribbentrop. That was for reasons of difference of policy and personal jealousy. Ribbentrop's policy and influence had certainly contributed to the tragic developments of these last weeks.

The immediate starting point of the present war was Germany's mistake in invading Czechoslovakia last spring. That was where his policy had always been at variance with Ribbentrop's, since he had always held that Germany's predominant interests in southeastern Europe were economic and they could best be achieved by a scrupulous respect of the sovereignty of the countries in that area. The war was utterly needless and a mistake in that it resulted in both Russian and German occupation of Poland. It was not to Germany's real interest to have alien minorities nor to have Russia on its borders, but now it would be impossible to restore an independent Poland except through the cooperation of England, France and Germany, a rather unthinkable development, to say the least, under the present circumstances. Russia had not forgotten its idea of Pan-Slavism and through the occupation of

Poland and Germany's present obligation, not to say dependence on her, was in a position to push the doctrine not merely in Poland but also in the Balkans, which would not be in Germany's interest.

He regretted the fact that the Party leaders did not have a long-term international outlook or any understanding of international reactions. England would not have opposed Danzig and the Corridor returning to Germany or a rectification of the frontier at other points combined with exchange of populations. England had gone to war because of the methods that had been employed. While he likewise opposed these methods it was also to be said that it was also the fault of England in being so slow and shortsighted in failing to cooperate with the Stresemann government and rectifying at least a part of the intolerable inequities of the Versailles Treaty. If England had then given Germany 10 percent of what Hitler has since taken the present situation and regime would not have arisen. England had also blundered in not taking active measures to solve the remaining critical problems of Europe following the Munich Agreement. Immediately after that agreement England should have come to Hitler and said, "It is agreed to take no step likely to trouble the European situation without consultation and we have come, therefore, to consult about the problems of Danzig and the Corridor and the other difficulties." Had England taken such a step there was a possibility that the present tragedy might have been avoided. He thought that Henderson had been an unfortunate choice as Ambassador in that, until it was too late to stop the march of events, he

had

had given the German Government the impression that England would not really go to war. The previous French Ambassador - Poncet - had been an excellent one - Coulondre's term had been too brief for him to acquire influence.

Turning to the economic side he remarked that it was tragic to see Germany losing much of its wealth and losing its trade as, for example, to Japan. He said that he and his successors in economic authority had greatly strengthened the Reich's ability to withstand war. After this remark he made a rather veiled statement in which he said he understood, however, Gamelin's strategy of postponement and that at a given time the war would suddenly blaze out into a "Material Krieg", which, he indicated, would put a great strain on Germany's supply of materials. The implication was obvious that Germany's position as regards eventual sufficiency of war materials was not good. He hoped that in some unforeseen way this useless tragic conflict could be stopped before it reached that point, not only for Germany's good but for the welfare of England and France.

He concluded by saying that he had always held that a régime which crippled freedom of thought and speech and compelled obedience by the exercise of authority to the point of terrorism must eventually disappear, and that it could only maintain itself in a country like Germany while it had a record of success. He added that he was still of that belief but that human beings could endure a great deal and

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it might be a long time before a change occurred. He himself was no revolutionary or intriguer and all that he would or could do, if opportunity arose, was to counsel a course of moderation and justice.

D.R.H.

DRH/hu

Copy

DEPARTMENT OF STATE

Washington

October 30, 1939

In reply refer to
EA 862.00/3894

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Enclosure:

From Berlin, no. 1435,
September 28, 1939.

COPY

164

Berlin, September 28, 1939

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Confidential

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A true copy of
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"HU"

Copy of a Copy

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I had a long talk with Schacht at his home this morning. He began by reviewing his present position in the Government; i.e., he had retained his position as Minister without portfolio in the thought that a situation might eventually arise in which he could, without compromising his own views, be of assistance to the Government. This position was entirely nominal. He had seen no member of the Government since his return from India with the exception of Funk, with whom he had had one conversation. He had not attended the Reichstag meeting on September 1, nor had he been present at the von Fritsch funeral. He said his position was very similar to that of General Beck, former Chief of Staff, who was living in complete retirement in Lichterfelde. Like himself, Beck had maintained his independence and had refused to compromise on questions of principle and fundamental policy.

