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GROUP MEETING

December 1, 1939.
9:30 a.m.

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

H.M.Jr: Dan Bell, be here at 11:30. This thing I gave the President, I wasn't quite sure I had the right answer. Has Dan seen that one?

Foley: No. We will get together after the meeting.

H.M.Jr: I couldn't tell whether - what is his name - has written to the Comptroller or not.

Foley: Yes, he has.

H.M.Jr: I see the General Counsel over there resigned.

Bell: No, Assistant General Counsel.

Foley: But Carmody wrote another letter. The letter we asked him to give, he gave.

Bell: It hasn't been entered on the record yet. It is on Mr. Farley's desk.

H.M.Jr: Why not?

Bell: We told him we would have another meeting with him and see if there was anything that could be done in another way and then we would go back and see him again.

H.M.Jr: Well, we will talk about it later. You (Foley) and Dan can get together.

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Foley: Yes.

H.M.Jr: Gene, where did all this stuff in the paper come from about securities, Federal Reserve going to do something, et cetera? Has Walter Stewart been talking?

Stewart: Yes.

Duffield: I had several calls yesterday from newspaper men who said that New York was a hotbed of rumors of what was going to be done to cushion the market against foreign selling. They didn't seem to know what had caused them all of a sudden. In response to any questions about the Government taking any action, I was pretty blunt, said that we would not.

H.M.Jr: Well....

Duffield: But in spite of that - well, of course I had to admit that I didn't know what private groups might be interested in doing. But I was pretty sure there was nothing brewing.

H.M.Jr: I don't think the English have anybody to blame but themselves for this constant postponement. Everything was set for them, doing a two months job for them in two days. They are coming in at 10:30.

Hanes: All right.

H.M.Jr: One other thing, I kind of thought I might - the gentlemen thought it would be well if we might ask those men who met with you and Traphagen yesterday to meet with me Monday afternoon. The thing that I would like to put up to them is this: It seems to me that now that the Bondholders Committee has met us halfway, my own feeling is, I would say to them, "Now go ahead and get the best deal that you can and then come and tell us about it and leave us in the background as the umpire," rather than do the thing that some of the people want. Let us go ahead and see the Colombians and let Jesse Jones see them. He tells them one thing and different people in the State Department tell

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them something else and one day we are told that Jaramillo is to represent them and the next day we are told that the Ambassador is to represent them, and I just wondered whether we couldn't say to Mr. Traphagen, "Now you go ahead and you get the best you can and then come and tell us about it. If you feel that - and if we feel that you are too hard, we will tell you so. If you think the Colombians are not being generous enough - but use us as an umpire." That is the way I envisage the thing. How do you feel about it, John?

Hanes:

Well, I assume that the Colombians will have to - before they can make any deal with us they have got to make a deal with the bondholders. I assume that is the way this thing has to be done, but it is more or less a simultaneous operation, it seems to me. They have got to find out from two ends, first what we will do here in Washington and second what the bondholders will do, or vice versa, what the bondholders will do, and try to work us around to that point of view. It seems like a simultaneous operation that has got to be carried on both sides together. This is the first experience I have had with it and I don't know whether that is the correct viewpoint or not, but it seems to me to be putting the cart before the horse for us to make a deal and then go to them and say, "Here it is, buttoned up," rather than - I would think the constructive way to do would be, as we are having our conversations with the Colombians, to keep these people posted on what the thought of the Government was in going to Colombia with this or that sort of proposition.

I don't know if that is correct or not, but it seems to me to be a thing that has got to be carried on concurrently with the Bondholders Council and keep them posted on what we are doing, and we to be kept posted on what they are doing. Does that make sense?

H.M.Jr:

It would, John, if the President told me, "All right, the Treasury does it." But in the room here, the State Department won't let us do it, see.

Hanes: The only agency that I can find out in the Government that has any money that you can tap is the Import-Export Bank or the RFC, one or the other. I guess it is through the Import-Export Bank, and it seems to me that the negotiation has got to ultimately be with the Import-Export Bank, so it seemed the part of wisdom to get one person to deal for the Government and have the other agencies advise with them all the time.

For instance, if you said to the Import-Export Bank, "You work this thing out along these lines" - and as I understand the Committee is yourself and Mr. Jones and Mr. Welles, the three of you. You are the final court that this thing has got to go before. So it would seem to me that you and Welles and Jones could agree upon one of you to do the negotiating with the Colombians and the other two stay out of it, let the staffs of the various places know the details and the negotiations as it was going along and either object or agree as you go and keep the Bondholders Council posted each step of the way. It would seem to me that would avoid getting into this awful confusion that we got into before. We were out of it, but the rest of them certainly got in enough confusion, because there were too many cooks there, it seemed to me.

H.M.Jr: The only indication on that is, I don't think that the Import-Export Bank ought to come into this thing until they have settled it. In other words, I don't think we ought to hold the thing out as a bait, "If you do this, we will give you ten million dollars." I don't think that is right.

Hanes: Well, I didn't have that so much in mind as I did narrowing the negotiations down to one person to avoid what - the Brazilian was shifted from one to the other and the other and back here again. We finally got in and straightened the thing out; I think you did, the last morning they were here.

H.M.Jr: I felt - I rather - I am going to say - I don't want to decide - I don't make myself plain, but after what we are trying - I agree with Cotton. Cotton

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said that the Bondholders Committee expects us to harrow this field and fertilize it for them, but that isn't setting a pattern. I would like, if I had nothing else in this half hour, to finish this up. It would be well spent. That isn't setting a pattern and that is what we are trying to do. Therefore, what I would - if we are trying to set a pattern, I would say to Mr. Traphagen, "Now, Mr. Traphagen, you do this negotiating and as you proceed come down and see Welles, Jones and me and talk it over and we will advise you. Then you go back and see them again and keep us informed."

Hanes: That would suit me first rate, because that would keep them from running from one department to the other. That would be swell.

H.M.Jr: What would you think of that?

Hanes: That would be fine.

H.M.Jr: "And anytime, Mr. Traphagen, you want something and you feel that you are not making progress, you keep us informed. This is your responsibility, and we would like you to keep telling us - if we hear anything we will pass it on to you, but it is your responsibility and Mr. Welles and Mr. Jones and I are available any time you want to see us." Just think that one over.

Now, I mean, I realize that we are in a sort of center of the thing, but we are trying to work out a pattern, how we are going to do it - what are the two countries, Harry?

White: Peru and Ecuador.

H.M.Jr: See?

Cotton: That is certainly right, Mr. Morgenthau, but the trouble is the U. S. Government asked this fellow up here for talks.

H.M.Jr: Who?

Cotton: They asked Jaramillo to come up here and you have got him right in the middle of something. I think

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you have to see whether he will make an offer and then turn it over.

H.M.Jr: He has been here - evidently it is only during the last 48 hours it was decided he is the fellow. Up to 48 hours ago, you tell me that he didn't have the authority.

Cotton: Well, there were two fellows. They are together all right, now, I think.

H.M.Jr: But they weren't 48 hours ago.

Cotton: Well, that is what I heard.

H.M.Jr: You and I differ, but that is what we are here for - not to differ, but for you to tell me what you think.

Riefler: I like your pattern, but in this particular case there is the background that when the bondholders and the Colombian Government got to a complete stalemate this summer and negotiations seemed to be broken, the State Department said to the Colombians, "If you come up with a real offer and show it to us, we will then, if we think it is right, refuse to support anything higher above - before the bondholders." Now, it does seem to me that that is where we are picking this thing up now and it seems to me that does imply that we hear their offer and then turn them over to the bondholders. I do think that the Government in this case is rather committed to hearing the offer they are prepared to make. I should think that we would hear it without commitment and then turn them over.

H.M.Jr: Where is the documentary stuff on this, that they were invited to come up here, and all the rest of it?

Riefler: It is all....

White: Don't look at me.

Riefler: That is what we have out of the conversations.

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Cotton: Well, Mr. Welles in this office said, "I will go right back and send a wire and ask them to send him up."

H.M.Jr: Well, he didn't, did he?

Cotton: Oh yes, he said that to you.

H.M.Jr: But he didn't do it, did he?

Cotton: Well, the fellow is here.

H.M.Jr: Well, isn't he here as one of the twenty-one delegates?

Riefler: He is here as both, I believe.

Hanes: All I am trying to say, I probably said it badly, is that if we had one person, if you and Jones and Welles could decide between the three of you that one person would be charged with the responsibility of conducting all negotiations on the part of the Government, keeping the Department of Commerce - I imagine you wanted to keep them posted on the situation. I don't know if you do or not. I have got something to report to you on that, but if you had one man who was charged with the responsibility of the negotiations as far as the Government was concerned, and let that man be the intermediary between Colombia and passing the information along to the Bondholders Council, then you would narrow the thing down to where you would have the Government, Bondholders Council and Colombia - three people - to a position where you could either make a trade or not.

H.M.Jr: But in formulating a pattern, I don't think the Government should have one person.

Hanes: You understand, just one person doing the talking, the other three with their departments in the background, but all I am trying to avoid is what was such a disastrous experience in that other thing. It seems to me it was so badly conducted. It gave us an awful black eye when that man - I would have thought this Government didn't know what it was doing.

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H.M.Jr: And if you say it to Mr. Jones, the same thing will happen to him that happened to me.

Hanes: Unless you and Welles agreed to stay off, and when I say stay off, I mean to stay calm and quiet.

H.M.Jr: It is easy enough for Jones and me to agree, because we have always agreed. We have always done business and never had any trouble, but I still say that the chances are nine out of ten if it amounts to anything that the same thing will happen - and that is why I think the three of us have to act all in the same room.

Hanes: I mean in the same room, but talk separately because when you get three departments trying to talk at the same time with one man it is just confusing.

White: John, I think that overlooks one point and I think the Secretary's position is the correct one with one slight modification. I don't feel that you can leave the negotiations in the hands of the lending agency, because that inevitably means that the terms of his loan, the discussion which takes place, is in terms of quid pro quo and I take it that the Secretary wants to keep the two independent, as I think they should be kept independent. It is Jesse Jones' business to make a loan and to set the terms. The sole consideration that he should have prior to that is that there has been an adjustment made and that he can go ahead, or that the bondholders are so unreasonable in their demands that the Government is going to go ahead in any case. But he should have, it appears to me, nothing to do with the terms upon which the adjustment should take place, because that immediately introduces a tie-up between the loan and the adjustment, which is the very thing the Government wishes to avoid, so that it appears to me that so far as the extension of the loan is concerned, I think you are right. One man, possibly, should handle it after an agreement has been reached elsewhere, but so far as contact between this Government and the Colombian Government is

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concerned, I think the way to do it, as the Secretary suggests, is to let the bondholders be the negotiating instrument but at every stage - this is where I differ with the Secretary - instead of their informing us when they have reached an impasse, that they should keep the Government informed at every step of the conference so that if any time this Government feels they might be unreasonable - and they might be unreasonable because Mr. Traphagen's final remark yesterday was, "Yes, but the Government doesn't dare extend a loan unless they first make a debt adjustment." I don't know if those were the exact words, but they were very close to it, which means they will also try to use that as a lever to extract as much as they can. That is why I think at every stage in the progress they should keep this Government informed so that this Government at any point it feels desirable can step in and say, "This position is unreasonable."

Hanes:

I agree with everything you say, but I want to correct one impression. I am suggesting that the lending agency be that one person - I don't mean to suggest that. All I mean to suggest is that one of the three - I don't care which one it is, I think those men are intelligent men and can decide between themselves who is going to do the talking, but all agree they will keep quiet and talk to themselves and let nobody else. And let the one man they decide on do the talking for the Government wherever they decide to talk. Let the Bondholders Council do it as you suggest, I agree. All I am saying is that we got in a terrific confusion over the Brazilian thing, because we were shifting that fellow back and forth and finally the Secretary had to come in on the last morning he was here when he threw up his hands and said, "I have got to go home; I can't stay here any longer. The thing is a flop."

White:

Of course, the rock upon which that broke was something quite other and it is the very thing we wanted to avoid. They tied up the extension with the assistance of a debt adjustment. That is the very thing we would like to avoid if

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possible. Keep the two separate outwardly in any case and the Government to step in only when it becomes unreasonable.

Hanes: I don't know anything about the details of that thing, because we were left out of it completely. So far as I was concerned, I didn't know anything about it until Welles came over here and said to the Secretary, "For God's sake, help us."

H.M.Jr: You and I know as much or as little about it - I mean, I don't know anything more than you do except that morning when you were here.

Cochran: Mr. Secretary, I think you still are able to follow your pattern on this. I think you will profit in having this man come in and call on all three of you. He is talking to all three men on the committee. You, as chairman, have broken the ice with the bondholders committee. They have been down and talked and had our views. It seems to me now you could refer this man, whoever is negotiating, to the Bondholders Council in New York, let them handle it. There won't be a lot of story to tell, because it shouldn't go on very many days and then they can report to you.

H.M.Jr: Who report to us?

Cochran: The bondholders report to you. And I think you have contact now with Traphagen, either you or Mr. Hanes.

H.M.Jr: Do you take the position I am taking?

Cochran: Yes, I do.

Hanes: I don't think there is any difference in what any of us is saying. We are all trying to narrow it down to the least number of people. It isn't a question of who does it, it is just to get it down to one agency doing the talking and the other agencies doing the advising.

H.M.Jr: Johnny, if you and I are in business and I said, "Johnny, will you please go ahead and do this thing," you would know that I would tend to my

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business and you would go ahead. You know perfectly well that of the three, unless I designate myself - enough said?

Hanes: I think you can designate yourself.

H.M.Jr: But I don't want to.

Hanes: I think all you have got to do is tell Jesse and Jesse and you will both agree on it right away. You can vote for yourself.

H.M.Jr: I want to hear from Walter Stewart on it.

Stewart: I don't believe I have enough immediate background on this. I agree with Harry White's statements and with Cochran's statement. There seems to be two sets of negotiations that ought to be conducted separately with the parties kept informed. It seems to me not unreasonable that the Export-Import Bank should say, "We will make a loan to you on the condition you clear up your other obligations." We are not entering into details on that. The Colombian can talk to the New York bankers and say, "We want to clear up with you, but it is conditional because we are negotiating somewhere else."

I would like to see the responsibility left with the bondholders to conduct the negotiation after the introduction had been made.

H.M.Jr: I am going to give Cotton a chance for rebuttal on this.

Cotton: I agree, except I am sure these fellows are going together and tell Mr. Welles what they are prepared to do, or if you have a meeting with them Monday they are going to talk about it and then you can turn them over or you can call off this meeting and turn them over now, but somebody in the Government is going to be told whether they are going to do something or not and Mr. Traphagen certainly expects, after being beaten over the head and brought down here, that the Government will try to exact an offer from these people.

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In view of the fact that their....

H.M.Jr: I still don't agree with you, but I am going to think about it and I am going to have a talk....

Stewart: I think it is a delicate point as to which one gets the offer first, because somebody is to blame then for the terms not being better than they otherwise would be.

H.M.Jr: That is just why I want Traphagen to handle it. I am going to think about it, and thank you all. I don't think there is an awful lot of difference, but there is one fundamental difference. I would like Traphagen to conduct the negotiation and report to the three of us when we are all in the same room at the same time. O. K., John?

Hanes: That is fine. And lock the door.

H.M.Jr: I will stand in that corner with my back against the wall and the others can stand in any posture they want.

Cotton: When is your meeting set for, sometime Monday?

H.M.Jr: No, it will be Tuesday, but Jones will be over here Monday to see me, I am sure. Tuesday at 3:00 o'clock. All right, thank you.

Who has got something important?

Hanes: I think this has to be done; whether now or later, it is all right with me. Ed Noble asked for a conference for himself and O'Connell and for me to transmit to you certain information which he didn't give you when he was here and which the President, in that telegram, requested him to give you and I have got a memorandum here - I told him a copy of the letter he wrote to the President and a copy of the plan which they were working on at this so-called secret meeting about which the President telegraphed him - and as a result of which he called you and he called the Undersecretary of State and the Undersecretary of State has held

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him off and doesn't want to talk to him until he, the Undersecretary of State, had talked with you and Jesse Jones. I think this information that I am transmitting to you, you might want to look over and then pass it on to White and Joe Cotton and whoever else is interested.

H.M.Jr: I will do that.

Hanes: He was terribly anxious that you have the whole story of everything that he has done up to this date.

There is only one other thing that I have got to clear with you. Roy Blough had made arrangements to go to Milwaukee. Gene Duffield, I think, had some speech out there that he wanted him to make and that is Tuesday and Wednesday. On account of this Paul memorandum, I wanted to make sure whether you think it is all right for him to go those two days. I don't know if you will need him for anything, but I thought I had better, on account of this thing....

H.M.Jr: I would let him go.

What else?

Hanes: That is all I have got.

H.M.Jr: We are meeting at 10:00.

Hanes: 10:00 o'clock.

H.M.Jr: Herbert?

Gaston: Nothing.

H.M.Jr: Ed?

Foley: I am writing a letter.

H.M.Jr: Has Hanes seen it?

Foley: No.

H.M.Jr: I would like him to see it.

Harry?

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White: The boys are back from Guatemala and they reported that Mr. Gaston made a great personal success, made a lot of friends for the Treasury.

Gaston: My thanks to the boys. I reported that they made a great personal success. It was a collective enterprise.

H.M.Jr: I see that between you (Bell) and Duffield, you have discovered there was a loophole in the debt limit.

Duffield: That thing was variously reported. The trouble was that most of the boys have taken the trouble to look into this thing and they had their notes all in their pockets when they were in here to see you, and when you mentioned it, they thought they had better write it and then they did.

H.M.Jr: They had their notes, but they didn't have the debt limit correct, did they?

Duffield: I don't think anybody can figure it out exactly and I don't think they had it exactly.

H.M.Jr: Have they got it now?

Bell: Approximately, yes. They can take the gross debt and the 45 billion and it will come out about right. That isn't the way to figure it. We have got to add to the amount of debt outstanding the unaccumulated discount on Savings bonds. We have got to deduct, of course, the war debt and currency debt.

H.M.Jr: But you gave it to them?

Bell: Yes, and Monday after the preliminary debt limit comes out, we will have it mimeographed.

Thompson: I just wanted to report a bunch of allowances for 1940 came in. I am having them analyzed. I think there will have to be some protests.

Gaston: Yes, we have got to make a protest.

Thompson: Well, I will be getting up statements of protests on the items disallowed.

- 15 -

H.M.Jr: Well, Harold Smith implied that to you, didn't he?

Thompson: The only item I might consider serious would be the cut on the funds provided for moving gold bullion.

H.M.Jr: How much?

Thompson: About 2 $\frac{1}{2}$ million.

Bell: I wouldn't protest that, I don't think. It isn't as important as some of the items you want to protest, and I think if the gold does come in we will have to remove it and we can get a deficiency much easier.

H.M.Jr: With the exception of Coast Guard, is everybody clear now?

Thompson: Well, there are some protests which should go in.

Hanes: They cut 3 million dollars from the request, but not from the last year. Last year they had 59 million and this year they had 60 million.

Thompson: It is an average of about a six percent cut on our estimates. It is only two percent on our appropriations.

H.M.Jr: If you think I should worry, you tell me.

Thompson: I think we will take care of it.

H.M.Jr: Now, Merle, you and Walter Stewart come in at 10:30.

Cochran: Yes, sir, we will be here then.

TREASURY DEPARTMENT

18

INTER OFFICE COMMUNICATION

DATE December 1, 1939.

TO Secretary Morgenthau

FROM Mr. Cochran

By appointment Messrs. Whigham, Gifford and Pinsent were received at 10:40 this morning by Secretary Morgenthau. Messrs. Stewart, Cochran and Butterworth were present. Mrs. Klotz and Miss Chauncey followed the conversation, the latter taking notes.

The general trend of the conversation was to the effect that the Secretary thought it unfortunate that the British Government had not taken over the vesting of securities promptly as Messrs. Whigham and Gifford had recommended. He thought that the publicity which has occurred could have been largely avoided by prompt action, and that the chances of further undesirable publicity will continue to grow if the delay increases. The British representatives were equally disappointed but stated that they had been as vigorous as possible in their cablegrams to London setting forth their recommendations. They still have no final word as to when the vesting will begin.

The Secretary recalled the promise which he had undertaken, to the effect that the Treasury would use any information in regard to security sales given to it in confidence by the British authorities, except to the degree that the British themselves might specifically authorize. Furthermore, the Secretary maintained his promise of continuing the usual lag, namely, of three months, before giving out Treasury figures on foreign security transactions. The Secretary said he could not speak, however, for the Securities and Exchange Commission, and it was his suggestion that they see Mr. Frank personally on this point. When the question arose as to whether any one from the Treasury was accompanying the British visitors to the appointment with Mr. Frank for 11:45 this forenoon, I replied that I had recommended to Mr. Pinsent that he seek the appointment directly, which Mr. Pinsent had done, and that I had not communicated with or heard from Mr. Frank.

The Secretary mentioned our unhappiness over the delay in setting up the special account of the Bank of England with the Federal Reserve Bank of New York, to carry war material purchases, and the visitors promised to do what they could to expedite the matter.

After the visitors, except Mr. Pinsent and myself, had left, I handed to Secretary Morgenthau a copy of a note which Mr. Pinsent had given me before we entered the room. The note had been delivered to Under Secretary of State Welles on November 30 by the British Ambassador. It referred to the Anglo-French set-up for joint purchasing commissions and to their desire to learn the proper officials of this Government with whom they could cooperate. The Secretary was happy to see that the British had taken this matter up through the State Department. Mr. Welles had promised the British to give an early reply. There was no mention in the note, but Mr. Pinsent let us know that oral reference had been made to

approaching the President on this matter.

After the meeting, Messrs. Stewart and Butterworth talked further with the visitors and Mr. Stewart pressed them for action, especially on the bank account. While this talk was going on, Governor Harrison of the Federal Reserve Bank of New York, was with us. When Messrs. Stewart and Butterworth joined us, I had him go over our conversation again. It was principally in regard to the delay in setting up the British account with Governor Harrison's bank. He seemed rather hopeless, feeling that he did not know what was wanted, and that the British themselves on this side could not speak authoritatively and messages from the Bank of England to his bank suggested lack of decision or plans which he did not consider workable. I reminded him that our desires had been explained when he sat in meetings here. Furthermore, I read him the message of October 21, which we had sent to the Embassy in London, letting them know of our expression of desires to Pinsent with respect to the setting up of the special account. I showed him a copy of the formal communication of October 30, in which the British Embassy informed us that the Chancellor of the Exchequer had approved of our suggestion.

I told Governor Harrison that for several days I had been urging Pinsent to press his people for action. I offered to go further. Mr. Stewart thought it might be better if Harrison himself would use pressure on the British officials in this country now toward getting the Bank of England to consummate the desired arrangement. Mr. Stewart thought that the technical point raised by Under-Governor Catterna in a conversation with Vice President Sproul should not be taken as a cause for delaying the account. Governor Harrison had given the British no definite answer on this point. He promised to give me a memorandum of the conversation under reference. Mr. Stewart and I stressed to Governor Harrison the Secretary's desire that all of these matters with the British be concluded as quickly as possible. Mr. Stewart added his own opinion that everything should certainly be concluded before Congress reconvenes. In the conversation, Governor Harrison referred to the unhappiness of New York bankers because of their being deprived of business, and the possibility of bankers and economists launching an attack against the Federal Reserve action as being unneutral. It was understood that Governor Harrison would keep in touch with me and report progress. I told him the Secretary was willing to take this matter up with the Chancellor of the Exchequer again if we did not get action.

B. M. F.

TREASURY DEPARTMENT

18

INTER OFFICE COMMUNICATION

DATE December 1, 1939.

TO Secretary Morgenthau
FROM Mr. Cochran



At 11:00 this morning the Secretary received Dr. Felix Somary, concerning whom Dr. Feis of the State Department had written the Secretary on November 30, enclosing a copy of a communication dated November 28 from the Legation of Switzerland to the Department of State, and a copy of the latter's reply. Mr. Cochran was present during the conversation.

It should be explained that Dr. Somary is a naturalized Swiss citizen, with homes in both Zurich and Geneva. His card indicates that he is President of Blankart & Cie. It is known that he has been an advisor to certain capitalists, including the Rothschilds, in moving funds from one country to another. The letter under reference was sent by Dr. Feis to Secretary Morgenthau after Dr. Feis had mentioned the matter personally to the Secretary.

Dr. Somary explained to Secretary Morgenthau the interest of Switzerland in building up reserves of commodities which they hoped to purchase in this country. The question was how the Swiss officials should keep American officials informed as to what they were doing and how to procure advice and assistance from the American officials who might be willing to consult with them. The Secretary explained to Dr. Somary that he was not acting as the contact official with foreign Governments. He added that recently steps had been taken to make arrangements for our Government to have designated officials receive the purchasing missions from foreign countries. He suggested that Dr. Somary, through the Swiss Legation, learn from the State Department what steps should be taken to get in touch with these officials. The Secretary repeated that he was not the official to contact. Dr. Somary stated that he would follow this advice. In closing he remarked that he might have one question with respect to gold. The Secretary stated it would be proper for him to bring this up with Mr. Cochran.

At noon Dr. Somary called, by telephone, for an appointment and came to see me at 3 o'clock today. Dr. Somary described, in some detail, the economic situation in Switzerland and also gave some interesting observations of Germany. Incidentally, he expects no early internal breakdown in Germany and no invasion of Switzerland by Germany. He stressed the difficulty of transporting the materials to Switzerland which that country requires for its present needs and desires to store up for future possible use. For this purpose they have chartered a small fleet of Greek ships. These vessels travel light from Mediterranean ports to the United States since Swiss exports to our country are not large in bulk, consisting of such things as watches, embroideries and chemicals

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which do not take up much space. One of the ships carrying a cargo of cotton from the United States to the Mediterranean was taken to a British port for examination and after being held for two weeks was finally cleared but sank after striking a floating mine near the British port. The State Department is helping Switzerland to get a clearance for direct shipment from the United States to Mediterranean ports without the vessels being brought into English ports.

It was my advice that the Swiss Legation and Dr. Somary continue to look to the State Department for assistance in such problems, and for general advice on neutrality, etc.

Dr. Somary then raised the question of gold. He asked if it would be possible for American exports of feedstuffs and other commodities, which Switzerland now desires to buy, be paid in gold in Switzerland. That is, the gold would be put in American name in Switzerland, for delivery to the United States after the war terminates, or within a fixed period of time after such termination, or after shipping has become so normal that excessive insurance rates would not be demanded and risks would not be hazardous.

The Swiss Government would be willing to pledge the gold which it has in the United States. That is, if the gold in Switzerland should be seized, or could not be delivered to the United States within the specified period, Switzerland would pay to the United States the equivalent amount of gold held under earmark in this country. The whole scheme is to avoid the expense of shipping gold from Switzerland to the United States, which Dr. Somary estimates at three per cent. (The insurance rate today is five per cent, this rate having been established since Dr. Somary evidently made his calculations.)

I asked Dr. Somary if it would not be preferable for Switzerland to continue to transfer gold from Switzerland to this country while vessels are still available, such as the Italian ships and perhaps the American vessels, Washington and Manhattan. He remarked that this channel might be closed shortly and again complained about the expense.

I told Dr. Somary that it has been our practice since the war began not to accept gold except on delivery at New York. That is, the United States Government will not acquire title to gold abroad. In this present instance such a plan as he contemplated would oblige this Government or an agency thereof to take title to the gold and in turn make dollars available to the American exporters. There is no way of knowing how much time it would take before the gold in Switzerland could be transported here. I told Dr. Somary that my immediate reaction was that the Stabilization Fund would not undertake such a proposition as he submitted. I told him however, that I would think over the question and give him such answer as I could when he might telephone me again on Monday or after his return from a contemplated visit to Ottawa. He said that he did not desire to press this point if it might be too difficult.

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Since Switzerland, one of the few remaining democracies in Europe has cooperated with us under the Tripartite Monetary Agreement and is still standing loyally by the gold standard, we naturally should be inclined to do anything we can to help these people, especially when they are going to purchase important amounts of farm products from us, and have the gold with which to pay for these commodities. I believe the Stabilization Fund should not take title to the gold abroad. If it did, we would have to request the segregation of Swiss gold held at New York, sufficient to cover our risk. This would tie up the pledged gold in New York so that it could not be transferred into dollars to pay for Swiss purchases. That is, the Swiss cannot make the two supplies of gold, one in Switzerland and one in the United States, function simultaneously as the basis for credit. If the Treasury is willing, and I recommend it, that the Federal Reserve Bank continue to grant credits to central banks against gold pledged with the Federal Reserve Bank in New York, this might be the best way to help the Swiss, if they are not disposed to sell their gold now in New York. I still think they should continue to transfer gold here from Switzerland. I could discuss the proposition with Governor Harrison or Mr. Knoke, provided there is no question in our mind as to any other policy.

