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(For Cochran memorandum, see page 61)

- a) Account in the name of Bank of England upon which members of British Purchasing Commission and Central Board of Purchasing Commission may check now opened with Federal Reserve Bank of New York
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PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

1

FROM: American Embassy, Paris

NO.: 2857

DATE: November 29, 1939, 7 p.m.

SECTIONS ONE, TWO, THREE AND FOUR
FOR TREASURY

We accompanied Ambassador Kennedy when he went to see Reynaud this afternoon. However, since Reynaud was engaged at the Chamber and in a meeting of the cabinet, he was obliged to cancel the appointment with Kennedy. They will see each other this evening at dinner. We had a talk with Couve de Murville, in the absence of Reynaud. Kennedy was anxious to ascertain the amount of securities held by the French in the United States and also what plans have been made by the French Government for liquidating these securities in an orderly manner when the time arrives.

Couve de Murville stated that not even an approximate estimate could be made by either his Ministry or the Bank of France with reference to the amount of French holdings of dollar securities. (No reliable estimates have been possible because of tax evasion in the past and because of French reticence in regard to these matters.) They will not be able to draw up an inventory until after the declarations

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tions of holdings abroad have been made. These are to be made in January—February for those who have been mobilized. (We have been informed of this situation several times in the past by Couve de Murville and other French financial authorities—see our telegrams no. 1609 of August 26 and no. 2445 of October 12.) He said again that little thought had been given to plans for requisitioning these securities or to plans for marketing them in an orderly manner when and if that should become necessary. He said that the French Government has no plans (even in embryo) with respect to either of these phases. However, he again assured us that the French Government is aware that close cooperation with us regarding this matter is important, and it seemed he hoped that when the time comes we could be of help.

With reference to payments for actual war purchases in the United States, it is his feeling that in view of the fact that the French placed a number of important orders so early, they have spent more to date than the British have. He repeated that although there continues to be a substantial inflow of capital, the fund is now losing on balance. He does not believe that there will be any difficulty in the near future in keeping the franc at its present level. He believes that this problem will

become

become acute for the British before it will for the French, and he estimated the time limit at sometime within the next twelve months. He said that it was impossible for anyone to predict developments during the next year and declined to state whether the franc would be tied to sterling under all circumstances.

(Last evening, incidentally, Reynaud made the following remark in lighter vein: "I said to Sir John Simon that he and I would be hanged by the people of our respective countries if the United States policy regarding foreign credits is not revised sometime during the next two years.)

In response to our question, Couve said that ^{between} 250,000,000 and 300,000,000 francs a day is the rate at which armament bond subscriptions are now coming in.

(END SECTION FOUR)

EA:EB

CJ

GRAY

Dated November 29, 1939

Rec'd 6:35 p.m.

Secretary of State,
Washington.

2857, November 29, 7 p.m. (SECTION FIVE)

As a further step to aid industry and trade and to offset in some small measure the crippling effects of general mobilization the JOURNAL OFFICIEL of today publishes a decree making more flexible existing laws and regulations relating to conditions under which mobilized soldiers may be specially assigned to assure the operation of public services and to carry on the economic and financial activities of the country. Under this new measure a larger number of mobilized soldiers in certain categories may be specially assigned to export industries, and industrial, agricultural, and commercial professions.

BULLITT

NPL

CJ

GRAY

PARIS

Dated November 29, 1939

Rec'd 5:49 p.m.

Secretary of State,
Washington.

2857, November 29, 7 p.m. (SECTION SIX)

While French industrial securities showed a firmer tendency on the securities market today rentes were somewhat irregular with small changes.

The report of the Bank of the Netherlands for the week ending November 27 reveals gold holdings of 1,029,000,000 florins compared with 1,039,000,000. Demand liabilities totaled 1,394,000,000 compared with 1,367,000,000. Ratio of gold reserves 73.81% compared with 76%.

(END OF MESSAGE)

BULLITT

NPL

NOV 30 1939

RECEIVED
NOV 30 1939
U.S. DEPT. OF STATE

November 29, 1939

6

My dear Mr. President:

For your information, I am sending you herewith a copy of my letter to the Acting Secretary of the Navy.

Sincerely yours,

The President,
The White House.

November 29, 1939

7

My dear Mr. President:

For your information, I am sending you herewith a copy of my letter to the Acting Secretary of the Navy.

Sincerely yours,

The President,
The White House.

November 29, 1939

My dear Mr. President:

For your information, I am sending you herewith a copy of my letter to the Acting Secretary of the Navy.

Sincerely yours,

The President,
The White House.

NOV 29 1939

CC:MrJPM

My dear Senator:

I have your letter of November 24 last, in which you call attention to a United Press report to the effect that this Department informed the War and Navy Departments of its willingness to negotiate agreements which would stipulate in advance the rate at which plant depreciation and obsolescence would be computed in Army and Navy contracts subject to the provisions of the Vinson-Trammell Act. Information is requested in this regard, together with the details of any agreements which have been entered into.

It is presumed that the press notice referred to by you is based upon a press release issued by this Department under date of September 18, 1939, which is self-explanatory. I might say that the release is based upon the authority granted the Commissioner of Internal Revenue under section 3760, I.R.C., to enter into closing agreements.

With respect to closing agreements entered into by this Department, I have to advise you that there have been a number of inquiries and some discussions with contractors, but there has been only one agreement consummated. I am unable to furnish you with the details of that agreement by reason of the long-standing practice of the Department based upon the statutory prohibition against making public any information concerning details relating to the liability of any taxpayer. I can assure you, however, that the closing agreement procedure referred to cannot be used to give to a taxpayer in a closing agreement any right or privilege he would not enjoy eventually as a matter of law.

For your information, I am enclosing a copy of Press Release 1879 above referred to.

ORIGINAL FORWARDED TO ADDRESSEE
OF THE SECRETARY

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Honorable Charles W. Tobey,

United States Senate.

JPM:ach

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Wednesday, November 29, 1939.
11/28/39.

Press Service
No. 19-47

Secretary of the Treasury Morgenthau announced last night that the subscription books for the current offering of 2 percent Treasury Bonds of 1948-50 closed at the close of business Tuesday, November 28.

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, November 28, 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 Monday, December 4.

—o—o—

RE CLOSING AGREEMENTS

November 29, 1939.
11:30 a.m.

Present: Mr. Hanes
Mr. Sullivan
Mr. Foley
Mr. Kades
Mr. Wenchel
Mr. Reiling
Mr. Helvering

Hanes: On November 9, a memorandum came from the White House addressed to the Secretary of the Treasury which I will read to bring us all to the starting point.

"One of the obstacles to the proper equipment of our country for national defense is the disparity between the rate of production of airplane motors and that of the airplanes themselves. This must be synchronized as soon as possible. (10-7179)

"You are hereby directed to work out a policy of depreciation allowance by which the abnormal investment in plant expansion that will be required of the airplane motors manufacturers will be absorbed over the life of the contracts or during the emergency period.

"You are further directed to consult with the appropriate committees of the Congress for the purpose of devising a permanent program whereby the facilities thus created will become a permanent part of the national defense."

That was initialed by the President. Upon receipt of that memorandum, I talked with the men in the Bureau and the legal staff and asked them to go to work and find out what could be done. We haven't discussed this thing on the outside with anybody except Louie Johnson and he called up after we had been to the White House that day to find out whether or not we could do anything on this line, and I told him that we were working, had this memorandum and were working toward that end and would report back when we had got something definite to report. I have not communicated with him since that time nor with anybody else but the Bureau and the legal staff.

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We have now a memorandum which - I think the quickest way to get at this thing would be to read this memorandum, which comes from the Bureau in response to my request.

I might say at the outset that the President asked one of his assistants, Mr. Lauchlin Currie, to interest himself and find out where we were in this thing and to get the information for him and Mr. Foley, and I considered that it was the best plan to invite him in to all the conferences when they began so that we could take him along step by step with us, and I understand he has been constantly with this committee in the Bureau.

"At a conference on Friday, November 24, you requested a memorandum indicating the extent to which closing agreements might be used to expedite the erection of additional plants to further our own national defense program and to make additional equipment available for foreign governments. You also asked us to make suggestions for a revised procedure of joint action by the Treasury, War and Navy Departments.

"As a result of conferences which Mr. Lauchlin Currie, Administrative Assistant to the President, attended as an observer and in which C. L. Kades, John Burrus, H. T. Reiling, C. A. Appel and John L. Sullivan participated, we wish to report as follows:

"Closing agreements relating to allowances for depreciation and obsolescence may be executed with contractors installing additional facilities necessary to manufacture armament equipment for the United States Army and Navy and for foreign governments. Such agreements must be predicated on information furnished by the contractor and subject to revision only if actual conditions disclose further usefulness of the facilities beyond their period of useful life as represented by the contractor in his request for the closing agreement, or in the event of a change in the applicable law.

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"We believe the problem involved in the President's memorandum to you, 'to work out a policy of depreciation allowance by which abnormal investment in plant expansion....will be absorbed over the life of the contracts or during the emergency period', may be more effectively approached by revised regulations relating to obsolescence than by any attempt to extend the functions of a closing agreement, for under the present state of the law the Internal Revenue Bureau cannot give to a taxpayer in a closing agreement any right or privilege he would not enjoy eventually as a matter of law.

"However, - as previously in the case of breweries and distilleries closed as a result of the Eighteenth Amendment, - we are here confronted with the problem of allowing a substantial deduction for physical assets still in good condition but of little or no useful value after the present emergency has terminated, this loss of useful value caused by the sudden and abrupt cessation of demand for the particular product. We presume that many of these additional facilities may be worthless when world peace is restored and that almost all of them may be of greatly reduced useful value. We do not know and only time can tell when and to what extent their useful value will be destroyed. We recommend consideration of a revision of the applicable regulations to the end that for purposes of returns under both the Vinson-Trammell Act and the income tax law these abnormal investments may be more equitably amortized. While this suggestion may conflict with one of the recommendations of the Nye Committee it seems to be the only approach toward a solution of the problem that is feasible at this time in the absence of specific legislative enactment."

I think we will leave the last paragraph, because it takes up another subject. It seems to me that this last sentence of this paragraph - it says this suggestion may conflict with one of the recommendations of the Nye Committee. The only copy of this thing that the boys say can be found is in this Nye Committee on the munitions industry in which it was said on page 34, number 3, "No amortization allowances...." They recommend that no amortization allowances shall be permitted,

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"....but instead government loans be authorized for such construction as it is found is required for the prosecution of the war and cannot otherwise be financed."

It seems to me that has a pretty important bearing on the subject here and leaves more color to our suggestion that was originally made that we do take this thing up with the proper committees of Congress, and since it is getting so near to the time when Congress comes back, that we - whatever we decide to do, that we lay it before the Nye Committee, or, as the President said, such appropriate committees of Congress.

In summary, the thing looks to me like this - and I want you to correct me if I am not right about it, because as I understand it we have the right to give closing agreements. This is purely apart from the Vinson-Trammell Act, nothing to do with the contracts given under the Vinson-Trammell Act. We have the right to give closing agreements and we have also, without limitation, in the Bureau, the right to give to any contractor any depreciation allowance that in the Bureau's judgment is fair, proper and correct. In other words, if the useful life of a piece of property were known to be two years, we could allow anybody at any time to take 50 percent depreciation per year. That is perfectly obvious, if that is the useful life of the property.

We have the right to do the two things clearly under the law. We can accomplish the object sought here clearly, so far as the law goes, provided we are not dealing with the Vinson-Trammell Act. I would like to be stopped right there and see if the boys agree with me up to that point.

Wenchel: Yes, hypothetically.

Hanes: Actually, Phillip. There is nothing hypothetical about what I said. I wanted to be actual.

Wenchel: It is hard for me to say where you could have an obsolescence in two years as a practical proposition.

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Hanes: God Almighty, I can show you any number of machines - high speed machines - that are absolutely gone in two years.

Sullivan: I think Phil was talking about buildings.

Foley: Things that are discarded at the end of the contract, I don't think there is any doubt about that. But if we are talking about plant structures....

Hanes: We haven't come to that point yet, because it seemed to me that Sully covered that point most adequately the other day when he said that if this thing has any useful life after the term of depreciation is allowed, that useful life, of course, has got to be allocated into the life of the property, but I was talking primarily about machinery when I said that if you know the useful life of a given machine, there is no doubt in my mind that the Bureau has authority to say 50 percent a year and the machine is gone.

Wenchel: Right.

H.M.Jr: Let me ask, have you ever done that?

Wenchel: Oh, yes.

Sullivan: And we have executed one closing agreement under the Vinson-Trammell Act that allows that where those small tools have been consumed.

H.M.Jr: You let them write it off in two years?

Sullivan: Yes, sir, those that are consumed.

Hanes: You have Supreme Court authority also in the case of the Niagara Falls Brewing Company, which the Bureau carried all the way to the Supreme Court, which decision gave the right to the Bureau at that time to write off property which had become obsolete because of the fact that the breweries couldn't operate after the prohibition law. So you have got plenty of precedents for it and the Bureau has been doing it.

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All I am trying to clarify is the fact that you have got the statutory authority to do this, provided you are not talking about the Vinson-Trammell Act, and I want to be corrected on that if I am wrong in that statement.

Helvering: There is no doubt but what depreciation and obsolescence can be charged off on the actual life - we do now, on regular commercial machinery. We charge off many of these machines and things in six, eight or ten years. We charge off some in as little as three years, of course.

H.M.Jr: Do you want something?

Foley: No, I said I am in agreement with what Mr. Hanes said.

H.M.Jr: What Mr. Hanes is asking is whether these people are with him so far.

Wenchell: Yes, sir.

Foley: Yes.

Hanes: Now, the Vinson-Trammell situation creates a whole of a lot more complications and where we are dealing with a contractor under the Vinson-Trammell Act, then I let the lawyers speak here, but I am scared to death of that one because it seems to me that you have just got to be awfully cautious how you sign closing agreements on something that is, in my opinion, circumventing the Vinson-Trammell Act and especially in view of the fact that we have got this record before us here of the Nye Munitions Committee. If we weren't circumventing it, I think we would be on a lot safer ground to take this thing before the Congress and get statutory authority to do this thing before you do it on the Vinson-Trammell Act or advise the President to do it on the Vinson-Trammell Act. Then we would be acting, even if we had statutory authority - I don't think we have that authority but I would like them to talk on that, because that is a legal question I am not capable of talking about.

Foley: Well, Mr. Secretary, the seriousness of the problem is borne out by the fact that the Bureau of Internal

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Revenue was investigated by Congress after the last war in connection with write-offs and depreciations and the treatment of war facilities. That investigation was conducted by Senator Couzens, who was the Chairman of the Committee, and their recommendation, briefly, is this: "The war facilities which a taxpayer elects to retain in use can have no different status than any other facilities. As to all facilities, he takes the risk incident to the business of recovering their value through annual deductions for depreciation. Residual undepriciated value remains. When the use of such facilities is abandoned, the residue is taken as a loss of useful value. No deduction of a capital loss should be permitted until it can be computed with reasonable certainty. To attempt to say now that a taxpayer will not recover through operation the value of the facility he elects to retain in use and to attempt to compute the resulting loss involves nothing more than sheer speculation."

Now, that report was signed by Couzens and King and the Senator from Washington, Jones. There was a dissent by Watson of Indiana and Ernst from Kentucky, but it was not a contribution of the conclusions reached here, but they say the subject of amortization is now a dead one. No such provision is contained in the current revenue law and the last year affected by the deduction is the year 1920. But they didn't quarrel with the principle and that is why I say that using the closing agreement in connection with capital structures is a matter that is terribly dangerous. We haven't done it so far; we have limited it to matters where we were certain now on facts supplied to us and on the basis of facts which we agree with, that the depreciation allowances that we have set forth in the closing agreements will be realized.

We are giving the taxpayer only what he would be entitled to at the conclusion of the contract. As long as we stick in those bounds, stay in those bounds, I don't think we are in danger, but when we get into the sphere of sheer speculation, we are headed for trouble.

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H.M.Jr: Then the thing gets down to, who the hell wants to recommend that we should fly in the face of this Senator from Michigan, Couzens. Do you?

Helvering: No.

H.M.Jr: I don't.

Foley: There isn't anybody in the Bureau....

H.M.Jr: Do you, Johnny?

Hanes: Well, I don't feel quite as strongly about Senator Couzens' report as some of the rest of you do. If I knew I was on safe ground, it wouldn't frighten me, and I think on Sullivan's scheme we would be on perfectly safe ground, that allowing the write-off only to the extent of the absolute proved uselessness or usefulness of the property sought to be depreciated, and if that extended over five years or three years or ten years, whatever that decision was, I would rest on the Bureau's ability to get to the bottom of that fact and be able to substantiate that by accurate evidence. That wouldn't frighten me at all.

Helvering: Let me just say a word about buildings, now. Some of the greatest items in this charge-off have reference to buildings that were constructed for the housing of this machinery and transaction of the business. After a good many years of investigations, we have established a rule and a rate on buildings which run from two percent up to as high as - I think the highest is about seven percent on some permanent buildings and higher than that on temporary buildings.

H.M.Jr: I don't want to shut this off, but I can give a very easy rule to go by. I don't know whether you are through.

Hanes: I am through except for the Vinson-Trammell paragraph here, which I would like to read for the record or I can just put it in the record.

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H.M.Jr: I would like to hear it.

Hanes: "Closing agreements were first used under the Vinson-Trammell Act to furnish certain assurances to contractors and thus induce them to extend their facilities to expedite our rearmament program. It was contemplated that after securing a closing agreement the contractor would be in a better position to bid upon Army and Navy contracts. Attempt has been made to reverse this procedure by a bid conditioned upon our executing a closing agreement embodying terms set forth in the bid. Such a procedure not only defeats the purpose originally intended to be accomplished but, in certain cases, might put the government at a distinct disadvantage. Accordingly we recommend that the cooperation of the War and Navy Departments be solicited in an effort to prohibit bids conditioned upon the execution of a closing agreement,...." which I think is absolutely sound.

Foley: We turned down Consolidated, Mr. Secretary, on their request for a closing agreement and limited it to dies and tools, the things we were sure of. Then they said they weren't interested in that and they submitted a bid to the Navy, conditioned upon our writing off 60 percent of the cost of the new plant installation.

Sullivan: It was done and what we are afraid of is that if that practice continues we are going to be put in a very uncomfortable position.

H.M.Jr: Just to show how easy it is, Mr. Edison has a letter on his desk this morning from Louie Johnson which he wanted Edison to sign, recommending to me that we ask Congress for 90 million dollars for strategic materials. He said, "Now, Mr. Morgenthau, I don't want to write that letter if it is going to be embarrassing to you. If you say it is, I won't write it." I said, "No, I don't say I am for 90 million, but ask for 90 and maybe you will get 25. It won't embarrass me." He said, "Fine, I will sign it." All I have got to do is call up Charlie Edison and say, "For Christ's sake, lay off."

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Sullivan: Excuse me, Mr. Secretary, but I don't think it is going to be that easy, because they already have six million dollars that they are not touching that could have been used on Consolidated.

Hanes: Could they use that?

Sullivan: Yes, they already have that.

H.M.Jr: After all, up to this time, we have no fixed policy, but once you fellows and myself agree on a policy, all I have got to do is to tell Charlie Edison and he will lay off.

Sullivan: It was a definitely fixed policy, I think, that the Navy was to certify the necessity of these additional facilities and as yet they haven't done that.

H.M.Jr: Well, that is Charlie Edison. If I ask him to lay off this and do it the other way around, I will gamble three to one that he will do it. I mean he will if we have a policy. If he, at this stage, came back and said, "What is your policy," I wouldn't be able to tell him. But if we once have a policy and told him, I am sure he would stop it.

Foley: Here is a letter to him asking him to stop it.

H.M.Jr: This is important and you fellows had weeks to think about this....

Hanes: I think we want to go slowly. I am a little bit against sending a letter. I would rather hand it to him than send it to him, and I was going to suggest that we ask Louis Johnson and Edison sometime to sit down with us and discuss this thing and tell them how we are thinking and tell them what the policy is going to be, so far as we would like it, what the Bureau has said and what the Counsel advises, and what our policy ought to be here, and then try to iron that thing out before we handle that letter. I would rather hand it to him.

Foley: The only thing I am afraid of, John, is that they may sign that contract.

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Hanes: They promised me they wouldn't sign it and I promise you that Consolidated won't sign it either unless they get some kind of a closing agreement, so I don't think there is any danger.

H.M.Jr: Are you through reading?

Hanes: No, I have got one more sentence to read. I stopped in the middle of a sentence.

"Accordingly we recommend that the cooperation of the War and Navy Departments be solicited in an effort to prohibit bids conditioned upon the execution of a closing agreement, and that we be authorized to adopt the policy of refusing to execute a closing agreement relating to a War or Navy Department contract after that contract has been executed. We further recommend that it be emphasized to the War and Navy Departments that their certifications as to the necessity of special facilities and to the partial or total uselessness of said facilities after completion of the contract are indispensable steps in the procedure of negotiating such a closing agreement."

I am entirely in accord with all of that paragraph.

H.M.Jr: That is what my understanding was, which goes back before I went to Europe.

Sullivan: In the first instance, when we started negotiating with Consolidated, they sent us the vaguest kind of a certification that meant nothing and then after they made a conditional bid and one of their men talked to Mr. Reiling and indicated that they had no intention of certifying the necessity of these additions.

Hanes: I think, Mr. Secretary, that the trouble has been - I don't blame Mr. Edison for this in the least bit, because I think the trouble has been down below. The Navy is in difficulty on this 200 boats. They can't get anybody but one airplane company to bid on these boats. Consolidated is the only company. They advertised for bids, as I understand it, and

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Consolidated was the only company that made a bid, and they did not make a bid, I am told by the Bureau, in accordance with the law or the rules and regulations of the Comptroller General, who says the conditional basis may not be accepted, so the bid was not according, as you told me, to the regulations of the Comptroller General. However, they are now in the process of trying to negotiate with Consolidated to take this order on some basis and it is there where we are stymied at the moment because they won't take the order unless they can get some kind of a closing agreement.

H.M.Jr: Johnny, let me just forget Consolidated for a minute and go back to this original arrangement of July, I think, or August, that we wouldn't do anything unless the Army and Navy went out on the end of the limb first. Now, I don't see any reason to change our position. Just let's not think of any particular contract for the minute. What you people here have told me makes me doubt the wisdom of - let's call it last August.

Foley: We are safe, Mr. Secretary, because it is qualified by the fact that we have to agree with the position that they take. They have to take that position and we have to agree that it is a tenable one.

H.M.Jr: What I was going to say is this, if I had never agreed to this - and of course they have never lived up to it, so I could change my mind if I wanted to. Have they ever sent us a statement in advance stating what they....

Foley: They have only executed one, and that was the Army, and we are all right.

Helvering: We can stand on that one, too.

H.M.Jr: What I was going to say to you and this Nye Munitions Committee....

Foley:and the Couzens Committee.

H.M.Jr:and the Couzens Committee - I am just thinking out loud. I question whether the United States

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Treasury has any right to treat any manufacturer differently because he happens to be manufacturing munitions than if he is doing peace-time goods. It seems to me that we are flying in the face of the wishes of Congress by giving the fellow a break because he happens to be manufacturing material for war purposes, which leads me to this - I mean whether we were right in what we did, let's say, in the Colt plant....

Poley: We would have done that anywhere, Mr. Secretary. We are not overboard. All I'm afraid of is that we may be pushed overboard.

H.M.Jr: We can't be pushed overboard, because in the first place, our agreement is an absolute sound one which, in giving these closing agreements, you are not giving anything they would not be entitled to in the normal process of the law, not munitions or anything.

That leads me to this question: Why, if they are going to give a manufacturer the same kind of treatment, no matter what the ultimate use of the merchandise is, why do we need the Army and Navy to certify in advance?

Sullivan: That was the understanding in the press release. That is what we have been working on.

H.M.Jr: But after all, I have been wrong before - one of the big forward steps we took here since I came was that a man could come in with a contract and get an understanding. That is one of the big things we have done. We don't want to abuse that. That is something which I like to boast about. I think it is a real thing, so the fellow doesn't know four or five years from now that somebody is going to come in and say so-and-so, "You owe us so much money."

Now, I think that is a good principle. If a fellow is manufacturing flying boats or clippers to carry mail, why the hell do we need anybody to certify to us what to do? Let's say this is April, last April, and we were doing it all over again. I am frank to say, when I listened

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to this thing before, no one had brought to my attention the Nye Committee and the Couzens Committee. This is the first time I have heard of them. When I get all through, I have got a constructive suggestion, but I am going to hold that to the last. It has nothing to do with the Internal Revenue Bureau.

Sullivan: If you are considering changing your position, I think it might be well for you to recall that your correspondence with the Navy was in regard to armor plate, and it was after that correspondence and you made the agreement that six million dollars was set aside as their funds to handle this very thing.

H.M.Jr: Now, wait a minute. They came to us and said - somebody check me on this - that we were admittedly at least one year behind on this schedule on these six big battleships and this was of tremendous importance and could we help them out. We said we could and we laid down this principle. They didn't trust us and had two strings to their bow, so they got six million dollars from Congress for the specific purpose of giving it to Bethlehem and these other companies. They never used it. I don't know whether it is the Navy's fault or Bethlehem's fault.

Foley: They never got closing agreements, either, Mr. Secretary.

H.M.Jr: As far as we are concerned, we could say, "Hell, you don't need this device because if you are a year behind...." I didn't want them to say, "It is those so-and-sos, Internal Revenue, which is responsible for the Navy being behind," and God damn it, they've got six million dollars which they can use for that purpose and they don't need the closing agreements. Is that right?

Sullivan: That is correct, sir, although they are now pressing us - the Navy Department is now pressing us for a closing agreement in the Midvale case, which is to take care of this very thing.

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H.M.Jr: I would like to ask Mr. Hanes if this would be agreeable to him. I don't want to do anything in a hurry, because this has been hanging fire for a day or two, anyway. Let's consider that we have no agreement with anybody, Army or Navy. Let's take a fresh look at this thing in view of these two things, and we have no agreement, and what is a fair and just way to proceed toward all types of manufacturers, irrespective of what they manufacture or irrespective of what its use will be, and then say, "This is what we are going to do," and say, "Mr. President, we think that this is fair and equitable and just to everybody and this is our position." Then period, paragraph, page.

"Now, Mr. President, if you want to get Consolidated boats for the Navy or this or that or extra airplanes, why don't you use your six million dollars and when that is gone, get another six million dollars and do it direct?"

Foley: Right.

Sullivan: Amen!

H.M.Jr: And do it direct.

Foley: Right.

H.M.Jr: Now, let the Government build a factory alongside of Pratt and Whitney if they need new engines and lease it to them at a fair price, and then let Pratt and Whitney use it. It belongs to the Government. When it is through, there is no question. Or, build it alongside of the Wright Company, but let us go and ask for the money for that specific purpose out of these two billion dollars. Certainly, 25 or 50 million dollars for a plant wouldn't be anything. Put it right alongside - but have that money for express purposes of plant expansion and let the Government build it, or do it on some basis, but not do it through a devious way which would put you and me and Helvering and the rest of us with our backs to the wall, defending why we permit munitions makers to make excess profits. To hell with them! We have offered to do this thing

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for four months and they wouldn't play ball with us. Now, Congress is only 30 days off. They can wait 30 days. In the meantime, the Navy has got six million dollars.

Foley: For armor plate, Mr. Secretary.

Hanes: I think that is limited to armor plate.

H.M.Jr: What do you think, Johnny, of what I am saying, because you and I and Helvering have got to defend it?

Hanes: That is the reason we are taking so much time in here. You remember I said at the outset, whatever we do - I have said right straight along that I would not be happy about it unless we could sell this thing to the appropriation committees of Congress, lay the whole thing out on the table for them, and if we require statutory authority we should ask Congress frankly and openly for it before we do it. I think if you can't sell the thing before you do it....

H.M.Jr: You can't sell it to me.

Hanes:you certainly can't sell it when they go to investigate you.

H.M.Jr: Not to be obstructive, I am perfectly willing to go with the Army and Navy if they need us, to ask for the money for the express purpose of doing an express job, not to do it through the depreciation route. What is the matter if the Government wants to build a \$500,000 factory alongside of Pratt and Whitney and rent it to them at a dollar a year?

Hanes: I can't see anything wrong with it.

H.M.Jr: The English have done that.

Hanes: Yes, the British Government put out airplane plants by their automobile plants.

Foley: Here is a letter from Senator Tobey of New Hampshire on this very thing, which you might want to read.

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H.M.Jr: You fellows today have just completely unsold me on what I agreed to last July.

Hanes: You are perfectly safe on what you agreed to. I don't think....

Foley: What has been done as a result of that agreement has not placed us in jeopardy here, but what I am afraid of is that the extension of that policy of cooperation with the Navy and Army will involve the Bureau of Internal Revenue in another investigation and I don't think we want to be put in that position.

Helvering: The Bureau of Internal Revenue cannot take a building put up by a factory that we know has a life of 20 years and allow - I think they asked 60 percent, didn't they?

H.M.Jr: Yes.

Gentlemen, how many days would it take you to come back along the line - just reconsidering this whole thing? Let's have another meeting.

Foley: It won't take long. We can have another meeting whenever you say, next week, Monday.

H.M.Jr: If it physically possible, I would like to have it before that, before Mr. Hanes leaves.

Foley: Friday?

Hanes: I think it would be feasible between now and Friday to sit down amongst ourselves and write one, two, three, four, five specific recommendations as to how we ought to proceed here and bring it in and let you take a shot at it.

H.M.Jr: I would like to do it while Mr. Hanes is still here.

Hanes: Do you think it is possible?

Foley: Sure it is possible.

H.M.Jr: Just the fact that we have done something, don't let that bother you.

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Sullivan: We haven't done anything we wouldn't be willing to do for any manufacturer.

Helvering: We have done no more for Colt than we would do for anybody else.

Foley: And if the Navy signs that contract....

H.M.Jr: Mr. Hanes says he is taking responsibility that they won't sign it on the basis of this.

Hanes: I am taking their word for it that they won't sign it. I called them up and asked them not to sign it, because the Bureau boys were afraid....

Sullivan: That is why we were anxious that this letter go on.

H.M.Jr: Does the letter go particularly to Consolidated?

Hanes: No, to the Secretary of the Navy.

Foley: Just to Consolidated, that is all it discusses.

H.M.Jr: I thought Hanes said he didn't want me to sign it.

Foley: I would like to make a record of it.

Hanes: I said I would prefer to hand it to him.

H.M.Jr: May I read the letter?

Hanes: Yes.

Foley: You could sign it and Mr. Hanes could give it to him, personally.

H.M.Jr: That is all right. Just let me read it.

I think this letter is all right. If you want to hand it to him, I don't care.

Hanes: As long as we are going to have this other meeting, let it go ahead. We will have another meeting before Friday and then we may be able to get hold of Johnson and talk to him.

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H.M.Jr: I think it is a good letter and in view of this discussion I think for the record it ought to go. You (Hilvering) and Hanes have got to go up and defend this. You may be glad to have this letter.

Sullivan: The extension which they have gotten off the previous basis is well illustrated by this letter.

H.M.Jr: I have signed it. How does it go out?

Foley: I will give it to Mrs. Klotz.

Sullivan: The Navy drafted a contract with Consolidated with an express provision that in addition to the purchase price of the planes they will pay Consolidated their state and municipal taxes in California.

Hanes: California is a funny state. You know, they have got an inventory situation out there where they tax you on the inventory on the floor, one or two or three percent. It is a whale of a tax they put on the manufacturer out there.

H.M.Jr: They had better move to North Carolina.

Hanes: That is what I was suggesting.

NOV 29 1939

Sir:

By letter of September 19, 1939, addressed to the Commissioner of Internal Revenue, the Consolidated Aircraft Corporation, San Diego, California, made a request that this Department enter into a closing agreement relative to the method of handling expenditures for additional facilities, in the event that it should be the successful bidder on a contract for patrol bombers for the Navy Department. Under date of October 16, 1939, there was forwarded to the Consolidated Aircraft Corporation a closing agreement prepared in the form necessary for submission. A copy of this closing agreement, so I am informed, was informally transmitted to the Navy Department. In making application for the closing agreement the contractor estimated that the expenditures for additional facilities would amount to \$1,200,000. Under the closing agreement as forwarded to the contractor, it was provided that the contractor would be allowed to charge off during the performance of the contract (1) certain of the expenditures and (2) any other portion of the assets which had no further use to the contractor upon completion of the contract. This agreement was rejected as evidenced by the fact that it was not executed by the contractor and no further negotiations were had with respect thereto.

Under date of November 15, 1939, the contractor filed with the Treasury Department a new request for a closing agreement under the conditions specified by it in its bid then on file with the Navy Department, among which was the approval of a specific and substantial charge-off for additional facilities. Such bid was filed with the Navy Department on October 18, 1939, and was conditioned upon the contractor being allowed to charge off against cost of performing the contract 86-2/3 percent of the cost of such facilities (estimated at \$2,345,499), such charge-off in no event to exceed \$1,565,325. On October 25, 1939, the contractor, by letter to the Bureau of Supplies and Accounts, Navy Department, changed the conditions to a charge-off of 80 percent (not to exceed \$1,200,000), with the proviso that the Navy Department "make partial payments monthly for such sixty percent (60%)," upon presentation of approved invoices. The new request for a closing agreement under the Vinson-Trammell Act is to allow such 60 percent to be charged off against the cost of performing the contract.

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The request of the contractor for a closing agreement upon such basis cannot be entertained for the reason that the proposal of the contractor does not involve the determination of depreciation or obsolescence. The substance of the proposed contract for bombers is that the Navy Department shall pay 60 percent of the cost of the additional facilities and that payments under the contract shall be made by the Navy Department as the erection and installation of the additional facilities progresses. The portion of such cost thus borne by the Navy Department cannot be the subject of a depreciation or obsolescence deduction to the contractor. The closing agreement procedure as announced by this Department was for the purpose of assuring contractors the treatment for cost purposes to be accorded investments actually made by them in additional facilities. It is believed that the closing agreement procedure and the Vinson-Trammell Act do not permit allowances to be made in the guise of depreciation or obsolescence deductions solely for the purpose of giving effect to purchases by the Government of facilities for the contractor. To do so would open the door to a negation of the Vinson-Trammell Act.

Under the circumstances, the Treasury Department sees neither sound basis nor necessity for negotiating a closing agreement as requested by the contractor.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable,

The Secretary of the Navy,

Washington, D. C.

HTR:haw 11-21-39

November 25, 1939.

Memorandum to Mr. Hanes:

At a conference on Friday, November 24, you requested a memorandum indicating the extent to which closing agreements might be used to expedite the erection of additional plants to further our own national defense program and to make additional equipment available for foreign governments. You also asked us to make suggestions for a revised procedure of joint action by the Treasury, War and Navy Departments.

As a result of conferences which Mr. Lauchlin Currie, Administrative Assistant to the President, attended as an observer and in which C. L. Kedes, John Burrus, H. T. Pelling, C. A. Appel and John L. Sullivan participated, we wish to report as follows:

Closing agreements relating to allowances for depreciation and obsolescence may be executed with contractors installing additional facilities necessary to manufacture armament equipment for the United States Army and Navy and for foreign governments. Such agreements must be predicated on information furnished by the contractor and subject to revision only if actual conditions disclose further usefulness of the facilities beyond their period of useful life as represented by the contractor in his request for the closing agreement, or in the event of a change in the applicable law.

We believe the problem involved in the President's memorandum to you, "to work out a policy of depreciation allowance by which abnormal investment in plant expansion..... will be absorbed over the life of the contracts or during the emergency period", may be more effectively approached by revised regulations relating to obsolescence than by any attempt to extend the functions of a closing agreement, for under the present state of the law the Internal Revenue Bureau cannot give to a taxpayer in a closing agreement any right or privilege he would not enjoy eventually as a matter of law.

However, -- as previously in the case of breweries and distilleries closed as a result of the Eighteenth Amendment, -- we are here confronted with the problem of allowing a substantial deduction for physical assets still in good condition but of little or no useful

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value after the present emergency has terminated, this loss of useful value caused by the sudden and abrupt cessation of demand for the particular product. We presume that many of these additional facilities may be worthless when world peace is restored and that almost all of them may be of greatly reduced useful value. We do not know and only time can tell when and to what extent their useful value will be destroyed. We recommend consideration of a revision of the applicable regulations to the end that for purposes of returns under both the Vinson-Trammell Act and the income tax law these abnormal investments may be more equitably amortized. While this suggestion may conflict with one of the recommendations of the Nye Committee it seems to be the only approach toward a solution of the problem that is feasible at this time in the absence of specific legislative enactment.

Closing agreements were first used under the Vinson-Trammell Act to furnish certain assurances to contractors and thus induce them to extend their facilities to expedite our rearmament program. It was contemplated that after securing a closing agreement the contractor would be in a better position to bid upon Army and Navy contracts. Attempt has been made to reverse this procedure by a bid conditioned upon our executing a closing agreement embodying terms set forth in the bid. Such a procedure not only defeats the purpose originally intended to be accomplished but, in certain cases, might put the government at a distinct disadvantage. Accordingly we recommend that the cooperation of the War and Navy Departments be solicited in an effort to prohibit bids conditioned upon the execution of a closing agreement, and that we be authorized to adopt the policy of refusing to execute a closing agreement relating to a War or Navy Department contract after that contract has been executed. We further recommend that it be emphasized to the War and Navy Departments that their certifications as to the necessity of special facilities and to the partial or total uselessness of said facilities after completion of the contract are indispensable steps in the procedure of negotiating such a closing agreement.

(Signed) John L. Sullivan

Acting Commissioner.

November 29, 1939

3 p. m.

Present:

Mr. Purvis
Col. Greenley
Major Davis
Mr. Chalkley
Mr. Pinsent
Capt. Collins
Mr. Cochran
Mr. Butterworth
Mrs. Klotz

HM,Jr: I am overwhelmed!

Mr. Chalkley: We are rather numerous.

HM,Jr: You (Col. Greenley) usually shepherd these people in.

Col. Greenley: The first thing I would like to have Mr. Purvis and Mr. Pinsent to have a word on the arrangements we have made with the Federal Reserve Bank, because Mr. Purvis has had opportunity to see Governor Harrison and I think that situation is very satisfactory now.

Mr. Purvis: I think we have cleared that up.

HM,Jr: I have not heard what happened.

Mr. Purvis: What happened, there was telephone communication with the Bank of England yesterday, and subject to approval of certain individuals' signatures, the Bank of England will open an account with the Federal Reserve Bank upon which members of the British Purchasing Commission and Central Board of the Purchasing Commission can check. It will be a Federal Reserve Bank account with the Bank of England. Governor Harrison made rather a specific point of the desirability

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from the Federal Reserve Bank's view to have the Bank of England account on the books and it will be the Bank of England account on the books. Final certification of the checks has not come through, but it went very well yesterday afternoon, and except for that final approval we are in the clear.

So I think we are entirely clear now on that and we are rather relieved because there are some shipments that have got to be made, so that with the new title difficulties it is very important we have the account settled satisfactorily in so far as power from the other end is concerned. There will be some difficulties in carrying the goods to the boats, which are physical difficulties. I don't think they will be, in any way, insuperable. I think we shall be able to find our way through after short effort.

HM, Jr.: Will that mean all of your money for the purchases will be with the Federal Reserve Bank?

Col. Greenley: Insofar as are activities are concerned. There is a small account, of an administrative nature, of \$10,000, in the building, in the Chase National Bank because the Bank is in the building, just a drawing account for odds and ends.

HM, Jr.: Mr. Aldrich has to live, I understand.

Mr. Purvis: I don't think he's going to get very far on that. I understand he's complaining; says he must live.

I am awfully glad, because we were kind of disturbed. You see, last week, as you gentlemen know, the arrangements were made with these two gentlemen that came down that they were going to recommend to your Government that they publish a list of some 60-odd securities as of last Sunday, and then it wasn't done. Instead of which, your Government sold us \$50,000,000 gold. It may have been just a coincident, but there are these tremendous transactions involving how much over two or three days?

Mr. Cochran: Over \$100,000,000.

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HM, Jr: Explain to them what happened.

Mr. Cochran: Those are the figures we have had from New York and we assumed they were probably closing out forward dollars contracts and you people, to replenish your account here in New York, brought down \$50,000,000 from Canada the same day we had word of the other arrangements on securities.

HM, Jr: If you don't mind my saying -- if I say it, it is in a friendly attitude.....

Mr. Purvis: Yes.

HM, Jr: it's transactions like that -- I know that you (Pinsent) did not know about it, and if the British Embassy is not informed and it is a transaction involving a hundred million dollars and it is just at the time that representatives of your Government are recommending they start selling securities, and I am in the position, well, as far as we know, and then they don't do it and then they suddenly sell us \$50,000,000 gold, and if the Embassy is not advised, if I wanted to take an unfriendly attitude it would be very easy it give it that kind of interpretation.

Col. Greenley: Right. Right.

HM, Jr: And I don't think it is unreasonable, when it is as large as that, that somebody in the Embassy know about it so we can know about it and get some kind of an explanation.

Mr. Pinsent: We had no knowledge of it.

HM, Jr: It's really a large transaction and the thing coming like that, and I can say in the room it's sort of ridiculous that we have to tell the Financial Attache of the British Government about it and then, as I say, your people, Mr. Wigham, being turned down by his Government and then getting \$50,000,000 on top of it, the whole thing could be given a sort of unfriendly interpretation, which I don't want to do.

Col. Greenley: Quite! Quite!

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HM,Jr: I know you are at war and are getting coordinated and have to have time, and I have every desire to be patient and cooperative, but if I could just throw out for them to sort of tie those things in, say a day or two in advance, it would be helpful because I might have been out on a limb with my President and said "This is what is going to happen Saturday and Sunday," and then I have to run around there Monday and say "I am sorry, Sir. I was wrong. Instead of selling securities, we bought \$50,000,000 worth of gold."

Col. Greenley: Yes. Of course you do understand, Mr. Morgenthau, that is outside our scope here and that we will try to bring some pressure to bear to straighten that out.

HM,Jr: I am using this opportunity

Col. Greenley: I appreciate that.

HM,Jr: to give you some of my troubles. Somewhere, somehow, I think it could be a little better coordinated. I don't know to whom I should address myself. I don't want to make a formal statement to Sir John Simon; don't want to do that.

Mr. Pinsent: It's the general problem of coordination that is calling difficulties at this time.

HM,Jr: Should I address myself to Sir John Simon?

Col. Greenley: Not at this stage. If you will allow me to take it up with the Treasury representative over here, Mr. Osborne, have a talk with him, and I can straighten it out on that basis.

HM,Jr: That makes it less informal.

Mr. Purvis: It was he who helped us yesterday telephone across.

Col. Greenley: Was there anything else on the financial angle?

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HM,Jr: Have you (Cochran) anything?

Mr. Cochran: Not on the Bank angle.

HM,Jr: That's all? Butterworth?

Mr. Butterworth: No, sir.

Col. Greenley: The next point, I think, is the question of coordination of purchases between the British and the French Governments and the arrangements that are being made to bring that about. I had the opportunity, night before last, of a long talk with Mr. Purvis and Mr. Bloch Laine and we covered a great deal of ground on that and of course there is a message through from the French Government on this question of coordination. There is the acceptance by Mons. Bloch Laine of the Vice Chairman of the Coordinating Committee of which Mr. Purvis will be Chairman and we can see no difficulty at all in working that entirely satisfactorily and without any difficulty or hitch. Mons. Bloch Laine is naturally very keen and anxious to cooperate and we, I need hardly say, are equally anxious to cooperate and we don't see that that will present any difficulties. That is undoubtedly a step forward. I think it would be right perhaps to say that whereas the French arrangements would appear to be a little more tightly knit together than ours at the moment in regard to all purchases, we are endeavoring to try and straighten that out as rapidly as we can, but our system of purchase in Great Britain at the moment of certain commodities is rather different than that arranged by the French. That is, we are still dealing with certain commodities, notably raw materials and the like, through the Comptrollers of those various materials at home and not directly through the Mission. But purchasing of all matters concerned with armament, either air or naval or military, is in fact coming through or will be coming through Mr. Purvis' purchasing commission in the United States.

HM,Jr: You know what's happened. I don't know whether you have been told, but I always think it is the best policy to be entirely frank.

Col. Greenley: I entirely agree.

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HM, Jr.: And this cable came in from Ambassador Bullitt on Sunday to the State Department saying -- do you know this story?

Mr. Purvis: No.

HM, Jr.: Well, you had better know it. Saying that the British Ambassador in Washington and the French Ambassador in Washington would ask me for an appointment to see Mr. Purvis, if I was going to be in my office on the 28th. Would I be in my office on the 28th? The answer was yes, but I did not know that I was so difficult to see and I am sure that Mr. Purvis did not feel that I was so difficult and I almost called him up to say I appreciated the compliment, but you embarrassed me with all these Ambassadors! As a matter of fact, I am delighted to see you gentlemen at any time, but since the embargo has lifted -- I think I explained it to you (Mr. Pinsent) -- that I asked the President to release me of, as I explained it, as the pinch hitter. And he has.

Mr. Pinsent: Yes.

HM, Jr.: And I am no longer doing that for him and hope that I won't have to, because it is very important work and I think it will take the full time of whoever he designates to do that for him.

Col. Greenley: Quitel

HM, Jr.: But I did not want to seem rude and when this cable, of course the only answer was of course I would be glad to see you, but I don't want today to be sailing under false colors, because I am not doing that any more.

Col. Greenley: No. We appreciate that.

HM, Jr.: But, so here we are

Mr. Purvis where do we go from here?

HM, Jr.: Where do we go from here!

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Col. Greenley: We must go some place.