While he had maintained his ministerial position in the hope that a situation might develop where his services could be utilized, he saw little early likelihood of such an occurrence. His personal relations with Hitler were by no means unfriendly, however, and his farewell interview

interview last January had been in an atmosphere of respect, although not one of cordiality. Hitler was not ungrateful for what he had accomplished but could not forgive his refusal to become a real member of the Party. In previous years, he said, Hitler had personally besought him on several occasions to identify himself with the Party. He could understand that attitude because Hitler depended on the Party and could not remain in power without it. He, however, had certain principles, and the fact was that most of the Party leaders were not very honest men or, if they were, they were fanatics. This was the case of Hess, who was unquestionably honest but entirely fanatic and limited in outlook. He remarked that the only Party personage who would oppose his return to the Government in time of emergency and was personally inimical to him was Ribbentrop. That was for reasons of difference of policy and personal jealousy. Ribbentrop's policy and influence had certainly contributed to the tragic developments of these last weeks.

The immediate starting point of the present war was Germany's mistake in invading Czechoslovakia last spring. That was where his policy had always been at variance with Ribbentrop's, since he had always held that Germany's predominant interests in southeastern Europe were economic and they could best be achieved by a scrupulous respect of the sovereignty of the countries in that area. The war was utterly needless and a mistake in that it resulted in both Russian and German occupation of Poland. It was not to Germany's real interest to have alien minorities nor to have Russia on its borders, but now it would be impossible to restore an independent Poland except through the cooperation of England, France and Germany, a rather unthinkable development, to say the least, under the present circumstances. Russia had not forgotten its idea of Pan-Slavism and through the occupation of Poland and Germany's present obligation, not to say dependence on her, was in a position to push the doctrine not merely in Poland but also in the Balkans, which would not be in Germany's interest.

He regretted the fact that the Party leaders did not have a long-term international outlook or any understanding of international reactions. England would not have opposed Danzig and the Corridor returning to Germany or a rectification of the frontier at other points combined with exchange of populations. England had gone to war because of the methods that had been employed. While he likewise opposed these methods it was also to be said that it was also the fault of England in

being

being so slow and shortsighted in failing to cooperate with the Stresemann government and rectifying at least a part of the intolerable inequities of the Versailles Treaty. If England had then given Germany 10 percent of what Hitler has since taken the present situation and regime would not have arisen. England had also blundered in not taking active measures to solve the remaining critical problems of Europe following the Munich Agreement. Immediately after that agreement England should have come to Hitler and said, "It is agreed to take no step likely to trouble the European situation without consultation and we have come, therefore, to consult about the problems of Danzig and the Corridor and the other difficulties." Had England taken such a step there was a possibility that the present tragedy might have been avoided. He thought that Henderson had been an unfortunate choice as Ambassador in that, until it was too late to stop the march of events, he had given the German Government the impression that England would not really go to war. The previous French Ambassador - Poncet - had been an excellent one - Coulondre's term had been too brief for him to acquire influence.

Turning

Turning to the economic side he remarked that it was tragic to see Germany losing much of its wealth and losing its trade as, for example, to Japan. He said that he and his successors in economic authority had greatly strengthened the Reich's ability to withstand war. After this remark he made a rather veiled statement in which he said he understood, however, Gamelin's strategy of postponement and that at a given time the war would suddenly blaze out into a "Material Krieg", which, he indicated, would put a great strain on Germany's supply of materials. The implication was obvious that Germany's position as regards eventual sufficiency of war materials was not good. He hoped that in some unforeseen way this useless tragic conflict could be stopped before it reached that point, not only for Germany's good but for the welfare of England and France.

He concluded by saying that he had always held that a régime which crippled freedom of thought and speech and compelled obedience by the exercise of authority to the point of terrorism must eventually disappear, and that it could only maintain itself in a country like Germany while it had a record of success.

170

success. He added that he was still of that belief but that human beings could endure a great deal and it might be a long time before a change occurred. He himself was no revolutionary or intriguer and all that he would or could do, if opportunity arose, was to counsel a course of moderation and justice.

D.R.H.

DRH/hu

HSM

PLAIN

London

Dated October 30, 1939

Rec'd 10 a.m.

Secretary of State,

Washington.

2212, October 30.

FOR TREASURY FROM BUTTERWORTH.

Since my 2165 of October 25 there have been no further changes in the official rates of exchange except for the belga which weakened on Saturday and again today, being now quoted 24.00 - 24.20. The forward belga also went from a premium to a discount, the quotation prior to October 26 being 4 centimes premium to par and thereafter par to 4 centimes discount.

KENNEDY

MCL

EBM TELEGRAM SENT GRAY

October 30, 1939

noon

Amembassy,

London.

1325.

From the Secretary of Treasury for Butterworth's information and repetition by mail to the American Embassies Paris and Berlin.