December 4, 1939.

At 12:50 noon Saturday, December 2, I spoke to the Secretary in regard to the gold proposition advanced by Dr. Somary. The Secretary agreed with me that the Stabilization Fund should not take title to gold in Europe and could not be of assistance in the contemplated operation. The Secretary authorized me to take the matter up with Mr. Knoke. In this connection, the Secretary approved my idea that the Treasury should not now take any steps towards changing the practice which has been followed by the Federal Reserve Bank of New York in granting credits against gold earmarked with it by central banks. We do not want to get the Treasury into the business of granting credits to central banks, and certainly prefer not to have the Treasury involved in credits either to central banks or Treasuries in European countries which might be occupied, with resultant difficulties or litigation over the operations.

At 10:30 this morning I told Mr. Knoke by telephone of Dr. Somary's proposition. I told him that I had not submitted a formal memorandum upon the subject, and had not even suggested to Dr. Somary the possibility of the Federal Reserve Bank of New York doing something in the premises, since I first desired to learn whether the matter was one which the Federal Reserve Bank would desire to touch. Mr. Knoke thought the conditions for repayment of the loan so uncertain and complicated that his bank would not be interested therein. Furthermore, the credits which

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the Federal Reserve Bank has given in the past to central banks against gold earmarked in New York have been almost exclusively for the purpose of providing foreign exchange needed seasonally. I agreed with Mr. Knoke that this did not seem to be a proper case to refer to his bank, and I told him that I would simply advise Dr. Somary that there was nothing I could suggest, except to continue to ship gold to this country, irrespective of cost, if it appears that his purchases on this market will require further funds than he now has available here.





DEPARTMENT OF STATE
WASHINGTON

November 30, 1939

My dear Mr. Secretary:

I am enclosing herewith the exchange of correspondence with the Minister of Switzerland about which I spoke to you. I have requested an appointment from your office for you to see Mr. Somary on this matter.

Sincerely yours,

Herbert Feis

Herbert Feis
Adviser on International
Economic Affairs

Enclosures:

Correspondence.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

Department of State

EA

BUREAU
DIVISION

ENCLOSURE

TO

Letter drafted 11/30

ADDRESSED TO

Sec. of Treasury

Sir:

In your note of November 28, 1939 you inform me that the Swiss Government is disposed to begin the purchase in the United States of various commodities under option contracts concluded earlier in this year. I also note that the Swiss Government is considering the creation in the United States of an organization for the purpose of supervising these purchases and the storage and transportation of the commodities so acquired.

You suggest that it seems to you desirable that the United States Government should agree to examine and discuss appropriate means by which this Government could keep in permanent touch with the projected Swiss organization. This Government will be glad through appropriate channels

to

The Honorable

Charles Bruggmann,

Minister of Switzerland.

to maintain contact with the Swiss organization to consider all matters of mutual interest in order to eliminate, as far as possible, difficulties that may arise in connection with the organization's operations. The specific transactions of purchasing, storage and transportation would, of course, be matters between the Swiss Government and private American interests.

So far as I understand the nature and general terms of the proposed transactions, they would appear to encounter no difficulty by reason of any existing legislation in the United States. As I stated in my note to you of May 27, 1939, it is the desire of the Government and people of the United States to maintain the friendliest and fullest possible commercial relations with the Government and people of Switzerland. As I stated at that time, however, the action that this Government may be compelled to take under any future sets of circumstances cannot be determined in advance and would have to fall within the rules of international law and the course of domestic legislation.

Accept,

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Accept, Sir, the renewed assurances of my highest
consideration.

o o

LEGATION OF SWITZERLAND
WASHINGTON, D. C.

26

Please refer to File
No.

November 28, 1939.

Sir:

The European war has created for Switzerland the situation which had been foreseen when, with the knowledge of the Department of State, option contracts for the purchase of different important commodities have been concluded in 1939 between the Swiss Government and outstanding American suppliers.

With your note of May 27, 1939, you gave the assurance that in the future as in the past, both the Government and the people of the United States will have the steady desire to maintain the friendliest and fullest possible commercial relations with the Government and the people of Switzerland. You expressed confidence that this desire would be present under all circumstances. Your assurance has been highly appreciated by the Swiss

Government

The Honorable
Cordell Hull,
Secretary of State,
Washington.

Government and has no doubt influenced the intention of my country to purchase and to store in the United States an important reserve of commodities most vital to its existence.

Relying on these option contracts with American suppliers and on this assurance of the Department of State, the Swiss Government is disposed to begin now the necessary purchasing transactions. Simultaneously, it is weighing the creation in the United States of an organization with the purpose of supervising these purchases as well as the necessary storing transactions in this country and the transportation of such commodities overseas.

To secure a useful operation of the organization which the Swiss Government has in mind, it seems to me very desirable that the United States Government would agree to examine and discuss appropriate steps with a view to keeping itself in permanent touch with such a

Swiss

Swiss organization and to consider all matters of mutual interest in order to eliminate as far as possible difficulties that may arise in connection with the organization's operations.

Arrangements to this effect would undoubtedly materially influence the extent of Swiss purchasing transactions in this country.

Accept, Sir, the assurances of my highest consideration.

(Sig.) G. Bruggmann.
Minister of Switzerland.

C. 1-3.

December 1, 1939

29

FOR THE SECRETARY:

For your information, a delegation of five of the newspapermen from the Press Room called on me this morning saying that they wanted to see the Treasury's records on events during the period prior to the outbreak of the war, so that they could write stories for their respective papers and news services. Although they did not say so at first, they eventually conceded that their request was stimulated by knowledge of the activities of Alsop and Kintner. I did not argue with them but merely told them that I would consider their request and they spent considerable time with me getting off their chest a lot of discussion about their day-in-day-out loyalty to the Treasury Department.

Mr. Gaston, to whom I told the incident, says that he remembers promising the Press Room boys, after the Tripartite stories were published, that they would have access to any records given to any special writers.

Joe Alsop was greatly disturbed when I told him what had happened and was unable to tell me where the word of his activities may have leaked.

My suggestion is that, if anything is done, we prepare a summary of the information covered by the Alsop and Kintner notes and that we merely make it available to whomever is interested on the days that the Alsop and Kintner articles appear. This would conform with our procedure in making available summaries of cases such as the Pendergast case. In any event, I think that nothing need be done at once, although you may be asked about it at your Monday press conference.

ESD

COPY

DEPARTMENT OF STATE

Assistant Secretary

December 1, 1939.

Memorandum to Mr. Hanes,
Under Secretary of the Treasury:

As agreed. - Please return, when you are through with it.

The agreement calls for submission of the manuscript to
Steve Early and to A.A.B.

A.A.B., Jr.

APRIL 5: Informal morning meeting at Department in Hull's office. Italian mobilisation on Brenner, preparations to invade Albania anxiously discussed. In the evening, after meeting confirmation came of the Italian preparations.

APRIL 7: Evening of April 6 very mild hope drawn from Italian failure to land troops in Albania. Then the Italians decided to go ahead in the night, and did so on a.m. of 7th.

On 7th Albanian Minister was to come in in afternoon. Hull insisted that irrespective of technical position, Italian move one more blow at peace of world and should be treated as such. Move regarded as partly an attack on encirclement, partly desire to get possession of roads running across to Salonica. French reports indicating German movement against Poland before end of month, plus Italian activity led AAB at least to conclusion that Italians had decided to throw in their lots with Germans for summer.

APRIL 8: Statement on Italian invasion of Albania, following line indicated by Hull.

APRIL 10: In the days between April 8 and this one, idea had been conceived, apparently at White House, of personal letter from President to Hitler and Mussolini, warning them of the shadow of war, asking them to promise no further aggressions. The President himself made the first rough draft, sending it over to Hull at the State Department on the morning of the 10th. It was simple in

language, and occasionally rather pedestrian and homely. "You will realize I am sure that throughout the world hundreds of millions of human beings are deeply disturbed by the belief that a new war or a series of wars may now or in the near future threaten humanity. Such a belief, such a possibility is of definite concern to the USA, to the people of the twenty other American Republics and to the people of our next door neighbor, Canada". Went on to mention previous aggressions, "reports, which we trust are not true, that further acts of aggression are contemplated", ends by suggesting frank statement guarantees no attack or invasion of Finland, Estonia, Latvia, Lithuania, Sweden, Norway, Denmark, The Netherlands, Belgium, Great Britain and Ireland, France, Portugal, Spain, Switzerland, Lichtenstein, Poland, Hungary, Rumania, Yugoslavia, Bulgaria, Greece, Turkey, the Arabias, "Palestine, Egypt and Persia. Finally, say that other nations glad to offer similar guarantees, that thereafter such problems as disarmament may be discussed profitably.

Hull passes draft on to AAB, who then makes two redrafts. One, addressed not to the dictators but to their peoples, is a frankly propagandist document.

Besides this stirring plea, is a redraft of President's own effort, more eloquent, "through the world hundreds of millions of human beings live under the shadow which a vast new war now casts over humanity. This uncertainty cannot last; its mere existence of itself hastens the catastrophe" — less honey,

no next door before neighbor — shorter, and without the President's listing of nations to receive pledges — and more specific, as to disarmament and the like, including statement, "I stand ready to prepare at once the holding of such a conference." AAB handed this redraft to CH at 5 p.m., and CH presumably took it to the White House.

(Returning to April 10:) President's draft was given to Hall at 5:15 that afternoon. General agreement 1) that some such move should be made; 2) that the communication ought to be as much addressed to the peoples of Germany and Italy as to Hitler and Mussolini; 3) that the timing was all important, and that above all, move should be made when German and Italian peoples were waking to gravity of their situations; and 4) certain changes in drafting were required.

APRIL 12: The President digests the drafts and produces remarkable one of his own, bringing whole into well-coordinated relation —; see annotated release. "It is equally clear to me that no solution can be arrived at by council and negotiation if one party to the conversation carries a gun in one hand and a grenade in the other. In the pioneer days of America, courts of justice followed the frontiersmen but it was a well-established rule that all arms were left outside the courtroom". Final draft, cutting out above and revising whole, is evidently prepared on April 13. On April 14, telegrams go out to heads of govts — "The President desires me to communicate this message to your excellency in his name" — and signed, as the form is, by Hall. It is published April 15.

APRIL 15: AAB left for NY midnight Wednesday, dictates memo today, during Thursday and Friday drafting and redrafting of message to M and H continued. AAB's redraft was superseded by a Presidential redraft, and this in turn was put in final shape at a conference between President and SW who had just returned from trip. AAB records, "It is immensely improved. Specifically, the word "Russia" was included in the list of countries. It had been omitted by President only by oversight. Second, it was made plain US was acting only as friendly intermediary. Third, the word possessions was included with the territory of the countries. Fourth, Iraq and Iran were added. Number of other textual changes. "The general outline, however, of a general conference regarding economics and disarmament accompanied by simultaneous conferences in regard to political matters was preserved. There was some question as to the timing, the SEC believing it might wait another day or so, the President feeling that time was of the essence. It was released accordingly at 10:30 this a.m. Authorship President's own. "no one added anything to it other than the necessary technical development of the ideas which he had distinctly and definitely worked out".

APRIL 19: AAB records that wide radio publicity to President's message has been effective, leading Hitler to forego contemptuous answer, delay reply till April 28. McDermott arranged to have Latin American reaction radioed to Germany and Italy, spiking propaganda that Latin America was against our move.

On April 14, meanwhile Secretary Hull delivered a Pan-American

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day speech, as does President. "Common understanding of the real values of civilization, rather than the development of the longest range cannon or the most destructive bomb, represents the aim of Pan-American culture. Its flowering is the goal of Pan-American desire." "Unchangeable purpose to guarantee and maintain security of hemisphere" etc. (Hall) "Were it necessary to repel force with greater force, we are quite able to do so". "None can harbor the illusion that our insistence upon international justice is an appeal which springs from weakness". These out out. But both President and Hall speak very clear.

APRIL 19: War seemed to imminent that AAB compiled memo, setting out his notion of war — Italian attack on Turkey, from Albania, Dodecanese and Rhodes, simultaneous with attack on Tunis and French Morocco, with troops partly drawn from Spain. German attacks down through the corridor and up from Slovakia, driving towards Warsaw and Krakow. No action in West save defense of French frontiers and aerial warfare, but French invasion of Italy through Alps. "The reports as to a possible seizure of Portugal seem highly probably". "The combined German-Italian fleet off Gibraltar is unpleasantly near to equality with the British-French fleet there". "The main naval engagement would be, probably, in the Eastern Mediterranean".

APRIL 24: Berle works late at State Department. Hitler is to reply to President's letter in Reichstag speech four days later. President hoped to listen to Hitler's speech in library at Hyde Park,

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wanted Berle to telephone him summary, in case of poor reception, as soon as speech was finished, so that he would have it before arrival of Norwegian Crown Prince. Berle suggests that as Hitler is replying only in a speech, it may be well to call in Thomsen, ask for an answer in form. Also observes that it is "gift of God" to be able to talk to peoples direct, and that if Hitler is to turn diplomacy into stump speaking campaign, the President can easily beat him at it. It is AAB personal opinion that Hitler will propose something in the nature of Munich, with US left out.

MAY 8: In afternoon Department meeting May 7 Hull's statement on neutrality act is finally completed. In morning, having corrected draft, Hull invites Pittman down to talk matters over.

MAY 16: AAB writes "The neutrality act moves along." Secretary Hull is now taking up matters personally with Sol Bloom and I think in time will quietly get the kind of neutrality act he wants.

MAY 23: "This morning work on a redraft of the Neutrality statement".

MAY 26: "Yesterday at work, partly on the proposed neutrality statement, with the SEC is not too anxious to deliver, feeling it may do more harm than good". Also sees President this day. "Regarding neutrality, he said he had taken a strong line with the Congressmen to whom he had talked. He had pointed out that in the event of war, there was at least an even chance that the Germans and Italians might win. In that case, their first action would be either to

seize the British Navy or to put it out of action. They would then go ahead and establish trade relations with SA countries and Mexico, put instructors in their armies and the like. They would probably not touch the British or French or Dutch islands in this hemisphere. But at the end of a very short time we might find ourselves surrounded by hostile states in this hemisphere.

This he described as a possibility only, but a possibility no far-sighted statesman could afford to overlook. His job was to make sure that that kind of possibility could not happen. Accordingly he had urged repeal of Section I of the present Neutrality Act (arms embargo) as the greatest single step the Congress could take towards the preservation of peace. He had already talked over the line which the Secretary is taking and wholly approved it.

MAY 27: "Mr. Hull put the neutrality statement in final form and shipped it along to the White House, where I thought it would be well received. This morning, in fact, it came back; the President thought it excellent and so we can clear on that. I presume it will go to the public today. In the late afternoon we cleared the Secretary's Chicago speech".

JUNE 23: "Various jobs, chiefly in connection with neutrality and the Far Eastern situation. There are a great many letters coming in to Congressmen, chiefly from Coughlin's crowd and from the Irish districts, especially Brooklyn.

JUNE 26: AAB notes, "The cables this morning are disturbing.

My guess is that in Germany they are beginning to beat the tom-toms for a final work-up to a war psychology. Hitler has had his generals at Berchtesgaden, and I vaguely suspect that we are heading into the coda that leads to the final crash chord".

JUNE 28: "At work yesterday on the Far Eastern situation which is shifting with great rapidity; likewise a somewhat disturbing situation in Europe. There is at least ground for belief that the British and French are preparing to "appease" the Germans, this time on the theory that they were unable to get the necessary assurances from the US. Of course they cannot get any such assurances, and are not going to.

"My own emotions are pretty mixed about this. Readjustments in Central Europe are apparently necessary. On the other hand, they will inevitably be the basis for a still greater imperialist movement. If the result is to create an intolerably strong German-Italian empire, I should guess that it would be only a question of time—two or three years, perhaps — before they undertook to crush England, with whom they must inevitably come in conflict both on commercial and imperial matters. We have no necessary interest in defending the British Empire, aside from the fact that we prefer the British to the German method of running an Empire. But we do have a very real and solid interest in having the British, not the Germans, dominant in the Atlantic. The minute that starts we shall be meeting imperialist schemes in South and Central America, not on a paper basis, as we do now, but backed up by an extremely strong naval and military force.

JUNE 29: More work on Far Eastern note.

JUNE 30: "Still on Far Eastern matters and on Western Europe, which looks as though the pot were beginning to boil over. Some do not see a war in this — merely a Danzig coup — but I personally am not so certain.

"The debate on the neutrality act went on yesterday; and last night an amendment was adopted putting in the arms embargo. It is one of these things that makes you tired. The night session had lasted until 11:30; a hundred Democratic members had gone home; half of those there had not discovered what it was all about; and the whole thing has to be untangled again this morning—if it can be.

"The horrible thing about all this is that about all the Germans need to know to consider that their hour has arrived is a) that the Anglo-Russian alliance has failed; b) that supplies cannot be had from here. I think that they are pretty clear about a) already; and the Congress of the US is doing its level best to demonstrate b). How many people do we have to kill on this kind of foolishness?

AAB then goes away for a three weeks holiday, makes first memo on return JULY 27: "The immediate question up is that of Japanese relations. During my holiday, decision has been reached to abrogate the trade treaty with Japan, which incidentally prevents any embargo on shipments to Japan. There is a six months waiting period. This is due partly to fear lest we be suspected of the same weakness

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which the British are forced into by their Mediterranean position; partly because of the fact that the Tokyo government, despite its fair words, is wholly unable to control the armies in China; partly because of the growing sentiment in the United States for embargo on shipments to Japan. It is a curious fact that the United States, which bolts like a frightened rabbit from remote contact with Europe, will take vigorous steps in the Far East.

"Theoretically there has been dead calm in Europe. I do not believe so, but then I doubt if we are as fully informed as we ought to be on the troop movements on the continent, and particularly in Italy and the Balkans. Last night, Tony Muto called to say that their Berlin representative was told that Hitler was to go to Danzig by automobile on Sunday; he was making preparations to take movies on the march.

AUGUST 7: A quiet few days, with nothing apparent save the steady piling up of military pressures in Europe. The Congress exploded and finally adjourned Saturday night. *** Another week is about all we can count on so far as quiet is concerned on the international front; the so-called crisis is obviously beginning to be built up already and should reach a high point in a relatively short time."

AUGUST 15: "The question of peace or war is being decided; the jury is out". "The hesitation of the Axis powers is perhaps the most hopeful element."

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AUGUST 17: "Yesterday at Sumner Welles' call, we considered the general situation, which looked bad. I thought we ought not to let the coordination of neutrality matters run as was done before Munich, when we hastily got together groups to bring into existence the necessary regulations, etc., for the organizing of American neutrality under the acts; and that we have some people get started on the general job of doing it. It appears that before he left for his vacation the President left Sumner very wide authority to prepare for neutrality in case of trouble. (Hull was away).

Accordingly, we had a meeting today, consisting of Welles, Louis Johnson, Charles Edison, J. Hanes, General Marshall, Admiral Stark, Thurman Arnold, Messersmith, Moffat, Feis and myself. Larry Bell was also there. This was a typical crisis meeting. From a long experience in this administration, crises always happen when everybody is away on vacation; and the seconds in command show up.

"We reviewed the various acts, especially the neutrality act, the emergency banking act, and such of the old war legislation as is still in force. The technical job of taking care of travel control, repatriation of American refugees, arms licenses, etc., falls on the State Department and would normally stay there. The Treasury is the normal depository of the powers under the banking acts.

"There is already in existence a War Resources Board which takes care of the acts for shipment of goods, etc., and in whose jurisdiction

falls the task of price control. (Question, about personnel). That would become in large measure the economic administration of the country. It is really, however, a war board — and has no application to neutrality.

A committee was set up covering the credit end, under the general jurisdiction of the Treasury but including representatives from State, Treasury, Federal Reserve, Justice and possibly Commerce and Agriculture. This has to determine how far credits between the US and belligerent countries are to be stopped — that is, the difference between war credits and legitimate commercial credits, unless it is decided to limit these later. I likewise stuck up for having this committee at least see that there is an adequate line of credit supplied so that SA is not wiped out in this business. My private belief is that we will have to go a good deal farther.

"In addition to that it was decided to have a general or overall committee which, as nearly as I can make out, is to consist of those present. Sumner is arranging to make this last committee official by sending a radio to the President; J.Hanes is arranging to set up the credit committee by similar radio.

AUGUST 18: "It is perfectly plain that the European crisis is fairly rushing on; that the plan is to invade and seize all of Poland, and to do so before effective allied assistance can be brought to bear. Thus Slovakia reports concentrations plainly

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for attack towards Cracow; Paris reports that German interests are buying all the oil they can get, at any price, for immediate delivery — which means immediate and not next week — there are continuous reports of troop movements in Berlin. The Italians are getting up a little steam but obviously without any real interest in the transaction. Nobody proposes to do anything about it, and indeed it is difficult to know what, if anything, can be done. Danzig is already forgotten.

AUGUST 21: A full day, chiefly occupied in getting things ship-shape in the event that war should break out. In the morning, getting at the various collective orders, regulations, etc. We have drawn some, the Navy has drawn some, and the Treasury. I went over the collective list with the Treasury. Likewise arranging to have some sort of control of the ships leaving our ports in the event war breaks out.

"The question has come up of warning American residents to leave Poland; likewise evacuating the dependents of our foreign service officers there. We decided to do this and it was accordingly done. Further arrangements with the Treasury in respect of ships leaving our ports.

"The major fight is ahead. It will be to try to prevent some of our friends from using the emergency in the event of war to try to take over price and other control of the entire United States at a single bound.

Also August 21 — Memorandum to Sumner Welles.

"Pursuant to appointment I went to see Mr. Gaston, Acting Secretary of Treasury, and Mr. Cairns at 11 a.m. today.

Treasury has:

- 1) Telegrams and orders to the Collectors of Customs to study and stand by to enforce the customs regulations drawn up in connection with observance of the so-called neutrality act. These are to be sent out at some time preceding the actual outbreak of hostilities or the proclamation of existence of a state of war by the President.

- 2) Substantially equivalent telegrams and orders to the Coast Guard.

Upon issuance of a neutrality proclamation, telegrams and orders are prepared

- 1) Ordering collectors of customs and port officials to use all possible care in enforcing the neutrality act in accordance with regulations which have already been drawn up.

- 2) Directing careful enforcement of the passport and travel rules.

- 3) Directing the prevention of departure of armed vessels for trade with belligerents, etc.

Treasury likewise has a set of orders giving instructions to proceed under Section 191 of title 50, permitting seizure of vessels to "secure observance of the obligations of the United States". The instruction provides for the seizure of all belligerent vessels. The timing under this proposed procedure is not set forth. The Treasury thinks that the only right is to inspect and insure that the obligations

of the United States have been fulfilled. After that presumably the belligerent vessels would have to be released. This step raises some very solid questions.

AUGUST 22: "The announcement of the Russo-German agreement was flashed in about the middle of yesterday afternoon. The fact is not surprising, since it has been perfectly obvious that the Russians were double-dealing right along; but the timing is unpleasant, for it can only be taken as an indication by the Russians that the Germans can have a free hand as far as they are concerned. This is as cynical a piece of international business as has happened in a long time.

"A cooler estimate, however, indicates that the situation is not quite as open and shut as would appear.

"On its face, as taking at face value the German announcement, there is a bloc running from the Pacific to the Rhine. The Baltic States are turned over to Russia, to all intents and purposes; Poland becomes an island in a huge sea, and so also do Hungary and Rumania. Adding in Italy and Spain, it would seem that the Soviet Nazi allies now have all Europe, with the exception of France, England, Holland, Belgium and the Scandinavian neutrals. The picture is not unlike the picture of Europe after Napoleon had made his famous Russian treaty at Tilsit.

"But anti-comintern pact. "The treaty just made can hardly

fail to shake that alliance to its very base. One would expect therefore, as time wears on, to see the Italians shake loose and gravitate into the West European orbit, and to see Spain do likewise". In the Far East, also, Japan will probably be jarred entirely loose from the axis.

"Information has been widely circulated from Germany that the troops are ordered across the border on the 24th or 25th — so widely circulated that it may be an additional bluff in the hope that Poland will now decide to surrender. It is further supposed that the appeasers in England may be strengthened. I personally doubt this. It seems to me that whereas before the Anglo-French combination had the option to let Poland go, they are now faced with a situation in which either this business must be stopped, or their own independence is so severely menaced that as to be almost precarious.

"The President redrafted the proposed message to the King of Italy. We still do not know the timing for its delivery: Sumner Welles asks discretion.

Meanwhile drafting of a letter to the King of Italy had begun on August 16.

This was apparently kept in cold storage until August 21 or 22, when it was rewritten by the President, who had, of course, been responsible for central pattern of the communication. It was sent on August 23, and delivered to the King at Turin by Billy Phillips.

The President arriving from his vacation, decided that he ought to make a further attempt. Accordingly he wished to have a message sent to Hitler and to the President of Poland, requesting them to exhaust all possible avenues and especially those of direct negotiation, arbitration or conciliation. This to be ready for immediate transmission. Sumner tackled the one to Hitler and I drafted the one to Poland. But I had very little stomach for it, because the one chance is to handle it so that it does not appear to be pressure on Poland to cave in; everybody knows that the real difficulty lies on the other side of the border. My end of the correspondence, therefore, is about as colorless as I could conveniently make it. Sumner, having more latitude in talking to Hitler, did considerably better.

The one certain thing in this business is that no one will be blamed for making any attempt, however desperate, at preserving peace.

"A meeting of the full interdepartmental committee this afternoon, under the presidency of Secretary Hull who is back (and we are all very glad of it), with all the accoutrements of Kleig lights, etc. Louis Johnson's War Resources committee likewise got under way to a like obligato.

AUGUST 25: The days were drawing in. Preparations everywhere were being completed and this day Leon Henderson called Berle to outline SEC plans. AAB noted, "Their plans for taking care of the Stock Exchange in the event of war are as follows:

1) The governors of the exchange will circulate on the floor watching the course of prices. Where there is too great a spread between bid and asked prices, or where the bid price is too far below the existing price, they will endeavor to work out the situation case by case. If unable to do this, they will use the privilege which they have of suspending trading in the particular stock until the market has been made orderly.

2) If need be, they will establish a set of minimum prices as a basis for opening tradings. I surmise that this is not a flat set of minima, but rather a ruling that trading will not be allowed in the stock unless the price is not exceeding — points below the existing quotation.

3) Only if as a result of the foregoing it is clear orderly trading cannot be maintained, will they close exchange.

The behavior of the market yesterday and this morning does not indicate there will be any panicky foreign selling. As of this morning on the balance there was more foreign buying than selling.

AUGUST 26: "Yesterday a rather shattering day; as during it the nerve ganglia of Europe began to decay, I have a horrible feeling of seeing the breaking of a civilization dying even before its actual death. The Polish wire went down and Moscicki had to communicate with us by telephone to Moscow or any other place; stoppages began to pile up in Berlin; direct line sailings left various points without even mail communication, and through it all one saw how delicate a fabric this thing we call civilization really is. I worked at the Department most of the day, the interdepartmental

committee put through the documents in the afternoon and directed me to report to the President in the morning. So home late, and then back to the Department to read the late cables.

Meanwhile Moscicki had answered President's letter and cable was promptly got off, as agreed, advising H that M's answer was in. As R put it in a.m., "this put the bee on Germany" — which nobody did in 1914. Home and to bed. Then this a.m. things started fast. We got file in order and went over to White House, where I collided with L. Johnson coming out. The President suggested that now is the time to get our neutrality laws changed. He indicated a couple of speeches which he thought either I or Louis could make. Louis is making one this afternoon and one Monday."

The President assumed the Proclamation had been gone over. There was a suggestion, however, that proclamation of neutrality might be delayed for a few days by necessities of redrafting. This was subsequently decided against.

"The President had asked at the Cabinet meeting that we discover all his powers in advance of a general emergency and asked Justice to get to work on it, with the cooperation of Treasury and State. He was interested in a number of matters, such as whether he could call out naval militia, as for instance he can call out national guard, without national emergency.