HM, Jr: Well, of course, I can't suggest to you. I don't know. But I suppose with your contacts, I suppose is through your Ambassador with the State Department.

Mr. Pinsent: That's right.

Col. Greenley: I presume so.

HM, Jr: But I have just discontinued that activity for the present.

Col. Greenley: Well, we, of course, in the meantime shall continue to get this coordination together in picking up various threads and building an entity which will work smoothly and without cross-purposes between the French and British and in closest harmony with your Departments here. That will not be difficult to achieve and I think it is quite clear that we shall get Mons. Bloch Laine's keen cooperation in that respect.

Mr. Chalkley: I am sure of it.

Col. Greenley: But that is, in a sense, only of academic interest to you.

HM, Jr: I am interested in my official capacity in seeing what you did do yesterday.

Col. Greenley: Quite!

HM, Jr: And I am still interested in working with Mr. Wigham and Mr. Gifford when they are ready to see me. I was a little disappointed that they did not go ahead last Sunday, as we spent quite a lot of time with them and we cut all the red tape with them and got done for them in two days what normally would take weeks.

Col. Greenley: Yes.

Mr. Pinsent: I was on the phone with Mr. Wigham this morning. He has not yet heard; he's hoping all the time to hear and the possibility of going ahead this next week-end is by no means closed out.

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HM, Jr.: I would like to go on record with you that I told Mr. Wigham and Mr. Gifford that they had my word as to publication of figures of sales. Now I have got to hedge on that and they had better come down here again because the SEC has sort, I am afraid, has changed their position and they gave out a statement this afternoon on it, so I can't make that guarantee unless they see Mr. Frank again.

Mr. Pinsent: I see, Mr. Secretary.

HM, Jr.: Because I am afraid he has changed his position. At least in order to keep my word, I want them to see him again to make sure, because I can't, I am only part of the picture and, therefore, I am, so to speak, putting you on notice that before they do anything they had better come down here and see Mr. Frank and make sure just what SEC's position is on releasing that information. I have not changed my position at all, but I am afraid he has.

Mr. Pinsent: I will let Mr. Wigham know that. He told me that he was not at present planning to come down this week, but in view of that

HM, Jr.: If his Government is going to instruct him that they will publish on Sunday, I think you had better make sure he comes down, on publicity. I am sorry to say that, but I have given my word.

Mr. Pinsent: I understand that. Of course, in actual fact, even if they publish next Sunday the actual process of selling would not commence until

HM, Jr.: But you remember, all day they discussed this thing and sort of floated back and forth and when they left I think they were satisfied, and I was, no publicity except what came out in the Treasury Bulletin, which has a three months' lag. So if they are coming, let me know so I can get Walter Stewart down here in time.

Mr. Pinsent: I will get him on the telephone.

HM, Jr.: Mr. Purvise, I want to assure you you are still -- you still have my -- how shall I say it, anything

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that comes strictly -- any Treasury matters of course I am going to do everything we can to help.

Mr. Chalkley: We think this is a proper explanation why Mons. Daladier was anxious to have Mr. Purvis come to you. He proceeds in this telegram to express his thanks for assistance rendered to France by your Procurement Division -- and that is a Treasury Division -- and the message asks that that assistance shall be extended to the joint organization we have now set up. That is a Treasury Division, isn't it?

HM, Jr.: Yes. And Capt. Collins, here, is Director but I can't do that because I have no such direction from the President.

Col. Greenley: No.

HM, Jr.: You see? We have not been directed by the President to extend that same cooperation to you gentlemen.

Col. Greenley: No. Quite!

HM, Jr.: We have no such instructions.

Mr. Chalkley: Do you suggest, Mr. Secretary, that we should take steps through other channels to secure a continuance of that cooperation?

HM, Jr.: The only suggestion -- and I don't know any other word than the word suggestion -- as I say, is for Lord Lothian to see the President and come to some understanding with him. I don't see how else it can be done.

Col. Greenley: That we will bear well in mind, Mr. Secretary. Actually, of course, the principle, as far as we are concerned, collaboration will be between the two services, between the Army and Navy, because that will represent the principal buying that Mr. Purvis will do, broadly speaking. But I am sure we could act on the suggestions the Secretary has given us in the other direction.

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Mr. Chalkley: We must ask the two Ambassadors. I think their natural channel is the Secretary of State.

Col. Greenley: When we get into very high politics, I get lost because I am only an industrialist, but I am sure it can be done.

HM, Jr.: Oh, yes!

Col. Greenley: Then we are making arrangements with the French Departments for definite statements of what is going on; what is passing; let us know what is placed and future demands and possible future demands and that will be put in operation within the next week or ten days.

HM, Jr.: Fine!

Col. Greenley: That takes a little time to coordinate and we are not fully prepared except on the subject of armament. There we could deal with that, and shall deal with it, next week without any let or hindrance. It will come through the Central Coordinating Board and will really come direct.

Mr. Chalkley: May I ask if Mons. Deladier has communicated with the President?

HM, Jr.: I don't know. My communication was from Mr. Hull.

Mr. Chalkley: We did not appreciate that.

HM, Jr.: I have had nothing from the President. Mr. Hull's office communicated with me.

Mr. Chalkley: I am rather in the dark as to how these things happen so quickly over the week-end. Part of the reason for hurry is because they thought in Paris that Mr. Purvis would be here Monday, but really they were to be in New York Monday.

Mr. Purvis: It was unknown to me. We did not anticipate having the two Ambassadors on your doorstep.

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Col. Greenley: May we tell Mr. Morgenthau how you got your information?

Mr. Purvis: I think it will amuse you -- my first information about the appointment. At 11 o'clock Thursday night -- I have got a portable radio in my room, turned it on, listened to the news and heard "Arthur Purvis has been appointed Chairman," and I picked up the Times and found it true. So it has been a little bit

HM, Jr: These are all difficult times and I guess it is just as well you get your notice by radio.

Col. Greenley: We have no other points, Mr, Secretary.

HM, Jr: Thank you so much.

Col. Greenley: Thank you so much for seeing us.

oOo-oOo

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

45

DATE

November 29, 1939

TO Secretary Morgenthau

FROM Mr. Foley

Re: Status of loans by the New York agency of the Bank of Montreal under the Johnson Act and section 7(a) of the Neutrality Act of 1939.

(1) May the New York agency of the Bank of Montreal legally advance dollars to the British Government collateralized by American securities owned by the British Government or British nationals?

(2) May the New York agency of the Bank of Montreal re-hypothecate the pledged securities with an American bank and thereby obtain dollars?

For the reasons indicated below, it is believed that the Johnson Act and section 7(a) of the Neutrality Act prohibit both transactions.

There is nothing in either statute or in the legislative history to warrant the conclusion that the prohibition on loans and extensions of credits was not intended to apply to loans collateralized by securities having a market value in excess of a loan or credit. Furthermore, in banking and commercial practices it is not unusual for loans or extensions of credit to be thus collateralized, and they are nevertheless considered in the banking and commercial community to be "loans" or "extensions of credit".

The New York branch of the Bank of Montreal is a person within the United States within the meaning of the two statutes. The bank carries on a bank business in New York. In order to carry on such business it has had to submit itself to a considerable extent to the laws of New York (see e.g. sections 180-184, 200-205, inclusive, Book 4, McKinney's Consolidated Laws of New York, Annotated). It is, in a legal sense "present" in New York and hence a "person" in New York. Society Million Athens v. National Bank of Greece, (1937) 2 N.Y. Supp. (2d) 155, aff'd per cur. (App. Div.) 3 N.Y. Supp. (2d) 677.

It appears clear from the two statutes that when Congress used the phrase "any person", it intended at least to cover transactions in the United States by all individuals, corporations, etc., which might be said to be "present in" the United States. Section 2 of the Johnson Act defines "person" to include individuals, partnerships, corporations, or associations other than public corporations. Section 16 of the Neutrality Act provides that the term "person" includes a partnership, company, association, or corporation, as well as a natural person. Neither Act in any way indicates that the phrase "person" as used in the provisions indicated was intended to exclude citizens of other countries or corporations organized under the laws of other countries. On the contrary, an examination of the Neutrality Act indicates that when there was an intention to limit the application of the Act to American citizens or corporations, such intention was

expressly indicated. Thus, for example, sections 3 and 5 of the Act prohibit certain actions by citizens. The term "citizen" is defined in section 16 of the Neutrality Act to include "any individual owing allegiance to the United States, a partnership, company, or association composed in whole or in part of citizens of the United States, and any corporation organized and existing under the laws of the United States."

In view of the foregoing, it would seem clear that the New York agency of the Bank of Montreal is a person present in the United States for the purposes of the two statutes.

Furthermore, even if the New York branch of the Bank of Montreal was not a person present in the United States, the transaction would be prohibited since at least the Johnson Act and probably also the Neutrality Act would prohibit any loans made in the United States regardless of where the persons were present at the time the loans were made. In this connection it is to be noted that the Johnson Act makes it unlawful "within the United States or any place subject to the jurisdiction" thereof for any person to make loans, etc.

I am of the view that neither statute prohibits loans by foreign branches of American banks made with funds deposited abroad in such branches or previously allocated to the branches by the parent banks, since such loans do not involve the withdrawal of funds from the American money markets. If this is the correct view, there is obviously no inconsistency between the position taken with respect to foreign branches of American banks and the New York branch of the Bank of Montreal. Even if the Attorney General were to hold that the foreign unincorporated branches of American banks were persons within the United States within the meaning of the two statutes and that therefore they are prohibited from making any loans to a belligerent, there would be no inconsistency between such view and the position here taken with respect to the New York branch of the Bank of Montreal for two reasons: (1) The statutes prohibit loans made in the United States regardless of where the persons are located, and (2) corporations may be present at more than one place. The mere fact that the foreign branch of an American bank is a person within the United States does not exclude it from being a person within France within the meaning of the French law. It is equally true that the fact that the New York branch of the Bank of Montreal may be a person within Canada for the purpose of certain Canadian laws does not exclude it from being a person within the United States for certain American laws and, as previously indicated, it is a person within the State of New York for the purpose of control by the New York banking authorities and for the purpose of being sued in New York.

If the transaction contemplated in question (1) is illegal, there is probably no need of considering the legality of the transaction envisaged in question (2). However, it may be noted that the statutes not only prohibit loans to a belligerent but to persons acting for or on behalf of a belligerent, and for an American bank to lend dollars to a foreign bank for the purpose of enabling that foreign bank to lend money to a belligerent would seem to be a flagrant evasion of the true intent of the statutes.

E.H. 76

November 29, 1939

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I told Duffield today that I make the suggestion that whenever we make a closing agreement with a concern, we make it public. Duffield said the General Counsel's Office always had had doubts about whether we were permitted to say much about closing agreements on the basis that there might be the same prohibition as on income tax data. I told Duffield we could do it with the permission of the company and that the only one to date is the Colt's FireArms Company. Duffield agreed with me and I said I would like to do it soon.

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

TREASURY DEPARTMENT

CONFIDENTIAL

INTER OFFICE COMMUNICATION

48

DATE November 29, 1939

TO Secretary ~~M~~orgenthau

FROM Mr. Haas

Subject: Current Developments in the High-Grade Securities Markets

SUMMARY

- (1) Government securities gained last week and on Monday and Tuesday of this week (Chart I). Medium-term bonds have been stronger than short-term bonds, but not as strong as long-term issues (Chart II). The new 2 percent Treasury bond opened strong, and is now out of line on the upside as compared with Treasury bonds with a two-year call period (Chart III). The Federal reserve banks now hold only \$29 millions more Government securities than last June before the first series of Treasury bills was allowed to run off (Chart IV). The net reduction in the holdings of Treasury bills by the Federal reserve banks since December 1937 now more than offsets the decrease since that time of \$497 millions in the amount of bills outstanding (Chart V).
- (2) Municipal securities advanced last week for the eighth consecutive week, effecting an almost complete recovery to pre-war levels (Chart VI). High-grade corporate securities made only small gains (Chart I).
- (3) New corporate and municipal issues continued small last week, and were reported to have been very well received. An unusually large corporate financing was undertaken Tuesday of this week, when bonds and debentures of the Public Service Company of Colorado, totaling \$52.5 millions, were offered by an underwriting syndicate. Both issues were very well received.
- (4) The British Chancellor of the Exchequer last week announced the issuance of two new securities to finance the war, a new series of national savings certificates, and an issue of defense bonds. The certificates will be discount issues accruing interest at the rate of 3.1 percent if held to maturity (10 years). The defense bonds will bear interest at 3 percent per annum and will be redeemed at a premium of 1 percent of the principal amount if held until maturity (7 years). The yield on this basis would be 3.1 percent. The security markets in both London and Paris showed very little change last week and during the first two days of this week.

I. United States Securities

Government securities continued to show strength last week, and gained considerably on Monday and Tuesday of this week. The average yield of long-term Treasury bonds declined .03 percent during the week ended last Saturday, to close at 2.40 percent. On Tuesday, November 28, the long-term average stood at 2.35 percent, the lowest average yield since August 31 (Chart I).

Both medium-term and long-term bonds gained last week. Medium-term bonds gained less relative to normal expectation than did long-term bonds, but did fairly well considering the fact that the new issue was expected by the market to have a medium maturity.

On Monday, November 27, all maturities gained, medium-term bonds again doing less well than long bonds. On Tuesday, November 28, however, the gains in medium maturities were about the same as those of long bonds, so that on a relative basis, medium bonds did somewhat better.

The relative movement of different maturities of Treasury securities during the past nine days is shown in the following table:

Average price change				
Week ended	Monday, Nov. 27	Tuesday, Nov. 28	Total	
(In thirty-seconds)				
Notes				
1-3 years	+ 3	+ 1	+ 1	+ 5
3-5 years	+ 2	0	+ 2	+ 4
Bonds				
Under 8 years to call	- 1	+ 1	+ 6	+ 6
8-12 years to call	+ 4	+ 5	+15	+24
12 years and over to call ...	+13	+ 9	+16	+38

It should be observed that the grouping of Treasury bonds is different than in similar tables which have been presented in the past. The change has been made in order to focus attention on the sector of the market in which the new issue was expected to fall.

Secretary Morgenthau - 3

Chart II shows the day by day average price changes of Treasury securities by these special maturity classes, cumulative from November 18, approximately the time when market speculation concerning the terms of the new issue began to center on a medium-term bond. It will be noted that November 24, the day after Thanksgiving, was the only day on which medium-term securities showed real price weakness, and that all other maturity classes were weak on that day also, although the weakness centered on the medium terms.

The new Treasury bond was well received, opening Tuesday morning on a when-issued basis at 101-12/32 bid (unofficial quotation). The price increased regularly during the day, and closed at 101-20/32 bid and 101-24/32 ask. Wednesday morning, it jumped to a two-point premium, when official quotations became available. As of 10:30, it was quoted at 102-1/32 bid to 102-3/32 ask. On this basis, the new issue was out of line on the upside, as compared with Treasury bonds with two-year call periods, as may be seen in Chart III.

The Federal reserve banks permitted another \$28 millions of Treasury bills to run off last week. Monday, November 20, however, was the last day on which they sold any longer-term Government securities, sales of Treasury bonds and guaranteed issues on that day aggregating \$4.1 millions. Total sales of bonds and notes since the first net sales (on November 8) have amounted to approximately \$45 millions.

The Government portfolio of Federal reserve banks is now only \$29 millions higher than it was last June before the first series of Treasury bills was allowed to run off. Since June 21, the holdings of Treasury bills have been reduced by \$400 millions, while the holdings of notes have been increased by \$57 millions and the holdings of bonds by \$372 millions (Chart IV).

The decrease of \$400 millions in the Federal reserve holdings of Treasury bills since June 21, together with the recent increase of \$150 millions in the amount of bills outstanding has provided a total increase of \$550 millions in the market supply. Of this amount, weekly reporting member banks have absorbed only \$291 millions, leaving \$259 millions to be absorbed by "other" holders.

Although the statistics are only available at irregular periods, it appears that the holdings of such "other" holders are currently greater than they have been for some two years, notwithstanding the fact that the outstanding supply of Treasury bills is now considerably lower than it was two years ago.

Secretary Morgenthau - 4

In December 1937, for example, the holdings of "other" holders amounted to \$633 millions, as compared with \$647 millions last week. Commercial banks likewise now hold more Treasury bills than in December 1937, their holdings having increased by two-thirds in the last two months. Accordingly, the reduction of \$497 millions since December 1937 in the amount of bills outstanding has been more than accounted for by decreases in the Federal reserve holdings (Chart V).

II. Other Domestic Securities Markets

Municipal securities have continued very strong, registering an advance last week for the eighth consecutive week. An almost complete recovery to pre-war levels has now been effected. As of last Saturday, the Dow-Jones average of municipal bond yields, which stood at 2.69 percent, had regained about 93 percent of the ground lost between August 14 and September 23. This compares with a recovery in the average of yields on long-term Treasury bonds of about 66 percent of the reaction suffered during the same period. The spread between municipals and long-term Treasury bonds has accordingly narrowed, standing at .29 percent on Saturday, November 25, as compared with .46 percent on September 23, when bond prices were approximately at their war crisis lows (Chart VI).

High-grade corporate securities advanced slightly last week. The Treasury average of the yields of high-grade corporate bonds declined from 2.93 percent on Saturday, November 18, to 2.91 percent last Saturday. On Monday and Tuesday of this week corporates showed little change, closing at 2.90 percent on Tuesday (Chart I). The spread between the yield of long-term Treasury bonds and that of high-grade corporates has been increasing steadily in the last two weeks, as Treasury bonds continued to gain while corporates showed little change.

III. New Corporate and Municipal Financing

Offerings of new securities of over one-year maturity during the week ended November 25 totaled about \$29 millions. This figure included six corporate issues, amounting to \$12.5 millions, and twelve municipal issues aggregating \$16.5 millions. A brisk demand in both the corporate and municipal fields was reported.

A particularly successful issue was a private placement of \$5.7 millions of 2-1/2 percent equipment trust certificates of the Bessemer and Lake Erie Railroad, maturing in from one to ten years. This issue was sold at 104.7, or at an average

yield of 1.6 percent, representing, according to press reports, the lowest yield through competitive bidding on equipment trust certificates since this method of sale was put into force by the Interstate Commerce Commission in 1926.

An unusually large offering was made on Tuesday of this week, when bonds and debentures of the Public Service Company of Colorado, totaling \$52.5 millions, were offered by an underwriting syndicate. The bonds consisted of \$40 millions of 3-1/2's due 1964, priced at 102 to yield 3.38 percent; while the debentures consisted of \$12.5 millions of 4's due 1949 priced at 102 to yield 3.76 percent. The proceeds are to be used for re-financing purposes. Both issues were very well received, and quickly went to a premium over the offering price. The warm welcome given these securities is particularly interesting since the company, a Cities Service subsidiary, is not a first-grade risk.

New financing last week was not confined to security flotations. The Commercial Investment Trust Corporation, following a practice which appears to be playing an important part in the refunding operations of industry, obtained a term loan of \$25 millions from a group of New York banks. The loan bears a rate of 1-3/4 percent and is to run for an average of five years. The proceeds were to be used for refunding part of a total of \$33 millions of outstanding 3 percent debentures due in 1946, held by six insurance companies.

A further strengthening of the credit of the State of California following the defeat of the "Ham and Eggs" plan is evidenced by the fact that the State last week sold \$2.2 millions of short-term warrants on a yield basis of approximately 2.65 percent. This compares with a yield of 3 percent on warrants sold the day after the election, and 4 percent immediately preceding the election.

IV. Foreign Markets

The British Chancellor of the Exchequer last week announced as part of the war financing measures a new issue of national savings certificates to replace the type previously issued. The sales of the new certificates are to be promoted with a nation-wide press and radio campaign.

The purchase price of the new certificates is unchanged at 15s. (about \$3 at current rates of exchange) but interest rates will be slightly higher than on the old series. The

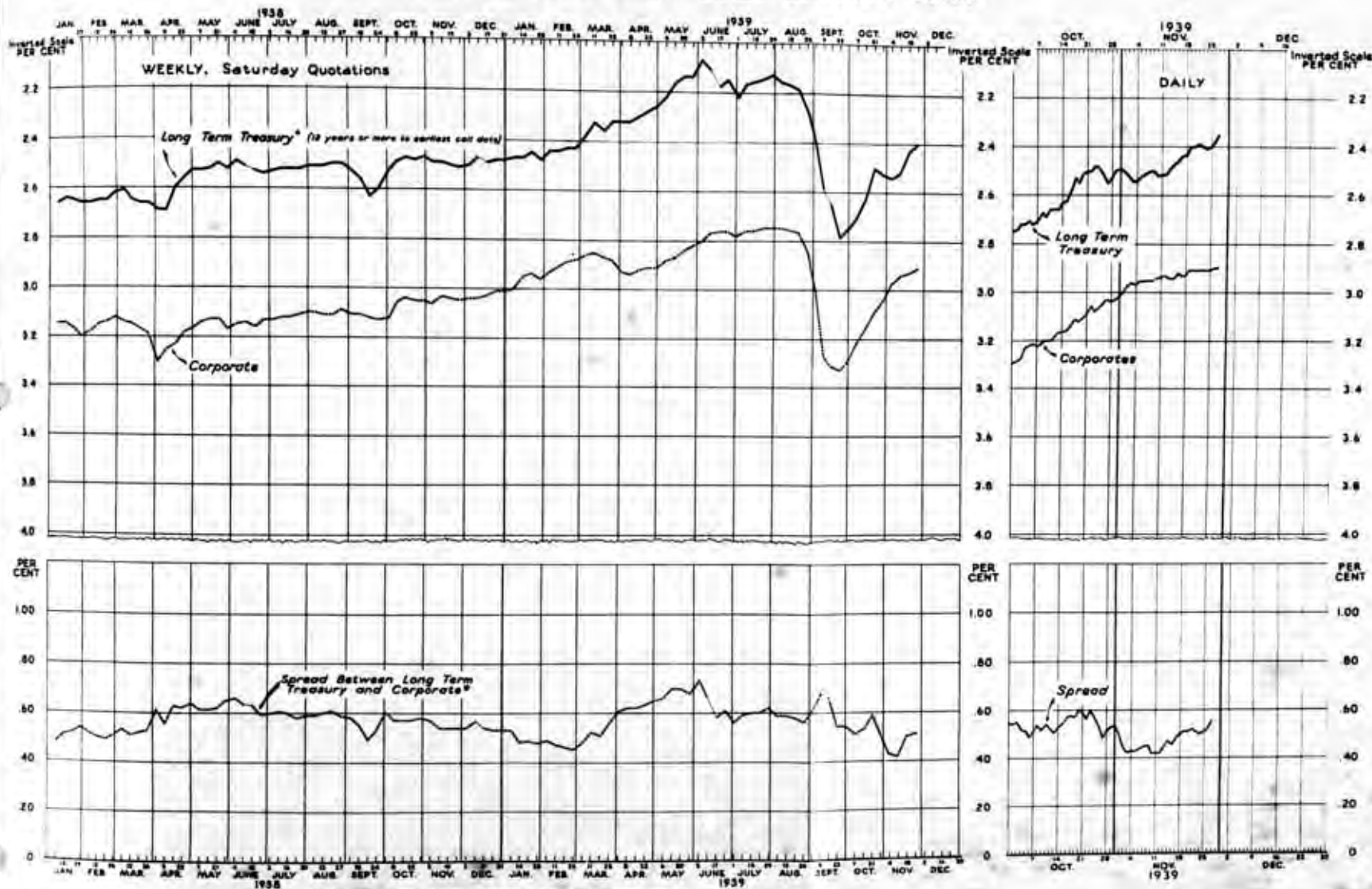
Secretary Morgenthau - 6

new certificates will be redeemable at the end of five years at 17s. 6d. (\$3.50), and after ten years at 20s. 6d. (\$4.10). It is interesting to note that their yield on a ten-year basis (3.1 percent) is only slightly higher than the yield on United States savings bonds (2.9 percent). A yield of 3.1 percent for ten-year money is about in line with the yields on British market securities of comparable maturity.

There also went on sale on November 21 a new type of security known as defense bonds. These will be issued at par in units of L5 (\$20) and will bear interest at 3 percent per annum. If held until maturity (seven years), however, they will be repayable at a premium of 1 percent of the principal amount. On this basis, they too will yield 3.1 percent. Individual holdings of these bonds will be limited to £1,000 (\$4,000).

The Government security markets in both London and Paris showed very little change last week and during the first two days of this week. British 2-1/2 percent consols closed on Tuesday at 68-1/8, to yield 3.70 percent; while French 3 percent perpetual rentes closed at 72, to yield 4.17 percent.

Chart I
COMPARATIVE YIELDS OF AVERAGE OF ALL LONG TERM U S TREASURY
AND AVERAGE OF HIGH GRADE CORPORATE BONDS

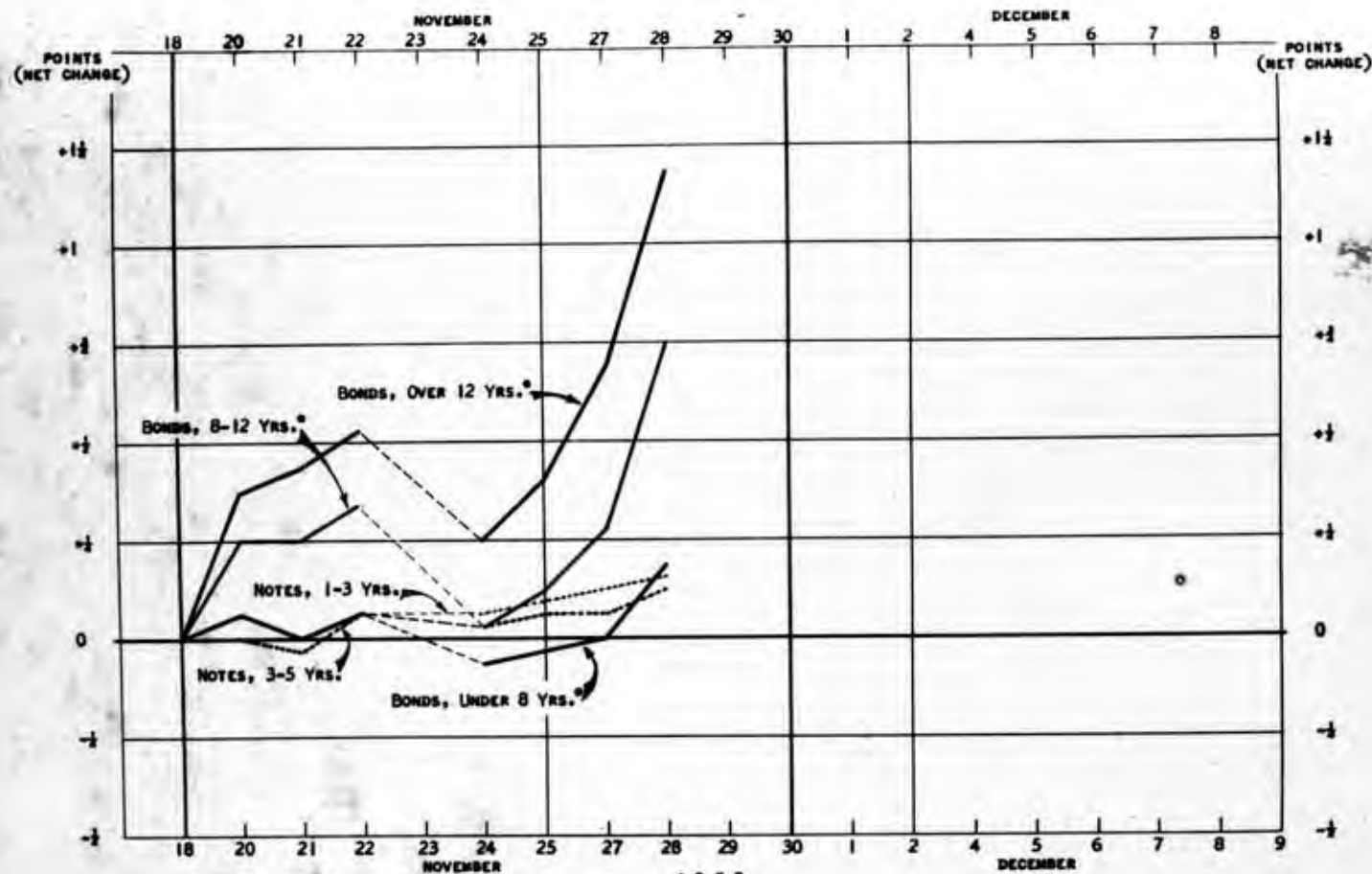


Office of the Secretary of the Treasury
Bureau of Economic and Statistics

*Break in line indicates change in composition of Long Term Treasury average

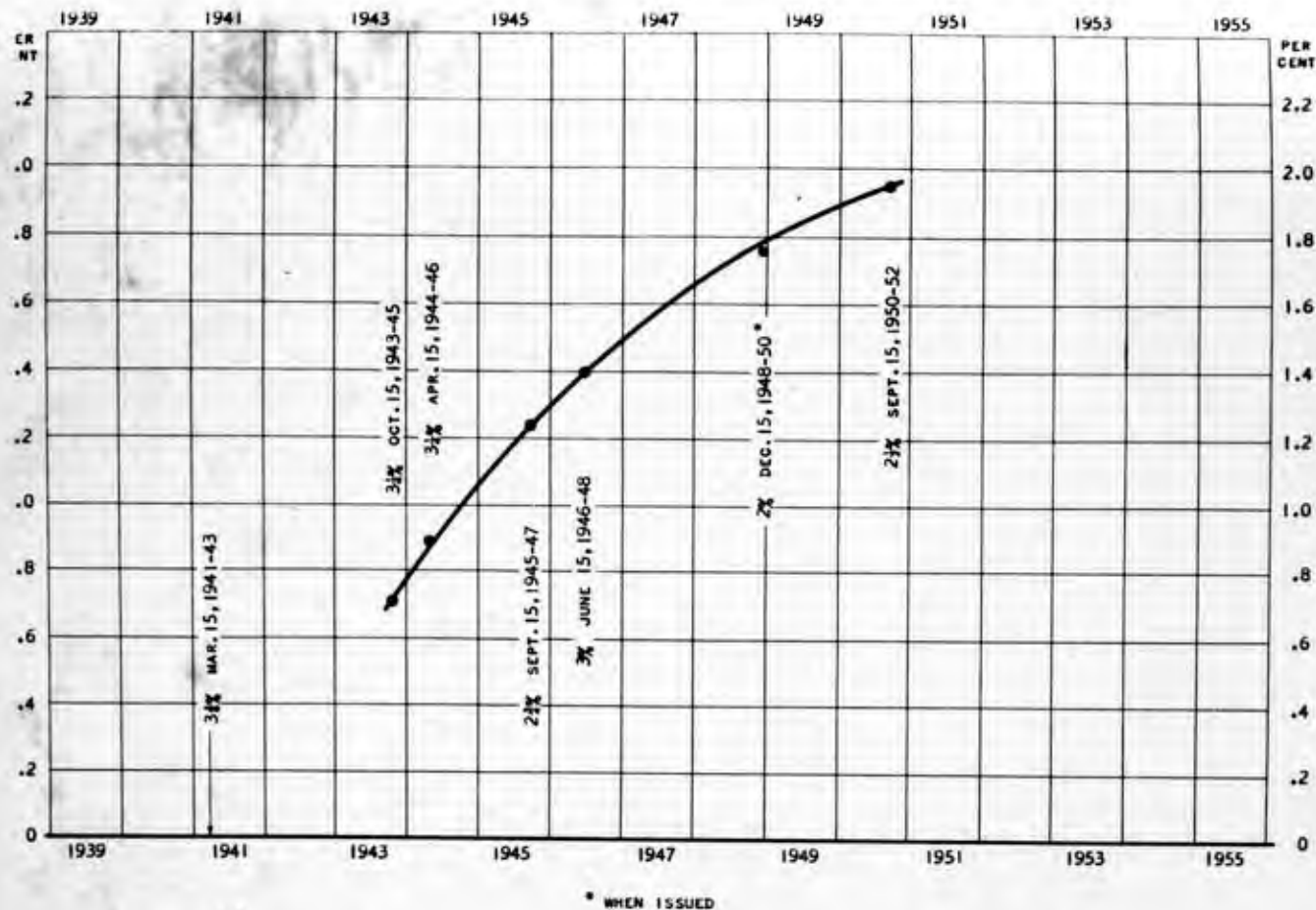
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CHANGES IN THE PRICES OF U.S. SECURITIES SINCE NOV. 18, 1939



* YEARS TO CALL

CHART 11
YIELDS OF TREASURY BONDS WITH A TWO YEAR CALL PERIOD
 Based on 10:30 Bids, Wednesday, November 29, 1939



FEDERAL RESERVE BANK HOLDINGS OF U.S. SECURITIES

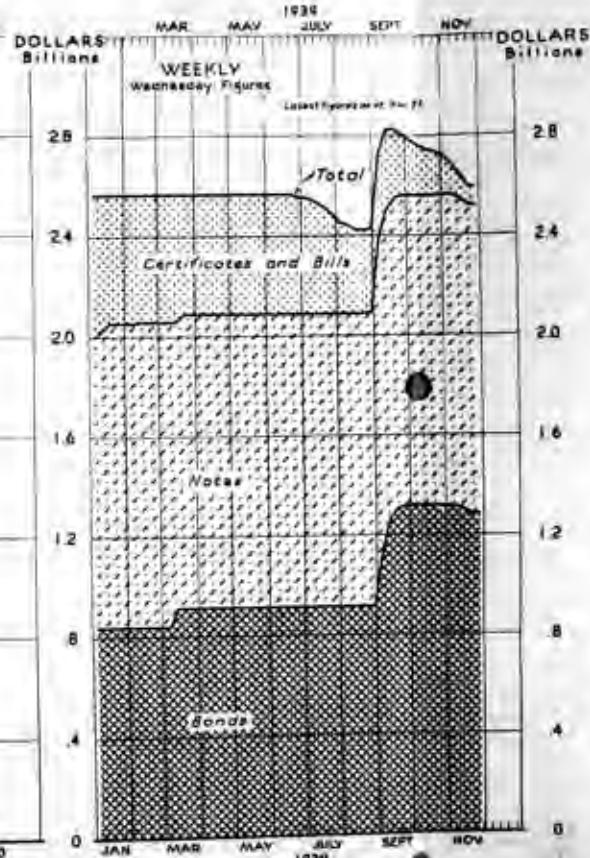
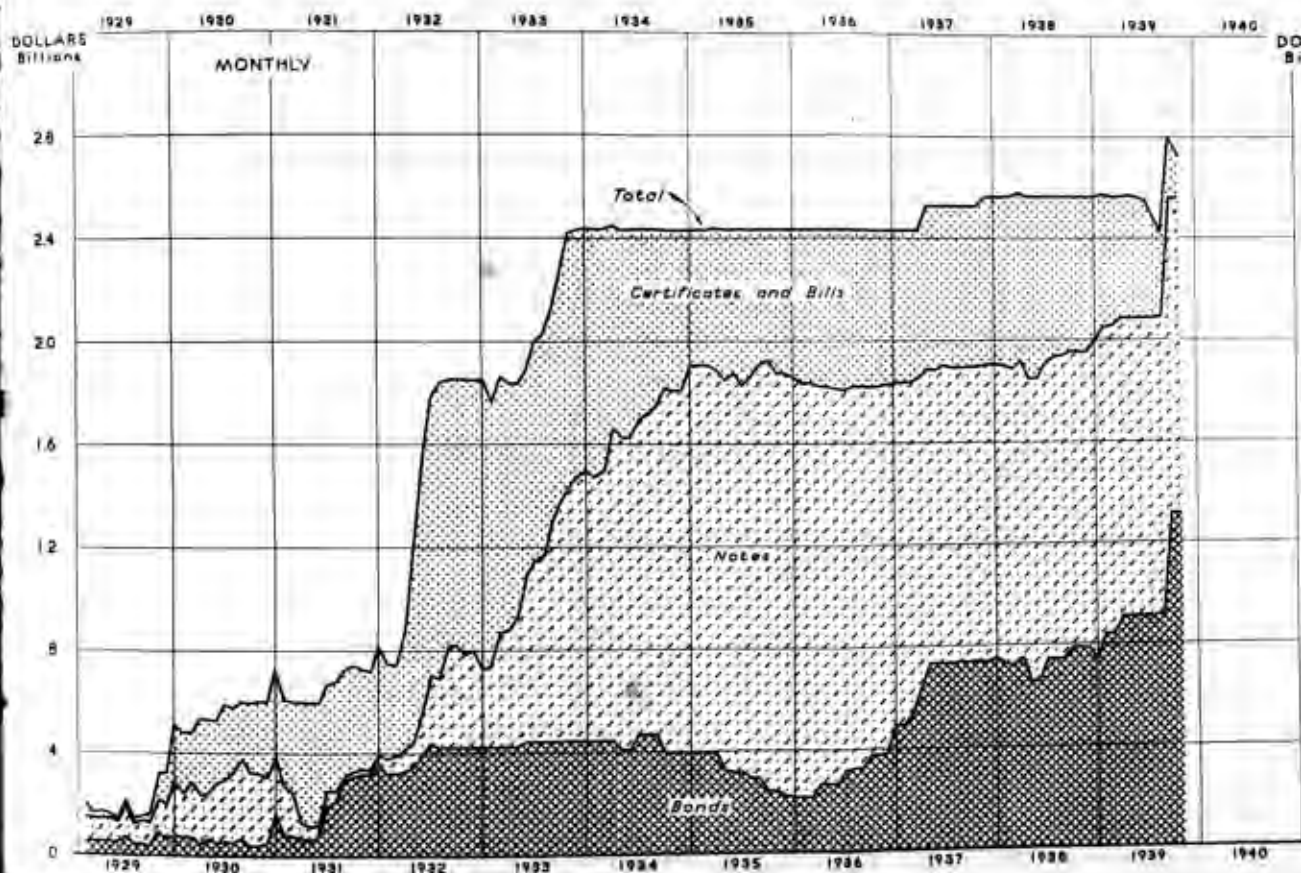
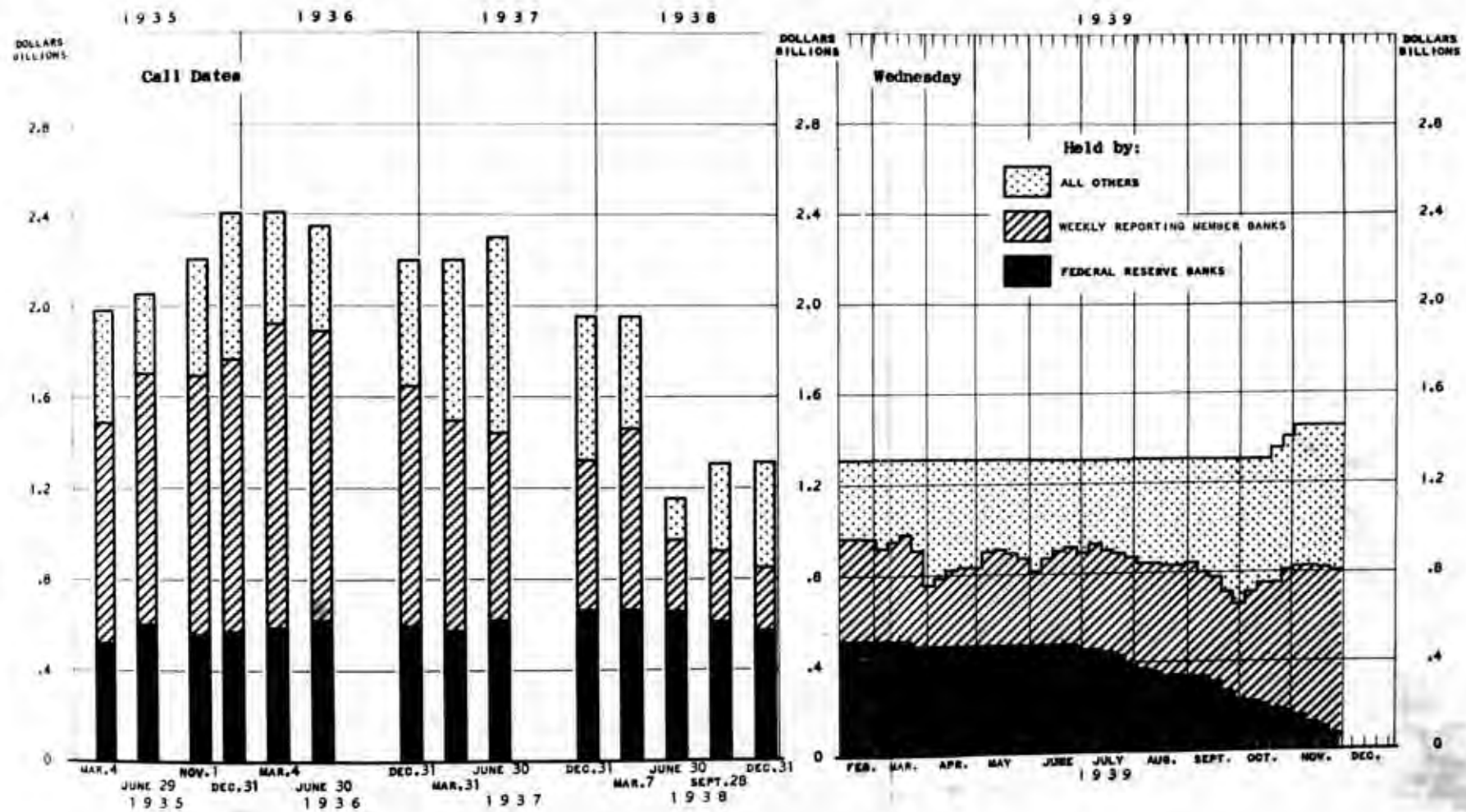


Chart V

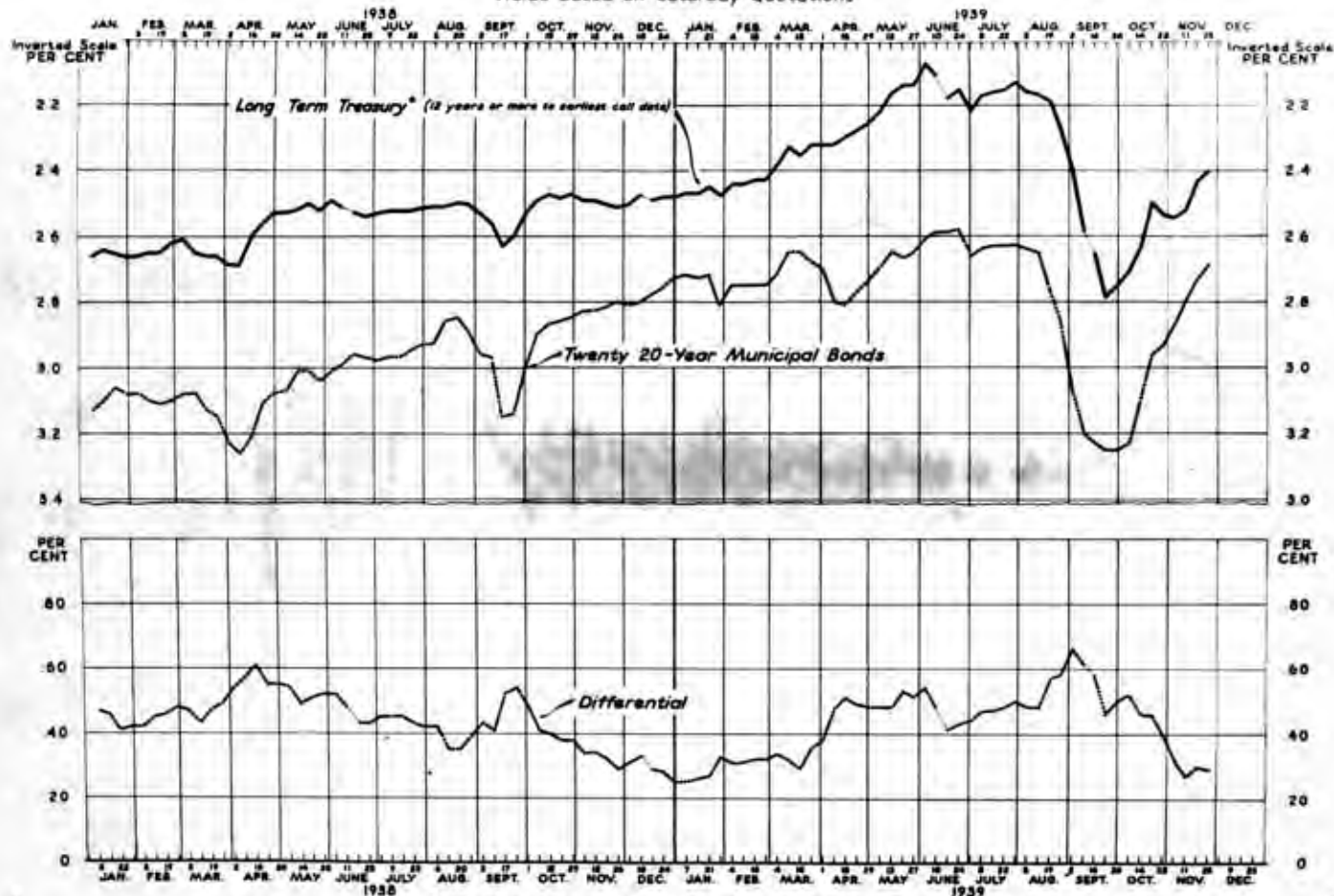
DISTRIBUTION OF OWNERSHIP OF TREASURY BILLS



Office of the Secretary of the Treasury
Division of Accounts and Reporting

COMPARATIVE YIELDS OF AVERAGE OF ALL LONG TERM U S TREASURY AND DOW-JONES AVERAGE OF MUNICIPAL BONDS

Yields Based on Saturday Quotations



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

*Break in line indicates change in composition of Long Term Treasury average.