Reference our cablegram 1280, October 24, 11 a.m. Secretary of the Treasury announced that $515,210,900 of the Treasury notes maturing December 15, 1939 have been exchanged for the new 1 percent Treasury notes 1944.

HULL

(HF)

EA:LWW

173

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, London

DATE: October 30, 1939, 7 p.m.

NO.: 1330

The following is from the Treasury Department, for Butterworth, and for repetition to American Embassies at Paris and Berlin by mail.

Today an announcement was made by the Secretary of the Treasury that the Treasury is offering for cash subscription $250,000,000 of 1% notes, at par and accrued interest, on behalf of the Reconstruction Finance Corporation. The indebtedness of the R.F.C. to the Treasury will be paid with the proceeds. The date of the notes will be the tenth of November, and the maturity date will be the first of July, 1942. The United States will fully and unconditionally guarantee the notes both as to principal and interest.

HULL
(HF)

EA:LWW

October 30, 1939

10:50 a. m.

Present:

Mr. Pinsent
Mr. Cochran

Mr. Pinsent: I have this message which came over the week-end from the Chancellor of the Exchequer.

(HM,Jr reading: "The Chancellor of the Exchequer wishes to convey to Mr. Morgenthau his personal thanks for his advice and assistance, and to say that he readily accepts the proposal to open a special account with the Federal Reserve Bank of New York, and agrees that Mr. Morgenthau should personally and confidentially have access to it.

"The Chancellor of the Exchequer is sending Mr. Walter Wigham, senior partner of Robert Fleming & Company, to Washington at the earliest possible moment to assist the British Ambassador in discussing details regarding the account and the question of the disposal of securities, both with Mr. Morgenthau and also with the officials of the Treasury and the Securities and Exchange Commission, as may be necessary. Mr. Walter Wigham will also act subsequently as the British Security Expert suggested in Mr. Osborne's discussions in Was ington on the 19th October. If for private reasons Mr. Wigham's stay has to be curtailed an appropriate alternative arrangement will be made.

"British Embassy, Washington, D.C., October 30th,1939."

HM,Jr: I would say that is most satisfactory.

Mr. Pinsent: I am glad to hear it, Mr. Secretary.

Mr. Wigham, according to our directories, is also a Director of the Bank of England. I don't know him personally.

HM,Jr: He had a brother here last year who was editorial writer for Mrs. Patterson's paper, the Washington Herald.

Mr. Pinsent: Oh!

HM,Jr: He didn't last very long. Nobody lasts very long with Mrs. Patterson. He did some very interesting editorials, most of them on gold.

Mr. Pinsent: Yes.

HM,Jr: They were very good.

Mr. Pinsent: I ought perhaps to explain that this message arrived a little bit corrupt in places, the cipher was a little corrupt. I had to reconstruct, but I have no doubt thereconstruction is more or less correct. Something funny in the wording where it speaks of the disposal of securities, but no doubt what it can mean.

HM,Jr: Other than that I am pleased, it does not require any further answer?

Mr. Pinsent: I don't think so.

HM,Jr: The only unfinished business you and I have is the request I made about being advised on this information for the President.

Mr. Pinsent: Yes. I am afraid we have no reply about that. I am sorry about it. I have no doubt the difficulty is so many Departments are concerned on that subject, it is taking some time to get it together.

HM,Jr: Can you see any possible objection if I should tell the French that we have concluded this arrangement with you and we hope-we will put up exactly the same thing to them -- and hope they will do the same?

Mr. Pinsent: I can see no objection, Mr. Secretary. I believe the French position is somewhat different because they have not called for returns at such an early date as we have. I should say they telegraphed to us at the same time from London, an account of the conversations they had had with Mr. Kennedy there. I have also heard from Mr. Cochran and ....

HM,Jr: Do they check?

Mr. Pinsent: Oh, yes! I think they do. I have not attempted to check details but I am sure there are not any discrepancies.

HM,Jr: But they did check.

Mr. Pinsent: They did check. The French will be perhaps a couple of months behind us in getting their returns so they are not likely to be active before December at the earliest, but I understand that they had it very much in mind in London to consult with the French in order to arrange cooperation in the liquidation of securities when the French are ready to start.

HM,Jr: What is happening about American securities owned in Canada?

Mr. Pinsent: I have not heard anything specific about that. Some measures have been taken requiring registration and prohibiting transfer without permission, but I think I did ask Mr. Osborne when he was here, about ten days ago, and I understood they were not yet taking any active steps to take over the securities, but what plans they may have, I am afraid they don't know.