He then launched into what was really on his mind. He wants to find the historical precedents tending to show that the object of the Monroe doctrine is actually to keep war off the American

were at war, both they and Spain commissioned privateers which preyed on our commerce in the West Indies. We acted first through the War Dept. (there being no Navy) and fitted out six frigates to go out and drive the privateers from our waters. Later Adams created the Navy Dept. and bought eighteen frigates. In all, we fought 104 separate naval actions before clearing out the privateers. It would probably be found that in the time of both Washington and Adams some statement was issued indicating that we were supposed to keep this kind of thing out of the American hemisphere.

Basing on this and his speech declaring that he would defend Canada, he had in mind undertaking to prevent any hostile action against any European colony in the new world, running all the way from Canada to Guiana (how about the Falkland Islands?). American nations would patrol that line. He would say to all the belligerents that they did not propose to have the European war invade this hemisphere; therefore their vessels of war etc. ought to be kept on the farther side of the Atlantic. Since the boundary of the New world is no longer the three mile limit, obviously it has to be somewhere in the middle of the Atlantic, lest airships etc. upset American peace.

This AAB thought logical and necessary. "It does really change the status of the New World — a kind of pax Americana." AAB promised to tackle historical precedents, but suggested also that Latin American states should be drawn in by way of consultation. "Their attitude might be a complicating factor, but I am by

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From White House AAB returned to office to report to Hall. CH saw nothing in latest German proposal. "He is not getting optimistic yet, and thinks that the wave of comparative hope this a.m. is probably illusory, if indeed it is not manufactured as another move in war of nerves."

AUGUST 27: L. Johnson speaks, coming out strongly for revision of neutrality act: "Our embargo on arms exports was bluntly and obviously a discrimination in favor of Germany". And talking strongly of national defense. This speech was made before convention of Young Dem. clubs at Roanoke, on August 26.

AUGUST 28: AAB notes, "The last couple of days have produced almost exactly the sensation you might have waiting for a jury to bring in a verdict of the life or death of about 10,000,000 people."

The dept. was in practically continuous session all Saturday, watching the reaction of Britain and France to Hitler's suggestion they sacrifice Poland. What Hitler really wanted, despite talk of Danzig only, was Britain and France to abandon their Polish guaranty. Daladier threw down H's suggestion and continued French mobilization. AAB adds, "No Frenchman has any illusions that if they buy peace now they will not have war next summer; for them, the only point is whether they fight now, with Poland in the field, or next year, without." There was some suspicion here that anti-appeasers had to threaten to resign to get their way.

Saturday's

Saturday's Br. cabinet meeting was inconclusive. Sunday another.

On Sunday afternoon, dept. heads met again in CH's office ("once more," notes AAB, "the death watch over Europe"). Word from Berlin was that Coulondre had seen Hitler twice, had warned both times that the French would not yield, had emphasized the horrors of war, and had predicted that only Communists would be the gainers. There were also reports that the Italians, chiefly through Mussolini and the German ambassador and by telephone between Mussolini and Hitler, had made almost frantic efforts to persuade Hitler to a more peaceful stand. The Italians were talking four power, or rather five power conference, with Russia sitting in, but it was clear from the start that this would not answer.

AAB summarizes situation as of a.m. of August 28: "The Germans have stated a set of claims and theses which in fact amount to the destruction of Poland. France has insisted that she would stay by her obligations."

AAB also mentions H's publication of his letter to Daladier, notes--"Meanwhile all the frontiers are being closed, etc." goes on: "The devastation of the axis appears to be pretty complete. Not only are the Italians very much wobbling, but Spain is moving into the arms of the French."

Note of comic relief provided by arrival of Prince of Luxembourg. Day hot, but poor Bull and P. Moffat had to come to dept. in heavy spike tail coats.

During the previous evening meanwhile AAB had been in touch
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with Federal Reserve, Treasury and SEC. They had all measures taken for a lurid day, wanted the news of foreign situation. He told them he believed they "could hold the line without too much trouble" for another twenty-four hours. Frank was having Bill Martin of Stock Exchange circulate the quiet word that the British ban on foreign securities selling would probably strengthen our market. Ronald Ransom told AAB that Eccles was on his way back and would be in town at noon of 28th. AAB correctly prophesied highly anti-climatic day in market.

AUGUST 30: AAB notes that morning of 29th was quiet, chiefly waiting for matters to develop and particularly for H's answer to Chamberlain. News was that message from C to H had been redrafted at final session of Cabinet before Henderson returned to Berlin, which accounted for delay of two or three hours in Henderson's departure. Answer was such that at meeting Parliament Tuesday Chamberlain was able to say he had taken stiff line, and obtain full support of members, which had been noted by Germans. Both F. and Poles were fully satisfied with final text of C. message. Such are the messages coming in in a.m.

AAB lunched with C. Taussig and S. Welles. Talk of general Latin American consultation (often discussed before and prepared for at Lima); (2) perhaps formation of congress of neutrals directly on war's outbreak. AAB thought there was need of content as well as machinery; that besides these implements of diplomacy, there must be some intelligent plan of a New World order.

AAB

AAB suggested that precedent for such a new order in Europe might be patterned on the new order for which they were aiming in Western hemisphere. They talked a little of such great plans in the past, remembering the Grand Dessin of Henri Quatre and the rest.

Then in the afternoon, AAB Sec., N. Davis and P. Moffat went to the croquet ground.

They finished croquet; five minutes after game was over and Hull gone, Gray called to say that Thomsen wished to see Moffat to present inquiry as to Bremen. AAB suggested that date be made for after dinner at Woodley, and accordingly Thomsen presented himself with the coffee cups. In same room where House, Spring Rice conversations began under Bill Phillips' eye, Thomsen made his inquiry, was told that only adequate inspection was desired. Meeting had been friendly. The boats are clearing at 4 p.m. of August 30 (day after preceding events) and that issue is dead.

At midnight of 29th, came in cable of H's reply to Chamberlain, suggesting that he wished to keep the way open for negotiations. The President and other suspected that it meant weakening in Germany, and there were signs of trouble behind German front--rationing, forced alliance with Communists, pacifism, etc. -- and it gave promise of 24 to 48 hour breathing spell. Nevertheless, AAB noted that Hitler reply all the same looked like reframing the old proposal of having Pole come to Berlin to sign away his country on the dotted line.

SEPTEMBER 1:

SEPTEMBER 1: AAB notes that on evening of Wednesday, August 30, he dropped into RFU to see J. Jones, who had a speech to make and was not well. Made a little joke about JJ being "Rock of Gibraltar with stomach ache." He also notes having worked during thirty-first "idea of statement of the President. I had thought of it as a statement before war; but it seems to be turning into a statement after war starts. The news during the day was all bad".

He then summarizes news of thirty-first -- the sixteen points, Lipski's visit to the Wilhelmstrasse, and all that confused story, which does not seem to have been quite fully known at this time. On evening of thirty-first, word was received in Washington that H had called Reichstag for following morning, likewise that Brit. Cabinet was meeting. AAB summarizes "the situation was thus at stalemate; the Brit-German negotiations had failed; the Poles had declined to receive a communication although the communication was already published."

At home he and Mrs. AAB dined with Roger Baldwin, with whom they discussed effect of Russo-German pact on American leftists. As he was going to bed, his servant came in to say that there were radio reports of fighting in upper Silesia. AAB thought of them as border patrol matters, but was uneasy and slept badly. At 3:40 a.m. Cecil Gray telephoned from the dept., asking him to come down to office immediately. At 2:50, as he got impression, Biddle had called from Warsaw to say that Poland was being attacked and the city would be bombed. At 3:10, Bullitt telephoned from Paris with the same

news,

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news, obtained from Biddle. The pres. had thereupon called Hull, SW and Navy and Army people, and all machinery was in motion when AAB reached State Dept. At 4 a.m. or thereabouts, Sec., SW, AAB and Messersmith met in Hull's office, and as they were awakened Moffat and other bureau chiefs came in. Hitler was already speaking to Reichstag, and the immediate task was to verify Biddle's report, which some still hoped might be exaggeration of border incident of serious type.

Telegrams were got off at once requesting that powers concerned be asked by appropriate missions not to bomb open towns. A few minutes later, Kennedy called from London. The cable had gone fast for he mentioned having received it.

SW and AAB then got together to discuss telegrams SW had been drafting calling for Pan American consultation at Panama. He wanted consultation jointly called by govts. of U.S., Argentine, Brazil, Peru, Mexico and Panama. This was all prepared and only machinery needed to be set in motion.

At 6 on a.m. of Sept. 1 (date of this memo) AAB got hold of Eccles to warn him to stand by. Then Max Truitt of Maritime Commission wanted to know about American shipping, and AAB, remembering need for vessels to repatriate stranded Americans, told him whatever shipping was in Eastern harbors had better be persuaded to sail without delay.

On the day previous, he had been called on by Lord Lothian, who had to make his round of official visits in the middle of

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the first act of Gotterdammerung.

SATURDAY, SEPT. 2: was apparently occupied in drafting and redrafting President's speech to the country. AAB's draft differs at many points from final result, which was, as usual, the President's own work and own thought. Most striking differences-- "Now that force is opposed to force; and as through suffering truth becomes plain, I think we shall find that at last there is only one clear issue in Europe: An issue so great and so clear that it suggests the inevitable outcome. At long last, you will probably find that there are ranged on one side people who believe in an ordered world based on principles; and the other groups who believe in little save cynical force. It is always dangerous to prophecy, but I hold the faith that the world will then resume its age-old endeavor to re-establish the principles of justice, of equity, of law. So it has always been; and so, I think, it will be again."

Draft begins with discussion of problems of war, affirmation of intent to keep out. Ends, first with relation of administration efforts to strengthen American economy, and then, rather nobly, with "A house so builded is builded upon a rock, and can withstand all storms".

MONDAY, SEPT. 4: AAB describes previous two days in memo. Saturday, 2, "was chiefly a day of waiting while F and B sparred

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a little. They made a last effort to get the Germans to talk to them; the results were ultimate as to evacuation of Polish territory by Sunday a.m." During this period cables brought signs that Hitler was trying to make contact with French defeatists and British appeasers, but the last minute intrigues did not come clearly through. Even then, H's purpose was plain. As AAB put it, he "proposed to sop up Poland and then 'give peace', which is another way of saying dictate peace, to the other two." Saturday also brought news of the Russian military mission's arrival in Berlin, along with forecasts from hysterical quarters in France that the Russians were immediately coming in on German side. The day ended dully, with Sec. AAB and one or two others of the State Dept. people attempting to find rest and distraction in croquet.

AAB could not sleep until 1 a.m., and ultimatums were expiring early in the morning. AAB slept, but Bullitt telephoned the President about dawn that war was on; and then called Sec and SW. They gathered at the State Dept. at 7:30 a.m. Sunday, and SW immediately sent telegrams calling for the Pan American consultation. That morning there was a long, very gloomy meeting in Hull's office. As AAB said, "We are ending our death-watch over Europe."

Meanwhile on Saturday, September 2, the Dept. had been re-drafting speech for the President, having been told that he would take their redraft and put it in entirely new words of his own during

during the afternoon. AAB noted, "Of this I am extremely glad. When the President really has time to draft, he can do a better job than anyone can do for him; when he uses other people's drafts it is commonly for lack of time." During the day there was an inter-departmental meeting on policies to be pursued towards American shipping in war zones (some wanted it ordered to keep out) and a good deal of other business, but AAB managed to send his draft to White House at 1:30 p.m. Along with it he sent the historical precedents for barring belligerent ships from American waters. Thus by Sunday a.m. "there was not much to do except consider the state of a world slowly smashing itself into fragments".

During this Sunday a.m. meeting word came from White House that Pres. would send his proposed speech over to Dept. in afternoon to be checked by Sec. In the p.m., however, he telephoned he wished they would come to White House, and accordingly Hall, L. Johnson, SW, and AAB met in the Lincoln study to hear Pres. in shirt-sleeves read "tremendously improved" speech. One or two phrases relating to origin of war were struck out, and speech was approved. Then AAB went to swim in Pelenyi's pool, and back to Woodley for first real night's sleep since crisis began.

Then on Monday a.m., he was at work putting final touches to declaration of neutrality. The President had indicated he proposed to issue general neutrality proclamation Tuesday a.m.,

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the proclamation under neutrality act, including arms embargo, in p.m. AAB notes "he does not plan to call Congress for some days, and the main question is whether to declare a national emergency", thus calling into being a number of important and needed presidential powers. AAB adds "as usual the conversation this a.m. (apparently at White House) turned on detail; how can you describe this curious unit known as the British Empire?" They finally agreed on a formula embracing in a single phrase the UK, the Dominions beyond seas, the Empire of India, etc. AAB ends memo with very striking note:

"I have been doing a little thinking which it may be worthwhile to record. In this war we cannot, so far as I can see, positively count on a military victory of Britain, France and Poland. Should they be on the eve of defeat, the square question would be presented to us whether to enter the war, using them as our outlying defense posts; or whether to let them go, treble our navy, and meet the ultimate issue between us and a Russo-German Europe bent on dominating the world, somewhere in the mid-Atlantic. My mind is rather running on the latter, which may be brutal but depends on a consideration of national interest.

"Matters may not get to this point. The Russo-German combination would be huge, impressive and in appearance terribly powerful. Yet it reverses the processes of men's minds in a way which I do not believe can be permanent. Winning or losing,

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that combination must ultimately break up.

"Even if it is victorious, we should be in a position to hold a powerful and almost impregnable line for a few years; and those few years ought to see this tremendous combination tear itself to pieces internally; after which Europe will tend to re-emerge. But they will be ghastly years."

WEDNESDAY, SEPT. 6:- AAB picks up his history again, beginning with afternoon of September 4, when he found CH still considering formula describing empire. Law was in favor of general formula, but Hall feared Canadian opinion. (CH proved right, as it came out.) Finally agreed to formula as written. Next a.m. documents were in shape and Sec. AAB and SW went to White House where they found Pres. and Bob Jackson, at 11:45. The general neutrality proclamation had to be signed, and the question of the Brit. formula again came up. Jackson said that law was, when England was at war, Canada was. If not, Canada had technically seceded. The Pres. agreed with Hall's view. New formula was substituted in which only dominions which had actually declared war were included as belligerents. Some of the career people correctly feared that this might be interpreted as intended to allow export of arms through Canada.

This day Panama canal orders were signed by Pres. Then at 4:30 p.m. AAB, sec. and others returned to White House for ceremony of President's signing of second proclamation. AAB notes "Everybody was feeling a bit glum". Plans were disclosed to patrol Atlantic waters to a distance of 500 miles at sea,

thereby

thereby putting into effect substance of a suggestion made as long ago as Jefferson's time. AAB notes "I presume this will be brought up at the proposed conversation between the American republic; that it is not planned to hold at Panama on the 21st."

Thereafter AAB returned to White House to get a "raft of regulations" needing Hull's signature. Hull had left White House and gone home, but AAB was suddenly worried, tracked him to the Carlton, and got him to sign all in order.

SEPTEMBER 7: Worrying about stranded Pax Romana delegates and Canadian inclusion in neutrality proclamation. Meantime, notes AAB, "the President has been at work on an emergency proclamation. He wants this because it gives him power to transfer budget items, and to bring the army and navy nearer to full peacetime strength. At the same time he does not want to create the impression that we are getting ready for war. In this he is entirely sincere. The German secret reports seem to indicate that they think we will be in the war in three months; how they know this I cannot make out, but they do know their war plans, which may include sinking American ships. The President indicated to Bob Jackson the kind of proclamation he wanted and told him to talk to me about it; so Bob wrote it out and talked to me about it in the White House office yesterday. (6)

This morning up very early, because all these various proclamations have to be approved by the Attorney General. Accordingly we drew and I took down to the Justice Department proclamations of neutrality recognizing South Africa as a belligerent

belligerent; likewise Canada. Returning, the Secretary signed them; whence to the White House and here was Frank Murphy with a proclamation of limited emergency. We thereupon went in to President, who signed them; outlined a little the press conference he planned to give designed to make the country realize that the proclamation of emergency was not intended to put the country on a war footing but to strengthen certain phases of neutrality and defense policy; thence to the State Department where we released the South African and limited emergency proclamations. Proclamations covering Canada were being kept in cold storage, meanwhile in the safe.

Rest of the day AAB works on Secretary's Pan-American Day speech, noting "my mind is not working very crisply".

Wednesday, SEPTEMBER 13: "A protocol dinner Monday evening for the geophysicists, who are having a congress here, punctuated by a strange and rather frightening incident. In the reception line a white bearded Pole came up and I recognized him. He was Arctowski, the technical assistant who with Professor Lord and some cubs, had drawn the line of the Polish corridor, and indeed the line of Silesia as well. He had then lived honored in his own country, comes here as a delegate from Cracow University, and while here has again lost his country as the work he and Lord did had furnished a fuse for the new world war.

Tuesday there was long talk at the Dept. about what to do in the matter of American ships trading in war zones. It was thought inevitable that sooner or later one would be submarined.

There

There was much pressure for warning them off, but no formula seemed available, there was the problem of the effect of such a warning on revision of the Neutrality Act. Hackworth was actually asked to prepare a formula, however, and did so. This day AAB went to NY to speak to Cost Accountants.

Returning to Washington Wednesday, he found "enough work to last a very long time". "The President asked that his message be drafted in the State Department, so it comes in my direction. He has called Congress for the 21st, which must be arranged. A committee was formed, consisting of Messersmith, myself, Moffat, Savage and several others, to work up material for the debate on the Neutrality Act. Fortunately we have a lot of material prepared for the ill-fated previous debate. A little more work on the ship formula.

"I have been dreaming"" The basis of facts behind the dream are four events. The Russian Soviet authorized its govt. to break relations with any government which hampered trade relations with the Soviets. The following day announcement was made the British were hampering such relations. Meantime, several classes of Russians were called to colors and conscripted into service, destination unknown; actually the Polish border. Today an unconfirmed report from Moscow (but probably correct) says that Russian ships en route to GB have been ordered to turn around and come back to a Russian or friendly port.

"If

"If I am right, this may mean the Russians are about to enter on the German side. At any rate, they will seize Estonia and Latvia in substance, if not in name. They will occupy Poland about up to the old Brest Litovsk line; and presumably put pressure, soon after, on Roumania to surrender Bessarabia. I cannot believe that at the same time they will omit to force Turkey into their ambit, which they are almost able to do.

"If this nightmare proves real (and it seems only too damnably logical) the state of the world will change overnight. Italy is then forced into the allied side; but you will have two men able to rule from Manchuria to the Rhine, much as Genghis Khan once ruled; and nothing to stop the combined Russian-German force at any point, with the possible exception of the Himalayan mountains north of India. Put differently, the Western world as we know it ends at the Rhine river; and for the time being Europe is gone.

"Well, I thought this poses a pretty question. For the next phase is simply this: the Western world is besieged on the two Americas; and the rest of our lives, or at least most of them, will be spent trying to defend various parts of this world from the economic, military and propaganda attempts to establish

domination

domination over it. Ultimately, of course, the new empire will break up, as Genghis Khan's did; but so many things will break with it that it may be said, without hyperbole, that an era in world history is literally passing before our eyes."

SEPTEMBER 14, Thursday: Getting together materials for neutrality act fight, working on shipping problem. Also some work on probable redraft of map of Europe after Russian troops march. "As it lies in my mind, Russia will take everything east of the old Brest Litovsk line down to the old Austrian border. The Austrian part of Poland will either be annexed outright or handed to the puppet state of Slovakia, and the balance will be a puppet Polish state, probably under a German Reichsprotector.

Reports had come in telling of sending for Saracoglu to Moscow and there were many other indications that AAB's dream of the day before was already beginning to come true.

On Wednesday evening, he had had a rather awful experience-- a quiet dinner party at Woodley, with the Dunns, Procope, Mark Childs, etc. He had been looking forward to relaxation, but Procope came in, twenty minutes late, and drew AAB aside to say he had had a cable from Helsinki that the Russians planned to enter Poland at an early date.

On Thursday, SW left for Panama.

CH

CH delivered the Pan American Day speech on September 21, and it was this speech, together with the President's message to Congress that produced the important editorial in the Osservatore Romano. Osservatore described Hull's speech as "This brief code of civilized living which President Roosevelt in his message to Congress supplemented by a noble appeal to religion, this vade mecum of peaceful relationship expressed in the simple and unadorned manner of practical people". Meanwhile, on September 21, the President also delivered his message to Congress, on which AAB does a memo:

SEPTEMBER 21: "The President had before him a number of drafts, of which I had submitted one on behalf of the State Dept; and I gather there were memoranda from other quarters, including the department of Justice (presumably Bob Jackson).

"On September 19 in the afternoon, the President put all the drafts in one pile on one side and started to dictate himself. At quarter past nine on the 19th, I went to the WH and found him there alone, still dictating what he called the 'penultimate paragraphs'. Norman Davis and the Secretary had strenuously urged him to put in the arguments in favor of the repeal of the neutrality act; and to a considerable degree he had adopted their suggestions. The result was the draft typewritten in blue.

"At 10:45 on the morning of the 20th, the Secretary went
to

to the WH. He was courteous enough to invite me to come along. The President went over the draft with him. The results are the pencil changes which appear on the President's blue draft, and the understanding that an insert would be put in on page 10--an insert known familiarly as Hull A insert.

"On the afternoon of the 20th, by direction of the Sec, Green Hackworth, the legal adviser, and I condensed a draft of the 'Hull A Insert'. We then had the message re-typed with the modifications. This is the draft marked '2nd Presidential draft'.

"The Secretary and I went to the WH at 8:30 on the 20th, where we found the President and our old friend, Judge Samuel Rosenman, from NY. We read the second Presidential draft down against the President's draft, noting the changes, which in general were approved. The President made a few changes on the master copy. He approved, likewise, the rearrangement of the legislative program, which Hackworth and I had rearranged to conform to the order of the six points presented by Sec Hull to the Congress last Spring.

"The message was to be presented in person at 2 p.m. on the 21st. The final draft, with all checking, was being done by the President and Judge Rosenman on the morning of the 21st."

AAB

AAB draft dated September 15, eloquent, but as usual less homely than the final version. Takes a high tone--one which, though stirring, might have seemed a little too high to the Congress. It clearly requests (1) "The legislation requiring an arms embargo should now be repealed. Its essential unneutrality, and the fact that it presently discriminates between certain groups of belligerents, is rightly to be accentuated as time goes on, until it makes us appear as virtual partisans in the conflict." Such a result, because it is unpredictable, is dangerous alike to our present position as a neutral, and to our underlying desire to remain uninvolved." (2) Retention of munitions control board and other provisions always supported by the State. It also suggested, but did not positively request, imposition of cash and carry controls.

It implied very broadly, but did not definitely establish the blame for the war. It rather firmly asked for reasonable caution in a debate which would be an "international forum", and it warned against propagandists and organized agitators, particularly questioning the sincerity of "an advocate who yesterday proposed to arm his followers, or sanction the doctrine of class war". It criticised filibuster by implication, and contained one extremely important passage as to claims of debaters--"No group, no party, no bloc can claim to be the party of peace in this debate. There is a government of peace, resolved to do everything humanly possible to maintain

that

that peace. In the matter in discussion, there is no issue as to the maintenance of peace. There will be, and should be, debate as to the best method of safeguarding it."

President's draft an entirely new papers. (1) Re-phrasing of no peace bloc plea. Says everyone "in favor of such measures as will protect the safety and honor of our country and at the same time keep us out of war." After night talk with AAB, inserts "the neutrality" before "safety".

Then a short history of spring and summer, subsequently deleted, describing "loss of independence and sovereignty" of several nations "with whom we had friendly diplomatic and commercial relations." FDR draft went on, "During the spring and summer the transition was definitely toward further acts of aggression and further away from peace", which he changes in night talk with AAB, putting "military conquest" for "aggression".

Quotations from January message. Recital of American adherence to international law.

Request for repeal of embargo. In night talk with AAB, phrase "most vitally dangerous to American honor, to American security and to American peace" is changed to read "American neutrality," etc. instead of "Honor". Also, in next paragraph sentence is inserted in passage discussing hypothetical prior to 1935 case, "This would have been the normal practice under the

the age-old doctrines of international law". Also "our prior position accepted the facts of geography and (added) of conditions of land and sea power alike".

In part referring to inconsistency of anti-repealists, argument felt so strongly that a couple of tautologies, later eliminated, were inserted.

Then stirring pp on page 4 of final "I seek a greater consistency, etc", has curious vague insert put in, referring to old argument about causes of world war, which was later transmuted into highly effective, "It has been erroneously said that return to that policy might bring us nearer to war".

After review of objectives, (on p 5 of final) Pres. inserts, "Congress can take its choice of two methods, so long as legislation is so drawn as to meet the needs of day to day new situation and dangers".

Fourteen pages long, mosaic of additions and inserts. Ends with pp. "I will immediately reconvene the Congress in another extraordinary session".

FRIDAY, SEPTEMBER 22:- AAB amplifies his history of message, noting, "At all events, after a pretty full day's work on the message I went to the WH at 9:15 Tuesday evening, the 19th, to listen to the President finish up his draft. We talked a little as he was turning in -- very sleepy -- for the night. He was mulling over the subject which was most in his mind--what kind of a threat to the U.S. was this war going to be?

be? He said he had been dreaming over the map of Poland which I sent him and putting in some more of his own. It would be logical to suppose that Stalin and Hitler would not get over-extended but he said in view of the kind of people they were he expected they would keep on going while the going was good. He thought in the middle East the agreement probably was that Germany should take a sphere of influence in everything Southwest of the Tigris; Russia everything northeast. How far they could go into Persia or towards India was an open question. Likewise the Jap solution was entirely obscure.

"He then said that undeniably the next thing would be a drive at the west. The real objective would be to get into the Atlantic. He had been thinking that this would be probably done by a Mediterranean drive, with the ultimate design of getting a strong foothold on the Atlantic coast or in some of the Atlantic islands: the Azores, Cape Verde or the like; possibly through pressure on Portugal. This involved having a land line, and therefore Italy's action became highly important.

"It was a hard night's work for him and he was tired.

"A day's work in the office on the 20th: a collection of matters of one sort or another. The Pres. and the Sec. go at things entirely differently, but they got things pretty well in shape and the evening conference at the WH revealed that the draft satisfied everyone pretty much.

"The Pres. indicated that this was going to be a dirty fight.

"The 21st seemed relatively easy, because the message—for whatever it was—was not off the ways. Late in same memo, AAB notes, "We have intercepted messages from the Germans, who are wiring a lot of people in the U.S. to send letters to their Congressmen asking they do not repeal the arms embargo".

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE December 1, 1939

TO Secretary Morgenthau

FROM Mr. Cochran

The foreign exchange market was very quiet with the volume of sterling transactions larger than yesterday's turnover. The opening quotation in New York was 3.90-1/2, as compared with last night's close of 3.88-1/4. After the opening, very little interest was shown in sterling and the rate drifted down to 3.89. Shortly before noon, it moved upward to 3.89-3/4. The Guaranty Trust Company received instructions from abroad to purchase £100,000 and, as the market was very thin, it moved cautiously in fulfilling this order. The National City Bank reported that it had some small orders to sell sterling at best at the close. During the afternoon the rate improved to 3.90 and closed there.

Sales of spot sterling by the four reporting banks totaled £457,000, from the following sources:

By commercial concerns.....	£ 209,000
By foreign banks (Far East, South America and Europe)....	£ 248,000
Total.....	£ 457,000

Purchases of spot sterling amounted to £502,000, as indicated below:

By commercial concerns.....	£ 228,000
By foreign banks (Europe and Far East).....	£ 274,000
Total.....	£ 502,000

The discount for sterling for one month remained unchanged at 2-1/4% per pound but for three months it widened to 6-1/2% per pound.

Cotton bills totaling £61,000 were sold to the British Control at the official rate of 4.02 by the following reporting banks:

£ 56,000 by the Guaranty Trust Co.
£ 5,000 by the National City Bank
£ 61,000 Total

The Canadian dollar was strong today and closed at 12-1/2% discount.