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Regraded Unclassified

HSM

PLAIN

London

Dated November 29, 1939

Rec'd 2:23 p. m.

Secretary of State,
Washington.

2485, November 29, 6 p. m.

FOR TREASURY.

Receipts from saving certificates and new defense bonds are not yet reflected in the Government revenue and expenditure returns for November 25th, but reports from banks and post offices indicate a heavy demand for both. With reference to the 2nd section of No. 2431 of November 22nd, the tap Treasury bills outstanding again declined being £679.7 million on November 25th, or about £27 million below the peak of November 4th, while the tender issue outstanding at £665 million was £165 million larger than at the outbreak of war, and will reach £680 million if this week's £65 million tender is fully allotted. Government expenditure was £35.9 million and revenue £13.6 million for the week ended November 25th.

JOHNSON

WVC

NOV 29 1939

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 29, 1939

TO Secretary Morgenthau

FROM Mr. Cochran

At 12:30 this morning, Mr. Pinsent telephoned me that Mr. Purvis had arrived to keep the appointment with Secretary Morgenthau at 3:00 o'clock. He added that both the British and French Embassies had received instructions from their Governments to seek this appointment, but having been informed that the appointment was already granted and the hour fixed, the Ambassadors thought there was nothing necessary on their part, except perhaps to inform the State Department that Mr. Purvis had had his interview with the Secretary of the Treasury. Mr. Pinsent assumed that there would be no objection to Mr. Purvis being accompanied by Colonel Greenley and his aide, Major Davis, as well as by Messrs. Pinsent and Chalkley of the British Embassy. I confirmed that they would all be welcomed.

At 3:00 o'clock, the Secretary received the above mentioned group. Mrs. Klotz, Captain Collins, Miss Chauncey, Mr. Cochran and Mr. Butterworth also were present. Miss Chauncey kept notes of the meeting.

To summarize, the Secretary let the group know that he had stopped, some days ago, to function as "pinch hitting" liaison officer with the foreign Governments desiring to make war purchases on this market. It was agreed that the President would have to give instructions as to how liaison should be carried out. The British officials stated that they would ask their Ambassador to make the necessary approach to the President, presumably through the State Department. In answer to Chalkley's remark that the message from Daladier to President Roosevelt explained the desire of the French Prime Minister that the present group would receive the same cooperation from the Procurement Division of the Treasury that had been accorded Mr. Monnet, the Secretary stated that no instructions to that effect had been received by him from the President.

Mr. Purvis reported to the Secretary that Mr. Osborne had talked with Governor Harrison in New York yesterday about the opening of the special account of the Bank of England to carry all British funds to be checked out in this country for war purchases, and had learned that the arrangement was practically settled, except for the question of signatures on this side.

After the meeting, Mr. Pinsent telephoned me to explain that Mr. Osborne had not made quite so much progress as Mr. Pinsent's statement would suggest. There are still questions of procedure with respect to the account to be determined. I told the Secretary at 4:45 of this conversation, and also let him know of my talk with Knoke, and of the latter's reported conversation with Bolton yesterday.

Following the suggestion made at the meeting with the British representatives, Mr. Pinsent got in touch with Mr. Whigham in New York, and I was able to tell the Secretary at 4:45 that Mr. Whigham and Mr. Gifford will come down on Friday to discuss the publicity problem with the Securities and Exchange Commission. I am still to learn whether the Secretary desires to receive them at that time. Mr. Pinsent added that Mr. Whigham had received word from London that no action is contemplated for this weekend in the matter of vesting securities. He stated that it appeared that this delay was only because of technical details, and that the plan was still in mind.

When I talked with the Secretary at 4:45, he told me that he had followed the suggestion which I had given him after our visitors left, namely, that he acquaint Secretary Hull's office with our conversation of this afternoon so that the State Department would understand any approach that may be made through that body by the British group. The Secretary told me further that he would see the President tomorrow in regard to the practical working out of the liaison.

In talking with me at 5:25 p.m., Mr. Pinsent told me that he would prefer that the Secretary receive Messrs. Whigham and Gifford before they go to the Securities and Exchange Commission. (The Secretary had told me before I talked with Pinsent that he would receive these gentlemen if they desired to see him.) Pinsent asked, therefore, that I obtain an appointment with the Secretary for late Friday morning or early Friday afternoon.

At 5:00 o'clock, I telephoned Dr. Stewart at Baltimore who will be in the Treasury early tomorrow morning to be brought up to date on the British question, and who will remain over through Friday if the Secretary desires.

B. W. S.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE November 29, 1939

TO Secretary Morgenthau
FROM Mr. Cochran

The foreign exchange market was quiet with turnover in sterling transactions about the same as yesterday. In New York, the rate for sterling opened at 3.91-3/4. The reporting banks stated that at the opening of business they had not received any orders to either buy or sell sterling. About mid-morning some small selling by the Hong Kong and Shanghai Banking Corporation and the Banque Belge appeared in the market, and the rate eased to 3.89-7/8. After these offerings were absorbed, the rate recovered to 3.91-1/8. During the afternoon, it was steady at 3.90-5/8. About 4 o'clock the announcement appeared on the ticker that the Soviet Government had broken off relations with Finland and, on this news, sterling started to recede. It declined to and closed at 3.90.

Sales of spot sterling by the four reporting banks totaled £313,000, from the following sources:

By commercial concerns.....	£ 203,000
By foreign banks (Far East).....	£ 110,000
Total.....	£ 313,000

Purchases of spot sterling amounted to £516,000, as indicated below:

By commercial concerns.....	£ 353,000
By foreign banks (Europe and South America).....	£ 163,000
Total.....	£ 516,000

The forward sterling market improved to 3-1/4¢ per pound discount for 30 days and 6-3/4¢ per pound discount for 90 days.

Cotton bills totaling £163,000 were sold to the British Control at the official rate of 4.02 by the following reporting banks:

£ 151,000 by the Guaranty Trust Co.
£ 7,000 by the National City Bank
£ 5,000 by the Chase National Bank
£ 163,000 Total

The other important currencies closed as follows:

French francs	.0221-1/4
Guilders	.5309
Swiss francs	.2243-1/2
Belgas	.1654-1/2
Canadian dollars	13-1/4¢ discount

CONFIDENTIAL

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

\$1,125,000 from the Bank of Mexico
700,000 from the Bank of the Republic, Colombia
\$1,825,000 Total

The Federal Reserve Bank reported to us the following shipments of gold:

\$2,091,000 from South Africa, shipped by the South African Reserve Bank, consigned to the Federal Reserve Bank of New York, for account of the Netherlands Bank. It is assumed that this gold will be earmarked for the Netherlands Bank.
1,914,000 from the Netherlands, shipped by the Netherlands Bank, consigned to the Federal Reserve Bank of New York, to be earmarked for account of the Netherlands Bank.
\$4,005,000 Total

The London spot and forward prices for silver continue to be fixed within a narrow range. London spot silver was fixed at 23-3/8d, the United States equivalent of which is 41.25¢. The forward price was 23-1/2d, equivalent to 41.15¢. The prices fixed by Handy and Harman and the Treasury for foreign silver were both unchanged at 34-3/4¢ and 35¢, respectively.

In New York, we made five purchases of silver totaling 300,000 ounces, under the Silver Purchase Act.


CONFIDENTIAL

November 29, 1939.
9:23 a.m.

25

Senator
Charles
Downey:

Good morning.

H.M.Jr: Hello Senator.

Yes. Is this the Secretary?

H.M.Jr: Yes, sir.

Yes, well Mr. Secretary, I just wanted to again express my hope that some relief may be granted to California in relation to that border matter. I understood it was going to come up for decision today.

H.M.Jr: Huh-huh. Well, they are bringing in a report and I haven't looked at it since I talked to you a month ago.

Yes.

H.M.Jr: So I'm taking a fresh look at it today or tomorrow.

Well, as I understand it practically all the congressmen are in unit with the senators and I believe that our viewpoint represents that people of the state, of course that may be somewhat in conflict with national interests, I don't know about that, but I'm sure that the citizens of the state would believe that in justice there ought to be some change there, Mr. Morgenthau.

H.M.Jr: You know that it all involves one man, one American business man, you know.

Well, no, I didn't understand that, I'm not --

H.M.Jr: Oh yes, you know this is a racket, involving one man that's got one one store, who sells a lot of English goods down there and there's only one American business man involved.

Well let me say this Mr. Morgenthau, I have many communications here from tourists hotel and --

H.M.Jr: Well there's this hotel, I can't think of this man, he has a hotel in this place and a store --

You know, but I - I - have - which I'd be very glad to present if you wanted. I have many communications here from - from people in different businesses in California catering to the tourist trade because -

H.M.Jr: No, no, this is an American who owns a hotel and a store in Mexico.

- 2 -

Yes, well -

H.M.Jr: He's hired this lawyer, here in Washington, to work up this whole thing.

Well -

H.M.Jr: I can get his name but as I say I haven't looked at it in thirty days and this whole thing all revolves around one man.

Well, I don't quite understand that because of course, Mr. Morgenthau -

H.M.Jr: I think his name is Milgrim.

Is what?

H.M.Jr: Milgrim.

No, I don't recognize the name.

H.M.Jr: But he has a store and a hotel and all the concessions, everything else down in Tia Juana.

Well, all I was going to say, I - I don't quite see - we're looking at it from the standpoint of the citizens and business men of California generally and certainly tourists who go over there for a short period are discriminated against as compared with tourists elsewhere on the border.

H.M.Jr: But Senator, what I can't understand, you and I, American citizens -

Yes.

H.M.Jr: We - I want to go to California to enjoy myself.

Yes.

H.M.Jr: All right, and - this thing forces me to either, if I want to go over there, I can go over any day and buy five dollars worth, but if I want to buy a hundred dollars worth, the United States Government is making it difficult for me to buy a hundred dollars worth of merchandise and bring it in duty free and this is all foreign goods, not Mexican goods, I talked to the Mexican consular about this here the other night at

a dinner which Welles gave. He said as far as they're concerned, they're not interested because it isn't Mexican goods, it's practically all English merchandise. That this fellow has this very expensive store and these movie stars and everybody goes down there and they buy this stuff and they bring it in.

You mean they buy English goods down there.

H.V.Jr: Largely English goods because it's a free port, and as I understand it, it's largely English merchandise that this man has in this store and that he sells this to these well to do people, largely from the movie colony and San Diego. A lot of our navy officers go down there and they get this stuff at the price you can buy it in London, and they've got this very high pressure lawyer here in Washington that's worked this thing up, and it all centers around this one man. Now I think I can say that you and I are just as much interested in the common man, and the thing that bothers me if I do it, it's just gravy for one person.

Well, well, let me ask you this now.

H.V.Jr: Yes.

I wonder if the regulation could be changed - now I - very possibly, Mr. Morgenthau, you're right in your facts, I'm not gainsaying that but I haven't had quite the idea that you have, I had thought that the great bulk of the goods brought over were Mexican manufactured goods. At least when I've been down there and my friends and relatives we haven't brought back English goods, we brought back Mexican goods. Now let me say this, I wonder if a regulation might not be made that some rule would be applicable to English manufactured or foreign manufactured goods and another rule to Mexican manufactured goods.

H.V.Jr: Well -

You see it does, Mr. Morgenthau, put us at a very serious disadvantage with other tourist points on the borders because tourists do like to bring back, up to that one hundred dollars of Mexican goods, free of duty and of course if California tourists can't do that it is a discrimination as compared with elsewhere on the border. Now if it is, if actually what - it's hurting in the fact that the Americans go down there

to get English or other foreign goods, well that could be met in another way.

H.M.Jr: Well, you're raising one - a very interesting point and I'll ask whether that's feasible, but the thing that burns me up is that one person, seems to me this one business man can raise so much ruckus.

What - Mr. Secretary, I - no doubt I don't know just who that is, or what he is doing, but let me say this, it isn't limited to him. Now take for instance, -

H.M.Jr: Just a minute, let me get his name - will you wait one second?

Yes, surely.

H.M.Jr: Just a minute. I sent for Basil Harris. Just a second please.

Yes.

H.M.Jr: I can give you his name. Just a minute please. Just one second. I sent for Basil Harris. Do you mind waiting one minute?

No, could I say this?

H.M.Jr: Surely.

Now for instance, I remember one of the letters that I received was from the citizens at Palm Springs, I suppose you're familiar with that resort of ours.

H.M.Jr: I know where it is, yes.

Well now, they, the people there were very anxious that there shouldn't be this, what they consider rather harsh rule invoked against the tourist trade there in the California border, because they are of course interested in that and many of their people from Palm Springs go over to Mexico to buy Mexican goods and that's one of the attractions of Palm Springs, that right you see, and I - Mr. Secretary, I had communications of several kind from several of the tourist resorts along the border and garages and that sort of thing, so it isn't limited to that one man.

H.M.Jr: Well, he's the fellow that's hired the lawyer.

- 5 -

Well that may very well be, I - there's a mystery really here, see the lawyer -

H.M.Jr: Just a minute. (What's the name of the businessman in Tia Juana that's got the store?) - Milnor. M-I-L-N-O-R

Yes, well he's one of the big dealers, I thought in Mexican goods, I didn't know he dealt very extensively in anything else.

H.M.Jr: Well now let's -

He has a big store, I think, in the Biltmore Hotel in Los Angeles.

H.M.Jr: Yes, well now Senator, let me ask our people, the angle that you raise, see.

Yes.

H.M.Jr: And I'll give it serious consideration but I have not looked at it in thirty days and am going to give it a fresh look now, kind of hard for me to give it an unprejudiced look.

Well let me say this of course if you did favorably consider anything of that kind Mr. Morgenthau, the matter might be put over for thirty days or something to give us an opportunity to present some theory to you of that kind.

H.M.Jr: I see. Well, I- I'll be just as judicious as I know how.

Yes, thank you very much.

H.M.Jr: Thank you.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE November 29, 1939

TO Secretary Morgenthau
FROM Mr. Haas *HA*

Employment under the Works Progress Administration increased by 32,000 persons, from 1,930,000 during the week ended November 8, 1939 to 1,962,000 during the week ended November 15, 1939, as is shown in the accompanying tables and chart.

Attachments

WORKS PROGRESS ADMINISTRATION
Number of Workers Employed - Weekly
United States

71

Week Ending 1939	Number of Workers (In thousands)
March 1	3,032
March 8	3,009
March 15	3,015
March 22	3,009
March 29	2,980
April 5	2,906
April 12	2,761
April 19	2,752
April 26	2,751
May 3	2,736
May 10	2,660
May 17	2,623
May 24	2,609
May 31	2,600
June 7	2,593
June 14	2,590
June 21	2,578
June 28	2,551
July 5	2,388
July 12	2,289
July 19	2,250
July 26	2,200
August 2	2,082
August 9	2,054
August 16	1,977
August 23	1,898
August 30	1,842
September 6	1,662
September 13	1,696
September 20	1,735
September 27	1,790
October 4	1,903
October 11	1,875
October 18	1,898
October 25	1,902
November 1	1,901
November 8	1,930
November 15	1,962

Source: Works Progress Administration.

WORKS PROGRESS ADMINISTRATION
Number of Workers Employed - Monthly
United States

72

	Number of Workers (In thousands)
1936	
June	2,256
July	2,249
August	2,377
September	2,482
October	2,581
November	2,483
December	2,192
1937	
January	2,138
February	2,146
March	2,115
April	2,070
May	1,999
June	1,821
July	1,569
August	1,480
September	1,451
October	1,476
November	1,520
December	1,629
1938	
January	1,901
February	2,075
March	2,395
April	2,582
May	2,678
June	2,767
July	3,053
August	3,153
September	3,219
October	3,346
November	3,319
December	3,094
1939	
January	2,986
February	3,043
March	2,980
April	2,751
May	2,600
June	2,551
July	2,200
August	1,842
September	1,790
October	1,902

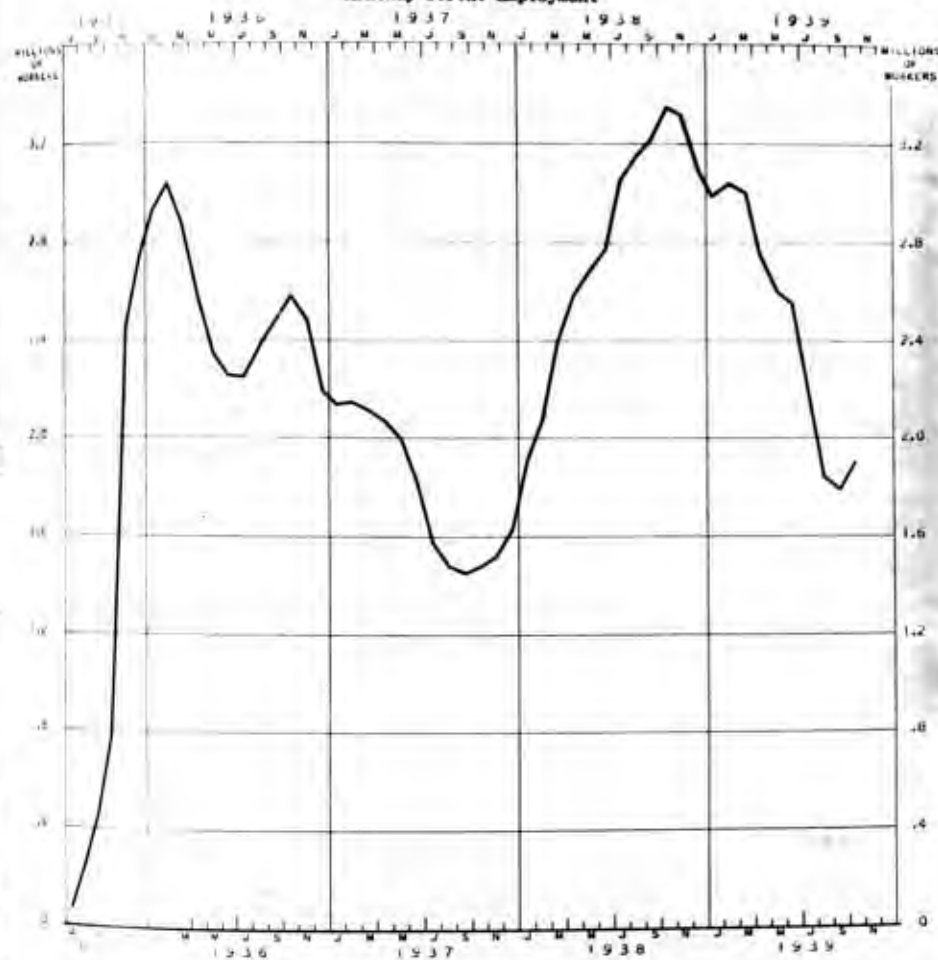
Source: Works Progress Administration.

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

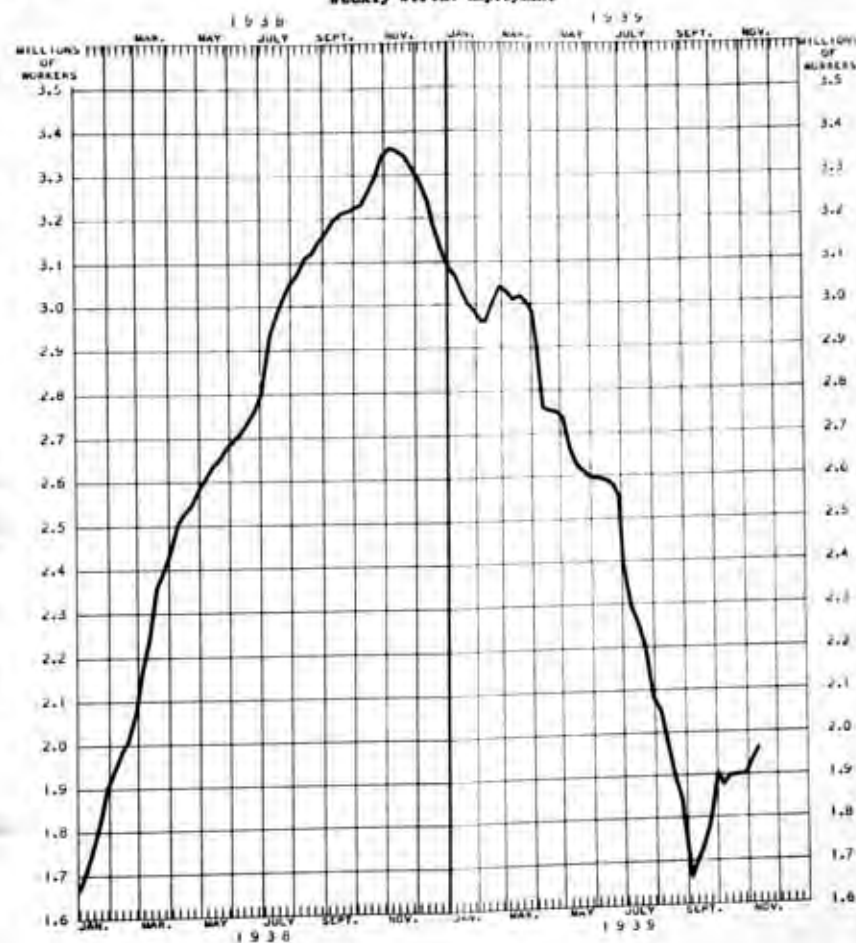
They include certified and noncertified workers.

WORKS PROGRESS ADMINISTRATION
Number of Workers Employed
United States

Monthly W.P.A. Employment



Weekly W.P.A. Employment



SOURCE: WORKS PROGRESS ADMINISTRATION

*Always first draft
submitted to State Dept
advising at 4:30 pm* 74
12-29-39

January 31: Cooperation between Navy and coastguard is established at HMJR's order on application by navy, who want a liaison. The object is to watch the coast.

FEBRUARY 16:- HLH calls up to ask HMJR to make sure that part of French planes are shipped on American vessels.

FEBRUARY 13:- November 17, 1938, State Department had submitted draft of bill permitting president to control American payments to nations like Germany which were holding payments to our nationals. Discrimination was guarded against by permitting the President to require all American payments in foreign exchange to any discriminating nation to be made direct to the United States, to be held, as it were, until the discriminatory regulations should be removed.

The matter was considered at some length, and finally Ed Foley prepared a draft of a substitute bill, giving the President control over all foreign holdings in this country as well as all American holdings abroad, thus increasing the power to retaliate against discrimination. This bill also authorized the President to enter into agreements with other countries for the purpose of protecting interests of our nationals.

MARCH 16:- During march in Prague, Feis and Steinbauer come over from State Dept, meet with HMJR. and Archie Loochhead. Feis opens meeting with statement, "Welles is simply gasping for breath". HMJR had previously been on the telephone with Welles. Feis begins by explaining there are three matters he wishes to take up. First, Sir John Simon had announced in

House that he was asking B of E not to make any "exceptional transfers". Did HMJR want to think of doing same thing with Federal Reserve? Lockheed put in that Fed Res had only \$19,000 balance with the Czechs.

HMJR What do you want us to do? Just tell us.

FEIS: Well, do you want to discuss it with Fed Res? I am no very well prepared in this business because the thing has all come up like a cloud.

He goes on that the Czechs owe US about \$165,000,000, and have certain bond issues in private hands. Points out that when Germans took Austria, they seized Austrian assets all over the world, refused to recognize debts. "Are we just going to let it happen all over again?" Suggests taking over any available Czech assets.

LOCH: May I speak there? When this came up I called Whittemore at the Export Import and asked if they had anything out with Czechos. They have out \$100,000. I asked if they were taking any steps to grab balances.

He goes on that this loan is guaranteed by Anglo-Czech bank, which has enough balance at Chase in NY to cover sum. He had asked whether they would get an attachment, been told by EI that loans were not due. "I pointed out that the danger was the Germans would take control of the Czechoslovakian banks and send cable instructions, properly authenticated according to the Chase cable arrangement, ordering payments out of the Czech's balance at Chase." HMJR says he will call George Harrison, get him to put a stop order if law allows. "GH will call up the New York

banks and say, Was ington wants 24 hours-- 48 hours to turn around. He than calls Harrison, 4:10 p.m., puts suggestion before him. Har ison amends itso that banks are to be asked to stop al payments aside from routine commercial transactions originating at least one day before, says "I think they ought to do it for their own self-protection, frankly". He had done same thing in a.m., remarks that he had also called JPMof. to ask if St. Dep had news of Germany army taking over Czech banks, and that Mof had cabled.

HMJR, Hanging up: "That's number one."

FEIS: Second, countervailing duties action.

HMJR: You don'T want to wait? Feis: You have the idea.

Welles is planning to call in Thomsen tomorrow evening, and put him on record that this is coming. (Dr. White comes in) F: That brings up the question as to what form Welles is to put this in. After all its very technical and unfamiliar ground. (Reads elaborate draft of somewhat Wellesian announcement, stating that after study, govt has decided Germany is subsidizing exports, and that countervailing duties are therefore mandatory###. "raft is given White, Foley, Lochhead, Steinbauer, who go off in corner to study it.)' Feis:to HMJR: The third thing is this--- Meeting about to take place at ### State as to trade agreement with Czechs. Czech govt no longer in existence, agreement abrogated, rates should be no longer granted. HMJR agrees and says he will give order to Customs. Circumstances of this discussed at great length, since abrogation of Czech agreement affected a

most favored nation rates to Belgium, etc. Feis remarks that both Welles and the Whu [are "hopping mad"], "would like to do this, if possible, tomorrow night". At the same time, desired to let Czech low rates run for other countries during a thirty day negotiation period. Statement to Thomsen is then brought back revised, and in connection with it, HMJR remarks "The President told the Atty Gen to bring in a ruling a week from Monday". There was also another talk with Harrison during this meeting about relations with London.

MARCH 17:- Morning meeting in HMJR's office, with ⁿanes, Lochhead, Mrs. Klotz. Discussion of money market. HMJR remarks ## "Today is the day the stabilization fund ought to go in and if necessary spend a little money to soften the thing as she goes down." [Lochhead reports that he has been talking to Knoke at Fed who has been on telephone to B of E, who say they ~~are~~ ~~prepared~~ to sold about \$35,000,000 exchange this a.m. L adds "Rates are holding very firm but I did tell him not to be afraid, that if necessary we would take gold over there". Through Fed about 300 000 Dutch guilders had been bought.] HMJR calls Knoke, confirms Loch's conversation, saying "This is the day where if it costs us a little money it won't bother me. If the thing should get sloppy, call up Archy". Adds that Welles is about to make stiff statement at noon. HMJR goes to white house, comes back about 1:30, calls Butterworth in London at 1:39. Butterworth reports British acting parallel to Americans, speaks of general surprise at way Germans did the trick, "hard times ahead," [also reports that Kennedy had seen Halifax in the a.m.] A minute

Wewley comes in, is told news of request to NY banks. Incidentally, Lochhead had previously reported from Knoke that English had impounded total of \$30,000,000 in Czech assets, we only about \$3,000,000.

MARCH 20: After taking it to Whu to Pres., HMJR sends Sumner Welles copy of Foley memorandum on "Non legislative action which the govt can take in case of war abroad in which the US is not a party". (Copy attached) Same day ^{Loch} ~~HMJR~~ calls Feis reminds him that warning to NY banks on Czech funds is running out, asks if State has suggestions. Feis replies, it's up to treas. Two courses open. Do nothing. leaving matter to banks. Or call banks, tell them that payments on Czech accounts are now in their discretion but warn them against making extraordinary payments without safeguarding their own interests. "As we had not been able to find anything much more than \$3,000,000 on deposit for former Czech accounts in NY, the amounts were not very important".

APRIL 10:- HMJR calls in H White, tells him that he is planning to ask President's approval for bringing down Smith, Harris, Bailie and Stettinius, "I have got a job for each one of them in case there is a war". Smith banking, Harris customs and shipping, [Stet purchasing] and Bailie foreign exchange and domestic exchanges. Says he wants them all to come down and get their organizations in running order, just in case. White also brings reports/ HMJR has an idea that cornering supplies of certain strategic raw materials will make it impossible for Germans to go to war. White suggests that cooperative corner by democracies would not be enough. Producing countries would have to enter into agreement

enforcing a sort of economic sanctions against ^{aggressor?} Germany. They talk of certain materials. White: "Germany needs 95 per cent of natural petroleum. She needs 75 p.c. copper, 50% lead, 25% sulphur, 100% cotton, 95% bauxite, 10% zinc, 100% rubber, 95% manganese, 100% nickel and chromite, 95% tungsten, 25% wool, 70% phosphates, 100% tin and ~~#####~~ antimony, mercury and mica. Those are some important commodities and it's easy to control some of them,

White: "Nickel for example they haven't got, and it's very easy to prevent their getting it. You see 95 % comes from the British empire. The only other spot is New Caledonia, where Japan has mines". HMJR asks what the cost would be. White replies, "150,000,000 a month, just for buying". HMJR suggests that oil be made the test case, and that plan be put up to British. "In two weeks I could find out whether the British meant business and if the President said he wanted to do something -- if it was known that England and the US in case of war would say "you don't get the stuff; in case of this monkey business you don't get it", then what?" White: I don't know of any better idea. Says that idea is feasible, though difficult, only problem being domestic political one, and question whether England and Russia would agree to go along.

White memo is study of two ideas, "Purchase and accumulation by leading non-aggressor nations of strategic raw materials" and "prohibition by international agreement of exports of certain of these strategic raw materials to aggressor nations". Materials

include those listed above. Conclusion, purchase alone ²not efficacious, costly. Second in combination better. "Sources of supply of at least eight of the vital strategic raw materials which the aggressor countries taken together must import are almost completely under the control of the US, British Empire, France, Russia, the Netherlands and Belgium. The value of ^Wimports by the aggressor nations of those materials is not so large as to make it impracticable for the leading non-aggressor countries to bear the expense or burden incident to such a program. The aggressor nations would be extremely vulnerable to what would virtually amount to an embargo on vital materials. And in the case of nickel, tin and oil (if Russian and ^Wexian oil could be taken care of) relatively few corporations control the international market and effective cooperation would easily be obtained".

Difficulties, 1, need of enthusiastic support of US, GB and Russ, 2 England ² France and Russ must be willing to give military guarantees to smaller countries cooperating. 3 majority of our people must be in favor, and argument must be met that plan will precipitate war. Transshipment must be prevented, and period of negotiation should be short, to prevent accumulation of stocks.

With this White memo was a second memo, headed "Proposed steps that can be taken by the administration in the present acute international situation". 1) Imposition of countervailing duties against numerous imports from Italy. There already exists enough evidence of bounty on Italian exports. 2) Requirement that goods from ^WManchuria and Jap parts of China be marked "Chinese areas

areas under Jap control". or something similar. 3) Application of section 338 against imports from Japan. 4 Application of section 338 against all imports from Germany. This is a more drastic step, but the factual basis for it exists. 5 preparation of steps to be taken against imports from Albania, not important quantitatively but as a gesture.

And measures requiring legislation, HMJR's plan, accumulation of stocks of vital raw materials, embargo of exports of scrap iron as a defense measure, and "program outlined in White memo of March 31, 1939". (Copy to be found)

APRIL 11:- HMJR calls up Dr. Abraham Flexner at Princeton, requests release of Stewart and Reifler in case of war, tells Flex that he also plans to invite Hansen of Harvard and Viner of Chi.

APRIL 12: Invites Earl Baillie to come down to talk this scheme of special advisers and thinkers over, warns him he is to be one in important field of foreign exchange. "After all, we're safe deposit vault of world".

APRIL 10:- HMJR had gone to President about getting helpers and thinkers down in case of war. President, stirred by reports from abroad, had asked him whether he "was ready" in case of war. HMJR had been forced to reply that he was not, and President had suggested immediate holding of inter-departmental conference.

APRIL 11:- Interdepartmental conference meets in HMJR's office, Lockhead, White, Young, Foley, Douglas, Frank, Purcell, Fels, Wallace and his man Robbins, Eccles and Goldenweisers. HMJR opens the meeting at 3 p.m. on the dot, prompt as always.

"Gentlemen, the President asked us to get together for him in the strictest confidence, as he wondered what, if anything, were doing in case there should be a world war, to look after the various markets. Possibly a good way to start would be to tell you what the English have told us in strictest confidence about their plans."

Douglas breaks in to explain that as far as SEC is concerned all legal documents necessary to closing of exchange have already been prepared. "They are all in the icebox, and can be executed on a few minutes notice". HMJR points out that it is better to do something to keep the markets from closing. [Wallace reports that he has done nothing about preparing closing] of commodity exchanges, that no legal authority to do so exists, but that he enjoys "a great deal of power of moral suasion". HMJR again remarks that closing markets is "the last resort". Eccles then speaks for Fed, "Well, last year at the time of the Munich conference, when things appeared to be pretty black, we worked on a statement that seemed to cover the emergency situation. We had

some of the bank presidents in and they also considered the whole subject. And the matter was again revived a few days ago. There aren't so many things really we can do." Asks Goldenweiser to report on these meetings from which he had been absent. G. reports that on previous Friday Fed asked banks by letter whether they wished to take up with boards of directors any possibilities like reducing rates or making local emergency announcements; also the Fed had prepared statement for issuance itself, "about the fact that any demands from withdrawals of any kind can be met without the slightest difficulty". Statement revised from Munich period, had been approved by most board members, and will be ready.

HMJR asks for statement and Eccles promises it as soon as formal approval of board is obtained. He then asks Lochhead to read the London cable, in which Butcher transmits British Treasury message. Lochhead remarks "If they would let us use part of this--- that is give it out--- it would be very reassuring. We could show they are not going to dump their securities." Reads:

1) Immediately upon the outbreak of a war the British govt will requisition all foreign securities, foreign balances and gold belonging to British residents (the term "British residents" includes foreigners who are normally British residents). The British govt will not take steps to liquidate any American securities so acquired without prior [consultation] with the appropriate American authorities.

2) The British govt does not intend to declare a general moratorium but expects to close all banks and financial institutions for one day. The banks consider that they need such a

period to make the necessary adjustments and the British Treasury is of the opinion that should war eventuate towards the end of a given week it would be necessary for the banks to make arrangements whereby payroll wages could be met.

3) It is our plan that the bank of England should announce, probably daily, foreign exchange rates for sterling and the banking institutions would be authorized to supply foreign exchange in suitable amounts for bona fide reasons. Therefore American citizens who happen to be in the UK on the outbreak of war would be able to cash travellers checks, etc.

But adds on his own "My own impression is that there are two schools of thought as to the rate at which the pound will be valued in terms of dollars when dealings begin after the outbreak of a war. But I feel reasonably sure that those who favor an immediate and sharp depreciation of the pound will prevail and that the sterling dollar rate as first announced by the B of E after the outbreak of war would show a very considerable depreciation of the pound as compared with the present level."

(Returning ~~###~~ after some excited colloquy, lead by Wallace)

4) The stock exchanges will be shut upon the outbreak of a war. The British Treasury intends to reopen them as soon as practicable but realizes it is impossible now to set any definite period inasmuch as the shutting of the stock exchanges would be to prevent any panic selling from developing.

[5) Under the present war plans the British Treasury will attempt to continue to function in its present building in Whitehall, in the basement of which bombproof shelters have been con-

structed. But it is really not known whether this tentative arrangement will prove feasible under actual war conditions.]

HMJR
~~HMJR~~ goes on to repeat warning as to confidential nature of information, says that Kennedy called up the President Sat. to ask, "What are your men doing over there? They ought to be ready". HMJR says that ~~shah~~ remains to be done, suggests that it should be possible to get other bourses in countries belonging to Tripartite, especially Holland, Switzerland and Belgium, to agree to a coordinated plan. "If could announce there is such a plan, don't you think that would be very reassuring?"

Frank nods yes. Idea is discussed back and forth, HMJR saying it will be well "to move together if we do move", while Fels objects that if rumors got about that all world securities would be closed in event of war, depressant effect would be serious. HMJR enunciates policy finally adopted: "Well, I would do everything possible to keep the market open, but we ought to be ready". Long discussion goes on. White suggests that agreement of proper sort might have very bullish effects. Eccles speaks on the side of market-closing, saying it is also bullish. HMJR then suggests that consideration of this market question be adjourned for 24 hours, while everyone studies it carefully. In course of talk, White says that British have \$900,000,000 in Am sec out of \$3,200,000,000 total, France has about \$220,000,000 and Netherlands \$600,000,000. Devaluation by British is also discussed at Wallace's request. [HMJR says, "I'll tell you how that I'll go through the same motions, only more violently, that we did in December to keep them from doing it. I think I would take encouragement from that the fact that we could do it in December,

where they served notice two or threetimes that the pound would go below \$4.60 and couldn't tell where it would stop. Wwe were able to keep them from doing it. No question the pound is pegged and they did everything ever there, we having the distinct advantage of them. I should think we'd have a better chance to make them continue to peg the pound in case of war than we had in December, where we really didn't have very much other than moral influence."

HMJR suggests establishment of committee for regular consultation when necessary. Harry White ends meeting by summarizing possibilities with regard to exchanges:

"There are four rather obvious ones. One is to close the exchanges, as has been discussed. The second is to follow the procedure that your commodity exchanges adopted with some commodities, of limiting the extent of decline in terms of percentage of each days' activity. A third possibility is to create some govt agency and provide it with powers to acquire securities under circumscribed conditions, in an attempt to support the market. And the fourth is to reduce the hours of the exchange."

Wallace remarks as to commodities method, "The moment it begins to become effective, they all turn to kicking, I assure you."

APRIL 12:- First thing in a.m. HMJR calls Basil Harris at Pinehurst first thing in morning, slightly delaying his golf game, to ask him to stop at Treas on his way North to get his office set up ready, in case of emergency. "A couple of trial runs".

Same day at 11:45 Hanes, White, Foley, Lochhead and Bernstein meet in HMJR's office to consider drafts of proposals for joint action with tripartite powers. HMJR gives his own ideas, "I think ~~some~~ we ought to have a sort of preamble, 'In view of the fact that GB has 900 million dollars worth of American securities, plus so much of gold on earmark, plus so much of the different things, or a total of two or three billion dollars here; and that France has so much and Switzerland so much and Holland so much; and in view of the fact that it has been the policy of the U. S. govt to offer a haven of refuge to funds seeking both investment and Foley Protection? White Security.

HMJR Security; and it is our desire that we will be able to continue to do so; we therefore feel that in the interests of stability it would be desirable for the tripartite countries to consult and see if we can't take steps which are mutually advantageous for both the govts and individuals who have their money in our securities and on deposit here." []

Now that accomplishes my big thought and the hint is that after all, over the resident's signature we can tomorrow freeze every dollar balance here. And if these fellows won't play ball, we'll do it, instead of sitting here like suckers and letting them dump their stocks on us.

This preamble I've got is enough of a hint-- these fellows are smart-- to show what we've got in mind. We don't say a word about whether we will or won't pay \$35 an ounce, which the French financial attache asked me about only yesterday.

We'll throw out the hint first and then say, 'You sent your

stuff over here and we've paid you a good price. I's here now, and we'll take care of it; it's all right. We've got just this little favor to ask of you; that you corral this stuff and have the machinery set up to do it in an hour's notice, so that we do don't wake up here and have sales of a billion dollars worth of securities at the market some morning and we've got to close the market."

There followed some discussion of the proportion of foreign owned to American owned securities. Hanes suggested that margin requirements ought to be lowered, and HMJR asked him to talk to Eccles about it in the afternoon. Lockheed asked Hanes if he recalled any authority in the SEC permitting order against sales of foreign-owned securities. Hanes said there was none, but brought out that banks were the usual media of these sales. Hanes points out, "If the secretary has the power of freezing their balances so they couldn't take the money out, there's no incentive to them to sell."

HMJR The thing I don't like is that I don't want to say were going to put on exchange control. What's more, I don't think it's necessary. I can call up George Harrison and say George--- I mean he'd sit in on the thing anyway--- George I want you to call up every bank president in NY tonight and say, this is the Treasury program, will you play ball? There'll be nothing in writing, but he'll get every bank president; they'll all do it, and technically we won't have slapped on exchange control. White: It's well to try that first. HMJR, OH it will work. White, Well, it's what the English do. HMJR: My objective is to try to keep the markets open, "Business as usual," that should

be our sign.

Hanes: Oh of course, it's easy to close, but it's a hell of a job to open again; and it's awfully easy to slap on foreign exchange control and it's awfully hard to undo it.

WHITE: and with their knowledge that exchange control is possible there's a great incentive to play ball.

HMJR then suggests that George Harrison and Martin ought to be brought into consultation at once. Hanes says that Martin is away, but has been sent for, [since "this is no time for the president of the NY stock exchange to be in Jamaica".]

HMJR suggests that when communication to tripartite agreement members is complete, it would be well to telephone it to But and Coch. "We'll say to them the way we did before, But erworth you take care of England, Cochran, you take care of the Continent. Use the telephone. When you've got the answer call me back."

HMJR then etelephoned Missy, told her of previous afternoon's meeting, said he hoped to finish work this afternoon and have something ready for the President right away.

At 3:30 p.m. Hanes, Foley, Bernstein, White, Young, Wallace, Feis, Frank, Purcell, Eccles and Goldenweiser met again in HMJR office. Question of exchanges is at once brought up. Ganson Purcell has prepared memorandum, presented to commission in a.m. and approved. Herry Frank asks him to summarize it. ~~####~~ Purcell goes ahead.

"Trying to consider it perfectly coldly on the basis of past history, market influences, etc., There are probably three thing

things which may be anticipated. in the event of a declaration of war in Europe. One would be that foreign holders of American securities would proceed to liquidate, in fact dump their securities in this country, despite any consideration which you have received, Mr. Secretary, from the British govt. Secondly, domestic securities holders would probably be moved to liquidate their holdings through fear of the first, the foreign dumping. And third, ~~###~~ potential buyers will probably withdraw from the securities market ~~as soon as war may be declared, through fear.~~ as soon as war may be declared, through fear.

It seems to us that principal concern we have is with the foreign holdings of common stock. It also seems to us that there are two alternative remedies, with variants: One to keep the markets open, perhaps supervised, and managed by some govt authority or agency-- perhaps even a govtmental peg in the markets such as Dr. White discussed yesterday. The other would be the temporary closing of the exchanges and some regulatory force, either governmental or otherwise, which is exerted upon brokers and registered dealers in the over the counter market.

Against making public. Suggests best course will be to close all world markets contemporaneously, then reopening on restricted basis. Against a govtmental peg, as it would "mean a large govtal position overhanging market at all times".

HMJR then discusses results of a.m. meeting, pointing out that tripartite countries have 500 million of earmarked gold, a billion in bank deposits a billion of direct investments and two billion of American securities. Outlines plan for message, "We feel the

the interests of the members of the tripartite accord now make it desirable that there be prompt consultation directed toward protecting the securities and money markets in event of war in Europe, and agreeing upon effective measures for that purpose; with particular regard to preventing panicky marketing and utilization of assets in the markets of other countries. Our joint interest in this problem, together with the record of satisfactory cooperation among the members adhering to the tripartite accord, should assure the success of such consultation. We would appreciate a prompt expression of the attitude of your govt."

"Well, what we're going to say to them now is, 'We're tickled to death to have your money and your gold and take care of it for you. We have offered you a haven of refuge. Now we are making a suggestion which we think is mutually advantageous, that each govt take over the securities of its nationals, particularly American securities, and agree with us that they will [not sell any of [these securities without first consulting us.]

"Now how can we make them behave. We can make them behave because we have-- and of course this is triple confidential--- we have an executive order drawn up which we will submit to the President tomorrow morning, if he decides it is the thing to do. We're going to ask the President to give us the authority we have to put in complete exchange control. The implication to these countries is that if they should dump their American securities, we will just freeze their accounts."

In that way I think we can prevent the foreign selling.

ECCLES suggests govts might need some time to take their

nationals' securities, and Morgenthau agrees that it might be well to be ready to close our exchanges for a few days which "would just give these govts time to put their machinery in order". HMJR adds there's little incentive to dump. "We won't make the dollar exchange available. They want dollars, well, they can't have them".

FRANK suggests that many of foreign securities may be hidden from the govts, perhaps as much as half, to which HMJR replies that "that's why we should have exchange control weapon ready and loaded". HMJR goes on that freezing deposits succeeded in the case of Czechoslovakia, "and there's wasn't a bank that refused".

Goldweiser points out that tripartite nations will not want to get money out country, so long "as they have free use of their bank deposits here". "But I'll freeze their balances", says HMJR. Eccles, "They can't even use it within the country!" HMJR, That's the big threat".

WHu telephones suddenly, HMJR speaks into it, answers, "Hello--well--thank you so much." Then to the others, "we've got a deadline; the President says he wants the answer to this by five o'clock."

Wallace brings up question of what would be done as to use made of tripartite money in this country for purchasing American goods. Here too, HMJR says he has power to control. HMJR, To answer you, the President asked the other day, 'What ^{if} are you going to do in the first three months they drive copper and so forth up too high?' Here you have your control." Foley adds, "Control prices by controlling expenditure".

Feis blows up, announces that he must leave to report to the Sec of State. HMJR defends what they have been doing, says he has had little information from State, does not really know whether war is coming, but that ["I don't mind telling you that General Craig has just told me that if there is anything that's going to happen, it will happen within the next three days."] One country after another is mobilizing, and we have no plan here to meet the situation. What would happen if war should break during the night?"

Feis replies that nothing has been talked of beyond the repercussions in the securities exchanges. Frank remarks that they are likely to be grave. Feis snaps back, "I think there have been serious episodes in the securities exchanges before this, and the world wasn't made over." As Feis leaves, White asks, "Think you can find your way?" Feis, exiting, "I find my way in a world that looks slightly different to me from the one that I entered". HMJR makes a joke about a drink.