HM,Jr: Would it be easy for you to ascertain?

Mr. Pinsent: I think so. At least, it is easy for me to ask, but I don't know how much information I will get, but I think I will get it.

HM,Jr: Would you?

Mr. Pinsent: I will do so. Yes, sir. I am writing anyhow.

HM,Jr: Will you ask him? If we are going to do it, let's get all loose ends sewed up.

Mr. Pinsent: Yes.

HM,Jr: Have you something else?

Mr. Pinsent: There was one other question I wanted to ask. I don't know whether it's capable of answer at present. I think you have probably seen the statement which

Mr. Pittmann made on Friday to the effect that the Neutrality Act as it now stands would prohibit the Reconstruction Finance Corporation and other Government agencies from making any loans on securities.

HM,Jr: I am having it looked into.

Mr. Pinsent: You have not made up your mind?

HM,Jr: I was surprised.

Mr. Pinsent: I was surprised, I confess. I had not understood that was the case.

HM,Jr: I was surprised. I am going into it. It was a complete surprise to me. A complete surprise to me. Something else?

Mr. Pinsent: No. That was all.

HM,Jr: My people here tell me that our September figures show that you have a more favorable balance of trade in September than you had heretofore. Are we safe in assuming that that trend may continue and, if so, the pressure on the Pound will be less? Or is it too early to make any assumptions?

Mr. Pinsent: I should say it is too early to make any assumptions. It's rather off my beat, I must confess, but that more favorable balance was the result of substantial drop in imports and a less substantial drop in exports and I certainly have rather a feeling that both those figures were influenced by special factors in the first month of the war and are not much of a guide as to what might happen in the later months.

HM,Jr: Would you get off a cable? I would like to know what October is. What is October?

Mr. Pinsent: Yes.

HM,Jr: Because it would have a very definite bearing on Sterling.

Mr. Pinsent: Yes. I will get off a cable about that and see what answer we can get.

HM,Jr: And, for your information, Japan is a seller of Sterling.

Mr. Pinsent: Oh, yes!

HM,Jr: Quite heavy.

Mr. Cochran: Fairly heavy and although the amounts have not been as big as the market indicates, they have had difficulty in getting acceptances so a small offering would bear down the market more than it would coming from another source. Siam is also selling Sterling.

HM,Jr: But I would be interested in that interpretation.

And we have asked Butterworth to come back. He's coming back on the Clipper, November 7th, to let us know what's going on.

Mr. Pinsent: I have no indication at present when Mr. Wigham will arrive.

HM,Jr: That's all right. But the main thing is it is settled. And you know about this thing of Osborne opening a $10,000,000 account for this Bristol Company?

Mr. Cochran: $1,000,000. I have not explained it to him yet.

HM,Jr: Oh yes, $1,000,000. But tell him about it.

oOo-oOo

A MESSAGE FROM THE CHANCELLOR OF THE EXCHEQUER
TO THE SECRETARY OF THE UNITED
STATES TREASURY.

The Chancellor of the Exchequer wishes to convey to Mr. Morgenthau his personal thanks for his advice and assistance, and to say that he readily accepts the proposal to open a special account with the Federal Reserve Bank of New York, and agrees that Mr. Morgenthau should personally and confidentially have access to it.

The Chancellor of the Exchequer is sending Mr. Walter Wigham, senior partner of Robert Fleming & Company, to Washington at the earliest possible moment to assist the British Ambassador in discussing details regarding the account and the question of the disposal of securities, both with Mr. Morgenthau and also with the officials of the Treasury and the Securities and Exchange Commission, as may be necessary. Mr. Walter Wigham will also act subsequently as the British Security Expert suggested in Mr. Osborne's discussions in Washington on the 19th October. If for private reasons Mr. Wigham's stay has to be curtailed an appropriate alternative arrangement will be made.

BRITISH EMBASSY,
WASHINGTON D.C.
October 30th 1939.

HSM TELEGRAM SENT GRAY

October 30, 1939

3 p. m.

Amembassy,

London.

1326.

FROM TREASURY.

Reference our No. 1285, October 24, 7 p. m.

The Secretary of the Treasury desires that Butterworth spend two days in Paris visiting French financial authorities while enroute to the United States. Secretary Morgenthau has discussed this matter by telephone with Ambassador Bullitt.

HULL
(HF)

EA:HF:LWW

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin, Germany

DATE: October 30, 1939, 4 p.m.