The other important currencies closed as follows:

French francs	.0221
Guilders	.5309
Swiss francs	.2242-1/2
Belgas	.1650

CONFIDENTIAL

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

\$2,500,000 from the Netherlands Bank
920,000 from the National Bank of Belgium
\$3,420,000 Total

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

\$2,089,000 from South Africa, shipped by the South African Reserve Bank, consigned to the Federal Reserve Bank of New York, to be earmarked for the account of the Netherlands Bank.
1,823,000 from the Netherlands, shipped by the Netherlands Bank, consigned to the Federal Reserve Bank of New York, to be earmarked for the account of the Netherlands Bank.
8,000 from Canada, shipped by the Canadian Bank of Commerce, Montreal, consigned to the Canadian Bank of Commerce, New York, for sale to the U. S. Assay Office at New York.
\$3,920,000 Total

The U. S. equivalents of London spot and forward silver were 41.30¢ and 41.09¢, 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 two purchases of silver totaling 150,000 ounces, under the Silver Purchase Act.

In talking with me by telephone this afternoon, Mr. Knoke stated that the Reichsbank had paid out \$800,000 from its account with the Federal Reserve Bank to the National City Bank. Knoke had talked with the National City, but the latter said there was nothing significant in this transaction. Most of the total was being paid out to various local banks. On November 30, the Federal Reserve Bank, under telegraphic instructions from the Reichsbank, made a payment of \$700,000 to the German Consulate General in New York.

B. W. R.

CONFIDENTIAL

December 1, 1939

To: The Secretary
From: Mr. Hanes

When you are talking to the President about the Randolph Paul memorandum I think it wise that you have before you the attached memorandum which shows that there was nothing new in the so-called "Paul Plan." All of the 46 suggestions made by him have been constantly before the Treasury for many years past. As you will note by Blough's memorandum, the problems which have not been considered actively the past 18 months are relatively unimportant.

TWH

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE December 1, 1939.

TO Mr. Eanes
FROM Mr. Blough

The memoranda of Mr. Randolph Paul which were submitted to the Treasury Department contain 31 points involving possible tax changes which would increase revenues, 15 points involving changes which would decrease revenue, and a plan for an excess profits tax. The following suggestions appearing in the memoranda have not been under active consideration by the Treasury Department during the last eighteen months:

I. The problems involved in the following recommendations appear not to have been considered at least in recent years:

1. Clarify the law to make taxable any excess of the principal sum of insurance installments above the principal sum of the life insurance policy at the time of the insured's death.
2. Authorize the courts and the Board of Tax Appeals to relax the rule of res judicata in meritorious tax cases.

II. With respect to each of the following items, the problem has been actively considered in recent months but the solution proposed by Mr. Paul has not been considered:

1. Impose income taxes on stock dividends heretofore considered to be nontaxable.
2. Establish a conclusive presumption that gifts made after the decedent reaches sixty years of age are made in contemplation of death.
3. (a) Eliminate the tax on intercorporate dividends where stock ownership gives no control.
(b) Stiffen the tax on intercorporate dividends in cases of inexcusably complicated corporate structures.
4. No plan for an excess profits tax has been prepared in such detail as that presented by Mr. Paul, although the general problem has been considered.

III. The following problems have not been actively considered during the last eighteen months but were actively considered in 1937, 1938, or both years.

1. Eliminate the deduction for nonbusiness casualty losses or restrict them to a fixed percentage of the taxpayer's net income, or treat them as capital losses.
2. Limit the allowance for the deduction of interest on noninterest borrowings to \$500.
3. Limit the allowance for the deduction of nonbusiness bad debts to \$1,000 in the case of each debtor.
4. Limit the allowance for the deduction of taxes on nonbusiness property to taxes on small homes.
5. Allow a deduction of perhaps \$100 a year for medical or dental expenses.
6. Limit the deduction for payments by the employees to pension trusts to perhaps \$5,000 for any one employee.
7. Limit exempt building and loan associations to those of a genuine cooperative character primarily related to financing home ownership.
8. Tax nonresident aliens and foreign corporations upon income from sources within the United States in such a way that there is no discrimination in their favor.
9. Provide that all tax suits and proceedings shall be brought against the United States, eliminating the highly artificial distinction between suits involving the United States, the Commissioner and the Collector.

RB

December 1, 1939

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To: The Secretary
From: Mr. Hanes

I have asked Roy Blough to complete the estimates on the Paul tax plan as quickly as possible, getting them to you by Monday noon, if possible. You will understand, of course, that work on several optional plans for raising \$500 million has necessarily been delayed on account of the work on the Paul plan. However, I have instructed them to proceed with the optional plans as rapidly as possible after the Paul plan is out of the way.

JWH



LEO T. CROWLEY
CHAIRMAN

FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON

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December 1, 1939.

My dear Mr. Secretary:

This morning the late edition of the New York Times carried a story to the effect that I was to become associated with the Standard Gas and Electric Company. For your information I want to say that I have been recently approached on the matter, but have not made a decision nor indicated what my decision might be. Furthermore, before I would make a decision I most certainly would discuss the matter.

You may be sure that I will do nothing that will not be to the best interests of the Federal Deposit Insurance Corporation. At the present time the Corporation is confronted with correcting the situation existing in three or four sizeable institutions, and it would be my purpose in any event to attend to these matters.

Sincerely yours,

Chairman.

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

MEMORANDUM

December 1, 1939.

TO: Secretary Morgenthau

FROM: Mr. Duffield

Columbia Pictures, having made a movie of the production of money at the Bureau of Engraving, have asked permission to make a silent shot of you in your office after Cabinet today.

I have indicated that you probably would not have time, but I also agreed to let you decide yourself.

*D.H.
Duffield*

December 1, 1939.
5:32 p.m.

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Herbert E. Gaston: He didn't know - doesn't know what his people have done on this thing, it seems inconceivable to him that they would have ruled that way and if Justice has the contrary view but at anyrate if they're still in the building he will get them in and in any event he will call me back and let me know what to do. I explained to him that the thing seemed to be in his lap so far as the matter of hired policy was concerned that we and Justice were clear that the law required us to stop the sale.

H.M.Jr: Huh-huh. I think that you ought to order out a patrol tomorrow and see whether they still are - what are territorial waters?

G: Depends on - nobody knows - three miles sometimes and twelve miles other times. For general purposes it's three miles, for alcohol smuggling we got away with twelve miles.

H.M.Jr: Well have it so that if we did want to send out we could, see.

G: Huhhuh.

H.M.Jr: In the meantime -

G: Don't you think I'd better have those people up in Boston if those other two vessels are there -

H.M.Jr: Hold them.

G: Use some means to hold them.

H.M.Jr: Now another thing.

G: Yes.

H.M.Jr: I want you to call up Frank Murphy.

G: Yes.

H.M.Jr: And tell him about it, tell him that - just what happened and I'd like to have him advise me personally, on this.

G: Yes.

H.M.Jr: I mean personally that he should know about this.

G: Yes, Yes.

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H.M.Jr: And that we may any time tonight ask for a formal opinion.

G: Yes, yes. And we may some time tonight ask for a formal opinion.

H.M.Jr: Yes, well in fact we'd like one.

G: That's right. And do you want him to call you?

H.M.Jr: No, you and Cairns handle it.

G: Yes.

H.M.Jr: This is Coast Guard isn't it?

G: Yes.

H.M.Jr: You and Cairns handle it but you get hold of thingmabob, -

G: Yes.

H.M.Jr: The Attorney General.

G: You bet.

H.M.Jr: And Cairns, has he kept Foley posted?

G: Yes. Yes, that was -

H.M.Jr: I'd get hold of the Attorney General, lacking, if he's left town get hold of Bob Jackson.

G: Yes.

H.M.Jr: And tell him that tonight we want an opinion.

G: All right. All right, I'll do that.

H.M.Jr: Now this is, and I still say Herbert that from Wednesday till Friday is a long time.

G: Yes, Yes.

H.M.Jr: You'd better keep very careful records of this, say -

G: Yes, I've dictated the whole thing to you and I've given instructions to Customs as well as to Coast Guard on it.

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H.M.Jr: And I'd be interested to know whether Berle passed on this legally.

G: Yes, yes.

H.M.Jr: Somebody must have passed on the sale.

G: Yes, well, I think he did himself. I think he did himself but he won't admit it.

H.M.Jr: And - well I'd get hold of the Attorney General and tell him we'd like to have him advise us.

G: Yes, I'll do that.

H.M.Jr: Good work Herbert, keep right at it.

G: Right, right.

F: Tell him not to worry about it.

H.M.Jr: What?

F: Tell him not to worry about it but tell him to go - I'm kidding - I'm not kidding about the going but tell him not to be worried about the Garner - tell him not to be worried about making the Garner dinner - we'll make the dinner here in Washington - a McNutt dinner - so what the hell difference does it make.

H.M.Jr: (Hearty laughter) Well listen - when are you going to give a dinner to float Farley.

F: Well Farley isn 't floating.

H.M.Jr: Oh he's not floating.

F: He's not floating.

H.M.Jr: He's not sinking is he?

F: He's not thinking and he never did think. Maybe that was his trouble. If he did more thinking he'd be better off.

H.M.Jr: No I said sink - sink.

F: I get you.

H.M.Jr: Sink - sink.

F: O.K.

H.M.Jr: With an S like

F: I just said think - I didn't know you said sink.

H.M.Jr: No - no.

F: O.K. everything is under control. Ickes said he'd join the anti-McNutt club. They're giving a lot of numbers around town.

(Hearty laughter on both sides)

F: I think its very funny.

H.M.Jr: I think Harold better join the anti-Sissie Patterson club.

- 3 -

F: Yes - its more serious - Sissie has run after him - its more serious than he thinks about Sissie, you know.

H.M.Jr: Well I think Sissie has got him right over her knee.

F: Quite definitely, oh yes.

H.M.Jr: What?

F: Right over the barrel.

H.M.Jr: Don't you think so?

F: Oh yes, sure. And I bumped into our friend Arthur Krock to-day and he tells me he's going to write a letter to the Times going after them because he said that he that he meant - when he was in that controversy with Hopkins - about what - well as a matter of fact Hopkins did make that statement in the presence of Morton Schwartz and three or four other fellows and Max Gardner up at the race track, you see, and then he denied it after, you see?

H.M.Jr: Yes.

F: And Arthur told me that he ran into Ickes about the time it happened and Ickes said, "Well it looks to me as if you have Hopkins by the , see?

H.M.Jr: Yes.

F: And then later on he kind of changes his tune in the book so Arthur is going to write a letter to the Times, he told me and - that's confidential - and let her call Ickes attention to the fact that he thought that Arthur was right at the time.

H.M.Jr: I see.

F: So there you are - got to be careful of what you say and what you write, brother.

H.M.Jr: (Laughs)

F: Let Hanes go to Texas and Farley will go to - ah - take care of the McNutt dinner here in Washington.

H.M.Jr: Farley goes to Heaven.

F: Farley goes to Heaven; Hanes goes to Texas.
Tell Johnny its all right.

H.M.Jr: Well he's sitting right here; I'll tell him.

F: Allright get another Post Office in Dutchess
County and don't give anything to odds.

H.M.Jr: O.K.

F: Thank you very much.

H.M.Jr: Goodbye.

F: Gooby.

December 1, 1939

10:45 am

Present:

Mr. Wigham
Mr. Gifford
Mr. Pinsent
Mr. Hanes
Mr. Cochran
Mr. Butterworth
Mr. Stewart
Mrs. Klotz

HM, Jr: Well?

Mr. Wigham: Well, Sir, I am afraid there has been some delay so far. I certainly was a little optimistic that we would get Government action quicker. And the reply to our first recommendation was that it was impractical to do it that weekend and that they would cable us again during the week. Then they started cabling on the detail of the workingout of this thing and they have been cabling us ever since, so that it appears from the time we left the other side they have not worked out any machinery providing us with a vesting order and we have had to give them a good deal of the working on this side. And again, a cable we got day before yesterday, again there is so much of the detail still in discussion, they said it would not be possible over this weekend to make a vesting order, so I sent a cable to the Governor yesterday; told him I was coming up to see you and would like word when they thought they would be ready and I got a cable this morning saying they are sending a cable officially through the Embassy, with details, which only arrived as we left the Embassy to come down here and I have not seen the contents.

HM, Jr: Let me say this, if you don't mind my saying it.

Mr. Wigham: No, sir.

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HM, Jr.: I think it has been a most unfortunate delay for you. You saw the papers today and the papers yesterday, and the longer you delay, well I think the worse the publicity is going to be and the more people are going to blame your Government for the fact that our market does not act better.

Mr. Wigham: Yes.

HM, Jr.: Which, of course, is silly. When things don't go well, everybody likes to look for a goat. And it was all settled and could have been done when you said it would. Now today there are all kinds of new talk and Mr. Duffield tells me that Wall Street is full of rumors and today's paper says you are selling a million shares a day, and all that sort of thing.

Mr. Wigham: We are just as disappointed with the delay and we feel, too, that the right thing to do was over the weekend and probably would have had very little momentary effect on the market, but in fact there must have been a slight falling off from the time it took to get the actual vesting mechanics of it so the securities would be available to us for sale. That will take a day or two, you see.

HM, Jr.: But even if you did take title, it does not mean that you have to sell.

Mr. Wigham: No.

HM, Jr.: But you simply are in the position that you can't.

Mr. Wigham: That's the thing. And I think the Government is back of it, because at the time we made recommendations, sales were going on nicely with private individuals at about a rate which would be satisfactory for us, but, as we told them, we can't sit back and depend on these private sales always keeping along that same level. They might fall off and the people sold what they thought they wanted to sell; a great deal in the fixed interest bearing securities, that they might not sell on their own initiative, but on the Government's. Then, of course, they would have to sell.

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HM, Jr: I am going to ask you a question. You don't have to answer. But it was hinted to me that somebody on this side connected with the Government advised you or your Government to do this at this time and I wondered if it was correct.

Mr. Wigham: Not to my knowledge, Sir; no. We have never had that.

Mr. Gifford: No.

HM, Jr: I just wanted to know in order to get the picture.

Mr. Wigham: Another thing we had today, for the first time, there has been a shipment of gold from Canada down here.

HM, Jr: I explained to Col. Greenley

Mr. Pinsent: I told Mr. Wigham.

Mr. Wigham: We had not heard about that and that was not made on account of our not having enough sales going, but for some reason we don't know.

HM, Jr: I explained to Mr. Pinsent that I did not think it was, but if a person wanted to take an unfriendly interpretation, he could give that. Isn't that what I said?

Mr. Pinsent: Yes, sir.

HM, Jr: And the whole thing -- after all, if a person was unfriendly or looking for trouble or wanting to complain, a transaction like that would be very easy to use. You see?

Mr. Wigham: Yes.

HM, Jr: And I simply told Col. Greenley and Mr. Pinsent, when they were in the other day, that it seems to me it ought to be possible for the British Government, through the British Treasury or through some place or other, to keep the people informed here that when there

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is a transaction involving over \$100,000,000 over a weekend that at least somebody in the United States Treasury, not alone their own Financial Attache, be informed of it in advance and I am saying the same thing again. I think it's rather ludicrous that a thing like that can happen and Mr. Pinsent does not know about it and nobody in the Treasury knows about it and nobody in the Federal Reserve Bank. But certainly this tremendous transaction takes place and we take a big gasp and we are handed \$50,000,000 gold and we are told no securities are going to be taken over but we bought that. I can understand; I tell myself, you people are at war; things are difficult; you have a lot of difficulties, and I am bringing these matters to your attention with the hope that in the not too distant time those things should be coordinated, whether the money is to cover sales of dollars or purchases or whatever it is. As large a transaction as that I think Pinsent ought to know in advance so that he can come down and say, "Now, Mr. Morgenthau, this is going to take place. Don't have heart failure or anything like that, but we are going to have a turnover of how much money?"

Mr. Cochran: \$120,000,000 paid out and \$50,000,000 came in.

HM, Jr: Transactions involving \$170,000,000, which, in this country, is still a lot of money. I don't know how you people feel over there.

Mr. Wigham: What they told us, they were satisfied with the rate of sales; did not seem to be the hurry we seemed to put on it. Then they started getting down to details and it has been just a week of cable, cable, cable, back and forth, on the titles and what they cabled on Thursday, I think it was, that they could not take things over this weekend anyway, so I cabled yesterday if I could get any more definite news on what they were going to do, and that cable arrived just the moment we left the Embassy to come down here, and if there is anything in it we shall phone you.

HM, Jr: The other thing, I was very careful to tell Mr. Pinsent, where I made the statement the last

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time you were here, I could assure you no publicity. I have to withdraw that statement because you people will have to see Mr. Frank of the SEC, because I can't, until you satisfy yourselves and satisfy him as to what they will or will not say, I can't. I have to withdraw that guarantee. I am sorry, until you clear it up with Mr. Frank what he will or won't do.

Mr. Wigham: We are going to see Mr. Frank at a quarter to twelve and will discuss that with him.

HM, Jr.: Are you taking any Treasury people with you? Any of you people going over?

Mr. Stewart: We thought perhaps better not; to let them have conversations and let us get the results of it from Mr. Frank or from them, but as you say.

HM, Jr.: Has Mr. Frank invited you?

Mr. Stewart: We have not been invited?

Mr. Cochran: No. I suggested to Mr. Purvis that he make the appointment. We have not communicated with or heard from Mr. Frank.

HM, Jr.: I just want to withdraw that pledge of mine unless you people tell me you are satisfied, that SEC will not make any statements, but what's out in the paper now there is not much left to say. They have a million shares a day and pretty nearly everything else.

Mr. Hanes: One million dollars.

Mr. Wigham: One million dollars.

HM, Jr.: One million dollars. But I want you to entirely satisfy yourselves that once you take title to these securities, what will be the attitude of the SEC. As I told you, my word still holds true, that I won't release any figures that have to do with your business without first getting your permission. I have not changed on that and won't.

Mr. Wigham: Well, we will have to discuss it with Mr. Frank.

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HM, Jr: Right!

Mr. Wigham: What his trouble is. As I understand, what he said, what was in the papers yesterday, it was in the Sun yesterday, a repetition of what he had told us, that they would resist further information because anyway what they do get is not complete and by the time they get it and also what they get through the Federal Reserve, the two of them together is about two months old.

HM, Jr: You can quote me as saying that the Treasury will not give out any information about what the British Government does about selling securities without first getting the approval of the British Government.

Mr. Wigham: Yes, sir.

HM, Jr: So we have not changed.

Mr. Cochran: And you are willing to maintain the promise about the lag.

HM, Jr: I am not going to change; the Treasury bulletin's lag is about three months. Johnnie, you got something?

Mr. Hanes: No.

HM, Jr: Walter?

Mr. Stewart: No, sir.

Mr. Wigham: We regret the delay just as much ^{as} you do over here; more so.

HM, Jr: It's your ox. You are being gored and I am just a bystander.

Anything on your mind?

Mr. Pinsent: No, sir. We will let you know in the course of the date

Mr. Wigham: ... what's in that cable, because I don't know yet.

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HM, Jr: Always glad to see you.

* * *

Mr. Pinsent stayed behind and left with the Secretary the attached copy of a communication handed to Mr. Welles by the British Ambassador on November 30th.

The Secretary read the memorandum and said:

The President is entirely familiar and what I told you people is just what the President wants and I think the President is sort of waiting for you people.

Mr. Pinsent: The Ambassador knew that and the question of seeing the President was just touched upon. It was not put on paper.

HM, Jr: This is the result of our meeting with Purvis, you see.

Mr. Pinsent: Yes, sir.

HM, Jr: As a result of that, this was drawn up and your Ambassador, Lord Lothian, gave it to Mr. Welles.

Mr. Pinsent: And I think the French Ambassador was going to do the same.

HM, Jr: As a result of that meeting here. This is the right way to do it.

I can say this to you. Why Mr. Bullitt interjected himself, I don't know, but I have never been closer or taken ways to be closer to the President on anything than I have on this and I know just where he stands, and I practically sketched you the suggestion which the President has used once before for the French on this aluminum business.

Mr. Pinsent: Yes; the French told us.

HM, Jr: They used it. But also you might pass this along to the French that Captain Collins told me

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that they are all ready on this aluminum to do something and they can't find the Frenchman to whom they are supposed to talk. There is some Frenchman who is supposed to be here who wants this aluminum and they can't find the Frenchman and, second, they can't tell whether it's for the French Government or private industry.

I will call up Collins. I am doing this to be helpful. You pass that on to Leroy-Beaulieu. They used this set-up which I recommended and then they can't do it.

(Placed a call for Capt. Collins.)

Mr. Pinsent: We were astounded at all this, about the business from Paris. Did not know whether we were standing on our heads or our heels.

HM, Jr: If it were not so serious it would be funny.

(At this point, HM, Jr spoke to Capt. Collins on the phone and the latter said the name of the Frenchman was Col. Mario and Collins does not know if he is even in this country.

This is another thing that came through the American Embassy. Col. Mario was supposed to want this stuff, but they have been unable to find out who Col. Mario is and they still don't know whether it's French industry or the French Government and the French Ambassador has not been able to produce the man to do the talking.

Mr. Pinsent: It does not look like I could do any good.

HM, Jr: The French Embassy knows about it, but they are having their troubles.

Mr. Pinsent: I expect we shall hear today.

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Forwarded to Mr. Welles by Brit. Envoy

Nov. 30

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Communicated by the British Ambassador November 30, 1939.

The British and French Governments have decided upon the closest coordination of their economic war measures. For this purpose they have set up a Coordinating Committee in London under the chairmanship of M. Jean Monnet and have appointed an Anglo-French Purchasing Board in the United States, of which Mr. Arthur B. Purvis will be Chairman and M. Bloch-Laine Vice-Chairman. The Board will coordinate the activities of the British and French Purchasing Commissions in the United States.

This Board has been instructed to establish and maintain the closest contact with the American Administration in order to keep the Administration informed of its purchasing activities, with the object of avoiding any unnecessary disturbance of American economy.

The Governments of Great Britain and France are glad to learn through the American Ambassador in Paris that this view is shared by the United States Government. We should therefore be glad to be informed as to the method whereby the United States Government desires contact to be established between itself and the Joint Purchasing Board.

*Rec'd
9:15 P.M.
Dec. 2
H. M.C.*

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BRITISH EMBASSY,
WASHINGTON, D.C.

December 1st, 1939

Dear Cochran,

Mr. Whigham, who returned to New York this afternoon, wished to let the Secretary know the substance of the cable which he received from London this morning; and also the outcome of his discussion at the S.E.C.

The cable does not contain a decision on the question whether the vesting of securities is to be proceeded with at once or not. It gives various reasons why, from the London point of view, there is no reason to press the matter unduly, and asks Mr. Whigham once more whether, in the light of these considerations and the position as he knows it at the United States end, he still recommends immediate vesting.

In our discussion at the S.E.C. Mr. Whigham put the position once more to Mr.

Jerome/

Mr. H. Merle Cochran,
United States Treasury,
Washington, D. C.

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Jerome Frank as regards the use of the figures regarding the sale of securities which we are to communicate to the Secretary. Mr. Frank said that he would prefer that the figures should not be passed on to him by the United States Treasury, with an understanding however that he could if he wished ask for them at any time and that the Secretary could then make the condition that they should not be used in any way for purposes of publicity. If this position is satisfactory to the Secretary, it is quite satisfactory to us.

We discussed at some length with the officials of the S.E.C. whether it was advisable to make any attempt to remove some of the misapprehensions which are current in the press, but concluded that it would be wiser not to attempt this.

Yours sincerely,

Terry Piment



DR. FELIX SOMARY

PRESIDENT
(BLANKART & CO.)

ZPRICH

December 1, 1939

11 a. m.

Present:

Dr. Felix Somary
Mr. Cochran

HM, Jr: What is your pleasure, Dr. Somary?

Dr. S: I have been sent, for the second time, on an official mission here for buying raw materials and foodstuffs for Switzerland. Nearly 90% for civil needs, only 10% for war needs.

On my card is my civil profession as a banker, but, as you call it, I am only a dollar man at home. I was beginning to be this in May of this year for the second time in my life and, therefore, I am not here in my quality as a banker, but my quality for the Swiss Government and they asked me to come in connection with the agreement with the State Department in May, because we were making a lot of option contracts with different industrial and agricultural people for wheat, corn, rice, sugar, tobacco, automobiles and things like this. About 90% for civil needs; about 10% for war needs.

This proposal may be changed a little later on, but surely the civil needs would be overwhelmingly stronger. It is not a question of credits, because we naturally are paying cash and it is not a question of carry because we are obliged to hire and charter vessels, but it is only this principal question we have now -- the intention to buy more and greater quantities and store it here in this United States and we want only to be assured that no complication whatsoever should arise or, if there should be some complication, that they should be eliminated as soon as possible. This is naturally in the interest of our country, because we have it now mobilized about 80% of our male population and, therefore, we have to see that no difficulties or complications whatsoever should arise.

This is the principal purpose of my visit here and we are intending to organize a permanent mission

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for these different transactions and would be extremely interested to be in contact with the Government so that any complications should be eliminated as soon as possible.

HM, Jr: Dr. Somary, I think I ought to explain it to you that I am not the right person to see. I think that what your Government should do, through you and your Minister here

Dr. S: Yes.

HM, Jr: I think they ought to ask the State Department if your Minister could either see the President or whether the State Department would ask the President which agency or agencies of the Government this purchasing mission, which you head, should contact.

Dr. Somary: Yes.

HM, Jr: And we are in the process of setting up a group that the President wants to receive foreign purchasing agencies. It is not the Treasury. It is not me. I am not the person. I do know that the President, Mr. Roosevelt, wants that, has something, different in mind, and so I think that you could, if I might make that suggestion to you and your Minister, that they ask the State Department particularly to find out from the President of the United States whom you should contact and I am going to ask Mr. Cochran to call up the Secretary of State's office and say that I am telling you this so that Mr. Hull will know....

Dr. S: Yes.

HM, Jr: ... what I have said....

Dr. S: Yes.

HM, Jr:and I am quite sure that you will be directed to the proper people.

Dr. S: Yes. Some questions which may interest, I think, the Treasury; for instance, the question of

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gold payments.

HM, Jr: That's something else.

Dr. S: Because transportation is beginning to become a rather complicated affair, but this would entail a question of more important things.

HM, Jr: That is something you could take up directly with Mr. Cochran.

Dr. S: Yes.

HM, Jr: If you would. Discussion of gold, that is properly our business and Mr. Cochran is the right man to talk to. So I think that is the most helpful suggestion I can make to you.

Thank you very much and I hope to see you again.

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Dr. Somary left and Mr. Cochran remained.

HM, Jr: Tell them, please, to tell Mr. Welles and Mr. Fels not to send any more commissions over here on purchasing.

Mr. Cochran: You got what he meant about the gold payments. They want us to take gold on the other side.

THE CLOSING AGREEMENT

December 1, 1939.
10:00 a.m.

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

Hanes: Here is the memorandum. Perhaps you will want to read it over.

H.M.Jr: Sure.

Hanes: This is a 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 Couzens 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 Navy under the present law is so slight that no further dependence should be placed upon it. Accordingly, we conclude:

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"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 deductions to well-defined classes of manufacturers by definite standards and procedure outlined in the statute.

"For example, - and merely as an illustration:

"A statute anticipating the emergency period will run for four years, and permitting all manufacturers to 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 percent 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 33 1/3 percent per year - if in five years, to 20 percent per year."

Well, what I would suggest, after reading this is that we ought to write a letter to the President of the United States setting this thing forth.

"Congressional action is required. Congress only can solve this problem." We should send a copy of that letter to the President to the Secretary of War and one to the Secretary of the Navy.

H.S.Jr: Would that release us from anything we said last July if they write us - stipulate we have got to do so and so?

Belvering: It would....

Foley: You are not repudiating what you said last July.

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- H.M.Jr: I don't want to make the recommendations. I would rather have that come from - let the Army and Navy or somebody else do that. I don't want to do that.
- Hanes: I don't think your position would be any different than the one you had in July.
- H.M.Jr: Then it is all right?
- Hanes: If you agreed to do certain things in July and you are still willing to give closing agreements....
- Foley: On the things that are proper subject matter for closing agreements. We haven't changed our position.
- Hanes: And you said then that you were willing to tell the man in advance what his tax problem is.
- H.M.Jr: Any manufacturer or any business man, anybody that wants to get out a flotation or anything else in advance.
- Hanes: I don't think your position has changed from that. To go further than that, I think you are right in saying that Congressional action is required.
- H.M.Jr: And I don't want to give any example; I would rather let that come from the Army and Navy.
- Hanes: This is not the only way that Congress could solve this, this is just an example.
- Sullivan: That is right.
- H.M.Jr: I don't want to go too fast, but if you all think - I will take it down through "B", simply saying that Congressional action is required and only Congress can solve the problem. Only Congress can solve this problem for the Army and Navy. Period.
- Then it is up to the Army and Navy to go before them. I can take this over to the Cabinet and

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just give it to the President and I wouldn't have to send the Army and Navy a copy. You (Foley) write me a letter or a memorandum from me to the President. Am I going too fast?