Wallace then reports on his commodity exchanges, says that he has no power to close, possibly the President has, thinks he can do it by suasion, but closing will be no use unless Liverpool and Winnipeg are included. HMJR thereupon suggests that closing Liverpool and Winnipeg exchanges be included in messages to tripartite agreement signers. HMJR then asks people all round the table, beginning with Eccles, "Are you frightened?" Eccles replies, "I've been scared a damn sight worse than this in my life". HMJR then calls G Harrison in NY, tells him he wants him and Knoke to be in his office at 9:30 a.m. the next day. Says they have been discussing war problems. Harrison replies

"I'm having a meeting of all my officers now to talk over the same things".

Eccles then suggests that exchange might be kept "technically open" by using the minimum price device invented in 1914. No quotations allowed, loans permitted at last selling price of securities, permitting only bona fide transactions. Hanes makes his suggestion as to reducing margin requirements. Eccles rather reluctant. Hanes says that "I am not in sympathy at all with closing the exchange". ##### Hanes adds that by lowering margin requirements, putting in a ten per cent limit on fluctuations, and ## preventing foreign dumping, his objective can be achieved. This brings up Wallace's experience with limiting fluctuation on commodity markets, which he says was fairly successful. HMJR recalls that "I was a wheat operator one for Mr. Wallace. I once bought five million bushels of wheat in three minutes and then fainted. That was no joke." HMJR also suggests that head of stock exchange be called in. Hanes says Martin is away, to get Eddie Bartlett. There is a short "dress rehearsal," as HMJR calls it, of what is to be said to the President. He gives it. "MR President, we need an executive order; I'll have it ready so that if you think it is wise to use it we can put on foreign exchange control. I'm asking you tonight whether you will say to me verbally that it is all right to give it to the Attorney General, because he said he could set up a committee to work all night to go over it for us. I'd also like to ask you to approve my sounding out through our Treasury representatives in London and Paris, very informally and tonight, -- if we do it

tonight they can go to work tomorrow a.m.-- and the thought is that they should follow the English plan, so that amongst tripartite countries there should be concerted action. I just wish to start these conversations and that's as far as I can go." Frank's executive order is also mentioned, and Wallace's application to Canada. Eccles ends meeting with his report on Res Bd attitude. "It will be the policy of the ^{Res}es system, the Res Banks, to stand ready to make advances on govt securities at par under certain circumstances."

On return from ^{Res}resident, at 5:40 p.m., they gather in HMJR's office-- Hanes, White, Duffield, Bernstein, Lockhead, Feis, Foley, and Frank. HMJR calls Hull, who is tired but says, "Oh I've been keeping in good working condition and keeping pretty close at it: Reports, objects to keep markets open if possible, invoke exchange control only if necessary. Describes orders sent AG. Says Wallace has gone to work on appeal on President's behalf to commodity exchanges, getting them to close. Reads statement to be read to Cochran and Butterworth.

Hull asks HMJR's assurance that approach to tripartite nations involves no definite commitment. Hull replies, "Well, then, off-hand, it looks all right". HMJR then asks to have Feis come back, he having gone to his office in State to write out account of meeting which had agitated him. Calls are then put through for Cochran and Butterworth. [Lochhead reports in lull that he has just talked to BofE, that they had sent \$14,000,000 in gold during the day, and "were busy boxing up \$25,000,000 for Switzerland".] HMJR also gives account of President's reaction, which was, "I can't see anything the matter with this. All it does is look after our own interests". They are all having sherry, and when Feis comes in HMJR says in conciliatory tone, "Hello Herbert, having a little drinkie?"

HMJR then gets through to H. Merle Cochran, reads him the communication to the tripartite countries, Cochran replies, "I have it". HMJR tells him to "put this up to France, Belgium, Holland and Switzerland". There is some difficulty, because while Cochran knows of British plan as transmitted by Butterworth, he cannot mention it to other nations. There is also a little difficulty because both the Belgian and Swiss ministers of finance are new men not known to Cochran. HMJR gives him permission to "do it through the central banks", and Cochran then promises the twenty-four hour date line demanded by HMJR will be met. HMJR, "### Use your own head, that's all##. I leave it to you." There is general talk. Cochran predicts there will be peace, [Suggests that if there is a little more time, appeasement of Italy may be accomplished.]

Then there is some trouble running Frank Murphy to ground. Frank and Foley are in search of him, with the executive orders. At length Morgenthau runs him down at his own room in Washington Hotel on White House phone. There is also trouble with the London circuits, and Lochhead is left to read message to Butterworth and to ask him to explain to London that it was being handed to other members of tripartite. Feis asks to be allowed to "sleep on Canada," and HMJR agrees. [HMJR mentions that someone had given President idea that "when I talk on the telephone seventeen different nations can listen in". Says this is untrue. Lochhead adds that HMJR is right. "The telephone companies not only put these calls on two wave lengths, one man on one and the other on another, but they've got a new system with an automatic wave length transmission changer. Every so many second the things switches to another wave length, and you can only pick up one or two words on each."

[HMJR "I've spent \$15,000 trying to break these trans-Atlantic codes. We couldn't do it, and we've got the smartest people in the country."]

APRIL 13:- ##### This morning at 9:30 Hanes, Lochhead, Gaston, Eccles, Harrison, Knoke, Goldenweiser, Frank, Purcell, Robbins, Carl B. Robbins and ##### JWT Duvel of Agric.. Feis and Edward Martlett, vice president of NY stock exchange, who is not present at first. HMJR begins by explaining purposes of meetings, and the desire not to impose exchange controls. Talks over Canadian problem with Feis, who suggests asking Canadian govt to send a special man down to talk, probably the Under Secretary of Finance. Harrison reports on findings of his NY meetings, "Our

"My particular concern was the NY money market, including the market and exchanges, the effect upon credit and the govt bond market. We made a study of 1914, but couldn't find anything from that experience that would really help us. In fact the situation is so changed that might expect almost the reverse of everything that happened then." Says ~~####~~ one concern was to know govt policy as to markets, and that this question had now been answered by HMJR's opening statement.

"Then what would be your attitude on gold and foreign exchange control? I presume you wouldn't want to institute foreign exchange control at the moment, or unless something developed to force it. On gold, I assume, from your position on ex changes and the market, that you would continue your present gold policy". HMJR replies, "The way I feel, I'd like to hang a sign on my door, 'Business as usual'". Polls meeting, and they all agree. Harrison says, "I hoped that would be the conclusion you all would reach". He then suggests that immediately on crisis coming to head, govt bond market would develop serious gyrations, which would later iron out well enough. HMJR says that "I'll say right now, for the government bond market, we're ready to put up up to \$100,000,000. to maintain an orderly market".

Eccles says that Res System should be ready to lend to banks on govts at par, not only member banks but everyone. Harrison puts in, "I think, I don't mean this in any but a friendly sense, but I think you're almost a piker in talking in terms of \$100,000." HMJR, "Then we're talking in terms of \$200,000,000. You

want² to raise me?" Harrison, Yes, I do. HMJR, How much? Eccles, I think we ought to get authority to buy at least \$100,000,000. HMJR, Well, I'll play table stakes. I'll see whatever you raise me." They recall that it's a long time, because of huge excess reserves, since Res System increase its govt bond portfolio; HMJR says that he is ready to do "whatever is necessary".

Harrison then talks over methods of dealing with bond market, remarks that he thinks it should be possible to persuade main banks to "hold on to their bonds"

Bartlett is then brought in, reports on Stock exchange meetings, offers suggestion of 10 per cent minimal declines in case of "uncontrollable liquidation", and reduction of margin requirements to 30 per cent, the stock exchange minimum. Also predicts this war will be different. "A lot of people remember that last war was bullish on the market". The meeting breaks up.

Earlier in the day Earl Bailie had called to say that he would be pleased to come down as one of the special advisers.

At 4p/m/ Hanes, White, Lochhead, Bernstein, Foley, Eccles, Harrison and Knoke reconvened in HMJR's office, heard first report that AG Murphy was boggling over detail in executive order, by which the President ^{could} demand reports on all foreign exchange holdings here. HMJR then asks GHarrison what steps should be taken with regard to NY banks in event of war. Emphasizes "voluntary basis", suggests list of requests should be drawn up, shown banks, "These are the things the administration is going to ask you to do on a voluntary basis". After some talk between Eccles and HMJR in which Eccles agrees to back Treas, Harrison speaks:

"Before the Munich crisis we made a complete survey on the New York bank of the 1914 versus the 1938##### situation.

"The one thing we felt we definitely needed was a bankers committee to which I might go in a hurry on any matter concerning credit, gold, loans, foreign exchange or anything else the Treasury wanted. "Contact committee or market committee". Says he talked then with all banks, found them "definitely willing to do anything they legally can". "So all I would have to do would be put up any question to the committee and let them do the dirty work". Reports all banks probably would not unload their govt bonds. Blocking foreign accounts, however, ##### would be difficult, since the banks would have to be asked to dishonor a draft of an individual account-holder. Suggests there would have to be an order. The# others then point out that issuance of the executive orders already prepared would relieve the banks of any legal liability risked by dishonoring drafts.

HMJR then reports, "We had a call from Cochran, who saw Paul Reynaud today, and Reynaud said he didn't think this thing would interest him--- this is triple confidential-- because he didn't want to do anything which would keep France from being the haven of refuge for European capital; and he felt sure that France would be the one place everyone would want to come to, and he wanted to do everything to encourage# people to send their money there."

Harrison: Therefore he would not as a corollary to that want to commandeer or requisition French balances here. Well, I'll bet you a nickel he'll be doing it in two weeks, if it's not too late; after the war starts".

Harrison's committee is approved, but he argues against setting it up in advance, because "it will get out, on top of all the other rumors" and make a hell of a lot of trouble in the market.

Hanes adds, "I agree these fellows think that the govt has information that nobody else has at all. As a matter of fact we've got very little, but they think we've got an awful lot".

HMJR then asks Eccles for report on govt bond market decision.

Eccles says that Subject to telephonic approval of other members, a bare quorum of the Res Bd meeting early in the afternoon had authorized govt bond purchases up to \$500,000,000.

boothhead remarks, "If you're going to cover those table stakes, we may have to use some gold chips." HMJR, Meaning what? L, Well you would begin by using up the special twos. HMJR About \$120,000,000. L, After you exhausted that, what fund would you buy from? HMJR, There is only one fund. L, Stabilization. HMJR, Yes. L, That would be gold chips, because we'd have to throw some gold in the Res. System. Eccles, Well, a little more or less won't make any difference. White, Mariner is developing an immunity to excess reserves. Eccles, Hell, I've had it for a long time.

There is then a long discussion of technical details of govt bond purchases, intended to be done by NY FED as fiscal agent for the joint account of Res Bd and Treas.

HMJR then reports on labors of Cochran still further. "France##### France was not interested, but Switzerland, Holland and Belgium all were, in varying degrees. Their

difficulty lay in acting as members of tripartite, to which England and France were parties, yet preserving their neutrality vis a vis the other powers. HMJR had already assured them that, fully understanding the soundness of this stand, he would make no further move without consulting them. The question, in his view, was one solely betw en the United States and each country interested, and not between the countries themselves. He also reported that Canadians would come down on Saturday. The French lack of interest, it was decided, was not as important as it might be, since the French holdings in actual securities were only about a quarter billion, and even short-term balances only about the same. HMJR agrees that he understands Raynaud's argument, anyway, since the French, alone among European nations have been gaining capital in the last months. HMJR Also reads cable from Butterworth. The British he said, informally intimated "They would welcome the suggestion of consultative exchange of view. They remarked that the matter of bank deposits and earmarked gold seemed to them to fall into a somewhat different category from the question of marketing securities; that in the event of war they would expect to use the available dollar funds for purchasing American products and as regards earmarked gold they hoped they could assume the US would continue to give dollars in exchange for such gold which likewise they would use for purchases in the US. They went on to say that they themselves had had in mind the question of approaching the monetary authorities on the problem of dealing with the holdings of American securities, wishing to obtain funds from these there seemed to be only two possible

methods 1, selling the securities, and 2, borrowing against them they preferred borrowing, but doubted feasibility, asked whether they could do so by giving securities to straw man and letting straw man borrow. Some thought, in regard to this, that one of our govt voorporations might handle matter, keeping securities as collateral.

APRIL 14, day of waiting.

APRIL 15, meeting with Hanes, Gaston, Ehlert, Bell, Lockhead, Bernstein, Jess Jones, Eccles, Harrison, Frank, Purcell, Wallace, Robbins and Feis. Eccles begins by reporting that the Res System's open market committee, called by telephone, had fully approved bond-buying plan. HMJR then goes round the room. Frank reports SEC is for keeping market open if possible, Notes close watch must be kept for developing panic, and suggests strengthening terms of proposed tripartite agreement arrangement. Commission adds that it prefers closing the markets to keeping them open with restrictions. "As already pointed out, our commission is fully prepared, once the approval of the President is obtained, to issue orders closing our exchanges with a space of a few minutes, if that becomes necessary." We retireate, however, that every endeavor should be made to keep our markets open." Question of SEC authority over short-selling is raised. Frank, Oh, we can play on it like a piano.

Wallace reports that he has very simple plan drawn up, for letter of authorization from President to him, and telegram from him to the various commodity exchanges. Letter from President

suggests 5 per cent range of fluctuation. Subject of RFC lending on British securities is discussed with Jones. Eccles adds to his report that he is getting reserve banks to agree to lend to member and non-member banks on govt bonds at par. Lochhead reports that word has also come from Canada with regard to commodities, that their only important commodity market is the wheat market and "as long as wheat is practically a govt agency up there, there would be no trouble about it". Feis ends meeting with brief swivel, apparently as unreasoning as previous one. HMJR suggests that if he is vastly disturbed by steps being taken, he can make specific objection when cables are drafted. So ends April meetings.

Same day at 2:30 p.m. Viner, Hansen, Riefler and Stewart arrive in HMJR's office at 8 p.m. meeting. All four promise to come to Treas in event of war or threat of it on full time. Viner and Hansen say arrangements will be difficult, but will be made. HMJR, for some reason, tells them of the visit of Towers, the Canadian, whom he had told, "One of the things bothering us is the possibility of using Canada as a back door. We don't want that to happen."

APRIL 16, in the evening, after HMJR gets President's approval,

Going back--- MARCH 31:- Butterworth cabled from London that "since Europe was again moving into the danger zone", he had been down to talk over plans with the British Treasury. He had found that the general program set forth in the Munich period still held good, but that certain matters had been worked out in greater detail. 1) All British-owned foreign securities, foreign balances and gold would be requisitioned on outbreak of war. 2) Close banks for one day. 3) Bank of England daily announcements of foreign exchange rates. etc, etc, all this in previous notes. Treasury immediately wired Butterworth to mail copy of this cable to Cochran.

APRIL 3:- Cochran wires that he had asked Rueff what steps French Ministry of Finance was planning, and received reply that no definite plans existed. Basic policy, business as usual as nearly as possible. Another cable of the same date describes talk with Governor Fournier of Banque de France few minutes after talk with Rueff. Fournier expressed opinion that Minister Reynaud would be extremely reluctant to take restrictive steps, but professed ignorance as to plans. Says that last autumn there was no thought of general moratorium, doubts need for one now. Expresses hope that repatriation of French funds would be "prolonged if not augmented by patriotic instincts in the event of war". "The Policy is to wait and see".

APRIL 16:- Treasury cables Butterworth, expressing satisfaction with British Treasury plans, suggesting that British will best be

able to obtain dollar funds here by using gold and balances, waiting to borrow on or liquidate securities, adding that it is "private opinion of Treasury general counsel that private sources in this country would be unable to extend credit either to the British govt directly or through the medium of an agency of the British govt or a "straw man"; but that the Johnson act would not prohibit such loans against American securities if made by the US govt or an agency thereof." Cable notes that plans have been made for protection of American markets, states that "we would bend every effort toward keeping these markets open for the orderly conduct of business".

APRIL 15:- Memo from Ed Foley to HMJR on loans and purchases on foreign held American stocks, nationalized by a foreign country. Summary: I Loans: a) By private persons, extremely doubtful because of the Johnson and Neutrality Acts. b) Loans by Federal govt or agencies thereof- not prohibited by Johnson or Neutrality acts, not inconsistent with the international law of neutrality. Such loans could be made by the RFC, Export-Import Bank or Stabilization fund. There are, however, limitations as to the use of and amounts to be loaned by such instrumentalities. II Purchases, a) By private persons. RFC could finance private persons and could also finance a newly created corporation which would buy such securities. b) The Export Import bank could buy American bonds up to a limited amount, but could not buy stocks. c) Stabilization Fund could make purchases. Copies of this Memo were given J. Jones and the resident.

APRIL 16:- After some difficulty over part of executive order requiring reports on all holdings of foreign-owned assets here, Frank Murphy sends letter approving Treasury-SEC executive order to President. At Treasury, EHFJR greets letter as "substantial compromise decidedly in our favor".

APRIL 17 Danny Bell submits long memorandum on war risk insurance, describing experience of world war, showing the profit was made, and in general indicating that same system might be followed again.

Of same date there is memo describing how Foley memo on RFC lending powers under Neutrality and Johnson acts was handed to J Jones by HMJR at meeting in HMJR's office on afternoon of April 15. The next day, a Sunday, J. Jones telephoned HMJR at his house that he agreed that his powers had been correctly set forth.

APRIL 18:- Memo from EHFJR doubting President's constitutional or legal power to proclaim general ~~#####~~ commercial holiday. Supporting power to proclaim bank holiday, and to close the national securities exchanges.

Same day, HMJR, Wallace, J Jones, Frank, M Eccles, and JW Hanes trooped over to Whu for another conference with FDR. FDR opened discussion by saying, "In the event of war being declared two days from now, I assume that you gentlemen have a program for handling the securities and commodities markets". HMJR said that a program had been prepared, and these present then reported on their special fields-- as Frank on exchanges, Eccles on

Res system policy and bond market operations, (coming out against Johnny's lower margin requirement) , Wallace on his commodities exchanges letter, J Jones on plans to lend against foreign-owned securities, and HMJR on his poker game in the govt bond market. The President expressed great pleasure with the progress made.

APRIL 19:- ~~MEMORANDUM~~ Memo from Graves on special functions of Customs service, I in event of war involving US and II in event of war not involving US. Nett, to enforce various licensing##### regulations on exports and imports, uphold embargoes and see that no Americans travel on belligerent vessels, and watch over vessels in American ports to see they keep our and international law.

APRIL 20:- Meeting in HMJR's office in afternoon, Lockhead, White, Foley Mrs. Klotz and HMJR. Subject up, a cable from Treasury to Butterworth, drafted by EHFJR, confirming RFC's legal authority to make loans against British-owned American securities, but not making any policy commitment. This was in answer to request by British govt. HMJR opened meeting by stating that he had showed cable to C Hull, who feared sending cable since if matter leaked it might complicate work for revision of neutrality act.

Then HMJR brings up question of Railroads. Basil Harris has raised this, reminding him of dreadful experience of last war, and HMJR has mentioned it to President. HMJR recalls that he still has, in residue of wartime, title of "Director General of the Railroad ", wonders whether any power continues with title. HMJR adds, "Now the other thing the President raised. He said when he was assistant Sec of the Navy he grabbed every sea-going

tug there was and sent them all down to Norfolk, and the next thing he knew Boston had no coal and he had to give half of them back. If we are not careful, the Navy will do it again. So he said make an inventory of tugs. That will be just down Basil Harris' ally. And I will raise the president one; I will include barges, both sea-going and harbor, coal barges and domestic and railroad barges. At this meeting it is noted that news of Treasury interest has stirred Maritime Commission to act on war risk insurance.

Same day, Danny Bell submits "classified summary of the principal war activities of the Treasury department". HMJR was determined to be prepared for the very worst. April 21 brought another memorandum on "govt operation of railroads in time of war" from EHFJR'S office. Memo contained succinct recommendation: "In view of the countless difficulties involved in govt operation of the railroads during the world war and the disrupted condition in which the carriers found themselves after the war, if it is contemplated that the railroads are to be operated by the govt if and when another war comes, steps should be taken now to prepare a comprehensive law covering such operation. The drafting of such a law would require assistance of experts in the field of railroad administration".

APRIL 24, HMJR called in Gray, retired president of the Union Pacific, Daniel Willard, Dan Bell and McReynolds. He announced to railroad men that in event of war to which US was a party, the govt would ~~unilaterally operate the railroads and t~~

not again take over the roads, but would attempt to "establish such controls in the industry itself as to meet the transport needs of the emergency". It was agreed that after thinking problem over, Gray and Willard would return in two weeks.

APRIL 28:- Bewley, Floey, Lochhead, and Bernstein conferred, the Treasury men desiring information as to British wartime policy. Number of questions prepared and put to Bewley, who promised to transmit them to British Treasury. These questions concerned exchange control and were technical.

MAY 2: Memo from Foley on HMJR's duties as member of National Munitions control board, together with suggestion that he appoint a deputy to attend board meetings.

~~MAY~~
MAY 8:- G.R. Gray and Daniel Willard submit long letter, suggesting that by intelligent management of freight-routing and wise additions of railroad equipment, the necessity for Federal control of roads may be avoided. Two days after this was submitted Gray, who had worked on letter through a serious illness, died in his room at Mayflower-- the first casualty.

MAY 31:- Foley and Bernstein go over to State to talk to Moore and Hackworth about a series of neutrality proclamations being drawn up, just in case by the Treasury, State, War and Navy Depts. (See Ed about these).

MAY 10:- "Suggestion of a man to head the War Industries B'd: Charles Hook, American Rolling Mill"-- The last words being scribbled on slip of paper in pencil.

Mid -MAY, letter from Basil Harris, formally describing his investigation of shipping situation. And June. Harris believes that preparations for shipping control in the event of war are going forward satisfactorily. Maritime Commission is in chief charge, with Huntington T. Morse the special expert.

JUNE 5:- Letter and Memo from H.E. Collins, asst director of procurement, describing findings of Interdepartmental committee on Strategic Materials. Sets forth serious experience of world war, when shortages of tungsten, Manganese and chromite were so serious that these ores went to prices ten times higher than the pre-war level, when industry had to make poorer products to save raw materials, and when actual famine in certain materials, such as platinum, only obtainable by smuggling out of Soviet Union, faced country as war ended. Expenditure of at least \$25,000,000 on laying in supplies of platinum, quinine, rubber, manganese, tungsten, chromite, and tin is recommended. Members of committee Feis, War, Navy, Treas, Int, Com. Note on Memo, "Hull will bring this up at Cabinet". It was later arranged by act of Congress.

Another meeting in Feis' office June 15, at which they receive word of meeting in President's office next day to decide sum required. \$25,000,000 is decided on.

JUNE 29:- Letter arrives from Charles A. Dunning, Canadian Minister of Finance, expressing Canadian decision on HMJR's proposal. Letter states that he has no plans for the actual impounding of American securities owned in Canada, will be glad to

cooperate with ⁺reas in any way, will attempt to enforce any regulations American govt may make, and anticipates no trouble, either in stock or commodities markets. HMJR sends copies to ^rresident, Hull, Jones, Wallace and Frank, writes Dunning back proposing ~~furp~~ there# conferences to discuss cooperative efforts.

APRIL 19:- Har-18 reports on shipping inquiries, says captains are supplied with secret code words, arrangements for code changes made. Suggests on larger merchant ships replacing crews or at least vital parts of them with navy men or naval reservists. German born problem. Trusted radio operators especially. Suggests further ship control board for routing ships, arrangements for keeping harbors clear, preventing sabotage to lighterage facilities, increased fire fighting equipment at docks, and guards on refineries of bunker oil, of which there are not many. Also question of insurance, in case of war or no war, mentioning work of Chubb committee. All this is preparation of a very long range, fearing the extreme worst sort, but calmly done. HMJR "I don't want to wait until Mr. Hitler pulls the plug and then have everything helter skelter".

Same day, HMJR telephones Bob Hutchins, borrows Jake Viner.

Same day, Frank Murphy confirms EHFJR's informal opinion on liquidation of British securities by American corporation--RFC.

Next day this is cabled to Butterworth. Object, of course, is to guard as fully as possible against panic in our securities markets.

AUGUST 2:- Memo from HE Collins, asst director of procurement, describing how Lord Riverdale and Sir Owne Chalkley came in to discuss the functional organization of the procurement division. Even then it was not intended to use a private purchasing agent here, and the English wanted to learn of our procurement division's techniques in order to apply them in their proposed purchasing commission.

November 29, 1939.
9:58 a.m.

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H.M.Jr: Hello.

Operator: Mr. Edison. Go ahead.

H.M.Jr: Hello.

Edison: Hello, Mr. Secretary.

H.M.Jr: Hello, Edison, how are you?

E: Why, pretty good. Say, do you know there was an Act that created authorization for a hundred million dollars worth of strategic materials.

H.M.Jr: Yes.

E: Now last year, we got ten million of that, and now there's a letter come through which wants me to sign up for the balance of the ninety million.

H.M.Jr: Who's the letter come from?

E: Well, it's this - more recent, I mean Navy Munitions Board.

H.M.Jr: I see.

E: Now they would like, of course, to get the balance of those strategic materials.

H.M.Jr: Yes.

E: And as there's ninety million authorized why they just asked for it, that's all.

H.M.Jr: I see.

E: Now they ask, of course you get it.

H.M.Jr: I know.

E: See. So I didn't want to sign this letter without it's being in conformity with something you wanted, I don't know whether they're economy drive or what not was -

H.M.Jr: Well, who does it go to?

E: Goes to you.

H.M.Jr: No I mean the letter.

E: Goes to you.

H.M.Jr: Oh the letter goes to me.

E: Yes, it's addressed to you, and it says: "It is requested that the Treasury Department submit an estimate for the fiscal year 1941 for ninety million dollars for the procurement of strategic and critical materials for national defense under the Act approved June 7, 1939."

H.M.Jr: Well, it won't embarrass me at all to receive the letter.

E: It won't.

H.M.Jr: It will not.

E: All right. Well, it's signed by Louis Johnson and myself jointly, you see.

H.M.Jr: That's all right it won't embarrass me and I appreciate the courtesy of your calling me.

E: All right. Fine. I didn't know but what you might have some ideas.

H.M.Jr: Well I don't know what the President has in mind. He's always wanted to buy it, have us buy this stuff but he won't give us enough money.

E: Yes.

H.M.Jr: But it doesn't embarrass me a bit because I don't know whether we need a hundred million dollars worth, but I think we need a lot of it.

E: Well we need it, I mean it's a good stock or you can use a lot more than that as a matter of fact.

H.M.Jr: Well, no harm asking for a hundred and let's hope we get twenty-five.

E: Yes. All right.

H.M.Jr: O.K.

E: Thanks a lot.

H.M.Jr: Goodbye.

E: Goodbye.

November 29, 1939.
10:19 a.m.

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H.M.Jr: Hello.

Operator: Go ahead.

H.M.Jr: Hello, Ronald.

Ronald
Ransom:

I appreciate letting me speak to you, I just wanted to be sure there wasn't any possible misunderstanding about it, matter, we had told you we were out of the market during your preliminary period for this financing and the market's quite strong again today and I think perhaps if it continues strong we may do some selling today but I didn't want to - hope to give it that direction without being sure that you personally knew it.

H.M.Jr: Thank you so much.

R: That's all right. Thank you very much.

H.M.Jr: Thank you Ronald.

November 29, 1933.

3:57 p.m.

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H.M.Jr: Hello.

Operator: Mr. Walleth.

H.M.Jr: Hello.

Lowell

Walleth: Hello.

H.M.Jr: Hello Lowell.

M: Oh say, Henry. This proposal has been made and I thought I might try it out on you as a dog -

H.M.Jr: (laughs) What kind of a dog?

M: A good natured dog.

H.M.Jr: O.K.

M: The New Year's Eve broadcast, by all the members of the Cabinet, over a national hookup, on the outlook for 1940.

H.M.Jr: Well in the first place who's going to guarantee the Cabinet will be sober on New Year's Eve.

M: If we start early enough in the evening, do you think they might not be.

H.M.Jr: I'm not sure.

M: Well, as a hard drinker like you, you ought to know. You could stand up under it.

H.M.Jr: Well, if you're trying it out on me, I hope you don't do it.

M: Well, I'm not advocating it. This proposal's been made -

H.M.Jr: I think it's awful.

M: Yes.

H.M.Jr: Because I take it, you've got in mind something like business would be say for us or something on that -

M: Yes, I don't know what they ought to say.

H.M.Jr: Well -

M: Might say business looks terrible.

H.M.Jr: Yes. We here in the Treasury aren't very cheerful about prospects.

M: Yes.

H.M.Jr: So, I don't think you want us to say that.

M: No, I wouldn't think so.

H.M.Jr: Oh -

M: Ruin everybody's New Year's Eve.

H.M.Jr: What?

M: Ruin everybody else's New Year's Eve.

H.M.Jr: Yes. Just tell the truth.

M: Well, the idea has not been sold to me a bit, but I didn't want to turn it down.

H.M.Jr: And the part that I'd have to play and I'd have to be very lugubrious and even though I was sober.

M: This would only permit each one to talk four minutes, or thereabouts.

H.M.Jr: That's three and a half minutes too long.

M: Yes.

H.M.Jr: Oh, putting the whole Cabinet, I don't know, it's - I just don't understand it.

M: Well, the thing struck me as a fairly good act for the radio company, broadcasting company.

H.M.Jr: Oh yes, I -

M: And, but I wasn't sure, it was too darned good for that because New Year's Eve is - the spirit's all wrong.

H.M.Jr: Who the hell wants to hear the Cabinet on New Year's Eve.

M: Incidentally it will be a Sunday evening you know, this time.

H.M.Jr: Yes, that's still worse.

M: Yes.

H.M.Jr: Gene Duffield's here and he's laughing his head off at me.

M: How's that?

H.M.Jr: Gene Duffield is in the room. He happens to be in the room. He's laughing at me. I still say who the hell wants to hear the Cabinet on New Year's Eve.

M: Yes. Well, listen, I don't. I won't be here, so you can go ahead and do it.

H.M.Jr: Well you - you've got your reaction from me.

M: Yes.

H.M.Jr: And how are you otherwise?

M: I'm pretty good and much obliged for the reaction.

H.M.Jr: such thing.

M: Righto.

H.M.Jr: Goodbye.

November 29, 1939.
4:12 P.M.

H.M.Jr: Hello

Randolph
Burgess: Oh hello Henry.

H.M.Jr: How are you?

B: I'm fine. The first thing I want to do is to congratulate you on the issue - almost too successful.

H.M.Jr: Almost too - terrible.

B: Boy, these fellows go crazy, don't they?

H.M.Jr: They sure do.

B: They've put the price way too high but then its settling down a little this afternoon. I think they'll be a little more sensible in a day or two about it.

H.M.Jr: Good.

B: But it certainly went over the roof.

H.M.Jr: Yes.

B: Great thing. Now also I was to tell you that on that other matter that we discussed I've been doing a lot of talking and - mostly here in the shop.....

H.M.Jr: Yes.

B:to try to figure out what the best way to tackle that thing is - wheels within wheels and a lot of commotion about it and I find we've had several tries at it ourselves which makes it a little difficult for us to be very effective but the conclusion I come to is that you've taken already the very best way to do it.....

H.M.Jr: Good.

B:which is ^htrough Trapp/and Johnny.....
(Traphagen)

H.M.Jr: Good.

B:and I'm sure that's the way to drive ahead on.

H.M.Jr: Good.

B: Trapp's one of the best men there is; he has great respect for Johnny.....

H.M.Jr: Good.

B:and I think that's just the avenue to be effective and we'll be in the background and doing anything we can in addition.

H.M.Jr: Fine.

B: So I think you've got that well started.....

H.M.Jr: Well thank you.

B:and if we can do anything definite in the operation that you see, from time to time, why just let us know.

H.M.Jr: Thank you very much.

B: Very good Henry.

H.M.Jr: Goodbye.

GROUP MEETING

November 29, 1939.
9:30 a.m.

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

H.M.Jr:

A whole series of documents were given to me yesterday by Mr. Welles and Mr. Berle. Mr. Berle came in the capacity of Chairman of the Sub-committee of Finance and Monetary Problems and after considerable discussion along personalities, they brought you (Hanes) into the thing. I will tell you about it if you will remind me afterward. It was a left-handed compliment they paid you.

Mr. Welles tells me the President has directed him to run this conference for 21 countries; it is his sole responsibility. It is all right with me. He wants Mr. Berle as chairman of financial and monetary problems and that is all right with me, but he does want some advice and I thought I would pin this on Harry White, but I would like to have advise and help him Cochran, Cotton, yourself (Riefler), and go over at 10:30 Friday, and will you please call up Governor Ransom and ask him to send Goldenweiser over also. This is my diary copy, you see.

Then, as I understand it, Mr. Hanes has arranged for a meeting this afternoon....

Cotton:

It isn't quite arranged yet. We were going to arrange one for 3:00 o'clock.

H.M.Jr:

Of the Bondholders Protective Committee.

Harris:

Yes.

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Cotton: That is tomorrow.

White: A preliminary meeting was arranged for this afternoon, but prior to the meeting that we are going to have with the others.

Hanes: I arranged the meeting Thursday morning with Trap-hagen and Rogers and the executive committee and Frank and Noble and Welles. They are going to send men, send their representatives.

H.M.Jr: Tomorrow?

Hanes: Yes, at 10:00 o'clock.

H.M.Jr: Well, Harry said something about one this afternoon.

White: This afternoon there was a meeting of so-called technicians from the various groups who will meet preparatory to that meeting, so that we will inform you as to what the consensus is of any suggestion or recommendation.

Hanes: Good.

H.M.Jr: Well, if it is agreeable to you, on account of your going away, I would like to pin this on Cotton.

Hanes: I didn't know - I told Welles and Frank both to send representatives, and Noble also. I didn't tell them to come themselves.

H.M.Jr: No, they didn't expect it. But just so somebody will follow it, would you tell Cotton so he can follow this particular thing through?

Hanes: Sure.

H.M.Jr: And act as your representative on this. You carry it until you leave.

Hanes: I will tell Joe our conversation. Maybe it would be a good idea if I showed him that memorandum I wrote to you. Can I?

H.M.Jr: Sure.

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Hanes: All right. You see this was a staff meeting tomorrow and we were to meet with the Secretary at 10:00 o'clock on Friday morning to tell him the results....

H.M.Jr: I just say, "How do you do."

Hanes: Yes.

H.M.Jr: Mr. Hanes asked him to come in tomorrow to get ready and Mr. White is getting ready this afternoon for tomorrow. Maybe Mr. Cotton will have to get ready this morning for this afternoon.

White: As a matter of fact, Mr. Cotton suggested we meet an hour earlier tomorrow to get ready.

H.M.Jr: They had a conference room downstairs, Berle and Burgess and the others, and they had an outer room and I said, "What is the outer room for," and he said, "Well, it is for one huddle outside of the conference room and if those people want to have another huddle, that is for that." That is a huddle within a huddle. That is right, isn't it? You looked after that, Cotton.

Now, what else have we got?

Hanes: I have....

H.M.Jr: Let's run through this morning. At 10:00 o'clock we go to Tijuana. At 10:30, Ed Noble is coming over on South America and I would like White and Cotton here and you (Hanes), if you are not busy.

Hanes: No.

H.M.Jr: All right, at 10:30. And you are bringing somebody in at 11:30?

Hanes: Yes, that is the Revenue group.

H.M.Jr: Then tomorrow, Magill and Randolph Paul go to - we have got Traphagen at 10:00. Is that all clear?

Hanes: I wanted to ask you about that. You know we employ Carl Shoup as an expert one or two days

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a month. He has been on the Treasury staff, has done a lot of work for us. He has been doing for about four months a special study on profits tax, and so forth, and I can invite him down here while the others are here.

H.M.Jr: Swell, I am all for it.

Hanes: He will be here tomorrow.

H.M.Jr: What else?

Hanes: That is all.

H.M.Jr: Herbert?

Gaston: I don't think of anything.

H.M.Jr: Will you fix me up a little memorandum when the President comes back? I will be glad to ask him to loan us three to six consolidated long distance flying boats to assist on the Atlantic patrol.

Gaston: Navy?

H.M.Jr: Yes, right away. Let them take care of the North Atlantic during the wintertime while the Navy goes south.

Gaston: You remember what Stark said?

H.M.Jr: I know, but it doesn't mean anything. I think I can shame the President.

Ed?

Foley: Nothing.

Gaston: There is a matter I would like to talk to you about sometime in connection with the departments.

Duffield: Mrs. David Cushman Coyle called yesterday and said she was working on a collection of occupational information to be disseminated among smaller schools and particularly for occupations in the Government, that she had been told that you were extremely interested in this thing and that she

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shouldn't complete her work without talking to you. That was all news to me, but I just stalled and thought I would find out whether you were interested.

H.M.Jr: Self-Help Cooperatives.

Duffield: That is another thing.

H.M.Jr: She is on that board.

Duffield: Yes. Well, I will just make whatever information we have on the Treasury available to her and let it go at that.

Mr. Ted Sheridan, Mr. Frank's assistant, called me on the telephone yesterday afternoon and told me that they might put out a statement explaining why they did not publish their foreign trading figures, explaining their inadequacies.

H.M.Jr: All right.

Cochran: Nothing.

Cotton: Yesterday at the Export-Import Bank meeting, the question came up of increasing the Italian cotton credit from about 4 to 6 million dollars. Everybody else seemed mildly in favor of it. I wondered what you would feel about it.

H.M.Jr: From 4 to 6? How did the State Department feel?

Cotton: They were mildly in favor of it. There was no disposition to push it.

H.M.Jr: That would express my mind. I would go along.

Cotton: If we go along, it will go through.

H.M.Jr: What do you recommend?

Cotton: It is entirely the risk of war, that is all. I think otherwise it is good business.

H.M.Jr: I think the way they are behaving right now, it is a good risk. What do you think, John?

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Cotton: It is a question of war.

Hanes: I didn't understand.

H.M.Jr: Increase from 4 to 6 the cotton credit with Italy.

Hanes: I don't know, I am not prepared to answer that.

H.M.Jr: I am just saying on a hunch, I think it is a good gamble.

Just so that you know exactly how I feel - Harry, I want you to get this - this Bondholders Protective Committee, I would like to state my position. I would like to have them reorganize themselves the way the New York Stock Exchange did so that they can function as the agency which will do the job of trying to bring together the Latin American governments and the owners of these bonds. Our function is simply one of assisting them to reorganize themselves. Once having done that, I would like to step out of the picture and they should be self-driven, a self-starting organization just like the New York Stock Exchange. The administration could go ahead and help them fix themselves up and function and I want to say, "God bless you, boys. Go to it." But I don't want to find myself in a position that I am negotiating with a government on defaulted bonds that they won't approve.

Cotton: By the way, on this Colombian thing, I found out yesterday that the situation here - the Ambassador, as you know, was carrying on these negotiations. There was some question between the Ambassador and Jaramillo as to who is doing all this and the Ambassador has instructions as to whether he can go forward and renew the offer which he made - would have been willing to make to Mr. Francis White, and they probably know now. You said Jaramillo said he was waiting for Mr. Jones or you or somebody to present something. Well, there are two people playing the game. That is something we want to bear in mind.

H.M.Jr: I thought we only had those troubles in Washington.

Cotton: No.

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H.M.Jr: Win?

Riefler: Nothing.

H.M.Jr: George?

Haas: Here is your score card (handing report to Secretary).

Harris: I would like to discuss that Messersmith matter, if you have a spare second today.

H.M.Jr: You are coming in at 10:00, aren't you?

Harris: Yes.

H.M.Jr: We will do it all at that time. Who are you bringing with you?

Harris: At 10:00 o'clock?

H.M.Jr: Yes.

Harris: I am not bringing anybody.

H.M.Jr: Don't you want Ed?

Harris: I am afraid I have got to bring Ed.

H.M.Jr: All right.

Dan, which Government agency are you going to favor with your 50 million dollars worth of these two percents?

Bell: I am going to have a list of them today showing the amount that is available for investments in each case and make a recommendation. The Home Owners Loan would like to have about 20 million and I told them to go ahead and put in their subscription, but I didn't think they would get them.

H.M.Jr: From us?

Bell: Yes. You recall that when we discussed this provision once before I took up with you again the policy of allowing these corporations to invest their money in the market. We had prevented them

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from doing that, you know, maintaining that they should keep their money in the Treasury, that they were part of the Government, and you said at that time you wouldn't mind if they came in on this special allotment, but I think we can cut them down, give them enough to make them think they have been in on the pie.

H.M.Jr: Give them ten percent? Anyway, when you are ready, let me know.

Bell: Yes, I will, sometime today.

H.M.Jr: Thank you.

Bell: I think we ought to put in the December bulletin a statement of just how that balance available for issuing bonds is arrived at. You can't take the debt statement and figure that out.

H.M.Jr: Put that on a piece of paper and let me have it, will you?

Bell: Yes. Each year the postal bulletin carries an announcement of U. S. Savings bonds, that they will continue on sales, the same series as the previous year. I take it you have nothing in mind in changing the Savings bonds. You might put that in the December bulletin.

H.M.Jr: You come in on the allotment thing and let's talk about it.

Haas: Do you want to tie yourself up for a whole year on it?

Bell: They don't say a whole year, they say, "will continue on sale."

H.M.Jr: Let's talk about it.

Bell: All right.

H.M.Jr: I had better give you a time. Do you want to say about 3:30?

Bell: Yes, that will be fine. That is just the allotment of the 50 million?

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H.M.Jr: Anything that you have got in mind. I want George in on that, too, because he is going to study for me and I want him in.

Klotz: Mr. Bell, Madame Perkins called that meeting for December 14.

Bell: I would suggest December 10 for the other meeting, if that is satisfactory.

Klotz: The tenth is on a Sunday. The eleventh is on a Monday.

Bell: Well then, I would make it Thursday or Friday.

H.M.Jr: Anything else, Dan?

Bell: That is all I have.

H.M.Jr: Harry?

White: There is a question coming up before the Executive Committee on Commercial Policy which you may want to get in either now or after their decision. It relates to the question of presenting a bill to grant the President power to prohibit exports of commodities under certain conditions. That is rather an important issue at stake, whether or not those powers shall be narrowly limited to those commodities which have strategic definite purposes, or whether it shall have, as originally was intended in the discussion, broader powers with respect to their effects on the domestic economy. There is a difference of opinion there and if you want to get in at any stage....

H.M.Jr: You will have to take ample time. I won't be able to get to it this morning.

White: I would suggest, with your permission, that we ought to get together with Haas and the legal staff, who had been working on it, and probably some of the others, and let's see what....

H.M.Jr: That is true.

White: It may become important.

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H.M.Jr: That is terrifically important, but I couldn't, without a lot of study, attempt to pass on it.

White: If it is all right with you, we will get together and pass on it and take the position in the committee that this group agrees, without in any way committing the Treasury.

H.M.Jr: That is right.
Harold?

Graves: I have nothing.

Thompson: Could I see you a couple of minutes sometime?

H.M.Jr: Is that all you have got?

Thompson: Yes.

H.M.Jr: All right.

OFFICIAL**NOVEMBER 29, 1959****VIA WESTERN UNION**

**GENERAL EDWIN M WATSON
CARE OF PRESIDENT'S SPECIAL TRAIN
SALUDA NORTH CAROLINA (ARRIVING FOUR FIFTY PM)
(OR FORWARD TO ASHEVILLE NC)**

**WILL APPRECIATE YOUR ARRANGING FOR ME TO SEE THE PRESIDENT
THURSDAY FOR FIVE MINUTES**

HENRY MORGENTHAU JR

OFFICIAL

NOVEMBER 29, 1939

VIA WESTERN UNION

GENERAL EDWIN M WATSON
CARE OF PRESIDENT'S SPECIAL TRAIN
SALUDA NORTH CAROLINA (ARRIVING FOUR FIFTY PM)
(OR FORWARD TO ASHEVILLE NC)

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HENRY MORGENTHAU JR

Treasury Department

TELEGRAPH OFFICE

135

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HON HENRY MORGENTHAU JR

SECRETARY OF THE TREASURY WASHNDC

PRESIDENT PREFERS YOU DELAY MATTER DISCUSSED OVER TELEPHONE LAST
NIGHT UNTIL HE CAN TALK WITH YOU REGARDING NATURE OF THE CASE

WATSON

315p



TREASURY DEPARTMENT

WASHINGTON

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November 29, 1939.

CONFIDENTIAL

Luncheon conference in the Secretary's Office, Wednesday, November 29, 1939. Those present beside the Secretary were Harold Smith, Director of the Budget, and Mr. Bell.

The Secretary told Mr. Smith that he had wanted to talk with him for some time about the budget outlook. The President on several occasions had asked him if he was familiar with what was taking place and he had had to tell him that he knew nothing about what was going on in budget matters. He had seen a lot of newspaper comment about cuts in the budget and that the President contemplated cutting the deficit in half and that he didn't see how he proposed to do this. He wanted to know if Mr. Smith could throw any light on this situation.

Mr. Smith said that the figures which had been used in the papers were just wild guesses on the part of the newspaper people; that he had not yet had an opportunity to throw the figures together to see just what the expenditure program for 1941 would look like. He said the President did say about a month ago that he would like to get the deficit down to \$2,800,000,000; two weeks later he said he would like to see it \$2,200,000,000 and on Monday last when he saw him, he was wondering if it couldn't be gotten down to \$1,800,000,000. Mr. Smith said he expressed surprise at the President's suggestions because, he told him, he had not been able so far to get it down

below the \$2,800,000,000 figure. Mr. Smith said that the President had been rather tight with the estimates and he had asked the Bureau of the Budget to be tight in its recommendations and he thought it had been tight.