NO.: 1885

The liquidity of the money market is evidenced by the fact that the long-awaited German railroads loan announced October 27 is in the amount of 500,000,000 marks. Funk stated last spring that the German railroads would probably borrow three-quarters of a million marks during the balance of 1939 but it was not anticipated that the first issue would be more than 300 or 400,000,000. The issue consists of 4 1/2% bonds which will mature from 1945-1949. The issue price is 98-3/4% yielding an effective interest of 4.7%. 200,000,000 marks have been taken in advance by savings banks and other institutions and 300,000,000 are being made available for public subscription by a consortium headed by the Reichsbank.

As yet there is no news as to whether and when a long term loan will be issued by the Government. We have not had any confirmation of a rumor that after the first of the year there will be further tax increases. Recently in a speech Reich Minister of Economics, Funk, said that to meet the wartime financial needs of the Government, neither of the two methods, inflation or deflation would be used. Since this speech, German economists have jocularly coined the word "indeflation" to describe the present financial policy

of

of the Government which follows both lines. In a talk with an authoritative economist, he said that there is no essential difference between the financial measures used by Germany during the World War and those now employed. In contra-distinction to the Imperial Government, the Third Reich promptly raised taxes. However, the rate increase is entirely insufficient to take up the surplus of purchasing power over the supply of goods and services which are available to the people. He pointed out that the difference was not in the financial methods used, but in the innovation of protection of this Government and control of prices and rationing of commodities which prevents any immediate general inflationary result although for some luxury commodities which are not subject to rationing and to fixed price control there have been price increases. It is the belief of this economist that the control of wages, prices and consumption will be substantially effective in preventing increases in prices and spending, and increased saving will be enforced. In the end, however, there will be the same result as though they had pursued an outright inflationary policy, without offsetting controls. To a large extent, the value of the accumulated savings of the people will be wiped out not through mark depreciation, but through inevitable restrictions on withdrawal of these savings and spending them, for it

is

is inconceivable after the economic destruction of a war that this accumulated buying power will be left free to satisfy population needs which accumulate during a prolonged period of having to do without things.

It is requested that this telegram be repeated to the Treasury.

KIRK.

EA:LWW

CJ

GRAY

PARIS

Dated October 30, 1939

Rec'd 5:12 p.m.

Secretary of State,

Washington.

2615, October 30, 7 p.m.

FOR TREASURY

The security market was firm today on the eve of the month-end settlement and rente issues were strong, most issues advancing from 45 centimes to one franc 20. Suez Canal rose another 300 francs to 16,050. The Senate vote on the neutrality law continues to be a highly favorable market influence.

Day to day money is now quoted here at $1\frac{1}{4}$ per cent as against $1\frac{1}{2}$ per cent at the end of September.

We have pointed out several times the intention of the French control authorities to treat Americans in a most liberal manner. As a concrete example we have been able to arrange without delay or difficulty for our Consulate General at Marseille to be given authorization to convert collected franc fees into dollars for remittance to the United States.

(END SECTION ONE)

BULLITT

ROW:LMS

GJ-

GRAY

PARIS

Dated October 30, 1939

Rec'd 6:29 p.m.

Secretary of State,

Washington.

2615, October 30, 7 p.m. (SECTION TWO)

Similarly we have arranged for the American officers and employees there to be permitted to obtain dollar drafts on New York for the remission of part of their monthly salaries in spite of the technical obstacles involved and the requirement to turn over all income received abroad to the Bank of France. Please see my telegram 2587, October 26, 7 p.m. (We arranged similar facilities for the Embassy several weeks ago).

The Paris press quotes Belgian reports concerning the financial difficulties of the Caisse Generale de Reports et de Depots as a result of the Mendelssohn failure. We have made inquiries and ascertained that the capital (amounted to some 320,000,000 Belgian francs) and surplus (73,000,000) will be wiped out and that its difficulties are in fact at least in payment due to its relationship with Mendelssohn operations. It is believed, however, that owing to its close connection with the Societe Generale of

Belgium

-2- #2615, October 30, 7 p.m. (SE TWO) from Paris

Belgium some plan will be worked out to enable it to carry on; furthermore that depositors are not expected to suffer any loss. On the basis of what is known at present it is not believed here that any great disturbance of the Belgian financial set up will ensue.

(END OF MESSAGE)

BULLITT

NPL:ROW

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Paris, France

DATE: October 30, 1939, 7 p.m.

NO.: 1331

FROM TREASURY DEPARTMENT.