Hanes: No, I think it is all right.

H.M.Jr: Guy?

Helvering: That is all right. I thought the reason - I think everybody thought that when we say we can, that somebody can't do it, we ought to make some suggestions. I think that is what everybody had in mind, but I think maybe it is for you to say, let the Army do so and so and the Navy do so and so.

H.M.Jr: No, let the Army and Navy make this plan. That is what they are supposed to be, fighting departments.

Sullivan: I think the reason those are in there is because yesterday you said we would be willing to help them.

Hanes: You might be called upon for a suggestion as to how - for help.

H.M.Jr: That is something different.

Hanes: "We will tell you what we require, but we have statutory authority to do what you want to do."

H.M.Jr: I didn't know until I met these gentlemen the other day about the Couzens Committee and the Nye Committee, so since I have known about those I want to shy away from the damn thing.

Sullivan: So do we, sir.

Hanes: You were on sound ground for that.

H.M.Jr: The only other suggestion which I made is entirely my own and I like it. That is that beginning with the Colt thing any closing agreement that the Department signs, I want to see it. Of course, in the case of Colt we have got to get permission

of Colt or Mrs. Colt or the little Colts.

Sullivan: And I think the War Department, sir.

Duffield: Mr. Secretary, last night I wrote a release which I think most of these people will find in their offices when they get back, a proposed release, which in my opinion will duck most of the legal questions which might arise about making this thing public. That is subject to their review.

H.M.Jr: I had a minute to mention to the President - I always say, in Washington you always get at least one warning and you usually get three. Now, Senator Bridges - is it?

Duffield: Tobey.

H.M.Jr: His warning is number one, see. Here is something nice and juicy for the Republicans to put in their teeth and make a campaign issue out of. You know he wrote me a letter. I don't know whether you saw it, Johnny. He wanted to know about Colt, didn't he?

Duffield: That is right.

E.M.Jr: That is warning number one. That is what got me started on it. You always get them, just like - what do they do in England, you have to publish the marriage bans two weeks in advance?

Foley: Three times.

H.M.Jr: I am not going to say, "Hear ye, hear ye," and so forth, but we can publish it afterwards and if we make any mistakes, the public will know it and can say so. I just think it takes any possible criticism off the Treasury and I think it is good government as long as there are so many people who have this feeling that they don't want the manufacturer to make excessive profits out of munitions.

Helvering: Anyway, the story given from mouth to mouth attains a significance that it doesn't when the facts are known.

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H.M.Jr: I mentioned it to the President yesterday at lunch and he said, "Oh, that is swell, that is grand. That will take all the curse off the things and I think that is swell."

Sullivan: Are you publishing a resume?

Duffield: You will get a copy.

H.M.Jr: As I told Gene, I would like to have it by Monday if we could do so, so that everybody can look at it and so forth, and of course we have got to get the Colt people's permission.

Foley: If it bothers these men, Mr. Secretary, there is a penal statute which prohibits the publication of information contained in any income tax return. Now, it is a penal statute - just a waiver on the part of the taxpayer isn't enough. It applies generally. Now, I think that a press release setting forth that closing agreement has been entered into with "X" and setting forth the general terms of what the closing agreement purports to do is not within the statute and I think it is all right.

H.M.Jr: Well now, can the Government break its own law?

Helvering: The law....

Foley: It applies to individuals in the Government, see. That is what the law is designed for, so that the people in the departments cannot indiscriminately give out this information.

H.M.Jr: Just as a matter of interest, supposing I, as Secretary of the Treasury, wanted to do this thing. Who could try to put me in jail?

Wenchel: The Attorney General.

H.M.Jr: Could he?

Foley: Yes. This is the statute, sir.

H.M.Jr: We will get him to okay it first.

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Sullivan: Have him endorse his approval.

Foley: You could be removed from office, sir. I wouldn't worry about the jail business.

H.M.Jr: I wouldn't worry about it either. I liked Arizona so well....

Foley: The statute says, "And if the offender be an officer or employee of the United States, he should be dismissed from office or discharged from employment."

H.M.Jr: Well, you fellows wrestle with that.

Foley: We can get around it.

H.M.Jr: Can you?

Foley: Yes.

H.M.Jr: I think this is awfully good public relations to publish that stuff.

Helvering: I don't think....

Foley: That is not information contained in the tax return, Guy.

H.M.Jr: That is what I was going to ask you. Have you two gentlemen seen Colt's return in connection with this thing?

Sullivan: Yes, sir.

Wenchel: Oh, yes.

H.M.Jr: I mean their income tax returns, have you seen the income tax return of the Colt Manufacturing Company?

Sullivan: I have not.

H.M.Jr: The point I make is, what has it got....

Foley: The information will be contained in their return, that is the purpose of it, but I don't think the

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statute applies and I think we are on safe ground if we put out the kind of a release that Gene has in mind. I haven't seen it yet, but I think what he is going to write will be all right.

Helvering: The whole purpose of that statute is that we shall not divulge secrets as to methods, and so forth, that companies employ.

Sullivan: Or sources of income.

Helvering: Yes.

Foley: We don't have to get Colt's permission to do this. I think the only person we have got to tell is Senator Tobey.

H.M.Jr: I won't do it without Colt's permission.

Foley: How about the War Department? If we ask Colt, I think we ought to ask the War Department.

H.M.Jr: Right.

Foley: Then we won't give anybody a closing agreement in the future unless he agrees that we may put out a release specifying general terms.

H.M.Jr: I am sure if it is explained to Colt, he will go along, but I won't do it without his permission.

As long as you fellows have raised this penal statute thing, let's get a ruling on it from the Department of Justice before we do it. We might as well take no chances.

Helvering: I don't think the general statement....

H.M.Jr: Well, show it to the Department of Justice. What harm will it do?

Helvering: I don't think the general statement....

H.M.Jr: What harm, Guy?

Foley: I will take it over and see the A. G. and get it endorsed.

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H.M.Jr: Do you think it is good stuff?

Hanes: Yes.

H.M.Jr: It will save you from going up to the Hill and explaining these different things. If the public doesn't like it, let them say so. I think it is good, don't you?

Sullivan: Yes, I do. I can appreciate the reasoning of the Chief Counsel's office, and then we talked - you weren't there, but we discussed this and they felt that we never should start to edge in on publicity of any information relating to a return. But after all, here is a Senator who, incidentally, put in the amendment which made the Vinson-Trammell Act what it is today. He wants to know what we are doing with it.

H.M.Jr: Is he the fellow?

Sullivan: Oh yes, that was an amendment from the floor that never went through a committee.

H.M.Jr: I didn't know that.

Sullivan: I think he should be told about this in advance. The letter you wrote to him indicated that you couldn't give him that information.

H.M.Jr: I am more than willing to say that since writing the letter I have reconsidered the matter and I think it is good government administration to make this thing public and I am very glad that he wrote to me. I am glad he brought the matter to my attention.

Sullivan: Would you want to write him or would you....

Foley: Have somebody go see him.

H.M.Jr: I think I ought to write him and somebody can take it to him or I will ask him to come in here and see me.

Helvering: He has been very active in this all the way through.

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H.M.Jr: Oh yes, and he is - how should I put it - a partisan Republican, as distinguished from McNary.

Helvering: Yes.

H.M.Jr: They are a different type of people.

Sullivan: I know him pretty well and I think he is pretty sincere about this Vinson-Trammell business.

H.M.Jr: I am too. I think it is all right. What else have you got, John?

Hanes: That is all.

H.M.Jr: Well, this publicity thing, the earliest it will be ready will be Monday.

Duffield: That is right.

H.M.Jr: And only after everybody had satisfied themselves that they can't give us an excuse to resign.

Sullivan: Who do you want to have get in touch with Colt?

H.M.Jr: I think Mr. Helvering should.

Helvering: I think we can fix that up. I think it is in his his interest up there just as much as anybody else's.

H.M.Jr: Sure, and the first one and - let him get all the breaks on the thing that he wants to. It is worth a million dollars of publicity if he will handle it right. He can say he wants to cooperate, and so forth and so on. I don't know who is his advertising agency, but if he sends them down and fixes it up, he can get a lot of stuff. I am serious. Let his advertising agency come down and sit down here and handle it for Colt.

Helvering: There is no use of that company being under a cloud, doing something somebody else can't do. They just came first, that is all.

H.M.Jr: If he would come down to the public relations man and work it out with us, we would give him all the breaks on it.

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Helvering: Well, you (Foley) will get the thing released by the Attorney General?

Foley: Yes.

H.M.Jr: And you (Helvering) will talk with the Colt people?

Helvering: Well, I think I would write them a letter.

H.M.Jr: Ask them to come down and see you.

Foley: We can phone.

H.M.Jr: I would ask them down. Tell them what is about and ask them to come down and see you.

Helvering: All right.

H.M.Jr: I would ask them to come down and see you. All right?

112A

Copies sent to Woodring and
Edison on December 4, 1939.



THE SECRETARY OF THE TREASURY
WASHINGTON

213

Dec 1, 1939

MEMORANDUM FOR THE PRESIDENT:

The Treasury has been considering for some time the possibility of assisting the Army and Navy in the establishment of additional facilities in private industries to expedite the national defense program with special reference to your memorandum to me of November 9, 1939, copy of which is attached.

We have concluded that:

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.

Hence, it is clear that congressional action is required, and that only the Congress can solve this problem. Any action, however, in bringing this problem to the attention of the appropriate congressional committees ought to be initiated by the War and Navy Departments since it is a part of the national defense program. Of course, I shall be happy to cooperate.

A. M. Vignithan Jr.

THE WHITE HOUSE
WASHINGTON

214

C
O
P
Y

November 9, 1939.

MEMORANDUM FOR THE SECRETARY OF THE TREASURY:

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.

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.

(initialed) F. D. R.

THE WHITE HOUSE
WASHINGTON

115

12/1/39

Secretary Hull's note to EM, Jr passed
at the Cabinet meeting today.

I will improve
my Sept - &
Then
we will keep in touch
for the year or so as soon

FROM: MR. GASTON'S OFFICE

TO:

gsk

Excerpt from a report on general conditions in Canada for the period from
November 15 to November 30, 1939, inclusive. From John Farr Simmons, Charge d'
Affaires M. I., Ottawa, Canada, December 1, 1939

-17

1) War Finance.

The long awaited speech of Mr. Ralston, the Dominion Minister of Finance, did not go as far as many persons would have liked in clarifying Canada's war financial policy and plans. As the Montreal Gazette stated, Mr. Ralston merely filled in some gaps.

From his speech it appears that Canada is laying plans for a three year struggle and that the cost to Canada of the first year of the war is expected to reach \$115,000,000.

The Finance Minister gave the impression that this would be an expensive war for the reason that highly mechanized units would be required. He said nothing new in respect to the financial arrangements between Canada and Britain, although it had been expected that he would do so. Conversations on this subject, it is stated, are still in progress. He spoke on a number of other subjects not directly related to finance and notably assured his listeners that adequate information would be forthcoming with regard to what the Government was doing and how much they were spending.

The Toronto Globe and Mail has given some consideration to Canada's financial position and certain of the points it brings out are of interest. The national debt of Canada, it points out, is now over \$3,000,000,000 and if to this the provincial and municipal debts are added the grand total comes to more than \$7,000,000,000. In other words, the national debt amounts to some \$280 per capita, or with the provincial and municipal obligations added to more than \$500 per capita. It quotes estimates made by the National City Bank of New York to the effect that British gold holdings and dollar assets in the United States are approximately the same as in 1914. The combined total of British and French assets are placed at slightly more than \$8,000,000,000. It finds reason for satisfaction in the fact that the national debt of Canada is now 75% held in Canada. This, the Globe and Mail points out, means that it is not necessary to secure foreign exchange to the extent it was in the last war to meet interest payments. The great increase in Canada's indebtedness now as compared with 1914 suggests, it states, that "Canada will need to proceed cautiously with huge expenditures of a non-productive character if she is not to find herself financially crippled after the war".

FS

GRAY

118

Paris

Dated December 1, 1939

Rec'd 7:11 p.m.

Secretary of State,
Washington.

2882, December 1, 6p.m.

FOR THE TREASURY.

This morning's Journal Officiel contains two new
arretes with respect to the operation of exchange control.
They are designed primarily to close the one big loop hole
hitherto existing through the unrestricted liberty of action
to deposit francs to the account of foreigners. (Please
see our telegrams 2253, September 29, 7 p.m.; 2801,
November 21, 6 p.m.; and 2811, November 22, 8 p.m.) the
first arrete defines "foreign accounts in francs" as franc
accounts opened in the name of "persons considered as
foreigners" (i.e. non-resident) with local banking insti-
tutions.

(END SECTION ONE).

RR

BULLITT

EG

GRAY

Paris

Dated December 1, 1939

Rec'd 9 p.m.

Secretary of State,
Washington.

2882, December 1, 6 p.m. (SECTION TWO)

"Foreign holdings" are defined to include means of payment in francs, property in France, foreign negotiable securities in France, deeds to property, or credits on foreign countries located in France which belong to persons considered as foreigners (i.e. non-residents) except the above defined foreign accounts in francs. Operations for which authorization from the foreign exchange office is required are amended to include exportation of means of payment through "the act of transferring abroad either in whole or in part an account opened on the books of a bank in France". Similar surveillance is established for securities. Authorization is likewise required for the transfer of francs to the account of a (*) except for the payment of importer debts abroad and travel expenditures.

BULLITT

(*) Apparent omission

HSM

FS

GRAY

Paris

Dated December 1, 1938

Rec'd 8:44 p.m.

Secretary of State,
Washington.

2882, December 1, 6 p.m. (SECTION THREE).

Authorization is necessary to permit a debtor to settle in France for exports of merchandise or for services rendered abroad unless settlement is made by deductions from a franc account of a foreigner or by foreign holdings. Operations authorized upon submission of proofs include: the deposit of francs to a foreign franc account in France in settlement of imports into France; the deposit of francs to a foreign franc account in France in settlement of debts owed abroad; and collection in francs of credits arising from exports abroad or services or income arising abroad when foreign franc accounts in France are debited by a similar amount.

RR

BULLITT

FS

GRAY

Paris

Dated December 1, 1939

Rec'd 8:55 p.m.

Secretary of State,
Washington.

2882, December 1, 6 p.m. (SECTION FOUR).

The measure contains detailed instructions to "approved intermediaries" with regard to the foregoing and is designed to restrict to legitimate purposes all changes in foreign franc accounts. As indicated in our telegram 2811 of November 22nd this particular loop hole was becoming more and more utilized and the informal surveillance exercised in the last fortnight or so has now been replaced by these official measures.

There have also been considerable profitable arbitrage operations resulting from the higher quotations in Amsterdam for such shares as Royal Dutch which were being bought here and sold in Holland. French Mendelssohn notes were purchased with the proceeds and sold here as a supplementary return operation yielding some 8% profit in view of the higher quotation of the latter in France.

RR

BULLITT

McC

GRAY

Paris

Dated December 1, 1939

Rec'd. 10:20 p.m.

Secretary of State,
Washington.

2882, December 1, 6p.m. (Section Five)

Today's Journal Officiel likewise contains a number of other measures of varying interest: (One) A decree provides that associations or foundations, French or foreign, engaged in charitable or relief work and appealing to the public for funds must obtain prior authorization of the authorities and must be subjected to supervision of the latter. (Two) The 1.50 franc per kilogram reduction in the export tax on automobiles authorized by the decree of June 17, 1938 will be continued until December 31, 1940. (Three) A decree provides that the increase of 8 percent in all taxes authorized under the decree of May 2, 1938 which was due to expire at the end of the year, shall continue to be applied for an unlimited period and that the general rate of 16 percent of the Lichular tax on income and real estate shall be maintained during the year 1940. (Despatch No.2238, May 6, 1938). (End Section Five)

BULLITT

PEG

JR

GRAY

Paris

Dated December 1, 1939

Rec'd 10:25 p.m.

Secretary of State,
Washington.

2882, December 1, 6 p.m. (SECTION SIX)

(Four) A decree providing for the creation of special free customs zones (locations not specified) for the duration of the war. Only goods of merchandise designated by the Ministers of Finance and Blockade and/or the ministers responsible for supervision of the merchandise concerned will be admitted. Merchandise admitted into such free zones will upon arrival during their stay in the zones and upon reexport be exempt from all duties, taxes or surtaxes applicable to importation, circulation, consumption and production. Entry transshipment reexport and exit restrictions will not be applicable.

BULLITT

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JI

GRAY

Paris

Dated December 1, 1939

Rec'd 10:40 p.m.

Secretary of State
Washington

2882, December 1, 6 p.m. (SECTION SEVEN)

(Five). DECREES designed to obviate certain difficulties of application of the provisions of the decree of September 9 which extended to all commercial and industrial enterprises the system of excess profits taxes applied to enterprises engaged in the supply to armaments under the decree of July 29, 1939. The scale of the interest levy is also fixed under these measures. (Embassy's despatches numbers 4879, August 16 and 5245 of November 6).

(Six). A decree suspending for the duration of the war the election or designation of general counselors of the Bank of France.

(Seven) An arrete setting up regulations for the equalization of the prices of iron ore and other mineral substances by the fund established under the

2-2882, December 1, 6 p.m. (SECTION SEVEN) from Paris decree of October 13, 1939 (despatch No. 5304, November 17.

(Eight) A decree settling a clearing office to work with the Foreign Exchange Office in connection with payment agreements between France and certain foreign countries. This new institution under the authority of the Ministry of Finance will take over on January 19, 1940, the duties heretofore exercised by the Clearing Office attached to the Paris Chamber of Commerce and will assume the accounts of that office as of that date.

BULLITT

RR

JI

GRAY

Paris

Dated December 1, 1939

Rec'd 9:17 p.m.

Secretary of State

Washington

2882, December 1, 6 p.m. (SECTION EIGHT)

By vote of 316 to 172 the Chamber last evening voted the special powers which Daladier requested for the remainder of the war. It did so however only after Daladier posed the question of confidence. The proportion is voting on the law today. Thereunder Parliament shall exercise its powers in budgetary matters through the Government and in case of necessity may of course take by decree such measures as the national defense requires said decrees to be subject to ratification of Parliament within one month if Parliament is sitting (which presumably will be at rare intervals) and if Parliament is not sitting immediately upon reassembly.

A communique of the Finance Ministry today publishes combined August and September revenue. (Presumably the figures for September last made such

poor

-2-2882, December 1, 6 p.m. (SECTION EIGHT) from Paris

poor reading that the authorities did not desire to make them public alone - you will recall from our telegram No. 735, November 1, 3 p.m., that COVE de Murville told us that September revenues were 50% under budgetary estimates).

BULLITT

RR

EG

GRAY

Paris

Dated December 1, 1939

Rec'd 10:53 p.m.

Secretary of State,
Washington.

2882, December 1, 6 p.m. (SECTION NINE)

Total revenue for the two months was 8,316 million francs. Revenue from direct taxation for this period totaled 1,819 million or 220 millions under the same period of 1938. Revenue from indirect taxation and monopolies totaled 6,618 million or 247 million more than budgetary estimates. Miscellaneous revenues are not specified.

The securities market, in spite of developments in Finland, was strong and active today, partly on the final vote after earlier uncertainty of the government's special powers. Rentes advanced from 5 to 90 centimes. There was no change in official exchange rates.

A report from Amsterdam states that the Mendelssohn creditors by a large majority agreed to grant a delay of 18 months for payments of that concern's debts. This agreement took place before the pertinent tribunal which will render its decision on December 7.

The

-2- #2882, December 1, 6 p.m. (SECTION NINE) from Paris

The report adds that as of October 31 the balance sheet indicated a provisional excess of liabilities over assets of 40,540,485 florins as against 11,424,78 florins on August 14. (END MESSAGE)

BULLITT

PEG

REC-118

DEC 1 1941



OFFICE OF
COMMISSIONER OF INTERNAL REVENUE

ADDRESS REPLY TO
COMMISSIONER OF INTERNAL REVENUE
AND REFER TO

IT:P:CA
CAA

TREASURY DEPARTMENT
WASHINGTON

BK 226

130

December 1, 1939.

REPORT FOR SECRETARY MORGENTHAU:

In regard to closing agreements which have been requested, the following applies:

De Laval Steam Turbine Company:

No word has been received from Navy Department. Case is held in pending file in order to afford contractor full opportunity to negotiate with the Navy Department.

The Midvale Company:

A conference, fully reported in a conference memorandum, was held on November 27, 1939, with Navy representatives at the suggestion of the Treasury representatives for the purpose of clearing up fact questions. Consideration is continuing. Conference with the contractor is being put off, ostensibly because of press of work and of necessity to study details, but actually to afford time for a full study of the policy question involved in the proposition to proceed via closing agreement in lieu of anutilization of the special authorization by Congress for the Navy to expend \$6,000,000 out of its appropriation for the purposes of this armor plate case.

Camden Forge Company:

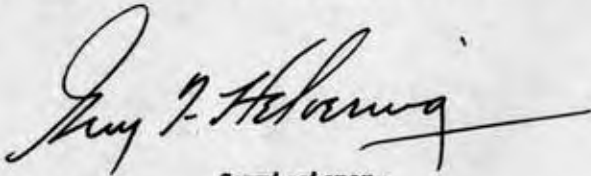
A conference, fully reported in a conference memorandum, was held on November 27, 1939, with Navy representatives, at the request of the Navy, for the purpose of discussing the case. The Treasury and the Navy being in agreement, it is contemplated to refuse the request for a closing agreement, shortly, when the proper time has arrived, the opening of bids having been postponed by the Navy Department for its own convenience, and so that it may discuss the matter with the contractor.

Consolidated Aircraft Corporation:

There have been no developments or actions, in this case, other than the despatch of your letter to the Navy dated November 29, 1939, relative to the consideration of conditional bids; the subsequent receipt of the supplemental recommendation of the Navy dated November 27, 1939 and your immediate reply thereto dated November 30, 1939.

Inquiries for information:

There have been no developments other than the receipt of a request from Senator Tobey for information and your reply thereto.

A handwritten signature in dark ink, appearing to read "J. F. Helvering". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Commissioner.

December 1, 1939.

IT:P:CA
CAA

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-2-

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Inquiries for information:

There have been no developments other than the receipt of a request from Senator Tobey for information and your reply thereto.

(Signed) Guy T. Helvering

Commissioner.

CAA/MEA

December 1, 1939.

My dear Mr. President:

You will recall that during the crisis in Europe in September, 1938, it was necessary to transfer a large amount of gold from England to the United States without delay and without publicity. Sufficient freight space in merchant vessels was not available. I went to you for advice and help and you directed the Navy Department to come to our assistance. Three ships of the Navy were detailed to transport the gold and the mission was performed discreetly and expeditiously.

I desire to thank you, Mr. President, for thus providing a prompt and efficacious solution of a very difficult problem.

I expressed my appreciation to the Secretary of the Navy at the time, but I believe there should be a more permanent record of the services rendered by the commanding officers and the ships' companies of the three ships which participated in the accomplishment of this difficult mission. These were the U.S.S. Nashville, Captain W. W. Wilson commanding, the U.S.S. Honolulu, Captain Oscar Smith commanding, and the U.S.S. Somers, Commander J. E. Maher commanding. As I have already informed you, I have had struck off a commemorative bronze medallion for each commanding officer and should appreciate it if you, as Commander-in-Chief of the Army and Navy, would have these medallions forwarded through suitable channels to the officers mentioned as an expression of my appreciation of their helpfulness in the matter.

Faithfully yours,

(Signed) H. Morgenthau, Jr.

The President

The White House.

HBJ/mah

By Hand

Dear Mr. Secretary:

I request that you forward the enclosed letters and the accompanying medallions to Captain W. W. Wilson, U.S.S. Nashville, Captain Oscar Smith, U.S.S. Honolulu, and Commander J. E. Maher, U.S.S. Somers. I suggest that these medallions be delivered to the commanding officers concerned by the Commander-in-Chief of the U. S. Fleet with suitable ceremony, and I request that you place a copy of each letter on the record of the respective commanding officer.

Very sincerely yours,

Honorable Charles Wilson
Acting Secretary of the Navy
The Navy Department

WHP:OR
12/1/39

Dear Commander Maher:

The Secretary of the Treasury has brought to my attention the service you performed during the autumn of 1938 in conveying twenty-five million dollars in gold from England to the United States. He has prepared the accompanying medallion as an expression of his appreciation of your services in that matter.

I forward this medallion to you with much pleasure and wish to add my thanks to those of Secretary Mergenthau for the service you rendered the government on this occasion.

I have requested the Secretary of the Navy to place a copy of this letter in your official record.

Very sincerely yours,

Commander J. E. Maher, U.S. Navy
Commanding U.S.S. Somers

WEP:er
12/1/39

Copy to Secretary of Navy

Dear Captain Smith:

The Secretary of the Treasury has brought to my attention the service you performed during the autumn of 1938 in conveying twenty-five million dollars in gold from England to the United States. He has prepared the accompanying medallion as an expression of his appreciation of your services in that matter.

I forward this medallion to you with much pleasure and wish to add my thanks to those of Secretary Mergenthau for the service you rendered the government on this occasion.

I have requested the Secretary of the Navy to place a copy of this letter in your official record.

Very sincerely yours,

Captain Oscar Smith, U.S. Navy
Commanding U.S.S. Honolulu

YDF:er
12/1/39

Copy to Secretary of Navy

Dear Captain Wilson:

The Secretary of the Treasury has brought to my attention the service you performed during the autumn of 1938 in conveying twenty-five million dollars in gold from England to the United States. He has prepared the accompanying medallion as an expression of his appreciation of your services in that matter.

I forward this medallion to you with much pleasure and wish to add my thanks to those of Secretary Mergenthau for the service you rendered the government on this occasion.

I have requested the Secretary of the Navy to place a copy of this letter in your official record.

Very sincerely yours,

Captain W. V. Wilson, U.S. Navy
Commanding U.S.S. Nashville

WDF:cr
12/1/39

Copy to Secretary of Navy

Dear Captain Wilson:

The Secretary of the Treasury has brought to my attention the service you performed during the autumn of 1938 in conveying twenty-five million dollars in gold from England to the United States. He has prepared the accompanying medallion as an expression of his appreciation of your services in that matter.

I forward this medallion to you with much pleasure and wish to add my thanks to those of Secretary Morgenthau for the service you rendered the government on this occasion.

I have requested the Secretary of the Navy to place a copy of this letter in your official record.

Very sincerely yours,

Captain V. V. Wilson, U.S. Navy
Commanding U.S.S. Nashville

WVP:cr
12/1/39

Copy to Secretary of Navy

HSM

PLAIN

London

Dated December 1, 1939

Rec'd 3 p. m.

Secretary of State,
Washington.

2518, December 1, 7 p. m.

FOR TREASURY.

1. The Russo-Finnish developments produced caution and inactivity on the stock exchange but no wave of selling and prices showed little change. Gilt-edged held firm with war loan closing $1/8$ up at 92 $1/4$.

2. The belga weakened today the official rate being fixed at 24.15-40. Finn marks were offered at 210 without buyers.

3. The Treasury bill rate for today's tender was little changed at £1-3s-10.21d. as compared with £1-3s-11.46d. at week. The easy credit situation reflected in this week's Bank of England return, which was due largely to the fact that Treasury bill payments were concentrated into the last days of the week, was further influenced by today's £33 million payment of war loan interest. Applications for Treasury bills totalled £106 million and bids dated 91 days Monday to

Saturday

hsm -2- No. 2518, December 1, 7 p. m., from London

Saturday at £99-14s. received about 42% and above in full. Next week's tender will be for £65 million which will be £15 million in excess of maturities and, if fully allotted, will bring the total tender issue to £695 million on December 8th.

JOHNSON

FLP

Cabinet Meeting, 1939

THE WHITE HOUSE
WASHINGTON

Armory - Molybdenum
when is my list?

Russia or Germany buying
main sources of supply
needed by France or Germany

Have Navy used
any of \$6 million dollars
working on navy & its 2nd battle,
gave Gaston Memo to Pres
who gave Memo to Hall

at lunch Thursday Pres. said he wanted
us to collect every \$ and put Mol. and
in jail. ^{Frank Murphy said at cabinet he is}
going to send armory to jail.