The Secretary asked me if I had any rough ideas as to how the President intended to reduce the deficit down to \$2,000,000,000. I said that I had no definite information on it, but just before coming to this meeting I had made some rough estimates, basing my figures on the 1940 budget expenditure program of approximately \$9,450,000,000. I thought that this figure in 1941 would be increased by about \$500,000,000 on account of national defense, interest on the public debt, social security grants, et cetera, and that it would be reduced by \$1,320,000,000 because of the liquidation of P.W.A. and the Commodity Credit restoration of \$120,000,000 which is in the 1940 budget should not be in that amount in the 1941 budget. Then there is about \$800,000,000 reductions, I estimate, that will be shown in the budget document but which may be restored before the fiscal year is ended, that is W.P.A. and its related activities and agricultural parity payments. This makes a total estimated expenditure for the year 1941 of \$8,680,000,000. The rough estimate of revenue which was given the Budget Bureau and on which I assume the President was basing his figures, was \$6,300,000,000. This brings the deficit down to about \$2,380,000,000 for 1941. This is a reduction of about \$1,540,000,000 under the 1940 budget. If the President should ask for additional taxes in the amount of \$500,000,000, as indicated in the press, then his deficit would be

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down to less than \$2,000,000,000. However, the revenue estimates which we submitted to the Bureau of the Budget two months ago will now, I understand, have to be reduced substantially. Mr. Haas is working on these. The revenue estimates may even go below \$6,000,000,000. Mr. Smith said he thought these figures I submitted were just about as good as could be presented at this time.

He then commented on the so-called "Budget A" and "Budget B". He said the President apparently had in mind that he would take the increased expenditures in 1940 and 1941 which are being made because of disturbed world conditions and set them up within the budget in a special category so they would stand out as expenditures being made because of the present emergency.

The Secretary said that he had not talked to the President as to how he would raise this additional \$500,000,000 in new taxes, but stated that unless the President had some special scheme in mind, the taxes levied in any law enacted in the next session of Congress would not be available to meet any increased expenditures until March 1941. He said that it may be the President had in mind some scheme which he mentioned last year to the effect that we could raise taxes an additional one per cent all along the line and make those taxes retroactive to the incomes produced during the calendar year 1939. This, of course, would produce additional revenue in March 1940. Mr. Smith said he did not know whether that was the case, but he had mentioned on one or two occasions the question of making some study of the additional taxes levied by the British. Mr. Smith said he had told the President he

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did not have any knowledge of that, so if he wanted a study of it made, somebody else should do it.

I told the Secretary that raising \$500,000,000 additional taxes and using an increased national defense program as an excuse did not make sense to me because there is already in the expenditure program for 1940 and 1941 additional national defense expenditures of approximately \$500,000,000 which, with the program now contemplated, will really make \$1,000,000,000 for national defense over and above what it was in 1939. It seems to me that if they are going to talk about additional taxes for an additional national defense program it ought to be on the basis of \$1,000,000,000 instead of \$500,000,000. The Secretary then said he thought that additional taxes might be levied for as much as \$1,000,000,000 for this purpose if the budget would show the American people that some attempt is being made on the part of the Administration to reduce expenditures along other lines. In other words, if we could get an expenditure program in 1941 of about \$8,700,000 including the national defense program, as compared with \$9,450,000,000 for 1940, he felt that we could add another \$1,000,000,000 in taxes which ought to make the revenue around \$7,000,000,000 and reduce the estimated deficit to about \$1,700,000,000. He hoped that the President would accompany the recommendation for such an increase with the statement that as soon as the war emergency is over the national defense figure would drop back to \$1,000,000,000 and the special taxes levied to meet these expenditures would be eliminated.

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The Secretary asked Mr. Smith if he didn't think we could get together again in the course of ten days or two weeks after he had had an opportunity to complete his hearings and again go over the budget outlook. Mr. Smith said that he would be glad to do this just as soon as he had the War-Navy budgets completed and could throw the figures together he would get in touch with the Secretary and keep him advised as to what was going on.

swB

Lunch H. Smith
W. Bell

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Rough Estimates

(In millions)

1940 Budget expenditures \$ 9,450

Add for 1941 -

National defense \$ 400
Interest, Social Security, etc. 150

550

10,000

Deduct for 1940 -

P. W. A. expenditures, etc. 400
W. P. A. and related activities 500
Agricultural parity payments, etc. 300
Commodity Credit restoration 120

1,320

8,680

Rough estimate of revenue 6,300

Deficit 2,380

Estimated deficit for 1940 \$ 3,925

Additional expenditures for 1941 550

4,475

Deduct reduced expenditures for 1941 1,320

3,155

Deduct additional revenue 775

Deficit for 1941 \$ 2,380

Office of
Assistant to the Secretary
November 29, 1939

SWB

No. 19

American Consulate

Hanoi, Indochina, November 29, 1939.

Subject: Situation at Nanning continues
to interfere with Transportation
to China.

The Honorable

The Secretary of State,

Washington.

Sir:

I have the honor to refer to my despatch no. 16 of November 24, 1939, in regard to the Japanese advance towards Nanning and the then reported apparent imminence of the city's capture by the Japanese. At this time the situation appears to be virtually unchanged, notwithstanding a plethora of rumors to the contrary. A few thousand Japanese, reportedly aided by certain Chinese militia units, are near or in the outskirts of Nanning, the main body of Japanese troops being approximately 25 to 30 miles away. Although the Chinese cause is not entirely lost, insofar as Nanning is concerned, the situation is grave and the Nanning route of transportation to China is useless for the time being.

From the beginning of this phase of the Sino-Japanese conflict the report has persisted that the Chinese National Government has been betrayed once more and that certain Kwangsi elements have sold out to the Japanese. The relative small force of the invaders and the reportedly easily gained initial success is claimed to be evidential. The person named by the majority of these rumors is Chan Wai-chow, who was in charge of the militia in and around Fong Sing, the brother of Chan Chi-tong, who was prominent in the former South-

west faction.'

It appears to be the confidential opinion of high French officials in Indochina that the above is the case.

Certain observers believe that the Japanese are in some danger of over-reaching themselves, as they are reported to have done at Changaha, and that they may meet with a reverse in this area. From the reports of the large number of Japanese troops being sent to Kwangsi, including some of the Japanese Imperial Guards, it would appear that the Japanese are taking no chances. However, I venture the opinion that the Japanese will proceed northward from Nanning, if they capture that city, with the utmost caution, as the terrain is very unfavorable. Extended bombing, with Nanning as a base, will be stressed - affecting possibly Kunming.

Respectfully yours,

Charles S. Reed II,
American Consul.

Original and 4 copies to the Department
Copy to Embassy, Chungking
Copy to Embassy, Peiping
Copy to Consulate General, Hongkong
Copy to Consulate Saigon

800

CSR:csr

11/30'39

Mr. Foley gave me the attached
and asked that I put them (enclosures)
back into the official file from the
Bureau. This was done and the file given to
Mrs. Williams in Mr. Irey's office.

McGuire

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE

November 29, 1939

TO Secretary Morgenthau
FROM E. H. Foley, Jr.

Re: William Bioff

This is your correspondence with Robert Montgomery in regard to William Bioff. When I spoke to you the other day, you said that you would like to see these letters.

E. H. F.

Enclosures (2)

Secretary Morgenthau

November 29, 1939

E. H. Foley, Jr.

Re: William Bioff

This is your correspondence with Robert Montgomery in regard to William Bioff. When I spoke to you the other day, you said that you would like to see these letters.

(Initialed) E.H.F.Jr.

MSF/11/29'39

in

Enclosures (2)

Original incoming letter from
Robert Montgomery to the
Secretary under date of 11/29'39

Secretary's reply under date of 7/2'39
(initialed carbon)

GB	WHW	MEC	JWB
George Buswell (SI)	W. H. Woolf (SI)	Milton E. Carter	John W. Burrus
		Deputy Commr.	initialed for
			J. P. Wenchel (GC)

HO	McR
Herman Oliphant (General Counsel)	(William H. McReynolds
	Administrative Ass't to the Sec'y

November 29, 1939

This material was brought in to the Secy by Mr. Graves. Graves said this is what they propose to do in connection with Procurement.

Estimated Annual Dollar Volume of Federal Purchases

War Department.....	\$241,000,000
Navy Department.....	206,000,000
Works Progress Administration.....	184,000,000
Regular Nonmilitary Branches.....	<u>200,000,000</u>
	<u>\$831,000,000</u>

NOTE: Based upon data compiled by Procurement Division
covering period December 1937 to November 1938.

November 29, 1939.

Estimated Annual Dollar Volume of Purchases for
Nonmilitary Branches, Exclusive of Works Progress Administration

Purchasing agency	Dollar Volume of Annual Purchases		
	District of	Field	Total
	Columbia		
Interior Department.....	12,451,720:	43,610,292:	56,062,012
Department of Agriculture...	8,202,804:	25,851,084:	34,053,888
Veterans' Administration...	3,973,502:	14,511,218:	18,484,720
Post Office Department.....	12,702,685:	-----:	12,702,685
Other Regular Branches.....	18,688,351:	21,745,555:	40,433,906
Sub-total 1.....	56,019,062:	105,718,149:	161,737,211
Procurement Division.....	16,391,306:	-----:	16,391,306
Sub-total 2.....	72,410,368:	105,718,149:	178,128,517
Federal Loan Agency.....	1,371,193:	-----:	1,371,193
Tennessee Valley Authority.....	-----:	16,163,385:	16,163,385
Municipal Government, D. C.:	4,614,315:	-----:	4,614,315
Grand total.....	78,395,876:	121,881,534:	200,277,410

NOTE: Based upon data compiled by Procurement Division covering period December 1937 to November 1938, supplemented by reports supplied currently by all branches affected.

November 29, 1939.

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Classification of Purchases for Nonmilitary Branches,
Exclusive of Works Progress Administration, Federal
Loan Agency, Tennessee Valley Authority, and Municipal
Government of the District of Columbia.

Item	Transactions		Dollar volume	
	Number	Per cent: of total	Amount	Per cent: of total
<u>In the District of Columbia:</u>				
<u>By Procurement Division--</u>				
Under term contracts ¹	48,309	1.94	\$3,051,287	1.71
Open market.....	34,072	1.37	13,340,019	7.49
<u>By Operating Departments--</u>				
Under term contracts ¹	188,920	7.57	20,052,840	11.26
Open market.....	108,202	4.33	35,966,222	20.19
<u>In the Field:</u>				
<u>By Operating Departments--</u>				
Under term contracts ¹	729,838	29.24	35,344,171	19.84
Local and emergency purchases.....	1,237,292	49.57	30,032,179	16.86
Open market.....	149,327	5.98	40,341,799	22.65
Total.....	2,495,960	100.00	178,128,517	100.00

Recapitulation

Purchases	District of Columbia		Field		Total	
	Trans- actions	Amount	Trans- actions	Amount	Trans- actions	Amount
Under term contracts ¹	237,229	\$23,104,127	729,838	\$35,344,171	967,067	\$58,448,298
Local and emergency.....			1,237,292	30,032,179	1,237,292	30,032,179
Open market... 142,274	49,306,241	149,327	40,341,799	291,601	89,648,040	
Total...	379,503	72,410,368	2,116,457	105,718,149	2,495,960	178,128,517

¹These are "indefinite-quantity" contracts for articles in common use by all branches, such as office furniture, equipment and supplies, automobile tires and tubes, gasoline, oil, etc. Such contracts are largely executed by the Procurement Division, for the benefit of all departments. Approximately 3,500 contracts of this character were made by the Procurement Division during the fiscal year 1939, covering nearly 60,000 items.

November 29, 1939.

Estimated Annual Purchase Transactions
by Procurement Division, Under Proposed Plan
(Exclusive of Emergency Relief Purchases)

Operating Agency	District of Columbia		Field		Total	
	Trans- actions	Amount	Trans- actions	Amount	Trans- actions	Amount
Agriculture.....	24,551	\$4,737,093	55,548	\$9,576,496	80,099	\$14,313,589
Interior.....	14,988	10,693,004	58,610	16,931,684	73,598	27,624,688
Post Office.....	2,774	3,667,566			2,774	3,667,566
Veterans' Adminis- tration.....	10,089	2,968,206	13,844	5,537,481	23,933	8,505,687
Aeronautics.....	1,063	1,778,381	713	398,339	1,776	2,176,720
Maritime Commission	1,354	715,584	401	199,239	1,755	914,823
Sub-total.....	54,819	24,559,834	129,116	32,643,239	183,935	57,203,073
All Other.....	87,455	24,746,407	20,211	7,698,560	107,666	32,444,967
Total.....	142,274	49,306,241	149,327	40,341,799	291,601	89,648,040

November 29, 1939.

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PROCUREMENT DIVISION

Estimates, Fiscal Year 1941, Compared
With Appropriations, Fiscal Year 1940

Regular Funds Only¹

Item	Estimates, fiscal year 1941	Appropriation ¹ , fiscal year 1940
<u>Salaries and Expenses, District of Columbia:</u>		
Annual Appropriation.....	\$2,678,993	\$460,000
General Supply Fund.....	-----	791,680
<u>Salaries and Expenses, Field:</u>		
Annual Appropriation	849,081	-----
Total.....	3,528,074	1,251,680
Increase, 1941 over 1940.....		2,276,394
Total.....	3,528,074	3,528,074

Analysis of Increase, 1941 over 1940

1.--Transfer to regular roll of emergency relief employees now assigned to regular duties.....	\$751,540
2.--Additional personnel required at headquarters, due to assumption of additional functions.....	345,780
3.--Personnel at field offices, due to assumption of additional functions.....	735,300
4.--Personnel of Statistical Section (new).....	141,700
5.--Contingent expenses, field, due to assumption of additional functions.....	113,781
6.--Additional contingent expenses, headquarters, due to assumption of additional functions.....	188,293
Total.....	<u>\$2,276,394</u>

¹The additional sum of \$5,200,000 is available to the Procurement Division for the fiscal year 1940, to cover the costs of purchases for the benefit of Emergency Relief projects. Of this amount, approximately \$750,000 is being applied to defray the cost of regular operations.

²Estimated expenditures.

November 29, 1939.

No. 20

American Consulate

Hanoi, Indochina, November 29, 1939.

SUBJECT: Quantity of Cargo arriving at Haiphong for Transit to China

The Honorable

The Secretary of State,

Washington.

Sir:

I have the honor to acknowledge the receipt of the Department's telegraphic instruction of November 10, 1939, received in paraphrase from the Consulate General at Hongkong under cover of a letter dated November 13, 1939, directing that a report be submitted on the first of each month as to ship arrivals at Haiphong and as to the cargo carried by these ships for ultimate transportation to China.

Under regulations now in force in Indochina, as a result of the war in Europe, a considerable part of the data desired is not available without authorization of the Government General. The only published information concerning ships and cargo arriving at Haiphong is a bulletin issued by the Haiphong Chamber of Commerce, which sets forth the names of the ships and the character of cargo carried by each ship, but in most instances the quantity is given by units of measure and not by weight. The bulletin does not give dates of arrival, origin of cargo, or destination of cargo. I have ascertained that the detailed information desired by the Department is obtainable only at the Customs and that the compilation of such statistics is a matter of a least some weeks, since it involves a scrutiny of each ship's manifest and a comparison of each manifest with the customs declaration of each consignee..

I shall, however, be able to obtain a substantial part of the information desired by the Department but the transmission of such material to the Department will be necessarily delayed.

Respectfully yours,

Charles S. Reed II,

American Consul.

Original and 2 copies to the Dept.

Copy to Embassy, Chungking

Copy to Embassy, Peiping

Copy to Consulate, Saigon

November 30, 1939

To: The Secretary
From: Mr. Hanes

I am attaching hereto (1) copy of a letter from the Under Secretary of Commerce to the President, (2) outline of a tentative plan for readjustment of Brazilian Dollar Bonds, and (3) an example of a Brazilian corporation.

These papers were left with me this afternoon by Mr. Ed Noble and Mr. Robert McConnell. Mr. Noble showed me the correspondence between himself and the President, also, the President's telegram instructing him to lay his plans before the Secretary of the Treasury and the Under Secretary of State. Mr. Noble said that he had tried to have an appointment with the Under Secretary of State and Mr. Welles had refused on the grounds that he would await such a meeting until he had had an opportunity to discuss the matter with the Secretary of the Treasury and Mr. Jesse Jones. Mr. Noble was anxious that he lay this material before you so that the men in the Department who were doing the South American work (Messrs. Cotton and White) would be familiar with their work up-to-date. I told Mr. Noble that I would transmit this information to you.

JWH

November 27, 1939

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My dear Mr. President:

I am in receipt of your telegram of the 22nd expressing your concern about a meeting in the Department of Commerce "for discussion of Brazilian financing."

This meeting was merely another informal and unpublicized conversation by members of the Department and personal business friends of theirs interested in the actual exchange of imports and exports with Latin American countries. It was the outcome of an interview between Mr. Robert E. McConnell, my associate here, and Mr. Clarence Dillon. The Tuesday meeting was attended by Mr. Brandy, representing Mr. Dillon; Mr. Curtis E. Calder, President of American and Foreign Power, which company has investments of nearly a half billion dollars in Latin America; Mr. Graham Howard and Mr. Sullivan of the General Motors Export Company, and Mr. Drum, the Latin American expert of the National City Bank. In addition, we invited Mr. Beardsley Ruml, Treasurer of Macy's (and a member of the National Resources Board).

Ever since his appointment, Secretary Hopkins has displayed a special interest in the expansion of our Latin American trade. His last public address before his recent illness dealt with that subject. Our interest in those problems was intensified when upon the outbreak of the war, you suggested to me that this Department should make particularly earnest efforts to hold the Latin American trade that would be diverted to us from the belligerent nations.

In considering means of stimulating and developing our exports and imports, we have not been aware of any departmental conflict of jurisdiction. Naturally we would not embark on the promotion of a project of such magnitude and importance without first receiving your approval nor until we had assured ourselves of its soundness from the viewpoint of other governmental departments that have special experiences and skills in connection with various factors that enter into it. Further than that, we would not even broach the suggestions to you or to the other departments until we had discussed its major aspects with industrialists experienced in Latin American affairs and felt substantially assured that the proposals are worthy of discussion. I believe that as a result of our several meetings we have all been in agreement that the principles advanced have great merit and deserve the fullest and most careful consideration.

I shall, therefore, go to Mr. Welles and Mr. Morgenthau with greater confidence in the merits of the project than I could otherwise have done. I hope and believe that their advice will be helpful and constructive.

- 2 -

It is true that the consummation of the project we are contemplating would require negotiation between foreign nations and those of our citizens who hold defaulted bonds, and that such negotiations would be handled by the Department of State. Obviously, consummation of such projects would also have immediate and important effects on foreign exchange which would involve the Treasury.

At one of our recent meetings I learned through Mr. Ruml that Mr. Delano, the Chairman of the National Resources Board, in his capacity as head of governmental planning, has addressed a memorandum to you suggesting that the departments involved should formally create a special Latin American council, in which their cooperation could be directed without the possibility of misunderstanding. I hope you will not misunderstand the directness of speech of a mere businessman if I say that the apparent concern of other departments over a perfectly innocent meeting in this Department to clarify our own ideas on a subject of vital importance, very significantly points up the necessity for some such council.

We need some kind of machinery to abate jurisdictional suspicions of departments which eventually must cooperate without suspicion if anything beside talk is to come of our interest in new trade with Latin America.

Yours very sincerely,

/s/ Edward J. Noble

Edward J. Noble
Under Secretary of Commerce

The President,

The White House.

EJNoble clo

11/13/39

Outline of a Tentative Plan
for
Readjustment of Brazilian Dollar Bonds

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The Republic of Brazil, its states and municipalities, have outstanding dollar indebtedness of about \$356,000,000. Under this plan, the readjustment of this dollar debt (and perhaps of part of the other external debt) would be effected through a corporation which will be referred to as the Brazilian Corporation. The additional external debt of these Brazilian governments is approximately 161 million pounds sterling; 624 million francs; and 229 million gold francs.

In exchange for existing bonds the Corporation would issue its own income debentures in appropriate amounts, and a part of its common stock. The Brazilian debtors would commit themselves to levy the taxes necessary to service the dollar debt, subject to any necessary adjustment in the amount of principal or interest. However, the proceeds of these taxes would be paid to the Corporation in milreis. That company would invest these payments in the expansion of existing Brazilian enterprises or in the development of new mines, factories, transportation facilities, and other industries.

The establishment of such enterprises would build up the Brazilian economy. That government could therefore agree that at the end of ten years or so it would permit the gradual withdrawal of enough dollar exchange to retire the income debentures issued to the present bondholders.

Establishment of the new industries by the Corporation would require the importation of some capital goods (rails, rolling stock, looms machine tools, etc.) from the United States. To avoid the present requirement of dollar exchange for such purposes the company would have a substantial line of credit (perhaps \$75,000,000) with the Reconstruction Finance Corporation or the Export-Import Bank. All such loans would be secured by prior lien bonds bearing reasonable rates of interest. If European creditors participate in the readjustment, appropriate distribution of such financing and export would probably be required.

During its earlier years the Corporation could not pay interest on its debentures in dollars, but it would be in a position to pay such interest in scrip representing further income debentures. At the start the Corporation income would consist only of milreis interest in the dollar bonds it holds. As that interest and appropriate installments of principal are received and invested in Brazilian industries, the Corporation will ultimately realize milreis profits from such investments. It can be expected therefore that from the beginning the Corporation will have earnings to justify the issuance of some scrip. The debentures and stock of the Corporation would be listed on the stock exchanges in the United States and Brazil. Accordingly such scrip should be readily marketable and American bondholders who needed immediate income would be able to realize it by selling their scrip.

Provision would be made that the Brazilian governments shall become pro-rata the owners of a majority of the stock of the Corporation as soon as its income debentures and perhaps its first lien bonds have been paid or redeemed. 51% of the common stock would be put in escrow for that purpose.

Brazilian concern for the success of the plan would be further encouraged by inviting some responsible Brazilian business men to serve on the directorate of the Corporation. Special efforts would also be made to employ many Brazilian citizens in managerial capacities in the subsidiary companies which would operate the enterprises it develops.

As an incentive to diligent and far-sighted management, the officers of the company would be given options to purchase some of the remaining common stock of the company. The Brazilian nationals among such officers would share those privileges. They would thus not only be given an opportunity to become acquainted with American methods of management and operation but also to acquire a financial interest in its stock. Such arrangements would give still further assurance that the Corporation would eventually become Brazilian in ownership as well as management. This should greatly minimize any temptations toward expropriation that might otherwise threaten the amicable nature of our future trade relations.

Any proposals for downward adjustment in the principal and interest on the existing dollar debt would have to be considered in the light of the debtors' capacity to collect taxes and also of the effect of such downward adjustments in improving the position of the unexchanged part of the external debt, particularly the part held in European countries. However, it is apparent that if this plan is successfully put in operation, the Corporation will steadily acquire Brazilian properties which will constitute security behind its income debentures. Solid assurance of such security might justify some concessions as to principal and interest that would otherwise be difficult to make.

The following example of a Brazilian Corporation is set forth merely as an illustration for the purpose of initiating discussion and inviting comment or alternative plans.

A BRAZILIAN-AMERICAN CORPORATION

Capitalization

First Mortgage Bonds:

Authorized \$50,000,000 - 3% - 20-year bonds.
Subscribed for by United States Government agency.
Subscriptions to be called in blocks of \$5,000,000 at any time by the action of the Board of Directors after the corporation has executed a satisfactory agreement with the Republic of Brasil.
Interest deferred for 4 or 5 years after date of issue.
Priority over assets and earnings.
Callable at 105 and interest.
Sinking fund of 20% of the net earnings.

Income Debentures:

Authorized \$75,000,000 to \$100,000,000 - 5% - 50-year.
Offered in exchange (plus stock) in blocks of \$10,000,000 for \$350,000,000 Brazilian dollar obligations (in default) on basis of schedule (to be worked out for each issue on equitable exchange basis predicated on relative values.
Interest to be paid in those years only after First Mortgage Bond interest has been earned three times.
Callable at 120.
Sinking fund of 20% of earnings.

The face amount of Income Debentures exchanged may be about 25% of face amount of defaulted Brazilians and say 200% of their weighted average market price.

Capital Stock:

Authorized 7,000,000 shares.

3,500,000 shares to be exchanged with the Income Debentures as a unit for the defaulted Brazilian bonds in the ratio of 5 shares with each \$100 face amount of debentures.

3,500,000 shares to be issued to the Brazilian Governments or designated agency in accordance with agreement authorizing corporation to exchange Brazilian bonds for milreis. In the unit of 100,000 shares plus \$10,000,000 face amount of Brazilian bonds for each \$10,000,000 of milreis called for. The Corporation may not use milreis so acquired for the purchase of foreign exchange but must be expended for labor, materials, or investments in Brasil.

Directors

Eleven directors pending retirement of new bonds and debentures shall be:

- Three from United States Government - one from each of three designated departments or agencies.
- Four designated by the Brazilian debtors.
- Two elected by income debenture holders.
- One Managing Director (American).
- One Sub-Managing Director (American).
- One Sub-Managing Director (Brazilian).

The figures used in the foregoing illustration would accomplish the refunding of the entire amount of Brazilian dollar bonds outstanding. Owing to the size of the operation and the possibilities of criticism by radical pressure groups in Brazil, it would probably be desirable to accomplish the same end by a number of separate smaller operations.

The activities of the Corporation must necessarily be confined to activities which will eventually produce dollars and not milreis. Toll roads and bridges, public utilities, and industrial companies will produce only milreis. We must send research men to develop products for export which can be consumed in this market and which necessarily will be non-competitive or at least semi-non-competitive with our own products. Gold, diamonds, lead, and manganese deposits should be carefully explored. Vegetable and nut oil in the northern part of Brazil should also be carefully studied for larger development.

The Brazilian Government recently purchased about \$800,000 worth of oil well drill equipment, and it is fully expected oil will eventually be located. The importation of oil amounts to the equivalent of approximately \$65,000 per day, or, say about \$24,000,000 per annum. This exchange import requirement causes a huge drain on their foreign exchange position, and, if the exchange import requirement could be eliminated through local oil production, the Corporation would be justified in financing on a term basis refineries against which an equivalent earmarking of dollars created through our purchase of exportable products would show a dollar liquidation over a period of years.

Coal offers another possibility, as Brazil consumes approximately 3,000,000 tons of coal per annum - 1,500,000 tons are imported and approximately 1,500,000 of low-grade coal are produced in Brazil. According to recent information, emanating from a reliable source which came about as a result of the recent survey made by the United States Steel Company in connection with Brazilian iron ore deposits, high grade coal in large quantities has been located in Minas Geraes. If this information should prove to be correct, an investment by the Corporation in equipment to produce coal would be warranted. The necessity for furnishing foreign exchange for their coal requirements would thus be eliminated, and the equivalent of such foreign exchange could be

allocated for a remittance to cover their dollar requirements to the Corporation.

The above examples of coal and oil are merely indicated to show the type of investment to which the Corporation should confine its activities.

The dollars obtained through sale of the First Mortgage Bonds are essential for the purchase of capital goods, materials and equipment in the United States, where not obtainable in Brazil. The milreis will be used for payrolls in Brazil, for raw material, equipment, etc. which can be purchased in Brazil.

The Republic of Brazil starts out with a fair assurance it can retire its external dollar debt. That for each dollar of debt thus retired there will be the equivalent in milreis spent within the country by the best management to be found in the world for the purpose of developing the resources of the country and for a profit in which the Brazilians would have a half interest.

The position of the American bondholders is improved immensely. Large profits should be in the wood. If earnings should be built up amounting to 10% of the capital employed (which is not out of reason in a new country) the bondholders should be possessed of equities amounting to four to five times the present market value of their defaulted bonds.

The United States Government agency has bought a fair security and the collateral advantages of defense, trade, and good relations more than offset any risks involved in the venture if properly managed.

Anyone can design a plan which is theoretically desirable, but to make it work successfully, it is essential to pick the men who are competent for the job.

The Managing Director and Associate should be the best, most experienced individuals available in this country. They should be given full authority and responsibility by the directors.

It will not be an easy matter to find profitable adventures in Brazil for a large principal amount in a short time. A wide variety of enterprises and investments would have to be included. Proper management of each would have to be assured. In the initial stages most businesses would have to be staffed by Americans. Many engineers and other professional men would be taken from this country.

There should be no pressure upon management to employ capital until they are satisfied it will be profitably employed. Relatively high salaries will have to be paid the staff because men capable for this job are rare.

Insofar as practical, operations in partnership with established concerns or individuals should be given priority. The possibilities of confiscation will always be a nightmare. How can equities be guarded

against this and radical disturbances of changing governments? Quick turnovers should be sought, especially those that will stimulate trade with this country. Should the initial risks be largely confined to coast areas?

Suppose the enterprise is a failure either through government interference or because of poor management. In all likelihood a failure would not become obvious at the time of maximum commitment in First Mortgage Bonds. Say the United States Government has lost 25 million in the enterprise. Would it be unreasonable to point out collateral defense advantages which may in part or in whole offset such a loss?

In such a failure, if the American bondholders on liquidation receive back only half their defaulted bonds, they have probably lost just half of nothing.

I have a feeling the risk may be commensurate with the potential gain. At any rate, the project should be carefully examined.

The war in Europe has brought into unpleasant relief the unsatisfactory status of business and cultural relations between this country and Latin America. If the business men of this country with the cooperation of the Government do not take advantage of increasing their volume of trade through term financing while the opportunity is presented, the nations of Europe through price differentials obtained by low cost production, subsidies, propaganda and aggressive exploitation, will at the termination of the war again reestablish their position. The initiation of long-range policies by this country at this time would be most opportune and will accomplish far more than can be accomplished after the close of the war in the face of severe European competition. Furthermore, establishment of European strongholds in South and Central America manifestly accentuates future defense problems.

The principal deterrent to a go-ahead program and one which requires immediate attention are the existing defaulted obligations. Only until a satisfactory solution of the debt problem is effected can full confidence be restored.

R. E. McConnell

Notes on Latin American Project

There are more than \$1,000,000,000 face amount of defaulted Latin American bonds in the possession of small investors in the United States.

The existence of this large amount of defaulted obligations constitutes a serious obstacle to proper relations between the United States and the Latin American Republics. It is destructive of confidence. It is a red light to business men in this country who might contemplate financial ventures in Latin America. It is a serious source of irritation to Latin Americans in dealing with citizens of this country. It places our business men and the American representatives in Latin America at a serious disadvantage with others. These defaulted obligations constitute a deterrent to our foreign trade, to our foreign relations, to the good neighbor policy, and to any defense program in this country or in the Western Hemisphere.

It seems now all too apparent that the great bulk of this financing should never have been done. Most of the business was unwisely conceived. The capital obtained by the Latin Americans in many instances was unwisely used. Needs of new capital and the control over the expenditure of that new capital was not closely examined by the underwriting houses in this country.

The penalty of being wrong ten to twenty years ago is being visited now upon the small investors in this country who bought the bonds, upon the Latin American countries which are in default on their obligations, upon the United States as a whole, and, in fact, upon the entire Western Hemisphere.

While this situation has existed a number of years and the nature and magnitude of the problem has been recognized by many, there have not been advanced any workable plans to rectify the evil. No constructive suggestion has been made by the bondholders or their representatives, by the underwriters, by the Latin Americans or by this Government.

No one has attacked the job of tearing down this wall of defaultation which has been erected between the two continents of the Western Hemisphere.

The circumstances which caused the default in most instances of the Latin American obligations have been quite different from the circumstances which caused defaults of many European dollar bond issues. The Latin Americans did not possess the reserves nor the export balances with which to obtain the necessary dollar exchange which would make it possible to service their dollar bonds. They are honest, involuntary defaulters.

The evil effects of the mistakes conceived years ago are not directly or indirectly visited upon a large proportion of the citizens of this country, and it is proper and desirable that this Government should initiate the effort to rectify the mistakes that have been made.

The people of the Latin American Republics would not be amenable to a plan which involved further obligations on their part. Gratuities under the disguise of financial obligations would only activate the evils that already exist.

The best solution would be one which ultimately disposes of the defaulted obligations which now exist, which inaugurates a policy of cooperation between the peoples of North America and South America and which will bring about a betterment in living standards for all.

Latin America needs our machines, our structural materials, and our engineering experience with which to build up their own plant capacities and facilities. We must provide a means for them to find the dollars and the credit with which to obtain these things.

This country needs new outlets for its capital goods and its consumer goods and for the enterprising business man or engineer which must be initiated by a properly secured investment field for its surplus capital.

The frontiers no longer exist in this country although a remarkably large percentage of the people of this country still possess the rare qualities and aptitude of the business pioneers. There still exists a large field for such aptitude in South America. If we can demonstrate to the Latin American that we are worthy of his confidence and cooperation, we can together make both the Americas much better places in which to live.

November 30, 1939
11:15 a.m.

PRESENT: Mr. Hanes
Mr. Magill
Mr. Tarleau
Mr. Blough
Mr. Shoup
Mr. ~~Scheer~~ Shur
Mr. Randolph Paul

H.M.Jr.: Mr. Paul, you gave the boys something to work on.

Mr. Paul: I did suggest a lot of questions, that is true, probably there are a lot I didn't think of too.

H.M.Jr.: The President gave me a memorandum which was addressed to him and me. As soon as I got it I gave it to these gentlemen and of course there are a lot of revenue figures that you raise. I don't know whether they have had time or not. They haven't; they are out of training. They have not worked nights recently. Johnnie, could you tell me what arose this morning?

Mr. Hanes: I want to say at the outset of this, it's a large order as you can visualize. They have not really had enough time; really confined discussion to the one new subject which we had not discussed at great length in the Treasury. We have been doing some work on it. As you know, Mr. Shoup has been busily engaged working on the excess profits taxes so we have not confined ourselves -- they -- I have been in and out of the discussion on account of South America -- confined themselves largely to the discussion of the one new subject. I think the things Randolph Paul have suggested in this memorandum are, for the large part, things that the Treasury is very familiar with. I don't think there is anything new in here at all. There may be one or two, but minor.

The one new thing that we have not devoted any open attention to is excess profits, so for that reason they figured it was best to start out with the subject that has been discussed the least and that's what we have been working on.

H.M.Jr.: Excess profits is in your memorandum?

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Mr. Paul: Yes, there is a separate memorandum on that.

Mr. Hanes: But that's what they have been talking about. I don't think Ross has had any time, I am sure, to digest this memorandum. He did not see it until this morning about nine o'clock so he's not had time to digest it and I don't think much can be accomplished now. Certainly no one's mind has crystallized to the point of coming in and saying we have agreed on that point or we are not agreed on that. It has not reached that stage by any means, so it would seem very little can be gained here unless you want to get into a technical discussion of these various items, which I don't think you want to do.

H.M.Jr: No, I don't want to show my ignorance. That would be fatal. What I want to do within a reasonable time is -- I mean, the President undoubtedly -- I am having lunch with him -- will ask about this thing and I will simply say that the gentlemen are here and we are trying -- I suppose we will get the thing -- the thing is progressing -- to give answers in dollars and cents to the questions which Mr. Paul raises as to estimates.

Mr. Blough: A copy of this was put into Mr. O'Donnell's hand. Of course O'Donnell is not under my supervision. He is under Mr. Haas.

Mr. Hanes: I was going to suggest by way of making progress, to save these gentlemen's time as much as we could, my thought was to get all the points in this memorandum which are not clear to our economists and also Tarleau who will be charged with the legislative drafting work in case any of these things should be sent to the Hill. My thought was to get all of the questions we could pump out of Randolph Paul while he is here and then come back with an answer to his memorandum asking for estimates on each one of these various items. First of all he does not know what is the total revenue that will be produced by this program if it were adopted in part or toto. He has no figure and we do not know at the moment what the production of revenue will be, and we don't know the point we are aiming at.

I read in the papers the President had in mind \$500,000,000. That may be or may not; I don't know whether it's authentic or what we are shooting for, but take this picture and say each of these items will produce the following revenue and match one good with one bad and

say we will lose so much and gain so much and in toto, having in mind \$500,000,000 or \$700,000,000, or whatever you want to shoot for. It would seem to be the answer on what this will produce in revenue and then specific comments from the Treasury of what your opinion was of each one of these items. I don't know whether that's your idea or not.

H.M.Jr: I do know he wants us to give him the revenue figures on this. Whether he wants us to comment on everything of Mr. Paul's, I don't know but I can ask him, but certainly the revenue end.

Mr. Magill: As Mr. Hanes has said, somebody was good enough to number these and there are 46 proposals in this memorandum, aside from the excess profits taxes, which would be 47. Well now, taking the 46 I don't think you would have any great difficulty in acquiring, even before one o'clock today, if you wanted to, a statement of how much revenue this produced. The magnitude of the particular change and whether one of this group or the group as a whole is generally in favor of that type of suggestion -- I said it that way because Paul on the very first one, personal exemptions, he suggests a change in the law with respect to personal exemptions aside from the amendment, which possibly not all of us might agree to, but we might say that if you do want to raise \$500,000,000 that some change in the personal exemptions is desirable. So I think you could have it right quick if you wanted it.

H.M.Jr: I could not digest it.

Mr. Magill: You could not possibly on 46 suggestions.

H.M.Jr: No, I could not. If I could do it this way: If O'Donnell works separately, Johnnie, he could be preparing estimates. I take it he's doing that.

Mr. Hanes: Yes, sir, he's working on it now, but of course for the purpose of this discussion -- while we are here, I think we ought to use estimates that we have already made up. I don't think there is time for him to go back and make up any estimates on all these things. I think it will be satisfactory -- we have estimates on most of these based on last year's study. I think that will be the best don't you, Ross?

Mr. Magill: Oh yes. To phrase it the way I would I don't think it makes any difference for your purposes whether it's \$50,000,000 or \$60,000,000. What you want to know is it's a \$50,000,000 change. Similarly, you would find some other changes where we would say it's a total of \$500,000,000 -- that I don't think you would care whether it's a \$300,000,000 or \$800,000,000 change.

H.M.Jr.: What I want to do is send this thing back to the President with a suggestion of what each computation means, plus or minus; that ought not to take O'Donnell a very long time. That's one thing I want to do as soon as possible -- send back what I call the Paul Plan with blue ink and red ink, just to show plus or minus what each one of these suggestions costs, and I don't know what the President wants to do but he would want that and I want to get that back in his hands as soon as possible. I should think I ought to be able to say -- I certainly ought to have that thing for him by Monday.

Mr. Hanes: Is that when he gets back?

H.M.Jr.: As far as I know.

Mr. Hanes: We can certainly do that.

H.M.Jr.: So I can send that back to him and say, "Here, Mr. President, are the revenue figures with no comments from the Treasury, just revenue." I would like to have that if it is physically possible.

Mr. Blough: I would like to make two comments. One is there are some items on which no intelligible revenue item can be worked out.

H.M.Jr.: All right then leave it zero, but I want this for the President and give it to me on 46, 45 or 44. But I don't want to be blocked on this. I want this for the President.

Mr. Blough: What I mean is, nobody knows and nobody can know.

H.M.Jr.: All right; say on suggestion 33 nobody can answer, but just because you can't answer 2 out of the 46 I don't want to be in the position or Hanes doesn't want to be in the position of the President saying, "I asked for this, why don't you give me what I want?"

Mr. Blough: There are a few on which we will have to say we don't know.

HM, Jr: All right, give it to Mr. Paul and maybe he can help you.

Mr. Paul: I am not a statistician. I don't know anything about that.

Mr. Blough: There are a few on which I can give more definite details.

Mr. Paul: There may be phases of the memo that are not clear. It was produced in a hurry.

Mr. Magill: A suggestion for your estimating. As you are undoubtedly aware, Mr. O'Donnell is anxious to do a careful, scientific job for you. This is not a case where that is really what you want but what I think you need to do is have Mr. Paul sit down with Mr. O'Donnell and take personal exemption, the first one, and say, well now personal exemption, which I assume for purposes of estimate, are these. How much money will that be, and so on. A lot of these suggestions that Mr. Paul has made are open-ended suggestions; might be done this way or that way. O'Donnell and no one else can make an estimate until you make some assumptions, but it can be done and an estimate satisfactory for the President can be obtained for Monday.

Mr. Tarleau: But we will both have to work with Mr. O'Donnell.

Mr. Magill: Go to them and get what you want.

HM, Jr: The other thing Johnnie was talking about is something quite different. He says we have seen in the papers the President has in mind \$500,000,000. I don't know what ways there are of raising the \$500,000,000 which is something else. That's what you are talking now. I don't know whether you want to list them with the stuff from Paul or the stuff we have, or whatever is available, but from what you and I talked the other day it is comparatively easy.

Mr. Hanes: Yes.

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H.M.Jr: What else have you got in mind?

Mr. Hanes: I would suggest that experts go right on with their work and take these things up and let Randolph explain what points have already come up in the certain technical parts about these suggestions which we ought to understand before we can make any intelligent comment on them. So I would suggest this group continue on for the rest of the day doing as much and completing as much as they can today, and if they can stay tomorrow, fine, and if they can't we will ask the questions and write them.

Mr. Paul: I will be very glad to stay and clarify any open points.

H.M.Jr: If you could stay so that any doubts Mr. Blough or Mr. Tarleau or Mr. O'Donnell have -- so they can put them directly to you so we can give you the best revenue figures possible.

Mr. Paul: I will be very glad to stay right through the week.

Mr. Tarleau: That will be very useful on a lot of technical ones.

H.M.Jr: I have done a lot of talking. Do you feel from the contact you have had with the President that that's what he wants us to do?

Mr. Paul: I think so. I think so. He wants particularly revenue figures and I am sure he would be very glad to have any comments you want to make too.

H.M.Jr: I think if we get the revenue figures over to him first and if he wants comments he can ask for them. Is that all right, Johnnie?

Mr. Hanes: Yes, sir.

H.M.Jr: As I remember it he said just take this. He did not say much. I read this and the thing it calls for us to do is supply revenue figures.

Mr. Paul: I am sure he is interested in that and I feel quite sure he would be equally interested in any comments you might make.

H.M.Jr: Fortunately, here in the Treasury there are no hobbles on anybody and they can make their comments, and so forth and so on, and in fact that will develop as we go along. So I think it is all right, Johnnie, for them to go to work on this.

Mr. Hanes: I think that's the way we will gain the most time.

H.M.Jr: And certainly if they get Paul's interpretation on each item, if they have to determine revenue, that would be the time if the Treasury wants to make any comments.

Mr. Hanes: All right, sir.

B-225

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November 30, 1938.

Memorandum for THE PRESIDENT:

In view of the fact that you have assigned to the United States Coast Guard the exclusive task of patrolling the North Atlantic during the winter months, it would be of the greatest assistance to us in carrying out this mission if you could cause to be transferred to the Coast Guard four of the Navy's long-range seaplanes. The type of plane we have in mind, of which the Navy has a considerable number, is the PBY-4 (Consolidated) patrol-bomber. It would be necessary at the same time to have transferred a fifty per cent supply of spare engines and propellers, that is, one additional engine and propeller as spares for each seaplane transferred.

If we could obtain these flying boats we would station two of them at the Coast Guard Salem Airport, and two at Floyd Bennett Field in New York.

The Coast Guard is very much handicapped in its neutrality enforcement by an acute shortage of long-range seaplanes for off shore patrol. The Service now has but five seaplanes of this type, although seven are under construction for delivery to begin in January. It has been necessary to strip the Pacific Coast and to rob the Gulf of desirable patrol service in order to reinforce the North Atlantic patrol.

The transfer of these four Consolidated planes would not by any means fully meet our needs for patrol and rescue craft of this type, but would furnish material assistance and improvement of the patrol service in this pressing emergency.

HED/r

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin (via Brussels)

DATE: November 30, 1939, 4 p.m.

NO.: 2193

The following is strictly confidential:

Merely brief factual reports appear in the Berlin press with regard to the reconstitution of the Rumanian Cabinet. However, the papers which print the despatches from their Bucharest and Balkan correspondents, and which state the ministerial changes are motivated more by inner political considerations than by foreign diplomatic considerations, have been quick to point up in the headlines that there has been no change in the strictly neutral policy of Rumania. The Berlin newspapers in particular have not mentioned the possible effect that may have been produced by the difficulties in the current German-Rumanian trade negotiations. In refuting foreign press reports suggesting the role played by this factor, both German officials and members of the Rumanian Legation have denied that the course of the German-Rumanian negotiations being carried on in Bucharest have had any serious effect.

German officials in informal conversation express confidence that Germany's additional requirements of raw materials will be substantially fulfilled by Rumania. They point out that active negotiations are being carried on. The blunt remark is heard occasionally that Rumania cannot refuse to cooperate economically with the Reich because of the present understanding between Germany and Russia, and because of

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Rumania's fear for Bessarabia.

At the Rumanian Legation it is denied that any serious difficulty has arisen in the negotiations. As evidence of the good understanding between Germany and Rumania, they said, is the fact that Germany is continuing to ship arms to Rumania. However, they admitted that with regard to the exchange rates of the currencies of the two countries there was an important conflict of views, and indicated that in fact Germany had asked that there be an increase in the exchange value of the mark by about 50 percent above the official rate which the Rumanian Central Bank has set; it is believed that some concession would be made toward the German point of view.