You are requested to cable a summary and submit full report by mail of a statement by Caillaux published in Paris Soir concerning the economic situation of Germany. Our information comes from a report carried by International News Service dated October 29 from Paris.

HULL
(HF)

EA:LWW

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 30, 1939

TO Secretary Morgenthau

FROM Mr. Foley

As I stated to you in my memorandum of October 2, 1939, it is our view, concurred in by the Attorney General, that the Johnson Act and the provisions of the present neutrality law relating to the making of loans and the extension of credit to belligerent governments do not apply to this Government or agencies thereof.

The pending neutrality bill contains similar language and it would have been appropriate to interpret it in a similar manner but for the statement made by Senator Pittman on the floor of the Senate late in the evening on October 27, 1939. Senator Pittman indicated that he and the other drafters of the bill construe its provisions to prohibit the making of loans or the extension of credit to belligerent governments by governmental corporations, such as R. F. C. and the Export-Import Bank. A discussion of this matter appears in the attached excerpts from the Congressional Record. On October 17, 1939, Senator Barkley said on the floor of the Senate that his offhand view was that the credit provisions of the pending bill applied as rigidly to the R. F. C. and any other agency of the Government as to any private person in this country.

Senator Pittman made the statements in question notwithstanding the fact that on October 27 the Senate voted down an amendment introduced by Senator Taft, which was designed to prohibit the making of loans and the extension of credit by the Government or agencies thereof. You will note from the discussion of the matter which appears in the excerpt from the Congressional Record that Senator George pointed out that Senator Pittman's construction "covers precisely one of the amendments offered by the distinguished Senator from Ohio, which was voted down by this body yesterday".

Unless Senator Pittman can be persuaded to take some appropriate action that would nullify the effect of this statement I am fearful that we will be unable to hold that the R. F. C. and the Export-Import Bank have legal authority under the now-pending legislation to make loans of the type which have been considered to an American corporation acting on behalf of belligerent governments, collateralized by American securities owned by such belligerents.

EHF/

CONGRESSIONAL RECORD, October 27, 1939
page 1655

Mr. TAFT. Mr. President, while this matter is being discussed I should like to ask the chairman of the Committee on Foreign Relations one question regarding this section. On page 21 it is provided that whenever the President shall have issued a proclamation it shall be unlawful for any person within the United States to advance credits to foreign governments. I wish to know whether or not the chairman of the Committee on Foreign Relations considers that the word "person," which is also defined on page 30 as including corporations, and so forth, is broad enough to include the Reconstruction Finance Corporation and the Export-Import Bank.

Mr. PITTMAN. The word "person" expressly includes corporations, and I therefore take it that it does include them.

Mr. TAFT. In the Senator's opinion, it includes the Reconstruction Finance Corporation and the Export-Import Bank?

Mr. PITTMAN. That is my opinion, and that was the opinion of those who drafted the joint resolution.

Mr. GEORGE. Mr. President, I wish to make a short statement. Particularly I wanted to say that my construction of the word "person" is identically the same as that given by the chairman of the committee. I think that is pertinent, because in effect it covers precisely one of the amendments offered by the distinguished Senator from Ohio, which was voted down in this body yesterday. I think the word "person" here does include a subsidiary of the Government, a corporate subsidiary such as the Reconstruction Finance Corporation, or any other corporation which is owned wholly or practically wholly by the Government itself.

Mr. TAFT rose.

Mr. GEORGE. I was merely adding my interpretation of the language, and I particularly wished that it go into the RECORD, because I think it is important.

190

October 30, 1939.

STRICTLY CONFIDENTIAL

My dear Mr. Chairman:

Reference is made to the matter of handling the British official accounts for purchase of war materials in the United States, upon which question you were good enough to confer with us some days ago. After our conference, a cablegram was dispatched to our Embassy in London setting forth the views upon which our group agreed.

I have pleasure in informing you, in strict confidence, of the receipt today, through the British Embassy, of a communication wherein the Chancellor of the Exchequer states that he readily accepts the proposal to open a special account with the Federal Reserve Bank of New York, and agrees that the Secretary of the Treasury shall personally and confidentially have access thereto.

Thanking you for your cooperation in the premises, and assuring you of my desire to keep you informed of developments, I am,

Very sincerely yours,

(Signed) H. Morgenthau, Jr.

Hon. Marriner S. Eccles,
Chairman, Board of Governors
of the Federal Reserve System,
Washington, D. C.

Sent by messenger at
10:30 a.m. on 11/1/39

HMJr:mm:fb