Treasury Department
Division of Monetary Research

Date 12/19/39.....19

To: Miss Chauncey - Room 185

From: L. Shanahan

Mr. White noted the attached.

I did not have a record of it, but
thought you would want it returned, as
all the other material from Mr. Keeshin
was returned for your files.

COPY

EARL H. LEAF

24 Fifth Avenue,
New York, N.Y.
Dec. 1, 1939

242

The following cable was received in this office at 9 a.m. today from Dr. Hollington K. Tong in Chungking, with the request that it be given to Ambassador Hu Shih and Mr. K. P. Chen immediately, and efforts be made to secure its widest circulation in the press and elsewhere.

CHUNGKING, NOV. 30 -(Special)- The temporary suspension of the flow of supplies over the Nanning highway occasioned by the military operations in that vicinity is distinctly of minor importance, it was stated today by Mr. M. E. Sheahan, American highway transportation authority.

Mr. Sheahan, who is Vice President of the Keeshin Freight Lines of Chicago, has recently completed a tour over the existing highway transport routes in China, declared that with the close of the rainy season in South China an unlimited quantity of goods may be brought into China over other more thoroughly conditioned roads.

Throughout the rainy season, despite the heaviest rain ever recorded which even suspended operations of the Burma Railway, the Yunnan-Burma highway remained open and in use, he said.

After completing his inspection tour in the southwest, Mr. Sheahan said he observed as many as forty or fifty landslides in a space of twelve kilometers along the new highway but none were allowed to impede the smooth flow of traffic pouring into China from the south.

"The Nanning highway was only one of the many strands in the mesh of highways ensuring China adequate supplies of foreign goods," he stated.

"The highway has been in a state of ill repair for several months and since the spread of war into that neighborhood has fallen into a state of complete disuse.

"The officials and people of Kwangai Province with the past few weeks allowed the highway to be flooded and the roadbed has reverted to its

original state -- paddyfields -- that preceded its construction, thus rendering it useless for Japanese operations.

"One of the most amazing features of the South China countryside is the multitude of backroads and country routes that may be linked up to ship goods in any direction desired," Mr. Sheahan continued. "These traditional back country roads may be linked within a few weeks to provide any imaginable detour.

"These roads consist of stone-paved paths over which animal traffic coursed for centuries. It is only necessary to lift the stones out of their bedding, place them on the side of the old road-bed as hard shoulders and fill in the space with gravel, and then you have roads that are fit for motor traffic.

"The existence of such backways and paths enable some of China's new roads in the Southeast to be built with great rapidity. The backroads and byways constitute only a reserve insurance for the flow of supplies through Kwansi for in addition to them, the end of December will see the completion of a new motor road which has long been planned and almost completed as a substitute for the old highway. It will actually shorten the distance between the Chinese border and Cochin-China to North Kwansi province by a couple of hundred kilometers.

"The new road will be smoother, with fewer hairpin curves and will be distinguished by its excellent profile engineering," Mr. Sheahan said, adding that at least four other routes are said to be in process of construction.

"Throughout the Chinese Southwest, the work under the direction of the Ministry of Communications is progressing rapidly. The minister, Mr. Chang Kia-guan, has taken personal charge of a gradual drive for increased efficiency and speed in Chinese transport. During the past few months preparations have been approved for centralizing the supply of spare parts among fourteen hitherto independent Government transport agencies.

"By dividing the highways into sections so that individual drivers traverse only sectors instead of the entire trips, it is expected that day and night operations will soon commence over China's southern arterial highways," he said.

Mr. Sheahan also revealed that "amazing success" had been achieved in experimental operation of duck-bottomed Chinese junks powered with American outboard motors.

The Ministry of Communications, assisted by the American highway experts, Mr. M. E. Sheahan, Mr. A. G. Bassi and Mr. C. W. Van Patter of the Keeshin Freight Lines, Inc., of Chicago, has been taking full advantage of the stability within China during 1939 to improve and construct almost all of China's principal highways and reorganize the various regional managements into one centralized more economic and efficient transportation agency. Chinese leaders believe a new era of highway service is dawning for the lasting benefit of China.



TREASURY DEPARTMENT
WASHINGTON

145

December 1, 1939.

MEMORANDUM FOR THE SECRETARY:

On September 22, 1939, after very careful study, T.D. 49970 was issued which stopped the publication of import and export manifests. We told the trade at that time that when conditions warranted we would remove this restriction. A survey has been made as of December first and we find conditions do not warrant the withdrawing of this Treasury decision.

Basil Harris

Assistant to the Secretary.

December 1, 1939.

MEMORANDUM FOR THE SECRETARY:

On September 22, 1939, after very careful study, T.D. 49970 was issued which stopped the publication of import and export manifests. We told the trade at that time that when conditions warranted we would remove this restriction. A survey has been made as of December first and we find conditions do not warrant the withdrawing of this Treasury decision.

(Signed) Basil Harris

Assistant to the Secretary.

228/112

December 2, 1939

My dear Mr. Hull:

At the December 1st meeting of the Cabinet, I gave the President the original memorandum submitted to me by Mr. Gaston in regard to the three trawlers, Coot, Brant, and Plover. After reading the memorandum, the President referred it to you. It is for that reason that I am now addressing myself to you for advice.

I am enclosing herewith a copy of a memorandum from Mr. Huntington Cairns, Assistant General Counsel for the Department of the Treasury which advises me what my responsibilities are in the matter. In view of the serious implications contained in Mr. Cairns' memorandum, I have given instructions through Mr. Gaston to the Coast Guard that no more trawlers of similar type to the three which have already sailed should be permitted to leave our territorial waters.

Our attorneys have conferred informally with Judge Townsend and Mr. Lemp of the Department of Justice, and on a purely informal basis I understand that they agree entirely with the legal position taken by Mr. Cairns.

I telephoned to Admiral Land last night at about 8:15 to inform him what the Treasury Department had under consideration in regard to this particular matter.

I should appreciate it if, at your earliest convenience, you would communicate with me on what you feel is the best procedure to take in the matter in view of the fact that several Departments are involved.

Yours sincerely,

Secretary of the Treasury

The Honorable

The Secretary of State

HE/ta/eg 12/2/39

December 2, 1939

MEMORANDUM FOR THE SECRETARY:

It appears that certain American companies have sold to French companies a number of trawlers and tugs. In the application for transfer of registry filed with the Maritime Commission by the vendor, it was stated that the vessels were to be placed at the disposal of the French Government to be used in and about French territorial waters and waters adjacent thereto. Three of the trawlers have departed from the territorial waters of the United States; there remain five tugs and trawlers in ports of the United States or en route to such ports.

Officers of the Coast Guard informally advised me that the only reasonable use to which these vessels could be put by the French Government is as mine sweepers or patrol boats. It further appears that newspaper accounts of the sale of the vessels have appeared in several New England papers, and in those newspaper accounts, the vessels have been referred to as mine sweepers. The Coast Guard advises that from Jane's Fighting Ships it appears that the French Government arms its mine sweepers with a 65 millimeter gun. The mine sweepers would probably also carry machine guns for anti-aircraft purposes and some depth bomb charges.

Section 45 of title 14 of the United States Code empowers the Coast Guard, among other things, to make seizures and arrests upon the high seas and the navigable waters of the United States for the prevention, detection and suppression of violations of laws of the United States. Executive Order No. 8233 of September 5, 1939, prescribes that the Departments of the United States Government shall have the duty of enforcing neutrality in connection with their own activities.

Section 23 of title 18 of the United States Code makes it a crime, among other things, to be concerned in the furnishing of any vessel with intent that such vessel shall be employed in the service of any foreign state to cruise or commit hostilities against the subjects, citizens or property of any foreign state with whom the United States are at peace. Vessels so furnished are subject to forfeiture. Paragraph 8 of the President's general proclamation of neutrality of September 5, 1939, provides that it is forbidden knowingly to be concerned in the furnishing of any vessel with intent that such vessel shall be employed in the service of a belligerent to cruise or commit hostilities against the subjects, citizens or property of an opposing belligerent.

Under U.S.C., title 18, sec. 23 it has been held that it is immaterial that the vessels are not armed when they leave the United States if there is an intent that they shall be subsequently armed and used for hostilities. (The City of Mexico, (S.D. Fla. 1886) 28 Fed. 148, 152.) Neither is it material that the sale is made to a subject or a citizen of a foreign belligerent government if the intent is present that the ship shall be used to cruise or commit hostilities against a foreign power. (The Meteor, (S.D.N.Y. 1886) 17 Fed. Cases 178, 200-201.)

Under the present facts as understood it is the clear duty of the Secretary of the Treasury to detain the vessels involved in the transactions which have not departed from the territorial waters of the United States until further investigation can be made in connection with the intent with which the vessels were sold. It is not the duty of the Secretary of the Treasury to invoke the doctrine of extraterritorial pursuit and attempt to force the return to the United States of the three trawlers which have departed.

(S.D.N.Y. 1886) Meteor

December 2, 1939

My dear Mr. Hull:

At the December 1st meeting of the Cabinet, I gave the President the original memorandum submitted to me by Mr. Gaston in regard to the three trawlers, Coot, Brant, and Plover. After reading the memorandum, the President referred it to you. It is for that reason that I am now addressing myself to you for advice.

I am enclosing herewith a copy of a memorandum from Mr. Huntington Cairns, Assistant General Counsel for the Department of the Treasury which advises me what my responsibilities are in the matter. In view of the serious implications contained in Mr. Cairns' memorandum, I have given instructions through Mr. Gaston to the Coast Guard that no more trawlers of similar type to the three which have already sailed should be permitted to leave our territorial waters.

Our attorneys have conferred informally with Judge Townsend and Mr. Kemp of the Department of Justice, and on a purely informal basis I understand that they agree entirely with the legal position taken by Mr. Cairns.

I telephoned to Admiral Land last night at about 8:15 to inform him what the Treasury Department had under consideration in regard to this particular matter.

I should appreciate it if, at your earliest convenience, you would communicate with me on what you feel is the best procedure to take in the matter in view of the fact that several Departments are involved.

Yours sincerely,

Secretary of the Treasury

The Honorable

The Secretary of State

HE/cn/sp 12/2/39

December 2, 1939

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Officers of the Coast Guard informally advised me that the only reasonable use to which these vessels could be put by the French Government is as mine sweepers or patrol boats. It further appears that newspaper accounts of the sale of the vessels have appeared in several New England papers, and in those newspaper accounts, the vessels have been referred to as mine sweepers. The Coast Guard advises that from Jane's Fighting Ships it appears that the French Government arms its mine sweepers with a 65 millimeter gun. The mine sweepers would probably also carry machine guns for anti-aircraft purposes and some depth bomb charges.

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- 2 -

Under U.S.C., title 18, sec. 23 it has been held that it is immaterial that the vessels are not armed when they leave the United States if there is an intent that they shall be subsequently armed and used for hostilities. (The City of Mexico, (S.D. Fla. 1886) 28 Fed. 148, 152.) Neither is it material that the sale is made to a subject or a citizen of a foreign belligerent government if the intent is present that the ship shall be used to cruise or commit hostilities against a foreign power. (The Meteor, (S.D.N.Y. 1886) 17 Fed. Cases 178, 200-201.)

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(Signed) Huntington Cairns

December 2, 1939

2:30 pm

Present:

Huntington Cairns
Henry Morgenthau III
Mrs. Klotz

HM, Jr.: Mr. Hull just called me and he said that the facts, as he understands them, are that the State Department was never consulted by the Maritime Commission on this matter. He said, "If you want my advice, I think as far as the three are concerned I would let them go." But he agreed subsequently that if any one of the three should put into an American port, we hold them and then ask the Attorney General what we should do about it.

Mr. Hull did not know until I told him that the Maritime Commission had gotten an O. K. on this from the President. I told him it was very broadly hinted to me that he had and that, therefore, the Attorney General was hesitating to give an opinion. Hull said, "This is very much like the transfer of the American flag ships to Panama in which the President had been previously consulted and the State Department had not."

He kept saying at Cabinet, when I gave Gaston's memorandum to the President, the President turned it over to Mr. Hull and said, "This is something for the State Department and the Treasury to take care of," which is not my recollection at all. The President turned to Cordell and said, "Here Cordell, you take this," without any further comment.

What I asked Hull was, "Is it all right for me to say to the Attorney General that I have talked to you and that it is your opinion and mine, if I may say this, that he should give an opinion on this matter and if he has any doubts about it, that he should clear it with the President."

What I propose to do is call up the Attorney

-2-

General; say I have talked to Hull, and it's Hull's opinion and mine that the Attorney General should give an opinion and that we are going to wait for it and if he has any doubts about it he, the Attorney General should confer with the President. He was at the Cabinet meeting yesterday, but did not read the memorandum.

Hull says there is a clearance of all messages and he gets copies of all Coast Guard instructions.

oOo-oOo



GENERAL COUNSEL
TREASURY DEPARTMENT
WASHINGTON

255

December 2, 1939

MEMORANDUM FOR THE SECRETARY:

Commander Hirschfield of the Coast Guard has just telephoned me that the Coast Guard instructions which Secretary Hull stated were in his possession were delivered by Commander Hirschfield to Jesse E. Saugstad, Assistant Chief of the Division of International Communications of the State Department at the latter's request about 6:00 p.m. last night. Mr. Saugstad, before requesting copies of the messages bearing upon the matter, revealed to Commander Hirschfield that he had a fairly complete picture of the situation.

Commander Hirschfield thought that he was authorized to deliver these messages to Mr. Saugstad by virtue of paragraph 5 of the attached memorandum dated October 11, 1939.

Huntington Cairns

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE October 11, 1939.

TO The Secretary
FROM Mr. Gaston

The following plan will be made effective at once for--

- (a) The circulation of information in regard to suspected violations of the Neutrality Laws coming within the jurisdiction of the Treasury Department, or in regard to events or circumstances pointing to the possibility of such violations; and
- (b) For the conduct of any investigations of such violations which may be considered desirable.

Information from Customs Sources

- 1. Reports of Customs officers in the field will be transmitted to the Bureau of Customs at Washington.
- 2. The Bureau of Customs will immediately transmit copies:
 - (a) To Coast Guard Headquarters; and
 - (b) To the Coordinator, Treasury Agency Service.

Information from Coast Guard Sources

- 3. Reports of Coast Guard officers in the field will be transmitted to Coast Guard Headquarters at Washington.
- 4. Coast Guard Headquarters will immediately transmit copies to the Coordinator.

Transmittal of Information to Agencies Outside the Treasury Department

- 5. Upon receipt of significant information from Coast Guard or Customs field officers, as above provided, and after the Coordinator has been advised, Coast Guard Headquarters will immediately notify the proper Naval authorities and the State Department; and Coast Guard Headquarters will be the sole avenue of communication for this purpose.

Transmittal of Information to the Secretary
and Other Interested Officers of the Treasury Department

6(a). The Coordinator will immediately transmit to Mr. Gaston, Mr. Harris, and Mr. Foley all information received from Coast Guard Headquarters and from the Bureau of Customs, as above provided, and Mr. Gaston will be responsible for laying it before the Secretary, or, in the absence of the Secretary, the Under Secretary. In the event of Mr. Gaston's absence, the Coordinator will transmit such information to the Secretary or the Under Secretary in Mr. Gaston's stead.

(b). Important information received by Coast Guard Headquarters out of office hours will be communicated to Mr. Gaston, or, should Mr. Gaston be inaccessible, to the Secretary direct.

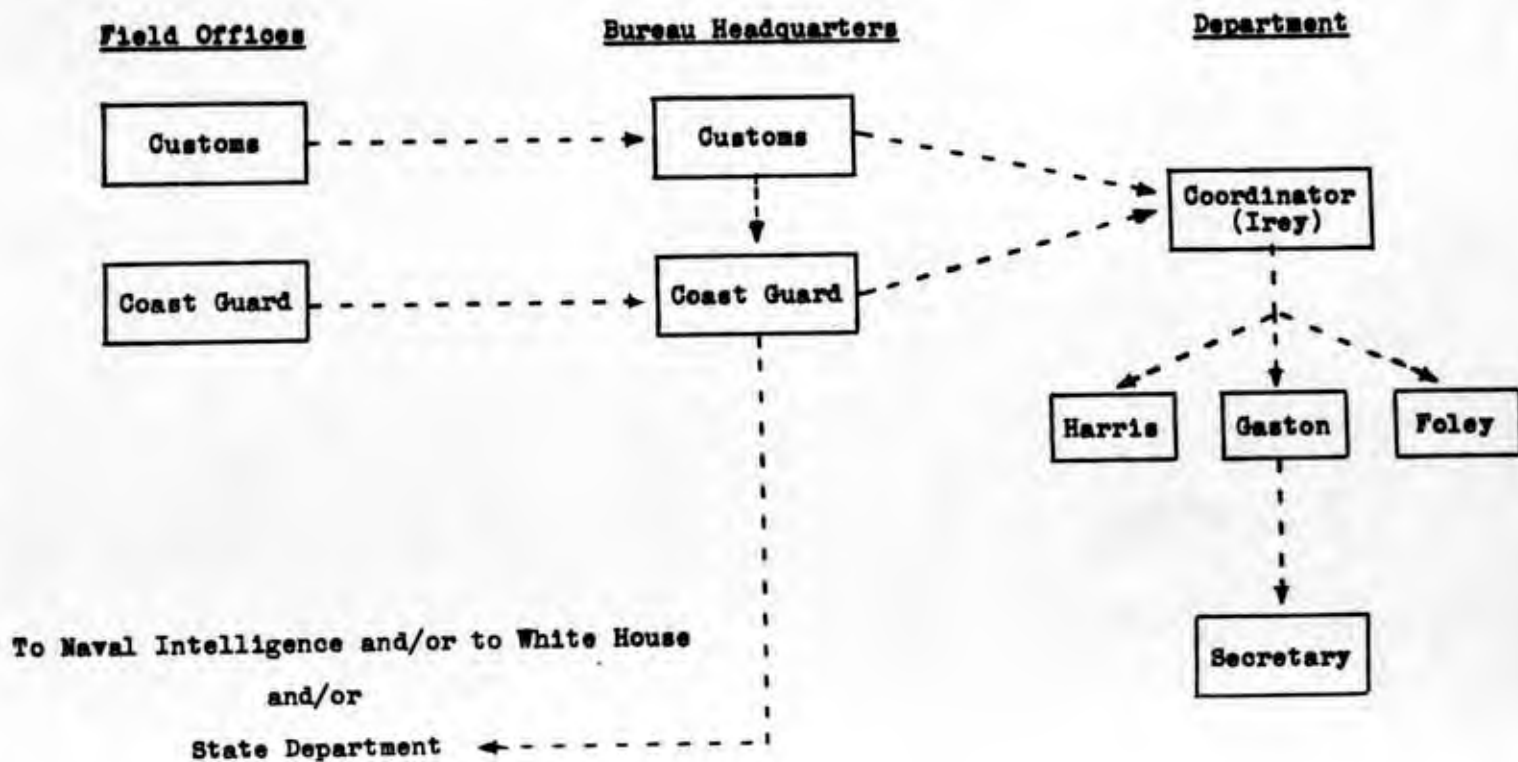
Office of the General Counsel

7. The Coordinator will specially refer to the General Counsel, or his designated representative, any report or information which appears to raise a legal question, or with respect to which a legal opinion is desired.

Investigations

8. If special investigations by Treasury agencies other than Coast Guard and Customs should be considered necessary as the result of information received from field officers, such investigations will be handled under the direction of the Coordinator, and no such investigations will be undertaken by field officers other than officers of Customs and Coast Guard except as he may direct. This is not intended to preclude follow-up and routine investigations by field officers of the Coast Guard and the Customs Service, nor the usual interchange of information among the field services of the Treasury Department.

Chart Showing Flow of Information
under Coordination Scheme



REB

GRAY

Paris

Dated December 2, 1939

Rec'd 4:35 p. m.

Secretary of State,
Washington.

2887, December 2, 5 p. m.
FOR THE TREASURY.

As a further measure supplementing yesterday's arretes to plug important exchange control loopholes (our telegram No. 2882, December 1, 6 p. m.) this morning's JOURNAL OFFICIEL carries a lengthy "instruction" revising existing regulations governing payments for imports and exports as published in the JOURNAL OFFICIEL of September 16 (our 1999, September 16, noon, and enclosure No. 10 to despatch No. 5105, September 18) and likewise carries appropriate new application forms for imports, exports, and foreign exchange payments. The main purpose of these changes is to enable the Foreign Exchange Office to assure itself of the bona fides of transactions involving payments in francs for imports and exports.

(END SECTION ONE)

BULLITT

NPL

JT

ELAY

PARIS

Dated December 2, 1939

Rec'd 3:25 p.m.

Secretary of State,
Washington.

2087, December 2, 5 p.m. (SECTION TWO)

As concerns franc payments for imports the new instructions require definite proof (as far as possible) that the amount paid to the foreign seller really corresponds to amount due and that the foreign seller will not be paid an amount in excess of sum due. With regard to franc payments for exports more definite proof is required regarding the transferable character of "foreign holdings" (francs) utilized and that the value received by the exporter really corresponds to the value of the merchandise sold. The new instructions also embody conditions relating to exports not calling for any payment.

BULLITT

NPL

JT

GRAY

PARIS

Dated December 2, 1939

Rec'd 4:42 p.m.

Secretary of State,
Washington.

2887, December 2, 5 p.m. (SECTION THREE)

The instructions likewise indicates that these general regulations for commercial settlements may be supplemented or modified by payment agreements concluded or to be concluded by France with other countries where such agreements may provide for special methods of settlement such as clearing arrangements, private set offs, et cetera. Under such conditions importers and exporters naturally must conform to pertinent special instructions.

A further decree renders otherwise flexible the conditions under which a transshipment bond ("acquit a caution") may be required in the case of merchandise found on ships in French waters (telegrams No. 2148, September 23, 1 p.m. and 2259, September 30 10 p.m. and despatch No. 5287 of November 10, 1938). Henceforth the Contraband Committee created under the decree of September 29 may fix the terms of the transcontinental bond at not less than the value of the merchandise and not more than five times its value.

BULLITT

NPL

JT

GRAY

PARIS

Dated December 2, 1939

Rec'd 4:43 p.m.

Secretary of State,
Washington.

2887, December 2, 5 p.m. (SECTION FOUR)

Without debate the Senate last evening by 259 to 23 voted the government's full powers bill in the form approved by the Chamber (telegram No. 2882, December 1, 6 p.m.) The text of the sole (?) law reads in translation as follows: "Article 36 of the law of July 11, 1938 of the organization of the nation in time of war is modified as follows: Article 36 - for the duration of hostilities the Chambers shall exercise their legislative and budgetary powers as in peacetime. However, in the case of immediate necessity the government is authorized by decrees discussed and approved in Council of Ministers to take the measures imposed by the requirements of national defense. These decrees will be submitted to ratification of Parliament within the time limit of one month and in case Parliament is not sitting upon its reassembly".

(END OF MESSAGE)

BULLITT

NPL

J1

PLAIN

London

Dated December 2, 1939

Rec'd 9:15 a.m.

Secretary of State

Washington

FOR TREASURY

2522, Second.

The sale of 5-1/2 million saving certificates representing over 4 million pounds in the first week of the campaign compares with a weekly average of 280 thousand in the 7 weeks in 1916 when war saving certificates commenced and with an average of 459 thousand per week in the 3 months before September 1939. In addition 5 million pounds of the new Defense Fund were sold in the first week. The total is regarded as unexpectedly good.

JOHNSON

ALC

December 2, 1939.
2:48 P.M.

H.M.Jr: Hello.

Operator: Secretary Hull is on his way to the hotel. He'll be there in about five minutes.

H.M.Jr: Hello

Capt.
Chalker: Chalker speaking.

H.M.Jr: This is the Secretary.

C: Yes.

H.M.Jr: Mr. Huntington Cairns and I are here, it's about these boats been sold to the French.

C: Yes, sir.

H.M.Jr: Are you familiar with it?

C: Yes, I am.

H.M.Jr: Well now the Secretary of State tells me that they have a copy of a message the Coast Guard sent out saying that these three should be trailed.

C: Yes, sir.

H.M.Jr: Is that correct?

C: They ordered word to search for them within the twelve mile zone and if found to detain them and advise headquarters.

H.M.Jr: That message still stands?

C: Yes, sir. I - that was the last word when I left headquarters this afternoon around one o'clock and there's been no change that I know of.

H.M.Jr: Now, just a moment. Are they searching beyond the twelve mile limit?

C: No sir. A message went out some time early this morning to search for them outside of the twelve mile limit and then around ten o'clock that was changed and the search was confined to the twelve mile limit.

H.M.Jr: I see.

- C: But that message has been sent to all districts on the Atlantic and Gulf including San Juan.
- H.M.Jr: How does the State Department get copies of Coast Guard messages, do you know?
- C: I don't know sir. I can check up on that. That has been handled mostly through the intelligence end of it.
- H.M.Jr: Yes. You might, supposing you ask Lieutenant Polio and tell him to let Mr. Cairns know. I'd like to know how does Mr. Hull get a copy of Coast Guard instructions.
- C: Yes, sir, I'll do that.
- H.M.Jr: All right, thank you.

December 2, 1939.

2:52 P.M.

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H.M.Jr: Hello.

Operator: Miss Baumgardner.

H.M.Jr: Hello, Miss Baumgardner.

Miss
Baumgardner: Yes.

H.M.Jr: Who is Acting Attorney General today?

B: Well, I think Mr. Edward Kemp would be the one. the assistant, - I don't know if he's acting, but if it's about the matter that you were working on last night, he's the closest to the Attorney General, and has been working on it, with him and for him.

H.M.Jr: Well, I've just talked with Mr. Hull and Mr. Hull agrees with me that the Attorney General should give us an opinion on it.

B: Yes.

H.M.Jr: Well now, when are we going to get it?

B: Well, do you want me to locate Mr. Kemp and have him get in touch with you?

H.M.Jr: Let him get in touch with Huntington Cairns.

B: All right.

H.M.Jr: Huntington Cairns. C-a-i-r-n-s. And I'm sitting here in the Treasury waiting for that to appear. I thought we were going to get it this morning.

B: Oh well, I - I'm sure that they were working on it very late last night. It was my understanding too that it would be over there.

H.M.Jr: Yes.

B: But maybe they're still working on it, but I'll check because I know that Mr. Kemp and I believe Judge Townsend has been working on it.

H.M.Jr: Well, see how good you are.

B: I will, and I'll call you right away.

- 2 -

H.M.Jr: Well, call Mr. Cairns, he'll be here.

B: All right, I will.

H.M.Jr: But Mr. Hull agrees with me that we ought to have a formal opinion.

B: Yes. All right.

H.M.Jr: And - you can make a note of this. The State Department is going to ask the French Embassy what is their purpose with the rest of these - what's left of the order, you see?

B: Yes.

H.M.Jr: Not the three that have escaped but the rest, whatever they are.

B: Yes, I see.

H.M.Jr: You see?

B: Yes. All right, I'll -

H.M.Jr: This is really terribly important, you know.

B: Yes indeed, I'll get something to you right away.

H.M.Jr: I don't see why it's so difficult.

B: Yes. Well I'll check on it, Mr. Secretary.

H.M.Jr: Thank you.

B: Right away.

December 2, 1939.
2:20 P.M.

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H.M.Jr: Hello

Operator: Secretary Hull is on his way to the hotel
and he'll be there in about five minutes.

H.M.Jr: He on the way to the hotel?

O: Yes sir.

H.M.Jr: Well you know its the dumbest thing Mrs. Spangler -
I was sitting right here or in the washroom and the
boy comes in and tells me that Mr. Hull's here.
I was right here.

O: You were in your office?

H.M.Jr: Yes.

O: She said she rang your office twice and you
didn't answer.

H.M.Jr: Well I was in the washroom.

O: Oh - oh well she didn't know that.

H.M.Jr: And Mr. Hull has gone now to the hotel?

O: To the hotel.

H.M.Jr: All right well I'll do it - I'll have to do it
thru the White House then.

O: All right.

H.M.Jr: All right, thank you.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE December 2, 1939

TO Secretary Morgenthau

FROM Mr. Cochran

The foreign exchange market was very dull with a small turnover. Sterling opened in New York at 3.89-3/4 and after moving in a narrow range it closed at 3.90-1/4.