Sources in contact with the petroleum trade in Germany believe that German needs for increased quantities of Rumanian oil are the reason for Germany's insistence on a more favorable exchange rate for the mark. It is said that recently a change was made in Rumanian regulations to permit the oil companies to keep 75 percent of the exchange proceeds of their export shipments for their own use. If they so desired, they could dispose of it on the "embargo exchange market". In this way they would receive more than twice as many ley as would be received if they sold the exchange at the official rate on the official exchange market in Rumania. However, for German clearing

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clearing marks the embargo market pays no such premium. Thus Rumanian producers have insisted that German importers either pay more ley for their orders or pay 75 percent of their orders in free exchange. Up to the present, the German Government has not been willing to allot free foreign exchange for importers of oil into Germany; the German Government will also not permit these importers to raise prices in Germany so that they could pay a premium to producers in Rumania. At least one company has as a result temporarily canceled its orders in Rumania. It claims that it would be necessary for it and other German petroleum importers to raise domestic prices by about 1 percent in order to meet the demands of the producers in Rumania.

It is requested that pertinent portions of the above telegram be repeated for the Treasury's information.

END OF MESSAGE.

KIRK.

EA:LWW

09
TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

175

DATE November 30, 1939

TO Secretary Morgenthau
FROM Mr. White
Subject: The Finnish Situation

1. The economic loss to the United States will not be great should Russia conquer Finland.

(a) Finland has outstanding dollar obligations of \$20 million, the bulk of which is probably held in the United States. The National Government has outstanding about \$9 million of dollar bonds, local governments have \$7 million, and private corporations have \$4 million of government-guaranteed bonds.

(b) We will probably lose our Finnish export market. In 1938 we sold to Finland about \$12 million of goods, principally manufactured products. The Finnish market for our exports is small relative to our total exports, but the loss may be permanent.

(c) The loss of Finland as a source of supply to us is not at all serious. We buy annually from Finland about \$18 million worth of goods, consisting chiefly of wood-pulp, and newsprint. Our imports from Finland are competitive in part with United States products and are competitive with Scandinavian and Canadian exports.

(d) We may lose the payments on the Finnish government debt to us. The payments are small in absolute figures but of large moral influence.

2. What will Russia gain economically by the acquisition of Finland?

(a) The acquisition of Finland by Russia will not be of large economic importance to Russia because (1) Finland is Russia's competitor in the international lumber and wood products market, and (2) Finland is industrialized only to a small degree. She has a small ship-building industry and some general manufacturing, but the latter is confined almost entirely to the production of consumers goods.

(b) It has been rumored at various times that large deposits of minerals have been discovered in Finland, but as yet these rumors have not been confirmed. The mineral resources of Finland have not been fully prospected. Small quantities of copper, iron, zinc and nickel are now being produced. The most important of these, from Russia's point of view, is probably nickel.

(c) Probably the most important economic asset to Russia is Finland's large timber resources which are within easy access of her seaports and which serve as the basis for her modern chemical pulp industry.

(d) Finland has total gold holdings of about \$23 million and foreign exchange of about \$37 million. A little less than half of her foreign exchange is in dollars. The Bank of Finland has \$7.3 million on earmark in this country, and \$1.5 million on deposit with the Federal Reserve Bank of New York. Finnish private balances in the United States aggregate \$16 million. The importance of these foreign exchange assets to Russia depends upon whether or not Russia will be able to set up a government in Finland which will get control of these resources.

7. What will Russia gain politically or strategically?

(a) Strategic control of Finland by Russia means Russian domination of the Eastern Baltic. It will strengthen Russia at one of its most vulnerable points -- the previously exposed position of one of its most industrialized areas.

(b) It will place Russia in an extremely strong position vis-a-vis Germany through its ability to cut Germany off from Swedish supplies, especially iron ore.

(c) The aggressive policy of Russia as indicated in the Finnish episode is likely to intimidate the opposition to Russian expansion in the Balkans.

To offset all these gains Russia, by abandoning her policy of apparent non-aggression, stands to lose heavily in the eyes of world opinion. One of the consequences of invasion of Finland will be to accelerate the hardening of the opposition in other countries to Russia and may lead to her further isolation from the family of nations.

Russia's action will undoubtedly still further strengthen world sentiment in favor of England and may perhaps diminish the determination of the American people to stay out of the war. It will also intensify the efforts of England and Italy to organize a Balkan bloc to resist Russian aggression in the Balkans.

GRAY

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London

Dated November 30, 1939

Rec'd 5:10 p.m.

Secretary of State,

Washington.

2500, November 30, 9 p.m.

Department's 1516, November 28, 3 p.m.

Since October 10th banks here have been advised that all requests for exchange amounting to 1000 pounds or more from the sterling area must be referred to Bank of England. This is part of the general plan to conserve sterling as much as possible. The purchase of goods other than on a sterling base is not strictly prohibited but there is difficulty in getting the consent of the government to take up documents in any consignments where payments are to be made in dollars. Alexander Young state they have not been definitely refused any exchange permit for business to India but that they have some permits pending and not yet granted. Part of the difficulty seems to be general irritation and misunderstanding. They stated they had done business for many years with their American exporters on a credit business and seemed annoyed that these firms now demanded cash with order as they understood that the recent Neutrality Act referred only to munitions, and that in view of the difficulties they had decided they would not try to do business to India. The Neutrality Act was explained but they were still doubtful whether they really wanted to do business. It might be possible that dollars could be secured more easily in India and South Africa and the business done direct.

JOHNSON

On November 30, 1939, a conference was held in the office of Judge Moore, Counselor of the Department of State. Senator Key Pittman, Chairman of the Foreign Relations Committee of the Senate, was present at this meeting. The others present were: Mr. Hackworth, Solicitor of the Department of State; Mr. Savage of the Department of State; Mr. Trimble, Solicitor of the Department of Commerce; Capt. Sweet of the Department of Commerce; Judge Townsend, Acting Solicitor General; Mr. Feidler of the General Counsel's office, Treasury Department; and Mr. Cairns, Assistant General Counsel for the Department of the Treasury. * * * *

Senator Pittman said that in any place in the Act where any doubt might appear as to the intention of the Congress, the policy of interpretation should be to apply the test of what interpretation was the least likely to get the United States involved in the war. He stated that the policy of the Congress was to enact a law which would forestall any situation arising in which the United States would have to make strong representations to any belligerent or as a result of which public opinion in the United States might be aroused. * * * *

Senator Pittman pointed out that the Neutrality Act of 1939 was passed in the interests of peace, that at the time of its passage the Congress realized that it would mean great interference with our normal trade and commercial relations, and that the Congress was willing to sacrifice such commerce and trade in the interests of peace.

He pointed out that as originally drafted, the Neutrality Act of 1939 was much more rigorous than as finally passed. He said that the exceptions which were made were as far as the Congress intended to go in making exceptions. Senator Pittman said that he had little or no sympathy with business men who were unwilling to bend their trade practices to the peace policy of the Congress and that he thought it would be a great mistake for the executive departments to bend the peace policy of the Congress in an attempt to appease business men and shippers. Judge Moore of the State Department said that he definitely agreed with Senator Pittman on this point. He pointed out that it was ridiculous to worry about the loss of a few dollars to some business men when the stake involved was the peace and security of the United States. He said that involvement in the war in Europe would mean infinitely greater loss to both Government and business men than the few dollars that might be lost by strict conformance to the Neutrality Act of 1939 and by causing business men to bend to the peace policy of the Congress.

Judge Townsend said that the Attorney General of the United States had told him that in all cases where the statute required any interpretation, he should err on the side of safety.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

NO.: 2867

DATE: November 30, 1939, 4 p.m.

STRICTLY CONFIDENTIAL FOR THE PRESIDENT
AND THE SECRETARY.

Last evening Paul Reynaud and I had a very serious talk regarding French and English purchases in the United States and regarding the financial resources of Great Britain and France. Reynaud stated that exact statements had now been received by him from the respective French ministries concerning their needs for the next year of all kinds of imported materials.

He said it was his considered opinion that without any additional payments at all for purchases of additional airplanes in the United States, these needs would be just about covered by French resources in foreign countries. (Reynaud, incidentally, does not (emphasize not) think that there will be any liquidation in the immediate future of French holdings in the United States).

I was told last night by Monnet that orders had been given by the Prime Minister that in order for a large enough fund to be provided to buy new airplanes in the United States all other purchases abroad should be decreased. It is my belief that these airplane purchases are going to be made.

-2-

it should be realized by us at this time that It is my feeling, however, that/the foreign exchange resources of France and Great Britain (including the resources which they will be able to liquidate as well as those which are in liquid form now) will be exhausted to such an extent in approximately one year that the financial problem of these countries will be a serious one.

You probably know that the opinion is held by an important body in the Government of the Reich that it will not be necessary for Germany to make an attack on the western front for the reason that since Great Britain and France cannot pay for things they buy in the United States except in cash, they will not be able to secure funds for purchases abroad and will collapse financially before Germany does.

At the present time it is not possible to say that this German opinion is in error.

(END OF MESSAGE)

BULLITT

EA:EB



DEPARTMENT OF STATE
WASHINGTON

December 1, 1939.

PERSONAL AND CONFIDENTIAL

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses one copy of a paraphrase of telegram no. 2867 from Paris of November 30, 1939, regarding financial resources of France and Great Britain.

Enclosure:

From Paris, no. 2867,
November 30, 1939.

NOV 3 0 1933

My dear Mr. Chairman:

Further reference is made to your letter of October 14, 1933, requesting the opinion of this Department as to the merits of S. J. Res. 188 "To restore to Congress the sole power to issue money and regulate the value thereof."

This resolution, if enacted, would declare all past and future operations of national banks and of the Federal Reserve System to be unconstitutional. In addition, it singles out their currency issuing powers for special and specific abrogation.

The other point embraced by the resolution is the creation of a joint committee to formulate monetary policy. The study already authorized to be made by your committee as a result of the adoption of S. Res. 125 would appear to make the creation of this joint committee superfluous.

Taken as a whole, the possible effects which the adoption of the proposed resolution would have upon the existing banking and currency systems of the country are so far reaching that the Treasury Department simply desires, without going into greater detail at this time, to state its opinion that S. J. Res. 188 should not be enacted. In the event, however, that your

File to Chas. Bell

committee determines to give serious consideration to the proposal, the Treasury Department will be glad to make a more detailed statement of its reasons for opposing enactment of the resolution.

The Department has been advised by the Bureau of the Budget that there is no objection to the submission of this report to your Committee.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Honorable Robert F. Wagner, Chairman,
Committee on Banking and Currency,
United States Senate.

By Messenger

This is draft #1 which HM,Jr
would not accept.



TREASURY DEPARTMENT

WASHINGTON

November 30, 1939.

OFFICE OF
COMMISSIONER OF INTERNAL REVENUE

AMERICAN PEOPLE & TO
COMMISSIONER OF INTERNAL REVENUE
WASHINGTON, D.C.

MEMORANDUM FOR THE SECRETARY:

At a conference on Wednesday, November 28, 1939, you asked that we consider de novo the problem of assisting the Army and Navy in the establishment of additional facilities in private industries to expedite the national defense program. We submit the following:

A. - 1. So far as jigs, dies, tools and factory machinery of specialized and restricted use are concerned the Treasury is today able to execute closing agreements definitely assuring the contractor that he will be able to write off against the particular contract or as a deduction for the particular income tax year all such facilities as are consumed or obsolete — just as any other manufacturer may.

2. The problem of obsolescence on new factory buildings and standard equipment presents a different problem, one which under the present state of the law and in view of the hearings before and reports of the Cousens Committee and the Nye Committee, we do not believe we can solve. Since the greater part of "additional facilities" seems to consist of new construction and standard equipment it would appear that the real assistance we can give to the Army and the Navy under the present law is so slight that no further dependence should be placed upon it. Accordingly we conclude:

B. - Congressional action is required. Congress can solve this problem by

1. A direct appropriation to the Army and to the Navy for the construction or procurement of all types of additional facilities to lend or to lease to private industry, or by

2. A statute authorizing the Treasury Department to permit special deductions to well defined classes of manufacturers by definite standards and procedure outlined in the statute.

Memorandum for the Secretary.

For example, — and merely as an illustration:

A statute anticipating the emergency period will run for four years, and permitting all manufacturers who construct and install, for the purpose of fulfilling Army and Navy contracts, additional facilities which are of no useful value when the emergency terminates, to amortize the cost of such facilities at the rate of 25% per year, — provided that the returns (both income tax and Vinson-Trammell) of such contractors be kept open and subject to readjustment at the end of the emergency as proclaimed; i.e., if the emergency ends in three years, then this special deduction is to be changed to 35 1/5% per year, — if in five years, to 20% per year.

John W. Hanes

Under Secretary of the Treasury.

*Rec'd Dec 15
M.F.*

No. 444.

Bogotá, Colombia, November 30, 1939

Subject: Colombian Bonded Dollar Debt

The Honorable

The Secretary of State,

Washington, D. C.

Sir:

I have the honor to refer to my telegram No. 123 of November 16, 12 p.m. and to inform the Department that Mr. Norbert A. Bogdan, Vice-President of the J. Henry Schroder Banking Corporation of New York City called at the Embassy on November 27, and again on November 29, in connection with the Colombian Bonded Dollar Indebtedness. A memorandum of the two conversations is enclosed herewith.

Mr. Bogdan

- 2 -

Mr. Bogdan endeavored to draw me out concerning any information that I might have regarding the status of the debt negotiations. He blamed Mr. Francis White and the Bondholders Protective Council for having blocked the settlement and endeavored to join the Department of State in that blame as will be noted from the attached memorandum. Mr. Bogdan's talks with the Minister of Finance were characterized as not too satisfactory, the Minister having told him that he should approach Ambassador Turbay for information inasmuch as the Ambassador had recently been sent a statement of how far Colombia could go in the settlement.

Mr. Frank Smith, Supervisor of the National City Bank in Colombia informed me last night that he had a call from Mr. Bogdan in the course of which Bogdan referred to the National City Bank Group Loan. Bogdan claimed that Schroder had throughout supported the National City Bank, group loan and hoped that this would have some effect in gaining a satisfactory solution. Bogdan said this action was in contrast with the Department of State's attitude, where National City had no friends. (Sic)

Mr. Smith has also informed me that he has concluded a further renewal of the Group Loan at the same interest rates, but with \$125,000.00 amortization payment effective January 1, 1940. In connection with the negotiations concerning the renewal, the Minister of Finance had indicated to Mr. Smith that he preferred to have the final settlement of the group loan negotiated at Bogotá rather than with Dr. Esteban Jaramillo in the United States.

The

- 3 -

The Minister's statement conflicts with Dr. Jaramillo's indication to me (see memorandum attached to my despatch No. 381 of November 2, 1939) that he would handle Group Loan negotiations in the United States. My recommendation is that effort should be made, if and when the national debt settlement is achieved, to have the Group Loan and all subsidiary (Departmental, Municipal, Bank, and Guaranteed) debt negotiations pursued with Dr. Jaramillo in Washington.

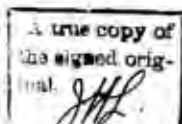
The Minister's remarks were such that Mr. Smith was led to believe that the Minister would remain in office for at least one year. This is in contradiction with rumors that the Minister was seeking another appointment.

Respectfully yours,

Spruille Braden

851

JHW/jhl.



Enclosure to despatch No. 444 dated November 30, 1939
from the American Embassy at Bogotá, Colombia.

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Memorandum of Conversations Between Mr. Norbert A. Bogdan, Vice-President of the J. Henry Schroder Banking Corporation of New York City, Ambassador Braden, and Mr. Wright on November 27, and November 29, 1939 concerning Colombian Dollar Bonded Indebtedness.

On November 27, the following was developed:

1. Mr. Francis White and the Bondholders Protective Council had handled negotiations most inexpertly and tactlessly.

2. The Colombian Ambassador at Washington had throughout desired to affect a satisfactory settlement and Mr. White's intransigence has been a controlling factor in preventing this.

3. In discussing the share-blame which might be assessed to the Bondholders Protective Council and the Colombian Government for continued non-settlement, Mr. Bogdan informally allocated the blame as 40 per cent to the Bondholders Protective Council, 40 per cent to the Colombian Government, and 20 per cent to the Department of State. When asked how he could attribute any responsibility whatsoever to the Department of State, he said the Department had been inconsistent in its policy and that the blame arose from that inconsistency. When pressed to explain just how in his opinion the Department had been inconsistent he was unable to do so. He had, however, endeavored to join the Department in a self-serving declaration to the effect that when Francis White had allegedly set 4-1/2 per cent interest as his minimum, the Department had supported this position. I told Mr. Bogdan that he should be sure of his facts before making statements of this character. I could personally see no inconsistency of policy. The Department had throughout refused to permit itself to be injected into the negotiations and that it had been its hope that a satisfactory settlement could be arrived at between the Council and the Colombian Government by direct negotiation. The press statements evidencing a disappointment in the Council's failure to arrive at a satisfactory settlement did not spell to me a change in policy, but rather a simple expression of regret that no success had been met.

4. Mr. Bogdan admitted that he had discussed the debt question personally with Ex-Ambassador Miguel López prior to calling at the Embassy and indicated that he intended to discuss the subject further with Señor López. He said Señor López seemed rather confused, feeling that he had poorly timed his retirement as Ambassador.

5. Mr. Bogdan said that he intended to see the Minister of Finance following his call at the Embassy.

Subsequently,

Subsequently, upon the occasion of an "at-home" given by Mrs. Braden at the Embassy residence the same day, he said that his conversation with the Minister had not been very satisfactory because it was taken up mostly by preliminaries, but that he would see the Minister the next morning.

Upon the occasion of Mr. Bogdan's call on November 29, the following was developed:

- a) His second conversation with the Minister had not been too satisfactory, the latter having refused to discuss details of settlement. He had gained but little information and charged this in part to the Minister's preoccupation with lengthy Senate debates in which he was participating.
- b) The only real sign of encouragement was that the Minister discussed with him the mechanics of operations following a possible settlement. Mr. Bogdan interpreted this discussion as an indication of reasonable assurance of settlement.
- c) The Minister informed Mr. Bogdan that he had very recently sent the Colombian Ambassador at Washington instructions outlining how far Colombia could go in a settlement and that Bogdan could take the matter up with Ambassador Turbay upon his return to the United States.
- d) Ambassador López and the Minister of Finance seemed to be on the best of terms, but that this was in direct contrast with the coolness and reserve with which the Minister mentioned Ambassador Turbay.
- e) The Minister of Finance had expressed concern over the Colombian coffee situation and was afraid it might injure Colombia's exchange position.
- f) Mr. Bogdan would return to the United States, taking the one p. m. plane on November 29, for Barranquilla.
- g) Mr. Bogdan regretted that Colombia had not followed his recommendation to settle the Government guaranteed Mortgage Bank Bonds coincidentally with the National Bonds since he feared a settlement similar to the Lazard Freres of London one might be forced for the American issues. It is reliably reported to the Embassy that the Mortgage Bank is repatriating large units of its bonds and Mr. Bogdan has during his visit to Bogotá had lengthy talks with the Bank, its ~~manager~~ ^{President}, the uncle of the Minister of Finance, even to accompanying Mr. Bogdan to the air port upon his departure. It is not unlikely that Bogdan was purposely protesting too much that these bonds had not been joined in the national settlement and that he has some private arrangement with the Bank for their settlement.

JHW/jhl.



TREASURY DEPARTMENT
WASHINGTON

192

November 30, 1939.

TO: Secretary Morgenthau
FROM: ~~Mr. Bell~~ Bell

The reports received late last evening indicate that the total subscriptions for the 2% 1948-50 Treasury bond issue amounted to \$6,368,000,000, of which approximately \$20,000,000 represent subscriptions for the \$5,000 registered security.

I should think you might state at your press conference that reports so far received indicate that the subscriptions will go over \$6,000,000,000 and that the subscriptions for the \$5,000 registered security will run between \$20,000,000 and \$25,000,000.

sub

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

NO.: 2871

DATE: November 30, 1939, 7 p.m.

SECTIONS ONE, TWO, THREE AND FOUR
FOR TREASURY

Today Royal L. Tyler had lunch at our house. Mr. Tyler has just come back from London and he will leave for Geneva tonight. While he found English morale very good, he said there was a good deal of anxiety in London with reference to Great Britain's foreign exchange resources and as to how long these resources would last if the war continues. He also found that there is a fear that there will be general pressure on the pound. However, he said, along with this anxiety a good deal of wishful thinking is indulged in with reference to an early ending of the war. He said that although it may seem incredible Lloyds are offering four-to-one odds that the war will be ended by Christmas of this year.

When we inquired as to the basis for this stupid conclusion, he answered that its basis was only the usual grapevine reports regarding ousting of the Nazis, control by the Reichswehr, and so forth. He stated that he had no information which would in any ^{way} provide a real basis

basis for optimism of this sort.

When Tyler was in London he saw the Director of the Hungarian National Bank, who was trying to get the British to release certain cotton shipments which they are holding up. Tyler had been given to understand that Germany had recently eased up its pressure on Hungary and that German attempts to Nazify Hungary had decidedly failed.

It is Tyler's opinion that if Russia should advance on Bessarabia, it is possible that Germany will make a move to take over the oil fields of Rumania. He believes that Hungary will resist if this happens.

By the way, we were told the same story by Tyler that we were told by Rist (our no. 273⁶ of November 13, last paragraph) regarding the last interview Sarajoglou had with Stalin. The Turkish Ambassador in Paris was the one who told Tyler the story. Since the Ambassador is a personal friend of Tyler's, it would appear that this version either has some factual basis or at least it is the story which the Turks desire that their friends believe.

Of course British and French anxiety with reference to transport problems has been aroused by the recent successes which the Germans have had with their mines. The tanker question is one of the most important of the transport problems. We understand that a total of 35 percent

percent of the world's tonnage is owned by the French and British together and that another 18 percent is owned by Norway. Today we were told confidentially that recently the British closed an important deal with the Norwegians which involves the chartering by the Allies of as many additional Norwegian tankers as may be needed by them.

END SECTION FOUR

EA:EB

RFP

GRAY

Paris

Dated November 30, 1939

Rec'd 7:44 p.m.

Secretary of State

Washington

2871, November 30, 7 p.m. (SECTION FIVE).

The Bank of France statement for the week ended November 23 shows few noteworthy changes. The state has drawn only 400,000,000 francs more on its authorized advance account bringing the total to date to 10,000,000,000. Commercial advances increased 199,000,000 while advances against securities were down 78,000,000. Thirty day advances were up 179,000,000. Note circulation increased by 89,000,000 to a total of 146,743,000,000. Current and deposit accounts decreased 63,000,000. The ratio of gold cover is practically unchanged at 59.67 as against 59.68%.

After a relatively strong opening the securities market turned weak largely on news of the brutal Russian attack on Finland.

BULLITT

EMB

RFP

GRAY

Paris

Dated November 30, 1939

Rec'd 6:17 p.m.

Secretary of State
Washington

2871, November 30, 7 p.m. (SECTION SIX).

(The market closed too early for traders to have yet gleaned sufficient gossip from the Chamber to be affected by the internal political situation which developed there and the shocking indications of the unwillingness of some French political leaders to drop their intrigues while the nation is at war. We feel, however, that when the news gets around in spite of the censors' restless shears that personal ambitions can make the corridors of the Chamber the scene of more activity than the tunnels of the Maginot Line the reaction may not prove a tonic to the nerves of a France at war.)

BULLITT

EMB

HSM

GRAY

Paris

Dated November 30, 1939

Rec'd 6:20 p.m.

Secretary of State,
Washington.

2871, November 30, 7 p. m. (SECTION SEVEN).

The rate for the month end settlement was 2-1/2% on the official market, the same as for the mid-month and 5-1/4 on the outside market against 5-1/2% a month ago. The savings bank situation continues to improve: deposits in postal savings banks during the period November one-fifteen totaled 351 millions francs and withdrawals 171 millions.

It is reported that a bill has been presented to the Dutch Parliament opening an extraordinary credit of 100 million florins for the purchase of food and raw material stocks, the six years florin credit granted on September 6 last have proved insufficient.

BULLITT

RR

RFP

GRAY

Paris

Dated November 30, 1939

Rec'd 6:49 p.m.

Secretary of State

Washington

2871, November 30, 7 p.m. (SECTION EIGHT)

It is reported from Beauchamp that Yugoslavia has agreed to a settlement with Germany with respect to seventeen Serbian and Bosnian pre-World War loans outstanding in Germany. The report states that two Bosnian loans will be redeemed within a period of three years and the remaining obligations in ten years. The total involved is 600,000,000 dinars as against 3,000,000,000 dinars that Germany originally claimed. The report adds that subsequent agreements will determine "whether settlement will be made in kind or through Yugoslav exports". It would appear from the foregoing that Germany's pressure has succeeded in compelling Yugoslavia to make a settlement on debts which politically at least must be highly unpalatable.

(END OF MESSAGE)

BULLITT

NPL:J

CK

PLAIN

200

London

Dated November 30, 1939

Rec'd 3:05 p.m.

Secretary of State

Washington

2497, November 30, 6 p.m.

FOR TREASURY.

1. The stock Market was irregular on news of the Russian invasion of Finland and the Chancellor of the Exchequer's reference to war finance in the House of Commons last night. Gilt-edged lost one-eighth to one-half of a point but closed better than the worst, war loan touching 91 and one-half and closing 92 and one-eighth or one-fourth down on yesterday's closing.

2. The officially fixed exchange rates remain unchanged and foreign exchange business very inactive. The Finnish rate is 205 offered today as compared with 200 bid yesterday and 195 buyers Tuesday. The Italian lire is slightly firmer today at $76\frac{1}{2}$ ^{77 $\frac{1}{2}$} having been 76-78 yesterday.

3. The Bank of England return reveals a switch from public to bankers' deposits this week, the former being down by £ 8.6 million and the latter up by £ 10.6 million. Government securities in the banking department were increased by £ 5.9 million, other securities including discounts

OK 2-No.2497, November 30, 6 p.m. from London.

discounts and advances declining by £ 1.4 million. The note circulation was up £ 1.6 million.

4. When he answered labor demands for increased old age pensions, workmen's compensation, etc., during the debate on the King's speech in the House of Commons last night, the Chancellor of the Exchequer spoke more forcefully and frankly than hitherto on the financial burdens ahead.

5. He used the phrase "Fearful sacrifices--some of which we perhaps have not begun to dream were possible", and gave figures to show that further soaking of the rich, even soaking them of their entire incomes, could provide only 5% of the amount which the Government must borrow in this first year of the war, or only enough for a week or ten days at the present rate of Government expenditure. He said that differential taxation of big incomes had been carried to a point which gravely interferes with the fulfillment of obligations and the continuance of much employment, and that, therefore, the only way by which a democracy could meet the terrible burden of a great war was by willingness to sacrifice throughout the whole population. He asserted that Britain could not achieve her ^{war} aims without an adjustment in the standard of living which would touch people of all sorts and kinds. He pointed out that the real problem was not one of money but

CK 3-No.2497, November 30, 6 p.m. from London.

but of things, and that the chief contribution that could be made would be in doing without things, and in doing without rises in wages, even if there were some rises in costs. He asserted that a sliding scale of remuneration to move with the cost of living could not be maintained.

This speech, following on Simon's last week's broadcast appeal for savings and the publication of Keynes' compulsory saving plan, may be regarded as the beginning of an effort to bring home the full meaning of the financial burden of the war to the working class population. Incidentally the press has so far made little comment on this speech and its implications. The speech was fairly fully reported in the press, and the DAILY HERALD prints it under the headline "Do without wage increases--A necessary sacrifice", but makes little comment, confining its remarks on the debate to a Labor member's demands for increased old age pensions, etc., and to the concessions which Simon announced for increased allowances for the unemployed and the independents of men in the fighting forces.

6. The "TIMES" today has taken the occasion of the Government's decision to extend its contraband measures to German exports to publish a strong article by "A correspondent" and a leading editorial on the article, which urge the necessity for not only stopping German exports

CK 4-No.2497, November 30, 6 p.m. from London

exports but of increasing British exports and the taking of other steps in the economic war front. It is suggested that methods which may be entirely "unsound" from the Treasury and ordinary business viewpoint should be adopted. The article contends for example that insufficient vigor has been used by the British Government in purchasing foodstuffs and raw materials in the Balkans, in order to keep them from going to Germany, and it goes on to urge the necessity of supplying needed exports which might come from Germany to those countries by barter or subsidies. The writer further pleads that the conflicting interests of so many different Government departments tend to give to all Government action a negative aspect, and that the delays in the obtaining of needed permits often make all efforts to push exports fruitless. He suggests that unnecessary consumption over a wide field could be more simply reduced by higher import duties and that resort should also be had to drawbacks equal to, or even exceeding, import duties on materials to be used in the export industries. "The Golden Rule should be never to apply a method which involves correspondence with a Government office where a more flexible indirect method will serve the purpose."

The writer stresses that "Not the least serious obstacle to the effective conducting of economic warfare

is

is the actual structure and mutual relationship of the Government offices that have to deal with the problem". He urges that economic warfare needs an organization on a geographic basis for trade with each major group of countries, with someone in charge of each, able to give decisions on every aspect of daily trade problems as they arise, including the expenditure of finance from funds allotted beforehand and that this organization should be headed by an economic commander-in-chief with a small expert economic general staff.

It would seem that the two needs are: (1) A change in the Treasury point of view with regard to "soundness" of many measures strategically necessary on the economic war front and (2) perhaps a body resembling the United States war trade board of 1917-1918 with responsibility for making decisions and a daily meeting at which the conflicting interests of different departments could be thrashed out as each decision is made.

Anxiety regarding the position of British export trade is widespread and the fact that it was cut by 40% in September and only recovered by 6% in October is proof that much must be done from the point of view of earning foreign exchange as well as from the strategic aspect. A liberal motion in the House of Commons was tabled yesterday proposing an amendment to the King's address expressing regret that the speech contained no indication that the

Government

CK 6-No.2497, November 30, 6 p.m. from London.

Government are taking adequate measures to enable the country to add to its financial strength by the development of export trade. The "broadside" of the "TIMES" today, following immediately upon the Government's long awaited decision to include German exports as contraband is therefore in line with widely held opinions which have previously been reported in the Embassy's cables Nos.1981 of October 9, 1993 of October 10 and 2097 of ^{October}~~November~~ 19, 6 p.m.

JOHNSON

HBD

RECEIVED

NOV 30 1933

This is the Treas edit of
Alsop's notes. The original
was ret'd to Mr. Alsop.

11-30-39

3-11
g. dating 11/24/38
m. 24 38

206

January 31: Cooperation between Navy and Coast Guard is established at HMR's order on application by Navy, who wants a liaison. The object is to watch the coast.

February 16: HLH calls up to ask HMR to make sure that part of French planes are shipped on American vessels.

February 13: November 17, 1938, State Department had submitted draft of bill permitting President to control American payments to nations like Germany which were holding payments to our nationals. Discrimination was guarded against by permitting the President to require all American payments in foreign exchange to any discriminating nation to be made direct to the United States, to be held, as it were, until the discriminatory regulations should be removed.

The matter was considered at some length, and finally Ed Foley prepared a draft of a substitute bill, giving the President control over all foreign holdings in this country as well as all American holdings abroad, thus increasing the power to retaliate against discrimination. This bill also authorized the President to enter into agreements with other countries for the purpose of protecting interests of our nationals.

March 16: During march on Prague, Feis and Steinbauer come over from State Department, meet with HMR and Archie Lochhead. Feis opens meeting with statement, "We are simply gasping for breath." HMR had previously been on the telephone with Waller. Feis begins by explaining there are three matters he wishes to take-up. First, Sir John Simon had announced

in House that he was asking Bank of England not to make any "exceptional transfers". Did HBJR want to think of doing same thing with Federal Reserve? Lockheed put in that Federal Reserve had only \$19,000 balance with the Czechs.

HBJR: What do you want us to do? Just tell us.

FEIS: Well, do you want to discuss it with Federal Reserve?

I am not very well prepared in this business because the thing has all come up like a cloud.

He goes on that the Czechs owe U. S. about \$165,000,000, and have certain bond issues in private hands. Points out that when Germans took Austria, they seized Austrian assets all over the world, refused to recognize debts. "Are we just going to let it happen all over again?" Suggests taking over any available Czech assets.

LOCKHEAD: May I speak there? When this came up I called Whittemore at the Export-Import Bank and asked if they had anything out with Czechoslovakia. They have out \$100,000. I asked if they were taking any steps to grab balances.

Goes on that this loan is guaranteed by Anglo-Czech bank, which has enough balance at Chase in New York to cover sum. He had asked whether they would get an attachment, been told by Export-Import that loans were not due. "I pointed out that the danger was the Germans would take control of the Czechoslovakian banks and send cable instructions, properly authenticated according to the Chase cable arrangement, ordering payments out of the Czech's balance at Chase." HBJR says he will call George Harrison,

get him to put a stop order if law allows. "George Harrison will call up the New York banks and say, 'Washington wants 24 hours -- 48 hours to turn around.'" He then calls Harrison 4:10 p.m., puts suggestion before him. Harrison amends it so that banks are to be asked to stop all payments aside from routine commercial transactions originating at least one day before, says, "I think they ought to do it for their own self-protection frankly." He had done same thing in a.m.; remarks that he had also called J. P. Moffat's office to ask if State Department had news of Germany's army taking over Czech banks, and that Moffat had cabled.

HBJR: (Hanging up) That's number one.

FEIS: Second, countervailing duties action.

HBJR: You don't want to wait?

FEIS: You have the idea. Welles is planning to call in Thomson tomorrow evening and put him on record that this is coming. (Dr. White comes in) That brings up the question as to what form Welles is to put this in. After all, it's very technical and unfamiliar ground.

HBJR: Reads elaborate draft of somewhat Wellesian announcement, stating that after study, Government has decided Germany is subsidizing exports, and that countervailing duties are, therefore mandatory. Draft is given to White, Foley, Hochhead, Steinbaker, who go off in corner to study it.

FEIS: (To HBJR) The third thing is this --

HBJR: Meeting about to take place at State Department as to trade agreement with Czechoslovakia. Czech Government no longer in existence,

agreement abrogated, rates should be no longer granted. HARRIS agrees and says he will give order to Customs. Circumstances of this discussed at great length, since abrogation of Czech agreement affected most favored nation rates to Belgium, etc. Pels remarks that both Welles and the White House "would like to do this, if possible, tomorrow night." At the same time, desired to let Czech low rates run for other countries during a thirty-day negotiation period. Statement to Thomson is then brought back revised and in connection with it HARRIS remarks, "The President told the Attorney General to bring in a ruling a week from Monday." There was also another talk with Harrison during this meeting with relations with London.

March 17: Morning meeting in HARRIS's office, with Hanes, Loothead, Mrs. Flote. Discussion of money market. HARRIS remarks, "Today is the day the stabilization fund ought to go in and if necessary spend a little money to soften the thing as she goes down." Loothead reports that he has been talking to Knoke at Federal Reserve who has been on telephone to Bank of England, who says they sold this a.m. Loothead adds, "Rates are holding very firm, but I did tell him not to be afraid, that if necessary we would take gold over there." HARRIS calls Knoke, confirms Loothead's conversation, saying, "This is the day where if it costs us a little money it won't bother us. If the thing should get sloppy, call up Arnold." Adds that Welles is about to make stiff statement at noon. HARRIS goes to White House, comes back about 1:30, calls Butterworth in London at 1:39. Butterworth reports British sitting parallel to Americans, speaks of general surprise at way Germans did the strike. "Hard times ahead," also reports

that Kennedy had seen Halifax in the a.m. A minute Dewley comes in, is told news of request to New York banks. Incidentally, Lochhead had previously reported from Knoke that English had impounded total of \$30,000,000 in Czech assets, we only about \$3,000,000.

March 20: After taking it to White House to President, RMJR sends Sumner Welles copy of Foley memorandum on "Non-legislative action the Government can take in case of war abroad in which the U.S. is not a party." (Copy attached.) Same day, Lochhead calls Feis, reminds him that warning to New York banks on Czech funds is running out, asks if State has suggestions. Feis replies, it's up to Treasury. Two courses open. Do nothing, leaving matter to banks. Or call banks, tell them that payments on Czech accounts are now in their discretion, but warn them against making extraordinary payments without safeguarding their own interests. "As we had not been able to find anything much more than \$3,000,000 on deposit for former Czech accounts in New York, the amounts were not very important."

April 10: RMJR calls in Harry White, tells him that he is planning to ask President's approval for bringing down Smith, Harris, Bailie. "I have got a job for each one of them in case there is a war." Smith banking, Harris customs and shipping, and Bailie foreign exchange and domestic exchanges. Says he wants them all to come down and get their organizations in running order, just in case. White also brings reports. RMJR has an idea that cornering supplies of certain strategic raw materials will make it impossible for Germans to go to war. White suggests that cooperative corner by democracies would not be enough. Producing countries would have

to enter into agreement enforcing a sort of economic sanction against aggressors. They talk of certain materials.

WHITE: Germany, for example, needs 95 per cent of natural petroleum. She needs 75 per cent copper, 50 per cent lead, 25 per cent sulphur, 100 per cent nickel and chromite, 100 per cent cotton, 95 per cent bauxite, 10 per cent zinc, 100 per cent rubber, 95 per cent manganese, 95 per cent tungsten, 75 per cent wool, 70 per cent phosphates, 100 per cent tin, and antimony, mercury and mica. These are some important commodities and it's easy to control some of them. * * * Nickel, for example, they haven't got and it's very easy to prevent their getting it. You see, 95 per cent comes from the British Empire. The only other spot is New Caledonia, where Japan has mines."

HAJR asks what the cost would be. White replies, "\$150,000,000 a month, just for buying." HAJR suggests that oil be made the test case, and that plan be put up to British.

HAJR: In two weeks I could find out whether the British meant business and if the President said he wanted to do something — if it was known that England and the U.S., in case of war would say, "You don't get the stuff; in case of this monkey business you don't get it." Then what?

WHITE: I don't know of any better idea.

Says that idea is feasible, though difficult, only problem being

domestic political one, and question whether England and Russia would agree to go along.

White memo is study of two ideas, "Purchase and accumulation by leading non-aggressor nations of strategic raw materials" and "Prohibition by international agreement of exports of certain of these strategic raw materials to aggressor nations." Materials include those listed above. Conclusion, purchase alone not efficacious, costly. Second in combination better. "Sources of supply of at least eight of the vital strategic raw materials which the aggressor countries taken together must import are almost completely under the control of the U.S., British Empire, France, Russia, the Netherlands, and Belgium. The value of imports by the aggressor nations of those materials is not so large as to make it impracticable for the leading non-aggressor countries to bear the expense of burden incident to such a program. The aggressor nations would be extremely vulnerable to what would virtually amount to an embargo on vital materials. And in the case of nickel, tin and oil (if Russian and Mexican oil could be taken care of) relatively few corporations control the international market and effective cooperation would easily be obtained."

Difficulties -- (1) Need of enthusiastic support of U.S., Great Britain and Russia; (2) England, France and Russia must be willing to give military guarantees to smaller countries cooperating; (3) Majority of our people must be in favor and argument must be met that plan will precipitate war. Transshipment must be prevented and period of negotiation should be short to prevent accumulation of stocks.

With this White memo was a second memo, headed "Proposed steps that can be taken by the Administration in the present acute international situation." (1) Imposition of countervailing duties against numerous imports from Italy. There already exists enough evidence of bounty on Italian exports; (2) Requirement that goods from Manchuria and Japanese parts of China be marked "Chinese areas under Japanese control," or something similar; (3) Application of Section 338 against imports from Japan; (4) Application of section 338 against all imports from Germany. This is a more drastic step, but the factual basis for it exists; (5) Preparation of steps to be taken against imports from Albania, not important quantitatively but as a gesture.

And measures requiring legislation, H&JR's plan, accumulation of stocks of vital raw materials, embargo of exports of scrap iron as a defense measure, and "program outlined in White memo of March 31, 1939." (Copy to be found.)

April 11: H&JR calls up Dr. Abraham Flexner at Princeton, requests release of Stewart and Reifler in case of war, tells Flexner that he also plans to invite Hansen of Harvard and Viner of Chicago.

April 12: Invites Earl Bailie down to talk this scheme of special advisers and thinkers over, warns him he is to be one in important field of foreign exchange. "After all, we're safe deposit vault of world."

April 10: H&JR had gone to President about getting helpers and thinkers down in case of war. President, stirred by reports from abroad, had asked him whether he "was ready" in case of war. H&JR had been forced to reply that he was not, and the President had suggested immediate holding of inter-departmental conference.

April 11: Inter-departmental conference meets in H&JR's office: Lockheed, White, Young, Foley, Douglas, Frank, Purcell, Feis, Wallace and his men Robbins, Eccles and Goldwasser. H&JR opens the meeting at 3:00 p.m. on the dot, prompt as always.

H&JR: Gentlemen, the President asked us to get together for him in the strictest confidence, as he wondered what, if anything, we're doing in case there should be a war, to look after the various markets. Possibly a good way to start would be to tell you what the English have told us in strictest confidence about their plans."

Douglas breaks in to explain that as far as SEC is concerned all legal documents necessary to closing of exchange have already been prepared. "They are all in the icebox and can be executed on a few minutes notice." H&JR points out that it is better to do something to keep the markets from closing. Wallace reports that he has done nothing about preparing closing of commodity exchanges, that no legal authority to do so exists, but that he enjoys "a great deal of power of moral suasion." H&JR again remarks that closing markets is "the last resort." Eccles then speaks for Federal Reserve, "Well, last year at the time of the Munich conference, when things appeared to be pretty black, we worked on a statement that seemed to cover the emergency situation. We had some of the bank presidents in and they also considered the whole subject. And the matter was again revived a few days ago. There aren't so many things really we can do." Asks Goldwasser to report on these

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meetings from which he had been absent. Goldenweiser reports that on previous Friday, Federal Reserve asked banks by letter whether they wished to take up with boards of directors any possibilities like reducing rates or making local emergency announcements; also that Federal Reserve had prepared statement for issuance itself, "about the fact that any demands from withdrawals of any kind can be met without the slightest difficulty." Statement revised from Munich period had been approved by most board members and will be ready.

HMJR asks for statement and Eccles promises it as soon as formal approval of board is obtained. He then asks Lochhead to read the London cable in which Butterworth transmits British Treasury message. Lochhead remarks, "If they would let us use part of this — that is, give it out — it would be very reassuring. We could show they are not going to dump their securities." Reads (but no direct quote):

First, immediately upon the outbreak of a war the British Government will requisition all foreign securities, foreign balances and gold belonging to British residents (the term British residents includes foreigners who are normally British residents). The British Government will not take steps to liquidate any American securities so acquired without prior consultation with the appropriate American authorities.

Second, the British Government does not intend to declare a general moratorium but expects to close all banks and financial institutions for one day. The banks consider that they need such a period to make the necessary adjustments and the British Treasury is of the opinion that should war eventuate towards the end of a given week it would be necessary for the banks to make arrangements whereby payroll wages could be met.

Third, it is our plan that the Bank of England should announce, probably daily, foreign exchange rates for sterling and the banking institutions would be authorized to supply foreign exchange in suitable amounts for bona fide reasons. Therefore, American citizens who happen to be in the United Kingdom on the outbreak of war would be able to cash travellers checks, etc.

But adds his own impression is that there are two schools of thought as to the rate at which the pound will be evaluated in terms of dollars when dealings begin after the outbreak of a war. He feels reasonably sure that those who favor an immediate and sharp depreciation of the pound will prevail and that the sterling dollar rate as first announced by the Bank of England after the outbreak of war would show a very considerable depreciation of the pound as compared with the present level. Returning, after some excited colloquy, lead by Wallace:

Fourth, the stock exchanges will be shut upon the outbreak of a war. The British Treasury intends to reopen them as soon as practicable but realizes it is impossible now to set any definite period inasmuch as the shutting of the stock exchanges would be to prevent any panic selling from developing.

HBJR goes on to repeat warning as to confidential nature of information, says that Kennedy called up the President Saturday to ask, "What are your men doing over there? They ought to be ready." HBJR says that much remains to be done, suggests that it should be possible to get other bourses in countries belonging to tripartite, especially Holland, Switzerland and Belgium, to agree to a coordinated plan. "If could announce there is such a plan, don't you think that would be very reassuring?"

Frank nods yes. Idea is discussed back and forth, HMJR saying it will be well "to move together if we do move," while Fels objects that if rumors got about that all world securities would be closed in event of war, depression effect would be serious. HMJR enunciates policy finally adopted: "Well, I would do everything possible to keep the market open, but we ought to be ready." Long discussion goes on. White suggests that agreement of proper sort might have very bullish effects. Eccles speaks on the side of market-closing, saying it is also bullish. HMJR then suggests that consideration of this market question be adjourned for 24 hours, while everyone studies it carefully. In the course of talk, White says that British have \$900,000,000 in American securities out of \$3,200,000,000 total, France has about \$225,000,000 and The Netherlands \$600,000,000. Devaluation by British is also discussed at Wallace's request. HMJR says, "I'll tell you now that I'll go through the same motions, only more violently, that we did in December to keep them from doing it. I think I would take encouragement from that the fact that we could do it in December, where they served notice two or three times that the pound would go below \$4.60 and couldn't tell where it would stop. We were able to keep them from doing it. No question the pound is pegged and they did everything over there, we having the distinct advantage of them. I should think we'd have a better chance to make them continue to peg the pound in case of war than we had in December, where we really didn't have very much other than moral influence."

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EMJR suggests establishment of committee for regular consultation when necessary. Harry White ends meeting by summarising possibilities with regard to exchanges:

"There are four rather obvious ones. One is to close the exchanges, as has been discussed. The second is to follow the procedure that your commodity exchanges adopted with some commodities, of limiting the extent of decline in terms of percentage of each day's activity. A third possibility is to create some Government agency and provide it with powers to acquire securities under circumscribed conditions, in an attempt to support the market. And the fourth is to reduce the hours of the exchange."

Wallace remarks as to commodities method, "The moment it begins to become effective, they all turn to kicking, I assure you."