Sales of spot sterling by the four reporting banks totaled £287,000, from the following sources:

By commercial concerns.....	£ 84,000
By foreign banks (Far East and Europe).....	£ 203,000
Total....	£ 287,000

Purchases of spot sterling amounted to £119,000, as indicated below:

By commercial concerns.....	£ 43,000
By foreign banks (Europe).....	£ 76,000
Total....	£ 119,000

Cotton bills totaling £22,000 were sold to British Control at the official rate of 4.02 by the following reporting banks:

£ 9,000 by the Chase National Bank
£ 8,000 by the National City Bank
£ 5,000 by the Guaranty Trust Company
£22,000 Total

The other important currencies closed as follows:

French francs	.0221-1/4
Guilders	.5309
Swiss francs	.2243
Belgas	.1652
Canadian dollars	12-5/8% discount

We purchased \$3,000,000 in gold from the earmarked account of the Netherlands Bank.

The Federal Reserve Bank reported to us a shipment of gold valued at \$2,107,000 by the Bank of the Republic, Colombia, consigned to the Federal Reserve Bank of New York. The disposition of this shipment at the present time is unknown, but shipments of gold from the Central Bank in Colombia are usually earmarked for its account at the Federal Reserve Bank of New York.

CONFIDENTIAL

A Reuter's dispatch on the Dow Jones ticker stated that chaotic conditions prevailed in all markets in Bombay today which was attributed to the sensational rise in silver prices locally. During the past few days the price of silver in Bombay improved considerably. On November 29, the U.S. equivalent of the Bombay price, less the import tax, was 42.59¢. Today, it was 50.55¢. As the Bombay market is a highly speculative affair and the importation of silver into India is prohibited except under license the rise in the price of silver looks like a cornering of the silver market resulting in a squeeze of the short positions. It was later reported that the Bombay Bullion Exchange Board passed a resolution suspending trading in forward silver until December 5th in view of the chaotic conditions in the market.



CONFIDENTIAL

Confidential

not read
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P A R A P H R A S E

A telegram of December 2, 1939, from the American Embassy at Chungking reads substantially as follows:

On December 1 a member of the Embassy staff inquired of Sheahan concerning an announcement in the press on November 29 to the effect that the Executive Yuan passed a resolution authorizing the formation by the Ministry of Communications of a China Transportation Company to control all railway, highway, air and waterway transportation in China. Sheahan said that the Foo Shing motor transport organization but not the Southwestern Transportation Company would be taken over by the new company. The resolution is in the nature of a charter, according to information received by the Embassy, and amalgamation of existing transportation agencies must be brought about through negotiation. It was necessary to overcome a great deal of opposition in the case of the Foo Shing Trading Corporation which is a subsidiary of the Foreign Trade Commission and the Universal Trading Corporation.

'MORAL EMBARGO' AGAINST MOSCOW

President Assails 'Obviously
Guilty'—Lie to Molotoff
Passed on Bombings

By **BESTMAN D. HULEN**

Special to The New York Times.

WASHINGTON, Dec. 2—A moral embargo that is expected to shut off completely the sale of export to Russia of United States airplanes, engines, spare parts, bombs and other equipment essential for attacking civilians and open cities and towns from the air was declared by President Roosevelt today.

In the light of the successful embargo of this type applied against Japan in June, 1938, it is expected to be complete.

The embargo was in the form of a public statement issued by the President after a conference with Secretary of State Cordell Hull calling for a cessation of such business. Although Russia was not mentioned by name, any more than Japan was a year and a half ago, Mr. Roosevelt branded the Soviet Government by declaring that the embargo was directed to nations "obviously guilty" of such "unprovoked bombings" as had occurred.

TEXT OF THE STATEMENT

The text of the President's statement follows:

The American Government and the American people have for some time pursued a policy of wholeheartedly condemning the unprovoked bombing and machine-gunning of civilian populations from the air.

This government hopes, in the end that such unprovoked bombing shall not be given material encouragement in the light of recent recurrence of such acts, that American manufacturers and exporters of airplanes, aeronautical equipment and materials essential to airplane manufacture will bear this fact in mind before negotiating contracts for the exportation of these articles to nations obviously guilty of such unprovoked bombing.

Additional emphasis was given to the statement from the fact that it was not strictly required, inasmuch as the one issued in the case

Continued on Page Forty-nine

Original by air mail

173

No. 21

American Consulate

Hanoi, Indochina, December 3, 1939.

Subject: Capture of Nanning by Japanese.

The Honorable

The Secretary of State

Washington.

Sir:

I have the honor to refer to my telegram of December 3, 12 noon, reporting that the Chinese in Hanoi and Haiphong concede that Nanning has been captured by the Japanese and that the Japanese military activity has spread to the north and northeast. This admission, which is substantiated by other sources of information, puts an end to a period of intense speculation and, for the time being, clarifies the widely discussed problem of transportation to China via Indochina. Under existing conditions, or until the Chinese can retake Nanning and clear that region of Japanese troops, the only feasible modern means of transportation to China via Indochina is the Indochina-Yunnan Railway.

This statement is premised upon the fact that the Cao bang road is not ready for motor traffic, that it will not be ready for some months, and that its maximum capacity will be approximately 3 thousand tons a month. As I have reported, the representatives of the various oil companies, who have carefully investigated this road, estimate that it will require a major reconstruction of certain sections to increase the road's capacity beyond that amount. The mainte-

nance of a traffic of 3 thousand tons a month presupposes that the Japanese bombing planes will leave the road unmolested, which is quite unlikely.

In addition to the Indochina-Yunnan Railway, concerning which a report is in preparation, the Chinese will undoubtedly have recourse to a coolie and mule system of transportation. I am informed that such a system is being organized for the mountainous routes north of Caobang and that a certain amount of tung oil and other Chinese exports is already arriving in Indo-China by these means. Whether any great amount can be so transported, either from or to China, is highly speculative. For the time being, so far as I have been able to ascertain, none of the oil companies are interested in these means of transportation.

For those sympathetic to the Chinese cause the situation must be viewed with some pessimism. There is now little possibility that the vast store of supplies in and around Haiphong can be transported to China with any degree of expedition. It would appear that a portion of these supplies will have to be transferred to Rangoon, for delivery by the Burma road, and that a portion will probably remain at Haiphong until the issue between China and Japan is decided.

According to many commentators, the Japanese will find it difficult to extend their position much farther northward, except up the river valley towards Pingma, unless the Chinese resistance collapses. At the same time, it will be difficult for the Chinese to retake Nanning, unless a strong encircling movement threatens the Japanese line of communications. In this connection it is stressed that the Chinese have never retaken an important military objective. The commentators conclude that Japanese aerial activity in Kwangsi, Kweichow and possibly Yunnan will be intensified.

In sum, the Japanese appear to have obtained an important success - the capture of Nanning reduces considerably the amount of supplies that can be trans-

- 3 -

ported to China via Indochina and the Japanese have secured an advanced base from which bombings of Chinese positions, either civil or military, can be directed. Moreover, unless the Chinese expedite removing the vast amounts of gasoline now stored in and around Lungchow (estimated at at least 500 thousand gallons), the Japanese will either destroy this vital commodity or may even capture a substantial part.

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

800/815.4

CSR:csr

Seen by Sec'y. 3:00 p.m. Dec. 4

M.H.

PARAPHRASE OF TELEGRAM RECEIVED

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FROM: American Legation, Helsinki

NO.: 400

DATE: December 3, 1939.

STRICTLY CONFIDENTIAL.

Today when I asked the Finnish Minister of Foreign Affairs regarding his country's financial situation, he informed me that the Finnish Minister at Washington had been authorized by him yesterday to request assistance from the United States Government in raising \$60,000,000 in the United States. The Minister for Foreign Affairs stated that Ambassador Steinhardt had advised him indirectly that in the United States there was every disposition to make it easier for the Finnish Government to secure funds. Tanner apparently hopes, as I reported in September, that financial assistance may be supplied by the United States Government directly.

SCHOENFELD



DEPARTMENT OF STATE
WASHINGTON

December 4, 1939.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses one copy of telegram no. 400 of December 3, 1939 from the American Legation at Helsinki (paraphrase) having reference to financial matters.

Enclosure:

From Helsinki,
paraphrase of no.
400, December 3,
1939.

GROUP MEETING

December 4, 1939.
9:30 a.m.

Present: Mr. Bell
Mr. Graves
Mr. Foley
Mr. Duffield
Mr. Thompson
Mr. Gaston
Mr. Cochran
Mr. Riefler
Mr. Viner
Mr. White
Mr. Harris
Miss Chauncey

H.M.Jr: What have you got?

Gaston: Nothing except your trawlers. There are still some further facts to be found out and the question is: who is to elicit the facts? I expect they will come to some agreement with Justice today as to who is to make a further investigation. In the meantime, we will hold all ships of that description.

H.M.Jr: I am waiting for a piece of paper from Huntington Cairns. He was at the house last night at 6:00 o'clock. Every time I hear the story it is different. I want it in writing. I have about five different versions of it. How many ships there are, where they are....

Gaston: I don't think we know how many there are. We know that two ships got away. We know that there are three in addition on which this deal was either being made or is pending and there may be some others.

H.M.Jr: I want something.

Gaston: He has dictated the memorandum.

H.M.Jr: Will you get it to me?

Gaston: Yes, I will.

H.M.Jr: The Attorney General should give us a ruling now.

Gaston: I would suppose so. Somebody has to make some further investigation.

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H.M.Jr: Well, are you going to bring it to the attention of the Attorney General?

Gaston: Yes, we are going to find out who is carrying the ball on this thing.

H.M.Jr: Who will direct us what to do.

Gaston: Yes.

H.M.Jr: The Coast Guard isn't going to try to overhaul them?

Gaston: No, we are not going to try to. The original order was to go out and find where they were and keep us advised and if they should come in the territorial waters, hold them, but we never ordered them to bring them back. We canceled that order and we will just let them go.

H.M.Jr: Between now and noon let me have something.

Gaston: I will let you have a complete memorandum between now and noon.

H.M.Jr: Ed?

Foley: I have a letter, an order to show cause on the Bank of America, any time you would like to see it.

H.M.Jr: It will be sometime around 10:15. I will call you.

Foley: All right.

H.M.Jr: It will be around 10:15.

Foley: O. K.

H.M.Jr: Herbert, I want you to sit in a meeting I have got at 10:00 o'clock.

Ed, do you want to clear yourself at 10:15?

Foley: Yes, that will be fine.

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H.M.Jr: While you are on it, Huntington Cairns was talking with me about the British certificate plan. There was a story in the Tribune that the Customs agents were going to enforce it. He was all upset about that. It was kind of lonesome here Saturday. I had to take that, too, then Sunday. He said the State Department is quite upset about it, not our part, but the implications. If Huntington hasn't already brought you up to date, go and see him. Did he bring you up to date about the State Department?

Harris: I can't hear you for a truck going by.

H.M.Jr: I say if Cairns hasn't already brought you up to date, he can.

Harris: Yes, he has.

H.M.Jr: Will you take it from now?

Harris: Yes.

Duffield: I have a tentative appointment to see Steve Early at 10:30.

H.M.Jr: Do it before my press conference.

Duffield: I will.

H.M.Jr: Go get a pillow and camp there.

Duffield: Did you get out the release on the....

Duffield: It should be downstairs about now. It had gone to the mimeograph room before I came in here.

H.M.Jr: We made an eight percent allotment on those two percent bonds. There is about 21 million dollars worth of five thousand or less, which isn't bad.

Duffield: Gene?

Duffield: That is all.

Cochran: Argentina is taking another 2½ million dollars of gold today.

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H.M.Jr: Can't we kind of throw in a little silver to show them how kindly we feel toward them?

Cochran: Wish we could.

H.M.Jr: Talk to these various economists that drift in and out of here about dropping the price of silver down to 30 cents.

Cochran: You don't want to talk to the State Department, do you?

H.M.Jr: No, just Treasury. Will you?

Cochran: I am afraid the Latin American section will be uneasy on that just now.

Gaston: That indicates we could sell another type of baby bond pretty handily, doesn't it?

H.M.Jr: Yes. The baby bond is a better buy than this.

Gaston: There seems to be a demand for an intersealing security in small amounts.

H.M.Jr: If we have a refunding, maybe we can set aside some for cash.

Bell: In small brackets.

H.M.Jr: Yes, seriously.

Gaston: I thought we should consider a new type of security to be issued regularly after the first of the year like the baby bonds.

Bell: I could make it for a long term and payable in installments.

H.M.Jr: Why couldn't you say that we will take all cash subscriptions on this thing up to five thousand dollars, same terms and everything else.

Bell: Well, you could, of course. I don't know whether you want to start that at this time and favor those on every financing.

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H.M.Jr: Think about it. It made an awfully good hit, that Bell "loophole" plan.

Bell: Just don't overdo it. It might be a failure next time.

H.M.Jr: We will think about it.

Bell: All right.

H.H.Jr: Next time we will call it the Gaston plan.

Bell: I prefer that.

Gaston: Danny has got some better ones than that.

H.M.Jr: At Cabinet, I got into a very heated argument with Mr. Edison when he was very much upset over that letter on Consolidated, and the President - the reason he got so upset is, the President said, "Charlie, what do you want to do, just give Consolidated a handout?"

Foley: Good.

H.M.Jr: "Well, I can't find any planes." And then he and the President got into this argument and then - about there being no armor plate. I said, "You've got six million dollars especially from Congress and you haven't used a dollar of it." Then he told me, "That isn't so," that he had used some for the Navy's own plant in West Virginia.

Foley: For their own plant?

H.M.Jr: Take a look at that, will you?

Foley: Sure.

H.M.Jr: I am kind of on a hot spot. Somebody told me they hadn't used any of that six million.

Foley: They didn't use it for the purpose for which they got it. I don't know about their own plant business.

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H.M.Jr: Does anybody know from Helvering whether he heard from Colt?

Foley: He cleared the release with the War Department and he has got the Colt people down this morning. You didn't want to see them?

H.M.Jr: Yes, if they would do it, I would like to shake hands with the head of them and thank him and tell him I appreciate it.

Foley: All right.

H.M.Jr: Any time between now and 12:00 o'clock. And I want to announce that.

Foley: I got the letter from the Attorney General, the opinion that it is O. K.

H.M.Jr: Fine.

Foley: That ought to go over this morning.

H.M.Jr: Herbert, where is that letter that you fixed up?

Gaston: I sent it in.

Duffield: Do you want to announce the Colt thing at your press conference?

H.M.Jr: Yes.

Foley: What time, 4:00?

Duffield: We will have to move fast to get it done by then.

Foley: Yes, to get the A. G.'s approval, but I think it is all right.

H.M.Jr: Well, see if Miss Bumgardner can locate him.

Foley: She is all right.

H.M.Jr: Yes, she is. She is a good girl.

Mr. Viner, how is Chicago?

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Viner: Very quiet. Watching you on Moe Annenberg very closely.

H.M.Jr: I am not the fellow to watch.

Viner: They don't believe it is true.

E.M.Jr: I put Mr. Foley on notice that I wanted ample notice if there was any talk about any deal, see, so that any deal - I mean ample notice - I want plenty of time to run across the street.

Foley: I have got my lines out.

H.M.Jr: Well, the Attorney General leaned across to me in Cabinet and said to me, "Annenberg is going to jail."

Foley: Didn't I tell you I had my lines out?

H.M.Jr: And if Viner was alone he would still say he had his fingers crossed.

Viner: I will say it even though I am not alone.

H.M.Jr: You and me both. Does Chicago - are they interested in Mr. Skidmore?

Viner: Yes, they are.

H.M.Jr: So am I. What about Mr. Skidmore.

Viner: Well, they say he has plans too.

H.M.Jr: Let's ask about Skidmore. When is that coming up to the Grand Jury? Will you write that down?

Foley: Yes.

Viner: Some of them really hope they won't put Annenberg in jail, because they think this Government - the Republicans think this Government, when it suddenly became righteous, didn't really mean it, but if they did mean it, it would help them too much.

H.M.Jr: Help who?

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Viner: The New Deal.

H.M.Jr: Well, that takes a twisting kind of a mind, doesn't it?

Viner: Well, the past record was pretty bad in Chicago, as you know, the record of this Administration on that.

H.M.Jr: After all, we made a chief offender a judge.

Viner: One of the chief offenders.

H.M.Jr: My arch enemy.

Viner: Adair was the worst case. He was appointed a federal judge in southern Illinois. He had a worse record than Igoe and a more open one. But they are watching him. There is lots of interest. It is like a football game or like the war, they don't think they can forecast it but they see a range of possibilities. There is lots of talk in the papers.

H.M.Jr: Anything else? There was lots going on last week.

Viner: Yes, I saw the report.

H.M.Jr: George?

Haas: (Handing report to Secretary) Here are some routine matters.

H.M.Jr: What did you have?

Haas: I don't know, I think it was some variety of intestinal flu.

H.M.Jr: Are you all right now?

Haas: I feel much better.

H.M.Jr: Personally, I don't think you can hold your liquor.

Haas: That is really very bad, because I only had one.

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H.M.Jr: I still say you can't hold your liquor.

Reas: I thought I could do better than that.

H.M.Jr: I think you had better go into training next time, George.

Basil?

Harris: Nothing.

H.M.Jr: Are you going to give me a memorandum on shipping?

Harris: Well, I would like to but I think you have gone off all wet on this trawler business. I think that is the most ridiculous thing I have ever heard in my life.

H.M.Jr: Why?

Harris: Well, if you can convince me that there is any difference between transferring a bomber with guns or a howitzer and an offenseless little trawler that can make possibly six knots. That takes a long stretch of the imagination and the lawyers may build up a case but I think it is childish all the way through.

H.M.Jr: If you don't mind my saying so, I think you are completely wrong. Have you read the law?

Harris: Yes.

H.M.Jr: Do you know about the Alabama case?

Harris: Yes. Every country today is quoting international law.

H.M.Jr: I am sorry, I completely disagree with you. If we don't live up to international law, what is there to look forward to in this world?

Harris: We are just living up to international law to refuse a couple of tugboats.

H.M.Jr: These boats happen to have been built - some of them were anyway - during the last World War.

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Harris: Several of them are over 23 years old.

H.M.Jr: The French didn't take them in 1919 because they couldn't use them, but even I can understand the law says specifically that you can't sell these things, boats. I mean, there isn't much difference between a boat and an airplane. It is the old neutrality thing.

Harris: You can't sell planes and fly them over the border, but you can push them over. They are stretching the thing so far that it seems strange we would struggle with that.

H.M.Jr: I am sorry to hear you say that because I don't even think it is stretching. I don't think there is any chance for bending the law in this case, but if you don't want to give me a memo on shipping, that is all right.

Harris: I am still working on that.

H.M.Jr: That is all right with me. The Treasury lawyers and the Attorney General are not hesitating. They say the law has been broken and we happen to be charged with the police power.

Harry?

White: How would you like this report on oil to be handled? Is it to go from Currie to you or from us to you?

H.M.Jr: From you to me, I judge. Who is writing it?

White: One of our men wrote it and it has been passed around to the men who are supposed to pass on it. They have read it and Currie has now the original to go over - with his O. K.

H.M.Jr: I don't care who it comes from, but I am waiting for it. I want you here at this 10:00 o'clock meeting I am having.

White: That is all.

Bell: I have nothing.

Thompson: I have nothing.

H.M.Jr: You will have a memorandum for me? When are you coming in?

Bell: Well, I would like to have a little time.

H.M.Jr: Quarter of 12:00?

Bell: I will try to be ready by then.

H.M.Jr: Do the best you can.

Bell: Yes, I will.

H.M.Jr: O. K.

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OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

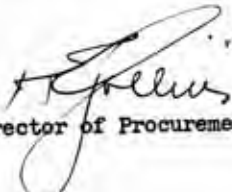
WASHINGTON

December 4, 1939

MEMORANDUM FOR THE SECRETARY

In conversation with Colonel Burns this morning he informed me that Mr. Bloch Laine had been indicated by the French Embassy as the one who was to confer with us concerning the French requirements of aluminum alloys.

He further stated that, although Mr. Bloch Laine was supposed to have been at the War Department last Tuesday, nothing has been heard from him to date and that as soon as he designates a time for the meeting I will be further informed.


Director of Procurement

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 4, 1939

TO Secretary Morgenthau
FROM Mr. Cochran

The foreign exchange market was not a very exciting affair today, although the volume of sterling transactions increased considerably over that of Saturday. In Amsterdam, the sterling rate ranged from 3.90-7/16 to 3.91-11/16, and just prior to our opening, it was quoted at 3.91-1/4. The initial quotation in New York was 3.90-3/4. Shortly thereafter the Federal Reserve Bank of New York received an order from the Bank of Latvia to sell about £252,000. As the Latvian Bank had given the Federal only an approximate amount to sell, to be on the safe side, the Federal sold only £200,000, and held the balance in abeyance pending confirmation of the actual amount to be sold. Part of this amount was sold at 3.90-3/8 and the remainder at 3.90-1/4. The sterling rate subsequently declined to 3.89-3/4 about mid-afternoon, and remained at that level for the rest of the day.

Sales of spot sterling by the four reporting banks and the Federal Reserve Bank of New York totaled \$556,000, from the following sources:

By commercial concerns.....	£ 93,000
By foreign banks (Far East and Europe).....	£ 263,000
By Federal Reserve Bank of New York (for Latvia).....	£ 200,000
Total.....	£ 556,000

Purchases of spot sterling amounted to £448,000, as indicated below:

By commercial concerns.....	£ 301,000
By foreign banks (Europe and Far East).....	£ 147,000
Total.....	£ 448,000

Cotton bills totaling £11,000 were sold to the British Control at the official rate of 4.02 by the following reporting banks:

£ 7,000 by the National City Bank
£ 4,000 by the Guaranty Trust Company
£11,000 Total

During the past few days, the rate for the Canadian dollar strengthened to 12-1/2% discount, due to purchases of that currency by a commercial concern. As these purchases have now been completed, the rate softened to 13-1/8% discount.

CONFIDENTIAL

The other important currencies closed as follows:

French francs	.0221-1/8
Guilders	.5309
Swiss francs	.2243
Belgas	.1653

We sold \$2,500,000 in gold to the Central Bank of Argentina, to be added to its earmarked account.

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

\$1,125,000	from the Bank of Mexico
850,000	from the National Bank of Belgium
750,000	from the Netherlands Bank
<u>\$2,725,000</u>	Total

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

\$2,537,000	from Canada, shipped by the Bank of Canada, Ottawa, consigned to the Federal Reserve Bank of New York, for sale to the U. S. Assay Office at New York.
2,091,000	from South Africa, shipped by the South African Reserve Bank, consigned to the Federal Reserve Bank of New York, to be earmarked for the account of the Netherlands Bank.
745,000	from the Netherlands, shipped by the Rotterdam Bank, consigned to the Guaranty Trust Company of New York, for sale to the U. S. Assay Office at New York.
<u>\$5,373,000</u>	Total

The statement of incoming gold shipments for December 4, received from the Federal Reserve Bank of New York, showed a total of \$50,906,000 in gold en route to this country. Of this total \$35,472,000 is to be earmarked at the Federal Reserve Bank of New York, the greater part of which, \$25,878,000, is for the account of the Netherlands Bank. The balance of about \$15,000,000 is to be sold to the U. S. Assay Office at New York or to the U. S. Mint at San Francisco.

The U. S. equivalents of London spot and forward silver prices were 41.37¢ and 41.25¢, 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 five purchases of silver totaling 425,000 ounces, under the Silver Purchase Act.

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There was no price fixed for silver in Bombay today as that market was closed. It was reported on the Dow Jones ticker that a heavy speculative long position in silver, already totaling 25,000,000 ounces, has been built up in Bombay. Indian traders anticipated that Russia's action against Finland would serve to increase the speculation, which started when Europe went to war, and that the conflict would bring a resumption of hoarding on the part of the Indian public, as it did in previous wars. However, the demand for silver by up-country sources has so far been only a few thousand ounces a day.



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TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE December 4, 1939

TO Secretary Morgenthau
FROM Mr. Haas *BH*

Works Progress Administration reports show an increase of 25,000 employees, from 1,962,000 for the week ended November 15, 1939, to 1,987,000 for the week ended November 22, 1939, as is shown in the attached tables and chart.

Attachments

WORKS PROGRESS ADMINISTRATION
Number of Workers Employed - Weekly
United States

193

Week Ending	Number of Workers (In thousands)
1939	
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
November 22	1,987

Source: Works Progress Administration.

WORKS PROGRESS ADMINISTRATION
Number of Workers Employed - Monthly
United States

194

	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

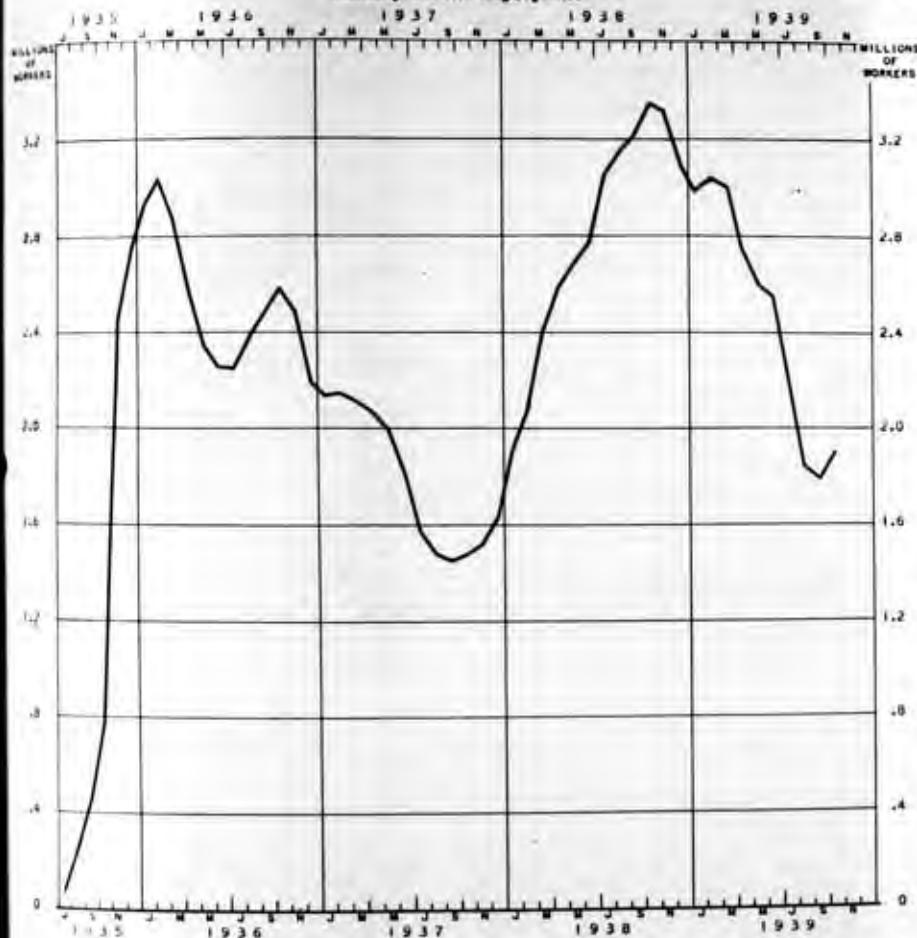
Source: Works Progress Administration.

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

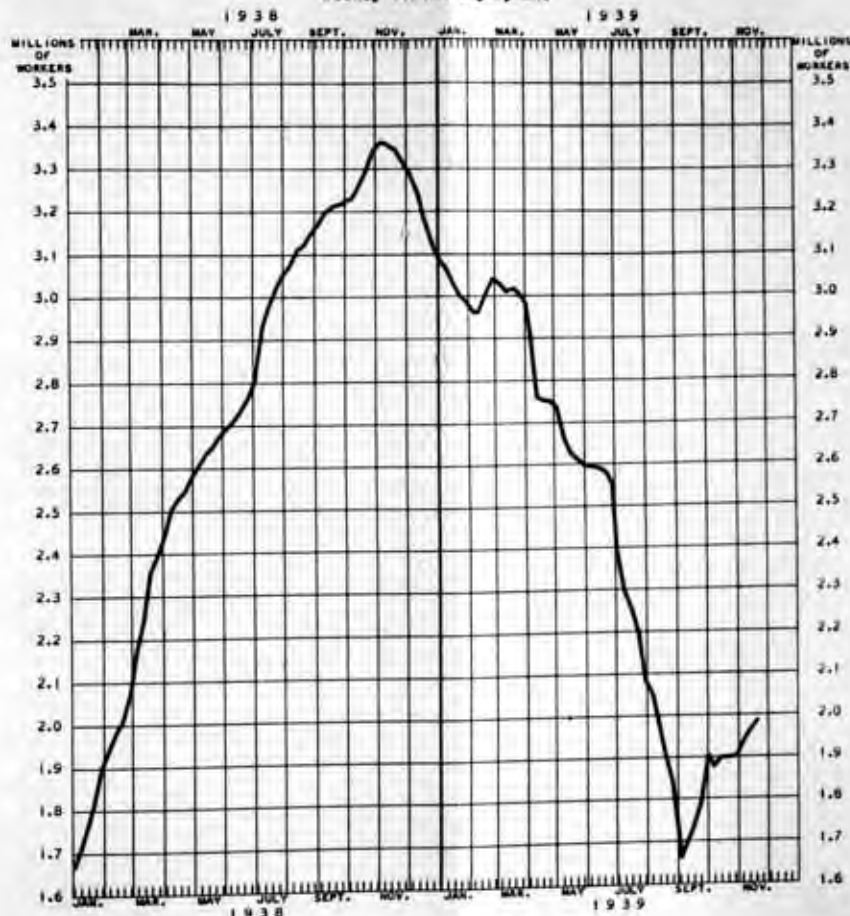
They include certified and noncertified workers.

WORKS PROGRESS ADMINISTRATION Number of Workers Employed United States

Monthly W.P.A. Employment



Weekly W.P.A. Employment



SOURCE: WORKS PROGRESS ADMINISTRATION

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE December 4, 1939

TO Secretary Morgenthau
FROM Mr. Haas
Subject: The Business Situation,
Week ending December 2, 1939.

Conclusions

(1) Evidence is increasing that the war in Europe is likely to prove less of a strengthening factor to business activity in 1940 than had previously been expected. In addition, an unbalanced situation has been created by the concentration of activity this fall in the durable goods industries. This partly reflects an advancing of orders for heavy industrial materials and equipment that would otherwise have been placed in 1940, and to that extent will deprive business of a certain amount of support next year.

(2) Nevertheless, aside from the unbalance in durable goods production, the domestic situation remains strong. It is largely upon this, plus any war orders that may come in, that business must rely for a further recovery later in 1940. Among various favorable influences, it may be noted that:

(a) The orders booked by manufacturers this fall have not yet had their full influence on industrial activity.

(b) The consumer-goods outlook is much more satisfactory than the outlook for capital goods, and continues to be strengthened by a rising trend of consumer incomes. A setback in industrial production in 1940 may therefore be largely confined to the heavy industries.

(3) The outlook, in any event, is not fully clear. An upturn in sensitive commodity prices which occurred this week coincident with the invasion of Finland, if continued, may initiate a renewed buying movement.

Secretary Morgenthau - 2

The general situation

Industrial production increased further in November to an index level of 124 or 125, against 120 in October, according to confidential data from the Federal Reserve Board. The rise reflected chiefly an increase in the production of durable goods, raising still further the ratio of durable to non-durable goods production.

The unbalanced situation created by an abnormally high proportion of durable goods in the total industrial output remains an element of weakness in the domestic business outlook. The sharp rise in heavy goods production in recent months, out of proportion to the upturn in consumers' goods, apparently represents a bunching of orders for steel products, machinery, and railroad equipment in a short period, through fear of price increases and delivery difficulties, when ordinarily they would have been spread over several quarters. To the extent that business has been taken from 1940 and concentrated in 1939, orders for these products may be reduced in the first half of 1940, contributing to a reduction in business activity at that time.

Present indications therefore point to some setback in the FRB index during the first half of 1940, to which confirmation is added by the recent falling off in new orders, and by the effect of seasonal adjustments on the index. The decline may be largely confined, however, to the heavy industries. The outlook for consumers' goods is strengthened by their relatively moderate production increase so far, and by a rising trend of consumer demand generated by increased consumer incomes.

War orders outlook disappointing

It is becoming increasingly apparent that the war in Europe is likely to provide far less support to American business than had earlier been looked for. Of the two sources of increased business that had been widely expected -- war orders from Europe and increased trade with South America -- neither seems likely to develop as anticipated. European orders have been limited by the low consumption of war materials so far, and by the British program of confining all but necessities buying to Empire countries, or to countries taking British manufactured products. Even in Canada, however, not even "educational" orders for munitions have so far been placed in any recognizable quantity, according to the Financial Post of Toronto.

Secretary Morgenthau - 3

On the contrary, various evidences are coming to light that the war is having a harmful influence on the demand for various American products. A seriously reduced export demand for tobacco, apples and other fruits, passenger automobiles, and various other products, has been directly attributable to the war.

So far as South American trade is concerned, recent developments indicate more clearly that increased sales in those countries in any appreciable volume will be contingent upon increased buying of South American products in this country. Lacking such reciprocity in trade, South American purchases will necessarily be diverted to other countries where their products will be marketed. A step was taken in that direction last week by Argentina, in announcing that her purchases in the future will be confined as far as possible to Great Britain and France. In turn, these countries will buy Argentine food products. Negotiations are reported under way to sell 40,000 tons of canned beef to Great Britain and France, in addition to 6,000 tons for which France has already contracted.

The steel situation

Since the recent business upturn has been largely dependent upon iron and steel and related industries, the situation in these industries, as it develops during 1940, will be of major significance in the business outlook.

Last week's announcement of practically no increase in steel prices for first quarter delivery is expected to have little effect on steel orders, though it may cause some deliveries to be deferred to the first quarter. Slight price increases on some products have had the net effect of raising the Iron Age composite price for finished steel to 2.261 cents a pound from 2.236 cents previously.

While total orders in November were substantially below the high level of October, the substantial volume of orders still coming in has been sufficiently close to the volume of shipments to prevent any marked shrinkage in unfilled orders. Consumers and distributors are still pressing for shipments to meet current needs, which suggests that the volume of steel going directly into consumption may be greater than generally realized.

While the steel industry does not expect the current record-breaking production to continue for very long, according to the Iron Age, there is still no indication of a sharp drop either before the end of the year or in the early part of the first quarter. But some indication of weakness in the outlook is seen in a further decline last week in steel scrap prices. (See Chart 1) This has carried the Iron Age scrap composite price to \$18.58, as compared with a peak of \$22.50 early in October.

Scrap prices are often taken as a measure of demand for steel. Recent price weakness has been due to a falling off in scrap buying by mills to the lowest point in months, increased production of scrap resulting from higher industrial activity, a heavy movement out of accumulated stocks, and the partial discrediting of recent reports of huge European scrap purchases.

New orders remain down

The level of new orders during the fourth week of November, which was affected by the Thanksgiving holiday, was slightly lower than that of the previous week. (See Chart 2) Textile orders declined to the lowest weekly total since June 1938, but steel orders and other orders were well maintained despite the holiday.

The low level of textile orders during November, with production continuing at a high level, has doubtless reduced the industry's backlog of unfilled orders. Orders in the paper industry, on the other hand, are reported to be keeping pace with shipments, and in machine tools and aircraft recent new orders are said to exceed shipments.

The price situation is becoming more favorable for increased ordering, judging from improved price trends last week in various futures markets. The Dow-Jones futures index (see Chart 3) turned sharply upward, with notable strength in cotton, wheat, and silk prices, and upturns in prices of various other commodities. This follows a rise in British prices which began several weeks ago, as indicated by Reuters' index.

While the upturn in cotton prices has not yet brought increased buying of goods, mills are impressed by the fact that buyers are pressing for delivery on previous orders, which suggests a rapid movement into retail channels. A strengthening factor in the cotton market has been a recent boom in prices at Bombay, which has carried prices for Indian cotton to the highest levels in many years as compared with American. This will strengthen the export demand for our cotton.

Secretary Morgenthau - 5

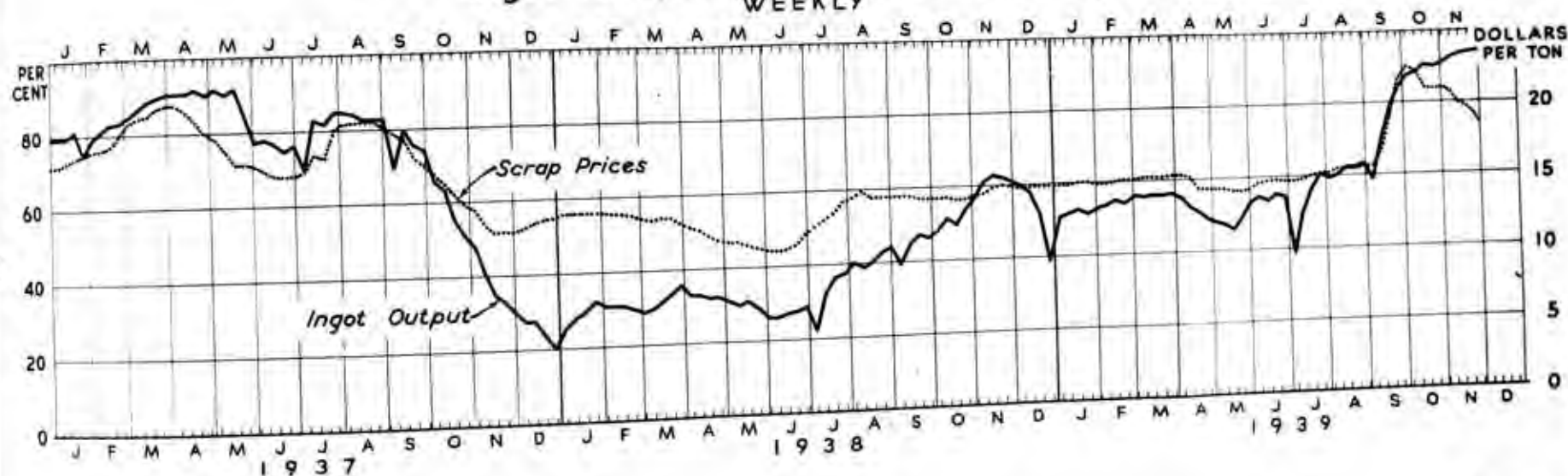
Current business news

The New York Times index declined 0.3 point to 105.6 during the week ended November 25, representing a setback of 1.6 points from the high reached two weeks previously. While seasonal adjustments for the Thanksgiving holiday make changes in the index of doubtful significance, the adjusted figures show that substantial declines in the indices of lumber production, miscellaneous carloadings and "all other" carloadings were not quite offset by upturns.

Railroad earnings increased in October to the highest level since about 1930. (See Chart 4) Net operating income was far above that in any month of 1936 or 1937, although carloadings this year were not much higher.

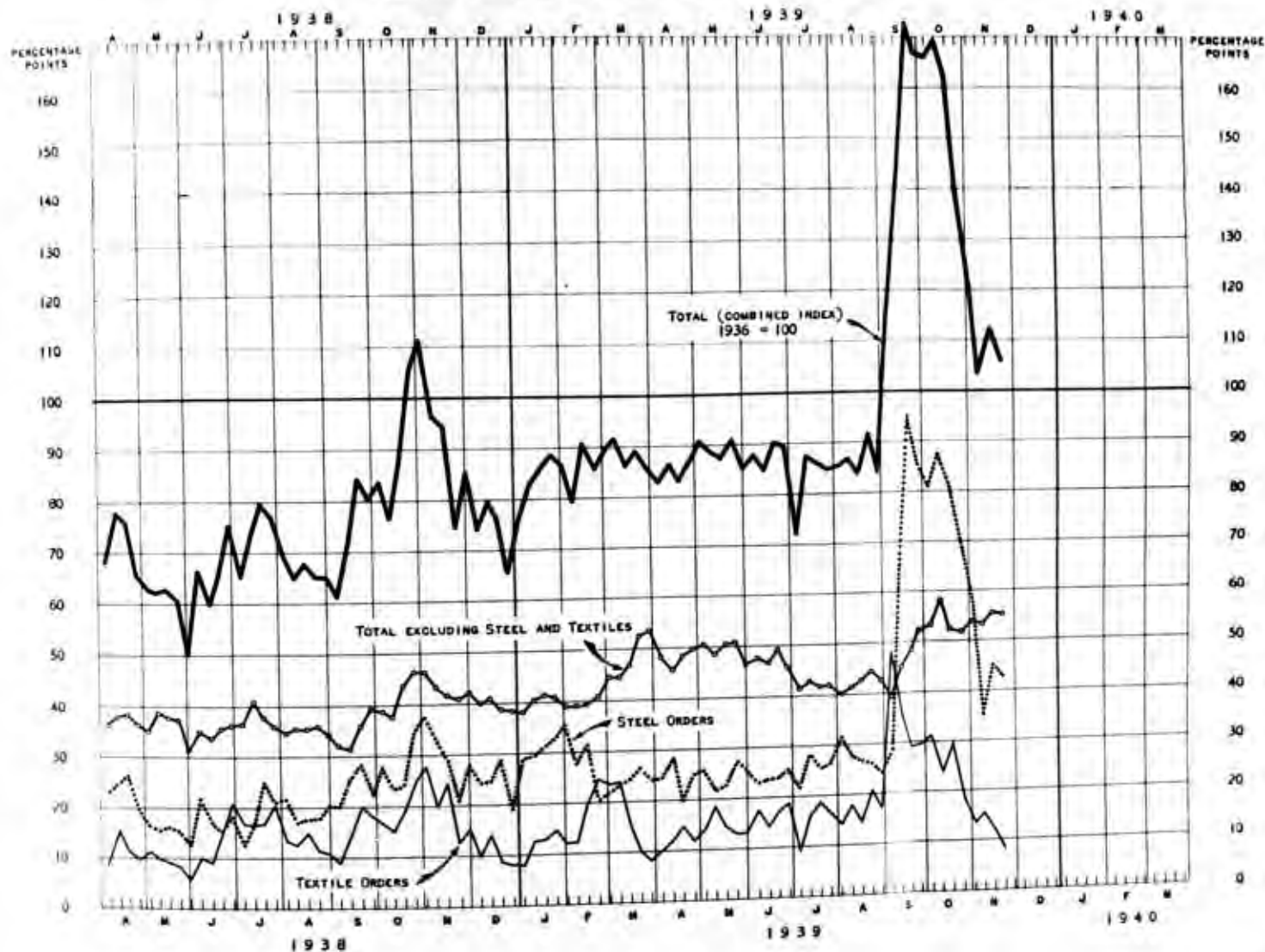
STEEL OUTPUT AND SCRAP PRICES

Ingot Output in Percent Capacity
WEEKLY

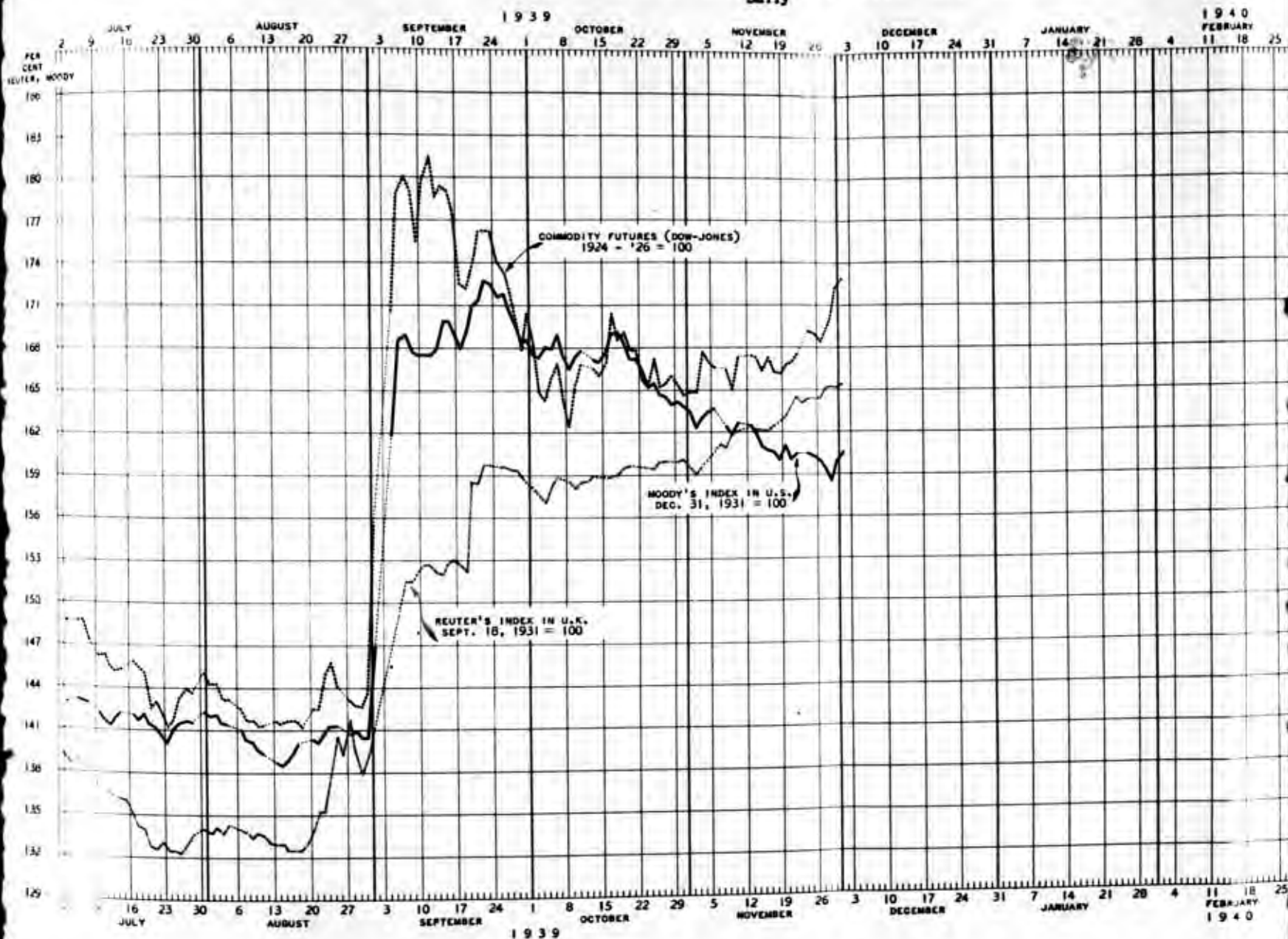


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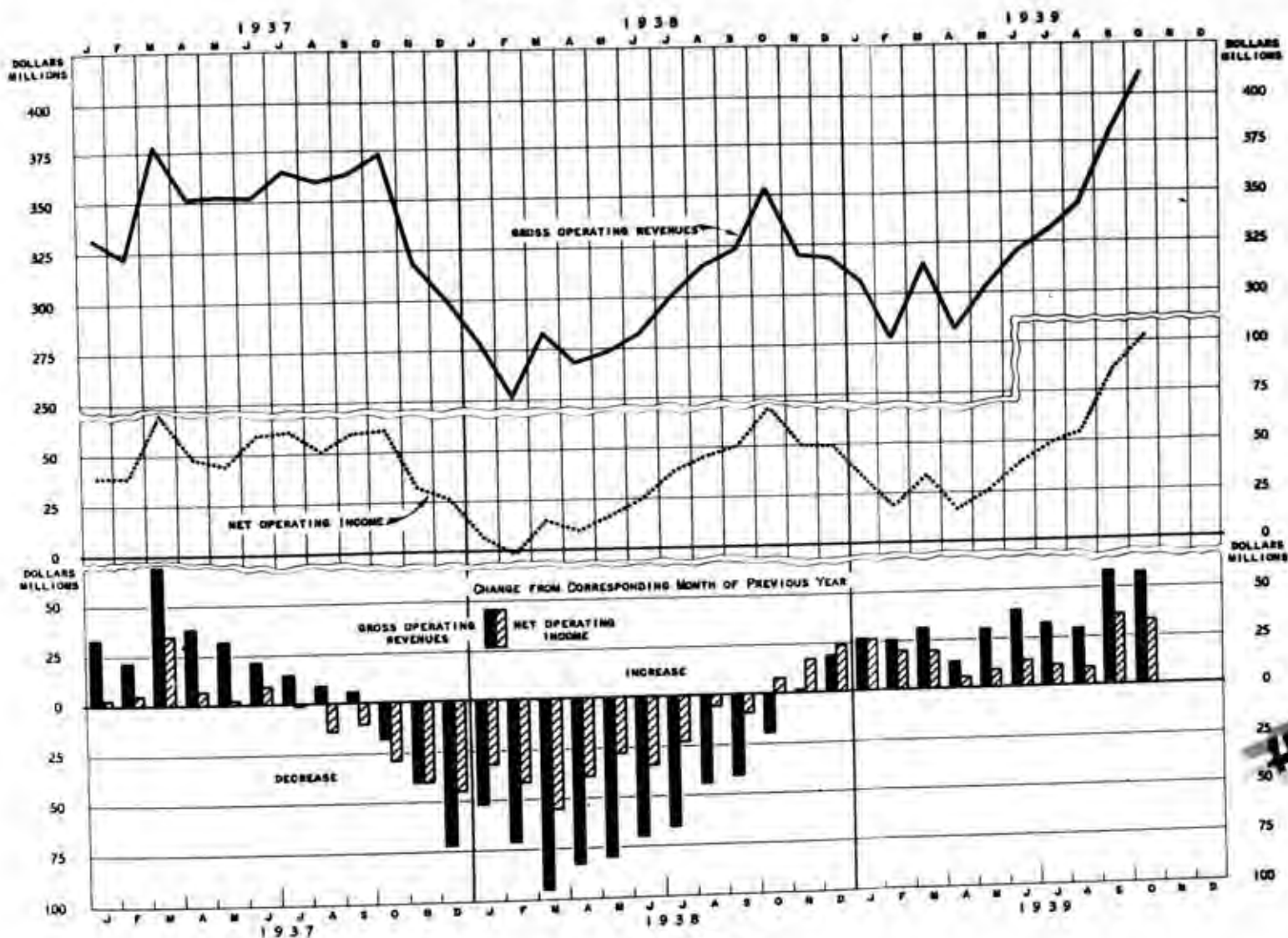
INDICES OF NEW ORDERS Combined Index of New Orders and Selected Components



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



MONTHLY RAILROAD EARNINGS*



*141 CLASS I STEAM RAILROADS

December 4, 1939

Dear Mr. Berles:

Our informal committee of Federal Reserve Board and Treasury technicians met this afternoon to review a list of suggested questions which we had agreed to furnish you.

On further consideration of the questions formulated we feel strongly that the questions to be submitted to the 21 republics should stem from your subcommittee and should not be identified as coming from any one country, particularly the United States. Accordingly we suggest that each member of your subcommittee be asked to formulate a list of questions, that the subcommittee go over all of the lists with a view to formulating a single list of questions which the subcommittee will submit to all the countries.

With this reservation we are attaching a list of questions for your guidance in discussing the matter with your subcommittee. In view of the shortness of time, we have not sought to obtain the Secretary's approval to the questions, nor do we submit these as a final, exhaustive, or appropriate list of questions for circulation among the members of the committee.

While awaiting an indication of further developments from you, we will proceed with our study of a plan.

Respectfully,

H. D. White,
Director of Monetary Research.

The Honorable,

The Assistant Secretary of State.

HDW:lrs
12/4/39

1. If an inter-American banking institution would agree to buy prime commercial bills from your Central Bank, how large a volume of business do you estimate this institution would obtain from your country? How much of that business would be new and how much is now being handled by existing financial institutions: (a) foreign banks located within your country? (b) foreign banks located outside the country? and (c) domestic banks?

2. What are the prevailing rates of interest (a) for prime commercial paper; (b) for ordinary commercial paper, of 60- 90- 120- and 360-day maturities?

3. Is there a market in your country for short-term bills of less than 1 year maturity?

4. If an inter-American institution were to guarantee the prime commercial paper, do you think the rates of interest would be lower and could a demand for such bills on the part of local institutions and individuals be developed?

5. Is your banking system subject to such seasonal demands for financing that temporary credits extended by an inter-American institution would help to stabilize financial and economic conditions within your country? Do foreign banks adequately perform that function now? If these foreign banks do not meet your seasonal demands how are they met?

6. About a tenth of Latin American trade consists of trade among the Latin American countries themselves, — is this intra-continental trade of your country materially obstructed at present by the lack of short-term credits? Are available banking facilities adequate for re-discounting export bills of intra-continental trade?

7. A group of service functions has been suggested for the inter-American institution such as: (1) To function as a clearing house for inter-American payments; (2) to function as fiscal agent and trustee for Central Banks and government.

How are your inter-American payments now cleared? To what extent are they carried out by private domestic banks? By foreign banks with Latin American agencies? Could the mechanism be improved by Central Banks in each country clearing directly through balances maintained with one another? What improvements might be effected by an inter-American Bank?

8. Could an inter-American institution which confined itself to providing short-term credits and performing routine services be of sufficient value to your country to warrant the support of the project by your country?

9. Would provision for personal contacts and collaboration between fiscal and banking officials of the various governments and for the purpose of studying and exchanging views on fiscal and banking problems be best provided for by the establishment of a Pan-American Bank?

10. It has been suggested that there is a considerable outflow of capital funds from the Latin American countries to New York and other money centers for investment and security. How large do you estimate the volume of this outflow from your country in the past five years? What is the estimate of such funds now being held abroad?

11. To what extent do you feel that the creation of such an institution would reduce the fluctuations of the rates of exchange in your country on other Latin American countries, or narrow the spread between the cross rates of Latin American currencies and also narrow the spread between the buying and selling price of foreign exchange?

12. To what extent do you think that restrictions on transfer of funds are due to shortages of short-term credit, and could be remedied by provision of moderately greater short-term credit facilities than now exist?

13. What have been the significant developments during the past three months in the volume of your exports and imports, and in the gold and foreign exchange resources of your central bank? Do you consider these tendencies as temporary; are they likely to continue for the duration of the war; or, are they likely to be reversed as the war continues?

14. To what degree do you consider trade within this hemisphere capable of expansion, and in what ways do you consider that a new inter-American financial institution might increase the expansibility?

15. What specific dislocations and economic losses that your country is experiencing do you attribute directly to the war conditions now prevailing? What effect is the war having on the commercial and financial problems of your country and to the extent that such problems are being aggravated by the war, what steps can be taken to counteract the effect of the war?

- 3 -

16. If an inter-American institution were to be developed, would your country prefer that it (a) deal directly with the government or its agencies, or (b) with the central banks, or with the public at large?

Would your country wish such an institution to have relations with government-owned mortgage banks of your country with a view toward broadening the mortgage facilities in your country? Does your country have any preference or view with respect to the proportion subscribed by your country to a bank were one initiated?

17. What formulas do you suggest for allocating to the countries the amounts of capital to be invested in the organization of the bank?

18. If your country is in need of capital, how much capital do you contemplate that they would borrow through the medium of such an institution during the next five years?

19. Would your government be willing to submit its program of the uses of such fund to a special committee of such an institution created for the purpose of passing on the wisdom and security of such loans in order to protect the repayment?

20. What are your country's needs, if any, for long-term investments relating to rehabilitation of industries? Public works?

21. What are your country's needs for a long-term loan of gold or other foreign exchange assets for purposes of currency stabilization? If your country has such need, does your government contemplate using up those resources within a year or two or more? What does the rate of utilization of those resources depend upon?

What criterion or criteria would your government use as to the rate of utilization of funds borrowed for purposes of stabilization of their currency?

If it is your opinion that the new institution is to be employed, among other purposes, for the stabilization of currency of the American countries, what limit would your government feel it desirable to impose upon the amount of the funds expended for any one country for that purpose?

22. What are your country's prospects for working out a program of lifting foreign exchange control? To what extent will the establishment of a Pan-American bank help in this direction?

- 4 -

23. To what extent would an institution that confined itself to short-term operations without putting more funds into your country than it took out -- except for limited periods -- meet the financial needs of your country?

24. In your opinion what criteria would be suitable for the institution to use in allocating its lending resources to the various American countries?

25. What role if any does your government feel silver should play in the functioning of an inter-American bank scheme and as a means of settlement of balance of payments among American countries?

26. What criteria should the bank use to determine when to operate to prevent short-term fluctuations in the value of any American currency? Is it expected that the various countries appeal to the bank to engage in operations or should the bank arrive at its decision entirely independent from the wishes and beliefs of the government whose currency is in question?

12/4/39