April 12: First thing in a.m. EMJR calls Basil Harris at Pinchurst, slightly delaying his golf game, to ask him to stop at Treasury on his way North to get his office set up ready in case of emergency. "A couple of trial runs." Same day at 11:45 — Hanes, White, Foley, Lockheed and Bernstein meet in EMJR's office to consider drafts of proposals for joint action with Tripartite powers. EMJR gives his own ideas:

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HAJR: I think we ought to have a sort of preamble,
"In view of the fact that Great Britain has 900
million dollars worth of American securities,
plus so much of gold on earmark, plus so much
of the different things, or a total of two or
three billion dollars here; and that France
has so much and Switzerland so much and Holland
so much; and in view of the fact that it has
been the policy of the U. S. Government to offer
a haven of refuge to funds seeking both investment
and'

FOLEY: Protection?

WHITE: Security.

HAJR: 'Security; and it is our desire that we will be
able to continue to do so; we, therefore, feel
that in the interests of stability it would be
desirable for the Tripartite countries to consult
and see if we can't take steps which are mutually
advantageous for both the Governments and indi-
viduals who have their money in our securities
and on deposit here.' Now that accomplishes my
my big thought and the hint is that, after all,
over the President's signature we can tomorrow

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freeze every dollar balance here. And if these fellows won't play ball, we'll do it, instead of sitting here like suckers and letting them dump their stocks on us.

This preamble I've got is enough of a hint -- these fellows are smart -- to show what we've got in mind.

We'll throw out the hint first and then say, 'You sent your stuff over here and we've paid you a good price. It's here now and we'll take care of it; it's all right. We've got just this little favor to ask of you; that you corral this stuff and have the machinery set up to do it in an hour's notice, so that we don't wake up here and have sales of a billion dollars worth of securities at the market some morning and we've got to close the market.

There followed some discussion of the proportion of foreign-owned to American-owned securities. Hanes suggested that margin requirements ought to be lowered and H&JR asked him to talk to Eccles about it in the afternoon. Lockheed asked Hanes if he recalled any authority in the SEC permitting order against sales of foreign-owned securities. Hanes said there was none, but brought out that banks were the usual media of these sales. Hanes points out, "If the Secretary has the power of freezing their balances so they couldn't take the money out, there's no incentive to them to sell."

EMJR: The thing I don't like is that I don't want to say we're going to put on exchange control. What's more, I don't think it's necessary. I can call up George Harrison and say, 'George' -- I mean he'd sit in on the thing anyway -- 'George, I want you to call up every bank president in New York tonight and say, "This is the Treasury program, will you play ball?" There'll be nothing in writing, but he'll get every bank president; they'll all do it and technically we won't have slapped on exchange control.

WHITE: It's well to try that first.

EMJR: Oh, it will work.

WHITE: Well, it's what the English do.

EMJR: My objective is to try to keep the markets open. 'Business as usual,' that should be our sign.

HANES: Oh, of course, it's easy to close, but it's a hell of a job to open again; and it's awfully easy to slap on foreign exchange control and it's awfully hard to undo it.

WHITE: And with their knowledge that exchange control is possible there's a great incentive to play ball.

EMJR then suggests that George Harrison and Martin ought to be brought into consultation at once. Hanes says that Martin is away, but has been sent for, since "this is no time for the president of the New York stock exchange to be in Jamaica."

HEJR suggests that when communication to Tripartite agreement members is complete, it would be well to telephone it to Butterworth and Cochran. "We'll say to them the way we did before, 'Butterworth, you take care of England; Cochran, you take care of the Continent. Use the telephone. When you've got the answer call me back.'"

HEJR then telephoned Missy, told her of previous afternoon's meeting, said he hoped to finish work this afternoon and have something ready for the President right away.

At 3:30 p.m., Hanes, Foley, Bernstein, White, Young, Wallace, Feis, Frank, Purcell, Eccles, and Goldenweiser met again in HEJR's office. Question of exchanges is at once brought up. Ganson Purcell has prepared memorandum, presented to Commission in a.m. and approved. Jerry Frank asks him to summarize it. Purcell goes ahead:

PURCELL: Trying to consider it perfectly coldly on the basis of past history, market influences, etc., there are probably three things which may be anticipated, in the event of a declaration of war in Europe. One would be that foreign holders of American securities in this country, despite any consideration which you have received, Mr. Secretary, from the British Government. Secondly, domestic securities holders would probably be moved to liquidate their holdings through fear of the first, the foreign dumping. And third, potential buyers will probably withdraw from the securities market as soon as war may be declared, through fear.

It seems to us that principal concern we have is with the foreign holdings of common stock. It also seems to us that there are two alternative remedies, with variants: One, to keep the market open, perhaps supervised, and managed by some Government authority or agency -- perhaps even a Governmental peg in the markets such as Dr. White discussed yesterday. The other would be the temporary closing of the exchanges and some regulatory force, either Governmental or otherwise, which is exerted upon brokers and registered dealers in the over-the-counter market.

Against making public. Suggests best course will be to close all world markets contemporaneously, then reopening on restricted basis. Against a Governmental peg, as it would "mean a large Governmental position overhanging market at all times."

BLAIR then discusses results of a.m. meeting, pointing out that Tripartite countries have 500 million of earmarked gold, a billion in bank deposits, a billion of direct investments, and two billion of American securities. Outlines plan for message:

BLAIR: "We feel that the interests of the members of the Tripartite accord now make it desirable that there be prompt consultation directed toward protecting the securities and money markets in event of war in Europe, and agreeing upon effective measures for that purpose; with particular regard to preventing

panicly marketing and utilization of assets in the markets of other countries. Our joint interest in this problem, together with the record of satisfactory cooperation among the members adhering to the Tripartite accord, should assure the success of such consultation. We would appreciate a prompt expression of the attitude of your Government.

* * * * *

Well, what we're going to say to them now is, 'We're tickled to death to have your money and your gold and take care of it for you. We have offered you a haven of refuge. Now we are making a suggestion which we think is mutually advantageous, that each Government take over the securities of its nationals, particularly American securities.

Now, how can we make them behave? We can make them behave because we have -- and, of course, this is triple confidential -- we have an executive order drawn up which we will submit to the President tomorrow morning, if he decides it is the thing to do. We're going to ask the President to give us the authority we have to put in complete exchange control. The implication to these countries is that if they should dump their American securities, we will just freeze their accounts.

Eccles suggests Governments might need some time to take their nationals' securities, and Morgenthau agrees that it might be well to be ready to close our exchanges for a few days which "would just give these Governments time to put their machinery in order." HBJR adds, "There's little incentive to dump. We won't make the dollar exchange available. They want dollars, well, they can't have them."

Frank suggests that many of foreign securities may be hidden from the Governments, perhaps as much as half, to which HBJR replies that "That's why we should have exchange control weapon ready and loaded." HBJR goes on that freezing deposits succeeded in the case of Czechoslovakia, "and there wasn't a bank that refused."

Goldenweiser points out that Tripartite nations will not want to get money out of country so long "as they have free use of their bank deposits here." "But I'll freeze their balances," says HBJR. Eccles, "They can't even use it within the country?" HBJR, "That's the big threat."

White House telephones suddenly, HBJR speaks into telephone, "Hello -- swell -- thank you so much." Then to the others, "We've got a deadline; the President says he wants the answer to this by five o'clock."

Wallace brings up question of what would be done as to use made of Tripartite money in this country for purchasing American goods. Here, too, HBJR says he has power to control.

HMJR: To answer you, the President asked the other day,
'What are you going to do if in the first three
months they drive copper and so forth up too high?'
Here you have your control.

POLEY: Control prices by controlling expenditure.

Feis blows up, announces that he must leave to report to the
Secretary of State. HMJR defends what they have been doing, says he
has had little information from State, does not really know whether
war is coming, but that "I don't mind telling you that General Craig
has just told me that if there is anything that's going to happen,
it will happen within the next three days. One country after another
is mobilising, and we have no plan here to meet the situation. What
would happen if war should break during the night?"

Wallace then reports on his commodity exchanges, says that he
has no power to close, possibly the President has, thinks he can do
it by suasion, but closing will be no use unless Liverpool and Winnipeg
are included. HMJR thereupon suggests that closing Liverpool and
Winnipeg exchanges be included in messages to Tripartite agreement
signers. HMJR then asks people all around the table, beginning with
Eccles, "Are you frightened?" Eccles replies, "I've been scared a damn
sight worse than this in my life." HMJR then calls George Harrison in
New York, tells him he wants him and Knocks to be in his office at 9:30
a.m. the next day. Says they have been discussing war problems. Harrison
replies, "I'm having a meeting of all my officers now to talk over the
same things."

Eccles then suggests that exchange might be kept "technically open" by using the minimum price device invented in 1914. No quotations allowed, loans permitted at last selling price of securities, permitting only bona fide transactions. Hanes makes his suggestion as to reducing margin requirements. Eccles rather reluctant. Hanes says, "I am not in sympathy at all with closing the exchange." Hanes adds that by lowering margin requirements, putting in a ten per cent limit on fluctuations, and preventing foreign dumping, his objective can be achieved. This brings up Wallace's experience with limiting fluctuation on commodity markets, which he says was fairly successful. HANR recalls that "I was a wheat operator once for Mr. Wallace. I once bought five million bushels of wheat in three minutes and then fainted. That was no joke." HANR also suggests that the head of stock exchange be called in. Hanes says Martin is away, to get Eddie Bartlett. There is a short "dress rehearsal," as HANR calls it, of what is to be said to the President. He gives it: "Mr. President, we need an executive order; I'll have it ready so that if you think it is wise to use it we can put on foreign exchange control. I'm asking you tonight whether you will say to me verbally that it is all right to give it to the Attorney General, because he said he could set up a committee to work all night to go over it for us. I'd also like to ask you to approve my sounding out, through our Treasury representatives in London and Paris, very informally and tonight -- if we do it tonight they can go to work tomorrow a.m. -- and the thought is that they should follow the English

plan, so that amongst Tripartite countries there should be concerted action. I just wish to start these conversations and that's as far as I can go." Frank's executive order is also mentioned and Wallace's application to Canada. Eccles ends meeting with his report on Reserve Board attitude. "It will be the policy of the Reserve System, Reserve Banks, to stand ready to make advances on Government securities at par under certain circumstances."

On return from President's, at 5:40 p.m., they gather in HMR's office — Hanes, White, Duffield, Bernstein, Loochhead, Feis, Foley and Frank. HMR calls Hull, who is tired, but says, "Oh, I've been keeping in good working condition and keeping pretty close at it." Reports, objects to keep markets open if possible, invoke exchange control only if necessary. Describes orders sent Attorney General. Says Wallace has gone to work on appeal on President's behalf to commodity exchanges, getting them to close. Reads statement to be read to Cochran and Butterworth.

Hull asks HMR's assurance that approach to Tripartite nations involves no definite commitment. Hull replies, "Well, then, offhand, it looks all right." HMR then asks to have Feis come back, he having gone to his office in State Department to write out account of meeting which had agitated him. Calls are then put through for Cochran and Butterworth. HMR also gives account of President's reaction, which was, "I can't see anything the matter with this. All it does is look after our own interests." They are all having sherry and when Feis comes in HMR says in conciliatory tone, "Hello, Herbert, have a little drinkie?"

HMJR then gets through to H. Merle Cochran, reads him the communication to the Tripartite countries, Cochran replies, "I have it." HMJR tells him to "put this up to France, Belgium, Holland, and Switzerland." There is some difficulty, because while Cochran knows of British plan as transmitted by Butterworth, he can not mention it to other nations. There is also a little difficulty because both the Belgian and Swiss ministers of finance are now men not known to Cochran. HMJR gives him permission to "do it through the central banks" and Cochran then promises the twenty-four hour date line demanded by HMJR will be met. HMJR, "Use your own head, that's all. I leave it to you." There is general talk. Cochran predicts there will be peace.

Then there is some trouble running Frank Murphy to ground. Frank and Foley are in search of him, with the executive orders. At length, Morgenthau runs him down at his own room in Washington Hotel on White House phone. There is also trouble with the London circuits and Lockheed is left to read message to Butterworth and to ask him to explain to London that it was being handed to other members of Tripartite. Feis asks to be allowed to "sleep on Canada," and HMJR agrees. HMJR mentions that someone had given President idea that "when I talk on the telephone seventeen different nations can listen in." Says this is untrue. Lockheed adds that HMJR is right. "The telephone companies not only put these calls on two wave lengths, one man on one ~~and~~ the other on another, but they've got a new system with an automatic wave length transmission

changer. Ever so many seconds the thing switches to another wave length, and you can only pick up one or two words on each."

April 13: This morning at 9:30, Hanes, Lockheed, Gaston, Eccles, Harrison, Knoke, Goldenweiser, Frank, Purcell, Carl B. Robbins, and J.W.T. Duval of Agriculture, Feis and Edward Bartlett, Vice-President of the New York Stock Exchange, who is not present at first. H&JR begins explaining purposes of meetings and the desire not to impose exchange controls. Talks over Canadian problem with Feis, who suggests asking Canadian Government to send a special man down to talk, probably the Under Secretary of Finance. Harrison reports on findings of his New York meetings, "Our (my) particular concern was the New York money market, including the market and exchanges, the effect upon credit and the Government bond market. We made a study of 1914, but couldn't find anything from that experience that would really help us. In fact, the situation is so changed that we might expect almost the reverse of everything that happened then." Says one concern was to know Government policy as to markets and that this question had now been answered by H&JR's opening statement.

"Then what would be your attitude on gold and foreign exchange control? I presume you wouldn't want to institute foreign exchange control at the moment, or unless something developed to force it. On gold, I assume, from your position on exchanges and the market, that you would continue your present gold policy." H&JR replies, "The

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way I feel, I'd like to hang a sign on my door, 'Business as usual.'"
Polls meeting, and they all agree. Harrison says, "I hoped that
would be the conclusion you all would reach." He then suggests
that immediately on crisis coming to head, Government bond market
would develop serious gyrations, which would later iron out well
enough. H&JR says that "I'll say right now, for the Government
bond market, we're ready to put up to \$100,000,000 to maintain an
orderly market."

Eccles says that Reserve System should be ready to lend to
banks on Governments at par, not only member banks but everyone.
Harrison puts in, "I think, I don't mean this in any but a friendly
sense, but I think you're almost a piker in talking in terms of
\$100,000,000." H&JR, "Then we're talking in terms of \$200,000,000.
You want to raise me?" Harrison, "Yes, I do." H&JR, "How much?"
Eccles, "I think we ought to get authority to buy at least \$500,000,000"
H&JR, "Well, I'll play table stakes. I'll see whatever you raise me."
They recall that it's a long time, because of huge excess reserves,
since Reserve System increased its Government bond portfolio; H&JR
says that he is ready to do "whatever is necessary."

Harrison then talks over methods of dealing with bond market,
remarks that he thinks it should be possible to persuade main banks
to "hold on to their bonds."

Barillett is then brought in, reports on Stock exchange meetings, offers suggestion of 10 per cent minimal declines in case of "uncontrollable liquidation," and reduction of margin requirements to 50 per cent, the stock exchange minimum. Also predicts that this war will be different. "A lot of people remember that the last war was bullish on the market." The meeting breaks up.

Earlier in the day Earl Bailie had called to say that he would be pleased to come down as one of the special advisers.

At 4:00 p.m. Hanes, White, Leehood, Bernstein, Foley, Hooley, Harrison and Knaks reconvened in HWR's office, heard first report that there was slight delay over executive order, by which the President could demand reports on all foreign exchange holdings here. HWR then asks George Harrison what steps should be taken with regard to NY banks in event of war. Emphasizes "voluntary basis," suggests list of requests should be drawn up, shows banks, "These are the things the administration is going to ask you to do on a voluntary basis" After some talk between Hooley and HWR in which Hooley agrees to back Treasury, Harrison speaks:

HARRISON: Before the Munich crisis we made a complete survey on the New York bank of the 1914 versus the 1938 situation. The one thing we felt we definitely needed was a bankers committee to which I might go in a hurry on any matter concerning credit, gold, loans, foreign exchange or anything else the Treasury wanted. Contact committee or market committee.

Says he talked them with all banks, found them "definitely willing to do anything they legally can." "So all I would have to do would be

put up any question to the committee and let them do the dirty work." Reports all banks probably would not unload their Government bonds. Blocking foreign accounts, however, would be difficult, since the banks would have to be asked to dishonor a draft of an individual account-holder. Suggests there would have to be an order. The others then point out that issuance of the executive orders already prepared would relieve the banks of any legal liability risked by dishonoring drafts.

WHELAN then reports: "We had a call from Cochran, who saw Paul Reynaud today, and Reynaud said he didn't think this thing would interest him -- this is triple confidential -- because he didn't want to do anything which would keep France from being the haven of refuge for European capital; and he felt sure that France would be the one place everyone would want to come to, and he wanted to do everything to encourage people to send their money there."

HARRISON: Therefore, he would not as a corollary to that want to commandeer or requisition French balances here.

Well, I'll bet you a nickel he'll be doing it in two weeks, if it's not too late, after the war starts.

Harrison's committee is approved, but he argues against setting it up in advance because "it will get out, on top of all the other rumors" and make a hell of a lot of trouble in the market.

WHELAN: I agree, these fellows think that the Government has information that nobody else has at all. As a matter of fact, we've got very little, but they think we've got an awful lot.

HEFF then asks Hoopes for report on Government bond market decision. Hoopes says that subject to telephonic approval of other members, a large quorum of the Reserve Board meeting early in the afternoon had authorized Government bond purchases up to \$200,000,000.

LOGGHEAD: If you're going to cover these table stakes, we may have to use some gold chips.

HEFF: Meaning what?

LOGGHEAD: Well, you would begin by using up the special twos. (Special twos are non-market notes bearing 2 percent interest which sometimes are issued to absorb uninvested trust funds.)

HEFF: About \$120,000,000.

LOGGHEAD: After you exhausted that, what fund would you buy from?

HEFF: There is only one fund.

LOGGHEAD: Stabilization?

HEFF: Yes.

LOGGHEAD: That would be gold chips, because we'd have to throw some gold in the Reserve System.

HOOGLES: Well, a little more or less won't make any difference.

WHITE: Harrison is developing an immunity to excess reserves.

HOOGLES: Well, I've had it for a long time.

There is then a long discussion of technical details of Government bond purchases, intended to be done by the New York Federal Reserve as fiscal agent for the joint account of the Reserve Board and the Treasury.

HEW then reports on labors of Cushman still further.

France was not interested, but Switzerland, Holland and Belgium all were in varying degrees. Their difficulty lay in acting as members of Tripartite, to which England and France were parties, yet preserving their neutrality, vis-a-vis the other parties.

HEW had already assured them that, fully understanding the soundness of this stand, he would make no further move without consulting them. The question, in his view, was one solely between the United States and each country interested, and not between the countries themselves. He also reported that Canadians would come down on Saturday. The French lack of interest, it was decided, was not as important as it might be, since the French holdings in actual securities were only about a quarter billion, and even short-term balances only about the same.

HEW agrees that he understands Raymond's argument, anyway, since the French, alone among European nations have been gaining capital in the last months.

HEW also reads cable from Batterworth. The British he said, informally intimated that they would welcome the suggestion of consultative exchange of view. They remarked that the matter of bank deposits and earmarked gold seemed to them to fall into a somewhat different category from the question of marketing securities; that in the event of war they would expect to use the available dollar funds for purchasing American products and as regards earmarked gold they hoped they could assume the United States would continue to give dollars in exchange for such gold which likewise they would use

for purchases in the United States. They went on to say that they themselves had had in mind the question of approaching the monetary authorities on the problem of dealing with the holdings of American securities. Wishing to obtain funds from these, there seemed to be only two possible methods: (1) selling the securities, and (2) borrowing against them. They preferred borrowing, but doubted feasibility, asked whether they could do so by giving securities to straw man and letting straw man borrow. Some thought, in regard to this, that one of our Government corporations might handle the matter, keeping securities as collateral.

April 14: Day of waiting.

April 14: Meeting with Hanes, Gaston, White, Bell, Lockhead, Bernstein, Jesse Jones, Hoopes, Harrison, Frank, Percell, Wallace, Robbins and Feis. Hoopes begins by reporting that the Reserve System open market committee, called by telephone, had fully approved bond-buying plan. EMV then goes around the room. Frank reports EMU is for keeping market open if possible, notes also which must be kept for developing panic, and suggests strengthening terms of proposed Tripartite agreement arrangement. Commission adds that it prefers closing the markets to keeping them open with restrictions. "As already pointed out, our commission is fully prepared, once the approval of the President is obtained, to issue orders closing our exchanges with a space of a few minutes, if that becomes necessary. We reiterate, however, that every endeavor should be made to keep our markets open." Question of EMU authority over shortselling is raised. Frank, "Oh, we can plan on it like a piano."

Wallace reports that he has a very simple plan drawn up for a letter of authorization from the President to him and a telegram from him to the various commodity exchanges. Letter from the President suggests 5 per cent range of fluctuation. Subject of RFO landing on British securities is discussed with Jones. Eccles adds to his report that he is getting reserve banks to agree to lend to member and non-member banks on Government bonds at par. Lockheed reports that word has also come from Canada with regard to commodities, that their only important commodity market is the wheat market, and "as long as wheat is practically a Government agency up there, there would be no trouble about it." This ends meeting with brief swivel, apparently as un-reasoning as previous one. HWH suggests that if he is vastly disturbed by steps being taken, he can make specific objection when cables are drafted. So ends April meetings.

Same day at 2:30 p.m. Viner, Hansen, Riefler and Steward arrive in HWH's office after meeting. All four promise to come to Treasury in event of war or threat of it on full time. Viner and Hansen say arrangements will be difficult but will be made. (Hansen found that the arrangement could not be made.) HWH for some reason, tells them of the visit of Towers, the Canadian, whom he had told: "One of the things bethinking me is the possibility of using Canada as a back door. We don't want that to happen."

April 16: In the evening, after HWH gets President's approval, going back -- ~~April 16~~ -- Butterworth cabled from London that "since Europe was again moving into the danger zone," he had been down to talk over

plans with the British Treasury. He had found that the general program set forth in the Munich period still held good, but that certain matters had been worked out in greater detail. (1) All British-owned foreign securities, foreign balances and gold would be requisitioned on outbreak of war. (2) Close banks for one day. (3) Bank of England daily announcements of foreign exchange rates, etc. All this in previous notes. Treasury immediately wired Butterworth to mail copy of this cable to Cochran.

April 3: Cochran wires that he had asked Rauff what steps French Ministry of Finance was planning, and received reply that no definite plans existed. Basic policy, business as usual as nearly as possible. Another cable of the same date describes talk with Governor Fournier of Banque de France few minutes after talk with Rauff. Fournier expressed opinion that Minister Raymond would be extremely reluctant to take restrictive steps, but professed ignorance as to plans. Says that last autumn there was no thought of general moratorium, doubts need for one now. Expresses hope that repatriation of French funds would be "prolonged if not augmented by patriotic instincts in the event of war." "The policy is to wait and see."

April 16: Treasury cables Butterworth, expressing satisfaction with British Treasury plans, suggesting that British will best be able to obtain dollar funds here by using gold and balances, waiting to borrow or liquidate securities, adding that it is "private opinion of Treasury General Council that private sources in this country would be unable to extend credit either to the British Government directly or

through the medium of an agency of the British Government or a "straw man," but that the Johnson Act would not prohibit such loans against American securities if made by the U.S. Government or an agency thereof." Cable notes that plans have been made for protection of American markets, states that "we would bend every effort toward keeping these markets open for the orderly conduct of business."

April 16: Memo from Ed Foley to HMF on loans and purchases on foreign-held American stocks, nationalized by a foreign country. Summary:

I. Loans:

- (a) By private persons, extremely doubtful because of the Johnson and Neutrality Acts.
- (b) Loans by Federal Government or agencies thereof -- not prohibited by Johnson or Neutrality Acts, not consistent with the international law of neutrality. Such loans could be made by the EPU, Export-Import Bank or Stabilization Fund. There are, however, limitations as to the use of and amounts to be loaned by such instrumentalities.

II. Purchases.

- (a) By private persons. EPU could finance private persons and could also finance a newly created corporation which would buy such securities.
- (b) The Export-Import Bank could buy American bonds up to a limited amount, but could not buy stocks.
- (c) Stabilization Fund could make purchases. Copies of this memo were given Jesse Jones and the President.

April 17 Danny Hall submits long memorandum on war risk insurance, describing experience of world war, showing the profit that was made, and in general indicating that same system might be followed again.

Of the same date there is a memo describing how Foley's memo on RFC lending powers under the Neutrality and Johnson Acts was handed to Jesse Jones by HMR at meeting in HMR's office on the afternoon of April 15. The next day, Sunday, Jesse Jones telephoned HMR at his house that he agreed that his powers had been correctly set forth.

April 18 HMR, Wallace, Jesse Jones, Frank, Eccles and Hanes trooped over to White House for another conference with FDR. FDR opened the discussion by saying that in the event of war being declared two days from now, he assumes that these gentlemen have a program for handling the securities and commodities markets. HMR said that a program had been prepared, and these present then reported on their special fields -- as Frank on exchanges, Eccles on the Reserve System policy and bond market operations, (coming out against Johnny's lower margin requirement), Wallace on his commodities exchange letter, Jesse Jones on plans to lend against foreign-owned securities, and HMR on his poker game in the Government bond market. The President expressed great pleasure with the progress made.

April 18 Memo from Graves on special functions of Customs service: I. In event of war involving United States. II. In event of war not involving United States. Net, to enforce various licensing regulations on exports and imports, uphold embargoes and see that no Americans travel on belligerent vessels, and watch over vessels in American ports to see that they keep our and international law.

April 20: Meeting in HMR's office in afternoon with Lockhead, White, Foley, Mrs. Klets and HMR. Subject up, a cable from the Treasury to Butterworth, drafted by Edward E. Foley, Jr., confirming HPU's legal authority to make loans against British-owned American securities, but not making any policy commitment. This was in answer to request by the British Government.

Then HMR brings up the question of Railroads. Basil Harris has raised this, reminding him of dreadful experience of the last war, and HMR has mentioned it to the President. HMR recalls that he still has, in residue of wartime, title of "Director General of the Railroads," wonders whether any power continues with title. HMR adds, "Now the other thing the President raised. He said when he was Assistant Secretary of the Navy he grabbed every sea-going tug there was and sent them all down to Norfolk, and the next thing he knew Boston had no coal and he had to give half of them back. If we are not careful, the Navy will do it again. So he said make an inventory of tugs. That will be just down Basil Harris' alley. And I will raise the President one; I will include barges, both sea-going and harbor, coal barges and domestic and railroad barges." At this meeting it is noted that news of Treasury interest has stirred Maritime Commission to act on war risk insurance.

Same day, Danny Bell submits "classified summary of the principal war activities of the Treasury Department." HMR was determined to be prepared for the very worst.

April 21: Brought another memorandum on "Government operation of Railroads in time of war" from Edward E. Foley, Jr.'s office. Memo contained

resistant recommendations: "In view of the countless difficulties involved in Government operation of the railroads during the world war and the disrupted condition in which the carriers found themselves after the war, if it is contemplated that the railroads are to be operated by the Government if and when another war comes, steps should be taken now to prepare a comprehensive law covering such operation. The drafting of such a law would require assistance of experts in the field of railroad administration."

April 24: HMF called in Gray, retired President of the Union Pacific, Daniel Willard, Dan Bell and McRaynolds. He announced to railroad men that in event of war to which the U. S. was a party, the Government would not again take over the roads, but would attempt to "establish such controls in the industry itself as to meet the transport needs of the emergency." It was agreed that after thinking the problem over, Gray and Willard would return in two weeks.

April 28: Bowley, Polay, Lockhead and Bernstein conferred, the Treasury men desiring information as to British wartime policy. Number of questions prepared and put to Bowley, who promised to translate them to British Treasury. These questions concerned exchange control and were technical.

May 2: Memo from Polay on HMF's duties as member of National Unions control board, together with suggestion that he appoint a deputy to attend board meetings.

May 8: C. E. Gray and Daniel Willard submit long letter, suggesting that by intelligent management of freight-routing and vice additions of railroad equipment, the necessity for Federal control of roads may be

avoided. Two days after this was submitted, Gray, who had worked on the letter through a serious illness, died in his room at the Mayflower -- the first casualty.

May 31: Foley and Bernstein go over to State to talk to Moore and Hackworth about a series of neutrality proclamations being drawn up, just in case, by the Treasury, State, War and Navy Departments. (See Ed about this.)

Mid-May: Letter from Basil Harris, formally describing his investigation of shipping situation. And June -- Harris believes that preparations for shipping control in the event of war are going forward satisfactorily. Maritime Commission is in chief charge, with Huntington T. Morse the special expert.

June 5: Letter and memo from H. E. Collins, Assistant Director of Procurement, describing findings of Interdepartmental committee on Strategic Materials. Sets forth serious experience of world war, when shortage of tungsten, manganese and chromite were so serious that these ores went to prices ten times higher than the pre-war level, when industry had to make poorer products to save raw materials, and when actual famine in certain materials, such as platinum, only obtainable by smuggling out of Soviet Union, faced the country as the war ended. Expenditures of at least \$25,000,000 on laying in supplies of platinum, quinine, rubber, manganese, tungsten, chromite, and tin is recommended. Members of the committee Feis, War, Navy, Treasury, Interstate Commerce. Note on memo, "Hall will bring this up at Cabinet." It was later arranged by Act of Congress.

Another meeting in Bois' office June 15, at which they receive word of meeting in President's office next day to decide sum required. \$25,000,000 is decided on.

June 22: Letter arrives from Charles A. Dunning, Canadian Minister of Finance, expressing Canadian decision on EMW's proposal. Letter states that he has no plans for the actual impounding of American securities owned in Canada, will be glad to cooperate with the Treasury in any way, will attempt to enforce any regulations American Government may make, and anticipates no trouble either in stock or commodities markets. EMW sends copies to the President, Hull, Jones, Wallace and Frank, writes Dunning back proposing further conferences to discuss cooperative efforts.

April 19: Harris reports on shipping inquiries, says captains are supplied with secret code words, arrangements for code changes made. Suggests on larger merchant ships replacing crews or at least vital parts of them with Navy men or Naval reservists. German-born problem, especially trust radio operators. Suggests further ship control board for routine ships, arrangements for keeping harbors clear, preventing sabotage to litharge facilities, increased fire fighting equipment at docks, and guards on refineries of bunker oil, of which there are not many. Also question of insurance, in case of war or no war, mentioning work of Chubb committee. All this is preparation of a very long range, fearing the extreme worst case, but calmly done. EMW: "I don't want to wait until Mr. Hitler pulls the plug and then have everything halter shalter."

June 29: EMW telephones Bob Hutchins, borrows Jake Viner.

Sum. Aug. Frank Murphy confirms Edward E. Foley, Jr.'s informal opinion on the liquidation of British securities by American corporation--
NYO. Next day this is cabled to Butterworth. Object, of course, is to guard as fully as possible against panic in our securities markets.

Aug. 21. NY Memo from E. E. Collins, Assistant Director of Procurement, describing how Lord Riverdale and Sir Owen Chalkley came in to discuss the functional organization of the Procurement Division. Even then it was not intended to use a private purchasing agent here, and the English wanted to learn of our Procurement Division's techniques in order to apply them in their proposed purchasing commission.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

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DATE November 30, 1939

TO Secretary Morgenthau

FROM Joseph P. Cotton, Jr.

Re: Colombia

Meeting of Technical Experts at Dr. Feis' Office November 29, 1939. Present: For Department of State - Dr. Feis and Mr. Duggan. For Department of Commerce: Mr. McConnell. For SEC: Messrs. Frank and Lincoln. For Export-Import Bank: Mr. Pierson. For Treasury: Dr. White and Messrs. Piefiler and Cotton.

Feis and Duggan outlined the history of negotiations over the past year between the Council and the Colombian Ambassador in Washington. The Colombians formerly offered an initial 2% rate increasing $\frac{1}{2}\%$ a year up to 3%, nothing on the interest arrears, amortization by open market purchases at the rate of 1% a year. This offer was never seriously considered by the Council nor by the Colombians. Later Laylin, with the consent of the Colombian Ambassador, Lopez, communicated to Francis White a proposal (see attached memorandum) which it was indicated the Ambassador might be prepared to recommend to his government provided he was assured that the Council would accept a formal offer along these lines. The Department of State told the Colombian Ambassador that they would consider such a proposal reasonable and would be prepared to try to persuade the Council to accept it if such an offer were made. Duggan was informed yesterday by Laylin that the Colombians, i. e. Lopez and Jaramillo, have received instructions from their government and presumably are now in a position to make a new offer, which the Department of State anticipates will be somewhat less favorable than the so-called "Laylin proposal" above.

Feis and Duggan recommend that we should wait to hear any new Colombian offer before taking any position in a discussion with Mr. Traphagen as to what the Government might consider to be reasonable terms.

As a result of general discussion of the nature of the settlement which should be aimed at, general agreement was reached on three points:

(1) Past negotiations between the Council and Lopez have been concerned merely with the direct debt of the Colombian Government - some \$51 millions. In addition, there are dollar bonds of an agricultural mortgage bank, guaranteed by the Colombian Government, amounting to some \$10 millions, and municipal and departmental bonds amounting to some \$82 millions. It was

agreed that, if a real job was to be done, the guaranteed mortgage bank bonds should be included so as to clean out the credit standing of the government. Feis and Duggan pointed out this might create difficulties in introducing a new element into negotiations and because the Colombian Government, in view of the conditions of undertaking the guaranty, considered these obligations in a different light. Nevertheless, it was agreed that an attempt should be made to include these guaranteed bonds even if aggregate service was not increased. In this connection you will recall that Mr. Jones expressed the view that the attempt should be made to include the small amount of sterling indebtedness of the Colombian Government — about £1½ million — as well as the direct dollar indebtedness of the Colombian Government in any adjustment.

(2) There was also a discussion of the departmental and municipal dollar bonds. It was felt that, since the Colombian Government — through exchange control — is in a position to refuse or grant transfer facilities in connection with the payment of the municipal and departmental indebtedness, the Colombian Government should be asked to give some assurance in principle that it would make available transfer facilities and use its best efforts to persuade the local authorities to agree to adjust their obligations. Feis and Duggan were doubtful about the possibility of getting the Colombians to agree to this.

(3) The question of the interest rate and the possibility of a flexible arrangement for increasing service, geared to the prosperity of Colombia, was discussed. The 3-4% range was considered satisfactory. It was felt that any rate here established would be a precedent in future times and that the rate should be at least 3%. It was suggested that a flat 3% rate, plus a flexible arrangement geared to total volume of exports to permit an increase in rate, the clearing up of arrears, the building up of reserve or the increase of amortization, might be desirable. In connection with the problem of arrears, it was agreed that the attempt should be made to have something done about them from the standpoint of precedent and of trying to do a clean job.

Meeting at the Treasury with Mr. Traphagen of the Bondholders Protective Council, November 30, 1939. Present: The Secretary of the Treasury and Mr. Hanes, in addition to those who attended the meeting of November 29, 1939.

We gave Mr. Traphagen a copy of Mr. Jones' letter to you containing suggestions as to what he would consider a fair settlement as he had outlined to Jaramillo, and also a copy of the so-called "Laylin proposal". The history of the negotiations was reviewed and the points of general agreement reached at the meeting of November 29 were outlined to Mr. Traphagen. Mr. Traphagen expressed every desire to cooperate. He also expressed the view that the guaranteed agricultural mortgage bank bonds should be included in any adjustment and said that the Council felt that the matter of

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the local and departmental indebtedness should also be raised. After a discussion of the letter, he said that he understood this might raise difficulties which would prejudice negotiations and I got the impression that, so far as his views prevail in the Council, the Council would not push this point too hard. He also indicated that, while he would hope for an interest rate scaling from 3% up to $4\frac{1}{2}$ - $4\frac{3}{4}$ %, he would not be too insistent on $4\frac{1}{4}$ % or $4\frac{1}{2}$ % as opposed to 4%.

Mr. Traphagen asked the direct question of whether the Government intended to negotiate the debt settlement with the Colombians or whether it would expect the Council to do so. He told him that we expected the Council to do so. He appeared satisfied with this answer, but said that he expected the Government to explore the ground pretty thoroughly for the Council. He said that the Council would go as far as it conscientiously could to reach an adjustment on any proposal that might be put forward.

Dr. Feis said that he had some doubts whether the Colombians would make an offer now and that, if they did, on the basis of instructions which we know they received yesterday from Bogota, he anticipated the offer would fall short of both the Jones and Laylin proposals. If it should fall short, he expressed the view that it would be impossible to introduce into the negotiations the various new elements which had been discussed at the meeting, i. e. the guaranteed mortgage bank debt, the question of arrears and exchange assurances in connection with the local and departmental debt. He emphasized that the debt question was a big political question in Colombia, and that any settlement would have to be presented and voted through a Congress a large part of the membership of which is hostile to any resumption of service on the Colombian external debt.

Further developments.

I take it that you have now decided that, as Chairman of the committee consisting of Mr. Jones, Mr. Welles and yourself, you will advocate that future debt negotiations should be carried on directly between the Colombians and the Council, which would be expected to advise the Government as to what is going on. I feel that Mr. Traphagen expects, and with justice, that the Government should explore the ground further with the Colombians with a view to extracting an offer from them before turning over the negotiations to the Council, indicating at that time whether or not it considers the offer reasonable. As it is important to everybody concerned — the U. S. Government, the Colombians and the Council — that a settlement should be reached, I do not think we should have any too rigid ideas as to what the procedure in this case should be.

J.P.C.H.

PROPOSAL FOR COLOMBIAN DEBT SETTLEMENT
 INFORMALLY ADVANCED BY MR. LAYLIN AT THE MEETING BETWEEN
 MR. WHITE AND THE COLOMBIAN AMBASSADOR
 ON JULY 28.

		<u>Current Interest</u>		<u>Arrears</u>		<u>Amortization</u>	<u>Total</u>
	<u>Rate</u>	<u>Amount</u>					
1940	3%	\$1,350,000	(1935-6 mos.)	1%	\$225,000	\$100,000	\$1,675,000
1941	3%	1,350,000	(1935-1936)	1%	450,000	100,000	1,900,000
1942	3%	1,350,000	(1936-1937)	1%	450,000	200,000	2,000,000
1943	3-1/2%	1,575,000	(1937-1938)	1%	450,000	200,000	2,225,000
1944	3-1/2%	1,575,000	(1938-1939)	1%	450,000	250,000	2,275,000
1945	4%	1,800,000	(1939-6 mos.)	1%	225,000	275,000	2,300,000
1946	4%	1,800,000				500,000	2,300,000

November 30, 1939

Walter Stewart is going along with me on this matter. All he wanted to know was whether the President had committed himself on this and I told him that he had not.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE

11/20/29

TO Secretary Morgenthau
FROM Mr. Stewart

Creation of a Pan American Bank

I have just finished reading various draft proposals concerning the creation of a Pan American Bank, and prior to having any conversations on the subject I want to give you my immediate and personal reactions.

The drafts constitute so large a collection of loose ideas outlining a grandiose scheme as fit our need. How seriously these ideas are now being considered in Washington I do not know but I believe it to be unwise for the Treasury to participate in conversations on this topic without being aware of the risks involved. I am concerned that any one associated with this type of project will eventually lose both their money and their prestige. I could quote some experience to support this view.

From these comments you can see that I am not likely to be a very co-operative member of any group that is seriously considering these proposals. I have put these comments in writing rather than in type so that you can act, in as far as I am concerned without any record being made -

W.W.S.

RE COLOMBIAN FINANCE

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

Present: Mr. Hanes
Mr. Cotton
Mr. Riefler
Mr. Cochran
Mr. Lincoln
Mr. Traphagen
Mr. Frank
Mr. White
Mr. Bernstein
Mr. Foley
Mr. Pierson
Mr. McConnell

Hanes: Before the Secretary comes, I would like to say this for the record: As all of you know, I asked Mr. Traphagen to come down here a few days ago with the idea that maybe if we do get this Council....

(Mr. Bernstein enters the conference)

Hanes: Come in, Bernie.

My thought was - the State Department and the SEC and Treasury discussing this thing - that if we could get the Council and have them meet with us we could really do our work out in the open so the Council would be familiar every step of the way as far as we had gone. It would be very helpful both to the Council and to ourselves.

Mr. Traphagen very generously agreed to come down then and again today and my thought was - after Mr. Jesse Jones had seen the representative of Colombia, gotten the ideas from the Colombian as to what they wanted, Mr. Jones sat down and wrote a very informal memorandum. That memorandum, I think, Joe, went to the Colombian representative here, did it not? Wasn't it addressed to him?

Cotton: Well, they had this talk and Mr. Jones summarized it in a letter to the Secretary.

Hanes: It hasn't actually gone to the Colombians themselves?

Cotton: I don't think so.

Hanes: Is that right, Harry?

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- White: It is as Joe said, the letter went to the Secretary and to Secretary Hull, but also, I think, Joe, Jones said that he might prepare a memorandum for Mr. Jaramillo's consideration.
- Banes: I don't think it is important one way or the other. So far as I know, this is the only concrete thing that has been suggested here by the Government, by any representative of the Government.
- White: I think it was rather a personal expression of the views of Mr. Jones, rather than any....
- Banes: I was going to say that. Of course, this memorandum hasn't been concurred in nor agreed to nor disagreed to by anybody here, as far as I know. In any event, it seems to me that it is purely in the informal stage. I think that is fair to say. It is not a proposition either that we think Colombia is going to accept or we are going to give, but at any event we have got to have a starting point somewhere, and it is my suggestion that we start with that.

(H.M.Jr. enters the conference)

- H.M.Jr: Well, Mr. Traphagen, I appreciate very much your coming down and I just wanted to take a minute to tell you my attitude toward this debt question owed by a Government to our private citizens. Since I have been here I have always felt it was not the duty of the Secretary of the Treasury to try to collect private debts owed to our citizens by other governments. That isn't very successful.

Traphagen: I wish it were.

- H.M.Jr: I haven't been very successful in collecting debts owed to our Government by other governments. But all of the people here in the room are interested in trying to work out a formula whereby citizens would have an opportunity to get back at least part of the money that they loaned in the "Roaring Twenties" and also that these countries who owe the money would have an opportunity to reorganize and get going and have an exchange of trade to our people and it would be helpful to them and to our business.

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Now, in order to bring this about, we asked the State Department to name a country where we thought we would have at least a 75 percent chance of being successful and they named Colombia as a pattern. We have to have some agency who is going to represent the investors and the Bondholders Protective Committee is set up and I am hopeful that out of these meetings like today and tomorrow that possibly a formula can be worked out whereby your organization can possibly be a little bit more effective. Is that mild enough?

Traphagen: Any way you want to put it. We want to be cooperative in every way we can.

U.S.Jr: I don't think there is anybody here in the Government who wants to compete with you. On the other hand, I think you will find everybody would like to be helpful along the lines that I have stated and then if we could do it for Colombia, maybe we can do it for some of these other countries, and particularly with this tremendous change in world flow of trade. It looks as though at this, of all times, we ought to try to do something on this South American debt question until we get it out of the way. There isn't much use talking about more trade or helping them to finance or anything else until we do that. That expresses in a very crude way the way I feel and I think you will find that most people feel the same way.

Traphagen: I think the Council is entirely in accord with your views, Mr. Morgenthau. The Council was set up, as you know, by Mr. Woodin and by Mr. Hull and by the Chairman of the Federal Trade Commission, as a body to endeavor to work out these debts. We can't do very much without the assistance of the Government, because we can't hire a warship and go down there and force them to pay and unless we get the assistance of the Government, we are pretty nearly helpless, but we want to do everything we can and I want to assure you again that we desire to be just as cooperative and helpful as we can.

U.S.Jr: Well....

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- Traphagen: I think perhaps the impression has gotten about that we were a little bit reactionary or not as cooperative as we might be, but we were charged with the duty of protecting the bondholders and perhaps we have been a little sharp in our bargaining, I don't know. If we have been too sharp, we want to correct it.
- H.M.Jr: Well, we didn't - at least I didn't ask Mr. Hanes to invite you down here to go over whatever mistakes you did or did not make or mistakes the Administration did or did not make - I mean, up to this time I think that - as far as I am concerned, it is a closed book. From this point on, I believe we can accomplish something.
- Traphagen: The Administration has been very cooperative with us all the way through. We couldn't have done anything without their help. We have managed to get some things through, not as much as I would like to.
- H.M.Jr: No, I would like to see more. I think if these fellows are agreeable, I will go up. Then I am available again at 10:00 o'clock tomorrow for as long as you gentlemen want me. Thank you.

November 30, 1939

FOR THE SECRETARY:

Steve Early says the Alsop and Kintner articles are to go to the opening of the special session of Congress.

ESD

NOV 30 1939

MEMORANDUM FOR THE PRESIDENT:

We have talked many times about the fine work being done by the Washington Self-Help Exchange, Inc. The Exchange secured a grant in the amount of \$100,000 under Title I of the Work Relief and Public Works Appropriation Act of 1938. If the Self-Help Exchange is to continue its operations, it must secure a further grant during the current fiscal year.

The Works Projects Administration, before making a grant, requested, through the Federal Works Administration, the decision of the Comptroller General on whether such a grant could be made legally under the Emergency Relief Appropriation Act of 1939. A decision by the Comptroller General was rendered on October 26, 1939, in which he ruled that, under that Act, funds "are not available for cash grants to self-help and cooperative associations." A copy of that decision is attached. The decision was based on a slight change in text from that employed in the 1938 Act. The relevant language, as well as similar language in the Emergency Relief Appropriation Acts of 1937 and 1938, is also attached.

After consideration of the decision of the Comptroller General, it was thought that the language employed in the 1939 Act did not necessitate his conclusion and that the slight change in the text

- 2 -

could be explained equally well as having been made in the interests of the mechanics of the draftsmanship rather than as having been made to give effect to some undisclosed intent to change the meaning of the law. Accordingly, the Federal Works Administrator addressed a letter to the Comptroller General in which such considerations were discussed and in which the Comptroller General was requested to reconsider his decision. A copy of that letter is also attached. That letter is now before the Comptroller General.

Because of the good work done by the Washington Self-Help Exchange, Inc., coupled with the fact that, unless a cash grant can be secured by that Exchange from the Works Projects Administration, it will be forced to discontinue its work, it occurred to me that you might want to mention your interest in the work of the Exchange to the Comptroller General.

(Signed) H. Morgenthau, Jr.

Attachments

HUTTENLOFF/va/fm/s
Typed 11/29/39

Comptroller General of the United States
Washington

October 26, 1939

B-6275

Federal Works Administrator,
Federal Works Agency.

Sir:

There was received your letter of September 25, 1939, as follows:

"The Emergency Relief Appropriation Act of 1939, Section 1 (a), appropriated funds to the Work Projects Administration, which, under Section 1 (b), were made 'available for (1) administration; (2) the prosecution of projects approved by the President under the provisions of the Emergency Relief Appropriation Acts of 1935, 1936, 1937, and 1938; and (3) the prosecution of the following types of public projects, Federal and non-Federal, subject to the approval of the President, namely: Highways, * * *; aid to self-help and cooperative associations for the benefit of needy persons; and miscellaneous projects: * * *' (Underscoring supplied.)"

"The language of the act just above cited is different from that of the Emergency Relief Appropriation Act of 1938 which made an appropriation to the Works Progress Administration to be 'available for (a) administration; (b) * * *; (c) aiding self-help and cooperative associations for the benefit of needy persons; and (d) the following types of public projects, Federal and non-Federal, subject to the approval of the President, * * *, namely: * * *'."

"Under the 1939 Relief Act the 'aid' to self-help and cooperative associations by the Work Projects Administration is included under the 'prosecution' of projects, whereas, under the prior Act the 'aiding' self-help and cooperative associations was separate and apart from that section of the Act pertaining to the operation of 'projects'."

"Under the provisions of the Emergency Relief Appropriation Act of 1938, the Works Progress Administration was permitted to make grants of funds to cooperative and self-help associations, such as to be expended by the cooperatives and associations in accordance with the terms of the approved applications of the groups. It may be, however, that the wording of the 1939 Act eliminates the authority to make

grants of funds to such groups and limits the Work Projects Administration to aid self-help and cooperative associations only through the prosecution of projects. The operation of such projects would necessarily be subject to the restrictions and limitations contained in the Emergency Relief Appropriation Act of 1939 pertaining to wages, hours of work and amounts which may be expended for other than labor purposes.

"The extension of aid to self-help and cooperative associations through the prosecution of projects, with the aforementioned limitations, precludes the carrying on of various activities and it is therefore anticipated that applications will be made for cash grants to be expended without these restrictions.

"In anticipation of such applications for cash grants being received, it is respectfully requested that this office be advised as to whether funds appropriated to the Work Projects Administration under the Emergency Relief Appropriation Act of 1939 are available for the purpose of making such grants."

It appears that in enacting the Emergency Relief Appropriation Act of 1939, 53 Stat. 927, the Congress deliberately modified the language respecting aid to self-help and cooperative associations from that used in the Emergency Relief Appropriation Act of 1938, 52 Stat. 809, as set forth in your letter. In the 1938 act such aid was authorized in a specific item, without limiting language, entirely separate and distinct from the authorization for prosecution of projects, thus leaving it to administrative determination whether such aid should be given by cash grants, the prosecution of projects designed to aid such associations, or otherwise. In the 1939 act, however, this was changed by omitting the authorization to aid self-help and cooperative associations as in a special and separate classification and providing for such aid only under the authorization in section 1 (b) (3) for "the prosecution of the following types of public projects." Standing alone, the language

used in the 1939 act would appear clearly to limit aid to such associations to the prosecution of public projects for their assistance. When, in addition, there is considered the definite change of language from that employed the prior year, to which effect must be given, the conclusion is inescapable that such was the legislative intent. It is understood that while under the 1938 act it was held that cash grants as well as projects to aid self-help and cooperative associations were authorized, it was the general administrative policy not to make such grants (except in rare and exceptional cases), but to furnish aid by projects such as for providing facilities, etc., and for furnishing and paying relief personnel to perform supervisory and other work for such associations. The effect of the change by the Congress in the language of the 1939 act from that of the 1938 act was to adopt and make such restrictions a matter of legislative requirement instead of administrative policy. In any event this would appear to be the fair import of the express change of language, and if such effect be considered too restrictive, the matter would be for clarification by the Congress.

As to any suggestion that the procedure of making a grant to an association, together with the related duties of determining the conditions under which the grant should be made and whether such conditions are met, etc., might of itself be considered as the "prosecution" of a "public project" within the meaning of the said section 1 (b) (3) of the 1939 act, it may be pointed out that as

these would be matters wholly of an administrative character for performance by administrative personnel of the Work Projects Administration the cost would be one of "administration", for which expenses a separate authorization is made in section 1 (b) (1) of the act, as limited by section 1 (e) of the act, and clearly would not be a "project" expense. Hence, the performance of such administrative functions could not be the "prosecution" of a "project" as authorized under section 1 (b) (3) of the act. Moreover, any such interpretation of the statute would render nugatory the legislative purpose evidenced by the express change of language in the 1939 act.

It must be concluded, therefore, that the funds appropriated to the Work Projects Administration under the Emergency Relief Appropriation Act of 1939 are not available for cash grants to self-help and cooperative associations. It may be remarked, however, that the provisions contained in sections 1 (c) and 15 (a) of the act limiting amounts, which may be expended for other than labor costs, and restricting wages and hours of work, refer specifically to "work projects", whereas the authorization for aid to self-help and cooperative associations in section 1 (b) (3) of the act is not limited to "work projects" but to the prosecution of "public projects", which is a broader term and may include projects of a character other than "work projects" which are subject to such restrictions and limitations.

Respectfully,

(Signed) Fred H. Brown

Comptroller General
of the United States.

1. Sections 1(a)(b) of the Emergency Relief Appropriation Act of 1939 (Pub. Law, No. 24, 76th Congress):

" * * * there is hereby appropriated to the Work Projects Administration, out of any money in the Treasury not otherwise appropriated, for the fiscal year ending June 30, 1940, \$1,477,000,000, * * * "

"(b) The funds provided in this section shall be available for * * * (3) the prosecution of the following types of public projects, Federal and non-Federal, subject to the approval of the President, namely: * * * aid to self-help and cooperative associations for the benefit of needy persons; and miscellaneous projects: * * * ." (Underlining supplied.)

2. Section 1 of Title I of the Work Relief and Public Works Appropriation Act of 1938, 52 Stat. 809:

" * * * there is hereby appropriated, out of any money in the Treasury not otherwise appropriated, to remain available until June 30, 1939, as follows:

"(1) To the Works Progress Administration, \$1,425,000,000, * * * such amounts shall be available for * * * (c) aiding self-help and cooperative associations for the benefit of needy persons: * * * ." (Underlining supplied.)

3. Section 1 of the Emergency Relief Appropriation Act of 1937, 50 Stat. 355:

" * * * there is hereby appropriated, out of any money in the Treasury not otherwise appropriated, to remain available until June 30, 1938, and to be used in the discretion and under the direction of the President, \$1,800,000,000 * * * ; Provided, That this appropriation shall be available for the following classes of public projects, Federal and non-Federal, * * * assistance for educational, professional, and self-help, and clerical persons and women's projects, * * * ." (Single underlining supplied.)

My dear Mr. Comptroller General:

This will acknowledge receipt of your letter of October 26, 1939 (B-4275) deciding first, that under section 1(b) of the Emergency Relief Appropriation Act of 1939 (Pub. Res. No. 24, 76th Congress), funds appropriated to the Works Projects Administration, under section 1(a) thereof, "are not available for cash grants to self-help and cooperative associations," and second, that the limitations in said Act applicable to "work projects" do not necessarily apply to all "public projects".

With reference to the second part of your decision, we are in agreement. However, so far as the decision prohibits further cash grants to self-help associations, we wish to call certain points to your attention and respectfully request your reconsideration of this part of your decision.

The argument is made in your letter that the language in section 1(b) "standing alone" appears clearly to limit aid to self-help associations "to the presentation of public projects for their assistance". So to interpret the language in 1(b) places a gloss on that language which a fair reading does not require. The statute does not in so many words provide that the funds appropriated shall be available for "the presentation of public projects for assisting self-help associations"; on the contrary, it provides for the presentation of certain listed public projects and then lists "aid to

self-help and cooperative associations for the benefit of needy persons" as one of the types of projects. Thus, the effect of section 1(b) is by definition to make aid to self-help associations a "public project". A proper reading of the statute, therefore, is that the funds appropriated are available for "the prosecution of * * * aid to self-help and cooperative associations * * *". If the statute is so read, the only difference between the provisions of section 1 of Title I of the Work Relief and Public Works Appropriation Act of 1938, 52 Stat. 809, and section 1(b) of the Emergency Relief Appropriation Act of 1939 is that in the 1938 Act the appropriation was "available for * * * aiding self-help and cooperative associations" while under the 1939 Act the appropriation is "available for the prosecution of * * * aid to self-help and cooperative associations." There appears to be little difference, if any, between aiding self-help associations and prosecuting the aid of self-help associations.

The discussion in the preceding paragraph also meets the argument made in your letter that the change in language between the 1938 Act and the 1939 Act forces the conclusion that cash grants can no longer be made. If the language of the 1938 Act is tantamount to that in the 1939 Act, this conclusion does not follow. Furthermore, and aside from that point, the change in language is equally well explained on the theory that the change was made merely in the interests of the mechanics of draftsmanship and not because of any intention by Congress to change the method of assisting self-help associations. It would seem that if Congress had any such

intention, evidence of it would appear somewhere in the hearings, reports, or debates on the Act. An examination of the hearings, reports, and debates, however, has revealed nothing to show such an intention. The only mention of self-help associations in the legislative history of the statute, which the examination has revealed, is a statement before the Subcommittee of the House Appropriation Committee made by Col. Harrington. There is nothing in that statement which is inconsistent with the theory that cash grants would be made. Hearings on Appropriation for Work Relief and Relief, fiscal year 1940, p. 88.

In the Emergency Relief Appropriation Act of 1937, 50 Stat. 283, the appropriation was made available for several "classes of public projects" which were listed. One of the classes listed was "assistance for * * * self-help * * * projects." There is nothing which has been brought to our attention, to show any intention in the 1938 Act to extend assistance to self-help associations beyond that which was permitted in the 1937 Act. Since the grants were proper under the 1938 Act, it is submitted that they were proper (even though not made) under the 1937 Act which, if anything, was more restrictive than the 1938 Act.

Accordingly, it is respectfully requested that reconsideration be given to your decision that under section 1(b) of the Emergency Relief Appropriation Act of 1939 (Pub. Res. No. 24, 76th Congress), funds appropriated to the Works Projects Administration,

under section 1(a) thereof, are not available for cash grants to self-help and cooperative associations.

Very truly yours,

Administrator,
Federal Works Agency.

The Honorable,

The Comptroller General of the United States.

NOT:vlb - 11/14/39
Copied: avp - 11/29/39.

November 30, 1939

268

see Hup. this 11-30-39

1. Estimated calendar year 1939 individual income tax liabilities \$834 millions

Would have to raise taxes on the average by 30 percent to secure an additional \$250 millions in the calendar year 1940.

2. Estimated calendar year 1939 corporation income tax liabilities \$865 millions

Would have to raise taxes on the average by 29 percent to secure an additional \$250 millions in the calendar year 1940.

NOV 24 1939

MEMORANDUM FOR THE PRESIDENT:

We have talked many times about the fine work being done by the Washington Self-Help Exchange, Inc. The Exchange secured a grant in the amount of \$100,000 under Title I of the Work Relief and Public Works Appropriation Act of 1938. If the Self-Help Exchange is to continue its operations, it must secure a further grant during the current fiscal year.

The Works Projects Administration, before making a grant, requested, through the Federal Works Administration, the decision of the Comptroller General on whether such a grant could be made legally under the Emergency Relief Appropriation Act of 1939. A decision by the Comptroller General was rendered on October 26, 1939, in which he ruled that, under that Act, funds "are not available for cash grants to self-help and cooperative associations." A copy of that decision is attached. The decision was based on a slight change in text from that employed in the 1938 Act. The relevant language, as well as similar language in the Emergency Relief Appropriation Acts of 1937 and 1938, is also attached.

After consideration of the decision of the Comptroller General, it was thought that the language employed in the 1939 Act did not necessitate his conclusion and that the slight change in the text

could be explained equally well as having been made in the interests of the mechanics of the draftsmanship rather than as having been made to give effect to some undisclosed intent to change the meaning of the law. Accordingly, the Federal Works Administrator addressed a letter to the Comptroller General in which such considerations were discussed and in which the Comptroller General was requested to reconsider his decision. A copy of that letter is also attached. That letter is now before the Comptroller General.

Because of the good work done by the Washington Self-Help Exchange, Inc., coupled with the fact that, unless a cash grant can be secured by that Exchange from the Works Projects Administration, it will be forced to discontinue its work, it occurred to me that you might want to mention your interest in the work of the Exchange to the Comptroller General.

(Signed) H. Morgan Smith, Jr.

Attachments

NOTED/va/fm/s
Typed 11/29/50

Comptroller General of the United States
Washington

271

B-6275

October 26, 1939

Federal Works Administrator,
Federal Works Agency.

Sir:

There was received your letter of September 25, 1939, as follows:

"The Emergency Relief Appropriation Act of 1939, Section 1 (a), appropriated funds to the Work Projects Administration, which, under Section 1 (b), were made 'available for (1) administration; (2) the prosecution of projects approved by the President under the provisions of the Emergency Relief Appropriation Acts of 1935, 1936, 1937, and 1938; and (3) the prosecution of the following types of public projects, Federal and non-Federal, subject to the approval of the President, namely: Highways, * * *, aid to self-help and cooperative associations for the benefit of needy persons, and miscellaneous projects: * * *.' (Underscoring supplied.)

"The language of the Act just above cited is different from that of the Emergency Relief Appropriation Act of 1938 which made an appropriation to the Works Progress Administration to be 'available for (a) administration; (b) * * *; (c) aiding self-help and cooperative associations for the benefit of needy persons; and (d) the following types of public projects, Federal and non-Federal, subject to the approval of the President, * * *, namely: * * *'.

"Under the 1939 Relief Act the 'aid' to self-help and cooperative associations by the Work Projects Administration is included under the 'prosecution' of projects, whereas, under the prior Act the 'aiding' self-help and cooperative associations was separate and apart from that section of the Act pertaining to the operation of 'projects'.

"Under the provisions of the Emergency Relief Appropriation Act of 1938, the Works Progress Administration was permitted to make grants of funds to cooperative and self-help associations, such monies to be expended by the cooperatives and associations in accordance with the terms of the approved applications of the groups. It may be, however, that the wording of the 1939 Act eliminates the authority to make

grants of funds to such groups and limits the Work Projects Administration to aid self-help and cooperative associations only through the prosecution of projects. The operation of such projects would necessarily be subject to the restrictions and limitations contained in the Emergency Relief Appropriation Act of 1939 pertaining to wages, hours of work and amounts which may be expended for other than labor purposes.

"The extension of aid to self-help and cooperative associations through the prosecution of projects, with the aforementioned limitations, precludes the carrying on of various activities and it is therefore anticipated that applications will be made for cash grants to be expended without these restrictions.

"In anticipation of such applications for cash grants being received, it is respectfully requested that this office be advised as to whether funds appropriated to the Work Projects Administration under the Emergency Relief Appropriation Act of 1939 are available for the purpose of making such grants."

It appears that in enacting the Emergency Relief Appropriation Act of 1939, 53 Stat. 927, the Congress deliberately modified the language respecting aid to self-help and cooperative associations from that used in the Emergency Relief Appropriation Act of 1938, 52 Stat. 809, as set forth in your letter. In the 1938 act such aid was authorized in a specific item, without limiting language, entirely separate and distinct from the authorization for prosecution of projects, thus leaving it to administrative determination whether such aid should be given by cash grants, the prosecution of projects designed to aid such associations, or otherwise. In the 1939 act, however, this was changed by omitting the authorization to aid self-help and cooperative associations as in a special and separate classification and providing for such aid only under the authorization in section 1 (b) (3) for "the prosecution of the following types of public projects." Standing alone, the language

used in the 1939 act would appear clearly to limit aid to such associations to the prosecution of public projects for their assistance. Then, in addition, there is considered the definite change of language from that employed the prior year, to which effect must be given, the conclusion is inescapable that such was the legislative intent. It is understood that while under the 1938 act it was held that cash grants as well as projects to aid self-help and cooperative associations were authorized, it was the general administrative policy not to make such grants (except in rare and exceptional cases), but to furnish aid by projects such as for providing facilities, etc., and for furnishing and paying relief personnel to perform supervisory and other work for such associations. The effect of the change by the Congress in the language of the 1939 act from that of the 1938 act was to adopt and make such restrictions a matter of legislative requirement instead of administrative policy. In any event this would appear to be the fair import of the express change of language, and if such effect be considered too restrictive, the matter would be for clarification by the Congress.

As to any suggestion that the procedure of making a grant to an association, together with the related duties of determining the conditions under which the grant should be made and whether such conditions are met, etc., might of itself be considered as the "prosecution" of a "public project" within the meaning of the said section 1 (b) (3) of the 1939 act, it may be pointed out that as

these would be matters wholly of an administrative character for performance by administrative personnel of the Work Projects Administration the cost would be one of "administration", for which expenses a separate authorization is made in section 1 (b) (1) of the act, as limited by section 1 (e) of the act, and clearly would not be a "project" expense. Hence, the performance of such administrative functions could not be the "prosecution" of a "project" as authorized under section 1 (b) (3) of the act. Moreover, any such interpretation of the statute would render nugatory the legislative purpose evidenced by the express change of language in the 1939 act.

It must be concluded, therefore, that the funds appropriated to the Work Projects Administration under the Emergency Relief Appropriation Act of 1939 are not available for cash grants to self-help and cooperative associations. It may be remarked, however, that the provisions contained in sections 1 (c) and 15 (a) of the act limiting amounts which may be expended for other than labor costs, and restricting wages and hours of work, refer specifically to "work projects", whereas the authorization for aid to self-help and cooperative associations in section 1 (b) (3) of the act is not limited to "work projects" but to the prosecution of "public projects", which is a broader term and may include projects of a character other than "work projects" which are subject to such restrictions and limitations.

Respectfully,

(Signed) Fred H. Brown,
Comptroller General
of the United States.

1. Sections 1(a)(b) of the Emergency Relief Appropriation Act of 1939 (Pub. Res., No. 34, 76th Congress):

" * * * there is hereby appropriated to the Work Projects Administration, out of any money in the Treasury not otherwise appropriated, for the fiscal year ending June 30, 1940, \$1,477,000,000,
* * * "

"(b) The funds provided in this section shall be available for * * * (2) the prosecution of the following types of public projects, Federal and non-Federal, subject to the approval of the President, namely: * * * aid to self-help and cooperative associations for the benefit of needy persons; and miscellaneous projects: * * * ." (Underlining supplied.)

2. Section 1 of Title I of the Work Relief and Public Works Appropriation Act of 1938, 52 Stat. 809:

" * * * there is hereby appropriated, out of any money in the Treasury not otherwise appropriated, to remain available until June 30, 1939, as follows:

"(1) To the Works Progress Administration, \$1,425,000,000, * * * such amounts shall be available for * * * (c) aiding self-help and cooperative associations for the benefit of needy persons;
* * * ." (Underlining supplied.)

3. Section 1 of the Emergency Relief Appropriation Act of 1937, 50 Stat. 322:

" * * * there is hereby appropriated, out of any money in the Treasury not otherwise appropriated, to remain available until June 30, 1938, and to be used in the discretion and under the direction of the President, \$1,800,000,000 * * * : Provided, That this appropriation shall be available for the following classes of public projects, Federal and non-Federal, * * * assistance for educational, professional, and self-help, and clerical persons and women's projects, * * * ." (Single underlining supplied.)

My dear Mr. Comptroller General:

This will acknowledge receipt of your letter of October 26, 1939 (B-6276) deciding first, that under section 1(b) of the Emergency Relief Appropriation Act of 1939 (Pub. Res. No. 24, 76th Congress), funds appropriated to the Works Projects Administration, under section 1(a) thereof, "are not available for cash grants to self-help and cooperative associations," and second, that the limitations in said Act applicable to "work projects" do not necessarily apply to all "public projects".

With reference to the second part of your decision, we are in agreement. However, so far as the decision prohibits further cash grants to self-help associations, we wish to call certain points to your attention and respectfully request your reconsideration of this part of your decision.

The argument is made in your letter that the language in section 1(b) "standing alone" appears clearly to limit aid to self-help associations "to the prosecution of public projects for their assistance". So to interpret the language in 1(b) places a gloss on that language which a fair reading does not require. The statute does not in so many words provide that the funds appropriated shall be available for "the prosecution of public projects for assisting self-help associations"; on the contrary, it provides for the prosecution of certain listed public projects and then lists "aid to

self-help and cooperative associations for the benefit of needy persons" as one of the types of projects. Thus, the effect of section 1(b) is by definition to make aid to self-help associations a "public project". A proper reading of the statute, therefore, is that the funds appropriated are available for "the prosecution of * * * aid to self-help and cooperative associations * * *."

If the statute is so read, the only difference between the provisions of section 1 of Title I of the Work Relief and Public Works Appropriation Act of 1933, 48 Stat. 809, and section 1(b) of the Emergency Relief Appropriation Act of 1939 is that in the 1933 Act the appropriation was "available for * * * aiding self-help and cooperative associations" while under the 1939 Act the appropriation is "available for the prosecution of * * * aid to self-help and cooperative associations." There appears to be little difference, if any, between aiding self-help associations and prosecuting the aid of self-help associations.

The discussion in the preceding paragraph also meets the argument made in your letter that the change in language between the 1933 Act and the 1939 Act forces the conclusion that cash grants can no longer be made. If the language of the 1933 Act is tantamount to that in the 1939 Act, this conclusion does not follow. Furthermore, and aside from that point, the change in language is equally well explained on the theory that the change was made merely in the interests of the mechanics of draftsmanship and not because of any intention by Congress to change the method of assisting self-help associations. It would seem that if Congress had any such

intention, evidence of it would appear somewhere in the hearings, reports, or debates on the Act. An examination of the hearings, reports, and debates, however, has revealed nothing to show such an intention. The only mention of self-help associations in the legislative history of the statute, which the examination has revealed, is a statement before the Subcommittee of the House Appropriation Committee made by Col. Harrington. There is nothing in that statement which is inconsistent with the theory that such grants would be made. Hearings on Appropriation for Work Relief and Relief, fiscal year 1940, p. 83.

In the Emergency Relief Appropriation Act of 1937, 50 Stat. 288, the appropriation was made available for several "classes of public projects" which were listed. One of the classes listed was "assistance for . . . self-help . . . projects." There is nothing which has been brought to our attention, to show any intention in the 1938 Act to extend assistance to self-help associations beyond that which was permitted in the 1937 Act. Since the grants were proper under the 1938 Act, it is submitted that they were proper (even though not made) under the 1937 Act which, if anything, was more restrictive than the 1938 Act.

Accordingly, it is respectfully requested that reconsideration be given to your decision that under section 1(b) of the Emergency Relief Appropriation Act of 1939 (Pub. Res. No. 34, 76th Congress), funds appropriated to the Works Projects Administration,

under section 1(a) thereof, are not available for such grants to self-help and cooperative associations.

Very truly yours,

Administrator,
Federal Works Agency.

The Honorable,

The Comptroller General of the United States.

NOT:vis - 11/14/59
Copied: svp - 11/29/59.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

280

DATE November 30, 1939.

TO Secretary Morgenthau

FROM Mr. Cochran

This morning I brought Mr. Stewart to date with respect to the negotiations with the British authorities which have taken place during his absence. Mr. Duffield has also informed him in regard to the concern of the Securities and Exchange Commission with respect to possible publicity. I showed Mr. Stewart the Securities and Exchange Commission articles in this morning's Wall Street Journal and New York Herald Tribune. Mr. Stewart will be here tomorrow morning at 10:30 when Mr. Pinsent is expected to bring Messrs. Whigham and Gifford to see the Secretary. After speaking with the Secretary this evening at 4:45, I telephoned Mr. Pinsent and told him that if he had not already made an appointment with Mr. Frank to receive these same visitors tomorrow, we thought he should take the initiative. I told him that we had not telephoned Mr. Frank. He planned to do so immediately.

When talking with Mr. Knoke at 12:00 noon today, I learned that his bank had, following Osborne's visit in New York day before yesterday, sent a cablegram to the Bank of England indicating the sort of a telegraphic instruction which that bank should address to the Federal Reserve Bank of New York, with the view to setting up the special account for purchases of war materials which has been under discussion for some time. Mr. Knoke understood our interest in having this matter expedited, and told me that he had been doing everything possible in that direction. He added that Mr. Leroy-Beaulieu, Financial Counselor of the French Embassy, had informed him that the French official who is to work with him in setting up the French account with the Federal Reserve Bank of New York is sailing on the Rex December 3, so there will be a delay of at least another week from that date before the French arrangements are completed. Knoke said that the officials in the French Ministry of Finance with whom Leroy-Beaulieu had talked by telephone on this matter had assured him that all plans were now approved in France, and only the details remained to be worked out on this side.

I should record that at 9:00 o'clock this morning, I telephoned Mr. Stone in the Office of Secretary Hull and informed him of the conference which took place yesterday afternoon between Secretary Morgenthau and his British visitors. Mr. Stone thanked us for keeping the State Department informed, and assured us of their warm cooperation.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

281

DATE November 30, 1939

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

The foreign exchange market was dull in spite of the disturbing news from abroad. In New York, the opening quotation was 3.89-1/2. The banks reported early this morning that they had not received any orders from abroad to sell sterling; however, they did have some small purchase orders. The Federal Reserve Bank of New York reported that it had instructions to sell £100,000 for the account of the Central Bank of Norway. Of this amount, £50,000 represented an order received yesterday which it was unable to execute as the cable was not in proper form. The order to sell the remaining £50,000 was received this morning. About mid-morning, sterling reached the low of the day at 3.87-3/4. After recovering to 3.88-3/4 in the early afternoon, the pound eased to close at 3.88-1/4.

Sales of spot sterling by the four reporting banks and the Federal Reserve Bank of New York totaled £428,000, from the following sources:

By commercial concerns.....	£ 270,000
By foreign banks (Europe and Far East).....	£ 58,000
By Federal Reserve Bank of New York (for Norway).....	£ 100,000
Total.....	£ 428,000

Purchases of spot sterling amounted to £353,000, as indicated below:

By commercial concerns.....	£ 187,000
By foreign banks (Europe and South America).....	£ 166,000
Total.....	£ 353,000

The forward sterling market continued to improve. One month sterling was quoted at 2-1/4¢ per pound discount and three months at 5-3/4¢ per pound discount. It was reported that very little business was done in the forward market.

Cotton bills totaling £203,000 were sold to the British Control at the official rate of 4.02 by the following reporting banks:

£ 108,000 by the Guaranty Trust Co.
£ 87,000 by the Bank of the Manhattan
£ 8,000 by the National City Bank
£ 203,000 Total

The other important currencies closed as follows:

French francs	.0220
Guilders	.5309
Swiss francs	.2243
Belgas	.1651
Canadian dollars	13-3/8¢ discount

As a result of the difficulties between Soviet Russia and Finland, the Finnish mark was quoted at a nominal rate of .02. Yesterday it was quoted actually at .0189. The Russian currency has not been quoted in New York for a considerable period of time. With respect to the other Scandinavian countries, the disturbance in Finland had practically no effect on their currencies.

We sold \$2,000,000 in gold to the Central Bank of the Republic, Argentina, to be added to its earmarked account. Since November 28, 1938, total sales of gold to that bank were \$54,360,000. Of this amount, it disposed of \$5,004,000, making net sales \$49,356,000 to that bank during the period mentioned.

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

\$10,000,000	from the Bank of France
1,126,000	from the Bank of Mexico
138,000	from the National Bank of Belgium
<u>\$11,264,000</u>	Total

During the period between August 30 and November 30, the earmarked gold of the Bank of France decreased \$100,000,000.

The Federal Reserve Bank reported to us the following shipments of gold:

\$4,995,000	from Sweden, shipped by the Bank of Sweden, consigned to the Chase National Bank, for account of the State Bank U.S.S.R., for sale to the U. S. Assay Office at New York.
2,278,000	from the Netherlands, shipped by the Netherlands Bank, consigned to the Federal Reserve Bank of New York, to be earmarked for account of the Netherlands Bank.
1,440,000	from India, shipped by the Chase National Bank, Bombay, consigned to the Chase National Bank, San Francisco, for sale to the U. S. Mint at San Francisco.
500,000	from India, shipped by the Chase National Bank, Bombay, consigned to the Chase National Bank, New York, for account of its London office for sale to the U. S. Assay Office at New York.
210,000	from India, shipped by the National Bank of India, consigned to the Chase National Bank, San Francisco, for sale to the U. S. Mint at San Francisco.
187,000	from Hong Kong, shipped by the Chase National Bank, Hong Kong, consigned to the Chase National Bank, San Francisco, for sale to the U. S. Mint at San Francisco.
<u>\$9,610,000</u>	Total

The U. S. equivalent of London spot and forward silver was 41.19¢ and 40.98¢, respectively. Handy and Harman's price for foreign silver was unchanged at 34-3/4¢. The Treasury's price was also unchanged at 35¢.

In New York, we made one purchase of silver for 50,000 ounces, under the Silver Purchase Act. This makes a total of 5,226,000 ounces of such silver purchased during the month of November.

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We also purchased 315,000 ounces of silver from Canada. For the month of November, Canada sold to us 1,200,000 ounces of silver, under our monthly agreement with that country.

Mr. Knoke informed me today that, as of yesterday morning, the balance of the State Bank of Russia with the Chase Bank was \$6,900,000. The Amtorg had with the Chase Bank at the same date \$2,000,000. The only item of importance which has entered the account of the Russian State Bank recently was one on November 22, when the Rotterdamsche Bank ordered the transfer from the Netherlands of \$4,800,000 into the State Bank account. Otherwise, the in and out payments have been insignificant. In connection with Russia, I mentioned to Knoke that the Swedish Central Bank was making a gold shipment from Bergen, Norway, to New York for account of the State Bank of Russia. Knoke told me, in turn, that the Chase Bank had informed him that they had been requested to make an advance against this gold, and Knoke believed that the Chase had yesterday agreed thereto.

Mr. Knoke reminded me that I had requested him on November 22 to let me know of any transactions contemplated by his Bank which involved lending against gold earmarked with his institution. He told me that the Central Bank of Turkey now wanted to obtain a million dollar advance from the Federal against \$1,100,000 of gold to be delivered to them by the B.I.S. in New York. He stated that the Turkish Bank had explained that, in present circumstances, it desired to centralize its balances abroad with the Federal Reserve Bank of New York. Mr. Knoke was seeking the approval of the Directors of the Federal Reserve Bank of New York, and of the Board of Governors of the Federal Reserve System, to this transaction. I thanked him for this information and conveyed it to Mr. Bernstein this afternoon. At the first convenient date, I shall mention to the Secretary the general policy of the Federal Reserve Bank of New York granting loans against gold earmarked with it.



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GROUP MEETING

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

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

E.M.Jr: I wanted you (Stewart) here particularly, because you would talk to the people and the SEC has sort of shifted their position on this special publicity. I saw that clipping which will explain it. The British were here yesterday and before they do anything, they had better talk again to the SEC, because I gave them my word on no publicity and I had to withdraw that now, but I didn't feel that I should necessarily keep it on account of shifting position over at the SEC, so I think you and Merle and Gene had better get into this thing.

Stewart: Right.

E.M.Jr: Because I can keep my word and have kept it with them and I don't want them to - see? And the first time you get a break today, I want to talk with you people and White on this latest thing on Finland. I just want to see whether we can look any further ahead on it. You can help me handle this other thing and they are coming down and, personally - I may be wrong two or three months from now, but I think - they published those things last week. If they had published all these things, Frank wouldn't have had the time to fuss. Now he is going to fuss and fuss and fuss and they just missed the boat. I may be wrong in two or three months, but certainly we have had everything signed, sealed and delivered and now by waiting it gives the SEC a chance to shift their position. I am sorry but - they are going to be here tomorrow, aren't they?

Cochran: Yes, and they would like to see you before they go over there, if possible. They could see you late in the morning or early in the afternoon.

H.M.Jr: Could you have them down in your room at 10:30, the Englishmen available, and I will see them sometime between 10:30 and 11:00.

Cochran: I think I can get them here at that time. They said late in the forenoon. I think they are coming down on an early plane.

H.M.Jr: Let them be here between 10:30 and 11:00.

Cochran: In my room, there?

H.M.Jr: Yes, with Walter Stewart.

All right, Mr. Foley.

Foley: I have nothing.

H.M.Jr: How did the Basil Harris meeting go yesterday on Tijuana?

Duffield: As I said, I haven't seen it in the press.

H.M.Jr: There was a little box in the New York Times. It was all right, every bit of it. Who saw it?

Thompson: It was in the Star.

Duffield: I did, and as I told Mr. Harris, meeting there in my room seemed to be very friendly but I didn't know whether that would be reflected when that came out or not. The pictures which he had on the billboards were a good idea. The boys laughed at advertisements of Hudson's Bay blankets being sold in Tijuana.

H.M.Jr: Am I correct, that 48 out of 50 people who go down there spend less than 51 cents a person?

Harris: They revised that figure yesterday and made it 49 out of 50.

H.M.Jr: Average 51 cents a person, so it is the one in 50 or two in 100, right?

Harris: Yes.

H.M.Jr: And it is largely non-Mexican goods - is that statement correct - that they are after, that they want to buy?

Duffield: I don't think that is true.

Harris: No, that isn't correct. Most of the people who go in there buy the Mexican goods, but....

Foley: If it is more than five dollars, Mr. Secretary, it is non-Mexican goods.

Gaston: The trivial amount of expenditures indicates it is Mexican goods.

Harris: It is that two in 100 who buy the perfumes and the Hudson Bay blankets, and so on.

H.M.Jr: If it runs the way it is on the front page of the Times, I am more than pleased. (To Mr. Duffield) Show this to Mr. Harris. It gives you full credit for it.

Harris: Thank you.

I have to go over to the State Department now.
Would you excuse me?

H.M.Jr: Have you got anything else?

Harris: No, I just wanted to tell you we would be putting through today a revocation of that T. D. on import manifests.

H.M.Jr: Are you all right?

Foley: Yes.

H.M.Jr: Herbert?

Gaston: I suppose you heard the Russians had actually invaded Finland?

H.M.Jr: Oh, yes. What else?

Gaston: I am planning to go up on the Hill for a hearing on emergency expenditures for Coast Guard.

Duffield: If you and Mr. Hanes approve, we were going to get out the letter which you and Mr. Ickes sent to the War Department on the kick-back law, that question of whether the law intended for Public Works to prevent kick-backs of salaries by workers to contractors, whether that law applied to airplanes.

H.M.Jr: Don't know a thing about it.

Foley: Well, those regulations are joint regulations put out by you and the Secretary of the Interior; you, because the Procurement building branch was here and Ickes, because Public Works used to be there.

H.M.Jr: But it isn't here any more.

Foley: But the statute still requires the Secretary of the Interior and the Secretary of the Treasury.

H.M.Jr: Are you for or against kick-backs?

Foley: We are against them.

H.M.Jr: What do you call it when you get a kick from the field to make a goal?

Foley: Field goal.

Bell: Touchback.

White: There is also a kick-back, but there is a penalty on that.

H.M.Jr: Am I for or against kick-backs?

Foley: You are against them, but you can't stretch the law, I don't think, quite far enough to include airplane manufacturers on contracts with the Government, because I don't think that is a public works, in the meaning of the statute.

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This is only a clarification for the rest of the industry. I think Martin has already been advised.....

H.M.Jr: I can't take this up in the 9:30 meeting. What is the rush?

Duffield: It is just that one company has been informed and other people are trying to find out.

H.M.Jr: Put the heat on Ed Foley. He has never mentioned it to me or brought it to my attention. He had a half hour this morning.

Foley: I thought I did pretty well in that half hour.

H.M.Jr: Considering what half hour it was.

All right? Put the pressure on him.

I gave Ed a pep talk on Colt. We are going to make a national hero out of Colt, Colt firearms, and then have him come down as the first American citizen to want the public to know under what conditions he is selling firearms. From now on, every agreement we make with a munitions manufacturer, we are going to make it public. We don't have to wait for the war to be over for an investigation. Everyone is going to make public, beginning with the Colt one. We will make a national hero out of President Colt and let him come down here, do it right here among - Ed is completely sold on it.

Don't you think that is a swell idea?

White: The beauty of that is, you can't make more than one wrong closing agreement, because you can adjust the next one after the public reacts.

H.M.Jr: Exactly. Anything else, Gene, that Ed is falling down on?

Duffield: No. I didn't mean to get Ed in dutch on this. I thought you would want to clear it.

H.M.Jr: You haven't.

Cochran: I phoned Stone over at the State Department at 9:00 o'clock and asked Butterworth to come over, so he is coming over. Do you want to see him?

H.M.Jr: When does the first clipper ship go, isn't that on Monday?

Cochran: There is one of the fourth and one on the seventh.

H.M.Jr: If he could get booked on the fourth, please.

Cotton: It might amuse you to know that General Trujillo has asked me to visit the Dominican Republic.

H.M.Jr: Do I understand - I had a minute with Mr. Hanes and I understand there are about twenty of these people on the Bondholders Protective Committee, taking our people and theirs.

Cotton: I don't know how many people are coming.

White: That would be too many.

H.M.Jr: How many will there be?

White: I don't know how many are coming down, but there will be at least eight from here.

H.M.Jr: I think if you have them all at 10:00 o'clock downstairs in the room underneath, it will be better. I can come down and say a few words and then excuse myself. I would like the reporter present. I told that to Mr. Hanes. You get them all down, will you, and let me know when it is ready and I will come down. That is a good place to meet, isn't it? Where did you fellows get last night?

Cotton: I thought it went very well. I think we got somewhere with it.

White: Very satisfactory.

H.M.Jr: Would you give me a minute or two? Where are you, as of yesterday's meeting?

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Cotton: Well, we discussed what sort of a debt settlement might seem reasonable. The major points in which we were in agreement, I think, were that in addition to the negotiations up to the present - they have only covered the direct obligations of the federal government of Colombia. In addition, there are some guaranteed bonds of the agricultural mortgage banks and we seemed to be in general agreement they should be excluded in any settlement trying to clear up the whole situation. That was the first point.

The second was that there should be some attempt, probably, to get assurances that the federal government wouldn't obstruct transfers on the whole debt if adjustment of that could later be arrived at.

Third, that probably a flat interest rate of three percent and some flexible provision for increasing service, depending upon the volume of exports, might be desirable. All those matters were discussed and I think generally were agreed on.

White: Allocation of exchange, did you mention that?

Cotton: Yes.

H.M.Jr: Joe, who all was there?

Cotton: Feis and Duggan, McConnell, Lincoln, Frank and White.

H.M.Jr: Jerome Frank?

Riefler: There was one very important point came out and that is that we do not yet have a bid from the Colombian Government and it was decided to be very important not to get too specific with the bondholders now until we do have something definite from the Government. Otherwise, we might have to go through two selling jobs.

H.M.Jr: Well, Hanes was in here. I take it he was your representative. Is it all right to show the bondholders the Jesse Jones letter?

Cotton: Mr. Hanes' feeling was we wanted to give as much as we could in this meeting and say that this was the lines along which Mr. Jones was thinking of as what might be reasonable.

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- H.M.Jr: I have no objection as long as it is understood it is only Mr. Jones.
- Riefler: Well, the chances are very strong as far as we can dope them out that if the Colombians are going to make an offer this next week, it will not be as good as the Jones letter. It won't be up to that level. It was generally agreed at the end last night that we should be pretty loose here and not get into a hard and fast platform with the committee as to where we were going, and then find that we couldn't go there.
- H.M.Jr: Well....
- White: Larry Duggan seemed to be fairly emphatic, and I think he has got a good point there, that there should be no mention of any terms to this meeting, because that will provide them with grounds for turning down flatly the bid which they are going to receive, which is very likely to be below this, so that without - there should be no statement of the exact amounts but merely a discussion of principles and I think we were all agreed on that.
- Cotton: That is true. On the other hand, we want to be as helpful as we can. Mr. Traphagen has been asked down here and we will just have to see how it goes.
- H.M.Jr: Now, the other thing, was it you that told me that there seems to be two men that want to represent Colombia already, the Ambassador and Jaramillo?
- Cotton: Well, they have gotten together. Since we talked to you, they have received some instructions from the Guatemalan Government. Presumably they are now authorized to make an offer.
- H.M.Jr: You mean Colombian Government?
- Cotton: Yes.
- H.M.Jr: Maybe they are holding back because they didn't really know who did represent them.

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Cotton: Well, I got that impression, frankly. I think they are together now.

H.M.Jr: Who was here from Commerce?

Cotton: McConnell.

H.M.Jr: You had a good meeting, didn't you?

White: I think so.

H.M.Jr: Did you keep minutes?

Cotton: I have some notes.

H.M.Jr: Would you write it up? Keep minutes on any of these meetings, will you please?

Anything else, Joe?

White: Both Mr. Feis and Mr. Duggan were very cooperative.

H.M.Jr: Really?

Cotton: It was a very good meeting.

H.M.Jr: Also, Mr. Hanes said he hoped I wouldn't tell this group in front of everybody that I hoped they would reorganize themselves.

Cotton: No, I think Mr. Hanes....

White: McConnell feels very strongly that nothing will be done through that group. He didn't say so there, but he said so afterwards. He thinks it is a waste of time.

Cotton: I think he is wrong. It is either that or somebody else and you will never get another group.

H.M.Jr: I don't agree that it is a waste of time, but if the group which has - this group has the stamp of approval of the SEC and the State Department. They have gone over their minutes and approved them and certainly we ought to give them every effort to see whether we can't work with them.

White: Definitely.

H.M.Jr: After all, if anybody said, "Could you work with the Stock Exchange in the days of Mr. Whitney?" you would say, "No." But that has been changed. I mean, I wouldn't be discouraged from what you fellows say. We are closer together with the Administration as of this morning than we have ever been before.

White: I think so.

H.M.Jr: Aren't you encouraged, Win, in one day?

Riefler: Very much.

H.M.Jr: Anything else on that? It sounds good to me.
George?

Haas: I have nothing this morning.

H.M.Jr: George, in the future I dropped Ness off that list. I will tell you sometime. Get somebody else. Get your friend from the Leland Corporation, if you want someone.

Haas: Alexander, you mean?

H.M.Jr: No.

Haas: Sachs?

H.M.Jr: Yes.

Haas: Alexander Sachs.

Duffield: You are going to get a lot of newspaper publicity. if you get him.

H.M.Jr: Well, I just - there are plenty of other people.

Haas: I will make suggestions.

H.M.Jr: All right.

Harry?

White: You know, we just provided another war for you.

H.M.Jr: It was quite dramatic in the morning announcement. They carry this classical music on the radio from 6:30 to 7:30.

White: 6:00?

H.M.Jr: 6:30 to 7:30.

White: You were listening to classical music?

H.M.Jr: That is the only time of day I can take it. They suddenly interrupted that opera to announce that Russia had invaded Finland. It was quite dramatic. Then the music went right on.

Harold?

Graves: Nothing.

H.M.Jr: Dan?

Bell: Here is a memorandum for you.

H.M.Jr: Take subscriptions on this two percent bond at over six billion and between 20 and 25 million individuals. How many individuals would you say that is? Would they all take the five thousand?

Bell: No, I don't think so. I think there are a lot of individuals in that, and five thousand would be the minimum. Five thousand individuals would be the minimum.

H.M.Jr: Anything else?

Bell: No, that is all. We will make allotment on that Monday, because - there is a holiday. I gave them that extra day to police.

White: Is it my understanding that you expect for Friday morning a written report on the proposals which were sent to us on the inter-American bank or is this to be a general discussion? We are meeting today.

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H.M.Jr: You men are to go over to Mr. Berle's office and have a general discussion. You go uninstructed. I can't see you before then except maybe for two or three minutes.

White: Well, I think we definitely will not take any position on it, merely discussing some of the technical matters.

H.M.Jr: I told them the chances are that when you came over it would be impossible for you to take any position, that I wouldn't have a chance to go over there with you. If Mr. Stewart has time, I would like to have him know about this, as well as Riefler. Has he had a chance to see this?

Riefler: I have gone over this.

White: We sent him material yesterday and sent the Board material. They are looking over the material before the meeting and we are having a meeting today.

Thompson: Congressman Sommers of New York is asking that we find a position for a stenographer.

H.M.Jr: That is the first thing he has asked. He has been terribly good.

Thompson: I will find a place for her.

H.M.Jr: We are now taking care of Congressman Ford and we will take care of him.

Thompson: I had the young lady here and she made a very favorable impression, a very good showing.

H.M.Jr: Well, we owe him a lot.

Thompson: That is what I thought.

H.M.Jr: It is the first thing he has asked.

Thompson: That is all.

H.M.Jr: All right, thank you.